The Mississippi Home Corporation and the American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) contains two provisions meant to spur the Housing Tax Credit (HTC) program, administered by the Mississippi Home Corporation (MHC): The Tax Credit Assistance Pool (TCAP) and the Tax Credit Exchange Program.

Housing Tax Credit Program Overview

The Internal Revenue Service allocates Housing Tax Credits through Section 42 of the IRS Code to MHC to provide gap financing to affordable rental housing developments. MHC awards tax credits to developers in a competitive process; developers then sell the tax credits to investors. The funds raised by the sale of the credits make up the difference between the cost of building market-rate units while charging affordable rents. In exchange for receiving tax credits, developers limit occupancy to families at or below 60% of the area median income. MHC monitors developments for compliance for 15 to 30 years after they are placed in service.

The ongoing credit crisis caused a steep drop in the price investors paid for tax credits. The two ARRA provisions seek to make up for this loss in equity until the markets return to normal.

TCAP Overview

TCAP allocates $21.8 million in HOME funds to MHC to provide gap financing to shovel-ready developments in order to offset the reduced price paid by investors for tax credits.

- MHC shall distribute these funds competitively and according to their Qualified Allocation Plan (QAP).

- Projects awarded housing tax credits in fiscal years 2007, 2008, or 2009 are eligible for funding, but housing credit agencies must give priority to projects that are expected to be completed by February 2012.

- Seventy-five percent of TCAP funds must be committed by February 2010, 75 percent must be expended by February 2011, and 100 percent of the funds must be expended by February 2012.

- MHC must perform additional asset management duties to ensure compliance with HOME guidelines, such as:

    - Environmental compliance review requirements under Section 288 of HOME Investment Partnership Act.

    - Labor Standards such as the Davis-Bacon wage requirements

    - Federal fair housing requirements

HUD strongly advises states to not accept applications, make awards, or take any potentially “choice-limiting” actions related to TCAP funds before the guidance is published and program administrators have reviewed it because such actions could violate some of the cross-cutting federal rules that will apply to this program.

HUD anticipates providing guidance by the end of April. [continued on reverse]

HTC Exchange Overview

ARRA also created another remedy for HTC developments through its Exchange Program. Treasury offers to exchange certain tax credits for $0.85 on the dollar.

- Only certain credits will be eligible for exchange. These include:
    - 2008 HTC carryover
    - Any HTC allocation returned in 2009 (excludes GO Zone HTCs)
    - 40% of MHC's 2009 Annual Credit Allocation
    - 40% of any National Pool credits MHC receives
- New construction and acquisition rehabs with or without an allocation of HTCs will be eligible to receive funds from the exchange program:
    - Developments without an HTC allocation must be determined by MHC to be qualified low-income buildings and will be subject to the same income and rent restrictions as those receiving HTC allocations.
- Effects of exchange program subawards:
    - Subawards will not reduce HTC eligible basis.
    - Owners will not be required to report subawards as taxable income.
- MHC would be required to perform asset management functions to ensure subaward recipients remain incompliance with Section 42.
    - MHC will recapture subawards for noncompliance and return the funds to the Treasury.

The Treasury department has advised against taking applications or designing program guidelines until they can provide additional guidance. They are currently reviewing several proposals, including one to allow the exchange of GO Zone and other disaster credits. MHC expects to receive guidance in May.

For specific questions related to MHC's administration of the two ARRA provisions, contact David Hancock at 601-718-4642 or at our website, www.mshc.com.