Insuring the Conversion

Kevin McDonald | June 11, 2019

KHA RAD Training

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Low Income Housing Tax Credits (LIHTC)

vs.

PHA's

Why are they different?

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Low Income Housing Tax Credits vs. PHA's

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Why are they different?

- Immunity
- Taxation
- State and Federal Pooling Laws

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Immunity

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Public Housing Authorities

- Immunity of $250,000 per claim, $400,000 per occurrence (subject to $250,000 per claimant cap) **IF** a qualified governmental entity:
  - Perform a function integral to state government **AND**
  - Established by an immune entity
    - State, county, consolidated local government, **NOT** city

Low Income Housing Tax Credits

- No Immunity

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Taxation

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Public Housing Authorities

- Governmental Entity

  Since the Fund is an extension of Governmental entities it is tax exempt.

Low Income Housing Tax Credits

- Taxable Entities

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Pooling

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Public Housing Authorities

- Eligible for pooling under state and federal laws

Low Income Housing Tax Credits

- Not eligible for pooling

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Low Income Housing Tax Credits vs. PHA's

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What does this mean?

- Conversions that utilize Low Income Housing Tax Credits may not be included in Intergovernmental Pools

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Low Income Housing Tax Credits vs. PHA's

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KHASIF vs. Individual Policies

- KHASIF - Average of 30%-40% less

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Low Income Housing Tax Credits vs. PHA's

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Why the Difference in Cost?

- KHASIF is mature
- Schedule is large and has a wide spread of risk
- Large Retention versus "First Dollar"
- Stricter requirements on Insured to Value

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Insuring Low Income Housing Tax Credit Conversions

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Example: Ownership Structure

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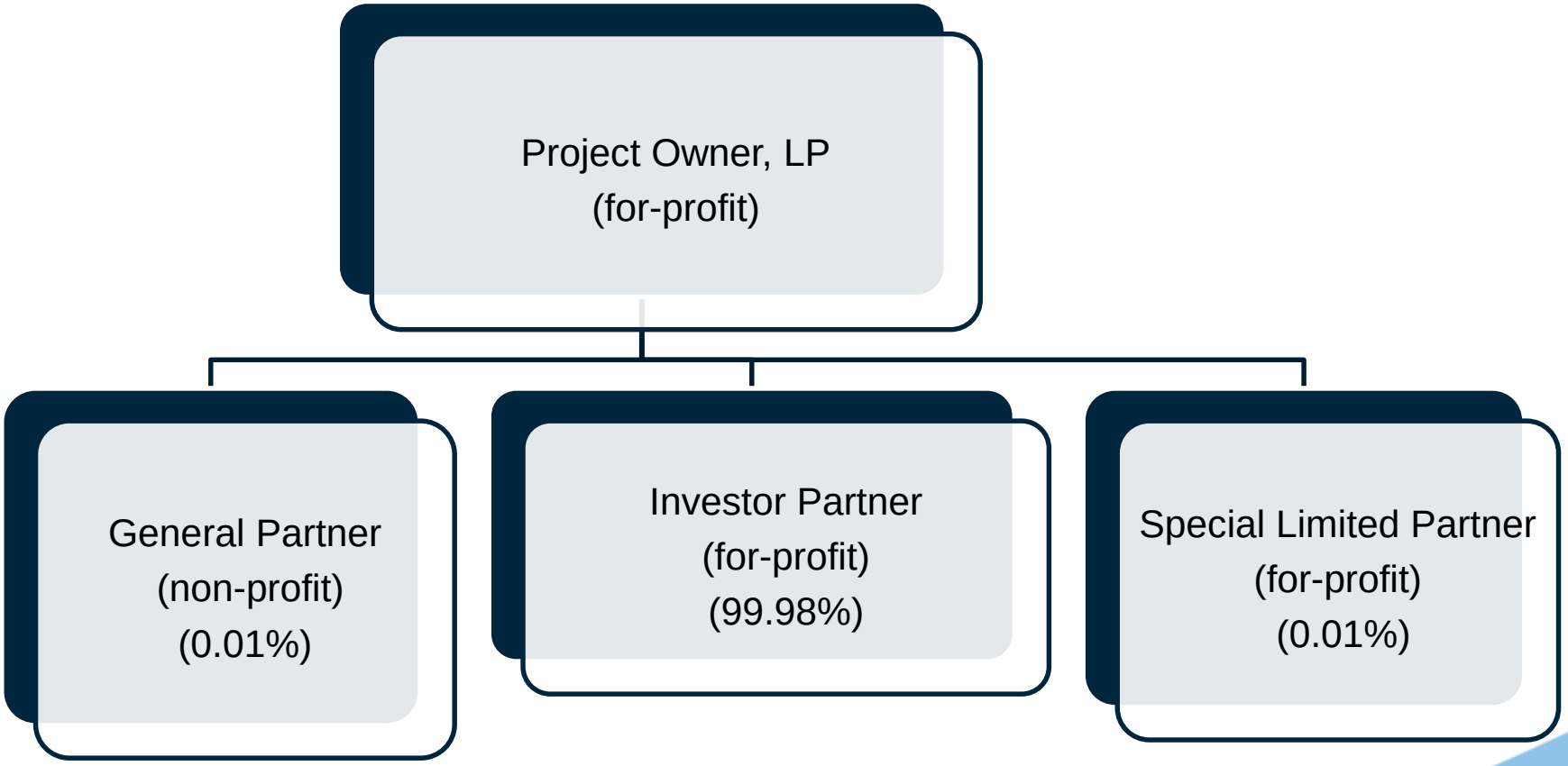

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Coverage Requirements
(in most cases)

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Housing Authority / Management Company

- General Liability
- Auto Liability
- Workers Compensation
- Crime (typically equal to 2-6 months rents)

Tax Credit Owner Entity

- Property / Builders Risk
- General Liability / Owners Liability Policy
- Umbrella (even if not required by Lender)

*Lender(s) will also have additional requirements for Architect and General Contractor

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Preliminary Information for Lenders
(closing date not yet scheduled)

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"We need a Quote with Premium Amounts"

- Quote vs. Indication
- New Construction vs. Rehab/Renovation

What we will need at a minimum:

- Name of new Owner/Entity
- Number of Units
- Breakdown of Buildings including square feet
- Annual Rents

*It is important to keep us informed on possible closing dates after this initial request from the Lenders

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Prior to Closing

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Additional Information Needed for Quotes

Please send when available:

- Scope of Work
- Appraisals / Architectural Plans
- TDC / Pro Forma with Annual Rents
- Construction Contract & Timeline
- Organizational Chart showing all parties and their role in the project
- Lender(s) Insurance Requirements

Once this is received we can officially market to the Insurance Carriers.

* Continue to keep us updated on closing dates

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Closing Date Set

Binding Coverage

- Once there is a firm closing date we will send you our Proposal and hold all quotes until you are ready to bind coverage.
- After we have bound coverage all certificates will be updated with policy numbers and effective dates

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Post Construction

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Coverage required after construction is complete and the remainder of the compliance period:

Housing Authority / Management Company

- General Liability
- Auto Liability
- Workers Compensation
- Crime (typically equal to 2-6 months rents)

Tax Credit Owner Entity

- Property
- General Liability
- Umbrella (even if not required by Lender)

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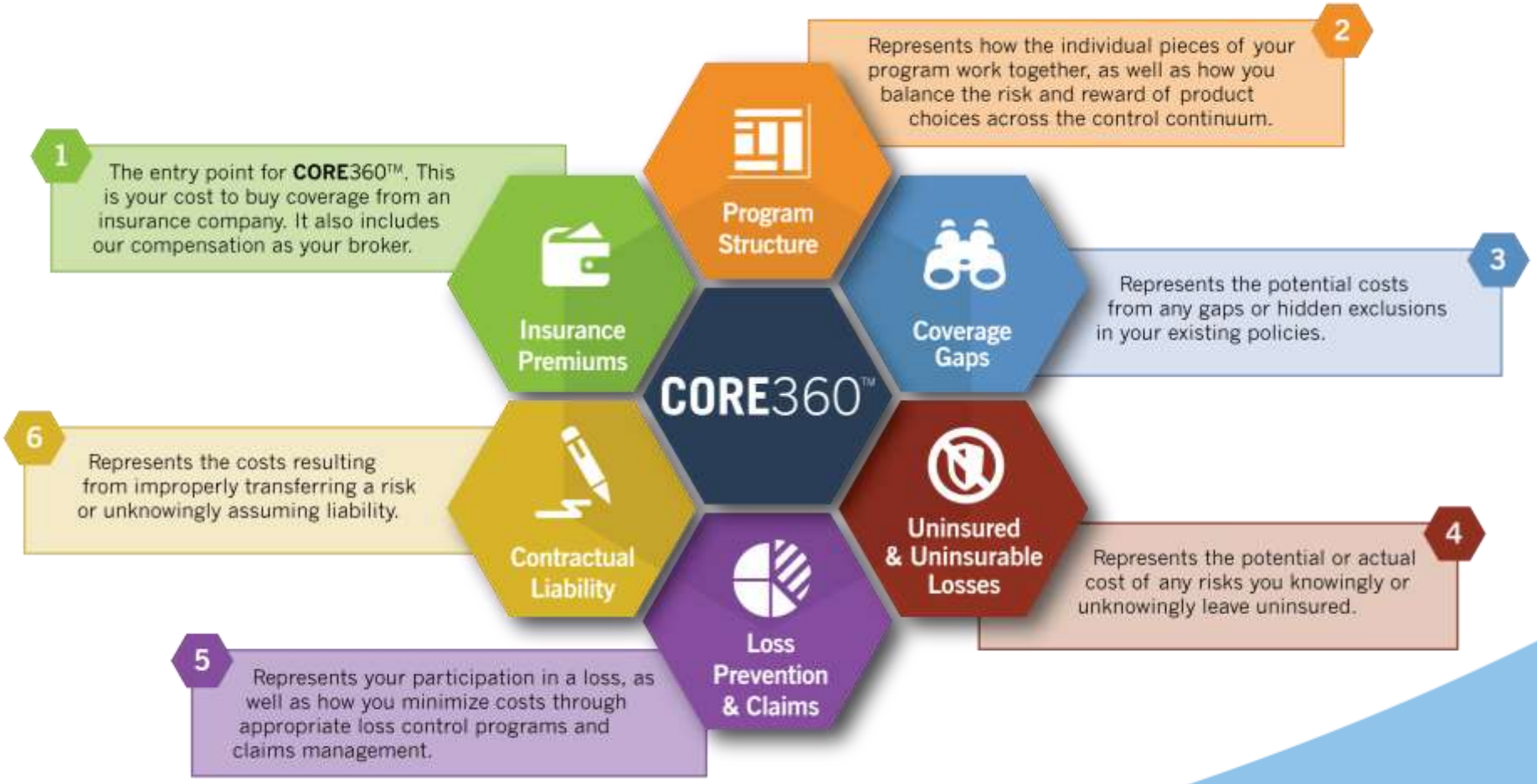
Evaluating and minimizing your total cost of risk



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Additional Thoughts

- Your Team
- Gallagher

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Thank You!

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