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In this week's Tax Credit Tuesday podcast, Michael J. Novogradac, CPA, discusses new Community Reinvestment Act guidance from the Office of the Comptroller of the Currency and a new score for the president's fiscal year 2015 budget from the Congressional Budget Office, and shares the results of Novogradac & Company's analysis of the National Disaster Tax Relief Act. In low-income housing tax credit news, he discusses a report from Moody's Investment Service that found that housing finance agency multifamily programs remained strong and profitable through 2013. In new markets tax credit news, he invites listeners to attend the Novogradac New Markets Tax Credit Spring Conference this June and alerts them to a temporary shutdown of the CDFI Fund website. In historic tax credit news, he shares a report about the disposal of historic post office buildings and reminds listeners about the opening of Pennsylvania's historic tax credit program. In renewable energy tax credit news, he provides a recap of the Novogradac Financing Renewable Energy Conference.

Summaries of each topic:

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GENERAL NEWS

New CRA Procedures for Large Banks

- In general news, I begin with a few changes to Community Reinvestment Act, or CRA, evaluation procedures for large financial institutions.
- These new procedures reflect revisions to the "Interagency Questions and Answers Regarding Community Reinvestment" questions and answers that were issued last year on November 15, 2013.
- Under the new procedures the Office of the Comptroller of the Currency, or OCC, will consider community development activities within states or regions where the institution is active.
- It'll also consider investment in nationwide funds.
- However, the banks' investments in their actual footprint will still carry more weight in the CRA evaluation process.
- That said, investment in the larger areas will also be considered when regulators assess a bank's CRA compliance.
- This should be good news for the tax credit industries.
- As it could help even out demand for credits and result in more investment and higher pricing for credits in smaller or rural markets.
- In areas like the low-income housing tax credit, new markets tax credit, historic tax credit and to an extent the renewable energy tax credits, banks are attracted to investments that satisfy certain CRA investment needs.
- As a consequence, investment opportunities along the coasts and larger cities tend to attract more interest from these CRA-motivated banks.
- As such, the lending or availability of equity investment in rural and smaller communities isn't as great, to the extent that there isn't as much competition among banks.
- Tax credit investors and developers have argued for years, as you've heard in prior podcasts, that counting regional or nationwide investments during CRA evaluations could increase investments in these areas and increase credit pricing.
- The OCC addressed this, as I mentioned, in an updated Q&A last November.
- And now, these are the procedures that are being put in place to get the word and operating process down to the actual examiners.
- The new procedures replace the procedures published in 2006, as well as procedures outlined in the Office of Thrift Supervision's examination handbook.
- I note, the changes only apply to large institutions.
    - That is, institutions that had total assets of more than $1.2 billion as of Dec. 31 of the two previous calendar years.
- Small and intermediate size community banks can elect to be evaluated under the new procedures as well, though.
- You can find a copy of the "Large Institution CRA Examination Procedures" at the CRA Resource center at www.novoco.com.
- If you have any questions about these new procedures, I encourage you to contact Peter Lawrence in our Washington, D.C. office.

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CBO of President's FY2015 Budget

- In other general news, the Congressional Budget Office, or CBO, has released an analysis of President Obama's fiscal year 2015 budget.
- It estimates the revenue and spending impacts from 2015 to 2024 based on the president's fiscal year 2015 budget request to Congress.
- The CBO estimates that the receipts estimated that the Federal Housing Administration would be $4.3 billion lower than the estimate from the president.
- This is a larger gap than the CBO estimated in January.
- According U.S. Department of Housing and Urban Development Secretary Shawn Donovan, the gap is partially a result of the CBO not taking into account two Federal Housing Administration revenue-generating premiums.
- It is unclear if the CBO took into account the fee revenue that the programs would generate.
- Congress returned from its spring recess yesterday and is expected to release its Transportation, HUD subcommittee allocations and other allocations this week.
- When they do so, I'll send out a Tweet and cover any relevant aspects on the Notes from Novogradac blog.
- It'll be interesting to see what impact this $4.3 billion gap has in these allocations.
- You can find my blog at novogradac.wordpress.com.

National Disaster Tax Relief Act Housing Estimates

- And speaking of my blog I've posted information about the number of housing units that the National Disaster Tax Relief Act could produce.
- As I mentioned in the April 15 podcast, Novogradac & Company has calculated how much additional low-income housing tax credit authority could be provided by the bill
    - and how many affordable rental housing units that could allow to be built.
- And how much allocation authority would be provided.
- If you're wondering how many units that additional allocation would fund?
- The answer is: roughly 116,000.
- The units would be across 24 states and the District of Columbia.
- The total credit amount would be about $700 million in credits during the three-year allocation period.
- The blog post has a breakdown of the estimated proposed units by state.
- You can find the post at novogradac.wordpress.com.

LOW-INCOME HOUSING TAX CREDIT NEWS

Report: HFA Multifamily Programs Remain Stable Through 2013

- Now let's turn to low-income housing tax credit news.
- Moody's Investor Service recently reported that housing finance agency multifamily programs remained strong and profitable through 2013.
    - Delinquency rates for multifamily loans stayed at about half of one percent during the past three years.
    - And troubled loans dropped from less than one and a half percent of outstanding loans in 2011 to less than half of a percent in 2013.
        - That's a drop of nearly one percentage point.
- Moody's expects multifamily to remain strong.
- It predicts multifamily rental vacancies will stay below 5 percent over the next five years.
- At the same time, rents are expected to increase 2 to 3 percent.
- That continued stability is great news for multifamily developers and investors.
- It also is good news for multifamily developers looking to housing finance agencies for debt financing for current projects.
- This report is particularly important as Congress debates Fannie Mae and Freddie Mac's roles in the housing market.
- Reports like this show the viability of providing debt financing to the multifamily market.
- The report, is entitled, "2013 Medians Underscore Strength of State HFA Multifamily Programs," and is available through Moody's Investors Service.
- If you have any questions about the findings, please contact my partner Bentley Stanton in our Atlanta office at 678-867-2333.

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NEW MARKETS TAX CREDIT NEWS

Novogradac New Markets Tax Credit Spring Conference

- In new markets tax credit news, I want to invite listeners to the Novogradac New Markets Tax Credit Spring Conference.
- The conference is only 6 weeks away, being held June 12 and 13 in Washington, D.C.
- The conference will feature a keynote speech from Rep. Pat Tiberi.
- Congressman Tiberi is from Ohio and is chairman of the House Ways and Means Select Revenue Measures Subcommittee
- The conference is going to include sessions on a number of areas, including
    - Information about successful closings;
    - How you exit deals; and
    - The best way to twin the new markets tax credit with the historic tax credit.
- This last session is a must-attend for anyone working on combined historic tax credit/new market tax credits transactions.
- IRS guidance issued in response to the Historic Boardwalk Hall case can greatly affect the structure of these combo deals.
- Additionally, the Community Development Financial Institutions Fund is expected to announce the 2013 allocation awards soon.
- In 2013, conference attendance topped 700, and many of those attendees were looking to place allocation with quality projects.
- As well as a large number of potential investees seeking to receive allocation from those CDEs that had received allocation and were in attendance.
- If you'd like to register, please go to www.novoco.com/events.
- And if you have suggestions about things that we should cover at the conference, please send an email to CPAs@novoco.com.

CDFI Fund Maintenance

- I'd also like to alert listeners to a shutdown of the CDFI Fund's website and myCDFIFund this weekend.
- The sites will be unavailable from Friday, May 2, at 8 p.m. Eastern time to Monday, May 5, at 6 a.m. Eastern time.
- The CDFI Fund will be performing some scheduled maintenance and plans to have the sites back up and running on Monday morning.
- If you have any questions about the outage, you should contact the CDFI Fund's IT Help Desk prior to the shutdown.
- You can reach the help desk at 202-653-0300 or at IThelpdesk@cdfi.treas.gov.

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HISTORIC TAX CREDIT NEWS

ACHP Urges U.S. Postal Service to Expand Historic Preservation Program

- In historic rehabilitation tax credit news, the Advisory Council on Historic Preservation, or ACHP, released a new report earlier this month.
- In it, ACHP urged the U.S. Postal Service to expand its historic preservation program.
- The report is in response to a growing number of historic post offices being sold in recent years.
- Preservation advocates warned that potential buyers and developers may be unaware of resources like the historic tax credit.
- So, the report urges Postal Service to give potential buyers more information about federal and state historic tax credit programs.
- This provides a great opportunity for developers to work with the Postal Service in acquiring the buildings and making restoration more affordable with historic tax credits.
- In the last few years, several old post offices have been successfully repurposed.
- For example, in 2006 developer Steve Stogel used federal and state historic tax credits and new markets tax credits to renovate an 1884 post office in St. Louis, Mo.
- The building now houses a university, several state government offices, the St. Louis Business Journal, Teach for America and other businesses.
- You can go to the ACHP website for a copy of the report, “Preserving Historic Post Offices: A Report to Congress.”
- To learn more, please contact my partner Frank Buss in our Dover, Ohio office at 330-365-5400.

Pennsylvania DCED Accepting HTC Applications May 1

- In other historic tax credit news, I’d like to provide an update on Pennsylvania’s Historic Preservation Incentive Tax Credit.
    - Developers rehabilitating historic structures in the state may apply for the credits through the Pennsylvania Department of Community & Economic Development beginning May 1.
        - That’s this Thursday.
- Listeners will recall that Gov. Tom Corbett signed the credit into law in June 2012.
- The state credit creates a 25 percent tax credit for the rehabilitation of income-producing historic structures in Pennsylvania.
    - And, it must be used in conjunction with the federal historic tax credit.
- Unfortunately, there is a program cap of $3 million per year, and an individual development cap of $500,000.
- So the additional equity dollars won’t be as meaningful as would be available in other states with less restrictive or limiting tax credit caps.
- I encourage you to contact my partner Charlie Rhuda in our Boston office for more details about the Pennsylvania credit.
- To submit an application, go to www.newpa.com.
- And, to learn more about this credit and other state historic tax credits go to www.historictaxcredits.com.

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RENEWABLE ENERGY TAX CREDIT NEWS

Industry Update from Novogradac RETC Conference

- I'd like to start off this week's renewable energy segment by thanking all of the sponsors and attendees who were present at our Novogradac Financing Renewable Energy Conference in San Francisco last week.
- The event was a success and featured some great discussions about the latest developments in renewable energy financing.
- We also presented our first Renewable Energy Power Awards on Thursday lunch.
- The awards honored nine outstanding renewable energy projects.
- And, I would like to extend my personal congratulations to this year's winners.
- If you'd like to see the winning projects, or perhaps nominate your project for next year's awards, please go to the Novogradac website at www.novoco.com and click on "awards" under the "events" tab.
- Now, for those of you who couldn't attend the conference, I'd like to share some highlights.
- I began the conference, as I always do, with a Washington Report and Industry Update.
    - Keith Martin of Chadbourne & Park LLP joined me for this discussion.
- We began by discussing sequestration, and how it is still very much in effect.
    - Due to sequestration cash grants are being reduced by roughly 7 percent.
        - Which means that over the next fiscal year, $125 million in cash grants won't be distributed as a result.
        - It is important to keep this in mind over the course of the next 12 months if you are expecting to receive a cash grant.
- Secondly, tax reform continues to be an important topic.
- As I am sure you are aware, Ways and Means Committee Chairman Dave Camp released his tax reform discussion draft earlier this year.
    - Under the draft, the production tax credit would be extended for 10 years
    - Then it would end.
    - The 30 percent investment tax credit would also go away after Dec. 31, 2016.
- Now, I'd like to point out that this is a discussion draft and that these are just suggestions.
    - This draft is more of a starting point for discussions on tax reform.
- I wrapped up my talk focusing on tax extenders and how the investment and production tax credit could be affected.
    - There has been a lot of talk in both the Senate and House about possibly extending the production tax credit and maybe changing the placed in service date for the investment tax credit.
    - However, I believe that tax extenders will not pass until after the next congressional election, likely in a lame duck session.
- Keith Martin continued the discussion by talking about the physical work test and how it is still unclear how much work needs to be done to qualify for the "start of construction" by the end of last year.
- He said that the Treasury is pushing to release some guidance on this matter, but that the IRS has been hesitant to do so.
- He then moved on to discuss master limited partnerships, or MLPs.
- The industry is working hard to expand the use of MLPs to renewable energy.

  - He went on to note that MLPs are gaining traction in the renewable energy field because they would “create a level playing field” for renewable and conventionally produced energy.
  - It’s hard for renewable energy to compete with other forms of energy, such as petroleum products, when they can use MLPs and renewable energy cannot.
- The other panel that I would like to discuss is the Development and Financing Issues panel.
- This panel featured a number of industry experts.
- One major focus of this panel was the struggle that is faced by small energy facilities.
  - Our panelists said that the rigorous schedule created by the use of tax credits can make it very difficult for smaller renewable energy developers to raise the capital to stay on track.
- Another issue developers face is a lack of coordination across the development platform.
  - This adds risks for developers.
- Also, developers are continuously looking to reduce transaction costs.
  - Transaction costs can be particularly challenging for smaller projects.
- Panelists said that if transaction costs are lowered, though, more small projects could be financed and built.
- Panelists suggested that developers get their financing stack in order before beginning construction.
- This will ensure a much smoother development process and lower the risk of a development failing the physical work test.
- Despite a few issues, panelists agreed that there are good things ahead for the industry.
  - They say that the structure of these deals is improving and that more investors are entering the market.
  - They say this is because smaller banks are becoming more familiar with both the investment and production tax credits, and thus are getting more interested in participating in the market.
- This is just a bit of what was discussed at the conference.
- If you were unable to attend the Novogradac Financing Renewable Energy Conference last week and would like to hear what else was discussed, it’s actually not too late.
- A recording of the conference will be available in early May.
- Watch your inbox for an email announcing the recording’s availability.
- Additionally, we will be running an update on the state of the renewable energy tax credit industry in the June edition of the Novogradac Journal of Tax Credits.
- To subscribe to the journal, go to www.novoco.com/products.