

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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DATE: April 16, 2008
TO: Low Income Housing Tax Credit Stakeholders
FROM: William J. Pavão, Executive Director
SUBJECT: Resident Applicants with Subprime Loan Defaults

At its February 2008 meeting, the California Tax Credit Allocation Committee (TCAC) received public comment regarding residency applicants to tax credit properties. Specifically, the commenter asserted that some property owners and property management companies have an automatic denial policy for applicants who have defaulted on a mortgage and been foreclosed upon. The commenter urged the Committee to monitor this practice and intervene as appropriate.

The Committee asked me to learn more about this dynamic including how widespread it is, and what are the best practices among tax credit properties. Since then I have reached out to the professional affordable housing property management community and received some helpful feedback. With this memorandum I am sharing the Committee's concern in this area, and some useful information regarding industry practices.

Property management companies employ a variety of systems to evaluate the risk associated with leasing residential units to prospective tenants. These systems invariably include reviewing applicant's recent credit histories and would quickly detect and highlight a mortgage default and foreclosure. The best practice among professional management companies under these circumstances would be to issue a preliminary denial of the resident application, and allow a period of time (e.g., 14 calendar days) for the applicant to provide additional information regarding the default and foreclosure.

Were an applicant to demonstrate that they defaulted on a subprime loan when the monthly payment adjusted up significantly, the best practice would take this into consideration. If the applicant's recent credit history were otherwise sound, a subprime default and foreclosure alone would not be cause for denial.

The Committee recognizes that analyzing the risk associated with leasing to applicants is multifaceted and complex. Frequently, subprime foreclosures are accompanied by other credit-damaging behaviors on the part of resident applicants. However, the Committee asks that property owners and their management companies employ best practices and show forbearance where appropriate when entertaining applications from recently foreclosed upon subprime borrowers. The availability of tax credit units to low-income households experiencing a subprime loan default may be helpful in returning those families and individuals to economic viability. Thank you for your consideration.