INTERFAITH OPEN COMMUNITIES

Frequently Asked Questions about Affordable Housing

What is "affordable housing"?

Generally speaking, housing is considered "affordable" when you pay no more than 30% of your gross income (pre-tax income) for your housing costs. For people who earn a high income, the private marketplace is able to provide housing that meets this definition of "affordable." The challenge is that low income, and increasingly middle-income, families are not able to afford market rate housing without assistance. Therefore, when advocates talk about the need for affordable housing, they mean the need for either apartments with below-market rate rents or for-sale housing that is priced below the market.

How does the government "subsidize" housing?

The federal government has been in the business of subsidizing housing since the 1930s. Modern suburbia was built with homes subsidized by the government under the G.I. Bill and the Housing Act of 1949 that created the FHA. Today, the government provides $434 billion in annual subsidies to homeowners through the mortgage interest deduction, 73.4% of which benefits families who earn more than $75,000 annually. In contrast, the government spends only $6 billion on public housing and $20 billion on Section 8 housing.

How do you make housing affordable to low and moderate income families?

There are a number of ways that for-sale and rental housing is subsidized to reduce the cost to low and moderate income families. These types of programs are "qualified," meaning that there is an income qualification for the family who receives the subsidy.

Rental subsidies include:

- Operating subsidies that provide a monthly financial subsidy to reduce the cost of rent, these include Section 8, Chicago Low Income Housing Trust Fund and the new Illinois Rental Support Program.
- Development subsidies that reduce the cost of debt service, thus allowing a lower rent to be charged to the tenant. These programs include federal Low Income Housing Tax Credits, HUD 202 Elderly Housing, Illinois Affordable Housing Trust Fund, Illinois Affordable Housing Tax Credit, and Chicago Department of Housing loans using the federal HOME funds. (see page 4 for more information)

Homeowner subsidies include:

- Low cost financing that reduces the monthly mortgage payment for the homebuyer. This often takes the form of a subsidized second mortgage.
- Credit "enhancement" that allows a buyer to purchase a home despite a poor credit rating as long as the monthly payment remains affordable.
- "Inclusionary housing" that requires developers to sell a few units at a reduced cost in exchange for zoning or other considerations.

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- Land trusts that control the underlying land thus eliminating a significant portion of the housing cost in exchange for long-term restrictions on resale price.

What is the difference between Public Housing and other types of "affordable housing"?

Public housing is perhaps the best known federal housing program, but it is one of the smallest. Public housing is rental housing that is owned and operated by a local housing authority. The housing authority receives both an operating subsidy and a capital improvement subsidy from the federal government to operate the housing. The units are "permanently" affordable and must be rented to low income families using federal guidelines. Families in public housing are expected to pay one-third of their income toward the monthly rent, with the federal subsidy covering the balance of the cost of operating the unit. Because the projects are built by and owned by a government entity, they have no debt service and pay no property taxes. This in theory should reduce the cost of operating the project.

Programs that provide a public subsidy to private owners in exchange for affordable rental units are known as "government assisted housing programs." There are two types of government assisted programs: 1) project-based and 2) tenant-based. In a project-based development, the owner is given a subsidy in exchange for providing below market rate rents. There is usually a time limit on the subsidy, so these projects are not permanently affordable. As explained above, these subsidies can be either operating subsidies or development subsidies. The largest project-based program is the federal Low-Income Housing Tax Credit program (LIHTC). Tenant-base subsidies are attached to the qualified tenant and can move with them under some limitations. The primary tenant-based program is the Section 8 Housing Choice Voucher Program.

What is Section 8 housing?

Section 8 is a federal program (the name refers to a section of the U.S. Housing Act) that provides an operating subsidy where the low-income tenant is required to pay one-third of their income toward the rent with the subsidy paying the balance. There are two types of Section 8 subsidies:

- Project-based Section 8. The government has a long term contract (usually 30 years) with the building owner to provide Section 8 subsidies on all or a percentage of the units. The subsidy stays with the unit when the tenant moves out. The project-based Section 8 program has been discontinued, and only buildings already in the program will continue to receive subsidy agreements.
- Housing Choice Vouchers. The Section 8 voucher is linked with the tenant rather than the building, thus theoretically the tenant could use the voucher to live in any apartment building in the nation. In reality, there are practical barriers that tend to limit the tenant's choice of apartments.

What is Inclusionary Housing?

Inclusionary housing is also called "inclusionary zoning" and "housing set-asides." It is a policy adopted by the local government, usually through its zoning code, that requires certain multifamily developments to set aside a percentage of the units for moderate income buyers or

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renters in exchange for zoning and other municipal considerations. The units are "subsidized" internally by the developer. This concept is becoming increasingly popular, with some Chicago suburbs adopting inclusionary housing ordinances. The City of Chicago does not have an inclusionary housing ordinance.

What is "mixed income" housing?

Mixed income housing is the concept that housing developments ought to contain a range of housing options, including housing affordable to low income families. Mixed income housing is different from inclusionary housing in that any one of a number of subsidy methods can be employed to create the affordable housing. A mixed income development could be created through inclusionary housing, but it could also be created using federal tax credits, public housing or other subsidy program.

How does the CHA Plan for Transformation use "mixed income" housing?

The CHA Plan for Transformation attempts to eliminate (with some exceptions) housing projects that are 100% low-income and integrate public housing tenants into mixed income developments. This is accomplished in two ways:

- New developments with a percentage of public housing mixed in. Often the new development is on the footprint of the old demolished housing project, with 20% to 30% of the new units belonging to the housing authority and occupied by public housing tenants. Often the developer/property manager is allowed to establish tenant selection criteria that may prevent some former CHA tenants from moving into the new project.
- Housing Choice Vouchers. Since the CHA is reducing the number of public housing units from over 40,000 to about 25,000, the federal government has allowed them to convert the operating subsidies from the "lost" units into Section 8 vouchers. Theoretically, the former CHA tenant would use these vouchers to move into private housing in mixed income communities. Experience has shown that without extensive counseling, the former CHA resident tend to move into high poverty areas near the site of the demolished CHA project.

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Frequently used terminology:

- ***Area Median Income***: Area median income (AMI) is a standard determined by HUD that defines the income qualification of families in HUD subsidized programs. The area is typically a metropolitan statistical area used by the U.S. Census. In the Chicago region, however, HUD has created a special area in order to include Lake County in the region along with Cook, DuPage, Kane, Kendall, McHenry, and Will. HUD determines the median household income on an annual basis adjusted for family size. In 2006, the AMI for a family of four in the Chicago area is $72,400.
- ***Fair Market Rent***: HUD determines a "fair rent" which it pays to landlords who rent to Section 8 tenants. The rent is based upon a statistical analysis of the housing market and is usually below the actual rent charged by landlords to new tenants. The FMR also applies on a region basis with limited adjustment due to local markets. In Chicago, the FMR is the same whether the tenant rents in rural Kendall County, Harvey, or Wilmette.
- ***Low-income and Very low-income:*** These income categories are defined in HUD subsidized programs by the Area Median Income. Thus, low-income is below 80% of AMI; very low-income is below 50% of AMI and extremely low-income is below 30% of AMI. Most HUD programs require households to earn below 80% of AMI to qualify. The Housing Choice Voucher Program requires that 75% of the housing vouchers serve households below 30% of AMI. Many state and local programs copy HUD guidelines on income eligibility.
- ***Tax credits***: A number of subsidy programs provide tax credit rather than cash subsidies. A tax credit is a dollar-for-dollar reduction in federal income tax liability. The largest tax credit program for housing is the Low Income Housing Tax Credit (also know as Section 42, after the section of the Internal Revenue Code). The federal government allocates a limited number of tax credits to states based upon population. (Chicago, unlike any other city in the country, receives its allocation directly from the government.) The tax credits are then awarded to a project whose developer must then sell the credits to passive investors in exchange for an equity investment. The program in this state is administered by Illinois Housing Development Authority and the Chicago Dept. of Housing, and the apartments are required to be "affordable" to low-income families for up to 30 years.
- ***Tax exempt bonds***: In addition to allocating housing tax credits, the government allocates tax exempt "bond cap" to states. State and local government can then use this tax exempt bonding authority for private projects that promote a public good, such as providing affordable housing. The private developer must issue the bonds, but they are tax exempt due to the public benefit. Because tax exempt bonds have a lower interest rate, the debt service cost is reduced, thus subsidizing the overall cost of the project.

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