

Financing Assistance for Properties with Low Income Housing Tax Credits

MBA RECOMMENDS

Congress should authorize and appropriate funds through the Economic Stimulus Package for the Department of the Treasury to purchase securities backed by multifamily loans where the property is assisted through low income housing tax credits at a 4.5 percent interest rate. This would help spur the creation of housing and job growth.

BACKGROUND

In the current market environment, developers who have been allocated low income housing tax credits are unable to produce viable multifamily developments. In the past year, the value of tax credits has decreased by 20 percent or more, construction costs and operating costs have increased, family incomes have been stagnant or decreased (keeping rent levels and property revenues low), and interest rates remain high. All of these factors taken together have contributed to many tax credit allocations being returned or developments simply not moving forward, awaiting additional subsidy, lower interest rates or some other method of bridging the gap.

To make these loans feasible, new tax credit investors are being cultivated, additional soft debt or grants are being sought, construction cost savings are being explored, and all operating costs are being closely scrutinized. There is a need, however, for additional help in many of these areas to make properties feasible.

Research by professional market analysts is conducted on each of these developments as part of the loan application process. There is a need for each of these properties either because the existing vacant rental housing is too expensive for the families that would be served by this new development, the proposed project is meeting a special need (e.g., seniors housing), the development is near transit and better suited to the needs of working families, or the project is substantial rehabilitation of existing housing.

Properties with low income housing tax credits have been extremely successful with few loan defaults and virtually no foreclosures and a recapture of tax credits. The design of the program is such that the investors are highly motivated to assure that the property continues to operate and to serve the lower income families it was designed to serve.

ECONOMIC STIMULUS PROPOSAL

It is extremely difficult to make multifamily properties with low income housing tax credits feasible in the current economic environment. Construction and rehabilitation of low-income housing has come to a virtual standstill.

To address debt service costs, the Treasury Department should purchase securities backed by multifamily loans where the property is assisted through low income housing tax credits at a 4.5 percent interest rate to the borrower. Treasury could issue 15-year debt at current rates and purchase Fannie Mae, Freddie Mac or Ginnie Mae securities backed by the loans, earning the interest rate spread for 15 years and then selling any remaining loans that have not refinanced at the end of the 15-year period. There would be some cost to the government, depending upon how many loans do not refinance during the 15-year period and the level of interest rates at the end of 15 years. The government's borrowing cost would allow this to be a profitable venture as long as Treasury rates stay below approximately 3.5 percent; however, federal budget rules may require the government to account for the

entire mortgage amount purchased as an outlay/expense. It is estimated that approximately \$625 million would be needed in Fiscal Year 2009. There would be no credit risk to the Treasury as FHA/Ginnie Mae, Fannie Mae or Freddie Mac would underwrite the loans using their current underwriting criteria and would assume that risk.

BENEFITS

In a recent MBA survey of FHA-approved mortgage lenders, the 26 lenders responding reported that there are currently more than 25 applications in the pipeline for FHA insurance with low income housing tax credits for

typical 100-unit multifamily apartment complex generates 116 jobs in the construction trades and in companies that supply goods and services integral to the development of this housing.)

While MBA has not conducted a survey of Fannie Mae and Freddie Mac lenders, based on prior activity by the GSEs tempered by current market conditions, we estimate that an additional \$500 million in mortgages, representing approximately 16,000 units could go into construction during the next six months given a 4.5 percent interest rate on the debt. These projects could generate an additional 18,560 jobs.

Jobs Created: 23,000 • Affordable Housing Units Created: 20,000

more than \$125 million in mortgage amount (representing approximately 4,100 units) that could go into construction during the next six months — if a 4.5 percent interest rate could be assured. (Only approximately half of that could get financed at current market rates of 6.5 percent and most of those will require other soft debts or subsidies.) This would provide much-needed affordable rental housing as well as more than 4,700 jobs. (The National Association of Home Builders estimates that the development of a

The stimulative effect of this program would total well over 23,000 jobs in communities across the country. And working families, making less than 60 percent of area median income — those hit the hardest by the recession — would be provided decent, safe and affordable rental housing. This proposal would also improve and increase the country's affordable housing infrastructure.



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