



Office of the
Washington
State Auditor
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PERFORMANCE AUDIT

Report Highlights

Housing Finance Commission: Tenant purchase options under the Low-Income Housing Tax Credit program

The federal Low-Income Housing Tax Credit (LIHTC) program encourages development of affordable rental housing. A few LIHTC projects offer options for tenants to buy their homes, referred to as tenant purchase options. Such projects usually offer tenants the option to buy after the home has been available to rent for 15 years. Tenants are not obliged to buy, nor are homes automatically transferred from a rental agreement to a purchase contract. Tenant purchase options are thus different from lease-purchase (sometimes called “rent-to-own”) programs. In addition, project owners are responsible for completing multiple steps, including removing the financial partner from the project, preparing tenants for homeownership, and resolving legal complexities for homes located on tribal lands, when applicable. For these reasons, it may take significantly longer than the initial 15 years before tenants actually take ownership of their homes if they are interested in doing so.

The Housing Finance Commission manages the LIHTC program in Washington. LIHTC affordable housing projects offering tenant purchase options are rare. Only 18 of the state’s nearly 1,300 LIHTC projects offer tenant purchase options; all but one are managed by tribal governments. Of the 18 projects, just six — with a combined total of 135 homes — had properties old enough to qualify for tenant purchase as of 2023. Evictions at housing projects managed by the Nooksack Indian Tribe raised concerns about tenant purchase options and, more widely, the LIHTC program managed by the commission. This audit examined the commission’s oversight of housing projects that offer tenant purchase options. It did not evaluate the Nooksack Housing Department’s decision to evict disenrolled tribal members living in LIHTC housing.

The Housing Finance Commission met legal requirements, but improved oversight could better support homeownership

The commission met legal requirements related to tenant purchase options. It awarded points for tenant purchase in project applications for most of the audit period in accordance with its policies. Although the commission temporarily suspended application points for tenant purchase options during the 2023-24 application cycle, no projects expressed interest in using the option during that time. Although the commission met legal requirements, its monitoring activities were ineffective for ensuring project owners’ progress toward tenant purchases. For example, the commission did not follow its own plan for monitoring project owners’ progress in

that area. However, commission staff said they have few options to respond to project noncompliance beyond reporting it to the IRS. Finally, the commission did not develop sufficient guidance for project owners to implement tenant purchase options. Project owners said they would appreciate additional guidance that clarifies the commission's expectations.

Although the LIHTC program has not yet produced any homeowners, tenants have received other meaningful benefits

Project owners have yet to sell and transfer the 135 eligible homes for sale to tenants. This appears inconsistent with formal agreements between the project owners and the commission, although the complex process to prepare for home sales means some delay before tenants can take ownership of their homes could be expected. Commission officials also pointed to limitations in their ability to compel project owners' actions. Project owners we spoke with described a variety of challenges they faced in preparing for tenant home purchases, including unclear requirements and limited guidance. Tenants we interviewed saw benefits to homeownership but also possible challenges. Their understanding of purchase options varied, and most wanted more information about how the program worked. Tenants who want to purchase their homes may face systemic financial barriers. Despite these barriers to homeownership, LIHTC projects provide affordable rental housing to disadvantaged communities, even if tenants do not buy eligible homes. These income-restricted housing options directly benefit communities through increased housing supply and below-market rents.

State Auditor's Conclusions

At the highest level, the findings of this performance audit are disappointing. An option for tenants in affordable housing projects to buy their homes has not yet been used, despite applying to 135 housing units in 2023. This failure to deliver on the possibility of homeownership is not the result of state management, however. The state Housing Finance Commission has followed the rules for the tenant purchase option in the federal Low-Income Housing Tax Credit Program.

We found the tenant ownership option is little-known and largely misunderstood. It is not, as it has sometimes been called, a "rent-to-own" program. Though a property must be available to rent for 15 years to become eligible for the purchase option, tenants are not obliged to buy their homes, nor are they automatically transferred from rental agreements to purchase contracts. Indeed, the legal path from renting to purchasing these homes appears quite complex.

I'm particularly proud of our auditors' work to gain a ground-level understanding of the program by meeting with groups of property renters in tribal housing projects. We found that tenants had limited information about the purchase option and wanted to know more. Similarly, we found project developers would like more information about the option and its goals.

In my view, it is telling that auditors could find little information on the federal intent behind including a relatively small incentive for the ownership option in housing projects that otherwise focus on rental units. As our recommendations show, this tenant ownership option needs greater clarity – in communicating how it works, what tenants' options are, and the goals of policy makers in offering it.

Recommendations

We made recommendations to the commission to improve its monitoring of projects with tenant purchase options and to provide project owners clearer guidance. These recommendations seek to provide greater assurance that projects will fulfill the tenant purchase options they agreed to, and to improve communication about purchase options between the commission, project owners and tenants.