February 25, 2003

The Honorable John W. Snow
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Suite 3330
Washington, DC 20220

Dear Secretary Snow:

The National Council of State Housing Agencies (NCSHA), on behalf of the state Low Income Housing Tax Credit (Housing Credit) allocators, is pleased to share with you, "The Impact of the Dividend Exclusion Proposal on the Production of Affordable Housing," a February 2003 report prepared by Ernst & Young LLP at NCSHA's request. This report objectively documents the unintended adverse impact the Administration's proposed dividend tax exclusion would have on the production of affordable rental housing in America.

Neither NCSHA nor Ernst & Young has a position on the dividend proposal itself. NCSHA offers the Administration and the Congress this report to help build understanding of the implications of the proposal for affordable housing and, specifically, the Housing Credit. We hope the report will also be useful to you in assessing the dividend proposal's impact on other important housing and community revitalization tools, such as the Administration's proposed Homeownership Credit, the New Markets Tax Credit, and the Historic Preservation Tax Credit.

Ernst & Young estimates that 35 percent fewer Housing Credit apartments—40,000 fewer apartments serving about 100,000 residents—would be produced annually if the dividend exclusion proposal were enacted as proposed. Its analysis shows that corporate Housing Credit investors—which account for 98 percent of Housing Credit equity raised annually—would limit the amount of capital they invest in Housing Credits or lower the price they are willing to pay for them, reducing the amount of Housing Credit equity available to produce affordable rental housing.

NCSHA believes the total impact may be even greater. Ernst & Young does not take into account, for example, the impact of higher interest rates on tax-exempt housing bonds almost certain to result from enactment of the dividend proposal. Forty-two percent of Housing Credit apartments developed annually are financed with tax-exempt bonds.

America cannot afford the loss of a single affordable apartment, let alone 40,000 Housing Credit apartments annually. As of 2001, over seven million American renter families—one in five—suffer severe housing affordability problems. They spend more than half of their income on rent or live in substandard housing. Meanwhile, more than 150,000 apartments are lost to the low-cost rental housing inventory each year due to rent increases, abandonment, and deterioration.

In the face of this enormous need, the Housing Credit is the only significant producer of affordable rental housing. The Housing Credit is a federal tax incentive Congress has empowered states to use to encourage private investment in the construction and rehabilitation of privately owned apartments dedicated for 30 years or more at restricted rents to families with incomes of 60 percent of area median income or less. In creating the Housing Credit in 1986, Congress recognized that apartments simply cost too much to build, without some form of development tax incentive or subsidy, to rent at rates affordable to low-income families.

The Housing Credit is an enormous success. Since 1986, it has financed 1.5 million apartments to respond to the severe and growing shortage of decent, safe, and affordable housing for low-income Americans—working families, seniors, the homeless, and people with special needs all across the country. Each year, the Housing Credit finances 115,000 more apartments.

Often, Housing Credit tenants earn far less than federal income limits permit; in 1997, the GAO found the average Housing Credit tenant earned 38 percent of area median income. A majority of Housing Credit properties are dedicated to low-income use for periods longer than 30 years, many for 50 years or more.

The Housing Credit works because it allows states, not the federal government, to decide how to respond most effectively to their housing needs. It also harnesses the resources and discipline of the private sector, attracting $6 billion in private sector capital annually and giving the private sector a stake in the success of the housing this investment builds.

The Housing Credit has become more and more efficient over time, due in large part to Congress' 1993 decision to make the Housing Credit permanent and increased corporate investment. Prices investors pay for Housing Credits have risen approximately 50 percent since the program's creation in 1986, increasing the amount of equity capital that goes directly into affordable housing production.

The Housing Credit is not only good for housing; it is good for the economy. Housing Credit apartments account for up to 40 percent of all apartment production annually. Each year, the construction and operation of Housing Credit properties generates approximately $8.8 billion of income for the economy, creates 167,000 jobs, and produces $1.35 billion in revenue for cash-strapped local governments.

The Housing Credit enjoys strong, bipartisan support in the Congress. As recently as December 2000, Congress increased annual Housing Credit authority by 40 percent. Over 85 percent of the Congress, with nearly equal proportions of Republicans and Democrats, cosponsored the legislation calling for that increase.

We offer a simple solution to the problem the dividend proposal presents the Housing Credit. Treat Housing Credits as taxes paid, as the proposal treats foreign tax credits.

We look forward to your help in protecting this vital supplier of the nation's affordable rental housing. We stand ready to assist you in any way we can. If you have questions about the Housing Credit or the Ernst & Young report, please do not hesitate to call me.

Sincerely,

Barbara J. Thompson

Barbara J. Thompson
Executive Director

Enclosure
cc: Assistant Secretary Pamela Olson
Deputy Assistant Secretary Gregory Jenner