

Multifamily Development Funding Programs

The office of Multifamily Housing, Development Division, administers programs to assist in the financing of the acquisition, construction, and preservation of affordable rental housing for low- and moderate-income Ohioans.

The Low-Income Housing Tax Credit (LIHTC) program funds the development of affordable housing throughout Ohio. State housing finance agencies, like OHFA, were delegated the responsibility to award these federal tax credits. Each year, the IRS allocates a limited amount tax credit authority to each state for the 9% LIHTC, based on population. The 4% LIHTC program allocation is determined by the state's Volume Cap funding. LIHTCs are claimed over a 10-year period.

Section 42 of the Internal Revenue Code lays out the parameters for the Housing Tax Credit program including application requirements, multiple underwriting reviews, and compliance monitoring procedures to ensure that developments achieve the goals of the program. With significant stakeholder input, OHFA annually develops a Qualified Allocation Plan to administer Ohio's federal Housing Tax Credits. This process includes a public comment period, allowing stakeholders an opportunity to provide input on the program guidance.

Tax credits are awarded annually to successful applicants and are not refundable. Developers rarely have enough tax liability to use the credits, so they engage investors, such as banks and insurance companies, to provide an equity investment in exchange for the tax credit benefit. These investments are used to pay off the property's construction loans and enable the property to maintain a modest mortgage payment that is supported by the required lower rents. In return, investors use the tax credits for ten years to reduce their federal tax liability and, in the case of banks and insurance companies, to help meet their Community Reinvestment Act requirements.

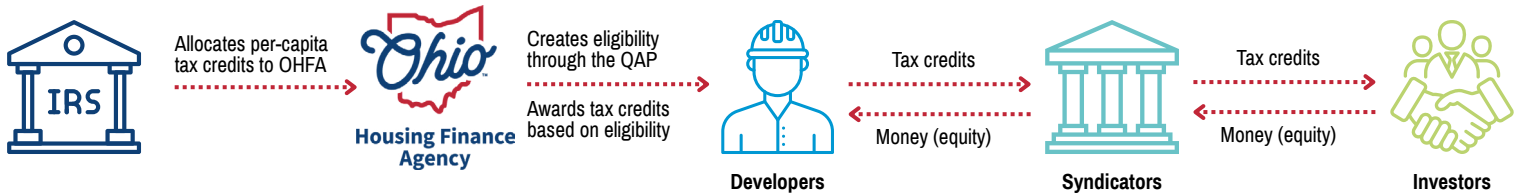
OHFA administers two types of federal Housing Tax Credits: 9% and 4%. The 9% LIHTC is awarded competitively, and an objective scoring matrix is developed and published in the Qualified Allocation Plan to provide applicants with transparency regarding how projects will be evaluated. The 4% credit can be awarded to eligible applicants as long as a development meets both OHFA and federal program requirements. The 4% credit generates less equity investment than the 9% credit and must be paired with a Multifamily Tax Exempt Private Activity Bond issuance that is counted against the state's Bond Volume Cap. OHFA also pairs the 4% LIHTC with the Ohio LIHTC, which has its own set of guidelines and is awarded annually.

4 PERCENT VS. 9 PERCENT

The LIHTC is designed to finance a portion of the total development costs of a development via an up-front equity investment by an investor in exchange for the tax credit benefit. The amount of equity is the result of a calculation based upon the amount of eligible expenses and which the LIHTC type is claimed, either a 4% credit, or a 9% credit. 4% credits are considered "as-of-right," meaning that as long as a development meets the program requirements, the development will be awarded LIHTC.

The 9% credit is awarded through a competitive process in which development proposals are evaluated against scoring criteria outlined in the HFA's QAP. The resulting equity investment depends on which type of credit the development is seeking: typically, developments seeking 4% credits receive an equity investment that amounts to approximately 30-40% of the development's total development cost, whereas the developments seeking 9% credits receive an equity investment that amounts to approximately 70% or more of the development's total development cost. Due to the smaller equity investment, 4% LIHTC developments often require higher amounts of alternative funding streams to make the development viable. On the other hand, while 9% developments receive larger equity investments, the process for awarding 9% credits is very competitive and demand far exceeds the supply of tax-credits available.





Example

The total development cost for a project is \$11,000,000. The amount of eligible expenses for the development totals \$10,000,000, and the development applies and is awarded a 4% tax credit. The tax credits awarded would be equal to \$400,000 (4% X \$10,000,000) per year for 10 years, or \$4,000,000 total. The development's investors then pay an up-front equity investment into the development at a negotiated rate for the tax credit benefit, which is usually .85-.90 per credit. The result is \$3,400,000-\$3,600,000 in equity investment into the property, or approximately 31-33% subsidy.

This example is amplified with a 9% credit award. The same development with \$10,000,000 in eligible expenses would yield a tax credit award of \$900,000 per year, or \$9,000,000 total over 10 years. Again, the development's investors pay an up-front equity investment valued around .85-.90 per credit, resulting in about \$7,650,000-\$8,100,000 in equity investment into the property, or 69%-74% subsidy.

LOW-INCOME HOUSING TAX CREDIT (LIHTC) PROGRAMS

The LIHTC program funds the development of affordable rental housing throughout Ohio. Although governed by the Internal Revenue Service (IRS), OHFA is responsible for allocating LIHTCs. The program includes two distinct types of LIHTCs: 9% and 4%. To be eligible for funding, all LIHTC projects must meet specific priorities outlined in the applicable program's Qualified Allocation Plan (QAP) or Guidelines. Both programs offer a federal tax credit that is equal to a percentage — 9% or 4% — of a proposed development's eligible development costs over the course of 10 years.

9% LIHTC

The 9% LIHTC is a limited resource. The annual 9% LIHTC credit ceiling is determined by multiplying the state's population by the IRS per capita multiplier. Developments seeking 9% LIHTCs generate an equity investment that amounts to ~70-80% of the total development cost.

4% LIHTC

The 4% LIHTC is not limited by the state's annual credit ceiling, but often requires additional layers of financing to achieve feasibility. Developments seeking 4% LIHTCs generate an equity investment that amounts to ~30-40% of the of the total development cost. To qualify, at least 50% of the development's aggregated basis and land costs must be financed with proceeds from residential rental private activity bonds.

4% LIHTC with Bond Gap Financing (BGF) Program

The 4% LIHTC with BGF program couples 4% LIHTCs with limited gap financing resources from the Ohio Housing Trust Fund (OHTF), National Housing Trust Fund (NHTF), and/or HOME Investment Partnerships Program (HOME) to develop affordable rental housing. This program is competitive and projects must meet specific criteria and priorities outlined in the state's 4% LIHTC with BGF Guidelines while layering additional federal and/or state requirements that accompany BGF resources.

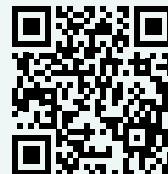
4% LIHTC with Ohio LIHTC

The 4% LIHTC with Ohio LIHTC program couples 4% LIHTCs with limited Ohio LIHTC resources. Ohio LIHTC is a state supplement to the federal LIHTC program, designed to create additional housing units that would not have otherwise been created with other state, federal, or private financing throughout state fiscal years 2024–2027.

Ohio LIHTC allows owners of qualifying affordable rental projects to claim tax credits against state taxable liabilities for 10 years. These credits are then purchased by investors or syndicators for equity to help develop affordable rental housing throughout the state.

Housing Development Gap Financing (HDGF)

The HDGF program provides gap financing for affordable housing proposals that do not include the use of the LIHTC. Funded through a portion of limited gap financing resources, the HDGF program is intended for smaller affordable housing developments, from four–24 units.



Scan the QR Code for more information.

QUESTIONS?

Contact the office of Multifamily Housing, Development Division at ohiohome.org/ppd/contact.aspx.