April 10, 2013

House Committee on Ways and Means
1101 Longworth House Office Building
Washington, DC 20515

Dear Real Estate Tax Reform Working Group,

As this working group considers tax reform, I am writing to urge you to protect affordable housing and the low-income residents who depend upon it. The three tax code actions with the biggest impact on this problem are:

1. Preserve the Low Income Housing Tax Credit;
2. Reform the Mortgage Interest Deduction to benefit more low income homeowners, and use the savings to capitalize the National Housing Trust Fund; and
3. Permanently authorize the New Markets Tax Credit.

Mercy Housing is one of the nation's largest nonprofit affordable housing organizations. We build new developments, acquire and rehabilitate existing housing, in addition to managing our own and others' affordable housing communities. We provide community finance for other affordable housing projects and are a leader in place based neighborhood stabilization. We are redefining affordable housing by creating a stable foundation where our residents can explore their potential, supported by practical Resident Services such as health classes, financial education, employment initiatives, parenting and after-school programs for children. On any given day, more than 144,000 people live in a Mercy Housing home.

Affordable rental housing is scarce in many communities across this country and the demand is growing. HUD's Worst Case Housing Needs 2011: Report to Congress shows 8.48 million renter households experiencing worst case housing needs, meaning they live in substandard housing conditions or pay more than half of their income in rent. This is a 43.5% increase since 2007. It is unacceptable that so many Americans must choose between basic necessities such as food, shelter, health care, education and child care.

Low Income Housing Tax Credit

First, we urge this working group to preserve the Low Income Housing Tax Credit (Housing Credit). Since the Housing Credit program was created in 1986 by a bipartisan Congress and Republican Administration, it has been the most successful production program for affordable housing and without it there would be almost no affordable housing production at all. Over the past 26 years, the program has financed the development of over 2.5 million affordable rental homes across the country. The

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program creates approximately 100,000 units and 95,000 jobs annually. In addition, the Housing Credit program is a critical example of a successful private-public partnership, leveraging over $75 billion in private investment.

According to the National Low Income Housing Coalition's Out of Reach 2013 report, the gap between wages and rents remains a serious issue across the county, making it difficult for low income renters to live in the cities and towns where they work. Without the LITHC program, the only major affordable housing production program, this affordability problem would only get worse. Currently more than 40% of Housing Credit-funded apartments house extremely low-income households (earning at or below 30 percent of AMI) while almost two-thirds of Housing Credit units serve households with incomes at or below 40 percent of AMI, well below the maximum permitted income levels.

While the Low Income Housing Tax Credit works well as-is, it could be made better. First, fixing the "rates" at 4% and 9% rather than floating with the interest rate would make final funding amounts easier for developers to predict. Second, the amount of credit available must be expanded, especially to alleviate extreme competition in desirable markets. The Bipartisan Policy Center Housing Commission's recent paper recommended a 50% increase in allocation to meet the demand for affordable housing. Third, a lower corporate tax rate would reduce investor tax liability and therefore demand for Housing Credit by an estimated 20%. To counteract this, we encourage Congress to reform the Community Reinvestment Act to even out Housing Credit demand across all markets.

Mortgage-Interest Deduction Reform

Second, we urge this working group to fund the National Housing Trust Fund (NHTF) through reform of the Mortgage Interest Deduction (MID) to better support middle class and lower income homeowners. The NHTF and other forms of locally-directed capital are essential for leveraging the Housing Credit so that Mercy Housing and similar organizations can serve the most vulnerable members of our communities. If states choose to allocate the majority of their funds towards ending homelessness, a fully capitalized NHTF would be our best shot at ending homelessness in America within 10 years.

In stark contrast to the Housing Credit, which cost approximately $10 billion in federal tax dollars in 2010, the MID is an extremely regressive and expensive deduction. The federal government provided over $83 billion in 2010 in tax deductions through MID. Approximately 78% of these deductions go to taxpayers who have incomes of $100,000 or more. MID plays a valuable role in encouraging homeownership but primarily benefits the wealthy and encourages overconsumption of housing, with interest being deductible on the first $1,000,000 of mortgage. To account for market variation in home prices, it would be fair to cap the interest-deductable portion of the mortgage at the more modest FHA loan limits for the area. We also support turning the deduction into a 15% credit, which would mean that all homeowners with mortgages would get a tax break, not just those who have enough income to file itemized tax returns. The savings, estimated to be almost $20 billion a year, should be used to capitalize the National Housing Trust Fund.

New Market Tax Credits

Third, we urge this committee to make the New Markets Tax Credit (NMTC) permanent. The NMTC program attracts capital to low income communities by providing private investors with a 39 percent federal tax credit for investments made in businesses or economic development projects located in some of the most distressed communities in the nation. The credit created nearly 400,000 jobs through 2013 and has leveraged $8 for every $1 of federal investment. Mercy Loan Fund uses the NMTC to invest in facilities that create healthy communities for residents of subsidized housing.

The demand for decent, safe and affordable rental housing is continuing to grow, particularly growing out of the recent foreclosure crisis, while the supply is severely limited. That is why it is more critical than ever for the federal government to ensure through tax reform that the most vulnerable in our country are protected and have access to housing assistance they need.

Thank you for your consideration of our comments. [redacted]

Sincerely,

S. Lillian Murphy, RSM

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Chief Executive Officer