

DRAFT

December XX, 2009

The Honorable Max Baucus, Chairman
Committee on Finance
United States Senate
Washington D.C. 20510

The Honorable Charles Grassley, Ranking Member
Committee on Finance
United States Senate
Washington D.C. 20510

Dear Chairman Baucus and Ranking Member Grassley:

Our economy remains in a precarious state. The current level of unemployment is unacceptable. Equally alarming is the number of American families facing foreclosure on the homes they own or finding it increasingly difficult to obtain decent, affordable rental housing. We must focus on policies that create jobs and that address the very real need for affordable rental housing. As the Finance Committee considers future tax legislation, we urge you to include a set of modest provisions aimed at bolstering the Low-Income Tax Credit (LIHTC) program.

Specifically, we recommend that Congress extend for one additional year the housing tax credit exchange program which was enacted as part of ARRA, and also allow states to exchange housing credits arising from tax-exempt multifamily housing bonds as a way to get capital in the short-term to projects that are waiting in the pipeline for funds. In addition, we recommend that Congress allow a five-year carryback period for housing tax credits generated by new investment, and also allow a five-year carryback period for housing tax credits for the 2008-10 tax years, provided that the tax savings generated by this carryback be immediately reinvested into new affordable rental housing. This will help to stimulate investor interest in low-income housing tax credits and generate additional investment dollars. As you know, the Senate's version of the American Recovery and Reinvestment Act (ARRA) included a five-year carryback period for all general business credits. Unfortunately, this provision was dropped in conference.

Finally, we must bring new investors into this program in order to replace the equity that Fannie Mae and Freddie Mac used to provide to the market. A reasonable mechanism for expanding the investor base would be to allow some S corporations, limited liability companies, and closely held C corporations to use the housing credit, so long as there are appropriate anti-abuse safeguards. We need to have vigorous competition in the market so that states can generate maximum equity for each dollar of tax credits that is allocated. It would be shortsighted of us to ignore this longer-term need.

The LIHTC has a long history of success in generating the capital needed to produce low-income housing units and it has enjoyed broad, bipartisan support in the Congress. The general

DRAFT

economic climate and the lack of available capital have dramatically reduced investor demand for housing tax credit investments. This drop in capital translates directly into lost jobs.

Before the downturn took hold, each year approximately \$9 billion of equity was raised for housing credit investments that financed the development of about 120,000 apartments. This level of activity also created approximately 139,000 jobs each year. In 2008 and 2009, only half as much equity has been raised. The prospects for 2010 look equally bleak which will mean fewer housing units will be produced and fewer jobs will be created. Projects that promise thousands of jobs in the production and renovation of affordable rental units will not get off the ground in the next two years if investments do not increase.

We look forward to working with you to ensure that the LIHTC program continues to be the Federal government's most successful affordable housing programs.

Sincerely,