U.S. Department of Housing and Urban Development
HUD

Low Income Housing Tax Credit
Training 2010

1.- LIHTC Financing including overview of the Internal Revenue Service technical requirements and state pre requisites for 9% and 4% tax credits that are relevant to lenders and asset managers

Introduction to the federal LIHTC program

Legislative History

- Enacted under the Tax Reform Act of 1986
- Sec. 42 of the Internal Revenue Code (IRC)
- Guidance provided through Treasury Regulations, Rev. Rul., and Rev. Proc. promulgated by the Internal Revenue Service (IRS)
- Interpreted by subsequent case law brought in federal district courts and the United States Tax Court.

Underlying Purpose

To incentivize and leverage private-sector investment capital for the creation of rental housing units in each state affordable to households earning 60% or less of Area Median Income (AMI), thereby supplementing federal appropriations devoted to the production of public housing and rental housing assistance programs administered by the U.S. Department of Housing and Urban Development (HUD)

The 9% Tax Credit Program

- 9% of “eligible basis” allowed as a tax credit /year for 10 years

- ~ to 70% of “eligible basis” on a present value basis

- Min. Requirements
    - 20% @ $\leq$ 50% AMI or
    - 40% @ $\leq$ 60% AMI

- Fifteen (15) year tax credit initial compliance period

- Fifteen (15) year extended use period: 30 years of aggregate affordability

- Tax credit investors receive allocable share of all tax attributes (e.g. losses)

- Dire tax consequences (full recapture of tax benefits) for non-compliance

The 4% Tax Credit Program

- 4% of “eligible basis” allowed as a tax credit each year

- Ten (10) year period for application of tax credit

- Private-activity, tax-exempt bonds as well

- Tax credit investors also receive allocable share of all tax attributes, including losses

- Substantial tax consequences for non-compliance

Qualified Allocation Plans

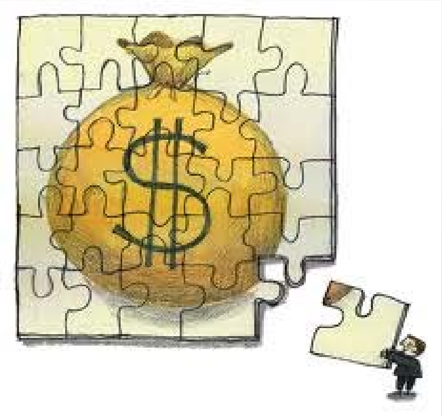
- 2010 allocations to states made on per capita basis
- For 9% tax credits $2.10 per capita (Rev. Proc. 2009-50)
- For private activity bonds, greater of $90 per capita or $273,775,000
- Qualified Allocation Plans (QAP) for 9% credits administered at state level
- 9% credits competitively awarded
- Private Activity Bonds generally awarded first-come, first-served
- QAP evaluation criteria, weighting, and process vary state-by state

Allocation Criteria (as allowed under Sec. 42(m)(2)(C))

- Project location
- Housing needs characteristics
- Project characteristics including use of existing housing per community
- Revitalization plan
- Sponsor characteristics
- Tenant populations with special housing needs
- Public housing waiting lists
- Tenant populations of individuals with children
- Projects intended for eventual tenant ownership
- The energy efficiency of the project
- The historic nature of the project.

Additional Allocation criteria may include:

- Serving the lowest income residents
- Serving qualified residents for the longest periods
- Location in qualified census tracts
- Participation of local tax-exempt organizations



2.- Typical LIHTC ownership structures and roles

LIHTC Ownership Structures and Roles

Parties to a Typical LIHTC Transaction and Project

- Project Sponsor (aka “the Developer”)
- Project Owner (aka “the Development Entity”)
- Tax Credit Investor (aka “the 99.99% Limited Partner”)
- Local Jurisdiction
- Allocating Agency
- Community Partners & Stakeholders
- Project Lender
- Other Funders (see section 8 subordinate public funding)

The Developer

- Generally - **not always** - an affordable housing developer
  - LIHTC program periodically attracts “converts”
  - May be:
    - “developer” in the classic sense
    - owner/operator
    - owner/builder/operator
  - Lives by two maxims:
    - minimize risk/maximize return
    - whenever possible, use OPM
    - LIHTC program satisfies both maxims

Understanding the mind-set of a typical developer

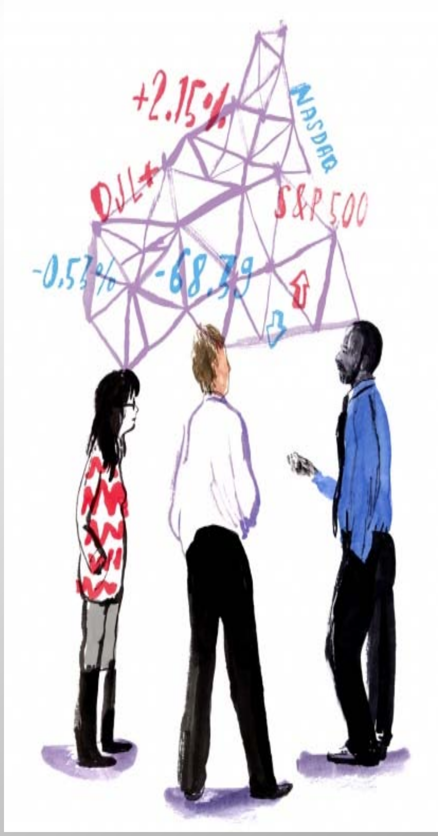
- A developer knows what it knows, and generally no more
- Classic “developer” may “understand land” but little else
- Apartment developer may be married to product type(s)
- Urban developer not same as suburban developer
- May have very limited geographic experience
- May be constrained by financing sources
- Compensation may come from different project phases
    - predevelopment/land disposition
    - construction
    - development fee
    - leasing commissions
    - management fees following completion/lease-up

The Project Owner

- “Development Entity” not the same as the Developer
- Must be a “pass-through” entity for federal tax purposes
- Generally a Limited Partnership (under state law)
- 99.99% limited partner (“LP”)interests
- 0.01% general partner interest
- General partner interests will be/include a Managing GP
- Developer generally insulated from direct liability
- Limited partners don’t participate in management

The Tax Credit Investor

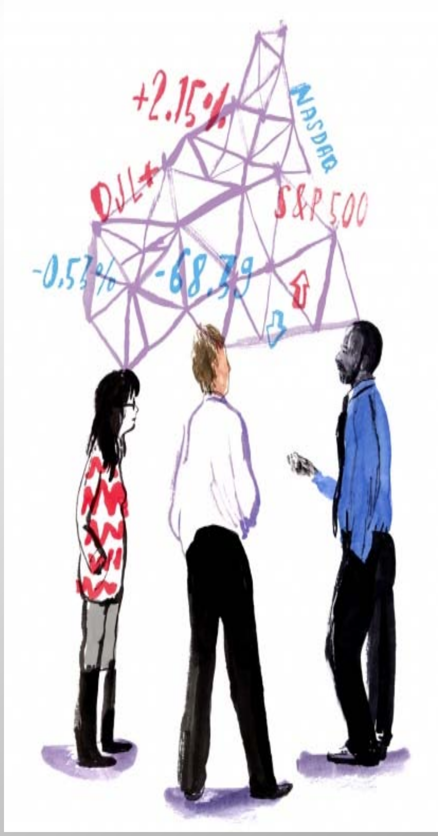
- Generally a large corporation or other taxable entity
- Credits rarely “syndicated” for sale to individual investors
- However, intermediaries still control majority of market
- “Buys” the tax credits by becoming the 99.99% LP
- Generally a “structured” investment composed of
    - Minimal up-front cash
    - Series of “Investor Notes”



The Tax Credit Investor

- Liability limited to:
  - Cumulative amount of cash plus notes
  - “Recapture” in event Ownership Entity deemed out of compliance
- Fannie and Freddie accounted for ~ 40% of LIHTC purchases when they exited the market

- Pricing a function of
  - Demand (# of active buyers in the marketplace)
  - Need to shelter corporate income



The Local Jurisdiction

- Land use authority over the Site and project approval

- May have available or access to local funding sources for affordable housing (e.g. an affordable housing trust fund)

- Must officially and in writing support the tax credit application

- May provide additional support through:
    - Land use variances allowing greater densities, etc.
    - Real property tax abatements
    - TIF or analogous deferral of local property taxes
    - Reduction/waiver of building permit fees

- May request/require that local housing priorities/preferences be honored

The Allocating Agency

- LIHTC is a federal benefit administered at the state level
- Each state has an “allocating” agency or authority (“AA”)
- Treasury makes annual per-capita allocations to each state
- AA’s “reserve” portions of annual allocations to projects
- Allocations are made on a competitive basis
- A Qualified Allocation Plan (“QAP”):
  - Is proposed and adopted each year
  - Sets forth the reservation process
  - Controls reservation awards through evaluation criteria

Community Partners & Stakeholders

- Public Housing Authority and/or Redevelopment Agency
- Neighborhood associations including/adjoining the Site
- Neighborhood or city wide tenant assistance organization
- CDC(s) and/or HOME CHDO
- Workforce Development Board
- Locally based employers
- Existing Urban Enterprise Zone ("UEZ")
-
- Business Improvement District ("BID")
- Chamber of Commerce

Project Lender

- Land acquisition and/or predevelopment funding
  - May be a form of bridge financing until LIHTC equity begins flowing to the Development Entity
  - May be "taken out" by construction lender

- Construction lender
  - New construction
  - Rehabilitation

- Permanent financing ("take-out lender")
  - Tax-exempt and/or taxable bonds may provide combined construction/permanent fin.

3.-Project Evaluation

A LIHTC project can be evaluated from a number of perspectives and for a number of purposes

Just because a particular project may meet technical requirements under IRC Sec. 42 doesn't necessarily mean that it should proceed. Because Sec. 42 is a limited resource that's competitively awarded by the Allocating Agency, and because LIHTC financing structures more often than not require other funding sources that have limited resources and are also in great demand, each proposed project should be subject to objective evaluation. Here are some potential areas of inquiry.

A LIHTC project can be evaluated from a number of perspectives and for a number of purposes

- Does it meet Local Housing Needs?
- How will it fare against the QAP Evaluation Criteria?
- Is it financially feasible (see sections 9 and 10, below)?
- Does it meet the Project Lender's underwriting criteria?
- Does it have the support of Community Stakeholders?
- How hard will it be to secure local approvals?
- Who will be served and at what AMI levels?

Does it meet Local Housing Needs?

- Jurisdictions receiving HUD funding, including annual CDBG funds, must file with and have approved by HUD a five-year Consolidated Plan (“CP”)

- The CP includes the community’s housing needs assessment

- Housing needs identified in the CP may include the needs of:
    - very low income households (“HH”), i.e. < 30% AMI
    - severely cost-burdened HH, i.e. > 50% housing cost
    - “under housed” HHs, i.e. addressing overcrowding
    - specific racial groups that may be with acute housing needs
    - elderly residents in the community
    - persons with disabilities

- With the enactment of the Quality Housing and Work Responsibility Act of 1998 (QHWRA), Public Housing Authorities were allowed to prioritize their efforts to meet the needs of eligible households identified in their community’s housing needs assessment, and serve households with incomes of up to 80% of Area Median Income (“AMI”).

How will it fare against the QAP Evaluation Criteria?

- QAPs are updated every year, through a public process, to make sure LIHTC reservations are serving the state's greatest needs

- QAP Evaluation Criteria are annually updated to prioritize reservations for projects that best meet those housing needs

- Evaluation Criteria may favor projects that provide:
  - More units than minimum LIHTC requirements ("wide")
  - HH with AMIs below LIHTC maximums ("deep")
  - Housing for HH with special needs
  - Housing for the elderly
  - Community impacts beyond their property lines
  - Specific features, such as on-site community centers
  - Unusual leveraging of private-sector and other funding sources

Is it financially feasible?

Because like all subsidies for affordable housing production and preservation, LIHTC is a limited annual resource, financial feasibility is an essential component of any project evaluation. Allocating agencies, in particular, need to make sure a competitively awarded LIHTC reservation is going to a project that will be financially viable throughout the project's use restriction period. Financial feasibility is specifically covered, in detail, in sections 9 and 10 of the training materials.

Does it meet the Project Lender's underwriting criteria?

- LIHTC equity is only expected to provide about 20% of Total Development Costs ("TDC")

- The balance of TDC needs to be funded with loans

- The largest portion of project debt will likely come from conventional financing sources (the "Project Lender")

- The Project Lender's underwriting criteria may include:
    - Insisting that the Developer have some "skin in the game," expressed as an investment = a specified % of TDC
    - Requiring that the operating pro forma (explained later) satisfies a required debt-service coverage ratio ("DSCR")
    - Requiring operating and capital reserves, respectively, that are shown in the pro forma to be funded consistently at specified levels
    - Limiting the amount of operating expense s allowed to be paid annually to the Developer and affiliated entities
    - Prioritizing expense payments so that the Developer and any affiliated entities are not paid before other expenses are paid to non-affiliated parties

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Does it have support from Community Stakeholders?

• Community Stakeholders can be either a user of housing subsidies, a source/funder of housing subsidies or both

• Community Stakeholders have specific client groups and constituencies that they serve

• Community Stakeholders tend to have very strong ties with:
  • Recognized community leaders
  • Local, state, and federal elected officials
  • Senior, mid-level, and line staff in the local government

Does it have support from Community Stakeholders?

- A powerful Community Stakeholder can make a project successful by supporting it
- A powerful Community Stakeholder can also kill a project by opposing it because:
  - The project takes resources away from their clients/constituents
  - The Developer has not supported the Community Stakeholder in the past
  - The Developer fails to involve the Community Stakeholder in "the process"
- First-time Developers in a community need to cultivate their relationships with Community Stakeholders well before reaching out for help with their Project

How hard will it be to secure local approvals?

- **Very few residential projects are planned and built "as a matter of right"**

- Local approvals for affordable rental housing will likely be needed for:
    - Necessary Master Plan changes
    - Required variances
    - Waivers/reductions in permit, building, and tap fees, if needed
    - Securing funding from local sources of affordable housing subsidies

- IRC Sec. 42 and every QAP requires, at a minimum:
    - A letter of support from the executive officer of the local jurisdiction or
    - A formal resolution of support from the local elected body

- No affordable housing project can be accomplished without local support

Who will be served and at what AMI levels?

- In addition to the various technical and other components of project evaluation focused on who will be served by a proposed project, and at what AMI levels, an independent evaluation is always worthwhile.

- While laudable in its goals, the HOPE VI program funded the demolition of thousands of public housing units without a one-for-one replacement requirement.

Who will be served and at what AMI levels?

- New mixed-income rental and for-sale units went up in their place. While producing the requisite positive community revitalization impact, as a consequence thousands of public housing units serving households with AMIs $\leq$ 30% have been lost.

- At the same time, thousands of units of previously subsidized rental properties have expiring use restrictions, as a time when the demand for market-rate rental housing is rising.

- However, serving households with lower AMIs is a double-edged sword, because it may put undue pressure on the operating pro forma, thereby requiring multiple layers of subsidy that complicate a project's financing.

4.-Income Restrictions

- Minimum Set Aside Elections

  - 20% of units at 50% of Area Median Gross Income (“AMGI”) = 20/50
  - 40% of units at 60% of AMGI – 40/60*

- AMGI figures published by HUD annually

- Set aside election made at placement in service using Form 8609

- Must meet minimum set aside by end of first year of credit period

* New York City Projects have special 25/60 set aside

What Is Tenant Income?

What Is Tenant Income?

- LIHTC tenant income determination falls under the definition of income and assets under Section 8 and HUD Handbook 4350.3

- Sample items included in annual income:
    - Gross wages/ salaries
    - welfare
    - social security
    - alimony and child support.

What Is Tenant Income?

- Sample items NOT included in annual income:
  - Student financial aid (if living with parents or over 23)
  - employment income of children under 18
  - insurance settlement

- Annual income = gross anticipated income annualized (12 months) determined by the property manager (non-recurring income not received for 12 months and unemployment NOT annualized)

Percentage Factors To Determine Max Income Levels For Various Household Sizes

Size of Household	50% AMGI	60% AMGI*
One Person	35%	42%
Two Persons	40%	48%
Three Persons	45%	54%
Four Persons	50%	60%

* Number is calculated by multiplying the 50% AMI for the same size household by 1.2

Calculation of Maximum Income Levels For Qualified Low Income Units
(Various Household Sizes)
Sample Median Income of $50,000 for ENTIRE SAMPLE AREA

	50 Percent of AMGI		60 Percent of AMGI	
Household Size	% Factor	Max Income	% Factor	Max Income
One Person	35%	$17,500	42%	$21,000
Two Persons	40%	$20,000	48%	$24,000
Three Persons	45%	$22,500	54%	$27,000
Four Persons	50%	$25,000	60%	$30,000

Tenant Income Change Example – 40% Allowable Increase

Income Increase

- Three person family
- Placed in service income limit in 2005 = $40,000
- Income limit in 2007 = $45,000
- Allowable income in 2007 and later = $63,000 (140% of $45,000)

Income Decrease*

- Household size reduced to two person family

- Adjusted income limit in 2007 = $40,000

- Allowable income in 2007 and later = $56,000 (140% of $40,000)

* Affects tenants initially occupying unit after decrease becomes effective. Those already occupying a unit are not affected (unless incomes rises to more than 40% of the decreased income limit).

Next Available Unit Rule

- If household income rises above 140 percent of income limit, still low-income unit as long as next available unit of comparable size or smaller is rented to an income qualified household

Other Items

Rent Restrictions

Rent Test and Definition

- Rent (including utilities) must not exceed 30% of qualified income for each family size (i.e.: bedrooms per unit)
- Gross rent not exceed 30% applicable income limit
- 20/50 set aside – 30% of 50% = 15%
- 40/60 set aside – 30% of 60% = 18%
- 30% limit - AMI, gross rent, tenant income
- Gross rent definition

Family size based on number of bedrooms per unit*

- Studio unit – 1 person
- One bedroom unit – 1.5 persons
- Two bedroom unit – 3 persons
- Three bedroom unit – 4.5 persons
- Four bedroom unit – 6 persons

*/ Occupancies could be slightly higher depending upon family compositions and number, ages, and gender of minor children, in accordance with HUD occupancy standards

Rent Calculation Sample

- Two bedroom unit – 3 persons (2BDx1.5)
- Minimum Set Aside – 40/60
- AMGI - $40,000 (FOR AREA)
- Three person max income level (54%) - $21,600

(This is provided in your source document)

- Income limit 30% - $6,500 (rounded to nearest $50)
- One month – 1/12
- Monthly rent - $542

Rent Rules

- Gross rent does not include Section 8 (and some other rent subsidies)
- Gross rent includes utility allowance for tenant paid utilities
- Rent limits change annually (as AMI's change)
- Rent cannot go below initial maximum rent level

Other Points

5. LIHTC Changes Made by the Housing and Economic Recovery Act of 2008 ("HERA 2008") and the American Recovery and Reinvestment Act of 2009 ("ARRA 2009")

Including the Tax Credit Assistance Program ("TCAP") and Exchanged Funding

HOUSING AND ECONOMIC RECOVERY ACT OF 2008

(HERA)

This law strengthens communities and neighborhoods strongly affected by foreclosures and its ramifications with $3.9 billion granted to the Community Block Grant Program involved with states and localities that allow for the rehabilitation of foreclosed properties and stabilization of the housing market. There are many provisions to this law, including the following:

- Grants states $11 billion of additional tax exempt bond authority in 2008 that they can use to refinance subprime loans, make loans to first time homebuyers and to finance the building of affordable rental housing.

- The bill creates a new permanent affordable housing trust fund, financed by Fannie Mae and Freddie Mac to fund the construction, maintenance and preservation of affordable rental housing for low and very low income individuals and families nationwide in both rural and urban areas.

- The legislation provides a temporary increase in the Low Income Housing Tax Credit and simplification of the credit to help put builders to work to create new options for families seeking affordable housing alternatives.

U.S. Department of Housing and Urban Development Notice CPD-09-03-REV

- Tax Credit Assistance Program (“TCAP”) requirements.
- submission requirements
- eligible uses of funds

- $2.250 billion of the American Recovery and Reinvestment Act of 2009 was appropriated to provide funds for capital investments in LIHTC Projects.

- HUD awarded TCAP grants by formula to State housing credit agencies to facilitate development of projects that received LIHTC awards between October 1, 2006 and September 30, 2009.

- Each State housing credit agency received funds based on the percentage of the FY 2008 HOME Program

- States are required to give priority to projects that will be completed by February 16, 2012.

HOME Program requirements and the Consolidated Planning Requirements in 24 CFR Part 91 **DO NOT APPLY** to TCAP funds.

State housing credit agencies were required to provide notice of interest within 30 days of the publication of the HUD Notice CPD-09-03. States that failed to respond were considered to have declined the funding.

When the State response did not include required information, or failed to provide the required information, funds were not awarded. Some of the requirements included:

1.- Statement of intent to accept TCAP funds

2.- Description of Competitive Selection Criteria

3.- Commitment and expenditure deadlines

4.- Recovery Act accountability and transparency requirements

5.- Additional elements (DUNS number/legally authorized representative/transmittal letter on State letterhead)

- HUD funded only State housing credit agencies that provided complete TCAP Submission Requirement packets.
- When HUD determined that the grantee’s TCAP submission was complete, HUD executed a grant agreement with the State housing credit agency.
- This agreement included all applicable requirements specific to the TCAP Program, federal grant requirements and reporting requirements.

“High Risk” agencies may have special conditions attached to the Grant agreement.

Tax Credit Assistance Program ("TCAP") Requirements

- With the exception of the environmental review, HOME statutory and regulatory requirements do not apply to TCAP funds.

- ARRA establishes certain requirements for the TCAP program that includes commitment and expenditures; transparency, and distribution of funds**. HUD Notice CPD-09-03 provides these requirements.**

Eligible grantees, projects and use of funds

Rental housing projects that received an award of LIHTCs and who reside in the 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

Eligible Projects

•State housing credit agency received an award of LIHTCs under Section 42(h) of the Internal Revenue Code of 1986, amen amended during the period of October 1, 2006 to September 20, 2009

•These projects require additional funding to be completed and placed in service in accordance with the requirements of Section 42 of the IRC.

• Eligible projects have been expanded to include projects that have or will receive an award of credits under section 1400N of the IRC (e.g. Gulf Opportunity Zone and Midwestern Disaster Area Housing Credits) during October 1, 2006 to September 30, 2009.

- Rental projects with LIHTCs that also receive Bond financing are eligible.

- State housing credit agencies must define “award of LIHTCs” and must uniformly applied to all LIHTC projects.

- State housing credit agencies may reduce the amount of credits originally awarded but the entire credit allocation may not be returned.

- The rental project must remain eligible and comply with other requirements of Section 42 during the compliance period and there must be equity investment(s) in the project for the credits.

Eligible uses of funds

➡ Must be used for capital investment

Capital investment costs that are included in the “eligible basis” defined in Section 42 of the IRC:

1.- Costs of land acquisition

2.- On site demolition costs

3.- Hazardous material remediation costs

- TCAP cannot be used for:

  1.- Swimming pools

  2.- Administrative costs of TCAP grantee Including cost of operating the program or monitoring compliance

TCAP assistance must be made in the same manner and subject to the same limitation(s) as required by state housing agencies (including rent, income, use restrictions and compliance monitoring when awarding LIHTCs (Section 42 of the IRC and implementing regulations) and all other requirements of the Act.

- The TCAP grantee must ensure enforcement of all LIHTC requirements by seeking specific performance.

- Grantees must repay TCAP funds that were used for Ineligible costs, or projects that were never completed, or failed to meet the Section 42 requirements. HUD requires the repayment of TCAP funds through the grantee’s TCAP Line of Credit and with procedures established by HUD.

- In the event of foreclosure, the grantee has no repayment obligations if the grantee was performing asset management and took reasonable actions to ensure compliance and long term viability of the project.

TCAP Fund Distribution

- TCAP funds are distributed based on the percentage of the FY 2008 HOME Program appropriation received by the state and local HOME participating jurisdictions.

- Once the grant agreement has been executed, the grantee may then proceed with the distribution of its TCAP funds in accordance with CPD Notice 09-03-REV and ARRA requirements.

- TCAP funds must be distributed competitively
- State housing credit agencies are not required to amend the Qualified Allocation Plan (QAP)
- If there are multiple housing credit agencies within the State, project may be selected pursuant to any housing credit agencies QAP
- TCAP grantees may sub-grant a portion of its TCAP grant to another housing credit agency in the state
- State housing agencies are required to give priority to eligible projects that are expected to be completed within three (3) years from the date of the Recovery Act (February 16, 2012) which is the main criteria in any TCAP competition
- With this as the main criteria, grantees are eligible to design their competitive process in the manner they feel is best and adopt any other selection criteria
- Grantees can decide to provide TCAP funds as a grant or loan
- Consideration should be given to how these decisions may affect its ability to meet the statutory deadlines for commitment and expenditure
- The state housing credit agency's selection process must be **transparent**

TCAP Commitment and Expenditure Deadlines

- State housing credit agencies were required to commit not less than 75%of its TCAP grant within on year of the enactment of the ARRA (by February 16, 2010)

- Demonstrate that all project owners have expended 75% of the TCAP funds within two (2) years of the enactment of ARRA (by February 16, 2011)

- Expend 100% of the TCAP grant within three (3) years of the enactment of ARRA (February 12, 2012)

- Grantees must track and report in the HUD IDIS regarding the progress in committing and expending TCAP funds

- Funds not expended by the end of the three year performance period will be recaptured by HUD

- ***EXPENDITURE*** is defined as a charge against the TCAP program funds account, which can be reported on a cash or accrual basis

- ***TCAP Funding Commitment*** is the date of the execution of the written agreement between the grantee and project owner that provides assistance to a project

TCAP Written Agreements and Disbursements

- ***TCAP Written Agreement*:** A legally binding written agreement executed between the grantee and each project owner that sets forth all of the TCAP program and crosscutting federal grant requirements applicable to the funding. This agreement must make the requirements enforceable through recordation of a restriction that is binding on all owners and successors (a covenant).
- Environmental clearance must be completed and the Request for Release of Funds (RROF) approved before the TCAP written agreement can be executed
- Grantees must retain written agreements and make them available for HUD review

- TCAP written agreements must be signed and dated by both parties before any TCAP funds are disbursed

- TCAP funds cannot be drawn from the U.S. Treasury in advance of the need to pay an eligible cost

- TCAP funds cannot be drawn from the U.S. Treasury and placed in escrow or advance in lump sums to project owners

- Within three (3) days after funds are drawn from the grantee’s U. S. Treasury account, they must be expended for an eligible TCAP cost

Program Income

- **Program Income** means gross income received by the grantee generated by the use of TCAP funds during the grant period. This can include: principal and interest from a loan made with TCAP funds, or other income or fees received from project owners in connection with TCAP funds, and interest earned by the grantee on program income before its disposition.

- Fees charged for LIHTCs are not TCAP program income; but incremental amounts added to these fees for TCAP projects are program income.

- Program income must be recorded by the grantee in HUD's Integrated Disbursement and Information System (IDIS) and be used according to TCAP requirements.

- Grantee must expend all program income for eligible TCAP costs before additional funds can be drawn down from U. S. Treasury.

- Grantees must monitor the amount of program income on a continuous basis, and constantly be aware of these amounts when assessing their progress towards meeting commitments and expenditure deadlines.

- Program income received after the end of the grant period must be used for development or operation of affordable housing for a period of not less than 15 years to households whose incomes do not exceed 80% of the median family income for the area.

There are extensive reporting requirements relating to accountability, transparency and reporting requirements. Please review HUD CPD Notice 09-03 for guidance.

Grantee must comply with:

• Fair Housing Act

• Title VI of the Civil Rights Act of 1964

• The Age Discrimination Act of 1975

• Affirmatively Furthering Fair Housing

• Section 504 of the Rehabilitation Act of 1973

• National Environmental Policy Act and Related Laws

• The Lead Based Paint Poisoning Prevention Act and the Residential Lead Based Paint Hazard Reduction Act of 1992

•Davis Bacon Prevailing Wages

•Anti-Lobbying Restrictions

•The Drug Free Workplace Act of 1988

•OMB Regulations and Circulars

TAX CREDIT EXCHANGE

TREASURY DEPARTMENT LOW INCOME HOUSING GRANTS IN LIEU OF TAX CREDITS (SECTION 1404 AND 1602)

- The Act would allow taxpayers to receive a grant from the Treasury Department in lieu of tax credits
- This provision allows for state housing agencies to receive a grant equal to up to 85% of 40% of the state's low income tax credit allocation in lieu of the low income housing tax credits they would have received
- These sub awards are subject to the same requirements (including rent, income and use restrictions on such buildings) as the low income housing tax credit allocations
- The grant program applies to each states' 2009 low income housing tax credit allocation

PROCEDURES FOR REQUESTS

- States housing credit agencies begin the process by completing an application
- The Treasury Department reviews applications for completeness and then sends a notice of award and a grant agreement
- The funds are similar to an entitlement and projects to be funded do not have to be specified
- When information becomes available (on the amount of credit returned and unused credit carryover), states can then submit subsequent applications

AVAILABLE FUNDING

- States are responsible for tracking amounts available and used

- States must disburse funds to sub awardees (project entities) within three (3) days of drawdown from Treasury

- Previous calculations relating to the amounts available included:

  a.-10 times 100% of its unused credit ceiling for 2008 (if any)

  b.-10 times 100% of the credit ceiling returned in 2009

  c.-10 times 40% of the 2009 new credit allocation

  d.-10 time 40% of unused housing credit carryover allocated to the state from the national pool

- Funds must be disbursed to project entities by December 31, 2010

- After Treasury has a grant agreement, it then makes funds available for agencies to draw down as needed to make sub awards

- When subsequent State applications are approved, this will in effect amend the grant agreement

- The agreement will allow States to transfer grant funds to other credit allocating agencies pursuant to a written agreement, but the initial State agency is responsible for all compliance matters

- 1602 grants are not taxable income to the recipients

6.- Intersection of Sect 42 & HUD Multifamily Programs

Section 8 Rental Assistance/LIHTC Rent

- Under Sec. 8 Program, tenant must pay rent = to 30% of income
- If tenant income rises to 75% AMI, rent charge rises to 30% of that 75% level
- New rent amount would be in violation of the LIHTC rent limits.
- Sec. 42 contains exception allowing tenant to pay rent in excess of allowable rent if tenant is required to do so under a housing subsidy program

Section 8 Rental Assistance/LIHTC Rent (cont'd)

Section 42 Exception Requirements:

- Excess gross rent over current rent limit must be due to tenant's income exceeding current income limit

- Federal rental assistance payment must be made to tenant or unit

- Sum of gross rent and rental assistance payment cannot exceed allowable amount (allowable amount is rental assistance payment and gross rent that would be payable if income was not over original income and unit was rent-restricted)

Section 8 and LIHTC Sample Conflict

CURRENT TAX CREDIT SCENARIO

Income Limit	Rent Limit
$22,000	$550

TENANT INCOME

2009 Income	$20,000
2010 Income	$24,000

TENANT PAYMEN/SECTION 8 PAYMENT

	Tenant Payment	Section 8 Payment
2009	$500	$250
2010	$600	$150

FHA Insurance

- Housing and Economic Recovery Act 2008
  (Housing Tax Credit Coordination Act 2008)

- Requirements affecting LIHTC properties

- Specific Items affecting timing issues of LIHTC project

  - Equity Required
  - Opening doors using master leases w/ FHA/LIHTC
  - Cost Certification
  - Eliminating Subsidy Layering
  - Later submissions – 2530s and Drawings/Specs

Reserve Requirements/Uses

Section 8 vs. State Agency

7.- Subsidy layering and other Federal Requirements

What is subsidy layering?

The federal tax credit is a creature of the Treasury Department, through the Internal Revenue Code. Low-income housing rental assistance is a function of HUD. Yet, HUD and Treasury regulations require that a project receiving the equivalent of a federal subsidy under IRC Sec. 42 not receive an extraordinary cumulative subsidy . The purpose of the subsidy layering review is to make sure the benefit to a particular LIHTC project is not overly magnified by other federal program subsidies made available and applied to that project. In July 2010 HUD issued new guidance on subsidy layering reviews, including who needs to conduct them and what the review requires.

Changes in the subsidy layering review procedure where Project-Base Vouchers ("PBV's") are combined with LIHTCs

- Who must conduct the Subsidy Layering Review?
    - Housing Credit Agency ("HCA")
    - Plus Public Housing Agency ("PHA") certification

- Two scenarios to which Guidelines apply:
    - HCA has performed review and considered impact of PBVs
    - HCA has performed review without considering PBVs impact

- How much federal subsidy is too much?
    - Debt service coverage ratio ("DSCR") > 1.10 but ≤ 1.45
    - 15-yr. projected net cash flow, after reserves, ≤ 10% of total expenses

8.- Public subordinate financing programs and lending structures; local real estate abatement

Very few LIHTC projects are viable with just the application of tax credit equity. These projects often require multiple layers of subsidy to be feasible.

- **Locally sourced/administered**, examples include
  - CDBG loans/grants for off-site public improvements
  - HOME Investment Partnership loans/grants
  - Locally funded housing trust funds (generally loans)

- **Federal Home Loan Bank** loans/grants

- **Federal Historic Tax Credits** (rehab of qualifying properties only)

- **Federal Energy Tax Credits** (limited to investments in qualified energy improvements)

- **State sourced/administered funds**, examples include:
  - CDBG loans/grants where project Site is not in a Participating Jurisdiction ("PJ")
  - HOME Investment Partnership loans/grants (for non-PJ Site)
  - State Housing Trust Funds

Property Tax Abatements

- A real property tax abatement means **no real property taxes are being assessed and collected** against the subject property.

- Consequently, local property taxes **do not appear as an operating expense** for the **duration of the abatement**.
-
- Typically, abatements are **phased out over time**.

- They remain at 100% (i.e. zero property taxes are assessed and collected) for a specified number of years

- In subsequent years real estate taxes are phased in over a specified number of years.

Example of 10-year real property tax abatement with 5-year phase-in of real property tax payments

Beginning	Appreciation	Adjusted	Mil Rate	Real Property	Abatement	Abated	Abated	Savings
Property Value	5%	Property Value	$2.268 per $1,000.00	Taxes Due	Percentage	Tax	Tax Payment	
$10,000,000			0.002268	$22,680	100%	$22,680	$0	$22,680
	$500,000	$10,500,000	0.002268	$23,814	100%	$23,814	$0	$23,814
	$525,000	$11,025,000	0.002268	$25,005	100%	$25,005	$0	$25,005
	$551,250	$11,576,250	0.002268	$26,255	100%	$26,255	$0	$26,255
	$578,813	$12,155,063	0.002268	$27,568	100%	$27,568	$0	$27,568
	$607,753	$12,762,816	0.002268	$28,946	80%	$23,157	$5,789	$23,157
	$638,141	$13,400,956	0.002268	$30,393	60%	$18,236	$12,157	$18,236
	$670,048	$14,071,004	0.002268	$31,913	40%	$12,765	$19,148	$12,765
	$703,550	$14,774,554	0.002268	$33,509	20%	$6,702	$26,807	$6,702
				$250,082		$186,181	$63,901	$186,181

9.- Financial feasibility issues, development deadlines and HUD's pro rata pay in requirements

What is financial feasibility?

- Every successful real estate development project begins with a **sound and thorough financial feasibility analysis**, including a pro forma Development Budget and Operating Budget (aka “cash-flow analysis”).
-
- The **Development Budget** presents the sources and uses of funds necessary to take the project from conception through to rent stabilization.

- The **Operating Budget** demonstrates the project’s ability to satisfy, on a monthly and annual basis, to cover all of its budgeted and foreseeable expenses; satisfy all reserve commitments and debt-service coverage ratios; and meet threshold return requirements of it’s investors, if necessary.

What is a Development Budget?

The Development Budget sets forth the **proposed sources and uses of funds for a project** (sometimes referred to specifically as the “Sources and Uses of Funds” or “Statement of Sources & Uses”), and may include the following **Sources**:

- Developer’s Equity Contribution
- A&D (acquisition and development) Loan Proceeds
- Construction Loan Proceeds
- Permanent Financing Proceeds
- Secondary Loan Proceeds
- Grants

What is a Development Budget?

The Development Budget may include among it's **Uses**:

- Land Acquisition
- Predevelopment Expenses
- Civil (aka "Horizontal")

Construction

- Vertical Construction
- Legal Expenses
- Marketing and Lease-Up
- Expenses
- Financing Fees
- Interest Expenses
- Developer Fee
- Contingency

Components of Predevelopment Expenses

- Civil engineering (site planning through mechanicals)
- Architectural services (schematic design through CDs)
- Market analysis
- Value engineering
- Legal services
- Accounting services
- Communications and marketing
- Application fees
- Graphic design and production
- Multimedia production
- Printing and duplication

Threshold Financial Feasibility Issues: Sources

- Do the Sources and Uses “balance out?”
- How firm are each of the Sources:
  - Are funds in place or subject to firm commitments?
  - Are any of the funds contingent?
  - What is the source and nature of Developer’s Equity?
- Does the Developer have site control?
- What is the status of the Developer’s due diligence?
- To what extent are the Sources competitively awarded?
- What are the obvious obstacles to the Project?

Threshold Financial Feasibility Issues: Uses

- How much **room for error** is there in the cumulative uses?

- With regard to Predevelopment Expenses:
  - Are all consultants "on board" with firm bids?
  - Are all areas of expertise covered in Predevelopment?
  - How does the timing of early Sources match up?

Threshold Financial Feasibility Issues: Uses (cont'd)

- With regard to vertical and horizontal construction costs:
  - What could come up in Predevelopment to alter these?
  - Is there sufficient contingency to cover unexpected costs?
  - What is the basis for each of Developer's assumptions?

- Are all financing costs accounted for/accurately estimated?
- Does Developer have a suitably robust marketing plan?
- Has Developer built in enough time for marketing/lease-up?

Financial feasibility issues: Development deadlines and development timeline

DEVELOPMENT PHASES

Conception	Predevelopment	Construction	Stabilization
Site Identification Community Outreach* Development Team Preliminary Program Schematic Design Land Use Analysis Site Control	Site Due Diligence DDs thru CDs Civil engineering Market Analysis Value Engineering Price and Bid CDs Site Acquisition	Execute G-MAX Contract Engage CM @ Risk Create “Necessary Entities” Horizontal Construction Vertical Construction Marketing and Pre-Leasing	Construction Close-Out Lease-up Property Management

Development Timeline

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
$	$$$	$$$$$$$$$$	$$$$$$$$$$
A&D Loan	Predevelopment Loan [Takes out A&D Loan]	Construction Loan(s) [Takes out Predevelopment Loan]	Permanent Financing [Takes out Construction Loan]

*/ Community outreach begins shortly after Site identification and continues through to Stabilization; possibly beyond to operations

CONCEPTUAL DEVELOPMENT PHASE

- The **initial phase** of every Project
- Developer is figuring out **what to do** and **where**
- Goal is to **preliminary identify** any **impediments** to proceeding with a Project
- Developer spends **as little money as possible**
- Any of a number of **obstacles may preclude Project** or make it infeasible.

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Lease-up
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Development Timeline

Conception	Predevelopment	Construction	Stabilization

Financing Timeline

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CONCEPTUAL DEVELOPMENT PHASE: Site Identification

- The "Subject Site" may already be owned or controlled by the Developer
- Opportunities to purchase land come to Developers in various ways
- The Developer may have relationships with one or more local brokers
- Developer may "stumble upon" a potential opportunity
- Developer may employ a formal Site selection process

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Development Timeline

Conception **Predevelopment** **Construction** **Stabilization**

Financing Timeline

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CONCEPTUAL DEVELOPMENT PHASE: Community Outreach

- **The "grapevine"** in many communities **works exceedingly well**
- The **Developer should not get out too far ahead** of the community
- Offending a **neighborhood association can kill a Project** before it's started
- **Timing is everything** when it comes to good P.R. so **engage early**
- **Frequent** and seemingly **transparent communications** are key, **except . . .**

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CONCEPTUAL DEVELOPMENT PHASE: Development Team

- **Tension** between **not spending any money** and **needing professionals**
- **Participation in Predevelopment** may require contribution of effort now
- **Schematic design** and **land use analysis** best performed by the pros
- **PR/Communications firm** may need to be **fully committed** at this stage
- **Discounting/deferral of professional fees** not uncommon at this stage

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Development Timeline

Conception | **Predevelopment** | **Construction** | **Stabilization**

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CONCEPTUAL DEVELOPMENT PHASE: Preliminary Program

- Represents Developer's **first attempt to project gross revenues**
- Requires **baseline assumptions regarding building type(s)**
- May be supported by **preliminary market survey of comps**
- Should also be **supported by Land Use Analysis**
- Establishes potential **scale of Project** and **rough estimate of costs**

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CONCEPTUAL DEVELOPMENT PHASE: Schematic Design

- **Generally prepared by architect or land planner** on Development Team
- May be prepared by **CAD operator or draftsperson** employed by Developer
- **Site Plan** showing building footprints , ingress/egress, parking, and open space
- May also include **elevations and character studies** (“eye candy”)
- Quality and depth of Schematic Design will depend on intended use

Conception

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CONCEPTUAL DEVELOPMENT PHASE: Land Use Analysis

- Prepared by **civil engineer, land planner** or **surveyor** on Development Team
- **Preliminary assessment** of Site conditions
- Limited to **what can be ascertained by visual inspection**
- What does **"walking the site"** tell an experienced professional
- May address **topography, drainage, environmental**, and **utilities** issues
- May also address issues relating to **surrounding land uses**

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CONCEPTUAL DEVELOPMENT PHASE: Site Control

- Conceptual Development Phase ends with **Go/No Go decision**
- **"No Go"** decision means **Developer walks away from minimal investment**
- **"Go"** means **securing Site Control**
- All inputs from Development Team plus **Developer's own analysis and gut**
- "Site Control" means a Developer has **unilateral right** to acquire the Site
- Site Control also gives Developer the **right to seek land use approvals**
- Generally secured through either **Option Contract** or **Purchase Agreement**

Development Timeline

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PREDEVELOPMENT PHASE

- The **real work** begins in the Predevelopment Phase
- The Developer will spend approximately **30% of TDC** in Predevelopment
- Predevelopment will determine **what should be built** and **whether it should**
- Predevelopment funds will only be **recovered out of Project financing**
- All **Project financing must be locked up** during Predevelopment

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Development Timeline

Conception | **Predevelopment** | **Construction** | **Stabilization**

Financing Timeline

$** | **$$$** | **$$$$$$$$$$** | **$$$$$$$$$$

A&D Loan

Predevelopment Loan
[Takes out A&D Loan]

Construction Loan(s)
[Takes out Predevelopment Loan]

Permanent Financing
[Takes out Construction Loan]

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PREDEVELOPMENT PHASE: Site Due Diligence

- Development Agreement good faith deposit tied to **due diligence period**
- Developer's obligation to purchase the Site **contingent** on due diligence
- Developer's right to inspect/review **all documents related to the Site**, e.g.
    - Appraisals
    - Environmental reviews
- Developer may also be allowed to seek **preliminary land use approvals**

Development Timeline

Conception

- Site Identification
- Community Outreach*
- Development Team
- Preliminary Program
- Schematic Design
- Land Use Analysis
- Site Control

$

A&D Loan

Predevelopment

- **Site Due Diligence**
- DDs thru CDs
- Civil engineering
- Market Analysis
- Value Engineering
- Price and Bid CDs
- Site Acquisition

$$$

Predevelopment Loan
[Takes out A&D Loan]

Construction

- Execute G-MAX Contract
- Engage CM @ Risk
- Create "Necessary Entities"
- Horizontal Construction
- Vertical Construction
- Marketing and Pre-Leasing

$$$$$$$$$$

Construction Loan(s)
[Takes out Predevelopment Loan]

Stabilization

- Construction Close-Out
- Lease-up
- Property Management

$$$$$$$$$$

Permanent Financing
[Takes out Construction Loan]

Financing Timeline

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PREDEVELOPMENT PHASE: DDs through CDs

- Design drawings (aka "Design Development") through construction docs (CDs)
- Most likely the **most expensive line-item** in the Predevelopment Budget
- Schematic design(s) fleshed out, with inputs from other professionals
- Iterative process between Market Analysis and Design Development
- Civil engineering planning also will impact Design Development
- Construction cost estimates of different product types also a factor during DD

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PREDEVELOPMENT PHASE: Civil Engineering

- The ability to build vertically is dependent upon **good “horizontal” design**
- Identifies the **optimal locations of building footprints** on the Site
- Full assessment of the **availability/capacity of all utilities** serving the Site
- Resolves issues regarding **topography** (e.g. slope) and **soils** (e.g. compaction)
- Addresses **edge conditions**, necessary **buffers**, and **environmental issues**
- Details how cars get **in-and-out**, **where they go**, and how they’re **parked**

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Development Timeline

Conception | **Predevelopment** | **Construction** | **Stabilization**

Financing Timeline

$ — **A&D Loan**

$$$ — **Predevelopment Loan** **[Takes out A&D Loan]**

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$$$$$$$$$$ — **Permanent Financing** **[Takes out Construction Loan]**

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PREDEVELOPMENT PHASE: Market Analysis

- Developer's **"seat of the pants"** approach **no longer applies**
- Identifies the **Market Area** and **comparables** for the Project
- Tax Credit Investor and Project lenders **require** competent Market Analysis
- **Product types** and **unit sizes, configurations, and amenities** explored fully
- **Depth and character** of **demand** also **assessed and quantified**
- **Absorption** of the completed units **at recommended prices** is projected

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Conception **Predevelopment** **Construction** **Stabilization**

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PREDEVELOPMENT PHASE: Value Engineering

- Generally performed by **independent value engineering (VE) consultant**
- **May start involvement** sometime during **Design Development** process
- Full review of **preliminary construction documents (CDs)**
- Review/recommendations include **optimal construction methods**
- **Costs/lead times** for all building components also analyzed
- VE's job is to **minimize construction costs and construction time**
- **Life cycle/durability issues** of all major components also included

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Development Timeline

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PREDEVELOPMENT PHASE: Price and Bid CDs

- The best way to secure **accurate construction pricing**
- Bidders will be **held to their bids** in the construction contract
- Solicitation and bid review process **may take 3-4 weeks**
- **Complete CD packages and a pre-bid conference are mandatory**
- **Integrity** of bid process/CD package will be issue for Construction Lender
- Goal is to enter into **GMAX (or GMP) contract** with successful bidder
- Successful bidder will **not necessarily** be the **lowest-priced bidder**

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PREDEVELOPMENT PHASE: Site Acquisition

- Site Control gave the Developer the **ability to proceed with Predevelopment**
- **Developer cannot proceed** to construction without acquiring the Site
- Developer **cannot** secure construction financing or enter into G-MAX contract
- Construction financing **will not cover 100% of TDC**
- **Developer will need to cover** extent TDC plus acquisition costs exceed loan
- **Bridge financing** may be used **to get Developer to permanent financing**

Conception	Predevelopment	Construction	Stabilization
Site Identification Community Outreach* Development Team Preliminary Program Schematic Design Land Use Analysis Site Control	Site Due Diligence DDs thru CDs Civil engineering Market Analysis Value Engineering Price and Bid CDs Site Acquisition	Execute G-MAX Contract Engage CM @ Risk Create "Necessary Entities" Horizontal Construction Vertical Construction Marketing and Pre-Leasing	Construction Close-Out Lease-up Property Management

Development Timeline

Conception **Predevelopment** **Construction** **Stabilization**

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
$	$$$	$$$$$$$$$	$$$$$$$$$$
A&D Loan	Predevelopment Loan [Takes out A&D Loan]	Construction Loan(s) [Takes out Predevelopment Loan]	Permanent Financing [Takes out Construction Loan]

*/ Community outreach begins shortly after Site identification and continues through to Stabilization; possibly beyond to operations

CONSTRUCTION PHASE

- A Project's **greatest amount of risk** is assumed during the Construction Phase
- The Construction Phase **requires diligent oversight** by the Developer
- The **integrity of the Change Order process** impacts final costs and timeline
- Similarly, the **Draw Request process must be followed strictly**
- Plenty of **opportunities for finger-pointing** but ultimately who pays for delays

Site Identification
Community Outreach*
Development Team
Preliminary Program
Schematic Design
Land Use Analysis
Site Control

Site Due Diligence
DDs thru CDs
Civil engineering
Market Analysis
Value Engineering
Price and Bid CDs
Site Acquisition

Execute G-MAX Contract
Engage CM @ Risk
Create "Necessary Entities"
Horizontal Construction
Vertical Construction
Marketing and Pre-Leasing

Construction Close-Out
Lease-up
Property Management

Development Timeline

Conception | **Predevelopment** | **Construction** | **Stabilization**

Financing Timeline

$ — **A&D Loan**

$$$ — **Predevelopment Loan** **[Takes out A&D Loan]**

$$$$$$$$$$ — **Construction Loan(s)** **[Takes out Predevelopment Loan]**

$$$$$$$$$$ — **Permanent Financing** **[Takes out Construction Loan]**

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CONSTRUCTION PHASE: Execute G-MAX Contract

- The G-MAX or GMP is a **guaranteed maximum price construction contract**
- The G-MAX contract can be a **very effective tool for controlling costs**
- Must address the **Draw Request Schedule /protocol** in construction loan
- Construction financing **will not cover 100% of TDC**
- **Change Order process** must also be well-defined and honored throughout
- Effectiveness of G-MAX premised on **quality of CDs and engineering plans**

Conception	Predevelopment	Construction	Stabilization
Site Identification	Site Due Diligence	**Execute G-MAX Contract**	Construction Close-Out
Community Outreach*	DDs thru CDs	Engage CM @ Risk	Lease-up
Development Team	Civil engineering	Create "Necessary Entities"	Property Management
Preliminary Program	Market Analysis	Horizontal Construction	
Schematic Design	Value Engineering	Vertical Construction	
Land Use Analysis	Price and Bid CDs	Marketing and Pre-Leasing	
Site Control	Site Acquisition		

Development Timeline

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
$	$$$	$$$$$$$$$$	$$$$$$$$$$
A&D Loan	Predevelopment Loan [Takes out A&D Loan]	Construction Loan(s) [Takes out Predevelopment Loan]	Permanent Financing [Takes out Construction Loan]

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CONSTRUCTION PHASE: Engage CM @ Risk

- Most Developers aren't "fully integrated"; **many lack construction managers**
- Land development, planning, and financing **may be the extent of expertise**
- Hiring a Construction Manager or a "CM @ Risk" has become **common practice**
- CM @ Risk affords Developer an **additional layer of protection**
- **Lender's monitor** on Construction Draw Schedule **may have similar skill**
- Effectiveness of G-MAX premised on **quality of CDs and engineering plans**

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Development Timeline

Conception	Predevelopment	Construction	Stabilization

Financing Timeline

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CONSTRUCTION PHASE: Create "Necessary Entities"

- Most state laws allow for creation of **private improvements districts ("PID")**
- **In Colorado** these are called "Metro Districts"
- These help **large-scale Projects** with **intensive infrastructure needs**
- PID's are **time-intensive, costly,** and **require** some type of **public approval**
- The lead time involved **needs to be addressed ahead of time**
- Potential **priorities conflicts** between lenders **need to be addressed early**

Conception	Predevelopment	Construction	Stabilization
Site Identification	Site Due Diligence	Execute G-MAX Contract	Construction Close-Out
Community Outreach*	DDs thru CDs	Engage CM @ Risk	Lease-up
Development Team	Civil engineering	**Create "Necessary Entities"**	Property Management
Preliminary Program	Market Analysis	Horizontal Construction	
Schematic Design	Value Engineering	Vertical Construction	
Land Use Analysis	Price and Bid CDs	Marketing and Pre-Leasing	
Site Control	Site Acquisition		

Development Timeline

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
$	$$$	$$$$$$$$$	$$$$$$$$$$
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CONSTRUCTION PHASE: Horizontal Construction

- Not as "sexy" as vertical construction but **arguably more important**
- Creates **critical path, phasing, and other timing issues** affecting vertical
- Many horizontal requirements will be **much more costly if phased**
- **Mass-x, cut-and-fill, general grading, and grading for streets**, etc.
- **Trenching for and installing all on-site utilities; off-site hook-ups**
- **Streets, curbs, gutters, sidewalks, and paths**

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Development Timeline

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
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CONSTRUCTION PHASE: Vertical Construction

- **Phasing completion of buildings** will help pro forma
- **Horizontal construction** needs to be **carefully phased** to accommodate
- Draw Request Schedule and reviews/approvals **should be strictly followed**
- Change Orders **can kill schedule** even if Developer is not responsible for cost
- **Change Order process** must also be well-defined and honored throughout

Conception	Predevelopment	Construction	Stabilization
Site Identification	Site Due Diligence	Execute G-MAX Contract	Construction Close-Out
Community Outreach*	DDs thru CDs	Engage CM @ Risk	Lease-up
Development Team	Civil engineering	Create "Necessary Entities"	Property Management
Preliminary Program	Market Analysis	Horizontal Construction	
Schematic Design	Value Engineering	**Vertical Construction**	
Land Use Analysis	Price and Bid CDs	Marketing and Pre-Leasing	
Site Control	Site Acquisition		

Development Timeline

Conception — **Predevelopment** — **Construction** — **Stabilization**

Financing Timeline

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A&D Loan	Predevelopment Loan [Takes out A&D Loan]	Construction Loan(s) [Takes out Predevelopment Loan]	Permanent Financing [Takes out Construction Loan]

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CONSTRUCTION PHASE: Marketing and Pre-Leasing

- **Very different approaches** for all market, mixed-income, and all affordable
- Lead times **dictated by expiring lease obligations** of renters looking to move
- Generally performed by a **company specializing in marketing and leasing**
- Company **may also transition into Property Management** if skill set is there
- **Construction lender will be keenly interested in monitoring this**

Conception	Predevelopment	Construction	Stabilization
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Development Team	Civil engineering	Create "Necessary Entities"	Property Management
Preliminary Program	Market Analysis	Horizontal Construction	
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Land Use Analysis	Price and Bid CDs	**Marketing and Pre-Leasing**	
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Development Timeline

Conception | **Predevelopment** | **Construction** | **Stabilization**

Financing Timeline

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CLOSE-OUT & STABILIZATION PHASE

- Transition **from "development" to "operations"**
- **Unresolved development problems** will spill over into operations
- **The devil is in the details**: GC must be required to deliver a completed building
- **Interest on the Construction Loan** continues to accrue until it's taken down
- The Property Manager's first test: **Moving in all the new tenants**

Conception	Predevelopment	Construction	Stabilization
Site Identification	Site Due Diligence	Execute G-MAX Contract	Construction Close-Out
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Development Team	Civil engineering	Create "Necessary Entities"	Property Management
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Development Timeline

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
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CLOSE-OUT AND STABILIZATION: Construction Close-Out

- Depends upon how GC, CM @ Risk and Lender performed their jobs
- Punch list items should be minimal if everyone has performed
- GC is seeking Final Draw plus Retainage when due
- G-MAX contract may provide to funded escrow for any warranty items
- Issuance of **Certificates of Occupancy (COs)** should be **triggering event**

Conception	Predevelopment	Construction	Stabilization
Site Identification	Site Due Diligence	Execute G-MAX Contract	**Construction Close-Out**
Community Outreach*	DDs thru CDs	Engage CM @ Risk	Lease-up
Development Team	Civil engineering	Create "Necessary Entities"	Property Management
Preliminary Program	Market Analysis	Horizontal Construction	
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Development Timeline

Conception | **Predevelopment** | **Construction** | **Stabilization**

Financing Timeline

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CLOSE-OUT AND STABILIZATION: Lease-Up

- If all the stars have aligned, new residents **should be ready to move in**
- Depending upon size of project, occupancy could take several months
- New tenants have different start dates due to **existing lease commitments**
- CO is required in advance of any unit being occupied

Development Timeline

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Financing Timeline

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CLOSE-OUT AND STABILIZATION: Property Management

- Property Manager will have been **part of the Development Team for a while**
- **Transition to property management** should be seamless but not always
- If different from Marketing /Leasing firm, **coordination will be key**
- Property Management is **key to the revenue stream**
- Property management also **key to containing annual operating expenses**
- Effectiveness of G-MAX premised on **quality of CDs and engineering plans**

Conception	Predevelopment	Construction	Stabilization
Site Identification **Community Outreach*** **Development Team** **Preliminary Program** **Schematic Design** **Land Use Analysis** **Site Control**	**Site Due Diligence** **DDs thru CDs** **Civil engineering** **Market Analysis** **Value Engineering** **Price and Bid CDs** **Site Acquisition**	**Execute G-MAX Contract** **Engage CM @ Risk** **Create "Necessary Entities"** **Horizontal Construction** **Vertical Construction** **Marketing and Pre-Leasing**	**Construction Close-Out** **Lease-up** **Property Management**

Development Timeline

Financing Timeline

Conception	Predevelopment	Construction	Stabilization
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HUD’s pro rata pay in requirements

Project Rental Assistance Contracts (PRAC)

•PRAC funds operating costs approved by HUD with respect to Section 202 or 811 units to the extent not covered by tenant rents.

•Project rental assistance cannot be used to pay for debt service on financing, cash flow distributions to owners, or the creation of reserves for no assisted units.

•Project rental assistance may pay for HUD approved operating costs for common areas or the development as a whole, such as grounds keeping and administrative costs/*on a pro rata basis based upon the percentage of* ***assisted units in the development****.*

•PRACs are provided up to five years and are renewable based upon the availability of funds.

10. - Development issues that are particular to LIHTC Projects, particularly timeline issues, development deadlines and HUD'S Pro rate pay in requirements

LIHTC-Specific Development Issues:
Feasibility, development timeline, and deadline issues

How Does LIHTC Financing Change the Development Process?

- The use of LIHTC financing in an affordable housing project changes **many aspects** of the development process and structure when compared with a garden-variety multifamily project.

- These changes include the following:

  - The nature of the equity changes;
  - Projected gross revenues are constrained;
  - Product types and mix must meet IRC Sec. 42 & QAP requirements;
  - Changes in occupancies may affect more than only cash-flow;
  - Positioning the Project in the marketplace will be different
  - Marketing and Leasing will be similarly affected;
  - The Property Management is different; and
  - The Operating Budget must account for annual monitoring costs and investor oversight fees, among others.

What underwriting/feasibility issues are presented by LIHTC financing?

- How will any per-project reservation caps under the QAP impact project sizing?

- Will QAP annual reservation caps require the Developer to finance the Project in phases that lead to inefficiencies or otherwise run contrary to other Project fundamentals?

- Will mixing LIHTC units with market-rate units impact negatively the marketing and lease-up/occupancy of the market-rate units?

- Will the timing of the actual LIHTC investments over time (i.e. initial cash plus Investor Notes) satisfy the lender's LTV ("Loan to Value") requirements for:
    - construction financing?
    - permanent financing?

What underwriting/feasibility issues are presented by LIHTC financing?

- How will qualifying rents under Sec. 42 match up with Lender's DSCR?

- How do the timelines and critical paths for the following match up:
  - locking in Project debt (i.e., securing an advance commitment; at what cost);
  - applying for and securing an award of LIHTC does
  - Securing Site control

- Does the QAP require a firm commitment letter for project financing, which financing is, in turn, contingent upon the reservation award?

Underwriting/feasibility issues peculiar to LIHTC financing: Per-project QAP reservation caps and project sizing

- In order to make their annual Treasury LIHTC allocation go as far as possible each year, QAPs have started to limit that maximum amount of reservation any one applicant and Project can receive.

- In higher cost areas (particular large urban markets) and for Projects that need to take advantage of economies of scale to achieve affordability, these per-project reservation caps may be difficult to address

- **HYPOTHETICAL EXAMPLE NO. 1:**
    - The QAP for State A limits reservations of the 9% LIHTC to $1.5 million
    - 20% of Developer X's Project's TDC ("Total Development Cost") are "ineligible costs" for LIHTC calculation purposes
    - The Project is for multi-family family rentals
    - Each dwelling unit ("DU") in the multi-family ("MF") Project is 1,200 square feet (sq. ft.) with three bedrooms and two full baths (a 3BR/2BA)
    - Vertical construction costs are $100.00/sq. ft.
    - Horizontal construction costs are 20% of vertical construction costs, or $20/sq. ft.
    - The "fully loaded" cost of a 1,200 sq. ft. 3BR/2BA MF DU = $155.00 per square foot or $186,000
    - Therefore, the maximum reservation under the cap would support only ten (10) such units

- **HYPOTHETICAL EXAMPLE NO. 2:**
  - Developer Y is seeking a LIHTC financing for a Project with a TDC = $10,000,000
  - Developer Y believes that, through economies of scale and other efficiencies, these units can be delivered at a fully loaded cost of $100,000 each
  - If built, Developer X's Project will house 100 income-eligible households of four to six people
  - 20% of Developer Y's Project's TDC ("Total Development Cost") are "ineligible costs" for LIHTC calculation purposes
  - The $8,000,000 in eligible basis will yield $5,600,000 in actual tax credits
    - $8,000,000 in eligible basis
    - times the 9% "present value" of 70%
  - In the current market Developer A can secure an equity investment of $3,780,000:
  - $5,600,000 in actual LIHTC value using 70% of present value
  - Pricing of $0.68 for every $1.00 of tax credits received
  - The scale of Developer Y's project is far too large because of the $1.5 million reservation cap under State A's QAP; Developer Y would need to secure four year's of reservations at the cap

Underwriting/feasibility issues peculiar to LIHTC financing: Constraints on projected gross revenue

- In a market-rate multifamily project, the asking rents are constrained only by market forces:
    - asking rents at comparable properties
    - for similar sized units
    - with comparable amenities
    - located within the subject properties Market Area

- A LIHTC property is constrained by the rents that may be charged:
    - 20% of the units must be affordable to HH $\leq$ 50% of AMI or
    - 40% of the units must be affordable to HH $\leq$ 60% of AMI

•Assuming that a unit would be affordable to a HH earning 100% of AMI at $1.50/sq. ft., then the LIHTC-eligible rents for the unit described in Hypothetical Example No. 1, above, would be as follows:

- $900/mo. for HH $\leq$ 50% AMI
    - (1,200 sq. ft X $1.50/sq. ft.) x 50%
- $1,080/mo. For HH $\leq$ 60% AMI
    - (1,200 sq. ft X $1.50/sq. ft.) x 60%

- These constrained rents may not be sufficient to cover debt service, operating expenses, required reserves, etc.

Underwriting/feasibility issues peculiar to LIHTC financing:
Changes in the vacancy rate may have more broad-reaching implications

- If a LIHTC unit becomes vacant, it can only be rented to another income eligible tenant

- Although LIHTC projects may have “floating units” it is still not possible to take a unit out of the LIHTC “pool” in order to rent it to a non-income eligible tenant (assuming the Project is not 100% income-eligible

- This means that the Property Manager needs to be diligent in creating and managing a waiting list for income-eligible tenants, so that LIHTC units do not go begging for tenants

Underwriting/feasibility issues peculiar to LIHTC financing: How will the LIHTC Project be "positioned" in it's Market Area

- In past years, many LIHTC were 100% income eligible because:
  - The pricing of tax credits was \$0.95--\$1.05 for every \$1.00 of tax credit
  - Eligible basis, and the total amount of the reservation, are determined by the total number of income-eligible units
  - The actual dollar value of the tax credit equity in the Sources and Uses more than made up for the constraints of the income-eligible rents.

- In today's market, tax credits are pricing in the \$0.65--\$0.72 for every \$1.00 of tax credit

Underwriting/feasibility issues peculiar to LIHTC financing: How will the LIHTC Project be “positioned” in it’s Market Area

- Under many QAPs, the annual amount of reservation is capped, precluding a 100% LIHTC-eligible project

- A project meeting the minimum Sec. 42 requirements would yield the following alternative mixes of units and incomes:
    - 20% of units ≤ 50% AMI; 80% of units @ market rent
    - 40% of units < 50% AMI; 60% of units @ market rent

- Prospective, non-income-eligible tenants seeking rental units in the Project’s Market Area may not be comfortable renting in a mixed-income development if there are 100% market-rate apartments in the Market Area at similar rents.

Underwriting/feasibility issues peculiar to LIHTC financing:
Marketing and Leasing may be affected by the Project's "market position"

- Marketing and leasing of a mixed-income project is very different from what is required to lease-up either a 100% income-eligible property or a 100% market-rate property.

- If the Market Area includes comparable properties that are 100% market-rate, the mixed-income Project may have to offer a 10%--20% reduction in the market rent to attract market-rate tenants

- Issues regarding market perception and how to position a mixed-income property should be addressed very early in the Conceptual Development Phase, so that product types and typical community amenities in the comparable 100% market-rate properties can be fully identified, evaluated, and assessed

Underwriting/feasibility issues peculiar to LIHTC financing:
Marketing and Leasing may be affected by the Project's "market position"

- Sometimes, unique characteristics and/or upgraded community amenities can overcome negative market perceptions of a mixed-income Project, including but not limited to:
  - A distinct locational advantage, such as proximity to a central business district, shopping, or mass transit or multi-modal station
  - upgraded community amenities on or adjacent to the Project, such as
    - a full-service community center
    - membership in an adjoining or nearby health club
    - covered/structured parking in a Market Area where all vehicles are limited to surface parking
    - concierge services
    - dry cleaner, consumer banking, and/or other similar convenience services offered on-site

Underwriting/feasibility issues peculiar to LIHTC financing: Property Management for a LIHTC requires a different skill set

• The **potential adverse consequences** of having a LIHTC Project go "out of compliance" at any time during the 10-year tax credit compliance period are **extremely severe**

• Proper qualification of eligible tenants during lease-up and re-leasing, and meeting the annual income certification requirements, should be **paramount responsibilities** for the Property Management team.

•There is no responsibility more important than keeping the project in compliance at all times. All other aspects of property management should be essentially the same as for a market-rate property.

Underwriting/feasibility issues peculiar to LIHTC financing:
The Operating Budget for a LIHTC Project will have some additional expenses

- In identifying and selecting a Property Management team (which may occur as early as the Conceptual Development Phase or as late as during the last twelve months of the Construction Phase) the Developer should seek prospects that already have experience managing LIHTC and/or other income eligible properties.

- Management fees may be somewhat higher for qualified companies with this experience.

Underwriting/feasibility issues peculiar to LIHTC financing:
The Operating Budget for a LIHTC Project will have some additional expenses

- Additionally, the LIHTC investor will likely be represented by a broker or syndicator, which will be entitled to an annual “monitoring fee” to be included in the Operating Budget.

- Unique or unusual Project amenities that may be dictated by the Marketing Plan or the QAP may entail operating expenses not ordinarily incurred by similar types of rental properties, and these also need to be addressed in the Operating Budget assumptions and the appropriate expense line-items.

CONCEPTUAL DEVELOPMENT PHASE

Site Selection
Community Outreach*
Development Team
Preliminary Program
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Although the Conceptual Development Phase is, by definition, "very early" in the process, the Developer needs to have an idea as to whether the contemplated project will or might be financed with LIHTC. Among other things, any goodwill that might be gained through an early and effective Community Outreach campaign will be completely undone if only after Predevelopment has started is the Project described as "as tax credit Project."

Development Timeline

Conception

Financing Timeline

$

A&D Loan

Not only does securing a LIHTC reservation take a lot of advance planning but there's a set schedule for submitting applications. Some allocating agencies, such as DHCD in Maryland, offer quarterly reservations, but many have an annual process. Also, QAP Evaluation Criteria may include programmatic requirements and/or recommendations.

*/ Community outreach begins shortly after Site identification and continues through to Stabilization; possibly beyond to operations

PREDEVELOPMENT PHASE

Site Selection
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Site Due Diligence
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Civil engineering
Market Analysis
Value Engineering
Price and Bid CDs
Site Acquisition

The Developer will not be eligible to apply for a LIHTC reservations until it can demonstrate site control. However, there are a number of other tasks and steps that are prerequisite to a LIHTC application. Among those that would occur during Predevelopment are securing a conforming market study from a qualified firm (most allocating agencies maintain “pre-approved” provider lists) and securing official for the Project from the local jurisdiction.

Development Timeline

Conception

Predevelopment

Financing Timeline

$
A&D Loan

$$$
Predevelopment Loan
[Takes out A&D Loan]

It is highly unlikely that the Developer will have a reservation, much less have closed on the LIHTC financing, at any time during Predevelopment. Consequently, the Developer will still have to rely upon some combination of it’s own capital plus a Predevelopment Loan to fund Predevelopment Costs, which may represent as much as 30% of the Project’s projected TDC.

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THE CONSTRUCTION PHASE

So long as the Construction Lender has agreed to make the Construction Loan to the Development Entity (in which the LIHTC Investor will be the 99.99% Limited Partner), the LIHTC Investor should be insulated from liabilities for construction risks that exceed the full amount of the LIHTC Investor's investment in the Development Entity. However, since the LIHTC Investor receives no tax benefits until the Project is "placed in service," there are timing risks involved.

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Create "Necessary Entities"
Horizontal Construction
Vertical Construction
Marketing and Pre-Leasing

Development Timeline

Conception | Predevelopment | Construction

Financing Timeline

$
A&D Loan

$$$
Predevelopment Loan
[Takes out A&D Loan]

$$$$$$$$$$
Construction Loan(s)
[Takes out Predev. Loan]

Unless the Developer plans to put up it's own capital or rely on some type of bridge financing for the LIHTC investment, the LIHTC investment will need to be in place prior to closing on the Construction Loan to be taken into account for LTV purposes.

*/ Community outreach begins shortly after Site identification and continues through to Stabilization; possibly beyond to operations

CLOSE-OUT & RENT STABILIZATION PHASE

Because the focus of the LIHTC Investor will always be on getting the maximum tax advantage from the Project's tax credits and losses while minimizing it's annual cash investment (hence, the Investor Notes), the LIHTC Investor may insist that it not go to closing until the closing for the permanent financing or, at a minimum, in the same year in which the Project will be "placed in service."

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Property Management

Development Timeline

Conception | Predevelopment | Stabilization

Financing Timeline

$ — A&D Loan

$$$ — Predevelopment Loan [Takes out A&D Loan]

$$$$$$$$$$ — Construction Loan(s) [Takes out Predevelopment Loan]

$$$$$$$$$$ — Permanent Financing [Takes out Construction Loan]

*/ Community outreach begins shortly after Site identification and continues through to Stabilization; possibly beyond to operations

HUD'S PRO RATA PAY IN REQUIREMENTS

- Relocation (Requirements, public comment, notice content, delivery, communication/translations, costs, timeliness, assignments and implementation)

- Management Plan Updates relating to development (criteria, waiting lists (local preferences/maintenance/selection process), credit checks, disabled units, transfers

- Income and rent definitions/concerns/changes in family composition; verification procedures, staffing, assignment of units

- Leases

- Site conditions

- Inspections

- Family briefings prior to move ins

- NIMBY

11.- Asset Management/Property Management Issues – LIHTC Properties (Compliance Focus)

Asset Management Issues Particular to Compliance

- Overcharging rent
- Allowing over income tenant
- Not adhering to minimum set aside
- Not certifying or re-certifying a tenant
- Improper record keeping
- Poor physical conditions (occupancy standards/health and safety)
- Other issues

Compliance

All compliance information should be verified with specific regulatory documents and a certified compliance specialist (For summary and highlight purposes only)

IRS Form 8609

- Certification to IRS making elections for each building
- Tax return due date (1st taxable year of credit period)
- Election examples
  - Qualified/eligible basis
  - Minimum set aside
  - Begin credit period 1st year after placed in service
  - Others
- Each building - Building identification number ("BIN")
- Cannot claim credits without 8609

State Agencies/8823's

- State agencies monitor compliance per IRS Code
- Unit inspections, income limits, health/safety, rent/income limits, tenant file review
- Desk audit or site visit
- State agency report shows noncompliance, owner must respond within 90 days, issues addressed or provide clarification
- Six month correction time (with agency approval)
- 8823 form filed with IRS (even if noncompliance corrected)
- Letter from IRS to owner
- Once resolved, state agency files 8823 form

Income Certifications

- Tenant Income Certification
  - Standardized income certification completed AFTER all income & assets verified (3rd party)
  - All over 18 as of effective date must sign
  - Property manager signs/dates

- Initial Income Certification
  - All backup documentation obtained and dated on or before lease start date (no more than 120 days prior)
  - Signed and date on lease start date
  - Cannot occupy unit until complete

Tenant Income Recertification

- Tenant income certified annually
- Income, asset income verified again
- State agency review
- Exceptions/Waivers – Rural Housing, Tax-exempt bonds, 100% low income
- No recertification or late, out of compliance

Records (Tenant Files)

- Records required for qualified low income buildings
  - Number of units (% of low income)
  - Number of tenants in unit
  - Rent charged
  - Low income vacancies
  - Income certifications (backup documentation)
  - Eligible basis/qualified basis
  - Non residential area info/common areas

- 1st year files – Retain 21 years after tax return filing due date (of 1st year of credit period)

Occupancy

- Suitable conditions
- Local health, safety, building codes/HUD uniform physical condition standards
- State agency inspections (once every 3 years, 20% of units, all buildings)
- Manager’s unit

Other Asset Management/Property Management Issues – LIHTC Properties

Market Rent Issue

- Market rents well above LIHTC – good
- Market rents below LIHTC – NOT good
- More competition from market rate properties
- Proposed rents reduced to market
- Common problem right now, market rents reduced past few years

Surplus Cash

Other Asset Management Issues..

12.- Analysis of LIHTC and bond deals

9% LIHTC deal vs. private-activity bond deal with 4% LIHTC

- 9% LIHTC reservations have been increasingly competitive, decreasing the likelihood of receiving the reservation in a timely manner

- 4% LIHTC "come with" the issuance of Private Activity Bonds issued by Local Housing Finance Agencies ("Local HFAs")

- HFAs and State Housing Finance Agencies ("State HFAs") may issue taxable bonds in support of 9% Projects, provided there is market support for such bonds

9% LIHTC deal vs. private-activity bond deal with 4% LIHTC

- Although the 4% credits are technically “unlimited,” there is an annual volume cap for the Private Activity Bonds that allow the use of the 4% credit
  - Treasury allocation based on a state-by-state per-capita allocation
  - Sub-allocated at the state level among all forms of tax-exempt bonds

- In addition to these allocation issues, which must be taken into account in choosing between 9% and 4% LIHTC, the economic impacts of the respective financing structures also needs to be analyzed

- Both financings have their own peculiar transaction costs that need to be accounted for in making an apples-to-apples comparison of the relative costs

9% LIHTC deal vs. private-activity bond deal with 4% LIHTC

With a 200 basis point (200bp or 2.00%) “spread” between the conventional loan on the 9% LIHTC financing and a Private Activity Bond rate plus the 4% LIHTC equity, the Private Activity Bond costs $27,200 less per month, despite the fact that more than $2 million more is being financed with the Private Activity Bond

9% LIHTC equity
6.5% Conventional Loan

TDC		$10,000,000
LIHTC ineligible costs		$2,000,000
Eligible basis		$8,000,000
Appicable fraction	100%	$8,000,000
Est. PV of 10-yr LIHTC	70%	$5,600,000
FMV of LIHTC equity	$0.68	$3,780,000
Required debt		$6,220,000
LTV		62.20%
Monthly Mortgage Pmt.		($404,300)

4% LIHTC equity
4.5% Private Activity Bond

TDC		$10,000,000
LIHTC ineligible costs		$2,000,000
Eligible basis		$8,000,000
Appicable fraction	100%	$8,000,000
Est. PV of 10-yr LIHTC	30%	$2,400,000
FMV of LIHTC equity	$0.68	$1,620,000
Required debt		$8,380,000
LTV		83.80%
Monthly Bond Pmt.		($377,100)

9% LIHTC deal vs. private-activity bond deal with 4% LIHTC

As spreads narrow, so do the benefits of the Private Activity Bonds. With only a 100bp spread between the 9% Project's conventional loan and the 4% Project's Private Activity Bond, the debt service cost for the 9% Project is $35,000 less per month

9% LIHTC equity
5.5% Conventional Loan

TDC		$10,000,000
LIHTC ineligible costs		$2,000,000
Eligible basis		$8,000,000
Appicable fraction	100%	$8,000,000
Est. PV of 10-yr LIHTC	70%	$5,600,000
FMV of LIHTC equity	$0.68	$3,780,000
Required debt		$6,220,000
LTV		62.20%
Monthly Mortgage Pmt.		($342,100)

4% LIHTC equity
4.5% Private Activity Bond

TDC		$10,000,000
LIHTC ineligible costs		$2,000,000
Eligible basis		$8,000,000
Appicable fraction	100%	$8,000,000
Est. PV of 10-yr LIHTC	30%	$2,400,000
FMV of LIHTC equity	$0.68	$1,620,000
Required debt		$8,380,000
LTV		83.80%
Monthly Bond Pmt.		($377,100)

9% LIHTC deal vs. private-activity bond deal with 4% LIHTC

Periodically, economic and market conditions conspire to close the gap between taxable and tax-exempt debt. With **no spread** between taxable bonds combined with a 9% LIHTC Project and the 4% Project's Private Activity Bond, the debt service cost for the 9% Project is $97,200 less per month than the 4% Project.

9% LIHTC equity
4.5% Taxable Bonds

TDC		$10,000,000
LIHTC ineligible costs		$2,000,000
Eligible basis		$8,000,000
Appicable fraction	100%	$8,000,000
Est. PV of 10-yr LIHTC	70%	$5,600,000
FMV of LIHTC equity	$0.68	$3,780,000
Required debt		$6,220,000
LTV		62.20%
Monthly Mortgage Pmt.		($279,900)

4% LIHTC equity
4.5% Private Activity Bond

TDC		$10,000,000
LIHTC ineligible costs		$2,000,000
Eligible basis		$8,000,000
Appicable fraction	100%	$8,000,000
Est. PV of 10-yr LIHTC	30%	$2,400,000
FMV of LIHTC equity	$0.68	$1,620,000
Required debt		$8,380,000
LTV		83.80%
Monthly Bond Pmt.		($377,100)

13.- How to conduct project organizational structure reviews; the pay in schedule; the waterfall (distribution of proceeds)

Project organizational structure reviews

- Due diligence review of the Development Entity's organizational documents
  - Limited Partnership Agreement ("LPA")
  - General Partnership Agreement ("GPA") of the Limited Partnership's GP(s)
  - Managing GP's Management Agreement (if separate from LPA)
  - Investor Notes
  - MGP's or other Guarantees
  - G-MAX Contract if GC is an Affiliate of the MGP
  - Marketing and Leasing Agreement if the Leasing Agent if Affiliate of MGP
  - Property Management Agreement if Property Manager is Affiliate of MGP

Project organizational structure reviews

•Not only what these documents say but also their relationship to each other are critical to the integrity of the LIHTC financing.

• **For example:**
  • Are there any events enumerated in the LPA that might invalidate the Investor Notes and allow the LIHTC Investor(s) to walk away from their remaining investment obligations?
  • To what extent is the MGP obligated to step in and remedy any event of default under the LPA, and what is the MGP's capacity to do so?
  • Is the MGP or the individuals behind the MGP liable to the LIHTC Investor(s) for any recapture of tax benefits and attendant penalties and interest in the event of a compliance failure?

• Always be on the look-out for marginally capitalized or "shell" entities and be prepared to look behind them to see who's trying to benefit without having any associated liabilities or responsibilities

Capital Inflows: The Pay-In Schedule

- One of the biggest benefits of the LIHTC investment structure is the opportunity in early years to receive tax benefits (credits **and** losses) that are leveraged through the Investor Notes

- The amount of the LIHTC Investor's initial cash payment may well be a small fraction of the tax benefits received in that first year.

- The Pay-In Schedule (i.e. the dates and amounts of the Investor Notes) may be critical to other financing types and sources.

Capital Inflows: The Pay-In Schedule

- The Pay-In Schedule may impact other financing types and sources because:
    - A lender may not give dollar-for-dollar credit to the cumulative value of Investor Notes if they're not viewed as "cash equivalents."
    - This could have an impact on the ability of the Development Entity to meet a Lender's loan-to-value ("LTV") requirements for funding the debt necessary to support the Project.
    - In a Cash-Flow Analysis or Operating Budget, Investor Notes only count as cash as and when they're due (and may have to be viewed as a contingent source of cash since, if the LIHTC Investor reneges for any reason on payment, the MGP will have to exercise remedies on behalf of the LP that may not yield results, and cash, in the year in which receipt of that cash is anticipated).

Cash Out-Flows: Distributions of Proceeds

• Gross adjusted income needs to be disbursed in accordance with the operating requirements of the Project, including but not limited to funding requires reserve accounts, including:

- Operating Reserve (the "OR Account")
- Capital Improvements/Replacements Reserve
- Reserve to cover unanticipated vacancies (may be included within the OR Account)
- Reserve to meet Loan Covenants/Debt Service Coverage Ratios

• Gross adjusted income also needs to disbursed in accordance with priorities established in the loan documents for the primary and subordinate financing document.

Cash Out-Flows: Distributions of Proceeds

•Undistributed net operating income (“NOI”) will off-set the losses passed through to the LIHTC Investor.

- This pass-through of taxable income will be more than offset by the Projects losses
- There should not be any pressure on the Development Entity to distribute cash in this instance

• The LIHTC Investor’s main concern is to have the Project kept in compliance throughout the tax credit compliance period.

Cash Out-Flows: Distributions of Proceeds

- The Primary Lender’s main concerns are:

  - To timely receive all debt service payments

  - To have the Development Entity at all times be in compliance with all Loan Covenants, including but not limited to the DSCR

  - To have the Project at all times be in compliance with all LIHTC rules and regulations

  - To preclude the Developer receiving unauthorized and unanticipated distributions of proceeds through payments to affiliated entities (e.g. the Property Manager) that are outside the norm.

Finance Sources, Uses, and Eligible Costs

- For a complete discussion of Financing Sources see:
  - Section 9, Financial Feasibility Issues; Development Deadlines

- For a complete discussion of Project Uses, see:
  - Section 9, Financial Feasibility Issues; Development Deadlines

Finance Sources, Uses, and Eligible Costs

- "Eligible Basis" under IRC Sec. 42 specifically **excludes** all costs relating to the following financing sources include the following

  - LIHTC-related costs:
    - LIHTC placement and syndication fees
    - Tax credit fees, including reservation application fees
    - LIHTC Investor's legal fees, including Closing opinions

Finance Sources, Uses, and Eligible Costs

- Private-activity bond and transactional cost
  - Underwriting fees and costs
  - Legal fees, including Closing opinions
  - Costs of Issuance

- Development Entity and related organizational costs
  - Filing fees
  - Legal fees
  - Accounting fees

Selected Financing Issues; Problem Statements, and Case Studies

Selected Financing Issues

Tax Credit Equity & Deal Structuring

- Typical Tax Credit Investor Pay-In Schedules
  - What drives the Investor’s staging of Investor Note payments?
    - Increasing through leverage the value of early year tax benefits flowing through from the Limited Partnership
    - Synchronizing, to the extent possible, tax sheltering with anticipated taxable income
    - Providing monetary protection for the Investor from recapture risk
  - How is the Investor pay-in schedule determined?
    - The Investor’s internal needs for tax sheltering tax attributes from the Limited Partnership
    - Advantageous tax credit pricing that takes into account the lower present value of the investment
  - Is there such a thing as a “typical” pay-in schedule?

Selected Financing Issues

Tax Credit Equity & Deal Structuring (cont'd.)

- Risks of/Benefits to the Investor
  - The biggest **benefit** to the Investor is the ability to purchase a combination of tax credits and Limited Partnership losses at a discount when compared with their actual dollar-for-dollar value on the Investor's tax return
  - The greatest **risk** to the Investor is the risk of IRS recapture of all Limited Partner tax attributes taken by the Investor on it's prior-year tax returns, as a consequence of an event of non-compliance that is not resolved within the time period provided

- The Role of Recapture Risk in Deal Structuring
  - Risk of recapture of tax attributes is EVERYTHING
  - Mitigating recapture risk DRIVES THE DEAL STRUCTURE
  - Developer's guarantees/deferrals ~ equity in LP

Selected Financing Issues
Developer Risks and Motivations

- How Do Deferred Developer Fees Impact the Developer?
  - Relationship to Investor Note payments
  - Differences between well and thinly capitalized Developers
  - Relationship benefits beyond the receipt of fees
    - With Tax Credit Investor
    - With LIHTC Syndicators/Brokers
    - With Local Jurisdiction
    - With State Allocating Agency
    - With Development Team members
    - With GC
- What Are Developer's Motivations to Perform
    - Dire consequences for Developer in the event of recapture
    - Carrots and Sticks
      - Receipt of Deferred Developer fees
      - Guarantees to Investor against recapture

Selected Financing Issues
Key Underwriting Issues for Lenders

- What Are the Risks the Property Will Not Perform to the Pro Forma, including?
  - Failure to initially make projected rents through Marketing and Leasing during the Construction Phase of development
  - Failure to establish a reasonable vacancy rate
  - Failure of the Market Analysis to accurately evaluate the competitive supply of units at or below the Project's eligible rents
  - Failure of the Market Analysis to accurately measure the depth of market for income-eligible tenants
  - Failure of the Market Analysis to accurately identify the Market Area for the Project
  - Failure of the Development Team to accurately anticipate entry into the submarket of competitive projects

Selected Financing Issues
Key Underwriting Issues for Lenders (cont'd.)

- What Is the Risk that Market Downturns Will Jeopardize the Project?
  - How much "room for error" is there in the pro forma?
  - Are there opportunities for the Property Manager to lease units to non-income eligible tenants?
  - What does a sensitivity analysis of projected rents reveal about the vulnerability of the Project to changes in:
    - Actual, per unit rents
    - Gross rents based on a higher than projected vacancy rate
  - How sensitive are competing multifamily rental properties to changes in the rental market?
  - What flexibility do competing properties in the Market Area have to make asking rent adjustments?

Selected Financing Issues
Key Underwriting Issues for Lenders (cont'd.)

- Where more than one public source of financing is involved, how will conflicting Regulatory Agreement provisions be resolved?
  - Did the Developer address potential conflicts between Regulatory Agreements in the negotiation process?
  - Do Regulatory Agreements attendant Project debt with subordinate priorities lose out automatically because the debt holder can't trigger an event of default for failure to meet Regulatory Agreement requirements?

- What Changes in Operating Expenses Might Have the Greatest Impact on Net Operating Income?
  - **[SEE "Operations and Management Issues," below]**

Selected Financing Issues

Operations and Management Issues

- What Is the Property Manager's policy regarding rent collections?
  - When is rent due under the lease?
  - What additional charges are allowed to be assessed for late payment of rent?
  - How aggressive is the Property Manager in collecting late rents and late payment charges?
  - How far in arrears does the Property Manager allow the rent to get before commencing any enforcement action?
  - What protocols does the Property Manager have in place for lease enforcement (e.g. is a law firm on retainer to handle rent collections/lease breach cases)?

Selected Financing Issues

Operations and Management Issues (cont'd.)

- Is the Operating Budget Realistic Given the Project's Fundamentals?
    - Does the Operating Budget cover all reasonably anticipated outlays?
    - Does the amount budgeted for repairs and maintenance comport with the property type and tenant composition?
    - Does the Property Management staff include on-site Maintenance staff, including resident maintenance staff or others providing on-site repairs 24/7?
    - Does the Property require and have Security personnel?
    - Does the Property offer enhanced services, such as:
        - An on-site community center
        - After school programs for residents' school-age children
        - Night-time GED and adult education programming

CASE PROBLEMS: Projecting Rents

Unit Type	Eligible AMI	100%AMI $80,000	Afford. Rent 30%	Adj. for HH Size	Ann. Rent per DU	# DUs	Total Annual Rent
Studio	30%	$24,000	$7,200	10%	6480	5	32400
Studio	45%	$36,000	$10,800	10%	9720	0	0
Studio	50%	$40,000	$12,000	10%	10800	5	54000
Studio	60%	$48,000	$14,400	10%	12960	0	0
1BR	30%	$24,000	$7,200	5%	$6,840	15	$102,600
1BR	45%	$36,000	$10,800	5%	$10,260	15	$153,900
1BR	50%	$40,000	$12,000	5%	$11,400	15	$171,000
1BR	60%	$48,000	$14,400	5%	$13,680	15	$205,200
2BR	30%	$24,000	$7,200	0%	$7,200	0	$0
2BR	45%	$36,000	$10,800	0%	$10,800	15	$162,000
2BR	50%	$40,000	$12,000	0%	$12,000	0	$0
2BR	60%	$48,000	$14,400	0%	$14,400	15	$216,000
						100	$1,010,700

CASE PROBLEMS: Projecting Rents

Unit Type	Eligible AMI	100%AMI $80,000	Afford. Rent 30%	Adj. for HH Size	Ann. Rent per DU	# DUs	Total Annual Rent
Studio	30%	$24,000	$7,200	10%	6480	0	0
Studio	45%	$36,000	$10,800	10%	9720	0	0
Studio	50%	$40,000	$12,000	10%	10800	0	0
Studio	60%	$48,000	$14,400	10%	12960	20	259200
1BR	30%	$24,000	$7,200	5%	$6,840	0	$0
1BR	45%	$36,000	$10,800	5%	$10,260	0	$0
1BR	50%	$40,000	$12,000	5%	$11,400	0	$0
1BR	60%	$48,000	$14,400	5%	$13,680	50	$684,000
2BR	30%	$24,000	$7,200	0%	$7,200	0	$0
2BR	45%	$36,000	$10,800	0%	$10,800	0	$0
2BR	50%	$40,000	$12,000	0%	$12,000	0	$0
2BR	60%	$48,000	$14,400	0%	$14,400	30	$432,000
						100	$1,116,000

CASE PROBLEMS: Projecting Rents

Unit Type	Eligible AMI	100%AMI $80,000	Afford. Rent 30%	Adj. for HH Size	Ann. Rent per DU	# DUs	Total Annual Rent
Studio	30%	$24,000	$7,200	10%	6480	0	0
Studio	45%	$36,000	$10,800	10%	9720	0	0
Studio	50%	$40,000	$12,000	10%	10800	0	0
Studio	60%	$48,000	$14,400	10%	12960		0
Studio	100%	$80,000	$24,000	10%	21600	20	432000
1BR	30%	$24,000	$7,200	5%	$6,840	0	$0
1BR	45%	$36,000	$10,800	5%	$10,260	0	$0
1BR	50%	$40,000	$12,000	5%	$11,400	0	$0
1BR	60%	$48,000	$14,400	5%	$13,680	40	$547,200
1BR	100%	$80,000	$24,000	5%	$22,800	15	$342,000
2BR	30%	$24,000	$7,200	0%	$7,200	0	$0
2BR	45%	$36,000	$10,800	0%	$10,800	0	$0
2BR	50%	$40,000	$12,000	0%	$12,000	0	$0
2BR	60%	$48,000	$14,400	0%	$14,400		$0
2BR	100%	$80,000	$24,000	0%	$24,000	25	$600,000
						100	$1,321,200

CASE STUDY: Multiple Finance Sources & 9% LIHTC

- Project: Sara Conner Court
- Developer Eden Housing, Inc. (non-profit)
- Type: 3-story, wood-frame over parking podium
- Location: City of Hayward, CA
- Project Size: 57 DUs
- Unit Types: 1 & 3BR apts.
  2 & 3 story townhomes
  w/2 & 3BR DUs

CASE STUDY: Multiple Finance Sources & 9% LIHTC

• $4,500,000	City of Hayward HOME
• $286,273	City of Hayward CDBG
• $1,813,727	Hayward Redevelopment Agency
• $1,650,000	Lenders for Community Development (bridge acq)
• $12,215,000	Silicon Valley Bank (const.)
• $2,565,000	Silicon Valley Bank (perm.)
• $11,478,000	Enterprise Tax Credits
• $40,000	Green Building in Alameda County Grant
• $15,000	Bay-Friendly Landscaping Grant
• $50,000	Enterprise Green Communities Grant
• $25,000	Home Depot Foundation Affordable Housing Built Responsibly Grant

CASE STUDY: HUD 221(d)(4) & 4% LIHTC

- Project: The Galaxy
- Developer: RST Development LLC (for-profit)
- Type: 6-story elevator building; family rental
- Location: Silver Spring, Montgomery County, MD
- Project Size: 195 DUs (82 4% LIHTC DUs)
- Unit Types: 140 1BR /1ba; 55 2BR/2ba

CASE STUDY: HUD 221(d)(4) & 4% LIHTC

- Local HFA: Housing Opportunities Commission (HOC)
- 2009 9% LIHTC: $1,142,241
- Construction Fin.: 221(d)(4) New Construction
- Mortgage Funding: New Issue Bond Program Bonds sold to Treasury
- Bond Issuer: HOC of Montgomery County
- Insured Mortgage: $38,450,000; 38 yrs.; 4.55%

CASE STUDY: FHA 231 & 9% LIHTC

- Project: Park View at Severna
- Developer Shelter Development , LLC (non-profit)
- Type: 4-story elderly rental
- Location: Anne Arundel County, MD
- Project Size: 103 DUs
- Unit Types: 3 Studio; 73 1BR; 27 2 BR

CASE STUDY: FHA 231 & 9% LIHTC

- Allocating Agency: Dept. of Housing & Community Development
- 2009 9% LIHTC: $1,142,241
- TCAP: $2,000,000
- MEEHA: $102, 365
- AA County: $1,200,000
- HUD-ins. Mortgage: $4,250,000; 40 yrs.; 5.59%

CASE STUDY: 9% LIHTC Plus TCAP Funds

- Project: City Arts
- Developer Homes for America (non-profit)
- Type: 4-story family rental
- Location: City of Baltimore, MD
- Project Size: 69 DUs
- TDC: $13,382,894
- Unit Types: Loft 1BR /1ba; 1BR/1ba; 2BR/2ba

CASE STUDY: 9% LIHTC Plus TCAP Funds

- Residential Program:
  - 11 1BR 30% AMI*
  - 25 1BR 60% AMI
  - 9 2BR 60% AMI
  - 24 Studio 60% AMI

- */ Funded by City of Baltimore Project Base Vouchers

CASE STUDY: 9% LIHTC Plus TCAP Funds

- Allocating Agency: Dept. of Housing & Community Development
- 2009 9% LIHTC: $9, 312,495
- TCAP: $2,635,000, 4% APR cash-flow sub. loan
- MEEHA: $135,799
- Equity Bridge: $4,250,000; 30 yrs.; 7.25% APR; 1.15:1 DSCR
- Perm. Bal. $1,300,000 once all LIHTC equity paid in

CASE STUDY: 9% LIHTC Plus TCAP Funds

- Prior to the precipitous drop in LIHTC equity pricing this project would have been feasible with a conventional loan and LIHTC equity.
- When the Developer started the project equity pricing was approximately $.87 per dollar of LIHTC.
- When the Developer closed on the equity, the LIHTC price was $.674.
- This LIHTC pricing differential ($.196) against the reservation amount decreased by **$2,708,000** the value of the LIHTC equity contribution, representing just over 20% of Project TDC.
- Maryland DHCD had fully allocated all of its low-interest subordinate loans
- The Project would have been unable to move forward without benefit of the temporary federal stimulus funding to support the LIHTC program.
    - **$2,635,000** in TCAP funded the equity pricing gap
    - Maryland energy funds funded upgrade to Project's energy package

CASE STUDY: 9% LIHTC Plus TCAP Funds

- The Project didn't use other HUD construction and permanent financing because they would not have been feasible given the LIHTC equity structure and other debt:
  - First and foremost the Project Lender wanted to finance **both** the debt and equity. In a market where there are a limited number of investors and even fewer permanent lenders (non-HUD), this was an easy call.
  - Second the Project Lender/Tax Credit Investor wanted to maximize pricing and it's overall return on the Project by providing bridge financing.
    - This was much easier to do with Maryland DHCD as the only other lender
    - HUD, with rigid rules and requirements into the mix.
  - Third, it's unlikely HUD would have approved a secured bridge loan that was subordinate to an FHA-insured mortgage,
    - This would have required the Developer to bridge **all** the construction, and then use FHA as the permanent loan only rather than construction/permanent.
    - This would have increased lender fees another 3.5%.

CASE STUDY: 9% LIHTC Plus TCAP Funds

- Most states provide TCAP funds as zero-interest loans.
- Maryland DHCD provides TCAP funds as 4% interest loans (zero-interest prior to Sept. 2012).
- Interest and principal are repayable from surplus cash
- The accruing interest over time creates a very substantial liability, and may hamper the ability to recapitalize the project at some point in the future.
- TCAP was created as an affordable housing resource under ARRA to fill gaps created by the precipitous decline in LIHTC equity pricing that constrained capital flows available to qualifying projects.
- While by no means unprecedented, should state Allocating Agencies be permitted to charging interest on such federally sourced funds, particularly where doing so might constrain the Project from a future, successful refinancing?

CASE STUDY: 9% LIHTC Plus TCAP Funds

Funding for Energy Efficiency Improvements: MEEHA Program

- The purpose of Maryland's Multifamily Energy Efficiency and Housing Affordability Program (MEEHA) is **to promote energy efficiency and affordability in the State's multifamily rental housing developments for low and moderate income households**.

- Under a Memorandum of Understanding (MOU) with the Maryland Energy Administration (MEA), DHCD will provide MEEHA **grants for the purchase and installation of energy efficiency improvements and/or renewable energy improvements** in affordable multifamily rental housing developments.

CASE STUDY: 9% LIHTC Plus TCAP Funds

Funding for Energy Efficiency Improvements: MEEHA Program (cont'd.)

- **MEEHA funds were to be provided to the Project as a grant** which, was **problematic** because the **Developer did not want to deduct the grant from eligible basis**.
- DHCD and MEA were willing to work with the Developer to address this issue
- DHCD and MEA **made the grant to the Developer rather than to the Development Entity**, **permitting the Developer to lend the grant proceeds to the Development Entity**.
- **No interest** is charged on the loan, which is **subordinate** to all the other financing.

CASE STUDY: 9% LIHTC Plus TCAP Funds

Funding for Energy Efficiency Improvements: MEEHA Program (cont'd.)

- Having the MEEHA funds granted to the Developer, and then having the Developer loan those funds to the Development Entity , enabled the Project to receive the MEEHA-funded energy improvements
- It also **helped** to the Developer, a nonprofit organization, with its **income and balance sheet** .
  - **The grant income increased the non-profit Developer's income**, and
  - Because the loan to the Development Entity is reflected as a **note receivable on the Developer's financial statement** , rather than an expense, it **serves to increase the non-profit Developer's net assets (net worth).**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

- TDC: $13,382,894
- LIHTC Amt. $3,000,000
- LIHTC Price: $0.65/$1.00 of tax credits
- TCAP Loan: $2,635,000, 4% APR cash-flow sub. Loan
- MEEHA: $135,799 (grant)
- Op. Exp.: $5,250/DU
- Project Size: 69 Dus
- Res. Program
  - 11 1BR DUs @ 30% AMI with PBVs @ $866/mo.
  - 25 1BR DUs @ 60% AMI
  - 9 2BR DUs @ 60% AMI
  - 24 Studios @ 60% AMI

- PROBLEM STATEMENT: Develop an approach to financing the City Arts Apartments project using a 221(d)(4) loan with the LIHTC Amt.

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Unit Type	Eligible AMI	100%AMI $80,000	Afford. Rent 30%	Adj. for HH Size	Ann. Rent per DU	# DUs	Total Annual Rent
1BR	30%	$24,000	$7,200	5%	$6,840	11	$75,240
1BR	60%	$48,000	$14,400	5%	$13,680	25	$342,000
2BR	60%	$48,000	$14,400	0%	$14,400	9	$129,600
Studio	60%	$48,000	$14,400	10%	$12,960	24	$311,040
						69	$857,880

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents			**$857,880**
Vacancy Factor			7.50%
Gross Rents Less Vacancy Factor			$793,539
Adjustment for PBV Rents			
	PBV Rent/DU	$866	$114,312
	Less: AMI Rent		-$75,240
Adjusted Gross Rents			**$832,611**
LESS: Operating Expenses			
	$5,250	69	$362,250
Adj. Gross Rents Less Op. Exp.			**$470,361**
LESS: Annual Interest on Bridge Loan			
Rate	Principal Amt.		
8%	1,365,000		$109,200
NOI Balance			$361,161
LESS: Debt Service on TCAP Loan			
Rate	Principal Amt.	Term	
4.00%	2,000,000	240	
Amt. Remaining for Debt Service			**$361,161**
1.10:1 DSCR Amt.			**$328,328**
Maximum 221(d)(4) Loan Amount			
Rate	Term in Mos.	Pmt.	$5,710,055
5.75%	480	-$328,328	
NOI After 221(d)(4) Debt Service			$32,833
TCAP Loan servicable			$820,753
TCAP Amt. negatively amortizing			$1,179,247
Negative Amort. Amt. (Ann.)			$47,170

7.5% Vacancy Rate; $5,250/DU Operating Expenses; 8% LIHTC Bridge Loan; 20-yr. 4% Cash-Flow TCAP Loan; 40-yr. 5.75% 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$5,710,055**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$6,289,146**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents				**$857,880**
Vacancy Factor				7.50%
Gross Rents Less Vacancy Factor				$793,539
Adjustment for PBV Rents				
	PBV Rent/DU		$866	$114,312
	Less: AMI Rent			-$75,240
Adjusted Gross Rents				**$832,611**
LESS: Operating Expenses				
		$5,250	69	$362,250
Adj. Gross Rents Less Op. Exp.				**$470,361**
LESS: Annual Interest on Bridge Loan				
Rate	Principal Amt.			
6%		1,365,000		$81,900
NOI Balance				$388,461
LESS: Debt Service on TCAP Loan				
Rate	Principal Amt.	Term		
4.00%		2,000,000	240	
Amt. Remaining for Debt Service				**$388,461**
1.10:1 DSCR Amt.				**$353,146**
Maximum 221(d)(4) Loan Amount				
Rate	Term in Mos.	Pmt.		$8,309,326
4.25%		480	-$353,146	
NOI After 221(d)(4) Debt Service				$35,315
TCAP Loan servicable				$882,794
TCAP Amt. negatively amortizing				$1,117,206
Negative Amort. Amt. (Ann.)				$44,688

7.5% Vacancy Rate; $5,250/DU Operating Expenses; **6%** LIHTC Bridge Loan; 20-yr. 4% Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$8,309,326**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$3,689,875**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents			**$857,880**
Vacancy Factor			7.50%
Gross Rents Less Vacancy Factor			$793,539
Adjustment for PBV Rents			
	PBV Rent/DU	$866	$114,312
	Less: AMI Rent		-$75,240
Adjusted Gross Rents			**$832,611**
LESS: Operating Expenses			
	$5,250	69	$362,250
Adj. Gross Rents Less Op. Exp.			**$470,361**
LESS: Annual Interest on Bridge Loan			
Rate	Principal Amt.		
8%	1,365,000		$109,200
NOI Balance			$361,161
LESS: Debt Service on TCAP Loan			
Rate	Principal Amt.	Term	
4.00%	2,000,000	240	
Amt. Remaining for Debt Service			**$361,161**
1.10:1 DSCR Amt.			**$328,328**
Maximum 221(d)(4) Loan Amount			
Rate	Term in Mos.	Pmt.	$5,710,055
5.75%	480	-$328,328	
NOI After 221(d)(4) Debt Service			$32,833
TCAP Loan servicable			$820,753
TCAP Amt. negatively amortizing			$1,179,247
Negative Amort. Amt. (Ann.)			$47,170

Gross Rents			**$857,880**
Vacancy Factor			7.50%
Gross Rents Less Vacancy Factor			$793,539
Adjustment for PBV Rents			
	PBV Rent/DU	$866	$114,312
	Less: AMI Rent		-$75,240
Adjusted Gross Rents			**$832,611**
LESS: Operating Expenses			
	$5,250	69	$362,250
Adj. Gross Rents Less Op. Exp.			**$470,361**
LESS: Annual Interest on Bridge Loan			
Rate	Principal Amt.		
6%	1,365,000		$81,900
NOI Balance			$388,461
LESS: Debt Service on TCAP Loan			
Rate	Principal Amt.	Term	
4.00%	2,000,000	240	
Amt. Remaining for Debt Service			**$388,461**
1.10:1 DSCR Amt.			**$353,146**
Maximum 221(d)(4) Loan Amount			
Rate	Term in Mos.	Pmt.	$8,309,326
4.25%	480	-$353,146	
NOI After 221(d)(4) Debt Service			$35,315
TCAP Loan servicable			$882,794
TCAP Amt. negatively amortizing			$1,117,206
Negative Amort. Amt. (Ann.)			$44,688

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

7.5% Vacancy Rate; $5,250/DU Operating Expenses; 8% LIHTC Bridge Loan; 4% Cash-Flow TCAP Loan; 40-yr. 5.75% 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$5,710,055**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$6,289,146**

7.5% Vacancy Rate; $5,250/DU Operating Expenses; **6%** LIHTC Bridge Loan; 20-yr. 4% Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$8,309,326**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$3,689,875**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents			**$857,880**
Vacancy Factor			7.50%
Gross Rents Less Vacancy Factor			$793,539
Adjustment for PBV Rents			
	PBV Rent/DU	$866	$114,312
	Less: AMI Rent		-$75,240
Adjusted Gross Rents			**$832,611**
LESS: Operating Expenses			
	$5,000	69	$345,000
Adj. Gross Rents Less Op. Exp.			**$487,611**
LESS: Annual Interest on Bridge Loan			
Rate	Principal Amt.		
4%	1,365,000		$54,600
NOI Balance			$433,011
LESS: Debt Service on TCAP Loan			
Rate	Principal Amt.	Term	
0.00%	2,000,000	48	
Amt. Remaining for Debt Service			**$433,011**
1.10:1 DSCR Amt.			**$393,646**
Maximum 221(d)(4) Loan Amount			
Rate	Term in Mos.	Pmt.	$9,262,267
4.25%	480	-$393,646	
NOI After 221(d)(4) Debt Service			$39,365
TCAP Loan servicable			$1,889,503
TCAP Amt. negatively amortizing			$110,497
Negative Amort. Amt. (Ann.)			$0

7.5% Vacancy Rate; **$5,000/DU** Operating Expenses; **6%** LIHTC Bridge Loan; **4-yr. Fully Amortizing 0%** Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$9,262,267**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$2,736,934**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents				**$857,880**
Vacancy Factor				7.50%
Gross Rents Less Vacancy Factor				$793,539
Adjustment for PBV Rents				
	PBV Rent/DU		$866	$114,312
	Less: AMI Rent			-$75,240
Adjusted Gross Rents				**$832,611**
LESS: Operating Expenses				
		$5,250	69	$362,250
Adj. Gross Rents Less Op. Exp.				**$470,361**
LESS: Annual Interest on Bridge Loan				
Rate	Principal Amt.			
8%		1,365,000		$109,200
NOI Balance				$361,161
LESS: Debt Service on TCAP Loan				
Rate	Principal Amt.	Term		
4.00%		2,000,000	240	
Amt. Remaining for Debt Service				**$361,161**
1.10:1 DSCR Amt.				**$328,328**
Maximum 221(d)(4) Loan Amount				
Rate	Term in Mos.		Pmt.	$5,710,055
5.75%		480	-$328,328	
NOI After 221(d)(4) Debt Service				$32,833
TCAP Loan servicable				$820,753
TCAP Amt. negatively amortizing				$1,179,247
Negative Amort. Amt. (Ann.)				$47,170

Gross Rents				**$857,880**
Vacancy Factor				7.50%
Gross Rents Less Vacancy Factor				$793,539
Adjustment for PBV Rents				
	PBV Rent/DU		$866	$114,312
	Less: AMI Rent			-$75,240
Adjusted Gross Rents				**$832,611**
LESS: Operating Expenses				
		$5,000	69	$345,000
Adj. Gross Rents Less Op. Exp.				**$487,611**
LESS: Annual Interest on Bridge Loan				
Rate	Principal Amt.			
4%		1,365,000		$54,600
NOI Balance				$433,011
LESS: Debt Service on TCAP Loan				
Rate	Principal Amt.	Term		
0.00%		2,000,000	48	
Amt. Remaining for Debt Service				**$433,011**
1.10:1 DSCR Amt.				**$393,646**
Maximum 221(d)(4) Loan Amount				
Rate	Term in Mos.		Pmt.	$9,262,267
4.25%		480	-$393,646	
NOI After 221(d)(4) Debt Service				$39,365
TCAP Loan servicable				$1,889,503
TCAP Amt. negatively amortizing				$110,497
Negative Amort. Amt. (Ann.)				$0

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

7.5% Vacancy Rate; $5,250/DU Operating Expenses; 8% LIHTC Bridge Loan; 4% Cash-Flow TCAP Loan; 40-yr. 5.75% 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$5,710,055**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$6,289,146**

7.5% Vacancy Rate; **$5,000/DU** Operating Expenses; **6%** LIHTC Bridge Loan; **4-yr. Fully Amortizing 0%** Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$9,262,267**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$2,736,934**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents				**$857,880**
Vacancy Factor				5.00%
Gross Rents Less Vacancy Factor				$814,986
Adjustment for PBV Rents				
	PBV Rent/DU		$866	$114,312
	Less: AMI Rent			-$75,240
Adjusted Gross Rents				**$854,058**
LESS: Operating Expenses				
		$4,800	69	$331,200
Adj. Gross Rents Less Op. Exp.				**$522,858**
LESS: Annual Interest on Bridge Loan				
Rate	Principal Amt.			
4%		1,365,000		$54,600
NOI Balance				$468,258
LESS: Debt Service on TCAP Loan				
Rate	Principal Amt.	Term		
0.00%		2,000,000	48	
Amt. Remaining for Debt Service				**$468,258**
1.10:1 DSCR Amt.				**$425,689**
Maximum 221(d)(4) Loan Amount				
Rate	Term in Mos.	Pmt.		$10,016,214
4.25%		480	-$425,689	
NOI After 221(d)(4) Debt Service				$42,569
TCAP Loan servicable				$2,043,308
TCAP Amt. negatively amortizing				($43,308)
Negative Amort. Amt. (Ann.)				$0

5.0% Vacancy Rate; **$4,800/DU** Operating Expenses; **4%** LIHTC Bridge Loan; **4-yr. Fully Amortizing** 0% Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$10,016,214**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$1,982,987**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents			**$857,880**
Vacancy Factor			7.50%
Gross Rents Less Vacancy Factor			$793,539
Adjustment for PBV Rents			
	PBV Rent/DU	$866	$114,312
	Less: AMI Rent		-$75,240
Adjusted Gross Rents			**$832,611**
LESS: Operating Expenses			
	$5,250	69	$362,250
Adj. Gross Rents Less Op. Exp.			**$470,361**
LESS: Annual Interest on Bridge Loan			
Rate	Principal Amt.		
8%	1,365,000		$109,200
NOI Balance			$361,161
LESS: Debt Service on TCAP Loan			
Rate	Principal Amt.	Term	
4.00%	2,000,000	240	
Amt. Remaining for Debt Service			**$361,161**
1.10:1 DSCR Amt.			**$328,328**
Maximum 221(d)(4) Loan Amount			
Rate	Term in Mos.	Pmt.	$5,710,055
5.75%	480	-$328,328	
NOI After 221(d)(4) Debt Service			$32,833
TCAP Loan servicable			$820,753
TCAP Amt. negatively amortizing			$1,179,247
Negative Amort. Amt. (Ann.)			$47,170

Gross Rents			**$857,880**
Vacancy Factor			5.00%
Gross Rents Less Vacancy Factor			$814,986
Adjustment for PBV Rents			
	PBV Rent/DU	$866	$114,312
	Less: AMI Rent		-$75,240
Adjusted Gross Rents			**$854,058**
LESS: Operating Expenses			
	$4,800	69	$331,200
Adj. Gross Rents Less Op. Exp.			**$522,858**
LESS: Annual Interest on Bridge Loan			
Rate	Principal Amt.		
4%	1,365,000		$54,600
NOI Balance			$468,258
LESS: Debt Service on TCAP Loan			
Rate	Principal Amt.	Term	
0.00%	2,000,000	48	
Amt. Remaining for Debt Service			**$468,258**
1.10:1 DSCR Amt.			**$425,689**
Maximum 221(d)(4) Loan Amount			
Rate	Term in Mos.	Pmt.	$10,016,214
4.25%	480	-$425,689	
NOI After 221(d)(4) Debt Service			$42,569
TCAP Loan servicable			$2,043,308
TCAP Amt. negatively amortizing			($43,308)
Negative Amort. Amt. (Ann.)			$0

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

7.5% Vacancy Rate; $5,250/DU Operating Expenses; 8% LIHTC Bridge Loan; 4% Cash-Flow TCAP Loan; 40-yr. 5.75% 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$5,710,055**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$6,289,146**

5.0% Vacancy Rate; **$4,800/DU** Operating Expenses; **4%** LIHTC Bridge Loan; **4-yr. Fully Amortizing** 0% Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$10,016,214**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$1,982,987**

CASE STUDY PROBLEM: LIHTC + 221(d)(4)

Gross Rents				**$857,880**
Vacancy Factor				5.00%
Gross Rents Less Vacancy Factor				$814,986
Adjustment for PBV Rents				
	PBV Rent/DU		$866	$114,312
	Less: AMI Rent			-$75,240
Adjusted Gross Rents				**$854,058**
LESS: Operating Expenses				
		$4,800	69	$331,200
Adj. Gross Rents Less Op. Exp.				**$522,858**
LESS: Annual Interest on Bridge Loan				
Rate	Principal Amt.			
4%		1,365,000		$54,600
NOI Balance				$468,258
LESS: Debt Service on TCAP Loan				
Rate	Principal Amt.	Term		
0.00%		2,000,000	48	
Amt. Remaining for Debt Service				**$468,258**
1.10:1 DSCR Amt.				**$425,689**
Maximum 221(d)(4) Loan Amount				
Rate	Term in Mos.	Pmt.		$10,016,214
4.25%		480	-$425,689	
NOI After 221(d)(4) Debt Service				$42,569
TCAP Loan servicable				$2,043,308
TCAP Amt. negatively amortizing				($43,308)
Negative Amort. Amt. (Ann.)				$0

5.0% Vacancy Rate; **$4,800/DU** Operating Expenses; **4%** LIHTC Bridge Loan; **4-yr. Fully Amortizing** 0% Cash-Flow TCAP Loan; 40-yr. **4.25%** 221(d)(4) Mortgage; **$1,500,000** in state/local sources; **$500,000** foundation grants

Project TDC			**$13,500,000**
LIHTC Equity			
	LIHTC Reservation	**$3,000,000**	
	9% PV	**70%**	
	LIHTC Amt.	**$2,100,000**	
	LIHTC Pricing	**$0.65**	
	LIHTC Equity		**$1,365,000**
Remaining Balance to be financed			**$12,135,000**
Maximum 221(d)(4) Loan Amt.			**$10,016,214**
TCAP Loan Proceeds			**$2,000,000**
MEEHA Grant			**$135,799**
Gap to be financed			**$1,982,987**
State Housing Trust Fund 0% CF Loan			**$1,000,000**
Local Housing Trust Fund 0% CF Loan			**$500,000**
National Foundation Grant			**$300,000**
Local/Regional Foundation Grant			**$200,000**
Subtotal of Additional Sources			**$2,000,000**
Remaining gap to be financed			**-$17,013**

GLOSSARY OF LIHTC AND RELATED FINANCING TERMS

AMI. Area Median Income.

ARRA: American Recovery and Reinvestment Act (ARRA)

Accountability, Transparency, and Reporting: ARRA requires grantee to post on its website a description of the competitive selection criteria used to make TCAP awards and a list of all projects selected for funding including TCAP funding amounts. See also http://www.whitehouse.gov/omb for additional information on accountability and reporting requirements.

Area Median Gross Income ("AMGI") – The gross income of families that are below half of all families in a given area.

Compliance Period – A period of fifteen years (starting with the first taxable year of the credit period) in which a project must satisfy all low income housing tax credit requirements for compliance.

Development Entity. A legal entity under applicable state law that under the IRC passes all of its annual tax attributes through to its owners (a “pass-through” entity), usually a general partnership, limited partnership, or Subchapter S corporation

DSCR or Debt-service coverage ratio. The ratio of a development project’s annual net operating income (“NOI”) before debt service to the amount of annual debt service.

Eligible basis. Those costs attendant the development and construction of improvements that qualify for the federal low-income tax credit program under IRC Sec. 42, which are included in the calculation of the amount of the tax credit allowed under the LIHTC Program.

Extended Low Income Housing Agreement – An agreement between the housing credit agency (“state agency”) that extends requirements of low income housing for 30 years.

Eligible TCAP Projects: Rental housing projects that received or will receive an award of LIHTC under Section 42 (h) of the IRC during the federal fiscal years 2007, 2008 or 2009 (October 1, 2006 through September 30, 2009)

Eligible Tax exchange projects: Projects for sub awards which are qualified low income buildings under Section 42 of the Internal Revenue Code. Sub awards for a project may not exceed the amount necessary to ensure the financial feasibility of the project and its viability as a project throughout the credit period.

FHA or Federal Housing Administration. A division within HUD dealing primarily with insurance and loan guarantee programs intended to facilitate the development and leasing of affordable rental housing.
Gross Income – All income from a verified source, including cash or value of services and property.

Grantee Eligibility: *For TCAP*/Housing credit agency for 50 states, the District of Columbia and the Commonwealth of Puerto Rico

For Tax Exchange: Housing credit agency for 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, and Northern Mariana Islands

HH. A household or households ("HHs").

HUD. The United States Department of Housing and Urban Development.

Housing Credit Agency ("State Agency") – The local or state housing agency that allocates low income housing tax credits and monitors compliance.

IDIS: HUD's Integrated Disbursement and Information System

IRC. The Internal Revenue Code, as amended from time-to-time, as set forth in Title 26 of the United States Code (26 U.S.C.).

IRS. Internal Revenue Service

LIHTC. Federal tax credits available under the low-income housing tax credit program under IRC Sec. 42

LTV or Loan to Value Ratio. The ratio the initial principal balance of a loan bear to the value of it's collateral.

Minimum Set Aside Test – Used to determine qualification of a building in a low income housing project. They include 20/50, 25/60 (New York City only) and 40/60.

Private Activity Bonds. Bonds exempt from federal taxation in accordance with IRC Sec. 146 the proceeds from which are allowed to be devoted to specified private purposes.

PBVs or Project-Based Vouchers. HUD Section 8 rental assistance vouchers attached to a specific project rather than being provided directly to an income-eligible tenant (i.e. Tenant-Based Vouchers")

Placed in Service Date – The date the property is ready for occupancy and when the credit period begins.

QAP or Qualified Allocation Plan. A written plan, updated and adopted annually, by each state's Allocating Agency, which sets forth the manner in which that state's annual Treasury allocation of low-income housing tax credits may be reserved for and applied to an eligible project.

Recapture: The applicable portion of the TCAP funds disbursed to the project subject to recapture in an amount equal to the amount of funds disbursed to Borrower, together with any interest or penalties that may accrue under the TCAP Program Requirements

Site. The improved or unimproved land on which the Developer plans to build the Project.

Treasury. The United States Department of the Treasury.

Tax credit compliance period. Also referred to as the “15-year compliance period, the fifteen years during which a LIHTC project must maintain compliance with all of the LIHTC requirements, including maintaining income-eligibility and charging rents that are affordable to those income-eligible households.

Tax Credit Investor. An individual, corporation or other taxable entity that seeks to secure the federal low-income housing tax credits and other tax attributes, including losses, in connection with the development, financing and leasing of low-income housing under IRC Sec 42.

Tax Credit Exchange Program: Grants in lieu of tax credits/Section 1602 of the ARRA Act of 2009; State tax credit agencies can exchange 2008 and 2009 9% tax credits for a grant; 100% of a state’s unused and returned 2008 tax credits can be

exchanged, and 40% of a state’s new 2009 tax credits can be exchanged

TCAP: Tax Credit Assistance Program

Utility Allowance – The average cost of tenant utilities determined by the Secretary of Treasury.

20/50 Test – This is a minimum set aside used to determine if a particular building qualifies as low income housing. It meets this qualification if at least 20% of the units are occupied by tenants who have an income equal to or less than 50% of the area median income and are rent restricted.

40/60 Test – This is a minimum set aside used to determine if a particular building qualifies as low income housing. It meets this qualification if at least 40% of the units are occupied by tenants who have an income equal to or less than 60% of the area median income and are rent restricted.

DEVAL

Real Estate . Financial . Management

Who We Are

DEVAL is a Limited Liability Company that is 100% owned by a Hispanic-American woman. Founded in 2002, DEVAL is an 8(a) certified, SDB, DMBE consulting firm with GSA Mobis 874 and FABS 520 schedule contracts. DEVAL's service areas include: real estate, financial advisory, management, accounting and audit support.

Our team is staffed with professionals specializing in the financial and housing industry, including former FHA, FDIC, and OIG employees, auditors and contractors with comprehensive understanding of Government processes. Our team's staff is experienced in quality assurance, internal control assessment and audit as well as information systems process management. The DEVAL team is also an experienced group of asset managers, asset servicers, underwriters, attorneys, CPA's, program managers, and project managers.

Our team has provided due diligence, asset management, asset servicing, valuations, compliance, closings, marketing, advertising of assets, financial feasibility studies, systems integration, databases, and application development to a range of private and public clients. In providing all services, our team is committed to quality and responsive services to its clients.

Deborah García, Esq.

Deborah García is the President and founder of DEVAL LLC. Founded in 2002, DEVAL is an 8(a) certified, 100% Hispanic-American Woman Owned, Small Disadvantaged Business (SDB), DMBE consulting firm providing real estate, property management, financial advisory, valuation, and accounting support to both private and public clients. Ms. García is a licensed attorney with a professional and educational background in real estate and finance. A provider of consulting services to both private and public clients, Ms. García has served clients on numerous levels. In this capacity, Ms. Garcia has served: the Federal Deposit Insurance Corporation, The United States Department of Housing and Urban Development, United States Department of Agriculture, United States Department of Interior, United States Department of State, United States Department of Veteran Affairs, the District of Columbia Government, AEW Capital Management, RSMI McGladrey, American Express Financial Advisors, Deloitte and Touché, ICF International, CB Richard Ellis, Eastdil Secured, Huron Consulting Group, and Jones Lang LaSalle.

Prior to founding DEVAL, Ms. García worked as a Real Estate Consultant for Arthur Andersen LLP in Vienna, Virginia. Ms. García assisted in the effort to formulate and implement HUD's appraisal standards and review process. Achievements under this projects were recognized by Vice President Al Gore though the receipt of the Hammer Award.

Ms. García has a Masters of Business specializing in Real Estate from the University of Florida Warrington College of Business: a Juris Doctor from the University of Florida Levin College of Law; a Dual Bachelor's of Arts in Public Administration and Criminal Justice from the University of Central Florida. Ms. Garcia is licensed to practiced law in the District of Columbia and Florida. Ms. Garcia, a native of Puerto Rico, is fluent in Spanish and lives with her husband and two sons in Northern Virginia.

Peter Smirniotopoulos

Is a nationally recognized development strategist, urban theorist, and award-winning author. He is an independent consultant based in Falls Church, Virginia, and also serves as Senior V.P. of UniDev LLC, a leader in the design, development, financing, and management of workforce housing communities throughout the U.S. providing advisory and project management services to colleges and universities, local and state governmental entities, non-profit organizations, and private-sector developers.

Mr. Smirniotopoulos has been involved with the development and financing of affordable housing for almost 30 years, and has held several senior management positions in private-sector and public organizations engaged in the development and financing of affordable housing opportunities. He has designed, written the curriculums for, and taught a series of affordable housing finance workshops throughout the U.S., sponsored by the National Association of Housing and Redevelopment Officials ("NAHRO") and the Association of Local Housing Finance Agencies ("ALHFA"), and he is conversant in the use of tax-exempt bonds, low-income housing tax credits ("LIHTC") and new markets tax credits ("NMTC"). He also has been a featured speaker at major industry conferences throughout the U.S.

Prior to joining UniDev in 2004, Mr. Smirniotopoulos was the Managing Director of **petersgroup companies**, a national real estate consulting firm he founded in 1999, through which he facilitated the creation of urban housing and mixed-use projects, new town centers and planned communities, and community gathering places throughout the U.S. His work has included the development of urban revitalization and economic development strategies; the transformation of public housing into sustainable, mixed-income neighborhoods; strategic planning for the development of ecologically sensitive lands; and the creation of vibrant, viable, and diverse communities, for both public and private-sector clients. Since 1981, Mr. Smirniotopoulos has handled comprehensive and development planning, and capital formation and finance transactions well in excess of $4 billion. Since 1999 he has planned mixed-income housing revitalization and mixed-use urban redevelopment projects in Atlanta, Baltimore, Birmingham, Fort Worth, Las Cruces, Orlando, San Francisco, and Washington, D.C., among others. Mr. Smirniotopoulos was a real estate and corporate finance attorney in Washington, D.C. for twelve years, before becoming the Program Administrator for the Alexandria Redevelopment and Housing Authority in 1995. During his four-year tenure with ARHA he was responsible for the issuance of $159 million in housing bonds, financing 1,421 dwelling units, including 559 affordable and 296 seniors units.

Mr. Smirniotopoulos' nationally published articles include *"The Meaning of Place,"* **Urban Land**, March 2001, winner of ULI's 2001 Apgar Award, and *"Matriculation Reloaded,"* **Urban Land**, October 2003, advocating the economic and physical integration of college and university campuses with their surrounding communities. His twentieth national publication, *"In Search of the Middle Class,"* appeared in the October 2004 issue of **Urban Land**. Mr. Smirniotopoulos served as Contributing Editor for the Urban Land Institute's HUD-commissioned report, **Engaging the Private Sector in HOPE VI**, and he is a Primary Contributing Author for ULI's **Residential Development Handbook, Third Edition** (Washington, D.C., 2004). In 2008, Mr. Smirniotopoulos became a Contributing Editor to The New Geography, a web site devoted to analyzing and discussing the places where we live and work (www.newgeography.com).

Mr. Smirniotopoulos has been quoted as an expert in *The New York Times*, *The Washington Post*, *The Miami Herald*, and *The Baltimore Sun*, among others, as well as in **Planning** and **Urban Land** magazines. Mr. Smirniotopoulos holds undergraduate and law degrees from Georgetown University. He served on the professional faculty at Johns Hopkins University from 1999 through 2004, teaching in the Masters of Science in Real Estate Program. He is also a former Full Member of ULI and has served on six Advisory Services panels, including two as Panel Chair.

MARYE E ISH

Marye E. Ish was born in Chicago, Illinois and raised in Rockford, Illinois. She is lawyer with 38 years of on point experience with affordable and low income housing. She started off as a Social Coordinator for the Rockford, Illinois Housing Authority. Following this, she worked as a Planner for the Omaha, Nebraska Housing Authority and then with the City of Omaha, Nebraska's Housing and Community Development Department as a Community Development Block Grant (CDBG) Housing Specialist. Ms. Ish then worked for the District of Columbia's Municipal Planning Office (MPO) as a Planner. Her next position was with the National Association of Neighborhoods (NAN) as the East Coast Housing Researcher for the Anti-Displacement Project and then onto the State of Maryland as a Housing Specialist with the Section 8 Program. She then worked at the Wesley Housing Development Corporation in Virginia, as a Management Specialist, followed by a position with Arlington County, Virginia as the Section 8 Program Coordinator and then as Housing Program Supervisor. Her next position was at the Alexandria, Virginia Redevelopment and Housing Authority as the Director of Housing Operations.

She currently works for the DEVAL, LLC as the Director of Affordable Housing.

Ms. Ish graduated from the University of Kansas, Lawrence, Kansas with a B. S. in Journalism, and then completed her Masters in Regional and Community Planning (MRCP) degree at Kansas State University in Manhattan, Kansas where she was awarded the HUD 701 Comprehensive Planning Scholarship. She obtained her law degree (JD) from American University in Washington, D. C.

Her hobbies include travel, reading and swimming.

John Majeski

John Majeski is an accomplished professional with over 14 years of experience in affordable and market rate, multifamily housing. He has a significant back ground in Low Income Housing Tax Credits as well as other government subsidized programs. He currently provides consulting services that entail financial analysis, asset management, transactional analysis, and strategic planning. Prior to conducting his consulting services, John has been involved in the asset management of over 250 affordable properties. His experience also includes just under $1B in dispositions. In addition, he has been extensively involved in acquisitions and loan restructuring for both affordable and market rate multifamily housing properties. He held positions with Apartment Investment and Management Company (“AIMCO”), Apollo Housing Capital, Hudson Housing Capital, and National Corporation for Housing Partnerships (“NHP”).   John has a B.B.A. in Business Management from James Madison University.