Preservation and the 4 Percent Housing Credit

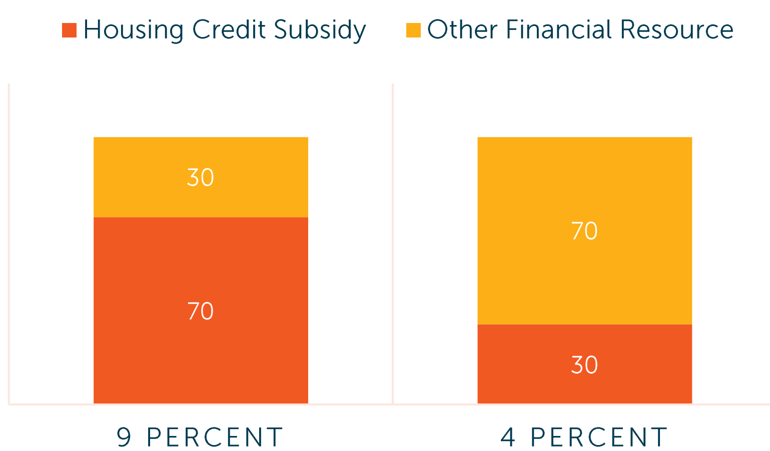
Encouraging Preservation Through the 4 Percent Housing Credit

2025

The United States faces a deficit of more than seven million affordable homes for the lowest income families.[1] As housing markets become increasingly strained, it is not enough to focus solely on constructing new housing. Preserving existing affordable housing is essential to addressing the nation's housing crisis. This Infobrief examines how state and local housing finance agencies (HFAs) are using the Low Income Housing Tax Credit (Housing Credit) program to preserve affordable housing. Specifically, it provides insight into whether HFAs explicitly encourage preservation through the 4 percent credit.

The Housing Credit program is the federal government's primary tool for financing both the new construction and preservation of affordable housing. The program, administered by state and local HFAs offers two types of credits - the 9 percent and 4 percent. The 9 percent credit is awarded through a competitive process and covers up to 70 percent of a project's costs, making it well suited for new construction and substantial rehabilitation. The 4 percent credit provides a smaller subsidy, covering 30 percent of a project's costs, and must be paired with tax-exempt private activity bonds (PABs). The 4 percent credit has historically been considered a noncompetitive, "as-of-right" resource, and HFAs allocate both credits according to state-specific priorities outlined in their Qualified Allocation Plans (QAPs).

FIGURE 1: Percentage of Subsidy by Housing Credit Type



While the 4 percent credit provides a smaller subsidy than the 9 percent credit, it offers developers a reliable option to finance the

[1] National Low Income Housing Coalition, The Gap. March 2025. https://nlihc.org/news/nlihc-releases-gap-2025-shortage-affordable-homes

acquisition and rehabilitation of affordable housing. While anecdotal evidence suggests that HFAs are actively encouraging or requiring preservation[2] projects to use the 4 percent credit, it remains unclear to what extent for several reasons. Rising demand for PABs is stretching the availability of the 4 percent credit in some states. Further, wide variation in state-level priorities and implementation strategies make it difficult to assess whether the 4 percent credit is effectively directed towards preservation over new construction.

The following analysis, based on National Housing Trust's review of 53[3] Qualified Allocation Plans (QAPs) released before December 2024 and interviews with HFA staff and industry practitioners, provides insight into whether HFAs explicitly encourage preservation through the 4 percent credit. It examines how state-level implementation practices and bond allocation structures shape the use of the 4 percent credit for preservation, focusing on both written preservation policies in QAPs and broader administrative practices such as application deadlines, threshold requirements, bond cap constraints, and competitiveness.

Factors that Can Impact the Use of 4 Percent Housing Credits

It's essential to understand how the Housing Credit allocation and administrative processes influence the distribution of credits to identify factors that affect access to credits for preservation. Several factors related to the administration of the housing credit may impact how the 4 percent housing credits are utilized, including the use of credits for affordable housing preservation. Factors include:

- The relationship between private activity bonds and 4 percent housing credits.
- The use of a competitive application scoring process and/or requiring projects to meet minimum requirements.
- The application structure.

Limited Private Activity Bonds May Constrain the Use of 4 Percent Housing Credits.

One factor impacting the use of 4 percent housing credits to preserve affordable housing is Access to the 4 percent credit is contingent upon the availability of tax-exempt private activity bonds (PABs) which are allocated to states annually based on population. To be considered financially feasible, projects financed with the 4 percent credit must meet the "50 percent test", which requires at least 50 percent of the project's financing to come from PABs.[4] Although the 4 percent credit itself is not capped, meaning states are not allocated a certain volume of 4 percent credits, its use is effectively limited by the availability of PABs for multifamily rental housing. Within each state, multifamily rental housing must compete for PABs within the larger housing market as well as against other eligible uses such as infrastructure, agriculture, and education. While HFAs administer the Housing Credit program, they do not control their volume cap or the process by which bond authority is distributed across sectors or agencies. In many cases, more than one agency can issue PABs for housing, and practices around

[2] Here, preservation refers to both acquisition/rehabilitation of properties, as well as the rehabilitation of existing units.
[3] All 50 states, plus Washington, D.C., New York City, and Chicago.
[4] As of the publication of this Infobrief, in June 2025, Congress is considering temporary and permanent changes to the Housing Credit program included but not limited to reducing the amount of PABs that must cover the project financing for 4 percent projects from 50 percent to 25 percent.

allocation and carryforward of those allocations into the next year differ across states, making data on these processes difficult to access.

Limited Transparency Around Bond Allocation

The availability of PABs is a major determinant of 4 percent project feasibility. While data on carryforward amounts is publicly available, it reflects strategic allocation choices rather than indicating bond cap constraint or unmet demand. Allocating agencies may carry forward bond cap based on market conditions, anticipated need, or projected bond availability, making unused PABs an unreliable proxy for demand or cap constraint.

Although many allocating agencies appear oversubscribed for PABs, the specifics of PAB allocations and constraints remains unclear. Publicly available data on bond usage and allocation is self-reported, not easily verifiable, and does not show how states manage internal capacity or prioritize uses. Variation in data reporting make it difficult to assess how bond volume is allocated in each state and how internal decisions around awards and allocations are occurring. As a result, even determining whether a state is near or over its bond cap can be difficult.

Understanding whether and how bond cap limitations are shaping access to the 4 percent credit requires direct engagement with HFAs to understand internal allocation processes that are not captured in the data. This makes it difficult to assess whether preservation is being constrained by bond scarcity without direct state-level engagement.

Competitiveness

3 OUT OF 53 HFAs

operate a competitive 4 percent process.

Another factor impacting the use of 4 percent credits is the use of a competitive scoring process and minimum project requirements. Unlike the competitive 9 percent Housing Credit, the 4 percent credit has typically been a noncompetitive, or "as-of-right" resource, however, allocating agencies vary significantly in how they structure access to the credit and whether they prioritize preservation through written policy guidance. At least three allocating agencies - **Georgia, Washington D.C.**, and **West Virginia** - have implemented competitive processes for awarding the 4 percent credit. Georgia's allocation process became competitive in 2022 under a state law that requires competition once the state becomes oversubscribed for PABs. Washington D.C. has operated a competitive 4 percent round since 2023 due to oversubscription of its bond cap. West Virginia's QAP suggests a competitive process, requiring applicants to first meet a minimum scoring threshold, after which projects are ranked by score and selected in descending order until the available bond volume is fully allocated.

In other states, access to the 4 percent credit remains noncompetitive but may still involve indirect mechanisms such as minimum scoring thresholds that could introduce implicit competition:

- 18 allocating agencies require projects to meet a minimum scoring threshold; and
- 35 do not impose a minimum scoring requirement

18 OUT OF 53 HFAs

require projects to meet a minimum scoring threshold

While these systems do not involve ranking or selecting applicants among competing proposals, they effectively incentivize alignment with state priorities by awarding points for incorporating specific features or policy goals, including but not limited to preservation to meet a minimum threshold. Other state priorities or incentives may include building design and construction standards, resident services and more.

Application Structures

How states structure the application process and allocation mechanisms for the 4 percent credit can impact access. Some agencies offer fixed application deadlines, others allow rolling submissions, and some QAPs provide unclear or seemingly little guidance. Among the agencies reviewed at least:

- 24 agencies use fixed application deadlines, often organizing multiple funding rounds throughout the year;
- 18 agencies allow rolling submissions, which may provide more flexibility for developers; and
- 11 provide unclear guidance

This administrative variation not only affects project timing and readiness but also signals at some other conditions of the 4 percent process in certain jurisdictions. Some HFAs report that structuring their application process in multiple funding rounds, as opposed to a single fixed deadline, is the result of bond cap constraints, allowing them to better manage and track bond cap availability.

While these structural factors - such as competitiveness, application structure, and thresholds - do not directly answer the question of whether states are using the 4 percent credit to support preservation, they may indirectly inform how states shape access to the credit. These elements and variations across states speak to growing pressure on the limited PAB resource, how constrained the use of the 4 percent credit is, and whether a state has the tools or flexibility to prioritize preservation within its existing process.

The sections below examine how HFA-level regulatory practices and implementation strategies influence the use of the 4 percent Housing Credit for preservation.

Preservation Prioritization

States often prioritize preservation through mechanisms such as scoring incentives, set asides, or basis boosts, which give preservation projects an advantage, though these tools are typically applied through the competitive 9 percent credit. With increasing competition for the 4 percent credit, in part due to state bond cap limits for both new construction and preservation, NHT's analysis assessed whether any QAPs explicitly encouraged or prioritized the preservation of existing affordable housing. The analysis of QAP language found a range of results. Most QAPs do not include strong language or written policy commitments to the use of the 4 percent credit for preservation. Few QAPs include direct support for using the 4 percent credit for preservation. At least six QAPs explicitly encourage the 4 percent credit for preservation, clearly identifying rehabilitation as a priority use or making these projects only eligible for the 4 percent credit. At least eight QAPs make some reference to preservation in the context of 4 percent financing, though typically without formal incentives or strong policy direction.

6 OUT OF 53 HFAs

explicitly *encourage* or *incentivize* the use of the 4 percent credit for preservation projects.

8 OUT OF 53 HFAs

make some reference to using the 4 percent credit for preservation projects.

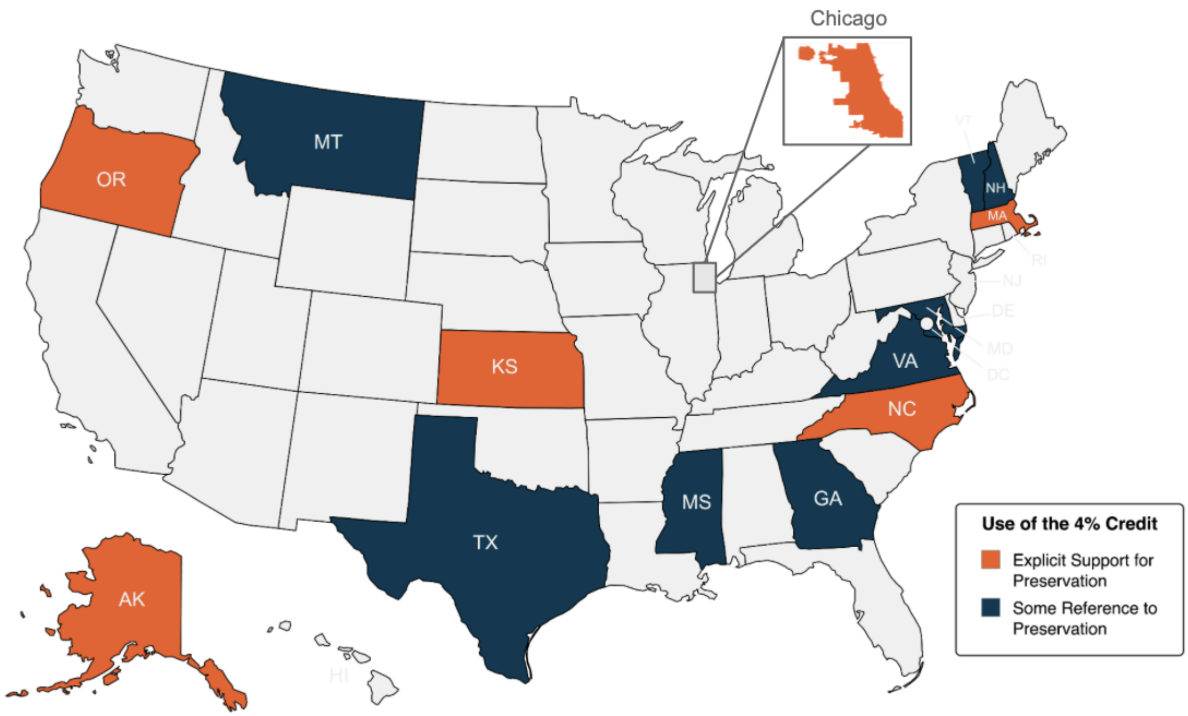
Examples of QAP language which directly encourages the use of the 4 percent Housing Credit for preservation include:

- Massachusetts: "...DHCD expects developers of preservation projects to seek the 4% credit rather than the 9% credit" and "All sponsors of preservation projects should anticipate that only the 4% credit will be made available for their applications."
- Oregon: "...is strongly urging sponsors of preservation Projects to structure their applications as tax-exempt bond transactions using 4% credits."
- Chicago: "Preservation Projects that encourage the preservation of existing buildings and disincentivize displacement. These projects should promote and incentivize the use of 4% LIHTC and Tax-Exempt Bonds."

While the absence of clear preservation priorities in QAPs may limit opportunities to support the preservation or rehabilitation of aging affordable housing stock, it does not necessarily reflect the full scope of state-level strategies. Written QAP language provides only part of the picture. Many agencies rely on internal knowledge about how their credits are best used, often shaped by state-specific housing conditions, political context, and implementation practice. This may include pairing the 4 percent credit with other capital subsidies, or structuring deals as "twin deals" which combine 4 percent and 9 percent credits. In some cases, policies reflected in the QAP may have been developed in response to funding constraints, shifts in local housing needs, or other stakeholder knowledge.

This inconsistency creates ambiguity for developers seeking to use the 4 percent credit, particularly when preservation projects generally are perceived as less aligned with the formal incentives or scoring systems laid out in the QAP, such as locating affordable housing in certain areas of the state, implementing resilient affordable housing design features, and ensuring limited disruption for existing residents.

FIGURE 2: QAPs that Encourage the Use of the 4 Percent Credit for Preservation



Policy Versus Practice

While few QAPs explicitly encourage the use of the 4 percent Housing Credit for preservation, conversations with HFAs suggest that in practice, many states do use the credit for preservation.

- Georgia: In response to bond cap pressure, Georgia implemented a competitive process for 4 percent credits beginning in 2022. Although there is no formal minimum score required, awards are based on scoring criteria that often mirror the 9 percent scoring system. For the 4 percent credit, Georgia uses a one-to-one allocation approach, funding an equal number of preservation and new construction projects. Most preservation deals applying under the 4 percent credit are funded, whereas only seven preservation awards are available annually under the 9 percent program, making the 4 percent credit the more viable path. These adjustments reflect how administrative structures, rather than stated QAP priorities, guide preservation outcomes.

- New Hampshire: Though New Hampshire's QAP does not formally prioritize preservation, most 4 percent credit activity supports preservation projects. New Hampshire has shifted from a rolling application process to a more structured approach in response to rising interest, including dedicated 4 percent rounds and pairing credits with project-based vouchers to increase financial feasibility. While 4 percent deals and

PABs are not competitive, most projects require additional capital subsidies, which are limited and awarded competitively, which effectively introduces a competitive element. The state also monitors expiring-use properties and conducts outreach to encourage recapitalization, further supporting preservation through internal practice.

- **Virginia**: Virginia has restructured its 4 percent credit process into fixed application rounds, raising the minimum scoring threshold to better manage bond cap usage. While preservation is not prioritized in the QAP for the 4 percent credit, it accounts for much of the state's 4 percent activity, especially resyndication and rehabilitation projects that do not otherwise score well in the 9 percent round. To stretch limited 9 percent credits, Virginia temporarily awarded bonus points to "twin deals" pairing 4 percent and 9 percent credits. The policy increased 4 percent applications and strained bond capacity, leading the agency to scale back the incentive.[5]

These examples highlight how state-level implementation practices and administrative structures shape the actual use of the credit. While QAPs may offer limited or unclear guidance around preservation, internal processes often support its use in practice. Implementation decisions - not just formal policy - are critical to understanding how the 4 percent credit functions in practice.

Conclusion

NHT's QAP analysis suggests that while the 4 percent credit may be widely used to preserve affordable housing, that use is not consistently reflected in explicit written policies. The absence of clear guidance in QAPs limits transparency and may signal misalignment between policy intent and practical need. In many states, access to the credit is shaped less by explicit prioritization than by bond capacity and internal agency discretion. The structure of bond allocation itself is opaque and can only be fully understood through direct engagement with HFAs. As competition for PABs increases, the structure of application processes and the clarity of state priorities will play a larger role in shaping preservation outcomes.

For more information on how HFAs encourage long term affordability and quality affordable housing through the 9 percent Housing Credit program, read NHT's Infobriefs on Long Term Affordability & Preservation and Housing Quality here.

[5] In its 2024 QAP, Virginia Housing introduced a 10% Preservation Pool for its 9 percent credit.

TABLE 1: Implementation Practices and QAP Preservation Language

State	Implementation Practices		Preservation Language	
	Competitiveness	Minimum Threshold	Explicitly Encouraged	Some Reference
AK			X	
AL		X		
AR		X		
AZ				
CA				
Chicago			X	
CO		X		
CT				
DC	X			
DE		X		
FL				
GA	X			X
HI				
IA				
ID		X		
IL				
IN		X		
KS		X	X	
KY				
LA		X		
MA			X	
MD		X		X
ME				
MI				
MN		X		
MO				
MS		X		X
MT				X
NC		X	X	
ND				
NE		X		
NH				X
NJ				
NM				
NV				
NY				
NYC				
OH				
OK				
OR			X	
PA		X		
RI				
SC				
SD		X		
TN				
TX				X
UT				
VA		X		X
VT				X
WA				
WI		X		
WV	X	X		
WY				