Low-Income Housing Tax Credits and Private Activity Bonds: A Guide to Affordable Housing Development

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INTRODUCTION

In order to make development of multifamily affordable housing financially feasible, low-income housing developers must be able to access various layers of equity and low-interest debt. Some common sources of debt and equity for multifamily affordable housing includes HOME and Affordable Housing Program (AHP) loans, HUD 202 moneys, local city grants and loans, the sale of Low-Income Housing Tax Credits (LIHTC), and proceeds from Private Activity Bonds. HOME, AHP, HUD 202, and local grants and loans are typically used to fill gaps in a development budget, whereas the sale of tax credits and bond proceeds typically cover at least fifty percent of a given development budget.

Most low-income housing developers are either strictly tax credit developers (those using the LIHTC program, mainly 9% credits), or strictly bond developers (those using Private Activity Bonds), or sometimes, large development groups are divided into tax credit specialists and bond specialists. However, the exciting thing is that Low Income Housing Tax Credits and Private Activity Bond proceeds can be used together to finance individual projects. Thus, it would seem advantageous for low-income housing developers to learn how both programs work in an effort to understand when and why these programs should be used individually or together. This paper is divided into three sections. The first two sections provide detailed explanations of how the LIHTC and Private Activity Bond programs work individually in multifamily low-income housing development transactions. These sections provide information on the history of each program, the purpose behind each program, the parties involved in carrying out a development under the auspices of each program, the steps a developer should take to successfully develop a project under each program, and the basic concepts and federal regulations behind each program. The third section of the paper provides an explanation of how the LIHTC and Private Activity

Bond programs can be used together under a single development. Through an analysis of five North Carolina developments that received both bonds and tax credit awards in North Carolina in 2003, this section will also discuss some advantages and disadvantages to combining these two programs and illustrate market situations in which combining the two programs may prove favorable or unfavorable.

THE LOW INCOME HOUSING TAX CREDIT PROGRAM

LIHTC History

The LIHTC program was established under the Tax Reform Act of 1986, which eliminated significant tax benefits previously available to real-estate transactions including low-income housing. Very concerned this act would hurt low-income housing development, a coalition of housing specialists and advocacy groups pushed Congress to include the LIHTC program as part of the Tax Reform Act to provide tax incentives for future development of affordable housing.

While the hotly debated LIHTC program was initially established as a trial program, Congress made the program permanent through amendments to the tax code in 1993, providing developers with more security that their tax credit development proposals could be funded from year to year (McClure 96).

LIHTC Purpose

The purpose of the LIHTC program is to increase the supply of affordable rental housing by stimulating investment in low-income housing through tax incentives to equity investors. Corporate investors, investing equity in successful LIHTC developments receive tax credits over a ten year period, providing dollar for dollar reductions in their annual tax liability for ten years. The equity invested in LIHTC developments significantly reduces the amount of debt the development must support, resulting in lower debt service payments. These lower debt service payments allow LIHTC developers to charge affordable rents to low-income households.

Parties Involved in LIHTC Developments

In order for a LIHTC development to be successful, the developer must coordinate with several different parties. The following is a description of the major parties involved in a LIHTC transaction and the role each party plays. These parties are dispersed amongst five general categories: government entities, which include state housing finance agencies (or the state agency administering the LIHTC program), local city governments, the development team, which includes the developer, general contractor, architect, attorney, property manager, and accountant; the lenders, which includes the construction lender, permanent lender, and attorneys for each lender; the tax-credit syndicator which includes the underwriter, fund manager, attorney, accountant, and asset manager, and professional assistance, which could include an engineer, environmental specialist, and tax-opinion attorney (Enterprise Social Investment Corporation).

GOVERNMENT ENTITIES

State Housing Finance Agency

Although the LIHTC program is a federal program administered by the Internal Revenue Service under Section 42 of the Internal Revenue Code, the power to allocate tax-credits to specific developments and to monitor the Section 42 compliance of the developments has been delegated to the states. Each state has established an entity to run the LIHTC program in their state, most of which are known as State Housing Finance Agencies. For example, the North Carolina Housing Finance Agency administers the LIHTC program in North Carolina. For the purposes of this paper, State Housing Finance Agency is used to refer to all state agencies that administer the LIHTC program, although some state LIHTC program administering agencies contain different titles. Each state receives an annual amount of $1.75 per capita to be issued in low-income housing tax credits through a competitive application process. The major role of the State Housing Finance Agency is to evaluate development applications for tax-credits, to award tax credits to winning developments, and to monitor legal compliance of winning developments.

Local Government

Just as with any type of development, the local city or county government role in LIHTC developments is to issue land and building plan approvals before a LIHTC development can be constructed. In other words, the developer of a multifamily tax-credit development must go through the same local government process as would be required with any other type of multifamily apartment approval, including zoning changes if necessary, site plan approval, and receiving building permits, among other things.

DEVELOPMENT TEAM

Developer

Whether non-profit or for-profit, the developer's role in a LIHTC development includes gaining control of land for development, putting together the required State Housing Finance Agency's tax-credit application to apply for tax credits, putting together loan applications for conventional and/or soft construction and permanent loans, gaining local government approvals, coordinating closely with the rest of the development team to develop the LIHTC project, and overseeing lease-up and continuing project operations.

General Contractor

The general contractor's role in a LIHTC development includes obtaining building permits, building the project according to the architects drawings, working with lenders and investors, construction inspectors, and constructing the project on time and within budget (Enterprise Social Investment Corporation).

Architect

The architect's role in a LIHTC development is to design the project and offer construction supervision. Since many LIHTC developers have little if any construction experience, the architect often provides quality control over construction, or in other words, makes sure the general contractor is building what he/she says he/she is and is building it correctly.

Attorney

The attorney's role in a LIHTC development is to provide legal review of and help negotiate loans, investor documents, and partnership agreements (Enterprise Social Investment Corporation).

Property Manager

The property manager's major role in a LIHTC development is to certify eligible tenants based on income requirements to occupy the project's units and to care for day to day maintenance and management operations. It is extremely important that the property manager have experience in managing LIHTC properties, since mismanagement, such as certifying non-eligible tenants, could result in the IRS recapturing previously allocated tax credits.

Accountant

The accountant plays several important roles in a LIHTC development, including review of financial projections, confirmation of carryover, preparation of partnership tax returns, and performing the cost certification at the end of construction, which begins the flow of tax credits. Carryover, also known as the 10% rule, refers to the LIHTC regulation that by a specified date, usually December 31 of the tax credit allocation year, 10% of the LIHTC project's depreciable basis must be spent or all tax credits previously allocated to the project will be revoked. The accountant reviews and certifies to the State Housing Finance Agency that carryover is met. Cost certification refers to the process, after construction completion, of reviewing and certifying the total eligible basis costs incurred by the project during development. This certification dictates the amount of tax credits that will flow to the tax credit investor.

THE LENDERS

Construction Lender

The construction lender's role in the LIHTC development process is simply to provide construction loan funds to cover construction costs.

Permanent Lender

The permanent lender's role in the LIHTC development process is to provide long-term debt financing to the project, which is used to take out the construction lender at the time of construction completion. Federal LIHTC regulations specify that a LIHTC development must be maintained as affordable for a compliance period of fifteen years. Some states require developers to enter into an extended-use agreement at around the time of construction completion, which extends this compliance period out another fifteen years or more. Thus, LIHTC developers normally petition permanent lenders to provide fifteen or more years of long term financing for a typical LIHTC project.

Lender Attorneys

The construction and permanent lender attorneys review important lending documents and protect their lending party's interests.

TAX CREDIT SYNDICATOR

Tax credit syndicators purchase tax credits from LIHTC developers and turn around and sell them to investors. LIHTC developers can also sell their tax credits directly to investors, which often results in selling tax credits at a higher price. However, many LIHTC developers choose to work with syndicators, which can provide technical expertise and consultation services to the developer. As explained earlier, the equity invested in LIHTC projects in exchange for tax credits significantly reduces the amount of debt a LIHTC project must support, resulting in lower debt service payments, which allow LIHTC developers to establish rents targeted for low-income households. Most tax credit syndication firms contain underwriters, fund managers, attorneys, accountants, and asset managers. The following is a brief description of each of their roles in the syndication process.

Underwriter

The underwriter's role in tax credit syndication is to evaluate the LIHTC development, assess the risks associated with the project, and to make a recommendation of whether to invest or not invest in the development. The underwriter also structures the equity investment, typically using a computer based financial model. Depending on the tax credit syndicator, the underwriter may also be in charge of acquisitions, or in other words establishing relationships with LIHTC developers in an effort to syndicate future tax credits.

Fund Manager

Tax credit syndicators make money through buying tax credits from developers and selling them to investors at a higher price, or through purchasing tax credits on behalf of investors and capturing a fee. Either way one looks at it, tax credit syndicators basically build a load factor into their financial model, which includes their desired monetary return on each project they syndicate. In order to be in a position to sell tax credits to investors, syndicators must understand investors' needs. The fund manager's responsibility is to understand investor needs and to fit the equity investment within the investor's fund parameters.

Attorney

The attorney's role in the tax credit syndication process is to assist in closing the LIHTC investment through reviewing loan and investment documents such as the partnership agreement. The attorney also assists in performing much of the project due diligence (Enterprise Social Investment Corporation).

Accountant

Tax credit syndicators also house accountants to provide advice on specific tax credit issues associated with structuring equity investments (Enterprise Social Investment Corporation).

PROFESSIONAL ASSISTANCE

Engineer

In developing a LIHTC project, developers, lenders, and architects often encounter technical risks that require engineering work and expertise (Enterprise Social Investment Corporation).

Environmental Specialist

Just as with all types of real-estate development, lenders and syndicators will require at least an environment phase I report before closing on a LIHTC deal (Enterprise Social Investment Corporation). Typically an environmental engineer will perform the phase I report along with phase II and III if necessary.

Tax Opinion Attorney

Before closing an equity investment, a tax credit syndicator will typically "require a tax opinion regarding the syndication transaction (Enterprise Social Investment Corporation)."

STEPS TO DEVELOPING A LIHTC PROJECT

There are several steps a developer must follow to successfully complete a LIHTC development. In general, these steps include applying for tax credits, receiving a tax credit reservation, choosing an equity investor, obtaining a carryover allocation, building the LIHTC project and placing it in service, executing an extended use agreement, leasing the tax credit units, and maintaining the tax credits units in compliance with Section 42. The above steps are condensed to include only steps that are specific in LIHTC development transactions and do not contain an exhaustive list of all the steps involved in a LIHTC development process. Of course, as with other real-estate development transactions, the developer must consider steps in addition to those listed above, such as, land control and acquisition, local government approvals, community support strategy, working with an architect to design and bid out construction, hiring and working with a general contractor, and obtaining construction and permanent loan commitments, among many other things. The following is an explanation of each of steps specific to LIHTC developments.

STEP ONE: APPLY FOR TAX CREDITS

As discussed earlier, individual State Housing Finance Agencies administer the LIHTC program in each state and annually award tax credits to developments on a competitive basis. Each state publishes a Qualified Allocation Plan (QAP) that sets forth minimal requirements for projects to receive tax credits as well as selection criteria the state uses to evaluate, score, and ultimately award tax credits to winning development proposals. For example, some selection criteria used in the North Carolina QAP includes project location, site suitability, market demand and supply, construction quality and design, financial structure, and development team experience, among others (The North Carolina Housing Finance Agency). The process of receiving tax credits in most states is very competitive as many developers apply for tax credits each year. Since tax credits awards are based on QAP selection criteria, to increase their chances of obtaining tax credits, developers should pay close attention to these criteria when considering LIHTC development opportunities and putting together their LIHTC applications.

STEP TWO: RECEIVE TAX CREDIT RESERVATION

After creating a competitive LIHTC application, the developer's second step is to impatiently wait for the State Housing Finance Agency to award tax credit reservations. A tax credit reservation is a guarantee that the development will receive tax credits upon meeting important benchmarks and continually complying with regulations set forth in Section 42 of the Internal Revenue Code.

STEP THREE: CHOOSE AN EQUITY INVESTOR

Upon receiving a tax credit reservation, the developer must identify an equity investor or syndicator with whom to enter into a partnership agreement. In order for an equity investor to be able to use Low Income Housing Tax Credits to offset their annual tax liability, the investor must become a legal owner/partner in the LIHTC development. This is typically accomplished by the developer and investor forming a limited partnership or limited liability company (see figure 1). In such a partnership or company the developer becomes the general partner/managing member with .01% ownership and the investor becomes the limited partner/investor member with 99.99% ownership. While the general partner/managing member has control of the day-to-day decisions and operations of the development, the partnership agreement provides the limited partner/investor member with a high ownership percentage in order to allow tax credits to flow through to the equity investor.

When choosing an equity investor or syndicator to enter into a partnership agreement with, developers should consider many things, including current relationships the developer has with investors or syndicators, the price the investor or syndicator is willing to pay per tax credit, the timing for and conditions placed on receiving tax credit equity, the structure of tax credit adjustors, reserve and guarantee requirements, and specific investor underwriting criteria, such as, required debt coverage ratios and proforma vacancy rate, and expense and income trending factors.

STEP FOUR: OBTAIN CARRYOVER ALLOCATION (MEETING THE 10% TEST)

The first benchmark a developer must meet after receiving a tax credit reservation is to spend 10% of the project's "Reasonably Expected Basis" by a certain date (typically December 31 of the same year the developer receives a tax credit reservation). This is known as the 10% test. If 10% or more of the project's "Reasonably Expected Basis" is not expended by the State Housing Finance Agency's specified date, the project will lose all of its reserved tax credits. Upon expending 10% of the "Reasonably Expected Basis," the developer has an accountant certify the 10% expenditure and submits a carryover application to the State Housing Finance Agency, who upon review of the application, issues a Carryover Allocation to the development. The Carryover Allocation provides the developer with an additional two years to construct the LIHTC project and place it in service. Developers often meet the 10% test by purchasing land and/or buildings for the project, incurring construction costs, earning a portion of their developer's fee, and/or incurring pre-development costs, such as appraisals, environmental studies, and architectural fees (Enterprise Social Investment Corporation).

STEP FIVE: COMPLETE PROJECT AND PLACE IT IN SERVICE

The developer must complete and place the project in service by December 31 of the second year following Carryover Allocation. For new construction projects, placed in service typically refers to receipt of certificates of occupancy. For rehabilitation projects, placed in service typically means expending a minimum rehab amount of $3,000 per unit (Enterprise Social Investment Corporation).

STEP SIX: EXECUTE AN EXTENDED USE AGREEMENT

Under Section 42 of the Internal Revenue Code, LIHTC developments must be maintained affordable for at least fifteen years. In addition to this fifteen year requirement, most states require developers to enter into an extended use agreement to maintain the tax credit units affordable for an additional fifteen or more years.

STEP SEVEN: LEASE THE TAX CREDIT UNITS

After placing the project in service, the developer and/or property manager works toward leasing the tax credit units to income-eligible tenants. At this point, the developer also elects when to begin taking tax credits on each building in their development; i.e. when to start the ten year flow of tax credits to the tax credit investor. The developer may elect to begin receiving tax credits in the year the project is placed in service or the year after. Since "each tax credit unit must be occupied by a qualified tenant at least once no later than the end of the calendar year" in which the developer elects to start taking credits, this election decision becomes important in order to avoid tax credit ramifications.

STEP EIGHT: MAINTAIN TAX CREDIT UNITS IN COMPLIANCE WITH IRS SECTION 42

The final step in a LIHTC development is to continually manage and maintain the tax credit units in compliance with federal LIHTC regulations as set forth in Section 42 of the Internal

Revenue Code for the initial fifteen year compliance period and any additional extended use period as required. Developers should only hire property managers with LIHTC experience to better secure Section 42 compliance and avoid unnecessary recapture of tax credits, which could potentially hurt both the equity investor and the developer.

LIHTC BASIC CONCEPTS AND FEDERAL REGULATIONS

Section 42 of the Internal Revenue Code sets forth many regulations, terms, and calculations developers should understand when developing a LIHTC project. While not an exhaustive list, the following section describes some of the basic Section 42 concepts LIHTC developers should understand. These concepts are divided into three sections including, terms, which covers the basic terminology used by LIHTC developers, calculations, which illustrates the basic calculations LIHTC developers should understand, and regulations, which explains basic Section 42 compliance regulations.

Terms

ELIGIBLE BASIS

Eligible basis refers to the total of all the depreciable line items in a development budget added together. The depreciable costs associated with new construction and/or substantial rehabilitation are included in a project's eligible basis. Items that are not included in eligible basis include land costs, building acquisition costs, permanent loan financing costs or fees, syndication fees, project reserves, any costs associated with a non-residential housing portion of a project (i.e. retail, office space, etc.), and any post-construction working capital costs. In calculating eligible basis, one must also remember to subtract out any Federal Grants received by the project. To avoid reduction of eligible basis, most grants are thus, structured as loans (Enterprise Social Investment Corporation).

APPLICABLE FRACTION

The applicable fraction is the lesser of the number of qualifying low-income units divided by the total number of units, or the total square footage of qualifying low-income units divided by the total square footage of all units. The applicable fraction is multiplied by the eligible basis to calculate qualified basis.

30% BASIS BOOST

The 30% basis boost is applied to eligible basis if the LIHTC development is located in a Qualified Census Tract (QCT) or a Difficult to Develop Area (DDA). Qualified Census Tracts are census tracts with relatively low incomes, and Difficult to Develop Area are areas with a high cost to income ratio. By increasing basis through the 30% basis boost, developers can receive more tax credits, which makes LIHTC development more financially feasible.

QUALIFIED BASIS

Qualified basis is simply the projects eligible basis multiplied by the applicable fraction and 30% basis boost if eligible.

9% AND 4% TAX CREDIT RATE

The 9% and 4% tax credit rate is the rate at which the qualified basis is multiplied to obtain an annual tax credit amount. Projects qualifying for the 9% tax credit rate include new construction and rehabilitation projects that are not receiving federally subsidized financing. HOME and CDBG moneys locally administered by states or local governments are not considered as federal subsidies. Projects qualifying for the 4% credit include federally subsidized new construction or rehabilitation projects. For example, projects financed with Private Activity Bonds are eligible for the 4% credit, but not the 9% credit, because Private Activity Bonds are a federal subsidy. In addition, all projects, including 9% projects, can apply the 4% tax credit rate to costs associated with the purchase of a building that is to be substantially rehabilitated and was not acquired previously within the last 10 years. The 9% and 4% rate are rarely 9% and 4% and are recalculated monthly by the U.S Treasury Department.

EQUITY RAISE

The equity raise refers to the price per tax credit (cents on the dollar) paid by an investor to acquire tax credits.

Calculations

TOTAL TAX CREDIT AMOUNT

The total tax credit amount that a LIHTC projects receives is calculated as follows.

Eligible Basis X 30% Basis Boost (if applicable) X Applicable Fraction = Qualified Basis

Qualified Basis X 9% or 4% Tax Credit Rate (whichever applicable) + Building Acquisition Costs X 4% Credit (if applicable) = Annual Tax Credit Amount

Annual Tax Credit Amount X 10 Years = Total Tax Credit Amount

TOTAL TAX CREDIT EQUITY RECEIVED

The total tax credit equity a project receives is calculated as follows:

Total Tax Credit Amount X Equity Raise = Total Tax Credit Equity Received

MONTHLY MAXIMUM GROSS RENTS

The maximum gross rents (including utilities) a developer can charge for tax credit units in a LIHTC project can be calculated as follows:

Determine the Area Median Income for the area in which the project is located for a family of four. This can be found on huduser.org.

Multiply the Area Median Income by the elected income percentage restriction (i.e. 30, 40, 50, or 60%)

Adjust for household size by multiplying by the appropriate factor.
Studios – 0.70
1 bedroom – 0.75

2 bedroom – 0.90
3 bedroom – 1.04
4 bedroom – 1.16

Multiply by 30%, based on the idea that affordable housing costs should not exceed 30% of one's income.
Divide by 12 to get the maximum monthly gross rent.

The developer should recognize that in some markets, the maximum rent allowable under the LIHTC program may be too high for the market to support. In fact, in some markets, maximum LIHTC rents can exceed current market rents. Thus, the developer needs to make sure that his/her project's rents are not only low enough to meet the LIHTC program requirements, but that he/she establishes rents that will allow the project to lease up.

Regulations

20/50 AND 40/60 SET ASIDE TEST

The 20/50 and 40/60 set aside test refers to the Section 42 regulations that in order for a LIHTC project to be considered affordable, at least 20% of the project's units must be rented to households making at or less than 50% of the area median income, or at least 40% of the project's units must be rented to households making at or below 60% of the area median income. The developer elects one of these set aside tests at the time he/she applies for a tax credit reservation.

CARRYOVER (10% TEST)

As explained earlier, a developer must make sure that 10% or more of a project's eligible basis is spent before the end of the year in which the project received a tax credit reservation. An accountant must certify the 10% test in order for a project to retain their tax credit reservation.

BUILDING USE

Only affordable rental units qualify for Low Income Housing Tax Credits. LIHTC units can be apartment units including studio units, town-homes, and single-family homes, as long as they are for rent rather than sale. Commercial building uses do not qualify for Low Income Housing Tax Credits.

PRIVATE ACTIVITY BOND PROGRAM

Federal and state regulations include different types of tax-exempt bonds, and public agencies issue tax-exempt bonds for various purposes. However, in the affordable housing realm, there are two basic bond programs used to finance multifamily rental housing, including private activity bonds (also referred to as mortgage revenue bonds) and "Section 501(c)(3)" bonds, issued under Internal Revenue Code's Section 142(d) and Section 145 respectively (Eichner 4). "Section 501(c)(3)" bonds" are not discussed in this paper but are mentioned here as an important financing source for non-profit housing developers. Public entities can issue private activity bonds for projects other than affordable rental housing, but for the purposes of this paper, private activity bonds refer only to bonds issued to finance affordable multifamily rental housing projects.

Private Activity Bond History

Private activity bonds were established under the Tax Code of 1954 and were known as Industrial Development Bonds, until The Tax Reform Act of 1986 and other legislation changed the name to Mortgage Revenue Bonds (MRBs) (National Low Income Housing Coalition). Under the Deficit Reduction Act of 1984, Congress imposed volume caps on private activity bonds limiting the amount of bonds each state could issue each year. Today, states receive the greater of $75 per capita or $225 million in annual volume cap and have the flexibility to issue bonds for different types of projects (National Low Income Housing Coalition). For example, while some states may choose to issue a portion of their bond volume cap for affordable housing, others may elect to issue no bonds for housing, opting to issue bonds for industrial development and other activities permitted under private activity bond regulations. Thus, one of the first steps a developer should take in pursuing private activity bond financing is to identify a public entity that has set aside bonds for affordable rental housing within the state's volume cap.

Private Activity Bond Purpose

Private activity bonds are tax-exempt bonds, meaning the interest bond holders receive from private activity bonds is tax-exempt. Because the interest on these bonds is tax free, the interest rate the bonds hold is typically lower than the market interest rate. "Using tax-exempt bonds can often reduce the 'all in' borrowing rate by 1% or more versus taxable financing rates" and tax-exempt financing can include longer loan amortization periods (Eichner 2). Lower interest rates and longer amortization periods reduce overall borrowing costs and "often increase available loan proceeds by 10% to 15% or more versus those available through a taxable loan (Eichner 2)." Developers using tax-exempt bond financing can either support higher loan amounts than they would be able to with market rate loans or have lower debt service than would result with market rate loans. Thus, the main purpose of private activity bonds is to lower borrowing costs, which makes affordable rental housing more financially feasible.

Parties Involved in a Private Activity Bond Development

One of the reasons developers shy away from private activity bond transactions is to avoid the hassle of coordinating with the many different parties involved in a bond transaction and/or because developers lack an understanding of each party's role. The following is a description of the major parties involved in a private activity bond transaction and the role each party plays.

These parties include the bond issuer, bond trustee, bond underwriter, bond counsel, project owner, credit enhancer, and rating agency (see Figure 1 of Appendix).

BOND ISSUER

Sometimes referred to as the key participant, the bond issuer is any public agency authorized under Federal and State law to issue tax-exempt bonds. These public entities might include states, counties, cities, housing finance agencies, redevelopment agencies, housing authorities, economic development boards, and other legal entities acting as an "instrumentality" or "on behalf of" a state or local government (National Association of Housing and Redevelopment Officials). Each of the issuers has the flexibility to establish their own policies for which projects they will issue bonds. For example, some issuers have a competitive issuance policy where owners submit applications to the issuing authority who then assigns points to the applications based on previously established criteria, choosing the projects that receive the most points. Still other issuing authorities issue bonds based on a first come first serve basis as long as minimum legal requirements are met by the proposed housing projects. However, all policies for issuing private activity bonds contain the common goal of providing low-income rental housing.

The issuers of private activity bonds normally serve as "conduits" in the bond financing transaction or in other words they issue the bonds on behalf of the project owner/developer. The issuer borrows money by issuing bonds and sells them to an investment bank which turns around and sells them to bond investors. The issuer uses this money to make a loan to the low-income housing project owner/development entity. The issuer is not typically liable for principle and interest payments in these conduit transactions, meaning bond investors must look directly to the low-income housing project's, being financed with the bonds, ability to make debt service payments on the bond debt as well as consider any third party credit enhancers.

BOND TRUSTEE

Normally a commercial bank, the bond trustee receives project owner/developer mortgage debt payments each month and uses these funds to pay bondholders the principal and interest due on their bonds. The bond trustee administers the trust indenture, which sets forth the terms of the bonds and the rights and responsibilities of the issuer and bond holders. With this authority to administer the trust indenture, the bond trustee is able to enforce the rights of the bond holders and in the event of mortgage default, collect money from the credit enhancer to distribute to the bond holders.

BOND COUNSEL

A bond counsel is an attorney or law firm, which performs the legal work for a private activity bond issue, including passing "on the validity of the bonds under federal and state law" and drafting important financing documents such as the indenture, loan agreement, and closing papers (Eichner I-6). Law firms with nationally recognized expertise in bond deals will be chosen as bond counsel, and bond underwriters and investors will not buy private activity bonds unless the recognized bond counsel creates an opinion that the bonds are correctly issued and contain tax exempt interest (National Association of Housing and Redevelopment Officials).

BOND UNDERWRITER

The bond underwriter is an investment bank or investment banking firm that helps the project owner identify an issuer with enough private activity bond volume, assists the project owner in establishing an optimal financing structure for the project, coordinates financing participants, obtains credit from the credit rating agency, and sells the private activity bonds on behalf of the issuer (Eichner I-6).

PROJECT OWNER

The project owner is the entity that owns and develops and sometimes manages the low-income housing project. In a conduit private activity bond financing transaction, the issuer does not issue bonds for it own public purpose, but to support the low-income housing project for which it is issuing bonds. The project owner receives mortgage loan proceeds from the issuance and sale of these bonds and makes payments of principal and interest on them. Normally the owner is a partnership and most credit enhancers require that the partnership is established as a single purpose entity with a purpose to only develop, own, and manage a single project. The project owner entity is typically structured as a Limited Partnership (LP) or Limited Liability Company (LLC) with the general partner (in a LP) or managing member (LLC) as 1% owner and the limited partner (in a LP) or investor member (in a LLC) as 99% owner. Because many low-income housing projects financed with private activity bonds also utilize 4% tax credits, the project owner entity is structured as a LP or LLC to enable tax credits and losses to pass through to the limited partner/investor member, which can only use tax credits if they are a legal part of the ownership entity (National Association of Housing and Redevelopment Officials).

CREDIT ENHANCER

The credit enhancer secures the private activity bond issue by assuring repayment of principle and interest on the bonds if the project owner defaults on payments. Credit enhancement gives most bonds the highest rating (AAA or AA), which allows the bonds to carry low interest rates which result in lower borrowing costs for the project owner (Eichner I-7). The credit enhancer and the Issuer normally dictate the main financing terms behind the bonds. Examples of "credit enhancers include FHA, Ginnie Mae, Fannie Mae, Freddie Mac; Bond Insurers (e.g. MBIA, FSA, Ambac, Asset Guaranty, American Capital Access), and larger domestic and foreign banks through letters of credit," among others (Eichner I-7)

RATING AGENCY

Agencies, including Standard and Poors, Moodys, and Fitch, rate the bonds. Most credit enhanced bonds receive the top two bond ratings of AAA and AA which result in the lowest interest rates for a bond issue.

Steps to a Private Activity Bond Transaction

On average a private activity bond transaction takes between four and six months from beginning to closing (Eichner I-8). The following paragraphs provide an example timetable with steps to setting up a private activity bond transaction and is based on a sample provided by Eichner and Norris in their article "Introduction to Tax-Exempt Multifamily Housing Bonds."

1st Week

The project owner chooses an underwriter and works with the underwriter to identify an issuer, check the availability of bond volume cap, identify possible forms of credit enhancement, achieve optimal financing structure, and identify other members of the private activity bond financing team.

2nd to 6th Week

The project owner and underwriter finalize the financing structure and team, and file an application with the credit enhancer, which allows the underwriting process to begin. The issuer adopts an "official intent" or "inducement resolution" for the project. "Official intent" or "inducement resolution" is not a final commitment to issue bonds but shows the issuer has preliminary interest in the project and provides a way for the project owner to be reimbursed for early expenditures on the project. The project owner must get the issuer to adopt an "inducement resolution" within 60 days of any acquisition, construction, or renovation costs occurring on the project in order to be reimbursed for these costs from future bond proceeds (IceMiller). While a project owner should solicit the issuer to pass an "inducement resolution" early on in the process, the issuer may require proof of credit enhancement before passing any resolution. Thus it behooves the project owner to identify and involve a credit enhancer as soon as possible. The project owner applies for a private activity bond volume allocation.

7th to 8th Week

The project owner receives a private activity bond volume allocation. The underwriter circulates a list of financial participants, a bond financing timetable, and a basic term sheet to each team member involved in the bond transaction. A conferences call with all team members is held to discuss the basics of the financial structure and any initial concerns any team member might have.

9th to 10th Week

Several legal documents are circulated amongst team members. The bond counsel circulates the trust indenture, financing agreement, and regulatory agreement. The credit enhancer circulates their initial commitment for credit enhancement and other documents. The underwriter's attorney circulates initial copies of the Preliminary Official Statement and the Bond Purchase Agreement along with other legal documents. The Preliminary Official Statement is the initial document of the bond security offering (Investor words). It "discloses security features, and economic, financial and legal information about the issue (Investinginbonds)."

11th to 12th Week

A conference is held with all team members to discuss any comments on the legal documents distributed in the previous step and revised drafts are created reflecting the comments. The underwriter submits projected cash flows and certain documentation to the credit agency. The issuer publishes a notice for a TEFRA hearing for a minimum of 14 days. TEFRA stands for The Tax Equity and Fiscal Responsibility Act (TEFRA). Under this act a public hearing must be held whenever bonds are issued for a project and the bond issuance must be approved by the elected officials making the bond issuance (Novogradac and Company).

13th to 14th Week

The Rating Agency makes initial comments on the project and documents in their "substantially final form" are submitted to the Issuer.

14th to 15th Week

A TEFRA hearing is held and the issuer approves the TEFRA hearing and passes a bond resolution, which is "an ordinance authorizing a bond issue (Investor words)." The credit enhancer issues a credit enhancement commitment and the rating agency issues their project rating. The issuer finalizes the Preliminary Official Statement.

15th to 16th Week

The underwriter prices and sells the bond and the bond purchase agreement is executed. The bond purchase agreement is the "contract between the issuer and the underwriter setting forth the terms of the sale, including the price of the bonds, the interest rate or rates which the bonds are to bear and the conditions to closing (Ivestinginbonds)." All parties finalize their legal documents to include the now established pricing information, and the bond counsel circulates all closing documents.

16th to 17th Week

A final conference call is held to discuss any comments of the closing documents and the Final Official Statement is mailed. The Final Official Statement contains the same information in the Preliminary Official Statements with the addition of pricing data.

17th to 18th Week

The private activity bond transaction is closed and the project owner is funded.

Private Activity Bond Financing Regulations

Section 142 (d) of the Internal Revenue Code sets forth many regulations that developers should understand in pursuing private activity bond transactions. Although not entirely exhaustive, the following table provides information regarding some of the more important regulations pertaining to private activity bonds. Again, much of this information comes from "Introduction to Tax-Exempt Multifamily Housing Bonds" by Eichner and Norris.

Table 2: Private Activity Bond Regulations

1)	The project must be a rental housing facility.
2)	The rental housing facility must include complete living units including a separate bathroom, and basic kitchen facilities, including a refrigerator and oven. Single room occupancy units normally do not qualify.
3)	The rental housing facility units cannot be rented on a transient basis.
4)	The rental units must be open to the general public.
5)	Proceeds from private activity bonds can be used to finance subordinate facilities such as club houses, pools, playgrounds, laundry rooms, parking areas, and maintenance and management units.
6)	The rental housing units can be located in a mixed use setting, such as combining the rental housing with retail and/or office space in the same building.
7)	The project owner must elect to either set aside 20% of the units for people who make below 50% of the area median income (20/50 test) or set aside 40% of the units for people who make at or below 60% of the area median income (40/60 test).
8)	Section 142 (d) does not establish a rent restriction in addition to the above income restrictions but some states have policies that impose rent limits, and projects using 4% credits in conjunction with private activity bonds are required to meet rent limits as set forth in Section 142 of the Internal Revenue Code.

9)	If a tenant's income, who resides in an income targeted unit, rises above 140% of the area median income after moving into the project, the next available unit of equal or smaller size must be rented to an income qualifying tenant.
10)	The income limits in private activity bond projects apply during the "Qualified Project Period," which begins at 10% occupancy and ends on the later date of a) fifteen years after 50% occupancy, b) the first day when all bonds are called (no bonds remain outstanding), or c) the first day on which any project based section 8 subsidy ends.
11)	When private activity bond proceeds are financing rehabilitation, 15% of the depreciable costs financed with bond proceeds must be spent within 24 months of bond issuance.
12)	Under Section 142 (d), an existing private owner cannot use tax exempt bonds to refinance debt or equity for his/her own project. A change in ownership must occur.
13)	Private activity bonds are subject to alternative minimum tax, which was set up to preclude very high income individuals from using tax benefits to pay little or no taxes (Fairmark Press).
14)	In a private activity bond transaction at least 95% of bond proceeds must be used to pay for good costs and no more than 5% can be used to pay for bad costs. This is known as the "Good Costs / Bad Costs Test." Good costs include costs for land and depreciable assets, such as construction material and construction period interest. Bad costs include soft costs such as working capital and post-construction interest.
15)	A project owner cannot spend more than 2% of Tax Exempt Bond Proceeds on bond issuance costs, which include underwriting discount fees, issuance attorney fees, rating agency fees, and trustee and issuance fees. Costs of issuance in excess of 2% must be paid out of equity or some other source of debt besides tax exempt bonds. Note that credit enhancement fees are not included in this 2% test.
16)	A TEFRA hearing must be held for all new private activity bond issues, which gives public citizens the opportunity to speak for or against the project. An elected representative will listen to public opinion and decide whether or not to issue the bonds. Thus, it is important that a project owner generate public support for his/her project.

Requirements 14 and 15 above make it extremely important that the project owner obtain an "inducement resolution" from the issuer early in the project planning process. Not doing so could result in the project owner having to pay for much of the project costs with money not coming from private activity bond proceeds. A project owner should remember that any money spent on acquisitions, rehabilitation, or construction without receiving an inducement resolution within at least 60 days of the expenditures, cannot be reimbursed with proceeds from tax exempt bonds.

COMBINING THE LIHTC AND PRIVATE ACTIVITY BOND PROGRAMS

Low-income projects financed with proceeds from private activity bonds under a state volume cap are eligible to receive 4% tax credits on the low-income set aside units without having to compete for the tax credits in the normal competitive application process run by state housing finance agencies. In other words, as long as a development financed with Private Activity Bonds meets minimum state requirements, typically set forth in the QAP, the development receives an automatic allocation of 4% tax credits, if the developer requests them. Because competition for 9% credits in most states is really high, and competition for private activity bonds tends to be fairly low, many developers seek bond financing knowing they will receive an automatic tax-credit allocation, albeit the lesser 4% credit.

4% Tax Credit/Bond Developments versus 9% Tax Credit Developments

One may question why developers compete for 9% tax credit awards when they could more easily obtain a Private Activity Bond allocation and with it, an automatic 4% tax credit award. A simple answer to this question is that 9% tax credit deals typically underwrite better than 4% tax credit/Private Activity Bond developments. The 9% tax credit awards generate more tax credits than 4% tax credit awards, meaning that 9% tax credit awards generate more equity to a development than 4% tax credit awards. In addition, in order for a development, financed with private activity bonds, to qualify for its maximum amount of 4% tax credits, at least 50% of the depreciable costs plus land of the development must be financed with tax-exempt bond proceeds. If anything less than 50% of the depreciable costs plus land is financed with tax-exempt bonds then the percentage of tax credits the project can receive must equal the percentage of this depreciable basis plus land financed with tax-exempt bonds. This is known as the 50% test. For example, if only 30% of the depreciable costs and land of a project is financed with tax-exempt bonds, then the project can only receive 30% of the 4% tax credits associated with the percentage of the development's set aside low income units. If however 50% or more of the depreciable costs and land of a project are financed with tax-exempt bonds, the project will receive 100% of the 4% tax credits associated with the percentage of the development's set aside low income units. Thus, affordable housing developers proposing private activity bond developments that want to maximize 4% tax credits, must carry a significant amount of debt, which depending on the bond interest rate, may cause difficulties in establishing affordable rents that cover debt service payments.

Furthermore, almost all low-income housing developments must include gap financing through soft loans or grants to cover development costs, and more often than not, 9% tax credit developments financed with conventional debt typically have less gaps to finance than do 4% tax credit deals financed with Private Activity Bonds. To illustrate this point, one can study the numbers behind five newly proposed developments that received North Carolina Private Activity Bonds and 4% tax credit allocations in 2003. These projects are listed in the Appendix as sample projects 1, 2, 3, 4, and 5. In each sample, the project facts, total development costs, and net operating incomes (NOI) information was obtained from the tax credit/private activity bond applications each project submitted to the North Carolina Housing Finance Agency. The required debt service coverage ratio of 1.2 is used by Fannie Mae in underwriting Private Activity Bond/4% tax credit developments for credit enhancement. This ratio is often applied by conventional lenders as well. The $0.79 selling price per 9% credit and $0.82 selling price per 4% credit fall within the current market range for tax credits. This analysis also assumes a 7.5% interest rate, 30 year term, fully amortizing conventional loan and a 5.5% interest rate, 30 year term, fully amortizing private activity bond loan. Through using this given information and applying some basic financial calculations, a comparison between a probable 9% tax credit structure and a probable 4% tax credit/private activity bond structure as applied to each sample is provided. Analysis of these samples shows the financing gap is higher in each sample for the Bond Deal with 4% tax credit structure than the 9% tax credit with conventional debt structure, and the 9% deals sometimes having no gap to finance at all.

Thus, because 9% tax credit deals generate more equity, carry less debt, and generally have less budget gaps to fill than 4% tax credit/Private Activity Bond deals, 9% tax credit deals are often easier to structure financially and able to achieve more affordable rent levels.

So, if all affordable housing developers could obtain 9% tax credit awards with every tax credit application they submitted, they might never seek private activity bond transactions. However, with a limited amount of 9% tax credits desired by many affordable housing developers and for the reasons stated above, 9% tax credits are very difficult to obtain in today's world of high competition. To avoid the competition, some developers specialize in developing 4% tax credit/Private Activity Bond developments and have discovered that combining low-interest bond debt with tax credit equity can be an effective way to finance low-income rental housing developments given the appropriate situation. Some of the situational factors developers should consider before pursuing a 4% tax credit/Private Activity Bond development include, interest rates, market conditions for the proposed area of development, project size, rent structure and targeted household income levels, and whether to use bond debt for construction financing, permanent financing, or both.

Interest Rates

Interest rates are the major driver in the use of private activity bonds. Since private activity bond proceeds are tax exempt, private activity bonds normally carry lower interest rates than taxable bonds and conventional loans, but this is not always the case. For example, in 2002, interest rates steadily declined and "the Treasury bond yield, which generally reflects interest rates of all longer-term markets, ended in 2002 with a 4% yield (Gerwitz 1)." These low interest rates benefit all affordable housing developers, but strangely enough, affordable housing developers using conventional lending received more benefit from interest rates in 2002 than developers using tax-exempt debt because taxable market interest rates outperformed tax-exempt market interest rates. In early December 2002, interest rates for high-grade tax-exempt bonds in the 20 to 40 year maturity range were about 5.30% to 5.50%. Upon adding credit enhancement fees, trustee fees, issuer fees, and other fees, the effective interest rate ranged from about 6.25% to 6.60%. While these may appear attractive, a developer at this time could have obtained a conventional loan with a lower interest rate of about 5.75% (Gerwitz 2).

When affordable housing developers can access cheap conventional financing, they will only use tax-exempt bond financing when they can structure very low interest rates through the use of floating rates and/or because developers know they can receive the 4% tax credit in conjunction with the bond proceeds (Gerwitz 2). In summary, developers should recognize that lower interest rates, lower debt service, and/or higher loan amounts are the main benefits developers should realize from using private activity bonds. If however these benefits are already provided through conventional financing and tax-exempt bond proceeds provide no advantage, it is probably not an appropriate time for a developer to pursue a private activity bond transaction, unless the allocation of 4% credits to the project exceeds the benefit of using conventional financing.

Market Conditions

When underwriting a low-income housing development project proposed to be financed with private activity bonds, the issuer, credit enhancer, and investment bank underwriter will apply different tests to evaluate the financial feasibility of the project. One of the tests they will apply is a debt coverage ratio for each year the project will remain in operation. A debt coverage ratio is simply debt (private activity bond debt in this case) divided by net operating income (total potential income minus vacancy minus operating expenses). This ratio helps the underwriter evaluate default risk on the bond debt or how likely it is that the project will not produce enough income to make payments of principle and interest on the bond debt. Credit enhancers will typically require a debt coverage ratio of about 1.20 to 1.25 depending on the type of project, i.e. new construction, rehabilitation.

Project owners need to understand the conditions of the market for which they propose to build low-income housing. Using the applicable income test, 20/50 or 40/60, project owners need to make sure they can generate enough rent to cover operating expenses and pay off bond debt and any other debt the project may carry. The rents charged in any given market are dictated by supply and demand. For example, some would argue the triangle region of North Carolina is currently experiencing an oversupply of rental housing, resulting in rental concessions and decreasing rents in the apartment market. Affordable housing developers typically look at two submarkets within the primary rental housing market, including the supply of and rents being charged for already built low-income housing in the region, and how these low-income rents compare to market rents in the region. For example, project owners typically want low-income rents to be at least 10% below market rents for the region in which the project owner is looking to build, and for there to be a limited supply of low-income housing already built in the region, which would allow the developer to capture the low-income rental market. Evaluating some areas of the Midwestern United States, one finds that low-income rents, (i.e. rents of which people making at or below 60% of the area's median income could afford), are at or above market rent levels. This means that in order for project owners to capture low-income renters, they have to drop the rents even further, which can cause difficulty for a 4% tax credit/Private Activity Bond development, with over 50% of the depreciable basis plus land financed with bonds, to meet the debt coverage ratio test

Most rental housing projects financed with private activity bonds target 100% of their units to low income households, but some developers build mixed-income projects using private activity bonds. Mixed income deals are typically only successful in hot real-estate markets such as Boston and New York City while rents in weaker real-estate markets cannot support mixed income deals. In summary, before pursuing private activity bond financing, developers must make sure the market for their project location will be able to support the debt generated by private activity bonds.

Project Size

Project size is an important issue to consider in doing a private activity bond deal. Tax-exempt bond debt generates high origination costs such as bond counsel fees, trustee fees, issuer fees, underwriter fees, credit enhancer fees, and other fees. These high origination costs, when amortized over the life of the loan increase the effective borrowing costs of private activity bonds, and when these high origination costs are paid to finance small projects, the origination costs are spread over fewer apartment units, which further magnifies the effective borrowing costs (Anderson). Thus, private activity bonds are not typically used to finance small projects.

In general, but depending on the market and financial structure of the deal, a project should include about 100 to 150 units at least when using tax-exempt debt from private activity bonds.

Rent Structure/Targeted Income Level

Many of today's housing policies are established to serve low to moderate income households (60 to 80% area median income). Many projects financed with 9% tax credits and other government subsidies can reach households at or below 30% of the project's area median income. To the contrary, most projects financed with private activity bonds cannot serve very low income households. Because of the large amount of debt involved in private activity bond transactions, most projects financed with private activity bonds cannot charge very low rents and instead are forced to typically target the maximum low income requirement of 60% of the area's median income. As discussed under "*Market Conditions*" these higher rents needed to cover debt service, may be too high for the market.

Construction and/or Permanent Financing with Bonds

Private activity bond financing can be used for construction financing, permanent financing, or both. Most rental projects financed with private activity bonds use the bond proceeds for construction and permanent financing. Although the law is still unclear, being financed with tax-exempt debt could be defined as making debt service payments on the bonds after the project has been placed in service. So, a developer could used tax-exempt debt to finance construction, place the project in service, make a few debt service payments on the bonds, and then pay the bonds off early with some type of soft or other loan structure and still qualify for 4% tax credits. Or in other words, to qualify for 4% tax credits, it is not necessary for a project to hold onto the bond financing for the entire bond loan term as the bonds can be called early in the life of the project. In theory, a low-income housing project could qualify for 9% tax credits with tax exempt bond financing if the bonds are used only for construction financing and are completely paid off before the project is placed in service. In this case the development would still qualify for 9% tax credits because by eliminating federally subsidized bond debt before the development is placed in service eliminates, the project is not considered to include federal subsidies. In some cases, developers obtain very low interest construction loans and thus, choose to use tax-exempt bond debt as permanent financing only along with their 4% tax credit allocation. The important point is that developers can and often should be creative in their financing of low-income housing projects. Within this realm of creativity, there are different ways to financially structure private activity bond deals, one of which includes making a decision of when to apply the bond debt, and another of which is when to use low-income housing tax credits in conjunction with bond debt, significantly increasing the financial viability of a low income housing project.

Conclusion

There are many funding sources available to affordable housing developers today through government resources. Private Activity Bonds and the Low Income Housing Tax Credit Program, established under the Tax Code of 1954 and the 1986 Tax Reform Act respectively, are two of the most effective program developers use to increase the supply of affordable rental housing. These programs are established by law in such a manner that they can be used individually or collectively under a single development. While 9% tax credit deals are typically easier to structure financially and able to target lower rents than Private Activity Bond/4% tax credit deals, 9% tax credits are very difficult to obtain because of the high competition for 9% tax credits. In order to avoid the competition, many developers choose to develop low-income apartments financed with Private Activity Bonds that include an automatic 4% tax credit allocation. While both the LIHTC and Private Activity Bond Programs may appear complex because of the many steps and parties involved, Private Activity Bond and Tax Credits often prove to be a valuable resource to many developers.

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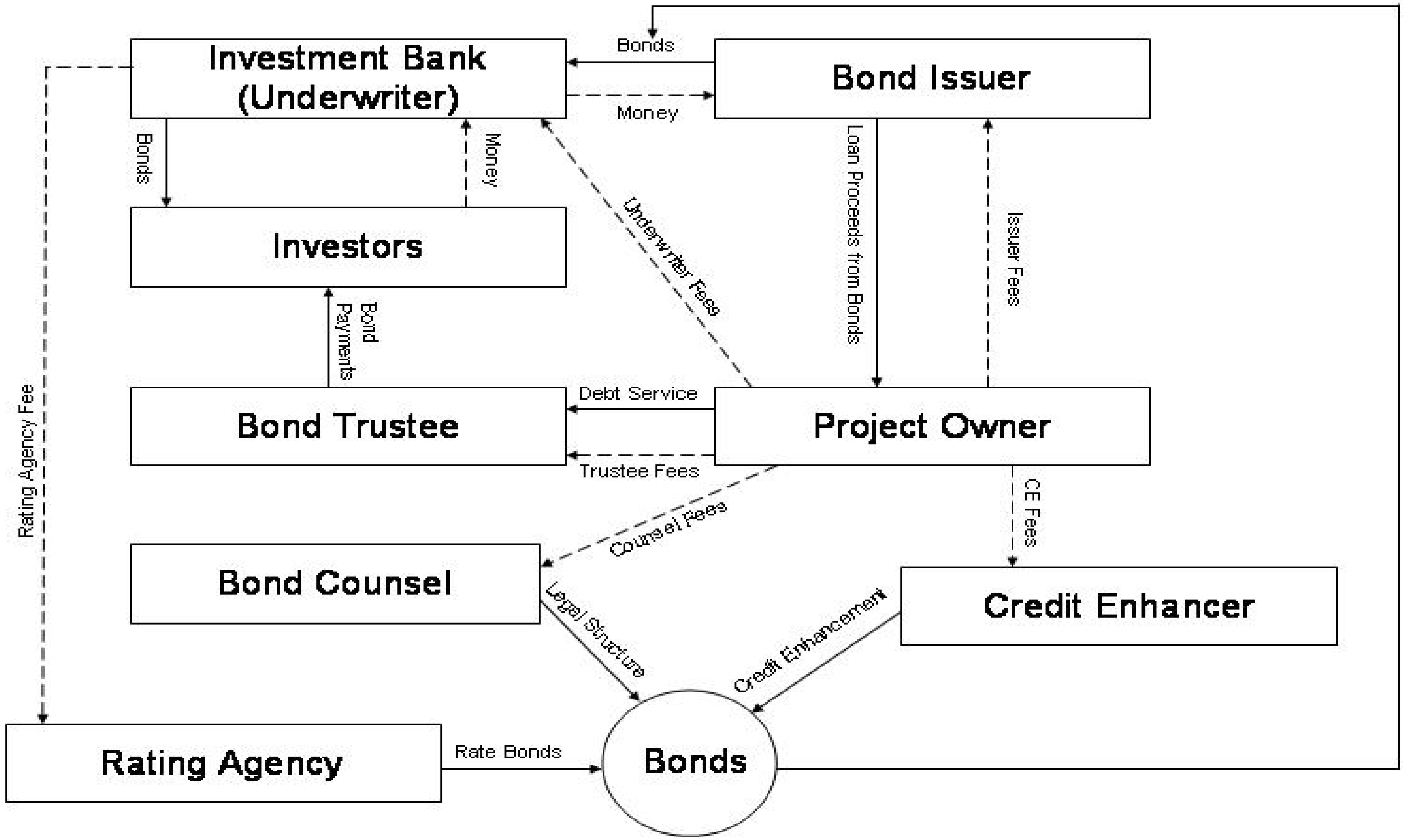
APPENDIX

Figure 1: Private Activity Bond Participants



Sample Project #1

Structure as Bond Deal w/ 4% Tax Credits

Total Development Cost			$	8,133,338	
NOI			$	426,581	
Required DCR				1.2	
Available for Debt Service			$	355,484	
Supportable Debt			$	5,217,375	64.15%
maximum loan (5.5%, 30 Year Term)	$	5,217,375			
Tax Credit Equity @ 82 cents			$	2,239,044	27.53%
Financing Gap			$	676,919	8.32%

Project Facts

New Construction
75 Units targeted at 30% and 60% AMI
9 Market Rate Units
Development Cost per unit: $96,825
Depreciable Basis Plus Land: $7,585,432
Min Bond Amount for 50% Test: $3,792,716

Stucture as 9% Tax Credits w/ Conventional Debt

Total Development Cost		$	8,133,338	
NOI		$	426,581	
Required DCR			1.2	
Available for Debt Service		$	355,484	
Supportable Debt			$4,236,709	52%
maximum loan (7.5%, 30 Year Term)	$4,236,709			
Tax Credit Equity @ 79 cents		$	5,088,773	63%
Financing Gap			NO GAP	

Sample Project #2

Structure as Bond Deal w/ 4% Tax Credits

Total Development Cost			$	6,919,087	
NOI			$	440,841	
Required DCR				1.2	
Available for Debt Service			$	367,368	
Supportable Debt			$	5,391,784	77.93%
maximum loan (5.5%, 30 Year Term)	$	5,391,784			
Tax Credit Equity @ 82 cents			$	1,444,084	20.87%
Financing Gap			$	83,219	1.20%

Project Facts

Substantial Rehabilitation
101 Units Targeted at 50% AMI
Development Cost per unit: $68,506
Depreciable Basis Plus Land: $4,685,750
Min Bond Amount for 50% Test: $2,342,875

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Stucture as 9% Tax Credits w/ Conventional Debt

Total Development Cost		$	6,919,087	
NOI		$	440,841	
Required DCR			1.2	
Available for Debt Service		$	367,368	
Supportable Debt			$4,378,336	63.28%
maximum loan (7.5%, 30 Year Term)	$4,378,336			
Tax Credit Equity @ 79 cents		$	2,522,339	36.45%
Financing Gap		$	18,413	0.27%

Sample Project #3

Structure as Bond Deal w/ 4% Tax Credits

Total Development Cost			$	10,817,909	
NOI			$	538,988	
Required DCR				1.2	
Available for Debt Service			$	449,157	
Supportable Debt			$	6,592,189	60.94%
maximum loan (5.5%, 30 Year Term)	$	6,592,189			
Tax Credit Equity @ 82 cents			$	2,797,659	25.86%
Financing Gap			$	1,428,061	13.20%

Project Facts

Substantial Rehabilitation
121 Units Targeted at 80% AMI
Development Cost per unit: $89,404
Depreciable Basis Plus Land: $7,283,326
Min Bond Amount for 50% Test: $3,641,663

Stucture as 9% Tax Credits w/ Conventional Debt

Total Development Cost		$	10,817,909	
NOI		$	538,988	
Required DCR			1.2	
Available for Debt Service		$	449,157	
Supportable Debt			$5,353,110	49.48%
maximum loan (7.5%, 30 Year Term)	$5,353,110			
Tax Credit Equity @ 79 cents		$	4,169,102	38.54%
Financing Gap		$	1,295,697	11.98%

Sample Project #4

Structure as Bond Deal w/ 4% Tax Credits

Total Development Cost			$	10,623,232	
NOI			$	638,228	
Required DCR				1.2	
Available for Debt Service			$	531,857	
Supportable Debt			$	7,805,961	73.48%
maximum loan (5.5%, 30 Year Term)	$	7,805,961			
Tax Credit Equity @ 82 cents			$	2,280,115	21.46%
Financing Gap			$	537,156	5.06%

Project Facts

Substantial Rehabilitation
120 Units Targeted at 50% and 60% AMI
Development Cost per unit: $88,527
Depreciable Basis Plus Land: $7,241,523
Min Bond Amount for 50% Test: $3,620,762

Stucture as 9% Tax Credits w/ Conventional Debt

Total Development Cost		$	10,623,232	
NOI		$	638,228	
Required DCR			1.2	
Available for Debt Service		$	531,857	
Supportable Debt			$6,338,740	59.67%
maximum loan (7.5%, 30 Year Term)	$6,338,740			
Tax Credit Equity @ 79 cents		$	5,182,118	48.78%
Financing Gap			NO GAP	

Sample Project #5

Structure as Bond Deal w/ 4% Tax Credits

Total Development Cost			$	17,289,810	
NOI			$	703,014	
Required DCR				1.2	
Available for Debt Service			$	585,845	
Supportable Debt			$	8,598,338	49.73%
maximum loan (5.5%, 30 Year Term)	$	8,598,338			
Tax Credit Equity @ 82 cents			$	2,016,432	11.66%
Financing Gap			$	6,675,040	38.61%

Project Facts

Substantial Rehabilitation
100 Units Targeted at 30% and 50% AMI
98 Market Rate Units
Development Cost per unit: $87,322
Depreciable Basis Plus Land: $13,396,492
Min Bond Amount for 50% Test: $6,698,246

Stucture as 9% Tax Credits w/ Conventional Debt

Total Development Cost		$	17,289,810	
NOI		$	703,014	
Required DCR			1.2	
Available for Debt Service		$	585,845	
Supportable Debt			$6,982,180	40.38%
maximum loan (7.5%, 30 Year Term)	$6,982,180			
Tax Credit Equity @ 79 cents		$	4,582,833	26.51%
Financing Gap		$	5,724,797	33.11%