To: Christopher Allison, NMTC Program Manager
Community Development Financial Institutions Fund

From: Homeownership Alliance
New Markets Tax Credits for Homeownership Working Group

Date: April 23, 2024

The Homeownership Alliance[1] submits the following comments regarding the 2024 New Market Tax Credit (NMTC) Draft Allocation Application.[2] The NMTCs for Homeownership Working Group within the Homeownership Alliance is made up of Homeownership Alliance and other NMTC stakeholders and national advocates. The purpose of the working group is to expand the use of NMTCs for homeownership purposes by both promoting its use with Community Development Entities (CDEs) and investors in the NMTC industry. The working group advocates for regulatory and legislative changes to make these tax credits easier to use for homeownership.

The recommendations proposed in this comment letter will enhance the NMTC's ability to counter the nation's dire affordable supply crisis and low homeownership rates - particularly for low- and moderate-income (LMI) households. We recommend the Department consider further changes to the 2024 Allocation application to support this eligible use of the credit, including: (1) providing additional space to describe outcomes of homeownership uses; (2) including the development of for-sale housing in areas of High Affordable Housing Need as an innovative use; (3) adding development of for-sale affordable housing in areas of High Affordable Housing Need as an option to the Severe Distress criteria; (4) training application reviewers on the use of NMTCs for homeownership; (5) featuring examples of NMTCs for homeownership in the program's FAQs; and (6) expanding the use of NMTCs in areas beyond 40% AMI.

Providing Additional Space for 'Housing Units' Outcome

Affordable homeownership practitioners raise concerns about the current structure of this application, specifically regarding the program's allotted space for applicants who seek to use NMTCs for homeownership. Applicants should be able to fully list out benefits and impacts when selecting "Housing Units" in Question #26 (page 71 of the application) without being bound to the maximum response length of 5,000 characters. Currently, 'Job Creation' response fields total to allow for 3x more space than 'Housing Units'. The Job Creation (Question #1), Quality Jobs (Question #2), Accessible Jobs (Question #3) response fields provide 5,000 characters individually (pages 69 and 70). By adding more space to allow for applicants to justify allocation use for homeownership purposes, CDEs can construct a full narrative and display their impact on neighborhood stabilization, long-term

[1] Established by NCST in 2021, the Homeownership Alliance is a practitioner-led coalition of 19 CFIs and nonprofit housing developers serving 16 states.
[2] The Federal Register: Request for Comments on New Market Tax Credit Allocation Application.

community development, and the array of benefits that homeownership brings to each of the communities served by NMTC applicants.

Streamlined utilization of NMTCs for homeownership is vitally important to our working group members and our national partner organizations. When some application fields offer more space for justification than others, applicants can interpret this action as an intentional act by the Community Development Financial Institutions (CDFI) Fund to prioritize some eligible activities over others. For example, when the CDFI Fund increased funding for 'Operating Businesses' and labeled it an innovative use, many CDEs perceived that projects emphasizing job creation were favored over others like community services or affordable homeownership, though the Fund did not award additional scoring points for this new innovative use. Consequently, these CDEs began prioritizing other ventures with significant job creation potential, leaving affordable homeownership projects out of the application entirely. Creating enough space for applicants to display the impact and importance of activities eligible under 'Housing Units' would incentivize the use of the tax credit for these purposes. This change to the 2024 NMTC application would clarify to affordable housing stakeholders that the CDFI Fund prioritizes housing in its agenda, recognizes that adding to supply will address housing affordability challenges, and understands the value of affordable housing, including affordable homeownership, as a generative outcome by the resources provided by the Fund.

Innovative Use and Higher Distress Criteria

The CDFI Fund can further encourage the use of NMTCs for affordable homeownership by including affordable for-sale housing projects in areas of High Affordable Housing Need as either an innovative use within Question #19 (page 52) or as a qualifying characteristic within the Severe Distress criteria in Question #25. Communities are in desperate need of the community revitalization that these NMTCs have the power to produce, and adding development of affordable homeownership as an innovative use or as an option to Question #25 subsection (b.) would encourage and thereby address this type of development.

Homeownership serves as a cornerstone in economic advancement, wielding the power to ameliorate both the racial wealth disparity and the pressing shortage of affordable housing. Remarkably, within the realm of federal tax credits, no counterpart exists to bolster the development of for-sale housing.[3] Presently, a mere fraction - less than 2% - of the vast $76+ billion in NMTCs allocated to date has been directed towards initiatives fostering homeownership.[4] Should the Fund denote development of for-sale affordable homeownership in areas of High Affordable Housing Need as an innovative use, CDEs and investors can maximize their NMTC allocations to expand affordable homeownership for

[3] Passage of the Neighborhood Homes Investment Act would expand affordable homeownership opportunities by allocating federal tax credits to address the "value gap" occurring in many communities where the cost of rehabilitating a home is greater than the post-construction value of the property. The Neighborhood Homes Coalition leads the federal advocacy effort to lead this tax credit to enactment. If passed, NMTCs could couple well with Neighborhood Homes tax credits by filling the funding gaps during pre-development and development periods.

[4] Public data released by the CDFI Fund demonstrated only 1.4% of the Fund allocation going to real estate of both single and multi-family housing (pg. 6).

LMI homebuyers who are often shut out of the homebuying market due to low housing stock, high interest rates, and high home prices.

Reviewers Assessing NMTC for Homeownership

To ensure NMTC applications that include homeownership are fairly assessed, the CDFI Fund must ensure the application reviewers it hires are well-versed in the usage of NMTCs for homeownership purposes. We recommend reviewer training incorporate housing and homeownership examples to showcase the success of these methods, and how those applications may vary from others. Weaving affordable homeownership examples into the Fund's reviewer training and to the existing FAQs will increase familiarity with homeownership as a common and eligible use of NMTCs. FAQs can serve to guide organizations navigating the application process and can also demonstrate that the CDFI Fund recognizes and is fully knowledgeable on homeownership as an eligible use of NMTC.

Incentivizing Diverse Use of NMTCs for Areas Beyond 40% AMI

Isolating allocation commitments to target investments in Deeply Distressed or narrowly geographically targeted areas can actually limit impacts to the neighborhoods the NMTC program was established to support: low-income neighborhoods with 80% AMI or poverty rates of 20% or higher. With the current draft application incentivizing investment in very low-income communities (below or at 40% AMI) through the addition of Question 25(b), other worthwhile and critical projects within struggling communities outside of this AMI range are deprioritized, and likely will struggle to secure funding from other sources. We recommend the Treasury support the use of NMTCs and greater investment into areas that meet the current definition of Low-Income Community, which encompasses communities at or below 80% AMI. With this broadened range, CDEs have the discretion to implement their business and investment strategies in these Low-Income Communities, and still take full advantage of the tax credit. Enhanced flexibility in income ranges will ensure economic benefits can have a rippling effect throughout neighboring communities that may exceed the 40% AMI threshold but are still in need of further investment.

In closing, incorporating these recommendations to enhance homeownership outcomes for NMTCs will in turn revitalize communities through this enhanced and streamlined investment. Incorporating a housing-inclusive structure in the NMTC application can further the innovative and highly-effective use of NMTCs for affordable homeownership development. We express our sincere appreciation for your consideration of these proposals. By enhancing the NMTC program to better accommodate affordable homeownership initiatives, we can collectively address the housing affordability crisis and promote economic stability and prosperity in underserved communities.

For any questions or inquiries, please contact Elisabeth Coats, Director of Homeownership Alliance, at ecoats@ncst.org.

Sincerely,

The Homeownership Alliance