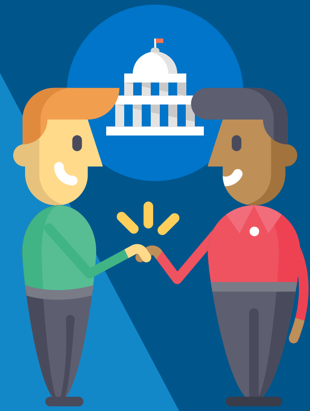
4% HOUSING TAX CREDITS

A PRIVATE-PUBLIC PARTNERSHIP SOLUTION TO AFFORDABLE HOUSING



In 1986, during the Reagan administration, Washington lawmakers created the Housing Tax Credit (HTC) solution to incentivize private developers to build more affordable housing. The incentive allows the federal government to transfer housing development and future operations & maintenance costs to the private market. Since affordable rental housing costs the same to build as market-rate rental housing, the tax credits allow owners to offer reduced rents to cost-burdened[5] families.

#1

Housing Tax Credits are the Most Successful Public-Private Partnership Solution in U.S. History

Housing tax credits finance new construction or acquisition/rehabilitation of existing affordable housing properties. The 4% Housing Tax Credit[1] provides approximately 30% equity toward the cost of development, based on a variable rate determined by the U.S. Treasury. Developers also seek tax-exempt bonds issued by state and local governments to bridge the financing gap between the equity provided by this program and the cost of developing affordable housing.

1 Developer assembles a team[2] to vet a viable development and determine best equity/debt finance ratio. The team sets out to obtain 4% tax credits, which includes the acquisition of tax-exempt private activity bonds[3] .

2 The team applies for an allocation of bonds from a bond issuing authority (*i.e. city, county, housing finance agency or public housing authority[4]*).

3 Upon bond application approval, the team submits a non-competitive 4% HTC application to TDHCA. TDHCA approves application as long as tax credits are available for developments that adhere to the Qualified Allocation Plan (QAP), ensuring high standards are met.

4 TAX CREDITS

Developers use bond money plus converted credits* to capital to build developments.

**Credits are sold to investors who can offset their tax liability & meet CRA requirements.*

5 Developers build privately owned, quality housing for mixed income residents, most of whom are cost-burdened.

6 Equity is used to reduce the cost of debt that is passed along to residents via lower rents for at least 15 years.

Why It Works...

- Large Private Sector Financial Investment, Not Government Owned
- Lenders & Investors Screen & Scrutinize Developments to Ensure Market Investment Viability
- Minimum 15-30 Year Oversight by Investors, Federal & State Governments
- Virtually Indistinguishable from Market-Rate Developments But Remain Affordable for 15 to 30 Years

Everyone Benefits!

Residents
Pay Affordable Rents

Developer
Owns Development & Collects Rent

State & Local Economies
Benefits from Economic Development, Attracts Employers to Relocate & Invest, Provides Workforce Housing, Saves Money & Resources by Reducing Homelessness

Investor
Reduces Tax Liability

Sources: [1] The 4% HTC program is a non-competitive program and is based on the available amount of tax-exempted private activity bonds allocated for HTC projects. [2] A team includes an account, equity partner, an underwriter, legal counsel, and a credit enhancer. [3] A bond is an interest-bearing government or corporate note that obligates the borrower to make schedule payments to the investor and to repay the principal amount at loan maturity. [4] TDHCA is a public housing authority. [5] Cost-burdened describes households spending more than 30% of their household income on housing costs.

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