

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY
PO BOX 1237
PIERRE, SD 57501

November 9, 2006

Eric Solomon, Esq.
Acting Assistant Secretary for Tax Policy and Regulatory Affairs
Department of the Treasury
1500 Pennsylvania Avenue, N.W., Room 3120
Washington, DC 20220

Re: Qualified Contract Price
Housing Tax Credit Developments

Dear Mr. Solomon,

It is our understanding that your office is currently working on guidance and clarification to the rules regarding the Qualified Contract Price (QCP) and procedures outlined in Section 42 of the IRS Code. As our first properties became eligible for the Option Year, we established state guidance for owners who may wish to exercise their right to sell their property at the QCP. In 2004, our state procedures were established, subject to any further guidance from the IRS.

Based on the spreadsheets which the state housing agencies are utilizing and code interpretation, we anticipate that in many cases the QCP will exceed the Fair Market Value (FMV) of a property. One reason this could occur is the calculation for "Adjusted Investor Equity" where owner investments are adjusted by a cost of living index such as the CPI, which, over fifteen years can add up to a substantial amount.

We are concerned that as other restrictions expire, owners will elect to exercise their Option Year and establish a legally allowed QCP that exceeds FMV. Therefore, we suggest that you consider placing a cap on the low-income portion of a property, which must not exceed the FMV for that portion, as determined by an independent licensed appraiser, approved by the state monitoring agency. We believe this Would allow an owner to sell his or her property at a fair price to another owner who wishes to continue the low-income use of that property and would prevent the loss of low-income units due to an unrealistically high and financially infeasible sale price.

Please call me at (605) 773-3108 or email me at lorraine@sdhda.org if you have any questions regarding this letter. I appreciate your consideration of this request.

Sincerely,

Lorraine Polak, Director
Rental Housing Development