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St. LOUIS EQUITY FUND

Federal Reserve Bank of St. Louis - "Improving Access to Community Development Capital Series – Faith-Based Development and the Federal Low Income Housing Tax Credit"

Note: The information contained herein is presented as a broad overview of the program and cannot be relied upon as a source of tax advice. Anyone considering investing in an affordable housing development utilizing the Low Income Housing Tax Credit should seek professional legal and accounting advice.

Housing Development and Financing Segment -
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How a Development gets Low Income Housing Tax Credits (LIHTC)

An overview

- LIHTC program came about as a result of the TRA of 1986
- The credit is an indirect federal (and in Missouri's case – state) subsidy used to finance low income housing
- The credit is claimed over a period of 10 years
- Can be used for newly constructed as well as renovated residential rental buildings

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The competitive application process – a housing development application is submitted to the state housing finance agency (Missouri Housing Development Commission) showing, among other things:

- Support from state and local community leaders
- Market study supporting the need for housing in the area
- Site control
- Preliminary development cost breakdown
- 15 year projection of income/expense

HOW A LIHTC DEVELOPMENT IS FINANCED

The development budget Sources and Uses

- Reflects all sources to fund the development costs
- A detailed breakdown of the costs to complete the development

Sample Sources and Uses Budget follows (an abbreviated version):

Sources	
1st Mortgage	$ 180,000
Tax Credit Equity	$ 3,089,000
General Partner Equity	$ 300
Deferred Dev. Fee	$ 118,000
	$ 3,387,300

Uses	
Acquisition	$ 148,800
Const./Rehab. Costs	$ 2,324,800
Soft Costs	$ 288,200
Contingency	$ 228,500
Developer's Fee	$ 397,000
	$ 3,387,300

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How tax credit equity is calculated

- Tax Credit Equity is calculated as follows:
  - Qualified costs (basis) times
  - 130% if in a Qualified Census Tract (QCT) times
  - Applicable credit percentage (IRS publishes this rate monthly) times
  - 10 Year credit period
  - times the price for the credits
  - = the potential amount of tax credit equity
- The annual credit may be limited by the state depending on the extent of the need for credit by the development

Qualified Costs (basis) and QCT's

- Qualified costs are, very basically, the amount of costs attributable to the development that will be depreciated
- A Qualified Census Tract is an area determined by the Department of Housing and Urban Development in which 50% or more of the households in the census tract have income that is less than 60% of the area median gross income

An example of a hypothetical tax credit equity calculation is shown on the following page.

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Sample Calculation of Potential Tax Credit Equity

	Federal	State	
Eligible (Qualified Costs) Basis	$1,200,000	$1,200,000	
Dec. 2005 Credit Rate	8.08%	8.08%	
Calculated annual credit	$96,960	$96,960	
Credit Period (10 Years)	x 10	x 10	
Total Tax Credits	$969,600	$969,600	
Equity Pricing (may vary project by project; investor by investor)	$0.88	$0.35	
Estimated Tax Credit Equity	$853,248	$339,360	$1,192,608

IF IN A QUALIFIED CENSUS TRACT (QCT):

Boost to basis:	130%	130%	
Estimated Tax Credit Equity	$1,109,222	$441,168	$1,550,390
The QCT boost brings in additional estimated equity of:			$357,782

The basics of considering a development for investment by a tax credit investor:

- Underlying financial viability of the development supported by realistic operating assumptions and serviceable debt
- The experience and strength of the development team
- The return to the investor