

# **RAPOZA** ASSOCIATES

## The Low-Income Housing Tax Credit: Overcoming Barriers to Affordable Housing in Rural America





# Rental Housing Needs in Rural America

Rural communities are in critical need of affordable rental housing. Far too many rural families live in rental housing that is either too expensive or in substandard condition.

Nearly 30 percent of all rural households—or more than 7.3 million families—live in housing with at least one major affordability, quality, or crowding issue. Of those households with multiple housing problems, more than half are rural renters.<sup>8</sup>

More than 3 million rural renters—more than 47 percent—spend more than 30 percent of their monthly income on rent and therefore are considered “cost-burdened.”<sup>9</sup> Nearly half of these households pay more than 50 percent of their monthly income on housing costs.<sup>10</sup> With excessively high housing costs, these families often have difficulty affording food, clothing, transportation, and medical care. The lack of affordable rental housing prevents them from meeting other basic needs, such as nutrition and healthcare, or saving for their future and that of their families.<sup>11</sup>

## Barriers to Affordability

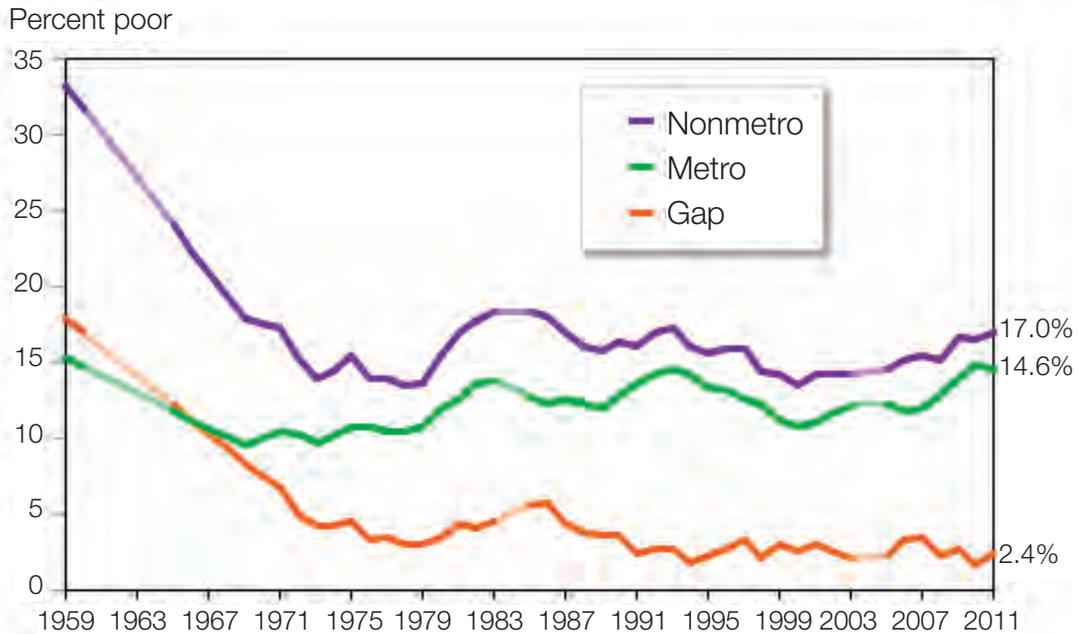
Although housing costs are generally lower in rural areas, rural families have lower incomes and higher poverty rates than the national average. For example, rural median incomes (\$40,038) are 20 percent lower than the national median income (\$50,046), and more than 23 percent less than median urban incomes (\$51,998).<sup>12</sup>

Rural renters, however, face even deeper disparities. The median income for rural renters is just \$25,833.<sup>13</sup> This is more than 35 percent less than the average rural resident, 48 percent less than the national median income, and 50 percent less than median urban incomes.

Poverty rates are also higher among rural renters. In 2010, in the aftermath of our recent economic crisis, the U.S. poverty rate was at its highest since 1993 at 15.1 percent.<sup>14</sup> While the overall rural poverty rate was even higher at 16.3 percent,<sup>15</sup> the rural renter poverty rate reached nearly 33 percent.<sup>16</sup>

## Poverty Rates by Residence, 1959-2011

*Nonmetro Poverty Has Been Higher Than Metro in Every Year Since 1959*

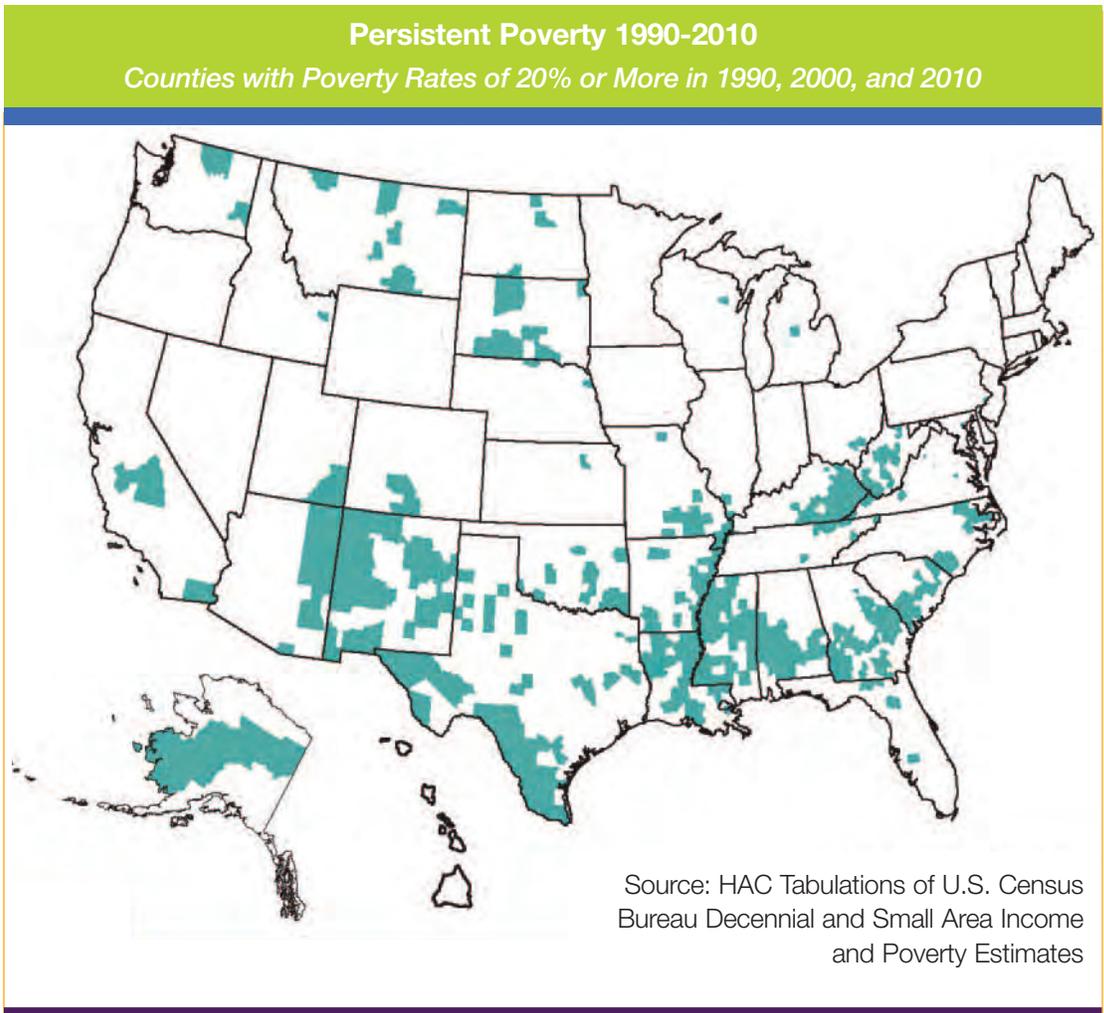
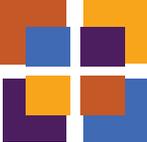


Note: Metro status of some counties changed in 1984, 1994, and 2004. Metro and nonmetro rates are imputed for 1960-1966, 1984, and 2004.

Source: Calculated by ERS using data from the U.S. Census Bureau's Current Population Survey, March Supplements.

Rural communities are four times more likely than urban areas to have at least 20 percent of their population living in poverty.<sup>17</sup> In addition, 96 of the nation's 100 poorest counties are in rural America.<sup>18</sup>

Poverty in rural communities also tends to be more persistent than urban areas. More than 86 percent of the nation's "persistently poor" counties—defined as having at least a 20 percent poverty rate in the 1990, 2000, and 2010 Censuses—are rural.<sup>19</sup> These counties are concentrated in high-need regions, including Central Appalachia, the Lower Mississippi Delta, the southern Black Belt, Colonias along the U.S./Mexico border, Native American lands, and areas with large populations of migrant and seasonal farmworkers.<sup>20</sup>



## Poor Quality Rental Housing

Overall, six percent of rural housing is either moderately or severely substandard, without hot water, or with leaking roofs, rodent problems, or inadequate heating or plumbing systems.<sup>21</sup> Rural renters are more than twice as likely to live in substandard housing as rural homeowners.<sup>22</sup> In addition, rural renters typically live in older housing. In fact, 35 percent of rural renter-occupied units were built before 1960 and are more than 50 years old.<sup>23</sup>



# The Low-Income Housing Tax Credit in Rural America

Since its inception, LIHTC has supported the development, rehabilitation, and preservation of 2.6 million units of affordable rental housing for America's low-income families, leveraging nearly \$100 billion of private capital investment.<sup>24</sup> Each year, the program creates about 95,000 jobs, adds \$7.1 billion in local income, and generates approximately \$2.8 billion in federal, state, and local taxes.<sup>25</sup>

## The Basics: How LIHTC Works

LIHTC was first authorized in the Tax Reform Act of 1986, with bipartisan support from Republican Senator John Danforth (R-MO), then Democratic Senate Majority Leader George Mitchell (D-ME), and Democratic Representatives Charles Rangel (D-NY) and Dan Rostenkowski (D-IL). LIHTC was permanently authorized under the Omnibus Budget Reconciliation Act of 1993. LIHTC was expanded in the Community Renewal Tax Relief Act of 2000. The program is administered by states—typically housing finance agencies—and regulated by the Internal Revenue Service (IRS).

Under the program, states receive tax credit allocations on an annual basis. Allocations are based on population sizes. Smaller states receive a guaranteed minimum allocation.

States have broad discretion in administering the program to ensure that LIHTC investments are targeted to address important state and local housing needs. Each state awards its tax credits to housing developers—including nonprofit organizations—on a competitive basis. Housing developers are awarded tax credits based on how closely their proposed developments address the priorities identified in the state's Qualified Allocation Plan. In this way, states can tailor LIHTC to address the types, locations, and other characteristics of affordable housing needed throughout the state.

Housing developers sell the tax credits to investors—either directly or through syndicated pools of capital—in exchange for an equity interest in the property. Investors may claim the tax credit to offset their federal income tax liability each year for 10 years.

By law, LIHTC-financed housing developments must ensure that either (1) 20 percent of its units are targeted to families earning no more than 50 percent of the Area Median Income (AMI) or (2) 40 percent of its units are targeted to families earning no more than 60 percent of AMI. In addition, federal law ensures that tenants pay no more than 30 percent of the applicable AMI on rent.<sup>26</sup>

Housing financed by LIHTC must remain affordable for at least 15 years, and may be extended to 30 years. When the credit was initially created, the law required a 15-year compliance period. The Revenue Reconciliation Act of 1989, however, required that any development built after 1989 have at least a 30-year restriction. The statute allows owners to opt out by requesting that the state housing finance agency find a qualified contract purchaser to buy the property during Year 14 of the initial 15-year compliance period. If no purchaser is found, the owner may exit LIHTC. If a purchaser is found, or if the owner will not sell the property, the use restrictions extend to the full 30 years.<sup>27</sup>

Because of the high level of competition, however, many states award tax credits to projects that can provide more rent-restricted housing units, deeper income targeting, lower rent levels, and longer use restrictions. Most rental housing projects target 100 percent of their units to eligible families, and many states require longer affordability terms, up to 55 years.<sup>28</sup>

Despite serving families with such limited incomes, the foreclosure rate among LIHTC-financed properties is extremely low. Among nearly 16,000 properties placed in service by the end of 2010, only 98 properties experienced foreclosure at an aggregate foreclosure rate of just 0.62 percent. About 50 percent of these foreclosures occurred between 2008 and 2010, suggesting that challenging economic conditions may have had a role.<sup>29</sup> Even including these foreclosures, this means that LIHTC has had more than a 99 percent success rate.

LIHTC operates with no risk to the federal government. In fact, private investors—not the government—bear the full risk of the LIHTC investment. If the LIHTC-financed property falls out of compliance for any reason within the first 15 years, federal law requires that the investor pay back a portion of the tax credits it claimed in previous years. This provides investors with a direct incentive to provide significant oversight to ensure that LIHTC-financed properties stay in full compliance.<sup>30</sup>

## **LIHTC in Rural America**

LIHTC is the principal tool used by rural communities to overcome unique barriers to clean, decent, and affordable rental housing. By leveraging other federal programs—including the U.S. Department of Agriculture (USDA) Section 515 Rural Rental Housing Loan program (Section 515) and the Department of Housing and Urban Development (HUD) HOME Investment Partnerships program (HOME)—LIHTC has been able to develop and preserve more than 7,600 rental housing projects—or more than 270,000 rental units—in rural communities in 49 states and Puerto Rico.<sup>31</sup>

# WYOMING

## Meadowview WORLAND, WY

Created by state statute in 1975, the Wyoming Community Development Authority (WCDA) raises capital to finance affordable housing development in the state. WCDA administers the state's Low-Income Housing Tax Credit (LIHTC) and HOME Investment Partnerships (HOME) programs.

Recently, WCDA created a set-aside to direct a proportion of its LIHTC allocation to develop small, rural housing developments, which traditionally have struggled to attract private-sector investments. Smaller, rural developments do not have the same economies of scale as larger ones, and they often require more time and expertise to complete.

Under the program, rural communities with less than 7,500 residents that are more than 20 miles away from larger towns are prioritized. In 2013, 45 percent of the total state allocation will benefit these communities.

The Meadowview Apartments in Worland, Wyoming, was developed by G. A. Haan Development and is one of the first projects funded under the small, rural project set-aside.

Constructed in 2012, the 12-unit Meadowview housing development is a welcome development to this small, rural community of about 5,500 residents. The property is exclusively targeted to families earning less than 55 percent of the Area Median Income.

"WCDA is excited to take on the challenge of developing small projects in more rural areas of Wyoming. These projects help WCDA meet our goals of reaching out to all communities in Wyoming, including more sparsely populated cities and towns," said Executive Director, David Haney.



### HIGHLIGHTS

Location: Worland, WY

Population: 5,487

Number of Units: 12

LIHTC Investor: Boston Capital

LIHTC Investment: \$1.9M

Total Project Cost: \$2.4M

Other Federal Programs: HUD HOME program

Wyoming Community Development Authority (WCDA) is the state's leading resource for housing finance. In addition to its homeownership programs, WCDA currently administers two major affordable rental housing development programs: the Low-income Housing Tax Credit (LIHTC) Program and the HOME Investment Partnerships Program (HOME). These two federal programs have funded more than 4,500 units of affordable rental housing across the state.

WCDA provides low-interest mortgages, down payment assistance, and homebuyer education and counseling to help Wyoming families buy and retain their homes. WCDA partners with developers and nonprofit community organizations throughout the state.