

October 31, 2019

Chris McMillan, Tax Credit & Bond Manager
Sara Martinez, Director of Development
South Carolina State Housing Finance and Development Authority
300-C Outlet Pointe Blvd.
Columbia, SC 29210

Re: South Carolina Housing – Draft 2020 QAP

Dear Mr. McMillan and Ms. Martinez,

Merchants Capital is a leading multifamily lender which provides loan products to accommodate for construction, rehabilitation, acquisition, and refinancing of affordable multifamily housing throughout the country. Since 2015, Merchants Capital has underwritten approximately \$8 Billion in loans thus producing the development and/or rehabilitation of over 100,000 affordable housing apartment units. In review of the draft SC 2020 LIHTC QAP and based on experience, it is suggested the following reserve requirements are problematic and unnecessary:

- Operating Reserves funded prior to issuance of 8609s.
- Authority approval for use of Replacement Reserves.

It is standard that operating reserves are established at the time of permanent loan conversion. It is also typical that final equity installments are made by the investor at the conversion closing which includes the operating reserves; an investor prerequisite of funding the installments is the final 8609s. Requiring funding of operating reserves prior to issuance of 8609s is problematic and interrupts an already efficient and acceptable process to both lenders and investors.

Most lenders today require the replacement reserve account be established within its own financial institution to better manage and observe funds. Lenders also require the replenishment of any replacement reserves used which are regulated and funded on a monthly basis. Therefore, it may be unnecessary for the Authority to re-underwrite a property by requiring its own approval process. With undefined conditions or an established Authority response time, developers may be unable to properly respond to requirements of the lender.

In conclusion, it is my opinion the operating and replacement reserve requirements referenced above may impose unnecessary constraints during the development stage and throughout operations when timing is most critical.

Regards,



Joseph Krengel, Senior Vice President

Merchants Capital