THE **AFFORDABLE** HOUSING GROUP
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September 4, 2015

Mr. Scott Farmer
Director of Rental Investment
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609

Dear Scott:

Thank you for the opportunity to provide comments for consideration for the 2016 Qualified Allocation Plan (QAP). As a participant in the Developer Council discussions that occurred over the summer, we were encouraged by the open and courteous discussion among a wide range of organizations. Overall the group was very vocal about the credit per unit tie breaker and there was significant concern that it will have a negative effect on the long term viability of the properties and the developers if perpetuated. The method for changing the QAP to eliminate the tie breaker was, as you can imagine, all over the place. Generally TAHG would support changes that eliminate or reduce the impact of the credit per unit tie breaker. It is our feeling that overall there should be more points awarded in multiple categories, in such a manner that it is nearly impossible to attain a perfect score. One possible mechanism to achieve this would be a carrot for finding a good site, a stick for paying too much and a mechanism for rewarding quality as opposed to rewarding risk.

II.D.2 –(pg 7)– Limits - Please eliminate the cap on non-profit sponsored awards. Projects should be evaluated and awarded based on the overall quality of the project- not the tax status of the developer.

II.E.1.a. –(pg 7)– Principal Limits – We would support lowering the per Principal cap to $1.4 million.

IV.A.1.b.(i).- Neighborhood Amenities - Adding additional levels to Neighborhood Characteristics is one way to create variation in scoring and help to eliminate or reduce the significance of the tie breaker. Consider adding an "Excellent" category for areas that are undergoing significant investment (public or private). Such development should not be ranked by it's economic target (high-end), but on its overall quality and relevance to the quality of life for the residents.

IV.A.1.b.(ii)- Amenities- Adding additional variation and available points in the Amenities category is one way to create variation in scoring. However, adding points for multiple grocery/shopping/pharmacy locations both increases the cost of sites, and effectively eliminates the ability of small rural towns to compete unless they are competing only against similar locations. TAHG also suggests granting points for bus/transit locations if the local municipality provides a commitment to add the stop if the project is

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funded – development of the infrastructure (sidewalks, shelter, etc) can be provided by the municipality or by the developer. Eliminate the requirement for a covered shelter.

IV.A.1.b.(iii) – Site Suitability – TAHG does not suggest any changes to this section, other than to eliminate the requirement to be more than 250 feet away from railroad tracks if a metro project is on the commuter light rail line.

IV.D.1.a. –(pg 17)– Developer Experience- caution should be used when considering any changes to this section. Changes could have the unanticipated consequence of creating a monopoly where a limited number of high volume developers are guaranteed projects before the balance of the experienced development community gets a shot at a deal. TAHG believes that all partners have a responsibility to "materially participate", but caution adding language that defines how long an organization must remain in a project. Things change over time and developers should have the ability to exit a project if doing so does not negatively impact the project. Also caution against requiring all partners to provide the same guarantees as all the other partners – for example there are laws that limit the guarantees that non-profits can make if a for profit is also in the transaction. There can also be great variances in the financial ability of all of the parties to share equally in guarantees.

VI.B.1.- Loan Underwriting – TAHG supports underwriting that would also consider the amount of cash flow projected, and not just a 1.15 DCR. Using just the DCR frequently takes small deals in low income counties down to just a few dollars of cash flow which is risky.

VI.B.2.-Operating Expenses – Consider increasing the minimum for projects that pay water/sewer.

VI.B.7. – If the tie-break remains – set a floor and a cap on developer fees.

Cost of Land – TAHG supports a sliding scale scoring system that is based on the average cost of land (bonus points for some percentage less than average and penalty points for being some percentage higher than average)– but this would have to be carefully structured. Consider comparing Low/Moderate/High rather than East/West/Central. Metro to compete within their county. Consider how this change could negatively impact efforts to do projects downtown or on the rail line where costs are higher – perhaps a bonus point for being in these desirable locations.

Credit per Unit Tie Breaker –TAHG supports a sliding scale scoring system that is based on the average credit per unit as noted above– but this would have to be carefully structured. Consider comparing Low/Mod/High rather than East/West/Central.

Developer Discretionary Points – TAHG does not support giving developers points that they may apply to their applications. This dilutes the ability of the QAP process to select the best projects versus the ones that are the most financially beneficial to the developer.

Design Standards – NCHFA should apply design standards and other threshold requirements consistently from year to year. A project that passes threshold one year, should pass the following year if the project and the related section of the QAP have not changed. NCHFA should not overrule local planning and zoning criteria for parking when the local municipality has approved the site plan and parking requirements for the specific project.

Market Study – NCHFA and developers should be able to rely on the accuracy of the Market Study, but errors have been made which could have a significant impact on both existing and new projects. NCHFA should provide rents, utility allowances, vacancy and occupancy data on existing tax credit properties to the market analyst.

Equity Pricing - **We strongly encourage NCHFA to clearly state in the QAP exactly what the policy is when developers are able to obtain additional equity for a project.** Also, assuming the impact of the current credit per unit tie-breaker can be eliminated; we propose that NCHFA allow the market to establish equity pricing. Given the loss of the STC and the continued shrinking of other funding resources, developers should be encouraged to maximize the amount of equity they can obtain from investors. The current process does not encourage investors to pay top dollar, thus putting an increased burden on state and local resources to fill the gap.

Sincerely,

Kathy Stilwell

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Executive Director

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