

House Adds Neighborhood Homes, LIHTC to Build Back Better Bill

By Buzz Roberts, The Buzz, November 4, 2021

House leaders unveiled a revised draft of their Build Back Better Act that adds the Neighborhood Homes Investment Act and expands Low Income Housing Tax Credits (LIHTC). The new draft also retains \$150 billion in new spending for a range of affordable housing and community development programs. Taken together, the bill if enacted would represent a historic commitment to NAAHL's mission of affordable housing and inclusive neighborhood revitalization.

The full House plans to vote on the package within days, along with the separate, bipartisan infrastructure bill the Senate has already approved. The Senate would consider the Build Back Better Act in the coming weeks under its budget reconciliation process, which requires a simple majority vote that Democrats could provide on their own with the support of all 50 members plus Vice President Kamala Harris. The Senate is expected to make further changes before it would send the bill back to the House bill for final approval.

The [Neighborhood Homes Investment Act](#), a top NAAHL priority, would create new tax credits totaling about \$5 billion for investments that build or rehabilitate owner-occupied homes in distressed communities. States would allocate the credits worth \$3 per resident (\$4 million minimum in small states) each year 2022-2024 and \$6 per resident (\$8 small state minimum) in 2025, with amounts adjusted for inflation after 2022. The authority would sunset after 2025. Neighborhood Homes credits would fill the gap between development costs and sales proceeds, up to 35% of costs. A 50% credit would be available to rehabilitate homes of current owners. The credits are projected to support 125,000 homes and \$25 billion of development activity through 2025. Almost 25% of all census tracts nationwide would be eligible, of which 63% are majority-minority. Sen. Ben Cardin, Rep. Brian Higgins (D-NY), and the Biden-Harris administration have championed Neighborhood Homes, which also has Republican support.

LIHTC, another top NAAHL priority, would expand significantly but temporarily, and new affordability protections would be established permanently. Sen. Maria Cantwell (D-WA), Rep. Suzan DelBene (D-WA), and the Biden-Harris administration have championed LIHTC expansion, which also has Republican support.

- The tax-exempt bond financing threshold would be cut from 50% to 25%, effectively doubling the volume of tax credits available for each dollar of private activity bond cap, in 2022-2026. The impact will be greatest in states that use their entire bond cap. Bond-financed projects already comprise about one-half of all LIHTC production, which became more feasible when Congress set the 4% credit rate floor for such projects in 2020.
- State LIHTC allocations would gradually rise, reaching 41% in 2024, but this increase would expire after that.

2022: \$3.14 per capita; \$3,629,096 small state minimum
 2023: \$3.54 per capita; \$4,081,825 small state minimum
 2024: \$3.97 per capita; \$4,582,053 small state minimum
 2025: \$2.65 per capita; \$3,120,000 small state minimum

- Buildings with at least 20% extremely low-income (ELI) residents would get a 50% basis boost. This boost applies to both allocated credits and bond-financed buildings. States must allocate between 8% and 13% of their 9% credit allocation caps for such buildings. The boost is also available in conjunction with up to 8% of each state's bond volume cap.
- A 30% basis boost would apply permanently to projects in Indian areas.
- The “qualified contract” option to end affordability after 15 years would be repealed for buildings receiving allocations after this year. For prior buildings, the contract price would be based on its value as affordable housing, making preservation much more likely. Under the current policy, affordability has prematurely ended on about 10,000 units each year.
- The nonprofit right of first refusal (ROFR) would be converted to a purchase option for properties started after the bill is enacted. For prior properties, the ROFR changes would provide that: (1) a bona fide third party would not have to make the purchase offer, which could come from the sponsor or a related party; (3) investment partners would not have to approve the exercise of the ROFR; (4) partnership assets (e.g., reserves) would be included in the price; but (5) these changes would not override express contract provisions to the contrary.

The \$150 billion in additional spending on affordable housing and community development cover numerous accounts. The Biden-Harris administration originally proposed over \$200 billion in new spending. In Congress, House Financial Services Committee Chair Maxine Waters (D-CA) and Senate Banking, Housing and Urban Affairs Committee Chair Sherrod Brown have led the charge. Here's a tally of what is included.

Public Housing Revitalization	\$65 billion
HOME	\$10 billion
Housing Trust Fund	\$15 billion
Housing Investment Fund (aka Capital Magnet Fund)	\$750 million
Community Restoration and Revitalization Fund (new)	\$3 billion
First-Generation Downpayment Assistance	\$10 billion
Subsidies for 20-year first-generation homebuyer mortgages	\$5 billion
Housing Choice Vouchers	\$24 billion
Project-Based Rental Assistance	\$1 billion
Section 811 Housing for People with Disabilities	\$500 million
FHLB Affordable Housing Program contributions	15% of net income
CDBG for Affordable Housing and Infrastructure	\$3.05 billion
Revitalization of Distressed Multifamily Properties	\$1.6 billion

Section 202 Housing for the Elderly	\$500 million
Improving Energy and Water Efficiency, Climate Resiliency	\$2 billion
Rural Rental Housing Investments (USDA)	\$2 billion
Native American Community Investments	\$1 billion
Lead based paint hazard control	\$5 billion
State and local housing plans and regulatory relief (new)	\$175 million
Fair Housing Activities and Investigations	\$800 million
Small dollar FHA mortgage demonstration	\$100 million
Rural homeownership (USDA)	\$100 million
Community-led Capacity Building	\$100 million