

NCSHA Awards: Harbingers of a Changing Tax Credit Housing Environment

By Michael J. Novogradac, CPA

The tax credit housing industry has been going through some rough times, and this is evident in all sectors — production, preservation, rehabilitation and management. And we are inundated daily by the bad news as it's reported in newspapers, dissected in magazine stories and analyzed in think tank reports. What we don't hear every day are the untold stories of success and the pioneering thinking, ground-breaking measures and sometimes difficult decision-making that inspire and bring about the industry's achievements and changing face.

The Journal of Tax Credit Housing and this column have for several months focused on the many and varied aspects of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the consensus efforts of A.C.T.I.O.N, tax and housing policy and the Tax Credit Assistance Program (TCAP). This month, I want to turn my attention to and relate the success stories of some of the state housing finance agencies (HFAs) that were recognized last month by the National Council of State Housing Agencies (NCSHA) for their outstanding public purpose programs, projects and practices. Despite today's tough conditions for producing, preserving and managing affordable housing, these agencies have adopted innovative strategies in their use of the low-income housing tax credit (LIHTC), overcoming the stasis that is beleaguering the industry.

Twenty-three HFAs were honored in the categories of homeownership, rental housing, special needs housing, management innovation, communications and special achievement. Any HFA member of NCSHA was eligible to enter. I will focus my comments here on the rental housing and special achievement categories. All winners in all categories are listed on page 10 and more information on the awards can be found at www.ncsha.org/about-us/annual-awards.

Perhaps the best place to start is with the two Special Achievement awards.

Getting the Private Sector to Play

When the Tennessee General Assembly was reminded in 2005 by advocacy groups that there was no state funding allocated to affordable housing, the Tennessee Housing Development Agency (THDA), in partnership with the Tennessee Department of Revenue (TDOR), made a bold move and moved ahead with an innovative idea that would provide incentives for the private sector to invest in affordable housing with minimal impact on the state budget and without using a direct appropriation.

The result was the Community Investment Tax Credit program (CITC) that allows financial institutions to obtain a credit against their state franchise and excise tax liability when qualified loans, investments, grants or contributions are extended to eligible housing entities for engaging in eligible low-income housing activities. The tax credits are provided for qualified loans that are at least 2 percent below the prime rate, low-rate loans of at least 4 percent below the prime rate, long-term investments of a period of more than five years and grants and contributions.

Financial institutions can earn credits equal to 5 percent of a qualified loan or qualified long-term investment, or 3 percent annually of the unpaid principal balance of a qualified loan as of December 31 of each year of the life of the loan or 15 years, whichever is earlier. They can also opt to take 10 percent of a qualified low rate loan, grant, or contribution, or 5 percent annually of the unpaid principal balance of a qualified low rate loan as of December 31 of each year for the life of the loan, or 15 years, whichever is earlier.

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More than \$81 million has been invested thus far by the private sector in affordable housing under the CITC program. These financial institutions have received more than \$7.8 million in credits against their franchise and excise tax liabilities and housing entities in Tennessee have been able to produce almost 3,000 units of affordable housing. The 145 projects and initiatives that were funded by these investments (at an average of \$559,200 per investment) leveraged approximately \$50 million from additional funding sources.

"The Community Investment Tax Credit has helped us enormously here at Urban Housing Solutions," said Rusty Lawrence, executive director of the Nashville firm. "We have been able to refinance our existing loans on our properties at a reduced rate ... as low as 1.25 percent ... and this has allowed us to keep our rents at a below market rate and still provide the support services that our residents need."

Hope for the Best, Prepare for the Worst

The Nebraska Investment Finance Authority (NIFA) also

walked off with a Special Achievement Award. NIFA's continuous review of existing financial arrangements on its single-family program analyzes the "what-ifs" that occur in the housing market. This financing management process allows NIFA to respond quickly to changing market conditions, manage and reduce interest rate risk, minimize negative arbitrage and enable it to continuously offer competitive funding for its low- and moderate-income customers. These existing internal processes and procedures, in place for nearly 10 years, allowed NIFA in February 2008 to maneuver through a market of previously unheard of tender activity for variable rate bonds, ensuring that all of its single-family variable rate bonds tendered for purchase were successfully remarketed and trades were settled on a timely basis.

Extraordinary Efforts for Equity

Responding to the tax credit equity shortage, the North Carolina Housing Finance Agency (NCHFA) in 18 months secured about \$200 million in equity for its 2007 and 2008 housing credit projects and drummed up enough investor interest for all 24 of the state's 2009

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ISSN 1940-4980

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awards. This earned NCHFA the top spot in NCSHA's Encouraging New Production category.

The agency accomplished its goal by assisting with lower pricing through a combination of re-underwriting projects assuming a lower credit price, allowing additional debt, deferring more developer fee and making a forward commitment of 2009 housing credits for 15 projects.

NCHFA also recycled previous awards allowing owners to return 2007 and 2008 allocations for an award of the same amount from the state's 2009 authority. Owners recycling allocations could also request the agency designated 30 percent boost allowed for in the Housing and Economic Recovery Act of 2008. The total amount recycled was \$32 million in annual allocations, of which \$5.4 million were increases using the 30 percent boost and 9 percent rate. Owners of 31 projects have closed on approximately \$100 million in equity because of these efforts.

In its four-pronged approach to encouraging new production, NCHFA also prepared "important but not radical" changes to its future policies and continued its long-standing policies for allocation and underwriting.

Preservation through Smart Rehab

In the initial five months that the Pennsylvania Housing Finance Agency (PHFA) offered its developers its Smart Rehab Program, the agency received more than 80 applications requesting approval and funding to begin energy audits. Initial results indicate that less than \$4,500 per unit will be needed to save 25 percent to 30 percent in energy costs.

PHFA's program, which conducts comprehensive energy audits to determine the most appropriate and cost-effective improvements for increasing energy efficiency in rental homes, displays the benefits of multifamily energy retrofitting in an energy market that has been focused largely on the single-family housing and commercial building markets. PHFA set up a training program for auditors and nearly 40 have been trained in the protocols specific to multifamily buildings.

The Smart Rehab program is being funded with a \$1

million grant from the MacArthur Foundation, receivable over a three-year period; a \$2 million loan from the U.S. Department of Agriculture Rural Housing Service Preservation Loan fund; \$2 million of PHFA's own reserves; \$22.5 million of the Recovery Act's Weatherization Assistance Program funds; and support from the state's Public Utilities Commission and Department of Community and Economic Development, and the West Penn Sustainable Energy Fund. PHFA's goal is to preserve 5,000 units under this program within three years.

PHFA shared the winners circle with MassHousing in the Rental Housing: Preservation & Rehabilitation category.

MassHousing's Section 8 Proactive Preservation Program (PPP) is the latest in that agency's efforts to preserve "expiring use" properties. In the wake of a General Accounting Office (GAO) report that identified 2,328 HUD-assisted properties that will mature before 2013, MassHousing looked at its own portfolio and found it had 61 mortgages that will mature between 2009 and 2013. Wasting no time, the agency set three objectives: preserve the affordability of the Section 8 HAP developments in its portfolio, retain these properties as assets in the agency's mortgage portfolio, and maintain the agency's Section 8 Contract Administration for each of the developments.

MassHousing originally allocated \$100 million of uninsured financing for the PPP. After its initial \$100 million allocation the agency needed credit enhancement to cover the risks for additional financings beyond the initial uninsured allocation. So in January 2008 MassHousing applied in writing to the U.S. Department of Housing and Urban Development (HUD) with a request to permit equity take-out in risk share transactions to be refinanced under the PPP. In June of that same year, MassHousing received the most far-reaching waiver of HUD regulations in MassHousing's history, when HUD approved the risk share credit enhancement for equity take-out financing for as many as 30 Section 8 developments in the agency's portfolio of loans maturing between 2009 and 2013. The agency believes that the HUD waiver will allow it to close on an additional \$250 million of preservation transactions for the 30 developments

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over the next two years. It is especially significant that this waiver has the potential to be duplicated by other HFAs in similar situations.

I started this month's column by noting the rough times the tax credit housing industry has been experiencing over the last year or so and noting the bright spots the states' HFAs provide. I end it with good news and an additional glimmer of hope. As this was being written, the industry received word that the Obama Administration had announced a new initiative for state and local housing finance agencies that will help support low mortgage

rates and expand resources for low- and middle-income borrowers to purchase or rent homes that are affordable over the long term.

In announcing the initiative Treasury Secretary Timothy Geithner and Department of Housing and Urban Development (HUD) Secretary Shaun Donovan praised HFAs. "Housing Finance Agencies are critical partners to helping American families through this tough economic time," Donovan said.

To that, we lend our voice. ❖

2009 NCSHA Annual Award Winners

Homeownership: Empowering New Buyers

- ♦ **Missouri Housing Development Commission**
- ♦ **Delaware State Housing Authority**

Homeownership: Home Improvement & Rehabilitation

- ♦ **Kentucky Housing Corporation**
- ♦ **New York State Division of Housing and Community Renewal**

Homeownership: Encouraging New Production

- ♦ **Washington State Housing Finance Commission**

Rental Housing: Multifamily Management

- ♦ **Virginia Housing Development Authority**

Rental Housing: Preservation & Rehabilitation

- ♦ **MassHousing**
- ♦ **Pennsylvania Housing Finance Agency**

Rental Housing: Encouraging New Production

- ♦ **North Carolina Housing Finance Agency**

Special Needs Housing: Combating Homelessness

- ♦ **Indiana Housing and Community Development Authority**
- ♦ **MassHousing**

Special Needs Housing: Housing for Persons with Special Needs

- ♦ **New York State Division of Housing and Community Renewal**
- ♦ **New Jersey Housing and Mortgage Finance Agency**

Management Innovation: Financial

- ♦ **Missouri Housing Development Commission**

Management Innovation: Human Resources

- ♦ **North Carolina Housing Finance Agency**

Management Innovation: Operations

- ♦ **Virginia Housing Development Authority**
- ♦ **Nebraska Investment Finance Authority**

Management Innovation: Technology

- ♦ **Colorado Housing and Finance Authority**

Communications: Annual Report

- ♦ **MassHousing**

Communications: Promotional Materials & Newsletters

- ♦ **Rhode Island Housing**

Communications: Creative Media

- ♦ **Delaware State Housing Authority**

Special Achievement

- ♦ **Tennessee Housing Development Agency**
- ♦ **Minnesota Housing**

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