EXPLANATION OF MAJOR REVISIONS & LISTING OF RECENT CHANGES IN THE DRAFT 2004 QUALIFIED ALLOCATION PLAN

The discussion below does not cover all material changes in the proposed Qualified Allocation Plan ("QAP"). Those interested should review the document in its entirety. Please feel free to contact Mark Shelburne at (919) 877-5645 or mshelburne@nchfa.com with any questions.

Rehabilitation Set-Aside
The need to alleviate substandard housing conditions in North Carolina is great, and this year's applications for rehabilitation credits demonstrated that having a separate competition can be successful. Also, there were a number of comments to the draft 2003 QAP that this set-aside should be larger. Therefore the Agency has proposed to increase the amount available to ten awards or 20% of the state's total credits.

Site Score Reviews
Instead of having applicants submit requests for review of their scores, the Agency will automatically conduct a review of each site prior to releasing scores. This will be done at no additional charge, but will require more time.

Allocation Fee Amount
The proposed fee is designed to be nearly equal to 5.75% of one year's allocation using the full 9% (the amount anticipated in the 2003 QAP). The chief benefit of this change is a more straightforward calculation. Setting a base allocation fee of $7,500 per award reflects that Agency staff spends a minimum amount of time regardless of deal size.

Timing of AHP
As stated in the 2003 QAP, funds from the Affordable Housing Program must be determined by May 7th, 2004 in order to be considered in the full application. Having these commitments in place will assist the Agency in moving up the announcement of 9% credit awards.

Out-of-State Development Experience
The Agency's primary concern is to ensure that owners have the necessary experience to follow through on tax credit awards. Participating in a large number of developments in other states should produce an adequate track record for review.

Unrestricted Units
Including units that are not tax-credit eligible requires replacing equity with debt, which increases the project's cash flow burden. Furthermore, these units very rarely pay their pro-rata share of this additional debt, meaning the residents of tax credit units subsidize this cost. Mixing in unrestricted units also creates management difficulties and generally reduces investor interest. However, some of these problems are lessened where the units are truly market-rate (i.e. have a rent in excess of LIHTC limits).

Community Revitalization Plans
These criteria have been revised and re-organized so as to clarify what is necessary to be eligible for points.

Targeting Disabled and Homeless
The main reason for making DHHS targeting plans a threshold requirement is to ensure that all applications have an equal opportunity regardless of external circumstances. In the 2003 cycle several applications failed to receive points because of a lack of communication, inadequate understanding, and other factors that are correctible if taken outside the context of point scoring. In other words, making a targeting plan work will be similar to (and sometimes part of) the normal financial underwriting process. An application should only fail to meet this requirement if the sponsors are unwilling to participate or do not make the necessary efforts.

Underwriting Standards
Requiring minimum net cash flow of $150/unit/year and operating reserves of at least $1,500/unit is designed to provide a cushion for unanticipated cost increases, such as insurance.

Deleted Definitions
Most of the deleted terms are no longer used in the QAP; the unit definitions (i.e. one bedroom) appear in the revised Appendix B.

Changes in Response to Comments
The following is a partial list of revisions made in response to the comments submitted so far:
1. not necessarily requiring the 10% test to be met in November
2. decreasing the minimum allocation fee amount from $10,000 to $7,500
3. lowering the point scoring threshold for new construction applications from 175 to 160 (150 for tax-exempt bond allocations)
4. no longer reducing mortgage subsidy points based on land being sold by the local government lender in excess of $100,000 per acre
5. increasing the project development cost negative point threshold by $1,000 per unit or $1 per square foot
6. exempting Chart B projects from the $90,000 per unit limitation on RPP funds
7. allowing up to 100 units for new construction 9% and 180 units for new construction bond financed projects without penalty
8. awarding bonus points for a commitment from the RD Section 538 program
9. requiring a 36 inch by 60 inch (minimum size) curbless, roll-in shower for bonus points
10. eliminating the targeting plan minimum of five units for projects without federal project-based rental assistance
11. for the rehabilitation set-aside- a) decreasing the required percentage of units with federal project-based rental assistance from 60% to 30% of the total units; b) increasing the allowed acquisition cost from 50% to 60% of total replacement costs
12. maintain long-standing developer fee percentages

Please direct any comments on the draft 2004 QAP to either of the addresses below.

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