

CHAPTER 1

EXPANDING THE DREAM: INNOVATIVE FINANCING MEASURES TO PROMOTE HOMEOWNERSHIP

- *A **Single-Family Affordable Housing Tax Credit** will encourage the production of single-family homes for sale in areas where affordable homeownership opportunities are scarce.*
- *The **American Dream Downpayment Fund** will help Americans overcome one of the greatest hurdles to homeownership: high downpayments that can put a home out of reach.*
- *A tripling of funding for the **Self-Help Homeownership Opportunity Program**, which helps community-based social service providers turn low-income families into homeowners by relying on “sweat equity” in return for assistance.*

Single-Family Affordable Housing Tax Credit

In many distressed neighborhoods, particularly in our Nation’s inner cities, there is a lack of affordable housing units available for sale to residents. In these areas, new construction of residential property intended for sale to the residents is rarely ever undertaken because the costs would exceed the market value of the resulting unit. Existing structures in these areas often need extensive repair or renovation before they are suitable for decent owner-occupied housing, but potential homebuilders or developers will not undertake renovation or rehabilitation of these properties for the same reason -- costs often exceed the price at which the housing units could be sold. As a consequence, lots remain empty and existing properties remain vacant and dilapidated, contributing to neighborhood blight. Moreover, many low- and moderate-income rental families in these areas are locked out of buying homes in neighboring markets because of high prices. Until the gap between development costs in these areas and market prices is lessened or eliminated, homeownership will be an unfulfilled dream for these families.

Current law provides tax credits to owners of qualified low-income rental units through the Low-Income Housing Tax Credit, but a similar tax credit for purposes of expanding homeownership opportunities for low and moderate-income persons does not exist. A tax credit made available to developers of new or rehabilitated, affordable single-family housing in distressed neighborhoods, for the production of homes for low- and moderate-income homebuyers, would achieve two goals: (1) create or increase homeownership opportunities in distressed neighborhoods, and (2) revitalize these neighborhoods through increased homeownership.

In order to expand homeownership opportunities and revitalize distressed communities, the Administration proposes a new Single Family Affordable Housing Tax Credit for developers of single-family affordable housing.

The Single-Family Housing Tax Credit will have the following essential elements:

- Beginning in FY 2003, tax credit authority for a State (including U.S. possessions) would be in the amount of \$1.75 per resident;
- The amount available would be indexed for inflation beginning in 2004;
- State or local housing credit agencies would award the credits;
- Eligible housing units would be those constituting a project for the development of single-family housing in census tracts with median incomes of 80 percent or less of area median income;
- Units in condominiums and cooperatives could qualify as single-family housing;

The taxpayer (developer or investor partnership) owning the housing unit immediately prior to the date of sale to a qualified buyer would be eligible to claim these credits over a five-year period. Developers would not get credits unless the housing unit was sold within a one-year period beginning on the date a certificate of occupancy is issued for the unit.¹

The Administration's tax initiative would provide nearly \$2.4 billion for the production of single-family affordable housing units over the next five years and would result in an estimated 200,000 new units available for homeownership.

The American Dream Downpayment Fund

Accumulating the funds needed by low- and moderate-income families for a downpayment on a home and the closing costs related to the transaction is often the single greatest barrier to homeownership. In order to help these families overcome this threshold problem, the Administration has proposed the American Dream Downpayment Fund.

The American Dream Downpayment Fund builds upon an existing program – the HOME program, which helps communities across the country expand the supply of decent, affordable housing. Through the existing flexibility of the HOME program, grants will be awarded to state and local governments to assist eligible families with closing costs and downpayments. Opportunities for low- and moderate-income families looking to purchase their first homes will multiply.

Funded at \$200 million in fiscal year 2003, this Administration initiative will focus on helping low-income families who are also first-time homebuyers. To participate, recipients must have annual incomes that do not exceed 80 percent of the area median income. Based on current experience in the HOME program, it is anticipated that the initiative will help 40,000 families

¹ Eligible homebuyers would have incomes at or below 80 percent of the applicable median family income (70 percent for families with less than three members).

annually, with an average subsidy of \$5,000. By opening the door to homeownership to more families, the Administration hopes to stabilize some troubled neighborhoods and revitalize others.

The Self-Help Homeownership Opportunity (SHOP) Program

Through the Self-Help Homeownership Opportunity Program (SHOP), the Administration partners with non-profit organizations that offer homeownership opportunities to families willing to contribute their own “sweat equity.” Grants provided by the Federal government to these organizations enables them to acquire land and improve infrastructure in order to build new homes. An example of such an organization is Habitat for Humanity, which uses volunteers to build homes for others. These groups leverage the money they receive from the federal government with support from other sources, enabling government funds to have a much larger impact than otherwise possible. The program is an excellent example of government maximizing its resources by working with private-sector partners.

The SHOP program revolutionizes the concept of government assistance by offering not only money, but also supporting community values that promote long-term self-sufficiency. These are neighbors helping other neighbors, brought together by a strong commitment to community. The Administration strongly supports these efforts, and has proposed to triple the funding available for such groups. The best opportunity for easing human suffering is to tackle it from within – by Americans breaking through racial, ethnic, and economic barriers and coming together as neighbors concerned for one another and the health of our communities. Through SHOP and other initiatives, the Administration is tapping into the reservoir of compassion that exists in our communities.