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## Memorandum



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**From:** Sean Thomas

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**Date:** 4/16/08

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**Re:** Response to Declining Housing Credit Equity Market

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Based on current information regarding the Housing Credit equity market, it is likely that prices for 2008 credits will be 5 to 10 cents (or more) lower than last year. OHFA will not know the actual impact of the declining prices on the 2008 projects until sponsors submit full applications with equity commitment letters in May.

OHFA is committed to funding quality developments that meet the policy objectives of the QAP. However, OHFA is also committed to funding financially viable and sustainable developments. Those projects that are unable to meet agency underwriting standards will not be funded. Sponsors are strongly encouraged to closely examine projected cash flows, project costs and funding sources before submitting a full application. In order to help ensure that 2008 projects are financially feasible, OHFA is taking the following actions:

1. OHFA is lowering the minimum equity price for project underwriting to \$.80 (from \$.85) and will allow lower prices on a case by case review. Also, OHFA staff will contact all owners and syndicators who represent prices at \$.90 and above and if a reasonable justification for the higher price is not provided, reserve the right to underwrite projects using a lower price and/or reject the application.
2. OHFA will not accept waiver requests for annual operating expenses, annual replacement reserves, hard debt coverage ratio, and operating reserves that are lower than OHFA's minimum standards published in the QAP. In addition, projects that cannot demonstrate at least a 1.05 hard debt coverage, with utilizing the operating reserve, during the 15 year proforma period will be rejected if no reasonable justification is provided.
3. Additional assistance to 2008 applicants will be available as follows:
  - Maximum Housing Development Loan limits are increased to \$1.5 million (from \$1 million) for projects not located in qualified census tracts. These projects are unable to qualify for the 130% credit boost. The \$750,000 credit cap for eligibility still applies.
  - HDAP-housing credit gap financing maximum per project limits are increased by \$50,000. The \$1,000,000 cap for permanent supportive housing and \$750,000 cap for green projects still applies.
  - All sponsors may request HDAP awards in the form of grants with no additional eligibility requirements. This change to current policy is contingent on approval of an amendment to the state's Consolidated Plan.
  - OHFA will consider creative collateral and loan structures for the Housing Development Loans provided that the constraints of the funding source, such as low-risk collateral and required loan repayments including interest, are still met, and the additional benefit is significant. Sponsors must make arrangements with OHFA prior to full application submission.

In return for receiving any of the additional assistance previously mentioned, sponsors must agree to use a more rigorous cost certification process, based on the HUD or similar project audit model (more information will be posted on OHFA's website in May), and be subject to a random audit by OHFA. In addition, if the developer's fee percentage is 10% or more, then at least 25% (and no more than 40%) of the fee must be deferred. Fees for development teams with identities of interest will be closely examined.

In addition, in order to allow more time for staff to underwrite projects and follow-up with owners if necessary in June, OHFA will not accept any 8609 requests or bond applications from May 19<sup>th</sup> through July 7<sup>th</sup>. Owners should plan accordingly.

If credit prices continue to decline over the summer, OHFA may revisit policies and issue additional guidance.

For projects receiving credits in 2007 or previous years, OHFA will not provide assistance above what is already available to these projects. However, OHFA will consider all reasonable change requests, that are a direct result of the current downturn in the equity market, to make the projects more feasible and sustainable over the compliance period. There will continue to be no penalty assessed for owners who return their allocation of credits.

If you have any questions, please contact me or Kevin Clark at 614-466-0400.