Protecting the Future of HUD Housing Assets

TAX EXEMPT MULTI-FAMILY BONDS & LOW INCOME TAX CREDITS

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TWO POWERFUL FEDERAL SUBSIDIES FOR AFFORDABLE HOUSING: TAX EXEMPT MULTI-FAMILY BONDS AND LOW INCOME TAX CREDITS

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TAX EXEMPT MULTI-FAMILY HOUSING BONDS

- Section 142(d) of Internal Revenue Code allows states, cities and other potential subdivisions to issue low rate municipal bonds and lend the proceeds to private partnerships who agree to use the proceeds for affordable rental housing.
- Historically, the interest rate spread between tax exempt and taxable were significant, but that is not necessarily true today. The more significant benefit is the 4% tax credit allocation.
- Because the project owner is a private partnership, these municipal bonds are called "private activity bonds."
- California allocates about $1.25 billion of its bond volume to tax exempt multi-family housing bonds.
- The multi-family housing bonds is the only allocation of bond volume that triggers an additional, even greater subsidy, in the form of "4%" tax credits on the equity side of the deal.

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LOW INCOME HOUSING TAX CREDITS: EXTREMELY POWERFUL EQUITYSIDE SUBSIDY

- Section 42 of the Internal Revenue Code creates two types of tax credits for affordable housing projects – so-called "9% credits" and "4% credits."
- 9% Credits can be combined with local funds and used in conjunction with HAP contracts and conventional loans
- 9% credits cannot be used in conjunction with tax-exempt bond financing.
- The use of private activity bonds triggers the 4% tax credits and they can be combined with local funds and HAP contracts

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How Does Low Income Housing Tax Credit Equity work?

- Section 42 permits investors in qualified projects to claim an annual credit against federal income tax for a 10-year period after the project is placed in service.
- Essentially, the amount of tax credit equity is based on the eligible basis of the particular project, whether it is a 9% or 4%, whether it is located in a DDA or QCT and the price an investor is willing to pay.
- Amount of credit which can be taken each year is a specified percentage (e.g. approximately 9% or 4%) of the cost of the affordable units in the project (minus land and some other non depreciable costs).

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- These percentages can be increased in high cost or difficult to develop areas or areas that are in certain qualified census tracts.
- These tax credits are sold to investors who become limited partners in the partnership.
- Investors prefer these tax credits because they offer an actual dollar of credit against a dollar of federal tax liability over a 10-year period.
- 9% Tax credits are competitive and require deeper targeting to garner the points and there is some resistance from various State allocation committees.
- 4% tax credits are readily available and thus there is certitude of execution, if you can make the deal balance.

9% VS. 4%

9% Tax Credit Proforma

Permanent Loan	$ 500,000
Federal 9% Tax Credit Proceeds	$12,812,594
FHLB	$ 470,000
Deferred Developer Fee	$ 39,754
Total	$13,822,348

4% Tax Credit Proforma

Permanent Loan	$ 917,000
Federal 4% Tax Credit Proceeds	$ 4,815,360
FHLB	$ 470,000
Additional Proceeds Needed	$ 7,583,234
Deferred Developer Fee	$ 39,754
Total	$13,822,348

How to Best Utilize the Program

- If you are a seller who wants to recapitalize your non profit to pursue your main mission, that can be completed quite easily.
- If you are interested in maintaining an ownership interest, we have what we call a continuity of ownership program. You can maintain ownership interest during the 15 year compliance period, rehabilitate the property now and receive the property back after the compliance period.

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