



To: Executive Director, State Housing Finance Agency
From: Michael Bodaken, President, National Housing Trust
Date: May 18, 2009
Re: ***Implementing Exchange and TCAP Stimulus Funds to Maximize Impact***

The National Housing Trust (NHT) is a national nonprofit dedicated exclusively to the preservation and improvement of affordable multifamily housing. We have preserved and improved more than 22,000 affordable apartments throughout the country through public policy advocacy, real estate development, and lending.

The Exchange and Tax Credit Assistance Program (TCAP) provisions in the American Recovery and Reinvestment Act of 2009 have added significant opportunity along with complexity to the affordable housing tax credit allocation process. With the fast-approaching deadlines recently established by The U.S. Department of Housing and Urban Development and the Department of the Treasury, NHT recognizes that state housing finance agencies are quickly drafting implementation plans and soliciting public comments on those plans. ***We would like to take this opportunity to utilize our unique position as a national non-profit with significant policy, development and lending experience to highlight implementation strategies that maximize TCAP and Exchange funds.***

NHT fully recognizes the wide array of circumstances and markets across the country and that some of the strategies described below may be more or less appropriate in any given circumstance or specific market. We urge you to review these recommendations and apply them as appropriate.

TCAP/Exchange Implementation Recommendations:

1) Target preservation projects to receive TCAP and Exchange funds for the following reasons:

- Preservation projects generally incur lower costs per unit than new construction projects.
- Preservation projects move faster than new construction because they are “shovel ready,” face less significant community opposition, and do not require zoning variances or review.
- Preservation provides an opportunity to reinvest and improve communities and protect the historic investment made by federal and state governments.
- In many markets without investors (transitioning neighborhoods or outside of metropolitan areas), the only means to preserve an existing property may be with Exchange or TCAP funding, or both.
- Preservation projects are inherently green. Renovating an existing building consumes less energy than demolition and new construction. Existing housing is already located in developed areas, often near transportation, and requires no new infrastructure development.

- The preservation of existing housing generates new jobs. The Center for American Progress estimates that a \$1 million investment would create an estimated 20 to 27.5 jobs.

2) Use of Exchange and TCAP funds should be principally targeted towards properties with rental subsidies attached. In the current environment, many projects receiving tax credit allocations require additional subsidy to move forward. However, the most critical shortage is for housing that serves extremely low income households. The Trust urges a strong priority for projects with project-based rental subsidies in order to serve the neediest households and preserve scarce rental assistance resources.

3) Maximize use of the tax credit exchange provision by capturing available investment and selectively providing gap financing instead of a full exchange when possible. Up to 40% of 2009 9% credits and 100% of unused or returned 2007 and 2008 credits can be exchanged for Treasury grants at 85 cents on the dollar. States should make full use of this exchange provision unless there is significant investor interest in 9% tax credits at a price higher than 85 cents. These grant funds can provide gap financing for tax credit transactions with insufficient equity and can also be used for other eligible transactions if the state determines that such use will increase total funds available for affordable housing. *For example, a state housing finance agency could exchange \$1 million in credits for \$850,000 in Treasury grant funds, provide \$350,000 of this to a property with a tax credit investor that needs modest gap funding (retaining investor equity and demonstrating the needed “increase of funds available for affordable housing”) and use the remaining \$500,000 to support another property without a tax credit investor.*

4) Keep willing investors and available tax credit investment in your projects. Given the difficult equity markets, state agencies should consider establishing a floor on equity investment pricing to ensure efficient use of the tax credit subsidy but should exercise considerable discretion in forgoing any private equity commitment. For some 2007 and 2008 projects that have not yet closed, it may be worth considering whether existing investors would shift their investment to post-2008 projects and return the 2007 or 2008 credits for exchange. Sixty percent of 2009 credits cannot be exchanged, and these credits should be utilized as fully as possible to bring needed financing to affordable rental properties even though investors may pay less than 85 cents per credit.

5) As state agencies are awarding funds, please consider the important deadlines and requirements below:

- Projects that are eligible for TCAP must have received a nominal amount of credits between 10/1/06 and 09/30/09. Projects awarded 2010 credits by 9/30/09 are eligible.
- 75% of TCAP grant funds must be committed by 02/16/10.
- Project owners must expend 75% of the TCAP funds by 02/16/11.
- 100% of TCAP grant funds must be expended by 02/16/12.
- Exchange funds must be disbursed by 12/31/10.

Thank you for this opportunity to comment on your current TCAP and Exchange plans. Please do not hesitate to contact us for additional information.