

LIHTC 101: The Basics of Low-income Housing Tax Credits

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Bloomington, Illinois



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**How many years have you been
in the real estate industry?**

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**What are you hoping to learn
today?**

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On a scale of beginner to seasoned LITHC practitioner, how much experience do you have with low income housing tax credits?

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Why Are We Here Today...Affordable Housing!

- Creating Affordable Housing – “Filling the Gap!”
- How do we “Fill the Gap” and make affordable, feasible, possible, and sustainable?
- Balancing sources and uses



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Why Are We Here Today...LIHTC!

- Who: Affordable Housing Developments (aka Qualified Low-Income Building)
- What: Federal Low Income Housing Tax Credit ("LIHTC")
- When: 1986
- Where (is it codified): Section 42 of the Internal Revenue Code and regulations
- Why: subsidizes the cost of providing affordable housing to people whose income is at or below 60% of the area median income
- How: stay tuned as we walk through LIHTCs



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Agenda

- Overview of LIHTC
- Who is Involved in LIHTC?
- Why LIHTC?
- LIHTC Requirements
- 4% vs. 9%
- Donation Tax Credits (IAHTC)
- Examples



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Overview of LIHTC

- Low Income Housing Tax Credit
 - What is a tax credit and how does that create housing?
- The primary federal subsidy program to promote/support affordable housing (subsidized over 3 million affordable units since inception)
- Created by the Tax Reform Act of 1986
- Federal tax credit, but administered by state/local agencies
- Approximately \$10 billion in annual budget authority in the form of federal tax credits

9

What is a Tax Credit?

1040 U.S. Individual Income Tax Return **2024** CMB No. 1545-0074 485 Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20

See separate instructions.

Your first name and middle initial _____ Last name _____ Your social security number _____

If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____

City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____

Foreign country name _____ Foreign province/state/country _____ Foreign postal code _____

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
☐ Yes ☐ No ☐ Spouse

Form 1040 (2024) Page **2**

Tax and Credits

16 Tax (see instructions). Check if any from Form(s): ☐ 8814 ☐ 4972 ☐ _____ **16**

17 Amount from Schedule 2, line 3 _____ **17**

18 Add lines 16 and 17 _____ **18**

19 Child tax credit or credit for other dependents from Schedule 8812 _____ **19**

20 Amount from Schedule 3, line 8 _____ **20**

21 Add lines 19 and 20 _____ **21**

22 Subtract line 21 from line 18. If zero or less, enter -0- _____ **22**

23 Other taxes, including self-employment tax, from Schedule 2, line 21 _____ **23**

24 Add lines 22 and 23. This is your **total tax** _____ **24**

Payments

25 Federal income tax withheld from: _____



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Example: Tax Credits vs. Tax Deduction

	No Credit / No Deduction	Tax Credit	Tax Deduction
Net Income from Operations	\$1,000,000	\$1,000,000	\$1,000,000
Deductions	None	None	(\$200,000)
Taxable Income	\$1,000,000	\$1,000,000	\$800,000
Tax Liability (at 21% tax rate)	\$210,000	\$210,000	\$168,000
LIHTC Credit	None	(\$200,000)	None
Net Tax Liability	\$210,000	\$10,000	\$168,000

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Who Needs Tax Credits?

LIHTC INVESTORS



Bank of America



♥ aetna

JPMORGAN
CHASE & CO.

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Who is Involved in LIHTC?

- Affordable Housing Developers/Sponsors
- Tax Credits Investors and Syndicators
- Tax Credit Allocating Agencies (IHDA, IHCD, City of Chicago)
- Lenders (For-Profit, Nonprofit, Gov't Agencies)
- Rental Subsidy Providers
- Property Managers and Service Providers
- Architects and General Contractors
- Low-Income Persons and Households

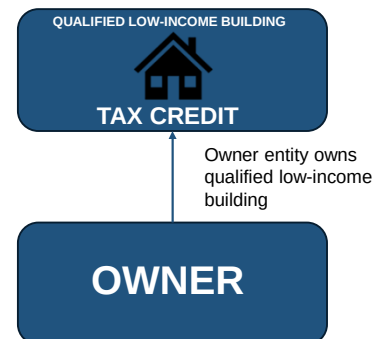
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Who Can Claim LIHTC?

- The owner of a qualified low-income building
- But who is the Owner?
 - How common is a single enterprise with:
 - Expertise in real estate development (construction, rehabilitation, lease-up, operation)? and
 - Has large amounts (i.e. millions) of federal income tax liability to offset with the credits?
 - UNCOMMON!
- Result: joint ventures/partnerships between real estate developers and tax credit investors/syndicators



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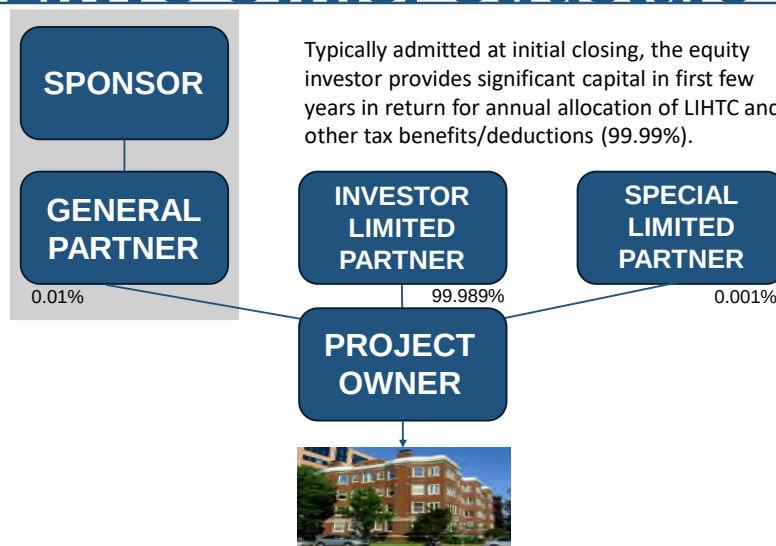
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Who Can Claim LIHTC? (Continued)

- The owner of a qualified low-income building
 - Typically a business organization/entity (e.g., limited partnership or limited liability company)
- **ISSUE:** Owner entity will be a passthrough entity and pay no taxes
 - No taxes = no need for tax credits
 - Credits are allocated (passed through) to the owners of the owner entity who have tax liability
- **SOLUTION:** joint ventures/partnerships between real estate developers and tax credit investors/syndicators
 - Tax credits are allocated almost entirely to the tax credit investor, in proportion to its ownership interest (usually 99.99%)

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Basic LIHTC Owner Structure



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Has your Housing Authority or Development Entity been involved in a LIHTC Project (ownership or otherwise)? If yes, in what capacity?

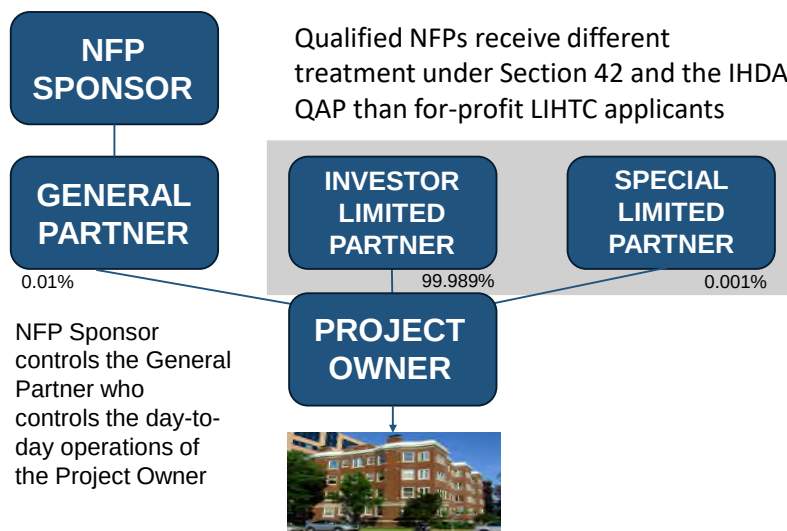
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Basic LIHTC Owner Structure (Continued)



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Basic LIHTC Owner Structure (Continued)



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Sponsor Responsibilities

- Application(s) for LIHTC and other financing or grants and subsidies
- Development of project's plan of finance and operations
- Performance of General Partner and any other affiliates involved in the LIHTC Project
- Representations, warranties, and covenants for Project
- Guaranties and indemnities to investor(s) and lender(s)

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Nonprofit as Sponsor in a LIHTC Transaction

- **Control:**
 - Indirect control via ownership of general partner or consent rights
 - Influence through guarantees, board appointments, or affiliate structures
- **Rewards:**
 - Advances mission (affordable housing)
 - Enhances competitiveness for tax credits, subsidies, and soft loans
 - May receive fees or residuals if also serving as developer or GP
 - May choose property manager for the project and may receive property management fee if appointed as property manager
- **Risks:**
 - Financial liability from guarantees
 - IRS scrutiny over private benefit or loss of charitable assets
 - Complex structuring and oversight requirements

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Nonprofit as Developer in a LIHTC Transaction

- **Control:**
 - Direct control over project planning, design, financing, and team selection
 - Often controls general partner or managing member
- **Rewards:**
 - Developer fee (typically 10-20% of eligible costs)
 - Builds organizational track record
 - Gains scoring advantages in LIHTC applications
- **Risks:**
 - Exposure to construction delays and/or budget overruns
 - Potential deferral or loss of fee
 - Significant time and resource demands
 - Financial exposure if required to be a construction and/or loan guarantor

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Nonprofit as Guarantor in a LIHTC Transaction

- Control:
 - Limited day-to-day control; influence via financial guarantees
 - May negotiate consent rights for key decisions
- Rewards:
 - Advances mission (affordable housing)
 - Enhances credibility and helps secure investor/lender commitments
 - May receive fees or residuals if also serving as developer or sponsor
- Risks:
 - Substantial financial exposure (e.g., construction, operating deficits)
 - Limited control despite liability
 - IRS concerns if guarantees benefit for-profit entities without proper structure

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Why LIHTC?

For the Affordable Housing Developer/Sponsor

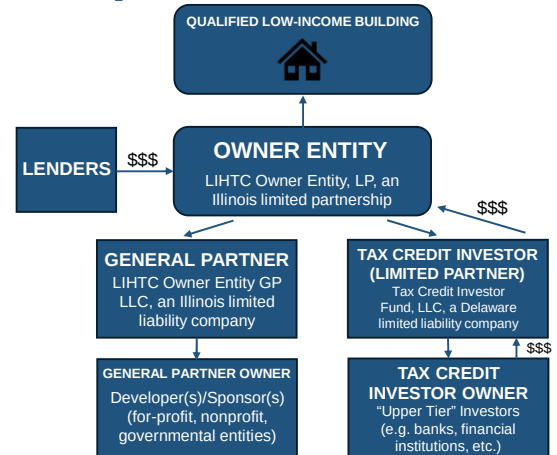
- Qualified Low-Income Building
 - Envisioned project may already meet the application requirements for LIHTC or could easily be structured to qualify for LIHTC
- Different from debt
 - Tax credit investor's expected returns are the LIHTC, tax deduction from losses and depreciation, and for certain financial institutions, Community Reinvestment Act credits. Often not expecting regular returns in cash
- Upfront source
 - Equity investment is typically made by the investor in installments, with the first capital contribution being made at initial closing and the last capital contribution being made upon completion of lease-up and receipt of the IRS Form 8609

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Why LIHTC? (Continued)

For the Affordable Housing
Developer/Sponsor:

- Different from debt
 - Tax credit investor's expected returns are the LIHTC, tax deductions from losses, and depreciation, and for certain financial institutions, CRA credits



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LIHTC Requirements



Threshold Requirements

- Income and Rent Restricted
- Minimum Set-Aside Test
- Qualified Occupancy of Low-Income Units
- Minimum 30-Year Extended Use Period

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LIHTC Requirements (Continued)

Income and Rent Restricted

- **Income Restricted**
 - Units reserved for tenants with incomes not exceeding the designated area median income limit (e.g. 60% AMI)
 - The U.S. Department of Housing and Urban Development (HUD) calculates AMI annually
- **Rent Restricted**
 - Tenant paid rents not exceeding 30% of the imputed income limitation (e.g. 30% of 60% AMI)
 - Generally project-based subsidies don't count towards rent limit

LIHTC Requirements (Continued)

Minimum Set-Aside Test

- 40/60 Test – at least 40% of units @ $\leq 60\%$ AMI
- 20/50 Test – at least 20% of units @ $\leq 50\%$ AMI
- Income Averaging Test
 - At least 40% of units @ $\leq 80\%$ AMI
 - But average income limit of units $\leq 60\%$ AMI
- 25/60 Test – available in NYC only
- Note #1: The Minimum Set-Aside Test must be met continuously for the full 15-year compliance period
- Note #2: Meeting the Minimum Set-Aside Test means the Project qualifies for tax credits, but the owner only gets credits for the portion of the Project that is actually used for low-income housing.

LIHTC Requirements (Continued)

Qualified Occupancy of Low-Income Units

- Low Income Units
 - Units must be occupied by low-income tenants meeting the rent and income restrictions
 - Units must be suitable for occupancy and used on a non-transient basis (e.g. leases longer than 6 months, no students) with some exceptions
 - Based on tenant income certifications, rent rolls, tenant files
 - Certain over-income rules apply

LIHTC Requirements (Continued)

Minimum 30-Year Extended Use Period

- Extended Use Agreement
 - Deed restriction recorded against the property restricting the project in accordance with the LIHTC requirements
 - Recorded by the end of the first year of the credit period
 - Identifies income and rent restrictions, minimum set-aside, number of low income units vs. total units (applicable fraction), and restriction period
 - Minimum 30-year restriction period; may be longer if Credit Agency requires
- Failure to Comply
 - 15-year Compliance Period –recapture
 - After Compliance Period – contract remedies; impacts ability to participate in future projects

Two Ways to Get an Award of LIHTC

COMPETITIVE ALLOCATION
"9% CREDITS"

"AS OF RIGHT" WITH TAX-EXEMPT BONDS
"4% CREDITS" AKA "BOND DEALS"

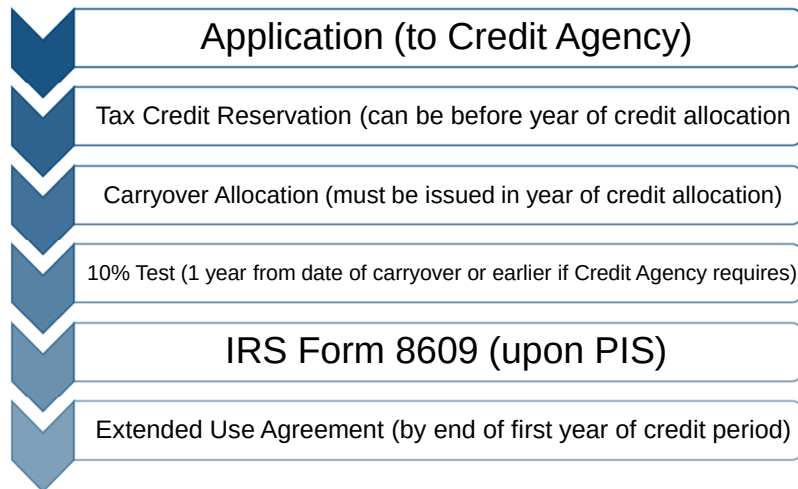
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9% Tax Credit New Constructions/Rehab

- Project competes for allocation of tax credits from Credit Agency under the State's annual qualified allocation plan (QAP)
- Credit Agency awards credits from annual credit pool
- Credits calculated at 9% credit rate
- Credits capped by Credit Agency
- Key Concepts: Carryover Allocation; 10% Test; PIS deadline

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9% Credit Process



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9% Tax Credit New Constructions/Rehab

- Tax Credit Reservation
 - Outlines terms of award and requirements for obtaining a carryover allocation
- Carryover Allocation
 - Binding allocation agreement meeting Tax Code Section 42 requirements
 - Outlines final terms of credit allocation and conditions for obtaining IRS Form(s) 8609 upon completion
- 10% Test and PIS Requirements
 - 10% Test – 9% tax credit projects must spend at least 10% of the project land and building costs within one year of the date of the Carryover Allocation
 - Placement in Service Deadline – Project must be placed in service by the end of the 2nd calendar year after the Carryover Allocation is issued

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Sample Documents

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
www.ihda.org

2021

CONDITIONAL RESERVATION LETTER

Re: Project Name: [REDACTED]
Project Location: [REDACTED]

IHDA Tax Credit No.: [REDACTED]
Credits from Allocation Year(s): 2022 (2020-21 QAP)
Allocation Type(s) (NC, R, AR): NC
Unit Count: [REDACTED]
Applicable Fraction: 100%
Completion Date: [REDACTED]
Minimum Low Income Election: 40.00
Reservation Amount ("Reservation"): [REDACTED]
Reservation Fee ("Reservation Fee"): [REDACTED]
Date by which 10 Percent Test must be met: [REDACTED]
Date 10 Percent Test documentation due: [REDACTED]
Affordability Period: 10 years

Date: [REDACTED]

The Illinois Housing Development Act, 20 ILCS 3805/1 et seq., as amended from time to time (the "Act"), designates the Illinois Housing Development Authority (the "Authority") as the low income housing tax credit agency for the State of Illinois (the "State") to allocate federal law.

1. The number of low income units/ten percent number of units in the Project.
2. This credit amount has been calculated using an estimated gross floor area and an estimated applicable percentage. While the actual gross floor area and applicable percentage may change, the number of units reserved will be maintained.
3. The total affordability period includes the compliance period and extended care period.

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
www.ihda.org

2022

2022 Low Income Housing Tax Credit Carryover Allocation Letter
(this "Letter")

Re: Project Name: [REDACTED]
Project Location: [REDACTED]

IHDA Project ID #: [REDACTED]
Tax Credit Reservation Amount: [REDACTED] (the "Carryover Allocation")
Tax Credit Allocation Year: 2022
Date of Conditional Reservation Letter: [REDACTED] (the "Reservation Letter")
Type of Allocation: [REDACTED]
Ten Percent Expenditure Date: [REDACTED] (the "Ten Percent Date")
Deadline to submit executed documents: [REDACTED]

Date: [REDACTED]

The Illinois Housing Development Authority (the "Authority") has previously reserved low income housing tax credits (the "Tax Credits") for the Project in the amount set forth above pursuant to the Conditional Reservation Letter by and between the Authority and the Owner and dated as of [REDACTED] (the "Reservation Letter"). If the Project will be placed in service prior to December 31, 2022, please disregard this Letter.

If the Owner anticipates that the Project will be placed in service after December 31, 2022 and the Owner intends to claim the Tax Credits in the future, the Owner may seek a carryover allocation of the Tax Credits. This Carryover Allocation is subject to the terms and conditions of this Letter, the Reservation Letter, the requirements of Section 42(b)(1)(F) and (F) of the Internal Revenue Code of 1986, as amended (the "Code"), and of the State of Illinois Qualified Allocation Plan (the "QAP"). This Carryover Allocation is being made as a project-based allocation under Section 42(b)(1)(F) of the Code.

The Owner certifies that each building for which this Carryover Allocation is being made is a qualified building as defined in Section 42(b)(1)(F) of the Code (i.e., the building is part of the Project in which the Owner's basis, as of the Ten Percent Date referenced above, will be more than ten percent (10%) of the Owner's reasonably expected basis in the Project) and that each building in the Project will be placed in service as indicated on the Building Identification Number Form (the "BIN Form") attached.

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4% Tax Credit New Constructions/Rehab

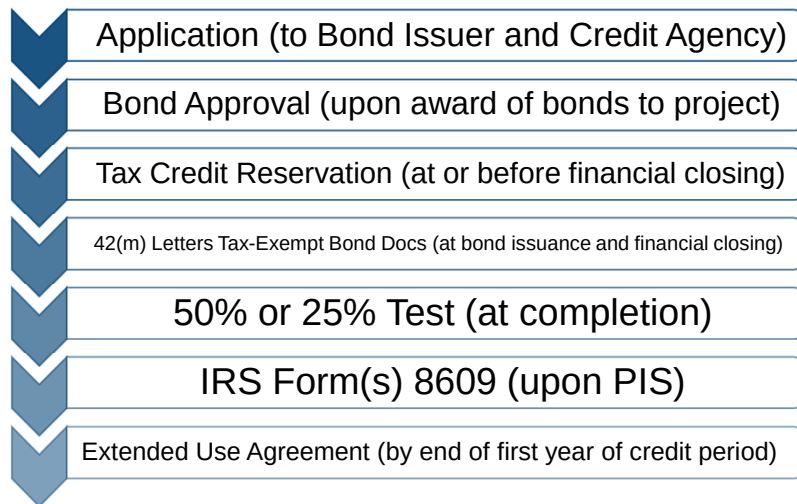
- Project competes for tax-exempt bonds from State or local bond issuing authority
- Project entitled to tax credits "as-of-right" provided threshold requirements are met
- Credits calculated at 4% credit rate
- Credits uncapped (subject to financial feasibility test)
- Key Concepts: 42(m) requirements; 50% Test or 25% Test

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4% Credit Process



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4% Tax Credit New Constructions/Rehab (Continued)

- 42(m) Requirements
 - Credit Agency determination that Project meets threshold QAP requirements
 - Bond Issuer determination that the amount of tax credits projected to be awarded to the Project is not more than is needed to make the Project financially feasible
- 50% Test...25% Test (December 31, 2025)
 - If 50% or (25%) or more of owner's basis in building and land is financed with tax-exempt obligations, owner eligible to claim credits on 100% of its qualified costs
 - If less than 50% or (25%), owner can only claim credits on the portion of qualified costs financed with tax-exempt obligations

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Sample Document

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
WWW.IHDA.ORG

11/18/2018
Page 1 of 1

**42(m) DETERMINATION LETTER
(ALLOCATOR & ISSUER)**

Re: Development Name: [REDACTED]
Development Owner: [REDACTED]
Development Type: [REDACTED]
Development Location: [REDACTED]
IHDA Development No.: [REDACTED]
Tax Credit Allocator: [REDACTED]
Tax Exempt Bond Issuer: [REDACTED]
Estimated Bond Issuance Amount: [REDACTED]
Estimated Annual Tax Credit Amount*: [REDACTED]
42(m) Determination Letter Fee: [REDACTED]

Dear [REDACTED]:

The Illinois Housing Development Act, 20 ILCS 3805/1 *et seq.*, as amended from time to time (the "Act"), designates the Illinois Housing Development Authority ("IHDA") as the low-income housing tax credit agency (the "Tax Credit Allocator") for the State of Illinois (the "State"). In IHDA's capacity as Tax Credit Allocator it allocates federal low income housing tax credits ("Tax Credits") to housing projects that satisfy the requirements of applicable law including those set forth in Section 42 ("Section 42") of the Internal Revenue Code of 1986 (the "Code"), the regulations of the U.S. Department of Treasury and Internal Revenue Service ("IRS") promulgated thereunder, as amended from time to time (the "Regulations"), and the rules and regulations of IHDA codified at 47 Ill. Adm. Code Part 350, as amended from time to time (the "Rules"). IHDA is also authorized pursuant to a resolution of its members to issue tax-exempt bonds (the "Issuer"). IHDA shall hereinafter be referred to as the Tax Credit Allocator, the Issuer or IHDA as applicable. Each non-grammatical capitalized term not defined in this Determination Letter shall have the meaning ascribed to it in the QAP (as defined herein).

IHDA has received an application (the "Application") from you for a determination by IHDA, in its capacity as the Tax Credit Allocator, that the tax-exempt bond financed housing

*Subject to change once the Rate Election Form is executed

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Additional Tools in the Affordable Housing Tool Box

- Construction/Equity Bridge Loans
- Soft Loans or Subordinate Debt
- Sponsor Loans
- State Tax Credits
- Historic Tax Credits
- Grants

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State Donation Credits

- **The Illinois Affordable Housing Tax Credit Program**
 - Established in 2001; Section 7.28 of the Illinois Housing Development Act, 20 ILCS 3805/7.28; Section 214 of the Illinois Income Tax Act, 35 ILCS 5/214; Title 47, Chapter II, Part 355 of the Illinois Administrative Code
 - Encourages donations and private investment
 - One-time tax credit on Illinois state income tax equal to 50% of the lesser of the approved amount of donation value or the actual donation value, in addition to federal charitable donation tax deduction.

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Necessary Elements

Eligible Project – 3 types

Sponsor – a not-for-profit organization

Donation(s)

42

Affordable Housing Project

Rental

At least 25% of the Units have rents that do not exceed 30% of the gross monthly income of a household earning the maximum income for a Low-Income Household (60% AMI)

Rental Income Restriction = 60% AMI

Rental Cost Restriction = 30% of 60% AMI

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Affordable Housing Project

For Sale

As of January 1, 2022, to 120% AMI Households who will pay no more than 30% of their gross household income for mortgage, interest, taxes, and insurance upon purchase

Purchase Income Restriction = 120% AMI

Purchase Cost Restriction = 30% of 120% AMI for mortgage, interest, property taxes, and insurance upon purchase

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Employer-Assisted

- Down payment and closing cost assistance
- Reduced-interest mortgages
- Mortgage guarantee programs
- Rental subsidies, or
- Individual development account savings plans
- Provided by the Sponsor to an employer's employees
- Restricted to housing near such work-place
- Restricted to employees who qualify as Moderate-Income Households (less than 120% of AMI)

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IAHTC Program - Sponsor

Not-for profit organization

Affordable Housing Project:

One of its purposes must be the development of affordable housing

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State Donation Credits – What is a Donation?



Money (at least \$10,000 in the aggregate)



Securities



Real property



Personal property



Provided without consideration to a Sponsor (i.e., for nothing in return)

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State Donation Credits Example

- Nonprofit affordable housing sponsor wants to encourage a land donation.
- Potential donor has land appraised at \$500,000.
- IAHTC Program could provide donor with a state tax credit equal to 50% of the appraised value of the land.
- The nonprofit applies to IHDA for a reservation of \$250,000 IAHTCs.
- Land is donated and IAHTC Certificate is issued to the donor.
- The donor may keep the IAHTC Certificate or give it to the sponsor, who may sell it on the open market and increase their equity in the project.

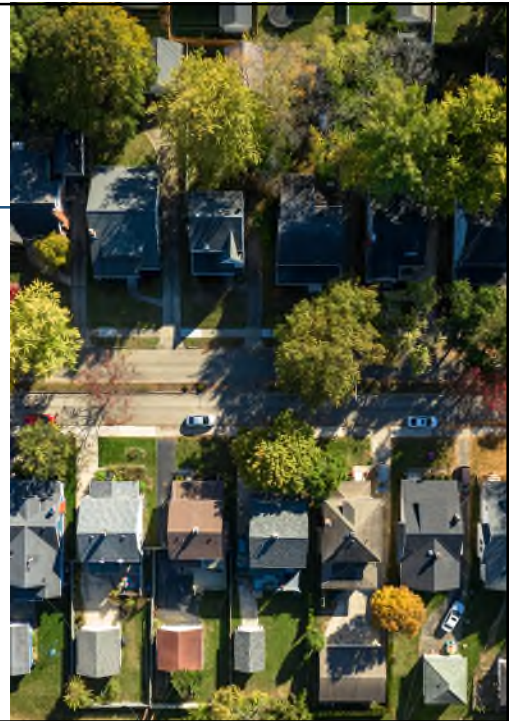
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Example #1 9% LIHTC

9% New Construction – 44 Apartments – 11 Buildings (100% LIHTC)

9% Credit Equity	\$15 million
Construction Loan	\$14 million (converting to a \$2.4 million permanent loan)
Sponsor Loan (ComEd Grant)	\$230,000

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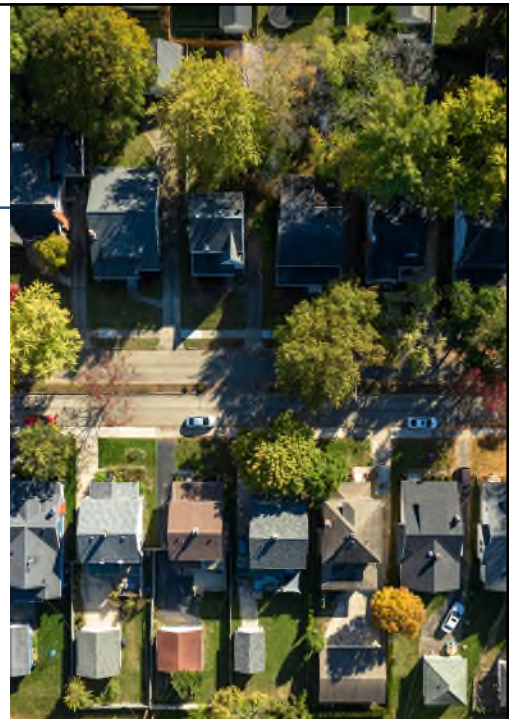
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Example #2 9% LIHTC

9% New Construction Deal – 45 Affordable Apartments

9% Credit Equity	\$21.7 million
Construction Loan	\$18.2 million (converting to \$2.75 million permanent loan)
City of Chicago Multifamily Funds Loan	\$6 million
City of Chicago CRP Funds Loan	\$960,000
Sponsor Loan (AHP Grant)	\$2 million
Sponsor Loan (DTC Proceeds)	\$430,000
Sponsor Loan (ComEd Grant)	\$170,000

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Example #3 9% LIHTC

51 Apartments – Historic Rehab – 2 Buildings (federal LIHTC, federal historic, and state historic)

LIHTC/Federal HTC Tax Credit Equity --	\$15 million
State HTC Tax Credit Equity	\$2.4 million
Construction Loan	\$9.7 million (converting to \$350,000 permanent loan)
Soft Funds	\$8.5 million
Seller Loan	\$2 million
DTC Sponsor Loan	\$3.5 million
TIF Sponsor Loan	\$500,000

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Example #4 9% LIHTC

9% New Construction Deal – 51 Affordable Apartments

9% Tax Credit Equity	\$18 million
Construction Loan	\$15 million (converting to \$1.65 million permanent loan)
City Soft Funds	\$5.5 million
IHDA Soft Funds	\$2.65 million
Sponsor Loan of Grant	\$100,000

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Example #5 4% LIHTC

4% Acquisition/ Rehab Deal to Preserve Existing Affordable Housing – 101 Apartments

Series A Bond Loan	\$5.5 million
Seller Note/Series B	\$5.4 million
Developer Fee Deferred	\$1.9 million
4% Equity	\$6.5 million
Cash Flow from operations (basically a \$20 million deal)	Covers the balance (e.g. \$750,000)

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Example #6 4% LIHTC

4% New Construction Deal – 100 Affordable Apartments

4% Tax Credit Equity --	\$10 million
TEB Construction Loan	\$22 million
Public Housing Capital \$	\$13 million
HOME Funds	\$2 million
DTC Sponsor Loan	\$1.8 million (from land donation by city)
TIF Sponsor Loan	\$10 million
Permanent Loan (after construction bond loan repaid at completion)	\$2 million

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Example #7 Twinning LIHTC

4% Component – 70 of total 98 Affordable Apartments

4% Tax Credit Equity	\$13 million
TEB Construction Loan	\$21.8 million
FFB Loan	\$1.8 million
AHS Loan	\$500,000
City Loan	\$13.4 million
HOME Loan	\$10.2 million
TCAP Loan	\$3.7 million
Sponsor Loan (ComEd Grant)	\$480,000

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Example #7 Twinning LIHTC

9% Component – 28 of total 98 Affordable Apartments

9% Tax Credit Equity	\$13.4 million
Construction Loan	\$11 million
Trust Fund Loan	\$1.9 million
Sponsor Loan (AHP Grant)	\$700,000
Sponsor Loan (ComEd Grant)	\$220,000

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Major Takeaways and Questions?



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Annex – Key Terms and Concepts

- **AMI** refers to “Area Median Income”
- **Applicable Fraction** is the lesser of the Unit Fraction (low-income units/total residential units) or Floor Space Fraction (low-income unit floor space/total residential unit floor space)
- **Applicable Percentage** is either 9% of 4\$ (percentages have been locked by recent legislation)
- **Basis Boost** refers to the cost by which Eligible Basis is increased if the building is located in a “qualified census tract” (“**QCT**”) or “difficult development area” (“**DDA**”) (as determined by HUD), or if the project is designated as needing a boost by the Credit Agency (9% deals only)
- **Eligible Basis** refers to the total amount of development cost that would be eligible for generating Section 42 tax credits if all the housing was used for low-income housing
- **Net Tax Liability** equals the product of Taxable Income and the applicable Tax Rate

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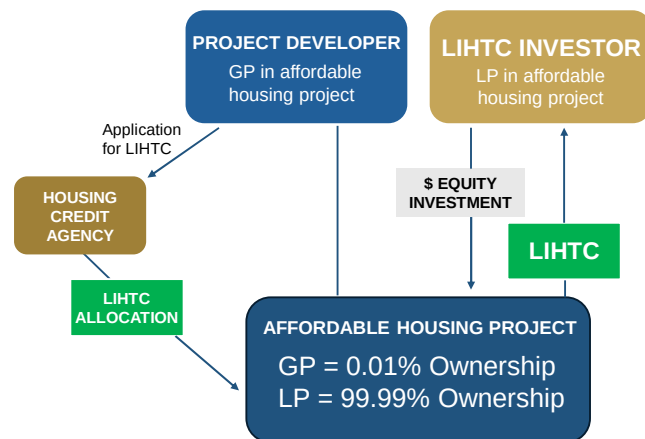
Annex – Key Terms and Concepts (Continued)

- **PIS** refers to “Placed in Service”
- **QAP** refers to “Qualified Allocation Plan”
- **Qualified Basis** is based upon the proportion of the property that will be used for affordable housing. It is the amount of eligible basis that will be used to generate LIHTC credits (Eligible Basis x Applicable Fraction)
- **Qualified Low-Income Building** is any building which is part of a Qualified Low-Income Housing Project
- **Rent Restricted Unit** refers to a unit where the gross rent does not exceed 30% of the qualifying income levels in one of the set aside tests (40/60, 20/59, or income averaging)

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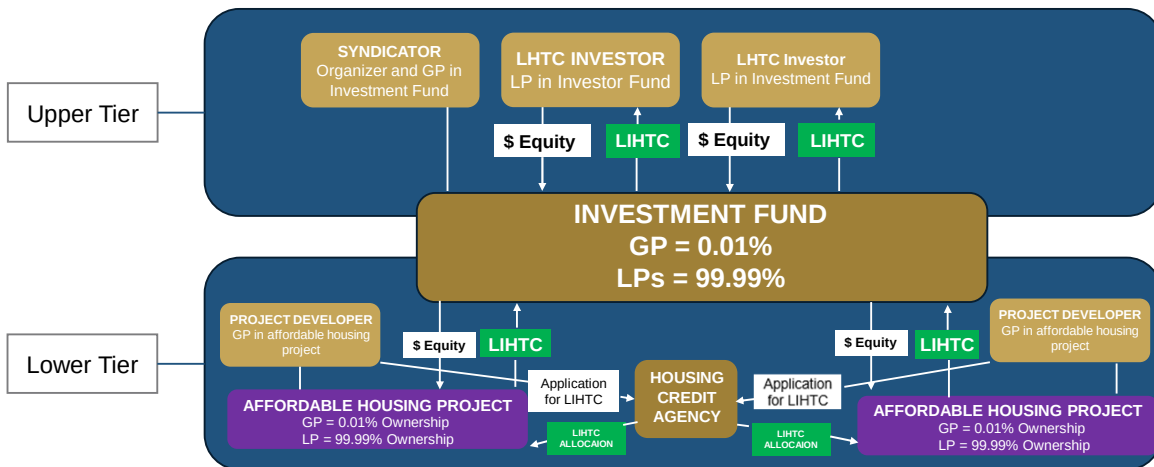
Typical LIHTC Deal Structure

- The project sponsor/developer applies to a state HCA for a LIHTC allocation for a specific affordable housing project. If approved, the tax credits (LIHTC) are allocated to the affordable housing project.
- In exchange for the tax credits, LIHTC investors make an equity investment in the housing project partnership
 - The project developer offers investors an ownership interest in the affordable housing project (when making a direct investment, the investor acquires all or a portion of the 99.99% ownership in the partnership)
 - The investor has no management authority but receives tax credits and can deduct real estate losses through the partnership in proportion to the investor's ownership interest in the project



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Syndicated LIHTC Deal Structure



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Computation Overview

- LIHTC is calculated using depreciable costs
 - Further narrowed to eligible basis
 - Certain items may be excluded under LIHTC rules (e.g. costs funded with TE proceeds, certain financing fees, etc.)
 - May qualify for a basis boost (up to 130%)
 - Further narrowed to qualified basis
 - Percentage of project that is low-income; lesser of:
 - Unit Fraction (percentage of low income units)
 - Floor Space Fraction (percentage of floor space dedicated to low-income units)
 - Multiplied by Tax Credit Rate 4% or 9%
- (See Annex for example computations)

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Example: 4% Tax Credit Calculation

Depreciable Basis	\$11,000,000
Ineligible Costs	(\$1,000,000)
Eligible Basis – Pre-boost	\$10,000,000
Basis Boost Basis increased if building is in "qualified census tract" or "difficult development area" or designated as needing a boost	130%
Eligible Basis – Post-boost	\$13,000,000
Applicable Fraction Lesser of the Unit Fraction (low-income units / total residential units) or Floor Space Fraction (low-income unit floor space / total residential unit floor space)	100%
Qualified Basis Based on proportion of property used for affordable housing. Used to generate LIHTC credits	\$13,000,000
Applicable Tax Credit Percentage	4%
Annual Tax Credits (\$13,000,000 * 0.04%)	\$520,000
Credit Period	10 years
Aggregate Tax Credits (Annual Tax Credits * Credit Period)	\$5,200,000
Price Per Credit Value of the credit today	\$0.95
Investor Equity (\$5,200,000 * \$0.95) Equity an investor contributes in exchange for the 4% tax credit	\$4,940,000

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Example: 9% Tax Credit Calculation

Depreciable Basis	\$11,000,000
Ineligible Costs	(\$1,000,000)
Eligible Basis – Pre-boost	\$10,000,000
Basis Boost Basis increased if building is in "qualified census tract" or "difficult development area" or designated as needing a boost	130%
Eligible Basis – Post-boost	\$13,000,000
Applicable Fraction Lesser of the Unit Fraction (low-income units / total residential units) or Floor Space Fraction (low-income unit floor space / total residential unit floor space)	100%
Qualified Basis Based on proportion of property used for affordable housing. Used to generate LIHTC credits	\$13,000,000
Applicable Tax Credit Percentage	9%
Annual Tax Credits (\$13,000,000 * 0.09%)	\$1,170,000
Credit Period	10 years
Aggregate Tax Credits (Annual Tax Credits * Credit Period)	\$11,700,000
Price Per Credit Value of the credit today	\$0.95
Investor Equity (\$11,700,000 * \$0.95) Equity an investor contributes in exchange for the 9% tax credit	\$11,115,000

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Questions or Comments?

