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Are Wells Fargo, PNC probes a setback for affordable housing?

Andy Peters

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The U.S. suffers from a staggering lack of apartments and homes that low-income consumers can afford.

The National Low Income Housing Coalition puts the shortage of affordable units nationwide at 7.2 million, and many industry participants believe that the single-best way to tackle the problem is to expand the low-income housing tax credit (LIHTC), a federal tax credit used to encourage development of more affordable housing. Bipartisan legislation is under consideration in Congress to do just that.

That's why the news that PNC Financial Services Group, Wells Fargo and other unnamed banks are being probed for allegedly colluding with developers to win the bidding for the tax credits comes at an especially awkward time.

President Trump and his secretary for Housing and Urban Development, Ben Carson, are not big fans of government programs that support affordable housing, so it can't help housing advocates' cause when a high-profile program like LIHTC is seen as potentially ripe for manipulation.

The banks are being investigated by the U.S. Attorney's office in Miami for allegedly conspiring with private developers to submit low-ball bids to buy the tax credits, according to media reports. PNC and Wells Fargo have said they're cooperating with the investigation.

LIHTC supporters are downplaying the allegations and don't believe that they will have any bearing on efforts in Congress to widen the program's reach.

"You can always point to one or two bad apples, but I don't think that would be reflective of the program overall," said Buzz Roberts, CEO of the National Association of Affordable Housing Lenders.

The LIHTC program "has its critics, but the evidence is quite strong that it's been a highly effective program," said Stockton Williams, executive director of the National Council of State Housing Agencies.

Still, it is easy to imagine opponents of LIHTC, namely limited-government groups who favor the alternative of housing vouchers, pointing to the alleged manipulation of the tax credits as an argument for why the program should not be expanded.

Chris Edwards, the director of tax policy studies at the Cato Institute who wrote a scathing report on LIHTC last year, declined to address the PNC and Wells investigations. But he said the LIHTC is vulnerable to these kinds of abuses.

“This is federal money and then it’s given to state and local government officials who then have discretion to give to the developers of their choice,” Edwards said in an interview. “That’s where the corruption comes in. You’re giving government officials wide discretion to play with federal money.”

Congress allocates about \$9 billion per year in budget authority to state and local housing agencies to distribute the tax credits. Real estate developers acquire the credits through a competitive bid process. Developers then sell the credits to private investors, including banks, which use the credits to reduce their tax bills and earn Community Reinvestment Act credit.

Scott Kline, a senior vice president at the National Housing Trust, said that the LIHTC program works extremely well in helping grease the skids in financing the construction of new affordable-housing units, or the rehabilitation of existing properties.

Since the LIHTC program was approved by Congress in 1986, it has financed the construction or rehab of more than 3 million affordable apartments and served more than 7 million households, according to the National Multifamily Housing Council.

“Greater allocations of low-income housing tax credits is the single-biggest thing that could help the development of more affordable housing,” Kline said.

LIHTC backers have thrown their support behind two bills in Congress, including bipartisan legislation introduced last year by Sens. Orrin Hatch, R-Utah, and Maria Cantwell, D-Wash., that could expand the program by as much as 50%. It would change the formula that’s used to determine the yearly dollars allocated by Congress, to allow for higher amounts to be distributed.

Time is running out in this year’s Congress, but Roberts and other LIHTC advocates say it is possible that the legislation could advance after the midterm elections in November.

That could be wishful thinking, though, particularly in light of the investigations into banks’ use of the program. And even if the legislation does somehow pass both houses of Congress, there is no guarantee the president will sign it into law. After all, Trump’s fiscal 2019 budget calls for steep cuts in funding to affordable-housing programs, according to the National Low Income Housing Coalition.