

2010 NCSHA Award Nomination—Ohio Housing Finance Agency

Rental Housing—Encouraging New Production

Tax Credit Assistance Program Loans: Bridging Stimulus and Strategy

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Ohio is one of the hardest-hit states in the country as a result of the economic downturn. Consequently, the tax credit equity market has dropped nearly 50 percent since 2008. Soon after the passage of the 2009 American Recovery and Reinvestment Act (ARRA) legislation which aims to create and save jobs, spur economic activity and invest in long-term growth, the Ohio Housing Finance Agency (OHFA) began to evaluate how the federal funds could impact Ohio's affordable housing market.

Developers were experiencing lower returns on the sale of Low Income Housing Tax Credits (LIHTCs) and were unable to raise the capital necessary to begin construction. As a result, several Ohio properties originally funded with tax credits were unable to be completed due to the reduced demand from investors. The Tax Credit Assistance Program (TCAP) and Tax Credit Exchange Program (TCE) were created by ARRA in response to the reduction in private investment capital for LIHTCs. The TCAP funds were provided by the U.S. Department of Housing and Urban Development and the TCE funds were provided by the U.S. Department of Treasury. Ohio received \$83,484,547 in TCAP funding to provide developers with the financing needed to complete the proposed housing developments.

OHFA consulted with staff, customers, stakeholders and board members regarding how to best implement the TCAP funds. The additional funds enabled developers to begin construction while providing affordable housing and economic stimulus throughout the state.

Working with the Ohio Capital Corporation for Housing (OCCH), OHFA developed an innovative method to allocate a large portion of the TCAP program. OHFA structured the awards as bridge loans for the LIHTC investors. Using a structure similar to OHFA's existing bridge loan program, these loans provided incentive for investors to increase their contributions and fund more projects. The specific terms and conditions for the TCAP Bridge Loan are as follows:

1. Loan Amount: Amount determined after OHFA underwriting and in consultation with the syndicator and/or investor for the credits (Amounts ranged from \$1 million to \$5.4 million)
2. Interest Rate: Zero percent
3. Term: Up to seven years based on consultation with the syndicator and/or investor for the credits
4. Payments: No annual payments, one balloon payment at the end of the term
5. Collateral: Developer/sponsor guarantee during construction period and then replaced with an investor/fund note after project is placed into service

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By offering the TCAP Bridge Loan, syndicators such as OCCH were able to create equity funds with returns that attracted investors even for projects in difficult to serve markets. OCCH created a special single investor fund for Nationwide Insurance who committed \$70 million for deals stalled in the development pipeline. The investor fund set a precedent for other investors to trust in OHFA's commitment and make financial contributions to close the gap in funding across the state.

OHFA was also able to convert a portion of the Agency's annual share of federal Housing Tax Credits into grant dollars through the TCE program. This offered greater financial support to developers who have found securing investors for the tax credits increasingly difficult. The additional monetary assistance allowed developers to begin construction, establish affordable housing options and stimulate the economy throughout the state.

In early 2009, there were 33 incomplete projects stalled in the development pipeline. In addition, OHFA was concerned with the feasibility of the projects to be funded later in the year with 2009 credits. Ultimately, 39 projects were funded with 2009 credits. OHFA staff quickly developed an implementation plan using a transparent process, and the plan was adopted by the OHFA Board in April 2009. OHFA desired to balance the following policy goals while disbursing TCAP funds:

- Support and enhance the public-private investment partnerships
- Achieve policy goals outlined in the Qualified Allocation Plan (QAP) and OHFA Annual Plan
- Efficiently allocate all resources to projects likely to succeed
- Give priority to projects that produce immediate stimulus
- Limit administrative burden for owners, unless necessary

Using the bridge loan structure, OHFA was able to meet its goal of supporting and enhancing public-private partnerships. Capital from investors helped OHFA better allocate the federal stimulus funding across the state and facilitate the progress of completing projects. Of the 72 projects that were eligible for ARRA funds, 64 projects were able to proceed with investors using a combination of TCAP and TCE funding, six projects were funded as TCE-only deals, and only two projects were unable to move forward.

Overall, OHFA approved 32 TCAP Bridge Loans. The total amount of funds committed for this purpose was \$68.8 million. Under the TCAP rules, funds returned after the end of the grant period in 2012 become program income that can be used for similar purposes. OHFA will receive the entire \$68.8 million back between 2012 and 2017. These funds will be a source for future bridge, gap and construction loans.

It is unknown if new TCAP funds will be available to states in the future. However, if a housing finance agency can locate another source of funding and work with syndicators and investors in their state, this program can be replicated. It would be possible to charge a minimal interest rate and require regular repayments depending on the financial needs, but a revolving source of loan funds is achievable.

Bridging the gaps for developers provides the capital incentive needed to continue building quality, affordable rental housing. The impact of losing these units,

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compounded with the current economic crisis, job losses, limited credit availability for low-to moderate-income households, and financial upheavals could be devastating for many Ohioans. Federal funding through TCAP has helped ensure the continued availability of a strong stock of affordable rental units in Ohio. These funds made a significant contribution to the housing market and to the lives of the residents we serve.