

Editorial Advisory Board Roundtable Transcript

Roundtable participants:

Boyce Thompson, moderator, Hanley Wood, LLC

David Reznick, Reznick Group and AFFORDABLE HOUSING FINANCE Editorial Advisory
Board chairman

Patrick Clancy, The Community Builders, Inc.

Steven Fayne, Citi Community Capital

Robert Greer, Michaels Development Co.

Kimball Griffith, Freddie Mac

R. Lee Harris, Cohen-Esrey Real Estate Services, LLC

Bart Harvey, former chairman, Enterprise Community Partners, Inc.

Stanley Herskovitz, Paradigm Financial

Michelle Hoereth, Corporation for Supportive Housing

Robert Hoskins, The NuRock Cos.

Bernard Husser, MMA Financial

Bill Kelly, Stewards of Affordable Housing for the Future

Cynthia Lacasse, John Hancock Realty Advisors, Inc.

Bob Moss, Boston Capital

Paul Purcell, Beacon Development Group

Jeanne Peterson, Reznick Group

Jaimie Ross, 1000 Friends of Florida

Monica Sussman, Nixon Peabody, LLP

Benson “Buzz” Roberts, Local Initiatives Support Corp.

Ellen Sahli, Chicago Department of Housing

Todd Sears, Herman & Kittle Properties, Inc.

Patrick Sheridan, Volunteers of America

Ronne Thielen, Centerline Capital Group

Sean Thomas, Ohio Housing Finance Agency

Deborah VanAmerongen, New York State Division of Housing and Community Renewal

Sunia Zaterman, Council of Large Public Housing Authorities

John Zeiler, Hudson Housing Capital, LLC

Editor's note: The following is an edited transcript of the AFFORDABLE HOUSING FINANCE Editorial Advisory Board Roundtable from AHF Live: The Tax Credit Developers' Summit on Nov. 5, 2008, in Chicago.

Boyce Thompson: I would like to welcome everybody to AHF Live. And what an unbelievable time to be having this conference and what an incredible place to be having it.

I couldn't quite understand last night why there were Secret Service people on my floor. But it turns out that President-elect Obama was staying in the hotel last night, and he left from here to go over to Grant Park to make his acceptance speech. Pretty incredible. We had no idea this was happening, just so you know, when we booked the hotel. But pretty incredible timing.

And, of course, one of the first things the president will have to deal with is the terrible financial crisis. And we kind of got one of our own going on in our business that we need to talk about today.

This is a wonderful opportunity for us at AFFORDABLE HOUSING FINANCE, as writers and editors as a step to remove from what's actually going on in the marketplace. And we have an incredible cross section of people here that really will give us some answers to the questions we have. We'll have an opportunity for everyone here to ask questions. We'll have some opening statements, and I am going to ask some questions. David [Reznick] is going to ask some questions. But then after that, we're going to open it up to the floor. And I think that we have got someone here with expertise to answer just about any question that you might have.

What's the future of the tax credit business? This conference is for tax credit developers. So we want to focus on that part of the equation. If you're developing a deal today, it is just fraught with risk, terms aren't there like they used to be.

Everybody here at this conference shares a common goal, and that's to help more people afford a decent place to live. So we all have an interest in making these deals work and making them work well. And maybe coming out of this we'll get some kind of consensus

of what needs to happen in order for us to accomplish that mutual goal. We're going to go around the room in a little bit and make introductions, but first I will give my co-chair, David Reznick, a chance to make an opening statement.

Reznick: I'm David Reznick from the Reznick Group.

We have gone through an awful lot and are continuing to go through an awful, awful lot. A lot of it has all happened with the political situation that's been going on.

And yesterday—and it kind of chokes me to hear it—I heard the greatest concession speech. What both of these fellows said, and I believe both Republicans and Democrats, both McCain and Obama, both understand that unity is required.

In our profession, our business of affordable housing, we have Republicans, Democrats, and Independents. It's been tough. We now must be unified. We must call on both Obama and McCain to live up to their promises and be unified.

To start that out, I am going to stand up and shake hands with the person next to me and hug him. And I want everybody to stand up and shake hands with the person next to you. What we really need is unity. Our industry is wounded. Its traditional investors are really not there where they always had been. The GSEs, the government- sponsored enterprises, are GOEs, government-owned enterprises. And unfortunately there are more of them. We have developers who are carrying projects that they can't afford to carry at this point. Closings are delayed. Closings are not happening. Operating costs are rising. Incomes are flat. Citizens are losing jobs. They're losing homes.

Our business, though, is on the ground floor of the return to prosperity because if we're just given that opportunity, we can create jobs. We can create so much that is needed. We can find ways of putting green into our existing portfolios, not just into those portfolios that we are looking at creating. But if we can work together with the government to help us in our existing portfolios to create green, that's going to create jobs. That's going to create operating expense savings. We all need that. Rehab and new construction create jobs.

Over the past 20 years, I would say, the Department of Housing and Urban Development (HUD) has not been the leader that it had been when I was just getting into this business in creating affordable housing. We have got that opportunity now to set the tone by

having a true leader appointed as head of HUD and having that leader allow and appoint people that have leadership skills.

And it doesn't cost money to create efficiency at HUD. It's not a budget issue to have the leaders of the Federal Housing Administration (FHA) in dealing with staff say this is the way we want to do it. Yes, I know that I'm only appointed for four years, but that's a good reason why on Friday you have got to get back to me with the plan of how we're going to be doing this. This takes direction from the top. We have to make sure that when the HUD leader is about to be appointed that our voice is there making sure that we believe that the appointee has experience in what is going on and what we're doing.

We have to make at least for the time being a more efficient way to utilize tax credits, whether it be one idea that was put forward, that is to reduce at least for a short period of time the tax credit period of enjoying the benefits from 10 years to five years. What that, of course, would do is raise the yield and perhaps bring in more investors into the tax credit space.

Those investors that formally invested, whether they be Heinz or Clorox, when the yields were in the teens-plus may now be interested in looking at coming back in if the yields can be more stronger to them without reducing the equity coming in that's absolutely needed in developing these properties and reducing the gap.

Some of the states found a very efficient way to bring their state historic credits and other credits into the marketplace. When they weren't valued very much, some of these states went with a direct pass system where you don't have to have an income tax obligation in order to get the tax—to get the historic tax refund to them.

Well, let's face it. They have already included in the budget the assumed low-income housing tax credits (LIHTCs), and the bond caps have already been set in place. And, therefore, if the budgets have been established properly, it should not cost you money to have a pass-through type of system at least for a temporary three-year basis so that a Fannie Mae or a Freddie Mac, who has already established some significant staffing, to be able to asset-manage credits. Actually go back and continue buying without having a tax obligation.

But it's these out-of-the-box kind of thoughts that we're going to try and talk about today to turn our business around because it's the beginning, not only of bringing ourselves

back, but the beginning of helping turn around the economy itself through the creation of jobs.

Thompson: We are going to go around the table now. And I would like everybody to introduce themselves and then talk for a little bit about the kind of deals that you are seeing now that are going through or that you think are going to go through because that's the bottom line.

We hear that 40 percent of deals may not go through this year. It's not a good situation, but there are some that are going through. How are they happening with nontraditional investors?

We would like to hear that or other kinds of financing that are being rolled in and making deals work.

Steven Fayne: I'm Steven Fayne with Citi Community Capital. We are the branch of Citigroup that does the affordable housing business for the entire bank.

I will tell you that we are closing out the year trying to get the 9 percent, 4 percent deals that we have had under application done. It's been very, very stressful. As everyone knows, equity providers have had to reprice and pull out all together.

We have had to go back and revisit rates—and there have been very few sources to fill in. We have done some dodging and weaving, filling in where we can, but it's incredibly stressful times. But we are getting our business done, that which we have committed to for the year, calendar year, and are evaluating where we will be in the future.

Robert Greer: My name is Bob Greer, and I am the president of Michaels Development Co., based out of Philadelphia and building in about 29 states throughout the United States. We have about 40,000 affordable units throughout the country, and we are very active in the HOPE VI program developing 19 HOPE VIs with our partners throughout the country.

This is a tight time for all of us, and we have made adjustments within our operation.

We'll talk about it with specific questions coming up later on how we're finding other soft

moneys and how we are changing our structure on syndicating and just making differences in our deals.

We continue to be successful in getting 9 percent allocations. We continue to adjust our feasibilities to reflect some of the changes in pricing and are extremely active in developing new product as well as buying portfolios of other developers who have decided it is time to step out of their business. And this certainly increases our management opportunity as well.

Kimball Griffith: I'm Kim Griffith with Freddie Mac, and I'm responsible for retail data and wholesale data executions as well as tax credit investments.

I think what we're doing now is a little bit of a variation on what Steve [Fayne] was talking about, and that is we are running out the year. We had committed to a whole series of transactions that with pricing changes we are honoring what we had said before, but next year looks pretty tough because credit spreads are widening and the whole liquidity market, particularly on the bond side, is very, very tough.

Nine percent deals are a whole lot easier than 4 percent deals, twice as much equity helps a lot. But we've also seen a number of transactions that equity participants have come all the way to the table and not sat down and walked away. And that's been something that's been very difficult to deal with.

So I think as we look forward, as we look at deals, we look very carefully at who has committed equity to the deal and where we think they are going to be when it closes.

R. Lee Harris: My name is Lee Harris. I'm with Cohen-Esrey Real Estate out of Kansas City. We are a collection of companies involved in development, property management, construction, and we are syndicators of historic credits and state LIHTCs.

I want to diverge for a moment, if I may, to ask you guys, do you remember a song from the '60s that Bill Cosby sang called "Little Old Man?" Little old man was sitting on a step with a tear running down his cheek. And when he was asked why, it's because the train just ran over him.

Well, that train just ran over our industry, and it was a big freight train, and it clobbered us good. And I think it's important at this conference that everybody have a realistic perspective about what's going on in the industry.

We've got equity from many developments just simply not available. Where equity is available, pricing is down \$0.20 or more. If you have \$400,000 a year in credits, what does that mean? That's an \$800,000 gap that we are facing, and that just happened just like that. Just like that it was over the course of the last six to 12 months.

Construction costs have skyrocketed over the last 10 years. There may be some moderation in costs during the recession, but not enough to offset the drop in credit pricing.

New green initiatives, which are noble of course, are pushing our costs up even more. And we have to really be careful about evaluating the investment versus the return. And I think everyone will probably agree with that.

We have qualified allocation plans (QAPs) that are still pushing for lower developer fees, lower rents, the deep skewing of rents, mandated deferred developer fees, and other restrictions, and we have financing alternatives that are limited.

So I don't know what you call it, but I call it that the train hit us pretty hard. It hit us pretty hard.

Now that doesn't mean that all is lost, and we are hearing people talking about getting deals done, and we have to be very creative.

We have to look for niches. And one of the things we are doing is we are playing a small market, small property, historic, elderly type of product, and we have started our own federal equity fund to reach out to investors that haven't had a chance to participate before. We can't wait on the rest of the market to continue to exist, so we're going to create what we need to create.

Bart Harvey: I am Bart Harvey, and thank God I'm retired.

I am the retired chairman of Enterprise Community Partners and Enterprise Community Investment. And not to speak for Enterprise Community Investment, but they started this year with adequate capital but are looking for more. And next year looks awfully tough without new equity participants.

And I've done some work with the GSEs, and I believe, as David [Reznick] stated, that you need some significant changes for the industry to be able to work again. Some of them are obvious changes that could be enacted again to get this industry going over the shorter period of time while you're searching for investors who have profits and would look toward long-term profitability and restoration of what has been an extraordinary industry over time.

Stan Herskovitz: I am Stan Herskovitz. I'm with Paradigm Financial Consulting. And the few of you who know me know me from my days at Fairfield Residential, where over the past seven years we developed about 7,000 affordable units on top of all of the other things that we do.

As we look at the industry today, my perspective is that we need to go back to the basics. We've gotten into a formula that was working because of the way times were working and the way the demand was working, and so we went down a road because that worked. But the reality is that at the end of the day, this is a real estate execution. Where it's located, how it's put together, who your equity partner is, and identifying that equity partner early and making sure he is for real are probably the initial keys.

You can't balance the books anymore with soft money and with just looking at ways to make it all go together. And once we get it together, we figure it out and go from there. It has got to be economically viable on day one and on day five or day 10 or 15. And the deals that cannot be economically viable from day one and going forward are not going to get done because there is just no appetite for it.

And certainly as I stood in many of these rooms as all of you have and spoke before agencies and boards and supervisors and city councils, everybody has sensitized the need for affordable housing, but nobody understands the economics of how it gets done. And until we make that clear, we are not going to be successful as an industry.

Michelle Hoereth: My name is Michelle Hoereth, and I am with the Corporation for Supportive Housing. We work with developers all across the country developing supportive housing and specifically targeting the hard-to-reach populations of folks who are homeless.

And we definitely are experiencing very challenging times trying to get our deals done. And I think as the demand for this type of housing has increased, obviously the supply is shrinking every single day.

And so at a time where we have every single housing finance agency (HFA) in this country creating more incentives for developers to create affordable housing, all of the pieces just are not there.

And it's not enough to get a tax credit award, I think, because there are so many challenging pieces to do these deals. So we have got very challenging times still ahead of us because they are very difficult deals to do—but still deals that need to be done.

We've seen a lot of groups this year return credits and try and form partnerships with developers. We have seen all types of creative financing across the country that we have never seen before.

So we really do have challenging times ahead of us, and I think we are going to have to really put on our creative hats to figure out how to do these types of housing going forward and try and figure out where the opportunities are.

Bernard Husser: My name is Bernie Husser, and I am from MMA Financial. MMA Financial is a tax credit equity provider and a debt provider for the affordable housing business, but we really could be just about anything you want us to be right now, and we are very open for suggestions. (Laughter.)

The freight train that Lee [Harris] talked about we are well aware of. We are, for the most part, on the sidelines in terms of tax credit equity, but we are still very active. So when people think of us being on the sidelines and not buying—actively buying new tax credit transactions—but we are selling. We are actively selling. We have transactions that are still moving to investors. So we are very, very aware of what the investor market is like. All of the challenges that are out there for all of us as syndicators and, Bob [Greer] and Lee [Harris], we welcome you into where it is nice and warm. It's a tough market for developers, and so we'll have lots of conversation all about that today.

Bill Kelly: Bill Kelly. I'm president of a group called Stewards of Affordable Housing for the Future (SAHF). We have eight nonprofit members around the country with about 80,000 apartments.

The group actually had a very good year until September, with most deals closing and most investors sticking with the deals and not a lot of repricing at the closing table. But then September came, and we have a lot of deals on hold now. No purchasers for bonds in a lot of cases. Lots of problems with very good investors coming to us and saying we just don't know if we are going to have a tax liability in three years, in 10 years.

And so I think going back to David [Reznick's] earlier point, make the tax credit for a period of time anyway refundable or to use your term, pass-through strikes, is a really important thing to do in order to both bring back investors that are on the fence but also to try and bring back the GSEs and bring in new investors.

I also think there is an opportunity to ride the green train here. The properties do need retrofitting. We are not talking about beautiful new construction, but about the millions of units that are out there that for \$3,000 to \$5,000 a piece that could have 25 percent to 30 percent energy conservation improvement, which would reduce operating costs over time and generate a lot of local jobs. I think those are two very good things.

Cynthia Lacasse: I'm Cynthia Lacasse. I am president of John Hancock Realty Advisors, which is a subsidiary of John Hancock, which is a big life insurance company in the country. And we are an investor—I guess the first so far, maybe the only from the panel. We are a direct investor. We are a small direct investor. We have been investing actively and continuously for over 10 years, and our portfolio rests at slightly less than \$1 billion of equity investments.

As you can imagine, we have been quite busy this year. We do have demand and appetite for tax credit deals. We looked at many deals this year, and we have closed many deals. Like a lot of colleagues, a lot of folks around the table, whether they're lenders or other folks in the room who are equity investors, we've seen a lot of opportunity, and we don't have unlimited appetite. And so we are very close to finishing up for the year, I am sorry to say.

In these times, honestly the way we look at deals has not changed fundamentally. We are looking for good deals with good sponsors, good locations..

But obviously this is a tough time for everybody, and so we are very conscious that all of our partners will be going through difficult financial times, so it's even more important to us that we are working with partners who can sustain themselves throughout those times financially and in other ways.

We are focusing on that as well as all of the other real basics—what we think make a good deal. But as I said, we are limited in our appetite, so, unfortunately, we're not able to do all of the deals that we are seeing right now come across our desk.

Bob Moss: My name is Bob Moss with Boston Capital. It was a late night for a lot of you last night. It was an early night for me. (Laughter.)

Last year I said green is the new Community Reinvestment Act (CRA), and that's changed a little bit. CRA is the only green right now. That's the only place to find money other than with Cindy [Lacasse].

The funds are predominantly CRA-driven. We've closed \$480 million year to date with what seems like 480 million investors. We are piecing together every bank we can find, and they have specific footprints, and there are very few. You know, I can name them on both hands, and I won't bore you with that.

What I would like to talk to you about the kind of things that David [Reznick] brought up and that Bart [Harvey] mentioned. The incentives that we can discuss that will bring back economic investors. We need economic investors to climb out of this.

Paul Purcell: My name is Paul Purcell. I am with Beacon Development Group out of the state of Washington. We are the consultant group who works primarily with the public housing authorities and nonprofit groups.

We have closed four deals in the past two months. We're closing one hopefully today and one last investment we are waiting for first quarter.

I think that we have to pay attention to the fact that a whole bunch of people worked really hard over this last year with the Tax Credit Reform Act. We worked directly with

Sens. Maria Cantwell and John Kerry and Congressman Rangel. And I don't think they did that to see production drop by a third and to see investors' returns double.

The primary reason for that Act was to make us more efficient and to make this an efficient program. Especially as the needs of an investor begin to conflict increasingly with the needs of states to address low-income—extremely low-income housing—I think we are going to see a growing fight and a growing need to figure out how we can continue to make this work for states and the QAPs and their priorities and do it in a way that's reasonable.

We're back to a number of things that I'll acknowledge the pendulum has been swinging and swung too far for people paying \$1 or \$1.15. But if it's swinging back that way, I'm nervous about the political impact on the support for this project and especially if no direct subsidy program is developed under the new administration for new construction for extremely low-income people.

Benson “Buzz” Roberts: I am Buzz Roberts. I am with the Local Initiatives Support Corp. and our affiliate, the National Equity Fund. That is a syndicator and has been from day one and I have been part of that—the policy process, especially since day one, as have several other people around this table.

We have seen this program begin when many people said it could never work and grow, mature, and get a little—in some cases—overmature.

And now, you know, it's not quite Groundhog Day, but we really have to reinvent this program again.

In the long run we'll be fine, I believe. This is a fundamentally strong structure of a fundamentally flexible and tough industry, but we have to get through this time.

As everybody has said, the principal issue here is finding investors, bringing them back to the table. We need to look at various approaches that would make it easier to attract investors, whether it's refundability on some term or maybe a shorter credit period, without losing the fundamentals of what makes this program so effective—its discipline and its accountability and its ability to work within a marketplace. I know any market adjustment is going to be unpleasant and difficult, but I believe that there will be a resorting of relationships a little bit, and that's not entirely unhealthy.

I do think that one of the real stress areas is because of the particular way that the CRA regulation works. And particularly in light of the withdrawal of Fannie and Freddie, which was present in a lot of funds, masked some of the difficult CRA issues. We have the problem of where CRA is making it actually harder to attract some newer players at the regional and larger local bank level that we need to add into this.

The banks are the lowest hanging fruit in this environment, but they are not just the two, three, or four money center banks. We need to get more banks involved.

Many of us have been understandably grabbing the money from the fewest number of investors and the largest denominations. Practicable. That was the most sufficient execution, and until now it is no longer viable. We need to broaden the investment market, and we need to look for ways to do that.

Ellen Sahli: I'm Ellen Sahli. I'm the commissioner at the Chicago Department of Housing.

We still have a very strong pipeline of developers who both want and can use our tax credits here in the city. I think, in general, the city of Chicago continues to be a strong place to do tax credit business even with some of the challenges that everyone mentioned. We are still doing deals, but there is a tremendous strain on our soft financing, so we are doing less of them.

Todd Sears: I'm Todd Sears, vice president of finance with Herman & Kittle Properties. We are a developer in the Midwest that does affordable housing, both 9 percent and 4 percent deals, market-rate deals, and storage properties.

To mimic a little bit about what Bill [Kelly] said earlier, 2008 actually was a terrific year until about the second week of October. We were closing deals. Doing pretty well. But for the deals that we have now, obviously the market has changed dramatically. In the fourth quarter of '08 and going into the first quarter of '09, we are spending a lot of time focusing on operational issues. Our expenses are holding pretty well. We are trying to maximize the operational side of our business as much as possible, as well as tie up loose ends. Changes that are going on with the QAPs, changes in deals, the availability of soft money. All of those things coming together to try to make sure that every single deal that

we have that is somewhere in our pipeline, either under construction or getting ready to get rolled out, has absolutely maximized all of the resources it possibly can is what we are spending a lot of time working on here at the end of '08.

Frankly, as a company, a lot of credit goes to our principals who 10 years ago considered affordable housing to be their primary business but diversified into a couple of other property types, and market-rate apartments and self storage, in particular, have been things that have been helpful to survive this type of environment, and that kind of diversification in our operation has helped.

Patrick Sheridan: I'm Patrick Sheridan with Volunteers of America. We're a national nonprofit organization that does housing as part of our overall mission. We have about 17,000 units and 325 projects around the country.

We are also a member of SAHF, Bill Kelly's organization, and we were having a relatively good year up until [October] also. We closed five cash credit deals this year, including projects in New Orleans and a bunch in Denver. Four more we expected to close this year. I'm starting to wonder very much whether we are going to close all four, probably likely one and maybe questionable on two.

What we have run into is the credit crisis. The one project we've already turned credits back with the expectation we'll reapply in '09 and we'll be able to get a full 9 percent allocation.

Two other deals we expected to have happened—we learned earlier this week we apparently don't have an investor for. So given that's the case, we are going to be scrambling to see whether it's still safe.

So the good news, I guess, out there is I think Lee [Harris] mentioned construction prices. They certainly have gone up. They seemed to have stabilized now. One thing I noticed is our construction jobs are getting done quicker because we seem to have lots of subs out there that want to work. The good news is we are going to be done on time on every job we got.

So we are thinking we'll probably have a good year as far as credit awards go, but where do they go is the next question.

Where our pipeline is for next year is we've got four permanent supportive-housing projects. Michelle [Hoereth] should be happy about that. Sacramento, Chicago, Columbus, and Toledo, of all places. It will be very interesting. I think we may have been very conservative with underwriting. We are very early in the process, and who knows who's going to be out there as far as an investor. That's what it looks like on our future here, and I strongly think we need to be looking for economic and CRA investors. Maybe even some type of tweaks in the CRA to get some of the new bigger banks more organized and directed to affordable rental housing, rather than strictly single-family.

Ronne Thielen: I'm Ronne Thielen with Centerline Capital Group. I have been a tax credit deal junkie for many years, and I've been in significant withdrawal this year. Our company in the past has done \$1 billion a year and will not be near \$1 billion in equity this year, surpassed by several others. Now I understand Boston Capital would be one of them. It's been a very difficult year, obviously, to raise the money and to try to fill in the gaps created by Fannie and Freddie.

I have been president of the Affordable Housing Tax Credit Coalition, which is a lobbying group that specifically looks at tax credit programs and nothing else, basically, except whatever is critical to that.

And so we did work real hard, and we got the [Housing and] Economic Recovery Act bill passed with a whole lot of help from a whole lot of people, and that was very significant and very important.

Well, now we're going to go back and fix the program and make it more attractive to investors. And, again, not just banks because we made that mistake of getting our yields too low.

We need to really get out there and get the economic investor corporations back—or into this investment and some of them back in.

We have already started talking up the Hill as many different groups have about many changes. One would be the five-year credit instead of a 10-year credit on a temporary basis, not on a long basis, and maybe a carryback situation that's better than it is now.

Refundability has been talked about, and that's a little concerning. We are not going forward with that right now because we don't want to change fundamentally the program. We want it to be a tax credit program.

And if you start to get into the refundability then you've got those other issues.

We just want to be careful not to go too far one way and then find out that we've really unstructured this program that has much discipline and so many strong experienced players in the program.

Reznick: You don't have to do that. Carry on what I mean. You don't have to break the structure.

Thielen: If we have to in another year or two, then that would be probably very appropriate to find some other way to make this affordable housing work. But I think with what's going on, what happened last night, I think we are going to have a much better opportunity to get a lot more focus on affordable rental housing and not on the American dream being only homeownership. I think we are going to have rental housing being an equal dream for those who just save for affordable housing.

Sean Thomas: I'm Sean Thomas, Ohio Housing Finance Agency. It's been quite a year for our multifamily section, which I direct, and also our single-family, which I won't even get into. It's been quite interesting lately.

We have been scrambling all year with the falling credit crisis, pretty much every month there are new prices, a new policy we had to put together.

In terms of our pipeline, I always am asked 'are people turning credits back in.' And the answer is 'no.'

In terms of our 2006 and 2007 allocations, we have roughly 80 projects out there, and there are only eight of those I am really concerned about, and the rest are under way and most of them closed on the equity. And so we're confident in those.

In terms of 2008, which we fronted earlier this year, there are 40 of those. We had 150 applications. We funded 40 of them, so there has been a lot of demand for these credits.

We did increase our gap financing for these projects with the new additional credits that came in. We put a portion of those aside for 2008 to try to bump them up to make sure that they are financially feasible.

And I am assuming most of those will ask, if they haven't already, for extensions on their carryover. And I am hearing from developers and those that haven't closed, there might be a few that closed this year. That's possible. But I think third quarter getting those closed.

And then we are into the 2009 year already. And with the changes in the law giving more credit for a project, we are probably looking at funding a third or less of projects than we did this year. That's 2009, and that's our pipeline to date.

Deborah VanAmerongen: I am Deborah VanAmerongen. I am commissioner of the New York Division of Housing and Community Renewal. It's nice to be here with all of you.

It was a very late night for some of us. I was in Harlem last night, which may have been the second happiest place in the United States outside of Chicago.

We pride ourselves in New York state in being nimble and being in front of issues, and we have been trying to deal with this crisis as it evolves.

We had a policy out on how we were going to deal with equity loss in March of this year. We had the same number of deals in the spring. What the problem is I think is that more and more tools are being taken away from us. Our ability to bring resources to the table. And the biggest one for us that's at issue right now is that the capital source that we need with the tax credits in New York state, almost all of those moneys are bonded. And now we are having that problem—the state is having problems accessing money in the bottom market so the capital resource used to make the tax credit deals happen are not available to us.

We have appropriated them into the new projects. We would have given more if we had any, but we actually don't have the cash available to make those deals happen. That's a scary situation that we are dealing with.

We have had four deals fall out, return their credits to us. And what we are very focused on is managing our pipeline. What we're trying to do is make sure that we get credits out

as soon as we get them back into us. We are at the end of our funding round this year, which we announced our awards in early July, we have funded four additional projects. We keep our pipeline alive in terms of new credit availability. So we've funded four additional projects. So we are not letting credits sit there.

We are also giving additional allocations to projects that we funded that have not used all of the large deals. We are not going to close and have an investor lined up. We are giving more credits to these deals if they can utilize them.

The other thing we are working on is trying to foster the creation of an equity fund. There is not currently one in New York state. A lot of other states were out in front of this many years ago.

We have had a strong tax credit market, so we didn't really need to have one. We are particularly concerned with upstate New York, and we are working with the development community and a lot of folks in the private sector to try to get that equity fund started. We continue to try to use all of the tools that we have available to make the deals happen in New York.

Sunia Zaterman: Sunia Zaterman, executive director of the Council of Large Public Housing Authorities, and we represent approximately 60 of the largest housing agencies in the country in virtually every metropolitan area.

Our members serve about a million households on any given day. The amazing transformation of the public housing over the last decade has been in large part due to the successful marriage of the HOPE VI program and the tax credit program in really creating a completely new model in terms of how we deliver mixed-income, mixed-finance communities.

We can see this has been our laboratory in the last decade, and now we're ready to go full scale. For those of us who work in Washington, D.C., without any hyperbole, I think we are seeing the beginning of a new area in Washington with a renewed focus on affordable rental housing policies compared to some of the hostility that we have in certain policies. I would suggest that for many for our housing authorities who have long-range, 10- and 20-year development plans this may be, we hope, a blip on the screen because they are looking very long-term, but there is no question that a number of recent deals have been

caught in the squeeze and particularly because housing authorities with large redevelopment and in part may be dependent on selling lots for sale and other ways of generating equity have really slowed considerably.

I hope that I have a few minutes later to talk about a very exciting initiative that we convened and have been engaged in, the future of public housing, rethinking the reinvestment, recapitalizing, and organization of public housing, in the long-term making a better marriage with the tax credit and other kinds of debt financing and other tools. And one other, I think the silver lining is that we are working very hard to be involved in the stimulus bill, that either bill move forward in a lame-duck session or early next year. We already have a marker on the house bill, the \$1 billion in new capital funding for a public housing program. We are hoping the scope of the bill is expanded significantly. We are hoping the scope of that effort expands significantly, and we see that as really a new and reinvigorating source of capital equity for both redevelopment and facilitation for a green strategy in public housing.

John Zeiler: John Zeiler. I'm the CEO of Hudson Housing Capital, a New York City-based syndicator.

I want to make sure we don't bury the lead here. I think it is important to distinguish between the overall real estate situation malaise that we are in and the problems faced by the LIHTC industry. I think what's obviously different is that rental affordable housing—there is an extraordinarily strong demand nationwide. Occupancy rates are high, and it will certainly get higher as the recession continues.

What's different but what is the same, rather, is really a lack of discipline. And I think that we have gotten ourselves here for two basic reasons. That lack of discipline. This is a very tough business to do from a perspective of a public company that's after quarterly earnings.

I think that underwriting in many cases just was very, very shoddy, and we are all to blame for that.

I think we also need to be very careful on how we bring the GSEs back into this business.

Part of the reason that we have this problem is that the GSEs were buying this for CRA type of returns, which made no economic sense, and there was not enough underwriting done in those transactions.

So with that caveat, for some of us in this industry the fundamentals are still strong.

We did about \$480 million worth of transactions this year. A lot of them are urban-oriented. A lot of them have been either real or synthetic HOPE VI-type of transactions, and those still can get done.

I think it's important to recognize that there really should be no difference between a CRA-motivated investor and an economic investor. We have got to make sure that we are looking at the numbers and that we are paying attention to the underwriter.

I think there will have to be new investors that are going to come in because the banks just aren't going to have the profits. I think a lot of these mergers is taking away any tax liability that they are going to have for a long period of time.

I think it's important that whatever additional stimulus that we bring onto this program have an economic basis so we make sure that we in the syndication and the debt community are doing the right kind of underwriting.

Rob Hoskins: Robert Hoskins. I am with The NuRock Cos. We are a fully integrated development contractor and owner and manager of properties throughout the Southeast and Southwestern portion of the United States.

As I listen to everybody in the panel talking about doom and gloom, the fundamentals are OK, we are hoping for something better or changes, one thing that strikes me is that a year ago equity was nothing but a commodity.

Underwriting was maybe not shoddy, but certainly it was loosely underwritten.

Terms and deals could be done. More importantly, any developer could get in there, if they had an allocation, and get credits done. I think that was incredibly bad for the industry.

I think now there is a tightening of the market. I think sponsorship becomes a very important issue. I think the real estate, the underwriting on a financial feasibility situation, and the fact that it needs to be a deal that serves a specific purpose is an incredibly important issue.

And I hope when this pendulum swings back to where there's going to be a demand for tax credits again, that all of a sudden we don't go back into a hugely commodities-oriented market where anybody that has a dollar and a tax credit allocation can make a deal work.

That has hurt our industry, especially from a developer perspective, because we candidly are competing to try and do big deals against four or five other deals that aren't as strong, but the equity is there so they are putting them in.

I like to equate our industry much like you look at a sports game. This credit program was founded in 1986 with a tax law change. It's similar to how a quarterback being on a football field, and you throw the ball, and boom he is on a basketball court.

Well in today's world, we're in a musical chair situation, and the music is set slower and slower, and the chairs keep moving quicker and quicker, and everybody is trying to scramble to try and figure out what's going on. And in that malaise, there is opportunity. Fortunately for us, we were up to about a year ago a very, very strong bond tax credit developer both in the Southeast and Southwest, and now we have moved over into the 9 percent allocations, which we have done for the last 15 years, and we're getting credit awards in the metropolitan, urban, high-income-oriented areas. Fortunately for us, sometimes you get lucky, we have been told by the equity investors that we do business with that's exactly where we should be because that's what the ultimate tier-one investors are looking for.

Well, what that means to us is very significant. That's the fact that there are a lot of state authorities out there right now that are still believing that rural housing is needed, and they are awarding housing credits to these rural housing areas.

And I'm hearing from the state of Georgia they are anticipating a 40 percent recapture of credits and the state of Texas that they are going to have—and I don't believe this—upward of 70 percent of their allocations are going to be returned to them. Those are horrific numbers.

I would hope that the state authorities do get smacked in the face so that they understand that when the equity investors say something, there is a reason they are saying something. They need to have an appropriate return, and they want to have a mitigation of risk.

A lot of these deals that don't underwrite or are in areas that are way too small from an economics perspective and income perspective doesn't make sense, we might want to reanalyze why we should be there in the first place if there aren't any jobs. Just putting housing in a rural market just to say, hey, we need housing may not be the best place for us.

I agree with this new administration coming in. I think we are going to have a lot more opportunities on the rental side. I think it's going to be a fantastic experience. We believe that if we continue to do what we are doing, which is focusing on strong relationships with our equity partners so that we can make a commitment each way because it is marriage, if you work it right, where they will commit to you and you commit to them and you know where the weaknesses are of both parties, and you can still do deals, but they are going to be smart deals, and they are going to be deals that get what each other ultimately wants, and I think that's good for the industry overall.

Patrick Clancy: I am Pat Clancy. I'm the president and CEO of The Community Builders, a nonprofit. It's done 25,000 units of affordable and mixed-income housing over the last 40 years.

I have been active particularly in the large-scale HOPE VI mixed-income transformation efforts, including here in Chicago working with the city actively on the South Side on the Oakwood Shores development.

I am a pathological contrarian. Let me start by saying that. But as I sit here today, I am happier than a pig in shit. We just elected the first progressive president in my adult life and a transformational one at that.

A transformational one at a transformational time. How does that affect our business, and how does that get to a lot of issues that you all talked about? Well, No. 1, we are still doing deals. And, you know, the things that we do are very complicated, very tough deals as they are for many of you. We have been able to with a terrific staff continue to keep investors involved, to get deals closed, to restructure them where we need to find somebody else when we need to and keep moving.

Tom Buonopane, our director of finance, is going to talk about the ups and downs of those deals on a panel in the next session. It is painful. It has been intense. It's kind of small picture in a sense. It's a lot of pain right now, but we are able to get things done. More importantly, I think we are intensely focused on taking our larger mixed-income communities and really investing in them so that they serve as platforms for family success for the predominantly working poor families that live there. And I think that effort, those results, that outcome, the significance of decent affordable housing for working poor families—that ranks right up there with health care in terms of being essential precondition to their success to their becoming the future middle class, that's where the energy of this administration is going to go.

We all have the potential to meet them there. That's why I expect we are going to be doing twice as much work by a year from now. Even though we've got a lot of trials and tribulations to get from here to there.

On the investment side, I think in reaching the credit, changing the credit, trying to get to investors—it's been proven in the corporate world as well as the financial world over the last year that you don't know how long you're going to be profitable. So the thought that we can take this out of a CRA-type bank-driven context, I think is Pollyannaish.

Now, what we can do and what is very easy and what I expect to happen is partly why I am happier than a pig in shit is that I'm a closet socialist, and this is a wonderful time to be an American when we own the banks.

The fact is Fannie and Freddie are history in terms of this tax credit marketplace, but I fully expect that this administration and Rep. Barney Frank and this next Congress is going to tell the Big Four—it's going to tell JPMorgan Chase, tell Citi, tell Wells Fargo, and tell Bank of America to triple or quadruple your tax credit investment. Why not? Why do we put money into those institutions?

I expect that to happen. It's the way in which we ought to be resolidifying this business and the investment side of this business. And to think that we ought to kind of make it richer and to wring our hands about the product. We know how to use this product. This is a relatively mature industry. To go through all of these cartwheels in an environment where the people who have been the major buyers are now dependent on the government to tell them what their role is in the future, come on, let's get real.

Reznick: It is interesting that the last two guys are so diverse in dealing with the exact same playing field. How Rob is a regular developer. Go out there. Bricks. Sticks. These are the rules. This is the income that Sec. 42 says. This is my management company. Let me go out. Let me go out and get the credit, get the allocations. Go out and get my investors. My investors who are principally looking for a return and some of the good things. Move forward. Pat, very, very different with the kind of view that he does on that. It is just very interesting listening to them last.

What I would like to get some thoughts on. I have really listened to what everyone has really said. The biggest issue that I hear from most of you is broadening the investor base. We have little differences in thoughts, but I remember when this business first started. The investors were doctors and dentists.

I remember—you know, would I want to be on the table when the proctologist got the call saying his property was going to go into foreclosure? Oh, my gosh, no. But those were the original investors before tax credits or tax losses. When we went into Sec. 42, they also were the original investors.

Of course in the '86 Act, there was a significant limitation on that investor. Well, we have already got in the budget what these transactions should cost. Is it that important as to whether the investor should be a doctor, a dentist, a lawyer, or a major bank? I don't know.

We have to broaden the base of investors. The investors when I first was involved in the business, there were companies like Clorox, Heinz. These were the companies that were doing the business. You were representing them, Bernie [Husser], because I remember one of them had a fiscal year of July 31, and we had to do all of those kinds of things. What do we do to bring that back in? One thought was building the yield to what the marketplace without CRA incentive, to broaden it, and not depend on government force through CRA regulations to bring that type of investor back into the market. Shortening the tax credit period is one of the things that would do that.

Are there other thoughts and ideas that people would like to pick up on in bringing money back in trying to build demand again?

Roberts: I think there is a difference between having sophisticated corporate investors who can oversee the underwriting and the monitoring of these deals.

It's one thing when you have a top-down Sec. 8 production program with a lot of FHA oversight and HUD bureaucracy trying to regulate everything, but we are out of that world now.

We are in a world where there has to be market discipline. And I just don't think that your proctologist is going to get the same scrutiny to what the syndicators are doing and what the underwriters are doing.

I do think it makes a big difference, and I think if we lose that oversight, we lose what's fundamental.

That's not to say we shouldn't broaden the market, but I don't think that's the direction we should go in.

Thielen: I completely agree with Buzz [Roberts]. It is one of those things. If we need years to bring those individuals back in, then we need to do it, but we'll do it in a disciplined way because I can see developers with smaller deals with limited amounts of equity needing to be raised, going out there and finding those kinds of doctors and lawyers and whoever else, and bringing no asset management and no discipline as to how the deal should be watched over the 15 or 30 years.

Reznick: You guys were in that business.

Thielen: Yes. We were in that business. But if we make it again attractive to individuals, I think it is going to be a different kind of attractiveness because you're going to have AMT for one thing.

There is going to be different things that are going to bring more in a potentially undisciplined way. I don't think we need to do that now.

But I think more importantly on the corporate side, we have been trying all year, all of us have, trying to raise equity to increase the yield, to increase the financial interest whether it's cash flow, the back end of the deal, whether it is the guarantees and who those

developers are. They are not the ones who are running around with an allocation and no experience and no net worth.

We are doing all of that, and that's taking time and—and we don't know where the yield is. But what we have been doing is going 7.5, 7.75, 8, trying to find in hopes we don't go to 10 or 12 percent yield. We probably should have just gone to 12 percent yield and said come on in and then sort of work back like in the early '90s and work it back down to a balanced investor community, but not so unbalanced as we ended up with two years ago.

Thompson: While we have you, what kind of reception are you getting on the Hill when you ask for changes in the program?

Thielen: Very positive reaction to both—the five-year credit temporarily ...

Fayne: How is the five-year credit—you are taking half an allocation then?

In other words, are you shortening the amount of equity you are putting into a deal by half? Are you doubling it up? How does a five-year deal work?

Thielen: You're doing two things. First of all, you're bringing in corporations who can look out at five years but don't want to look out 10 years.

Reznick: You get the same that you would get over 10 years, you'd get over five years.

Lacasse: How long is the recap period then?

Thielen: Recapture period, we are not suggesting change.

Lacasse: Right. And so again, if you think right now about what's going on with corporations, everybody is earnings sensitive. So now instead of having, you know, five years of only losses and no credits, you're doubling that to 10.

I would caution that if you look at some of the other credit programs where you have fewer credit years and more loss years, it just makes the asset class difficult to understand. It already is hard to understand.

I think it would be really helpful if we think about that.

The other thing about it is that you say, OK, well, my credit period is over, let me sell my investment. Great. Right?

Well, there is recapture risk. Just because the bond went away, there is recapture risk. And so I think that's one thing about being a public company—any public company. How do I assess my risk? How do I measure it? How do I price for it? And anything that is a little bit unusual or difficult to assess is going to be difficult to explain in this environment. So just something to think about.

Thielen: The recapture risk should only be for that five years that you've taken the credits. And going forward, somebody else buys it, you're still responsible for those five years, but if it's been monitored carefully and asset-managed carefully, you should be pretty confident that during your watch it was OK.

Lacasse: But you still have 10 years now that somebody else is owning it.

Thielen: But I think you would make it so you are not responsible for their watch.

Lacasse: It's something to consider.

Harvey: Coming back in on this point. If you're selling to Clorox and other people that do not know the program, have not been in it, but you want to widen it, you've got to go to their marginal rate where they will play in tax-exempt, tax-advantage, marginal yield. And their marginal yield is high. And particularly in markets like this, it is very high. And then you're competing against other investments that they can potentially make better tax advantage right now with Goldman & Sachs and others do day in and day out. And not to be a socialist, and I don't think Pat for that amount of money you are going to tell the banks what to do. I think some fundamental changes, small changes, some sort of

refundability, Ronne [Thielen], back over a period of time where you say for every credit you have, you have to do one more in this market, but you get it refundable back over a five-year period—what you got to do is you got to build back financial institutions that will be profitable over time which to get over this period of time and they understand it. And if you widen that market to insurance and then work on it over time, maybe you get there. But this is so difficult to understand.

There's so many elements of it, and when you start playing in that sort of game of here is your tax-advantage vehicle when nobody wants it. It's a very—you are the 12 percent after tax.

Clancy: I just think that we are heading in a fundamentally flawed direction here. I am not a socialist either, but I'll tell you about an interesting question that I asked the chairman of the audit committee of JPMorgan Chase who was on a financial panel that I was at a couple weeks ago in New York.

I asked him a question. I said, in your remarks you spoke dismissively of Fannie and Freddie because they are neither fish nor fowl and yet with what the federal government has done over the last six months and particularly with what your institution has done with Bear Stearns and Washington Mutual—this is my question, sir— you now have an implied federal guarantee, you now are a quasi-public entity, do you seeing that changing the culture of your institution?

Now of course this guy is about 75 years old, fairly conservative, and he looked at me like I had six heads. And he said, 'Well, you know, we'll be a little more regulated than we have been, but we are still a bank. We'll be a little more regulated.' And to his credit, he stopped and he paused, and he got this kind of pained look on his face. And he said, 'You know what you are really asking is are we now too big to fail?' And he said, 'You know, I guess I have got to acknowledge, I don't like the answer, but I have got to acknowledge, yeah, I think probably we are too big to fail.'

The point is that the major financial institutions in this country are different entities today than they were six months ago. They have been the major investment force. Why are we sitting here wringing our hands about the loss of investors? Because Fannie and Freddie went belly up, and that took away half the market. Sorry.

What we need to do is to look at who are going to be the financial institutions that assume that kind of a role. And it is going to be the major banks. That's what is going to happen. And we might as well be on the front end of that, not sitting here trying to adjust to the old world and make the credit better so we can bring Clorox back in. How many deals did they do, Bernie [Husser], before they went back to detergent?

Husser: They would be pleased to know there is all of this attention on them.

Clancy: I mean, this is a tool that works best for financial institutions, banks, and insurance companies. That's where the market has been. That's where the market will be. I fought the battle, as you did, David [Reznick], to keep the passive loss rules from applying to the tax credit—and Buzz [Roberts] when it got created. We lost. We all readjusted and helped to make this corporate market. The corporate market has now reached a level of depth, but it is hugely driven by the financial institutions. Let's acknowledge that. Let's recognize it, and let's look to the ways to make that partnership work more effectively, and let's not do crazy cartwheels to try and make it attractive to people who are not fundamentally motivated to make these investments.

Thompson: Bart [Harvey], you mentioned the GSEs getting back involved—and not to put you on the spot, but what is the outlook there? It's tough to take your tax credit when you are losing money.

Griffith: I feel like I should lay down since I'm belly up over here. It is the low-income taxes credit. You've got to have income to have taxes. Nobody knows where the bottom of the housing market is. Until that gets solved, I don't think we are going to hear from the GSEs.

Harvey: You've got an unusual situation, though, with both GSEs where they will be paying the Treasury. The Treasury owns 80 percent of them. It is a very easy trade that the Treasury can make to get them back, which is to merely cancel out credits for new ones that are done. There is that potential, and it is under consideration.

So I think some of this is to push the right buttons in the right places because the conservator has said one of the things that he needs to do is to unlock these markets and get them working again. And there are some things, and I think even he would say that the Treasury seems much more receptive than they have in the past to rational ideas. So that is a hope.

Sheridan: I would like to add another point, if I could.

I'm all in favor of bringing in more investors, and certainly the more the better. And if that increases yield, then fine. But, remember, at some point yield being high doesn't make the deals work from a developer's standpoint.

And we also kind of lose the perspective to have a LIHTC program designed for social reasons, not necessarily an economic reason.

The economics made people come into it, but there is still a social need there to be satisfied. Part of that was to get the government out of direct funding through an alternative method.

But keeping that in mind, I think there is more reason for trying to tweak CRA to make it work better. Rob [Hoskins] mentioned rural deals, and working for the government for 25 years may have colored my judgment somewhat, but somebody needs to do rural deals. Somebody needs to do that supportive-housing deal in Toledo. There is no economic reason to be in Toledo right now.

So from that perspective out there, economics isn't going to drive investment. It's going to be some push that maybe isn't economic.

Thompson: Let me follow up on the issue that was raised about agencies giving money to deals that don't pencil out.

Fayne: With respect to putting the entire load on the investment side on the major national banks, I think that's going to be a tough burden. The banks are hurting themselves.

The accounting treatments for the purchase of investments killed banks on their balance sheets. They are looking for ways to buy only through a guaranteed basis to lighten their load on the accounting side.

I think if you think that national banks—big, large money center banks—are going to carry the day, I think you are wrong.

I think at the end of the day, the LIHTC is a fixed-income vehicle, and it needs to compete. What's happened is it was artificially maintained by the GSEs. They went in there sopping it up and allowing for the demand to tighten so that I think unfortunately the housing tax credits have to compete with other fixed-income investments.

That's just reality. That's going to put a bunch of strain on deals.

We haven't even talked about the debt side of the equation and where we are going to go in terms of getting this stuff financed and at what rates.

I agree that David [Reznick] is right in the sense that I think we need a radical reengineering of how we look at providing affordable housing, or not a lot is going to get done in the next five years.

Husser: Several people are talking about what sounds like setting up a program or saying to the national banks, you're getting money and support from the government and, therefore, you have to invest in this program and you have to invest in these types of transactions. Are we going to develop a program that regulates how they do all of that? And I think right now what we're seeing is that probably 70 percent of the money today—we got a pretty good handle on what's out there today in terms of the investment dollars—about 70 percent is coming from banks.

Of the money that's there, banks— you can argue about whether they are doing enough or not doing enough—are doing the lion's share of what's there.

So banks are the investors today, and there is not enough investment dollars. And we are talking about the other investors who have also come out of the market. It's not just banks, and it's not just the GSEs that have come out of the market. We are talking about trying to develop some new ways to look at the program to deal with the fact that investors either don't feel confident that they will have taxable income for an extended period of time, this 10-year period.

So it does seem that in a capital-constrained environment, which is the world we are in today—that's what's driving us. The large investors in the world have a plethora of options available to them. If they have got capital, they are looking at it.

So I forgot who said something about Clorox and these other potential investors, the returns that they are looking at are do they build a new plant somewhere, do they buy a new piece of equipment somewhere. And they work off of those returns on equity and IRRs, or modified IRRs, whenever they measure the returns, at 15 percent. And that's where the money comes from.

So they have got limited amount of capital, and they have to fight for that capital within all of these other options.

Reznick: You can see the diversity in the answers and thoughts that we are getting. And AFFORDABLE HOUSING FINANCE is going to really dig into this further because we really know it's such an issue, but it is one that can take up the rest of this time.

What do we think are some of the other very huge points that we have to look at today?

Audience member: I'm Barry Zuckerman from the Millennium Housing Foundation, Inc.

I think in terms of widening this investor base, an issue that's not been discussed is that the HFAs' restrictive agreements for 30, 40, and 50 years. You still have to comply with the affordable housing provisions. And I think that affects the propensity of investors to come in.

And given the circumstances today, that's even more reason for the HFAs to lighten up.

Thompson: Address the issue broadly too of what you all can do to make good deals go through, and several people mentioned that they were allocating more credits to good deals and finding soft money.

Sahli: In terms of using soft funds that are limited, we've been looking at some other tools on a deal-by-deal basis to make the deal work.

Thompson: And if there are requirements that could go away—I mean, a lot of people have talked about green requirements right now, which is probably the responsible thing

to be doing, but if they add costs to the time and yields are declining and deals are more difficult to do, does it make sense for the agencies to continue pursuing those?

Sahli: In Chicago, it doesn't make sense for those to go away. In fact, we're probably going in the other direction trying to get more green because it's a number of the mayor's other priorities around that change agenda.

So I think we are looking at incentives that can support doing that with additional resources that might increase tax credits but all kinds of other green money that makes the deal work. But I can't imagine that we could eliminate some of those other areas.

VanAmerongen: David [Reznick], if I could just comment on this.

I think as a New Yorker we try and be flexible in the ways we look at the QAP and the way we do allocations. There are certain things that are threshold requirements, and we try and keep those to a minimum. Everything else is scoring. Everything else also can be waived at the commission's discretion, which is my favorite.

I think that if we are going to continue to pursue the policy goals, we are going to be looking at deals through a different prism, though, in terms of what deals—I think in the past to keep rural deals, we didn't worry about how the deal can get done, who was the developer, would it work in the market.

Now, it is really going to be a big focus going in the next year application. Is this a deal that can get funded? Who's your investor? Is there a direct investor in that market who's interested? Is this a market where they have national syndication?

Thompson: Sean [Thomas], do you want to talk to that, too?

Thomas: Yeah, I think that states need to be flexible, and that's what we are looking at. We have minimum requirements, too, and the energy efficiency, which is part of the new act. I mean, we're trying to balance policy goals from board and state. And you have the Internal Revenue Service (IRS) and QAP requirements, which they just added energy efficiency and historic credits in there.

And so we have those minimum standards in our plan. And next year I assume we'll get a lot of waivers for some of these items, and they're very costly, but the prices still remain at the same level.

Reznick: It's very interesting. If very often the agencies really provide significant points for renting to the very lowest-income person—I'm just wondering if it doesn't make sense to suspend that for a moment so that our industry can get back on its feet.

I understand green. Maybe work with HUD in providing more vouchers and maybe with the new group coming forward, the leadership there can fight for the vouchers so that you don't have to reduce the income stream coming into the transaction.

And, of course, come up with potentially other forms of subsidy—not necessarily credits but some form of soft loan that can help provide to green. Green is right. The only thing you have to do is look at what's going on in the sky and how the winter is different and the summer is different. Green is good.

Purcell: Green is good, but I think one of the issues is when this program was created, it was to do something about affordability. And even things like moving the longer-term requirements on affordability is driven from the investor point of view and the ability to flip a project in a period so you'd have more value there.

I believe I am correct in saying we are still losing more affordable housing units each year than we are creating. So we have a negative already, and we're talking about the one production program that exists and trying to scale back the affordability.

In Washington state, 50 percent of the people who make 60 percent of the median or less are already extremely rent burdened, which means they're spending 50 percent of their income for rent. I don't think that's different than anywhere else around the country.

I think the pressure is the conflict between an investor yield-driven, low-income affordable housing program and trying to match that with the growing need in our community especially in the face of recession.

Reznick: How do you blend that, then? Carry forward, Paul [Purcell], just for a moment because you have laid it out. We need affordable housing. People are paying too much. Yet at the same time an investor is looking for a fair and reasonable return. Do we not need to go back somewhat to more vouchers or some other form of getting dollars in deals because what you just described is something that doesn't match?

Purcell: This program was created because of the absolute dismal performance of HUD in the early '80s, and we went from direct subsidy, the Sec. 202 programs, 236, etc., etc., and we created this to bring a level of private invention and private oversight. And now we've got private oversight—I mean, government oversight over the financial institution that we were bringing in to help with this.

You know, one of the refundable things is maybe if the QAP or the state finance commission underwrites Community Builders or Volunteers of America, [and that Treasury] turns around and writes them a check every year because the money is already in the budget to be spent.

If there is not enough investors out there interested, all Pat [Clancy] has got to do is borrow money for seven years at 8 percent, 9 percent, and he gets a check every year. That's the range of options that I think could exist if the focus is on how do we serve affordability rather than doing the 12 to 15 percent return range.

Hoskins: Well, I hear you, and I know Pat [Clancy] would like to be the lead with this particular company making all of this happen, but I think the fact of the matter is that in '86 when Congress did enact this, times were dismal, and they wanted to get it out of the HUD enterprise area.

So what they ended up doing is they sent it to the IRS, which in and of itself was an interesting concept. But this is supposed to be a public-private partnership.

And on the private side of the equation, in theory, the private sector is supposed to underwrite this from a financial feasibility perspective. And at the end of the day, the debt providers and the equity providers can talk about their yields.

But, you know, there is this one thing in every limited partnership agreement and every loan document that I've ever seen. They have this thing called a guarantee. And it's really

funny how that becomes a side note to their interest and their desire to maintain your yield when they expect us to [write] checks, the developer, the guarantor, when all of a sudden we know that roughly 33 percent of these particular properties are in the red or less than breakeven as far as that's concerned.

I am not trying to bash rural housing under any particular situation. But at the same time period, if I've got an apartment community in rural housing that's going to have a defined operating expense of \$3,000 per unit and the best rent I can get under—even with skewing the lower income—at \$220 a month in rental payments, which occurs out there, it doesn't take a genius to know it can't satisfy debt. Furthermore, it can't even satisfy operating expenses.

We've got to get back to a point where there is fiscal responsibility, and a lot of the social services that get thrown into these programs by the various authorities because it sounds good, looks good, and it's a commodities-oriented issue at that particular time—we need to take a step back and say is this what we're really trying to accomplish. Are we in the business to provide affordable housing or are we in the business of providing affordable housing social services programs?

I think there needs to be a distinction. I think at the lower-income areas—HUD hasn't had a program out in 25 years, and they keep touting the d4 program and how it meshes so well with the tax credit program.

I completely disagree when you look at numbers from a numbers' perspective. Maybe with this new administration, you ought to look at additional vouchers.

VanAmerongen: One thing on vouchers, because we do make them available in New York state along with our tax credit allocation, that's actually part of our funding where people can apply for them.

Everyone needs to be aware that they do trigger Davis-Bacon, which in a lot of markets makes a deal much harder to come together, and it can be a one-third increase in the construction cost in the markets in New York state.

Sheridan: One of the creative things we saw recently at the Delaware State House Authority is that they are talking about issuing 30 percent in operating subsidy to cover rental assistance contracts.

There are some thoughts going out there that if we're going to try to reach the lowest-income folks and vouchers are the option and obviously project-based Sec. 8 isn't, is there some other way of actually providing that through some of the resources that are available?

There are at least thoughts out there currently that might have some merit.

Clancy: Let's remember that the Senate passed a \$600 million HOPE VI funding bill and the House passed an \$800 million HOPE VI funding bill this past year, and they never did a conference and never submitted it to the president because they knew it wasn't veto proof and/or filibuster proof.

The fact is that it's reasonable to expect that there will be that kind of new funding for that program and very interesting to think about the House version, which I think is more likely to be the ultimate legislation. It reinstates a one-for-one replacement requirement. However, it allows that requirement to be met by the use of project-basing units in existing buildings or new buildings, and it anticipates multi-site development that in fact are mixed-income.

It is going to require really a fairly complex relationship between a housing authority and a city administration and a multi-site strategy to basically replace a public housing development and do other developments that together create hard units equal to the prior number of public housing units, whether they are in the form of project-based vouchers or in the form of new development units in a series of mixed-income developments. So, again, too early to know for sure, but I think we could be looking at the kind of soft dollars, the kind of mixed-income approach that has existed in HOPE VI as a major thrust for tax credit development over the next few years but with some of those differences.

Zateman: Looking at the history of public housing as to what not to do, how to emerge into a different mode of operating. It started with direct federal government subsidies and

a lone U.S. block bond, and it moved into a total 100 percent subsidy grant from the federal government.

Now we've moved with tax credits in a completely different mode to a public-private partnership that both has tax credit equity but is underburdened by an operating subsidy and adequately funded and a capital grant and that is adequately funded, and that is what makes it work now. Because you have the marriage. And that's really the only way housing authorities are reaching through the tax credit of very low-income households. In our efforts to look at the future of public housing with a wide range of folks including the National Housing Conference and Enterprise is to say what do we know about public-private partnerships that will enable us to shift to a new paradigm that is dependent on an adequate flow of vouchers to attach to subsidies, the ability to take your voucher and project-base it in a development, if necessary, to use your capital and operating funds in a very flexible way, but also to make sure that you go in the door and you get recapitalized. Going out the door you have an adequate operating subsidy with a built-in replacement reserve so you really have built a sustainable unit.

That has not been the end point for public housing that's traditionally been redeveloped. So I would argue that we have a lesson here to look at even more broadly how we develop affordable housing. I think a big new infusion of vouchers is going to be a heavy lift for a deficit-bound Congress and perhaps a cautious new administration coming in. ... I would suggest that to talk about housing really should be a holistic approach about what larger political and community challenges are and how housing inserts it in that agenda.

I think that's really going to be the important political argument not just for money but rethinking what role affordable rental housing plays in the full spectrum of economic activity.

Zeiler: There are a couple of caveats [to vouchers]. I don't want to let go of the discussion of Fannie and Freddie, and how the GSEs may come back into this market. There is a connectivity.

First of all, vouchers if they are project-based, they have got to be for at least a 15-year time frame. Otherwise, they are not capitalizable by an economic tax credit and equity.

The other thing that's important is that economic investors today are not willing to finance a so-called oversight, i.e., where that Sec. 8 rent is higher than what the LIHTC rent may be.

And the connectivity back to Fannie and Freddie is I think there is a danger if Fannie and Freddie are given the mandate to come back into the market today with X billions of dollars and go out and spend it, that it could scare all of the economic investors out of the marketplace. So there has to be a real discipline in terms of what those yields are today.

Herskovitz: One thing that's great about this room is that everybody has a lot of passion for what they believe in, and everybody wants to be part of the solution.

As I sit here and listen to it, I think what most folks are saying is yes. The problem as well as the solution lies in the fact about what's been said a couple times around the table. There are folks sitting here who are passionate about delivering affordable housing to all sectors of the economy, including the lowest sector of the economy that Michelle [Hoereth] talks about. There is money sitting here at the table in the various banks and the GSEs and the tax credit investors around the room, and they're saying we need to make sure that the economics work and that there is yield.

So as you bring these proposals to the table, let's start bifurcating a little bit. Let's look at the fact that there are for-profit investors here, that there are nonprofit investors who want to deal with the GSEs and tax credit partners who want to get those deals done, and let's look at some of these proposals that make that work. And then let's dial into how we solve some of these other problems.

I would suggest to you that there is nobody in the room—and there are some very, very smart people in this room—nobody can design a plan. I don't care if you had carte blanche to write it down and get it accepted that can solve both of these problems in this economy that we are living in now.

My proposal is let's look at the realities of where we are now. You want to deliver affordable housing to the market, something we are all committed to at one level or another, let's find out how we can do that. Let's get as many of these proposals out on the table and passed, and that will start the business going.

When the business starts to go, as David [Reznick] said, then other parts come back into this, and you find ways to also mandate and fund the other things you want to do. And I've had any number of people say to me, 'Stanley, I want you to do this or do that.' I'll do anything you want if you give me the money. It is all about how are you going to pay for it.

Let's figure out how to deliver as many units as we can and deliver those, and then we'll be able to also deliver some of the other stuff that we all are committed to at this table. But unless and until we do that, we're going to sit here next year and have the same discussion.

Greer: I would just like to offer to this group here today that there is obviously a big concern on investors to make affordable housing deals work, but there are other issues, and now I am speaking as a developer, that are making it difficult for us to provide affordable housing.

The HFAs—and I come from one so I understand how they operate—are making deals more expensive to build today.

We are applying for 32 projects in the current rounds for 9 percent credits. We know how to do applications as do all of the other developers in the room. We know how to get all of the points, but all of the points we used to go after to make a deal work are now threshold. It is the additional items that now determine whether you get credits or not. We used to have, for example, cable as a way to get extra points. Now it is threshold in many states. The larger community spaces, threshold in many states. Deferring your fees, significant threshold in many states.

Now we find that we are starting to add things into deals just to win an award—day care space, not operating them but space; car washes; libraries; all kinds of additional areas that cost money to build.

Here we are at a time where construction costs in many areas of the country are going up. Operating costs are going up. Now is the hot time to introduce green building. I know that all green items, many of which we have been doing for years—Energy Star and so on—are good practice and common practice for us. But now there are additional items that are being introduced, and they cost money.

Even if the investors were there, we are finding it more difficult to get to that project feasibility because the state agencies are adding so many more spaces and activities and costs in the deal.

Audience member: My name is Steve O'Connor. I want to pick up on what Rob [Hoskins] was saying and what John Zeiler was saying and just throw something out because I've always found it fascinating in this business that, you know, Texas is going to turn back 65 percent of its tax credits. And if you go down to Texas and other places of the country, you realize that 60 percent of area median income (AMI) is market. And so you always wonder, well, you know, why—of course the resource is there to be able to build affordable housing, but you're competing against other affordable housing and the market.

And in a lot of those areas there is a strong correlation with AMI growth. So I am sure that the Bob Mosses of the world are looking at those kinds of markets and saying, hey, it is not only overbuilt, there is really no demand, and there is no income.

So, again, it gets back to underwriting. It gets back to priority. It gets back to distribution. So if you would think in a perfect world that, for instance, Homeland Security would allocate resources according to threat risk, why is it incumbent upon us to be able to look at a new reallocation model where maybe it should be not based upon a per capita, per se, but perhaps difficult development areas or other criteria where you are going to allocate dollars into markets where there's going to be competition, where there's going to be increased demand, and where there is going to be investor interest because you're going to have fundamentally a product that's going to provide investor confidence and be able to come back into the marketplace.

So if we're going to think wholesale in terms of what other things we need to do within an industry, yeah, we need housing in rural Georgia and outside of Atlanta but, perhaps, we don't need five or six projects on the same block when all of them are trying to compete at a price point level where the market can provide it just as well.

Again, all I wanted to do within your larger conversations of investor appetites is really to throw something back on the table that says, OK, if we are going to be very introspective

as an industry, perhaps we can take a look at some other things, too, that Ronne [Thielen] can take back to Washington.

Thielen: First, I sort of felt for a long time that, in general, we have tried and all of states have tried to serve too many masses, and this won't be popular, but homeless housing doesn't work with tax credits alone. It doesn't work with any hard debt, and so you have to have all of these other services.

Supportive housing, same thing. You need the operating subsidies. And I am hoping that with the new administration and somebody really good at HUD—and I know our budget is terrible, and we are in big trouble—but we need to separate some of these programs out and find a better way to do this.

Those aren't really tax credit projects because they aren't economic projects, and we certainly have enough demand within the 40 percent to 60 percent or 35 to 55 percent but not the homeless, not the ones who have no income, the ones who can't look forward and see growth. It just needs to be done somehow differently, and the federal government needs to take the lead on that.

On the qualified allocation side, again, I think we ought to go back to the early '90s when we hadn't thought of all of these social tricks to add more and more points because everybody is getting the same score so we have to keep adding more things onto it to get to a different policy goal.

In California, Jeanne Peterson and I are working with a statewide group that's taking a look at the entire QAP regulation and saying, you know what, this doesn't work anymore because there are five different ways that you can reduce the amount of credits that you're asking for even though you deserve all of them or you're qualified for all of them and you will get more points and you'll win. And you win, and you never have enough tax credits to make the deal work.

And they are still not recognizing in California that because the debt is not quite there. They think it still works. Well, maybe change it. Then your tie-breaker is the most soft money in a deal compared to a percentage of project loss. Well, wait a minute. The counties and the cities are having the same problem that everybody else is having, so how are they going to commit to a soft money gap?

We need to go back and rethink. I know Deborah [VanAmerongen] has done it. She did it way ahead of time. [Sean Thomas,] you probably did it too, but I don't know your plan, but it is just something that really has to be looked at and believed.

Audience member: Noah Nordheimer, Affordable Housing Foundation. I was wondering if anyone is talking about a rewrite of the federal tax credit to allow individuals to come back in as investors.

Moss: I don't think you need a rewrite. The issue is efficiency. The average investment was \$15,000. That takes a lot of folks to get up to the point where you can fund a \$1.5 million reservation.

You need to almost have a call center in Asia to raise money for the individual market. The yields are also very, very high for individuals when we last looked at funds in the 12 to 14 to 15 percent range without losses. I don't know if we are ready to go back to \$0.40. It is a good idea. We've had that question a lot. It's such a very, very good idea, but those are some of the obstacles that we face right now.

A speaker: How do we make it work better? That's what I'm talking about.

Harvey: I'm unfortunately old enough to have been at the table when that was decided. There was a very active private-placement market that they took away, took off the table because they didn't want the wealthy people to be able to have zero income.

And if you wanted that to work, you'd have to revisit it to make it a lot more efficient so you can raise a lot more money with fewer people without all of this stuff they put into to really discourage the individual market and then, perhaps, you could.

In and of itself, it is a less efficient way. And, quite frankly, the market you had a year and a half ago, which was few large participants, and that was an extremely efficient market. It's got other problems when it goes negative, but that's what I think you're suggesting.

Roberts: I would just say that, if you go to individuals, as I said before, you will lose the discipline of this program that has made it successful. We've got to do two things if you are going to keep this program going. It's already had three times the average life of a federal housing production program. That's because of two things—well, maybe three. One is it delivers the goods. It produces housing as intended. It serves a public purpose. The second is it works. It deals basically where private sector imposes a fair amount of discipline on this process, accountability. When things start going wrong, people intervene. If you go to an individual investor system, you are going to lose a lot of discipline, and this program is going to have very high failure rates and will die.

Kelly: In a prior capacity, I've worked with a number of syndicators who have had a lot of very unhappy individual investors. The product was very complicated, and a lot of them had been sold effectively on the basis that this was a real estate investment, and it will likely produce some gain for you in the back end, and a lot of misled citizens were investing in deals that, you know, produced credits but no real estate upside.

Harris: The program works maybe. But when a third of your assets are underwater, that don't work in my book. I mean, what other asset class has a third of its assets underwater? We have fundamental problems, and we've had them for years. We just masked them over.

Reznick: Subprime loans are at 92 percent, by the way.

Roberts: Projects are bobbing up and down above breakeven. The foreclosure rate is under one-tenth of 1 percent.

Harris: Why is that?

Thielen: Profit is taking care of the problem, which wouldn't happen with individuals.

Clancy: Could I pick up on what Ronne [Thielen] was talking about earlier?

I completely agree with your description, but I guess I would like to suggest that as an industry, maybe we need to look at approaching it in a different way. And that is to not kind of strip out some of the greater degrees of affordability and some of those complications and infeasible elements. If they are there, you know, without compensating resources and look at it as the national environment changes and look at how we enable the housing tax credit to be more purposeful, to serve some of those 30 percent families, to create diverse communities that really serve a range of incomes, and to serve families at 80 percent in markets where that needs subsidy as well.

Can we use some of the best thinking of the best minds in the business to look at how we shape—you know, whether it is project-based assistance or the forms of capital and operating support to enable the program to serve its mission because I think for this coming administration, the more we can have this program really make a difference for working poor families in their success and their potential, that's where our potential to continue to sustain and, in fact, build and expand this industry and the work that we are all doing for whatever reasons we are doing it where I think the future should lie.

Hoskins: I think there is a tremendous need to look at 80 percent of the median income area.

If there is no financial subsidy or rental subsidy for those units that are going to be at 30 percent of AMI, and we demonstrated that the operating expenses are higher than what the rents are going to be, the only counter to that is to find a higher income in terms of rent that is going to offset that.

I can't tell you how many times I have got folks that are at 61, 62, 63 percent of the AMI that would love to live there. They can't live in the community, and then they've got to go to a Class C housing environment because they can't afford the normal usual A-type of product that would be in that particular city.

Thielen: We tried to get that through last year, and it just didn't fly with Congress at the time.

Lacasse: Did you try limiting it? You probably did, but because we have lot of deals with people in this room who have chosen to solve that problem by having 10 or 20 percent market-rate units. And the problem with that is that they don't generate tax credits. And so you can't generate the equity.

Is there a way to do that and maybe limit it so you do what Pat [Clancy] is talking about? Is there a way to consider sticking your toes in a little bit?

Roberts: Ronne [Thielen] and I worked on it—if you wanted to do a unit between 60 and 80, you would have to do a unit below 40.

Lacasse: Do you think that the environment is a little different?

Roberts: I don't find it any more accommodating.

Monica Sussman: As you know, Sec. 8 is up to 80 percent of AMI. Yet there was overlaying on top that said to target most of the turnover to people at 50 and then you go to extremely low.

So, I mean, I don't think any of us in this room will disagree that you ought to have flexibility to go up, but I am not so sure that that's likely to happen.

Hoskins: But the big problem is forget the 80 percent if you go up there. Let's use your schedule market rate in and try and offset the lower rent income.

You've got the next available unit rule that you're going to have to kind of deal with. And no matter what you pro forma out at the beginning of the deal, your market rent starts to decline just by the very nature of an individual.

If I've got a 60 percent resident that's paying \$800 a month in rent, and they go over so they become market, I have two choices. I can charge them the market rate, or I have to move the next market-rate unit individual in.

Most of these deals don't die the first couple of years. It's in year six, seven, eight, nine when you let time take its course that's creating a large portion of these financial feasibility issues. That and the median income limits where they remain stagnant for long

periods of time. Utility allowances go up. Rent starts to decline, and your operating expenses continue to go up.

Those are the items that need to be addressed because that's where the problem is with these deals, and that's why 33 percent of these deals can't make financial changes to their rent structures, and that's why they are underwater.

The fact that I don't think it's great that a small portion of these deals have only been foreclosed on. I think that's just masking the problem of reality. That doesn't solve the problem.

You've got to fix the fundamentals and make sure they're financially feasible because at the end of the day, you know, we are in the business of selling tax credits. Tax credits are being sold to folks who in theory are supposed to be able to use it to offset tax liability, which means they're making profits.

Well, at the fundamental basis, these properties ought to be able to make some cash flow because we are the core fundamental model of the whole thing anyway.

Hoereth: I would like to comment or add to both Patrick [Clancy] and Ronne [Thielen's] comment regarding tax credits in developing housing for people who are homeless, That's supportive housing. We are talking about folks who are at 30 percent or below of AMI. It is the hardest housing to be developed. Three pieces of funding are needed to build viable sustainable projects. We need capital. We need operating subsidies. We need service funding.

We have been around for probably about 17, 18 years, and we have thousands and thousands of supportive-housing units, and about 60 percent of our portfolio have all been done with tax credits, so it works. But agreeably it doesn't work alone with just tax credits.

Reznick: You just hit on it. It doesn't work alone. It requires that whether it be a voucher, whether it be some other form to that investor, he or she needs to see that stream of commitment for their full investment period or something that says, hey, this is what I have put up my money for. You're doing great things, and I would love to see it but give me the assurance that that extra stream will be there.

John [Zeiler], you've already talked that the investor group feels it doesn't want to deal with the Sec. 8 overhead above tax credit risks.

They don't want to see a loss of that transaction not working. Well, that's your issue also.

Hoereth: Absolutely. I completely agree. I mean, one of the things that we definitely have seen over the years, especially now given that we know that we need at least 10-year project-based Sec. 8 money in order to make our projects work.

Most of the cities where we work, there is no 10-year Sec. 8 money. So we have seen some cities and some states step up and create rental subsidy bills. We have seen that in Illinois. We have seen that in D.C. We have seen that in Jersey.

And as cities across the country continue to develop these 10-year plans to end homelessness, what we have also seen are interagencies finally starting to get together and sit down at the table and talk and earmark certain parts of their HOME funds and other soft funds that they actually have their hands on that will change the direction of the funding for a few years and try and make these deals work.

Most of these deals cannot handle debt. We understand how challenging these deals are. We also know what it takes to make those deals. It would be great if there was another source available that was out there where we did not have to use the tax credit program, and it would just be a soft funding stream that we use, but that's not our reality.

Our challenge is to continue to figure out a way to use 9 percent [credits], but also to be able to use HOME funds and whatever other funding sources are out there.

Zeiler: Maybe we should have a rating system. Bring Standard & Poor's in to rate the investment we are trying to sell to the investment community.

But if Fannie and Freddie were to come back in, it would not be an issue.

And my concern is that long-term that there needs to be stability and comparability in these transactions, and that's not what is here now.

Kelly: I just wanted to illustrate the broader point and the opportunity that a new administration brings, which is to say some of these funding streams aren't HUD funding

streams. So it stands out in the senior housing area and public housing as well as private developers.

A lot of our properties have become long-term care facilities. And what we really have to do is get outside of our HUD box to some extent and figure out how to get those Medicare, Medicaid, food stamp, transportation, and all of these other funding streams tied into our properties so we have the services and enhancement opportunities that Pat was talking about, but we are not going to jam them into the HUD budget.

Thompson: It seems like we've talked about a bunch of brilliant changes. We kicked around a bunch of proposals. Everybody here should be a legislator.

In the beginning I heard a lot of industry problems and general economic problems. I heard talk of return to basic projects on real estate fundamentals and all.

I am wondering if the new administration takes care of the financial problems and the liquidity problems and brings the banks back and Freddie and Fannie back or whatever, is that going to solve a lot of the problems that we talked about here today?

Who wants to take that?

Harvey: Let me try that one just for a moment. I'm going to take the opportunity to answer John [Zeiler] on this, too. Enterprise has a large portfolio of supportive housing, homeless housing, etc., which has performed extremely well. And it's been underwritten with multiple sources, etc., etc. It has a life of those subsidies, and a lot more can be done with that subsidy in place. But I think you'd get rated very well on performance, and there is certainly a need.

On the other side of this, I think they're separable issues. You could underwrite better no matter how much capital you have. I understand the pressures that are always a letdown on the underwriting side on the fundamental issue. I think the fundamental issue right now is you don't have enough capital, period.

And while you are saying you may not like to have Fannie and Freddie back in, would you rather have yields just crater and gutter?

Zeiler: I don't think that's necessarily a sequitur. I am happy to have Fannie and Freddie. I'm saying as an economic investor who's making this decision based on economics and underwriting because I think that's going to work long-term. That's all I am saying.

Harvey: I think we are saying the same thing.

I think a lot of those decisions—and a lot of us in this room worked with Fannie and Freddie—were economic decisions.

Where it may have been priced is a different thing, but I mean you have got Kim [Griffith] here who looked at these things, tried to pencil them out. They performed extremely well. So I don't think Fannie and Freddie threw money at the issue—I will let Kim talk for himself on this.

Griffith: Thank you. I do think that we did a really good job of underwriting to kind of go back and defend the program that we put together. Our portfolio is doing very, very well. And these are really tough times. So I think that the test of underwriting is performance-based on what's going on right now.

So I don't think it was the underwriting side. I think it was a demand question and supply question on the price. And there were three major investors that had 50 percent or more of the entire market, and those three investors went away over the last two years and that has created an enormous dislocation.

The CRA piece of the tax credit industry—the problem with that was hidden by the fact that Fannie and Freddie were putting in so much money. And so that the banks that were making CRA investments on the coast and other places got to put their money where that was, Fannie and Freddie were handling a lot of investments across the country.

When Fannie and Freddie pulled back, it just made that extremely clear. But CRA banks and Fannie Mae and Freddie Mac were making real estate decisions because they are real estate companies. One of the problems with expanding the investor base is that those are really fundamental real estate decisions plus tax planning decisions. And only institutions that were big enough to sort of look at long periods of time and bring asset management and make that kind of long-term investment were the investors in those markets.

I do believe that we did the underwriting appropriately.

Sheridan: On behalf of the developers here, we didn't create this crisis out there. Affordable rental housing actually has been performing very well as an asset class. So from the perspective that these deals need to be underwritten tougher, I don't think that's necessarily true.

I think that because of what's happened with the banks, obviously, we have to look at it tougher that way. These are generally good projects, and they performed well over time. So we need to somehow make sure that everybody is comfortable and that they're not performing worse than they were.

Herskovitz: There is a broad base of what was performing and underwritten. The transaction I have been involved in all around a Fannie or Freddie credit with certain exceptions.

The reality is when they were underwritten that way and they were seasoned appropriately and they did perform, but it doesn't go away from the issue that was raised by Lee [Harris] that there are a third of the deals out there that are not performing, however they were underwritten, and you know what, it's Nov. 5, 2008. If we are going to get these deals done, we are going to underwrite them today to the point where Freddie Mac is going to credit-enhance them or Fannie Mae is going to get somebody to buy your bond or you're going to get an investor sitting in this room to put up the money and be there on the last day. And you continue to argue that that's the commencement of the solution, it is going to take all of things that you're saying it is going to have to broaden the investor base somehow, it's going to have to find other methodologies to five-year, there are other methodologies that have to be used.

But Kim [Griffith] is right. These deals underwrote and, for the most part, they performed. On a portfolio basis, they absolutely performed, and they will continue to perform.

You've got issues coming around now as you get to the 10, 12, 14 years about where you go from there.

But I think that, yeah, the crossover expenses versus some of the 30 and 40 percent rents, you got all kind of issues out there, and unless you are addressing the whole, you are not

going to get the new deals underwritten because the players aren't going to want to play. It's all about the money. It's going to continue to be about the money. Again, we're all passionate about wanting to produce affordable housing. And we do. This group has done a better job of it over the 15 years than any other thing that ever came before it or probably ever comes after it. But you still need to look at a very practical method on how you get these new units to the market. And the way you get the new units to the market right now is they have to underwrite.

Reznick: That was very well said.

It is very interesting. If you were to really look at the portfolios that are underperforming—and we get the chance to see a lot of that because we are in there doing it year after year—a very significant portion of that are properties that had been projected to have rent increases of 2 percent a year, but there have been flat rents in many parts of the country. They really weren't poorly underwritten as much as circumstances have changed. They weren't even necessarily poorly built.

But what you do have is that the fact is there are that third. And we are going to have to worry about how we're going to keep that going, but unless we bring more money to the table, we're not going to get new deals done in the volume.

Everybody is upset around the table and talked about deals that they have done this year. It's just that it's only 50 to 60 percent of the total that we did in the past. Are we going to be content with that?

At the very beginning of this session or later on in the session, I think, Paul [Purcell], you brought out that, hey, Sec. 42 was really created to house poor people. That's not true. Sec. 42 is aimed at 60 percent of area median. It was not aimed at below 60 percent area median. That's why the rule is 60 percent of area median. It's the other competitiveness and real needs of the United States of America that have created the needs beyond below 60 percent of the area median, leave Sec. 42 alone and provide that gap coverage through other sources such as HUD vouchers.

HUD doesn't have to do what they did under 236 or 221(d)3. Just provide that subsidy so folks like Rob [Hoskins] can compete equally with folks like Patrick [Clancy]. You have

no problem putting these tenants in your property, you just have to make it make economic sense to you.

And, Patrick [Clancy], you don't have to—you don't mind doing that as long as you have the money to do that, and economically you still have got to pay the increasing expenses that are coming forward.

So I do believe as I said in my opening address, strong leadership of HUD has to be at this table next year because that's what's going to help cover some of this need and be able to give comfort to investors.

Sussman: Buzz [Roberts] and I were talking, and it was a lot of the same point. I said, you know, with what's going on with the economy now, people are assuming rents are going to go up. You see communities where rents are going down.

The new legislation proposed a floor for voucher rents. You don't really have a floor for other Sec. 8-based rents. And even if your tax credit rents—that maybe your ceiling doesn't change, you may not have people moving in paying more than what the market is going to bear.

I don't know as an industry that we have given a lot of thought to what happens when the economy turns around the way it has, and you have values going down the way you have them going down.

Reznick: Question. Comment.

Audience member: Steve Clagett with King County Housing Authority in Seattle. I heard you talk all around this issue, and David [Reznick] just touched on it. Maybe you can be real clear with me.

Do you folks favor that the tax credit program will be considered to the fundamental basis, which we then get more added support to build on that or here some people seem to be indicating well, the tax credit program article ought to go back to a 50, 60 percent of median income program and deal with some of these other issues with separate federal programs. Is it that we should boost federal programs to make them work better with the

tax credit program or leave this program alone and create some other programs for lower-income people and people who need supportive housing?

Roberts: I think the tax credit should be based on with other programs. I think the credit has brought terrific strength to all other federal programs that it touches the federal program could never get on its own.

And I don't think, you know, we could have 50, 60 and sometimes 70 percent of the construction cost paid for with tax credit equity.

Good luck to all of us. March up to the Hill and get them to fill that gap.

Thompson: Anybody have an opposing point of view?

Purcell: What I said was it creates a conflict with the state QAPs because the states are the place where they are looking and to support supportive housing and driving down the need.

Clearly the minimum conditions are not that difficult to meet and operate a project that's somewhat out in the community at 20 percent or at 50 percent of the median income at the market.

But, you know, that's not what the states need. The states are looking at this because it is the only production program. When you use this as the base, you've got to end with better programs or create new production programs that are targeted at extremely low-income program.

Zateman: First of all, King County has been able to figure out how to play from every side. So no matter what program is, you will be successful going forward.

But I would suggest that we are never, as Buzz [Roberts] said, going to get the level of direct appropriations that is needed as capital in our affordable housing recital in from a structure here it is just not going to happen and in public housing alone today we'll probably have a \$32 billion back need that's not what accrual that's what we haven't done in the last 20 years those solution really have to be based on some kind of private equity

investment balanced with a real public investment and I think the point about HUD being so instrumental you have.

You know, these are political and policy economic business issues, and the administration has really asked themselves completely I think from the policy dialogue about how we make these marriages.

But, frankly, I don't think any of the large housing authorities want to go back to a day where they are completely dependent on HUD in terms of policy decision and a full direct appropriations from the Hill because, you know, the evidence is not good. The track record is not very good.

I think your real issue is when you look about the needs—of course, our membership is down below. It's their ability to mix income communities. It may not be subsidized, but they want the 60 to 80 and 80 to 120 and above in their communities to have balanced communities.

And this, I think, really takes a step back to think policy-wise how do we integrate our finance systems, our debt finance and equity systems, our federal subsidy systems and our service dollars.

We have two-thirds of the households in public housing that has either a senior or a disabled person in it. We are creating in our subsidized housing program that it has to be now married to the service dollars

So I would say the policy change is the debt equity, the ongoing operating side, and the marriage of service dollars. And that's what we need leadership in Washington to see all of these perspectives and how they come together.

A speaker: First, I want to say at the end of two hours, one thing I heard—David [Reznick] finally got there is that HUD should be at this table next year with whatever they may have to bring.

My personal observation at the end of all this is that the king is naked. We are basically trying to figure out how we fulfill the needs—the housing needs with the amount of sources that are available would not solve the problem as it is.

So what we've been doing for two hours, everything that I heard is let's lean on the banks. Let's lean on the investors. I don't believe that any of that will solve the housing problem with this nation present time.

And the only thing that we need right now is fundamental change. And fundamental change does not mean anybody willing into the problems that we have with just the tax credit program, etc., etc.

I am going to ask how many people in the room have been in this industry prior to 1980, raise of hands.

Well, we have enough that they will know what I am talking about because in 1980, we decided as a nation by vote that housing was not a problem any longer. We reduced the number of poor people overnight by calling them 50 percent instead of 80 percent.

I am hoping that for the first time since 1980, since we have a solid two branches of the government, that is generally historically inclined more for the little guy that we will be able to expect fundamental change, not just a little bit of a tax legislation change or banking regulation change but rather a very substantial increase in HUD's budget—hopefully, additional supplemental programs to the tax credit or a very substantial expansion of the tax credit.

We haven't talked about what to expect. My question to the panel is does any one of you know whether we are lobbying in that direction or not?

Thank you.

Thielen: I think you definitely will. That was my point in the very beginning is that it is a new time. There are going to be new people in new places that are going to be thinking a lot differently than we have seen in quite a long time. That's why I am saying for the homeless and supportive housing or whatever, if we look back two years or you look at your applications now, you have been 4 to 1 in applications. Those aren't half homeless applications. Those are probably 90 percent, just you know people between 60 and 35 percent of the median income that a huge demand.

That's what the tax credit program was created to do. It wasn't created to do all of these other things. We made it work. Yes, we have. But we need to go back and look at this again and say, you know what, there needs to be a program for homeless that we can

support over the long-term, 30 years, not just a 15-year tax credit or a 10-year support services operating budget. We need some very, very fundamental changes. I am sure we are going to be asking for that.

Thompson: Any closing comments on the new administration?

Sussman: I think couple of things are key.

One of them at HUD that's been missing is you had career staff running the institution with virtually no direction from the top for basically the last eight years.

And some people will say, well, so and so and so and so are really bad people, and they are not bad people. They are career people. They have received no direction.

And if you tell them you've got a strong leadership at the top, and say this is what we want to accomplish, it is going to get done. They will do it.

So you have this Barney Frank draft housing. Ninety percent of that doesn't need legislation, but HUD refused to do what it needed them to do and so you have to go to the Hill to make them do that. So I think that's key.

HUD historically—and we have all sort of talked about it—but the tax credit program is the way to housing production programs.

HUD and the IRS don't talk. I mean, the last secretary came in and said who is the person from HUD who knows anything about the tax credit program. Nobody raised their hand.

So, you know, what's wrong with that picture.

So I guess my two cents is get strong leadership in HUD and get some conversations going between HUD and the Service. And say this is how these things need to work together. Don't really force the issue other than they have to communicate when HUD is implementing the provisions that are in here.

Thompson: This is my job here to kind of close the session. I really appreciate everybody that's come to the table with answers to our questions.

