From: Mike Molinari [mailto:mmolinari@sphome.com]
Sent: Tuesday, June 13, 2017 3:45 PM
To: Ken Reecy <Ken.Reecy@floridahousing.org>; Melissa Levy <Melissa.Levy@floridahousing.org>; Elizabeth Thorp <Elizabeth.Thorp@floridahousing.org>
Cc: Kevin Tatreau <Kevin.Tatreau@floridahousing.org>; Susan J. Leigh <sleigh@comcast.net>; 'plhowardcsg@gmail.com' <plhowardcsg@gmail.com>; Brianne Heffner <bheffner@sphome.com>; Scott Seckinger <sseckinger@sphome.com>; Trey Price <Trey.Price@floridahousing.org>
Subject: Southport General Comments

Hello Everyone-

As we mentioned, we thought we would send over a few comments/suggestions for the upcoming RFA process that we feel may help improve some things in certain areas. We have some additional comments we'd like to provide as well (Payment Performance Bonds/LOC's, construction contract requirements, Developer Fee allocations, etc.), but feel those comments are more related to the Rule, so we'll be sure to provide those at the first opportunity ahead of the next Rule development process. Hopefully our comments are helpful and we greatly appreciate any consideration you all would give to these as you work to development the new RFA's for 2017. Thanks!

ISSUE: LEVERAGING

There are a couple of issues we have noticed over the past RFA's with respect to the leveraging formula:

1. Impact of Boosted 9% Credits:

Un-boosted 9% transactions based on current rules are at an extreme disadvantage for leveraging purposes.

The allocation request is not divided by 1.3 to calculate the Leveraging number. It is unclear as to FHFC intent, however given the existing Leveraging calculation, and given the fact that pretty much every applicant applies for deals that are boosted, it is virtually impossible for an un-boosted deal to not fail leveraging. In the 2015 Medium County RFA we submitted two applications that were not boosted and quickly discovered that those two deals were ranked dead last in terms of Leveraging. However, when we included the 1.3 in the Leveraging Calculation, these same deals ranked 8 and 24 out of 98 total applications. Based on this, it appears that un-boosted deals can pencil out under certain circumstances given low interest rates, a fixed 9% rate, and reasonable credit pricing.

2. **Unboosted deals typically more efficient:**

Un-boosted deals are typically the most efficient. In order to make these deals work (in the absence of additional subsidy) the land cost must be low, there can't be extraordinary construction costs, and the applicant has to fully leverage first mortgage proceeds. In short, we feel these deals are some of the most efficient out there and should not be discriminated against by the Leveraging calculation.

RECOMMENDATION:

***A possible way to resolve this would be to not divide any of the applications by 1.3 when calculating Leveraging (or divide ALL of them by 1.3 regardless of the boost status*).**

3. Leverage Cut-off

Relaxed leveraging standards lead to developers making max requests and/or very aggressive requests, because the odds of being in leveraging group B are slim.

As an example, in this past medium county RFA 2016-110, there were 137 applications. Of those, 100 were eligible. 20 were subsequently placed in leveraging group B. 10 deals were recommended for funding out of the 80 applications in Group A for **671** set aside units. Doing a re-rank assuming a 65% cut-off, the end result was 11 deals and **827** units funded. Furthermore, under this analysis, developers were not trying to make the 65% cut, they were trying the 80% cut.

Recommendation:

***We commend FHFC for taking the leveraging cutoff from 90% to 80%.
To stretch 9% funds, and limit applications, a more drastic step from 80% to 65% (or lower) should be considered.***

ISSUE: CREDIT UNDERWRITING POLICIES

It would be extremely helpful for FHFC to consider issuing something similar to a credit underwriting procedures manual (maybe attached as an exhibit to the RFA?). While there is some underwriting criteria in the Rule and RFA's, it is very limited in nature and does not cover all of the potential concerns that may arise on a transaction.

It is extremely helpful for a developer to know exactly how a deal will be treated once it gets in to underwriting PRIOR to making significant investments of money and time.

An example of issues that arise in the credit underwriting process is the method by which the underwriters determine the allocation of land on an acquisition/rehabilitation project. According our experience with several different credit underwriters, there are three methods used by the underwriters in determining the allocation of land on an acquisition/rehabilitation project. It is only through our personal experience that we discovered in doing transactions, as it's not published anywhere that we are aware of in FHFC's guidelines or in the Code.

Another issue is ensuring that all underwriters are working off the same guidelines in implementing accessibility requires. An accessibility manual would be useful so all underwriters and third party reviewers are working off of the same guidelines.

All 3 credit underwriters should be required to use the same forms (templates) for underwriting proformas, underwriting forms, draw schedules and requisition forms. Said requirement will help to ensure consistency between the various underwriting firms.

Appraisals are often a point of tension in credit underwriting. For vacant land, guidance should be provided making clear the value that is include in "land value." Should the land value include the appraised value of the total site, or be reduced by the "per unit" value if not all density is being utilized? The "as-is" value for acquisition rehabs should be clear, especially when rental assistance is involved with rent increases. Seasoning (age of report) requirements should be made very clear.

RECOMMENDATION:

Provide a credit underwriting procedure manual with all the guidelines and implementing process for the credit underwriters to follow for consistency within this process. Also make it available to the applicants so they can understand the nuance of the process and guidelines, and structure their transaction accordingly.

ISSUE: NUMBER OF MEDIUM COUNTY TAX CREDIT RFA APPLICATIONS

With the extremely high number of applications submitted in the last Medium County RFA, we would like to encourage FHFC to employ some new guidelines that might reduce the number of applications a bit.

Whatever FHFC considers doing (if anything) to reduce the number of applications in this RFA, it should only apply to this particular RFA and not carry over to SAIL, etc. (For instance, SAIL deals are already hard enough to make work, and limiting the available sites out there would only make it more difficult).

RECOMMENDATIONS:

1. ***A simple solution would be to increase the amount of proximity points required to be eligible for max proximity points.***
2. ***Another potential solution would be to restrict jurisdictions that received awards in the prior year.***

ISSUE: TOTAL DEVELOPMENT COST CALCULATIONS FOR ACQ/REHABS

TDC caps on acquisition/rehab deals do not account for high priced units (deals with high rents in expensive markets) in instances where non-corporation funding pays for the majority of the acquisition price.

For example, we have a Section 8 elderly deal in Palm Beach we won in preservation 2015-104. The TDC cap is 143,200 per unit. The acquisition price was 85,000 per unit, which was supported by an appraisal and 83% of the cost was financed with first mortgage proceeds. Leveraging-wise, the credit request was 19th out of 28, which was middle of the pack. With a rehab of less than 50,000 per unit, after soft costs, we are close to the TDC limit.

The current formula for the TDC per unit test is TDC less land, less reserves.

RECOMMENDATION:

On acquisition rehabs, the land value should be removed from the equation all together. TDC formula should be TDC less reserves less first mortgage. This formula leaves the corporation-funded component of the acquisition price subject to the cap, while not deterring development of these types of assets in high cost markets. In addition to the TDC per unit limits as a safeguard, as always, deals must pass leveraging as well and are restrained by the gap analysis.

ISSUE: REHABILITATION STANDARDS

There appear to be concerns that items on competitively funded acquisition/rehabilitations are being unnecessarily replaced.

Our comment will not entirely fix the problem, but may help.

The energy efficiency requirements in RFA's are rather stringent. At times, roofs, windows, appliances and/or HVAC components that are less than a few years old are required to be removed because they do not meet the energy efficiency standards of the RFA. For example, under the recent RFA's, a two year old roof would have to be removed and replaced if the existing roof did not meet energy star requirements.

RECOMMENDATION:

We suggest that FHFC consider a policy that exempts these items from energy rating requirements if they have remaining useful lives of 15 years or more as determined by a CNA. The requirement can be mandated for any new equipment replaced over the life of the transaction.

ISSUE: DEVELOPMENT FEE TREATMENT ON ACQ/REHABS

Historically FHFC has allowed the entire development fee to be boosted on acquisition rehabs (acquisition fee and rehab fee). FHFC has changed their policy and this is resulting in underutilization of 4% credits.

RECOMMENDATION:

For acquisition rehabs, we suggest calculating the total development fee as 18% on TDC less land and reserves. From there, 95% should be attributable to the rehab and boosted, 5% should be attributed to the rehab and not boosted. This will generate more 4% credit equity, which will help make more deals feasible, non-competitive deals in particular. From there, additional LIHTC equity means developers can request less SAIL funding and those dollars get stretched.

Michael Molinari
Southport Financial Services, Inc.
5403 W Gray Street, Tampa FL 33609
813-288-6988
mmolinari@sphome.com