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MERRITT MESSENGER

THE NEWSLETTER OF MERRITT COMMUNITY CAPITAL CORPORATION

TOP: ROWAN COURT *is a multifamily property constructed on an infill site in Santa Rosa and exceeds California's Title 24 Energy Efficiency Standards.*

INSIDE THIS ISSUE:

MERRITT COMMUNITY CAPITAL CORPORATION

Madison Place Improvements Get Noticed

At Merritt Capital's November 2010 Partnership Luncheon, Madison Place was awarded Project of the Year. Madison Place is a 56-unit property in Bakersfield that was developed as new construction by Mercy Housing California. Construction on the property was completed in 1998 when its location on the outskirts of Bakersfield seemed remote. Since that time, other properties have sprouted up around it, many of them also affordable housing.

Unfortunately, the area has suffered from crime, graffiti, and gangs. Chris Glaudel, Mercy Housing's VP of Asset Management, explained, "Southeast Bakersfield is a poverty impacted area and many properties suffer from deferred maintenance and neglect." For Madison Place, early management turnover along with 12 years under the hot San Joaquin Valley sun left the property looking worn and exterior building colors faded.

Staff at Mercy Housing wanted to address these concerns so they explored many sources for funding. After 5 years and much work by Glaudel and Robbie Folkes, Madison's former Property Supervisor, the City of Bakersfield Redevelopment Agency approved over $300,000 for revitalization of the property. The scope of the work was extensive and addressed several different areas. The upgrades enhanced the exterior of the buildings with stucco, a uniform paint scheme on all nine buildings, new trim, downspouts and gutters, and brass door numbers. They also improved safety and security by replacing handrails, installing additional security cameras, refurbishing entry gates and adding security screens to each unit. Finally they improved the overall look of the grounds by recoating the parking lot surface, repainting stalls, and replacing the playground structure and play surface. In addition to exterior improvements, the community room was refurbished and outfitted with new computers. They hope to use additional funds to improve the landscaping.

Glaudel summed up the improvements this way: "The rehabilitation provided an overall facelift to the property, increasing its curb appeal and attractiveness in the local rental market. The reinvestment sent a clear message that we value our property, our residents and the community."

Genie Navarro, Madison's Property Manager, has provided continuity for residents. She has been working at the property since 1999 in various roles. Navarro says, "I attribute much of the turnaround at Madison to a sense of safety, community and choice. We have stringent requirements for applicants regarding unit cleanliness, criminal background checks, and LIHTC income qualifications. We want residents to come home and relax and let their kids play."

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BERNARD T. DEASY

MESSAGE FROM THE PRESIDENT

The Roller Coaster Ride Continues!

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In 2010, the tax credit market came roaring back, as investors, both new and experienced, streamed back into the market, drawn by high returns and the overall quality of the affordable housing product. At Merritt Capital, we closed our largest fund ever at $58 million and totally recovered from the absence of Fannie Mae and Freddie Mac. The outlook for 2011 is also encouraging, as investor appetite seems strong, even though yields have declined from their 2010 levels. So things in the affordable housing industry are looking up, right?

Well, not everything is looking as good as investor interest. The effects of the 2008 financial meltdown have finally hit state and local governments with a near knock out punch. As we all know, affordable housing projects are financed from a wide variety of sources and most rely on state financing programs, such as the Multi-Family Housing Program (MHP) and local funding programs including the redevelopment agency low income housing set aside. As the impact of the recent financial crisis moves down the fiscal food chain, state and local governments are facing revenues that cannot meet projected expenses and the prospect of major budgetary shortfalls. Add to this the "No New Taxes" position of many politicians, and the outlook is not good.

Here in California, newly elected Governor Brown has proposed the elimination of local Redevelopment Agencies as a cost saving measure. While the actual savings may be one time and not that significant, the mere suggestion that such a vital source of funding for affordable housing developments might be eliminated is cause for concern. At the state level, the Department of Housing and Community Development announced a "pause" in the issuance of state bonds that support the MHP and 1C programs which are also a vital source of financing for affordable housing developments. On top of that, many cities and counties are also experiencing serious budget problems and may not be in a position to provide financial support to current or prospective affordable housing developments. We may be looking at a situation where there is a surplus of tax credit equity seeking viable project investments, but the lack of state and local financial support may render many deals "infeasible". This is a huge reversal from the situation 12 to 18 months ago, when viable deals were desperately seeking tax credit equity.

In the past, we have met each new challenge facing the affordable housing sector and managed to deal effectively with each issue. This time may be different. The fiscal issues facing every level of government are staggering and do not lend themselves to any form of quick fix. The problems facing the state are particularly difficult, as in the past the state pushed their budget problem down onto cities and counties, but that is no longer an option, as the cities and counties are out of resources themselves. Major structural changes are needed, but first there must be a rational and comprehensive review of all of the options, including major program restructuring, new revenue sources (yes, new taxes), and significant cuts to existing programs.

Today, we are reacting to the suggested elimination of Redevelopment Agencies and the so called pause in the issuance of state housing bonds, but the problems are much deeper and merely lobbying to reverse these two bromides will not suffice. Issues, such as public employee pension reform, Proposition 13, funding priorities for education and transportation, and other sacred cows must be a central part of the pending conversation and included in the final outcome. If not, we are just spinning our wheels. Community development activities such as affordable housing are at a crossroads or, depending on your outlook, the crosshairs in this current fiscal crisis. What is truly needed is an understanding that massive structural changes may be in the offing and we all need to keep our eyes on the long term impact of these changes and not get caught up in the needs of special interest lobbying at the expense of broader changes at the state level. Or as they say in Washington, D.C., everything is "on the table."

What Happens Next?

JOHN CHAN

Report from the Board Chair

As Barney relayed in his message, the affordable housing industry has been dealing with multiple proposals aimed at curbing California's budget crisis, and my brain is having a tough time processing the lightning speed at which things are changing. My own bromide is that change is the only thing we can count on, and it's on its way. The California budget crisis must be addressed and it's clearer than ever that it's not going to be easy.

In addition, LIHTC at the Federal level is being reviewed in the context of tax reform. The Obama administration has been strong on housing, however, there are newly elected members of Congress that have never heard of LIHTC and may not know there are affordable housing properties in their own congressional districts already housing their constituents. Those of us participating in the affordable housing industry know that it's the most successful federally funded housing program in the history of the United States. As a testament to its success, in 1993 the Revenue Reconciliation Act made the program permanent and in 1997 the Government Accountability Office released a favorable report on the program. We also hear it firsthand from the people that live in these communities– they like where they live and are grateful to have safe, decent affordable housing.

Over the past 21 years as Merritt was created and adapted to the changes of the LIHTC market, we have created 13 partnerships and one direct investment fund. We are currently marketing our 14th multi-investor fund with the help of Merritt's newest employee, Matthew Haas, our Director of Investor Relations and Fund Management. On behalf of the Board, I would like to welcome him aboard and say that we've already enjoyed working with him due to his results-oriented focus and his enthusiasm for being part of the Merritt team. It's in these tough times that we focus on our partnerships and how we can help each other, and with that attitude and a focus on our mission, I'm certain that Merritt will continue its tradition of providing good returns to investors while maintaining and creating affordable housing for Californians.

However, Barney is correct that we have to be careful what changes are implemented while trying to repair the multitude of problems that are now impacting Federal, State and Local governments. Many different perspectives will be provided to help guide what that change looks like and we can do our part as individuals by speaking up about the successes of our program and ensuring that our message is heard. Our goal as investors, syndicators, developers, asset managers, service providers and residents of affordable housing is to get the word out that there has to be a whole range of solutions, rather than one quick fix, that takes into account that LIHTC along with state funding sources together are successfully creating affordable housing in California.

The future of California is at stake right now and budgets must be balanced. At the same time, with record unemployment, persistent foreclosures, and dropping rates of homeownership, affordable housing is more essential than ever and must be a part of the future success of California. In times like this, strong partnerships are more important than ever and Merritt is well-positioned to continue to be one of those partners in the uncertain times to come.

Those of us participating in the affordable housing industry know that it's the most successful federally funded housing program in the history of the United States.

BIRUTE SKURDENIS

INDUSTRY UPDATES AND RESOURCES

2010 TCAC Compliance Updates

Birute Skurdenis is an Asset Manager and Trainer for Merritt Community Capital Corporation.

The IRS is taking a harder stance on some compliance issues according to a July 2010 memo issued by the California Tax Credit Allocation Committee's (TCAC) Compliance Section. The memo explained how California will handle a variety of legislative and IRS changes made in the past few years and covered a number of compliance areas including how TCAC staff will monitor properties with extended use requirements.

In terms of penalties, the harshest compliance item is the IRS's position on overcharging rents. Charging rents above tax credit rent limits, for any reason, can lead to the loss of credits for that unit for the entire year. TCAC will monitor this by requesting the entire rent history on units selected for inspection and file review, while in the past it asked for only 4 months of rent ledgers for those units. Hopefully, your property management software has tools that help you do this. The severity of this penalty adds another compelling reason to review files and rent structures regularly and make corrections before TCAC schedules an inspection.

TCAC is now focusing on properties that do mass recertifications. While the IRS no longer requires recertifications after move-in for 100% tax credit properties, TCAC requires at least one recertification at these properties and that recertification must be done on the anniversary date of move-in, or initial tax credit eligibility (at acquisition with rehabilitation properties where tenants already lived at the property). TCAC is also citing tax credit properties that are moving units to mass recertifications too early. If a household is tax credit qualified on June 1, 2010, their first recertification must be effective June 1, 2011. After that, at 100% tax credit properties, the unit can be moved to a mass recertification date. However, if the property has a mass recertification scheduled for April 2011, that recertification will not meet TCAC's requirements for a valid first recertification for the household with a move-in in June 2010. In addition, a less than 100% tax credit property should never move to mass recertification.

After that first recertification, management is only required to make sure that every tax credit household completes and signs TCAC's new Tenant Household Information Form.

Many property management companies require annual recertifications beyond the first recertification, either because other financing requires annual recertifications or because they find it simpler to recertify all properties rather than track different requirements for each property. Generally, this is overkill with one exception: management companies and/or owners that are unfamiliar with the tax credit program and have few tax credit units, or low unit turnover, should consider continuing annual tax credit recertifications. This allows managers to practice completing the annual tax credit recertifications so that they remain familiar with tax credit requirements and forms. This will be helpful when they have a new move-in and hopefully will reduce the possibility of non-compliance or allowing an unqualified household to move-in. In addition, General Partners should check with their investors to see if they require continuing recertifications after the first recertification.

For 100% tax credit properties that are foregoing annual recertifications after the first one, managers are using a variety of tickler systems to keep track of which households require recertifications. At one of Chinatown CDC's properties in San Francisco, they put paperwork for new move-ins in a file of one color and change it to a file of another color after the first recertification. That way, a quick look in the file shows which households still must have full recertifications. Remember, under IRS rules, if your property is less than 100% tax credit, you are required to continue the complete annual recertification process.

Under IRS rules, if your property is less than 100% tax credit, you are required to continue the complete annual recertification process.

TCAC also addressed requirements for employed tenants that are paid in cash. If an applicant is paid in cash and cannot produce the required three months of pay stubs, TCAC says that the file must contain a current tax return. Due diligence suggests that the tax return should be obtained directly from the IRS rather than from the applicant, although TCAC does not specify that at this time. If the tenant states they do not file or cannot produce a tax return, then an IRS Form 4506-T, filled out and completed by the IRS must be in the file. Some managers have applicants sign the form and then place the form in the file. However, only a completed copy returned by the IRS meets TCAC's requirements. TCAC also requires a third party statement on

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Merritt Closes Largest Fund in 21-Year History

Merritt Community Capital Corporation closed a $58 million Multi-Investor Fund XIII – the largest Low Income Housing Tax Credit (LIHTC) fund closing by Merritt in its 21-year history. The accomplishment is made more impressive by the fact that we were able to attract First Republic Bank and City National Bank.

"First Republic is pleased to partner with Merritt Community Capital to help address the critical issue of creating more affordable housing in California," said Rosana Han, VP & CRA Fair Lending Officer of First Republic Bank. "Investing in affordable housing in our communities has always been a top priority for First Republic Bank."

First Republic invested $14 million in the LIHTC fund and closed its investment on January 6, 2011.

"City National is proud to invest in affordable housing in the communities it serves – that's why we are investing with Merritt and supporting this fund to create quality affordable multi-family housing in California," said Sal Mendoza, Senior Vice President and Head of Community Reinvestment at Los Angeles-based City National Bank. "Affordable housing is still a major concern in this state – we intend to be part of the solution."

Merritt has had a long history of working with a number of key developers and consultants to secure a pipeline of strong and successful affordable housing deals. In this latest fund, our key developer partners are Jamboree Housing, Preservation Partners, Petaluma Ecumenical Properties, American Baptist Homes of the West, Solano Affordable Housing Foundation as well as Christian Church Homes of Northern California in a joint venture with Oakland Housing Authority. These deals represent six properties, in Northern and Southern California, totaling 482 units at or below 60% Area Median Income. Moreover, Fund XIII is helping to preserve nearly 130 affordable housing units.

"After closing our largest fund ever with key development partners and securing two new investors, Merritt heads into 2011 encouraged by the positive outlook for California's affordable housing industry," said Merritt President, Barney Deasy.

"Few organizations equal our passion for serving low income seniors yet we've found one in Merritt," said Ancel Romero, senior vice president at American Baptist Homes of the West. "Merritt's professionals share the depth of their expertise and the keen understanding of every deal point that inevitably leads to beautiful, caring communities for our seniors."

Recurring Merritt investors in Fund XIII include Bank of America, Wells Fargo, Silicon Valley Bank, Comerica Bank and WestAmerica Bank.

Merritt Scholarships

In 2010, Merritt Capital staff and Board of Directors were honored to award two scholarships to San Francisco State University (SFSU) Urban Studies and Planning students for the 2010 – 2011 school year. The award pays for full tuition so that students can study and make the best use of their required, often unpaid, internships.

This year's award recipients are Goliad Muse and Nikolara Jansons. Nikolara became interested in this area of study due to her passion for cities and the urban environment, saying "Urban Studies is such a broad subject encompassing all the myriad things a city does as well as the history of cities and the changes they've gone through."

In October 2010, Karen Smyda and Julie Sontag met with the scholarship recipients along with Ayse Pamuk, SFSU's Urban Studies and Planning Department Chair, and Andrea Rouah, SFSU's Director of Development. Both Nikolara and Goliad expressed their thanks for the scholarship and the positive impact it will have on them by allowing them to devote full attention to their studies.

Scholarship applications for the 2011-2012 school year will be available shortly at San Francisco State University in Urban Studies and Planning, and at California State University East Bay in Business Administration. For more information, email Julie Sontag at jsontag@merrittcap.org.

PHOTO (R TO L):
Karen Smyda,** with Merritt Scholar recipients **Goliad Muse** and **Nikolara Jansons,** and Urban Studies and Planning Deptartment Chair, **Ayse Pamuk.

Madison Place

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According to Maria Duarte, Merritt's Director of Asset Management, "Merritt Staff has rarely seen a property that has improved to this extent so late in the compliance period."

In addition to one time improvements, Madison Place is fortunate to have two talented maintenance staff, Marcos Hernandez and Gabriel Macias. Navarro explained, "Marcos has experience working as a contractor so he can do things beyond regular maintenance. He is creative and proactive in making repairs, and does a lot of preventive maintenance. They have saved the property thousands of dollars on outside contractors."

Duarte concurred, "Marcos is invaluable when it comes to his ability to repair and maintain the property. It really looks better than ever and the fact that he does it with limited resources is amazing. The grounds look great and the new paint job is beautiful. Marcos once again has worked his magic by improving the overall appearance of the grounds."

"Residents love the improvements," Navarro continued. "Despite the part of town it's in, residents and former residents highly recommend our property. Our marketing is entirely by word of mouth."

In addition to the many physical improvements, Madison provides many services for its residents including after school programs for kids with tutoring provided by the school district, workshops for adults on health and job skills, and computer training at the Community Room computer lab.

Madison Place is nearing the end of its 15 year LIHTC compliance period. According to Glaudel, "Mercy Housing intends to continue operating Madison Place as affordable housing long into the future." Clearly that is a benefit to this community and the residents that call it home.

Merritt Staff and Board of Directors once again congratulate Mercy Housing and Madison Place on a job well done and are pleased to honor them as Merritt's 2010 Project of Year.

TCAC Updates

Continued from page 4

letterhead from the employer giving details on job duties and wages paid in cash. Although letterhead may not be feasible for domestic workers, a number of management companies have been very diligent in getting written third party verifications from employers for domestic workers paid cash. This requirement also presents a problem for casual laborers who may have only a few hours work from any one employer.

The July memo also included information on how TCAC will monitor properties funded under the American Recovery and Reinvestment Act (ARRA) legislation and properties in the extended compliance period. Other topics covered are the documents TCAC will review when monitoring properties with sub metering of utilities, guidance on paying for information from the Work Number, and TCAC's standards on findings if TCAC cannot gain access to a unit during an inspection or if a unit has been vacant for more than 2 months and is missing items required for habitability.

On November 23, 2010 TCAC issued another memo explaining how they will respond to a requirement in the Housing and Economic Recovery Act of 2008 (HERA) legislation for the collection of demographic and economic information. Beginning January 1, 2011, a revised Tenant Income Certification Form (TIC) for New Move-Ins and a Supplemental Information Form for Existing Households (SIF) living in a tax credit unit before December 31, 2010 must be used. The revised TIC incorporates the questions on the Supplemental Information Form for Existing Households in a new Section IX and has a new format for indicating the Effective Date which is compatible with a new TCAC Excel spreadsheet that's due sometime this year. There are some other changes on how this new TIC and SIF are completed so managers should read the Q & A on the November Memo carefully. You can find TCAC July and November memos and the new TIC and Supplemental Information Form at www.treasurer.ca.gov/ctcac/compliance.asp.

2010 Partnership Luncheon

Community Events

Over 140 Affordable Housing Professionals gathered at Oakland's Lake Merritt Hotel on Friday, November 5th 2010 to attend Merritt Community Capital's 14th Annual Partnership Luncheon. After celebrating our 20th anniversary last year, Merritt staff and board members enjoyed seeing so many old friends and new faces as we resumed our annual event honoring those we partner with to create affordable housing and revitalize communities throughout California.

Merritt's Staff and Board of Directors were honored to recognize our awardees. Our 2010 Investor of the Year was Comerica Bank for its continuing support of Merritt Capital and the Low Income Housing Tax Credit Program. Our 2010 Sponsor of the Year was Preservation Partners Development for its commitment to the preservation and enhancement of existing affordable housing developments. Our 2010 Project of the Year was Madison Place for its success in the management and enhancement of a pioneering affordable housing development.

__Val Agostino__ from Mercy Housing California accepted the award on behalf of Madison Place, __Otis Watson__ accepted on behalf of Comerica Bank, and __Jon Lalane, Nidia Vasquez,__ and __Chris Szymczak__ accepted on behalf of Preservation Partners Development.

Top: *__Whitney Jones__ waxing philosophical about affordable housing.*

Bottom: *Two of Merritt's Board Members, __Rick Yee__ and __John Chan,__ enjoying lunch.*

New Merritt Team Member:

Director of Investor Relations & Fund Management

Matthew Haas

Director of Investor Relations and Fund Management

Merritt staff is pleased to welcome **Matthew Haas** as Merritt's Director of Investor Relations and Fund Management. The purpose of this new position is to raise LIHTC equity investments in Merritt funds, manage investment services, cultivate new investor relationships, implement investor client services and enhance the visibility of Merritt Capital in the corporate and banking investor community.

According to Barney Deasy, Merritt's President, "There is no question that the investor environment for Low Income Housing Tax Credits (LIHTC) has changed dramatically in the past two years with the absence of Fannie Mae and Freddie Mac and the reentry into the market of non-financial institutions such as insurance companies. Within this new environment, it became clear that Merritt must enhance its investor relations function and we determined the best way to do that would be with a full-time dedicated employee. This allows Merritt to address investor needs and opportunities more thoroughly and prepares Merritt for the future in California so that we are well-positioned to take advantage of new investor opportunities and the changing environment for community development activities."

Matthew has over 18 years of affordable housing and community development experience. He was most recently the Deputy Director of California Lending for the Low Income Investment Fund (LIIF), a CDFI involved in affordable housing, charter schools, childcare and community facilities lending. Prior to LIIF, he worked as a Senior Multifamily Manager at Fannie Mae in Pasadena, CA. While there, he oversaw multifamily acquisitions and LIHTC funds for Community Investments.

Merritt staff first met Matthew when he managed the Merritt Community Capital account at Fannie Mae. "At that time," Matthew said, "I was impressed with the staff, the boutique quality of their approach to managing investors and clients and their overall willingness to be there to solve some challenging issues in worthy affordable housing deals."

Karen Smyda, Merritt's Director of Acquisitions, said, "I liked Matthew right away. He was very open and interested in the projects and the market, and it was clear that he was passionate about housing."

In addition, Matthew has worked for Bank of America Community Development Banking in Southern California as a Vice President and Client Manager. Matthew has been employed by the National Equity Fund as a Senior Acquisitions Officer and as a Senior Program Manager for Illinois Housing Development Authority, both in Chicago, IL. He was also an Assistant Director of Senior Housing and Healthcare Development at St. Nicholas Neighborhood Preservation Corporation in Brooklyn, NY and an Assistant Architect and Project Development Manager for New York City's Department of Housing Preservation and Development. Matthew has an M.S. in Urban Planning from Columbia University and a B.A. in Architecture/Environmental Design from U.C. Berkeley.

Matthew will be based in Los Angeles, providing Merritt with a Southern California presence to expand its market reach and identify key partners, such as banks and housing developers. Matthew will serve as the liaison to affiliated federal, state and local agencies and associations as well as consultants on funds and investor management activities.

"I am excited and privileged to be a part of the Merritt team and to be building a robust investment platform for Merritt Capital going forward," Matthew said. "To join this seasoned LIHTC syndicator team in this new role brings me back into affordable housing LIHTC syndication and is an honor."

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