

Qualified Contract Request Procedure

A request for a qualified contract allows eligible owners of projects utilizing federal low-income housing tax credits to exit the tax credit program after the end of the 15-year compliance period. The following procedure sets forth the terms and conditions project owners must follow to allow the Virginia Housing Development Authority (the "Authority") to administer qualified contract ("QC") requests.

After the last day of the fourteenth year of the compliance period of the last building placed in service or the last year of a multiple allocation, an eligible owner of a project utilizing federal low-income housing tax credits may request a QC pursuant to IRC §42(h)(6)(E) for the acquisition of the low-income portion of the development.

For example, if five buildings in the project began their credit periods in 1990 and one started in 1991, the 15th year for the purposes of a Request would be 2005.

If the project received its first allocation of \$500,000 in 1990 and a subsequent award of \$25,000 in 1992, the 15th year for the purposes of a Request would be 2006.

To request a QC, the owner shall comply with the following procedures:

Notice of Intent to File Request (Preliminary Application)

Between January 1 and March 1 of each year, the Authority will accept Preliminary Applications ("PAs") from owners of projects utilizing federal low-income housing tax credits ("Owners") to determine their eligibility to submit a request for a QC ("a Request.") After receiving the PA, the Authority shall determine the eligibility of an Owner to submit a Request by confirming the following:

- (i) the owner did not waive its right to request a QC during the allocation of the tax credits;
- (ii) the tax credit property meets the basic physical compliance standards that are necessary to claim credits;
- (iii) the owner has secured waivers of any purchase options and rights of first refusal connected to the property.

Therefore each PA must address each of the preceding three items. If after the review of the PA, the Authority determines the Owner is not eligible to submit a Request, the Authority will notify the Owner in writing of the reason why, and if the reason is related to items (ii) or (iii), above, the Authority will give the Owner a deadline within which it may attempt to remedy the grounds for rejection. Any owner that waived its right to request a QC during the allocation of the tax credits is ineligible to submit a Request. The deadline to correct deficiencies in properties that fail to meet the basic physical compliance standards necessary to claim credits will always be prior to submitting a Request. Waivers of purchase options and rights of first

refusal connected to the property may be conditioned upon the Authority presenting a QC to the owner.

In addition to addressing basic eligibility as explained above, each Owner shall certify in its PA that it has all the necessary documentation to submit a Request. The PA will not bind the Owner to submit a Request and does not start the one-year period (“1YP”) defined in §42(h)(6)(I).

Filing a Request

The Authority will accept Requests from June 15 through September 15 of each year from Owners who submitted a PA and have been determined by the Authority to be eligible to submit a Request.

The Owner files a Request by filing with the Authority a complete application, on such form(s) as the executive director of the Authority (“Executive Director”) may from time to time prescribe, together with such documents and additional information as may be requested in order to comply with the IRC and these procedures and to determine the QC price in accordance with §42(h)(6)(F) (collectively the “Application.”) The Executive Director may reject any Application from consideration for a QC if the Owner does not provide the proper documentation or information on the required forms. The 1YP does not start until the Owner submits a complete Application with all required documents to the satisfaction of the Authority.

The Application shall include the owner’s proposed QC price. Such proposed QC price shall include an opinion of an independent certified public accountant or other assurances satisfactory to the Executive Director, setting forth the calculation of the QC price requested in the Application and certifying, among other things, that the Owner is entitled to the QC price requested. In addition the Owner must submit the following items:

With the Preliminary Application:

- a) first year 8609s showing Part II completed,
- b) copies of all uncorrected 8823s (if any),
- c) documentation regarding right of first refusal for purchase and waivers thereof (if any).

With the Application:

- d) annual partnership federal tax returns for all 15 years of operation since the start of the credit period (“all years”)
- e) audited annual project financial statements for all years,
- f) loan documents for all secured debt during the compliance period,
- g) partnership agreement (original, current and all interim amendments),
- h) title report;
- i) \$3,000 non-refundable administrative fee, and
- j) \$30,000 deposit for anticipated third-party costs.

The deposit for anticipated third-party costs shall be used by the Authority to pay for:

- k) an accountant to confirm the QC price requested in the application,
- l) a physical needs assessment for the entire project,
- m) an appraisal for the entire project,
- n) a market study for the entire project, and
- o) a Phase I environmental (and a Phase II, if necessary).

If third-party costs exceed the Owner's deposit, the Authority shall make a request for an additional deposit or deposits. The Owner shall continue to make additional deposits to cover such costs in increments of \$10,000 until all such costs are covered. The processing of the Request will be suspended during any time an additional deposit has been requested from the Owner until such funds are received from the owner. If requested funds are not received within 15 days of notice to the Owner the processing of the Request will be terminated.

In addition, when the Owner submits its Request, it must select one of the following options relating to third-party costs:

Option 1: To authorize the Authority to start spending the funds on deposit to pay for the items listed as (k) to (o), above. If the Owner selects this option, the 1YP will start on the date the Owner submits a valid Request. A valid Request is a complete Application from an eligible Owner. The 1YP shall be suspended during any period of time during which the Authority is waiting for additional documentation from the Owner (or agents of the Owner) determined by the Authority (or professionals or agents hired by the Authority) to be necessary to determine the QC price. Further, in the event the Authority calculates a QC price different from the QC price calculated by the Owner, the 1YP shall be suspended from the time the Authority presents its QC price to the Owner until such time as the Owner and the Authority agree to the QC price with a dated and signed memorandum.

Option 2: To authorize the Authority to start spending the funds on deposit only to pay for the item listed as (k) above, to determine the QC price. If the Owner selects this option, the 1YP will not start until the date the Authority and the Owner agree to the QC price with a dated and signed memorandum. When the Owner and the Authority agree to the QC price, the 1YP shall start and the Authority may start spending the remaining funds in the deposit to pay for the items listed as (l) to (o) above.

Under option 1 or option 2, the Owner may then choose to cancel the Request at any time and any remaining funds in the deposit shall be returned to the Owner.

Presentation of a Qualified Contract

The Authority will create a standard form contract to use when presenting the QC that includes basic real estate transaction terms and that is as close to a contingency-free contract as possible. The Owner and the proposed buyer would be free to negotiate different transaction terms prior to closing.

Under IRC §42(h)(6)(E)(i)(II), the Authority's only obligation is to "present" to the Owner a bona fide contract signed by a prospective buyer to acquire the Owner's project for the

QC price (“the Contract.”) When the Authority presents the Contract to the Owner, regardless of when or if the Contract is fulfilled, the possibility of terminating the extended use period is removed forever and the project remains bound to the provisions in, and may not terminate, the extended use agreement. Whether or not the Owner actually executes the contract and closes the transaction is a separate, legally unrelated question.

General Rules

In keeping with the clear purpose of IRC § 42, the Authority will resolve every case of doubt or interpretation in determining the QC price, both with regard to the overall process and particular projects, in favor of a lower QC price.

The Authority may add to or amend these procedures at any time. Before submitting an Application, please visit the website to obtain the most current information:

http://www.vhda.com/vhda_com/Template_a.asp?VHDA_COM_PAGE_NAME=QualifiedContractRequest

Further information regarding treatment of certain costs to be included or excluded as distributions and how land will be treated in calculating the QC price will be published shortly.

Please direct questions to: Cara Wallo, Tax Credit Allocation Officer, 804-343-5714 or email: <mailto:cara.wallo@vhda.com>.