



## National Association of Housing and Redevelopment Officials

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### NAHRO Brief Millennial Housing Commission Recommendations Homeownership Tax Credit

#### *Background / Rationale*

The federal tax code provides the largest and most often-cited incentive for families to become homeowners—the deductibility of mortgage interest payments and real estate taxes from federal income taxes. For higher-income taxpayers that itemize their deductions, this provision reduces annual tax liabilities and thereby increases disposable income. Low-income homeowners, however, enjoy few of these tax-related benefits. In fact, about 90 percent of the total benefits of the mortgage interest deduction accrue to homeowners with more than \$40,000 in income.

The advantage of the homeownership tax credit over direct subsidy programs is that it devolves authority to states and relies on private-sector partners to deliver allocated resources. No matter how agencies choose to use the credit, however, the Commission believes it will be a valuable community development resource that enhances the overall stability of neighborhoods. However, while a homeownership tax credit is an important additional incentive to create more affordable housing, details must be carefully crafted to avoid any adverse impact on the existing LIHTC program.

#### *Recommendation*

The MHC recommends creation of a new homeownership tax credit, to be allocated to state housing finance agencies. HFAs would have the flexibility to use the credit to build supply in tighter markets, to stimulate demand where markets are relatively weak, or both. .

First, in qualified census tracts, where the cost to build or rehabilitate a unit will be greater than the appraised value of the completed home, states may use the credit to offset the developer's total development cost. A credit used in this way would serve a community development purpose in addition to providing a new unit at a cost to the buyer that reflects local market conditions rather than the otherwise prohibitively high cost of development.

Second, the state hfa's could use the new homeownership tax credit to address both income and wealth constraints by auctioning off credits to lenders in return for commitments to reduce borrowing costs, downpayment requirements, or both. Lenders would bid for the credits from state housing finance agencies and qualified lenders would underwrite loans within clear guidelines for minimum and maximum ratios, as well as for home purchase price and prepayment expectations.

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- The credit would be applied against the borrower's mortgage in the form of prepaid points, belowmarket interest rates, or other subsidized mortgage terms.
- Borrowers could apply points toward downpayment or closing costs, or buy down the interest rate to reduce monthly outlays.
- Only first-time buyers with incomes below 80 percent of area median would be eligible.
- Buyers would be prohibited from prepaying the tax-credit loans for five years except in the case of a sale, and loans would not be assumable.
- Buyers of the production credit would be required to sell to qualified owner-occupant buyers if the unit were sold within five years of project completion.
- Recapture provisions, such as those currently used in the HOME program, would apply.