

# Low-Income Housing Tax Credits

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Andrew Kelman, Freddie Mac

# Low-Income Housing Tax Credits (LIHTC)

What are low-income housing tax credits?

- ❖ Housing program administrated by the Treasury Department
- ❖ Federal program administrated by the states
- ❖ A program funded by private capital subject to governmental regulations
- ❖ **Equity, not debt**

# What Are LIHTCs?

- ❖ Section 42, Internal Revenue Code
- ❖ Corporations invest equity in affordable housing in exchange for Tax Credits
- ❖ Tax Credits used over a 10-year period, reduce tax liability dollar-for-dollar

# How Tax Credits Create Affordable Housing

- ❖ LIHTC Equity invested in a project reduces the amount of debt (mortgage), making rents more affordable

# Low Income Housing Tax Credit Process

States

allocate credits to

Projects

which pass through

Syndicators

to

Investors

which exchange \$  
for tax credits

## LIHTC Results

- ❖ Projects must stay affordable for 15 years at 60% of median income or less
- ❖ Projects are either substantial rehab or new construction
- ❖ LIHTCs produced over 1.5 million units of affordable housing since 1987

# Tax Credit Projects Differ From Conventional Multifamily Projects

- ❖ Timing and amount of cash into a transaction
- ❖ Impact on debt structure
- ❖ Many projects have soft debt, subsidies, real estate tax abatements
- ❖ 15-year compliance period
- ❖ State and IRS oversight
- ❖ Exit will vary

## Role of the States

- ❖ States can and do set their own requirements within the federal program
- ❖ Projects financed with tax-exempt bonds are eligible for fewer credits and are outside the LIHTC cap
- ❖ States award credits on a competitive basis (\$1.75 per capita)

# The Market

- ❖ The Market: \$4-6 billion annually depending on the number of bond transactions
- ❖ Corporations have large and growing portfolios
- ❖ Today's investors: GSEs, banks, some insurance companies
- ❖ Established industry with associations, standards, conferences
- ❖ Non-profits play a large role in the industry, both as syndicators and as project developers

# The Market

- ❖ Financial market, subject to supply and demand, risk and return
- ❖ New syndicators and consolidation of syndicators

# LIHTC ISSUES

- ❖ Bank must be profitable. Otherwise the tax credits are worthless.
- ❖ Risk of recapture of benefits if project not in compliance for full 15 years.
- ❖ Bank foreclosure will wipe out tax credits and engender recapture of benefits.
- ❖ Project losses will have negative effect on earnings per share (EPS).
- ❖ Tax benefits limited by Alternative Minimum Tax (AMT).



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