Financing Alternatives

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Metropolitan Development and Housing Agency
Nashville
Tennessee

Financial Tool Box (III f)

- A Brief Overview of the Tools MDHA has been using
  - Low Income Housing Tax Credits/CITC Loans
  - Multi-family tax-exempt bonds/4% LIHTC
  - FHA Loans
  - Bank Loans
  - New Market Tax Credits

Financial Tool Box

- Low Income Housing Tax Credits/CITC Loans
  - Financing for Housing at or below 60% of Area Median Income
  - 9% credit/claimed over 10 years/earned over 15/30 year restriction
  - CITC loan is Prime minus 4% floating, 15 year maximum term
  - Annual competition
  - Boscobels I, II, III, IV
- Multi-family tax-exempt bonds/4% tax credits
  - "4%" really about 3.21%
  - First-come basis until annual bond authority exhausted
  - Bonds refinanced after construction (FHA, FNMA, etc.)
  - Randee Rogers

Financial Tool Box

- FHA Loans
  - 221(d)(4): 40 year, fixed rate
    - New construction (10th & Jefferson, Kirkpatrick Park)

  223 (f): 35 year, fixed rate
    - Finance based on existing cash flow (J Henry Hale, Madison)

  No limitation on tenant income (good for Mixed-Income)

  Issues:

    Heavy penalties for pre-payment in first 10 years

    Separate legal entity, financial reporting, audit, etc. for loan term

    Very bureaucratic application and on-going management

Financial Tool Box

- Bank Loans
  - Term limited to 7 to 15 years
  - Generally floating rate (but can be fixed or capped)
  - Bordeaux Townhomes (Treasury 5 Year Note plus 2.5%)
    - Capped at 3.75 for years 1 and 2
    - Capped at 4.5% for years 3 thru 7
    - Capped at 7.25 for years 8 thru 12

  No separate entity, no separate audit, can be prepaid

  Can do CITC (Prime minus 4%) for Low Income units (80% of AMI

Financial Tool Box

- New Market Tax Credits
  - Community Development Entities (CDEs) get allocations
  - Sponsors Apply to CDEs for specific projects
    - Housing generally not eligible
    - Must have significant community impact (Explore! School)
  - Credits earned over 7 year period (including construction)
  - Credits provide 25% to 30% of development cost
  - Balance generally borrowed from CDE affiliates (rates tend to be high because they borrow and add on a percentage)
  - Can not "double dip" with tax exempt borrowings
  - Project users must pay rent to NMTC entity until year 8
  - CDE affiliate loans mature at end of year 7; then refinanced
  - Full-Employment Act Program for Attorneys