
Memorandum



From: Sean Thomas

Date: September 11, 2009

Re: Available ARRA Resources for the 2009 HTC Projects

On August 19, OHFA reserved approximately \$78.4 million in Tax Credit Assistance Program (TCAP), Tax Credit Exchange (TCE), Housing Development Assistance Program (HDAP), and Neighborhood Stabilization Program (NSP) funds to 38 projects that received Housing Tax Credit reservations in 2009. In order to provide some funding for all projects during the Step I ARRA underwriting review phase, the total assistance reserved to each project was capped at 25% of the total underwritten development cost. Estimates of additional funding sources or cost reductions needed to make all 38 projects viable range from \$19 million to \$50 million. In the Step II review phase, OHFA will consider changes to the project sources and uses if the developer can provide reasonable justification in the Step II application. If additional ARRA resources are available, the OHFA subsidy (TCAP, TCE, HDAP, or NSP) reserved to a project may increase above the level established in Step I subject to project underwriting. Currently it is estimated that approximately \$10.4 million in additional unreserved TCAP funds will be available during the Step II review phase.

In order to provide developers more certainty regarding OHFA's ability to fund legitimate and reasonable funding gaps and to give developers incentive to proceed to the Step II review phase, OHFA will exchange additional 2009 housing tax credits for more TCE funds. Housing tax credits from the 2010 credit pool will be used to replace the exchanged 2009 housing tax credits. The calculation of additional proceeds is as follows:

- Maximum amount of 2009 housing tax credits that may be exchanged: \$10.7 million
 - Calculation: equals 40% of 2009 credit pool
- Amount of 2009 housing tax credits exchanged to date: \$5.7 million
- Additional 2009 housing tax credits to be exchanged: \$5 million
- TCE funds generated by additional exchanged credits: **\$42.5 million**
 - Calculation: $((\$5,000,000) * 10) * \0.85
- Amount of 2010 housing tax credits committed: \$8.3 million
 - Calculation: \$5 million for new credits exchanged plus \$3.3 million already committed
- Total unreserved funds available during Step II review phase: **\$52.9 million**

By committing additional 2010 housing tax credits, the number of projects OHFA will be able to fund next year will be substantially reduced. The estimated total 2010 credit pool is \$24 million. With the forward commitments subtracted from that total, the estimated 2010 credit pool is \$15.7 million. In addition, the amount of gap financing OHFA can provide for 2010 projects will be dramatically lower than the available funds in 2009. The likely credits per project, assuming all projects receive a basis boost, is \$750,000. The amount of projects able to be funded will decrease from 32 to 21. No 2011 credits will be committed to fund more projects.

Another consideration is OHFA's plan to accelerate the 2011 application deadline. Developers who are unsuccessful in the 2010 round due to the smaller pool of available credits and gap financing will not have to wait as long for the opportunity to apply for housing credits again. If additional 2010 housing tax credits are not exchanged, it is likely several of the 38 projects that received 2009 housing credit reservations will not proceed. By implementing this strategy, it is estimated that over a two year period, roughly the same number of projects may be fully funded, with more projects funded this year. This aligns with the Agency policy goals and purpose of ARRA funds to provide immediate stimulus to projects ready to proceed.

There is no guarantee that additional financing will be provided to the 2009 projects. All projects must comply with the ARRA Application Procedures & Underwriting Guidelines and applicants must adhere to the specific timeframes therein. The ARRA underwriting team will evaluate the reasonableness of costs, fees, and requested subsidy and good faith efforts to obtain additional funding sources. Applicants will be held to their representations and certifications made to OHFA. Final funding recommendations will be made by the ARRA underwriting team, and the OHFA Board must approve the OHFA subsidy for all 2009 projects.

Developers of the 2009 projects are to proceed to the next underwriting Steps at their own risk of being unable to complete the projects and with the understanding that OHFA will not approve a large number of Category 2 (projects without a credit investor) projects, if any. OHFA will refund the housing credit reservation fees for any projects that drop out or are determined to be financially infeasible by OHFA during the underwriting process. The gap financing for these projects will be recycled to other projects and the housing tax credits will be used to decrease the forward commitment of 2010 credits.

If you have any questions, please contact me at stthomas@ohiohome.org.