

## **BILL ANALYSIS**

Senate Research Center

S.B. 1989  
By: Menéndez  
Intergovernmental Relations  
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As Filed

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Due to volatility in the financial markets and changing economic environments, there is a need to provide consistency/certainty in the underwriting guidelines used in housing tax credit transactions at the time of completion and cost certification within the Texas affordable housing framework.

These transactions, made feasible by significant levels of private equity investment dollars, have limited margins due to the affordable nature of the rent structure. Consistency in the underwriting at the time of the transaction will help secure the long term viability of the transactions and ensure continued interest from the investment community.

S.B. 1989 seeks to stabilize this issue by setting basic guidelines for underwriting at time of cost certification.

As proposed, S.B. 1989 amends current law relating to underwriting standards for developments receiving an allocation of low income housing tax credits administered by the Texas Department of Housing and Community Affairs.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 2306.148, Government Code, as follows:

Section 2306.148. Underwriting Standards. Requires the governing board of the Texas Department of Housing and Community Affairs (TDHCA) to have the specific duty and power to adopt underwriting standards for loans made or financed by the housing finance division and tax credits allocated by TDHCA. Requires that underwriting standards adopted under this section and used to determine feasibility of a proposed development to meet the criteria set forth in Section 2306.185 (Long-term Affordability and Safety of Multifamily Rental Housing Developments) of this chapter.

SECTION 2. Amends Section 2306.185, Government Code, by adding Subsection (d-1) and amending Subsection (e), as follows:

(d-1) Requires TDHCA, for Housing Tax Credit Developments at cost certification, to:

(1) determine feasibility using the actual net operating income as adjusted for stabilization of rents and extraordinary lease-up expenses. Provides that the permanent lender and equity partner stabilization requirements document in the loan and partnership or entity agreements will be considered when determining the appropriate adjustments and the net operating income used by TDHCA's underwriter.

(2) use a maximum debt coverage ratio of 1.50

(3) require that no year in the first 15 years of the long term compliance reflect (i) negative cash flow or (ii) a stabilized debt coverage ratio below 1.15;

(4) determinations of feasibility at time of cost certification shall not include a maximum operating expense to income ratio.

(e) Adds Subsection (d-1) to a list of subsections that apply only to multifamily rental housing developments to which TDHCA is providing certain assistance as set forth.

SECTION 3. Provides that the changes in law made by this Act apply only to an application for financial assistance submitted to TDHCA during an application cycle that begins on or after the effective date of this Act. Makes application of this Act prospective.

SECTION 4. Effective date: September 1, 2015