



**MBA's Commercial Real Estate Finance/
Multifamily Housing Convention & Expo**

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**Financing Affordable Housing
Learning About Layering**

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Types of “Layering”

- Federal Low Income Housing Tax Credits
- State Low Income Housing Tax Credits
- Federal Historic Tax Credits
- Façade Easements
- New Markets Tax Credits
- Payments in Lieu of Taxes (“PILOT”) or Tax Abatements
- Project-Based Section 8
- Subordinate Debt (Governmental and Non-Governmental)
- Seller Take-Back Financing
- IRP Decouplings
- 202 Prepayments

Low Income Housing Tax Credits

Taxable Financings with 9% LIHTC Versus

Tax Exempt Bond Financings with 4% LIHTC

- Although competition is not quite as steep as in past years for 9% LIHTC, it is still highly competitive
- Even with 9% LIHTC, still difficult to achieve full financing without some additional financial support (e.g., subordinate debt or tax abatement)
- While tax exempt bond volume cap is typically sufficient to cover demand, deals are much more difficult to make work due to reduced equity



VALUE OF VARIOUS TAX ABATEMENTS

Term of Abatement (Years)	10	15	25	40
Amount of Taxes Abated	50,000	50,000	50,000	50,000
Mortgage Rate	6.00%	6.00%	6.00%	6.00%
Amortization to Term	7.32%	4.13%	1.73%	0.60%
MIP	0.45%	0.45%	0.45%	0.45%
Constant	13.77%	10.58%	8.18%	7.05%
Value of Abatement	363,043	472,756	611,126	708,962

Mortgage payment drops at end of tax abatement term to account for fact that real estate taxes increase.



Project Based Section 8 Vouchers

- State agencies can project-base a portion of their Section 8 vouchers annually.
- New ruling raises issues as to maximum level of Section 8



IRP Decouplings

- IRP Decouplings are still being done
- Cannot obtain a rent increase on an IRP Decoupling where the project has already gone through restructuring
- Can obtain a rent increase on a project that has been through restructuring if the IRP is terminated on refinance and field office supports it



202 Payment Transactions

Dealing with Nonprofit Boards

- Lack of experience
- Lack of working capital
- Can be difficult to come to consensus on capital needs
- Obtaining mortgage credit information is time consuming



202 Payment Transactions (continued)

Potential sources of predevelopment funds:

- Loan of replacement reserve funds with HUD approval
- Predevelopment loans from foundations or nonprofits
- LIHTC investors for substantial rehabilitation transactions



202 Payment Transactions (continued)

The HUD Experience:

- Equity out to nonprofit is not allowed
- Request for Permission to Prepay is critical to process
- HUD Asset Managers are very cooperative/helpful to the process
- HUD Production Staff are becoming 202 savvy for insured transactions
- MBA is working with HUD to improve process and rules