

**THE PARMENTER GROUP  
AFFORDABLE HOUSING  
STIMULUS PLAN**

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**The Parmenter Group, a Lansing, Michigan based consulting firm provides services to for-profit, non-profit and government entities in the areas of affordable housing, real estate development and community development.**

**Summary**

The Parmenter Group proposes that the federal government incentivize new investment in affordable rental housing using the Low Income Housing Tax Credits (“LIHTC”) of Fannie Mae and Freddie Mac (known as Government Sponsored Entities or “GSEs”) now under federal government supervision. Investors in new affordable housing projects will be allowed to acquire GSE held credits at favorable prices coupled with advantageous tax treatment. The amount of GSE held credits investors may acquire is linked to the amount of their investment in new affordable housing projects. Revenue from the sale of GSE held credits will provide funds to stabilize the GSEs and advance efforts to return the GSEs to fulfilling their respective missions as envisioned by Congress. This proposal offers an orderly method for distribution of billions of dollars of credits written off by the GSEs and generates private investment for much need affordable housing while returning revenue to the GSEs. Under the Parmenter Group Proposal GSE held credits will be assigned to pools to be administered by each state’s LIHTC “Allocating Agency.”

**Background**

The LIHTC program has provided the majority of private equity investment for affordable rental housing units in the U.S since 1986. Through this program, non-refundable federal tax credits are assigned to state Allocating Agencies, which award the LIHTC credits to selected affordable housing projects. Investors receive federal tax credits as their return for their investment or “purchase” of the credits allocated to the selected projects.

Due to the near credit collapse of 2008 and the government take-over of the GSEs, both the market for and value of LIHTC credits has significantly eroded to the point where LIHTC credits allocated to proposed affordable housing developments may, in large measure, go unused. Unfortunately, the construction and rehabilitation of affordable rental housing is coming to a standstill across the nation at a time when the population of low income qualified tenants is rising creating an affordable rental housing crisis.

In 2003 approximately 43% percent of LIHTC investment was made by financial institutions subject to Community Reinvestment Act (“CRA”) requirements. By 2007 approximately 50% was acquired by the GSEs alone. In November 2008 following the insolvency and government takeover of the GSEs by the Federal Housing Finance Agency (“FHFA”), the GSEs announced the combined write-off of \$35.7 billion dollars in GSE held LIHTC investments.

LIHTC credits once sold at or near par (\$1.00) in 2006 and 2007. Each dollar invested earns investors \$1.00 of federal tax credit. In the current depressed market LIHTC credits are now

selling for as little as 65 cents, so that each 65 cents of investment yields \$1.00 in federal tax credit. In essence, affordable housing developers who are lucky enough to find investors receive equity investment from the sale of LIHTC credits of almost one third less than they did just two years ago. In this kind of investment climate developers of affordable housing cannot achieve financial feasibility for proposed projects without additional government grants or subsidies. Investors are snubbing vast parts of the United States, choosing to invest in only those markets they see as the most desirable. The Midwest, in particular, has become what is euphemistically called “the fly-over states” as investors have sought the best deals on the east and west coasts.

In July 2008 Congress passed the Housing and Economic Recovery Act of 2008 in an effort to increase the construction and rehabilitation of affordable rental housing and counter the adverse impact of housing displacement of many people who were victims of the sub-prime mortgage debacle. The Housing and Economic Recovery Act of 2008 created significant improvements in the LIHTC program and increased LIHTC credit allocations for 2008 and 2009 in an effort to encourage more investment in affordable rental housing.

It is clear that the recent enhancements to the LIHTC program did not yield the results envisioned by Congress when it passed the Housing and Economic Recovery Act of 2008. Even with the recent enhancements, many affordable housing developers are currently unable to raise sufficient equity through the LIHTC program. In addition to the impacts from the slow-down in the economy and the credit crisis, the affordable housing industry has been uniquely harmed by the loss of half to two-thirds of its investors with the collapse of the GSEs and the consolidation CRA-regulated financial institutions. The collapse of the LIHTC credit market is most evident in those geographic areas of the nation in greatest need of investment. Without additional federal government intervention to further enhance the LIHTC program, the industry will be unable to meet the undeniable need for affordable rental housing at a time when many families, the elderly, and the near-homeless are most in need of safe, decent and affordable rental housing.

In November of this year, the GSEs wrote down almost \$36 billion of LIHTC investments. Affordable housing industry representatives have expressed concern that GSE held LIHTC credits will be dumped into the market at fire sale prices further destabilizing the market for LIHTC credits. Recognizing the potential negative impact dumping of GSE held LIHTC credits would have on the development of much needed affordable housing, Congressman Charles Rangel of New York, in a letter to Treasury Secretary Paulsen dated November 18, 2008, requested that Secretary Paulsen prevent the sale of GSE held LIHTC credits by the FHFA until a legislative solution could be developed in the next legislative session. As Congressman Rangel correctly observed urgent action is needed. As the GSE held credits continue to expire their value as an incentive to attract new investment and as a saleable asset only further declines. Creating pools of GSE held credits administered by the state Allocating Agencies can provide additional and immediate investment incentives to construct or rehabilitate LIHTC developments.

### **Stimulus Proposal**

The Parmenter Group recommends that Congress take immediate action to preserve the LIHTC program by providing incentives to attract new investment in affordable housing in order to stimulate national housing production, job creation and job retention.

The focal point of the Parmenter Group’s Stimulus Proposal is to create incentives that attract new investment in affordable rental housing using the GSE held credits. Under the Parmenter

Group Proposal GSE held credits are assigned to pools to be administered by each state LIHTC Allocating Agency. Investors in new LIHTC projects investing at par (\$1.00) are then be able to buy, at favorable prices, an interest in the pool of GSE held credits in the state in which their new investment is made in an amount rationally related to the amount of new investment. Investments in GSE held credits acquired through state pools would be exempt from tax recapture for loss deductions and selected tax compliance requirements.

The utilization of the GSE credits will attract new “economic” investors because most tax compliance risks and the tax on recapture of loss deductions are eliminated. Combining resold GSE held credits with new LIHTC investment will make the combined LIHTC/GSE credit investment more attractive to investors who would typically choose other competing and less complex investments.

### **Implementation**

The Parmenter Group proposes implementation in the following manner:

The investment interest in affordable housing developments on which GSE held credits were earned will be assigned to pools in each state which are administered by the LIHTC Allocating Agency. The amount of GSE held credits assigned to each state should be calculated based on economic need using criteria including unemployment numbers, foreclosure rates, poverty rates, homeless statistics, blight statistics, etc.

Pooled GSE credits are then sold at favorable pricing to investors who also invest in new LIHTC projects at par, i.e. the investor pays at least \$1.00 for each \$1.00 of new LIHTC credit in exchange for receiving GSE credits at a more favorable price. The pooled GSE credits are priced under a uniform formula established to stimulate investment and provide a fair return for capitalizing the reorganized GSEs. In essence Congress will be creating a fund similar to a mutual fund to administer the orderly disposition of GSE held credits while enhancing the demand for new LIHTC investments. The pooled GSE credits are allocated through the same process and in conjunction with the regular LIHTC credit allocations conducted by each Allocating Agency.

Each Allocating Agency will receive an administration fee from the proceeds of the sale of GSE pooled credits. The balance of sale proceeds will be paid to FHFA to meet the GSEs’ mission. State Allocating Agencies will assume the GSEs’ power to oversee the affordable housing developments in which the GSEs invested, including the power to take-over non-performing developments.

The GSEs’ interest in cash flow from their investment in affordable housing developments and residual value payments received upon sale of these developments will be divided between the Allocating Agencies and FHFA. Payments to Allocating Agencies from the GSE investments, with the exception of administration fees, must be used for the support or investment in affordable rental housing. Payments to FHFA will be used to meet the GSE’s mission, such as capitalization of the newly created Housing Trust Fund.

More favorable pricing will be given for GSE credits sold to assist in attracting investment to developments which rehabilitate and preserve existing affordable housing units and projects

financed by state Housing Finance Agencies (“HFA”). This pricing arrangement helps prevent the loss of existing affordable housing units and helps state HFA’s maintain financial stability.

Finally, the Parmenter Group’s implementation plan calls for elimination of indexing of 4% LIHTC credits awarded to HFA financed projects in order to achieve parity between HFA financed projects and the 9% LIHTC developments. Elimination of indexing will further stimulate investment in tax-exempt financed developments and help stabilize and support HFAs.

## **Benefits**

The Parmenter Group’s Affordable Housing Stimulus Proposal will:

Simultaneously prevent wholesale dumping of GSE credits providing for their orderly sale while breaking the log jam in the LIHTC credit market.

Provide immediate stimulus for the affordable housing rental industry, construction industry, and building material suppliers, with the corresponding multiplier impact on the local and state economies.

Provide immediate housing development underwriting certainty because all new investment must be at par which yields greater private equity investment per dollar of credit allocated.

Reduce dependence on other federal, state, and local assistance, grants and subsidies to fill the “equity gap” while attracting new “economic” investors to LIHTC investment opportunities.

Generate funds from proceeds from the sale of GSE held credits to fulfill the reorganized GSEs’ mission, thereby reducing the need for additional federal appropriations to the GSEs.

Provide financial stability to HFA operations by providing additional parity and financing options.