Comments to SC 2021 QAP draft sent November 10, 2020

Section II A.2 Market Study Fee - If Agency is going to order both appraisals and market studies there will be additional costs for developing affordable housing. To submit a feasible application, it is often necessary to complete market due diligence prior to application submittal and this is done via a market study or an appraisal. By moving both reports to the post application stage a situation is created where: 1) two market studies or two appraisals are completed for the same property; or 2) applications are submitted without the benefit of a third-party review of market conditions.

Section V A.3 Physical Needs Assessment Report (PNA) for Rehabilitation - T.E. Bond deals in general, and Portfolio deals specifically, have long lead times for pre-development. On a Portfolio transaction there can be as many as 25 PNA's (600 - 800 plus units) that need to be reviewed by a third party prior to LIHTC application. Request that for TE Bond transactions, PNAs must be dated not prior to 12 months (versus the current 6 months) before the application submission.

Section V S.9 - Debt Coverage Ratio – The change requiring a minimum debt service coverage ratio of 1.10 (versus 1.0) over a 20-year pro-forma schedule is a mathematical problem for smaller properties.

As rents and expenses are required to be trended at 2% and 3%, respectively, smaller properties will eventually see their debt service decrease every year. Even though two properties may begin with 1.20 dsc, the larger property with a greater absolute dollar difference between income and expenses, will see an increase in dsc (with 2% and 3% trending), while the smaller property treated to the same trending will see a decrease in dsc.

For Rural Development properties the new requirement will require their initial dsc to be artificially high. Request that the 1.0 requirement remain for RD properties. This will reduce the need for higher initial debt service coverages and prevent immediate over-subsidizing of these smaller affordable housing properties (by reducing rental assistance payments in early years) to meet a projected 20-year condition. Additionally, due to the annual budget review process that is required of all RD properties (every year new rents and expenses are implemented or budgeted for based on prior year), the maintenance of a 1.10 dsc (or higher) will be maintained throughout the required 20-year period.

Appendix E - VII.G - Developments Utilizing Non-Competitive Tax Credits with Tax Exempt Bond Financing – This section begins with "*Tax exempt bond developments must meet all threshold ~~participation~~ criteria in the QAP, except the following ~~requirements~~:*" Immediately underneath this statement in the section "Portfolio Transactions:" is the statement "*Each property must contain at least twenty-four (24) low-income units.*"

Request clarification that properties with less than 24 units can be included in a Portfolio Transaction. One of the benefits of a Portfolio Transaction is the ability to re-capitalize properties that by themselves are not eligible for more traditional “stand-alone” financing. Smaller properties (less than 24 units) are often not able to secure funding for needed rehab work unless these properties are included in a Portfolio Transaction. Currently, in South Carolina, there are RD properties with less than 24 units that would benefit from a Portfolio Transaction.

Supplemental Proposal to the 2021 QAP Draft Section A - Financial Underwriting - Developer Fee limits for properties with T.E. Bond financing have been changed to the lesser of $2,000,000 or 10% of adjusted Total Developer Fee. Typically, TE Bond transactions are much larger than 9% transactions and implementing a different fee scale on a fee associated with a higher “base” is a conforming solution.

On a Portfolio Transaction, individual properties are not afforded this higher base. The properties in a Portfolio Transaction are often smaller than a typically 9% transaction and for each property in a Portfolio Transaction a separate application is submitted and all other requirements (surveys and plans, third party reports, legal, title wok…) must be completed; so each property while being part of a Portfolio, is also, simultaneously, underwritten and developed as a stand-alone property. Given the required work associated with Portfolio Transactions request that T.E Bond Portfolio Transactions Developer Fee limits remain as is and be excluded from the new limits as set forth in the “Supplemental Proposal to the 2021 QAP Draft”.