LINCOLN AVENUE COMMUNITIES

September 23, 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 Draft 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).

Application and Award Limitations

(Appendix C2 – Tax Exempt Bonds pg. 3)
We strongly support the proposed change limiting development teams to a bond ceiling maximum of 30% of aggregate basis or permanent supportable debt.

(IV)(C) Tie Breaker

(Appendix C1, Pg. 10)
We appreciate the proposed change to the 9% tiebreaker to prioritize credit efficiency.

Previously Submitted Comments

Additionally, we would like to reiterate our highest priority comments that were previously submitted in July but not addressed in the September Draft.

(P)(4)(b) Developer Fee [Highest Priority Comment]

(Draft Pg. 15-6)
We appreciate that SC Housing is proposing to increase the developer Fee by $5k per unit. This is a positive step forward that will increase transactional viability and recognizes that LIHTC development transactions are more complicated and require developers to guarantee more work for longer periods of time. The IRS recognizes that developer fee is allowable in eligible basis as both a means of compensation (affordable housing developments typically have limited cashflow opportunities as compared to conventional assets) and also to compensate for defined risks and guarantees that are either unique to affordable housing transactions or amplified by their affordable nature. These include:

- Lengthy pre-development timelines with unique costs due to the competitiveness of scarce resources often requiring developers to apply in multiple tax credit rounds, increased NIMBYism, costly regulatory overlays like NEPA and Section 108, etc.
- Construction completion guarantees (notably more challenging in today's stressed labor and supply chain environment).
- Lease-up and stabilization guarantees.
- Qualified occupancy and tax credit delivery guarantees.
- Operating deficit guarantees.
- Indemnification of investors against potential tax credit recapture.

Recommendation: Increase the amount of allowable developer fee further for projects financed with 4% LIHTCs and TEBs.

As noted above, we support SC Housing's proposed change to the developer fee methodology, which we think is appropriate for 9% LIHTC transactions and urge the authority to take an additional step of

1. Lifting the per-unit developer cap entirely for 4% LIHTC deals.
2. Increasing the developer fee cap from 15% to 18% for 4% LIHTC deals.

We note that many of South Carolina's neighboring states[1] have higher developer fees for bond deals, recognizing that these transactions have additional risks due to their nature, location, size, and limited subsidy. 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.

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

(Draft QAP pg. 13)

Recommendation: 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 $50,000k 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

[1] 25%: TN
20%: KY, ND, OH, OK, WI
19%: AZ
18%: FL, IA, WV

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 $50,000 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 $50,000 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.

Add Policy Language to Preserve DDA and QCT Status

The location of a project, in particular whether or not it is in a DDA or a QCT, is often critical for the financial viability of the project. Unfortunately, it is sometimes the case that a development will be located in a DDA or QCT at the time of application but may no longer be in the year in which the project is closed, and construction begins. SC Housing's QAP does not currently have language in place that can facilitate the preservation of an expiring DDA or QCT and we urge SC Housing to take an additional affirmative step of documenting in the QAP that it will issue a letter of acknowledgement that designated applications are eligible and also require that the bonds must be issued within 730 days from the date of application or that the application will expire. This modification will provide comfort to financial stakeholders that a project is eligible for the basis boost even after the DDA or QCT expires and provides the timeline for which that eligibility can be preserved. The Nevada Housing Division has similar language in its 2025 QAP which is excerpted below for reference.[2]

Related Non-QAP Comments

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 that 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.

We also 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,

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[2] Pg. 12, State of Nevada Department of Business & Industry Housing Division, Low-Income Housing Tax Credit Qualified Allocation Plan, https://housing.nv.gov/uploadedFiles/housingnewnvgov/Content/Programs/LIT/QAP/2025%20QAP%20clean%20final%20with%20rev%2001.27.2025.pdf

3.2 Application to Preserve DDA/QCT Status

The Housing Division will accept applications to preserve the status of the DDA/QCT utilizing the Housing Division's current Multifamily Bond Application on the designated application portal per the instructions below. **Important: You will submit a new bond application upon project readiness and be subject to the QAP that is effective with the new bond application. The bonds must be issued within 730 days from the date the complete application to preserve the DDA/QCT is submitted.**

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.

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.

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 646-585-5526 or tamdur@lincolnavenue.com.

Regards,

Thom Amdur
Senior Vice President, Policy & Impact

Cc: Richard Hutto
Kim Wilbourne
Rusty Snow
Jordan Richter