



REMOVING BARRIERS TO AFFORDABLE HOUSING FOR ECONOMIC RECOVERY

4 REASONS TO LOWER THE 50% TEST



WHAT IS THE 50% TEST?

Affordable housing developments are eligible for the maximum amount of 4% Housing Credit equity if at least 50% of the cost is financed with Private Activity Bonds.

FINANCE MORE AFFORDABLE HOUSING

IMPACT

An affordable housing crisis existed prior to the COVID-19 pandemic, with millions of households struggling to pay rent. **Exacerbated by pandemic conditions**, the affordable housing shortage should first be addressed by strengthening effective federal tools. The Low-Income Housing Tax Credit (Housing Credit) is our nation's primary tool to produce and preserve affordable housing, but is **limited by the federal Private Activity Bond (PAB) allocation** (for the 4% Housing Credit) and the federal Housing Credit allocation (for the 9% Housing Credit). More than half of Housing Credit homes are financed with PABs and the 4% Housing Credit.

Reducing the 50% Test to 25% could finance nearly **1.5 million additional affordable homes** through the Housing Credit and PABs over the next 10 years.¹ States could provide 4% Housing Credit equity to as much as twice the properties with this change.

FREE UP MORE BOND CAP

IMPACT

PAB volume caps have not kept pace with states' growing needs for the critical developments and programs that PABs support. As a result, an increasing number of states – already over a dozen from New York to Georgia to Tennessee – utilize their full annual PAB cap or are nearing their limit. These states face difficult decisions about which developments and programs to fund.

With 61% of PAB issuances supporting multifamily housing,² lowering the test to 25% could **free up over \$93 billion of PAB cap over 10 years**¹, providing more flexibility to fund local needs.

ELIMINATE INEFFICIENCIES

IMPACT

The amount of hard debt a property can service monthly is determined by rent payments, which are used to pay back a property's debt over time. In order to serve low-income households, Housing Credit rents are simply too low to service a large amount of hard debt. Therefore, once PABs are used to access Housing Credit equity, most are refinanced to significantly decrease PAB debt. This step **creates inefficiencies and adds costs** – if not for the 50% Test, it would be unnecessary.

Eliminate a major inefficiency by removing the need to refinance most 4% Housing Credit properties. Furthermore, lowering the test to 25% would give states the flexibility to **finance 4% Housing Credit properties with half the bonds**.

SERVE MORE HARD-TO-REACH RESIDENTS

IMPACT

Properties affordable to the **lowest income households** can support the least amount of long-term debt – far less than what is required by the 50% Test. With such low rents, just the added cost of refinancing the property, noted above, may make the overall development financially infeasible.

Serve more **formerly homeless people, seniors, and people with disabilities, and rural and tribal communities** where incomes may be lowest.

WHAT ARE PRIVATE ACTIVITY BONDS?

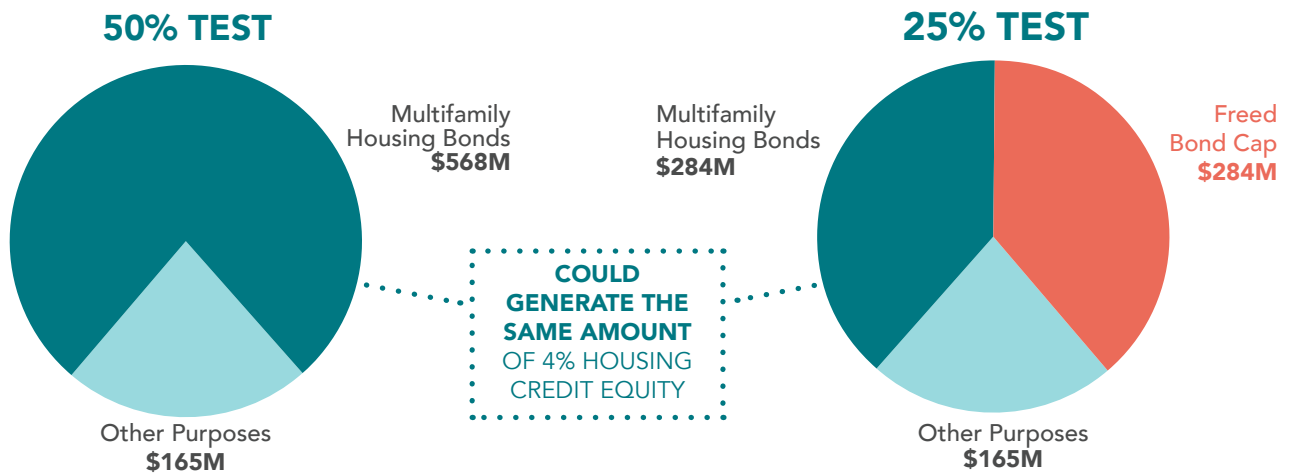
Private Activity Bonds (PABs) are allocated to states on a per capita basis for multifamily and single-family affordable housing, infrastructure and other purposes.² Bond buyers do not pay tax on income from PABs, so they are willing to accept lower interest rates, ultimately reducing the overall cost of the development or program. PABs that fund affordable rental properties are called Multifamily Housing Bonds.

WHY IS THE TEST SET AT 50%?

When the Housing Credit was enacted in 1986, the bond-financing threshold was originally set at 70% to cover the remainder of costs not financed by 4% Housing Credit equity, which was originally designed to cover 30% of eligible costs. In practice, developments could not service such a large amount of debt, so the test was reduced to 50% in 1990. However, the threshold is still too high, creating inefficiencies and limiting affordable housing development.

IMPACT OF REDUCING THE 50% TEST: More Efficient Use of Limited Resources

AN EXAMPLE OF A STATE'S USAGE OF PAB CAP (based on Massachusetts 2019 data)



CONGRESSIONAL SUPPORT FOR LOWERING THE 50% TEST

In 2020, a provision to reduce the test from 50% to 25% gained **bipartisan support** from more than 100 members of the U.S. House from more than 30 states.⁴ It was also included in the House-passed Moving Forward Act. This Congress, the provision is a key component of the bipartisan **Affordable Housing Credit Improvement Act** (S.1136/H.R.2573) to expand and strengthen the Housing Credit.⁵

1 See www.ncsha.org/resource/ncsha-commissioned-novogradac-report-analyzing-the-impact-of-lowering-the-50-test-for-4-tax-exempt-bond-financed-properties/

2 Using 2018 data, the latest year for which public data is available: <https://www.cdfa.net/r/VolumeCapReport2018.html>

3 In 2021, the PAB volume cap is set at \$110 per capita or \$324,995,000 in total, whichever is larger.

4 See www.taxcreditcoalition.org/over-100-house-members-sign-letter-in-support-of-affordable-housing-priorities-in-next-covid-19-relief-bill

5 See www.taxcreditcoalition.org/ahcia/



**AFFORDABLE
HOUSING
TAX CREDIT
COALITION**

The Affordable Housing Tax Credit Coalition is a trade organization of housing professionals who advocate in support of the Low-Income Housing Tax Credit.

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