

HTCC Webinar

Investing in Main Street & Earning CRA Credit for Historic Tax Credits

December 5, 2016

Dial: 877.273.4202 | Room#: 151-512-066

Hosted by:



**HISTORIC
TAX CREDIT
COALITION**
www.historiccredit.com

Introduction: Panelists

- **Barry Wides** - Deputy Comptroller Community Affairs, Office of the Comptroller of the Currency
- **Sharon Canavan** - Community Development Expert, Office of the Comptroller of the Currency
- **Leigh Ann Smith** - SVP and Tax Credit Equity Originations Manager, Bank of America Merrill Lynch
- **Merrill Hoopengardner** - President, National Trust Community Investment Corporation
- **John Leith-Tetrault** - Chairman, Historic Tax Credit Coalition



Introduction: Webinar Overview

- Purpose of webinar
- History of the Community Reinvestment Act (CRA) and the federal Historic Tax Credit (HTC).
- Historic Tax Credit Coalition advocacy efforts to clarify when the HTC qualifies for CRA consideration.
- Issuance of new CRA Q&A in July 2016.
- Expanded focus on community development activities that are consistent with a plan to stabilize and revitalize areas that are designated for economic development.



About CRA

- Banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of their communities under the Community Reinvestment Act (CRA).
- Supervisory agencies (OCC, FDIC, Federal Reserve):
 - Assess record of helping to meet community credit needs
 - OCC CRA Regulation – 12 CFR Parts 25 and 195
 - Interagency Questions and Answers Regarding Community Reinvestment (CRA Q&As) www.ffiec.gov



Community Development Requirements for CRA Consideration

- Historic Tax Credit (HTC) investment must meet—
 1. **Definition of community development**
 - **Affordable housing** for low- or moderate- income (LMI) individuals
 - **Community services** targeted to LMI individuals
 - **Economic development** by financing small businesses or small farms
 - **Revitalization or stabilization** of **underserved** or **distressed** nonmetropolitan middle-income areas, **LMI** areas, or designated **disaster** areas
 2. **Geographic restriction**
 - In the bank's assessment area(s) or the broader statewide or regional area



Interagency Questions and Answers Regarding Community Reinvestment

Must have **primary purpose** of community development

- Majority of the dollars or beneficiaries of activity should be identifiable to one or more of the enumerated community development purposes

Responsiveness to community development needs

- Quantity—volume
- Quality—meets identified community development needs; evaluates impact or benefit to community as well as effectiveness, e.g. requires specialized expertise or effort
- Performance context—considers institution's capacity, business strategy, the needs of the community, and the opportunities for investments in the community
- Large Banks—**innovativeness** and **complexity** also evaluated



Interagency Questions and Answers Regarding Community Reinvestment

CRA Q&A Preamble language—Clarified historic tax credit investments may qualify if regulatory definition of community development is met by:

- **Promoting economic development**
 - Facility will house small businesses that support permanent job creation, retention, or improvement for LMI individuals, in LMI areas, or in areas targeted for redevelopment by Federal, state, local, or tribal governments
- Providing **affordable housing or community services** for LMI individuals
- **Revitalizing or stabilizing** a LMI geography, designated disaster area, or a designated distressed or underserved nonmetropolitan middle-income geography.

Federal Register, Vol. 81, No. 142, page 48509-48510, Monday, July 25, 2016



Affordable Housing



Affordable housing

- In mixed-income housing, pro-rata CRA consideration for percentage of units set aside for LMI individuals, even if majority of the dollars do not primarily benefit LMI
CRA Q&A §__.12(h)—8
Example:
 - \$10 million investment in mixed-income housing with 10% set aside for units affordable to LMI
 - \$1 million treated as qualified investment
- CRA consideration for entire amount of combined Low Income Housing/Historic Tax Credit project
CRA Q&A §__.12(t)—4



Community Facility



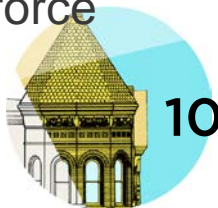
- **Community facility** that targets services to LMI individuals
 - Small business incubator
 - Employment training center
 - Community health center
 - Charter school
 - Homeless or women's shelter
 - Nonprofit healthy food cooperative



Economic Development: *Small Businesses*

CRA Q&A §__.12(g)(3)—1

- **Size test**—Project must involve financing a business(es) with gross annual revenues of \$1 million or less, or meet the size eligibility requirements for Small Business Development Companies
- **Purpose test**—Must support permanent job creation, retention, and/or improvement:
 - For LMI individuals,
 - In LMI census tract,
 - In an area targeted for redevelopment by federal, state, local, or tribal government
 - By financing intermediaries that lend to, invest in, or provide technical assistance to start-ups or recently formed small business or small farms, or
 - Through technical assistance or supportive service for small businesses or farms, such as shared space, technology, or administrative assistance.
 - Also meets purpose test if related to federal, state, local, or tribal economic development initiatives that include provisions for creating or improving access by LMI persons to jobs or to job training or workforce development programs.



Economic Development: *Small Businesses*



Economic Development for Small Businesses

Historic Tax Credit investment is in a project that:

- Will house small businesses with gross annual revenue of \$1 million or less, which provides 100 new permanent jobs (more responsive if majority for **LMI individuals**)
- Is in **LMI census tract** and will attract small businesses that meet size eligibility requirements for Small Business Development Companies or Small Business Investment Companies and provide permanent jobs that improve employment opportunities.
- Is in **area targeted by federal, state, local, or tribal government** and renovated structure will be occupied by *existing* small businesses with gross annual revenue of \$1 million or less, and will retain permanent jobs.



Revitalize or Stabilize: *LMI, Disaster, and Distressed Areas*

Must attract new or retain existing businesses or residents

- **Low- or moderate-income geography §__.12(g)(4)(i)—1**
 - Consistent with community's formal or informal plans for revitalization/stabilization
- **Designated disaster area §__.12(g)(4)(ii)—2**
 - Related to disaster recovery
 - Consistent with bona fide government revitalization/stabilization plan or disaster recovery plan
 - Investment in essential community-wide infrastructure, community services, and rebuilding needs
- **Distressed nonmetropolitan middle-income geography §__.12(g)(4)(iii)—3**
 - Consistent with bona fide government revitalization/stabilization plan
 - Investment in essential infrastructure or facilities

Greater weight to activities that are most responsive to community needs, including needs of LMI individuals or neighborhoods



Revitalize or Stabilize: *LMI, Disaster, and Distressed Areas*

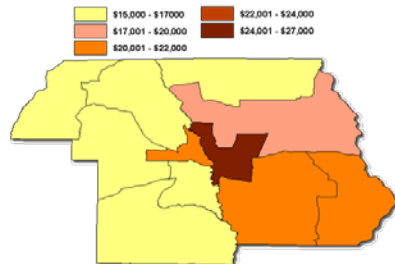


- Finance commercial space in **LMI area**.
 - Indirect or short-term benefits to LMI individuals or areas do not have requisite community development purpose

Q&A §__.12(h)—5



- Meet rebuilding needs by restoring historic homes in **designated disaster area**, if restoration related to governmental disaster recovery plan

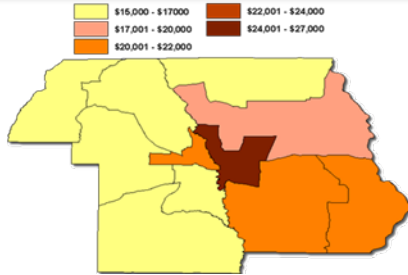


- Finance mixed commercial/residential in **distressed nonmetropolitan middle-income geography**

Activity must help to attract new or retain existing businesses or residents



Revitalize or Stabilize: *Underserved Areas Examples*



Underserved nonmetropolitan middle-income geography

- Must meet essential community needs
- Examples:
 - Hospital or community health center
 - Elementary school
 - Mixed-income housing development that includes affordable housing for LMI, meets essential community needs



CRA Q&A §__.12(g)(4)(iii)—4 4

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Browser address bar: <https://www.ffiec.gov/cra/default.htm>

Page Title: **Community Reinvestment Act** | FFIEC

Navigation: [FFIEC Main](#) | [Disclaimer](#) | [Privacy Policy](#) | [Contact Us](#) | [Search](#)

Distressed and underserved census tracts

Geocoding System

Interagency CRA Q&A

Community Reinvestment Act

CRA Main

- Distressed and Underserved Tracts
- CRA Ratings
- Interagency Q&A
- Geocoding System
- Aggregate Report
- Disclosure Report
- National Aggregate Rpt
- PDF Help
- HMDA

CRA

The Community Reinvestment Act (CRA), enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 195, is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate. In this section of the web site, you can find out more about the regulation and its interpretation and information on CRA examinations.

About CRA

- [Background & Purpose](#)
- [CRA Examinations](#)
- [Interagency Q&A](#)
- [Regulation](#)
- [Who Reports Data?](#)

How to File

- [A Guide to CRA Data Collection and Reporting](#)
- [CRA/HMDA Newsletter](#)
- [Data Entry Software](#)
- [Edits](#)
- [File Formats](#)
- [Submitting Data](#)

Public Data

- [CRA Data Products](#)
- [CRA Examinations](#)
- [CRA Ratings](#)
- [FFIEC Census and Demographic Data](#)
- [On-Line Reports](#)

What's New

- 8/18/16 - [Press Release](#) announces the availability of CRA data.
- 7/28/16 - [The 2016 CRA Data Entry Software Release 2](#) is now available.
- 7/15/16 - [Press Release](#) announces the updated [Interagency Questions and Answers](#).
- 6/30/16 - [The 2016 Census Data Products](#) have been released. - [The 2016 Geocoding System](#) has been updated with the 2016 Census demographic data based on the 2008 - 2010 five year estimate American Community Survey (ACS). - [Historical Census data](#) for years 1990 - 2007 are now available.
- 6/17/16 - [The 2016 Distressed/Underserved Tract List](#) is now available.
- 5/4/16 - [The 2016 Informational Guide Letter](#) is now available.
- [View More](#)

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Click here to sign up for e-mail notices of website updates.

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Last Modified: 08/18/2016 8:29 AM



Enter address

The screenshot shows the FFIEC Geocoding System interface. At the top, there is a search bar with a dropdown for the year (set to 2016) and a text input for the address. A red arrow points to the address input field with the text "Enter address".

Below the search bar, there are two panels. The left panel, titled "Matched Address", contains a table with the following data:

Address	
MSA/MD Code	
State Code	
County Code	
Tract Code	
MSA/MD Name	
State Name	
County Name	

Below this table is a "Census Demographic Data" button and a "User Select Tract" checkbox. Further down is a "Geocoding System" section with explanatory text and a "Census Updates" link.

The right panel shows the results for the address "4901 Manor Drive Oxon Hill Maryland". It includes a "Matched Address" table:

Address	4901 MANOR DR, OXON HILL, MD, 20745
MSA/MD Code	47894
State Code	24
County Code	033
Tract Code	8017 04
MSA/MD Name	WASHINGTON-ARLINGTON-ALEXANDRIA, DC-VA-MD-WV
State Name	MARYLAND
County Name	PRINCE GEORGE'S COUNTY

Below this table is another "Census Demographic Data" button and a "User Select Tract" checkbox. A red arrow points to this button.

To the right of the address input is a "Census Demographic Data" panel with tabs for "Census", "Income", "Population", and "Housing". The "Income" tab is selected, showing a table of income-related statistics:

	Census	Income	Population	Housing
Tract Income Level		Moderate		
Underserved or Distressed Tract		No		
2016 FFIEC Estimated MSA/MD Non-MSA/MD Median Family Income		\$105,700		
2016 Estimated Tract Median Family Income		\$58,516		
2010 Tract Median Family Income		\$55,632		
Tract Median Family Income %		55.36		
Tract Population		5467		
Tract Minority %		98.39		
Tract Minority Population		5379		
Owner-Occupied Units		803		
1- to 4- Family Units		967		

Community Affairs Webpage

www.occ.gov

- [Historic Tax Credits: Bringing New Life to Older Communities](#) (PDF) (May 2015)
- [Historic Tax Credits](#) (PDF) *Community Developments Fact Sheet*
- Historic Tax Credit Resource Directory
<http://www.occ.gov/topics/community-affairs/resource-directories/tax-credits/index-tax-historic.html>



Investor Perspective

Overview

- Bank of America Merrill Lynch is one of the largest institutional investors in projects benefiting from tax credits, with commitments of more than \$1.5 billion in equity in 2015 through our Community Development Banking team.
- In addition to Historic Tax Credits (HTC), we invest in Low Income Housing Tax Credits (LIHTC), New Markets Tax Credits (NMTC) and Investment Tax Credits for Renewable Energy (ITC).
- In the last 15 years, we've made more than \$1 billion in HTC investments.



Investor Perspective

- **Why do we (and other institutional investors) invest in HTCs?**
 - Relationships: This financing tool assists bank clients in developing a variety of real estate projects, including ballparks, museums, office buildings and apartments.
 - Return: Investing in the HTC and other tax credits provide attractive risk adjusted returns for institutional investors.
 - Regulation: Tax credit investments typically fall under social investment guidelines and often add to the institutions' Community Reinvestment Act (CRA) investments.
 - Responsibility: Helping preserve the historic fabric of our communities contributes towards corporate social responsibility goals.



Investor Perspective

- **How do we implement our strategy?**
 - Preferred legal structure: Form direct investment or master lease partnerships with local project sponsors.
 - Preferred properties: residential projects, retail and commercial properties, specialized-use projects.
 - Preferred developer: developer with a track record dealing with historic rehabilitation.



Investor Perspective

- **What do investors worry about?**

Recapture of the credit!!

- Structure/building must be an income producing property during the 5-year compliance period as dictated by the IRS.
- Economic control of the property may not change during the compliance period.
- Changes to the physical condition of the property cannot take place that have not been approved by the National Park Service (NPS).
- An adverse audit of the project may reveal a reduction of the basis for the credits taken.



Investor Perspective

How have HTC investments performed?

- Following NPS Part 3 issuance that certifies a structure as renovated historic, we monitor the maintenance of the historic structure and the economic performance of the property. Our experience with HTC investments has been overall very positive with recapture rates of ***less than 1%*** of the portfolio.

Asset Management tips:

- Communication with your partner: Early and often.
- Structure the deal in accordance with current IRS guidance.
- Exiting the investment: Have a clear written agreement at the beginning of the partnership.



Investor Perspective

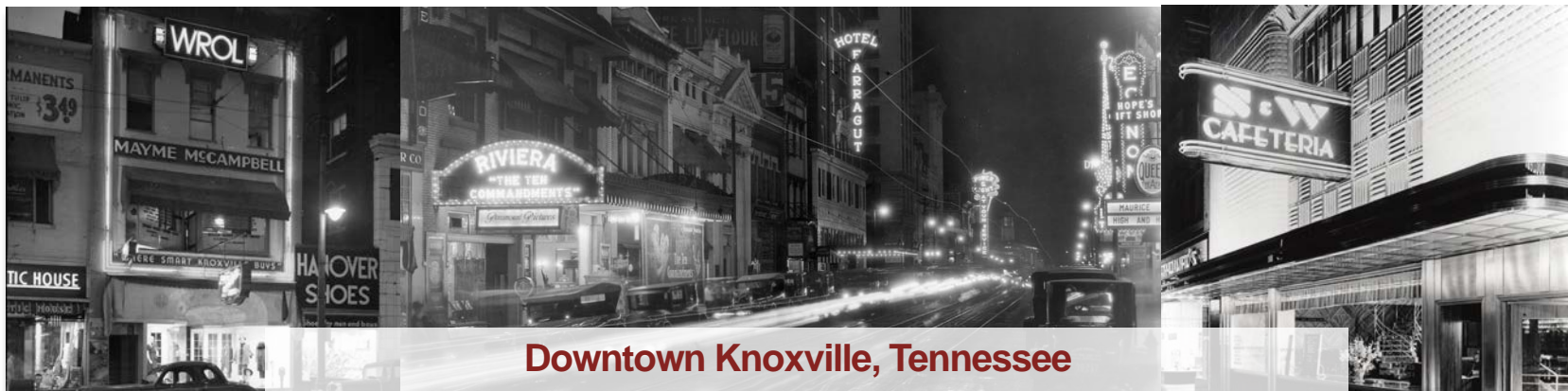
HTC & CRA – factors for consideration

- If the project is located in an economic or redevelopment district, how does the development fit within that plan?
- What are the direct benefits to Low/Moderate Income (LMI) individuals/families? Does the project include affordable housing, job training, health or other human services?
- How many jobs will be created and how many of them will be accessible to LMI persons?
- What benefits will accrue to small businesses?
- If the project includes housing, what are the rental rates? Are units affordable? For what income level? Are there units targeted to low-income artists, handicapped individuals or senior citizens?
- What government programs or subsidized sources of financing are involved?



CRA Case Study

500 Block of Gay Street - Knoxville, TN



- **Historic Property Uses** – Gay Street was greater Knoxville’s retail center until the 1970s when the growth of the city’s suburbs and the development of regional malls diverted commercial shoppers away from downtown. The 500 Block once featured the iconic S&W Cafeteria.
- **New Property Uses** – 28,000 square feet of retail, office and institutional space for a cosmetology school, gelato/deli shop, restaurant and 2 architectural design firms.

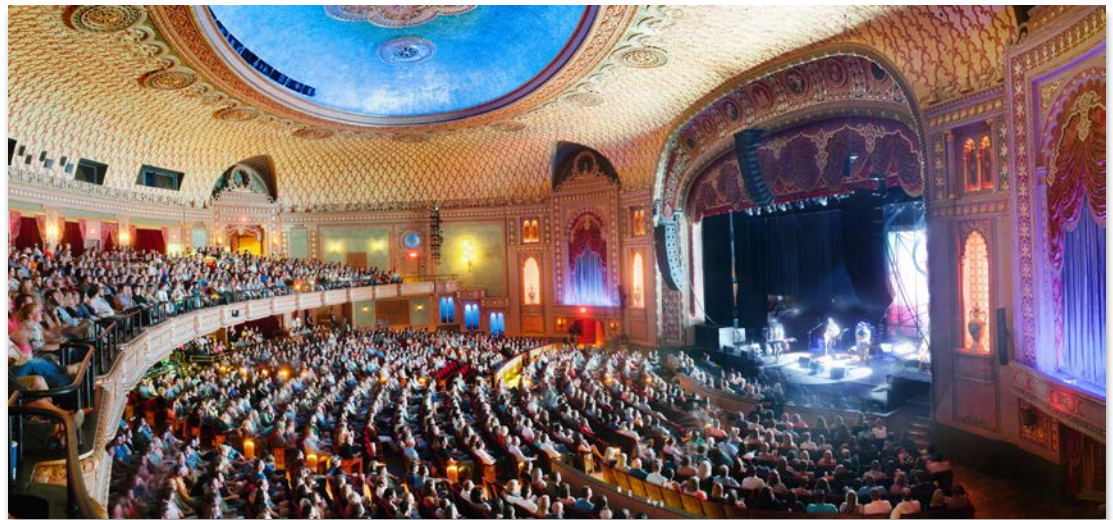


CRA Case Study

500 Block of Gay Street - Knoxville, TN



- **Related Adjacent Redevelopment**
 - **8-Screen Regal Cinema**
 - **Tennessee Theater**



CRA Case Study

500 Block of Gay Street - Knoxville, TN



• Location

- Federal Empowerment Zone, SBA HUB Zone. Knoxville Redevelopment District. TIF District
- **LMI Census Tract - 42.21%** area median income

• Financing

- **\$5.48 million** Total Development Cost
- **\$2.6 million** loan from Pinnacle Bank
- **\$986,267** HTC Investment

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CRA Case Study

500 Block of Gay Street - Knoxville, TN



- **CRA Attributes/500 Block**
 - **100** total jobs created; **60** full-time, **40** part-time
 - **40%** of full-time and **80%** of part-time jobs are estimated to be accessible to LMI individuals
 - **50-100** cosmetology students train in 11,000 sf facility
- **Impact of Related Adjacent Developments**
 - Over **49,000** visitors from outside Knox County have spent an estimated **\$4.9** million in the community, generating **\$454,700** in local sales taxes
 - Over **1.6** million attendees at Tennessee Theater since 2005 renovation
 - Regal Cinema is second largest grossing theater in metro area

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CRA Case Study

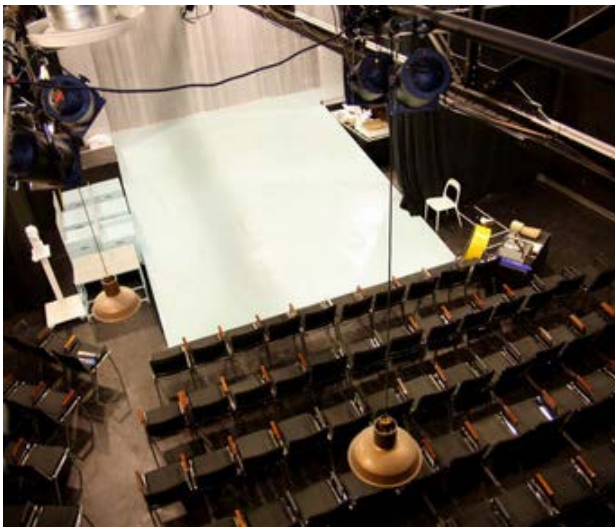
Tire Shop - Baltimore, MD



- **Historic Property Uses** – Tire sales and installation shop
- **New Property Uses** – 21,000 sf of space for a full-service restaurant, ensemble theatre company, and office space for arts and public education supporting nonprofits.

CRA Case Study

Tire Shop - Baltimore, MD



- **Location**

- **Maryland Economic Incentive Area:** Enterprise Zone; SBA HUB Zone and Food Desert
- **LMI Census Tract - 59%** area median income

- **Financing**

- **\$3.78 million** Total Development Cost
- **\$460,394** HTC Investment



CRA Case Study

Tire Shop - Baltimore, MD

- **Related Redevelopment**
 - **Miller's Court**
 - **Remington Row**
 - **Single-family home rehabilitation**



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CRA Case Study

Tire Shop - Baltimore, MD

- **CRA Attributes/Community Impacts**

- **55** total jobs created or retained; **30** full-time, **25** part-time
- **35%** of jobs estimated to be accessible to LMI individuals
- Meets **Remington Neighborhood Plan** by renovating and old industrial building for uses that promote resident social interaction. Removes a blighted property from a key intersection.
- Project is part of larger redevelopment plan that includes affordable housing for public school teachers, market-rate rental housing, single-family for sale home rehabilitation, nonprofit office space, convenience retail and the neighborhood's first pharmacy.



CRA Case Study

Boilermaker Shops - Washington, DC



- **Historic Property Uses** – Former 46,000 sf navy ship boiler manufacturing plant in Washington Navy Yard
- **New Property Uses** – restaurants, bars, retail

CRA Case Study

Boilermaker Shops - Washington, DC



- **Location**

- **Economic Development District -** Capitol River Front Business Improvement District – master plan development that includes housing, office space
- **LMI census tract -** 62.1% area median income; Unemployment 5.4x national average

- **Financing**

- **\$21.6 million** Total Development Cost
- **\$3.9 million** HTC Investment

CRA Case Study

Boilermaker Shops - Washington, DC

- **CRA Attributes/Community Impacts**

- Job creation - **217** total jobs, **92** FTEs; **95%** newly created jobs
- average wage \$12/hour, **50%** provide professional development opportunities and **64%** pay benefits.
- **90%** of jobs taken by District of Columbia residents, **60%** did not require a college degree.
- Highly accessible via public transit (workers don't need a car)



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CRA Case Study

Saint Hotel - New Orleans, LA



- **Historic Property Uses** – Circa 1909, 83,000 sf, 8-story office building, closed due to damage from Hurricane Katrina in 2010
- **New Property Uses** – 168-room Indigo Hotel

CRA Case Study

Saint Hotel - New Orleans, LA



- **Location**

- **Economic Districts** - SBA HUB Zone, State and City Economic Distress Zone, federal disaster area, Downtown Development District
- **LMI census tract data** – 43.4% AMI, 1.57x national unemployment average

- **Financing**

- **\$17.2 million** Total Development Cost
- **\$3.0 million** HTC Investment

CRA Case Study

Saint Hotel - New Orleans, LA

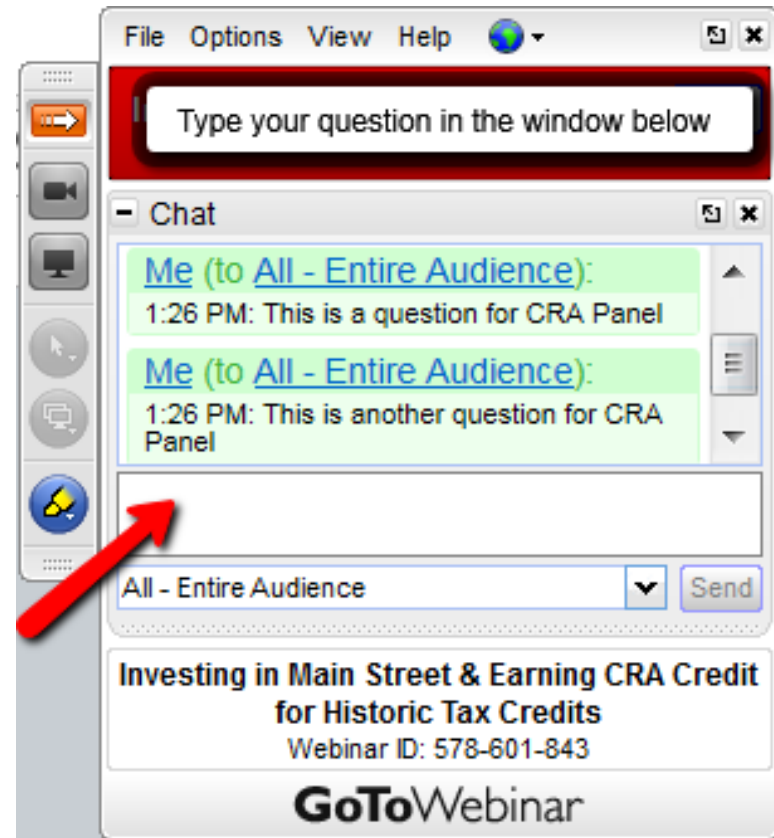
- **CRA Attributes/Community Impacts**

- **Job creation** – 38 new full and part-time positions (hotel management, front office, housekeeping, maintenance, food service), 3rd-party vendor employs 15 housekeepers
- Bar manager started as a cocktail waitress, 2 former desk clerks are now front office managers
- **Full-time positions** - pay \$35,000-55,000, part-time \$10-15/hr
 - 90-239% of local livable wage
 - no job requires a college degree
 - owner hires for personality, work ethic and intelligence
 - will hire people with misdemeanor record, no high school degree
 - does extensive on-the-job-training



Conclusion

- Please type all questions into “Chat” window in webinar control panel.
- Questions will be answered in the order they are received.
- All registered participants will receive a follow-up email with link to recorded webinar & copy of presentation.



Question & Answer

For follow-up questions visit:
<http://historiccredit.com/contact/>

- Enter name
- Enter email address
- Enter question in message box

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