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## LIHTC Syndicators See Significant Increase in Proprietary Investments

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

When surveyed in March about their 2010 low-income housing tax credit (LIHTC) investment targets, many bank representatives indicated a preference for proprietary funds. They cited the single-investor funds as an ideal way to match their Community Reinvestment Act (CRA) obligations with reduced tax liability. By investing through syndicators rather than directly, banks can target their investments without adding the underwriting and asset management duties of direct investing. This month, the *Journal of Tax Credits* explores the increased interest in proprietary funds.

“Right now, we’re seeing the swing toward proprietary [funds],” said Darrell Hubbard, National Equity Fund Inc.’s (NEF’s) senior vice president of investment management. Hubbard said that his syndication firm plans to close more than \$600 million in LIHTC equity this year and that 90 percent of that will be in proprietary funds. Before 2009, NEF typically placed 30 percent of its LIHTC equity in such funds.

Kari Fitzpatrick, Enterprise Community Investment Inc.’s vice president of investment management-capital markets, has also seen increased interest in proprietary funds. The syndicator has averaged \$640 million in LIHTC equity each year for the past five years. In 2008, 56 percent of Enterprise’s funds were proprietary; that number dropped to 43 percent in 2009 and Fitzpatrick estimates that 60 percent to 65 percent of Enterprise’s 2010 funds will be proprietary.

“As there has been a capital constraint, [banks’] focus has

been on their money and how they spend it,” Fitzpatrick said, noting that banks can very specifically target CRA needs with proprietary funds.

Centerline Capital Group has also seen an increase in proprietary funds in the last 12 to 24 months, said Ryan Sfreddo, Centerline’s managing director of affordable housing. Centerline has raised in excess of \$3.5 billion in equity capital for proprietary LIHTC investment funds since 1990. This \$3.5 billion represents approximately 35 percent of Centerline’s cumulative LIHTC equity raised. In 2009, all of Centerline’s syndication activity involved raising LIHTC equity in a proprietary fund format. Sfreddo estimates that approximately 65 percent of Centerline’s 2010 will be proprietary.

“It allows the banks to really match their capital almost dollar for dollar with their CRA needs,” Sfreddo said. “It also allows non-financial institutions to have a greater control over the portfolio selection process, as well as major partnership decision making.” Although banks may have reduced tax liability, their CRA obligations have remained constant. Investing through proprietary fund allows them to choose the types of properties and credits, and target specific census tracts or ZIP Codes.

Proprietary funds also attract investors interested in providing debt. NEF’s Hubbard said that many banks choose properties from their debt/construction lending side to include in the fund, allowing them to provide both conventional debt and tax credit equity. Fitzpatrick said that Enterprise’s proprietary investors also like properties where they can match

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debt with equity. She said that it gives the bank an added interest in the property.

Centerline's Sfreddo said that the economic slowdown spurred investor interest in proprietary funds because investors without equity concerns were having trouble closing multi-investor funds, stymied by other investors' financial difficulties and inability to get to closing. The traditional multi-fund investors that still had a tax appetite found proprietary funds the best alternative to multi-investor funds. "You only have one investor to worry about closing into a deal," NEF's Hubbard said.

Sfreddo and Hubbard both said that they expect proprietary funds to remain strong with bank investors as the economy improves. They anticipate however, that proprietary funds will have a smaller market share, however, as investors outside the financial sector return to or enter the LIHTC equity market. ❖

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## Novogradac Journal of Tax Credits Information

Address all correspondence and  
editorial submissions to:  
Jane Bowar Zastrow / 415.356.8034

Address inquiries regarding  
advertising opportunities to:  
Emil Bagalso / 415.356.8037

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