

Oregon Housing and Community Services

OAHTC Program Manual

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I. INTRODUCTION

The 1989 Oregon Legislature created the Oregon Affordable Housing Tax Credit (OAHTC) Program. Under the OAHTC Program found at 317.097, Oregon Housing and Community Services has the authority to certify tax credits for projects and has promulgated Administrative Rules for the program at 813.110.000. Through the use of tax credits, lending institutions are able to lower the cost of financing by as much as four percent (4 %) for housing projects programs. Only fixed-rate financing will be eligible for this program. In exchange for this tax credit, project tenants get lower rents for each dollar of credit taken by the bank (a Preservation Project or a manufactured dwelling park is exempt from this requirement).

A. PURPOSE OF THE TAX CREDITS

The OAHTC program is described in four (4) separate locations: the Oregon Revised Statutes, Oregon Administrative Rules, the OHCS OAHTC Program Manual, and the Oregon Housing and Community Services General Policies and Guidelines Manual. All of the above items may be found at http://www.oregon.gov/ohcs/pages/hrs_oahtc_program.aspx

The lower tenant rents are a project-specific requirement based on the credits taken by the bank or designee. The amortization of interest in the loan taken by the bank will vary each year. The reduction to tenant's rents will be averaged over twenty (20) years to provide the same tenant reduction to rent each year by the owner/borrower.

II. PROGRAM REQUIREMENTS

Applicants must demonstrate in writing that the benefits of the Projects' reduction of interest are passed onto the tenants in its entirety. This benefit is reviewed at initial application or purchase and throughout the term of the credit, benefiting households at eighty percent (80 %) or below the area median income level. (See the exception to this requirement below).

A. EXCEPTIONS

If the project is a Preservation Project, no pass through of interest savings to tenant is required. A Preservation Project is existing affordable housing, currently financed by HUD or RD and has a contract for rental assistance from HUD or RD on at least twenty-five percent (25 %) of the units in the project. The requirement to pass the interest savings on to the tenant is waived. The project must still meet all other funding program requirements. Rental assistance provided must be maintained by the qualified borrower for the term of the tax credit. Preservation Projects must meet income qualifications for the tenant.

For manufactured dwelling parks, there are not tenant income qualifications and no rent pass through is required.

B. OTHER FUNDING REQUIREMENTS APPLIED BEFORE THIS CREDIT IS APPLIED.

OAHTC must be used to lower rents after all other OHCS subsidies and requirements for rents have been applied. A project utilizing other OHCS programs must meet the minimum requirements of those programs, and meet OHCS underwriting parameters, before OAHTC will be considered. For example, if an applicant applies for LIHTC and indicates they are targeting sixty percent (60 %) median income rents, the application must show the project is financially feasible at the targeted sixty percent (60 %) median rents without the OAHTC subsidy. The project should have a positive cash flow before the interest savings passed to the tenant is applied to rents.

C. RENT REDUCTION

The OAHTC subsidy will then be applied to reduce rents. This subsidy, which in effect is the savings generated by the lower interest rate, must be passed through directly to the tenants in its entirety. However, such pass through need not be distributed evenly among the units. Some units may receive more of a reduction than others, subsequently driving those rents down to even deeper levels.

D. MARKET RATE RENT REQUIREMENT

After OAHTC is applied, the rents for all units receiving the OAHTC subsidy must be less than the market rate rent for comparable units in the general market area. The Department preference is that post-OAHTC rents are at least ten percent (10 %) less than the comparable market rents.

If OAHTC is requested but not received, project rents must be at or below the area's comparable market rents to obtain an award of any other department resources.

E. INCOME AND EXPENSE PROJECTIONS

The applicant is required to submit two (2) income statements in the pro forma; one showing the Project's rents at the targeted levels with financing at market lending rates and one showing the Project's targeted rents reduced by the amount of interest savings generated by the lower interest rate on the financing. The Expense Statement should not change with the exception of reflecting the reduced debt service projection.

F. TERM

Tax credits may be claimed to reduce Oregon tax liability for a period not to exceed twenty (20) years, reduced to the term of the loan if less than twenty (20) years.

G. ELIGIBLE APPLICANTS

An eligible OAHTC applicant is a borrower who is a nonprofit corporation, state, or local government entity including, but not limited to, a housing authority, which may be a controlling general partner in a limited partnership. An applicant may be any person including a nonprofit/for-profit or local government entity, but not limited to a housing authority, that enters into restrictive covenants regarding the rents on the property and eligibility of occupants.

H. ELIGIBLE BENEFICIARIES

This program serves Low-Income households earning less than eighty percent (80 %) of the area median income as defined by HUD. This area median income will be further capped by other OHCS grant subsidies as required by LIHTC, HOME, Trust Fund, and Low Income Weatherization. Rental units covered by Section 8 Project Based Assistance (PBA), or other Project based rental assistance, are not eligible to be used to demonstrate pass-through savings for the Program. If the Project has at least twenty-five percent (25 %) of HUD or RD project based assisted units, no pass through is required. In the case of manufactured dwelling parks, there are no income qualifications.

III. ADDITIONAL PROGRAM REQUIREMENTS

A. LENDER INTENT AND REPORT

A letter from the lender indicating its willingness to participate in the OAHTC program must accompany the application. The lender will be required to submit an annual report with a fee equal to five percent (5%) of the tax credits claimed for the prior calendar year by the banking entity.

B. LETTER OF INTENT TO FINANCE LOAN

A letter of intent from a qualified lender is required before a conditional commitment of tax credits in the form of a reservation will be made. This letter should contain, at a minimum, the following: amount of the loan; rate and terms; specific conditions pertaining to the project; and a statement indicating what the sponsor would need to do to advance the letter of intent to a commitment. It must state clearly the lender is willing to participate in the OAHTC program.

C. FIRM COMMITMENT OF FINANCING AND LOAN TERMS

A firm commitment of financing from a qualified lender is required before a final commitment of tax credits in the form of a Certification will be made. At this point, pass-through of the tax credit to the tenants will be verified for adequacy before a certification is released. Applicants should be prepared to provide the spreadsheet pro forma pages to the OHCS loan officer to demonstrate pass-through compliance at time of certification. Also, the applicant must verify the interest rate is correct for the certification amortization schedule and notify the loan officer if the interest rate or bank entity has changed.

D. DECLARATION OF RESTRICTIVE COVENANTS

The borrower must execute restrictive covenants to be recorded at the time of permanent loan closing. If not a Preservation Project or Manufactured Park Project, a final check of pass-through rents will be performed. If the applicant has not provided updated pro forma pages, OHCS may request the borrower to provide forms for review before loan closing. A Declaration of Restrictive Covenant will be provided for recording after needed pass-through analysis is completed at the time of loan closing.

E. RENT TABLE

Indicate the proposed income and rental limitations of the units. Assume all OHCS funding source restrictions apply. Before rounding up, rents must correspond with the Income page of the Operating Budget. (If requesting OAHTC, rents must correspond with the "Income

With OAHTC” page.) Round up to the nearest ten percent (10 %), i.e.: a forty-seven percent (47 %) rental charge on the Income page of the Operating Budget would be listed as fifty percent (50 %) in the Rent Table.

IV. PRO FORMA GUIDANCE

A. RENTAL INCOME LEVELS; LOAN INFORMATION; EXPENSES PAGE

In the Permanent Loan row, enter the interest rate, term and loan amount. If requesting OAHTC, show the original interest rates, not the rate after the OAHTC is applied.

The spreadsheet will complete the OAHTC permanent loan row using the information entered on the OAHTC calculation page.

The spreadsheet will calculate the “Portion of loan w/o OAHTC” row using the permanent loan and OAHTC permanent loan information that has been entered.

B. HOUSING OPERATING BUDGET; INCOME WITH OAHTC PAGE

Only applicants requesting OAHTC must submit this page.

Select the County the project is in from the top drop down menu, as well as whether you will use the Actual Multifamily Tax Subsidy Incomes or the Non-Metro Median Income limits.

In the "Unit Size" column, select from the drop down menu; using the following designations for appropriate unit sizes:

0 - Enter for efficiencies, single room occupancy or studio apartments;

1 - Enter for one (1) bedrooms;

2 - Enter for two (2) bedrooms;

3 - Enter for three (3) bedrooms; continuing in a like manner.

Specify whether it is a MGR (manager unit) or a BDR (tenant bedroom unit) from the drop down menu in the Unit Type column.

“Number of Baths” column; Select 1, 1.5, 2, etc. from the drop down menu.

Median Income Percent column: Both the "**Income without OAHTC**" and the "**Income with OAHTC**" pages use formulas to automatically calculate the percentage of median income based on the county selection at the top of the page. OHCS will consider the percentages to be expressed as a not-to-exceed percent of median income in ten percent (10 %) intervals. For example, if the percentage of median income is calculated by the formula to be forty-three percent (43 %), then OHCS will consider the not-to-exceed percentage of median income to be fifty percent (50 %). OHCS will use these not-to-exceed percentages in all legal agreements and declarations between the applicant and the state.

C. TOTAL ANNUAL INCOME:

Enter the total income for Service Revenue and any Other Revenue for the Project in the “Total Annual Income” section of the Income with OAHTC worksheet. This is the annual income for all units using the service or other Project revenue as Project income.

The spreadsheet defaults the Annual Inflation Rate Factor for income at two percent (2 %). If a different rate was used, explanation must be given in the Financial Description section of the application. The same applies to the default seven percent (7 %) vacancy rate at the bottom of the page.

The spreadsheet does not allow the Inflation Factor to vary on a line-item by line-item basis.

OAHTC CALCULATION PAGE

Enter the loan amount, interest rate, number of years to amortize for both the Loan with and without the OAHTC. In just the ‘with OAHTC’ column enter the number of years the tax credits will be taken, the interest rate reduction, and the number of units the OAHTC apply to. Input data in the shaded cells and the spreadsheet will calculate and complete the other cells.

Pass through requirements and amounts are shown just above the Loan Amortization section. The pass through number must be greater than the annual amount required).

Loan Information (OAHTC Applicants only)

NOTE: Every OAHTC applicant must complete this page.

Project Name: _____

Lending Institution: _____

Address: _____

City/Zip _____

Telephone: _____

Loan Officer _____

Loan Details

Date of loan application: _____

Proposed loan amount: _____ \$ _____

Portion of loan covered by OAHTC _____ \$ _____

Market Lending Rate Terms:

Interest rate: _____

Number of years to amortize: _____

Number of years until due in full: _____

Monthly payment amount: _____ \$ _____

Reduced Rate Terms:

Interest rate: _____ percent _____

Number of years to amortize: _____

Number of years until due in full: _____

Monthly payment amount: _____ \$ _____

Projected Average Loan Balance/Yearly Tax Credit Amounts

Attach a letter from the lender indicating the lender's willingness to participate in the OAHTC Program unless that is provided in the letter of intent. The lender must provide a projected average loan balance and the projected yearly OAHTC amounts for twenty (20) years of participation.

Total tax credit reflected in above information: \$_____