

Bridging the Gap

A Primer on Affordable Housing Finance

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Introduction

I came to graduate school with a clear goal: to understand place-based economic development. How neighborhoods attract investment, build wealth, and create opportunity for the people who live in them. But you cannot talk seriously about any of that without talking about housing. Housing shapes well-being, economic mobility, and the fabric of a community in ways that few other forces can. And once you start talking about housing, the conversation turns quickly to affordability. I had read about the shortages. I had seen the headlines about families burdened by rent. I wanted to understand what it takes to actually produce affordable housing. The classroom built the foundation. The field, though, had layers that only practice and time could teach.

Every conversation seemed to assume prior knowledge I did not have. HAP contracts. LIHTC. QAPs. 4% versus 9% credits. Syndicators. Compliance periods. The terms accumulated faster than I could look them up, and by the time I understood one concept, the conversation had moved on to three more. It took me several months of coursework, meetings with practitioners, and a lot of reading before the system started to feel navigable.

This paper is what I wish I had at the beginning of that process.ⁱ It is not a technical manual, and it will not make you an expert. But it will give you a grounded, plain-language introduction to how affordable housing is financed in the United States, using Massachusetts as a practical case study. Affordable housing finance is a deep and complex field. This paper is not the summit of that mountain. It is a clearer, gentler starting point for the climb.

The paper is written for students entering the field, early-career professionals making the transition from other sectors, community advocates trying to understand the deals being proposed in their neighborhoods, and anyone who has ever sat in a housing finance meeting, wondering what everyone else seemed to already know.

What You Will Find in This Paper

This paper is organized around one central question: if it costs the same amount to build affordable housing as market-rate housing, but affordable housing can only charge lower rents, how does it ever get built? The answer to that question is the thread that runs through everything that follows: bridging the funding gap.

We begin in Chapter 2 with a conceptual foundation: how real estate development works in general, and what the capital stack is. Getting this framework in place first makes the affordable housing specifics that follow far easier to understand. Chapter 3 then introduces the fundamental challenge of affordable housing: why the market alone cannot solve it, and what the gap looks like in practice. Along the way, we introduce Area Median Income (AMI), the organizing concept behind almost every affordability program in the country. Chapter 4 surveys the funding tools that bridge the gap, leading with the Low-Income Housing Tax Credit, the most important tool in the field, and then covering other federal, state, and local sources. Chapter 5 applies everything to a real project, the Melnea Cass Apartments in Roxbury, Boston, to show how these pieces come together in practice.

By the end, the goal is not mastery. It is familiarity. You will have a framework for understanding conversations about affordable housing finance, a vocabulary for the most important concepts, and a foundation on which deeper learning can be built.

Chapter 2: The Capital Stack

To understand how affordable housing deals come together, it helps to start with a foundational concept that applies to all real estate development: the capital stack. Every real estate development, from a single-family home to a large apartment complex, is funded by a combination of money from different sources. The capital stack describes this combination: who put money into a project, how much, in what form, and with what rights and expectations.

The capital stack gives you a mental model for any deal: where the money came from, whose money is at risk, who gets paid first, and why different contributors accept different returns.

Equity and Debt

The most straightforward way to think about the capital stack is to picture two layers:

- Debt – money borrowed from a lender
- Equity – money invested by the developer or outside investors

Every real estate project relies on these two components.

What Is Debt?

Debt is money the developer borrows, usually from a bank or institutional lender, to pay for most of the project's costs. Think of it like any other loan: a mortgage, a car loan, or a student loan. The borrower receives funds today and repays them over time, with interest. In real estate, the loan is repaid from the property's rental income.

A key feature of debt is that it is secured by the property itself. The lender holds a mortgage on the building, a legal claim that allows them to take the property if the borrower stops making payments. Because of this protection, debt is considered relatively low-risk from the lender's perspective, and lenders therefore charge less for it (in the form of interest) than equity investors typically expect to earn.

The amount a lender will loan relative to the total value of the property is called the loan-to-value ratio, or LTV. A lender offering a 70% LTV means they will lend up to 70 cents for every

dollar of property value. The higher the LTV, the larger the loan. But lenders will only offer high LTVs when the property generates enough income to safely cover repayments.

What Is Equity?

Equity is money that the developer or investors put into the project directly, not as a loan but as an investment. Unlike debt, equity does not come with a fixed repayment schedule. Instead, equity investors receive a share of the project's cash flow (rental income after expenses and debt payments) and, eventually, any proceeds when the building is sold or refinanced.

In simple terms:

- Debt gets paid first.
- Equity gets paid last, but can earn more if the project succeeds.

Equity bears more risk than debt. If the project runs into financial trouble, debt holders are protected first, and equity absorbs the losses. In exchange for that higher risk, equity investors expect higher returns than lenders. This basic structure, debt first and equity last, is the foundation of the capital stack. Everything else builds on it.

Other Layers

Most projects use only debt and equity, but some add extra layers to bridge gaps or manage risk. Two common additions are:

- Mezzanine debt – a higher-risk, higher-interest loan that sits between the main mortgage and equity.
- Preferred equity – an investment that gets paid before regular equity but after all loans.

These layers do not replace debt and equity. They simply add more rungs to the ladder. For beginners, the key idea is that real estate capital stacks can have more layers, but everything still builds on the basic debt–equity structure.

THE RISK LADDER

Think of the capital stack as a waterfall. Money flowing in (from rent) fills the pools from the bottom up. Debt is at the bottom: it gets filled first, reliably and predictably. Equity is higher up: it

only gets filled after all debt is covered, but when the project does well, it can earn substantially more.

Two Different Structures

The building blocks of real estate finance, debt and equity, apply to all projects. But the way these pieces come together differs sharply between market-rate and affordable housing.

Market-Rate Capital Stack

Market-rate developments generally have relatively simple, streamlined capital stacks. Two sources — a large loan and investor equity — typically cover almost all project costs.

A key reason is that market-rate rents are high enough to support higher loan-to-value (LTV) ratios, allowing lenders to comfortably finance a larger share of the project. It is common for a market-rate building to secure 65–75% of its total cost as debt, with the remaining portion supplied as equity.

Because the project's income can support a large loan, additional funding sources are rarely needed. Two sources, two layers, and a deal that can typically be assembled and closed in a matter of months.

The Affordable Housing Capital Stack

Affordable housing is structurally different in ways that begin with, but extend well beyond, the lower rents. Because restricted rents generate less income, lenders are only willing to extend smaller mortgages — often covering just 30% to 40% of total development cost, and sometimes even less. In the Melnea Cass Apartments example we will walk through in Chapter 5, the first mortgage covered only 17% of total development costs. The remaining 83% had to come from other sources.

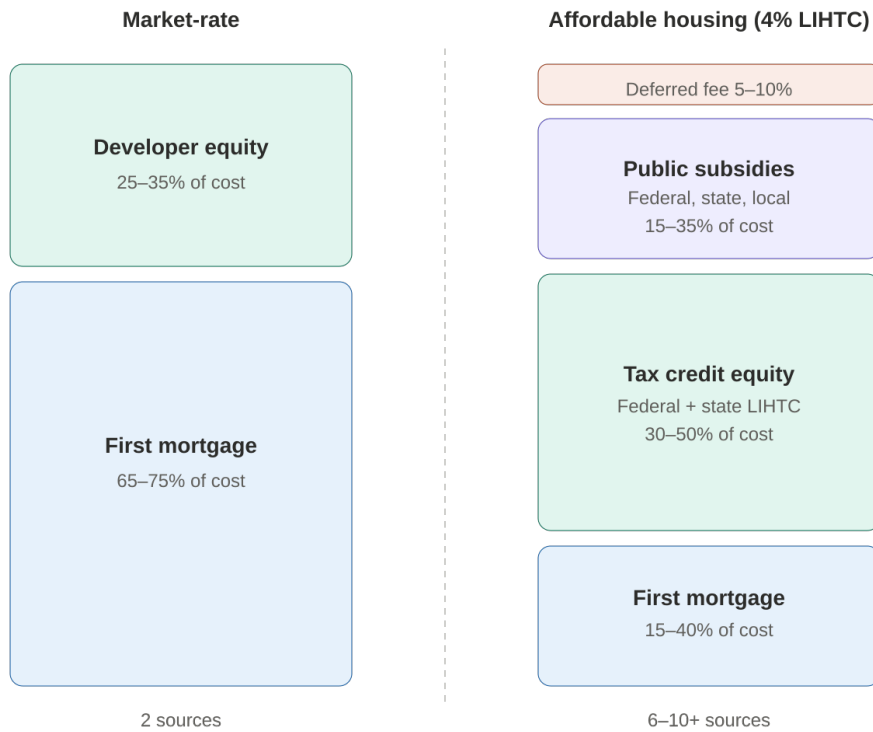
Those other sources, the tools that bridge the funding gap, create multiple additional layers in the capital stack. Each layer comes with its own terms, its own compliance requirements, and its own timeline for approval. Where a market-rate developer might assemble a capital

stack in a few conversations with a bank, an affordable housing developer might spend one to three years securing commitments from five, eight, or ten different funding sources.ⁱⁱ

It is also worth noting that not all of these sources function like debt or equity in the traditional sense. Some are grants that do not need to be repaid. Some are soft loans that carry no interest and defer repayment for decades, to be paid only from project cash flow if and when it exists. Some are tax credits that investors purchase in exchange for future tax benefits. The capital stack in affordable housing is not just more layers. It is fundamentally different types of layers, each operating according to its own logic.

Market-Rate Capital Stack	Affordable Housing Capital Stack
Large first mortgage (65–75% LTV)	Small first mortgage (17–40% of cost)
Developer / investor equity	Tax credit equity (federal + state LIHTC)
<i>Typically 2 sources</i>	Federal, state, and local subsidies Deferred developer fee <i>Often 6–10 or more sources</i>

The table above captures a key truth about affordable housing finance: it is not simply that the math is harder. The deal's architecture is fundamentally different. Every additional layer brings complexity, but it also reflects the work of stitching together enough public and private support to make something possible that the market would never produce on its own.



Ranges shown are typical for 4% LIHTC deals. In 9% deals, tax credit equity covers a larger share of cost, reducing the need for public subsidies. The exact mix varies by project, location, and target income levels.

The Core Difference

In short:

- Market-rate projects use large loans and equity, resulting in a relatively simple stack.
- Affordable housing projects use a small loan plus many supplemental sources, resulting in a complex, multi-layered stack often involving 6 to 10 or more funding sources.

The difference comes down to income. Where market-rate rents can support higher LTV borrowing, affordable rents cannot, requiring a broader mix of capital sources to make the project feasible. The next chapter explains why, and introduces the key concepts that define how affordable rents are calculated.

Chapter 3: The Funding Gap

To understand why affordable housing finance is complex, start with a simple observation: producing housing costs roughly the same amount whether the future occupants earn \$30,000 a year or \$150,000 a year. Land, labor, materials, architectural and engineering fees, permitting, financing costs: none of these adjust based on who will eventually live in the building. A unit costs what it costs.

At the same time, affordable housing is specifically designed to charge below-market rents. That is the point. Households that earn low or moderate incomes are not paying what the market would otherwise charge. The gap between what a building costs to produce and what its tenants can afford to pay is not a quirk or a policy mistake. It is a structural feature of the system, and bridging that gap is what affordable housing finance is about.

Area Median Income (AMI): The Organizing Concept

Before anything else, it is worth introducing one concept that appears throughout affordable housing and that everything else depends on: Area Median Income, or AMI. AMI is the midpoint of a region's household income distribution. It is calculated annually by the U.S. Department of Housing and Urban Development (HUD) for every metropolitan area in the country.ⁱⁱⁱ In simple terms: half of all households in the region earn more than the AMI, and half earn less.

AMI is used to define who qualifies for affordable housing and what rents or sale prices are considered affordable. Programs set income limits at percentages of AMI — for example, 30%, 50%, 60%, or 80% of AMI — and set maximum allowable rents accordingly, typically calculated as 30% of the applicable income limit divided by 12 months. Households at or below 30% of AMI are considered “extremely low income.” Those at or below 50% are “very low income.” Those at or below 80% are “low income.”

These distinctions matter enormously in housing finance because the lower the AMI threshold a project targets, the lower the rents it can charge — and therefore the larger the gap between what the building costs to produce and what it can earn. As we will see, this AMI-driven rent calculation is the mathematical root of everything that makes affordable housing finance complex.

A NOTE ON TERMINOLOGY

You will often hear “affordable housing” used loosely to mean any housing that is not expensive. In the policy and finance world, it has a more specific meaning: housing with legal affordability restrictions, typically serving households at or below 60% to 80% of AMI, with rents or sale prices capped by recorded regulatory agreements that remain in force for decades.

You will typically hear the term market-rate used to refer to all housing that does not have regulated rents. In market-rate housing, landlords have no rent limits. Rents are set by supply and demand. A developer builds a building, charges what the market will bear, and uses that rental income to repay the mortgage and generate a return for investors. Because the income from the building is high enough to support a large loan, the math tends to work with relatively few financing sources — usually a large mortgage and an equity investment from the developer or investors.

Think of it like a standard business loan. If you want to open a restaurant, a bank will lend you money based on your projected revenue. If you expect to bring in enough sales to comfortably cover loan payments plus operating costs, you qualify for a large loan. The loan covers most of your costs, you invest some of your own capital, and you open the doors.

Same Cost, Lower Rents

At the heart of affordable housing finance is an underlying paradox: affordable housing is expected to serve households who cannot pay prevailing market rents, yet the costs of housing development — land, labor, materials, financing — are essentially the same as for market-rate projects. Bridging this gap usually requires public intervention. But instead of one unified mechanism, the U.S. system relies on dozens of siloed programs, each with its own rules, priorities, eligibility thresholds, and timing cycles.

The Restaurant Analogy

A good way to grasp this funding gap is through analogy. This is a simplified one, meant only to illustrate the core logic before we get to the real numbers.

Suppose it costs AMI Restaurant \$20 to make a meal. In a normal market, the restaurant sells that meal for \$25, covering all costs plus a profit. Now suppose the restaurant decides to

serve the same meal to customers who can only afford to pay \$10. The \$10 gap between the cost of making the meal and the price those customers can pay has to come from somewhere — a grant, a subsidy, a donation. No amount of good intentions closes that gap without real money.

Affordable housing works exactly this way. The cost to produce a unit of housing stays roughly the same whether it will be rented at market rate or at a restricted affordable rate. But the price that can be charged is limited by what lower-income households can afford. That gap between production cost and what tenants can pay is what public funding and subsidies exist to fill. In exchange for these public subsidies, the developer agrees to keep the building affordable for a specified number of years.

The Numbers Behind the Gap

Now suppose it costs \$500,000 to build a single apartment — including land, construction, and all the professional services needed to complete the project. (A more comprehensive list of what goes into that cost — construction, architecture, permits, legal fees, financing costs, and more — is covered in Chapter 5. For now, \$500,000 is simply the total bill.) Most housing developments are financed primarily with loans, because few developers have enough cash to pay for construction up front.

In a market-rate building, a developer might charge around \$3,000 per month in rent. That rent brings in enough income to support a large loan. This is similar to how a person with a high salary can qualify for a larger mortgage or a bigger credit line, because lenders trust that income will cover the debt. A lender evaluates the loan through a process called underwriting — essentially a careful analysis of the property’s projected income, expenses, and risk — and determines how much debt the property can safely support. With \$3,000 monthly rents and a full building of similar units, the lender might offer a loan covering 65–75% of the \$500,000 cost.

In affordable housing, rents are capped based on AMI income limits. Instead of \$3,000, the maximum allowable rent for an income-restricted unit might be around \$1,800 per month. At \$1,800, the building can support a much smaller loan — in housing finance, the maximum loan a property’s income can safely repay is often called the “supportable debt.” If the project can only support, say, \$200,000 in debt from its rental income, that leaves a \$300,000 gap. That gap has to be filled somehow. This is the crux of affordable housing finance.

THE CORE EQUATION

Total Development Cost - Supportable Debt = The Funding Gap. Every tool, program, and subsidy in affordable housing finance exists to close this gap.

Why the System Feels So Complicated

The act of bridging the funding gap in affordable housing finance is not straightforward. The tools, policies, and financial mechanisms that make affordable housing possible were not created as part of a unified national strategy. Instead, they emerged over decades, often in response to specific political moments, economic pressures, or local housing needs.^{iv} The result is an industry filled with many programs, rules, and agencies, each contributing something essential while adding to the overall complexity.

Affordable housing finance is difficult not because the math is inherently confusing, but because the system itself was never designed as an integrated framework.^v It is more like a collection of historical layers than a single coordinated structure. Federal programs such as the Low-Income Housing Tax Credit (LIHTC), HOME funds, and project-based rental assistance were created at different times to address different challenges. States later added their own resources while cities layered on local subsidies, zoning incentives, and inclusionary housing requirements. None of these programs was built to fit together neatly, yet developers must assemble them into a single, coherent funding package for each project.

Developers must also navigate a wide range of additional requirements that simply do not arise in market-rate projects — detailed affordability rules, income qualification standards for residents, long-term regulatory agreements, ongoing compliance and reporting obligations, and restrictions on how funds can be used or combined.

Finally, every affordable housing project becomes a bespoke puzzle, even for seasoned developers. Because each funding source covers only part of the gap, and because programs vary by state, city, and year, no two projects are financed the same way. A developer might combine five sources for one deal and ten for another. A city subsidy may require one set of affordability levels, while a tax credit program may require another. Navigating these differences makes standardization difficult. As a result, developers rely not

on fixed formulas but on “pattern recognition”: the ability to understand how different programs can fit together under different conditions.

This is worth naming because it is often a source of frustration for people new to the field. It was certainly frustrating for me when I first started learning about affordable housing. When everyone around you seems comfortable with terminology and complexity that feels impenetrable, it is easy to wonder whether you are missing something obvious. You are not. The system really is this layered, and becoming fluent in it takes time.

That complexity is the natural result of building a patchwork system over decades — layer by layer, program by program, in response to political and economic pressures — without a single guiding blueprint. Understanding that history is the first step toward making the complexity feel navigable.

Chapter 4: The Tools That Close the Gap

In the previous chapters, we established that affordable housing finance revolves around one fundamental issue: the funding gap. Because affordable rents cannot support the level of debt that market-rate projects can, the money needed to complete a project must come from sources outside of traditional private capital markets. In practice, a significant portion of affordable housing development is financed with public, subsidized, or mission-driven funding.

Public funding, federal, state, and municipal, forms the backbone of affordable housing finance in the United States.

It is also important to note upfront that real estate development is highly localized. The specific funding programs, agencies, income limits, and development costs vary significantly from state to state and even city to city. The exact mix of sources used in any project depends heavily on where that project is located. This paper focuses primarily on Massachusetts — and the Greater Boston area in particular — because that is the geography where I have the most direct experience, access to practitioners, and familiarity with local programs. Readers in other markets will find that the general framework applies broadly, but the specific tools and agencies will differ.

Massachusetts is also a particularly instructive case because it has one of the deepest and most diverse toolkits of affordable housing programs in the country, making it a useful model for understanding how programs layer together even if the specific programs do not apply everywhere.

The Low-Income Housing Tax Credit (LIHTC)

No tool has shaped affordable housing development in the United States more profoundly than the Low-Income Housing Tax Credit, known almost universally as LIHTC (pronounced "LY-tec" or "lie-tech"). Established by the Tax Reform Act of 1986, LIHTC is responsible for financing the vast majority of new affordable rental housing built in the country today.^{viii} Understanding LIHTC is the single most important step in understanding affordable housing finance.

At its core, LIHTC is a mechanism for converting the federal government's willingness to forego tax revenue into upfront capital for affordable housing projects. Rather than directly funding housing, the government issues tax credits to developers, who then sell those credits to private investors. The investors pay for the credits with equity, real dollars that go into the project, and in return receive the right to claim a tax benefit over the following ten years. The developer gets capital to build; the investor gets a tax reduction; the government incentivizes private capital to flow into housing that the market would never otherwise produce.

How the Credit Works

There are two types of LIHTC, typically referred to as 9% and 4% credits. The 9% credit is highly competitive — each state receives a fixed annual allocation based on population, and developers compete for credits through a formal application process. Because the credit is substantial (it can cover a significant portion of development costs), competition is fierce and awards are selective. The 4% credit is less competitive but must be paired with tax-exempt private activity bonds to generate the equity; it provides a smaller subsidy but is more broadly available and is often used for preservation projects and moderate rehabilitation.

In both cases, the credit is not a one-time payment. It is claimed annually over a ten-year period, meaning an investor who purchases LIHTC receives a tax benefit each year for a decade. The present value of those credits — discounted to today's dollars — is what investors pay upfront as equity. The pricing of credits (how many cents of equity are generated per dollar of credit) varies based on market conditions, investor demand, and project-specific factors, but in recent years has generally ranged from roughly \$0.85 to \$1.10 per dollar of credit.^{viii}

How Credits Are Allocated

LIHTC is a federal program, but it is administered at the state level, a good illustration of how localized affordable housing finance really is. Each year, Congress allocates tax credit authority to states based on population. Each state's housing finance agency then distributes those credits to developers through a competitive application process, guided by the state's own Qualified Allocation Plan (QAP). The QAP is a policy document that defines the state's priorities for affordable housing investment. It specifies which types of projects will be given preference — for example, family-sized units, transit-oriented development, projects targeting extremely low-income households, energy efficiency improvements, or

supportive housing for people experiencing homelessness. Understanding the QAP is essential for developers preparing competitive applications, because even a strong project can fail to receive credits if it does not align with the state's current priorities.

In Massachusetts, the responsible agency is the Executive Office of Housing and Livable Communities (EOHLC), formerly DHCD. EOHLC awards credits through its One-Stop Application process, guided by the state's QAP, which reflects Massachusetts-specific priorities such as family-sized units, transit-oriented development, energy efficiency, and supportive housing for vulnerable populations.^{ix} Every state has its own equivalent agency, its own QAP, and its own priorities.

Why Developers Sell the Credits — and What Syndicators Do

Most affordable housing developers — especially nonprofit developers — do not have enough federal tax liability to use LIHTC credits themselves. A nonprofit organization that pays little or no federal income tax has no use for a tax credit. Instead, developers sell the credits to investors who do have large tax obligations: typically, large corporations and financial institutions.

This is where syndicators enter the picture. Rather than developers selling credits directly to investors, syndicators act as financial intermediaries. Organizations like MHIC in Boston, Enterprise Community Partners, and National Equity Fund aggregate LIHTC investments into large funds, raise equity from institutional investors, conduct due diligence on each project, and manage ongoing compliance monitoring for the life of the credit period. Many bank investors participate in LIHTC funds partly to meet their obligations under the Community Reinvestment Act (CRA), a federal law that encourages banks to serve the low- and moderate-income communities where they do business.^x

The syndicator's role is often misunderstood. They are not simply middle-men extracting fees from the transaction. They perform complex, essential work: structuring deals that involve multiple investors and developers, ensuring that all eligibility requirements are met before credits are claimed, and monitoring compliance for up to 15 years or more after the project is placed in service. If a LIHTC project falls out of compliance — by renting to households above the income limits, for example, or by allowing the building to deteriorate — the IRS can recapture the credits, meaning the investor must repay tax benefits already received. The syndicator manages this risk on behalf of investors.

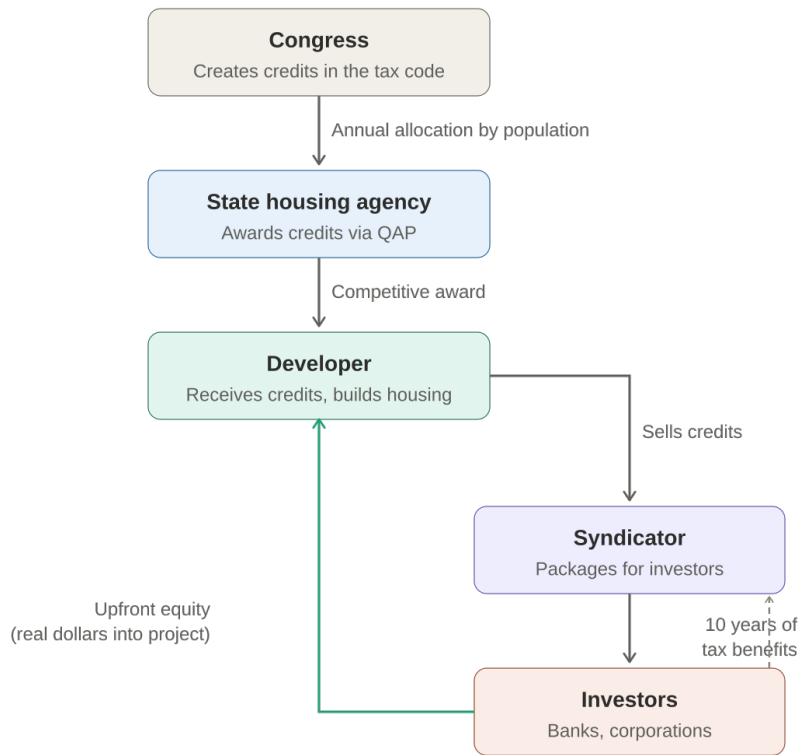
Compliance, Affordability Periods, and IRS Oversight

LIHTC is a program created within the Internal Revenue Code, and the IRS plays a central role in enforcing it. Projects must maintain their affordability obligations during an initial 15-year compliance period, during which rents must remain restricted and units must be occupied by income-qualified households. States typically impose additional extended use periods on top of the federal minimum. In Massachusetts, LIHTC-funded projects commonly remain affordable for 30 to 40 years, and some longer.

Annual compliance reporting is required throughout this period, and state housing agencies conduct monitoring to ensure ongoing adherence. For developers operating multiple affordable housing properties, compliance management is a significant ongoing administrative burden, one often underestimated by people first learning about the field.

LIHTC IN BRIEF

The federal government allocates tax credits to states → States award credits to developers through competitive applications → Developers sell credits to investors through syndicators → Investors pay equity upfront in exchange for 10 years of tax benefits → Equity closes a major portion of the funding gap → Project must remain affordable for 30–40 years in Massachusetts.



Other Funding Sources

LIHTC is the largest single source of affordable housing capital, but it typically covers only part of a project’s total development cost. Developers must fill the remaining gap with public subsidies, developer contributions, and private or philanthropic support. These additional funding sources can be grouped into five categories:

Federal Funding Programs

The federal government provides housing support through both direct grants and block grants. Most of these funds are administered by state or local governments and are subject to eligibility requirements, rent restrictions, and compliance monitoring.

WHAT IS A BLOCK GRANT?

A block grant is a lump sum of federal funding given to a state or local government with significant flexibility in how it is spent. Unlike categorical grants, which must be used for a narrowly defined purpose, block grants allow the recipient to direct the money toward local priorities within a

broad set of federal guidelines. In housing, this flexibility is valuable because it lets states and cities tailor programs to their own housing needs and market conditions.

Key Federal Programs:

HOME Investment Partnerships Program (HOME)

HOME is a flexible federal block grant — meaning states and cities receive an annual allocation from the federal government and have significant discretion in how they use it. HOME funds can support new construction, substantial rehabilitation, or homeownership programs, and they can take the form of grants, loans, or rental assistance. In Massachusetts, HOME funds are distributed through EOHLC and often layered with other state programs to support the most cost-intensive projects.

Community Development Block Grant (CDBG)

CDBG is one of the oldest and broadest federal housing programs. Like HOME, it is a block grant that flows to states and entitlement communities (cities and urban counties above a certain population threshold). CDBG can be used for a wide range of community development purposes, including housing rehabilitation, site acquisition, and infrastructure improvements that support housing development. It is a commonly used local subsidy in Boston and other Massachusetts cities.

National Housing Trust Fund (HTF)

The Housing Trust Fund is a more recently established (in 2008 but first funded in 2016) federal resource specifically targeting housing for extremely low-income households — those earning at or below 30% of AMI. This is arguably the most underserved segment of the housing market, because the rents they can afford are so low that even LIHTC and other subsidies often cannot close the gap. The HTF provides an additional layer of capital specifically designed to make deeply affordable housing possible.^{xi}

Section 202 and Section 811

These HUD programs target specific populations with specialized housing needs. Section 202 supports supportive housing for low-income elderly individuals, combining capital

support with access to services. Section 811 funds integrated housing for people with disabilities who need access to supportive services but do not require institutional care. Both address segments of the market that standard affordable housing models alone cannot serve.

State Funding Programs

Every state has its own set of affordable housing funding programs, and the specific tools vary widely. Massachusetts is a useful case study because it operates one of the most sophisticated state-level systems in the country, with a deep toolkit that illustrates how these programs layer together. State programs are typically structured as soft loans: below-market or deferred-payment loans that reduce the need for hard debt and lower ongoing costs.

Key Massachusetts Programs:

- **Affordable Housing Trust Fund (AHTF):** Provides flexible, deeply subsidized financing for both rental and ownership housing.
- **State HOME Funds:** The state-administered portion of the federal HOME block grant, often layered with other state or local programs.
- **Housing Stabilization Fund (HSF):** Primarily supports the preservation and rehabilitation of existing affordable housing.
- **Community-Based Housing (CBH):** Finances housing for people with disabilities who do not require intensive services, promoting community integration.
- **Housing Innovations Fund (HIF):** Targets supportive housing for individuals experiencing homelessness, survivors of domestic violence, or people with behavioral health needs.
- **Capital Improvement and Preservation Fund (CIPF):** Focuses on extending the life and affordability of existing housing through major renovations or refinancing.
- **Community Scale Housing Initiative (CSHI):** Supports small-scale rental projects (5–20 units) in communities where LIHTC may not be practical.
- **Workforce Housing Programs (e.g., from MassHousing):** Support mixed-income developments across a range of income levels, typically 30% to 80% AMI, and can be layered alongside LIHTC in projects that serve both deeply affordable and moderate-income households.
- **Massachusetts State LIHTC:** A state tax credit awarded in conjunction with the federal 9% LIHTC, increasing the overall equity available for eligible projects.

Municipal and Local Funding Programs

Cities and towns, particularly those with high housing demand like Boston, Cambridge, and New York City, have developed their own housing finance tools. These local sources tend to be smaller in scale but are often critical for closing the final portion of a project's funding gap. They are also uniquely flexible, because they are controlled by local governments that can adapt them to specific project needs.

Some Municipal Programs:

Housing Trust Funds

Many cities maintain dedicated housing trust funds capitalized by a variety of local mechanisms. Boston's Neighborhood Housing Trust and Cambridge's Affordable Housing Trust are notable examples. These funds are often used for predevelopment costs, site acquisition, or last-mile gap financing, the final piece that makes a project feasible after all other sources have been assembled.

Linkage Fees and Inclusionary Development Funds

Linkage is a policy that charges large commercial developers (office buildings, hotels, and similar projects) a fee to offset the impact of economic growth on housing affordability. In Boston, commercial projects above a certain threshold must pay per-square-foot fees into the city's housing trust funds. Inclusionary zoning, meanwhile, requires that residential developers include a percentage of affordable units in new market-rate buildings or pay into an affordable housing fund. Both mechanisms generate ongoing revenue for housing investment tied directly to development activity.

Community Preservation Act (CPA) Funds

The Community Preservation Act allows Massachusetts municipalities to adopt a small surcharge on local property taxes to fund affordable housing, open space preservation, and historic preservation. CPA funds are managed by local committees and can be used flexibly for housing production, rehabilitation, or acquisition. More than 200 Massachusetts municipalities have adopted the CPA, making it a broadly available source of local housing capital.^{xii}

Federal Home Loan Bank Affordable Housing Program (AHP)

The Federal Home Loan Bank's Affordable Housing Program is a competitive grant program accessed through member banks. While technically federal in origin, it functions as a local source because access depends on relationships with local FHLB members. AHP grants can fill financing gaps for both rental and homeownership projects and are particularly useful for smaller or rural developments that may not have access to larger programs.

Local sources are often smaller in scale but highly flexible. They are especially valuable for early-stage costs, like land acquisition or last-mile financing to complete a project's funding stack.

Developer and Philanthropic Contributions

Deferred Developer Fee

Every real estate developer earns a fee for their work in developing a project. In affordable housing, because financing is so constrained, developers frequently agree to defer a portion of this fee — meaning they accept delayed payment rather than requiring full payment at closing. The deferred portion is reinvested into the project as a soft equity contribution and is eventually repaid from project cash flow over time.

They serve two functions: closing the final portion of the funding gap when other sources are exhausted, and demonstrating to public funding agencies that the developer has a genuine financial commitment to the project's success.

Sponsor Equity and Philanthropic Contributions

Nonprofit developers and mission-driven sponsors sometimes contribute cash, land, or property from their own balance sheets. A nonprofit that owns a vacant lot, for example, might contribute that site to a housing development at below-market value. Faith organizations have donated land or existing facilities to support housing for their communities. Foundations, hospital systems, and impact investors have provided grants and below-market loans for projects serving high-need populations — people who are chronically homeless, individuals with significant health challenges, or survivors of domestic violence, for example.

Philanthropic funding is not guaranteed or predictable, but it can make the difference for housing that serves people whose needs are greatest and whose situations make standard financing most difficult.

Chapter 5: A Real Deal

Reading about capital stacks and funding programs in the abstract is necessary but not sufficient. The concepts come into focus when you can see them assembled in a real project — where the pieces fit together, where the gaps close one layer at a time, and where the final picture shows what it actually takes to build something affordable.

The Melnea Cass Apartments, located in the Roxbury neighborhood of Boston, offer a clear and instructive example. The project was developed by Madison Park Development Corporation (MPDC), a long-established nonprofit community development organization in Roxbury, in partnership with the Boston Housing Authority. It consists of 76 units of mixed-income rental housing.^{xiii}

The total development cost (TDC) was approximately \$37.8 million — roughly \$497,000 per unit, a figure that reflects the realities of building in Boston, where land is expensive, construction costs are high, and compliance requirements add professional fees and time. Every dollar needed to be accounted for.

Step 1: The Cost and the Starting Gap

The full cost of developing Melnea Cass was \$37,765,000. This figure includes everything: land acquisition, site work, hard construction costs (labor and materials), architecture and engineering, legal and accounting fees, construction period interest, financing costs, and the developer's fee. This is the number that must be completely covered by the capital stack before a project can be considered financially closed.

Because the development is affordable housing — with rents restricted to serve households at various AMI levels — the rental income it generates is insufficient to support a large mortgage. Everything from this point on is an effort to close the gap between what the building generates and what it cost to build.

Step 2: The First Mortgage

Based on the project's restricted rental income and standard underwriting, the development secured a permanent first mortgage of \$6,400,000 — approximately 17% of total

development cost. This is the hard debt layer, carrying interest at market rates and requiring regular debt service payments from project operations.

At 17% of total cost, the first mortgage reflects the limited debt capacity that restricted rents can support. A market-rate development of comparable cost might have secured a first mortgage of \$25 to \$28 million. Here, after the mortgage, the remaining gap is:

\$37,765,000 – \$6,400,000 = \$31,365,000 still to be financed

Over 80% of the total development cost still needed to be covered by non-debt sources. This is the scale of the gap that all subsequent layers must close.

Step 3: Tax Credit Equity

The largest single contributor to the capital stack was equity generated through the Low-Income Housing Tax Credit. The project received both federal 4% LIHTC and Massachusetts state LIHTC — the pairing of state credits alongside federal credits is a significant advantage of developing in Massachusetts, and one reason the state consistently produces more affordable units per capita than most of the country.

Source	Amount	Share of TDC
Federal 4% LIHTC Equity	\$11,587,000	31%
Massachusetts State LIHTC Equity	\$6,178,000	16%
Total LIHTC Equity	\$17,765,000	47%

After applying LIHTC equity, the remaining gap was \$13,600,000. Tax credits covered nearly half the project cost — a typical and intended outcome. But even with this substantial injection of private equity, the project remained far from fully funded. This is one of the most important things to understand about affordable housing finance: LIHTC is enormous, but it is almost never enough on its own.

Step 4: Public Subsidies

To close the remaining \$13.6 million, the development team assembled a diverse package of federal, state, and local capital subsidies. Each came with its own requirements, timeline, and purpose:

Funding Source	Amount	Type / Notes
City Housing Trust Funds	\$750,000	Local subsidy via linkage fees
City CDBG Funds	\$1,000,000	Federal block grant, locally administered
Inclusionary Development Funds	\$500,000	Boston inclusionary zoning proceeds
State Affordable Housing Trust Fund	\$750,000	State soft loan / gap financing
State HOME Funds	\$1,950,000	State-administered federal HOME block grant
State Housing Stabilization Fund (HSF)	\$1,950,000	Preservation-focused state program
Brownfields Environmental Grant	\$500,000	Environmental remediation funding
MassHousing Workforce Housing Funds	\$1,800,000	Moderate-income "missing middle" subsidy
MassWorks Infrastructure Grant	\$1,500,000	State infrastructure investment grant
Total Capital Subsidies	\$10,700,000	28% of Total Development Cost

This list illustrates what affordable housing finance looks like up close. No single public source covered more than a small fraction of the total cost. The largest individual subsidy here — State HOME funds and the Housing Stabilization Fund, each at \$1,950,000 — together represent about 10% of total development cost. Bridging a funding gap of this scale genuinely requires many sources.

Second, the sources span all levels of government: federal (CDBG, HOME, Brownfields), state (AHTF, HSF, MassWorks, MassHousing), and local (Housing Trust Funds, Inclusionary Development Funds). Each of these was obtained through a separate application process with its own timeline, eligibility requirements, and terms.

Third, the composition is not arbitrary. The Brownfields grant addresses site remediation costs specific to this location. The MassWorks infrastructure grant supports public improvements. The MassHousing workforce housing funds serve units for moderate-income households above the LIHTC income threshold. Each source was selected not just because money was needed, but because it matched a specific characteristic of the project.

After all public subsidies were applied, the remaining gap was reduced to \$2,900,000.

Step 5: The Deferred Developer Fee

The last piece of the puzzle was a deferred developer fee of \$2,900,000 — approximately 8% of total development cost. Rather than receiving this fee at closing, MPDC agreed to defer payment and have it repaid over time from project operating cash flow. This closed the last gap and made the project financeable.

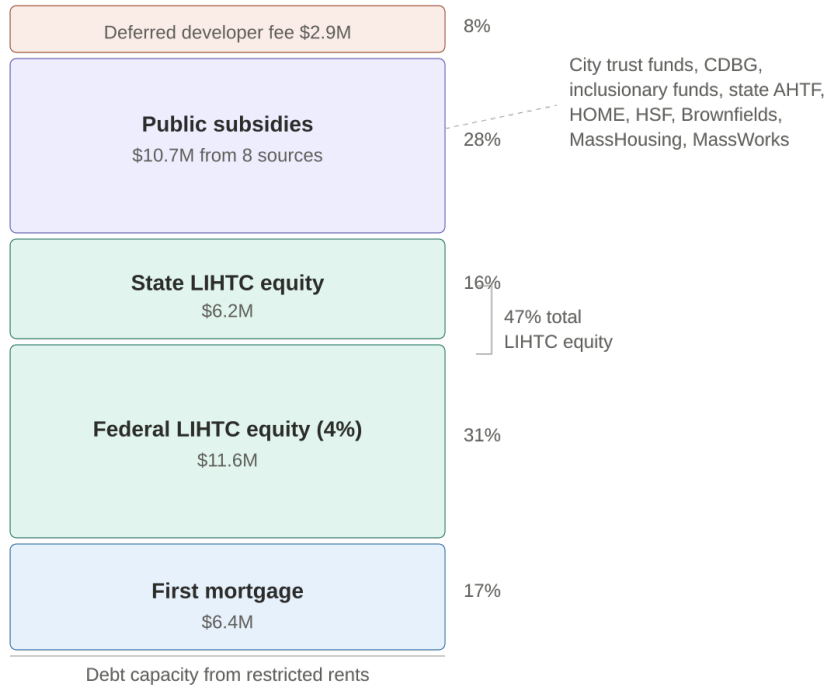
Deferred developer fees are common in affordable housing precisely because the gap that remains after assembling all other sources is often small enough to be covered this way — and because public funders view them as evidence of the developer's genuine commitment to the project's success.

The Complete Capital Stack

Funding Source	Amount	% of TDC
Permanent First Mortgage	\$6,400,000	17%
Federal LIHTC Equity (4%)	\$11,587,000	31%
Massachusetts State LIHTC Equity	\$6,178,000	16%
Capital Subsidies (Federal / State / Local)	\$10,700,000	28%
Deferred Developer Fee	\$2,900,000	8%
Total Development Cost	\$37,765,000	100%

Melnea Cass Apartments, Roxbury

76 units | Total development cost: \$37.8M



The completed capital stack for Melnea Cass reflects a project that required genuine complexity to make viable. Five distinct layers, each representing a different type of capital from a different source with different terms, assembled into a coherent whole. The developer, working over the course of several years, had to navigate applications, approvals, legal agreements, and closing conditions for each of these sources in sequence and in parallel.

This is what the capital stack looks like in practice. A layered, negotiated, multi-year process of translating public policy commitments into the built reality of 76 homes.

WHAT THIS CASE ILLUSTRATES

A single affordable housing project can require the developer to secure commitments from a dozen or more funders spanning federal agencies, state authorities, city offices, and private

investors, each with its own application, timeline, rules, and compliance requirements. The result, when successful, is housing that would otherwise never exist.

Conclusion

Affordable housing finance is one of the more demanding corners of public policy and real estate practice. The people who work in it well have typically spent years building their understanding through coursework, mentorship, and hands-on experience with real deals. There is no shortcut to that kind of depth.

But there is a significant difference between being new to the field and being lost in it. This paper has tried to close that gap, to give you enough of a framework that the conversations you enter, the documents you read, and the concepts you encounter will feel like a landscape you recognize rather than a maze you are wandering.

The core ideas are simple, even when the system is not. Housing costs the same to produce regardless of who will live in it. Affordable rents cannot support large loans. The gap between what affordable housing costs and what it can generate in debt capacity must be filled by an intentional combination of public subsidies, tax incentives, mission-driven capital, and developer contributions. That combination takes the form of a layered capital stack — often six to ten sources deep — each assembled through a separate process and governed by its own set of rules.

Understanding those layers, what they are, where they come from, who administers them, and what they require in return, is the substance of affordable housing finance expertise. This paper has introduced each layer at a conceptual level. The LIHTC, the primary workhorse of the system. Federal block grants like HOME and CDBG that provide flexible subsidy capital. Massachusetts state programs like the Affordable Housing Trust Fund and Housing Stabilization Fund that add depth and flexibility. Local sources like housing trust funds, linkage fees, and inclusionary zoning proceeds. Developer resources like deferred fees that demonstrate commitment and close final gaps.

The Melnea Cass Apartments brought all of these elements together in a real project with real numbers. It showed that even with strong tax credit equity covering nearly half the project cost, multiple additional layers were still necessary. It showed how the assembled funding reflects both the project's specific characteristics and the state and city's policy priorities. And it demonstrated what skilled affordable housing developers actually do: they are not simply builders or lenders; they are assemblers of complex, multi-sourced financing structures, all in service of housing that would not otherwise exist.

As mentioned in the beginning, this paper is a primer. There are so many factors of affordable housing that this paper does not touch - Development pro formas, operating budgets, and the discipline of underwriting a project's long-term financial sustainability. The world of project-based rental assistance and Housing Choice Vouchers, which operate on the demand side of the equation. The legal and compliance obligations that govern LIHTC projects for decades after they are built. The community engagement process and the political dynamics that shape what gets built where.^{xiv} Preservation finance and the challenge of maintaining the existing affordable housing stock. All of this lies ahead.

But I hope it lies ahead on a path that is now a little clearer. If you came to this paper feeling the way I felt in those first months, surrounded by unfamiliar vocabulary, trying to follow conversations already in progress, I hope it has helped. The mountain is still large. The starting point, at least, should feel firmer.

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