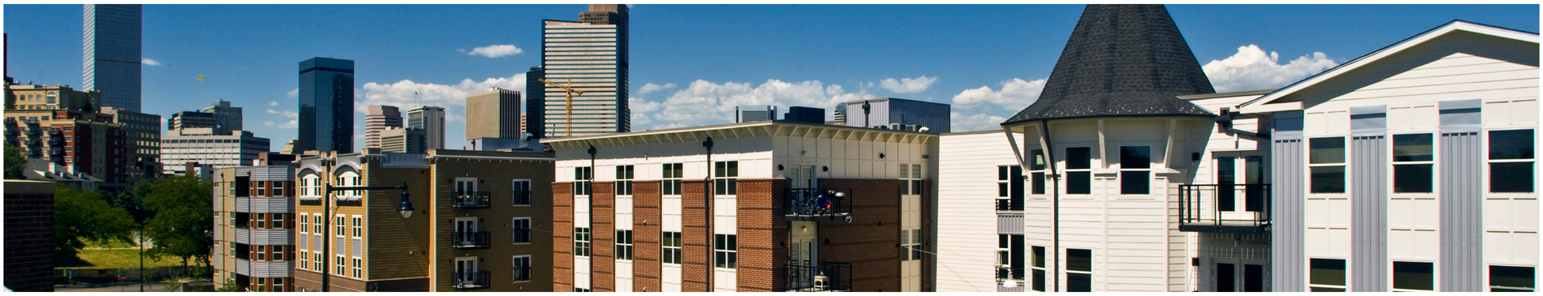
federal low income housing tax credit program



overview

financing the places where people live and work

07/18.v3

low income housing tax credit (lihtc)

- The Low Income Housing Tax Credit program (LIHTC) was created by Congress in 1986 as Section 42 of the Federal Tax Reform Act. Its purpose is to encourage the construction and rehabilitation of low income rental housing by providing a federal income tax credit as an incentive to investors. Both individual and corporate investors may receive 10 years of tax credits in return for investing equity capital into the development of eligible housing projects.
- Colorado Housing and Finance Authority (CHFA) is the designated state allocating agency for Colorado, and is responsible for designing and implementing the program in Colorado.

basic program requirements

- LIHTC projects must include:
    - Income restrictions
    - Rent restrictions
    - Extended-use requirements

income restrictions

- Minimum requirements:
    - At least 40 percent of the property must be set aside for families earning below 60 percent of Area Median Income (AMI), or
    - At least 20 percent of the property must be set aside for families earning below 50 percent AMI

denver county	family of four household	one-person household
50% AMI	$44,950	$31,500
60% AMI	$53,940	$37,800

rent restrictions

Rents are restricted by income group, bedroom size and AMI. For example:

denver county	1-bedroom	2-bedroom	3-bedroom	4-bedroom
40% AMI	$675	$810	$935	$1,043
50% AMI	$843	$1,012	$1,168	$1,303
50% AMI	$1,012	$1,215	$1,402	$1,564

Rents must include utility costs

extended-use requirements

All developments must maintain the rent and income requirements through a 15-year compliance period and a 15-year extended-use period, for a total of 30 years. The requirements are enforced through a Land Use Restriction Agreement that is recorded against the property.

types of lihtc

- Competitive 9 percent credit
  - Available for new construction and substantial rehabilitation
- Competitive 4 percent credit
  - Available for the acquisition of existing building(s); must be a substantial rehabilitation component of the development
- Non-competitive 4 percent credit
  - Available for new construction or acq/rehab for developments financed with Private Activity Bonds

Beginning July 30, 2008, the 9 percent credit's actual applicable percentage rate (APR) is the higher of the current month's APR or 9 percent for projects that place in service by December 31, 2013. The 4 percent credit's actual APR used to calculate the credit amount fluctuates monthly and is based on current interest rates.

computing the credit amount

- Eligible basis
  Includes depreciable assets, which are development costs minus land, off-site work, federal grants or other credits fees, and costs related to permanent financing, tax credit syndication costs, and reserve

- Applicable fraction
  The percent of the total units or residential square footage, whichever is lower, set aside for low income residents

- Qualified basis
  The eligible basis adjusted by the applicable fraction

- APR
  The 9 percent credit is is the higher of the current APR or 9 percent for projects that place in service by December 31, 2013. The 4 percent credit's actual APR is established monthly by the IRS. These rates are used with the qualified basis number to determine the actual credit amount for which a development is eligible.

eligible basis	(x) applicable fraction	(=) total qualified basis	(x) applicable percentage rate	(=) annual tax credit
$9,000,000	100% all units are income- and rent-restricted	$9,000,000	9.00%	$810,000

The annual credit, sold to investors with federal tax liability, could generate up toe $5.67 million in equity to hekp finance the development.

application process

For the competitive credit, see the Allocation Plan for the application deadlines.

For the non-competitive credit, applications are accepted all months but December.

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