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Testimony Before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means

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The 235,000 members of the National Association of Home Builders (NAHB) appreciate the opportunity to comment for the House Ways and Means Committee, Subcommittee on Select Revenue Measures, regarding tax incentives for low-income housing. This statement contains recommendations for improvements in several programs of the Internal Revenue Code (IRC) for low-income and historic housing, including the Low Income Housing Tax Credit (LIHTC), private activity bonds and the Section 47 historic rehabilitation credit. The primary focus of this statement, however, is on the LIHTC.

In the last 20 years, the LIHTC has facilitated the construction or preservation of nearly 1.4 million affordable housing units for individuals and families making less than 60 percent of area median income (AMI) and, oftentimes, much lower than that. It has evolved into the foremost tool for the production and rehabilitation of affordable housing. For-profit developers and builders have been and continue to be integral partners in that effort. However, the need for affordable housing greatly outpaces even this significant level of production and the existing supply of units. NAHB looks forward to working with the members of the Committee as they craft legislation to maximize the efficiency and effectiveness of the LIHTC and other tax incentives for affordable housing to help meet this need.

NAHB's statement is organized into five parts. The first section discusses two critical issues in the LIHTC program that need resolution to ensure the continued vitality and success of the program. The second section proposes several technical improvements to the LIHTC to make it more efficient and effective while minimizing the economic impact on the federal budget.

The third section of this statement sets forth recommendations for reducing barriers to using the LIHTC with the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) multifamily mortgage insurance. NAHB strongly supports the FHA multifamily mortgage insurance programs and believes that these two important housing production programs should work together as efficiently as possible. The fourth section recommends ways to improve coordination between the LIHTC and other HUD programs. The fifth and final section makes recommendations in regards to the historic rehabilitation credit and private activity bond programs.

I. Critical Issues in the LIHTC Program

As legislation is crafted to improve the efficiency and effectiveness of the LIHTC NAHB urges Congress to address two critical issues that, unless resolved, will undermine the long-term success of the program. The first issue deals with the financial viability of existing and new LIHTC properties that are in jeopardy because of recent changes in the data used to establish their rents. These rents are being artificially frozen - and have been in many areas for several years - while operating expenses like utilities and insurance are rising precipitously. The second issue is inexorably tied to the first and deals with utility allowances for LIHTC units that must be deducted from gross rent to establish the amount of rent chargeable to the tenant. Taken together, these two issues present an unsustainable long-term financial scenario for the LIHTC program.

Income Limits and Rents[1]

Each year, HUD estimates median family income for metropolitan and non-metropolitan areas of the country and publishes a list of "income limits" based on these estimates. These income limits determine eligibility and allowable rents for the LIHTC program, in addition to other federal housing programs. The system and underlying data sources that HUD uses to establish income limits, however, have changed, most notably by shifting to data from the American Community Survey (ACS), which has replaced previous census reports. As a result of this data source change, in most areas, incomes and rents were adjusted down. Under its "hold-harmless" policy, HUD did not reduce LIHTC income and rent ceilings, but instead froze them. In 2007, two-thirds of the nation will be "held harmless" and see no increase in income limits or LIHTC rents. Hundreds more will see no increases going forward for several years.

NAHB stresses its commitment to serving low-income households, with reasonable rent adjustments over time. The concern here arises solely from the unintended impact of data changes. Indeed, data from the ACS indicate that incomes have actually risen in a notable number of these areas, but under HUD's "hold harmless" policy it will take several years or more in some areas before these increases will result in higher LIHTC rents[2]. The "hold harmless" policy was designed to smooth over a temporary, anomalous downturn in income data, and it has worked well in that context. However, it cannot accommodate the effects of a systemic shift to the ACS or other data methodology changes. The spike in the number of areas with flat income limits in 2007 follows several years during which the limits had already been frozen in many places. Thus, tax credit properties have seen little or no increase in rent for the past five years in some areas.

Flat rents for LIHTC properties mean rent reductions in real terms, given even ordinary inflationary increases in expenses. This creates an ever-widening gap over the long-term, which is unsustainable, despite efforts by developers, owners, managers, syndicators, state and local housing finance agencies, and investors to fill the gap. Ultimately, it could lead to a loss of existing LIHTC properties and significant negative impacts on financing for future affordable housing development.

An LIHTC property with a critical gap in revenue versus expenses could eventually fail to meet its debt service requirements and default on its loan, at which point foreclosure occurs and the tenants lose their housing. In the long-term, because of this fundamental weakness in the program, investors will demand higher yields for their tax credit dollars. Consequently, credit prices go down, less equity will be available for each LIHTC project, and less affordable housing will be constructed. This will be especially hard on projects serving the elderly, those with special needs and very low income populations, because these properties typically operate on extremely thin margins of expense versus revenue. In the case of future projects serving these populations, many will not meet the underwriting criteria required by lenders and, therefore, will not be built.

There are no simple solutions to this problem. It is critical to protect the low-income tenants the LIHTC program serves while ensuring the long life of the nation's supply of affordable housing units. As noted above, properties can currently go for years without any increase in their rents, but because of the erratic nature of the current data and system used to establish these rents, tenants can also be faced with higher-than-usual increases in rent in a single year. What both the properties and their residents need is a level of reasonable and modest predictability in what the increase in rent will be from year-to-year.

Indexing LIHTC rents to a reasonable inflation factor such as the Consumer Price Index (CPI) would create more consistency for owners and tenants. In practical application, a developer would set rents according to the income restrictions for the project at underwriting and each year following those rents would increase by the change in CPI.[3] This maintains the income-targeted nature of the program while allowing for a modest increase in revenue over time to operate the property. Most importantly it would provide a much more reasonable and predictable growth in rent over time for residents and property owners.

Certainly, the effect of this type of proposal would be a built-in rent increase every year for the resident; however, increasing by the change in CPI annually is certainly more reasonable than potentially larger increases that could occur under the existing system. Ultimately, a reasonable annual increase in rent for residents annually has to be considered against the outright loss of affordable housing units in the immediate term and decreased production of new affordable housing in the long-term.

Utility Allowances

The second critical issue faced by LIHTC owners, which is occurring at the same time that income limits have been stagnant, is that operating costs – especially utility expenses – have continued to escalate. Property owners are required to calculate a utility allowance annually and subtract that from gross rent to arrive at the net rent that is charged to the tenant. As utility costs rise, upward pressure is placed on the utility allowance, thus reducing net rent and overall revenue to operate the property.

Operating costs, particularly utilities, are never completely predictable, but in general, owners feel secure assuming a reasonable increase in costs over time. While underwriting assumptions vary, a two to three percent increase in operating expenses per year is fairly typical. In polling NAHB members that build and own LIHTC properties around the country, utility costs have increased significantly more than this.

While developers always assume some rate of increase in annual operating expenses, they also always assume a steady increase in income over time – income necessary to keep pace with increasing expenses and to maintain the property's positive cash flow position. This has been very difficult in recent years as volatile utility costs and stagnant income limits severely limit owners' ability to project accurately the property's cash flow. When expenses like utility costs overtake income, property owners and managers are often forced to cover cost increases by deferring other important expenses, such as maintenance or replacement for reserves. Eventually, these dollars run out which does even more damage to the viability of the project in the long term since maintenance and replacement costs only increase as a project gets older.

Allowing state HFAs to convert the utility allowance into a percentage of maximum gross rent at the time of underwriting would help address this problem. Regardless of the level of future rents, an owner could estimate more accurately their cash flow over the life of the project, which improves their ability to cover unanticipated spikes in operating costs and attract private equity into the project. In the example below, the maximum allowable gross rent at the time of underwriting for a two-bedroom unit is $500. The LIHTC allocating agency sets the utility allowance at 20 percent or $100. Therefore, the maximum allowable net rent to the owner is $400.

Year 1 ***(Underwriting)*** **2005**

Maximum Allowable Gross Rent $500

Documented Utility Allowance$100

Max Allowable Net Rent $400

In Year 2, the Maximum Allowable Gross Rent increases to $520 and the utility allowance increases as well to $104.

Year 2 **2006**

Maximum Allowable Gross Rent $520

New Utility Allowance $104

Max Allowable Net Rent $416

In theory, utility expenses could increase by more or less than the percentage assumed at underwriting; however, having a relatively constant utility allowance is the trade off for any potential significant drop in utility costs. Like the proposal offered above for stagnant LIHTC rents, we believe this not only serves the property but the residents themselves. They will have more predictability in their utility expenses and are guaranteed an increased utility allowance if their rent increases.

II. Improving the Efficiency and Effectiveness of the LIHTC Program

Conform the LIHTC and Tax-Exempt Bond Next Available Units Rules

One central inconsistency between the LIHTC and tax-exempt bond programs is on the issue of the "next available unit" rule. This rule requires that once a tenant exceeds 140 percent of AMI, the next available unit must be rented to an income-qualified tenant. For the LIHTC program this rule is applied on a building-by-building basis, while in the tax-exempt bond program it is applied on a project-wide basis. Currently, both rules must be followed for properties financed with both LIHTCs and tax-exempt bonds, creating an extremely complex management process. Applying the more restrictive LIHTC requirement to these properties would simplify project compliance.

Reform the Full Time Student Occupancy Rules

Current law prohibits households made up entirely of full-time students from living in LIHTC apartments. Exceptions exist for families who are: receiving Temporary Assistance to Needy Families (TANF); enrolled in a federal, state or local job training program; single parents and their children, provided that such parents and children are not claimed as dependents of another individual; or married full time students who file a joint return. While well-intentioned, full time student occupancy prohibitions are an obstacle for low-income families trying to make a better life for themselves.

Often, child support agreements allow non-custodial parents to claim their children as dependents on tax returns. Because children in grades K-12 count toward the determination of whether family is a full-time student household, many custodial single parents who returned to school full-time become ineligible for LIHTC housing. Working adults trying to complete the requirements for a high school education have also been adversely affected.

Education enables low-income families to expand their economic opportunities and NAHB supports specifying that minor children in grades K-12 should not count toward the determination of who is a full time student household. NAHB also supports striking the requirement that a single parent and their children must not have been claimed as dependents of another individual to qualify for the single parent with children exemption and exempting working adults who are full-time students pursing a high school diploma or GED.

Fix the LIHTC Percentages at 9 and 4 Percent.

Actual credit percentages for the LIHTC have rarely ever been at four or nine percent and are typically well below those figures (3.47 and 8.11 percent, respectively for May 2007). Not having the full amount of the credit available requires project sponsors to secure more debt or scarce soft financing. Fixing the tax credit percentages would increase LIHTC resources available for each project, simplify the tax code and provide certainty for project sponsors.

Remove Federal Subsidy Restrictions

Currently, LIHTC transactions utilizing grant sources such HOME or Federal Home Loan Bank AHP funds must reduce eligible basis unless they are structured as loans to the project. However, this process is costly and reduces funding available for bricks and mortar. Allowing grants like HOME and AHP to be included in eligible basis would decrease transaction costs and increase funds available for developing affordable housing.

NAHB also believes that other sources of federal subsidies, such as the interest rate reduction payment (IRP) connected with Section 236 properties (of the Housing Act of 1937), should not be treated as such for purposes of determining eligible basis. In years past, the IRP was not treated as a federal subsidy for purposes of determining eligible basis in a LIHTC project. More recently, the treatment of the IRP has changed and is being deducted from eligible basis, thus reducing the amount of LIHTCs available to the property. Allowing the IRP to be includable in eligible basis would facilitate the preservation of these older affordable housing properties.

Enlisted Military Personnel and LIHTC Housing

In order to qualify for LIHTC housing, individuals and families must meet specific income limits. Property managers collect information on a potential resident's income but are allowed to exclude certain items from the income calculation. Among those items that can be excluded is rental assistance provided by the Section 8 Housing Choice Voucher program (of the Housing Act of 1937). However, the Basic Allowance for Housing (BAH), which is a similar housing subsidy, cannot be excluded from the calculation of income and typically puts enlisted families over the income limits for LIHTC-financed housing. Ultimately, enlisted families are needlessly shut-out of quality, affordable housing around the military posts and bases where they are assigned. NAHB supports excluding the BAH from the determination of income for purposes of qualifying for an LIHTC unit.

Streamline the Inspection Process

There are multiple inspection requirements for properties developed with LIHTCs and other federal programs, such as HOME, Section 8 project-based and Section 8 tenant-based vouchers. Streamlining of the inspection process would help cut overall costs while allowing quicker move-ins by tenants. NAHB recommends the following: In the case of a LIHTC property with a Section 8 tenant-based voucher holder, if the unit has been inspected within the last 12 months under any federal program with inspection requirements equivalent to Housing Quality Standards (HQS), the tenant should be allowed to move in immediately and housing assistance payments (HAP) should also begin immediately. A PHA would have 60 days to complete an inspection.

Repeal 10-Year Rule for Existing Properties

One roadblock in the LIHTC program for acquisition/substantial rehabilitation of affordable housing is the "10-year rule." The IRC requires that for an existing building to be eligible for LIHTCs there must have been a period of at least 10 years between the date of the developer's acquisition of the building and the date the building was last placed in service or substantially improved. The purpose of the 10-year rule is to prevent "churning" of properties for tax benefits by individual taxpayers. However, the Tax Reform Act of 1986 eliminated the benefits of property "churning" and eliminates the need for this rule.   The 10-year rule inhibits investments in existing properties. There are many vacant, blighted properties that could provide affordable housing if they received an allocation of LIHTCs. Repeal of the 10-year rule would assist state housing finance agencies (HFAs) in meeting their preservation goals. NAHB supports repeal of this rule.

Repeal the Recapture Rule for LIHTCs

The Internal Revenue Code (IRC) requires that when an investor disposes of an interest in a LIHTC property, a recapture bond must be purchased to guarantee payment to the Treasury of any potential recapture tax liability. This imposes significant unnecessary costs on investors and can even prevent some properties from obtaining critical recapitalization resources. Further, according to the IRS, this process is "administratively difficult" to support. It represents excessive protection against a negligible risk (the IRS has never collected on a recapture bond), and repealing this rule would improve the secondary market for LIHTCs and bring more resources into affordable housing.

Change the Name of the Program

While awareness has grown of the need for more affordable housing, local resistance remains a significant issue. Although nearly all LIHTC units are rented to working families, many communities react negatively to the term "low-income." Opposition to proposed LIHTC properties can dramatically slow the development process, increase transaction costs and ultimately result in properties not being constructed at all. One option for addressing this issue would be to change the name of the program to the "Affordable Housing Credit." This would help reduce program stigma and diffuse "Not In My Backyard" (NIMBY) challenges making it easier to develop affordable housing.

Allow State Agencies to Designate QCTs and DDAs

LIHTC properties located within Qualified Census Tracts (QCTs) or Difficult to Develop Areas (DDAs) are eligible to receive a 30 percent boost in tax credit basis. However, there also are LIHTC properties outside of QCTs and DDAs that would benefit from a boost in tax credit basis. In some cases, these properties are located literally across the street from projects within the QCT or DDA boundary. Allowing state HFAs more flexibility to award the basis boost to projects in other areas would help alleviate this problem. State authorities have detailed information regarding local market conditions and can ensure that only the minimum amount of credit needed is awarded to a particular project.

Streamline Compliance Monitoring and Subsidy Layering Requirements

Although the affordability rules (percentage of income that must be served and term of the affordability period) differ among programs, the rules do not pose a significant problem for NAHB's members. However, compliance monitoring could be streamlined when multiple sources of financing are included in a transaction. For instance, a single agency could be responsible for overall monitoring (income targeting and eligibility, rent restrictions and compliance periods). A good model to follow is the recent action taken by the Federal Home Loan Banks related to the Affordable Housing Program (AHP). A bank may now rely on another agency for compliance monitoring if the project's financing (e.g., LIHTCs) include affordability rules substantially equivalent to those of the bank's.

Similarly, a single agency could be responsible for subsidy layering. NAHB recommends that state HFAs take over that responsibility from HUD, when LIHTCs and other federal funds, such as HOME or FHA financing, are used. Since the HFAs already underwrite LIHTC projects, this change would streamline the subsidy layering process.

Allow LIHTCs to Offset Alternative Minimum Tax Liability

The role of individual investors in the LIHTC has changed from being significant investors in LIHTC properties to that of supplying very little capital through this housing tax program. The increasing impact of the alternative minimum tax (AMT) on individuals is likely to further erode the already attenuated role of individual investors. The impact of this decline in individual investors will potentially be felt most acutely in the mix of types of affordable housing properties that are developed.

Corporations tend to invest in large urban and suburban developments. Moreover, there is evidence that some corporations are reluctant to invest in special needs projects or in projects designed to spur economic or community revitalization. In contrast, individual investors tend to invest much smaller amounts and so are naturally attracted to smaller projects (including rural projects). Also, compared to corporate investors, individuals are more likely to take a personal interest in their investment projects and so may have more of a preference for projects aimed at particular types of renters in their communities, such as unwed mothers or the mentally disabled. As a result, any success in increasing individual investor demands for LIHTC projects is likely to increase demand for smaller projects, rural projects, and special needs projects. To insure that individual taxpayers maintain an active role in this important housing program, NAHB supports allowing LIHTCs to be fully applicable against AMT liability.

III. Reducing Barriers to Using LIHTCs with Federal Housing Administration (FHA) Multifamily Mortgage Insurance

Adjust Rules Related to Use of Equity

FHA multifamily mortgage insurance rules also require that LIHTC equity be used first, before any proceeds insured by FHA. LIHTC investors pay less for the credits if the equity contribution cannot be phased in over the course of construction and lease-up. The end result is less equity for the project. Allowing the phasing-in of the LIHTC equity would be a significant improvement.

Improve Processing Time

A significant issue for LIHTC developers using FHA insurance is that the approval process for FHA insurance, even using Multifamily Accelerated Processing (MAP), is too long to meet the time deadlines accompanying the allocation of LIHTCs. A large part of this problem is the lack of expertise on the part of HUD staff related to the LIHTC program. Solutions could include the creation of a special office to process LIHTC/FHA deals, along with more technical training and the hiring of experts in LIHTC transactions.

Develop New Financing Tools

FHA also does not offer an array of financing options for developers. For example, NAHB has encouraged HUD to develop a variable rate (or lower floater) option, as well as improve its small projects processing. Although HUD now has a pilot underway for a more streamlined small projects program, it does not include LIHTC projects. HUD needs to be more innovative in its product offerings.

Revise Rules on Use of Insurance Proceeds

HOPE VI projects often include LIHTCs, FHA financing, HOME funds, tax exempt bonds and other funding. Currently, HOPE VI contracts include a provision that requires insurance proceeds to be returned to the public housing authority (PHA). In the event of a disaster, those insurance proceeds should be used to pay legitimate financial obligations of the property, not returned to the PHA. If the insurance proceeds are not returned to the affected development, the developer may face default on the mortgage obligations or may not be able to fund rebuilding of the property. This requirement is a significant deterrent to private sector investment in public housing.

Revise HUD's 2530 Previous Participation Requirements for Investors

One significant barrier to the development of LIHTC projects is the HUD 2530 Previous Participation rule. This rule is intended to ensure that HUD does business with reputable persons and organizations that will honor their legal, financial and contractual obligations. This applies to participants wishing to use certain HUD programs, including FHA mortgage insurance, who must first be cleared through the 2530 process.

For many FHA-insured projects that also include LIHTCs, the requirements are burdensome and, in some cases, discourage investment in such properties. For example, HUD currently requires a 2530 review of individual officers of any corporation directly investing as a limited partner in a FHA-insured tax credit transaction. All officers and directors three levels below the mortgagor entity must be listed with their social security numbers and a listing of their personal project undertakings. In the case of syndications, this often means 2530 clearance must be obtained for the officers, directors and stockholders who hold more than 10 percent of a corporation's shares. If Microsoft made such an investment, for example, HUD would require Bill Gates and his fellow officers to go through the 2530 review process and to personally sign 2530 forms.

NAHB applauds the passage of H.R. 1675 by the House of Representatives and hopes the Senate will do the same soon. Reducing the burden from the Section 2530 requirement would ensure a stable pool of investors for future LIHTC development.

IV. Ways to Better Coordinate the LIHTC with Other HUD Programs

Remove Caps on Voucher Rents in LIHTC Properties

Section 8 voucher rents and HOME rents should be permitted to be at least as high as the LIHTC rent. If units with voucher or HOME tenants must have lower rents than the tax credit rent, the total revenue to the project is decreased. This places additional financial pressure on the project and increases the difficulty in meeting operating expenses.

Remove Prohibition on Using LIHTCs with Section 8 Moderate Rehab

Another conflict between a HUD program and the LIHTC is the restriction in the IRC against using tax credits with Section 8 Moderate Rehabilitation (Mod Rehab) properties. This restriction was enacted in the late 1980s after revelations that some Mod Rehab properties were being over-subsidized. Over-subsidization no longer exists in the LIHTC program because tax credit allocating agencies conduct extensive underwriting analyses of each LIHTC application. No funding has been provided for the Mod Rehab program for many years and these properties are in great need of rehabilitation. Raising capital to do this is very difficult without the LIHTC program and lifting this restriction would help preserve these affordable housing units.

Provide Consistent Underwriting Standards for Federal Programs

LIHTC properties with multiple financing resources, from both the private and federal sectors, will almost always require multiple underwriting standards. NAHB would strongly support consistent underwriting standards and processes for federal programs utilized in a transaction. This would help reduce both the complexity of LIHTC projects and transaction costs, which translates to more dollars for bricks and mortar. However, NAHB would caution against adopting a uniform set of underwriting standards for private capital investment sources. Imposing a fixed system on the market would increase regulatory burdens and reduce the incentive for investment in affordable housing.

V. Recommendations for Private Activity Bonds and the Historic Rehabilitation Credit

Repeal the Mortgage Revenue Bond Ten-Year Rule

Current law requires Mortgage Revenue Bond (MRB) issuers to use payments on MRB-financed mortgage loans to retire the existing MRB obligations rather than make new mortgages for more lower-income families, once the MRB has been outstanding for ten or more years. Commonly referred to as the "Ten-Year Rule," this requirement costs states billions of dollars each year in lost MRB mortgage loan money and is administratively burdensome. A survey of state Housing Finance Agencies that was conducted by the National Council of State Housing Agencies estimates the Ten-Year rule will cost states $11.8 billion in MRB mortgage money between 2005 and 2008. These funds could finance nearly 115,000 mortgage loans for first-time home buyers.

Repeal the First-time Home Buyer Requirement for MRB-funded Mortgage Loans.

Without MRB-funded loans, teachers, first responders, municipal workers, service sector employees, and military veterans may not be able to purchase homes in or around the communities in which they work, even if these families previously owned homes elsewhere. Under the IRC, borrowers who receive MRB funded loans may not have owned a home during the preceding three years, except homes purchased in targeted areas suffering from chronic economic distress. In addition, the Code requires that a borrower's family income not exceed 115 percent of the median income for a family of similar size, and the purchase price of a home may not exceed 90 percent of the average price for homes in the area. NAHB believes that the family-income and home-price eligibility requirements serve as sufficient constraints to maintain the focus of the MRB program on serving buyers of modest homes.

Increase the Mortgage Revenue Bond Home Improvement Loan Limits

State HFAs are currently authorized to sell MRBs or Mortgage Credit Certificates (MCCs) to fund home improvement loans to low- and moderate-income home owners. The existing limit of $15,000 for loans that can be funded by MRBs or MCCs was established by Congress in 1980 and is too low to be economically justifiable for state HFAs to offer home improvement loans.

Revise the 50 Percent Test on Tax-Exempt Bonds

It is increasingly difficult to use tax-exempt bonds and four percent tax credits together, especially in rural areas. Under current law, at least 50 percent of eligible basis of a development must be financed with tax-exempt bonds. This means there is a relatively large mortgage on the property. In areas with very low median incomes, it is often not possible to generate enough revenue from rents to cover debt service and operating expenses, given this constraint. NAHB suggests that the 50 percent test be reduced to a lower percentage to permit projects that are able to obtain significant subordinate debt to still take advantage of four percent tax credits.

Expand the Section 47 Historic Rehabilitation Credit to Owner-occupied Housing

NAHB supports the important role that the Section 47 Rehabilitation Credit plays in preserving historic communities across the country while also helping in the provision of affordable housing. Like the LIHTC, there are also ways in which the historic rehabilitation credit can be improved to maximize its efficiency and effectiveness. NAHB applauds the introduction of H.R. 1043 the "Community Restoration and Rehabilitation Act" by Representatives Stephanie Tubbs-Jones (D-OH) and Phil English (R-PA). This legislation provides for improvements to the historic rehabilitation credit that will enhance its value for smaller rural and urban projects and strengthen it as a tool for both affordable housing and community revitalization efforts.

NAHB also believes that the preservation of historic housing would be increased significantly by expanding the credit to include owner-occupied housing. Doing so would help revitalize older neighborhoods and historically important properties while retaining the private and social benefits of homeownership for those homes and local areas. This is a particularly important issue for inner suburbs in large metropolitan areas and small towns in non-metropolitan areas, for which the aging owner-occupied housing stock defines the character of a neighborhood.

Conclusion

NAHB appreciates the opportunity to comment on ways to improve the efficiency and effectiveness of tax incentives for low-income housing. Programs like the LIHTC, the Section 47 historic rehabilitation credit and private activity bonds have proven themselves invaluable to the production and preservation of safe, decent and affordable housing. Enhancing their positive impact even further is critical to continuing to meet the needs of low-income families.

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[1] NAHB recently published a detailed analysis of this issue entitled; *New Income Estimates Freeze Tax Credit Rents in Hundreds of Areas* in the April 2007 edition of the NAHB Multifamily Market Outlook. While the article was too lengthy to include as part of this statement, we can provide it along with property-specific examples of the issue to any interested members of the Committee.

[2] NAHB estimates that over 300 counties across the country will have frozen income limits and LIHTC rents for three years or more. Over 100 will be frozen for four years or more.

[3] CPI was 3.2% for 2006.