



RELIANCE HOUSING FOUNDATION

October 2, 2012

Mark Shelburne
Counsel and Policy Coordinator
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609

Re: Comments to draft QAP-2013

Dear Mr. Shelburne:

Thank you for this opportunity to submit the following comments to consider as the Agency drafts the 2013 North Carolina Qualified Allocation Plan (QAP). We direct our comments in this correspondence to the program requirements and process in the 2012 QAP related to the allocation of private activity tax-exempt bonds and 4% credits.

We believe that in this period of cutbacks and constrained budgets it is important for NCHFA to fully utilize all available funding sources. The tax exempt bond / 4% tax credit program has been under utilized in NC and many other states for a variety of reasons. However, in today's market with low interest rates and with construction prices lower than during the housing bubble bond deals are much more viable for some developments. They work particularly well for recapitalizing expiring tax credit properties or for adaptive reuse of historic buildings. We believe it is incumbent upon NCHFA to make the bond / 4% tax credit program more user friendly in order to fully utilize this valuable resource for creating jobs and improving the NC affordable rental housing stock.

Some of the primary advantages of an enhanced bond / 4% tax credit program are:

- Doesn't use precious NC resources since credits are direct from the US Treasury
- Provides an additional revenue source for NCHFA from bond issuer fees
- Provides a funding source for larger developments – over 100 units, these developments don't fit into the 9% tax credit program and don't have other options
- Provides a vehicle to recapitalize and renovate expiring tax credit developments, projects that are over 100 units have no other viable way to recapitalize and preserve long term affordability
- Twins LIHTC and Historic Tax Credits to make adaptive reuse viable

Items that need to change to make the NC bond / 4% credit program viable:

- **Application Cycle Timing** - Adopt a rolling application cycle, similar to most states. The current system with a twice per year application is unwieldy for developers since predevelopment costs can't be included in basis until after inducement.
- **Developer Experience** - Eliminate the developer experience requirement or change it to one tax exempt bond transaction. Certainly a developer with one bond transaction in their portfolio has

more tax credit / bond experience than a developer with only one 9% NC transaction, yet the developer with one 9% transaction is considered "experienced" in the current QAP draft. Bond transactions take special expertise. However, not a lot of bond deals have been done since 2006. If a developer has bond experience, they should qualify regardless of the placed in service date. The ultimate determination of experience should really lie with the parties who have risk, the tax credit investor and the bond credit enhancer, they will not approve a transaction with a developer that doesn't have adequate experience. NCHFA's objective should be to open the playing field to any developer with bond / 4% expertise regardless of how recent or where they are located. It is an opportunity to create NC jobs, preserve existing housing and encourage historic preservation & adaptive reuse.....all without increasing competition for 9% allocation, since the 9% program excludes developers without NC 9% experience.

- **Developer Fee Cap** – the National Council of State Housing Agencies recommendation for Developer Fees is: (emphasis added)

"Recommendation: Each Allocating Agency should include in its qualified allocation plan or other Housing Credit allocation guidelines a general developer fee limit, including overhead. The limit should not exceed 15 percent of total development cost, except for developments meeting specified criteria based upon the following factors:

- *Development size - The smaller the development size, the higher the fee may be as a percentage of development costs.*
- *Development characteristics - Higher developer fees may be allowed as an incentive to produce hard-to-develop or socially desirable developments, such as homeless housing, single-room occupancy housing, and scattered-site developments.*
- *Development location - Higher developer fees may be allowed for developments produced in difficult-to-develop areas. "*

Bond transaction utilizing 4% credits should be allowed to include a 15% developer fee or at least a developer fee equal to the 9% cap of \$12,000 per unit. By including the maximum developer fee in basis a bond transaction can maximize the amount of equity generated by LIHTCs. Since this allocation is direct from the Treasury it does not impact NC 9% allocation.

- Bond transactions often require a significant amount of deferred developer fee, utilizing the maximum fee and then deferring a portion helps the viability of the transaction.
- Tax credit investors for bond transactions require a developer fee that is commensurate with the size of the transaction in order to provide a reasonable cushion.
- Bond & 4% credit developments are often large, the developer fee cap should be per unit to accommodate the difficulty and the risk involved in larger transactions.

Thank you for your consideration of these comments.

Sincerely,



Robert Jackson , CEO