

LIHC MONTHLY REPORT

A MONTHLY PUBLICATION OFFERING NEWS, OPINION, FEATURES AND COMMENTARY ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

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Single Family Tax Credit Gains Support, Homeownership Initiatives Proliferate

By Alex Ruiz, Staff Writer, Novogradac & Company LLP

At the forefront of an increasing trend and growing focus on homeownership efforts, President George W. Bush declared June National Homeownership Month and called on Americans to learn more about financial management and explore homeownership opportunities in their communities. And in June, despite news from the U.S. Department of Commerce that homeownership recently reached record-high levels, new and expanded homeownership opportunities were announced at the local, state and federal levels, and a new bill to create a single-family affordable housing tax credit was introduced in the House.

Bush's proposal would create a tax credit designed to encourage the production of affordable single-family housing in order to boost homeownership. The program would mirror much of the current low-income housing tax credit (LIHC) regulation for issues such as allocation, eligible basis and reporting requirements. But in contrast, several aspects would differ from the LIHC, including a shorter credit period and no risk of recapture for investors. Supporters of the proposed credit joined together earlier this year to form the Community Homeownership Credit Coalition, including The Enterprise Foundation, National Association of Affordable Housing Lenders, National Association of Local Housing Finance Agencies and more than 20 other organizations.

Leading the charge, Bush dedicated significant time and attention to the homeownership issue throughout June, including time during his national weekly radio address and in his comments at several U.S. Department of Housing and Urban Development (HUD) events. "Owning a home lies at the heart of the American dream. A home is a foundation for families and a source of stability for communities. It serves as the foundation of many Americans' financial security," Bush said in his June 15 radio address.

And while each of the proposed programs is available to all potential homebuyers, the bulk of the administration's efforts have concentrated on minorities. In June, HUD released a report, "Barriers to Minority Homeownership," outlining specific obstacle faced by potential minority homebuyers. Those impediments include: lack of capital for a downpayment, lack of access to credit and poor credit histories, lack of understanding about the homebuying process, regulatory burdens imposed on housing such as zoning restrictions, and illegal housing discrimination.

(continued on page two)

LIHC WATCH

The House Financial Services Committee last month approved H.R. 3995, The Housing Affordability for America Act, introduced earlier this year by Rep. Marge Roukema (R-N.J.), chairwoman of the subcommittee on housing and community opportunity. The measure was approved by a voice vote with the addition of several amendments, including one that would call for periodic reviews of affordable housing rental properties that have been allocated low-income housing tax credits (LIHCs). Reviews would be required at least once every four years, or more often as required under the regulations. Another amendment, offered by Reps. Sue Kelly (R-N.Y.) and Bernie Sanders (I-Vt.), would establish a federal matching fund to provide grants to local and state affordable housing trust funds.

IN THIS ISSUE

Page 10
NCSHA Publishes LIHCs
Utilized in 2001

Page 12
Little Gain in Poorer Households
Income – More Housing
Initiatives Called For

Page 10
Failing Grades for S.F. Bay Area
Cities' Affordable Housing Efforts

www.taxcredithousing.com

Single Family Tax Credit

(continued from page one)

The report found that the overall minority homeownership rate in 1994 was 26.8 percentage points below the rate for white households. By 2001, the gap had been reduced only 1.5 percentage points for all minorities. The report concluded that if the persistent gaps in minority homeownership are to be narrowed substantially, the structural barriers faced by minority families, or those barriers that have a pronounced effect on minority communities, must be eliminated.

As part of his plan to increase the number of minority homeowners by at least 5.5 million by the end of the decade, Bush has requested that Congress enact the \$2.4 billion tax credit to increase the affordable housing supply for low- and moderate-income families by an estimated 200,000 single-family homes. The credits would be provided to developers who build affordable single-family housing in "distressed areas." Bush's plan also includes implementing an American Dream Downpayment fund that would provide assistance to approximately 40,000 low-income families. The fund will be built upon the existing HOME program, and grants would be awarded to state and local governments to assist eligible families with closing costs and downpayments.

Bush also released a report in June outlining these proposals called "A Home of Your Own: Expanding Opportunities for All Americans." The report gives details about a third element of the administration's plan to boost homeownership: education. "One of the best ways to avoid future problems and promote homeownership is to educate families about the process and responsibilities of homeownership," the document says. "The administration has proposed increasing funding for comprehensive housing counseling, including such services as pre-purchase, default, and renter counseling to potential homeowners and tenants, by \$15 million for [fiscal year] 2003, for a total of \$35 million."

The president has won significant support for his initiatives, particularly for the new tax credit. Franklin D. Raines, chairman and CEO of Fannie Mae, recently sent a letter to Bush outlining a 10-point plan to help advance the Bush administration's homeownership proposals, including the creation of a single-family affordable housing tax credit. Raines pledged that the new credit would not diminish Fannie Mae's investment in the LIHC. "Fannie Mae will purchase single-family affordable housing tax credits proposed by your administration upon enactment, while also maintaining at least our current level of investment in [LIHCs] as the nation's largest investor in these tax credits," he said.

Industry professionals remain hopeful that the single-family affordable housing tax credit can be enacted by Congress especially after the Millennial Housing Commission included the credit as one of the recommendations in its report released in late May.

At the state and local level, homeownership programs have multiplied in recent months. For instance, in Arizona, Freddie Mac and Pima County government,

(continued on page three)

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Single Family Tax Credit

(continued from page two)

with support from HUD, Bank of America, Wells Fargo Home Mortgage, Chicanos Por La Causa and other community organizations, unveiled a new \$50 million community homeownership lending initiative called Catch the Dream Tucson. The program will expand mortgage credit opportunities to help underserved families become first-time homebuyers.

Overall, Freddie Mac's national Catch the Dream campaign is undertaking 25 major initiatives that will span the entire homeownership lifecycle, which includes (1) providing information to help consumers understand that homeownership is within reach; (2) expanding the availability of affordable for-sale housing; (3) equipping the mortgage finance industry with the tools necessary to meet the financing needs of the next generation of homebuyers; (4) providing more affordable home financing opportunities; and (5) helping homeowners build and protect their home equity.

In a separate effort, Freddie Mac is also building on an existing program in cooperation with the City of Chicago and the Chicago Housing Authority (CHA) to expand homeownership there. Choose to Own, a new citywide initiative that will enable low-income Chicago renters to become homeowners by turning their Section 8 federal housing vouchers into monthly payments on affordable home mortgages, means qualified families can use housing choice vouchers to begin building personal wealth in the form of home equity. In the first few months, more than 100 families signed up for the program.

Likewise, the Federal Housing Finance Board (FHFB) is seeking to further homeownership efforts with a proposed rule it published in late June. The rule would amend the banks' Affordable Housing Program (AHP) to authorize a Federal Home Loan Bank (FHLB) to set aside annually an additional amount up to the greater of \$1.5 million or 10 percent of an FHLB's annual required AHP contribution, to assist low-or moderate-income, first-time homebuyers under the homeownership set-aside program. This increased discretionary funding authority would supplement the FHLB's current discretionary authority to fund homeownership set-aside programs subject to the \$3.0 million or 25 percent allocation cap for a potential total of \$4.5 million or 35 percent of an annual contribution.

Under the FHLBs' AHP contribution requirement for 2002, this increased funding authority would enable the 12 banks to provide an additional \$24 million to assist 2,400 to 4,800 additional low-or moderate-income, first-time homebuyers. According to the June 20 *Federal Register* notice, "This additional set-aside funding authority would complement national housing policy initiatives to broaden first-time homeownership, especially among minority and immigrant households and households living in rural areas and on Native American tribal lands."

Meanwhile, various legislation has been introduced to create a homeownership tax credit for developers of affordable single-family housing. The most recent is

(continued on page four)

Single Family Tax Credit

(continued from page three)

House Resolution 5052, the Restoring the Dream Tax Credit Act, which was introduced in late June by Rep. Rob Portman (R-Ohio). If enacted, the measure would provide a tax credit based on an applicable percentage of each qualified residence's eligible basis to be allocated by a state agency from an annual ceiling and according to specific criteria outlined in a qualified allocation plan.

The credit in H.R. 5052 would be available to residences located: (1) in a census tract with a median gross income not exceeding 80 percent of the greater area or statewide median gross income; (2) in a rural area; (3) on an Indian reservation; or (4) in an area of chronic economic distress. The bill prohibits a buyer's income from exceeding 80 percent, or 70 percent for families of less than three, of the area gross median income and requires owner occupancy of the residence.

To date, H.R. 5052 has two co-sponsors, Rep. Benjamin L. Cardin (D-Md.) and Rep. J. C. Watts Jr. (R-Okla.). The measure has been referred to the House Committee on Ways and Means, where, at press time, it had not been scheduled for a hearing.

For more information on the proposed single-family affordable housing tax credit, visit www.taxcredithousing.com. ❖

Industry Dealmakers

Construction began recently on Westwood Village Apartments, a new 32-unit housing development in St. Cloud, Minn. The Minnesota Housing Finance Agency (MHFA) provided tax credit funding for the project, which produced about \$1.8 million in equity. MHFA also awarded the project \$437,092 from the Minnesota Affordable Rental Investment Fund. The tax credit units will be reserved for workforce housing within the larger Westwood Village, a 59-acre planned use development that will also feature single-family housing.

PW Funding Inc, a subsidiary of Charter Municipal Mortgage Acceptance Company (CharterMac), provided \$2,510,000 in mortgage financing for an apartment complex in Everett, Wash. under Fannie Mae's DUS program for

multifamily affordable housing properties. Colby Crest Apartments is a 64-unit mid-rise complex of studios and one- and two-bedroom units in one five-story building. Deed restrictions require 100 percent of the property's units be set-aside for families earning no more than 60 percent of the area median income.

PW Funding issued in June a forward commitment of \$4,800,000 for an apartment complex to be constructed in Titusville, Fla. under Fannie Mae's construction/forward commitment financing program for multifamily affordable housing properties. Park Villas Apartments, awarded \$7,322,000 in low-income housing tax credits (LIHCs), will be a 160-unit complex of two- and three-bedroom units in 10 two-story buildings. When funded, the permanent mortgage will have a fixed-interest rate of 7.64 percent and debt service coverage of 1.21x. Related Capital Co provided the LIHC equity.

(continued on page six)