

Affordable Housing Credit

Purpose of tax expenditure

1/22/2021

Affordable Housing Credits provide funding for rental housing development and homeownership opportunities to expand the number of Vermonters who live in decent housing that is affordable relative to their income.

Affordable housing credits provide funding for building and renovating perpetually affordable, energy-efficient rental and owner homes as well as for down payment assistance for first-time home buyers and buyers of newly constructed, high efficiency affordable mobile homes. Vermont Housing Finance Agency (VHFA) is the state allocating agency for the affordable housing credit as well as for the federal Low-Income Housing Tax Credit which is used exclusively for development of affordable rental housing.

All affordable housing credits are awarded by VHFA annually to investors who purchase the credits in exchange for the ability to reduce their Vermont income tax liability for five years. The proceeds from the sale of these credits creates more affordably-housed Vermonters each year through three types of activity:

1. Development of affordable rental housing (“Rental housing tax credits”)

Affordable housing tax credits are allocated to qualified non-profit housing agencies and private project sponsors proposing to [construct or rehabilitate rental apartments](#). The equity provided by the credits helps to fill the gap between funding provided by other financing sources and the total upfront costs of project development. Apartments financed with the Affordable Housing Credit are targeted to tenants with low incomes in accordance with [an allocation plan](#) approved by VHFA in coordination with [the Joint Committee on Tax Credits](#).

2. Development of affordable owner homes (“Homeownership tax credits”)

Affordable housing credits are awarded to qualified for-profit and non-profit developers building [perpetually affordable, energy-efficient owner homes](#) that are sold to households with low and middle incomes. The equity created by the credits is used for down payment assistance for buyers of these homes or other purposes that conform with the allocation plan.

Since 2013, a portion of the equity created by the sale of homeownership tax credits is used each year to fund the [Manufactured Housing Down Payment](#) program administered by the Champlain Housing Trust in accordance with the allocation plan. This program provides down payment loans to eligible buyers of energy efficient mobile homes.

3. First-time home buyer down payment assistance (“Down payment assistance tax credits”)

Affordable housing credits are sold to investors creating proceeds used by VHFA to [provide down payment assistance loans to first-time home buyers](#). Also known as the ASSIST program, it provides up to \$5,000 to each qualifying homebuyer in the form of a non-amortizing, 0% second mortgage. Only available in conjunction with a VHFA first mortgage, the DPA loan is repaid when the first mortgage is refinanced or the home is sold, allowing program funding to be re-used for future homebuyers after a period of time.

Current annual amounts and year started

	Year started	Total annual tax credits (2020)	Estimated equity (2020)
Rental housing construction/rehabilitation	2000	\$400,000	\$1,800,000
New owner homes, including energy-efficient mobile homes	2009	\$425,000	\$2,018,750
Down payment assistance for first-time home buyers	2016	\$250,000	\$1,187,500

Potential Benefits

Studies repeatedly show that families and individuals with affordable, safe housing are likely to be healthier and live more stable lives. When housing costs are within an affordable range relative to income, the household has enough income left for other life necessities, such as food and child care. Children who live in subsidized housing tend to have [higher educational attainment and income as adults](#), relative to their peers.

Vermont companies benefit by investing in Affordable Housing Credits. In the [most recent credit sale](#), investors included Passumpsic Bank, Union Mutual Insurance, Community National Bank, National Life, Northfield Savings Bank, and Union Bank.

Affordable Housing Credits help to meet housing needs not met by private market forces. Since 2010, the pace of [home building has declined](#) to a historic low statewide. This has tightened the housing supply in many parts of the state, putting upward pressure on rent and home sale prices. Since most new homes built by private developers are intended for high-income owners and renters, additional homes financed with the Affordable Housing Credit help increase the housing supply by developing much-needed homes with affordable rents and purchase prices.

The Affordable Housing Credit creates financial and economic benefits, such as wealth building opportunities for homeowners and construction jobs in the local economy as described below:

Rental home development

All rental housing created with the Affordable Housing Credit creates safe, decent homes with rent and utility costs that are generally more affordable than the private rental market. An average of 131 apartments are built or renovated each year using these credits. These apartments serve initial tenants as well future tenants, creating an enduring direct benefit for Vermont low-income renters and for Vermont's tight rental housing market.

The Affordable Housing Credit is a highly leveraged resource, drawing private equity investment into affordable housing that would not occur otherwise. In terms of rental development, for every \$1 in Affordable Housing Credit equity raised in 2021 about \$16 is expected to be leveraged in private and public capital from other sources.

When new apartments are created, jobs are supported during the construction or rehabilitation of the buildings. On average, 211 [jobs were supported and \\$15 million in local income](#) was generated during the development of rental homes financed with the Affordable Housing Credit.

Owner home development

The financial [benefits to individual home buyers](#) of owning a home accrue over time, ultimately resulting in average household wealth among homeowners that is more than four times that of renters.

An average of 19 perpetually affordable owner-occupied homes were built each year and 32 new energy-efficient mobile homes were purchased with awards of Affordable Housing Credits. The annual construction of 51 homes supports about 201 jobs and \$14.6 million in local income during the construction period.

Down payment assistance for first-time home buyers

In an average year, about 300 home buyers buy their first home in Vermont using this program. In addition to the direct benefits to these buyers, the sale of these homes generate about \$23.5 million in [economic benefits](#) stemming from income to real estate industries, expenditures related to home purchase and the average portion of these sales that are for new homes involving construction economic benefits.

Since the program began in 2015, the purchase of their first homes by the [1,361 buyers](#) assisted through the DPA program has generated about \$106.6 million in economic benefits.

Is the Affordable Housing Credit meeting stated goals?

As evidenced by the thousands of Vermont households and homes directly supported by the Affordable Housing Credit, the goals of providing affordable rental and owner housing opportunities for lower income households in a perpetual way are being met. Additional benefits beyond the credit's stated goals are also being produced in the form of broader benefits to the Vermont economy and expanded investment opportunities for local financial institutions.

Review of other states

[Including Vermont, 18 states in the U.S.](#) have a comparable state housing tax credit.