

LIHTC OVERVIEW

LOW-INCOME HOUSING TAX CREDIT

The federal low-income housing tax credit is one of the most effective tools ever created for financing the development of affordable housing. Enacted in 1986 as a way to encourage private investment in the sector, the credit has helped fund approximately 2.7 million new homes that are affordable to low-income families, the formerly homeless, the elderly, the mentally handicapped and others with special needs. It underpins 90 percent of all affordable rental housing developments and creates more than 95,700 jobs each year.



HOW DOES THE CREDIT WORK?

The federal government allocates low-income housing tax credits to each state based on population. The state, through its state housing finance agency or other allocating agency, then awards those credits to projects that best meet its Qualified Allocation Plan (QAP), which outlines the state's goals for affordable housing. Each state establishes its own policies and procedures to determine which developers qualify for credits.

Once awarded credits, a developer sells them to an individual investor or, more commonly, to a tax-credit syndication fund made up of equity from one or from many investors. In return, the investors receive a credit against their federal income tax based on the size of their investments. They can also realize losses, which provide an additional tax benefit.

WHAT IS THE SYNDICATOR'S ROLE?

Tax-credit syndicators help bridge the gap between the various parties to affordable housing transactions. Syndicators raise money from investors and identify low-income housing projects in which to invest that capital. Non-profit syndicators, like National Equity Fund®, are particularly focused on building long-term relationships with partners.

NEF's originations and asset management professionals work closely with developers to not only structure and close on project investments, but to also deliver the kind of technical assistance that ensures the financial and operational success of projects for many years to come. At the end of the 15-year compliance period for a project—as required by the federal regulations—we help provide strategies for maintaining the property as decent, affordable housing, while developing a successful exit strategy for investors.

Our investment relations team has a similar focus on the needs of investors, ensuring they get access to the types of projects they would like to acquire and the reporting tools they need to manage those investments.

Both the originations and the investor sides of the business further NEF's resolve to help revitalize communities across the country. We bring together community-focused investors and project sponsors to help make that happen.

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