**From:** Joe Chambers <jchambers@gardnercapital.com>
**Sent:** Friday, March 16, 2018 12:59:04 PM
**To:** Kevin Tatreau
**Cc:** Kevin Fitzpatrick
**Subject:** 2018 Viability Loan Comment

Kevin,

Thank you for the opportunity to provide comments regarding RFA 2018-109 for Development Viability Loan Funding. We appreciate FHFC's initiative to offer additional funding sources to previously awarded projects that have been affected by the decrease in tax credit equity pricing and increase in interest rates. We believe this is a necessary effort to keep the proposed developments financially viable.

Upon reviewing the draft RFA 2018-109, we have a concern regarding the proposed calculation for determining an applicant's maximum Viability Loan. The calculation essentially solves for the sources "gap" existing in these deals. The proposed calculation requires an applicant to use "the greater of the Permanent Non-Corporation funding exclusive of HC equity and deferred Developer fee from the Original Application or the Current Application" when subtracting available sources from TDC to determine the maximum Viability Loan or "gap". Most, if not all, of this figure will be comprised of the project's permanent debt.

Interest rates, among other substantial market changes, have occurred since applications were originally submitted in 2017. These changes have lowered the amount of permanent debt that can be supported by the project. Using a permanent debt commitment from last year (and were non-binding LOI's at the time) is not an accurate representation of current commitments and will only serve to hide the larger funding gap projects are actually facing. In true underwriting, increases in property expenses and interest rates would be considered, nearly guaranteeing that the loan amount that can be sustained by the project will be lower than that which was submitted with the application.

Thus, we propose that the maximum Viability Loan calculation shall be modified to only include an applicant's current permanent debt commitment or a maximum permanent loan amount as calculated by FHFC utilizing current interest rates and historical operating expenses. To ensure there is no gaming of the system, FHFC could run its own test of looking at true operating expenses based upon currently operating properties within its portfolio as well as rents to arrive at a much more realistic perm debt number. Many other states will even set a minimum operating expense numbers as well as often a ceiling number to ensure an accurate number is determined.

Please let me know if you'd like to discuss in more detail.

Thanks,

Joe Chambers