STATE OF CALIFORNIA

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TO: Low Income Housing Tax Credit Stakeholders

FROM: William J. Pavão, Executive Director

SUBJECT: First Round 2008 Tax Credit Award Recipients

As most of you know, the California Tax Credit Allocation Committee (TCAC) posted a July 1, 2008 memorandum from me reminding nine percent (9%) credit reservation recipients of the regulation Section 10325(c)(12) cost-consistency requirements. That regulation requires that a project's third-tiebreaker ratio must not have increased between the application and the project's placed-in-service date. The July 1 memorandum noted TCAC staff's concern about high cost figures contained within some of the first round applications. In several instances, those high anticipated costs were to be paid out of tax credit proceeds that appeared ambitious in today's credit market.

Since the July 1 memorandum's posting, TCAC has received concerned comments regarding the regulatory possibility of a credit reduction at placed-in-service. However, the comments have supported maintaining the TCAC competitive scoring system's integrity, especially the third tiebreaker.

Finally, TCAC received comments and national publications have continued to highlight the volatility of the equity market, and the continuing uncertainty regarding Low Income Housing Tax Credit pricing. TCAC recognizes that some applicants and syndication letter authors may have been, in good faith, overly optimistic in estimating their credit pricing.

In light of the above noted feedback and industry-wide circumstances, I am hereby clarifying a few points and announcing TCAC's expectations of first round recipients.

Sixty Day Grace Period

As first round project sponsors firm up their estimates of available equity, some may learn that their projects are no longer feasible based upon today's credit pricing. In those cases, sponsors may return the reserved credits by August 20, 2008 without receiving negative points. This would permit the sponsor to restructure the project and bring it back in a subsequent funding round, and TCAC would promptly reserve the returned credits for second round applications within the appropriate set-aside or geographic apportionment of origin.

Expectations for First Round Reservation Recipients

At carryover allocation on October 31, 2008, project sponsors electing to retain their credit reservation will be required to provide TCAC with an executed offering letter from their selected syndicator or equity investor. At that time, the sponsor must demonstrate to TCAC that the equity pay-in will be adequate, in conjunction with other documented funding sources, to fully fund the project's development costs. The executed offering letter must state the committed credit price, equity amount, a pay-in schedule, and all conditions for entering into the partnership agreement.

By October 31, 2008 the sponsor must also complete and provide a TCAC Exhibit E updating the projects sources and uses, and showing total development costs. From this update, TCAC will recalculate the third tiebreaker. If the third tiebreaker ratio is significantly increased (score worsened), the reservation would be reconsidered pursuant to regulation Section 10328(d)(1) and negative points would be assigned.

Additional Notes in Response to Comments

TCAC recognizes that, in order to cover funding shortfalls, sponsors may need to propose deferring additional developer fee beyond what was proposed and permitted in the funded application. However, TCAC may reconsider any project proposing to defer more than 80 percent (80%) of the originally-proposed developer fee.

The July 1 memorandum states that, at placed-in service, TCAC would assess negative points for a "significant" reduction in project costs. The term significant implies that TCAC would be reasonable in considering any cost reductions. For example, cost savings attributable to unspent construction contingency funds alone would not result in negative points. Construction period interest savings resulting from accelerated construction schedules would also not result in negative points.

Conclusion

TCAC recognizes that project sponsors are operating in a time of great uncertainty. The Committee does not intend to assess negative points to sponsors who, in good faith, estimated their construction costs and equity amounts within the application. Those facing a good faith shortfall may return the reservation without penalty within the first 60 days fallowing preliminary reservation. Thereafter, TCAC will assure consistency with application assertions and scoring.

If you have any questions regarding this matter, please contact your regional analyst.