



There have been several breaking issues we have been working on in conjunction with other advocacy groups within the industry. With Treasury's change to Section 382 and the subsequent affect it has had on the banking industry and potentially our investor base, we have been in touch daily with House Financial Services as well as Ways and Means staff on the overall issue of attracting economic and return investors to the LIHTC program as well as maintaining CRA investment. The HAG and our industry partners are working hard with our supporters on Capitol Hill to determine how and when we can get some new incentives for housing into a stimulus bill. We have been sent a very clear message from Capitol Hill on what we can expect:

- That any affordable housing stimulus idea or insertion would have to be a focused "ask"; not a laundry list of items.
- The industry request should have as little impact on the budget deficit as possible and have a direct impact on improving the investor market and the overall economy.
- That Congress feels they came to bat for us in a big way with HR 3221.
- That any action would occur in 2009 after the new administration and Congress take office.

Regarding the issue of secondary market credits, Ways and Means Chairman Rangel issued a strong [letter](#) to Secretary Paulson yesterday discouraging any plan to sell credits and further erode the equity market supply. The Chairman's actions acknowledge the concerns of the industry regarding the potential impact of selling off the Enterprises credit portfolio.

Even with the notice issued September 12 by the Federal Housing Finance Agency, the conservator of both Fannie Mae and Freddie Mac, where the Agency stated they do not expect either of the Enterprises to liquidate its portfolio of LIHTC or mortgage-revenue bonds, the industry remained concerned about this issue and worked to get the Chairman's recent statement issued.

We have informed Congressional leaders and staff that the economic crisis that has paralyzed the U.S. capital markets has considerably shrunk the equity market for LIHTC investments. This is on top of the absence of the Enterprises, which until recently were significant investors (approximately 30% of the gross capital invested) in the LIHTC program.

Specific messages have been:

- With the primary market for the LIHTC at only 30% capacity, there exists a need to attract new investors to the program.
- The 30% capital supply is made up of primarily CRA-driven investors. These are banking institutions with specific geographic footprints.
- There are vast regions and states without any CRA demand and therefore no LIHTC demand. Large portions of the United States are falling behind in affordable housing production, with many states experiencing returned credits due to low investor (CRA) need.
- Economic Investors (non-CRA) such as energy, oil and technology companies, with a need for tax offset as provided in Section 42 of the U.S. Tax Code (LIHTC), are eligible to buy the credit without geographic requirements.

With the need to attract investors, construct housing and create jobs at the center of our efforts, we have submitted the following proposals:

- Allow the credit period to be reduced from ten to five years for a term of two to four years. Reducing the credit period would attract investment in the LIHTC program by increasing yield to the investors. In addition to yield considerations, this proposal would attract new economic investors seeking more certainty in their tax offset plans. It also helps the financial feasibility of affordable housing properties by raising the price per credit, which has deteriorated by 20% in two years.
- Allow investors to carry back their LIHTC investments for five years with an offset against AMT. Not only would this provision encourage investment by investors that may not currently have tax liability but did in previous years, it would also alleviate some of the issues we have discussed regarding the GSE's interest in liquidating some or all of their current LIHTC portfolio. This proposal would only be effective if it was combined with the AMT offset.
- Consider allowing closely held C corporations to invest in the LIHTC program. Many of these C corps have significant liquidity and are seeking tax offsets. Allowing these entities to invest in the LIHTC program could provide a substantial boost in equity investment while simultaneously broadening the equity market.

We appreciate the input that we have received and look forward to additional comments from our membership as we work with Congress and the new administration to seek solutions to the economic downturn.

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