

# 2017-2018 Tax Credit Program

## Bulletin # 1

January 31, 2017

Due to the recent disruption and uncertainty in the current tax credit equity market, the Authority is making changes to various sections of the 2017-2018 Qualified Allocation Plan and 2017-2018 Low Income Housing Tax Credit Manual. The changes outlined below are specific to the 2017 tax credit funding cycle ONLY.

### Changes:

#### **2017-2018 QAP:**

##### **Page 3- Item 2, Previous Year's Development Completion Status:**

###### **Currently reads:**

All developers awarded South Carolina tax credit development(s) in the immediately preceding funding cycle must have closed the construction loan and purchased the land in order to submit an application in the current tax credit funding cycle. Evidence of the construction loan closing and the recorded warranty or fee simple deed must be provided to the Authority not later than February 24, 2017. Developers must include with their tax credit application package an executed Exhibit B form.

###### **Changed to read:**

All developers awarded South Carolina tax credit development(s) in the immediately preceding funding cycle must close the construction loan and purchase the land by June 23, 2017 in order to be eligible to receive an allocation of 2017 tax credits. Evidence of the construction loan closing and the recorded warranty or fee simple deed must be provided to the Authority not later than June 23, 2017. Exhibit B form is not applicable to the 2017 tax credit funding cycle.

##### **Page 8- Market Study Criteria, Item (b), Market Advantage:**

###### **Currently reads:**

**Market Advantage:** All developments must have an overall minimum market advantage of 10% to be considered for funding. Developments not meeting the minimum 10% market advantage will be eliminated. Developments representing a 35% market advantage at initial application submission and being awarded tax credits will be required to maintain a minimum 35% market advantage at placed in service. If rents do not comply at placed in service then the rents MUST be adjusted to meet the minimum 35% market advantage percentage. Prior to a development beginning initial lease-up, the proposed rents by bedroom size must be submitted to the Authority. The Authority will provide its third party market analyst with the proposed placed in service rents and a determination will be made by the market analyst as to whether the proposed rents still meet the applicable market advantage percentage. Beginning the second year, and through the end of the third year of initial compliance, the development must maintain a minimum 25% market advantage percentage. The Authority will provide its third party market analyst with the proposed rents and a determination will be made by the market analyst as to whether the proposed rents still meet the minimum market advantage percentage. If rents do not comply then the rents must be adjusted to meet the minimum market advantage percentage. After the third year of the initial compliance period, developments must maintain a 10% market advantage. In the event of a

softening or declining market the Authority will allow a rent floor at the level of the rents submitted at the initial application submission. **Developments not in compliance will not receive 8609s.**

**Changed to read:**

**Market Advantage:** All developments must have an overall minimum market advantage of 35% to be considered for funding. Developments not meeting the minimum 35% market advantage will be eliminated. Developments representing a 35% market advantage at initial application submission and being awarded tax credits will be required to maintain a minimum 35% market advantage at placed in service. If rents do not comply at placed in service then the rents MUST be adjusted to meet the minimum 35% market advantage percentage. Prior to a development beginning initial lease-up, the proposed rents by bedroom size must be submitted to the Authority. The Authority will provide its third party market analyst with the proposed placed in service rents and a determination will be made by the market analyst as to whether the proposed rents still meet the applicable market advantage percentage. Beginning the second year, and through the end of the third year of initial compliance, the development must maintain a minimum 25% market advantage percentage. The Authority will provide its third party market analyst with the proposed rents and a determination will be made by the market analyst as to whether the proposed rents still meet the minimum market advantage percentage. If rents do not comply then the rents must be adjusted to meet the minimum market advantage percentage. After the third year of the initial compliance period, developments must maintain a 10% market advantage. In the event of a softening or declining market the Authority will allow a rent floor at the level of the rents submitted at the initial application submission. **Developments not in compliance will not receive 8609s.**

**Page 14- IV. TIE BREAKER CRITERIA, item 3:**

**Currently reads:**

The groups established in Tie Breaker #3 will also be used for this Tie Breaker. If required in each Set-Aside, the Authority will rank each development based on the difference between its EBHSF and the group average EBHSF for each type of development submitted in that Set-Aside.

**Changed to read:**

The groups established in Tie Breaker #2 will also be used for this Tie Breaker. If required in each Set-Aside, the Authority will rank each development based on the difference between its EBHSF and the group average EBHSF for each type of development submitted in that Set-Aside.

**2017-2018 TC Manual:**

**Page 6- item 6. Related Parties:**

**Currently reads:**

Notwithstanding anything to the contrary contained herein, the Authority will not reserve credits in an amount in excess of \$1.5 million to any GP or Principal(s) of such GP, directly or indirectly. Applicants will be deemed to be related if any Principal of an Applicant is also a Principal in any other Applicant.

**Changed to read:**

Notwithstanding anything to the contrary contained herein, the Authority will not reserve credits in an amount in excess of \$1.65 million to any GP or Principal(s) of such GP, directly or indirectly. Applicants will be deemed to be related if any Principal of an Applicant is also a Principal in any other Applicant.

**Page 7- Cap for Single Applicant/ Related Parties/ Principal/ Owner, Item 2:**

**Currently reads:**

The maximum tax credit award per development in the Large Population Urban Set-Aside will not exceed \$850,000 inclusive of the basis boost. The maximum tax credit award per development in the General, Underserved Counties, Rehabilitation, Rural Housing (RHS) and Nonprofit Set-Asides will not exceed \$800,000, inclusive of the basis boost. The amount of tax credits per development in these Set-Asides is based on the following sliding scale:

(i)	24 to 31 units	\$650,000 (rehabilitation only)
(ii)	32 to 36 units	\$675,000
(iii)	37 to 40 units	\$700,000
(iv)	41 to 44 units	\$725,000
(v)	45 to 48 units	\$750,000
(vi)	49 to 52 units	\$775,000
(vii)	53 units and above	\$800,000

**Changed to read:**

The maximum tax credit award per development in the Large Population Urban Set-Aside will not exceed \$850,000 inclusive of the basis boost. The maximum tax credit award per development in the General, Underserved Counties, Rehabilitation, Rural Housing (RHS) and Nonprofit Set-Asides will not exceed \$800,000, inclusive of the basis boost. The amount of tax credits per development in these Set-Asides is based on the following sliding scale:

(i)	24 to 31 units	\$675,000 (rehabilitation only)
(ii)	32 to 36 units	\$700,000
(iii)	37 to 40 units	\$725,000
(iv)	41 to 44 units	\$750,000
(v)	45 to 48 units	\$775,000
(vi)	49 units and above	\$800,000

**Page 10- Combination with Other Authority-Administered Programs, State HOME Funds, item (a):**

**Currently reads:**

State HOME funds up to \$6 million will be available in the LIHTC competition;

**Changed to read:**

State HOME funds up to \$5 million will be available in the LIHTC competition;

**Page 15- Appraisals, item (k):**

**Currently reads:**

For underwriting purposes, the Authority will value land at the greatest of (i) the appraiser's valuation; (ii) the tax assessor's valuation; or (iii) ten percent (10%) of the total purchase price.

**Changed to read:**

For Authority underwriting purposes, the minimum land value will be the greatest of (i) the appraiser's valuation; (ii) the tax assessor's valuation; or (iii) ten percent (10%) of the total purchase price.

**Page 20- Authority Designated Difficult Development Areas (DDAs):**

**Currently reads:**

As outlined in H.R. 3221, the Housing and Economic Recovery Act of 2008, the Authority must establish criteria for determining which areas will be treated as Difficult Development Areas (DDAs) and which developments will be eligible to receive additional tax credits up to 130%. Developments utilizing tax exempt bonds are not eligible for this basis boost. The

DDA criteria established by the Authority are separate from the federally designated DDA areas. Developments are eligible to receive a basis boost as follows:

- a) Developments located in a federally designated Qualified Census Tract (QCT) or a DDA area are eligible for the 130% basis boost for all building(s) in the development;
- b) Developments funded through the Underserved Set-Aside, Rehabilitation Set-Aside and RHS Set-Aside are eligible for the 130% basis boost for all building(s) in the development;
- c) Developments funded through the General Set-Aside, Large Population Urban Set-Aside and Nonprofit Set-Aside are eligible for a 120% basis boost for all building(s) in the development. Note: The Authority reserves the right to adjust the allowable boost for future funding cycles based on economic conditions.

**Changed to read:**

As outlined in H.R. 3221, the Housing and Economic Recovery Act of 2008, the Authority must establish criteria for determining which areas will be treated as Difficult Development Areas (DDAs) and which developments will be eligible to receive additional tax credits up to 130%. Developments utilizing tax exempt bonds are not eligible for this basis boost. The DDA criteria established by the Authority are separate from the federally designated DDA areas. Developments are eligible to receive a basis boost as follows:

- a) Developments located in a federally designated Qualified Census Tract (QCT) or a DDA area are eligible for the 130% basis boost for all building(s) in the development;
- b) Developments funded through the Underserved Set-Aside, Rehabilitation Set-Aside, RHS Set-Aside, General Set-Aside, Large Population Urban Set-Aside and Nonprofit Set-Aside are eligible for the 130% basis boost for all building(s) in the development. Note: The Authority reserves the right to adjust the allowable boost for future funding cycles based on economic conditions.

**Page 23- Permanent Financing**

**Currently reads:**

A letter of intent is required for all permanent financing sources. The Authority will underwrite the first mortgage debt at the lesser of six percent (6%) or the rate provided in the lender letter. The letter must clearly state the term of the permanent loan, the amortization period, how the interest rate will be indexed, the current rate at the time of the letter, the anticipated principal amount of the loan, and the lien position. All permanent loans must have a term of at least eighteen (18) years. No balloon payment may be due prior to eighteen (18) years after conversion to permanent loan. All permanent loans are required to amortize so that debt service on such loans is paid in equal installments over a period of twenty (20) years or longer. Any permanent loan represented as having an amortization period less than twenty (20) years will be underwritten by Authority staff with a minimum twenty (20) year amortization with 240 equal monthly debt service payments. Should a proposal fail to meet other underwriting guidelines resulting from projecting a minimum twenty (20) year amortization, the proposal may be disqualified. All cash flow loans will be considered additional deferred developer fee and will be included for purposes of the 50% deferral limit.

**Changed to read:**

A letter of intent is required for all permanent financing sources. The Authority will underwrite the first mortgage debt at the lesser of six and a half percent (6½%) or the rate provided in the lender letter. The letter must clearly state the term of the permanent loan, the amortization period, how the interest rate will be indexed, the current rate at the time of the letter, the anticipated principal amount of the loan, and the lien position. All permanent loans must have a term of at least eighteen (18) years. No balloon payment may be due prior to eighteen (18) years after conversion to permanent loan. All permanent loans are required to

amortize so that debt service on such loans is paid in equal installments over a period of twenty (20) years or longer. Any permanent loan represented as having an amortization period less than twenty (20) years will be underwritten by Authority staff with a minimum twenty (20) year amortization with 240 equal monthly debt service payments. Should a proposal fail to meet other underwriting guidelines resulting from projecting a minimum twenty (20) year amortization, the proposal may be disqualified. All cash flow loans will be considered additional deferred developer fee and will be included for purposes of the 50% deferral limit.

**Page 25- Syndication information:**

**Currently reads:**

If the information as to the syndication value is unusual, the Authority in its sole discretion may assign a value based on existing market information. If any elements of the syndication proposal are unusual, the Applicant must provide an explanation. The Authority will underwrite using a LOI syndication floor rate of not less than **92** cents.

**Changed to read:**

If the information as to the syndication value is unusual, the Authority in its sole discretion may assign a value based on existing market information. If any elements of the syndication proposal are unusual, the Applicant must provide an explanation. The Authority will underwrite using a LOI syndication floor rate of not less than **80** cents.

**Page 32-Rent Increases:**

**Currently reads:**

**Rent Increases:**

The 2013 HOME Final Rule requires approval of rents for all HOME-assisted units during the affordability period on an annual basis. The approval process will be handled by the Compliance Monitoring Department. Immediately following the publication of the HOME Income and Rent Limits each year, owners of HOME-assisted units must submit their proposed rent structure to the Director of Compliance Monitoring for approval before increasing rents. Any rent increases outside of the annual approval process must also be approved by the Director of Compliance Monitoring.

**Changed to read:**

**Annual HOME Rent Approval**

The 2013 HOME Final Rule requires approval of rents for all HOME-assisted units during the affordability period on an annual basis. The approval process will be handled by the Compliance Monitoring Department. Immediately following the publication of the HOME Income and Rent Limits each year, owners of HOME-assisted units must submit their proposed rent structure to the Director of Compliance Monitoring for approval. Any rent increases outside of the annual approval process must also be approved by the Director of Compliance Monitoring.

**Page 38- Item 6. Appraisal Valuation, item (c):**

**Currently reads:**

For underwriting purposes, the Authority will value land at the greatest of (i) the appraiser's valuation; (ii) the tax assessor's valuation; or (iii) ten percent (10%) of the total purchase price.

**Changed to read:**

For Authority underwriting purposes, the minimum land value will be the greatest of (i) the appraiser's valuation; (ii) the tax assessor's valuation; or (iii) ten percent (10%) of the total purchase price.