

# Path to Homeownership

## Using

### Low-Income Housing

### Tax Credits



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# Traditional Homeownership Programs

- Fee land
- Realtor
- Must qualify / good credit
- Bank financing
- Market pricing
- Foreclosure risk



# Tribal Homeownership Programs

- Trust land / fee land
- Limited market
- Limited financing options
- May need to qualify and have good credit
- Foreclosure risk (maybe)



# Tax Credits to Homeownership

- Trust land / fee land
- TDHE or Tribe involvement in policies / procedures
- Reduced costs
- May work on qualification and credit repair over time
- Little or no foreclosure risk



# Tax Credits Explained

- IRS Program
- Apply through the state allocating agency
- Generates tax credits for investors
- Dollar for Dollar reduction in tax liability
- Maximum incomes and rents of 60% of Area Median Income
- Rental or Rent to Own
- Typically funds 80% or more of project costs



# Tax Credits Explained

<b>Tax and Credits</b>	<b>38</b>	Amount from line 37 (adjusted gross income)	<b>38</b>	
	<b>39a</b>	Check <input type="checkbox"/> <b>You</b> were born before January 2, 1950, <input type="checkbox"/> <b>Blind.</b> } <b>Total boxes checked ▶ 39a</b> <input type="checkbox"/>		
		if: <input type="checkbox"/> <b>Spouse</b> was born before January 2, 1950, <input type="checkbox"/> <b>Blind.</b> }		
	<b>b</b>	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ <b>39b</b> <input type="checkbox"/>		
<b>Standard Deduction for—</b> <ul style="list-style-type: none"> <li>• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.</li> <li>• All others: Single or Married filing separately, \$6,200</li> <li>Married filing jointly or Qualifying widow(er), \$12,400</li> <li>Head of household, \$9,100</li> </ul>	<b>40</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin)	<b>40</b>	
	<b>41</b>	Subtract line 40 from line 38	<b>41</b>	
	<b>42</b>	<b>Exemptions.</b> If line 38 is \$152,525 or less, multiply \$3,950 by the number on line 6d. Otherwise, see instructions	<b>42</b>	
	<b>43</b>	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	<b>43</b>	
	<b>44</b>	<b>Tax</b> (see instructions). Check if any from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 <b>c</b> <input type="checkbox"/>	<b>44</b>	
	<b>45</b>	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251	<b>45</b>	
	<b>46</b>	Excess advance premium tax credit repayment. Attach Form 8962	<b>46</b>	
	<b>47</b>	Add lines 44, 45, and 46 ▶	<b>47</b>	
	<b>48</b>	Foreign tax credit. Attach Form 1116 if required	<b>48</b>	
	<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441	<b>49</b>	
	<b>50</b>	Education credits from Form 8863, line 19	<b>50</b>	
	<b>51</b>	Retirement savings contributions credit. Attach Form 8880	<b>51</b>	
	<b>52</b>	Child tax credit. Attach Schedule 8812, if required	<b>52</b>	
<b>53</b>	Residential energy credits. Attach Form 5695	<b>53</b>		
<b>54</b>	Other credits from Form: <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/>	<b>54</b>		
<b>55</b>	Add lines 48 through 54. These are your <b>total credits</b>	<b>55</b>		
<b>56</b>	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	<b>56</b>		



# LIHTC – How does it Work?

- Developers compete for tax credits through their state allocating agency
- Investors purchase the credits and provide equity for the construction of the project
- The project is built with a limited amount of NAHASDA and/or other Tribal debt
- Allows for more units for less money and more units over less time



# LIHTC – How does it Work?

- Tribal construction loan = total dev. cost (TDC) less investor equity
- Investor equity = annual credits x 10 x price per credit (i.e. \$0.80 - \$0.83)
- Tribal loan will typically consist of NAHASDA or other Tribal funds
- A developer' s fee is paid (typically to the tribe or housing authority) for completing the various tasks necessary to bring the project to fruition
- Other gap financing sources may be available





# Fun with Numbers – LIHTC Development

	<u>Your Project</u>	<u>TC Project</u>	<u>Difference</u>
Cost	\$ 4,050,000	\$ 4,957,500	
Less: Ineligible Costs		\$ (200,000)	
Equals: Basis		\$ 4,757,500	
Basis Boost		\$ 6,184,750	
Times: Credit Rate (9%) x 10		\$ 5,566,275	
Cost from above	\$ 4,050,000	\$ 4,957,500	\$ 907,500
Less Investor Equity @ \$0.80	\$ -	\$ (4,453,020)	\$ (4,453,020)
Less AHP or ICDBG			\$ -
Equals: Tribal Contribution	\$ 4,050,000	\$ 504,480	\$ (3,545,520)
Less: Developer Fee (15%)	\$ -	\$ (607,500)	\$ (607,500)
Equals: Final Cost	\$ 4,050,000	\$ (103,020)	\$ (4,153,020)
# of units	\$ 30	\$ 30	
<b>Cost/Unit</b>	<b>\$ 135,000</b>	<b>\$ (3,434)</b>	<b>\$ (138,434)</b>



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# Fun with Numbers – Individual Mortgage

- Purchase Price for a House - \$135,000
- Less: Down Payment Assistance - \$ 13,500
- Total Financing Needed - \$121,500
  
- Payment assuming 30 year term/amortization and 4.5% interest rate - ~\$615 per month
  
- Total paid for the house in year 30 - ~\$222,000
  
- Do you really own the home?



# Tax Credits to Homeownership

- Must be rental for first 15 years
- Tenants must initially income qualify
- Income may increase over time
- Year 15
  - Conversion to Homeownership
  - Keep in Rental Stock



# Homeownership Considerations

- TDHE or Tribe's policies
- Allocating Agency criteria
- Must be affordable
- Tenants ability to convert to homeownership
- Financing homeownership conversion



# Example of Best Practices

- Reward existing good tenants
- Develop a homeownership waiting list
- Develop policies at the beginning of the project
- Orientation about the LIHTC to homeownership
- Annual status report to tenants wanting to be homebuyers
- Homeownership training
- Incentives



# Case Study – Lac Courte Oreilles Housing Authority

Incentive Credits – used to reduce the final price of the home at the end of the 15 year rental period

- 100 credits monthly for on-time rent payments
- 100 credits for each successful inspection
- 100 credits for completing annual re-certifications on time



# Case Study – Lac Courte Oreilles Housing Authority

## Purchase Price for Houses

2 Bedroom :	\$26,250
3 Bedroom:	\$27,562
4 Bedroom:	\$28,940



# Case Study – Lac Courte Oreilles Housing Authority

Perfect tenant residing in unit for 15 years

On-time rent:	18,000
Successful inspections:	3,400
On-time re-certifications:	<u>1,500</u>
Total credits:	22,900





# Case Study – Lac Courte Oreilles Housing Authority

Net purchase price for the perfect tenant

2 Bedroom:	$\$26,250 - 22,900 = \$3,350$
3 Bedroom:	$\$27,562 - 22,900 = \$4,662$
4 Bedroom:	$\$28,940 - 22,900 = \$6,040$



# Case Study – Lac Courte Oreilles Housing Authority

Tenant with late rent payments 33% of the time

On-time rent:	12,000
Successful inspections:	3,400
On-time re-certifications:	<u>1,500</u>
Total credits:	16,900



# Case Study – Lac Courte Oreilles Housing Authority

Net purchase price for the not so perfect tenant

2 Bedroom:           \$26,250 – 16,900 = \$ 9,350

3 Bedroom:           \$27,562 – 16,900 = \$10,662

4 Bedroom:           \$28,940 – 16,900 = \$12,040



# Case Study – Lac Courte Oreilles Housing Authority

Incentive credits are a win-win situation

- Rewards tenants for good behavior
- Helps LCO stay in compliance with tax credit program



# Questions?



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