

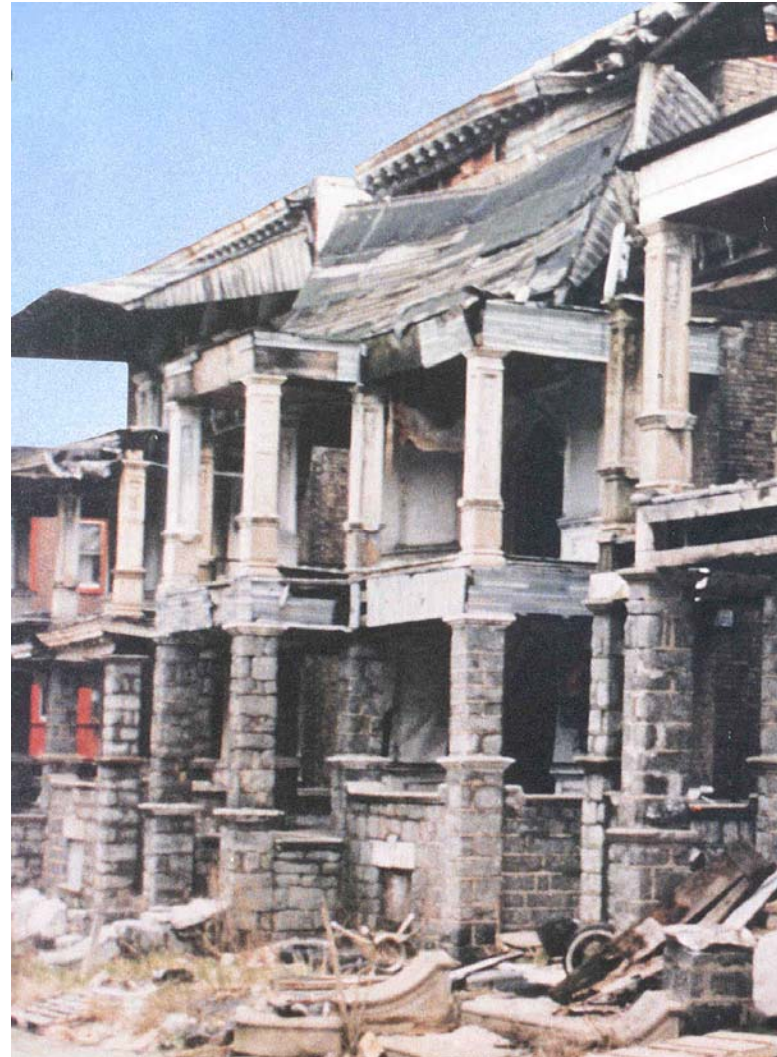
# Understanding Capital Accounts



## Impact on Property Dispositions

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# Regent's Terrace - Before





# Regent's Terrace - After



# Brentwood



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# Rittenhouse School



# McFarland



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# Vernon House



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# The Residences at Hanover Shoe





# Rockoff Hall



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# A. Harry Moore





# Scudder Homes



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# The George



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# C.W. Brooks



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# Alexander Hamilton



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# Bradhurst



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# Abraham Lincoln



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# Alexander Blue Anchor Inn



# Baldwin's Run Senior





# Chapel Green



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# Moravia Park



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# Branch Village



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# Chuck Costello





# Garfield Court



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# Somerton Court



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# Cherry Hill Senior



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# Baldwin's Run



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# Hamilton



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# City View Landing



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# Barclay



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# Limerick Green



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# City View Senior



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# Clara Barton

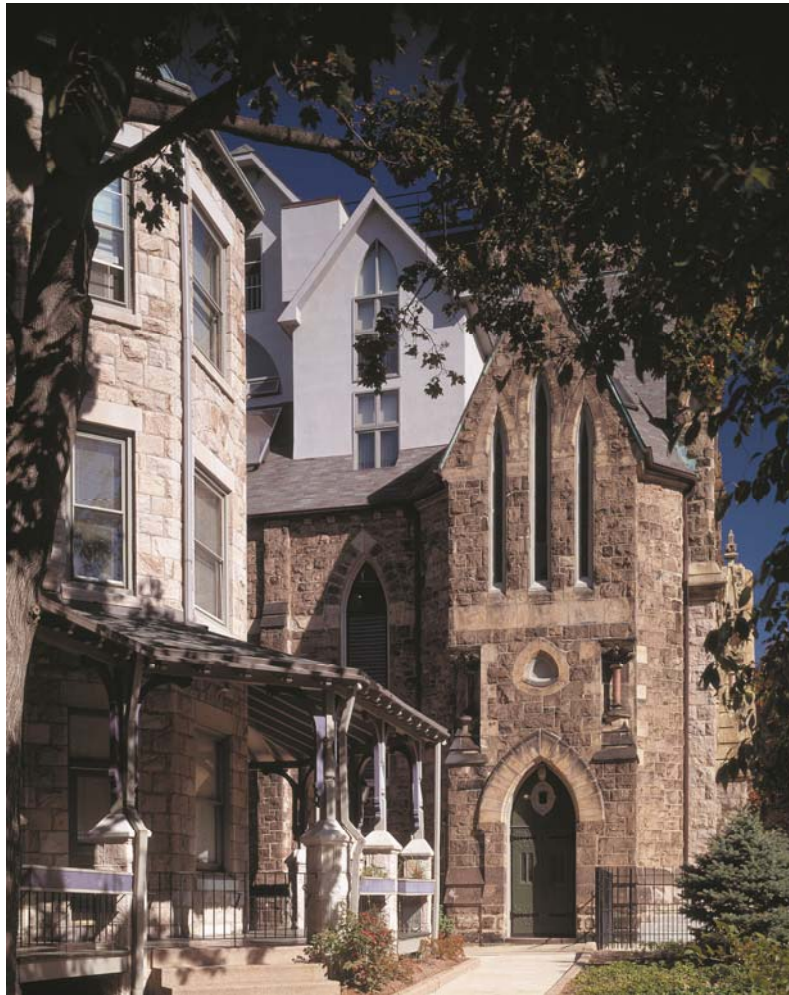




# The Bookbindery



# Cloisters





# Majestic House



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# Crescent Court





# Seaview Manor



# Crozer Hills



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# Cumberland Gardens



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# The Dunlap



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# Cooper Grant



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# Eastampton Town Center





# Angela Court II



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# Chestnut Street Apartments





# Faison Mews



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# Falls Ridge



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# Chatham Senior Village



# Fort Lee





# Marlton Residences



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# French Creek Manor





# Gateway Crossing



# Centennial Place



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# Calcon Gardens



# Jefferis Square



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# Wellington Ridge



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# Glenbrook



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# Dorado Village



# Goodwill Manor





# Villa Maria



# Grant Court



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# Downtown Renaissance



# Mansion Court





# Fairgrounds



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# Delaware Terrace



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# Braddock Avenue



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# Clairton





# Overlook Park



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# Herman E. Kapp





# Landreth



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# Hershey Plaza



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# Summerset at Frick Park



# Penn Hills



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# Highland Homes



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# Hope's Crossing



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# J. Frank Budd



# Martin Luther King Plaza





# Liberty House



# The Oaks at Liberty



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<http://people.stern.nyu.edu/wstarbuc/wachtell/butterfly.html>  
<http://people.stern.nyu.edu/wstarbuc/wachtell/butterfly.html>  
<http://people.stern.nyu.edu/wstarbuc/wachtell/butterfly.html>

# Saint Luke's



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# Livingston Manor





# Manchester



# Maple Village



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# Pennsburg Commons



# McCorristin Square





# Patriot's Cove



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# New Amsterdam





# Obery Court II



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# Christopher A. Smith Terrace



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# Obery Court



# Neston Heights Senior



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# Studevan School



# Orchard Ridge





# Maple Shade Mews



# North Hills





# Maher Manor



# Oxford Hotel



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# Pellittieri Homes



# Universal Court





# Plymouth Place



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# Monroe Meadows



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# Providence Square



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# Riviera Apartments





# Sartain



# Reservoir Hill



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# Wellington Heights



# River Street Commons





# Roosevelt Manor



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# Spencer's Place





# Allegheny



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# Sutton





# Felton Lofts



# Trinity House





# Fifth Street Apartments



# Carpenter's Hill



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# Diamond Street



# Church Lane Court





# Academy Place



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# Widow's Home





# Allison Hill



# Winding Ride





# Daniel J. Flood Towers



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# Fairview



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# Arlington Heights



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# Artisan Street



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# Jefferson School



# Tasker Village



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# The Vue



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# Regent's Terrace

## Factors Impacting Capital Accounts

- Low syndication pay-in rate for LITC's (\$0.48)
- Limited cash flow throughout entire holding period
- Hard first position mortgage with interest at 9.5%
- Interest accruing on soft debt
- Net losses generated throughout entire holding period

## Capital Account Balances Prior to Disposition

Limited Partner (99%)	(\$2,171,946)
General Partner (1%)	(\$161,221)



# Upland Terrace



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# Upland Terrace

## Factors Impacting Capital Accounts

- High syndication pay-in rate for LITC's (\$0.801)
- Significant cash flow throughout entire holding period
- No hard first position debt
- Soft debt at 0% interest amortized from cash flow
- Net income generated throughout entire holding period

## Capital Account Balances Prior to Disposition

Limited Partner (99.5%)	\$5,028,854
General Partner (0.5%)	\$5,698



# Considerations and Legal Structure

## Standard Partnership Agreement Language That Leads to Problems

*“Liquidation proceeds shall be distributed among the Partners in accordance with their respective positive capital account balances.”*

## Strategies to Avoid an Unbargained-For Distribution

- Manage the allocation of tax losses to the LP, as much as possible, so that the capital account of the LP before a sale of the property does not exceed 10% of the expected net sale proceeds
- If the capital account of the LP exceeds 10% of the expected net sale proceeds, negotiate to purchase the interest of the LP before selling the property

# Potential Scenarios

## Scenario Without Conflict

- Low purchase price of credits or a 4% LITC transaction where less capital is contributed without regard to the pricing of the LIHTCs
- High losses because of :
  - (a) low/negative cash flow and/or
  - (b) accruing interest
- Little or no residual value in excess of debt to be shared by the GP and LP

## Problem Scenario

- High initial purchase price of credits
- Low losses or net gain because of:
  - (a) large, positive cash flow and/or
  - (b) no accruing interest, no debt, or full amortization
- Material amount of residual value in excess of debt to be shared by GP and LP but not such a high value that gain from a sale will be many times the amount of the capital accounts immediately before the sale