Securing Debt Financing in Today's Financial Environment

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Today's Problems with – and Possible Solutions – 4% Tax Credit/Tax-Exempt Bond Transactions

Lack of Investors for Bond/Tax Credit Transactions

Problems:

- Well documented dearth of investors for bond/tax credit deals
- Losses are bad – higher debt in bond deals drives higher interest expense

Possible Solutions:

- High yield investors showing more interest
- TCAP filling hole
- Some developers bringing investors to the table
- Syndicators may be able to include some bond deals in funds if the fund is large enough – “blended in”
- Structure as cash collateralized bond deals to the extent possible (e.g. housing authority deals with significant soft funding)

Relatively High Fixed Rate Tax-Exempt Bond Rates

Problems:

- Tax-exempt all-in bond rates approximate 6.70% - Freddie Mac, Fannie Mae, FHA/GNMA

Possible Solutions:

- Freddie Mac swap deals still provide some interest benefit – but it is shrinking
- Structure as a taxable mortgage and issue cash collateralized tax-exempt bonds
- Find a tax credit investor that likes variable rate financing with interest rate caps

Letters of Credit from Qualified Providers are not Readily Available

Problems:

- Few banks are able or willing to provide letters of credits for housing transactions

- Fannie Mae requires banker with a minimum rating of “AA-” (Wells Fargo, JP Morgan Chase); Freddie Mac requires banks with a minimum rating of “A-”

Possible Solutions:

- Structure deals as in-place rehab (no need for letter of credit by Fannie Mae or Freddie Mac)

- FHA Financing – construction and permanent financing