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Sent: Monday, August 16, 2021 5:47 PM
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Subject: FHFC Viability/Gap Loans

Marisa, Melissa, Jean, and Kevin-

We support the concept of viability/gap loans for COVID-impacted developments which are otherwise unable to proceed. However, we also agree with FHFC staff remarks at the recent Board retreat that there should be meaningful consequences for developers who accept post-award, supplemental viability/gap funds from FHFC.

An impactful consequence tied to FHFC viability/gap funds is prudent for the following reasons:

It protects scarce resources.

Florida Housing's resources are scarce and unallocated subsidies should be used for future developments, to spur the creation/preservation of homes. Consequence-free gap loans hardly incentivize developers to seek alternatives, and money would be taken from future funding rounds thereby reducing potential homes built and residents served.

Developers must weigh all alternatives to balance their budgets, including but not limited to deferring more fee, reasonable value engineering, seeking (more) local government support, and/or making guarantor loans. If active developers face disadvantages associated with accepting post-award gap subsidies – such as sacrificing future RFA points – accepting those funds will likely be considered a last resort.

It protects principles of fairness.

Most Florida Housing RFA funding selections are made, in part, on applicants' funding requests per unit (ex. using 'A/B Leveraging Classification' or sorting by SAIL/unit requests). Retroactively awarding an applicant/developer more subsidy – after RFA sorting, ranking, and selections are made – runs contrary to principles of fairness because awards were made based on information provided within those initial RFA applications (including applicants' subsidy requests per unit). Moreover, it begs the question as to whether 'B Leveraged' applications were correctly projected, whether some might subsequently be considered 'A Leveraged' applications, and whether they would have needed viability/gap funds at all.

By providing companies with penalty-free gap loans, after initial award, FHFC might actually create a perverse incentive for developers to understate projections (and therefore underestimate subsidy requests) in future rounds, not be as selective or diligent with opportunities, and/or not be held accountable for simply misprojecting budgets in the first place.

Providing viability/gap funds without consequence also circumvents FHFC's 'Developer Experience Withdrawal Disincentive' which is intended to penalize principals for giving back awards and/or for failing to close developments (awarded subsidies based on RFA criteria and information provided within actual applications).

<u>Recommendation:</u>

It's our understanding that a majority of developers will not seek viability loans despite delays, rising construction costs, materials shortages, insurance premium increases, etc. A meaningful consequence would incentivize the balance of developers to exhaust other options in lieu of FHFC viability/gap loans.

Since FHFC already tracks principals of applicants/developers within RFA applications, we suggest that any principal(s) of an applicant/developer who received awards in 2019 and 2020 RFA and who do <u>not</u> receive viability/gap loans receive bonus points in two future (RFA) years. Florida Housing's 'Developer Experience Withdrawal Disincentive' already provides a similar, workable roadmap.

We believe a two year period of fewer potential points within future RFA cycles is a fair and meaningful consequence, but is neither a "death sentence" nor an application submission ban. A two year period will also allow those firms receiving additional gap funds to focus on completing their at-risk development(s).

Thank you for the opportunity to provide our feedback. Feel free to contact us with any questions or comments.

Best,

Mitch

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We moved! Please note our updated address!