July 10, 2025

Marni Holloway
South Carolina State Housing Finance and Development Authority (SC Housing)
300-C Outlet Pointe Boulevard
Columbia, SC 29210

Dear Ms. Holloway:
Thank you for the opportunity to contribute this feedback on South Carolina State Housing Finance and Development Authority's (SC Housing) 2026 Qualified Allocation Plan. Lincoln Avenue Communities is a mission-driven affordable housing developer currently active in twenty-nine states. In South Carolina, we focus on developing ground-up new construction affordable housing and preserving existing affordable housing using either 9% LIHTCs or 4% LIHTCs and tax-exempt bonds (TEBs).

We celebrate the recent legislative changes enacted by Congress expanding the LIHTC (i.e., the expansion of the 9% LIHTC and the reduction of the aggregate basis test to 25%). We believe it is critical that SC Housing and the development community collaborate closely to take affirmative steps to demonstrate to Congress that this historic in the LIHTC will result in a substantial expansion of housing production (both New Construction and Preservation). We believe this is the perfect time to revisit how SC Housing administers key aspects of the program to promote cost-efficient development that maximizes production. To this end, we recommend the following changes:

Clarify Mission Priorities in QAP Introduction

We recommend SC Housing incorporate into its QAP a new mission statement that prioritizes:

- Administration of program resources in a fair and transparent fashion in compliance with 26 U.S.C. §42 (m) and relevant state law.
- Maximize the production of new affordable housing units in the markets where they are most needed. Where possible the QAP should incentivize economies of scale to minimize per-unit soft-cost.
- Maximize the preservation of existing affordable housing rental units prioritizing properties with existing income and use-restrictions including but not limited to post-year 15 LIHTC properties, post-year 30 LIHTC properties as well as properties with HUD and/or USDA Rural Housing Rental Assistance. Consideration should be given to address the risk of loss of affordability, physical conditions, and efficient deployment of resources.

- Balances diligence with administrative efficiency and streamlining to reduce development timelines from application through the issuance of IRS form 8609.
- Prioritizes, when possible, policies that reduce financing gaps through policies that reduce total development costs or increase private investment.
- Streamline processes to eliminate duplicative processes that may also be undertaken by other agencies and/or financial counterparties.

Create a Separate 4% QAP

A growing trend amongst state housing finance agencies around the country is to develop separate Qualified Allocation Plans for the 9% and 4% LIHTC programs. This allows HFAs to carefully calibrate their policies and procedures for each program separately without triggering unintended consequences for the other program. Peer agencies with separate QAPs including Ohio, Iowa, Tennessee[1] and New Mexico[2]. We recognize that SC Housing differentiates aspects of its programs through its appendices; however, we believe there are opportunities to further streamline these documents.

Scale Bond Request for the New 25% Aggregate Basis Test

In order to maximize SC Housing's oversubscribed private activity bond volume cap and thereby maximize the production of affordable housing across the state we recommend that the authority adopt a policy it will not permit applicants of 4% LIHTC projects to request more than 30% of a of a project's land and aggregate basis with 26 USC Section 142(d) residential rental private activity bonds (PABs). SC Housing may, at its sole discretion, choose to waive this requirement if PABs are not oversubscribed on a case-by-case basis to help close financing gaps. If PABs are over-subscribed SC Housing should prioritize balancing the distribution of PABs to ensure the minimum aggregate bond test is met while setting a ceiling to maximize development production and preservation. Waiver authority should be used in only limited situations.

Recycling Private Activity Bond Volume Cap

We encourage agencies to consider setting up a multifamily private activity bond recycling program as soon as possible. This will allow HFAs like SC Housing to conserve PAB volume cap as demand for affordable housing increases and facilitate interest rate reductions for a larger portion of the capital stack of a multifamily bond project. On a traditional 4% TEB transaction, as the capital stack is structured to be scaled to the new 30% test and an increasing amount of the debt proceeds are replaced with taxable debt. In normal yield-curve environments taxable debt carries a higher interest rate, reducing the amount of debt proceeds available to finance affordable housing.

[1] Tennessee Housing Development Agency administers its 4% bond program in its Bond Program Description.
[2] New Mexico Mortgage Finance Agency has indicated that it will adopt separate QAPs for the 4% & 9% programs in its 2026 program year.

Establishing a multifamily residential rental housing bond recycling program benefits multiple stakeholders including:

1. The borrower, who benefits with lower interest rates and increased proceeds.
2. The state HFA, which benefits from larger issuances and increased fees associated with large transactions.
3. And most importantly, low-income individuals and families will benefit from increased affordable housing production.

Establishing a bond recycling program today positions agencies for future. The 2008 Housing and Economic Recovery Act (HERA) which authorizes the reuse or "recycling" of multifamily private activity bond volume cap to finance new affordable multifamily rental housing projects under certain conditions. Such "recycled" bond volume does not entitle the new project to which it is allocated to qualify for 4% low-income housing tax credits; however, as stated above it produces a much lower borrowing rate in many transactions, enhanced feasibility. There are several due diligence steps an HFA must evaluate before enacting a recycling program – the most important being whether the issuer has issued a sufficient volume of tax-exempt bond in previous years that there are sufficient projected pay downs or pay offs that volume that can be recycled and justify the costs of setting up a program.

(II)(7) Developer Fee Tax Exempt Bonds [Highest Priority Comment]

(Appendix C2 pg. 3)
Recommendation: Increase the amount of allowable developer fee for projects financed with 4% LIHTCs and TEBs.

We believe that the developer fee for bond deals in South Carolina is too low and as a result, the state is missing an opportunity to finance more affordable housing. Many of South Carolina's neighboring states have higher developer fees for bond deals. To help address the rising cost and interest rate environment, we recommend that SC Housing build on the logic it has established within the current QAP we recommend that SC Housing allow bond deals to be eligible for up to a 20% developer fee.

Like smaller scale 9% developments, the risk and financing profile of these transactions warrant a different treatment. Developers take on more risks on large bond deals because of the extended pre-development period and the high proportion of foreclosable debt, for which the developer is responsible. The developer fee compensates developers for these risks. The additional eligible basis generated by the increased fee will also generate more tax credit equity which will help offset reduced debt proceeds brought on by rising interest rates and help plug gaps brought on by rising construction costs. Unlike 9% transactions, the additional eligible basis generated by the increased fee will not deplete the overall supply of 4% credits, which as described above are "as of right" and uncapped.

Maximizing developer fees, within the constraints of the tax law, regulation, and reasonable underwriting, is a proven and successful method of generating additional LIHTC eligible basis, and in turn, equity proceeds which help fill project gaps and/or reduce the need to obtain state tax credits. It is proven strategy that has been deployed of late by many of SC Housing's peer HFAs including Arizona, Florida, Iowa, Kentucky, North Dakota, Oklahoma, Ohio, Tennessee, West Virginia, and Wisconsin all of which have developer fees for bond transactions ranging between 18 and 25 percent. If SC Housing finds it desirable, it could also require developers to defer any fee above the current 15 percent. We would be happy to provide case studies of active transactions we are underwriting in South Carolina to illustrate the impact of this policy on project gaps if that is helpful to the Authority's decision making. We have attached a brief case study as an appendix to these comments to illustrate the potential impact of revising the 4% LIHTC developer fee methodology.

Even if SC Housing does not choose to raise developer fees above 15%, we strongly urge the Authority to reconsider its $5 million developer fee cap as well as the $30,000 per unit cap. Constraining the eligible basis associated with the cap on fees creates additional project gaps, requiring more projects to request state tax credits. An alternative SC Housing could consider would be to have a hard dollar cap on developer fee for projects requesting state tax credits but no cap for projects that do not request state tax credits. If SC Housing desires, it could also require all developer fee over the current $5 million cap and/or $30,000 per unit be deferred. Adopting a combination of these recommendations should reduce the demand for state LIHTC, allowing the authority to subsidize additional properties throughout the state.

(O)(1) Rehabilitation [Second Highest Priority Comment]

(Draft QAP pg. 14)
<u>Recommendation</u>: Revert to the 2024 QAP language of $40,000 per unit of hard rehab costs, at least $20,000 of which must be attributed to the interior of the units.

We believe SC Housing's policy objective of increasing the minimum hard rehabilitation threshold from $40,000 per unit to $60,000 per unit is to ensure that sufficient rehabilitation scope of work is undertaken to maintain a project up to reasonable standards during the 15-year compliance period. We concur that this is an important policy priority; however, we suggest that SC Housing may be creating unintended negative consequences that may result in less preservation and encourage the state to revert to its original language.

We observe that setting the minimum rehabilitation threshold at $60,000 will severely limit debt financing options for projects financed with tax exempt bonds. As SC Housing is aware, one of the most common tax-exempt bond preservation transaction structures utilized in today's marketplace is the short-term cash-collateralized bond structure where the tax-exempt bonds are taken out with a taxable FHA 223(f) loan. FHA 223(f) loans have several desirable qualities for preservation transactions including low-interest rates, 35-year amortization and, unlikely the FHA 221(d)4 program, does not trigger Davis-Bacon wage scales and permits projects that have a broken ten year hold to be eligible for acquisition credits. Unfortunately, FHA 223(f) loans per unit loan limits are far below the $60,000 rehab threshold. The current FHA 223(f) loan limit threshold in the highest cost adjustment areas is $45,854 per unit.

Even accounting for tax credit equity, if SC Housing were to enact this change it would effectively eliminate the ability for tax credit developers to utilize this preferential financing because acquisition costs for a typical Year 15 and/or Section 8 community in today's marketplace range between $70,000 and $150,000 per unit. The proposed minimum rehabilitation threshold also eliminates the ability of developers to utilize this structure in order to qualify for acquisition credits on a project that has a broken 10-year hold, which makes the resyndication of these communities infeasible and makes it much more likely that the affordability of these communities will not be preserved past the existing extended use period.

Furthermore, while many properties require significant rehabilitation scope of work, others that have been maintained well may require significantly less than $50,000 per door of rehab scope of work. We do not believe it is a responsible use of scarce financing resources to 'over-scope' rehabs if the Physical Needs Assessment (PNA) confirms that a lesser scope of work is appropriate.

Additionally, we observe that well maintained properties in desirable markets where there is significant rent advantage between subsidized units and comparable market units are most at risk to be lost from the program and will also command the highest acquisition prices. Setting the rehabilitation threshold too high for these assets will make them unfinanceable as affordable assets and will increase the likelihood that they will be sold to conventional buyers or converted either via the qualified contract process or at the end of a project's extended-use period. This is a highly undesirable outcome that should be avoided at all costs.

As such, we recommend reverting to the 2024 QAP language for $40,000 per unit of hard rehab costs, at least $20,000 of which must be attributed to the interior of the units. We further recommend that the definition of "hard rehabilitation costs" include general contractor fees or overhead and general requirements. These are legitimate costs that are incorporated into standard industry contracts like the AIA construction contract. We concede that SC Housing may consider excluding some percentage of these costs from the minimum rehab calculation if there is an identity of interest between the contractor and the developer, but we do not think it is necessary or appropriate in 3rd party contracts.

(B)(2) and (B)(8) Award Limitations

(Appendix C2, pg. 3 and Appendix C1, pg. 2)
Recommendation: Increase new construction allocation ceiling in high needs communities from one to two.

We appreciate that SC Housing seeks to promote affordable housing development across the state; however, we are concerned that the proposed language in the draft appendices that limits the number of new construction awards to one per county will result in underdevelopment in the communities with the highest housing needs. We suggest that SC Housing update the appendices to allow up to two new construction awards in Group A counties.

(A)(2) Distance to Amenities Points – Area Employment

(Appendix C1, pg. 9)
Recommendation: Eliminate distance to amenity "area employment[3]" points.

We appreciate that SC Housing extended the radius for the area employment points in 2025. This is an improvement over the 2024 language; however, we suggest that given the limited number of development sites that can achieve the "area employment" points this has led to an over concentration of applications in a small number of jurisdictions., This incentive does not differentiate between a project that may demonstrate greater demand in the market study that is ½ mile outside the radius and a project with mediocre demand that is within the radius. We strongly recommend eliminating this points category entirely or barring that increasing the radius to 3 miles and 5 miles respectively for Group A and Group B counties. While we think extending the radius is a less desirable option, it would allow for more sites to compete while still being proximate to jobs. Additionally, SC Housing should also consider awarding full points to projects in Group A counties that are within ½ mile of public transit (i.e., transportation-oriented development sites) regardless of their distance to area employment.

(C) Affordability

(Appendix C1 pg. 10)
Recommendation: Add an additional points category for affordability beyond the current county income level matrix.

We suggest to further differentiate applications; SC Housing should add an additional points category beyond the current county income level matrix on pg. 9. A deal that promises more targeted affordability where there is a demonstrated need and should be rewarded. For example, we suggest utilizing the market study to identify income bands areas with the greatest need in the market and providing additional points for units beyond the minimum set-asides that meet those needs. For example, if there are more 40% AMI residents in the area then there should be more 40% AMI units. This is a capture rate approach and will ensure that the market's greatest needs are addressed by the site.

(P)(4) Deferred Developer Fee

(Draft QAP, pg. 17)
Recommendation: Increase amount of allowable deferred developer fee

[3] Up to 10 points for projects located in a two-mile radius of Group A counties and four-mile radius for Group B counties.

It is critical that deferred developer fees are sized appropriately. The deferred developer fee policy, as written is the draft QAP, is generally appropriate; however, we suggest a minor tweak to allow additional flexibility, which we feel is appropriate in today's uncertain financing environment – which is to add language to allow the deferral of more than 50% of the developer fee on a waiver basis at the discretion of SC Housing staff. This would allow developers to invest more in public-private partnerships to create and preserve more housing.

(IV)(C) Tie Breaker

(Appendix C1, Pg. 14)
<u>Recommendation</u>: Reprioritize 9% Tie Breaker criteria to emphasize credit efficiency and affordability.

We do not believe it is in the best interest of the program to emphasize projects located in CRPs as the highest tie breaker. While we see nothing wrong with being in a CRP, we observe that many smaller communities with high housing needs do not have CRPs and do not have the staffing and experience to put together a CRP. This is particularly the case in rural communities. We suggest that this should be a lower-ranked tie breaker with SC Housing adopting as first and second priorities lowest credits per unit and/or lowest average affordability targeting. This will promote efficiency of subsidy utilization, outside leverage and additional units serving lowest income residents, which have the highest affordability needs in the state.

(G)(2) Leveraging

(Appendix C1, Pg. 11)
<u>Recommendation</u>: Expand Leverage Options to include FHLB AHP Funds and/or consider eliminating leverage as a selection criterion

We appreciate that SC Housing's QAP encourages leverage and suggest that allowing additional sources of leverage to qualify for these points would result in better outcomes. Due to current scoring dynamics, the current leverage requirements require developers to source funds from cities, counties, and/or housing authorities to be competitive. This effectively lets jurisdictions pick winners and losers and at times this results in an additional layer of politics in funding decisions and can lead to less desirable sites and/or less qualified developers being selected, which is not in SC Housing's interest. It can also result in more expensive developments since many of these funds trigger additional costs such as prevailing wage, Section 3, BABA, and other requirements. At a minimum, we recommend expanding the number of programs that qualify for points to include FHLB AHP Funds. We strong urge SC Housing to consider eliminating this requirement entirely in favor of other selection criteria.

Conclusion

LAC appreciates the opportunity to provide feedback to SC Housing as it begins development on its draft 2026 QAP. We would welcome the opportunity to discuss them with you further at your leisure and/or answer any questions you may have regarding our feedback. I can be reached directly at [redacted] or [redacted].

Regards,

Thom Amdur
Senior Vice President, Policy & Impact

Cc: Richard Hutto
Amy Harmon
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