TaxCredit Advisor

PUBLISHED IN ASSOCIATION WITH THE NATIONAL HOUSING & REHABILITATION ASSOCIATION

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Making Gold
From Green

PAGE 30

Rehabilitation of Salem Towers, Malden, Mass.

Architect: Horne + Johnson Architects/StepONE
Developers: New England Communities, Inc. and Beth Israel Senior Citizens Housing, Inc.

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Publisher: Peter Bell

Associate Publisher: Thom Amdur

Editor: Glenn Petherick 202-939-1774 • gpetherick@dworbell.com

Director of Communications & Marketing: Marty Bell

Advertising: Scott Oser 301-279-0468 • soser@dworbell.com

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Address correspondence to:

Circulation 1400 16th Street, NW, Suite 420 Washington, DC 20036 Tel 202-939-1790, Fax 202-265-4435 www.housingonline.com

Editorial office at same address as above.

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THOM AMDUR: New Developments

A Place at the Table

n March, HUD made a big announcement – the first set of planning grantees and finalists for implementation grants under the Choice Neighborhoods Initiative (CNI). This ambitious (not yet authorized) program is designed to replace and expand upon the HOPE VI public housing redevelopment program. Though modest funding was provided last year for the initial grants, CNI represents a grand vision to transform distressed areas of concentrated poverty into viable and sustainable mixed-income neighborhoods. It expands the pool of eligible grant applicants beyond public housing



Thom Amdur

authorities, the only entities eligible under HOPE VI, to add local governments, nonprofit organizations, and for-profit developers. CNI is part of a larger interagency initiative to meld affordable housing, educational resources, transportation, and services.

So who are the big winners for CNI? At least in this first round, CNI is largely targeted to public housing authorities, many with private developer partners. Most of the grantees plan to target public housing projects, although grantees in Baltimore, Philadelphia, Shreveport, and Tulsa will target assisted housing.

What does this tell us? The initial CNI grantees reflect the Obama Administration's "big picture" rental housing priorities – a focus on preserving the existing rental stock. While forced to make tough choices because of the budget environment, President Obama's team is investing some of its limited fiscal resources and much of its intellectual capital to develop innovative solutions to preserve the nation's aging, most distressed affordable housing assets.

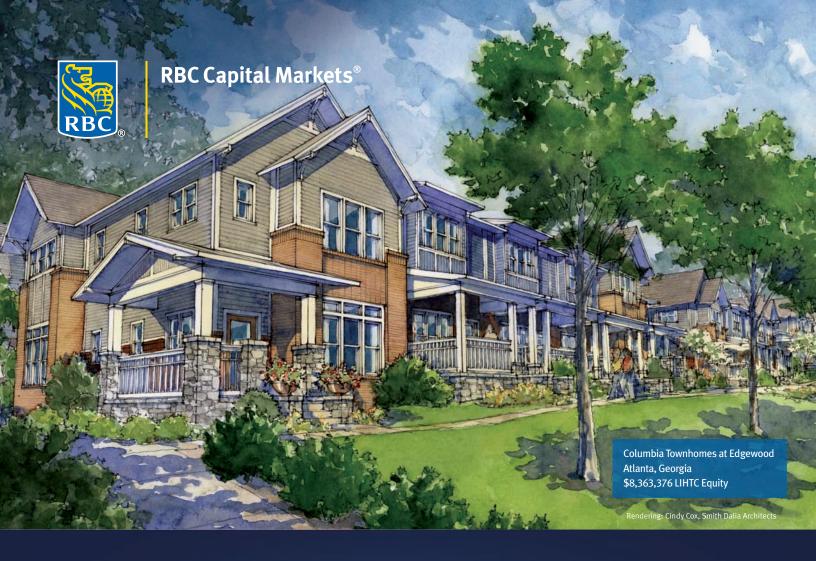
The proposed budget cuts to programs like Community Development Block Grants and public housing operating subsidies will be deeply felt in communities nationwide. Unfortunately, our new reality is that affordable housing professionals will have to learn to do more with less.

True, this year's CNI allocation is very small. But when you consider other proposed initiatives currently working their way through the Administration and Congress (e.g., Transformation of Rental Assistance proposal, Better Buildings Initiative), unfinished business (e.g., capitalization of the National Affordable Housing Trust Fund), and legislative proposals (e.g., basis boost for preservation transactions utilizing tax-exempt bonds and 4% low-income housing tax credits, extending the Section 1602 exchange and Build America Bond programs), we see an intellectual commitment to creating new affordable housing preservation tools.

What should this mean to you? For starters, future resources are likely to be scarce – the successful developer must seek out less conventional opportunities. For example, a full-scale resyndication may not be possible in the near term; however, new programs and resources aimed at retrofits may be just the ticket – temporarily – to freshen up a property until larger financial resources return. Alternatively, many housing authority properties have significant physical needs and access through PHAs to resources not available to the private developer. Maybe it is time to take a second look at mixed-finance and joint venture opportunities?

Unfortunately, smart ideas and good intentions alone are not enough. We must expand our support in Congress for affordable housing. Funding shortfalls are just the beginning if we don't do a better job of educating our elected representatives. When Congress and the Administration make the proverbial "tough choices" about which programs to keep and which to cut, we want to make sure that we are present at the table – not decimated on the chopping block.

Thom Amdur is Associate Publisher of the Tax Credit Advisor and Executive Director, National Housing & Rehabilitation Association.



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Michael Riechman

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A New Model Deal

'Old Law' Section 202 Preserved Creatively

he oldest HUD Section 202 project in New England is being renovated and recapitalized in a creative \$17 million joint venture tax credit transaction of many "firsts" that may be a model for preserving other "old law" 202 developments.

Local developer Marc Slotnick is partnering with nonprofit Beth Israel Senior Citizens Housing, Inc. to redevelop the 81-unit Salem Towers affordable apartment tower for seniors in this close-in Boston suburb of 58,000. The nonprofit, started by a nearby Jewish synagogue,



Marc Slotnick

built Salem Towers in 1964 and has managed it since. But by recent years, the property was in dire need of modernization, supportive services, and extra dollars to enable its senior residents to comfortably age in place and continue to enjoy affordable rents.

"We've always tried to maintain the rents as low as possible but yet keep it attractive," says Larry Weiner, a local businessman, synagogue member, and president of the all-volunteer nonprofit. "I think we've done a fab-

Salem Towers Deal 'Firsts'

- HUD award of enhanced vouchers from a FY 2009 \$150 million tenant protection voucher pool under the special authority designated by the FY 2009 omnibus appropriations act for "old law" Section 202s.
- HUD approval of a preservation-motivated Section 202 loan prepayment authorized by the 2009 act.
- Conversion of Section 8 enhanced vouchers to project-based vouchers.
- HUD waiver permitting a housing authority to add units to a project-based voucher contract for 15 years, thereby facilitating the gradual conversion of enhanced to project-based vouchers.
- HUD approval of a LISC second mortgage predevelopment loan behind the 202, something usually permitted just for public lenders.
- First Massachusetts CIPF bridge loan from CEDAC closing prior to full bond cap funding availability.

ulous job. The rents were in the three, four hundred dollars a month range, even up to a few years ago. But we could see that there was need for upgrades to the facility...The one goal that we had was to make sure that everybody wouldn't be displaced, that everybody would still end up not paying more than 30 percent of their income [for rent], and leaving it as low-income senior citizen housing in Malden."

Dilemma for 'Old Law' 202s

Trouble was, there wasn't any cash in the cookie jar to do this.

Salem Towers was the nonprofit's only property and it lacked other assets. In addition, there was a thorny regulatory barrier. Like other "old law" Section 202 projects, which were funded during 1959-1974 with 50-year, 3% direct loans from the U.S. Department of Housing and Urban Development, the mortgage could only be prepaid and the project refinanced if the new loan had a lower interest rate. Also, old law 202 projects, such as Salem Towers, didn't receive project-based rent subsidies from HUD.

"You had this problem where the oldest 202s in the country, the ones with the greatest need, were the most unable to refinance," says Vincent O'Donnell of the Local Initiatives Support Corporation (LISC), which pro-



vided technical assistance for the Salem Towers deal and a pre-development loan.

Fortunately, the nonprofit had friends. Malden Mayor Richard Howard, the city council, and the Malden Housing Authority (MHA) all wanted to preserve Salem Towers as affordable apartments for seniors. "There's always a great need with our elderly and disabled population," says MHA Executive Director Stephen Finn.

Enter for-profit developer and consultant Marc Slotnick, president of New England Communities, Inc. Familiar with the nonprofit, and hearing of an opportunity in the FY 2009 omnibus appropriations act to permit refinancing and to provide federal enhanced housing vouchers that could be project-based, Slotnick con-

Salem Towers, continued on page 6

Salem Towers, continued from page 5

tacted and enlisted the help of LISC, Massachusetts U.S. Reps. Barney Frank and Ed Markey, HUD, the housing authority, and others. Over two years, he stitched together the necessary HUD approvals, waivers, and funding sources to make the deal work. It closed in December 2010.

Rehab Work, Rents

Construction, with tenants in place, is expected to be completed this fall. Planned improvements include installation of a second elevator; upgraded kitchens and bathrooms; new appliances, windows, storm doors, and heating units; a new roof; and 50% more common space from adding a club room, hair salon, exercise room, and second lobby. The entrance is being moved to the opposite side of the building and will be handicapped-accessible, and 18 apartments made handicapped-accessible and enlarged through reconfiguration and constructing "bump outs" on the outside of the building.

A part-time resident services coordinator, funded by the project's operating budget, will connect residents with vital supportive services.

Perhaps most importantly, rents will stay affordable. Upon completion, anticipated monthly project-based contract gross rents, including utility allowance, will be \$1,185 for the eight studios, \$1,264 for the 62 one bedrooms, and \$1,480 for the ten two bedrooms. With their vouchers, residents will no pay more than 30% of their income for rent.

"We want people to be able to age in place, to stay with us as long as possible, extend their lives, and remain living independently," says Slotnick.

Project-Based Assistance Key

Obtaining long-term project-based federal rent subsidies was key.

Salem Towers received 80 tenant-based enhanced vouchers from HUD under the special FY 2009 appropriations act authority. Separately, the project won a competitive award from the Malden Housing Authority of 80 project-based Section 8 vouchers. These will be made available once rehab is done to vacant units, to units whose residents wish to exchange their enhanced voucher, and to units whose residents move out and take their tenant-based enhanced voucher. MHA obtained a HUD waiver that allows it to expand the number of units cov-

Salem Towers Source and Uses Summary

SOURCES

SOURCES	
Bond-Financed Mortgage Financing	\$8,650,000
4% Low-Income Housing Tax Credit Equity Boston Capital	\$3,783,948
CIPF Loan – CEDAC	\$2,000,000
CBHF Loan – CEDAC	\$552,938
HOME Loan – North Suburban Consortium	\$1,400,000
Developer's Fee/Overhead, Contributed or Loaned	\$305,961
Net Rental Income 16 Months	\$700,118
Total Sources	17,392,965
USES	
Acquisition Cost: Building	\$3,600,000
Construction + Construction Contingency	\$7,836,170
Architecture/Engineering/Legal Fees	\$834,000
Construction Loan Interest	\$856,500
Other General Development Costs/Fees	\$1,793,225
Capitalized Reserves	\$961,080
Developer Overhead	\$755,995
Developer Fee	\$755,995
Total Development Cost	17,392,965

ered by the project-based Housing Assistance Payments (HAP) contract beyond the usual three-year time limit, to permit the replacement of relinquished and attrited tenant-based enhanced vouchers with project-based vouchers from the housing authority during the 15-year low-income housing tax credit compliance period.

"Marc and his team had a real problem with bridging a funding gap that we were able to resolve for them by making a simultaneous award of project-based vouchers," says Finn.

This assurance of long-term project-based rent subsidies for all units and a steady future income stream gave capital providers the comfort they wanted to agree to provide financing. Syndicator Boston Capital purchased the 4% federal housing credits for 73 cents per dollar, or \$3.8 million. New York-based Red Stone Partners bought \$8.65 million in unrated tax-exempt bonds issued by MassDevelopment and placed them in one of its bond funds. Bond proceeds are being used for construction and permanent financing. The interest rate on the bonds is 6.3% during rehab stepping up to 6.5%, with loan payments based on 40-year amortization

Salem Towers, continued on page 8

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Salem Towers, continued from page 6

and coverage of 1.18 with interest-only payments during the first three years.



Jim Gillespie

"This deal is just what we like," says Red Stone Partners' Jim Gillespie. "What we're looking for - in the funds we've done, and are currently doing are the refinancing of existing bond transactions, or transactions with newly issued bonds on deals for

acquisition/rehab."

Red Stone liked the Salem Towers deal, he explained, because it is a stabilized asset with strong occupancy, strong historic performance, and consistent management; has a long-term project-based HAP contract; is located in a stable submarket; and involves substantial rehab.

Boston Capital was attracted for several reasons, says executive Peter Flynn. One was that Salem Towers is "a good piece of real estate. Being a Bostonbased company, Malden is right in our backyard so we're familiar with that. It also had a long history as an affordable



project. And a few people in the company were familiar with Marc and some of the other organizations involved." In addition, the substantial level of rehab was attractive. "They were going to get in there and do a great job with the project," says Flynn.

Additional Funding, Land Lease

Additional funding sources are a deferred developer fee and nearly \$4 million in favorable subordinate financing. This includes a loan of federal HOME program funds from the North Suburban Consortium, two loans made by the Massachusetts Department of Housing and Community Development (DHCD) from the Community Based Housing Fund (CBHF) and Capital Improvement Preservation Fund (CIPF) programs, and a fourth loan from the Community Economic Development Assistance Corporation, a quasi-public agency. The last was a bridge loan that tided the deal over until DHCD received its annual share of general obligation bond authority for the CIPF and CBHF loans.

The existing 202 mortgage, with a very small balance, has been prepaid.

Beth Israel Senior Citizens Housing, Inc. is leasing the land beneath the building for 75 years to the limited liability company formed to redevelop and own Salem Towers. Slotnick's firm has a 51% interest in the LLC; the nonprofit, 49%.

The land lease was created to redirect part of the acquisition cost proceeds to the nonprofit as lease payments, to get under a per-unit cost threshold to qualify Salem Towers for the award of enhanced vouchers. In addition to future lease payments, the nonprofit is receiving several million dollars.

The Malden Housing Authority may elect to buy Salem Towers at a favorable price at the end of the 15year LIHTC compliance period, subject to the land lease.

Weiner said the transaction has enabled the nonprofit to preserve Salem Towers, extricate itself from the ownership and operation of it, and receive cash that it can use for other charitable purposes. "This was a winwin for everybody involved. It was very gratifying to see our hard work pay off and end up with this property being redeveloped in such a beautiful way."

Model for Other Deals

Salem Towers could be a model for other old law 202 preservation transactions.

The recently enacted Section 202 reform law permits loan repayment and refinancing for old law 202 projects where the property will be preserved, without having to get a lower interest rate on the new loan. The new law also authorizes a new project-based Senior Preservation Rental Assistance Contract, and additional other flexibilities for preservation of both old law and post-1974 202 projects, including using tax credits.

The new permanent refinancing legislation has not yet been implemented or funded, in part because of uncertainties with the federal FY 2011 budget process. However, O'Donnell said that the provision (Section 234) of the FY 2009 omnibus appropriations act used by Salem Towers to obtain enhanced vouchers as an "old law" 202 project has been carried forward to the present, at least through the term of the continuing resolution in effect through April 8. There is reason to believe it may be continued at least through September 30. Also, current HUD rules continue to permit waivers of the three-year limit on expanding the size of a HAP project-based voucher contract obtained competitively from a housing authority. TCA





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Ways and Means Democrats Introduce Tax Credit Bill

n March 10, Democratic members of the House Ways and Means Committee introduced a bill containing tax credit and bond provisions. The bill's fate is unclear, given Republican control of the House and other factors. The bill (H.R. 992) would:

- Extend the Section 1602 low-income housing tax credit exchange program through 2011. Under this, state housing credit agencies could exchange part of their unused housing credit authority for cash grants and award the funds to developers of proposed affordable rental housing projects;
- Allow new market tax credit investments made between March 15, 2010 and January 1, 2012 to offset alternative minimum tax liability;
- Reauthorize the taxable Build America Bond program through 2012, with a bond interest subsidy rate of 32% in 2011 and 31% in 2012; and,

• Exempt from AMT the interest on new and refunding tax-exempt private activity bonds issued in 2011.

Executive Director Thom Amdur of the National Housing & Rehabilitation Association, said, "Extension of the 1602 exchange program would provide affordable housing developers in tough markets with a much needed boost as the LIHTC equity market and nation's economy begin to recover. This and AMT relief for new markets tax credits are important economic recovery tools."

President John Leith-Tetrault of the National Trust Community Investment Corporation, a syndicator of new markets and historic tax credits, welcomed the NMTC AMT proposal. "It's never good to be the only credit in a group that doesn't have an advantage and a provision," he said. "The low-income housing tax credit and historic tax credit received that exemption in 2008...I think it's important that there be a level playing field."



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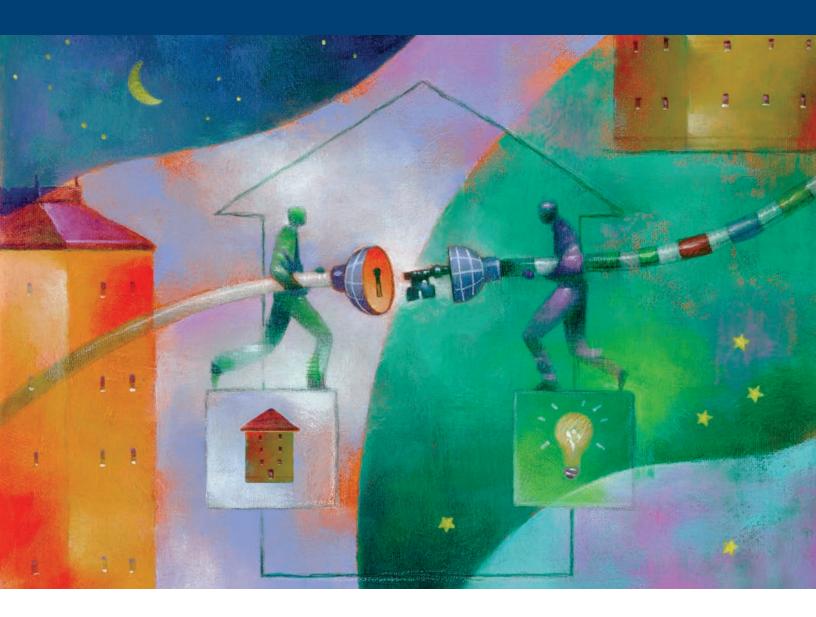
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GOP Surprise?

Chairman Bacchus Hints at Support for Affordable Housing

he new, Republican chairman of the House Financial Services Committee, which writes banking and housing legislation, suggested that affordable housing should be supported under any ultimate housing finance reform law in comments at a March 1 hearing.

Chairman Spencer Bacchus (R-Ala.), who assumed his new post in January, has generally been silent to date on the issue of affordable housing. But he hinted at his views in comments at the hearing by his committee, during which U.S. Treasury Secretary Timothy Geithner testified on the Administration's recently released plan and options for housing finance reform.

Geithner reiterated the Administration's call for a reformed housing finance system that provides the right balance of homeownership and rental options for low-and moderate-income Americans. "Right now in the country about two-thirds of Americans own their home; about a third rent," he said. "But we've put too much financial assistance to those that want to own their home



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than we do to those who choose to rent. We've got to get that balance a bit better."

Bacchus referred to a section of the Administration's plan calling for a renewed commitment to rental housing options. "At least a quarter of our low-income families spend more than half their income on rent," he said. "I do think there's been a failure in that regard. And FHA, whether they have the capacity, I'd think that would be a goal of any reform – to focus on the low-income, in both rental and owner."

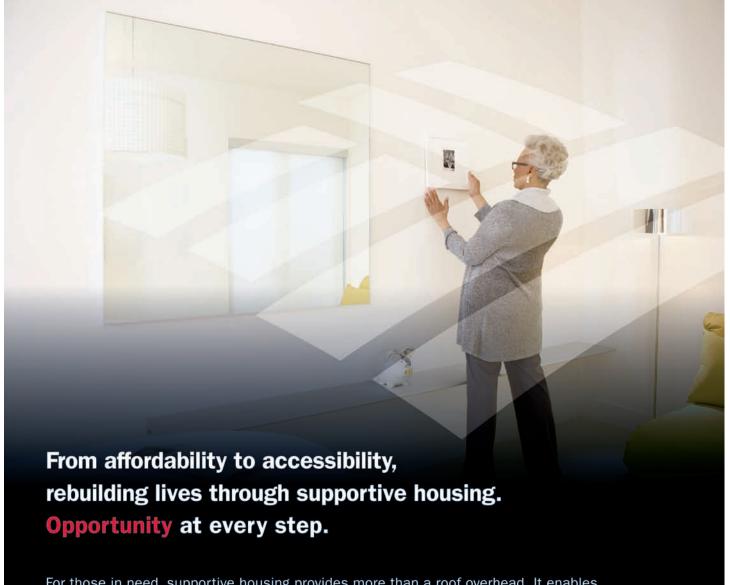
Want to get involved in shaping the nation's affordable housing policy? Contact Thom Amdur at 202-939-1753 or tamdur@housingonline.com to learn more about NH&RA Policy Leadership Committee. You can also get the latest updates from key Hill and agency staff at our upcoming Spring Policy & Underwriting Forum, April 27-28 in Washington, DC. Details at http://www.housingonline.com/Events.aspx

Bacchus said that affordable rental housing "needs to be part of the discussion" on housing finance reform. "As the Administration says, only about 32 out of a hundred low-income families can afford homeownership. So you have to consider...affordable rental, too. I can tell you that I think it will be part of the discussion."

The Administration's plan calls for winding down Fannie Mae and Freddie Mac as part of housing finance reform. Geithner estimated this will probably take seven to eight years. The plan lays out three options, each of which would elevate the role of private capital and reduce government support for housing by different degrees. (See Tax Credit Advisor, March 2011, p. 41.)

"Our judgment is we should work together to pass legislation within the next two years," said Geithner.

The specifics and timing of housing finance legislation – either in the GOP-controlled House or the Democratic-controlled Senate – are unclear.



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The primary debt options for LIHTC deals are conventional bank loans; mortgages insured by the U.S. Department of Housing and Urban Development's Federal Housing Administration; and debt products from Fannie Mae and Freddie Mac. Others are taxexempt bond financing, and – for rural projects – USDA

Rural Development loan programs. Each has its own pros and cons.

"For new construction or substantial rehabilitation projects, FHA/HUD remains a viable option nationwide but timing is a significant concern. Similar to the market for LIHTC equity, banks are active in areas with high CRA [Community Reinvestment Act] demand," says Timothy Leonhard, executive vice president of Oak Grove Capital, an FHA, Fannie Mae, and Freddie Mac lender.

"Fannie Mae and Freddie Mac have developed programs that are very competitive on rehabs which do not involve significant tenant displacement or a significant change in net operating income," he continues. "On new construction financings, Fannie Mae and Freddie Mac offer a very competitive execution for tax-exempt bond credit enhancements. However, their product offerings for 9% LIHTC taxable permanent forward commitment financing on new construction are not very competitive from a rate and transaction cost perspective."

Debt, continued on page 15

Debt, continued from page 14

CRA as Initial Guide

"The first thing I would do if I was looking at getting financing for a property is to see whose footprint – which bank – has a footprint in the market that I was going to," advises CPA David Reznick, head of Reznick Group, an accounting and consulting firm. He noted banks are eager to make equity investments in and loans to LIHTC projects in their CRA markets. "And that could be not only the big banks in the well-known cities, like Bank of America or U.S. Bank, but also smaller large banks, such as BB&T, which is entering or has recently entered the Alabama market and other states," Reznick says.

"I would also think about the one-stop shop," he adds. "Very often institutions, for example Bank of America or U.S. Bank, are very interested in doing both the construction lending and potentially permanent lending, as well as investing in tax credit properties – again in their CRA areas." Reznick added that deals by developers with their own property management company are especially appealing.

In the very "hot" CRA markets, characterized by multiple large CRA-motivated banks competing for deals (e.g, metro New York City, Southern California), a major bank may be more aggressive on its loan rates and terms than other sources, depending on how badly it wants the deal.

Some tax credit syndicators also offer or arrange debt as well as equity, such as major banks that have syndication and real estate lending arms.

For projects outside a CRA area, Reznick advises developers to check insurance companies – "some are now providing financing" – and Fannie Mae and Freddie Mac programs. FHA-insured loans, like the popular Section 221(d)(4) product for new construction or substantial rehab projects, may also be an option. But Reznick recommends that developers check with their selected FHA lender to determine the likely waiting time at the HUD Hub office that would evaluate their application.

FHA Programs

If a developer has the time, FHA-insured financing is attractive: non-recourse loans, terms and amortization up to 40 years, and providing combined construction and permanent financing at a fixed rate usually below that on Fannie Mae and Freddie Mac loans. As of mid-

Debt, continued on page 16



Debt, continued from page 15

March, the all-in borrowing rate, including mortgage insurance premium, was around 6% for Section 221(d)(4) loans and 5% or a bit less for Section 223(f) loans (acquisition or refinancing) and Section 223(a)(7) loans (refi of an existing FHA mortgage).

The main drawback to FHA loans is the potential long processing time. Time varies by loan product and among HUD field offices – Ft. Worth, Tex., Columbus, Ohio, Chicago, and Los Angeles are said to be among the more efficient offices for FHA applications for tax credit projects. Nationally, the average processing time for FHA 221(d)(4) mortgages is now 202 days, though HUD expects to drastically cut this under its forthcoming tax credit pilot program it. (See p. 20 for article.)

Nick Gesue of Columbus-based lender Lancaster Pollard, a Fannie Mae, FHA, and USDA lender and investment banking firm, recommends that developers contemplating HUD put together a deal team that is experienced with FHA and discuss their proposed project with the local HUD



Nick Gesue

field office staff early in the process. Developers, he said, are "well served by bringing a lender on board early to facilitate those meetings and the submission of a preliminary application, so that you keep that option alive and viable and know that it will be available to you as you move forward."

Fannie, Freddie Programs

Fannie Mae and Freddie Mac Ioan programs provide only permanent financing, usually have higher borrowing rates than FHA, but shorter processing times (60 to 90 days is average, says Leonhard). Depending on the prop-



Bob Simpson

erty and borrower's preference, execution options include immediate delivery, forward commitment, or standby commitment. "We are competitive on price and proceeds, but our strength lies in our execution," says Fannie Mae executive Bob Simpson, who oversees the

company's affordable multifamily housing debt programs.

Immediate delivery is available for projects completed, leased up, and stabilized. In a forward commitment, Fannie or Freddie sets the permanent mortgage rate in advance but buys the loan after stabilization. In a stand-

by commitment, the permanent rate isn't set until stabilization

Sources said Fannie Mae and Freddie aren't competitive today in forward commitments for 9% credit new construction or substantial rehab projects. The GSEs, though, are competitive and busy in their loan products for acquisition or refinancing of affordable multifamily housing projects, and for moderate rehabilitation of existing projects. Under their mod rehab products, with immediate delivery, an all-in rate of as low as 5% is possible. "Whether it's a refinance with moderate repairs or acquisition with moderate repairs, those [mod rehab] programs can be very attractive," says Gesue.

Simpson said Fannie Mae's primary focus – and the bulk of its current multifamily business – is preservation transactions. "Number one, we're starting to see our pipeline fill up with fixed-rate bond credit enhancement transactions, most of those coming from the New Issue Bond Program. Second, we're seeing a lot of where we're doing straight immediate fundings on expiring tax credit properties. And we're also starting to see, and placing a lot of focus on, our mod rehab execution...A lot of tenant in place, minimal tenant displacement, strong borrowers. Typically it's got new tax credits in it and a Section 8 contract. We're seeing a lot of that as well."

On rehab transactions, Fannie Mae will now consider up to 35-year amortization, usually looks for a loan term longer than 15 years, and will consider two years interest-only (mod rehab).

NIBP, Bond Financing

Fannie Mae and Freddie Mac offer credit enhancement of fixed-rate tax-exempt bonds providing mortgage financing for affordable rental projects, including LIHTC developments.

Fannie Mae didn't do much tax-exempt multifamily bond business in 2010, but already has a "very strong pipeline" of deals in 2011, says Simpson, mostly from the federal New Issue Bond Program (NIBP).

Freddie Mac has done substantial volume in credit enhancing tax-exempt multifamily bonds. At a late February conference sponsored by the National Housing & Rehabilitation Association, Freddie Mac executive Kim Griffith said the company did close to \$1 billion in multifamily bond volume in 2010. This included about \$500 million under the NIBP program; Griffith expects similar volume in 2011.

Debt, continued on page 18



Recently Closed Transactions

\$8,650,000

SALEM TOWER
Bond Purchase
Section 8
Acquisition/Rehab
Malden, MA



Salem Tower is featured in the April 2011 issue of Tax Credit Advisor

\$10,337,115

9% LIHTC Equity Senior New Construction Camden, NJ

\$7,253,100

FHA Section 223(f) Refinance Section 8 Denver, CO

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Debt, continued from page 16

Under NIBP, participating state and local issuers were able to get Freddie Mac and Fannie Mac to credit enhance fixed-rate, tax-exempt single-family or multifamily housing bonds sold to the U.S. Treasury; to lock in the



bond rates; and to disburse the bond proceeds in stages in 2010 and 2011.

"There's still some [multifamily] NIBP money out there - in Florida, California, New York, and some select areas," says investment banker John Rucker III of

John Rucker III

Montgomery, Ala.-based Merchant Capital, LLC. He said the all-in borrowing rate is below 5%.

The Wisconsin Housing and Economic Development Authority, for instance, is accepting applications for \$69 million in available NIBP multifamily bond financing. Nationally, developers may wish to check with participating multifamily issuers in their area to see if they still have funds available. (For list, go to http://tinyurl.com/4ahfx2s)

Aside from NIBP, sources said the volume of taxexempt bond financing for LIHTC projects is still relatively low though seems to be picking up – at least in CRA areas.

Rucker said the viability of new tax-exempt multifamily bond issues has been dampened by a spike-up since November 1 in the benchmark Municipal Market Data (MMD) Index rate used to price these bonds. The MMD rate climbed by as much as 150 basis points, has subsided by about 30 basis points, but bond executions

remain tough, according to Rucker. However, he expects the MMD rate to fall further to make bond financings feasible again.

There are also a couple of other options in the bond area.

A few companies will purchase unrated multifamily bonds directly. One is New York-based Red Stone Partners, which buys unrated tax-exempt bonds



Jim Gillepsie

issued to refinance existing multifamily bonds or to fund new acquisition/rehab projects, and places them in funds. "We've been able to pretty consistently hold our rate around 6.5%," says Red Stone's Jim Gillespie. Upfront fees are about 2%; amortization can stretch to 40 years; and coverage reach down to 1.15. "We generally can close within 45 to 60 days of signing a letter of intent," he says.

In addition, Standard & Poor's Corporation has a program under which it will rate tax-exempt multifamily bonds without credit enhancement. Rucker estimated that these bonds trade at 200 to 210 basis points above the MMD rate, compared to about 100 basis points for bonds credit enhanced by Fannie, Freddie, or HUD. However, he noted there is no credit enhancement stack on top of the bond rate on these S&P-rated financings. Advantages, he noted, are "consistently lower transaction costs and generally faster execution."

Leonhard noted that some state housing finance agen-

Debt, continued on page 20

Current FHA, Fannie Mae, Freddie Mac Options

FHA/HUD - Acquisition or Refinancing Loan Sizing Parameters

DSCR: 1.15 to 1.20 LTV: 85% Rate: 4.50% (plus MIP) Amortization: 35 years

Fannie Mae/Freddie Mac Acquisition or Refinancing Loan Sizing Parameters (without LIHTC)

DSCR: 1.20 LTV: 80% Rate: 5.00% to 5.75% Amortization: 30 years

Fannie Mae/Freddie Mac Acquisition or Refinancing Loan Sizing Parameters (with new LIHTC)

LTV: 85% to 90% Rate: 5.00% to 6.50% DSCR: 1.15 Amortization: 35 years (40 years in

very select markets)

FHA/HUD - New Construction or Sub Rehab Loan Sizing Parameters

DSCR: 1.11 to 1.20 LTC: 83% to 90% Rate: 5.25% (plus MIP) Amortization: 40 years

Fannie Mae/Freddie Mac - General Liquidity and Net Worth Requirements for Borrower Principals

Liquidity equal to 10% of loan amount Net worth equal to one times loan amount

Source: Timothy Leonhard, Oak Grove Capital, Grapevine, Texas; as of mid-March 2011.



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Debt, continued from page 18

cies also have programs where they insure tax-exempt housing bonds that provide attractive debt financing.

Separately, Washington, D.C. attorney Jerry Breed, of Bryan Cave LLP, said he has written tax opinions for a couple of 9% LIHTC projects that received 60-year mortgages under state programs in California and Massachusetts.

Rural Products

USDA's principal multifamily housing loan product, frequently used for LIHTC deals, is the RD Section 538 guaranteed loan. It can be used for new construction or acquisition/rehab projects and permits tenant incomes up to 115% of median income. Loans provide fixed-rate construction and permanent financing, with up to 40-year term and amortization. Projects must be in communities of 10,000 or less or 10,000-20,000 if not part of a metropolitan statistical area. RD also offers project-

based rent subsidies.

Gesue estimated that the all-in rate for a taxable Section 538 loan is now near 6%.

Section 538 loans can be funded either with taxable funds or tax-exempt bond proceeds. In fact, some owners and developers have utilized pooled bond issues. Here tax-exempt bonds are issued to fund either acquisition or refinancing plus renovations to multiple existing Section 515 projects owned or being acquired by the same ownership group.

Rucker and Gesue have separately done a handful of these pooled issues, in some cases where short-term tax-exempt bonds were issued to qualify for 4% credits, with the bonds to be paid off after stabilization of the properties with new RD mortgages placed on them.

The Obama Administration's FY 2012 budget request proposes no funding for the Section 538 program, but rural housing advocates are battling to muster support for the program's continuation.

Coming Soon

FHA Aiming to Launch Tax Credit Pilot This Summer

he U.S. Department of Housing and Urban Development will probably launch its pilot program for processing FHA multifamily mortgage insurance applications for low-income housing tax credit projects this summer. It may also release its updated "MAP" underwriting guide and revised multifamily loan documents around the same time, according to HUD official Christopher Tawa.

These pieces are part of a broader HUD effort to modernize the Federal Housing Administration's multifamily mortgage insurance programs to improve efficiencies, reduce application processing times, and make the programs more user-friendly for LIHTC projects.

FHA is experiencing heavy multifamily volume and a growing backlog of applications. Excluding health care facility loans, FHA multifamily volume totaled \$10.3 billion in the fiscal year ended last September 30 (FY 2010), and is on pace to hit nearly \$12 billion in FY 2011. "We'll also produce more multifamily units" than the 156,783 in FY 2010, Tawa noted.

As of March 4, FHA's multifamily backlog was 817

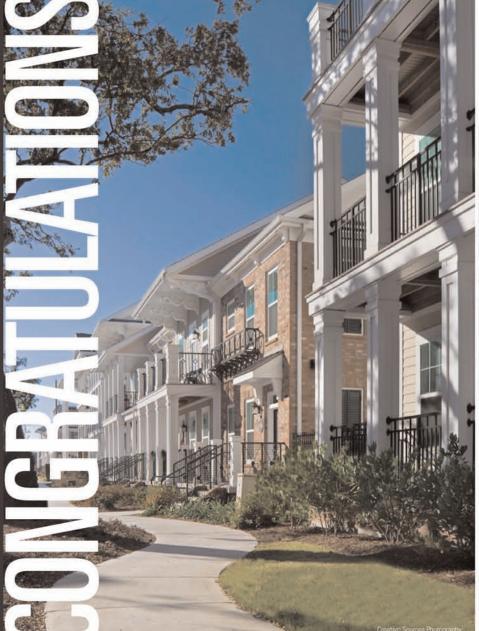
applications awaiting firm commitment processing. The average processing time (time of application submission to time of firm commitment) has lengthened from 90 days a year ago to 124 days currently for Section 223(f) refinancing mortgages, but has declined from 235 days to 202 days for Section 221(d)(4) loans (new construction/substantial rehab).

HUD field offices generally process FHA multifamily applications in the order in which they are received; there are not separate "lines" for "affordable" (e.g., LIHTC) and market-rate projects. However, Tawa said the pipeline is sometimes "adjusted" by the HUD Hub office directors to accommodate tax credit projects facing critical looming deadlines.

HUD anticipates announcing the tax credit pilot program and inviting lenders to submit requests to participate in it by around July 1. Full implementation – the start of taking FHA applications – will be "somewhat after that," says Tawa. "My guess is somewhere in the late summer period."

FHA, continued on page 22







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3266 FCA (131)

FHA, continued from page 20

The pilot is designed to dramatically cut the typical FHA processing time for loans to finance LIHTC projects by shifting work on them to experienced lenders and to the HUD field office staff with the greatest tax credit expertise. "The program will establish a separate channel or a separate line just for processing tax

nel or a separate line just for processing tax credit deals," said Tawa, citing 60 days as the goal for the maximum typical time to process 221(d)(4) loans to firm commitment, and even less time for 223(f) loans. Loan closings will be within 30 days of commitment.

Initially, the pilot will be limited to 221(d)(4) and 223(f) applications for 9% tax credit projects located in offices within the jurisdiction of five or so HUD Hub offices – about half the total.

Tawa wouldn't identify the Hub offices to initially participate. But he indicated that selection is being guided by the identification of the offices that have had the greatest tax credit project loan processing volume, and matching these with the offices containing HUD underwriters with the most tax credit expertise.

The pilot will initially be limited to approved FHA Multifamily Accelerated Processing (MAP) lenders selected by HUD that it determines are qualified to underwrite FHA mortgages to fund new construction or substantial rehabilitation LIHTC projects. This will be the highest category of a four-tier lender qualification system that HUD plans to implement for all FHA multifamily lenders through forthcoming rulemaking. (The pilot program isn't subject to rulemaking for selection of the initial lenders because it is a temporary program.)

Initially, 4% tax credit deals generally won't be eligible for the pilot because they usually have high leverage and a higher risk profile than 9% projects. But consideration is being given to including 4% tax credit preservation projects with Section 8 rental assistance contracts.

No firm time period has been set for the pilot program to operate. "It's really about doing a sufficient number of deals so that we can then do two things," says Tawa. "One is to expand the number of regions where it is being offered, so it becomes a nationwide program. And second, to expand the types of deals that

can come into the pilot, such as more bond deals."

During the initial pilot period, FHA applications for LIHTC projects outside the jurisdiction of the selected HUD Hub offices will continue to be processed by HUD field offices in the normal manner.

HUD expects to release its revised, 400-page MAP underwriting guide and revised multifamily loan docu-

See HUD's

Carol Galante,

Chris Tawa, and

other senior

FHA multifamily

officials speak at the

NH&RA/NCAHMA

2011 Spring

Affordable Housing

Policy & Underwriting

Forum on April 27-28

in Washington, D.C.

ments around the time that the pilot is launched this summer.

The revised guide, now in clearance at HUD, will provide extensive guidance on affordable transactions and better conform to industry practices. "We've spent a lot of time on expanding the discussion of underwriting affordable housing transactions, doing mortgage credit review on affordable housing developers. Likewise on nonprofits," says Tawa. "Also, developing far more flexible rules around subordinate financing than the Department used to have." The guide also has extensive discussion about market studies for affordable projects.

The new guide, for example, will permit a MAP lender's parent corporation to also be the tax credit syndicator for a deal – something not permitted now – but with limits on how much the lender's parent can invest as equity themselves. There will also be

rules that permit equity bridge loans during the construction period. One broad outcome of the revised guide will be far fewer waivers needed by MAP lenders for affordable housing loans.

Tawa said there are many aspects of the revised multifamily loan documents (which will replace the 26-year-old versions) "that support the tax credit lending that FHA wants to be more effective." For instance, the documents will demonstrate that tax credit equity payins after final endorsement are not monies that HUD needs to control through the project budget.

In another area, HUD is still working on the details of revising the Section 223(f) program to increase the amount of rehabilitation that can be funded by such loans. Guidance outlining the changes is expected to be issued around when the tax credit pilot launches. A specific ceiling amount hasn't been decided. But Tawa anticipated it will be "quite a bit higher" than the average of roughly \$8,000-\$10,000 per unit in rehab work currently funded in 223(f) loans.



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The right debt service coverage ratio

hich would you rather have: a property with 1.10 debt service coverage, or one with 1.25 coverage?

They're the same size, in the same city; in fact, across the street from one another. They have the same total development cost (\$150,000 per apartment); the same first mortgage terms (8%, 30 years); similar amounts of soft debt; and the same annual operating expenses (\$4,800 per apartment). But one has 1.10 coverage; the other has 1.25.

Why are the debt service coverages different?

The first was an acquisition/rehab property that was financed using volume-cap tax-exempt bonds and equity from 4% low-income housing tax credits. Rents were set near market (\$975 per month), resulting in supportable hard debt of \$62,700 per apartment (43% of total development costs). The second, a new construction property, secured 9% tax credits by promising deeper affordability. Rents were set at \$655 a month, resulting in hard debt of \$24,100 per apartment (16% of TDC).

	9% Property New Construction	4% Property Acquisition/Rehab
Hard Debt	\$24,100	\$62,700
Soft Debt	\$43,400	\$49,800
LIHTC Equity	\$82,500	\$37,500
Total Development Cost	\$150,000	\$150,000

Underwriting assumptions included occupancy levels of 95% for the 9% property and 93% for the 4% property. The resulting pro-formas showed the lenders' desired debt coverage levels of 1.25 for the 9% property and 1.10 for the 4% property:

PER APARTMENT ANNUALLY	, 9% Property New Construction	4% Property Acquisition/Rehab
Gross Potential Rent (GPR)	\$7,845	\$11,692
Vacancy loss	(\$392)	(\$818)
Operating Expenses	(\$4,800)	(\$4,800)
Net Operating Income	\$2,653	\$6,073
Debt Service	(\$2,122)	(\$5,521)
Cash Flow	\$531	552
Debt Service Coverage	1.25	1.10
Cash Flow to GPR	6.8%	4.7%

Surprise! Even though the acquisition-rehab property has the much lower 1.10 coverage, it generates



David A. Smith

more cash flow per apartment.

Does that make it safer? Which is more robust in a downturn? Mathematically, 1.25 coverage means net cash flow equals 25% of debt service. Yet debt service is fixed, so it's never the source of a property's deficits. Rather, properties miss their pro-formas for either of two principal reasons: lower revenue lower or higher expenses. So if we want a metric that scales how much cushion we have, one might better compare cash flow to either the property's operating expenses or its effective gross income.

How much worse could operating expenses be before we're losing money? Because each of our sample properties has roughly similar cash flow, operating expenses could be roughly 11% higher and the respective property would still break even. The underwriting only *looks* safer on the 9% property because the absolute cash flow coverage is measured against a smaller first mortgage loan – and because a small first is just as foreclosable as a large first, that'll be no consolation on default.

Similarly, how much worse could income be before we lose money? For the 4% volume-cap property, debt service coverage as a share of gross rental income is 4.7% of that property's (higher) rents; coverage on the 9% property represents 6.8% of that property's lower, deeply affordable rents. Because we underwrote the latter property with a vacancy rate two percentage points

Guru, continued on page 25

Guru, continued from page 24

lower, both the 9% and 4% properties break even at about 88% financial occupancy. Here again, *measured against possible variances in operations*, the 1.10 coverage property looks every bit as safe as its 1.25 coverage brother across the street.

Which property is more likely to get relief if it runs into trouble? In a default, the hard debt is merely first in line, so if it takes pain, others hurt worse. In a foreclosure, the soft debt will be wiped and the LIHTC equity investors will suffer nasty recapture. Hence they'll be motivated in both our parties, maybe a smidgen more in the deeply affordable 9% property (84% of TDC versus 57% for the 4% property).

Actually, 0.95 coverage isn't as bad as you think. If actual debt service coverage in the 9% property falls to 0.95, annual cash flow will only drop to a negative ~\$100 per unit – about one-quarter of monthly operating expenses. That's *de minimis*: as it represents only 1-1/2 points of vacancy; a favorable tremor in rental occupancy

will erase the deficit. Meanwhile the cash flow loss can be funded simply by allowing accounts payable to remain outstanding an average of 10 days' longer (\$100/\$4,800 x 365). This is why so many tax credit properties bob along within five points of 1.00 coverage, doing the economic dead man's-float from year to year.

As you can see, the major financial structuring risks for a property arise when lenders and investors talk themselves into believing that they're safer because – even though the operating expense projections may be rickety – they have 1.25 coverage on their tiny first mortgage.

Thus I have proved conclusively that 1.10 coverage is safer than 1.25.

Hey, you cheated! All debt service coverages are <u>not</u> equal. Thanks for making my point. TCA

David A. Smith is Chairman of Recap Real Estate Advisors, a Boston-based real estate services firm that optimizes the value of clients' financial assets in multifamily residential properties, particularly affordable housing. He also writes Recap's free monthly essay State of the Market, available by emailing dsmith@recapadvisors.com.



NH&RA News

Information on NH&RA and its Councils is available online at http://www.housingonline.com

NH&RA/NCAHMA April Conference to Feature Stellar Lineup

A strong representation of senior officials from the U.S. Department of Housing and Urban Development is one of the highlights of the 2011 Spring Affordable Housing Policy & Underwriting Forum to be held by NH&RA and the National Council of Affordable Housing Market Analysts.

Confirmed speakers from HUD for the April 27-28 event at the Washington Court Hotel in Washington, D.C. include:

 Carol J. Galante, Deputy Assistant Secretary, Office of Multifamily Housing Programs

Upcoming Conferences

To register, and for more information, go to http://www.housingonline.com

National Housing & Rehabilitation Association National Council of Affordable Housing Market Analysts

2011 Spring Affordable Housing Policy & Underwriting ForumApril 27-28, 2011
Washington Court Hotel, Washington, D.C.

National Housing & Rehabilitation Association 2011 Spring Developers Forum

May 23-24, 2011

St. Regis Monarch Beach Resort, Dana Point, Calif.

National Housing & Rehabilitation Association

2011 Summer New Markets Tax Credit Symposium July 20, 2011

Harbor View Hotel, Edgartown, Martha's Vineyard, Mass.

National Housing & Rehabilitation Association

2011 Summer Institute

July 20-24, 2011

Harbor View Hotel, Edgartown, Martha's Vineyard, Mass.

Information on NH&RA and its Councils is available online at http://www.housingonline.com

- Dominique Blom, Deputy Assistant Secretary for Public Housing Investments,
- Patrick Costigan, Advisor to the Secretary
- Rebecca Koepnick, Advisor to the Secretary
- Chris Tawa, Senior Advisor to the Deputy Assistant Secretary for Multifamily Housing Programs

For details about the conference, an agenda with sessions and speakers, and to register, go to http://www.housingonline.com/Events.aspx

NCAHMA Working on Numerous Projects

NH&RA's National Council for Affordable Housing Market Analysts (NCAHMA) is developing two new white papers, Scope of Work & Reporting Options and Best Practices for Conducting Field Work/Site Visits. The two documents, prepared by NCAHMA's Standards Committee, have been distributed for feedback and comment.

Meanwhile, NCAHMA's Advisory Committee recently met and discussed trends and priorities among state housing credit agencies for their 2011 low-income housing tax credit funding rounds. The group will meet again in mid-April.

NCAHMA Holds Training for Agency

NCAHMA held a training session for development staff of the Tennessee Housing Development Agency on March 8 in Nashville. The training session was on the preparation, contents, use, and evaluation of market studies for affordable housing projects.

Other state housing finance agencies interested in a similar training session from NCAHMA should contact Thom Amdur, 202-939-1753, tamdur@housingonline.com.

NCAHMA's Member Analysts Endorsed by Investors Group

The Affordable Housing Investors Council, a membership and education group for corporate investors in

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low-income housing tax credits, recently published revised underwriting guidelines for LIHTC investments. The Market Study section of the revised guidelines strongly endorse NH&RA's National Council of Affordable Housing Market Analysts, recommending:

"A third party market study completed less than 6 months before the investor closes into the partnership should be used in the analysis of rental rates, absorption rates and demand assumptions. In weak or declining markets, investors should consider a more current market study or update be performed prior to closing. Investors should use National Council of Affordable Housing Market Analysts (NCAHMA) certified market analysts to perform market studies using the NCAHMA Model Content Standards for Market Studies for Rental Housing, which is a set of recommendations on the specific types of information, data, analysis, and conclusions that should be contained or addressed in a market study for an affordable rental housing project."

For a list of NCAHMA members, go to http://www.housingonline.com/MarketStudyProviders.aspx

Site Created for Positive New Markets Tax Credit Project Profiles

NH&RA and its New Markets Steering Committee have created a Web site (http://www.nmtcclearinghouse.com) to post positive stories about projects funded with new markets tax credits. Interested community development entities and others associated with NMTC projects are invited to submit brief profiles describing their projects. The information requested is similar to that sought by the Community Development Financial Institutions Fund in its "project profiles" tool (http://tinyurl.com/48fa57r).

For information or questions, contact Thom Amdur, 202-939-1753, tamdur@housingonline.com.

HOPE VI, Policy Committees Submit Comments on TRA

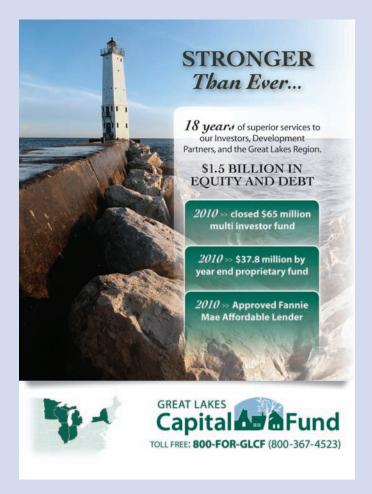
NH&RA's HOPE VI/Mixed Finance Committee and Policy Leadership Committee have submitted written comments to HUD and to U.S. Rep. Keith Ellison (D-Minn.)

regarding the most recent version of the Administration's Transforming Rental Assistance (TRA) / Rental Housing Revitalization Act (RHRA) proposal. The initiative is designed to streamline and consolidate HUD's many different rental assistance programs and create a pathway for the conversion of certain current subsidies for public housing and certain kinds of assisted housing to project-based rental assistance. HUD's FY 2012 budget request calls for initially making the program a demonstration.

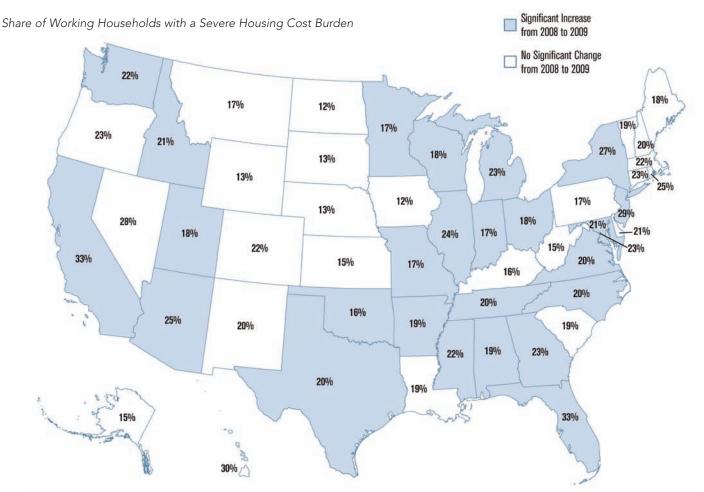
NH&RA's Committees also commented on the Administration's FY 2012 budget proposals for modifying the low-income housing tax credit program.

NH&RA Call for Presentations for 2011 Summer Institute

NH&RA is soliciting suggestions for speakers and panel topics for NH&RA's 2011 Summer Institute and 2011 Summer New Markets Tax Credit Symposium, to be held on July 20-24 in Martha's Vineyard, Mass. Contact Thom Amdur, 202-939-1753, tamdur@housingonline.com. TCA



www.housingonline.com April 2011 | Tax Credit Advisor **27**



Source: National Housing Conference, Center for Housing Policy, Housing Landscape 2011

Losing Ground

Housing Affordability Worsens for Working Households

orking households in the U.S. have lost ground in housing affordability, with renters faring worse than homeowners, according to a new report by the National Housing Conference's Center for Housing Policy.

The report, Housing Landscape 2011, analyzed housing affordability trends for working households between 2008 and 2009, focusing on the effects of employment, income, and housing costs. It defines working households as households whose members worked at least 20 hours per week on average and made no more than 120% of the area median income (AMI). Some 46.2 million households met this definition in 2009: about one-third of all owner households and 60% of all renter households.

Both the number and percentage of working households with a severe housing cost burden – those paying

more than half their income for housing costs – increased between 2008 and 2009, to 10.5 million and 22.8%. The increase was greater for renter households.

Working renters with a severe housing cost burden were more concentrated in the lower income categories. Among working renter households, 80% earning 0-30% of AMI and 30% making 31-50% of AMI had severe housing cost burdens in 2009.

Reasons for the drop in housing affordability among working households included reductions in the number of hours worked and in median household income, plus rising rents.

Other findings include:

 The share of working households with a severe housing cost burden rose significantly in 25 states

Report, continued on page 29

Report, continued from page 28

and decreased significantly in none. States with the largest share of burdened households were California, Florida, Hawaii, New Jersey, Nevada, and New York.

 The share of working households with a severe housing cost burden increased significantly in 16 of the 50 largest metropolitan areas and decreased significantly in none. Worse off was Miami-Fort Lauderdale-Pompano Beach, Fla., at 42%.

"These findings will be surprising to many who have followed the nationwide decline in home prices," said

Jeffrey Lubbell, Executive Director of the Center for Housing Policy. "Housing costs for existing homeowners have declined only slightly, while housing costs for working renters have actually gone up. Meanwhile, high unemployment and falling incomes have left low- and moderate-income families struggling to make ends meet."

NHC President and CEO Maureen Friar said the findings "serve as a reminder that falling home values have not solved the affordable housing crisis in America. Funding of vital affordable housing programs is still needed even during these tough economic times to ensure stability for America's working families."

(Report: http://www.nhc.org) TCA

Working Households and Severe Housing Cost Burden								
	2009	2008	Difference					
All Working Households	46.2 million	47.3 million	-1.1 million					
Working Households With Severe Housing Cost Burden	10.5 million	10.0 million	+0.6 million					
% of Working Households With	All 22.8%	All 21.1%	All +1.8%					
Severe Housing Cost Burden	Renters 24.5%	Renters 22.1%	Renters +2.4%					
	Owners 21.2%	Owners 20.1%	Owners +1.1%					
Working Household Median Income	Renters \$29,988	Renters \$31,570	Renters -5%					
	Owners \$42,178	Owners \$43,791	Owners -4%					
Working Household Median	Renters \$820	Renters \$800	Renters +2.5%					
Monthly Housing Cost	Owners \$1,047	Owners \$1,058	Owners -1.0%					

Source: National Housing Conference, Center for Housing Policy, Housing Landscape 2011.

National Housing Trust Updates Preservation Analysis

The National Housing Trust has released an updated analysis of state incentives for affordable housing preservation and sustainability, including in states' 2011 low-income housing tax credit qualified allocation plans. According to the Trust, the analysis "reveals that state policymakers continue to deploy limited resources to save and improve existing affordable rental housing. This trend suggests that state policymakers view affordable housing preservation as an appropriate housing strategy during a time of challenging state budget shortfalls." Some findings: 45 state housing agencies incentivize preservation in their 9% tax credit program; 16 set aside a portion of their 9% tax credits for preservation properties; four states provide a 30% basis boost for preservation properties (Ind., Mich., Mo, Ore.) Among the materials are a 2011 state-by-state summary of preservation incentives.

(http://tinyurl.com/4mw2yxv)

Michaels Organization Property Recognized With Award

Park Spring Apartments, an affordable rental community in Spring City, Pa., has been named as the 2011 Exemplary Family Development by the National Affordable Housing Management Association as part of its Communities of Quality Annual Awards program. The award was presented to Interstate Realty Management, which has managed the community since it was developed in 1979 by Michaels Development Co. Both firms are part of The Michaels Organization, of Marlton, N.J. The Communities of Quality program certifies multifamily properties that achieve a high standard of excellence in the way they are managed, the resident services they provide, and the experience and training of personnel. Only communities that receive the "Community of Quality" designation can compete in the national awards program. TCA

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Making Gold from Green

Prepping Properties to Save Money, Benefit Residents as the Recovery Takes Hold By Allen Feliz, TCAM

perating costs have held relatively steady the past couple of years for affordable apartment properties, including those funded by low-income housing tax credits. But as the nascent recovery takes hold and strengthens, inflation and operating



Allen Feliz

costs are certain to tick upwards. Given this, LIHTC owners and property managers should consider steps to manage and reduce energy and water usage at their properties through efficiency improvements.

As a specialty investment manager providing asset and portfolio management services for affordable housing properties, TCAM helps its owner clients improve the financial and physical performance of their properties and maximize their value. From properties in our portfolio and from direct experience, we have witnessed

and counseled owners and property managers making energy- and water-efficiency improvements, to cut utility costs and improve living conditions for their residents.

For example, we guided one owner to replace more than 70% of the refrigerators at a Massachusetts property with Energy Star refrigerators and to replace the light fixtures in the common area and apartments with Energy Star fixtures. These improvements were fully paid for by a local utility company program and should reduce annual electric usage by 10% to 15%. Our asset managers and LEED-certified engineer assisted the owner by analyzing the property's historical utility expenses, identifying programs that could help pay for the upgrades, and finalizing the contract with the utility program. We will continue monitoring the asset's progress toward meeting the expected benchmarks going forward.

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Efficiency, continued from page 30

Numerous Benefits

Rewards from making efficiency improvements at a LIHTC property include:

- Saving money on utility costs (e.g., electricity, water), maintenance, and repairs.
- Providing a leg up in competing for housing tax credits and other development subsidies.
- Possible approval of smaller LIHTC utility allowances, thereby increasing net rental income.
- Enhancing the quality of life for the property's residents, which may contribute to stable occupancy and strong financial performance.
- Favorable public recognition for the property and company.

Before jumping headlong into making efficiency improvements at a property, the owner should first determine whether this makes sense. If so, the next decisions are about which improvements to make and in what order.

Factors that the owner should consider in deciding whether efficiency improvements make sense include:

- The current efficiency level of the building(s).
- The size and time frame of the economic payback.
- Funds available that can be used for improvements (e.g., operating budget, replacement reserve accounts, redevelopment sources (in the case of rehabilitations), or state and local utility programs).
- Certain non-economic benefits that may lead to long-term economic rewards and other benefits (e.g., upgrades that help to enhance tenant satisfaction or efficiency projects that serve as magnets for public soft funding).

A prudent first step when exploring efficiency improvements is to analyze past actual gas, electric, and water expense trends across different properties using metrics that control for variables such as climate and

building size. This will help zero in on the best candidates for efficiency improvements. Recording these figures also provides a base against which post-improvement utility usage can be measured. Upgrades can be prioritized by first focusing on those properties requiring the most improvement and using the best performing properties as benchmarks.

To get help, LIHTC owners may wish to use a utility auditor, at least to identify some basic steps. For a more comprehensive assessment, green consultant Heather

Clark of Biome Studio recommends using a contracting company accredited by the Building Performance Institute (BPI).

Start Simple

Before jumping

headlong into making efficiency

improvements at a

property, the owner

should first determine

whether this makes

sense. If so, the next

decisions are about

which improvements

to make and in

what order.

In making improvements, start with the "low-hanging fruit" – simple, low-cost measures with short payback periods (generally less than 12 months). Examples include:

- Replacing incandescent lights with compact fluorescent lights (CFLs). An Energy STAR CFL bulb uses 75% less energy than a standard incandescent bulb and lasts up to 10 times longer.
- Replacing leaky toilet flappers and installing a modulator in the toilet bowls.
- Replacing faucet aerators and showerheads to reduce water flow.
- Installing timer switches to manage lighting in common areas.
- Reducing heat and cooling usage in vacant apartments and unplugging refrigerators.
- "Air sealing" openings or cracks in walls, ceilings, and other areas to enhance the building envelope and improve the efficiency of heating and cooling systems.

Implementing these modest measures can often reduce the costs of efficiency investments made during capital replacement. For instance, if a property's boiler is to be replaced, having a more efficient building envelope may permit the installation of a smaller (high effi-

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Efficiency, continued from page 31

ciency) boiler, saving dollars.

Timing is Everything

Clark says the optimal time to make efficiency investments is when the property is undergoing a major rehabilitation or capital expenditures, or when it can obtain low-cost financing from state or local utility programs. Such low-cost financing or subsidies can allow for efficiency improvements with even longer payback periods.

Coordinating improvements with the property's replacement reserve schedule is another smart strategy. By making efficiency upgrades at the same time as scheduled work identified in the replacement reserve schedule, funds can be amassed to pay for the improvements.

Owners and developers interested in making more expensive efficiency investments, such as installing a new heating/cooling system or solar photovoltaic panels, should be aware of the trade-offs between the capital spent, long-term cost savings, and available capital sources and financing/subsidy programs. A useful tool for this analysis is the Green Capital Needs Assessment, which combines a conventional 20-year capital needs assessment with a comprehensive energy audit and financial analysis of retrofit options. Boston-based On-Site Insight, a Recap Real Estate Advisors company, in collaboration with Enterprise Community Partners, performs these assessments.

Capital Sources for LIHTC Projects

State and local utility programs and state tax credit allocating agencies generally offer the most direct benefit to LIHTC projects for energy-efficiency or renewable energy upgrades. Public agency programs include the federal Weatherization Assistance Program, under which grantees use federal dollars to pay for energy efficiency improvements to housing units occupied by low-income persons, and the Aspen (Colorado) Community Office of Resource Efficiency, which offers grants for energy efficiency and renewable energy projects. A comprehensive list of state, local, and utility programs and incentives can be found online at http://www.dsireusa.org.

Including energy efficiency improvements in the rehabilitation scope of work can also help obtain low-income housing tax credits for a rehab or acquisition/rehab project. Many state allocating agencies offer points for ener-

gy efficiency and other green features in their qualified allocation plans and application scoring criteria.

Keep in mind that projects planning efficiency improvements generally do not command higher tax credit pricing from equity providers.

There can be other benefits, however. For instance, efficiency improvements that will lower the property's utility expenses or increase net rental income (from a smaller utility allowance) can help rehab projects during the underwriting process. The expectation of lower expenses or higher revenue may enhance the syndicator's and investor's comfort with the project from a risk perspective, possibly translating into better deal terms. On the debt side, the potential for greater higher net operating income may help obtain a higher loan amount.

Supporting the long-term health of our environment is a great reason to enhance the energy efficiency of existing LIHTC portfolios. But, especially as the pace of economic growth accelerates, energy upgrades can yield many tangible and immediate benefits for owners and developers. TCA

Allen Feliz is Director of Research & Development for TCAM, a Boston-based specialty independent investment manager that provides asset and portfolio management services nationwide to capital providers of affordable housing and renewable energy, including investors, lenders, guarantors, government agencies, and housing authorities. TCAM also provides other services including owner's representation, risk mitigation, workout support and advisory. Feliz may be reached at 617-717-6071, afeliz@taxcreditam.com.

Multifamily Cited in DOE Weatherization Guidance

Grantees receiving federal Weatherization Assistance Program funds, which are used to pay for energy-efficiency improvements to housing units occupied by low-income persons, may not exclude multifamily buildings in their priority plans for spending weatherization dollars, the U.S. Department of Energy strongly suggests in recent guidance. It says multifamily buildings may often be high residential energy users, one of the stated priorities that grantees must favor in spending funds. The memo says about 17 million renter households are eligible for weatherization assistance. (http://tinyurl.com/46t4gkt)

Separately, HUD has issued guidance outlining procedures for self-certification by owners to have their multifamily housing properties added to the list of properties eligible for weatherization assistance funding. (http://tinyurl.com/4erdtqb) TCA

NH&RA Announces Seventh Annual Timmy Awards Competition for Outstanding Historic Preservation Projects

he National Housing & Rehabilitation Association is soliciting entries through July 15 for its Seventh Annual J. Timothy Anderson Awards for Excellence in Historic Rehabilitation competition. The "Timmy" awards honor outstanding rehabilitation and preservation projects based on overall design and quality, interpretation and respect of historic elements, impact on the community, and financial and market success.

Project award categories this year are:

- Best Commercial/Retail/Non-Residential Project
- Best Historic Rehab Utilizing LIHTCs (Small/Up to \$5 million total development cost)
- Best Historic Rehab Utilizing LIHTCs (Large/Over \$5 million total development cost)

- Best Historic Rehab Utilizing New Markets
 Tax Credits
- Best Market-Rate / Mixed-Income Residential
- Best Historic Rehabilitation Project Involving New Construction
- Most Innovative Adaptive Reuse

There will also be two special Judges Awards, for Most Advanced Financial Structure and for Achievement in Sustainability.

Details and an entry application form are available at http://tinyurl.com/6b8f8df.

Questions? Contact Greg Sidorov at NH&RA, 202-939-1773, qsidorov@dworbell.com. TCA

Congressman Takes Aim at Park Service Interpretation of Historic Standards

congressman from Western New York State has written to the National Park Service complaining about its interpretation of the regulations governing eligibility for historic rehabilitation tax credits in an effort to improve access to this tax incentive for large and complex historic preservation projects.

In a letter to Stephanie Toothman, NPS Associate Director, Cultural Services, Rep. Brian Higgins wrote to request a discussion with the Park Service, to learn more about these regulations "and if necessary" work with the Park Service to modify the regulations.

He noted that the use of historic tax credits "will play a vital role" in projects now underway to try to preserve historic landmarks in Buffalo and Western New York.

But, he continued, "It has come to my attention, however, that your agency's interpretation of regulations could actually inhibit the ability of investors to fully utilize tax credits in larger restoration projects. Specifically, pursuant to your agency's current regulations, the owner

of part of a historic building or complex of buildings may not be eligible for use of historic tax credits due to what could be deemed as draconian ownership requirements.

"I am aware of one project in Western New York that has already been stifled because of this interpretation, and my fear is that due to nuances in the New York State Historic Preservation Tax Credit, your current interpretation of these regulations could have a chilling effect on development, specifically on larger restoration projects that require significant private investment. Numerous projects of this nature exist in my District. Given the challenges within the traditional lending environment, and particularly in weaker markets like Western New York, if projects are unable to heartily utilize Historic Tax Credits, they will be unable to proceed as planned."

In a news release, Riggins' office noted that "road-

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Higgins, continued from page 33

blocks to accessing the tax credits occur when developers, seeking to maximize the use of credits amidst a difficult financing environment, are subjected to draconian requirements by NPS for projects taking place in phases." It quotes a frustrated Buffalo developer trying to renovate the Lafayette Hotel.

Riggins co-chairs the Revitalizing Older Cities Task Force in Congress. TCA

NY Lawmakers Fight to Roll Back Deferral on Historic Credit

The Independent Democratic Conference, a coalition of Democratic state lawmakers in New York, is fighting to get a provision inserted in the state's new budget to end the deferral of tax benefits under the state's historic rehabilitation tax credit program. The deferrals, to this and numerous other state tax incentives, was enacted last year. The group also issued a report detailing the economic benefits from the state historic credit.

(http://tinyurl.com/47jqp5m, http://tinyurl.com/4nsvgjj)

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National Park Service Posts Appeal Decisions

he National Park Service has begun posting administrative decision letters for historic certified review appeals on its Web site. These are cases where the Park Service has said that a proposed rehabilitation project does not satisfy the Interior Secretary's Standards, as interpreted by the Park Service, to qualify for historic tax credits, and the project sponsor has appealed the decision.

The posted administrative decision letters, which go back to 2008, provide details about the proposed projects, state why the Park Service reviewer had ruled that the proposed rehab did not qualify, and lay out the appeals officer's decision. In two of the letters reviewed, the appeals officer described specific physical changes that could be made to the building to enable it to satisfy the Secretary's Standards.

Reviewing the letters may enable project sponsors and others to get insight into the Park Service's views regarding certain issues and features in historic buildings and historic preservation projects.

The letters, grouped by year, can be accessed via a drop down menu at the bottom of the Park Service Web page (http://tinyurl.com/5t9ks3e). TCA

People in the News

The National Housing & Rehabilitation Association recently elected new executive officers. They are: **Debra Koehler**, Sage Partners, Chair; **Bernie Husser**, The Richman Group, 1st Vice Chair; **Jerry Breed**, Bryan Cave LLP, 2nd Vice Chair; **John Peck**, Peck Shaffer LLP, 3rd Vice Chair; **David Abromowitz**, Goulston & Storrs, PC, Treasurer; and **Roger Yorkshaitis**, Gatehouse Group, Secretary.

George Demoulias has joined Boston Capital as Vice President of Boston Capital Energy, which specializes in the financial structuring and monetization of tax credits related to renewable energy projects. He will also investigate tax credit investment opportunities outside the energy field. Demoulias was previously at State Street Bank and Trust Company.

Federal Housing Commissioner-Assistant Secretary for Housing **David Stevens** is leaving HUD to join the Mortgage Bankers Association as its President and CEO. **TCA**

And the Winner Is...

2010 New Markets Allocation Awards Feature Patterns and Surprises

he \$3.5 billion in 2010 New Markets Tax Credit (NMTC) allocation awards announced on February 24 by the Community Development Financial Institutions Fund (CDFI Fund) reflect some patterns and surprises.



Jerry Breed

The \$3.5 billion in NMTC allocation authority was awarded to 99 community development entities (CDEs), including 20 affiliated with firms or organizations that are members of the National Housing & Rehabilitation Association (see chart for all recipients). Some 250 CDEs requested more than \$23 billion of NMTC allocation in the program's eighth funding round, which was originally expected to offer \$5 billion.

Each CDE must sign and return its allocation agreement to start using its new authority.

The CDFI Fund expects to issue a Notice of Allocation Availability to open the 2011, \$3.5 billion funding round by early June 2011.

Characteristics of Awards

In assessing the awards as a group, the following characteristics emerge:

- CDEs headquartered in 29 states and the District of Columbia are expected to make investments in 47 states and the District of Columbia. Forty-two percent of the allocatees will focus on a national service area; 18%, on multiple states; 18%; statewide; and 21%, on a local or county area.
- Twenty-six CDEs received their first award, totaling \$814 million.
- Allocation awards ranged from \$10 million to \$77 million, compared to \$4 million to \$125 million in the seventh-round in late 2009, when \$5 billion was awarded to 99 CDEs. In 2008, \$3.5 billion was provided to 70 CDEs, with awards of \$6.25 - \$112 million.
- An average award size of \$35 million, compared to \$50 million in 2009 and 2008.
- California (26), New York (24), Texas (23), Louisiana (22), and Pennsylvania (22) are the states to be

served by the most allocatees.

- Approximately \$1.80 billion in NMTC proceeds (51.4%) is expected to be used to make investments in or loans to real estate project; \$1.67 billion (47.7%) for loans or investments for businesses; and \$27.6 million (0.8%) to capitalize other CDEs.
- \$2.055 billion (56%) is expected to be invested in major urban areas; \$829 million (25%) in minor urban areas; and \$616 million (19%) in rural areas.

Surprises, Implications

"The most noteworthy thing about the allocation [awards] was the size and number and then the fact that large banks were pretty much shut out of the allocation round," said Washington, D.C. attorney Jerry Breed, a partner in the law firm Bryan Cave LLP.

The average award size was 30% less than in the 2009 and 2008 rounds. Breed noted there were many small awards. Indeed, one-third of the allocations are for \$25 million or less.

In addition, most financial institutions that have historically been major investors in NMTC projects and that have CDEs of their own that typically received NMTC allocation awards in previous rounds came away empty handed this time. These included Bank of America, U.S. Bank, JPMorgan Chase, and KeyBank. These institutions' CDEs, plus that of SunTrust, another unsuccessful applicant, received an aggregate 23 allocation awards totaling nearly \$2.1 billion in previous rounds - about 7% of the total \$29.5 billion of NMTC allocations awarded under the program to date.

Major banks whose CDEs did receive a 2010 award included Capital One, PNC, and Wells Fargo.

Breed suggested that the combination of smaller allocation awards and the shut-out of the major bank CDEs will cause transaction costs to rise for many future NMTC projects provided allocations. He indicated that small CDEs with small allocations generally have to charge higher transaction costs, especially if they don't have other business line to help cover their overhead

New Markets, continued on page 38

2010 New Markets Tax Credit Funding Round: List of Allocatees*

Name of Allocatee	Service Area	Predominant Market	Allocated Amount	Predominant Financing Activity	Allocation Awards to Date
Advantage Capital Community Development Fund, LLC	National	AL, FL, LA, IL, MS MO, TX	\$56,000,000	Business	\$444,000,000
Al Wainwright LLC (Boston)	Local	MA	\$32,000,000	Business	\$57,000,000
AMCREF Community Capital, LLC	Multi-State	AL, FL, LA, MS, NC, TX	\$42,000,000	Business	\$162,000,000
Boston Community Capital, Inc.	National	IN, LA, MS, NY, NC, OR, PA	\$53,000,000	Business	\$353,000,000
BRIDGE Community Development, Inc. (BRIDGE Housing Corporation)	Statewide	CA	\$18,000,000	Real Estate	\$18,000,000
Brownfield Revitalization, LLC	National	FL, LA, MA, MO, NJ, NC, PA	\$56,000,000	Real Estate	\$148,000,000
BRP CDE, LLC	Multi-State	NY, NJ	\$21,000,000	Real Estate	\$21,000,000
Building America CDE, Inc.	National	CA, DC, IL, LA, MA, MO, NY	\$35,000,000	Real Estate	\$35,000,000
CapFund New Markets LLC (Great Lakes Capital Fund)	Multi-State	IL, IN, MI, WI	\$46,000,000	Real Estate	\$74,000,000
Capital City Properties (St. Paul)	Local	MN	\$14,000,000	Business	\$29,000,000
Capital One Community Renewal Fund, LLC	National	DC, LA, MD, NJ, NY, TX, VA	\$63,000,000	Business	\$313,000,000
Carver Community Development Corporation	Multi-State	NJ, NY	\$25,000,000	Real Estate	\$149,000,000
CCG Community Partners, LLC (CityScape Capital Group, LLC)		AL, FL, LA, MS, MO, NJ, TX	\$42,000,000	Real Estate	\$295,000,000
CDF Development, LLC	National	CA, KY, MD, MO, NJ, TX, VA	\$35,000,000	Real Estate	\$245,000,000
Central Bank of Kansas City	Multi-State	KS, MO	\$18,000,000	Real Estate	\$133,000,000
Central Valley NMTC Fund, LLC	Local	CA	\$35,000,000	Real Estate	\$35,000,000
Chicago Development Fund	Local	IL .	\$18,000,000	Real Estate	\$173,000,000
Cincinnati Development Fund	Multi-State	OH, KY	\$28,000,000	Real Estate	\$110,000,000
Cincinnati New Markets Fund, LLC	Local	OH	\$18,000,000	Real Estate	\$103,000,000
City First New Markets Fund II, LLC	Multi-State	DE, DC, MD, PA, VA	\$70,000,000	Real Estate	\$227,000,000
Clearinghouse CDFI, The	Statewide	CA	\$35,000,000	Real Estate	\$393,000,000
Cleveland New Markets Investment Fund II LLC	Local	ОН	\$35,000,000	Real Estate	\$75,000,000
Coastal Enterprises, Inc.	National	ME, MA, NH, NY, OR, VT, WV	\$77,000,000	Business	\$563,000,000
Commonwealth Cornerstone Group (Pennsylvania Housing Finance Agency)	Statewide	PA	\$28,000,000	Real Estate	\$148,000,000
Community Development Venture Capital Alliance	National	KY, ME, MS, MO, NC, PA, TN	\$14,000,000	Business	\$14,000,000
Community Hospitality Healthcare Services LLC	National	FL, KY, MD, NC, PA, VA, WV	\$63,000,000	Business	\$63,000,000
Community Impact Capital, LLC	Multi-State	NJ, NY	\$21,000,000	Real Estate	\$21,000,000
Community Ventures Corporation, Inc.	Statewide	KY	\$18,000,000	Business	\$144,000,000
Consortium America, LLC	National	MA, MI, MO, NJ, OH, PA, WA	\$35,000,000	Real Estate	\$425,000,000
Corporation for Supportive Housing	National	CA, CT, DC, IL, MI, NJ, NY	\$25,000,000	Real Estate	\$25,000,000
Dayton Region New Market Fund, LLC	Local	ОН	\$11,000,000	Business	\$11,000,000
DV Community Investment, LLC (Dudley Ventures, LLC)	National	AZ, CA, LA, MS, NJ, NY, OH	\$35,000,000	Business	\$35,000,000
Ecotrust CDE LLC	National	AK, AZ, CA, ID, MS, OR, WA	\$42,000,000	Business	\$122,000,000
Empowerment Reinvestment Fund, LLC	National	AL, LA, MD, MI, MS, NJ, NY	\$35,000,000	Business	\$145,000,000
Enhanced Community Development, LLC	National	AL, DC, LA, MS, NY, TN, TX	\$15,000,000	Business	\$100,000,000
Enterprise Financial CDE, LLC	Multi-State	KS, AZ, MO, IL	\$35,000,000	Business	\$35,000,000
ESIC New Markets Partners LP (Enterprise Community Partners, Inc.)	National	CA, DC, LA, MD, NY, OH, WA	\$62,000,000	Real Estate	\$672,000,000
Finance New Mexico, LLC	Statewide	NM	\$46,000,000	Business	\$156,000,000
First NBC Community Development Fund, LLC	Local	PA	\$28,000,000	Real Estate	\$28,000,000
Florida Community Loan Fund, Inc.	Statewide	FL	\$21,000,000	Business	\$81,000,000
Forest City Community Development Entity, LLC (Forest City Enterprises, Inc.)	Multi-State	CT, DC, MA, NJ, NM, NY, OH, PA	\$28,000,000	Real Estate	\$179,000,000
Golden Boy Partners Community Investments CDE, L.L.C.	Multi-State	CA, TX	\$25,000,000	Real Estate	\$25,000,000
Harbor Bankshares Corporation (Baltimore)	Local	MD	\$21,000,000	Real Estate	\$141,000,000
Heartland Regional Investment Fund, L.L.C.	Multi-State	IL, MO	\$32,000,000	Business	\$32,000,000
HEDC New Markets, Inc. (National Development Council)	National	CT, IL, NY, OH, TN, TX, WA	\$63,000,000	Business	\$549,000,000
HFHI-SA NMTC I, LLC (Habitat for Humanity Intl.)	National	CA, FL, MD, MS, TN, TX, VA	\$28,000,000	Real Estate	\$103,000,000
Indianapolis Redevelopment CDE LLC	Local	IN	\$32,000,000	Real Estate	\$32,000,000
Iowa Community Development LC	Statewide	IA	\$35,000,000	Real Estate	\$200,000,000
King County Housing Authority (Seattle)	Local	WA	\$28,000,000	Real Estate	\$50,000,000
Liberty Financial Services (1)	Multi-State	LA, TX MI, MS, MO	\$35,000,000	Business	\$35,000,000
Local Initiatives Support Corporation	National	CA, DC, IL, LA, MA, MI NY	\$70,000,000	Real Estate	\$693,000,000
Louisville Development Bancorp, Inc.	Local	KY	\$14,000,000	Real Estate	\$124,500,000

Name of Allocatee	Service Area	Predominant Market	Allocated Amount	Predominant Financing Activity	Allocation Awards to Date
Low Income Investment Fund	National	CA, DC, MD, MA, NJ, NY, PA	\$21,000,000	Real Estate	\$160,000,000
Lower Brule Community Development Enterprise, LLC	National	AZ, CA, ME, NM, OK, SD, TX	\$18,000,000	Business	\$18,000,000
MassDevelopment New Markets LLC	Statewide	MA	\$21,000,000	Real Estate	\$176,000,000
MBS Urban Initiatives CDE, LLC (MBA Properties, Inc McCormack Baron)	National	CA, MD, MI, MO, OH, RI, TN	\$10,000,000	Real Estate	\$220,000,000
MHIC NE Markets CDE II LLC (Massachusetts Housing Investment Corporation)	Multi-State	CT, ME, MA, NH, RI, VT	\$63,000,000	Real Estate	\$153,000,000
Michigan Magnet Fund (Michigan State Housing Development Authority)	Statewide	MI	\$25,000,000	Real Estate	\$145,000,000
Mid-City Community CDE, LLC (Urban Atlantic)	National	DE, DC, MD, NJ, NY, NC, PA	\$10,000,000	Real Estate	\$106,000,000
Midwest Minnesota Community Development Corporation	Multi-State	MN, ND, SD, WY	\$74,000,000	Business	\$364,000,000
Midwest Renewable Capital, LLC	Multi-State	IA, KS, MO, NE, ND, OK, SD	\$10,000,000	Business	\$75,000,000
Milwaukee Economic Development Corporation	Local	WI	\$14,000,000	Business	\$107,000,000
Montana Community Development Corporation	Statewide	MT	\$56,000,000	Business	\$96,000,000
MuniStrategies LLC	Statewide	MS	\$28,000,000	Business	\$28,000,000
National Cities Fund, LLC (Historic Restoration, Inc.)	National	LA, MS, MO, NC, OK, TX, VA	\$28,000,000	Real Estate	\$158,000,000
National Community Fund I, LLC	National	CT, IN, IA, MN, NY, OR, PA	\$77,000,000	Real Estate	\$252,000,000
National New Markets Fund, LLC	National	AK, AR, CA, LA, MI, MS, OH	\$42,000,000	Real Estate	\$167,000,000
National New Markets Tax Credit Fund, Inc.	National	CA, CO, FL, MN, OR, TX, WI	\$77,000,000	Business	\$674,500,000
National Trust Community Investment Corporation	National	IL, MI, MS, NC, OH, PA, RI	\$28,000,000	Real Estate	\$343,000,000
Nonprofit Finance Fund	National	CA, DC, MA, MI, NJ, NY, PA	\$21,000,000	Business	\$151,000,000
Northeast Ohio Development Fund, LLC (Cleveland)	Local	OH	\$18,000,000	Real Estate	\$95,000,000
Northern California Community Loan Fund (San Francisco)					
, , , , , , , , , , , , , , , , , , , ,	Local	CA	\$21,000,000	Business	\$60,000,000
Ohio Community Development Finance Fund	Statewide	OH OH	\$35,000,000	Business	\$180,000,000
People Incorporated Financial Services	Multi-State	KY, NC, SC, TN, VA, WV	\$14,000,000	Business	\$29,000,000
Phoenix Community Development and Investment Corporation		AZ	\$53,000,000	Real Estate	\$263,000,000
Pittsburgh Urban Initiatives LLC	Local	PA	\$35,000,000	Real Estate	\$35,000,000
PNC Community Partners, Inc.	National	DC, IL, MD, MI, NJ, OH, PA	\$53,000,000	Real Estate	\$128,000,000
Raza Development Fund, Inc.	National	CA, DC, IL, LA, NY, RI, TX	\$35,000,000	Real Estate	\$35,000,000
REI New Markets Investment, LLC	Statewide	OK	\$39,000,000	Business	\$175,000,000
Related Community Development Group, LLC (The Related Companies, LP)	National	NJ, NY	\$42,000,000	Real Estate	\$257,000,000
Rural Development Partners LLC	National	IA, KS, MO, NM, ND, TX, WI	\$77,000,000	Business	\$321,700,000
San Francisco Community Investment Fund	Local	CA	\$35,000,000	Real Estate	\$35,000,000
Seattle Investment Fund LLC	Local	WA	\$11,000,000	Real Estate	\$55,000,000
SECDE Ventures, LLC	Statewide	MS	\$53,000,000	Real Estate	\$53,000,000
St. Louis Development Corporation	Local	MO	\$21,000,000	Real Estate	\$183,000,000
Stonehenge Community Development, LLC	National	FL, IL, KY, LA, MI, OH, TX	\$53,000,000	Business	\$420,500,000
Telesis CDE Corporation	National	CA, DC, LA, MD, NJ, OH, PA	\$11,000,000	Real Estate	\$96,000,000
Texas Mezzanine Fund, Inc.	Statewide	TX	\$35,000,000	Business	\$85,000,000
The Illinois Valued Advisor Fund, LLC (Baker Tilly Capital, LLC)		IL	\$35,000,000	Real Estate	\$35,000,000
TransPecos Development Corp	Statewide	TX	\$50,000,000	Business	\$50,000,000
University Financial Corporation d/b/a Sunrise Community Banks		MN, WI	\$25,000,000	Business	\$25,000,000
Urban Development Fund, LLC	National	CA, FL, IL, LA, MS, NY, TX	\$35,000,000	Real Estate	\$292,500,000
Urban Research Park CDE, LLC	National	AR, FL, MD, NC, OH, PA, RI	\$39,000,000	Real Estate	\$179,000,000
VOANS CDE, Inc. (Volunteers of America National Services)	National	AL, CA, CO, FL, NY, PA, WA	\$35,000,000	Real Estate	\$35,000,000
Waveland Community Development, LLC	National	AL, AK, CO, MI, MS, NM, TX	\$42,000,000	Real Estate	\$227,000,000
Wells Fargo Community Development Enterprises, Inc.	National	CA, FL, GA, NC, PA, SD, TX	\$42,000,000	Business	\$222,000,000
Whitney New Markets Fund, LLC	Multi-State			Business	
Wisconsin Community Development Legacy Fund, Inc. (WHEDA)		AL, FL, LA, MS, TX WI	\$53,000,000 \$10,000,000		\$103,000,000 \$415,000,000
				Business Book Fototo	
WNC National Community Development Advisors, LLC (WNC & Associates, Inc.)	National	CA, IL, LA, NY, NC, PA, TX	\$53,000,000	Real Estate	\$178,000,000
		\$3	,500,000,000	\$	16,204,700,000

 ${\it Source: Community \ Development \ Financial \ Institutions \ Fund}$

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^{*} Italics denote first-time allocatees. Shading denotes CDEs affiliated with firms or organizations that are members of National Housing & Rehabilitation Association.

⁽¹⁾ Liberty Bank and Trust Company CDE had three prior awards for \$130 million.; (2) The Value Advisor Fund, LLC had two prior awards for \$67 million.

New Markets, continued from page 35

costs, and if they if they try to parcel out small allocation amounts to multiple projects. Projects using less than \$5 million in allocation authority generally don't make economic sense because transaction costs are a larger share of total costs. Breed also said a number of the major banks' CDEs haven't charged fees on deals to which they have provided an allocation where the bank is also the investor.

Breed also predicted there will be more NMTC projects that use allocations from multiple CDEs.

Breed and Joseph Wesolowski of Enterprise Community Investment, Inc., whose CDE received an award, predicted that the major banks whose CDEs didn't win a 2010 allocation will still continue to invest in NMTC projects this year.

Officials at St. Louis-based U.S. Bancorp Community Development Corporation, whose CDE (USBCDE, LLC) applied for the maximum \$150 million of NMTC allocation authority in the eighth round, confirmed this. They said that while their CDE did not receive an award, USBCDC will remain an active investor in the NMTC industry and continue to partner with other allocatees. USBCDE previously received four awards totaling \$435 million.

"Certainly we were disappointed, after com/Events.aspx having access to the authority over the last four years," said Matt Philpott, Senior Vice
President of USBCDC. U.S. Bank supports USBCDE with resources to manage its investments, and USBCDE deploys 99% of the aggregate capital raised into lowincome community businesses.

Marc Hirshman, Senior Vice President of USBCDC, pointed out that U.S. Bank's primary role in the NMTC Program has been as an investor, not as a CDE. The bank has made total qualified equity investments (QEIs) of more than \$9 billion to date – including about \$2 billion in 2010 – to finance NMTC projects in more than four-fifths of all states. Roughly 90% of the bank's QEIs have been in CDEs not affiliated with the bank. USBCDC has partnered with more than 125 allocatees.

They said U.S. Bank will also continue to be an active

debt lender to help finance qualified NMTC projects and hopes to increase its volume in this area in 2011.

Bank of America's CDE, which received five prior awards totaling \$578 million of NMTC allocation, was also unsuccessful in its 2010 application seeking \$150 million. "We were very disappointed that Bank of America did not receive an allocation," said Leigh Ann Smith of Bank of America Merrill Lynch. "We are com-

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mitted to remaining an active participant in the new markets arena and are currently in the process of deciding how we will do that."

Wesolowski reacted positively to Enterprise's new \$62 million allocation award, its seventh, even though it was smaller than the \$150 million it requested and its \$95 million allocation in 2008. "We're very pleased; it helps us continue our work on the ground," he noted.

Enterprise will use its NMTC allocation to provide flexible, below-market financing for commercial, mixed-use, and community facility projects that will provide substantial benefits to low-income people and communities in the U.S.

Enterprise's CDE, which generally funds real estate projects, has a "robust" pipeline of potential new NMTC deals but plans to "step back" a bit before committing any of the new allocation authority to specific projects, Wesolowski noted. "We're culling through our pipeline to see what could make sense."

The new authority comes just in time. Enterprise has fully committed its prior \$610 million in allocation authority, and expected to fund the last \$15 million from this for a deal closing within the next week.

The 20 CDEs affiliated with companies and organizations belonging to the National Housing & Rehabilitation Association received \$686 million in allocation awards.

Among these are Enterprise, the National Development Council, National Trust Community Investment Corporation, Massachusetts Housing Investment Corporation, The Related Companies, Baker Tilly Capital, Telesis Corporation, Volunteers of America, and Wells Fargo. Dudley Ventures' CDE received its first award.

(2010 Award Materials: http://tinyurl.com/5trk46h) TCA

The Budget Deficit Debate

CBO Tosses in its Two Cents

here's one more log for the fire in the Washington debate about the federal budget deficit. The Congressional Budget Office has issued a new 256-page report that lays out a broad array of specific possible options for cutting the federal deficit, some of them absent from a flurry of similar reports issued a few months ago and some that would directly impact housing and community development.

The menu includes items to cut or eliminate federal spending for certain current federal programs, curb the growth in spending, raise fees, and end or cut back various existing federal tax expenditures.

Some of the options include:

- Raising rent payments by tenants in federally assisted housing projects. Tenants' rental contributions would be gradually increased from 30% of adjusted gross family income to 35% during 2012-2016;
- Ending tax-exempt bonds, and replacing them after 2012 with taxable bonds in which the federal government provides a subsidy to issuers equal to 15% of the

interest cost on the bonds. Current annual bond volume limits would be retained;

- Ending federal weatherization grants used to fund energy improvements to housing units occupied by low-income persons;
- Dropping wealthier communities from HUD's Community Development Block Grant program;
- Gradually eliminating the home mortgage interest deduction;
- Reducing Fannie Mae's and Freddie Mac's home mortgage limits and increasing their guarantee fees;
- Reducing the growth in annual federal discretionary appropriations for agencies other than the Department of Defense; and,
- Taxing carried interest as ordinary income.

(Report: http://tinyurl.com/4ftk7gh) TCA

In Brief

WNC Closes \$93 Million California LIHTC Fund

Irvine, Calif.-based WNC & Associates has closed WNC Institutional Tax Credit Fund X California Series, L.P. The low-income housing tax credit fund raised \$93 million from nine institutional investors – two new to WNC – including seven California banks, one national bank, and a national insurance company. The equity will help fund about 10 properties in California with over 700 affordable apartments.

City Real Estate Advisors Closes Tax Credit Fund

City Real Estate Advisors, Inc. has closed a low-income housing tax credit fund, CREA National Fund 2010-3, LLC. The fund raised roughly \$88 million in equity from nine investors –six new to CREA – that will be invested in 11 properties in California, Florida, Illinois, Indiana, Iowa, and Wisconsin. CREA plans a new national fund of \$100-120 million expected to close in September.

Boston Capital Announces Investments in Two Properties

Boston Capital has announced equity investments in two low-income housing tax credit properties: Bowers Brook Housing for Seniors, a 42-unit new construction project in Harvard, Mass., and 81 Ash Street, a 32-unit development for seniors in downtown Lewiston, Me. The latter involves the substantial rehabilitation of the Healey Asylum, an historic former orphanage for boys built in 1893. The general partner for 81 Ash Street is an affiliate of the Lewiston Housing Authority. The general partner for Bowers Brook Housing is a subsidiary of L.D. Russo, Inc., a local family-owned construction company. (http://tinyurl.com/4hb2uj9)

St. Louis Equity Fund Project Honored With Award

Railton Residence, an affordable housing development in downtown St. Louis funded with low-income housing and historic tax credits, has received a 2011 Missouri Preservation Award from the Missouri Alliance for Historic Preservation. The St. Louis Equity Fund and PNC Bank partnered with the Salvation Army on the \$14 million historic rehabilitation project.

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State Roundup

Maryland Agency Offers Retrofit Funds

The Maryland Department of Housing & Community Development is accepting applications for funding under its new Be SMART Multifamily program. Eligible are owners of existing affordable multifamily rental housing projects in 15 targeted Main Street communities and the counties in which they are located. Available are loans to buy and install equipment and materials for energy-efficiency measures or funding to establish loan loss reserves to induce private lenders to make loans for the same purpose.

(http://tinyurl.com/45rceug)

Louisiana Sets Public Hearings for 2011 QAP

The Louisiana Housing Finance Agency has scheduled a public hearing for May 2 on its draft 2011 qualified allocation plan for its low-income housing tax credit program. The draft 2011 QAP will be presented to LHFA's board for final adoption on May 11. The 2011 application deadline is tentatively set for June 30.

(http://www.lhfa.state.la.us)

Historic Tax Credit Bills Signed, Vetoed

Mississippi Gov. Haley Barbour recently signed a bill (H.B. 754) that extends the state's 25% state historic rehabilitation tax credit by two years, through 2013.

Meanwhile, in New Jersey, Gov. Chris Christie vetoed a bill (A.B. 1851) that had been approved by the state legislature that would have established a state historic tax credit.

In Michigan, Gov. Rick Snyder has called for the elimination of the state's historic tax credit, brownfield tax credit, and many other state tax credits and tax incentives in his budget proposal for FY 2012.

Louisiana Governor Proposes to Consolidate Agencies

Louisiana Gov. Bobby Jindal has proposed the consolidation of five state agencies that administer 30 housing programs into a single agency, the Louisiana Housing Corporation, which would control all housing funds. One of the five existing agencies is the Louisiana Housing Finance Agency, which allocates low-income housing tax credits and operates other housing pro-

grams. Jindal is supporting the introduction of state legislation to accomplish this.

(http://tinyurl.com/4mjxjm6)

Massachusetts Sets Spring Round Application Deadline

The Massachusetts Department of Housing and Community Development has announced that April 29 will be the application deadline for sponsors seeking funding under its spring 2011 rental funding round.

Maine Agency Modifies Two Rental Loan Programs

MaineHousing has revised its Pre-Development Loan Program to increase the loan limit to \$40,000 and restrict the program to developers of supportive housing projects. The agency has also modified its Revolving Loan for Acquisitions Program, which offers 24-month loans of up to \$300,000 to acquire land or land and buildings for affordable housing projects. The changes including standardizing the interest rate at 3% and establishing a refundable \$100 processing fee.

(http://www.mainehousing.org)

Census Bureau Releases Data for Florida, Georgia

The U.S. Census Bureau has released detailed population data and demographic information from the 2010 Census for the states of Florida and Georgia.

(http://tinyurl.com/4lobqmx, http://tinyurl.com/4vpe6uu)

Colorado Announces Date for Housing Summit

The Colorado Housing and Finance Authority will hold its 2011 Housing Credit Summit on May 24 in Denver.

(http://bit.ly/gyrZ2b)

Hawaii Bill Would Sunset State Housing Energy Credits

A bill (H.B. 1270) in Hawaii's state legislature would establish sunset dates to repeal the state's low-income housing tax credit at the end of 2016 and Hawaii's renewable energy tax credit at the end of 2015. Another bill (H.B. 960) moving through the legislature would change the state housing credit to a loan program funded by general obligation bonds.

(http://www.capitol.hawaii.gov) TCA



IRS Releases State Population Estimates

The Internal Revenue Service has released revised population estimates for states. The figures are used to compute each state's official 2011 volume caps for low-income housing tax credits and tax-exempt private activity bonds.

(http://tinyurl.com/6krovzu)

HUD Issues FY 2010 Section 202 NOFA

The U.S. Department of Housing and Urban Development is soliciting applications by June 1 under its Section 202 program for roughly \$371 million in capital advance grants plus associated project-based subsidies. The program finances supportive rental housing projects for seniors.

(http://tinyurl.com/5ums65c)

IRS Releases, Posts Revised Version of 8823 Guide

The IRS has released and posted on its Web site a revised, January 2011 version of its so-called 8823 guide for the low-income housing tax credit program. The html version is at http://tinyurl.com/6xy2s5z. A PDF of the entire guide is at http://tinyurl.com/6hcceyu

GAO Issues Report on Duplicative Programs

The Government Accountability Office has issued a report identifying potentially duplicative federal duplicative programs, including those designed to spur economic development and address homelessness. It repeats an earlier GAO suggestion to change the new markets tax credit to a cash grant program.

(http://tinyurl.com/4gdkt7r)

Dem Lawmakers Introduce Housing Bills

Democratic lawmakers in Congress have introduced housing bills recently. Rep. Maxine Waters (Calif.) introduced a public housing reinvestment and tenant protection bill (H.R. 762) that would also authorize the Choice Neighborhoods Initiative (CNI), as well as a Section 8 voucher reform bill (H.R. 1209); Sen. Robert Menendez

(N.J.), a bill (S. 624) to authorize the CNI program; and Sen. Jack Reed (R.I.), a bill (S. 489) to capitalize the National Housing Trust Fund

HUD Releases 2011 Multifamily Loan Limits

HUD has released revised 2011 loan limits for the FHA Section 207, 220, 221(d)(3), 221(d)(4), and 231 programs.

(http://tinyurl.com/6app7qp)

HUD Publishes Section 8 Contract Adjustment Factors

HUD has published FY 2011 annual adjustment factors for Section 8 Housing Assistance Payment contract rents. AAFs are used to adjust the contract rents on the contract's anniversary date for some multifamily projects.

(http://tinyurl.com/4arm2zp)

HUD Releases Guidance in Several Areas

HUD has recently issued Notice H 2011-05, policies and procedures for evaluating owners' requests for deferral of repayment of operating assistance flexible subsidy loans; Mortgagee Letter 2011-15, revised policies for partial payment of claims for FHA Section 232 health care mortgages; and Notice PIH 2011-14, guidelines to public housing authorities for undertaking financings not secured by public housing assets, such as for modernization or development purposes.

(http://tinyurl.com/63owm5g).

HUD Launches Housing Partnerships Web Resource

HUD has added a page to the HUD USER Web site with links to information on resources and strategies for the enhancement or formation of partnerships aimed at preserving affordable rental housing.

(http://tinyurl.com/48q5wmr)

House Approves NSP Termination, Rescission

The House recently approved and sent to the Senate a bill (H.R. 861) that would rescind any unobligated funds from Round 3 (\$1 billion) of the Neighborhood Stabilization Program, and then end the program.



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