



Low-Income Housing Tax Credit

The Developer's perspective



Who Are We?

- Non-profit organization formed in 1999 by a consortium of Utah banks
- Member banks have committed to fund a \$131 million loan pool.
- Mission: *Provide capital to serve low and moderate income individuals and underserved communities through enhanced financial services and innovation.*



Member Banks

Ally Bank

American Express Centurion

American Express Bank, fsb

American West Bank

Bank of American Fork

Capmark Bank

Central Bank

Chase Bank

CIT Bank

Frontier Bank

GE Capital Finance Inc.

GE Money Bank

Heritage Bank

KeyBank

LCA Bank

Marlin Business Bank

Medallion Bank

Merrick Bank Corp.

Morgan Stanley Bank

Optumhealth Bank

Pitney Bowes Bank

Republic Bank

Transportation Alliance Bank

UBS Bank USA

U.S. Bank of Utah

Washington Federal Savings

Web Bank Corporation

Wright Express Financial Serv.

Zions First National Bank

Loan Production



- Loan Funded \$98,800,000
 - Commitments \$20,400,000
 - Total Pool Activity \$119,200,000
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- ✓ Funding for 3,819 affordable (35% - 55% AMI) housing units in 85 projects located in Utah, Idaho, Wyoming, Nevada and Arizona

What is Affordable Housing?



- Statute 10-9-307 of Utah Code: Housing for households with gross household income equal to or less than 80% of median gross income for household of the same size in the county in which the city is located.
- *Section-42 Low Income Housing Credit: At least 60% of units affordable to households earning less than 60% of the area median income (AMI)*
 - **Salt Lake County:** affordable to 4-person household earning \$33,360 or 1-person household earning \$23,400
 - **Non-metro Counties:** affordable to 4-person household earning \$42,240 or 1-person household earning \$29,580

What does it mean to be affordable?

- Federal Government: not more 30% of gross income is spent of housing & housing related utilities (excluding phone)
- Affordable Low Income equals monthly gross rent (including utilities):
 - In Salt lake County:
 - \$1,098 for 4 persons (3 bedrooms)
 - \$792 for 1 person (1 bedroom)
 - In non-metro Counties:
 - \$867 for 4 persons (3 bedrooms)
 - \$626 for 1 person (1 bedroom)

How does Low Income housing requirement compare to market rent?

SLC	<u>60%</u>	<u>Market</u>
1 bed	\$ 792	\$ 800
3 bed	\$1,098	\$1,400

Grand & San Juan County

1 bed	\$ 626	\$430
3 bed	\$ 867	\$550

Funding a LIHTC Project

- Equity Sources
 - Public funds (*CDBG*)
 - Private grants (*FHLB-AHP, Foundations*)
 - LIHTC investors
- Debt Sources
 - Lending consortia (*term loans*)
 - Commercial banks (*construction loans*)
 - Public funds (*HOME, local funds*)

Rural Project, 48 Units, 41% AMI			
USES	Total	\$/Unit	% Total
Land Purchase	352,000	7,330	5.8%
Direct Construction Costs	4,321,000	90,020	70.7%
Architectural & Engineering Fees	275,000	5,730	4.5%
Profit & Overhead (contractor & developer)	500,000	10,420	8.2%
Construction Financing Costs	355,000	7,400	5.8%
Permanent Financing Fees & Expenses	22,000	460	0.4%
Partnership Expenses	55,000	1,150	0.9%
Capitalized Operating Reserves	230,000	4,790	3.8%
Total Costs	6,110,000	122,680	100.0%
SOURCES			
UCRC Permanent Loan	1,000,000	20,830	16.4%
Olene Walker Housing Trust Fund	660,000	13,750	10.8%
Deferred Developer Fee	50,000	1,040	0.8%
Federal LIHTC Proceeds	4,100,000	85,420	67.1%
State LIHTC Proceeds	300,000	6,250	4.9%
Total Funds	6,110,000	127,290	100.0%

Urban Project - Difficult to Develop Area, 25 units, 42% AMI			
USES	Total	\$/Unit	% of Total
Land Purchase	90,100	3,600	5.1%
Direct Costs	2,325,700	93,030	72.9%
Architectural & Engineering Fees	141,800	5,670	4.6%
Developer Fee	286,500	11,460	9.3%
Construction Financing	92,000	3,680	3.0%
Permanent Financing Fees & Expenses	17,000	680	0.6%
Syndication Costs	35,400	1,420	1.2%
Project Reserves	78,200	3,130	2.5%
Total Costs	3,066,700	122,670	100.00%
SOURCES			
UCRC	400,000	16,000	13.0%
Local Government Loan	300,000	12,000	9.8%
OWHTF	200,000	8,000	6.5%
Developer Fee	36,000	1,440	1.2%
Fed. LIHTC Proceeds	1,609,600	64,384	52.5%
State LIHTC Proceeds	89,100	3,564	2.9%
FHLB-AHP Grant and other grants	432,000	17,280	14.1%
Total Funds	3,066,700	122,670	100.00%

Putting Together a LIHTC Project

- Feasibility Review - Market & Financial
- Compete for financial resource
- Select development team
- Underwrite and close funding sources
- Construct project
- Lease up and stabilize project

Matching resources to needs



			AMI Targeting					
			80% - 120%	60% - 80%	50%-60%	40%-50%	35%-40%	below 35%
SUBSIDY TYPE	PROJECT	Private sources Tax exempt bonds 4% tax credits 9% tax credits gov direct loans gov & private grants fee deferral	✓	✓	✓ ✓	✓ ✓	✓ ✓ ✓ ✓	
	TENANT	Section 8 voucher USDA-RD 515 HUD 202 program					✓ ✓ ✓	✓ ✓ ✓

How is affordability assured?

- **Tax exempt bonds:** Recorded use restriction for 51 years , loss of tax exemption for non-compliance
- **9% tax credits:** Recorded use restriction for 99 years, loss of tax credits with penalty & interest for non-compliance
- **Local & State Loans:** Recorded use restriction for 20 years, increased interest rate for non-compliance



Structuring the LIHTC Team

- Sponsor / developer / general partner
- Limited partner / LIHTC syndicate
- Contractor
- Property manager
- Social service providers

Investor Consideration / Benefit

- At risk equity contribution:
 - *Timing of contributions affect ROI*
- Purchase 99.99% of partnership
 - *Must perform asset management*
- Receives tax shelter / losses / residual:
 - *Tax credits, depreciation, interest expense*
 - *Does not look to cash revenue for return*
 - *May share in residual value at termination of partnership*

Developer's Consideration

- Guarantees
 - To investor:
 - Construction completion & cost overruns
 - Delivery of credits & tax losses (*adjusters*)
 - Operating deficit
 - LIHTC Compliance
 - To Construction Lender:
 - Construction completion & cost overruns
 - To Term Lender: none – nonrecourse debt