

# CRA Workshop

## Interagency CRA & Community Development Lending Conference June 8, 2010

# Who is South Dakota Housing Development Authority?

- Created by the legislature in 1973
- Mission is to increase the availability and supply of adequate (decent, safe and sanitary) housing for low and moderate income households throughout South Dakota.
- Independent, quasi-public agency
- Self-supporting, receive no State appropriations

# How does SDHDA operate?

- Issue tax-exempt Mortgage Revenue Bonds to provide below-market fixed rate mortgages for first-time homebuyers.
- Administer federal programs for development and management of multifamily housing, housing counseling, and homelessness services.
- Governor's House Program

# HOME Program

## HOME Investment Partnerships Program

- Department of Housing and Urban Development
- Funding for developers for new construction, acquisition and/or rehabilitation of multi – and single family housing
- Loans at zero percent; variable repayment terms
- Second mortgage position behind local lender
- Ten percent owner equity contribution required
- Occupancy restrictions for tenants of 50%, 60% and 80% of HUD's Area Median Income for that county

# HOME Program

- Site development
  - Site improvements, utility connections, on-site roads, water, sewer
  - Developed lots must be sold to income qualified households (80% AMI or less)
- Single Family Developments
  - Acquisition and rehabilitation of existing or new construction of single family homes
  - Re-sale to income qualified households (80% AMI or less)
  - Lease purchase option with purchase of home within 36 months of signing the lease-purchase agreement

# Housing Tax Credits

## Low Income Housing Tax Credit (HTC) Program

- Created under the Internal Revenue Code of 1986
- Replacement of previous federal tax incentives for investing in low income rental housing
- Without incentives affordable housing does not generate sufficient profit for investors
- SDHDA awards HTC to developers for new construction, acquisition and/or rehabilitation of rental housing
- HTC only eligible for depreciable costs -construction costs, construction loan interest, architectural fees, etc. (land and reserve accounts are not eligible)

# Housing Tax Credits

- Investors purchase HTC's for dollar for dollar reduction of their federal tax liability
- Equity financing (purchase of the credits) subsidizes the housing, allowing the rents to be below market and affordable for targeted households
- HTC financed units are restricted for tenants of 60% AMI or less
- Rent Restrictions – gross rents (including utilities) cannot exceed 30% of the established median income (50% or 60% AMI)

# Housing Tax Credits

16 unit development consisting of 2 BR and 3BR units

Land	\$ 96,000*
Site Work	\$ 69,660
Building	\$1,355,840
Arch/Eng	\$ 48,000
Construction	\$ 40,500
Fees/Exp.	\$ 17,180*
Appraisal/Mkt. Study	\$ 15,650
Developer Fee	\$ 200,000
Reserve Accounts	\$ 20,000*
Total Project Costs	\$1,862,830

\*Non-depreciated items

# Housing Tax Credits

\$1,862,830

Total Project Costs

\$1,729,650

Eligible Basis costs

x 100%

% of restricted rental units

\$1,729,650

x 9.0%

Applicable federal rate

\$ 155,668

Calculated Housing Tax Credits

# Housing Tax Credits

\$ 155,668

x 10

Calculated Housing Tax Credits

10 Year benefit

\$1,556,680

x \$ .75

Total Housing Tax Credits

Purchase price of the credits / pay today  
for future benefit of the credit over the  
next 10 to 11 years

\$1,167,510

Cash proceeds the developer receives  
from the investor to pay for cost of the  
development – 63% of TPC paid in  
several installments

# HOME & HTC Project

## Sir Charles - Yankton





*Building a Better Quality of Life*

# HOME & HTC Project

## Southcliff Apt. - Harrisburg





*Building a Better Quality of Life*

# HOME & HTC Project Heritage Acres IV - Sturgis





# HOME & HTC Project Edgewood Est. – Rapid City





# HOME Project Lewis Apts. - Winner



# HOME & HTC Project Deer Hollow - Hartford





*Building a Better Quality of Life*

# HOME & HTC Project Trail View II - Custer



# HOME & HTC Project VOA Pettigrew – Sioux Falls



# HTC Project Sunrise III - Mission



# HOME Project

## Dakota Square - Aberdeen



# How are HOME and HTC awarded?

- SDHDA receives allocation of HOME and HTC annually
- Governing allocation plans outline specific criteria
- Competition for funds
- Funds awarded based on market need, financial feasibility and competitive scoring of individual projects

# How can I meet CRA requirements?

- Finance a construction or permanent loan for HOME or HTC multifamily housing
  - Permanent loan term for minimum 15 years
  - Fixed rate loan
  - First mortgage position
  - Acknowledgement of property restrictions
- Invest in HTC projects

# What is the role of the bank when investing in HTC?

- Purchase of low income housing tax credits as investor (direct or pool of multiple projects)
- Investment receives stream of tax credits for ten years ( $\$155,668 \times 10 = \$1,556,680$ )
- Additional returns generated with pass through of depreciation and cash flow
- Typically structured as real estate limited partnerships or limited liability companies
- Investor takes role of limited partner with typically 99.99% ownership interest – developer is generally the general partner

# What are the benefits?

- CRA consideration due to investment or lending
- Investment with attractive rate of return – above the 10 year US Treasury bond rate
- Economic development in local community

# What are the risks?

- Federal program with federal requirements
- Compliance requirements for minimum of 15 years
- Restricted use of the property for minimum of 15 years
- Not having taxable income to offset with HTC

# Contact Information

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