

The Role of Tax Incentives in Affordable Housing  
Senate Finance Committee  
July 20, 2022

**Opening Statements**

**Chairman Wyden (D-OR)** opened by talking about climbing rent and home prices. He said rents increased in June by the fastest rate since 1986. He said that many young people with decent jobs feel home ownership is out of reach and that the problem is there is not enough housing to keep up with demand. Wyden brought up private equity (PE) firms and said they are sucking up properties, increasing rents, and using algorithms to outbid average American citizens. He also highlighted the need to build more affordable housing. He also said there needs to be a boost for low-income housing and that there has been a bipartisan coalition working on housing issues in the committee. Wyden also brought up the Neighborhood Homes Investment Act (NHIA) saying it would bring affordable housing to struggling communities.

**Ranking Member Crapo (R-ID)** started off talking about inflation and said that rents are up six percent. He said that inflation must be contained and that high interest rates lead to higher mortgage rates, making it more challenging for Americans to buy homes. Crapo brought up the Low-Income Housing Tax Credit (LIHTC) and said it is responsible for generating most of the affordable rental housing in America today. He said that Idaho has 284 LIHTC projects, providing 12,000 units that are split between urban and rural areas. He brought up NHIA and spoke on the tax credit it would create. Crapo said the need to reduce inflation must be addressed, as it will lead to higher housing costs; builders are seeing higher costs for building material and the rise in fuel prices continue to put pressure on builders' budgets. He recommended more manufactured housing to reduce the shortfall in supply of housing. Crapo also spoke on the zoning laws and regulatory barriers and how they present challenges to affordable housing by creating excessive costs that restrain development. Crapo brought up opportunity zones as well and pointed to the significant investment that has been directed toward them.

**Witness Testimony**

**[Andrea Bell](#), *Executive Director, Oregon Housing & Community Services***, thanked the Chairman and Ranking Member Crapo for their leadership in addressing housing troubles. She said that the pandemic has exacerbated the housing crisis for individuals with low and moderate incomes. Bell said that 70 percent of extreme low-income renters spent more than half of their income on housing in 2021. She said the housing credits and bonds are the biggest tool for creating affordable housing. She said affordable housing relies on these programs and that it helps stabilize families and communities, which has a great economic benefit. She urged the passing of the Affordable Housing Credit Improvement Act and the Lifeline Act (Leahy and

Collins). She urged the committee to take up the Neighborhood Homes Investment Act (NHIA) as well.

**Jerry Konter**, *Founder and President, Konter Quality Homes, and Chairman of the Board of National Association of Homebuilders*, discussed the struggle of delivering an entry-level home to many individuals in America because of rising housing costs. He also said that the demand for housing has outpaced supply, leading to higher costs. He also discussed the discrepancy that exists between white and minority homeownership. Konter said the cost to build homes and home and rent prices must be driven down with well-structured housing tax incentives. Konter mentioned the LIHTC here and said it is a great tool to help increase the home supply. He urged the implementation of more tax credits to encourage investment in affordable housing. He also encouraged passage of the Affordable Housing Credit Improvement Act. Konter also suggested that Congress reconsider current limits on SALT deduction.

**Lee E. Ohanian**, *Ph.D., Hoover Institute Senior Fellow and Distinguished Professor of Economics, University of California, Los Angeles*, started by saying that increasing housing affordability relies on expanding the housing supply and building new homes at lower costs. He pointed to the high construction costs and how that is related to the housing market currently. He said there has been a high-cost disparity of LIHTC projects in subsidized construction across states. Ohanian said GAO found in a 2018 study that only a few allocating agencies have requirements to protect against misrepresentation of costs. He said home affordability can increase by incentivizing the adoption of low-cost production techniques, improving efficiency, and helping state and local agencies develop building opportunities that are in areas of high demand.

**Benson “Buzz” Roberts**, *President and CEO, National Association of Affordable Housing Lenders*, discussed the work of the National Association of Affordable Housing Lenders to invest in low-income communities. Roberts touched on how housing is significantly less affordable now, with home prices rising 18.8 percent in 2021. He said housing is not just a casualty of inflation but is a cause of inflation as well. He said that housing is now the single largest cost the average household faces. Roberts also pointed to the shortage in housing supply that exists and how that has driven home prices up. To counter this issue and to help Americans everywhere gain access to affordable housing, Roberts discussed the Neighborhood Homes Investment Act (NHIA) and the Affordable Housing Credit Improvement Act of 2021, which together would produce up to 2.5 million additional affordable homes. He said the NHIA would help revitalize struggling communities and provide homeownership opportunities in those communities by building starter homes and building new homes. Additionally, Roberts discussed LIHTC, calling it a crucial tool that can boost the affordable housing supply. He said it is the most effective and successful U.S. policy to produce affordable rental housing. He said LIHTC

has produced more than 3.6 million affordable rental apartments over the past 35 years and is a terrific way to attract outside investment into building more affordable homes.

**Dana Wade, Chief Production Officer, Real Estate Finance**, said Walker and Dunlop is one of the largest suppliers of capital to the multi-family industry and is the fourth-largest lender for all commercial real estate. She highlighted the need to build more affordable housing due to so many Americans spending significant amounts of their incomes on housing. She focused on the Affordable Housing Credit Improvement Act and said it would be a great bill to help increase the housing supply. She said increasing the housing supply using these tax credits has resulted in better economic opportunities and a better quality of life for Americans. She highlighted the success and importance of LIHTC but said it alone cannot solve this problem. Next, she pointed to the regulatory barriers and how it is impacting the development of homes. Wade said that approximately 40% of development costs can be attributed to regulation and that record high costs for materials and labor is only fueling the housing crisis.

### **Member Questions**

**Chairman Wyden (D-OR)** asked Konter about the struggle of middle-income workers and how home builders feel about a middle-income tax credit. He responded saying they strongly support the idea. He said the “missing middle” is the hardest to serve because they either buy entry-level homes or, on the multi-family side, do not qualify for LIHTC or Section-8 vouchers. Therefore, they have a disproportionate amount of revenue spent on shelter and do not have the ability to accumulate funds for a down payment. Konter added that they want to build for every sector of America. Wyden asked Roberts about the PE industry’s exploitation of loopholes in the tax code to maximize returns and jeopardize the low-income purpose of affordable housing. Roberts responded saying it is important to close these loopholes because of the difficulty to build and rehabilitate homes, which turns into a wasted effort if the homes are lost and do not serve their intended purpose. Wyden said Roberts is highlighting that many of these policies are outdated and agreed with him.

**Sen. Portman R-OH)** advocated for NHIA and said it would help individuals reach the dream of homeownership.

**Ranking Member Crapo (R-ID)** opened his questioning by asking about the Net Investment Income Tax (NIIT) and how expanding this to active investment income would result in higher rent. Konter said the consequences are especially acute for renters because it is simply an extra cost associated with operation of an apartment complex. The income was not previously taxed, and it would be under this proposal, which would be passed along to renters to cover it. Crapo asked Wade what persistently high inflation means for affordable housing and asked how higher long-term inflation levels would affect long-term development and utilization of federal tax credits. Wade said persistently high inflation will mean persistently higher rent increases. She

said that inflation is important when considering the efficacy of low-income tax credits and highlighted the fact that high inflation will mean the tax credits are less effective and their value will be less. Next, Crapo asked Dr. Ohanian about the impact of regulatory and zoning policies on providing affordable housing. Dr. Ohanian said states with more relaxed zoning regulations typically have lower construction and housing costs. He added that land-use regulation drives up home prices and construction costs.

**Sen. Carper (D-DE)** said it is a shared responsibility to address the housing crisis. Carper talked about the limited housing supply and general price increases and how that is contributing to the struggles of Americans trying to afford housing. Carper asked about how we can ensure that tax incentives and other resources meet the growing housing needs of seniors. Bell focused her answer on the need to build more affordable housing, especially affordable housing for diverse populations and access to transit, which would benefit seniors. She pointed to the continued success of the LIHTC and its role moving forward in the building of affordable housing. Carper asked Roberts the same question. Roberts said the housing tax credit gives states the authority to direct resources to the greatest needs, including elderly housing. He added that they have seen several LIHTC properties provide services to the elderly, including assisted living, which is difficult for low-income individuals to find.

**Sen. Cardin (D-MD)** started his questioning by talking about NHIA and its wide bipartisan support. He acknowledged the work that Roberts has done to develop this bill and pointed to the need for it given the effects of the pandemic and inflation on Americans. He asked Roberts to elaborate on how NHIA would help attract investors to build affordable housing. Roberts said NHIA would provide states with an allocated amount of tax credits and allow them to deploy their own strategies of how to use those credits. He said the applicant that receives an award would then raise private capital and build and rehabilitate homes in distressed communities. Cardin then asked Bell about how NHIA would help neighborhoods that have been neglected and how it would help address the wealth gap in America. Bell said it would help reduce administrative red tape and leverage tax incentives that exist to provide affordable housing opportunities to minority communities. Cardin ended his questioning by talking about the urgency of this issue given the continued rise of interest rates and costs.

**Sen. Cortez Masto (D-NV)** asked Bell about the Affordable Housing Bond Enhancement Act (S. 4445) and how mortgage revenue bonds help low and moderate-income families buy homes and sustain those homes. Bell said the bill would allow state housing finance agencies to better utilize bond resources to serve more homebuyers. She spoke about the use of these bonds to help over three million borrowers. Bell said this bill raises the mortgage revenue bond improvement loan limit to \$50,000, which is currently at \$15,000. He said this limit has not been updated since the 1980's. Cortez Masto then mentioned state and local fiscal relief funds and asked Wade about how the Lifeline Act would leverage funds to be used for low-income housing. Wade said

it would significantly increase the ability of states and local jurisdictions to produce more affordable housing. Wade said pairing this with the LIHTC would be a step forward in the direction of building more low-income housing.

**Sen. Young (R-IN)** started by saying the housing shortage has been exacerbated by inflation. He also spoke on the Affordable Housing Credit Improvement Act, which he said will help strengthen LIHTC. He then called LIHTC the most successful affordable housing program in the U.S. Young asked the witnesses if they support this bill and all five raised their hands, indicating they support the bill. He asked Roberts about what makes LIHTC so effective in addressing the affordable housing crisis. Roberts said the credits work so well because of private market discipline, which focuses on paying for success of the program. Roberts added that the credits are recaptured if compliance is not met, so the program requires results. Secondly, Roberts said state administration is responsible for the success of the program. Young then asked Wade about how the LIHTC program helps a range of people in need. Wade said the program has been highly effective in bringing people off the streets and into homes, which affects a wide range of people, including seniors, veterans, individuals with disabilities and more.

**Sen. Hassan (D-NH)** asked Bell to talk about state affordable housing trust funds and how they are important. Bell said the funds typically have a designated revenue source and can be helpful to providing state housing needs. Bell asked Konter about how building more homes would help lower costs and how federal support can help build more houses. Konter said we are simply not building enough houses and that the more houses we build will take pressure off the need for supply. Hassan asked Roberts how mortgage insurance makes home ownership more accessible and what can be done to continue to cut costs for families. Roberts said mortgage insurance is important because it allows those with a smaller down payment to get into the housing market. He said cutting the cost of mortgage insurance is important so that they can afford the monthly payments. Hassan then asked Bell about pairing Covid funds with the LIHTC and how increased flexibility in how to use these funds can support housing efforts nationally. Bell said about 31 states are diverting over \$9 billion in pandemic recovery funds to affordable housing activities. Bell said the Lifeline Act would allow state and local governments to utilize resources for long-term loans, which could be used to finance affordable housing.

**Sen. Thune (R-SD)** spoke about tax disincentives, specifically tariffs on softwood lumber imports from Canada. Thune said softwood lumber is critical to U.S. home construction and the high tariffs on it increases homebuilding costs, harms affordable housing, and fails to increase supply. Thune asked Konter if he thinks reducing tariffs on softwood lumber would help make home construction and ownership more affordable. Konter answered yes. He highlighted the importance of lumber to the construction of a home. Thune then asked Wade about the housing deficit and how it is impacting the livelihoods of Americans. Wade said we have a shortage of 3.8 million homes in the U.S. She highlighted the need for many things to come together to

address the housing shortage, including initiatives at the federal level, the state and local level, and in the private sector. Wade then said the LIHTC brings together all those components. She specifically highlighted reforming zoning and permitting delays at the local level as a key to truly solving the problem.

**Sen. Bennet (D-CO)** discussed the effects of the high housing costs on the nation and on Colorado specifically. He said he has seen businesses close because individuals cannot afford to live. He said the LIHTC is the most effective program to increase affordable housing opportunities. He asked Bell how finalizing the average income test rule would expand affordable housing to more families. Bell said the tool makes housing credit properties more economically diverse. She said it allows owners to serve households earning up to 80 percent of area median income while also ensuring units are underwritten to be affordable for low-income individuals. She said the proposed rule implementing the average income test was historically unworkable, but that there are meaningful steps being taken to address the average income test.

**Sen. Brown (D-OH)** said a quarter of renters pay more than half their income in rent and that prices are out of control. Brown asked Roberts how NHIA can help address the shortfall of affordable single-family homes and keep homes in the hands of low-income and aspiring homeowners. Roberts said NHIA can fill the gap between what it costs to build or rehabilitate a home in a struggling area and what the local market can support. He said that in many cases it is not economically feasible to invest in homes in these neighborhoods and that the neighborhoods suffer because of neglect. Brown then asked Konter about whether Congress providing funding to support communities that update zoning regulations would help increase the supply of housing. Konter said zoning regulations do lead to housing prices increasing. He points to the Yes in My Backyard (YIMBY) Act to help address this problem. Konter added that funding to local municipalities to reform their zoning regulations to allow for more affordable housing will help add to the housing supply.

**Sen. Warner (D-VA)** asked Roberts to elaborate on the CDFI tax credit and whether it is a promising idea. Roberts said the program could make an enormous difference. Roberts added that CDFIs are designed to fill the gaps that the private sector financial service providers cannot do on their own. He says the tax credit proposal would help build partnerships between capital providers and CDFIs. CDFIs need long term capital, which is the hardest to secure. Roberts said this tax credit proposal would lower the cost to that capital and enable CDFIs to expand their impact.

**Sen. Cantwell (D-WA)** pointed to the fact that the LIHTC is going to see a decrease in funding. She said that 90 percent of affordable housing is built with the tax credit, highlighting the need for support of the program. She mentioned that the major problem is simply the shortfall in the housing supply. She asked the witnesses why the message about housing supply seems to not be

breaking through, despite all the information about it. Wade said the proposal of increasing the LIHTC is supported by Americans in a bipartisan fashion. Ohanian expanded on this saying housing is expensive to build and that certain locations around the U.S. are high-demand areas. As a result, construction costs in these areas rise even more. Ohanian said it will be difficult to expand housing supply until we recognize that construction costs are remarkably high. Konter then said homebuilding lagged after the last crash and that it has contributed to the supply issue of today. He expanded on this by saying the aspiration for homeownership never went away, which exacerbated the problem of a shortfall in the housing market.