

Selection Process and Criteria for Tax Credit Assistance Program

A. Statement of Intent to accept TCAP funds.

- 1) Virginia Housing Development Authority (VHDA), the housing credit agency for the Commonwealth of Virginia, intends to accept the entire amount of Virginia's TCAP allocation.
- 2) VHDA administers the following federal grant fund programs:
 - (a) Housing Counseling Grant funds from HUD - FY10 (9/1/2008-10/31/2010): \$171,058.82
 - (b) National Foreclosure Mitigation Counseling Program from Neighbor Works
 - Round 1 (3/1/2008-6/30/2009): \$274,402.00
 - Round 2 (7/1/2009-12/31/2009): \$206,090.00
 - (c) Family Self Sufficiency Program grant funds – calendar year 2009: \$192,000
- 3) Applications for 2009 low-income housing tax credits and TCAP funds were submitted to VHDA and are currently under review. Preliminary rankings for tax credit and TCAP awards are scheduled to be announced on July 14, 2009. Following comment and rebuttal periods ending July 28, 2009, the Authority's Board of Commissioners will make tax credit and TCAP awards on August 5, 2009.
- 4) The designated contact at VHDA is James M. Chandler, Director of Low-Income Housing Tax Credit Programs, 601 S. Belvidere Street, Richmond, Virginia 23220. E-mail: jim.chandler@vhda.com. Telephone number: (804) 343-5786. Fax number: (804) 343-8356.

B. Description of Competitive Selection Criteria.

Developments are only eligible for TCAP funds that receive an award of tax credits between October 1, 2006 and September 30, 2009. TCAP funds will be awarded to eligible developments using the same point criteria and ranking process as tax credit applications pursuant to Virginia's Qualified Allocation Plan ("QAP"), which can be found at http://www.vhda.com/vhda_com/apps/DocumentLibrary/document_load.asp?docid=3179.

- (a) The "award" of credits for competitive 9% deals will be made at a public meeting of VHDA's Board of Commissioners on August 5, 2009 when it establishes the final rankings. The awards will be announced to the public by posting the final rankings on VHDA's website at vhda.com on August 5, 2009. TCAP funds will only go to awards made after October 1, 2006 and prior to September 30, 2009.
- (b) The "award" of credits for tax-exempt bond deals will be made when VHDA issues a "Section 42(m)" letter to an applicant that establishes the amount of funding for the development. Only those applicants that receive this letter after October 1, 2006 and prior to September 30, 2009 will be eligible for TCAP funding.
- (c) The "award" of credits from the non-competitive disability pool will be made by letter to an applicant informing the applicant that it has met all the requirements for funding from that pool. Only those applicants that receive such a letter after October 1, 2006 and prior to September 30, 2009 will be eligible for TCAP funding.

The requirements for points and the ranking of applications are detailed in 13VAC10-180-60 and the inclusion of TCAP and credit exchange are detailed in 13VAC10-180-120. The criteria to be used in applications for TCAP funds (as well as credit exchange funds) are as follows:

Each tax credit applicant may apply for both TCAP funds and Credit Monetization funds in the 2009 tax credit round. Applicants may structure their application assuming:

1. 40% of their tax credit request will be exchanged for \$.85 per \$1.00 of exchanged credits, and
2. up to \$2.7535 of TCAP funds per \$1.00 of requested tax credits is available to fill any gap in the financing of their proposed development.

Such funds would be made available to the development after the developer syndicates the development and 10% of the syndicator's funds are invested in the tax credit partnership.

A portion of the TCAP funds will be set aside for tax-exempt bond developments (15%) and for the non-competitive disability developments (6%). TCAP funds must be distributed competitively so the competitive tax credit score of the next eligible development not funded in each geographic pool will establish a tier-1/tier-2 TCAP score for tax-exempt bond developments. All tax-exempt bond developments at or above this tier score will receive TCAP funds first in rank order to the extent TCAP funds are available. Then all tax-exempt bond developments below the tier score will be eligible for TCAP funds in rank order. However, awards to tax-exempt bond developments below the tier score will be made only at the discretion of the Authority's Board of Commissioners.

Additional Terms:

Applicants requesting either TCAP funds or Credit Monetization funds must agree to:

1. comply with all applicable federal fund requirements, including, but (depending upon guidance from HUD and Treasury) not necessarily limited to:
 - Davis-Bacon wage standards,
 - Environmental Reviews, and
 - Fair Housing and Non-discrimination regulations;
2. accomplish the following items by the date listed next to each item:

• Development is eligible for Zoning points	May 15, 2009
• Architect certifies Plans and Specifications, Working Drawings are 100% complete	March 1, 2010
• Building Permits issued by Local Government	May 31, 2010
• Start Construction	June 30, 2010
• Complete Construction	December 31, 2011

For purposes of evaluating TCAP applications, priority will be given to developments that will be completed by February 16, 2012 and have proper zoning by May 15, 2009. After these criteria are applied, the scoring and selection criteria for TCAP funds will be the same as the scoring and selection criteria for tax credit applications. Points will be awarded to each application and ranked as described in section 13VAC10-180-60. Applicants seeking TCAP funds will be ranked according to their score in the pools set forth in Part I of the QAP. A separate pool will be established for tax-exempt bond financed developments that will have a two-tier arrangement similar to the at-large pool described in Part I. TCAP funds will be awarded to developments in rank order to the extent funds are available starting with the developments with the highest scores. The ranking will be posted on VHDA's website on August 5,

2009. Applicants seeking TCAP funds and tax credits from the non-competitive disability pool are awarded on a first-come first-served basis as soon as they meet the requirements of the pool, provided they meet such requirements prior to September 30, 2009.

After the rankings are complete, VHDA will retain the ability to exchange Credit Monetization funds for TCAP funds and vice versa. VHDA will seek to retain syndicator interest in all the winning applications by substituting Credit Monetization funds with TCAP funds in the case of smaller developments, thus maximizing the credits available for purchase by syndicators for those developments. With larger developments, VHDA will substitute TCAP funds with more Credit Monetization funds reducing the credits available for syndication, but these developments will be left with enough tax credits to maintain investor interest.

Any applicant for TCAP funds or Credit Monetization funds must submit an application that meets the following underwriting standards to ensure investor interest:

- Debt coverage ratio of at least 1.15:1
- Reserves of at least 6 months of operating expenses and debt service
- Vacancy rate of at least 7%

However, to counterbalance the increased cash flow from the stricter underwriting criteria and funded reserves, any applicant seeking these funds would have to agree to limit their **developer fee** to a cumulating declining scale of less than one million total development costs – 15%, 1 – 10 million – 12% and over 10 million – 8%.

In addition, the Credit Per Unit calculation in the Efficient Use of Resources point category will treat the TCAP funds being requested as if they are part of the credit amount being requested at \$0.85 per credit. Therefore, the amount of TCAP funds being requested will have the same effect on scoring as the tax credits.

Any TCAP funds and Credit Monetization funds awarded to a proposed development shall be in the form of a grant or, if requested by the borrower, a loan, if necessary to avoid taxable income to the partnership. Such grant or loan will (i) be subordinate to all other unrelated third-party financing on the development; (ii) be secured by a deed of trust for the full amount of the grant or loan during the compliance period; and (iii) provided no conditions exist that would put the development in default under the deed of trust, be forgiven by VHDA in part each year on a pro rata basis based upon the length of the extended use period.

Final rankings of all tax credit and TCAP applications will be posted on the Authority's website on or about August 5, 2009. Tax credits and TCAP funds will be awarded in rank order in the pools established by the QAP.

C. Commitment and Expenditure Deadlines

Tax credit reservation and TCAP funding documents will be issued to successful applicants for each type of credit (9% competitive, 4% tax-exempt bond and non-competitive disability pool) after each award of credits. Successful applicants will have to accomplish the following items by the date listed next to each item:

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|---|---------------|
| • Development is eligible for Zoning points | May 15, 2009 |
| • Architect certifies Plans and Specifications,
Working Drawings are 100% complete | March 1, 2010 |
| • Building Permits issued by Local Government | May 31, 2010 |

- Start Construction
- Complete Construction

June 30, 2010
December 31, 2011

If an applicant fails to comply with federal fund requirements or fails to meet the development schedule, VHDA will assess whether the delay will affect its ability to meet federal requirements. Depending on the circumstances, VHDA may allow the developer an opportunity to meet the next milestone in the schedule. If a delay will affect VHDA's ability to meet TCAP funding deadlines, VHDA will take necessary steps to redistribute TCAP funds to a more deserving development by de-obligating the remaining TCAP funds, initiating foreclosure proceedings to recoup amounts already expended, and redistribute the de-obligated and/or recouped TCAP funds to other eligible developments. Any tax credits and TCAP funds taken back by the rescission of the award, including awards from the disability pool, will then be transferred to the next highest ranking development that received an award of 9% tax credits between October 1, 2006 and September 30, 2009 from the list announced on August 5, 2009. These requirements will also be part of the written agreement each TCAP recipients will be required to sign before receiving any TCAP funds. The TCAP written agreement, will set forth all of the TCAP program and crosscutting federal grant requirements applicable to the funding. The requirements of the TCAP agreement will be secured by a deed of trust recorded on the property.

Pursuant to the QAP, the Authority issues reservations for a certain number of future year's credits. Among the various pools, depending on demand and eligibility requirements, the Authority may reserve 2010 tax credits in an amount up to 26% of the Authority's 2009 per capita tax credit amount. If a tax credit development rescinded because of a failure to adhere to the deadlines of the tax credit program, the Authority will substitute the reclaimed credits and TCAP funds with a development or developments that received a reservation of 2010 tax credits and retain the 2010 tax credits for the Authority's 2010 tax credit program.

D. Recovery Act Accountability and Transparency Requirements

The announcements by the Authority described below are made by posting them on our web site (<http://www.vhda.com/TCAP>) and by e-mail to a 1,000+ member list of stakeholders in the tax credit program.

On February 18, 2009, the Authority announced that it would hold discussions to get input from its stakeholders on the use of the funds made available to the tax credit program by the American Recovery and Reinvestment Act of 2009. Four meetings were held: Falls Church on March 5, Virginia Beach on March 11, Richmond on March 13, and Blacksburg on March 20. From those discussions, the Authority formulated a proposal for the use of TCAP funds which was announced to stakeholders on April 2, 2009. The Authority held a public forum on April 14, 2009 to take comments on the proposal. After discussing the comments from the forum with the Authority's Board of Commissioners on April 17, 2009, the Authority made revisions and announced its selection process and criteria for TCAP funds and credit exchange funds to its stakeholders on April 21, 2009. The Authority has proceeded in making the necessary changes to the QAP which were filed with the Virginia Registrar on April 22, 2009, and published by the Registrar on May 11, 2009. An announcement of a public hearing on the proposed changes was published in the newspaper on May 11, 2009. The public hearing on the proposed changes was held on May 26, 2009. All applications for TCAP funds will be reviewed against the selection criteria as approved by HUD and posted to VHDA's website. The selection criteria have not changed since the time applications for TCAP funds were originally submitted to VHDA.

All applications for tax credits and TCAP funds are posted by the Authority on its website and anyone can register with the Authority to review the applications through a link from its website (https://www.vhda.org/VHDA_Apps/TaxCreditApps/TCRegistration.asp). The Authority plans to post

preliminary rankings of tax credit and TCAP applicants on July 14, 2009, which begins a one-week comment period. Commentators are generally ready to submit comments quickly because they have already reviewed the applications prior to the announcement of the preliminary rankings. The comment period ends on July 21, 2009, which starts the one-week rebuttal period. The rebuttal period closes on July 28, 2009 and the comments and rebuttals will be sent to the Authority's Board of Commissioners prior to its meeting on August 5, 2009. The final rankings and the award of tax credits and TCAP funds will be announced on August 5, 2009. Tax credit reservation packages will be prepared for each of the applicants ranking high enough to receive a reservation during August, 2009. Usually, the reservations must be accepted and returned to the Authority within two weeks of mailing the reservation packages. The projects selected for funding and the amounts of TCAP funds should be finalized and posted on the Authority's website sometime in the middle of September, 2009.

The Authority will post with HUD 10 days after the end of each calendar quarter, information similar to the following:

1. The total amount of TAP funds received;
2. The amount of TCAP funds expended or obligated to projects or activities, including unobligated balances;
3. A detailed list of all projects or activities for which TCAP funds were expended or obligated, including:
 - The name of the project,
 - A description of the project,
 - An evaluation of the completion status of the project, and
 - An estimate of the number of jobs created and the number of jobs retained by the project.