

## **How do we get the Private Sector to Play?**

### ***Background***

During the 2005 legislative session, the Tennessee General Assembly was reminded by advocacy groups that there was still no state funding allocated to affordable housing. The Governor and the General Assembly had other funding priorities and were not willing to provide a direct appropriation for housing programs, despite mounting evidence of the need for more affordable housing in the state.

The Tennessee Housing Development Agency (THDA), in partnership with the Tennessee Department of Revenue (TDOR), developed an innovative idea that would provide incentives for the private sector to invest in affordable housing with minimal impact on the state budget and without using a direct appropriation. The idea proved to be very popular and the result was the passage of Senate Bill 2310 and House Bill 2317 which was signed into law on June 22, 2005. THDA staff spent the summer and fall developing the program description and educating housing providers and financial institutions about the new law. The first applications were received in December, 2005.

### ***How the Program Works***

Financial institutions may obtain a credit against their Franchise and Excise tax liability in Tennessee when qualified loans, investments, grants or contributions are extended to eligible housing entities for engaging in eligible low income housing activities. The amount of the credit is as follows:

- Five percent (5%) of a qualified loan or qualified long term investment; OR three percent (3%) annually of the unpaid principal balance of a qualified loan as of December 31 of each year of the life of the loan; OR 15 years, whichever is earlier.
- Ten percent (10%) of a qualified low rate loan, grant, or contribution; OR five percent (5%) annually of the unpaid principal balance of a qualified low rate loan as of December 31 of each year for the life of the loan; OR 15 years, whichever is earlier.

The program is administered by THDA in cooperation with TDOR. THDA certifies the housing entity and activity as eligible to receive the tax credits. TDOR awards the tax credits to the financial institutions. The eligible housing entity is required to maintain records as requested by THDA to ensure that affordable housing opportunities are being provided.

Eligible Activities include:

- Activities that create or preserve affordable housing for low income Tennesseans.
- Activities that assist low income Tennesseans in obtaining safe and affordable housing.
- Activities that build the capacity of an eligible non-profit organization to provide housing opportunities for low income Tennesseans.
- Any other low income housing related activity approved by the THDA Executive Director and the Commissioner of Revenue.

Eligible Housing Entities are:

- Tennessee based non-profit organizations with an IRS Code 501 (C)(3) status
- Public Housing Authorities
- Development Districts
- Tennessee Housing Development Agency

**Agency: Tennessee Housing Development Agency**  
**2009 Entry: Special Achievement**

Participating financial institutions will receive tax credits for extending the following to eligible housing entities:

- Qualified loans defined as a loan at least 2% below the prime rate.
- Qualified low rate loans defined as a loan at least 4% below the prime rate.
- Qualified long term investments extending for a period of more than 5 years
- Grants or contributions

There is an extensive application, certification and review process that is administered by THDA as well as a list of required documents and a description of the required reports. These can be found on THDA's web site at: <http://www.thda.org/commpros/citc/citcover.html>

***Results (So Far)***

The Community Investment Tax Credit Program has been very successful since its inception in 2005. A summary of the activity is as follows (figures are for the calendar year):

	Investment Amt.	Tax Credit Amt.	Units	Primary Investment Type
2005	\$ 69,815.96	\$ 3,741.00	7	2% below Prime loan
2006	\$12,680,742.00	\$1,218,349.56	502	4% below Prime loan
2007	\$15,029,141.34	\$1,466,648.26	361	4% below Prime loan
2008	\$43,085,779.20	\$4,184,370.52	1,630	4% below Prime loan/ Grants & Contributions
2009 (Thru 6/09)	\$10,218,200.00	\$ 989,320.00	264	Grants & Contributions
Totals	<u>\$81,083,678.50</u>	<u>\$7,862,429.34</u>	<u>2,764</u>	

Over \$81 million has been invested by the private sector in affordable housing in just a few years! These financial institutions have received over \$7.8 million in credits against their franchise and excise tax liabilities and housing entities in Tennessee have been able to produce almost 3,000 units of affordable housing. The 145 projects and initiatives that were funded by these investments (at an average of \$559,200 per investment) leveraged approximately \$50 million from additional funding sources.

During this first three and a half years the primary user of the program has been non-profits – approximately 50 different organizations have utilized this resource and some have used it multiple times. Approximately 30 different financial institutions have participated, some on a number of deals and with multiple locations. The types of activities that have been funded have been numerous – some of the more popular ones are:

- Acquisition and Rehab of existing properties for Homeownership
- Acquisition and Rehab of existing properties for Rental
- Land acquisition and/or development
- Refinancing – for acquisition/rehab, 2<sup>nd</sup> mortgages, and rental
- New Construction
- Homebuyer Education
- Down payment Assistance

The populations that are being served vary as well, from first-time homebuyers to elderly homeowners and special needs populations. We have also been pleased with the distribution of activities geographically – there has been activity in all three grand divisions in the state as well as a good mix of urban and rural investment. Overall the results have exceeded the expectations.

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***Testimonials***

The clear measure of success of any new program is the impact it has on local communities. Listed below are quotes and comments from some of the non-profit agencies and financial institutions that have participated in the Community Investment Tax Credit Program:

“In early 2008, Foothills Community Development Corporation (FCDC) began development of a 2.2 acre property in the city of Maryville, TN. This property became a 10-home subdivision for low income families. It was built and sold out by June 2009. The CITC part of the funding saved us valuable building funds, due to the lower interest rate, and vastly improved the time required to complete the subdivision. It allowed Foothills CDC to divert other funds to begin development of a follow-on subdivision”. *Kelly Spears, executive director (Foothills CDC in Maryville, TN)*

“The Community Investment Tax Credit has helped us enormously here at Urban Housing Solutions. We have been able to refinance our existing loans on our properties at a reduced rate...as low as 1.25%...and this has allowed us to keep our rents at a below market rate and still provide the support services that our residents need. The CITC program has often been more useful to us than grant funding. It allows us to pursue new projects without having to find a grant to help subsidize the costs of the project”. *Rusty Lawrence, executive director (Urban Housing Solutions in Nashville, TN)*

"The Frayser Community Development Corporation has bought and renovated 40 houses in recent years. We have used the Community Investment Tax Credit as a critical tool in these reinvestment efforts. CITC has helped provide convenient, low cost funds by offering incentives to our banking partners to lend to us for housing redevelopment. Frayser CDC is proud to be distinguished as having used the CITC more than any other agency." *Steve Lockwood, executive director (Frayser CDC in Memphis, TN)*

“I can honestly say that the CITC program empowered us to offer loans at incredibly low interest rates to more than one non-profit organization in the Memphis community. It saved these organizations THOUSANDS of dollars in interest expense, therefore allowing them to pool that money into their operations and continue to grow & fulfill their mission. The program serves both the Bank AND the customer so everyone wins!” *Mandy Chatellier (Commercial Bank & Trust Company in Memphis, TN – the most active bank so far with 34 deals, many with Frayser CDC)*

“The CITC program has enabled us to assist our clients with loans that have enabled them to expand their services and create more homeownership opportunities for low and moderate income borrowers. For example, we were able to offer a more competitive rate to Rutherford County Habitat for Humanity, The interest expense that they saved by receiving the lower rate allowed them to add another home to their build schedule for that year. We are looking forward to its continued availability and our continued use of the program.” *Carla Jarrell, CRA Officer (Pinnacle Financial Partners in Nashville, TN)*

THDA is not aware of another state that has this type of incentive for the private sector to invest in affordable housing. We are proud of the Community Investment Tax Credit Program and look forward to its positive impact in Tennessee for years to come.

Supporting Documentation:  
Pictures of Projects, Additional Testimonials