

July 19, 2006

The Honorable Charles E. Grassley  
Chairman, Finance Committee  
United State Senate  
135 Senate Hart Office Building  
Washington, D.C. 20510

Dear Chairman Grassley:

We are writing to express our support for S. 3616, the Affordable Housing Preservation Act of 2006, introduced by Senators Schumer, Smith, Bond, Reed, Murray and Sarbanes on June 29, 2006. This legislation is very important for the future of federally assisted affordable housing in our country. A similar bill was introduced in the House by Representatives Ramstad and Cardin last September (H.R. 3715).

In recent years, the affordable housing community has become increasingly concerned about the "exit tax" problem that exists as a result of the financing structures under which capital was raised many years ago to build federally assisted affordable housing. Today, the owners of this housing face large tax bills if they sell the property, while at the same time they cannot boost their returns by contributing more capital to the property. There is no incentive to make any further investment in the property, causing investors to hold their investment until death, and avoid recapture taxes by leaving the property to their heirs at a stepped up basis.

This course of action results either in the deterioration of the housing units, or in the conversion of such properties from affordable to market rate housing at a sufficient price to cover the exit taxes. In either case, this is placing the supply of federally assisted affordable housing at considerable risk. If present policies continue, this nation will continue to lose a valuable resource – affordable rental housing -- at the same time the housing affordability crisis continues to worsen.

In its 2002 report to Congress, the Millennial Housing Commission, led by Susan Molinari and Richard Ravitch, identified the exit tax issue as a major housing problem confronting the nation and recommended the solution included in S. 3616.

The legislation would waive the payment of recapture taxes under section 1250 of the Internal Revenue Code if the affordable housing property is transferred to a qualified housing preservation entity that agrees to maintain the rent affordability restrictions for 30 years. In essence the bill would accelerate the stepped up basis that the property would receive upon the death of the investor for an agreement to keep the property affordable for another thirty years.

Our organizations strongly support this legislation to help preserve the supply of federally assisted affordable housing. Please contact Denise B. Muha, National Leased Housing Association with any questions at 202/785-8888.

Affordable Housing Tax Credit Coalition  
American Association of Homes and Services for the Aging  
Council for Affordable and Rural Housing  
Enterprise Foundation  
Institute for Responsible Housing Preservation  
Mortgage Bankers Association  
Local Initiatives Support Corporation  
National Affordable Housing Management Association  
National Apartment Association  
National Association of Affordable Housing Lenders  
National Association of Homebuilders  
National Association of Local Housing Finance Agencies  
National Association of Realtors  
National Council of State Housing Agencies  
National Association of State and Local Equity Funds  
National Foundation for Affordable Housing Solutions  
National Housing Conference  
National Housing Trust  
National Leased Housing Association  
National Low Income Housing Coalition  
National Multi Housing Council