



MERRITT MESSENGER

THE NEWSLETTER OF MERRITT COMMUNITY CAPITAL CORPORATION

CASA GRANDE SENIOR APARTMENTS *won the Governor's Environmental and Economic Leadership Award in the category of Sustainable Communities.*

When Public Private Partnership Pays Off: 20 Years Housing Californians

On Friday, November 6, 2009, Merritt Community Capital Corporation celebrated its 20th anniversary of providing affordable housing for people throughout California. One hundred thirty-five colleagues, current and former board members, and new and old friends gathered with us at the Lake Merritt Hotel to celebrate Merritt's history, accomplishments and bright future.



Over the years, Merritt's annual luncheons have celebrated the partners who have been so vital in our achievements. This year we wanted to reflect on the success of the initial partnership that brought Merritt into being 20 years ago.

In 1989, Roy Schwyer, Merritt's current Vice Chairperson, was the Director of Housing and Community Development for the City of Oakland. He recalled, "We wanted to improve the leverage of scarce city resources and the newly created Low Income Housing Tax Credit (LIHTC) seemed like a good possibility." With the help of David Rosen as a consultant and Antoinette Hewlett, City of Oakland staff member, they began to turn that dream into a reality.

The first incarnation of Merritt Capital, called Community Alliance for Syndicated Housing Inc. (CASH Inc.), was envisioned as a public private partnership to deliver equity capital to nonprofit affordable housing developers in order to create housing for underserved populations. The City of Oakland provided loans that were used as seed money to launch CASH Inc.'s first investment funds as well as to pay salaries of city staff working on the new venture. The investment funds used the LIHTC program to attract private businesses to invest in affordable housing by providing a dollar for dollar tax credit against their tax liability. > *Continued on page 6*

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Tax Credit Investing in 2010

Over the past 18 months those of us in the affordable housing business have been inundated with bad news: the financial meltdown, the take over of Fannie Mae and Freddie Mac by the Treasury, the disappearance of many investors from the tax credit market place and the loss of several banks, such as Washington Mutual. Add to that the liquidity crisis facing many large syndicators and the impact on properties when promised equity did not materialize, and one can appreciate the concerns facing advocates of affordable housing across the country.

In spite of such negative news, it appears that the worst may be over and the market may be on a trend back to “normalcy”. Fast and effective action by Congress and the Administration provided substantial temporary relief with the TCAP and Exchange programs but a serious shortfall in new investor capital remains. But why?

As I write these notes, the yield on the 10 year Treasury is around 3.75%, a 6.25% spread below the current return on Low Income Housing Tax Credit investments, many now producing a 10% IRR. That is a huge spread for a very sound and proven investment, particularly for any bank or regulated financial institution, and presents a unique opportunity to secure a CRA qualified investment and a 10% IRR. The banks and public utilities should be knocking at our doors. Especially since tax credit investments, particularly in California, outperform all other real estate based investments by a wide margin and exceed the return on other alternate CRA qualified investments, such as qualified tax

Since we are a local, California-based firm, we know the local markets, local developers and we can and do provide a very hands-on approach to asset management. Moreover, with a portfolio of 60 plus sound project investments, we have implemented a diversified portfolio investment strategy: new construction vs. rehabilitation, family vs. senior and special needs properties, and locations in over 21 California Counties. For those investors that prefer a single investor approach over the multi-investor fund, we can provide total asset management and compliance services on a fee basis, as we do now for PG&E and Silicon Valley Bank. In the area of 4% tax credits issued in conjunction with tax exempt housing bonds, participation in a multi-investor fund can resolve “substantial user” issues for a bank that plans to provide both loans and equity investment in a specific project, provided the investor holds less than a 50% participation in the fund itself.

Since 1989, Merritt has a great track record, raising over \$336 million in 13 funds while

Tax credit investments outperform all other real estate based investments by a wide margin, exceeding returns on other alternate CRA qualified investments.

exempt bond issues, which yield around 5% for much longer maturities.

Yet, my phone is not ringing! We are having a very hard time raising interest in a LIHTC investment from a host of potential investors, especially among small and mid-sized banks. In addition to a quality investment with an above market return, there are several advantages to a LIHTC investment with a state or local equity fund.

meeting or exceeding projected returns for each and every fund without accessing upper tier reserves for any reason. These features, when added to the returns available in today’s market make the Low Income Housing Tax Credit an investment opportunity that should not be overlooked. If you need more information, please call or email me at bdeasy@merrittcap.org.



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Moving Towards Sustainability

JOHN CHAN

REPORT FROM
THE BOARD CHAIR

Happy 2010, good riddance 2009. As I write this, I look back to one of most difficult and tumultuous times ever in the economy, and especially the financial services industry. TARP, ARRA, and stress tests are just a few of the things that entered our thoughts and vocabulary in 2009.

As the Board Chair of Merritt Community Capital Corporation and a long time participant in affordable housing finance, I can honestly say that 2009 is a year that very few of us will ever want to repeat. As Merritt's esteemed President, Barney Deasy, notes in his report, the impact of the financial meltdown has had a very profound impact over the tax credit industry over the past 18 months. The industry had grown accustomed to the unreasonable expectation that the demand for tax credits would continue to grow as it had over the prior twenty years. There seemed to be a mentality that "if we build it, they will come" with the loss of focus

what they say" and "tough but fair" are regularly repeated which is a testament to the quality of Merritt and its staff.

Yes, 2009 was an extremely challenging year with sea changes in the affordable housing industry. However, I do see some hope on the horizon and a better 2010. After a very quiet period in the first half of 2009, whispers of new equity raises from non-bank investors started to emerge during the second half as yields pushed to 10% and beyond. The State of California, while still in a dire financial position, has been able to work through many of the issues relating to the new programs

The State of California has been able to work through many of the issues relating to the new programs created with TCAP and Section 1602 Exchange.

on a couple of key fundamentals. First and foremost, an investor must have taxable income, and thereby taxes to pay in order for tax credits to be of value. The industry had become too reliant upon Fannie Mae, Freddie Mac and the major banks, and their seemingly endless appetite for investments that provided returns barely in excess of US Treasuries. Second, as the investments are a minimum of fifteen years in duration, the experience and capacity of the sponsor, and the quality of the product and the neighborhood are key to their long-term success.

I am very pleased to note that Merritt continues to be here, doing what it has always done over the past twenty years—providing equity capital to support the creation of high quality affordable housing with some of the best developers in California. As I speak with developers throughout the state, phrases like "they do

created with TCAP and Section 1602 Exchange, and deals are finally moving forward this quarter. In addition, Congress is considering extension of the Exchange Program through 2010.

I, like Barney, am hopeful that 2010 will be a year in which we trend back to a sustainable balance wherein the demand for tax credits and the availability of bank credit improves, allowing good projects to move forward, and meeting the housing needs for our less fortunate neighbors.



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Merritt Scholarships at Two Bay Area Universities: People Making Affordable Housing Happen

The combination of the scholarship and internship program provides students with the opportunity to deepen their understanding of affordable housing, as well as to gain hands-on experience.



CALIFORNIA STATE
UNIVERSITY
EAST BAY

In 2008 Merritt's Board of Directors began discussing ways to stimulate interest in careers in affordable housing development and management. The Low Income Housing Tax Credit industry has been around for more than 20 years. However, that makes it a new niche in the more mature market of real estate.

Outside our industry we are relatively unknown to the general public yet it is a complex, challenging and fascinating industry that always needs new talent. After all, without people creating and managing affordable housing, it would not succeed.

To that end, Merritt's Board decided to allocate funds to scholarship programs in the Bay Area as a way of introducing business and planning students to the area of affordable housing as a viable career opportunity. Board and Staff members identified universities with existing Urban Studies and Planning or Real Estate Management programs, met with university leaders, and subsequently established Merritt Scholarship programs at both California State University East Bay (CSUEB) and San Francisco State University (SFSU). The scholarships provide support for full tuition for two qualified students each year at each institution. Both programs require a minimum 3.0 GPA in related coursework, a statement of interest in the majoring field, and an interview process.

At CSUEB, the scholarships support Business Administration students with a Real Estate Management Option. In addition, Merritt Scholars at CSUEB participate in a 6 week paid internship with a Merritt partner to gain valuable experience working amongst affordable housing professionals. This is the first full scholarship for the Real Estate Management Option at CSUEB's College of Business and Economics which has been accredited by the Association to Advance Collegiate Schools of Business (AACSB) since 1973. Its AACSB accreditation was reaffirmed in 2009. Dr. Terri Swartz, Dean of the College of Business and Economics, said of the scholarship: "The college is excited to partner with Merritt Community Capital Corporation to increase student interest in affordable housing. The combination of the scholarship and internship program provides

students with the opportunity to deepen their understanding of affordable housing, as well as to gain hands-on experience. Merritt has set a wonderful example and demonstrated its on-going commitment to the field."

Daniel Ponce was the first Merritt Scholar at CSUEB. During summer 2009, he interned with Eden Housing in Hayward and performed a post-occupancy evaluation on five Eden Housing properties. You can read about Mr. Ponce's experience in his write-up on the facing page. He worked hard and upon completing his internship, Eden Housing offered him a fulltime position as a property manager in Richmond.

At SFSU, the Merritt scholarships are the first and only scholarships supporting students majoring in Urban Studies and Planning. This program has an internship option as well as a senior seminar both of which provide real world opportunities for students to explore professional work in their area. According to Dr. Ayse Pamuk, Chair of the Urban Studies and Planning Department, "The Urban Studies program was established in 1967 and the first B.A. in Urban Studies degrees was awarded in 1970. In fall 2008, SFSU granted us department status and a name change. The academic unit is now officially Department of Urban Studies and Planning."

Ryan Thayer and Jana Boring are the first Merritt Scholars at SFSU. Both expressed appreciation of the opportunity that tuition support has provided for them. Mr. Thayer said that this is the first year he has been able to fully concentrate on his studies since he doesn't have to hold down a full time job as well. Ms. Boring said, "It is an honor to have been awarded the Merritt Community Capital Scholarship." While she completes her degree she continues to work as the Program Coordinator and Lead Instructor for the Bay Area Sustainable Building Advisor Program, a green building certification course.

Affordable housing is an integral component of city planning and community development strategies and the career development of committed housing professionals is vital to the continued success of our current housing delivery and management systems. Merritt Board and Staff are very pleased with how the program has been going and that our success can help foster the success of others. The timing for implementing the

Merritt Scholar program also worked out well, since during these tough economic times students are struggling with increasing fees. As Andrea Rouah, Director of Development for the College of Behavioral and Social Sciences at SFSU, said, "The generosity of Merritt is giving top Urban Studies and Planning majors the opportunity to lessen financial pressures while they learn about public policy and the need for affordable housing."



Affordable Housing Internship: Post-Occupancy Evaluation at Eden Housing

My name is Daniel Ponce and I was a student attending Cal State East Bay majoring in Business Administration with an option in Real Estate Management. Over the Winter 2009 quarter, I was made aware of an internship opportunity being offered by Merritt Community Capital Corporation through my real estate finance professor, Dr. Tammie Mosley. I decided that I would give it a shot and apply. Once I did, I was called back for an interview and then awarded a scholarship and summer internship at Eden Housing, Inc. located in Hayward. I was very excited at the opportunity to see affordable real estate development and management firsthand.

Once I arrived at Eden Housing, I was introduced to the staff and right away was briefed on the project that I would be working on. The project consisted of me gathering feedback through surveys and resident meetings at five of Eden's properties, two senior and three multi-family properties. Once the briefing was complete, I began putting together the survey by talking to Eden's developers and property managers to come up with questions that would assist them in improving current services and future properties. Once

the survey was complete, it consisted of 86 questions that addressed areas such as property location, apartment interior, property management, and the move-in process. The survey was then distributed to each of the properties. In addition, I worked with property management to coordinate a resident meeting date for each location.

After the survey distribution, Eden staff and I followed up with resident meetings at each of the locations. At the meetings, I asked residents questions about the property's features such as kitchen, bathroom and bedrooms to initiate the conversation. Residents responded with what they thought worked and what could be improved upon. As the discussion was happening, another Eden staff member recorded responses. There was a good turnout at all of the resident meetings which in turn provided us with an abundance of feedback to include in our survey analysis.

Once the survey data and resident comments were collected, I analyzed the information and put it into a report that was eventually passed on to development and property management staff. My internship at Eden Housing concluded with me giving a final

presentation to Eden's central office staff about my findings, which included areas the residents thought were great about the properties and areas that could be improved upon.

I want to take this opportunity to thank Merritt Community Capital Corporation and Eden Housing for providing me with the opportunity of an internship at Eden Housing this past summer. I learned firsthand what it takes to develop a property, to manage it, and the importance of resident feedback in improving this process in the future. Before the internship, my sights were set on working in the private commercial development industry after graduation. After the internship, I learned such a great deal about the affordable housing industry that it made me re-think my long term goals and consider a career in affordable housing property management. Not only did the internship provide me with personal experience in the industry but it also narrowed the type of career I would like to have in it.

Public Private Partnership

Continued from page 1

Richard Winnie, the first Chairman of the Board, regaled us with tales about the ups and downs of Merritt's history and of how well Merritt has done throughout these cycles. "In the early years, in particular, when investors knew little about LIHTC it was difficult to convince CEO's that community investment was a good idea." However, PG&E Corporation, an investor in Merritt's first fund and only direct investor, understood the vision of the LIHTC program. Winnie asked Richard Clarke, then CEO of PG&E, why he was doing this investment. Clarke responded, "PG&E does well when the communities it serves do well."

In its 20 year history, Merritt Community Capital Corporation has raised over \$336 million through the creation of twelve equity partnership funds and a direct equity investment fund. This capital has financed the creation and rehabilitation of over 4,400 units of affordable housing in 21 California Counties.

With strong market expertise, sound underwriting practices, and rigorous asset management, Merritt has experienced stable growth over the past 20 years and delivered consistent returns to investors. As a result of this success, it was Merritt's great honor at this 20th Anniversary celebration to present to the City of Oakland a check for \$180,000, the first installment repaying city loans. Walter S. Cohen, Agency Director for the Community and Economic Development Agency of the City of Oakland accepted the check on behalf of the City. Cohen asked Winnie and Schweyer to join him on stage as a tribute to their initial vision of how public private partnerships can reap rewards on many fronts.

In November 2010, Merritt looks forward to returning to its customary luncheon format of honoring housing partners with awards for Investor of the Year, Sponsor of the Year, and Project of the Year.



PG&E does well when the communities it serves do well.

Merritt Capital and OCCH Partner to Form NASLEF Management Team

Merritt Community Capital Corporation and Ohio Capital Corporation for Housing (OCCH) have teamed up to provide association and conference management services for the National Association of State and Local Equity Funds (NASLEF). Julie Sontag of Merritt will serve as NASLEF's Executive Director and Mary Kay Meagher of OCCH will serve as Deputy Executive Director.

NASLEF is a professional, nonprofit association that was formed in 1994 to promote the efficient management of state and local equity funds. NASLEF's mission is to promote a greater understanding of the Low Income Housing Tax Credit (LIHTC) and encourage the professional development of its member organizations.

To date, 16 member funds have raised more than \$6.5 billion in equity capital for rental housing developments that qualify under the LIHTC program and have created or rehabilitated more than 100,000 units of affordable housing in 39 states.

NASLEF's 2010 Annual Conference will be held September 22-24 at the Omni Parker House in Boston. This conference provides an excellent opportunity to network with affordable housing professionals, find out what's happening in the industry, and learn about tricks of the trade being used by NASLEF members.

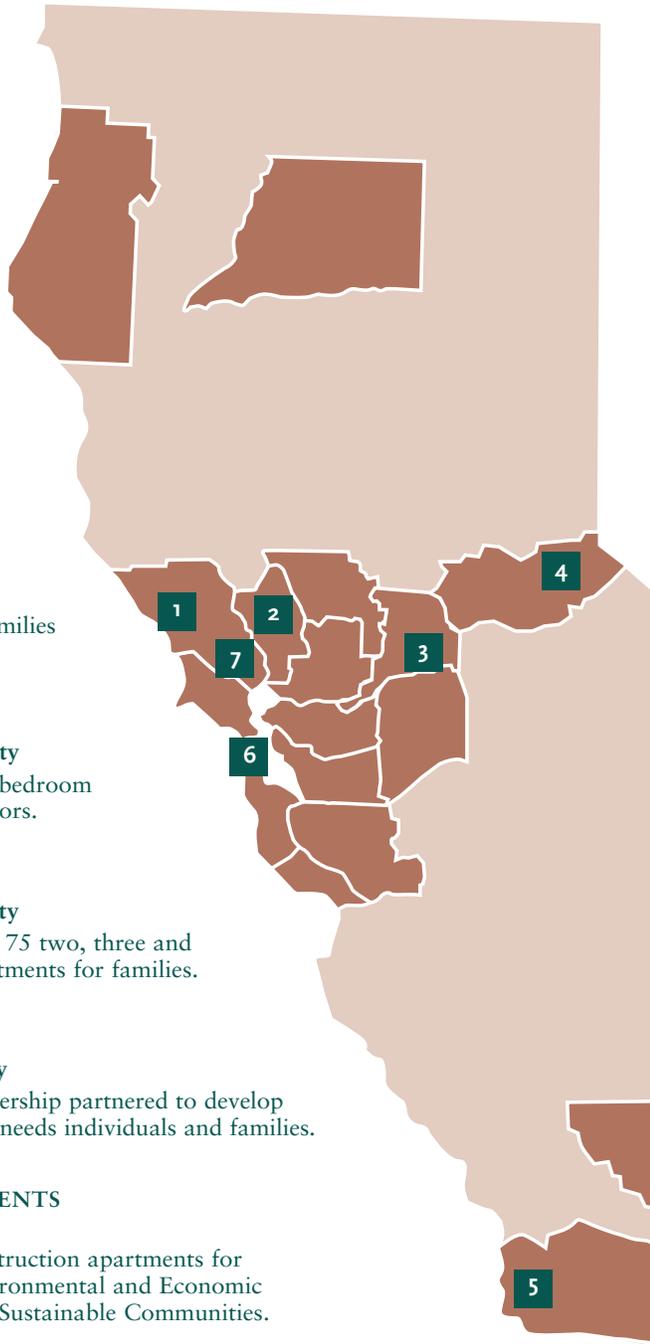
For more information visit NASLEF online at www.NASLEF.org.

The logo for NASLEF, featuring a stylized house icon to the left of the word "NASLEF" in a bold, sans-serif font.

2009 Grand Opening Celebrations

COMMUNITY EVENTS

Despite a difficult economy, Merritt's pipeline of properties under development continued to wind its way through construction, lease-up and grand openings, oftentimes winning awards along the way. This map highlights our 2009 Grand Opening celebrations.

- 
- 1 ROWAN COURT**
Santa Rosa, Sonoma County
Burbank Housing developed 61 one, two and three-bedroom new construction apartments.
 - 2 PALISADES APARTMENTS**
Calistoga, Napa County
Burbank Housing Development Corp. and Calistoga Affordable Housing partnered to develop 24 one and two-bedroom new construction units for families.
 - 3 ARDENAIRE APARTMENTS**
Sacramento, Sacramento County
Mercy Housing California developed 53 one and two-bedroom units for families and people with special needs.
 - 4 KELLY RIDGE**
South Lake Tahoe, El Dorado County
ABHOW developed 32 one and two-bedroom new construction apartments for seniors.
 - 5 ST. VINCENT'S GARDENS**
Santa Barbara, Santa Barbara County
Mercy Housing California developed 75 two, three and four-bedroom new construction apartments for families.
 - 6 ARNETT WATSON APARTMENTS**
San Francisco, San Francisco County
TNDC & Community Housing Partnership partnered to develop 83 new construction units for special needs individuals and families.
 - 7 CASA GRANDE SENIOR APARTMENTS**
Petaluma, Sonoma County
PEP Housing developed 58 new construction apartments for seniors and won the Governor's Environmental and Economic Leadership Award in the category of Sustainable Communities. (See masthead photo on front page.)



ROWAN COURT



ARDENAIRE APARTMENTS



KELLY RIDGE



ARNETT WATSON APARTMENTS



CHRISTINE CARR



JACQUELYNNE JENNINGS



RICHARD POWER

New Merritt Board Members

In 2009, Merritt Capital welcomed three new members to its Board of Directors: **Christine Boylan Carr** from Silicon Valley Bank, **Jacquelynne M. Jennings** from Lofton & Jennings, LLP, and **Richard Power** from Carle, Mackie, Power & Ross LLP. Merritt staff welcomes their experience, knowledge, and expertise.

Ms. Carr is head of the Community Development Finance group at Silicon Valley Bank where she founded the affordable housing lending group and, along with her team, built a pipeline of over \$330 million since 2002. Ms. Carr is Chair of the Board of Director's of the California Community Reinvestment Corporation, a member of the Bay Area Local Initiative Support Corporation's Project Review Committee, a member of the Bay Area Enterprise Leadership Council and also serves on the Opportunity Fund's Loan Committee. Merritt staff has had the opportunity to work with Ms. Carr in her role at Silicon Valley Bank on many affordable housing deals where Silicon Valley Bank was the construction lender. In addition, Silicon Valley Bank is an investor in Merritt Community Capital Fund VII, Fund XI and Fund XII.

Ms. Jennings is a partner at Lofton & Jennings where her practice areas include public finance, general corporate, non-profit and business law. Prior to that she was an associate at Arnelle & Hastie where she managed the firm's role as outside counsel to the State of California Department of Housing and Community Development Rental Housing and Construction Program, and closed over 70 loans resulting in the creation of more than 3,400 rental housing units for low-income, elderly, and physically impaired persons. She also trained attorneys regarding implementation of the Rental Housing Construction Program. Ms. Jennings is Chair of the Technical

Advisory Committee of the California Debt and Investment Advisory Commission, served on the Board of Directors for Central City Hospitality House, and was Subcommittee Chair of Financing Single Family Housing for the American Bar Association Committee on Financing Affordable Housing. Ms. Jennings' partner at Lofton & Jennings is Bill Lofton who was Merritt's former Board Chair.

Mr. Power is a founding member of Carle, Mackie, Power & Ross LLP, where he is a tax attorney focusing on low-income housing tax credits, real estate, partnerships and tax-exempt entities. He served as tax attorney for the National Housing Law Project in its nationwide practice specializing in structuring syndications of low-income housing and was named a Northern California Super Lawyer by San Francisco Magazine. He is president elect of the Rotary Club of Sebastopol and a Laguna Foundation Board of Director. Since 1998, Mr. Power has served as Merritt's counsel for fund formation and project partnerships.

As we welcome our new board members, we also want to thank **Margaret Yung**, a departing board member, for her many years of service on Merritt's Board of Directors. Ms. Yung has been a great advocate of affordable housing in her position at Washington Mutual. She became a board member in 2003 and assumed the role of Treasurer in 2007. Merritt staff valued her insight, knowledge and thoroughness and we will miss her. We wish her well in her future endeavors.

We would also like to thank all of our board members (listed on p.3) without whom Merritt staff couldn't do the important work of investing in affordable housing. Their knowledge, experience and generosity help make Merritt strong.

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