



RECOMMENDED PRACTICES IN
HOUSING CREDIT ADMINISTRATION
2023 UPDATE | SUMMARY

NCSHA Recommended Practices in Housing Credit Administration

SUMMARY

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Section 1: Allocation Policies and Project Selection

1. Qualified Allocation Plans

Agencies should clearly describe in their Qualified Allocation Plans (QAPs) how all statutory selection criteria and preferences are considered in the allocation of Housing Credits and reference related documents that describe other requirements, policies, and procedures relevant to their allocation decisions. Agencies should design QAPs to encourage the type, location, and tenancy of housing most needed in the state and balance consideration of social and environmental goals with development costs. Agencies should review their priorities on a regular basis, consider stakeholder input, and update QAPs to reflect current housing priorities.

2. Concerted Community Revitalization Plans

Agencies should adopt criteria for evaluating concerted community revitalization plans, describe those criteria in their QAP or other public documents, and apply those criteria in their Housing Credit application and scoring procedures, per the statutory preference with respect to such plans.

3. Reducing Local Barriers to Development

Agencies should not require local jurisdiction approval as a threshold qualification or allocate points for local approval as part of a competitive scoring system and should not require local financial contributions as a condition for receiving an allocation of Housing Credits.

4. State Designated Basis Boost

Agencies should set transparent standards in their QAPs for determining which areas and/or developments are eligible for the state-designated basis boost of up to 30 percent and review the standards on a regular basis.

5. Application Procedures and Site Visits

Agencies should streamline the application process for Housing Credit developments involving multiple subsidies to the extent feasible by taking into account other sources of funding subject to different application and allocation schedules. Agencies should conduct site visits wherever possible at application, while optimizing available technology that may replace them in some cases.

6. Development and Management Experience

As part of assessing the capabilities, track record, financial capacity, and experience of the development team, Agencies should require development team members to report past experience with affordable housing programs and encourage sponsors with no multifamily affordable housing experience to partner with a more experienced sponsor. In recognition of the benefits to the entire affordable housing system of

a more diverse industry of developers and managers, Agencies should encourage and incentivize material participation by development teams with diversity.

7. Market Analysis

This recommended practice details considerations for Agencies in assessing market studies and market study providers in accordance with the statutory requirement that agencies obtain for each Housing Credit development a comprehensive market study of the housing needs of low-income individuals in the area to be served by the development before making an allocation of Credits.

8. Facilitating Rural Housing Development with the Credit

Agencies should analyze recent state experience in using the Housing Credit in rural rental housing development and engage with rural stakeholders to consider potential QAP incentives or other policy initiatives to ensure rural housing needs are adequately addressed, including through the use of the Average Income Test minimum set-aside where feasible based on market conditions.

9. Encouraging Native American Housing Development with the Credit

Agencies should analyze recent state experience in using the Housing Credit for Native American housing development and engage with stakeholders to consider potential QAP incentives or other policy initiatives to ensure Native American housing needs are adequately addressed, including through the use of the Average Income Test minimum set-aside where feasible based on market conditions.

10. Using the Housing Credit for Supportive Housing

Agencies should analyze recent state experience in using the Housing Credit for supportive housing and consider QAP incentives or other policy initiatives to ensure such housing needs are adequately addressed. Agencies should ensure supportive housing developments have the capacity to deliver resident services by requiring service delivery experience from the development team or service providers and should consider implications of the U.S. Supreme Court's Olmstead decision relating to housing for persons with disabilities to ensure supportive housing is consistent with this ruling.

11. Sustainable Development

Agencies should evaluate current Housing Credit QAP incentives or other policy initiatives designed to encourage sustainable development based on upfront development costs and potential operating cost savings. With respect to new construction, Agencies should consider the extent to which certain locations present greater risk of exposure to natural disasters and hazards and the potential impact of such locations on Housing Credit residents as well as on construction costs, insurance, and investor interest.

Section 2: Project Underwriting and Development

12. Allocation and Underwriting of Tax-Exempt Bond Deals

Agencies should apply similar but not necessarily identical approaches for underwriting and project selection decisions for Housing Credit properties with tax-exempt bond financing and 4 percent Credits, as they do for 9 percent developments.

13. Ensuring Reasonable Development Costs

Agencies should develop a standard for limiting development costs to reasonable amounts, in the form of a development cost limit calculated on a per-unit, per-bedroom, or square footage basis. Agencies should

consider differences in development costs based on location and project characteristics, and between new construction and rehabilitation, and provide separate cost standards if there are notable differences in such costs. If an Agency receives an application with costs in excess of its established limit for the area in which a development is located, the Agency should subject the development to a further level of scrutiny and review. Agencies should communicate their methodologies and the rationale for any significant changes in policy, remain open to project-specific exceptions to any general standard, and regularly review QAP and related guidelines with a goal of reducing development costs.

14. Developer Fee and Builder Fee Limits

Agencies should limit developer fees to the lesser of an appropriate defined per-unit dollar cap or 15 percent of total development cost, with limited exceptions for developments meeting specified criteria. Agencies should cap builder's profit, overhead, and general requirements to a combined 14 percent of construction costs, in line with standard industry practice, with discretion to make adjustments based on project characteristics.

15. Consultant and Professional Fees

Agencies should review and assess the reasonableness of consultant and other professional fees, including architectural, engineering, environmental, accounting, legal, market analysis, construction management, and asset management services.

16. Verification of Expenditures and Issuance of IRS Form 8609

Agencies should establish a process for requiring and analyzing cost certifications prior to issuing IRS Form 8609. Agencies should strive to issue such forms in a timely manner—ideally within 90 days—upon receipt of complete required documentation from developers. Agencies should adopt the model 10 Percent Test and final cost certification letters developed by NCSHA.

17. Sponsor Certification of Project Sources and Uses of Funds

Agencies should take a series of steps described in this recommended practice to ensure that Housing Credit developments do not receive Credit and other funding in excess of the amount necessary to ensure their feasibility and long-term viability as low-income housing.

18. Operating and Replacement Reserves

Agencies should require operating reserves of no less than four to six months of projected operating expenses plus debt service payments and annual replacement reserve payments, and replacement reserves of no less than \$300 per unit per year for new construction developments for seniors and \$350 per unit per year for new construction developments for families and for rehabilitation. In underwriting appropriate initial reserve levels, Agencies should consider reserve requirements imposed by investors, lenders, and syndicators, as well as historic portfolio reserve account usage and balances. Agencies should require reserves to stay with a development at the time of investor exit or sale of the property.

19. Operating Expense and Vacancy Rate Projections

Agencies should promote long-term economic viability by requiring owners to provide realistic itemized anticipated operating expenses. Agencies should also consider trends in operating expenses, including property insurance costs, projected energy usage, utility rates, labor costs, real estate taxes, and other operating expenses and adjust their underwriting cost assumptions accordingly. Agencies should

establish and maintain operating cost databases based on historic and current Housing Credit property experience and use them in their underwriting.

20. Debt and Expense Coverage

Agencies generally should require a minimum debt service coverage ratio of 1.15 until initial stabilized occupancy for debt financing that would result in foreclosure if not repaid with the option of a lower level for developments with no hard debt.

21. Minimum Rehabilitation Threshold

Agencies should establish a transparent minimum rehabilitation threshold to assure meaningful, rather than simply cosmetic, rehabilitation of properties, ensuring that such threshold is not so high as to inadvertently impede preservation of an existing development at risk of converting to market rate.

22. Capital Needs Assessment

Agencies should require any award of Housing Credits for rehabilitation to be based on a third-party capital needs assessment that analyzes all building systems and components and that considers potential risks associated with natural disasters and hazards.

23. Appraisals in Acquisition/Rehabilitation Properties

For acquisition/rehabilitation properties, Agencies should generally limit the acquisition price on which Housing Credits are allocated to the lesser of the sale price or appraised value of the property, based on objective, impartial analysis.

24. Construction Monitoring

In addition to visiting proposed Housing Credit development sites prior to allocation of Credit, Agencies should inspect or require an independent third-party inspection of Credit developments during the construction period to monitor construction progress, verify application commitments, evaluate compliance with fair housing and accessibility rules, and identify construction delays.

Section 3: Preservation and Renter-Focused Policies

25. Promoting Choice and Opportunity for Housing Credit Residents

Agencies should develop QAP and/or other program policy documents to facilitate the siting of new affordable housing in diverse locations, including low-distress, low-poverty areas that provide residents with access to various amenities—typically considered “areas of opportunity”—as well as areas that historically have had higher poverty and distress rates but in which housing and other stakeholders seek to create new opportunities for residents through holistic community revitalization.

26. Encouraging Preservation with the Housing Credit

To encourage preservation of existing affordable housing reaching the end of its affordability period, Agencies should assess the development’s current financial viability, physical condition, capital needs, location, the population it serves, and its relative competitiveness in the local market.

27. Qualified Contracts

Agencies should require all applicants to waive their right to submit a qualified contract as a condition of receiving an allocation of Housing Credits and establish disincentives or other policies to curtail the use

of qualified contracts in existing developments. Agencies should consider assisting developers in the acquisition and preservation of projects that have submitted qualified contract requests.

28. Extended Use Agreements

Agencies should require extended use agreements to specify whether a development was allocated Credit under the nonprofit set-aside; identify all requirements imposed on the development; require all mortgage liens on the property be subordinate to the low-income use restrictions; require owners to notify the Agency of any transfer of ownership, qualified contract request, or right of first refusal activity; and require owners to notify tenants and the local government in which a property is located at least 12 months in advance of the expiration of a property's long-term use restrictions.

29. Foreclosure Prevention

In addition to monitoring continued compliance in the extended use period, Agencies should monitor Housing Credit developments to identify properties in danger of foreclosure. If a property faces financial challenges, Agencies should examine and consider restructuring strategies to prevent foreclosure.

30. Encouraging Fair Housing Compliance

In addition to requiring owners to certify any finding of discrimination under the Fair Housing Act, Agencies should refer any fair housing complainants to the appropriate state enforcement agency and to HUD. Agencies also should implement monitoring procedures to ensure developments comply with federal nondiscrimination standards for all protected classes. Agencies should require owners and property managers to attend fair housing training prior to leasing the property and on a regular basis; require or incentivize tenant selection plans that include protections for tenant screening and limit use of criminal records and prior eviction judgments; and encourage affirmative fair housing marketing plans that include outreach to voucher holders and coordination with public housing authorities.

31. Violence Against Women Act Compliance

Agencies should adopt Housing Credit policies and procedures that support compliance with the Violence Against Women Act (VAWA) and require owners of Housing Credit developments to implement various practices to ensure VAWA compliance.

32. Housing Credit Tenant Protections

Agencies should require or incentivize owners and property managers to implement tenant protection policies in Housing Credit developments, including creation of tenant selection plan guidelines, use of rental agreements with various tenant protections, notification to tenants at initial occupancy about basic Housing Credit tenancy requirements, fair and transparent policies relating to tenant fees, a limit of one rent increase per certification period per household, a minimum of 60 days' notice to tenants of any applicable rent increase (or 90 days' notice to tenants of any rent increase in excess of five percent of the existing rent), notification to tenants of the three-year vacancy decontrol period upon termination of the extended use agreement due to qualified contract, and a minimum of 12 months' notice to tenants of an expiring extended use period.

33. Compliance Issues in Resyndication

Agencies should develop policies on compliance issues encountered in resyndication of existing Housing Credit developments, including policies on tenant qualification, amendment of extended use agreements, and applicable income limits to use in resyndication.

Section 4: Asset Management and Compliance Monitoring

34. Transmittal of Development Information

Agencies should develop procedures for transmitting critical development information from allocation to monitoring staff, including the completed IRS Form 8609 for the development and any extended low-income housing commitments that document tenant income or other property restrictions.

35. Compliance Manuals

Agencies should make available a Housing Credit compliance manual, with all necessary regulations and forms, as a comprehensive resource for owners and managers. Agencies should use such manuals to ensure consistency in monitoring developments within the state.

36. Owner and Manager Training

Agencies should require owners and on-site managers of Housing Credit developments to attend or document that they have recently attended training on management and compliance prior to property lease-up but no later than receipt of IRS Form 8609 certifying an allocation of Credits.

37. Coordination of Monitoring Activities

To the extent practical, Agencies should coordinate compliance reviews for Housing Credit developments financed with multiple subsidies.

38. Distributing Income and Rent Limits

Agencies should make updated Housing Credit income and rent limits available to development sponsors and managers annually.

39. Utility Allowances

Agencies should permit Housing Credit developments to select from all utility allowance options available under IRS regulation, specify requirements for application of alternative utility allowances in new and existing developments, and facilitate use of the energy consumption model utility allowance.

40. Tenant File Review Procedures

When conducting tenant file reviews of Housing Credit properties, Agencies should review the current rent record and verify the essential compliance data described in this recommended practice.

41. Calculating Anticipated Tenant Income

Agencies should instruct property managers qualifying tenants for Housing Credit apartments to calculate household income using the gross income the household anticipates it will receive in the 12-month period following the effective date of the income certification or recertification, as documented in the tenant file by third-party verification whenever possible.

42. Monitoring Property Restrictions

Agencies should require that extended low-income housing commitments identify all requirements imposed on the development that are material to the award of Credit, monitor Credit developments to ensure such commitments are met, and enforce these commitments as necessary.

43. Continued Compliance in the Extended Use Period

Agencies should develop policies to regulate and facilitate continued compliance as Housing Credit properties reach Year 15 of the compliance period. Agencies should develop procedures for handling noncompliance in the extended use period and should require notification from owners in the event of ownership transfers.

44. Housing Credit Asset Management

Agencies should establish procedures for asset management of Housing Credit developments assisted under the American Recovery and Reinvestment Act of 2009 as detailed in this recommended practice.

45. Compliance Monitoring Fees

Agencies should develop a reasonable monitoring fee structure taking into account the cost of monitoring to the Agency during the initial compliance period and the extended use period and the impact on developments.

46. Standardized Compliance Forms and Reporting

Agencies should utilize the standardized documents developed by NCSHA for compliance monitoring.



National Council *of*
State Housing Agencies

For more than 50 years, state Housing Finance Agencies (HFAs) have played a central role in the nation's affordable housing system, delivering financing to make possible the purchase, development, and rehabilitation of affordable homes and rental apartments for low- and middle-income households.

The National Council of State Housing Agencies (NCSHA) is a nonprofit, nonpartisan organization created to advance, through advocacy and education, the efforts of the nation's state HFAs and their partners to provide affordable housing to those who need it.

Learn more at ncsha.org.

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