October 19, 2012

Dear NCHFA,

I would like to address the following concerns prior to the issuance of the 2013 NC Low Income Housing Tax Credit (LIHTC) QAP. It is my opinion that the following concerns referenced below are not in line with national best practices, and I have made recommendations for the Agency's consideration as it applies to the QAP for allocating 4% Low Income Housing Tax Credits.

Comments on 2013 QAP as it applies to 4% LIHTC's, otherwise known as Tax-Exempt Bonds:

1. Allow for increased Compensation on 4% LIHTC Projects

a. Concern: North Carolina's 4% LIHTC's are underutilized by developers as compared with other states. In some states, like New York, developers are incentivized, through zoning, to build affordable housing by offering developers increased FAR allowances on projects that include affordable housing. This incentive, though, only makes projects pencil when very high rents for market rate housing can be expected. Unfortunately in North Carolina, the rental housing market, even in downtown metro areas like Raleigh or Charlotte, do not yet yield high enough rents for planning departments to write this into zoning code.

As such, in order to effectively utilize 4% LIHTC's in rental markets like those found in North Carolina, multiple other funding sources must be included in the project financing in order for the project to pencil. Finding and combining these multiple sources of funding is time consuming and costly for developers, making these projects very difficult and expensive to execute.

While 9% LIHTC are a scarce and limited resource allocated to states based on population, 4% LIHTC are new federal resources brought into a State only by utilizing Multifamily Tax Exempt Bonds as requested by developers. While restricting compensation levels for developers seeking to utilize 9% LIHTC's allows the NCHFA to more effectively distribute these limited tax credits, maintaining the same compensation restrictions for non-competitive 4% LIHTC's discourages developers from utilizing these rarely accessed, yet readily available Federal Tax Credits.

b. Recommendation: In order to increase the volume of tax exempt bonds utilized in North Carolina, I recommend that NCHFA follows the model of many other states and allow developers, architects and consultants to receive compensation closer to market rate, for their time and efforts. Therefore I recommend that the NCHFA increases limits on compensation for projects financed with 4% LIHTC Bonds in the following way:

i. Change Cap on Developer fees from $12,000 per unit to 15% of total development costs.
ii. Increase Architect's Fee's to 7% of total hard costs
iii. Allow for syndication costs of up to 10% for privately placed syndications and 15% for publically placed syndications

These recommendations are based off of the Project Limits that apply to both the 9% and 4% LIHTC from the 2013 QAP of the Louisiana Housing Corporation (pg. 22). While rental rates in Louisiana are similar to those found in

c. 4% bond financing is much more frequently utilized. Therefore I believe the LHC's QAP could be used as a model to increase the utilization and generation of 4% LIHTCs for the NCHFA.

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2. Accept and Review 4% LIHTC Projects on a Rolling Basis

a. Concern: While North Carolina's 4% Low Income Housing Tax Credits are non-competitive, these credits are only allocated in two funding rounds, adding undue time for developers looking to utilize these credits as a small portion of their overall equity raise.

b. Recommendation: In order to increase the number of 4% allocations, I would recommend that NCHFA follows the model of many other states and allow these applications to be received and reviewed on a rolling basis. Many states' housing authority, like LA and NY, will accept 4% applications at anytime during the year and will make a determination within 60 days.

Respectfully Submitted:

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