Neighborhood Homes Investment Act (NHIA)

Background:
The Neighborhood Homes Investment Act (NHIA) will revitalize distressed neighborhoods by using federal income tax credits to mobilize private investment to build and substantially rehabilitate homes for low- and moderate-income homeowners. The NHIA model is based on the successful Low-Income Housing Tax Credit and New Markets Tax Credit.

Every state has neighborhoods where the homes are in poor condition and the 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. **NHIA would break this downward spiral by bridging 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.**

**NHIA is bipartisan legislation.** In the 116th Congress, the NHIA was introduced in the House (H.R. 3316) by Representatives Brian Higgins (D-NY) and Mike Kelly (R-PA), and in the Senate (S. 4073) by Senators Ben Cardin (D-MD) and Rob Portman (R-OH). We expect both bills to be introduced in the 117th Congress shortly.

How the NHIA Would Work in Three Steps:

1. **States allocate NHIA on a competitive basis.**
   - States would publish and follow an allocation plan. Allocation criteria would include: (1) the qualifying neighborhood’s need for new or rehabilitated homes; (2) neighborhood revitalization strategy and impact; (3) sponsor capability; (4) likely long-term homeownership sustainability; and (5) any State-determined criteria. States would also establish standards for construction cost and quality and developer fees.

2. **Project sponsors raise capital from investors and use it to finance home construction and substantial rehabilitation. Sponsors include developers, lenders, and local governments.**
   - Project sponsors develop the homes or work with builders and homeowners.
   - Tax credits cover the gap between development cost and sales price, up to 35% of the cost.

3. **Investors claim tax credits after homes are completed, inspected, and owner-occupied.**
   - Homebuyers make down payments and obtain mortgages to cover the homes’ sale price. The tax credit covers the gap between the development cost and the sale price.
   - Sponsors may use allocated but unneeded tax credits for additional homes.
Detailed NHIA Overview:

State control
- States will administer and allocate NHIA tax credit authority on a competitive basis. In most states, housing finance agencies will oversee the program.
- States will have annual tax credit authority for the greater of $6 per capita or $8 million – about $2 billion nationwide.

Attraction of private capital
- Project sponsors raise capital from investors to finance home building and rehabilitation.
- Tax credits cover the gap between development costs and sales prices, and are capped at 35% of eligible development costs.
- For rehabilitation of homes for current owners, tax credits cover the gap between the rehab cost and the homeowner’s contribution, and are also capped at 35% of eligible rehab costs.

Market discipline
- Private investors – not the federal government – bear construction and marketing risks.
- Investors claim the tax credits only after construction, inspection, and owner-occupancy.

Eligible homeowners
- Homebuyers with incomes up to 140% of the area/state median are eligible.

Eligible neighborhoods
- Eligible neighborhoods must meet all three of the following tests:
  - Elevated poverty rates: 130% of the metro rate (130% of the state rate in non-metro areas);
  - Lower incomes: up to 80% of the metro median (80% of the state median in non-metro areas);
  - Modest home values: below the metro median (below the state median in non-metro areas).

Safeguards against gentrification
- Eligible neighborhoods must have home prices below the area or state average.
- The maximum home sales price cannot exceed four times the area or state median income.
- NHIA tax credits would not be available for homes sold to upper-income buyers.

How NHIA Supports Habitat Affiliates:
- A Habitat affiliate or State Support Organization (SSO) can be the primary sponsor developer and apply directly to the state for tax credit allocations.
- NHIA supports small scale development. It was designed to accommodate small scale projects with clear, simple tax compliance requirements including: neighborhood eligibility; homeowner income; and costs within guidelines.
- NHIA will support both new construction and rehabilitation projects undertaken by affiliates. 10% of each state’s NHIA allocations would be set aside for nonprofit sponsors.
- NHIA would help to raise the property values of the homes in neighborhoods where Habitat is building.

NHIA and Cost of Home:
Passing NHIA legislation to build and rehabilitate homes in distressed communities is one of the high-impact federal policy solutions in the Cost of Home campaign’s Federal Policy Agenda, because it would increase the production and preservation of affordable single-family homes, and help to strengthen communities by raising the property values of homes in declining communities and reversing the trend of neighborhood disinvestment. In concert with local and state advocacy efforts, the policy priorities of the Cost of Home Federal Policy Agenda will be instrumental in reaching the campaign’s 5-year goal of 10 million people with improved home affordability.