Comptroller of the Currency
Administrator of National Banks

Community Developments

Community Affairs Department

Fact Sheet

Low-Income Housing Tax Credit Program

What is the Low-Income Housing Tax Credit program?

The Low-Income Housing Tax Credit (LIHTC) program was established by the Tax Reform Act of 1986 (Internal Revenue Code Section 42) to create market incentives for the acquisition and development or rehabilitation of affordable rental housing. Over the last two decades, this program has become an important tool for addressing the nation's affordable housing needs.

How does the program work?

The LIHTC program authorizes state housing credit agencies (HCAs) to award 9 percent and 4 percent federal tax credits to developers of affordable rental housing. The tax credits are used by developers to raise equity financing for their projects.

The equity capital generated from the tax credits lowers the debt burden on LIHTC properties, making it easier for owners to offer lower, more affordable rents; while investors, such as banks, obtain a dollar-for-dollar reduction in their federal tax liability.

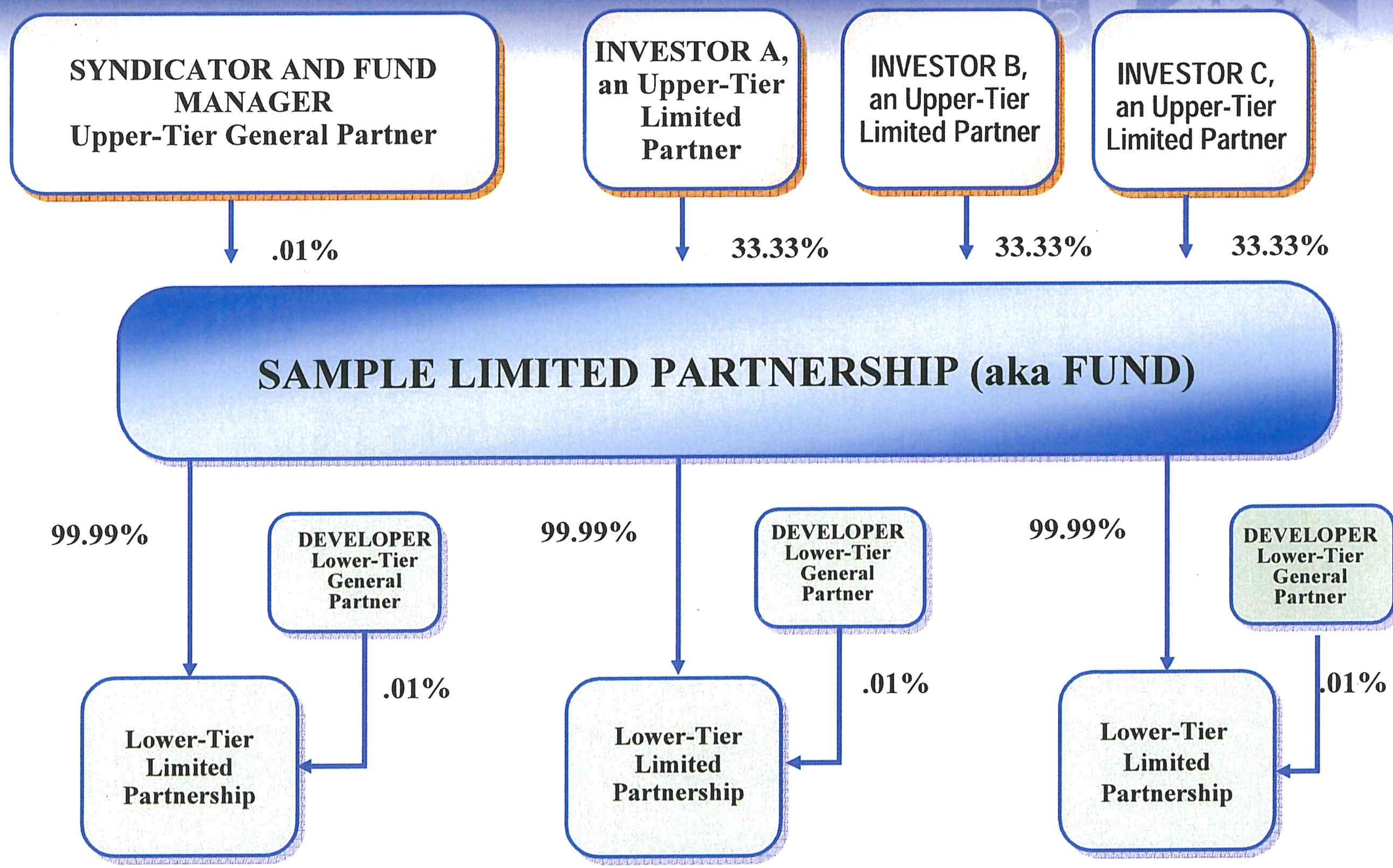
National banks can invest in LIHTC projects by making direct investments in affordable housing projects and investments in funds comprised of multiple projects. These investments will receive a stream of tax credits during the initial 10 years of a 15-year tax compliance period. Such investments are typically structured as real estate limited partnerships or limited-liability companies. Thus, a national bank, as a limited partner or limited-liability member, can generate additional returns with the pass through of depreciation and cash flow in these real estate investments.

How are tax credits awarded?

Under the authority of the Internal Revenue Service (IRS), state HCAs administer the LIHTC program through qualified allocation plans (QAPs). States are allowed to set specific allocation criteria for awarding tax credits and must develop QAPs that identify and prioritize housing needs, especially for low-income renter households. Criteria used to guide the selection of projects awarded tax credits must also be included in a state's QAP. HCAs award tax credits to developers based on the housing needs identified and selection criteria established.

At the state level, the annual volume cap for the 9 percent tax credit is equal to the state population multiplied by a fixed per capita rate. The 4 percent tax credit allocation is based on the state's volume cap for private activity bonds, which is equal to the state population multiplied by a per capita rate. Nonprofit and for-profit developers apply for the tax credits to build and rehabilitate affordable rental housing. Tax credits are available only to help cover the cost of units within qualified projects reserved for rental to low-income households.

Sample Fund Structure



What Are a Project's Underwriting Considerations?

- Past performance of development team - collectively and independently
- Financial projections - project and fund level
- Real estate and tax due diligence
- Site and operational considerations
- Project comparables - market and affordable

How Is the Amount of a Project's Housing Credit Calculated?

Units	50
Multiplied by Unit Cost (including Land)	$80,000
Total Cost	$4,000,000
Land Cost	($400,000)
Non-Depreciable Expenses	($100,000)
Depreciable Basis	$3,500,000

Multiplied by Tax Credit Rate	9.00%
Annual Allocation	$315,000
Multiplied by	10 years
Available Credits	$3,150,000
Multiplied by Credit Price	$0.83
Available Equity	$2, 614,500

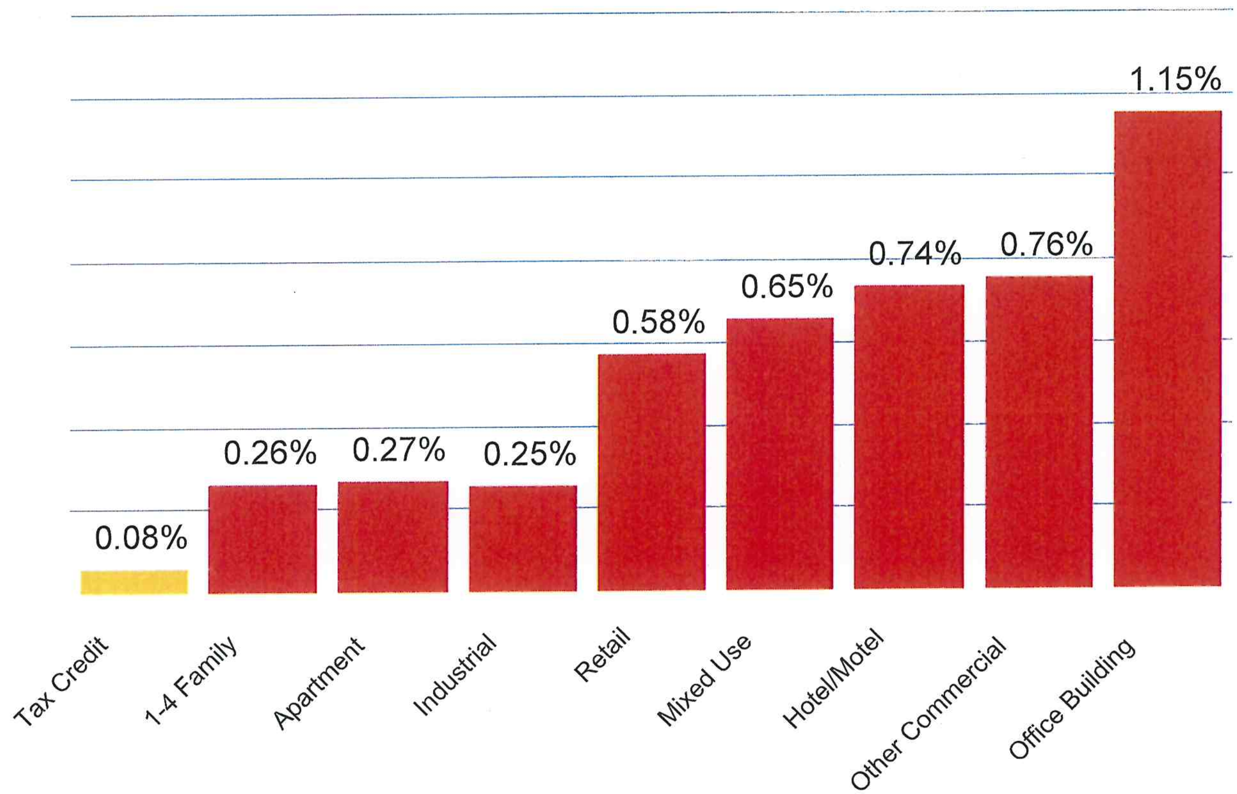
Simplified Investor Benefits Projection

Year	Capital Contributed	Tax Credits Earned	Tax Deductions Earned (at 35% tax rate)
2008	$200,000	$0	$12,000
2009	$300,000	$0	$18,000
2010	$500,000	$110,000	$33,000
2011-2019	$0	$110,000 (annually)	$27,000 (annually, on average)
2020-2024	$0	$0	$22,000 (annually, on average)
Total	**$1,000,000**	**$1,100,000**	**$350,000**

$1 million investment earns investor $1.45 million in total benefits and yields a 7% IRR

Industry Performance

Average Annual Foreclosure Rate by Asset Class: 1993 - 2006



Source: ACLI Mortgage Loan Portfolio Profile, 1993-2006 Except Tax Credit Data