Bond Case Briefs

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Developers, Banks Push to Close Bond Deals.

It's crunch time as the industry tries to stay ahead of potential tax reform changes.

Affordable housing developers and their financial partners are working hard to close private-activity bond (PAB) deals in the final weeks of the year.

The fourth quarter is typically a busy time for the low-income housing tax credit (LIHTC) industry, but there's even more urgency this year. The tax bill passed by the House eliminates PABs, a critical tool in financing the production and rehabilitation of affordable housing. The Senate tax bill retains bonds, so it's left up to members of both houses to reconcile their differences.

Concerned about the fate of PABs, developers and bond financiers are attempting to close those deals in 2017.

Roughly half of all low-income housing tax credit (LIHTC) developments utilize tax-exempt bonds and 4% credits, and losing the use of the bond program could mean roughly 60,000 fewer affordable homes are built or rehabilitated each year, estimate authorities.

Dominium, a leading affordable housing developer and owner, has approximately 13 deals that it's trying to complete the financing on in some capacity.

"Some will close in normal course, but we're doing everything we can that come the end of December we are in a position to capture as many deals as we can," says Chris Barnes, vice president and senior project partner at the Minnesota-based firm.

In prior years, Dominium has typically had between one to six bond deals set to close at the end of the year.

In addition, the company has about another 11 projects that have bonds that remain to be drawn. "We're trying to get those drawn ahead of schedule in case the worst-case scenario comes out. We're working with our lenders, fiscal agents, and issuers to get that done," Barnes says.

If the House tax plan passes, housing officials hope that Congress will adopt transition rules that would allow deals that have closed earlier to go ahead and complete their draw down in 2018 and 2019 on a tax-exempt basis so long as a draw down is consistent with the original documents and are not modified in a way that triggers a tax law reissuance. But, concerns that transition rules may not cover this issue have developers and their financial partners looking at drawing down bonds this year.

People have been a little hesitant to bring up transition rules because they don't want to appear to be conceding defeat on tax-exempt bonds. No one is ready to give up on PABs. Affordable housing supporters have been urging members of Congress to preserve the bond program.

Working on deals

In the meantime, bank and other financial leaders are doing what they can on bond deals.
"An affordable housing transaction is far more complex than a typical real estate transaction," says Richard Gerwitz, managing director and co-head of Citi Community Capital. "It takes time to structure and process. It's hard to 'push' a transaction before its time. But to the extent that our clients have projects that were already in process and were planning to close sometime in the beginning of 2018, it hasn't been unusual for them to ask if we could facilitate a closing this year. We're doing everything we can to accommodate them."

The situation also depends on how much bond cap states have available. "Some utilize all of its PAB allocation on current year transactions while others states have bond allocation available and are dispersing as much as they possibly can to projects that qualify," Gerwitz says.

While it is still undetermined how many transactions Citi Community Capital will close in the final four weeks of the year, the number of deals may increase by as much as 50% over what was originally planned for the month, estimates Gerwitz.
Bank of America Merrill Lynch and Wells Fargo officials also are working on bond deals.

"We are pushing to close those deals that were originally scheduled to close in 2017 and that are appropriately structured in light of concerns raised by the House bill," says Michael Lavine, head of Wells Fargo's LIHTC program.

The bank has a slightly higher number than usual, according to Lavine. "The higher number is more due to the general delays the market suffered during 2017 in the aftermath of the election, rather than the more recent House bill," he says.

The latest efforts are broader than just closing on new deals by the end of the year, adds Iris Bashein, senior vice president, community development banking group, at Bank of America Merrill Lynch. Like Dominium's Barnes, she points to earlier bond deals that still have proceeds that need to be drawn.

"We're also trying to make sure that any deals that did not fully draw at closing will draw all of their bond proceeds by the end of the year," she says. "That's significant."

Anything that the bank has in the pipeline that was planning to close, officials are working to hit that closing date and make sure those deals don't slip into next year, Bashein says.

"There are a handful of deals that are fully baked, but, given where they are in the closing process, there's a chance they might not make it before year end," she says. "At the advice of counsel, we're looking at doing bond-only closings before the end of the year for those few deals and then wrapping up the real estate closings in the new year."

Bond participants will be closely watching how tax reform efforts proceed.

"If we see something happen in the near-term and the House and the Senate agree on a tax bill where PABs are retained, I expect that developers will be willing to wait until next year to secure an allocation of bonds; they'll continue with business as usual," Gerwitz says. "However, if we go into the end of the year without an agreement between the House and Senate, I think developers will continue to ask us to close their deals early."

Affordable Housing Finance

By Donna Kimura

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