

August 20, 2013

NC Housing Finance Agency
Attn.: Rental Investment
3508 Bush Street
Raleigh, NC 27609

Dear Sirs:

Thank you for the opportunity to comment upon items for consideration for the 2014 Qualified Allocation Plan.

Issue #1

Relevant QAP Sections: Sections VI.B.3. Equity Pricing; VI.B.4. Reserves; and VI.B.10. Investor Services Fees

Issue:

CAHEC's and our development partners' requests to establish an "Asset Management Reserve" as an acceptable project development expense have been repeatedly denied by the NCHFA.

Background:

It is standard practice in the industry for the investor/syndicator to charge fees variously defined as "asset management fees" "investor services fees", etc. and/or a percentage of net cash flow. The purpose of these fees is to partially defray the on-going annual asset management functions over the compliance period. In the competitive arena of tax credit investments, it should be recognized that these fees are, in most cases quite reasonable, and in fact, typically only cover a portion of the actual costs of project monitoring by the investor/syndicator. Payment of these fees from net cash flow is usually a viable option. However, there are projects which have such limited cash flow, that an alternative means of providing for payment of the fees is justifiable. Most such cases involve smaller projects, those financed by RD, or those which are serving a low income population with extremely low rents. In other words, the types of projects which have the most difficulty in attracting investor capital to begin with, are further handicapped in their attractiveness if the investor/syndicator believes their annual asset management fees are at risk.

Solution:

A viable alternative in many such cases is the establishment of a pre-funded reserve at the project-level to be drawn upon either exclusively, or in years of deficient cash flow. The actual size of the reserve necessary is very much project-dependent and could range from pre-funding the entire 15 years' worth of fees to a smaller reserve to be drawn upon to make up the difference between what is available from net cash flow and the full fee amount in any given year.

Recommended Actions:

While permitting such reserves is likely already within the authority of the Agency absent QAP amendment, if it is felt explicit discussion in the QAP is necessary:

Section VI.B.3(b): The amount funded into the reserve should not be treated as a "syndication fee" in calculation of net equity. However, if absolutely necessary to account for the reserve versus the typical "from net cash flow" fee, a simple calculation of the difference between the net present value of the payment of the fees annually over the 15 years versus an upfront funding could be considered. Example: a \$4,000 annual fee from net cash flow totals \$60,000 over 15 years. At a 5% discount rate this \$60,000 is worth \$41,519 today. Therefore, any reserve amount in excess of \$41,519 could be considered a subtraction from net equity.

Section VI.B.4: Add "Investor Services Fee Reserve" as a permissible reserve with approval of the Agency and with such approval dependent upon analysis of the projected net cash flow of the project and its ability to pay a reasonable Investor Services Fee.

VI.B.10. Investor Services Fees: amend to include provision for payment of all or a portion of annual investor services fee from an Investor Services Fee Reserve.

Issue #2

Relevant QAP Sections: IV.F.6 Tiebreaker Criteria

Issue:

The "first tiebreaker" is for the project requesting the least amount of federal tax credits per unit. While this may help accomplish the goals of cost containment and conserving the valuable resource of tax credits in order to fund more units each year, it has had the unintended consequence of encouraging additional leveraging of projects, i.e. placing more debt on a project in relation to equity financing. This places projects at greater risk and can force higher rents in order meet debt service.

Recommended Actions:

Delete tax credits per unit as a tie breaker, or alternatively, move it to a lower ranking tiebreaker.

Issue #3

Relevant Sections: Section VII.B. and Appendix H of the QAP

Issue: Timing of project's receipt of 8609s after the cost certification has been fully approved.

Background: Particularly for moderate rehab projects or when a project is able to build and lease quickly, they can submit the cost certification in a very timely manner, but the Agency has been delaying issuance of 8609's until the State of North Carolina Department of Revenue provides NCHFA with the funds to deploy the second advance of State Tax Credit on individual projects. Specifically, for 2011 projects, some have had approved cost certifications and are running up against tax return extensions for 2012 credits, while waiting on the 8609s to file their tax return. While the QAP states that the Agency may adopt other policies regarding the state tax credit after adoption of the [QAP] plan, the most recent treatment of delaying 8609s have caught investors by surprise.

Action: It would seem that it would be within the authority of the Agency to release 8609s before the second advance of the State Tax Credit.

Thank you for taking these comments into consideration. Please let me know if you would like to discuss or desire clarification on any of these issues.

Sincerely,



Chuck Newcomer
Vice President, Risk Management