



## **PUBLIC NOTICE REGARDING REQUEST FOR PUBLIC COMMENT**

### **Pending Guidance on Projects with Rental Assistance Contracts Requesting Tax-Exempt Bonds and 4% Low-Income Housing Tax Credits**

#### **Background:**

Over the past few years, the Illinois Housing Development Authority (Authority) has seen an increase in applications seeking to use tax-exempt bonds (TEBs) and 4% Low-Income Housing Tax Credits (LIHTC) in connection with the acquisition and rehabilitation of developments that are subsidized by Housing Assistance Payment (HAP) contracts. To clarify information in the 2020-2021 Qualified Allocation Plan, the Authority plans to issue guidance specifically related to the review and underwriting of such applications. The Authority intends to publish this guidance on its website on January 1, 2020 and will refer to it in connection with the assessment of any PPA request currently under review at the Authority, regardless of the date the pending PPA request was submitted. Applicants with an approved PPA for a proposed transaction that (i) has not been presented to the IHDA board or (ii) has been presented to the IHDA board, but has not yet closed, may not be subject to each parameter referred to in the guidance. The Authority will assess transactions with approved PPA's on a case-by-case basis and apply elements of the guidance in its sole, but reasonable discretion.

#### **Public Comment:**

Prior to the January 1, 2020 release of the guidance, the Authority is inviting members of the public to provide comments to the pending guidance in writing. Written comments may be sent to the Authority by or before 5:00 p.m. on December 13, 2019 via [Multifamilyfin@ihda.org](mailto:Multifamilyfin@ihda.org). In addition, a listening session regarding the proposed guidance will be held the week of December 16<sup>th</sup> in the Authority's offices located at 111 E Wacker Drive, Suite 1000. The exact date and time will be communicated in a follow-up notification. Guests will be asked to register in the 111 E. Wacker Drive lobby as part of the building's standard security protocol. Pre-registration is strongly encouraged. If you have any questions related to this notice or wish to pre-register for the feedback session, please send an e-mail to [Multifamilyfin@ihda.org](mailto:Multifamilyfin@ihda.org). The Authority kindly requests that registration requests be sent to [Multifamilyfin@ihda.org](mailto:Multifamilyfin@ihda.org) by or before 5:00 p.m. on December 11, 2019.

#### **As a reminder:**

The 2020 and 2021 Qualified Allocation Plan is now available in the [Developer Resource Center](#) section of the IHDA website. Preliminary Project Assessments (PPA) and Low-Income Housing Tax Credit (LIHTC) applications must be submitted via the Multifamily Portal at <https://mfportal.ihda.org>. To better serve our environment, IHDA no longer accepts paper applications. In order to gain access to the Multifamily Portal, please submit a [MF Portal Account Request Form](#) from the IHDA website or you may find the form at <https://ppa.ihda.org>. If you require assistance with the Multifamily Portal, please contact [mfportalhelp@ihda.org](mailto:mfportalhelp@ihda.org).

### **GUIDANCE ON PROJECTS WITH RENTAL ASSISTANCE CONTRACTS REQUESTING TAX-EXEMPT BONDS AND 4% LOW-INCOME HOUSING TAX CREDITS**

Please note the following with respect to applications seeking to use tax-exempt bonds (TEBs) and 4% Low-Income Housing Tax Credits (LIHTC) in connection with the

acquisition and rehabilitation of developments that are subsidized by Housing Assistance Payment (HAP) contracts.

### **Preliminary Project Assessments (PPA)**

The documentation listed below is required as part of the Preliminary Project Assessment (PPA) review. If the documentation below is not provided to the Authority, or a PPA is otherwise incomplete, the Authority reserves the right to forgo completing its review of the application until the information is made available.

- 1) Prior three years of audited property financials.
- 2) Current year-to-date property financials.
- 3) Current HAP contract with information on HAP renewal options and anticipated rents.
- 4) Purchase contract.
- 5) Current Physical Needs Assessment (PNA) using the Authority's [Standards for Property Needs Assessments](#).
- 6) Projected replacement reserves trended as required in the QAP.
- 7) Current appraisal using the Authority's [Appraisal Guidelines](#).
  - (a) If an appraisal is unavailable, an estimated valuation will be determined by the Authority using the lesser of current market rents or HAP rents and a cap rate obtained from CoStar. Adjustments will be made later once an appraisal is available.
  - (b) Deductions to the value will be made for immediate needs and deferred maintenance as identified in the PNA.
  - (c) LIHTC acquisition basis will be limited to appraised value less any immediate needs and deferred maintenance.

Please Note:

Any plan and cost reviews and draw inspection reports engaged by transaction stakeholders will be required to be shared with the Authority prior to closing and, if funded, throughout construction. In the event the transaction is ultimately presented to the IHDA Board, Authority staff will provide the Members of the Authority (IHDA Board) with a detailed disclosure of all fees, sources and uses, cash-out/equity generated, related party interests, date of last syndication (if applicable), and any identity of interests. The Authority reserves the right to order third-party reports directly and/or to provide the applicant with a qualified list of procured vendors.

### **GUIDANCE ON PROJECTS WITH RENTAL ASSISTANCE CONTRACTS REQUESTING TAX-EXEMPT BONDS AND 4% LOW-INCOME HOUSING TAX CREDITS**

Please note the following with respect to the underwriting of applications seeking to use tax-exempt bonds (TEBs) and 4% Low-Income Housing Tax Credits (LIHTC) in connection with the acquisition and rehabilitation of developments that are subsidized by Housing Assistance Payment (HAP) contracts.

### **UNDERWRITING**

In connection with the Authority's underwriting of these types of application and, if funded, the ongoing management of these projects, the Authority will:

- 1) Limit developer fee to the lesser of the amount calculated using the base developer fee calculation in the QAP or the Authority's discretionary cap (currently \$2,000,000). If the new owner is affiliated with the general contractor and/or the property manager, the developer fee will be reduced by the following items: general contractor overhead and/or one year of property management fees.
- 2) On a related party transaction, require a seller note sized to 75% of the difference between acquisition cost and the exiting mortgage debt on the property. The seller note would be structured as must-pay debt in a second lien position and carry the same (or lower) interest rate as the first mortgage. The combined first mortgage note and seller note

must meet the lender's (the Authority, HUD/FHA, banks, or others) loan to value (LTV) and debt service coverage (DCR) requirements.

3) Require projects to conduct a PNA every five (5) years to ensure capital needs are met and reserves are sized appropriately (expense paid by the property). Reserves will be adjusted based on the findings of the PNA. Borrowers will be responsible for notifying the investor and any other stakeholders in the deal of the requirement to potentially re-size (increase) reserves in subsequent years.

Please note:

Absent extraordinary circumstances related to providing decent, safe and sanitary housing, the development will be ineligible for a subsequent resyndication of TEBs and LIHTC for twenty-five (25) years, from the date of closing. Projects should be structured so that the immediate rehabilitation, capitalized reserves, and ongoing deposits are sufficient to maintain the property. The Authority reserves the right to limit subordinate resource requests on future deals for sponsors who receive unrestricted proceeds/cash-out on properties financed with resources administered by the Authority.