October 30, 2015

North Carolina Housing Finance Agency
Attn: Mr. Chris Austin
3508 Bush Street
Raleigh, NC 27609

Re: 2016 QAP – Second Draft Comments

Dear Chris,

First off I'd like to commend the Agency on their initial draft of this year's QAP. We like that you have addressed the comments and needs of the affordable housing community in North Carolina and look forward to working with the Agency to achieve the same.

With that said, Zimmerman Properties would like to provide the following comments for consideration in finalizing this year's QAP:

1. We appreciate the Agency limiting the number of applications to one (1) per site.

2. We would like to suggest the Agency limit the number of awards within the current designated cap a single person/entity/group can garner (3 awards maybe). This would push more awards to more developers thereby limiting the overall impact of the tie-breaker.

3. Pursuant to Section IV.E.2 as it relates to New construction 9% Tax Credit project sizes, we would like to recommend modifying the second bullet point language to incentivize smaller developments in qualified USDA rural areas. An example could be as follows:

    a. Central, East, and West Regions – sixty-four (64) units for projects proposed in certified USDA rural areas NOT located within close proximity (15 miles?) of a high population MSA (40,000+ person population based on 2013/2014 U.S. Census data estimates?), otherwise eighty (80) units.

    Additionally, to incentivize development in these smaller qualified USDA rural markets the Agency could commit to funding a **minimum** of 1 project located in a qualified USDA rural area in each of the non-Metro regions. This, as with #2 above, would also lessen the impact of the current tie-breaker for smaller, rural deals.

4. As it relates to Tenant Rent Levels for Agency Boost and RPP, we would like to recommend the Agency remove the requirement for any 30% AMI units. Instead, we would like to propose some alternate mixed-income approach, with the following being a generic possibility:

    a. High Income: 15% at 40% and 15% at 50% AMI (30% at 50% or below)
    b. Moderate Income: 10% at 40% and 10% at 50% AMI (20% at 50% or below)
    c. Low Income: 20% at 50% AMI

    The requirement of 40% at 50% AMI for RPP proposed applications could be kept to further deep rent targeting.

5. We would like to suggest the Agency implement more strict minimum durability standards to ensure longer useful lives with minimum ongoing maintenance needs (more brick / stone / hardi-plank requirements and remove the use of vinyl entirely).

6. If applicants are going to propose using RPP, then there should be some consideration made for those deals that can show full repayment in 20 or 30 years, or have balloon payments less than half the original principal amount. With the potential cut in HOME funds, this will ensure only those deals that need, but can afford to repay RPP funds will utilize

the proceeds. For those that can meet certain minimum repayment terms, the Agency could provide for points to help minimize the reliance on the tie-breaker. In this same regards, we felt including RPP funds in the tie-breaker was a more accurate depiction of projects using the least amount of Agency resources in 2014, and for 2016 both RPP and WHLP should be included.

a. If there is a concern with applicants increasing rents to afford repayment of the RPP and be eligible for points, then the Agency could require minimum market advantage and/or capture rate requirements when RPP is requested.

7. We commend the Agency for its attempt to lessen the impact of the Tie-Breaker by implementing a sliding scale point system for credits per unit requested. However, we feel the proposed methodology as-is will only exacerbate the race to the bottom. While we have no perfect solution either, we think reducing the tranches, but expanding the percent deviations within the groupings would have less of a negative impact, as would implementing a 0-point category for those unreasonably low credit requests without the presence of soft monies. The following is one generic example:

a. Over 15% below the average…0 pts
b. Between 15% and 7.5% below…3 pts
c. Between 7.5% and 2% below…2 pts
d. Within 2% +/-…1 pt
e. Between 2% and 7.5% over…0 pts
f. Between 7.5% and 15% over: …-1pt
g. More than 15% over…-3pts
Note: Those applications showing a firm commitment of eligible soft funds whose credit request is more than 15% below the average shall be eligible for points above based on a revised credit request using the gap methodology assuming only the soft funds are excluded and all other sources are the same.

By no means is the above perfect, but it could be one possibility which lessens the impact of the tie-breaker while incentivizing developers to seek other means of leveraging their credit requests. We feel the QAP should encourage applicants/developers to look for more ways to create developments founded on practical real estate principals and not simply who can go lowest and ask for the least amount of resources.

Should you or the Agency have any questions as it relates to the suggestions proposed above, please do not hesitate to call or email me any time. We thank you again for your work thus far for the 2016 application cycle.

Sincerely,

Tab Bullard, VP of Development