Homeownership
Alliance

September 6, 2022

Ms. Jodie Harris
Director
Christopher Allison
NMTC Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Director Harris and Mr. Allison:

We are writing to urge you to use your authority to help increase affordable homeownership in the US through modest revisions to the New Markets Tax Credits Allocation Application.

As you know, NMTCs can and have been used to finance affordable homeownership in distressed communities. Using NMTCs to finance nonprofit real estate developers in qualified census tracts provides much needed flexible financing to make homeownership affordable for families currently shut out of the housing market. The attached article from the *Washington Post* highlights the success of this use of NMTCs, yet the vast majority of the funding is not used for homeownership.

The Homeownership Alliance is a collaboration of leading CDFIs and nonprofit housing developers. The mission of the Homeownership Alliance is to increase access to homeownership in order to narrow America's racial wealth gap, improve access to long-term affordable housing, and revitalize disinvested communities without gentrification. The Homeownership Alliance is committed to building a robust, nonprofit-led delivery system that will increase access to homeownership for those who have been left behind by our current system.

Currently, there are 4 CDEs that focus solely on homeownership projects. They are Housing Partnership Network, Community Housing Capital, Habitat for Humanity and National Housing Trust Community Development Fund (first time applicant in 2021). Additionally, examples of some (but not all) other CDEs that have used some portion of prior allocations to fund affordable homeownership projects include Enterprise

Community Partners, Reinvestment Fund, Stonehenge Capital, US Bank CDC, and Harbor Bank. Homeownership Alliance members that have used NMTC funding to develop affordable homes include Atlanta Neighborhood Development Partnership, Homewise, come dream come build (cdcb), Champlain Housing Trust, Habitat for Humanity of Metro Denver, Indianapolis Neighborhood Housing Partnership, NeighborWorks Columbus, New Jersey Community Capital, and the Housing Partnership Inc.

The CDFI Fund could implement two simple tweaks to the application that would encourage, and thereby increase, the use of NMTCs for homeownership. First, add "homeownership" to the list of Innovative Uses in question 19 of the NMTC Allocation Application. As the Fund knows, many CDEs select an innovative use because of the incentive of additional points in their total score. Homeownership is certainly a novel use of NMTCs that aligns with the Biden Administration's priority to increase the housing supply that was so ably articulated in the Housing Supply Action Plan[1].

The second tweak would be to provide more opportunity for CDEs that select "housing units" as one of the community outcomes in Question 26 to discuss the community impact/outcomes of homeownership. For "job creation," CDEs have 3 opportunities and 15,000 characters in total to discuss the impact and benefits of job creation. For homeownership, CDEs have 5,000 characters and one opportunity to discuss the far-reaching neighborhood revitalization and stabilization, direct economic benefits to the localities, and wealth creation and family stability and intergenerational improvements in financial, educational and health outcomes for homeowner families, and the especially impactful benefits for Black and Latino families. The application materials need to allow for documentation of a broader range of impacts. The allocation process for NMTCs is very competitive and a narrow focus on job creation in the CDFI Fund's application materials for the program has led the industry to believe that job creation is the most important impact to the CDFI Fund and critical to receiving an NMTC allocation.

To date, NMTCs have been used to build over 4300 affordable homes developed by nonprofits including Homeownership Alliance members, Habitat for Humanity and others. This use of NMTCs for homeownership has a quadruple bottom line: it improves neighborhoods by adding to the stock of move-in ready, high quality homes; it helps families build assets through the equity created by sustainable homeownership; it creates construction jobs in disinvested neighborhoods; and ultimately all of these impacts build community and create livable neighborhoods. Currently, there is a pipeline of more than 100 projects, spread across 32 states, that would create approximately 3,000 homes seeking NMTC allocation.

If you would like to learn more about the NMTC – affordable homeownership model, please contact Donna Smith of Smith NMTC Associates, LLC at dasmith@smithnmtc.com or 314-974-7858. If you would like to hear from our members about the impacts of the model on their work and their communities, please contact me at ksiglin@stabilizationtrust.org. Thank you for considering our views.

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[1] https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/

Sincerely,

Kristin Siglin
Vice President of Policy and Partnerships
National Community Stabilization Trust
On behalf of the Homeownership Alliance

Donna Smith
Executive Vice President
Smith NMTC Associates, LLC

Attachment

A model for neighborhood renewal

Two lawyers have helped build thousands of affordable houses in 30 cities using an obscure federal tax incentive

By Jim Morrison

August 18, 2022 at 7:00 a.m. EDT, Washington Post

A home built by Habitat for Humanity St. Louis using New Markets Tax Credits joins historic homes along Park Avenue in the city's Gate District neighborhood. (Sid Hastings/For The Washington Post)

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ST. LOUIS — For decades, the Jeff-Vander-Lou neighborhood on the north side, with its boarded-up rowhouses and empty lots, was one of the most distressed areas of this city. Now the neighborhood — once the only place where Black people could own property in the city — is transforming into a vibrant, working-class community, thanks not to gentrification but to a program that sells homes with mortgages as low as $550 a month.

More than a decade ago, two St. Louis lawyers created an innovative model using an obscure federal tax credits program to finance for-sale affordable housing. They collaborated with the city's Habitat for Humanity nonprofit to initially build more than 67 houses and over the next decade shepherded $18.3 million in tax credits investments to build a total of 103 affordable homes across the city.

Building housing that people can afford to buy, instead of rent, is the kind of personal investment that is the first step to turning the corner for a neighborhood, according to housing advocates.

Construction on homes along Park Avenue in St. Louis. (Sid Hastings/For The Washington Post)

"When Habitat first started building [in the neighborhood], there was for the most part swaths of vacant land," says Kimberly McKinney, chief executive of Habitat for Humanity St. Louis. "There was no community. There were no eyes on the street."

One home, a lifetime of impact

These days, the eyes keep watch on streets with neat two- and three-bedroom homes. Every house has a front porch, encouraging community. Crime is down, way down. Residents, some of whom have been homeless, talk proudly of owning a home for the first time and changing the area. One hosts a regular July Fourth holiday gathering on a vacant lot next to a boarded-up house that in the early years served as a center for the drug trade. Repeated calls for police by residents shut it down. The number of owner-occupied buildings in the area has more than doubled to 26 percent from 12 percent.

The lawyers, Donna and Howard Smith, started the project in St. Louis 14 years ago. Since then, they have through their corporation SmithNMTC guided nonprofit community development entities nationwide to use nearly $500 million in New Markets Tax Credits to build more than 4,200 for-sale affordable homes in about 30 other cities, including Atlanta, Charlotte, Newark, Baltimore, Santa Fe, N.M., Pittsburgh and Memphis.

Research shows that the program has been critical in building wealth. A 2021 study by the [Atlanta Neighborhood Development Partnership](#) (ANDP) found those who had owned their homes for five years gained an average of more than $135,000 in equity through principal payments, down payment assistance and market appreciation.

In Santa Fe, N.M, Jessica Salazar, a single mother of three, took the required home-buying classes and waited a year for her opportunity to buy a three-bedroom home in El Camino Crossing. She and her family had lived with her parents because she couldn't afford an apartment in the city. After five years in the house, she sold while the market was hot this year, allowing her to pay off the second mortgage and still make a profit. She bought a bigger property on the outskirts of town suitable for her older children. For her, subsidized affordable housing worked. She became a homeowner. She built wealth and a good credit score with help from the subsidies. And now, she's leveraging that. "It just really set me up for success," she says. "I can't say enough [good] about the program."

Here's how the program works: The New Markets Tax Credits program is designed to attract investors to distressed areas by offering them [a 39 percent income-tax break](#) over seven years. The corporations use that investment in several ways to subsidize the cost of housing. Buyers, for instance, may get down-payment assistance or may benefit from a second loan payable when they sell the property. Developers may be paid to reduce the price of a home in amounts ranging from $30,000 to $100,000, depending upon the neighborhood.

Homes built by Habitat for Humanity St. Louis along Thomas Street in the city's Jeff-Vander-Lou neighborhood. (Sid Hastings/For The Washington Post)

The Smiths have championed using the $5 billion-a-year program to build affordable housing, something most community development entities (CDEs) tapping into the credits said could not be done. New Markets Tax Credits are highly regulated, but the Smiths have created plug-and-play templates, models that any nonprofit can use to navigate the tax credits program from application through project completion.
While the Smiths remain frustrated at the slow acceptance of using the credits to fill a small hole in the gaping affordable housing crisis, they say more and more nonprofits are embracing the strategy.

"There's a 30 percentage-point differential between how many Blacks own homes and how many Whites own homes today," Donna Smith says. "We really need to be doing a better job of increasing the opportunity for low-income folks and people of color to own homes."

For years at industry conferences, the Smiths heard lawyers on panels proclaim that the complicated New Markets Tax Credits program could not be used for housing. Each time, they'd raise their hands and respond that they'd helped create $300 million, then

$400 million, and now nearly $500 million in affordable for-sale housing in distressed areas.

“They’d just look at you like ‘I wish you weren’t here,’ ” says Donna Smith. Funding affordable housing has been a long-standing example highlighted on the program’s Treasury Department website. But the Smiths say the Community Development Financial Institutions Fund (CDFI) does not actively promote it. Part of the problem is that CDEs compete for tax credit allocations annually and are scored on their track record. They didn’t want to try something new such as for-sale affordable housing.

A spokesman for the CDFI declined to comment about the use of tax credits for affordable housing.

In Atlanta, ANDP used $20 million in tax credits to purchase and renovate 133 homes scattered throughout the city’s south metro region where half the population earned less than $35,000 and homeownership had dipped to under 40 percent. In Santa Fe, N.M., where housing prices have soared, the Smiths’ tax credits model helped transform a blighted former mobile home park site into El Camino Crossing, a project with 40 affordable houses and 13 condominiums. In Pittsburgh, the mayor in 2020 hailed it as a new model after the city’s Urban Redevelopment Authority built 26 homes, 18 of them sold to families with incomes below 80 percent of the area’s median income.
Black homeownership continues to lag in 50 largest U.S. cities

“For-sale housing is a relatively new and growing part of the New Markets program,” says Brett Theodos, a senior fellow and director of the Community Economic Development Hub at the Urban Institute who has studied New Markets credits for more than a decade. “I think it’s a really intriguing and innovative contribution. There are surprisingly few federal subsidies for owner-occupied affordable housing in this country. And this is one small way to make good on that need.”

It’s one small way because affordable housing created through the program so far is an eyedropper contribution to a sea of need. The National Low Income Housing Coalition estimates that 6.8 million more rental units are needed for low-income families. A 2021 analysis by the Urban Institute and Moody’s Analytics reported that there is less housing for rent and for sale than at any time in 30 years with the annual supply of new housing 100,000 units below the new demand.

A home built by Habitat for Humanity St. Louis joins other homes built about 15 years ago along South Tucker Boulevard in the city's Peabody-Darst-Webbe neighborhood. (Sid Hastings/For The Washington Post)

“The lion’s share of the undersupply is concentrated in the lower end of the market,” the report added, resulting in dramatically rising prices in that segment of the market. “The rise in house prices is putting the economic opportunity of homeownership out of reach for more and more families, particularly those of color. Today the homeownership rate for Hispanics is 48 percent and for Blacks it is 42 percent, a level not seen in decades,” the report added. By comparison, White homeownership is at 72 percent.

Mark Zandi, chief economist for Moody's Analytics and a co-author of the report, said the housing shortage continues a downward spiral. It's now about 1.6 million homes below what's needed, according to his calculations. "That's a massive shortfall," he says. "And it's turning out to be a problem that's only intensifying."

He said the tools in place to address the problem are not enough. "We need to think about how to marry different forms of government subsidy with private capital and supercharge the development of more affordable housing," Zandi adds. "This kind of innovation is exactly the thing we need, figuring out ways to take the tools that we have, fashion new tools and build more homes."

The definition of "affordable housing" can vary from place to place. Households that pay more than 30 percent of their gross income for rent or a mortgage are considered "cost burdened" and may have trouble affording needs such as transportation, food and medical care. The New Markets Tax Credits program targets distressed or severely distressed census tracts. The homes offered by the nonprofits that have participated generally are sold to people who earn 80 to 125 percent of the annual median income in the area.

The majority of federal support for affordable housing and infrastructure passes through the Low-Income Housing Tax Credit, which contributed $10.4 billion in 2021. An analysis by the Smiths concludes that only $702 million out of $55.9 billion in credits awarded from 2003 through 2019 went toward housing.

Proponents of for-sale affordable housing point to it as a means to build wealth, particularly for Black families who may have been shut out of the housing market during decades of redlining. According to an Urban Institute report, buying a home is more affordable than renting in two-thirds of American counties.
For Black homeowners, a common conundrum with appraisals

"This is a direct way of building wealth for families," says William Carson, vice president at U.S. Bancorp Community Development Corp., which has invested in the program. "That is a way of getting people out of intergenerational poverty."

Zandi says the effects of homeownership ripple into the community. "When you own your home, you have skin in the game. You're invested to help your community," he says. "Homeownership is key to not only lifting people out of being lower income, but it's also key to healthy communities in a vibrant, well-functioning economy."

John O'Callaghan, president and chief executive of the ANDP, says the program provides the flexibility to best create affordable for-sale housing. "The great thing about New Markets is it gives us and the CDE the ability to make decisions about how the subsidy is needed in the context of the market you're working in."

The model created by the Smiths means that the Housing Partnership Network, a nonprofit collaborative of more than 100 community and development organizations, can take an allocation of tax credits and spread them among three, four, five or more local partners across the country, cutting legal and administrative costs.

"The way the Smiths have set it up, it's a very streamlined process," says Katie Rodriguez, president of the Housing Partnership Fund and Housing Partnership Ventures, the organization's CDE. "It's significantly less expensive than a one-off market project."

In Santa Fe, N.M., Daniel Slavin, senior director of Homewise, which built the El Camino Crossing project, said a person grossing 80 percent of the annual median income in the area might be able to afford a $175,000 house. Building that house costs $250,000. So the buyer will get a mortgage for $175,000 with a deferred loan for the other $75,000 to be paid when they sell.
The 'heartbreaking' decrease in Black homeownership

"You're giving people an opportunity they just wouldn't be able to do unless this financial model was available," he adds. "The house is an asset so you can build wealth and financial stability. Rents go up every year, but your mortgage payment stays consistent for 30 years."

In St. Louis, McKinney says the funds are used to buy down the cost of the house by subsidizing construction. "In our market, what it costs to build the house and what our buyers can afford, there's a pretty big gap," she says.

That gap varies from city to city, but it's increasing. The ANDP says since 2010, the average income of a home buyer in Atlanta has been stagnant at about $40,000 per household while home prices have increased 65 percent to nearly $190,000. In the neighborhoods where ANDP invested in homes, more than a third of the households earned less than $25,000 and roughly half earned less than $35,000 annually.
Many families stay, stabilizing neighborhoods. McKinney says the first home Habitat built in St. Louis is owned by the same family. In the hard-hit Atlanta neighborhoods where ANDP has built or renovated homes, more than 90 percent of owners remained after five years.

O'Callaghan points to Atlanta's Pittsburgh neighborhood, which he calls "foreclosure ground zero in the country" during the Great Recession. New Markets Tax Credits was one of the funding mechanisms used there through two rounds of creating homes. "It was a neighborhood with a great history that had been decimated," he adds. "The neighborhood today has been completely transformed."

The ANDP has created a plan to develop or renovate a total of 2,000 residences by 2025, including 500 single-family houses. "We have been searching for more reliable sources of subsidy that can be scaled," O'Callaghan says. "New Markets has been critical to us raising our scale."

Slavin says bringing homes to El Camino has spurred private investment, including apartments and a couple of restaurants coming to the neighborhood. "What we're trying to create is more of a walkable, multiuse living and business setting," he adds. "It definitely has worked. And it's only going to spark more growth in the surrounding areas."

Pamela Wells, 62, has worked in a pottery shop in Santa Fe, N.M., for more than two decades. She purchased her first home, a one-bedroom El Camino, through a city program. (Family photo)

Pamela Wells, 62, has worked in a Santa Fe, N.M., pottery shop for more than two decades. She purchased her first home in El Camino through the program after living in an efficiency apartment out of the city.
She no longer has to commute. Her one-bedroom home has solar panels, reducing her costs.

"I'm actually paying less on my mortgage than I did renting and in the last couple of years rents have really shot up," she says. "For me, having a mortgage is cheaper than paying rent in Santa Fe, which is kind of crazy."