

February 28, 2022

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Charles Schumer
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, DC 20510

Dear Speaker Pelosi, Leader Schumer, Leader McCarthy, and Leader McConnell:

The undersigned organizations, including representatives of state and local governments and the affordable housing industry, strongly urge you to adjust the underlying statute of the Coronavirus State and Local Fiscal Recovery Fund (SLFRF) program to facilitate its use with the Low Income Housing Tax Credit (Housing Credit) program so that states and local governments may use these funds to build and preserve desperately needed affordable rental housing.

While the affordable housing crisis long predated the emergence of the Covid-19 virus, the pandemic has exacerbated the need for rental homes low-income households can afford. Rapidly rising housing costs are a central component driving inflation, leaving more and more families unable to pay their rent in market rate developments. Simply put, there is an extreme imbalance between supply and demand for rental homes that we must address if we are to mitigate housing inflation.

Inflation is also making it more difficult to produce more affordable housing with the Housing Credit—our nation’s most important tool for the production and preservation of affordable rental housing—as costs of building commodities like lumber and aluminum rise, supply chains are disrupted, and housing developers face workforce challenges all stemming from the pandemic.

Housing Credit-financed developments in the pipeline that had been economically feasible not long ago suddenly are facing financing gaps due to inflationary pressures. Unless we can fill those gaps, we face a vicious cycle where cost increases make affordable housing infeasible to build and the lack of affordable housing supply allows market rate rents to rise even more.

This is where SLFRF comes in. As of this month, approximately half of states and countless local governments have chosen or proposed to dedicate a portion of their SLFRF to affordable housing uses, including as a supplemental financing source in Housing Credit developments. We estimate current commitments to represent as much as \$8 billion in potential affordable housing investment, and maybe more.

The problem is that while the U.S. Treasury Department's final rule for SLFRF technically allows it to be used for affordable housing development, it is very difficult and sometimes impossible to structure these funds in a Housing Credit development.

First, SLFRF funds must be obligated by December 31, 2024 and expended by December 31, 2026. Though Treasury has explained how grantees can use SLFRF to cover the cost of long-term loans, this accounting procedure does not provide enough relief to make lending SLFRF to Housing Credit developments feasible in most instances. This means SLFRF money effectively cannot be used as long-term loans to serve as gap financing for Housing Credit developments. Instead, as a practical matter, the funds must be expended as grants.

Unfortunately, there are major impediments to the use of any federal grant in Housing Credit developments that make using SLFRF in this manner extremely inefficient. First, federal grants reduce "eligible basis" in Housing Credit developments—essentially the amount of Housing Credit equity a project is eligible for is reduced proportionally when a grant is used as part of the financing. This negates the benefits of using these two resources together. Second, for-profit developers receiving a grant typically need to treat that money as taxable income, which is often an insurmountable disincentive for a public-private partnership program like the Housing Credit. For this reason, gap filler sources are almost always provided as low- or no-interest long-term loans with flexible repayment terms.

Congress can fix this by allowing SLFRF to be used as long-term loans to Housing Credit-financed developments. There is already strong support in Congress for this change. Time is of the essence, as developments in the pipeline are stalled and risk falling apart completely.

Sincerely,

Ability Housing, Inc
Affordable Housing Investors Council
Affordable Housing Tax Credit Coalition
Applegate & Thorne-Thomsen
AURA Development & Advisory, LLC
Beacon Hill Capital
BRIDGE Housing
CAHEC
California Council for Affordable Housing

CCIM Institute
Centrant Community Capital
Cinnaire
CohnReznick
Community Revitalization and Development Corporation
Council for Affordable and Rural Housing
Council of Development Finance Agencies
Council of Large Public Housing Authorities
Council of State Community Development Agencies
CREA, LLC
CSH
Dauby O'Connor & Zaleski, LLC
Denton Housing Authority
Eden Housing
Enterprise Community Partners
Evernorth
First Community Housing
Greystone Affordable Development
Hawaii Housing Finance, LLC
HDC MidAtlantic
Holland & Knight LLP
Housing Advisory Group
Housing Partnership Network
Illinois Housing Council
Impact Development Partners LLC
Institute of Real Estate Management
Iowa Housing Partnership
KCG Companies, LLC
Kittle Property Group, Inc.
Kutak Rock LLP
Lincoln Avenue Capital
Local Initiatives Support Corporation
Low Income Investment Fund
Marble Cliff Capital
Massachusetts Housing Investment Corporation
Merchants Capital
Merritt Community Capital Corporation
Midwest Housing Equity Group
Mountain Plains Equity Group
National Apartment Association
National Association of Affordable Housing Lenders
National Association of Counties
National Association of Home Builders

National Association of Housing and Redevelopment Officials
National Association of Local Housing Finance Agencies
National Association of REALTORS®
National Association of State and Local Equity Funds
National Community Renaissance
National Council of State Housing Agencies
National Equity Fund
National Housing & Rehabilitation Association
National Housing Conference
National Housing Trust
National League of Cities
National Multifamily Housing Council
National Neighborworks Association
Nevada HAND, Inc
Nixon Peabody LLP
Novogradac
Ohio Capital Corporation for Housing
Pennrose, LLC
Pennsylvania Developers Council
Public Housing Authorities Directors Association
R4 Capital LLC
RBC Community Investments, LLC
St. Louis Equity Fund
Stewards of Affordable Housing for the Future
Stonehenge Capital
The Community Builders Inc.
The Michaels Organization
The NHP Foundation
VCDC
Wallick Communities