"Structuring the Financing" Affordable Rental Housing Development Training

Albuquerque, NM
August 15, 2013

MFA

Structuring the Financing

1. Create a development budget (Schedule A)
2. Establish rents (Schedule B)
3. Develop an operating budget (Schedule C)
4. Calculate loan size
5. Determine how to fill the financing “gap”
6. Assess project feasibility and revisit assumptions made in steps 1-4 if needed

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Development Budget

Budget Considerations:

- Size and type of project
  - No. of units - Size of units – Amenities
- Construction Methods (Green)
- Location
- Builder and Developer fee limits
- Construction Contingency
- Tax Credit scoring considerations
- Reserve requirements

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Development Budget (continued)

- Profit & General Requirements capped at 6% each of Construction Cost
- Builder's Overhead capped at 2% of Construction Cost
- Minimum Contingency = 5% New; 10% Rehab
- Operating Reserve = 6 months of Operating Expenses, Debt Service, and Replacement Reserve payments

MFA

Development Budget (continued)

- Developer Fees capped as a percentage of Total Development Cost (TDC) before developer's fees, consultant fees, and reserves
  - ✓15% for projects of 30 or fewer units
  - ✓14% for projects of 31-60 units
  - ✓13% for projects of 61-74 units
  - ✓12% for projects of 75-99 units
  - ✓10% for projects of 100 or more units

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Case Study – Majestic 12 Apartments

Roswell - 50 units new construction (25 two BDRM & 25 three BDRM) @ 50% AMI

SCH A: Development Cost Budget - See Tab 4

- Builder's Profit, Overhead & General Requirements are provided.
  - ✓Why might they be below allowable limits?
  - ✓Is the construction contingency adequate?
  - ✓Developer fee % on this project?

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Case Study (continued)

$ 8,700,000 TDC before Developer Fee & Reserves

14% Allowed Percentage (i.e. 31 to 60 units)

$ 1,218,000 Max Developer Fee (includes consultant fees)

- Therefore TDC before reserves is $9,918,000, but we still need to calculate reserves
- How? Depends on how much debt the project can carry
- Let's start with revenues

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Case Study (continued)

Rent Considerations:

- ✓Market
- ✓Financing Source Limitations
  (e.g. Home & LIHTC Limits)
- ✓Utility Allowances – What are they? We assume all electric for this project – See Tab 4
- ✓Project based Section 8 vouchers

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Case Study (continued)

- Refer to LIHTC Income/Rents Limits – See Tab 5
- Use Area Median Income (AMI) of $47,900 since it is above non-metro median of $47,000
- Use LIHTC chart to determine maximum rent by bedroom size & AMI level
- Why might you want to use lower rents?
- Let’s look at projected rents (@ max allowable)

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Case Study (continued)
50% AMI @ Max LIHTC Rents

MFA's – Schedule B	Restricted Units at __50__% of Median				
Number BR/Unit Type	2-BR		3-BR		Totals
Sq. Ft. per Unit	850		1,050		
Number of Units	25		25		50
Gross monthly rent/unit	540		623		
Minus: Utility Allowance	74		98		
Net Monthly Rent/Unit	466		525		
Annual Rental Income	139,800		157,500		297,300

MFA

Case Study (continued)
Schedule C - Operating Budget

- Vacancy Allowance
  - ✓Concessions - Turnover - Collections
- Other Income
- Operating Expenses
  - ✓Self Managed or Third-Party Management
  - ✓Owner paid utility expenses
  - ✓Services provided for targeted population
  - ✓Trends in taxes and insurance
  - ✓Reserve Requirements

MFA

Case Study (continued)

- What is a reasonable vacancy factor?

  MFA uses higher of 7% or market study
- How about Replacement Reserves (RR)?
  - ✓$250/unit/year senior housing new construction, or
  - ✓$300/unit/year all other new construction
  - ✓Rehabs? Per Capital Needs Assessment
- Let’s look at MFA’s Schedule C (FYI, 15 year cash flow projections will be required)

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Case Study (continued)

	Monthly	Annually	Per unit
Annual Rental Income	$24,775	$297,300	
Less Vacancy (7%)	(1,734)	(20,811)	
Laundry/Misc. Income	875	10,500	
Less Vacancy (7%)	(61)	(735)	
Total Income	23,855	$286,254	$5,725
Less Operating Expenses	16,465	197,585	3,952
Less Replacement Reserve	1,250	15,000	300
Net Operating Income (NOI)	$6,140	$73,669	$1,473

MFA

Case Study (continued)

- NOI is the cash flow available to service debt
- NOI/Debt Service = DSCR
  (Debt Service Coverage Ratio)
- Calculations
  - ✓NOI/DSCR = Debt Service
  - ✓Debt Service/Loan Constant = Maximum Mortgage
- How much debt can the project support?

MFA

Case Study (continued)

- Calculate the annual amount available to service debt, which is:
  - ✓NOI divided by 1.20
  - ✓Why 1.20? (it is a debt service cushion)
- Calculate maximum loan size
  - ✓Annual Available Cash divided by Loan Constant of .07389 (i.e. 6.25% 30 year loan)

  (or use a Financial Calculator/Excel formula)

MFA

Case Study (continued)

How much of Net Operating Income is available for Debt Service?

Net Operating Income	$73,669
Divided by:	1.20
Available for Debt Service	$61,391
Divided by 12 (monthly)	$ 5,116

Case Study (continued)
Mortgage Calculation

Cash Available to Service Debt $61,391 annually/.07389 = $830,843		
Bank		
Monthly Payment		$5,116
Interest Rate		6.25%
Term		30
Maximum Mortgage*	(rounded)	$831,000

*Annual Amount Available divided by Loan Constant of 7.389%
In Excel Loan Constant = 12*(PMT(interest rate/12,amortization term*12,-1)

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Case Study (continued)

How to Calculate Operating Reserve

Monthly Operating Expenses	$16,465
Monthly Replacement Reserve	$ 1,250
Monthly Debt Service	$ 5,116
Total Per Month	$22,831

X 6 Months = $136,986

(MFA underwrites to 6 months reserves)

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Case Study (continued)

Now let's go back and finish Schedule A

9,918,000	TDC plus Developer Fee
136,986	Plus Reserves
$10,054,986	Total Development Cost

Great, now we know the cost.

But how do we pay for it?

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Case Study (continued)
Fill in the Funding Gap

Total Development Cost	10,054,986
Less: First Mortgage	831,000
Less: City Donated Land	325,000
Gap	$ 8,898,986

How can we fill the gap?

Questions?

Dan Foster will now explain the Low Income Housing Tax Credit (LIHTC) Program

Tax Credit Fundamentals

- Created in Tax Reform Act of 1986
- Purpose: To stimulate private investment in affordable housing
- Mechanism: Investors fund project and in exchange, they can claim dollar for dollar credit against tax liability

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Tax Credit Fundamentals
(continued)

- Scale: $2.25 per capita to each state
- Deepest Federal Subsidy that funds up to 75% of total development cost

MFA

Tax Credit Fundamentals
(continued)

- Affordable Use:
  - ✓ Minimum set asides:
    - 20% of units for tenants earning no more than 50% of median income, or
    - 40% of units for tenants earning no more than 60% of median income, but
    - Minimum set asides are not competitive.
  - ✓ Use restriction for 30 years required (income and rent limits)

MFA

Tax Credit Calculation

Eligible Basis

X

Applicable Fraction

X

Basis Boost (if applicable)

=

Qualified Basis

Qualified Basis

X

Tax Credit Rate

=

Annual Tax Credits

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Tax Credit Calculation (continued)

Annual Tax Credits

X

10 (years)

=

Total Tax Credits

Total Tax Credits

X

Equity Price

=

Equity

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Variables

- 9% Tax Credits for new construction or rehabilitation costs
- 4% Tax Credits with federal subsidy or for acquisition costs
  - ✓ Acquisition costs qualify when substantially rehabilitated and building meets 10 year rule. Not eligible for basis boost.

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Variables (continued)

- 4% tied to market and variable over time
- **9% now fixed until December 31, 2013. Future projects will have a variable rate**
- Equity pricing negotiable – varies with project type, payment timing, guaranties, other factors
- Basis Boost – Increases tax credit basis 30% if project is in a QCT or DDA

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Partnership Structure

Majestic 12 Apartments

Limited Partnership

General Partner (Subsidiary of Developer) .01%

Limited Partner Investor 99.99%

Partnership Structure (continued)

- General partner controls and operates the project, provides guarantees
- Passive limited partner invests equity in return for 99.99% ownership
- Limited partner gets its return almost exclusively from the tax credits and losses
- Investor equity reduces other financing needs, helps project development, and allows rents to be affordable

MFA

Tax Credit Amount Calculation

- Total Eligible Basis (Schedule A)
  - ✓ Less adjustments for federal grants, subsidies, higher quality market rate units or historical tax credits
- Multiply 130% for Difficult to Develop Area
- Multiply 100% for Applicable Fraction
- Multiply by Tax Credit Percentage
- This will equal Total Tax Credit Request – Schedule F

MFA

Calculate Tax Credit Amount

Total Eligible Basis	$	9,478,000
Less Adjustments	$	-
Eligible Basis	$	9,478,000
QCT or DDA		130%
Eligible Basis	$	12,321,400
Applicable Fraction		100%
Eligible Basis	$	12,321,400
Tax Credit Percentage		7.41%
Total Tax Credit Request	$	913,015

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Case Study – Majestic 12 Apartments

Tax Credit Equity Calculation

Tax Credit Amount

X

10

X

Tax Credit Equity Price

=

Tax Credit Equity

Case Study (continued)
Calculate Tax Credit Equity

Max MFA Tax Credit Amount	$ 913,016
X 10 (years)	
Total Tax Credit Amount	$ 9,130,160
X .85 (cents per $)	
Total Tax Credit Equity	$ 7,760,627

MFA

MFA's Responsibilities as Housing Credit Agency

- Create a Qualified Allocation Plan;
- Provide Local Jurisdiction Notice;
- Allocate no more HTC than needed to ensure feasibility; and
- Monitor for program compliance.

MFA

Tax Credit Timeline

- Apply for credits (January 2014)
- Get a tax credit reservation (May 2014)
- Receive carryover allocation, indicate lock-in election November 15, 2014)
- Incur 10% of costs by August 30th of the following year (August 30, 2015)
- Complete project and Place in Service within two years of allocation (PIS application due November 15, 2016)
- Record extended use agreement
- Apply for 8609's
- Rent tax credit units to qualified tenants
- Keep tax credit units in compliance

MFA

Qualified Allocation Plan Minimum Application Requirements

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Threshold

- Site Control
- Zoning
- Score
- Fees
- Applicant Eligibility
- Financial Feasibility

MFA

Minimum Project Score

- 130 points for competitive round; 80 points for bond projects
- No partial points
- Applicant self-scores application; MFA scores application
- Scoring criteria and information needed to obtain points in QAP and checklist
- Deficiency Correction used only to correct incomplete application or meet threshold – not scoring or Allocation Set Aside requirements

MFA

What makes a successful application?

Elections that will Impact Your Project Budget

- Certification by LEED, Enterprise Green Communities, National Green Building Standard, Build Green NM
- Targeting 50% AMGI/AMGR or 15% Units at Market Rate
- Target Population Services
- Financial Literacy Training

MFA

The Most Successful Application

. . . Is for the project that you can deliver and successfully operate for the entire extended use period!

Additional LIHTC Material

- **LIHTC Presentation Addendum**
- **MFA LIHTC Allocation Webpage:**
  - http://www.housingnm.org/low-income-housing-tax-credits-lihtc-allocations

Case Study continued)
Filling the Gap

Total Development Cost	10,054,986
Less: First Mortgage	831,000
Less: City Donated Land	325,000
Less: Tax Credit Equity	7,760,627
Gap	$1,138,359

Let's talk about how HOME can help fill the gap.

MFA

Questions?

Dan Puccetti will now explain MFA's HOME Program

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HOME Investment Partnership Program

- Created by the National Affordable Housing Act of 1990 (NAHA) & amended several times by subsequent legislation. Latest: July 2013
- MFA receives funds annually from HUD.
- What is a CHDO?
- CHDOs are required to obtain HOME funds for development within 24 months of receiving CHDO operating funds.

MFA

MFA's HOME Program Rules

- Used throughout New Mexico, except Albuquerque & Las Cruces
- MFA's allocations from HUD 2010 $8.2M, 2011 $7.2M, 2012 $3.8M & 2013 $3.6M - Notice a trend?
- Allocated to various MFA departments
- Awards made on a first come, first served basis

MFA

MFA's HOME Program Rules

Eligible Applicants

Private for-profit developers, nonprofit organizations, housing authorities, units of local government, tribal agencies, Community Housing Development Organizations (CHDO's) and individuals.

MFA

Eligible Uses of HOME Funds

- New Construction - Rehabilitation
- Land acquisition - Site improvement
- Soft costs (e.g. architect & engineering)
- Financing costs - Relocation (rehabs)
- Short term rent up reserves (max 18 months)
- Demolition - Loan closing costs
- Environmental review costs

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<u>Ineligible</u> **Uses of HOME Funds**

- Public housing projects (i.e. per 1937 Act)
- Delinquent taxes, fees or charges on property
- Projects previously receiving HOME funds (unless within 1 year of completion)
- Long term reserves
- Pre-pay federal low-income housing mortgage

MFA

MFA's HOME Rental Program

- HOME units must be occupied by low-income families earning at or below 60% AMI
- A HOME unit may be fixed or floating and is set aside for qualifying families
- Minimum one year lease unless otherwise mutually agreed with tenant
- Annual tenant income certification

MFA's HOME Rental Program

- Restricted rents, published annually by HUD
- Two HOME rent limits:

  (1) HIGH HOME = lesser of fair market

  or 30% of 65% AMI

  (2) Low HOME = lesser of fair market

  or 30% of 50% AMI
- If 5 + HOME units, 20% must be LOW HOME
- Rents must be reduced by Utility Allowances

MFA

MFA's HOME Rental Program

- How are HOME units calculated?
  - ✓ Generally, the pro-rata portion of HOME financing, subject to 221(d)3 limits
  - ✓ Example: 100 unit project – if HOME is 10% of TDC MFA will require 10 units

    (8 HIGH HOME & 2 LOW HOME rents)
  - ✓ MFA <u>may</u> require that all be LOW HOME

MFA

Minimum **Affordability Requirements**

Minimum Per Unit HOME Affordability

$1 - $14,999	5 Years
$15,000 - $40,000	10 Years
$40,000 +	15 Years
Refinance of rental rehab project	15 Years
New Construction of rental housing or acquisition of new rental housing	20 Years

MFA's HOME Rental Program

- Designed to provide "gap" financing to enhance affordability of rental developments
- MFA limits are more restrictive than HUD to better allocate a scarce resource
- Most HOME awards are structured as long term low-interest rate loans but may be forgivable if 30% AMI families are served. (Forgivable loans are excluded from basis for LIHTC)

MFA

Maximum HOME Rental Awards

- HOME (9% LIHTC) - $12.5K per unit for CHDOs and $7.5K for non CHDOs up to max $450K

- Other HOME (includes 4% LIHTC) - $30K per unit up to max $550K not to exceed 80% of TDC

- Forgivable loans – Max $550K if serving 30% AMI families subject to above limitations

MFA

MFA HOME Rental Award Process

- **Application** - accepted in annual LIHTC round and ongoing for other projects
- **Review** - MFA reviews application for completeness, feasibility & need. Requires site control & local support letter
- **Approval** - After review, requests are submitted to Policy Committee, Board Committee and the Board for final approval. Generally 30 to 90 days

MFA

MFA HOME Rental Award Process

- **Commitment** - when approved, MFA will issue an Award Letter outlining terms and conditions.
- **HUD Environmental Assessment** - must be approved before property can be purchased (if not yet owned) or construction start
- **Closing** - checklist will be provided listing items required for closing. Allow time for loan doc review, third party reports, etc.

MFA

MFA HOME Rental Award Process

- **Disbursement** – After loan docs are signed funds will be disbursed in three draws against expenses incurred: (1) at Closing, (2) at 50% completion & (3) at completion
- **Guarantees** required if more than minimal amounts to be used during construction
- **Typical loans docs**: Loan Agreement, Note, Mortgage & Land Use Restriction Agreement

MFA

MFA's HOME Rental Standards

- MFA determines repayment, term, amortization, and interest rate based on project cash flow
- Terms – due in 15-40 years, generally amortizing (possible longer amortization period)
- Interest - 0% to 4% per annum
- Debt Service Coverage Ratio (DSCR) between 1:20 to 1 & 1.40 to 1

MFA

MFA's HOME Rental Standards

- Financial Health – Financials must demonstrate applicant's financial soundness
- Experience – Applicants must demonstrate the experience & capacity to successfully complete & operate the proposed project
- Must meet MFA rental design standards
- Market Analysis – Show a demonstrated need for the project & that the right market is targeted

MFA

MFA's HOME Rental Standards

- Development budget – Must be realistic and within MFA's guidelines (e.g. developer fee/contractor profit must not be excessive)
- Rents – Must be within program requirements. Most restrictive program governs. Set-aside requirements can be "nested". Adjust for vacancy factor (greater of market or 7%)
- Operating budget – Must be realistic & within guidelines (e.g. management fees max 6% for underwriting, operating cost per unit, etc.)

MFA

MFA's HOME Rental Standards

- Projections must be feasible & support debt service. Excess cash flow may indicate too much subsidy. Insufficient cash flow may indicate need for more subsidy or infeasible project
- HOME fills a demonstrated "gap" in sources after first mortgage debt is maxed out
- HOME used to enhance affordability

MFA

MFA HOME Rental Monitoring

- Post completion MFA's Asset Management Department will monitor for the life of the loan:

  - ✓Tenant income verification
  - ✓Housing standards compliance
  - ✓ Record keeping

MFA

Federal Requirements

- Section 3 - Jobs for Residents
- Section 504
- Davis Bacon wage rates (12 or more units)
- Fair Housing and Equal Opportunity
- Affirmative marketing
- Minority and Women’s Business Enterprise
- Lead Based Paint

MFA

Federal Requirements

- Relocation – Uniform Relocation Act
- Environmental Assessments required before land purchase (in most cases) and construction start
- Call MFA Environmental Officer Debbie Davis (505) 767-2221 for guidance

See http://www.housingnm.org/relevant-federal-regulations for a complete list of relevant federal regulations

MFA

Back to the Case Study

- How much can you get in HOME funds?

  50 units X $7,500 = $375,000
- This is 3.73% of TDC ($375,000/$10,054,986)
- Multiply by 50 units = 2 units (rounded up)
- MFA will usually require HIGH HOME units at $679 & $776 (2 & 3 bedrooms). Exceeds LIHTC so you can only charge the lower LIHTC rents.
- Otherwise you would need to recalculate income

MFA

Case Study – Revised Gap Calculation

- Re-calculate first mortgage after adding HOME loan of $375,000 at 40 year amortization

Net Operating Income	$73,669
Divided by:	1.20
Available for Debt Service	$61,391
Less HOME loan payment	(9,375)
Available for 1st Mortgage	$52,016

MFA

Mortgage Calculation

Amount Available minus Secondary Debt Service Annually $61,391/12 = $5,116 monthly – HOME $782 = $4,334 Bank loan			
Bank		HOME	
Monthly Payment	$4,334	Monthly Payment	$782
Interest Rate	6.25%	Interest Rate	0%
Term	30	(years amortization)	40
Maximum Mortgage	$704,000	Mortgage	$375,000

Filling the Gap

Total Development Cost	10,054,986
Less: Revised Bank loan	704,000
Less: HOME loan	375,000
Less; City Donated Land	325,000
Less: Tax Credit Equity	7,760,627
Gap	$ 890,359

(HOME increased total loans by $248,000)

Can deferred developer fee fill the gap? How much is allowed? By whom? If not, can you access grants or donations? Value engineer costs?

See Tab 4 MFA Sch A-1 - Go or No-Go?

Other MFA Loan Programs

- Primero Investment Fund
- Tax Exempt Bonds
- 542(c) FHA-Insured Mortgage Program
- Section 538 Rural Housing Services Guaranteed Loan Program
- NM Housing Trust Fund (HTF)
- Land Title Trust Fund (LTTF)
- NM Affordable Housing Tax Credit

MFA

Equity and Debt Financing Sources for Rental Housing

Debt	**Predevelopment Loan & Grants**	*Primero Loan or Grant Programs ✓Other Nonprofit Lenders (Local Initiatives Support Corp., Enterprise, etc.)
	Stand Alone Interim/ Construction Financing	✓Conventional Construction Loan *Primero & NM Housing Trust Fund
	Combined Construction and Permanent Financing	Tax Exempt Bond Proceeds, *HOME/Rental, *542c Insured Loan or *538 Guaranteed Rural Rental Housing Program, *Land Title Trust Fund, *NM Housing Trust Fund
	Permanent Financing	*542c Insured Loan or 538 Guaranteed Rural Rental Housing Program, *HOME/Rental, *Tax Exempt Bond Proceeds ✓Conventional Permanent Loan *Land Title Trust Fund, *Housing Trust Fund
Equity	*Low Income Housing Tax Credits, Syndication Proceeds, *NM Affordable Housing Tax Credit ✓Other Grants and Organizational Funds (FHLB, Foundations) ✓Developer Funds, Deferred Developer Fees	

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***MFA Provided**

For more information:

- Visit MFA's website at: www.housingnm.org/developers

- Contact MFA Housing Development Staff
  - Felipe Rael, Director (505) 767-2249
  - Dan Foster, Tax Credits (505) 767-2273
  - Dan Puccetti, Lending (505) 767-2251

LIHTC Presentation Addendum

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Federal Requirements of the Qualified Allocation Plan (QAP)

Designated agencies must prepare a QAP which:

- Defines project selection criteria;
- Gives preference to projects serving the neediest tenants, for the longest time period, in a QCT with a concerted community revitalization plan; and
- Defines procedures for compliance monitoring.

MFA

Federal Requirements of the QAP (continued)

Criteria for project selection must include:

- Location;
- Housing Needs Characteristics;
- Project Characteristics, including use of existing housing as part of a community revitalization plan;
- Sponsor Characteristics;
- Special Housing Needs;

MFA

Federal Requirements of the QAP (continued)

- Public Housing Waiting Lists;
- Tenants with Children;
- Projects Intended for Eventual Tenant Ownership;
- Energy Efficiency; and
- Historic Properties.

MFA

Federal Requirements for Determining Tax Credit Amounts

- Elements which must be considered:
  - ✓Sources and uses of funds;
  - ✓Total project financing;
  - ✓Tax benefit proceeds;
  - ✓Percentage of tax credit dollars used for intermediaries;
  - ✓Reasonableness of development costs; and
  - ✓Reasonableness of operating costs.

MFA

Reservations, Carryover Allocations, and IRS Forms 8609

- A Tax Credit Reservation is not an "allocation" of tax credits. There are three steps from the "awarding" of tax credits to the issuance of the tax credits:
  - ✓ Tax Credit Reservation
  - ✓ Carryover Allocation
    - 10% Test

MFA

Reservations, Carryover Allocations, and IRS Forms 8609 (continued)

- Forms 8609
  - ✓Tax Credits cannot be claimed until Form 8609 is issued by MFA

MFA

Carryover Allocations

- Treasury Regulation 1.42-6 defines documents needed for carryover allocation in accordance with Section 42 of the Code.
- MFA has additional requirements stated in the QAP.

MFA

MFA Carryover Application

MFA Carryover Requirements:

- All financing commitments – construction and permanent, including a letter of intent from an equity provider
- Recorded deed or executed lease vested in the name of the entity – *<u>this means partnership!</u>*
    - MFA's 542(c) Risk Sharing Program – HUD must issue a Firm Approval Letter before land can be purchased or leased.
- Zoning – if exempt at application

Carryover Application Requirements (continued)

- Certificate of Partnership
- Limited partnership agreement
- Updated application
- Contractor's resume – if not provided at application
- Rehabilitation Projects – appraisal and capital needs assessment

Carryover Application

- Copy of application, checklist, sample forms and instructions available on MFA’s website.
- Submission date November 15th.
- Carryover documents sent out early December and must be returned for MFA’s signature before the end of the year.

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10% Test

42(h)(1)(E)(ii) Qualified Building---For purposes of clause (i), the term “qualified building” means any building which is part of a project if the taxpayer’s basis in such project (as of the later of the date which is 12 months after the date that the allocation was made or the close of the calendar year in which the allocation is made) is more than 10 percent of the taxpayer’s reasonably expected basis in such project (as of the close of the second calendar year referred to in clause (i)).

MFA

Placed in Service and Final Allocation Application Process

- At a minimum the Placement in Service application must be provided by November 15th (two years from Carryover)
- Final Allocation Application should be submitted no later than 120 days from the close of the Project's first taxable year of the Credit Period. Final application required to issue 8609's.

MFA

Land Use Restriction Agreement (LURA)

- Section 42(h)(6) of the Code requires imposition of “an extended low-income housing commitment”

- LURA sets forth
  - Covenants running with the land for a minimum 30 years or longer
  - Compliance fees
  - Set-asides
  - Special housing needs to be served

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Land Use Restriction Agreement (LURA) (continued)

- Any other such commitments
- Can not be terminated prior to its term for any reason other than foreclosure
- Owner does not have the right to require MFA to present a qualified contract

➢ To claim credits in the year that the buildings are placed in service a LURA must be executed and recorded prior to December 31st

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Allocation Set Asides

- **Nonprofit Set Aside:** Ten percent of the Annual Credit Ceiling for each calendar year will be reserved for Projects sponsored by Qualified Nonprofit Organizations as defined in IRS Code Section 42(h)(5)(C).
- **USDA Rural Development Set Aside:** Ten percent of the Annual Credit Ceiling will be set aside for Projects with USDA Rural Development (USDA-RD) Financing Commitment(s) for the proposed Project.

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