

NMTC MONTHLY REPORT

A MONTHLY PUBLICATION ON THE NEW MARKETS TAX CREDIT INDUSTRY

June 2006 Volume V, Issue VI, Published By Novogradac & Company LLP

CDFI Announces First Use of New Markets Tax Credits to Create Affordable For-Sale Housing

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

A coalition of public and private partners, including two cities in southern California led by Clearinghouse Community Development Financial Institution (CDFI), a non-traditional lender, announced on March 28 that they have found a way to create affordable for-sale housing using a the New Markets Tax Credits (NMTC) program.

Although the NMTC program technically allows for construction of for-sale housing, specific tax credit requirements, such as the seven-year holding period, have previously made its use for housing virtually non-existent. Five years into the program, almost all projects funded with NMTCs have been either commercial, retail, office or manufacturing.

Clearinghouse CDFI is a for-profit community development financial institution serving low-income, distressed communities of California. The CDFI specializes in making loans to non-profit organizations and is using its NMTC award to increase its lending activities for businesses, community facilities and other eligible projects. With more than \$160 million in assets, Clearinghouse CDFI is one of the largest CDFIs in the nation.

The developer, Heritage Housing Partners (HHP), a California not-for-profit dedicated to promoting neighborhood revitalization and affordable housing, took an interest in the NMTC program when rising construction costs for the development of 40 affordable, for-sale homes in Pasadena made the project no longer viable. "We didn't want to go back to the city of Pasadena for additional funding after they had already committed so much. We had to be creative and that's when we took a close look at NMTCs and saw how it could help us meet our funding gap," said Michael Williamson, president of the board for HHP, which eventually contacted Clearing-

house CDFI to help HHP meet its financing needs.

Clearinghouse president Doug Bystry liked the project immediately and began working closely with HHP to find an NMTC investor to purchase the credits and provide the remaining \$13 million in capital needed to build the project.

The coalition reports that the biggest obstacle to the deal was the requirement that the investment remain in qualified loans for at least seven years. Factoring in the time to construct and sell the homes, the project would be completed within two years. The solution was to find another project so that the funds could be re-invested for the remainder of the seven-year requirement. "Initially there was strong interest from several investors," Bystry said. "But when it came time to ultimately put the transaction together, issues would always come up that prevented the project from moving forward."

At about that time, HHP began dialogue with Pasadena's neighbor city of Glendale, which was equally anxious to provide affordable housing. Glendale had already identified a property suitable for the construction of new for-sale affordable housing and it was already vacant. The project was a perfect "second" project and together the two projects were much more attractive for potential NMTC investors.

With two viable projects in line, Bystry approached one of Clearinghouse CDFI's largest tax credit investors, Commercial Capital Bank, a \$5 billion, rapidly growing institution headquartered in Irvine, California. Bystry agreed to sell its \$13 million NMTC allocation to Commercial Capital Bank if it would agree to do the HHP project. Commercial Capital Bank agreed.

CDFI Announces

(continued from page one)

"When we can prudently finance an innovative project bringing much needed affordable housing in Southern California and receive a tax credit as well, Commercial Capital Bank is very pleased," said David DePillò, president and CEO of Commercial Capital Bank.

The purchase of the two properties was completed in late December 2005 and construction was slated to start in late March. The sales prices of the affordable units will range from \$100,000 to \$260,000 for new two- and three-bedroom townhomes. ♦

This article first appeared in the June 2006 issue of Novogradac & Company's NMTC Monthly Report and is reproduced here with the permission of Novogradac & Company LLP.

© Novogradac & Company LLP 2006 - All Rights Reserved.

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided - any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.newmarketscredits.com.

NMTC REPORT EDITORIAL BOARD

Publisher
Michael J. Novogradac, CPA

Editor
Jane Bowar Zastrow

Managing Editor
Alex Ruiz

Technical Editor
Owen P. Gray, CPA

Staff Writer
Lindsay Weiford

Contributing Writer
Ruth Sparrow

Production
Yan Wu

NMTC REPORT INFORMATION

Address all correspondence and editorial submissions to:

Jane Bowar Zastrow

NMTC Monthly Report
Novogradac & Company LLP
246 First Street, 5th Floor
San Francisco, CA 94105

Telephone: 415.356.8034

E-mail: cpas@novoco.com

Visit us on the web:

www.newmarketscredits.com

Editorial material in this publication is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding the new markets tax credit or any other material covered in this publication can only be obtained from your tax advisor.

No portion of this material may be reprinted without written permission of Novogradac & Company LLP.

© Novogradac & Company LLP
2006 All rights reserved.

Not-For-Profit to Begin Construction of Two Affordable Housing Developments

By Alex Ruiz, Staff Writer, Novogradac & Company LLP

On December 28, 2005, Heritage Housing Partners (HHP) completed the purchase of two real estate properties in the cities of Glendale and Pasadena, Calif. that will be transformed into affordable housing developments involving 61 for-sale homes to low- and moderate-income homebuyers. HHP together with the Clearinghouse Community Development Financial Institution and Commercial Capital Bank developed the finance package by leveraging city housing subsidies with federal new markets tax credits (NMTC) and county and state funding sources.

The city councils of Pasadena and Glendale approved the development of these projects and led the way for the final purchase of the properties. "Heritage Housing Partners is grateful to the cities of Pasadena and Glendale for their approval of the loan agreements to begin construction of these projects," said Charles Loveman, executive director of Heritage Housing Partners. "Their leadership as well as the enthusiasm of our lender partners proves that affordable, for-sale housing is possible with the right partners. We see these two developments as models for future affordable housing projects in public private

partnerships."

"This is the largest ownership project we have done," said City of Glendale city manager Jim Starbird. "That's remarkable considering that it is very hard to do affordable housing in the Glendale, Pasadena and Burbank areas, first because the land is so expensive and second because construction costs are so high."

Central to the funding of these projects is the use of the NMTC program. "This project represents the first use of public subsidies leveraged with new markets tax credits to create for-sale affordable housing in the nation," said Doug Bystry, president and CEO of Clearinghouse CDFI. "We applaud HHP, Glendale, Pasadena, and Commercial Capital Bank for their leadership and vision in structuring this transaction."

The Pasadena project, located on Fair Oaks Avenue in Northwest Pasadena, will break ground in the spring of 2006. The one-acre Glendale project on West Doran Street will commence in the fall of 2007 after land use entitlements are obtained. ♦

\$20 Million in New Markets

(continued from page 3)

Pat Sullivan, Massachusetts CEO for Sovereign Bank, noted that the services Boston Medical Center provides to the community are vital in ensuring that everyone in the Boston area has access to health care. "It is critical to the health care of the residents of the city of Boston that BMC has the financial support it needs to expand and renovate the facility, as well as update and increase its services. We are pleased to be making this significant investment in BMC."

Boston Medical Center is a private, not-for-profit, 547-bed academic medical center located in Boston's historic South End. The hospital is the primary teaching affiliate for Boston University School of Medicine. Emphasizing community-based care, Boston Medical Center, with its mission to provide consistently accessible health services to all, is the

largest safety net hospital in New England.

"Boston Medical Center provides exceptional care without exception and we are pleased to provide financing to help expand their campus and their mission," said David Ennis, president of Affirmative Investments Inc. "We have been fortunate to work with the extraordinary team at MassDevelopment and Sovereign Bank to successfully leverage private capital using the new markets credit."

MassDevelopment, the state's finance and development authority, works with businesses, financial institutions and local officials to stimulate economic growth across the Commonwealth. ♦