U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St N.W.
Washington, DC 200548

February 16, 2017

The Honorable Charles E. Grassley
Chairman
Committee on the Judiciary
United States Senate

Low-Income Housing Tax Credit: The Role of Syndicators

Dear Mr. Chairman:

The Low-Income Housing Tax Credit (LIHTC), established under the Tax Reform Act of 1986, is the largest source of federal assistance for developing affordable rental housing and has financed about 2.9 million rental units. LIHTCs encourage private-equity investment in low-income housing through tax credits administered by the Internal Revenue Service (IRS) and allocating agencies—typically state or local housing finance agencies established to meet affordable housing needs.[1] Once the allocating agencies award developers of qualifying projects the opportunity to earn tax credits, developers typically attempt to obtain funding for their projects by attracting third-party investors willing to invest in the project (provide up-front cash) in exchange for the ability to claim tax credits.[2] The developer sells an ownership interest in the project either directly to investors, or in many instances, to a fund managed by a syndicator who acts as an intermediary between the developer and investors.[3]

Syndicators include specialty firms and large financial institutions. However, information on their characteristics or the role they play is limited. You asked us to provide information on syndicators' involvement in the LIHTC market.[4] This report describes (1) the characteristics of

[1]Allocating agency responsibilities (in Section 42 of the Internal Revenue Code and regulations of the Department of the Treasury) encompass awarding credits, assessing reasonableness of project costs, and monitoring projects.

[2]In this report, we use LIHTCs, or tax credits, instead of the statutory term "housing credit dollar amount," which is the allocating agency's annual apportionment of the state housing credit ceiling. The ceiling is the aggregate amount of housing credit allocations that may be made in any calendar year by allocating agencies in the state. The housing credit ceiling for each state for 2017 is the greater of $2.35 multiplied by the state's population or $2,710,000. A state's population for any calendar year is determined by reference to the most recent Census Bureau's estimate released before the beginning of the calendar year for which the housing credit ceiling is set.

[3]Although investors buy an interest in an LIHTC partnership, this process is commonly referred to as buying tax credits because the investors can claim tax credits as a consequence of their investment (providing that the building is developed and operated according to requirements of Section 42 of the Internal Revenue Code).

[4]We previously reported on other aspects of the LIHTC program, including how IRS and allocating agencies administer and oversee the program. See GAO, *Low-Income Housing Tax Credit: Some Agency Practices Raise Concerns and IRS Could Improve Noncompliance Reporting and Data Collection*, GAO-16-360 (Washington D.C.: May 11, 2016); and *Low-Income Housing Tax Credit: Joint IRS-HUD Administration Could Help Address Weaknesses in Oversight*, GAO-15-330 (Washington D.C.: July 15, 2015).

active syndicators and their activity in the LIHTC market in 2005–2014, and (2) the role syndicators play in the LIHTC market and factors that influence their use.

To determine the characteristics of active syndicators and their LIHTC market activity, we identified and verified 36 syndicators active as of October 2015.[5] We gathered data for 32 firms in total—31 through a no-cost contract with CohnReznick, a national accounting firm, which serves a broad group of clients, including participants in the affordable housing industry (see encl. I for a list of the 32 syndicators).[6] CohnReznick maintains a database with syndicator-provided information that is drawn from their audited financial statements and other sources.[7] We used CohnReznick to provide a common source of financial data and mitigate the potential low response rate from surveying syndicators directly. On behalf of the 31 syndicators (of the 36 we verified) for which it had information, CohnReznick completed a survey to capture requested data. It then sent the completed surveys to the firms to review and, if necessary, correct before transmitting the data to us. CohnReznick provided us statements from the firms attesting to the completeness and accuracy of the data. We then reviewed the data for obvious errors and inconsistences. We also received a survey response directly from a syndicator not in the CohnReznick data, which we incorporated in our analysis. The collected data were the most current available as of October 2015 (when we finalized our survey). The financial data were as of the end of calendar year 2014 and the foreclosure data were as of October 2015. We reviewed related documentation, interviewed knowledgeable officials, and tested the data for missing data and obvious errors, and found the data were sufficiently reliable to describe the characteristics and market activity of LIHTC syndicators. Enclosure II contains more details about our scope and methodology.

To determine the role syndicators play in the LIHTC market and the factors that influence their use, we interviewed representatives of organizations whose members are LIHTC syndicators, developers, lenders, investors, and others who have studied the program. More specifically, we interviewed representatives of the Affordable Housing Investors Council, Affordable Housing Tax Credit Coalition, Housing Partnership Network, Mortgage Bankers Association, National Association of Home Builders, National Association of State and Local Equity Funds, National Council of State Housing Agencies, and Stewards of Affordable Housing for the Future. We also interviewed market stakeholders who have been involved in LIHTCs and provided supportive services for syndicators. Collectively, we interviewed 9 syndicators, 6 investors, 16 developers, 3 lenders, and 12 other market stakeholders (including accounting firms,

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[5]We define an active syndicator as one who, as of October 2015, syndicated equity interests in properties with LIHTC potential that another party developed (that is, they syndicated interests for developers with whom they are not affiliated). The data in this report exclude properties in portfolios of syndicators not active as of October 2015.

[6]In total, we collected responses from 32 of the 36 verified syndicators. CohnReznick contacted 2 of the remaining syndicators—nonprofits that operate in limited geographic areas—about participating in the survey, but each declined to participate, noting that they managed so few properties that it was not cost-effective to track and report syndication data. The remaining 2 firms did not respond to our data request. We also identified 4 firms that may be LIHTC syndicators; the firms did not respond to efforts to verify their status and are excluded.

[7]According to CohnReznick officials, syndicators complete a template that they provide to CohnReznick. CohnReznick uses these data to issue periodic reports. According to CohnReznick officials, the database contains information for more than 20,500 LIHTC properties, representing more than 70 percent of properties placed in service since the program began in 1986 and within (or just beyond) the 10-year period in which tax credits can be claimed. CohnReznick officials said the remaining 30 percent of properties were those funded through defunct syndicators, direct investments, or properties that completed their compliance period or were sold. CohnReznick updates the database information every 2 years.

researchers and professional staff of industry groups).[8] We selected these entities to cover the range of participants in the LIHTC market and based on recommendations from industry experts. Lastly, we interviewed officials from the Department of Housing and Urban Development (HUD), Department of the Treasury (Treasury), and IRS.[9]

We conducted this performance audit from May 2015 to February 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Characteristics of active syndicators included differing organizational types, generally multistate operations, long experience with LIHTCs, and use of two types of investments. Of the 32 syndicators we surveyed, 19 were for-profit and 13 were nonprofit. All the for-profit syndicators and 4 nonprofit syndicators operated in more than 10 states; 10 for-profit and 2 nonprofit syndicators operated in more than 40 states. Each syndicator type averaged more than 20 years of experience with LIHTCs. Syndicators offered proprietary (single-investor) and multi-investor funds. Collectively, the 32 surveyed syndicators had raised more than $100 billion in LIHTC equity since 1986, helping to fund more than 20,000 properties and about 1.4 million units placed in service (that is, suitable for occupancy) through 2014. Surveyed syndicators had 138 properties foreclosed upon, which represented about 1 percent of their collective LIHTC properties placed in service as of October 2015.

According to market participants, syndicators play several roles in the LIHTC market. For example, syndicators help connect investors—who can claim tax credits as a consequence of their investment—and developers and oversee the fund's acquisition and the ongoing management of the projects. Syndicators are typically compensated through an initial acquisition fee —usually a percentage of the gross equity raised—and an annual asset management fee. According to the market participants, several factors influence whether an investor uses a syndicator. For example, an investor might not have the capacity or expertise to directly acquire and manage an LIHTC investment. Investors consider different variables when deciding which syndicator to use, such as prior relationships and the amount of project equity syndicators sought for the tax credits. They added that a syndicator's knowledge of local or regional markets could also play an important role to help investors such as banks receive positive consideration under the Community Reinvestment Act (CRA), which encourages depository institutions to meet the credit needs of communities where they operate.[10]

[8]We included one organization in three categories because it functioned as a syndicator, developer, and researcher.

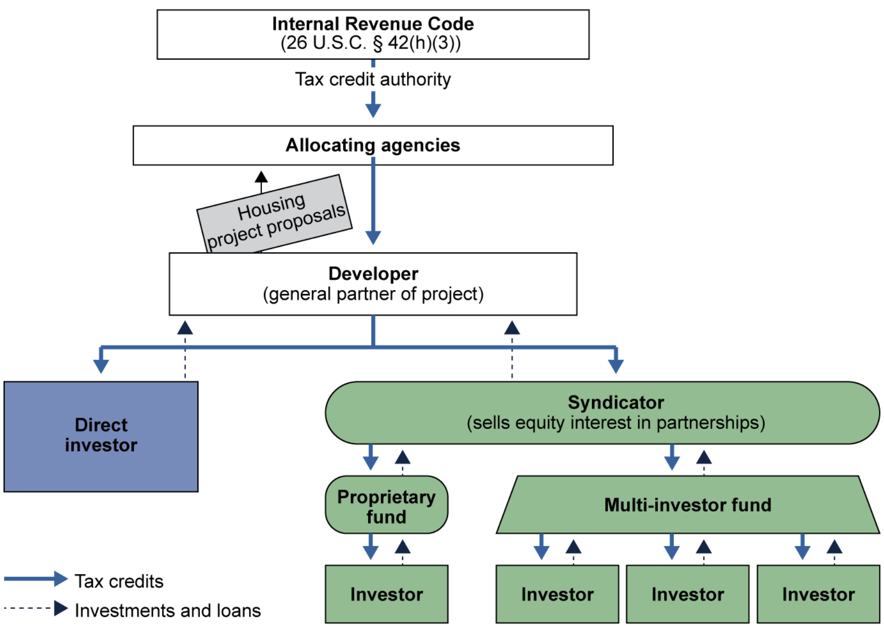
[9]IRS, a bureau of Treasury, is the federal entity responsible for enforcing taxpayer compliance and overseeing allocating agencies' implementation of the LIHTC program. HUD has no direct role in administering the program, but voluntarily collects some data on LIHTC projects and, as required by the Housing and Economic Recovery Act of 2008, collects data on the characteristics of tenants in LIHTC projects. Pub. L. No. 110-289 § 2835(d). 122 Stat. 2874 (2008), codified at 42 U.S.C. §1437z-8.

[10]12 U.S.C. §§ 2901-2908. Federal financial regulators—the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency—are required to assess periodically and rate (score) each bank's record of helping to meet the credit needs of its entire community. Investment in LIHTC projects may help a bank receive positive consideration towards its regulatory rating.

Background

LIHTCs incentivize developers and investors to provide affordable rental housing for low-income households (see fig. 1).[11] Allocating agencies receive allocations of tax credits in accordance with the Internal Revenue Code (Code) and award the opportunity to receive the credits to specific projects that promise to meet the Code's requirements and allocating agencies' priorities. In return for reserving a percentage of project units with restrictions on rents and tenant incomes for at least 30 years, taxpayers (project owners) can claim a tax credit over 10 years.[12] IRS can recapture some or all of the credits if the taxpayers have not met the requirements during a 15-year compliance period.

Figure 1: Overview of Low-Income Housing Tax Credit Process



Source: GAO. | GAO-17-285R

Once a project is awarded tax credits, developers often attempt to obtain funding for the projects by attracting investors willing to contribute equity financing. The developer sells an ownership interest in the project either directly to investors, or in many instances, to a fund managed by a syndicator who acts as an intermediary between the developer and investors. Tax credit investors can be individuals, but most of the investments come from corporations.

Generally, an investor interested in housing tax credits can either invest directly or through a syndicated investment. Under the direct investment model, an investor owns a "limited" partner

[11] 26 U.S.C. § 42.

[12] The maximum allowable rent for eligible households is 30 percent of a calculated income limit. A project must reserve at least 20 percent of the available units for households earning up to 50 percent of the area's median gross income (adjusted for family size), or at least 40 percent of the units for households earning up to 60 percent of the area's median gross income (adjusted for family size).

interest in the partnership that owns the underlying property, with the developer typically assuming the “general” partner interest. This approach is typically feasible only for investors that have internal capacity to fund and manage the acquisition, underwriting, and management of the underlying development project. As a result, only a handful of larger institutional investors favor this approach.[13]

In contrast, the syndicated investment approach enables investors to invest in a fund organized and managed by syndicators. The funds managed by syndicators are limited partnerships in which investors own the limited partner interest in the fund, with the fund in turn owning the limited partner interest in various property partnerships. Syndicators manage two types of funds: proprietary funds and multi-investor funds. In both cases, the syndicator originates potential investments, performs underwriting, and presents the potential investment to investors.[14] Proprietary funds typically consist of a single investor who desires a higher level of control over the location of the properties financed. A multi-investor fund allows an investor to diversify its risk because the fund invests in several properties, and the investors share potential risks and rewards based upon their proportional equity contribution.

Most Active Syndicators Surveyed Were For-Profit Firms That Operate in Multiple States

Characteristics of active syndicators included differing organizational types, generally multistate operations, long experience with LIHTCs, and use of proprietary and multi-investor funds to raise equity. The 32 syndicators we surveyed were for-profit or nonprofit organizations and had varying geographic scopes. All 19 for-profit syndicators and 4 of the 13 nonprofit syndicators operated in more than 10 states; 10 for-profits and 2 nonprofits operated in more than 40 states. In contrast, 9 nonprofits were regional—that is, they operated in more limited geographic areas. As of October 2015, there was an average of 17 active syndicators operating in each state, with California (23), Illinois (23), Indiana (24), Michigan (24), and Texas (23) having the most.

Both nonprofit and for-profit syndicators averaged more than 20 years of experience with LIHTCs, and collectively, the surveyed syndicators averaged 24 years of experience. Twelve of the 13 nonprofit syndicators had worked with the LIHTCs for at least 21 years, and 8 for-profit and 1 nonprofit syndicator had participated in LIHTCs since their enactment in 1986. In contrast, 4 for-profit syndicators had less than 10 years of LIHTC experience.

The 32 firms we surveyed closed more than $100 billion in equity since 1986.[15] Of that amount, about 71 percent (about $71 billion) was raised from 2005 through 2014. As shown in figure 2, in this period syndicators closed more than $6.6 billion in equity annually, with the exception of 2008 ($5.3 billion) and 2009 ($4.3 billion). The sharp decline in the amount invested in 2008 and 2009 was largely caused by the economic recession and the withdrawal of Freddie Mac and

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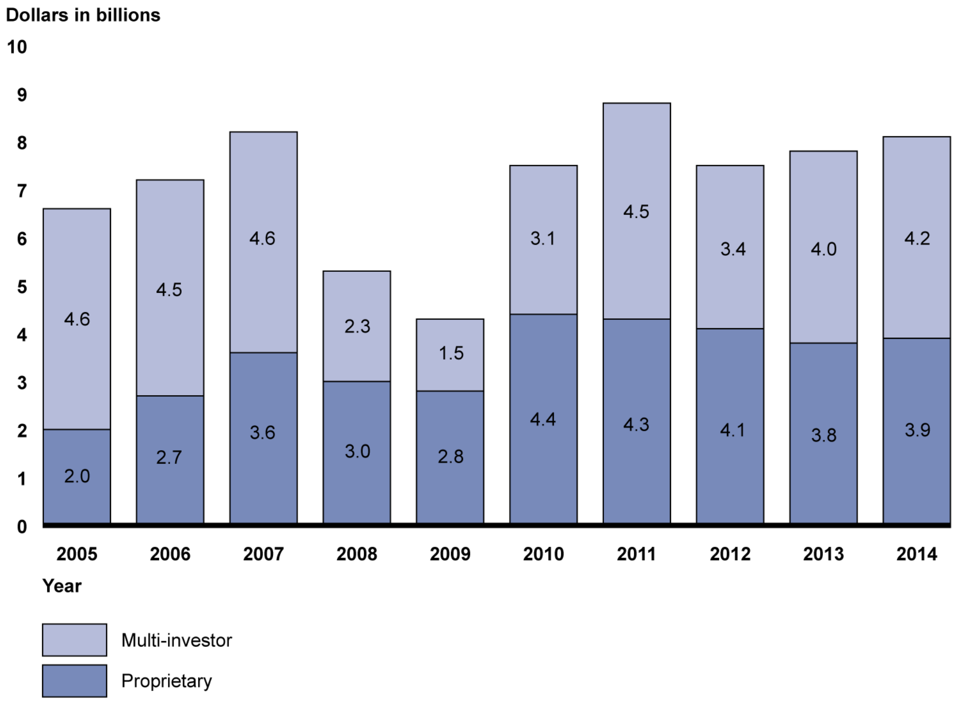
[13]See CohnReznick, *The Low-Income Housing Tax Credit at Year 30: Recent Investment Performance (2013-2014)* (Boston, Mass.: December 2015).

[14]To mitigate potential risk, syndicators will screen properties for quality and sustainability, such as ensuring that the development team has adequate resources to build and operate the property, and mechanisms are in place to avoid foreclosure.

[15]According to one syndicator, a fund’s “closing” generally refers to a fund’s formal creation and investors’ equity commitments. However, CohnReznick officials told us proprietary funds may remain open for multiple years, continuing to attract equity throughout that period. These syndicators track the funds based on when the deals in the fund close, not when the fund itself closes. Consequently, we report equity figures for those funds on that basis.

Fannie Mae from the LIHTC marketplace.[16] Various industry sources estimate that the two companies represented as much as 40 percent of the invested equity prior to their withdrawal.

Figure 2: Amount of Equity Syndicators Closed in 2005–2014 in Properties with Low-Income Housing Tax Credits, by Fund Type



Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

Collectively, the syndicators we surveyed closed an average of 32 funds from 2005 through 2014. About two-thirds of all the funds closed during this period were proprietary funds. But the average value of the closed multi-investor funds was about $95 million, while the average proprietary fund closed was about $54 million. Consequently, about 51 percent of the equity these syndicators raised in 2005–2014 was in multi-investor funds. The relative amount of equity invested in the two fund types has varied over time. For example, the proportion of equity closed in proprietary funds ranged from about 31 percent (2005) to 66 percent (2009).

Collectively, the 32 surveyed firms placed more than 20,000 properties and about 1.4 million units in service since 1986. These 32 syndicators placed 10,170 properties and 779,723 units in service from 2005 through 2014. The for-profit syndicators we surveyed participated in about 64 percent of these properties (representing about 73 percent of the units), while the nonprofit syndicators we surveyed were involved in about 36 percent of the properties (about 27 percent of units). Properties funded by the for-profit syndicators we surveyed were, on average, about 31 units larger than those funded by the nonprofit syndicators.[17] While there are no official

[16]Fannie Mae and Freddie Mac are private, federally chartered companies that provide liquidity to the home mortgage market. In September 2008, Fannie Mae and Freddie Mac were placed into federal conservatorships.

[17]On average, properties funded by for-profit syndicators had 88 units, while those funded by the nonprofit syndicators had 57 units. Projects funded by the regional nonprofits had an average of 47 units.

counts of LIHTC properties or units, using a HUD research database, we estimated that the 32 syndicators we surveyed raised equity for about 75 percent of the properties (13,532) and 75 percent of units (1,038,222) placed in service through the LIHTC program in 2005–2014.[18]

Overall, the syndicators in our survey had 138 properties (containing16,774 units)foreclosed upon, which represented about 1 percent (0.7 percent and 1.2 percent, respectively) of their collective LIHTC properties and units placed in service as of October 2015. Fifteen of the 32 syndicators we surveyed had at least 1 property foreclosed since the firm was founded—2 nonprofit and 13 (68 percent) for-profit syndicators. None of the regional nonprofits had any properties foreclosed. HUD officials told us that foreclosures for multifamily developments (including LIHTC) were generally rare because lenders often try to restructure loans to avoid foreclosure. Also, syndicators conduct additional underwriting and may assist struggling projects.[19] See enclosure III for additional information about the surveyed syndicators.

Syndicators Play Key Roles in Developing and Monitoring LIHTC Projects

Syndicators can undertake multiple roles in developing and overseeing LIHTC projects. Market participants described these roles as follows:

- **Connecting investors to projects.** Syndicators link potential investors and developers, connecting investors' desires and needs—such as to receive positive consideration under CRA—with developers that need equity for their project.
- **Evaluating deals and acquiring properties.** When establishing a fund, a syndicator will underwrite and evaluate potential projects to identify and minimize potential risks and increase the likelihood that the proposed project will succeed. The syndicators will then oversee the fund's acquisition of these projects.
- **Monitoring projects during construction.** Once the deal has closed, the syndicator monitors the project through the construction process and disburses funds to the developer.
- **Conducting ongoing asset management (inspect, monitor, and report on properties):** Once the project is built, the syndicator is responsible for asset management and oversees the project until the later of the end of the compliance period or when the fund's interest in the property is disposed of. Syndicators help ensure that the project complies with LIHTC requirements, the property is maintained, and that its financial status is good. Syndicators also report regularly, usually through quarterly and annual financial statements, and prepare tax forms for investors.[20]
- **Helping underperforming projects.** Investors expect syndicators to identify potential problems and intercede if necessary, such as replacing under- or nonperforming general partners. Syndicators also may use their own reserves to help resolve problems.
- **Disposing of interest in properties.** At the end of the 15-year compliance period, syndicators help liquidate and sell the properties in the syndicated fund.

[18]The estimated number of properties and units are based on data in HUD's LIHTC database, which may not include all properties and units placed in service (due to reporting lags and other limitations).

[19]Underwriting may include reviewing the expertise and capacity of the development team, the proposed development budget, financing, and the limited partners' rights and responsibilities.

[20]As we previously reported, limited data on syndicators' performance measurement or monitoring activities for LIHTC projects are available to the public, according to Treasury officials. See GAO-15-330.

In addition, some of the market participants we interviewed suggested that syndicators can help investors receive their expected rate of return. For example, syndicators may reduce their own fees or use their own resources to bridge any gap between the actual and expected returns.

According to market participants we interviewed, syndicators typically are compensated for these services in two ways.[21] First, syndicators receive an acquisition fee—usually a percentage of the gross equity raised—when the asset is acquired that is intended to compensate the syndicator for services, cover third-party costs such as legal and accounting fees, and fund reserves to protect the investment. One stakeholder estimated this fee ranged from 2–5 percent of the total investment. Second, syndicators may receive an annual asset-management fee over the life of the investment to cover actual expenses such as for accounting services and contributions to reserves. These fees are negotiated and typically are a percentage of the invested assets or a fee based on the number of properties in the fund. Representatives from two industry groups told us the fees that syndicators receive for their services have declined in recent years, in part due to pricing pressures from both developers (that seek to maximize the equity received for each LIHTC), and investors (that want to maximize their rate of return).

Many of the large investors that we interviewed invest through both a syndicator and directly. Representatives of four of the six large investors we interviewed noted that they used a syndicator for at least 70 percent of their LIHTC deals. In contrast, another representative noted that her company only used a syndicator about 20 percent of the time. At least three of these six investors invest in both proprietary and multi-investor funds.

According to the market participants we interviewed, several factors influence an investor's choice to use a syndicator:

- **Need for expertise.** For most investors, LIHTC deals are not their core business and syndicators can provide the necessary expertise to successfully invest in LIHTCs. Syndicators are also often able to put together more complicated deals.
- **Lack of staff resources or interest in ongoing asset management.** An investor that does not use a syndicator must develop the internal capacity to structure and monitor its LIHTC projects for the 15-year compliance period. Many investors instead outsource these responsibilities by using a syndicator.
- **CRA considerations**. An investor that is a depository institution may use a syndicator to help receive positive consideration under CRA, particularly if the syndicator already has potential projects that would help meet the credit needs of communities in which the institution operates. Investment in LIHTC projects may help a bank receive positive consideration towards its regulatory rating.
- **Size of investment.** Large investors may use a syndicator to more efficiently invest large amounts of money. Similarly, smaller investors may lack enough capital to invest in a LIHTC project independently and will instead invest through a multi-investor fund.

The entities involved in LIHTC projects maintain relationships with multiple parties. The large investors we interviewed said that they generally work with 8–14 syndicators at a time. Similarly,

[21] We will provide additional information on the costs associated with syndication in a future report. Tax law does not allow syndication costs to be included in a project's eligible basis (the total allowable costs associated with depreciable costs in the project). Under Internal Revenue Code §709, these costs include the preparation of offering memorandums and promotional materials, broker fees and commissions, certain legal fees, and due diligence costs.

syndicators have relationships with multiple investors. The market participants also noted that most syndicators have a core group of investors with which they work and, similarly, developers may maintain relationships with a group of syndicators.

LIHTC market participants told us they consider multiple factors in selecting syndicators. First, developers, syndicators, and investors noted that previous experience with a syndicator was an important factor. Second, many of the developers noted that they selected investors (both direct investors and syndicated funds) based on the offered tax credit pricing (equity contribution per tax credit received) and terms. Third, investors noted they evaluated the strength of the syndicator's business and the quality of its portfolio. Some developers noted that they might take a lower return in exchange for a stronger partner. Fourth, because of CRA considerations, some investors may take into account a syndicator's geographic presence (or expertise). Fifth, some investors also might choose a syndicator (or mix of syndicators) to help diversify the risk in their investment portfolio. Lastly, some developers could choose a syndicator based on mission alignment—a developer might select a nonprofit syndicator specializing in housing for a particular population rather than a for-profit syndicator that might offer better pricing.

We provided a draft of this report to HUD, IRS, and Treasury for their review and comment. Treasury provided technical comments that we incorporated, as appropriate. IRS and HUD did not provide comments. We also provided a draft of this report to CohnReznick and the National Association of State and Local Equity Funds (a nonprofit that promotes nonprofit syndicators with a limited geographic scope) for their review and comment. We incorporated their technical comments where appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretaries of HUD and Treasury and the Commissioner of Internal Revenue. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or GarciaDiazD@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include Steve Westley (Assistant Director), Daniel Newman (Analyst in Charge), Brandon Kruse, Cory Marzullo, Farrah Graham, John McGrail, and Barbara Roesmann.

Sincerely yours,

Daniel Garcia-Diaz
Director,
Financial Markets and Community Investment
Enclosures – 3

Enclosure I: List of Verified Syndicators Actively Syndicating Low-Income Housing Tax Credits (LIHTC)

The 32 syndicators that provided information for this report are listed below:

Aegon USA Reality Advisors, LLC
Alden Capital Partners, LLC
Alliant Capital, Ltd.
Boston Capital
Boston Financial Investment Management
CAHEC (Community Affordable Housing Equity Corporation)
Cinnaire
CREA, LLC
Enterprise Community Investment, Inc.
Housing Vermont
Hudson Housing
Massachusetts Housing Investment Corporation
Merritt Community Capital Corporation
Michel Associates, Ltd.
Midwest Housing Equity Group, Inc.
National Affordable Housing Trust
National Equity Fund, Inc.
NDC Housing and Economic Development Corporation
Northern New England Housing Investment Fund
Ohio Capital Corporation for Housing
PNC Tax Credit Capital
R4 Capital, LLC
Raymond James Tax Credit Funds, Inc.
RBC Tax Credit Equity, LLC
Red Stone Equity Partners, LLC
Regions Affordable Housing, LLC
The Richman Group, Inc.
Stratford Capital Group
The Summit Group
U.S. Bank
Virginia Community Development Corporation
WNC & Associates, Inc.

As of December 2016, four additional verified syndicators were active in the LIHTC market (listed below).

Churchill-Stateside Group
Hawaii Housing Finance, Inc.
Mountain Plains Equity Group, Inc.
St. Louis Equity Fund, Inc. (including Kansas City Equity Fund)

Enclosure II: Objectives, Scope, and Methodology

This report describes the role of syndicators in the Low-Income Housing Tax Credit (LIHTC). More specifically, we describe (1) the characteristics of active syndicators and their activity in the LIHTC market in 2005–2014 and (2) the role syndicators play in the LIHTC market and factors that influence their use.

To determine the characteristics of active syndicators and their LIHTC market activity, we compiled a list of active syndicators through Internet and literature searches and verified the list with three industry groups and professionals.[22] This process resulted in identifying and verifying 36 syndicators that were active as of October 2015.[23] We collected data on specific firms primarily through a no-cost contract with CohnReznick, a national accounting firm with a significant practice serving the affordable housing industry.[24] CohnReznick maintains historical data from the syndicators' audited financial statements and other sources on tax credit properties for which syndicators or investors are active asset managers.[25] CohnReznick collects the data for its database using a standard reporting template that it distributes to syndicators every 2 years.[26] We used CohnReznick to provide a common source of financial data and to mitigate the potential low response rate from a survey sent directly to the syndicators. The collected data were the most current available as of October 2015 (when we finalized our syndicator survey). The financial data were as of the end of calendar year 2014 and the foreclosure data were as of October 2015.

Through the following steps we received survey information for a total of 32 of the 36 verified firms.

- CohnReznick completed a survey to capture the desired data on behalf of the 31 firms for which it had information in its database. It then sent the completed surveys to the firms to review and, if necessary, make corrections to the information. CohnReznick obtained and provided to us written statements from the 31 syndicators attesting to the completeness and accuracy of data that CohnReznick provided to us on their behalf. To further confirm the completeness and accuracy of data we received from CohnReznick, we tested the data for missing data and obvious errors and reviewed documentation on the system in which

[22]We conducted the searches between February and September 2015.

[23]We define an active syndicator as one who, as of October 2015, syndicated equity interests in properties with LIHTC potential that another party developed (that is, they syndicated credits for developers with whom they are not affiliated). The data in this report exclude properties in the portfolios of syndicators that were not active as of October 2015.

[24]For each of the 31 firms for which it had data, CohnReznick provided information such as when the firm began syndicating and its organizational structure; the states in which the firm had LIHTC projects; the number of funds and the equity raised by fund type in 2005–2014 and since the firm began syndicating; the number of properties and units the firm placed in service in 2005–2014 and since the firm began syndicating; and the number of properties and units that had been foreclosed upon as of October 2015. CohnReznick also collects development cost data from syndicators and has issued periodic reports that address the performance of properties financed with LIHTCs.

[25]According to CohnReznick officials, their database contains information for more than 20,500 LIHTC properties, representing more than 70 percent of properties placed in service since the LIHTC program began in 1986 and that are still within (or just beyond) the 10-year period in which tax credits can be claimed. CohnReznick officials said the remaining 30 percent of properties were those funded through defunct syndicators, direct investments, or properties that completed their compliance period or were sold.

[26]CohnReznick tested the returned templates to help ensure the integrity and accuracy of the received data.

CohnReznick maintains these data. We found that the data were sufficiently reliable for purposes of describing the characteristics and market activity of LIHTC syndicators.

- CohnReznick contacted two of the remaining firms, which were not in its database, about the survey, but they declined to participate. These firms—all nonprofits that operated in limited geographic areas—noted that they managed so few properties that it was not cost-effective to track and report syndication data.
- We also received survey responses directly from one syndicator not included in the CohnReznick database, which we incorporated into our analysis.
- The remaining two syndicators we verified did not respond to our data request.[27]

To determine the role syndicators play in LIHTCs and the factors that influence their use, we interviewed representatives of organizations whose members are LIHTC syndicators, developers, lenders, investors, and others who have studied housing tax credits and the LIHTC program. More specifically, we interviewed representatives of the Affordable Housing Investors Council, Affordable Housing Tax Credit Coalition, Housing Partnership Network, Mortgage Bankers Association, National Association of Home Builders, National Association of State and Local Equity Funds, National Council of State Housing Agencies, and Stewards of Affordable Housing for the Future.[28] We also interviewed market stakeholders who have been involved in LIHTC and provided supportive services for syndicators. Collectively, we interviewed 9 syndicators, 6 investors, 16 developers, 3 lenders, and 12 other market stakeholders (including accounting firms, researchers, and professional staff of industry groups).[29] We selected these entities to cover the range of participants in the LIHTC market and based on recommendations from industry experts. Lastly, we interviewed officials from the Internal Revenue Service (IRS), the Department of Housing and Urban Development, and the Department of the Treasury. IRS, a bureau of the Department of the Treasury, is the federal entity responsible for enforcing taxpayer compliance and overseeing allocating agencies' implementation of the LIHTC program. The Department of Housing and Urban Development has no direct role in administering the credits, but voluntarily collects some data on LIHTC projects and, as required by the Housing and Economic Recovery Act of 2008, collects data on the characteristics of tenants in LIHTC projects.[30]

We conducted this performance audit from May 2015 to February 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and

[27]We also identified four firms that may be LIHTC syndicators; the firms did not respond to efforts to verify their status and are excluded.

[28]The Affordable Housing Investors Council is a nonprofit whose members invest in affordable housing by purchasing LIHTCs. The Affordable Housing Tax Credit Coalition is a trade organization of nonprofit and for-profit syndicators, investors, lenders, developers, legal and accounting professionals, and state allocating agencies. The Housing Partnership Network comprises 100 housing and community development nonprofits that work to ensure access to housing opportunities. The Mortgage Bankers Association advocates for the real estate finance industry; among other things, its members finance LIHTC deals. The National Association of Home Builders advocates on behalf of and supports the housing industry. The National Association of State and Local Equity Funds is a nonprofit that promotes the efficient management of nonprofit syndicators with a limited geographic scope. The National Council of State Housing Agencies is a nonprofit created by the nation's state Housing Finance Agencies to coordinate and leverage their federal advocacy efforts for affordable housing. Stewards of Affordable Housing for the Future has 11 nonprofit members that acquire and preserve multifamily rental properties for low-income families, seniors, and disabled individuals.

[29]We included one organization in three categories because it functioned as a syndicator, developer, and researcher.

[30]Pub. L. No. 110-289 § 2835(d). 122 Stat. 2874 (2008), codified at 42 U.S.C. §1437z-8.

perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Enclosure III: Additional Syndicator Data

We analyzed information from 32 active syndicators that we surveyed—those that as of October 2015 were syndicating equity interests in properties that have potential for Low-Income Housing Tax Credits (LIHTC)—along several characteristics:

- organizational structure and states in which they operated, as of October 2015
- years of experience with LIHTCs, as of October 2015
- number of funds and the equity they raised by fund type in 2005–2014 and since the firm began syndicating
- number of properties and units they placed in service in 2005–2014 and since the firm began syndicating
- number of properties and units that had been foreclosed on as of October 2015.

The 32 syndicators we surveyed had different organizational structures; 19 were for-profit and 13 were nonprofit. The majority of syndicators operated in more than 10 states. More specifically, all the for-profit and 4 of the nonprofit syndicators operated in at least 11 states (see table 1). And half or more of these for-profit and nonprofit syndicators operated in more than 40 states. In contrast, 9 nonprofits operated regionally or in a single state.

Table 1: Number of States in Which Syndicators Operated, by Type, as of October 2015

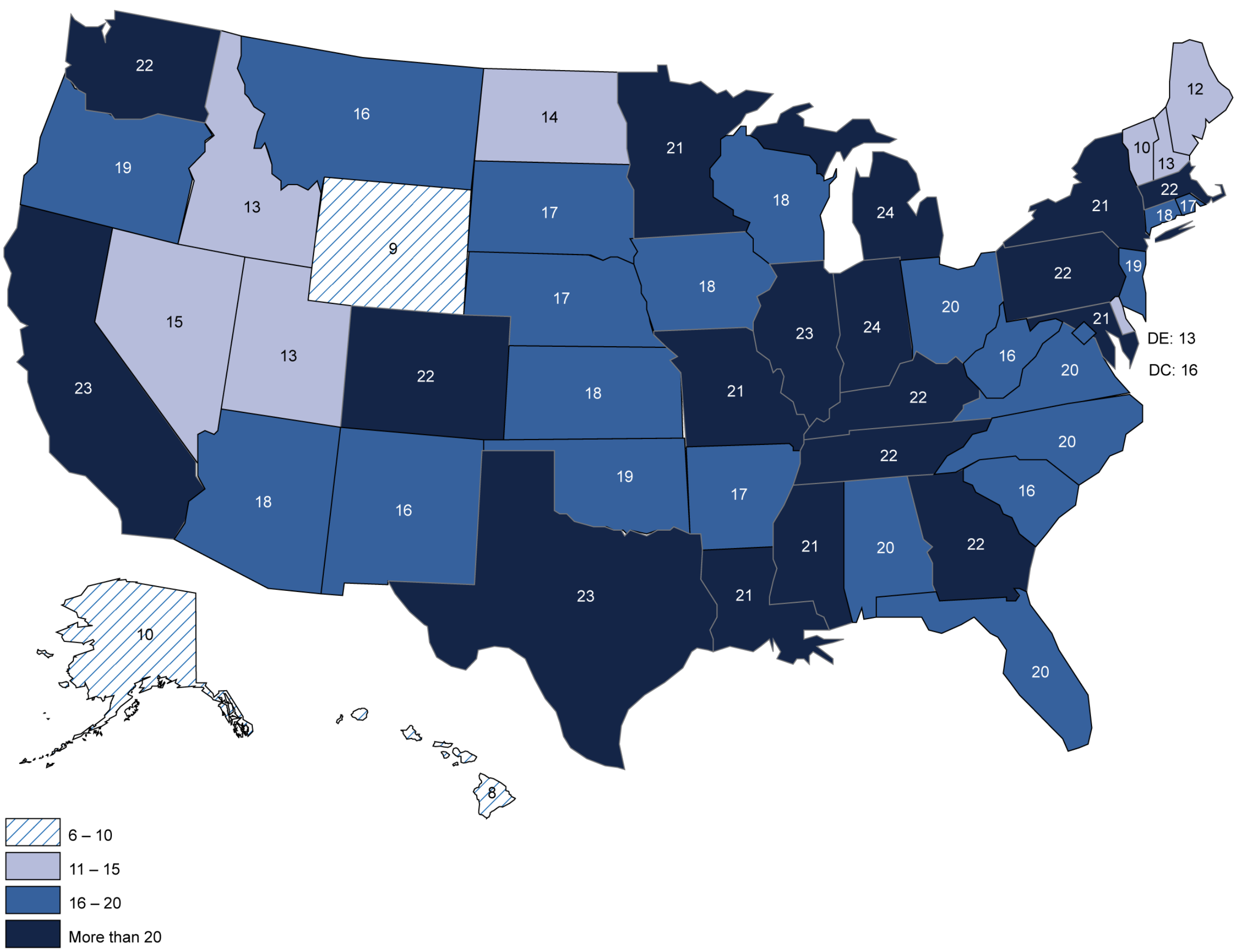
	Type of entity:		
	Nonprofit	For-profit	**Total**
1-10 states	9	0	**9**
11-30 states	1	5	**6**
31-40 states	1	4	**5**
More than 40	2	10	**12**
Total	**13**	**19**	**32**
Average	15	40	**30**
Median	8	42	**32**
Maximum	51	54	**54**
Minimum	1	16	**1**

Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

As shown in figure 3, Indiana and Michigan had the most syndicators (24) operating in their states, as of October 2015. In contrast, Hawaii had the fewest (8).

Figure 3: Number of Syndicators Operating in Each State, as of October 2015



Source: GAO analysis of CohnReznick and syndicator data; MapInfo (map). | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

About three-quarters of the syndicators we surveyed had been syndicating equity interests in LIHTC properties for more than 20 years (see table 2). Each type of syndicator averaged at least 22 years of experience with LIHTCs.

Table 2: Years Syndicating Low-Income Housing Tax Credits, by Syndicator Type, as of October 2015

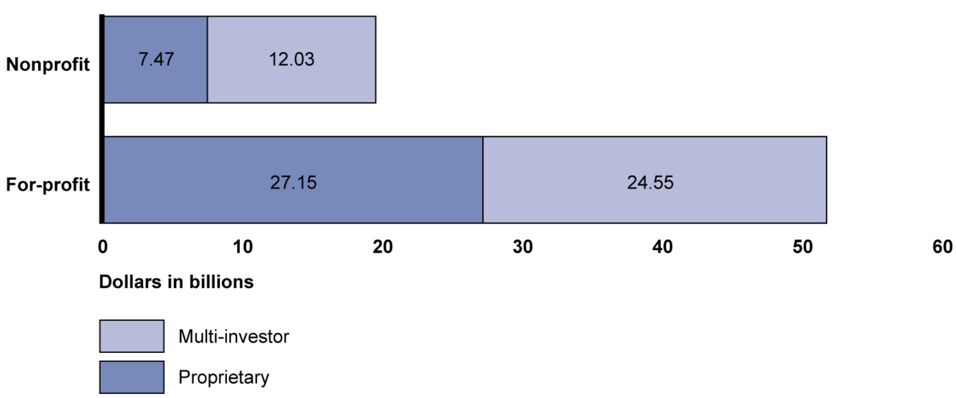
	Nonprofit		For-profit		**Total**
	Number	Percent of type	Number	Percent of type	
1-10 years	0	0	4	21	**4**
11-20 years	1	8	4	21	**5**
21-29 years	11	85	3	16	**14**
30 years	1	8	8	42	**9**
Total	**13**	**100**	**19**	**100**	**32**
Average number of years	26		22		**24**
Median number of years	27		29		**27**

Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Notes: Data are from a survey of 32 syndicators that were active as of October 2015. Percentages may not sum to 100 percent due to rounding.

During 2005–2014, for-profit syndicators raised the majority of funds for LIHTC properties through proprietary (singe-investor) funds (see fig. 4). In contrast, nonprofit syndicators, which were dominated by regional syndicators, raised about 62 percent of their funds through multi-investor funds. For example, regional nonprofits raised 85 percent of their equity through these funds.

Figure 4: Amount of Equity Raised for Properties with Low-Income Housing Tax Credits in 2005–2014, by Syndicator and Fund Type

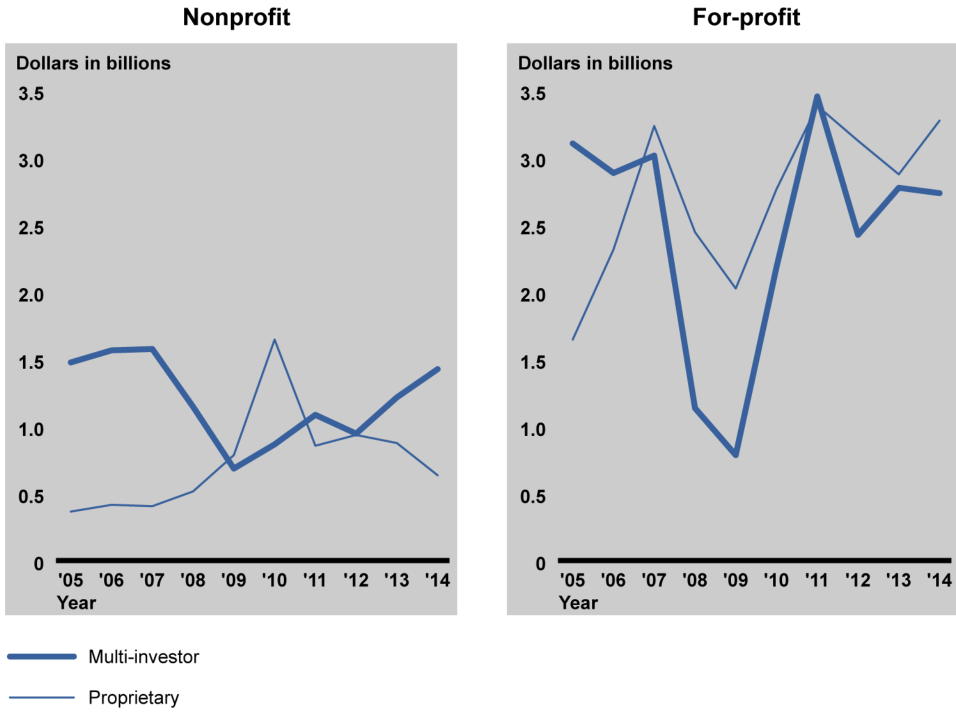


Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

In general, nonprofit syndicators raised more equity each year during 2005–2014 through multi-investor funds than through proprietary funds, while for-profit syndicators generally raised more equity each year through proprietary funds (see fig. 5). According to CohnReznick, some proprietary funds may be open to new investments for multiple years and continue to attract equity throughout that period. The syndicators track the funds raised based on when the projects in the fund close, not when the fund itself closes.

Figure 5: Amount of Equity Closed by Fund and Syndicator Type in 2005–2014 for Properties with Low-Income Housing Tax Credits



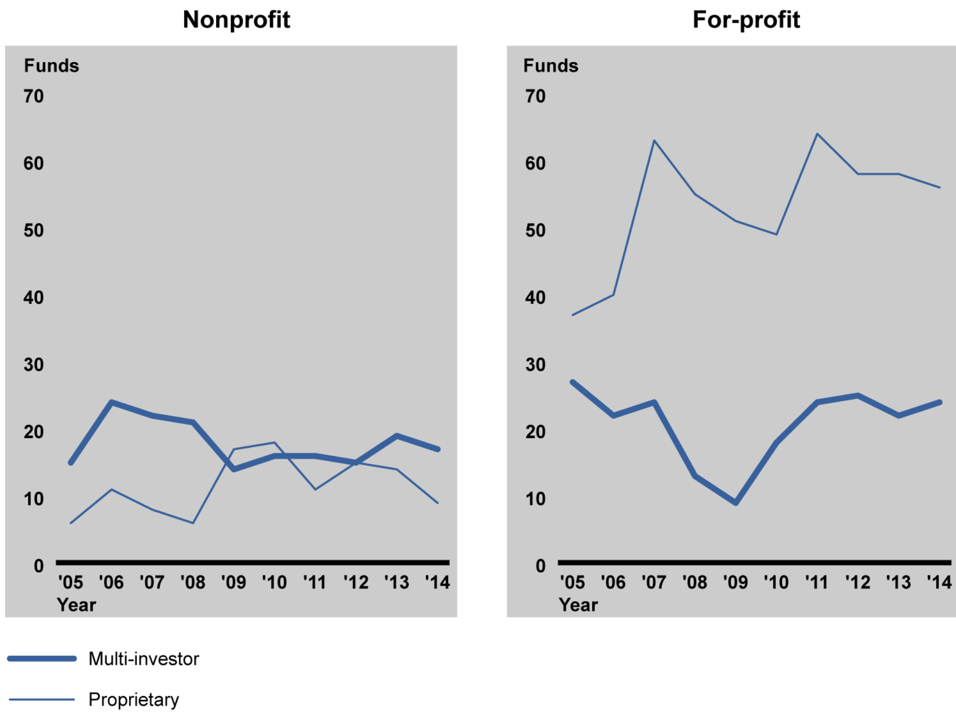
Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

As shown in figure 5, the volume of equity syndicators closed in 2008 and 2009 sharply decreased, particularly for multi-investor funds run by for-profit syndicators. The sharp decline was largely caused by the economic recession and the withdrawal of Freddie Mac and Fannie Mae from the LIHTC marketplace. Various industry sources estimate that the two companies represented as much as 40 percent of the invested equity prior to their withdrawal.

For-profit syndicators closed more proprietary funds than multi-investor funds each year from 2005 through 2014 (see fig. 6). In contrast, nonprofits closed more multi-investor funds in most years. However, there was a large increase in the number of proprietary funds nonprofit syndicators closed from 2008 through 2009.

Figure 6: Number of Funds Closed by Fund and Syndicator Type in 2005–2014 for Properties with Low-Income Housing Tax Credits

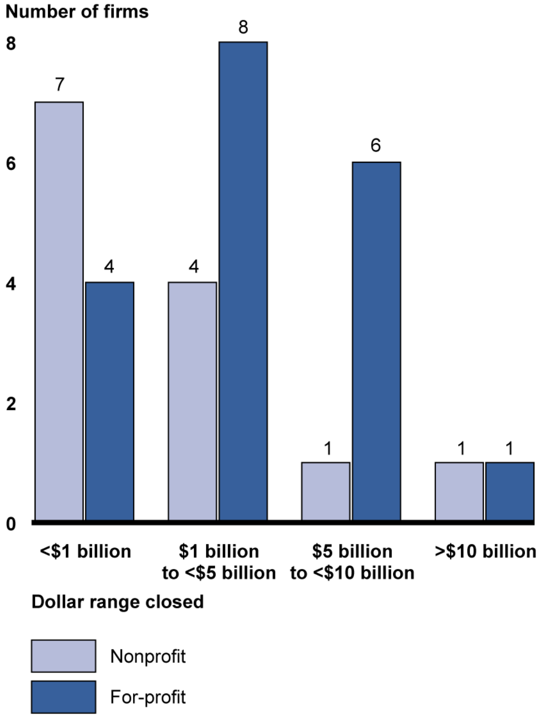


Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

The amounts of equity that the 32 syndicators raised for LIHTC properties since their firms began syndicating has varied, but 2 syndicators—1 nonprofit and 1 for-profit—closed more than $10 billion total in equity for LIHTC properties (see fig. 7).

Figure 7: Amount of Equity Closed for Properties with Low-Income Housing Tax Credits, by Dollar Range and Type of Syndicator, as of October 2015

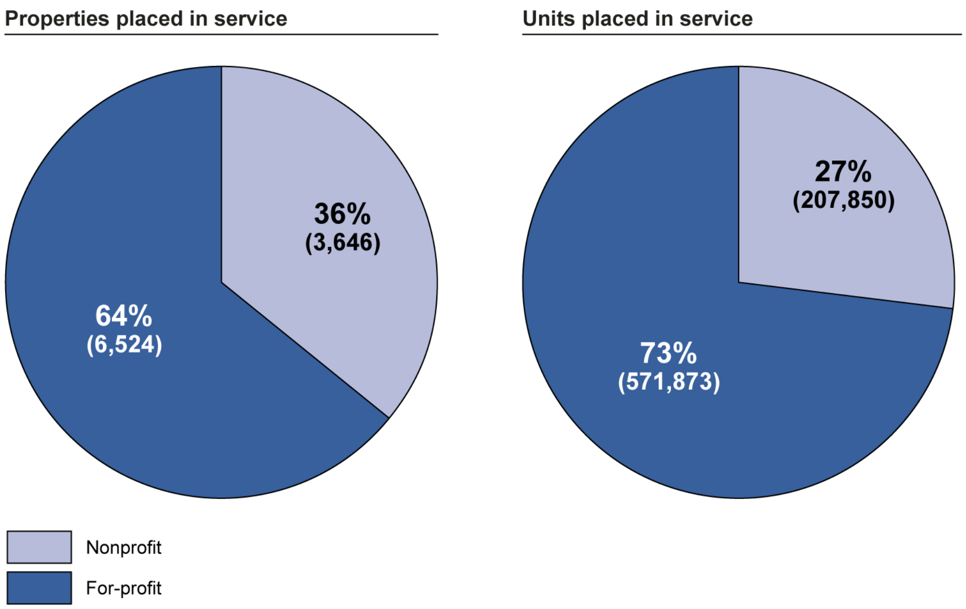


Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

For-profit syndicators helped to fund most of the properties involving syndicators in recent years. More specifically, for-profit syndicators were involved in about two-thirds (64 percent) of the LIHTC properties in which the 32 syndicators participated during 2005–2014 (see fig. 8). The properties in which for-profit syndicators were involved also represented about three-quarters (73 percent) of the units placed in service through syndicated properties in that period.

Figure 8: Proportion of Properties and Units Placed in Service in 2005–2014 for Low-Income Housing Tax Credit Projects in Which Syndicators Participated, by Type of Syndicator

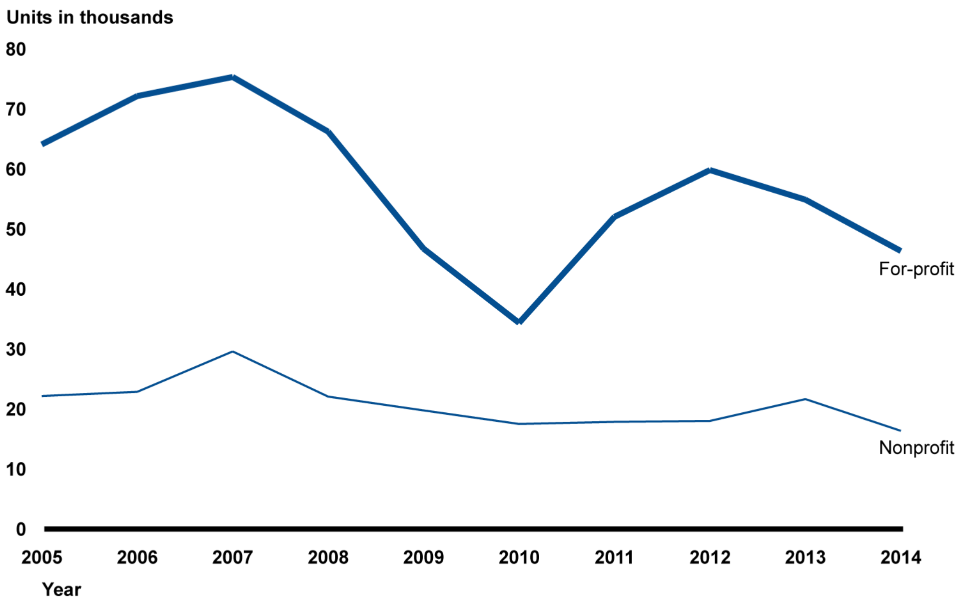


Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

While the number of units nonprofit syndicators placed in service during 2005–2014 remained relatively constant, the number of units placed in service by for-profit syndicators decreased since 2007 (see fig. 9). In 2007, for-profit syndicators placed about 75,000 units in service. In contrast, they placed about 46,000 units in service in 2014, the second fewest during that period.

Figure 9: Number of Units Placed in Service in 2005–2014 for Low-Income Housing Tax Credit Projects in Which Syndicators Participated, by Type of Syndicator

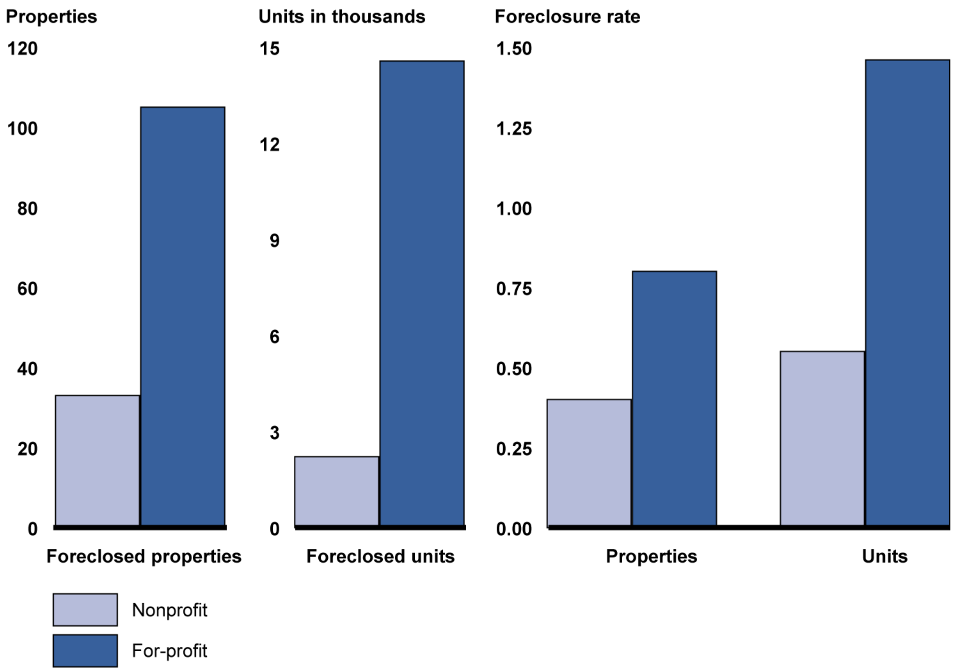


Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

The 32 syndicators surveyed had 138 of their properties (containing 16,774 units) foreclosed upon since they were founded (see fig. 10). The foreclosures represented 0.7 percent and 1.2 percent of their collective LIHTC properties and units, respectively, placed in service as of October 2015. Properties funded by for-profit syndicators accounted for most (76 percent) of these foreclosures, which represented 0.8 percent of the for-profit syndicators' total properties.

Figure 10: Number of Foreclosures and Foreclosure Rates for Low-Income Housing Tax Credit Projects and Units with Syndicator Participation, 1986–2015, by Type of Syndicator



Source: GAO analysis of CohnReznick and syndicator data. | GAO-17-285R

Note: Data are from a survey of 32 syndicators that were active as of October 2015.

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