Let’s either get rid of the lottery in the QAP or make the whole allocation a lottery.

As has been pointed out many times before, the QAP is getting less about building great affordable housing and more of a survival game which isn’t good for the tenants or the state of North Carolina.

Below are two simple changes to address this:

<u>Remove the Principal Points.</u>

The principal points part of the QAP turns the application process into a series of desperation decisions since each Principal only has one guess even though a Principal may have multiple applications. Picking which property to place the points has more to do who you are competing with within any given region and county than which is the best affordable housing property

This is an easy fix and has been used in other states in the past. Basically, keep the same limits in the QAP on the number of properties, amount of soft financing and total tax credits, but apply those to the principal’s highest scoring application(s) first. When the Principal hits one of the limits, the Principal caps out and the next allocation goes to the next highest point property with another Principal. When that Principal caps out, then it goes to the next. Your existing waterfall scoring sheet system can easily accomplish this.

<u>Remove the Average Credit Range.</u>

This is where the damage of placing Principals in the above situation of only having one guess forces them to make desperate decisions which also has no basis on building the best affordable housing.

This item has two components.

1) The Survivor or Big Brother section is the first step. This involves trying to reach as many other developers and then trying to guess based on what information they are willing to share about their guess which is normally based on someone else’s guess…. This brings in the “are they lying to me or can I trust their guess? question. Just like Survivor, this leads to people trying to fix the system by getting blocks of people to show their cards (declare the credit per unit numbers) and the tweak the locations and amounts so more of the group has a better chance of winning since the larger percentage of the total applications this group controls. The larger the group, the more the group becomes the average. (please don’t take this comment that I am inferring this happens).
2) Once you have a guess in your head about what credits per unit other people are going to use for their applications, then you need to start making tweaks in your development plan to position yourself slightly below the other applications. These decisions to get a more competitive application can involve making decisions that lead to weaker affordable housing property. These can include a) dropping the washer/dryer hook ups since the $2,000 per unit costs allows for lower credits per unit, b) doing more units of one type not because the market

needs it, but that it allows you to get a bigger loan which also leads to lower credits per unit or c) assuming lower construction costs so your differed developer fee is less than 25%. It would be tough to argued that any of these decisions make the property better or financially safer.

"But how are we going to contain the rising costs of producing affordable housing and keep the developers from putting in crazy application assumptions just to win?" First off, nothing in the QAP is going to keep construction cost from rising. That is a bigger world-wide issue and capping costs just makes the developers as a whole weaker which isn't good for them or NCHFA. Secondly, much of this race to the bottom was already addressed by the QAP's after the 2016 debacle which the following changes:

1) Limits were added to the pricing of credits,
2) Minimum construction costs were added,
3) Threshold requires reasonable financing assumptions,
4) Requiring no more than 25% of the developer fee to be differed.

These QAP items do a great job since they all roll up into the sources and uses where the application needs to show less than 25% differed developer fee. If you apply those changes to many of the 2016 stuck deals, many of them would have worked.

If you want to be extra safe, you could add minimum credits per unit and minimum interest rate/terms assumptions for the debt. These small tweaks are items many in the industry could agree with.

So where does that leave us? Taking these two items out would allow Principals to put in multiple applications which all have the same chance would remove the desperation of only having one application which really has a chance. The allocations would come down to the points and the tie breakers.

I have been making the argument that with the QAP changes post 2016, the guardrails are in the system so I would suggest leaving the credits per unit as the tie breaker. As Scott always says, "how do you want to lose?" I would rather loose by someone producing good affordable housing with less credits provided the end complex best serves the tenants. That way the overall state produces more units of much needed affordable housing.

I have been hearing people afraid of the COVID world. Maybe the 2022 round of allocations should be a straight up lottery between all of the properties that meet a set of minimum guidelines. I also wouldn't mind losing when my ball isn't pulled out of the hat.

These two changes would remove the desperation structure which has worked it way into the QAP and they are reasonable changes that should be acceptable to many of he Principals who produce great affordable housing for North Carolina.

Sincerely,

Richard Angino

Third Wave Housing