



South Carolina State Housing Finance and Development Authority

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C. Todd Latiff
Chairman

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September 8, 2023

SENT VIA EMAIL TO: ROLANDFRANKLIN@SCHOUSE.GOV

The Honorable Travis A. Moore
Subcommittee Chair
Legislative Oversight Committee
South Carolina House of Representatives
Columbia, South Carolina 29201

RE: State Volume Cap Allocation

Dear Chairman Moore,

Thank you for the opportunity to provide the subcommittee with (1) an explanation of how SC Housing generally uses carryforward allocations; and (2) the reasons SC Housing abandoned the carryforward allocations set forth in your letter.

SC Housing has never abandoned carryforward allocations. Under Federal law, the State is allocated a set amount of private activity bonds that may be issued each year on a tax-exempt basis. Each year's unused volume cap expires on December 31st unless the State elects to carryforward that unused cap for future years. Even then, carryforward expires as a matter of law within three years. Carryforward must be designated for use in a specific category of private activity bonds at the time the carryforward election is first made, and that purpose cannot be changed. For many years, SC Housing has volunteered to take whatever state ceiling remains unused at year-end. While that undertaking has provided SC Housing with additional flexibility, the agency has not represented that it could use all the carryforward allocated. Until recently, market conditions have not generated the demand. In fact, for several years, the demand for state ceiling in general was so low that the year-end carryforward allocated to SC Housing was so large, often more than half of the entire state ceiling, that it accumulated beyond any ability to use it all.

A more accurate analysis of SC Housing's use of carryforward is to look back only to 2020 as that's when market conditions and state incentives supported a robust demand. Private developers must request ceiling allocation for multi-family developments. In more recent years, while in extremely high demand, SC Housing was unable to use the carryforward due to State leadership's efforts to address the unexpected, but extraordinarily high cost of the tax credit.

To answer your other question, SC Housing uses current year and carryforward ceiling allocation to help citizens of South Carolina buy or rent affordable housing. In the last three years SC Housing has helped 3,548 families achieve homeownership. Over that same time period tax exempt bonds provided 1,138

families with affordable rental units. There are currently in process 5,251 units of affordable multifamily housing.

We have three housing programs that would not be possible for us to operate without ceiling/carryforward allocation. The primary use of ceiling cap is for our Homebuyer Programs. We offer federally insured or conventional loans with favorable interest rates and forgivable down payment assistance loans. Bond proceeds are used to purchase loans for moderate income borrowers across the state.

We also utilize ceiling cap to provide funding for multifamily housing developments. Multifamily housing properties utilizing tax exempt bond financing automatically receive an allocation of federal low-income housing tax credits and may qualify to receive the State housing tax credit as well.

The Mortgage Credit Certificate is the third housing program that utilizes ceiling allocation. This program provides a federal income tax credit to qualified homebuyers. The Mortgage Credit Certificate allows a homebuyer to convert a portion of their annual interest deduction on their primary residence into a federal tax credit.

For Homebuyer Programs the amount of debt issued is determined by anticipated single family mortgage production. Mortgage production for SC Housing, similar to the conventional mortgage industry typically fluctuates with the economy, however in the current interest rate environment conventional lending has declined significantly while SC Housing mortgage production has remained high. We do not expect interest rates to decline in the foreseeable future which will continue to make mortgage programs supported by tax-exempt bond financing attractive to South Carolina borrowers.

Tax exempt bond issuance for multifamily housing is market driven. Housing developers submit proposals based on their market assessments. In 2022 the General Assembly recognized the critical need for affordable housing as the impetus for the creation of the Workforce and Senior Affordable Housing Act (A137) which established the creation of the State housing tax credit. Demand for ceiling allocation to meet this housing need increased exponentially with this legislation that has greatly enhanced the financial feasibility of these developments and thus increased the volume of submissions. In 2022, the General Assembly, in Act 202 further affirmed the importance of multifamily tax-exempt bond properties by allocating 60% of the annual State housing credit cap to these developments. Ceiling cap allocation for multifamily tax-exempt bond properties is required for the intended use of the State housing tax credit.

As stated earlier, the State of South Carolina for many years has had significantly more ceiling allocation than demand. SC Housing has traditionally requested carryforward of unused ceiling cap in an effort to utilize and preserve the tax-exempt bond allocation. SC Housing made no representations that reflected the need for the full amounts of unused ceiling allocation. Prior to the legislation that created the State housing tax credit SC Housing's need for tax-exempt bond cap was primarily limited to Homebuyer and Mortgage Credit Certificate programs. Multifamily Tax-exempt bond properties were typically restricted to federally designated qualified census tracts, areas that significantly increase the value of federal tax credits, making these limited number of projects financially feasible. SC Housing typically sponsored approximately five such developments annually. With the advent of the State housing tax credit which makes these multifamily tax-exempt bond properties feasible across the state, and continued high demand for Homebuyer programs SC Housing will require substantial amounts of ceiling allocation to meet the ever-increasing demand for affordable housing.

Please let me know if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Hutto', with a stylized, flowing script.

Richard A. Hutto, CPA
Executive Director

cc: Economic Development, Natural Resources, and Transportation Subcommittee
The Honorable Jeffrey E. Johnson