Neighborhood Homes Investment Act

Poor and blighted neighborhoods present a fundamental challenge to addressing poverty, crime, education, and economic mobility.¹ Moderate- and middle-income homeowners – including teachers, first responders, civil servants, and healthcare workers – are essential to the social fabric and economic vitality of these neighborhoods.² However, many of the single-family homes in distressed neighborhoods are too deteriorated to retain or attract such homeowners.

These neighborhoods are trapped in a cycle where low property values prevent the construction and renovation of attractive homes, and where the absence of these investments keeps property values unsustainably low. Declining homeownership rates, property abandonment, the erosion of family assets, and concentrated poverty are too often the results.

A new national neighborhood revitalization incentive is needed to break this cycle. The Low Income Housing Tax Credit (LIHTC) and New Markets Tax Credit (NMTC) have successfully attracted private investment to distressed neighborhoods for affordable rental apartments and economic development, respectively. Low-income neighborhoods receiving LIHTC investments experience rising property values, lower economic and racial isolation, and reduced crime.³ However, LIHTC and NMTC are not designed to support the moderate- and middle-income homeownership that anchors the majority of America’s thriving neighborhoods. Tax-exempt private activity bonds and mortgage credit certificates (MCCs) do support homebuyers by reducing mortgage interest costs, but these incentives cannot fill the gap between development costs and appraised home values.

What is the Neighborhood Homes Investment Act?

The Neighborhood Homes Investment Act (NHIA) is a federal proposal to attract private capital to poor and blighted neighborhoods that will help stimulate long-term revitalization. By incentivizing private investment in the building and rehabilitation of owner-occupied homes, NHIA will provide a tipping point for neighborhoods where the cost of construction or renovation currently exceeds the market value of most single-family homes. The NHIA would be structured to give states the same flexibility to exchange tax-exempt bond authority for NHIA bonds that they already have for MCCs. An earlier version of the NHIA, proposed under President George W. Bush in 2004, had bipartisan sponsorship from 46 Senators and 304 Representatives in the 108th Congress (S. 875 and H.R. 839).

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The NHIA is designed to support:

- The construction and rehabilitation of homes sold to eligible buyers, and
- Existing homeowners undertaking substantial renovations.

The NHIA would bridge the financing gap between the cost of construction or rehabilitation and the amount paid for the property by homebuyers/owners. The private market would bear the construction and marketing risks. NHIA allocations would be claimed only after quality construction work has been satisfactorily completed and homes are owner-occupied.

States would allocate and administer the NHIA, similar to the current process for rental housing under LIHTC. The role of federal agencies in this program would be minimal. NHIA’s simple design would facilitate the kind of small-scale growth opportunities that are ideally suited to target neighborhoods.

**How would the NHIA work?**

NHIA would be an optional use of state tax-exempt mortgage bond authority. States would administer NHIA and write plans for allocating those funds (to “Sponsors”) on a competitive basis. The federal role would be limited to IRS compliance monitoring. State allocation criteria would focus on:

- Potential of the proposed investment to leverage neighborhood improvements without incurring the significant involuntary displacement of low-income residents, as reflected by increased strength of the local housing market, enhanced quality of life for residents, or related metrics consistent with any concerted revitalization plan;
- Sponsors’ capability, experience, relevant performance history, and investment strategy;
- Demonstrated support from neighborhood stakeholders and local government officials;
- Sustainability of the proposed housing for long-term homeownership;
- Other factors determined by states.

NHIA Sponsors would raise private equity investment for development and use the proceeds to either: 1) make loans to developers or homeowners, or 2) invest directly in home construction or rehabilitation. It is expected that the sales proceeds (or homeowner refinancing) alone would be insufficient to repay the Sponsors’ full investment, and that NHIA allocations would adequately offset this shortfall.

NHIA Sponsors would be accountable to investors, homeowners/buyers, and the states for managing construction work and marketing the homes. Upon successful completion of their construction/rehabilitation work (except in the case of rehabilitation by existing homeowners), the Sponsor would be required to sell the home to an eligible homebuyer within five years of receiving the allocation of tax credit authority.
**How much funding would be available through the NHIA?**

The maximum tax credit through NHIA would cover 35 percent of construction, substantial rehabilitation, building acquisition, and demolition costs. (Land costs are excluded.) The minimum amount allocated for rehabilitation would be $25,000 (indexed for inflation). Eligible building acquisition costs would be limited to 50 percent of rehabilitation costs.  

To prevent the NHIA from supporting luxury homes, creditable costs would be limited to 80 percent of the national median new home price ($252,960 in 2016), and home sales prices would be limited to four times the area or state median family income.

**NHIA financing example:**

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<tbody>
<tr>
<td>Land</td>
<td>$30,000</td>
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<tr>
<td>New construction</td>
<td>$140,000</td>
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<tr>
<td><strong>Total Development Cost</strong></td>
<td><strong>$170,000</strong></td>
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<tr>
<td>Less: Sale price (at appraised value after development)</td>
<td>- $130,000</td>
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<tr>
<td><strong>Appraisal Gap</strong></td>
<td><strong>$40,000</strong></td>
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<tr>
<td><strong>Maximum NHIA Allocation (up to 35% of $140,000)</strong></td>
<td><strong>$49,000</strong></td>
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**How would NHIA funds be allocated?**

States would select and distribute allotted tax credits to various NHIA sponsors. Eligible sponsors could include:

- Local governments and their instrumentalities;
- Community development financial institutions (CDFIs) certified by the U.S. Treasury Department;
- Housing development organizations; and
- Entities (including partnerships and limited liability companies) controlled by any of the above.

Sponsors would be required to demonstrate capability in financing, rehabilitating, building or administering public funds for the construction/substantial rehabilitation of owner-occupied homes. States would allocate only the tax credits reasonably needed for financial feasibility – which would be assessed both at the time of application, and again when homes are sold or when owner-occupied rehabilitations are completed. States would also establish construction/rehabilitation standards and protocols to ensure that all proposed work is properly completed and that finished homes are fully compliant with applicable local building codes.

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4 “Contract-for-deed” or “land contract” transfers would not qualify as sales.
When would the NHIA be claimed?

To satisfy the NHIA’s credit allocation criteria, either: 1) an eligible homebuyer would need to purchase the finished home at its updated market value, or 2) an existing homeowner would refinance the rehabilitated home based on its updated market value.

Following sale or refinancing, the initial investors would be able to claim the NHIA plus the proceeds of the sale (or loan repayments from existing homeowners). Any forgiven loan amount would be exempt from taxation as cancelation of indebtedness.

Tax credits would not be subject to recapture from Sponsors or their investors, who would have fulfilled their responsibilities upon the completion of either: 1) construction/rehabilitation and sale to a homebuyer; or 2) rehabilitation by or on behalf of an existing homeowner. This feature will significantly simplify the NHIA.

If a homeowner sells or rents out an NHIA-supported home within five years, then upon resale, 50 percent of the gain – not to exceed the tax credit amount designated for that home – will be payable to the state for reinvestment in eligible neighborhoods.

What determines NHIA eligibility?

Neighborhoods

Neighborhoods characterized by a combination of high poverty, low median family income, and low home values would be eligible for NHIA investment.

Homebuyers / Homeowners

NHIA is designed to serve primarily moderate and middle-income homebuyers/owners. Homebuyers/owners with incomes that are less than 140 percent of the area/state median family income (MFI) – with adjustments for household size – would occupy at least 90 percent of NHIA homes, of which at least 10 percent must be occupied by homebuyers/owners with incomes below 80 percent of the area/state MFI. States may set additional criteria for homebuyer/owner income targeting.

Housing

The following types of properties would be eligible for NHIA support:

- Single-family homes with one to four units;
- Condominium units;
- Cooperative housing; and
- Factory-made housing permanently affixed to real property.
To ensure broad affordability to middle-income homebuyers/owners, the maximum home sales price could not exceed four times the area MFI. To protect any renter displaced from homes undergoing rehabilitation, the Uniform Relocation Act would apply.

**How would the NHIA benefit America’s struggling cities?**

Based on the aforementioned financing example, we estimate that each $1 billion in NHIA investment would result in the following:

- 25,000 homes built or rehabilitated
- $4.25 billion of total development activity
- 33,393 jobs in construction and construction-related industries
- $1.82 billion in wages and salaries
- $1.25 billion in federal, state, and local tax revenues and fees

For more information on this proposal, please contact:

info@neighborhoodhomesinvestmentact.org

or visit our website:

[NEIGHBORHOODHOMESINVESTMENTACT.ORG](http://neighborhoodhomesinvestmentact.org)

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Since 2012, Median Family Income (MFI) data have been reported annually by the FFIEC. MSA/MD-specific estimates are available at: [https://www.ffiec.gov/Medianincome.htm](https://www.ffiec.gov/Medianincome.htm) (URL current as of 10/27/17).