

IDAHO HOUSING AND FINANCE ASSOCIATION
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 ("ARRA")
TAX CREDIT EXCHANGE PROGRAM

Section 1602 of the American Recovery and Reinvestment Tax Act ("ARRA") appropriates grant funds to individual states in lieu of 2009 low-income housing tax credits to finance qualified low-income buildings. The grant amount available to each state is equal to 85% of:

- (1) 10 times 100 percent of (a) the unused State housing credit ceiling of the State for calendar year 2008 and (b) the amount of State housing credit ceiling returned in 2009

Plus

- (2) 10 times 40 percent of (c) the greater of \$2.30 multiplied by the State population or \$2,665,000 and (d) unused housing credit carryover allocated to the State in the 2009 National Pool.

Since 100% of Idaho 2009 Low-Income housing tax credit ceiling has already been awarded, IHFA does not have available tax credit to exchange but will allow individual 2007, 2008, or 2009 projects to return a portion of their original tax credit award to generate needed funds. The return credit will then be exchanged by IHFA for grant funds from the US Treasury at \$.85 per credit, with the proceeds being available to IHFA to subaward individual projects. IHFA does not anticipate allowing 100% exchanges, but reserves the right to award 100% exchanges at a later date if unforeseen circumstances prevent an individual project from finding an equity provider.

In order to more effectively utilized ARRA funds to meet the aggregate funding needs of all project applicants, IHFA will schedule joint application rounds for HUD's Tax Credit Assistance Program ("TCAP") and Tax Credit Exchange Funds. The first application round will be scheduled within 30 calendar days of the execution of the grant agreement between HUD and IHFA for TCAP funds, and is expected to occur in late July 2009. If needed, a second application round will be jointly scheduled with IHFA's tax credit application round which occurs in September 2009.

The subaward may not exceed the amount necessary for an individual project's financial feasibility and viability throughout the credit period. It is important to note that the amount of funds subawarded to a particular project will be determined by IHFA, and in some instances, may not be dependent upon the amount of tax credits surrendered by the project.

The subaward is required by the U.S. Treasury to be in the form of cash assistance and will not be required to be repaid unless there is a recapture event with respect to the qualified low-income building.

If allowable, IHFA plans to charge a 3% fee on the amount of the monetized awarded divided by 8.5 (\$.85 x 10 years). Our intent is to offset (or breakeven) for the 3% carryover fee that is typically charged on a tax credit award.

Example:

Original Tax Credit Award = \$500,000

Carryover Fee = \$500,000 x 3% = \$15,000

Amount Returned to be monetized = \$100,000

Monetized Award = \$100,000 x \$.85 X 10 years = \$85,000

3% Fee on Monetized Award = \$85,000/(\$.85 x 10 years) = \$100,000 x 3% = \$3,000

Carryover Fee on remaining Tax Credit Award = \$400,000 x 3% = \$12,000

Total Fees = \$15,000

In addition, IHFA will also assess ongoing annual fees for tax credit compliance and asset management. Please contact the IHFA Compliance Department for further details (208-331-4733).

Prior to making the subaward to the project, IHFA must make a determination that the applicant for the subaward has demonstrated a good faith effort to obtain investment commitments for tax credit in lieu of the tax credits. IHFA has defined a "good faith effort" as three or more documented contacts with equity providers, but reserves the right to make exceptions in unusual circumstances.

In proving a good faith effort, a brief narrative describing the efforts taken in securing an equity investment will be required. Included in this narrative should be a discussion of any issues that inhibited an investor's pricing of credit or interest in the project. Copies of any denial correspondence or letters of interest from the equity providers that were contacted will also be required. If the funding gap is the result of the loss of a funding source, a brief explanation should be included in the narrative. In reviewing this information, IHFA reserve the right to corroborate presented facts and may request additional information from the applicant and/or any potential investor, syndicator, or debt provider.

For those projects that already have a committed equity provider, a copy of the executed limited partnership agreement or limited liability company operating agreement will be required, as well as a currently-dated letter from the equity provider that confirms the amount of equity that has been and/or will be injected into the project.

Exchange funds must be disbursed to subawardees no later than December 31, 2010 and cannot be held in escrow or advanced in lump sums. This means that IHFA must draw exchange program funds from the U.S. Treasury Department and then disburse them almost immediately to project owners to pay for specific expenditure items. Given the December 31, 2010 timeline, it is likely that IHFA will need to work with individual construction lenders to disburse Exchange funds first before any other construction financing goes into the project.

Quarterly financial status and project performance reporting by IHFA is required by the U.S. Treasury Department and is due 10 working days after the end of the quarter. The performance report requires the following elements on each project receiving a subaward during the quarter:

- Name of recipient entity
- Name of project
- Brief description of project
- Location of project: city/county, state, zip code
- Number of construction jobs created
- Number of construction jobs retained
- Number of non-construction jobs created
- Number of non-construction jobs retained
- Number of total housing units newly constructed
- Number of total housing news rehabilitated
- Number of low-income housing units newly constructed
- Number of low-income housing units rehabilitated

To comply with the ten (10) working day reporting requirements mentioned above, IHFA will require the Sponsor to supply needed information to IHFA within five (5) working days following the end of the quarter. Details regarding this reporting will be included with the award documentation.

If the need for additional gap funding exists, applicants who are applying for Section 1602 Exchange funds may also apply for HUD's Tax Credit Assistance Program (TCAP) funds. Questions regarding either of these programs may be directed to Teresa Rickenbach in the Multifamily Finance Department at 208-331-4777 or by email at teresar@ihfa.org.