

# Expanding Bank Capacity to Invest in the Low-Income Housing Tax Credit by Lifting the Public Welfare Investment Cap

Congress is currently considering a proposal to lift the public welfare investment (PWI) cap, which governs banks' ability to invest in projects that support low- and moderate-income communities or families, including affordable housing financed by the Low-Income Housing Tax Credit (Housing Credit).

Lifting the PWI cap would increase banks' capacity to invest in affordable housing, which is especially important in conjunction with the recent [expansion](#) of the Housing Credit as part of the One Big, Beautiful Bill Act (OBBBA). The OBBBA expansion is projected to finance over [1.2 million additional affordable rental units](#) over the next decade beyond what prior law would have supported. Meeting this production goal will require an estimated \$5 – 7 billion of additional tax credit equity investment each year, on top of the \$28.9 billion invested in 2024. The Federal Housing Finance Agency [announced](#) in July that Fannie Mae and Freddie Mac can increase their annual investment in the Housing Credit from \$1 billion to \$2 billion each, which will be very helpful, but additional investor capital will still be needed.

**Lifting the PWI cap would allow banks to help meet that need, allowing for billions more investment in the Housing Credit.**

It would also enable banks to increase their holdings of other community development tax incentives, such as New Markets Tax Credits and Opportunity Zones, each of which was also enhanced and/or made permanent in OBBBA.

## Current Legislative Proposals

The bipartisan Community Investment and Prosperity Act ([S. 2464](#), [H.R. 5913](#)), sponsored by Senate Banking Committee Chairman Tim Scott (R-SC), and Senators Lisa Blunt Rochester (D-DE), Bernie Moreno (R-OH) and Andy Kim (D-NJ), and Representatives Mike Lawler (R-NY), Joyce Beatty (D-OH), and Young Kim (R-CA), would lift the PWI cap from 15 to 20 percent, allowing a bank's primary regulator to approve PWI holdings of up to 20 percent of risk-adjusted capital and surplus. The legislation recently passed the Senate as part of the bipartisan ROAD to Housing Act ([S. 2651](#)), which was attached to the National Defense Authorization Act for FY 2026. The House may consider the legislation soon.

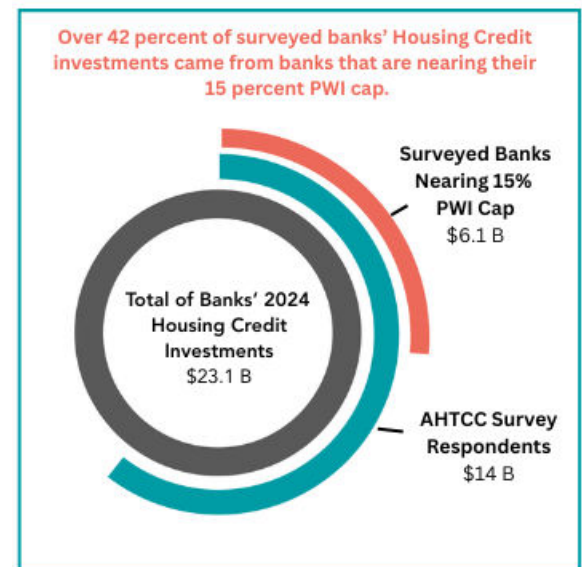


## Potential Impact

The Affordable Housing Tax Credit Coalition, Affordable Housing Investors Council and National Association of Affordable Housing Lenders conducted a survey of banks to assess the potential impact of lifting banks' PWI cap. Banks are key drivers of equity investment in affordable housing; in 2024, banks supplied about 80 percent of the \$28.9 billion in Housing Credit equity,<sup>1</sup> or roughly \$23.1 billion.

Twenty-two banks responded to the survey, representing over \$14 billion of investment in the Housing Credit in 2024 – nearly two-thirds of all bank investment in the Housing Credit. **Over 42 percent of these investments (\$6.1 billion) came from banks that are nearing their 15 percent PWI cap.** These banks would potentially be able to

increase their affordable housing investments if the PWI cap were lifted to 20 percent, tax capacity permitting, but are otherwise currently limited in their ability to make additional affordable housing investments.



## Current Capital Limits on Public Welfare Investments

Today, banks can hold PWI investments of up to 5 percent of their risk-adjusted capital stock and unimpaired surplus (capital and surplus) in PWIs. With prior **approval from their primary regulator**, that cap can rise to 15 percent of capital and surplus, but only if the regulator determines that:

- The higher level of investment does not threaten the deposit insurance fund, and
- The bank is not undercapitalized.

The last time the PWI cap was lifted, from 10 to 15 percent, was in 2006 during the George W. Bush Administration. In 2005, before the law, national banks invested \$3.1 billion in PWIs. By 2024, national banks were investing \$27.9 billion annually in PWIs, with the Housing Credit accounting for roughly 80 percent of that investment.

## Are there regulatory risks?

The proposed legislation preserves existing safeguards. Under current law, banks must receive prior approval from their regulator before making PWIs that exceed 5 percent of capital and surplus. This requirement would remain in place. As is required today, a bank would need to demonstrate that higher investment levels:

- Do not pose safety and soundness concerns, and
- Are supported by adequate bank capitalization.

<sup>1</sup> [CohnReznick 2024 LIHTC Equity Market Volume Survey](#)

