NCSHA Recommended Practices in Housing Credit Allocation and Underwriting

December 2011 Approved Revision

1. Per Unit Cost Limits

Recommendation

In addition to carefully rationing the amount of Housing Credit allocated to eligible developments, as federal law requires, each Allocating Agency should develop a per unit cost limit standard. That standard should be based on total development costs, including costs not eligible for Housing Credit financing and costs funded from sources other than the Housing Credit. The standard and the justification for it should be published in the Allocating Agency's qualified allocation plan (QAP) or other Housing Credit allocation guidelines.

In developing its per unit cost standard, the Allocating Agency should thoroughly examine building construction and land costs in its state, including variations in such costs within the state. It should also examine certified cost data on existing Housing Credit developments in the state portfolio and compare that data against the actual costs of other non-luxury multifamily housing located in the same geographic areas.

This process will produce a standard that either prescribes a single cost limit applicable to the entire state or multiple limits that take into account disparities in costs due to project location, type of construction, population served, and potentially other project characteristics. In developing cost limits, agencies should balance the efficient use of scarce resources with the need to develop affordable rental housing that is durable, attractive, safe, energy-efficient, and healthy.

If an Allocating Agency receives an application for the award of Housing Credits to a development with per unit cost in excess of its established limit for the area in which the development is located, the agency should subject the development to a further level of scrutiny and review. Credits should be awarded to such developments only if that review reveals the additional costs are justifiable and reasonable under the circumstances and attributable to unique development characteristics (e.g., location in a difficult-to-develop area, prevailing wage rate requirements, limited commercial space, or tenant services or common areas essential to the character of the development) consistent with the housing needs and priorities identified in the agency's QAP.

In addition to comparing a development's cost against the agency's standard and against comparable developments in the market, the Allocating Agency should compare it to the cost of other developments competing within the same allocation cycle to identify any cost items outside of the norm. The agency should require that such cost outliers be examined and reduced unless the sponsor provides a compelling reason as to why they are warranted that is acceptable to the agency.

The Allocating Agency should carefully limit and justify the total number of developments with per unit cost in excess of the state's established standard, as well as the total amount of Credit allocated to such developments. The agency should document the justification in each case.

Each Allocating Agency's cost limit standard and/or policies should acknowledge that the total cost of a development may sometimes be higher than good public policy and prudent resource allocation should allow, even if individual cost components may be justified and considered reasonable in other contexts. It should recognize that some markets, property characteristics, and circumstances individually or together may be cost-prohibitive for Housing Credit development.

The Allocating Agency should apply the same standards and rigorous evaluation to Housing Credit developments financed with tax-exempt bonds.

While encouraging cost-efficient production with realistic per unit cost limits for Housing Credit developments, the Allocating Agency should not give preference solely for lowest development costs.

Finally, each Allocating Agency should regularly review its QAP and related allocation guidelines with the goal of reducing development costs.

24. Sponsor Certification of Project Sources and Uses of Funds

Recommendation

To ensure that Housing Credit developments do not receive Credit and other funding in excess of the amount necessary to ensure their feasibility and long-term viability as low-income housing, the Allocating Agency should require sponsors to certify to it that they have disclosed all of a development's funding sources and uses, as well as its total financing, and will disclose any future changes in funding to the agency.