TO: TCAC Stakeholder Community
FROM: Mark Stivers, Executive Director
DATE: January 23, 2017
RE: Frequently Asked Questions on Transfer Events

1. If a project is subject to the Capital Needs Agreement (“Agreement”) requirement and the sponsor intends to apply for resyndication within the near future, can the sponsor forgo the Capital Needs Agreement and just address the Short Term Work (3 years) reserve requirement at resyndication?

No. Prior to the closing of a resyndication transaction, there is no guarantee that a resyndication will occur. As a result, TCAC requires sponsors engaging in a Transfer Event prior to the closing of a resyndication transaction to enter into a Capital Needs Agreement, if applicable. If the resyndication occurs within a short timeframe, the higher annual replacement reserve contributions of the Agreement, if any, will be moot as the Agreement will terminate at the closing of the resyndication.

If the transfer is concurrent with the closing of the resyndication financing, no Capital Needs Agreement is required, but the provisions of Section 10320(b)(4) apply.

2. If a project is not subject to an existing Capital Needs Agreement, and the transfer associated with a resyndication will not distribute Net Project Equity to parties, are there any restrictions on including all rehabilitation costs in eligible basis?

No. Notwithstanding that the resyndication may be a Transfer Event, because the project is not under a Capital Needs Agreement at the time of resyndication and the transfer associated with the resyndication distributes no Net Project Equity to parties, TCAC will waive the requirement to fund the Short Term Work with one of the four sources listed under Section 10320(b)(4)(B). As part of the TCAC resyndication application, the applicant must submit a sources and uses worksheet from the transfer which calculates Net Project Equity and demonstrates that the transfer does not distribute Net Project Equity to parties.
3. **How should the Short Term Work be reflected in the resyndication application?**

A. In all cases, the rehabilitation scope of work should include all of the Short Term Work needs. For all projects TCAC will require confirmation at placed in service that the applicant has completed all of the Short Term Work items or that these Short Term Work items have been rendered moot by the larger rehabilitation work.

B. If the resyndication will not distribute Net Project Equity to parties, the applicant should not differentiate the Short Term Work from any other rehabilitation work. TCAC staff will grant a waiver as part of the review process.

C. If the applicant is not eligible for a waiver and demonstrates one of the sources listed below in an amount equal to or greater than the Short Term Work amount, then the applicant may claim eligible basis for the Short Term Work amount and should not differentiate the Short Term Work from any other rehabilitation work:

   i. a credit from the seller of the project equal to the costs of Short Term Work;
   
   ii. a reduction in the purchase price of the project as compared to the purchase price of the project had the project not been subject to the Transfer Event requirement, as shown by an appraisal that calculates the impact of the Short Term Work requirement on value
   
   iii. general partner equity; and/or
   
   iv. developer fee contributed to the project (a deferred developer fee does not qualify).

D. If the applicant is not eligible for a waiver and does not demonstrate one of the sources listed above in item C, the Structures line item in the Sources and Uses Budget worksheet in the E-App should reduce eligible basis by an amount equal to or greater than the Short Term Work amount.

4. **If a resyndication includes a Subsequent Transfer as described in Section 10320(b)(4)(C) and the value of the property has increased from the Initial Transfer, how do I determine the amount of the required seller carryback or equity contribution?**

The following methodology shall be used to calculate the amount of the required seller carryback or equity contribution:

A. Subtract the original acquisition cost from the new valuation (the “Increased Value”);

B. Subtract the aggregate annual replacement reserve contributions required under the standard TCAC replacement reserve requirements from the aggregate annual replacement reserve contributions required by the Capital Needs Agreement. This difference is then divided by the cap rate used in the appraisal associated with the resyndication (the “Reserve Requirement Value Differential”).

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\frac{\text{aggregate annual replacement reserve contributions required by the Capital Needs Agreement } - \text{aggregate annual replacement reserve contributions required by TCAC}}{\text{Cap rate}}
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C. The amount of the seller carryback shall be the amount of the Reserve Requirement Value Differential but not in excess of the Increased Value. In the event that assumed third-party secured debt on the property equals or exceeds the property’s value from the appraisal associated with the resyndication, no seller carryback or equity contribution is required.

5. If a resyndication includes a Subsequent Transfer as described in Section 10320(b)(4)(C), the value of the property has increased from the Initial Transfer, and the seller chooses to provide a carryback loan to meet TCAC requirements, what terms must seller carryback note contain?

The seller carryback shall be a 55-year residual receipts loan payable solely from project cash flow.