Section 1602 and TCAP Guidance Questions and Answers
As of June 26, 2009

Question 1
In order to come in for the TCAP funds, do we need to have a firm commitment on the tax credits? It seems to be the old "chicken or the egg" issue with the upper Midwest right now. As I talk to investors, they are pushing pricing down (as I'm sure you know), but that is always followed by the question of whether or not we have TCAP funds. If we knew the TCAP was approved, it would probably help place the equity.

IFA Answer
To submit the Request for Information for TCAP, a firm commitment on tax credits is not needed; however, before IFA will sign the TCAP loan agreement, a closed syndication/investment agreement is required. Please review Section II.B. of the Tax Credit Assistance Program Project Selection Process and Criteria for guidance on the process that IFA will follow related to approval of TCAP funds.

Question 2
In the final application cycle (that can qualify for TCAP (7/15)), I had a syndicator ask me if we could still apply for the 9%, non-disaster credits, that would be available for exchange credits. I know that the disaster area credits are not eligible for the exchange (one the state normal base allocation), and I assume all the non-disaster area credits are allocated, but I thought I would ask the question (on behalf of a potential investor).

IFA Answer
If your project resides in one of the federally declared disaster counties, the project – once reviewed and approved by the IFA board – will receive an allocation of disaster credits. The "per capita" credits that remain (60% of the 2009 allocation) are for two set-asides and to be awarded to projects that do not reside in a disaster county. Section 1602 funds are being used in Iowa as gap financing, ideally with a syndicator or investor purchasing credits in the project.

Question 3
Can bond deals receive awards of 1602 funds? We have structured a joint financing of project one (a 4% deal) and project two (a 9% deal), and we are not sure whether we can use 1602 funds in that structure.

IFA Answer
Possibly. IFA did not consider 4% projects in the TCAP guidance. We considered 4% deals in the Section 1602 guidance, but IFA will have to seek guidance from legal counsel and Treasury to determine how to proceed.

Question 4
Can you please confirm that our two deals that have received awards of Disaster Relief Tax Credits (and not per capita credits) are eligible for 1602 funds? Or are they limited to TCAP funds because they are Disaster Relief deals?

IFA Answer
Projects that received disaster relief tax credits are eligible for Section 1602 financial assistance. Both TCAP and Section 1602 should be considered gap financing to help fill the gap left in a deal by reduced pricing for credits or fewer credits being purchased by the syndicator or investor.

Question 5
Since our two 2009 deals have awards of Disaster Relief Credits, are we required to submit an application for per capita credits (regardless of whether we're going to apply for 1602 or TCAP funds)? What is the deadline for the application for per capita credits from the Reserved Set-Aside? Is it September 1, 2009?

IFA Answer
If IFA determines that TCAP funds are best suited to meet the project's needs, the "per capita" allocation process from the Reserved Set-Aside will be discussed in the face-to-face meeting between IFA, the owner, and the syndicator/investor. "Per capita" funds must be awarded (IFA board to allocate and non-refundable reservation fee paid) prior to September 30, 2009.

Question 6
Do you have any idea when the TCAP application deadline will be? I know you haven't yet published the application and are awaiting HUD's response to your June 3 submittal.

IFA Answer (updated June 23, 2009)
The Request for Information for TCAP financial assistance has been posted on the ARRA webpage. The owner has until July 10, 2009 to respond to the RFI.

Question 7
How and in what format should we show IFA that owners' and general contractors' have recent history of timely construction?

IFA Answer
The information submitted should demonstrate that both the owner and general contractor are capable of overcoming typical construction problems and delays in order to meet construction completion in a timely fashion, and that the parties are good at estimating how long it will take to complete a project (project was completed as planned, or project was completed earlier than plan). The respondent should determine the format that best describes that information.

Question 8
Regarding strength of relationship with Syndicator/Investor: in order to score 10 points (the minimum), steps 1-4 must be complete?

IFA Answer
Step 3 must be complete, and the syndicator must attest to the fact that the syndicator is in the process of completing number 4.

Question 9
Regarding strength of relationship with Syndicator/Investor: Does a project receive no points given for steps 1-3?

IFA Answer
That is correct.

Question 10
Regarding strength of relationship with Syndicator/Investor: Is documentation of these steps in the form of a letter, on syndicator/investor letterhead, stating the steps that have been completed?

IFA Answer
The syndicator/investor should put in their own words where they are at in the process. They should give as much detail as possible so that IFA can determine how strong the relationship is and what the level of commitment is from the syndicator/investor to complete the agreement. It should be on their letterhead.

Question 11
If IFA is our lender, do we need to provide updated commitment letters from IFA?

IFA Answer
If the agreement with your lender is new or has been updated since the approval of your LIHTC application, then submit the updated commitment letter. If the agreement has not changed, please note that information in the Request for Information submission.

Question 12
Are we correct in our understanding that since we have an investor/syndicator in our deals for more than 50% of the sources of funds, we are not required by IFA to have deferred developer fees?

IFA Answer
So long as the syndicator/investor has more money in the deal than IFA through Section 1602 or Section 1602/TCAP, we will not require a deferred developer fee.

Question 13
If we have an investor/syndicator in our deals for more than 50% of the sources of funds, are our underwriting requirements a DSCR of 1.25, min. operating reserves of $2000 per unit, and 8% vacancy rate for Section 1602?

IFA Answer
Application of the underwriting requirements are more likely to be implemented if the syndicator/investor has less equity in the deal than IFA has Section 1602 or Section 1602/TCAP funds. If the syndicator/investor has more money in the deal, IFA will likely accept their underwriting standards so long as they are equal to or greater than those required within the QAP.

Question 14
Does IFA want updated letters of intent from investor/syndicator and permanent/construction lender?

IFA Answer
The most important reason that we want updated letters is to determine if the project costs need to be revised to reflect the current situation. Since you will be showing some type of gap in financing, IFA will need to know the cause (example: did the investor drop the price from 75 cents to 65 cents?) The documentation should back up your request for funding. If nothing has changed and the letter we have on file stands, then state that or resend the existing letter. Before we close on these deals, we will need confirmation from all the players that the commitments are solid.

Question 15
What is to be included in those letters?

IFA Answer
Terms, amounts, anything that is going to impact the project costs and proforma.

Question 16
Are section 1602 funds per unit a required part of the letter (hence the reference to B8)?

IFA Answer
If we know how many units you have and how many funds you are requesting, it is not hard to make this calculation. However, if you respond that you are seeking points for this criteria, in the Section 1602 negotiations, this becomes your maximum amount that you are eligible for.

Question 17
Does IFA want a current syndicator/investor agreement that is separate from the letter detailing the steps achieved so far (for scoring purposes)?

IFA Answer
For the current syndication or investor document, submit the most current document that you have received that reflects the pricing of the credits. (3rd item in the list of E. Required Attachments)

Question 18
Is this letter separate from the narrative describing steps taken to secure equity, and also separate from the current syndication or investor documentation?

IFA Answer
The narrative (4th item in the list of E. Required Attachments) describing steps taken to secure equity is the owner's explanation on why there is no syndicator or investor in the deal. If you have a syndicator/investor this is not applicable. The syndication/investor letter (5th item in the list of E. Required Attachments) describes where you are at in the process with the syndicator/investor.

Question 19
Are we meant to attach just one of these three items (the 3rd, 4th, and 5th boxes in the list of required attachments)?

IFA Answer
You will likely either submit 3 and 5, or 4.

Question 20
Any idea how the 1602 funds are projected to flow into the deal? We are trying to update construction interest rate calcs., and I want to be clear on the intent. I'm hearing that they can come in first (for eligible costs) to keep the interest cost down, but I don't want to assume something.

IFA Answer
Generally, IFA will be for first money in the deal for items in eligible basis. This is because the Section 1602 funds must be spent on eligible costs by December 31, 2010. IFA's actual deadline to submit draw requests will likely be earlier than this so that we can review and approve the construction draws.

Question 21
Does IFA consider the grant processing fee and grant origination fee to be basis-eligible?

IFA Answer
The "grant processing fee" of $750 is actually the "change of information fee" for the LIHTC program. Therefore, you would treat this fee as you would treat the LIHTC application fee in your project costs.

We have been receiving guidance from the Treasury that they will potentially allow loans instead of grants for the Section 1602 program. If this is the case, IFA will offer these funds as loans and the origination fee would be treated in your project costs as you would the origination fee for a bank loan.

Question 22
Should we apply for both 1602 and TCAP funds, for our three deals: Project 1 (9% credit deal, awarded in 2009), Project 2 (9% credit deal, awarded in 2009), and Project 3 (4% bond deal, awarded in 2007)?

IFA Answer
Yes. You should respond to the Request for Information (RFI) for both Section 1602 and TCAP. IFA will determine which fund is best suited to your project's particular circumstances. The RFI for TCAP will be published upon approval by HUD of IFA's TCAP plan.

Question 23
Do we need to apply for a nominal amount of per capita credits ($1,000) from the Reserve Set-Aside by September 1, 2009 for 2 projects with 9% disaster credits and one project with 4% credits?

IFA Answer
IFA will need to seek further guidance prior to determining how either funding source works with 4% credits. If IFA determines that TCAP is the source best suited for the 9% disaster credit projects, we will discuss in our face-to-face meeting how the ownership entity should proceed with a request for the Reserved Set-Aside.

Both sources will be used by IFA as gap financing, and based on recent guidance from Treasury, it is likely that both sources will be offered as loans.

Question 24
If we are using both programs in one project, can we assume the Developer Fee escrows in the Threshold section would not "both" come into play..? In other words, if both TCAP and Exchange funds used, which deferred developer fee scenario will apply?

IFA Answer
Although allowed, it is highly unlikely that IFA will combine TCAP and exchange funds in a single project since both funds are for the same purpose – gap financing. The problem with combining TCAP and exchange is that HUD and Treasury have conflicting rules which make the two funds difficult to work together. In addition, as you noted above, IFA has conflicting rules for the two programs.

Question 25
The Section 1602 Request for Information suggests that assistance is capped at $60,000 per unit (#8 – Financing). The section process and criteria indicated that the "amount specified in the Request for Information response is the maximum amount of Section 1602 grant allowed per unit if the project seeks points". This is particularly important for our project, where there potentially will be little to no equity investment. If $60k is the cap, we would likely just not pursue Section 1602. Will there also be an absolute cap for TCAP? Scoring was cut off at $25,000 per unit.

IFA Answer
The limit per unit on Section 1602 is established by the underwriting of the project and the other available sources. The $60,000 amount is only to receive points and does not establish a per unit limit.

Question 26
I plan on submitting 1602 information requests for the two tax credit projects I have submitted - Project 1 and Project 2. However, I am not sure just how to deal with contingent HOME funds. If HOME funds were to be awarded, the need for 1602 funds and/or TCAP funds would correspondingly be reduced. Can you offer any suggestion? Should I just continue to assume receipt of HOME funds, and have that matter open for discussion at a solicitation meeting?

IFA Answer
You should continue to assume receipt of HOME funds.

Question 27
For our Phase I of our project, we have an email from the City stating that our building permits are "**Ready to Issue**." Actually **pulling** the permits is going to cost about $30,000. The price would be doubled if we were to pull for Phase II as well. In light of all of the other costs that we have had to advance for this project, it seems unreasonable that we would have to pull the permits in advance of actually closing our financing just to prove that we are "shovel ready." Does IFA have any flexibility on this point?

IFA Answer
You do not have to have a building permit to apply for Section 1602 or TCAP. If you do have it, you will score higher. This is a scoring item.

Resource provided by a developer: One piece of helpful information that may assist your applicants with Section B (Job Creation) on the Section 1602 form is the NAHB Model of Local Impact of LIHTC Development. We actually participated with some of our Iowa developments in its creation, and it's a good predictor of these numbers.

Thanks for Kris Saddoris from Conlin Properties for information on calculating job creation.

As of June 23, 2009

Question 28
How do we enter assumed loans from a bank and Rural Development? The debt service on these loans is different from what the spread sheet calculates since it uses the loan balance assumed, instead of the original loan amount that was established several years ago. There seems to be no way to override the calculated debt service with the actual debt service.

IFA Answer
IFA has posted an updated Section 1602 Rental Housing Spreadsheet and Instructions on June 23, 2009. The revised document unlocks the spreadsheet for deferred loans.

Question 29
On the Request for Information at Section E, it refers to B9 at two places and B10 at one place. There is no B9 or B10.

IFA Answer
IFA has updated the Section 1602 Request for Information Form on June 23, 2009 to specify the correct references under Section E.

Question 30
On a RD acquisition rehab when the property is transferred to the Buyer (Tax Credit Ownership Entity) assumes all existing reserve accounts, tax and insurance accounts, and reserve accounts. Where should these amounts be entered on the Source of Funds Section of the rental housing spreadsheet? It seems to work if entered under Owner Investments, but that is not what it is.

IFA Answer
Enter under Owner Investments.

As of June 26, 2009

Question 31
Should the requested Section 1602/TCAP amount be entered on the Rental Spreadsheet - Sources of Funds Tab under Proposed Permanent Fnancing as a Cash Flow Loan or some other type? Or should it be left off so that it appears in the "Gap" field below?

IFA Answer
The document you reference should not list either TCAP or Section 1602 amounts. The application should show a "gap" amount

---

Question 32
May we use the same Rental Spreadsheet form for both RFIs? When I filled out the Rental Spreadsheet for TCAP, the "Gap" calculation seems to come up with a different result than on the Section 1602 form.

IFA Answer
The two spreadsheets should be identical. You may submit the same spreadsheet for both Requests for Information. The "gap" should be shown in cell C59 on the Sources of Funds page on the TCAP and Section 1602 spreadsheets.

Question 33
Can we submit our response via email?

IFA Answer
In addition to sending the electronic submission of the TCAP and Section 1602 Request for Information forms and attachments to Dave Vaske, please submit the original Request for Information form and attachments that require an original signature to IFA as well. The electronic submission must be submitted to Dave Vaske by the deadline stated in the applicable RFI; however, the paper RFI submissions may be postmarked on July 6th for Section 1602 and July10th for TCAP.

In addition, please note that the spreadsheets and instructions have been updated. Please visit: http://www.iowafinanceauthority.gov/en/american_recovery_and_reinvestment_act/housing_tax_credit_program/ to obtain the most recent version of the spreadsheets.

Question 34
If we received an award of 2008 9% Midwestern Disaster Relief credits and plan to apply for TCAP by 7/10, do we need to apply for $1,000 per capita credit from the Reserved Set-Aside by 7/10 or 9/1?

IFA Answer
HUD may be issuing new guidance soon that Disaster Relief credits are acceptable with TCAP. You do not need to apply for $1,000 per capita credits from the Reserved Set-Aside at this time. IFA will provide further guidance once HUD makes an announcement.

Question 35
Item II.A.6 of the document entitled "Section 1602 Project Selection Criteria Process and Criteria" dated 6/10/09 reads as follows:

"If the General Partner or managing member of the Ownership Entity is a non-profit and there is a developer/consultant for the project, then no less than 50% of the developer fee must be paid to the Ownership Entity."

Please help me understand if this applies to our project and, if so, how:

- The GP of the ownership entity is a for-profit subsidiary of our non-profit partner.
- As a condition of allowing us to rollover the existing Flexible Subsidy Loans (a $2mm source of funds for each phase), HUD is prohibiting the non-profit from receiving any cash from the transaction whatsoever.
- Newbury is being required by the syndicator to provide 15 years of guarantees to the non-profit partner.
- To be basis-eligible, developer fee needs to be used for development activities. The ownership entity has not provided any development activities.

I need your help in understanding what you are requiring and how to model it for my submission.

IFA Answer

The response to either TCAP or Section 1602 should not change the calculations of the project to include such items as a change in the developer fee to comply with TCAP. Rather, the response to the Request for Information should demonstrate the gap in financing as the project is today. If funded through Section 1602, Item II.A.6 of the document entitled "Section 1602 Project Selection Process and Criteria" would apply to your project. In IFA's underwriting of the project, any restrictions on the source of funds will be applied.