September 20, 2005

Ms. Diane Duff
Executive Director
Southern Governors' Association
Hall of the States
444 North Capitol Street, NW
Suite 200
Washington, DC 20001-1512

Re: Affordable Housing Tax Credit Coalition Response to Hurricane Katrina

Dear Ms. Duff:

The Affordable Housing Tax Credit Coalition (the Coalition) is a nonprofit group which represents syndicators, developers, investors, lenders, nonprofit groups, public agencies, and others allied professionals involved with the Low Income Housing Tax Credit (Housing Credit) program. On an ongoing basis, the Coalition represents Housing Credit program participants before Congress seeking needed legislative changes to the program; represents the interests of the Housing Credit community before groups which effectively have regulatory control over the program; and undertakes major public information campaigns to make widely known the success and efficiency of the Housing Credit program to house low-income Americans.

The Coalition has developed and proposed the included legislative changes to the Housing Credit program to address the urgent, critical affordable housing need worsened in the gulf coast area as a result of Hurricane Katrina.

The Low Income Housing Tax Credit

The Housing Credit program is the most significant Federal financial resource for the production of affordable rental housing for America's low-income families. Without the rental housing that the Housing Credit provides, America's housing crisis will worsen significantly and the major economic stimulus the Housing Credit provides for jobs and growth will be lost. This crisis in affordable housing has been dramatically worsened in the gulf coast region as a direct result of Hurricane Katrina. The Housing Credit program, which fosters a partnership between the states and the private sector, is one of the few areas in which use of the Internal Revenue Code to meet social goals is vital and has no viable alternatives.

Originally signed into law as part of the Tax Reform Act of 1986, the Housing Credit is responsible for the production of to up to 50% of all multifamily housing starts in any given year, and virtually all affordable rental housing in the United States since that time—over 130,000 dwelling units annually and more than 1.7 million units since enactment. The program is also responsible for an estimated 167,000 jobs each year associated with the creation of housing.

The program provides tax incentives, in the form of credits against federal income tax, in exchange for investment in newly constructed or substantially rehabilitated affordable rental housing. For periods of 30 years or more, this housing must serve low to moderate income tenants, who pay restricted rents and who earn a maximum of 60% of area median income (although average incomes in these properties are often far lower). Credits are allocated to the several States based upon their respective population. The States determine their own housing priorities, within broad federal guidelines, and then choose which proposed developments will receive Housing Credits. Developers, many of which are non-profit organizations, must compete for Housing Credit allocations under a highly transparent selection process In most States, demand for Housing Credits far exceeds the supply. Developments which are awarded Housing Credits are located in urban, suburban and rural areas. Although a majority of the properties serve families, a substantial number serve elderly, disabled and special needs populations.

Once the Housing Credits are awarded to a housing developer, investors provide equity capital to finance a substantial portion of the costs of constructing or rehabilitating the housing. This equity capital reduces the need for mortgage financing and decreases debt service payments, thereby lowering operating costs and allowing owners to rent to low-income persons who pay rents they can afford.

Housing Credits are earned over a 10-year period, although they are subject to recapture for 15 years if various program rules are violated. Accordingly, corporations are highly motivated to make sure that the Housing Credits are received and not lost to recapture. Many corporations engage firms with special expertise in this area, often referred to as Housing Credit syndicators, to help them in structuring and monitoring the properties. This very intense oversight and the effective administration conducted by States are the principal reasons that the program has operated in accordance with government requirements—and even exceeded expectations—throughout its history. The threat of the severe penalty of tax credit recapture serves to keep the program operating as Congress intended.

The Housing Credit is also a driver in the revitalization of lower income communities. Through the Housing Credit, private capital is used to reverse the cycle of decline. The Housing Credit has turned around neighborhoods and stabilized the urban core while these regions are growing at the periphery. The Housing Credit also contributes to recapitalization of existing housing and can be used to address special needs housing, such as housing for the elderly, formerly homeless, and special needs populations.

AHTCC's Proposed Adjustments to the Low-Income Housing Tax Credit and Multifamily Bond Programs To Help Meet Long-Term Housing Needs Resulting from Hurricane Katrina

- Provide substantial additional Housing Credit authority to affected states.

- Allow for increased allocations for each property in areas impacted by Hurricane Katrina by increasing the eligible basis on which the Credit amounts are calculated. The additional Credit allocation would be determined by the state Housing Credit agency in an amount necessary to develop such buildings quickly even where additional sources of financing are not immediately available and at rents which are affordable to low-income families whose jobs and lives have been affected by this catastrophe.

- Repeal, for buildings located in areas impacted by Hurricane Katrina, the provision that prohibits the use of 9% credits with below market federal funds so as to allow federal funds to more effectively leverage tax credit equity investment (this would not be applied with respect to tax-exempt bond financed buildings).

- Provide the Secretary of Treasury with the explicit authority to promulgate regulations temporarily waiving income limitations under Section 142(d) so that the rules for bond-financed properties conform to the rules recently issued by Treasury for Housing Credit properties. Treasury officials state this legislative authority is necessary to allow the Department to issue regulations so that displaced Hurricane Katrina victims, regardless of financial status, can be placed in tax-exempt bond financed housing without tax penalty to property owners.

The Coalition believes immediate action is needed to address the worsening affordable housing crisis in the gulf coast region as a result of Hurricane Katrina and is eager to work with Members of Congress, industry partners, and other interested groups to ensure displacees will have safe and affordable housing to return home to. Please let us know if we can provide any additional information.

Sincerely,

G. David Sebastian
President

cc: Lee Stevens, Federal Policy Director
Jennifer Schwartz, Special Projects Director