National Housing & Rehabilitation Association

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Minnesota Housing Finance Agency
Attn: Tamara Wilson
400 Sibley Street, Suite 300
St. Paul, MN 55101

RE: Proposed Amended 4% Tax Credit Requirements for the 2018 Qualified Allocation Plan

Dear Ms. Tingerthal:

The National Housing & Rehabilitation Association (NH&RA) thanks Minnesota Housing Finance Agency for the opportunity to provide comment on recently proposed changes to the 2018 Qualified Allocation Plan. NH&RA is a professional trade association of affordable housing professionals. Our member organizations include private and nonprofit developers, owners, operators, and lenders involved in developing and preserving affordable, multifamily housing. Many of our members develop, manage, and/or own affordable multifamily properties in Minnesota.

NH&RA is opposed to recently proposed amendments dealing with changes to the 4% tax credit program. We ask that the Agency consider instituting a 3-month comment period for a productive and meaningful dialogue with stakeholders given the gravity of the proposed changes. We share the concern of our members regarding current proposed changes to Minnesota's 4% LIHTC program for the following reasons:

I. CURRENT MHFA PROPOSALS WILL CHILL TAX-EXEMPT BOND FINANCED PRODUCTION OF AFFORDABLE MULTIFAMILY HOUSING DURING A RARE TIME OF FAVORABLE MARKET CONDITIONS

The United States is currently experiencing rare market conditions favorable for new construction and preservation of multifamily affordable housing utilizing tax-exempt bonds in combination with the 4% Tax Credit. Interest rates are historically low and tax credit equity pricing is historically high. In recent years there has been limited demand for multifamily volume cap locally and nationally and the resource overall has not been fully subscribed (use of tax-exempt bonds peaked in 2007 when states allocated 58% of total authority), the current market conditions present a rare opportunity for tax-exempt bonds to play a major role in closing the gap between demand and supply for affordable multifamily housing.

We recognize that MHFA uses its Volume Cap for a number of important public purposes; however, we and that market conditions have led to a shortage of volume cap for multifamily housing in states like Minnesota. Accordingly, changes in policy may be necessary to accommodate for the high utilization of bonds towards affordable multifamily housing. That said, NH&RA opposes the particular policy changes proposed by MHFA as they are overly burdensome and will chill development of affordable multifamily housing within the 4% tax credit program. Multifamily tax-exempt bond transactions deserve special considerations from MHFA because given they leverage additional federal resources that other TEB transactions do not in the federal LIHTC. While market conditions make multifamily TEB transactions viable without the necessity of other limited state resources we contend that MHFA should facilitate public policy that maximizes the number of these transactions.

A. Limiting 4% Tax Credits to Projects Serving Tenants Below 60% AMI and Increasing Point Requirements to 50 Will Chill Production for Lack of Viability and Will Result in Bonds Utilized for Higher Income Single Family Uses

While tax-exempt bonds are currently available to multifamily projects serving incomes at 60% AMI, the new proposal would only allow projects serving incomes below that threshold. Furthermore the proposed change of increasing the point threshold to 50 further increases cost of development. These proposals would make the large majority of multifamily projects financially infeasible under the 4% program. Lacking any form of additional subsidy, these changes will result in reduced production of multifamily housing leaving bond authority underutilized. Leftover bond authority would then be used by the single family program, which serves incomes at 80-100% AMI. Essentially, the policy initiative to serve lower-income individuals in theory becomes, in practice, an initiative to serve higher income individuals.

B. Current Market Conditions Will Likely End Soon

As recent history has shown, tax credit equity pricing could decrease to the point of making 4% bond deals financially infeasible. Furthermore, the current national political climate shows serious potential for tax reform in the near future. A reduction in corporate taxes, a likely outcome of tax reform, will certainly lower tax credit pricing. Interest rates are also so low that the only potential change is an increase, and this has been anticipated for some time now. These factors illustrate the need for utilizing tax-exempt bonds towards multifamily now, while they are still a valuable subsidy for the industry.

II. INCORPORATING THE STRATEGIC PRIORITY POLICY THRESHOLD IS DAMAGING TO LOCAL GOVERNMENT INITIATIVES

Given the deep subsidy that comes with 9% LIHTCs, it is understandable that MHFA prioritize compliance with at least one of the state's strategic priority policies because 9% credits are state-allocated funds. The bond program is a much shallower subsidy and absent other MHFA gap funding we contend that it is more appropriate to empower local governments to determine their own policy priorities, which may be different than MHFA's strategic priorities. For example, the current 9% program leaves no incentives for senior housing and this population is not addressed by any of the strategic priority policies. Several local governments have demonstrated a need for affordable senior housing. At this time, the bond program is the only viable source of funding for senior housing. By placing the strategic priority policy threshold over the 4% bond program, Minnesota would be removing the one program local governments currently have available for developing multifamily projects that meet policy needs at the local level.

III. SUMMARY

Multifamily housing uniquely leverages tax-exempt bonds in ways no other program can due to the additional available subsidy of 4% tax credits. This unique leveraging is made even more unique by favorable, and time-sensitive market conditions. Impeding the 4% program at this time is counterproductive to the rare conditions currently present to close the gap between supply and demand for affordable housing and alleviate pressure from an over-subscribed 9% program.

The changes proposed would radically change the current state of the 4% program. We ask that more time and conversation with stakeholders be given to identify the appropriate policy measures for moving forward. We welcome the opportunity to discuss these issues further in working towards policy solutions that serve the needs of all Minnesotans. Thank you for your consideration of these comments.

Sincerely,

Thom Amdur
Executive Director
National Housing & Rehabilitation Association