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FINANCING SOLUTIONS

Low-Income Housing Tax Credits Are Good Business for Banks

Program Can Offer Model for State's Efforts to Add More Housing

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SPECIAL TO BANKER & TRADESMAN

Affordable housing has been a pressing issue in Massachusetts for many years. With skyrocketing housing costs and a lack of available units for low-income families, we have struggled to keep up with the demand for affordable housing.

According to a report by the National Low-Income Housing Coalition, Massachusetts has a shortage of over 185,000 affordable and available rental homes for extremely low-income renters. Additionally, there are only 45 affordable and available rental units for every 100 extremely low-income renters in Massachusetts. This means that many low-income families are forced to spend a large portion of their income on traditional housing, where rents exceed those of affordable rental units, leaving little for other necessities such as food, healthcare, and education.

The federal government's Low-Income Housing Tax Credit (LIHTC) program was created in 1986 to encourage private investment in affordable housing. The program is administered in Massachusetts by the Executive Office of Housing and Livable Communities (EOHLC), formerly known as the Department of Housing and Community Development (DHCD).

Under the program, developers can receive tax credits for the construction or rehabilitation of affordable housing units. These tax credits can then be sold to investors who can use them to reduce their own tax liability. The program has been highly successful and has helped create over 100,000 affordable housing units in Massachusetts since its inception.

What They Give Banks

Despite its success, the LIHTC program is not without its challenges. The program is oversubscribed with more demand for tax credits than there are credits available. As a result, many developers are unable to receive the tax credits they need to fund their affordable housing projects. To address this issue, the commonwealth implemented its own tax credit programs.

These programs have helped by providing additional tax credits, streamlining the application process, and increasing funding for technical assistance to developers. However, current programs need to be expanded and new ones developed if we are to help alleviate the ever-growing housing problem.

From a banking perspective, investing in LIHTCs offers many advantages. It helps banks fulfill their obligations under the Community Reinvestment Act (CRA), which encourages investment in low- and moderate-income communities. By investing in LIHTCs, banks can demonstrate their commitment to supporting affordable housing initiatives. LIHTC investments also provide tax benefits for banks, allowing them to claim federal tax credits over a 10-year period, helping to offset tax liabilities, reduce tax payments and generate a positive impact on their overall financial position.

> **Rather than relying solely on government subsidies, the program leverages private investment.**

Furthermore, investing in LIHTCs allows banks to diversify their investment portfolio. By allocating funds to affordable housing projects, banks can balance their investment risk and venture into a stable and socially responsible asset class. The asset is considered stable because of consistent demand, government support and lower market volatility. In addition, LIHTC investments make a significant difference in local communities by addressing the shortage of affordable housing. Banks can be contributors to providing safe and affordable housing options, improving living conditions, and promoting community development.

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Investing in LIHTCs enables banks to build strong relationships with community organizations, housing developers, and government agencies involved in affordable housing initiatives. This collaboration can open doors to future business opportunities, partnerships and enhance the bank's reputation within the community.

Tax Credit Offers Model

One of the reasons the LIHTC program has been so successful is because it is a market-based solution to the affordable housing crisis. Rather than relying solely on government subsidies, the program leverages private investment to create affordable housing units. This means the program is more sustainable over the long-term, as it does not rely on government funding to continue.

Another reason the LIHTC program has been successful is it encourages the development of affordable housing in a variety of different locations. Under the program, developers can receive tax credits for building affordable units in both urban and rural areas, as well as in areas with high or low median incomes. This means that the program can reach a wide range of low-income families who need affordable housing.

Admittedly, the LIHTC program alone is not enough. Even with the tax credits provided by the LIHTC program, many developers still need to charge rents that are higher than what many low-income families can afford. To address this issue, the commonwealth has implemented several additional programs to help low-income families access affordable housing. These programs include rental assistance programs, homebuyer assistance programs and programs to help families access credit and savings.

The need for affordable housing in Massachusetts is a mounting issue that affects thousands of low-income families. While not a complete solution, the Low-Income Housing Tax Credit program has been highly successful in encouraging the development and preservation of affordable housing. Investing in LIHTCs offers banks the opportunity to meet regulatory requirements, generate tax benefits, diversify their portfolios, make a positive social impact and forge meaningful relationships within their communities.

Solving the affordable housing crisis in Massachusetts will take a multi-prong approach that must include more access to LIHTCs along with creative ways to mimic the federal tax program on a state level. LIHTCs are a proven model that works, so let's get behind a program that will provide more affordable homes for those who need them most. ◀

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