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**From:** Martinez, Sara 6-4144  
**Sent:** Tuesday, November 5, 2019 10:40 AM  
**To:** McMillan, Chris 6-9196  
**Subject:** FW: Comments to SC 2020 QAP  
**Attachments:** CAHEC Comments on SC QAP\_Reserves.pdf

Sara V. Martinez, *Director of Development*

[REDACTED]  
300-C Outlet Pointe Blvd. | Columbia, SC 29210 | [REDACTED] | [REDACTED]

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**From:** Sonya Prear [REDACTED]  
**Sent:** Monday, November 4, 2019 4:48 PM  
**To:** Martinez, Sara 6-4144  
**Subject:** Comments to SC 2020 QAP

Please see the attached comments regarding the Operating and Replacement Reserve requirements in the 2020 QAP.



Sonya Prear  
Vice President, Asset Management  
7700 Falls of Neuse Road, Suite 200, Raleigh, NC 27615

[REDACTED]  
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November 1, 2019

South Carolina State Housing Finance and Development Authority  
Attn: [Sara Martinez](#), Director of Development  
300-C Outlet Pointe Boulevard  
Columbia, South Carolina, 29210

Re: Comments to SC 2020 QAP

Dear Ms. Martinez:

The following comments are offered in response to the draft 2020 QAP, specifically regarding operating reserve requirements and approvals for replacement reserve withdrawals.

Operating Reserve funding at Placed in Service Date

1. It is industry standard for the operating reserve to be funded upon the project's achievement of stabilization and permanent loan conversion from equity and/or perm loan proceeds. Prior to that point, the project is not considered fully operational; it is still in the development/lease-up phase, with any interim operating costs funded from the development budget (lease-up reserves, etc.). The general partner/managing member is obligated to cover any shortfalls during this period via its guarantees. At this point in the project's lifecycle, therefore, there is no need for a fully funded operating reserve.
2. Requiring this reserve to be funded at the time the development places in service forces the investors to advance a significant amount of equity earlier than is normally seen in the industry, negatively impacting yields and putting more of the equity at risk earlier than most syndicators and investors are comfortable with.

Replacement Reserve Funding and Withdrawal Approval

The Replacement Reserve is typically funded monthly. Withdrawals from this reserve are monitored closely by the lenders and the equity investor. Factors that are taken into consideration by the equity investor include the reason for the request, the amount, whether bids have been obtained, whether the cost has been budgeted already, the sufficiency of the remaining reserve balance should the request be approved, and how it will take to restore the reserve balance to adequate levels. The project lenders go through a similar stringent review, particularly USDA-RD. Many developers feel it is onerous to then also submit to another layer of review by the Authority.

Very truly yours,



Sonya Prear  
Vice President, Asset Management

