Neighborhood Homes Investment Act

The Neighborhood Homes Investment Act would revitalize distressed urban, suburban, and rural neighborhoods with federal income tax credits, mobilizing private investment to build and rehabilitate homes for lower- and middle-income homeowners. Bipartisan bills in the House (H.R. 3940) and Senate (S. 657) would support 500,000 homes over 10 years.

Every state has neighborhoods in which homes are in poor condition and property values are too low to support new construction or substantial renovation. The lack of move-in ready homes makes it difficult to attract or retain homebuyers, causing property values to decline. Neighborhood Homes would break this stalemate by creating a federal tax credit that covers the gap between the cost of building or renovating homes and the price at which they can be sold, thus making renovation and new home construction possible. Neighborhood Homes would also help existing homeowners in these neighborhoods to rehabilitate their homes.

Builds Upon the Success of Proven Tools

- Neighborhood Homes is based on the successful Low Income Housing Tax Credit, which supports affordable rental housing, but is not designed to build or rehabilitate owner-occupied homes.
- Tax-exempt mortgage bonds and mortgage credit certificates assist homeowners by reducing mortgagepayments, but they cannot cover the development financing gap.
- Neighborhood Homes would complement these other incentives, not duplicate them.

State Control

- States would allocate tax credit authority on a competitive basis and monitor compliance.
- States would have annual tax credit authority totaling over $2 billion annually, plus inflation adjustments.
- The IRS would develop regulations, collect national activity data, and monitor state agency performance.

Private Market Discipline

- Project sponsors would raise capital from investors to finance home building and rehabilitation.
- Tax credits would cover the gap between development costs and sales prices.
- Private investors – not the federal government – would bear construction and marketing risks.
- Investors will claim the tax credits only after construction, inspection, and owner-occupancy.

Targets Communities in Greatest Need

- Homes would be located in communities where the need for private sector investment is greatest – thosewith high poverty rates, low median family incomes, and low home values.
- An estimated 20% of metro census tracts nationwide and 25% of non-metro census tracts qualify.
- States may also use up to 20% (40% in certain rural states) of their allocation to serve additional non-metro census tracts, existing lower-income homeowners in gentrifying census tracts, and communities impacted by natural disasters and homes with crumbling foundations.
- Maps of eligible communities in each state may be found here.

Limits Homeowner Incomes, Eligible Costs, Tax Credit Amounts, and Sales Prices

- For homes developed or substantially rehabilitated for sale:
  - Eligible purchasers must have incomes at or below 140% of the area/state median income.
  - Tax credits are limited to the gap between development costs and net sales proceeds, up to 35% of the lesser of (1) eligible costs or (2) 80% of the national median new home sales price. Eligible costs include construction, rehabilitation, land and building acquisition, demolition, and environmental remediation.
  - Sales prices are limited to four times the metro area or state median family income (MFI). *Example*: if MFI is $90,000, the sales price limit would be $360,000. Higher limits apply to homes with 2-4 units.

- For rehabilitations of homes for current owner-occupants:
  - Eligible homeowners must have incomes at or below the area/state median income.
  - The tax credit equals the lowest of: (1) 50% of rehab cost; (2) rehab cost minus any homeownerrepayments; and (3) $50,000.
- Limitations on eligible neighborhoods, tax credit amounts, sale prices, homeowner incomes, and short-term resales, as well as project selection criteria, support revitalization without gentrification.
- A homeowner who sells a home within five years of buying the home will repay part of the gain (profit) to the state to support additional similar activity: 50% in year 1, phased down to 10% in year 5.

How Neighborhood Homes Would Work

- **States would allocate tax credits on a competitive basis.**
  - Each state can annually allocate credits totaling $7 per resident ($9 million minimum), adjusted for inflation, plus unallocated amounts carried over from prior three years and credits previously allocated but not used within five years.
  - States publish allocation plans. Project selection criteria include: (1) neighborhood need for new or rehabilitated homes; (2) neighborhood revitalization strategy and impact, including impact on community residents; (3) sponsor capability and prior performance; (4) likely long-term homeownership sustainability; and (5) any additional State criteria.
  - States set standards for construction cost and quality and developer fees.
  - States allow only the tax credits reasonably needed for financial feasibility.
  - 10% of each state's allocation is set aside for nonprofit sponsors.

- **Project sponsors would raise capital from investors and use it to finance home construction and substantial rehabilitation.** Sponsors can include developers, lenders, and local governments.
  - Project sponsors complete the homes or work with builders and homeowners within five years.
  - Clear, simple requirements ease compliance and accommodate small-scale projects.

- **Investors would claim tax credits after homes are completed, inspected, and owner-occupied.**
  - Homeowners make down payments and obtain mortgages to cover the homes' sale price.
  - Sponsors may use allocated but unneeded tax credits for additional homes.

Home Financing Example

Property acquisition	$ 50,000
Construction or rehabilitation	200,000
Total development cost	$ 250,000
Less: Sales price	- 200,000
Value gap = Neighborhood Homes tax credit amount	$ 50,000

Estimated Impact over 10 Years

Based on the financing example above:

- 500,000 homes built or substantially rehabilitated
- $125 billion of total development activity
- 861,000 jobs in construction and construction-related industries
- $56 billion in wages and salaries
- $26 billion in federal tax revenue
- $12 billion in state and local government revenue