Proactive Approach to LIHTC Issues

Kentucky Housing Corporation

Rental Housing: Multifamily Management

HFA Staff Contact

Nathan Hall

nhall@kyhousing.org

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Click here to watch the synopsis video for the entry.

The low-income housing tax credit (LIHTC) program is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable housing. The LIHTC program gives the investor a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing to develop affordable rental housing. Investors' equity contributions subsidize low-income housing development, thus allowing units to rent at, or below market rates. In return, investors receive tax credits in annual allotments - generally in ten-year increments. During the 30 years of a LIHTC property's compliance period, owners must report annually on compliance with LIHTC leasing requirements. However, after 15 years, the investors are no longer at risk for tax credit recapture. Once the tax credit recapture period has passed, the property enters into their Extended Use Agreement (EUA) period and their willingness to comply with compliance regulations becomes more difficult.

Kentucky Housing Corporation (KHC) has seen numerous properties thrive and do well. Unfortunately, we have also worked with properties that struggle. During the past 30 plus years of this program, KHC has continuously looked for ways to improve internal asset management processes as concerns increase due to our aging LIHTC properties. Properties in excess of their post-15-year status remain a priority. As a property ages, repairs and regular maintenance become necessary. At this point, the property can become financially burdened and will often struggle to meet compliance requirements.

Review Process

KHC has developed a process that considers numerous factors, including compliance reviews, property inspections, impact reviews, and loan status. Often, a property may be performing well in one area, while be deficient in others. Measuring the property's compliance in each of the identified metrics will ensure the property remains structurally and financially stable.

One of the major components of reviewing the properties is completed at their compliance review. We have instituted a scoring process that is compiled based on properties: programmatic issues, physical health and safety issues, project changes, vacancy, impact score, and loan status. While conducting the compliance review, the KHC staff member will review each of the categories and assess how the property is performing in each of category.

The scoring system consists of 100 possible points, divided among five sections. Each section has a point value worth up to 20 points. Based on the property rating and the funding type, KHC determines when the next property review will be conducted:

- 90-100, Excellent: Three to five-year review cycle.
- 80-90, Good: Three to five-year review cycle.
- 75-80, Satisfactory: Two to three-year review cycle.
- 65-75, Danger: One-year annual review.
- 65 or Below: Annual review and confer with Legal staff about next actions.

Once a review is completed and the score is tallied, the scoring sheet is uploaded into our database for tracking of the properties next review and any concerns a property may occur are documented. By utilizing a scoring system, this allows KHC's compliance staff to be more consistent, impartial on reviews, assists in clear reporting, and increases KHC's staff productivity.

Post-Review and Asset Management

A key metric in reviewing properties are impact reviews completed by our asset managers. The asset management staff serve as contacts for multifamily projects. They ensure receipt and review of required reports; as well as providing reports on assigned troubled projects to appropriate committees and/or management. Staff also assist with the collection and maintenance of project-specific data on multifamily projects. Based on the data they compile, they perform an analysis of that data to complete an impact review of each property.

The impact reviews look at each property's loan to value ratio, payment history, vacancy, bad debt, revenue versus expense ratios, cash flow, capital reserve balances, reserve payments, receivables, and the last compliance review. Based on how the property is scored in each area, the property is assigned a composite risk rating. This risk rating allows the Corporation to understand how a property is doing in each area. A rental property may be doing well bringing in income, however trends may be visible that should be addresses – such as their vacancy rates or expenses continue to increase from year to year. This information allows us to have internal conversions to determine if we need to express concerns with the property and what can KHC do to assist. The impact reviews are completed on an annual basis, or as needed if concerns arise.

Post-15-Year Difficulties

As properties enter their post-15-year status, owners sometimes decide to sell these properties once the tax incentives have been exhausted. When selling these properties, the owners do not always disclose the properties low income requirements. To combat this, as our compliance staff are made aware that a property is for sale, we reach out immediately to start conversations with interested parties. Our goal is to initiate communication with any potential new owners and discuss what is required for tax credit properties. We aid their compliance staff by answering questions, explaining programs requirements, and assisting with uploading information into KHC's systems to facilitate a smoother transition.

As soon as KHC learns of a property closing, we automatically set up a compliance review – regardless of when the last review took place. We want to be onsite assisting and ensuring that their files and property condition is up to standard. KHC staff spend extra time with new property owners discussing questions and issues they may have. This level of customer service at the outset is especially important to set the tone going forward, as the Corporation wants to have an engaging relationship with new property owners.

Replicability

Other state housing agencies can replicate KHC's asset management model and help ensure that low-income housing stays affordable, maintained, and in compliance. By utilizing communication, compliance scoring, and impact reviews, the Corporation's ability to monitor the health of each of our properties has been enhanced. In addition, this model assists KHC in identifying problems before they happen, and aggregate historical information about property performance, which provides a better understanding on how properties perform over a 30-year period. Utilizing these metrics, KHC better understands how to monitor and evaluate properties' behavior, activities, and performance – allowing the Corporation to make well informed decisions on better funding projects and averting issues before they happen.

Visual Aids

Screenshots of Impact Reviews Composite Scoring
Copy of Compliance Review Scoring Worksheet