CASUALTY DISCLOSURE PROCEDURES at NNEHIF

GUIDANCE FOR GENERAL PARTNERS & PROPERTY MANAGERS

- Communication by GP to NNEHIF is requested as soon as possible following any property damage that renders an apartment uninhabitable. Scope of information from GP to NNEHIF includes:

1. Date of damage and brief description of same.
2. BIN and identification of units affected, including the dates that each household ended and later resumed occupancy, as well as copies of any Certificates of Occupancy if the City requires you to obtain same before re-letting. It's important to document the dates when each unit was (a) ready for occupancy (ie habitable) and (b) re-occupied, for IRS compliance purposes.
3. Summary of estimated cost and time frame of repairs.
4. Written estimate of total rent loss incurred.
5. Copy of insurance claim and any documentation from insuror which defines the settlement amount and expected date of payment.
6. GP's estimate of any loss not covered by insurance claim (including deductible amount).
7. Written estimate by partnership's accountant of current year tax credits eligible and to be claimed, taking into consideration the affect of the casualty repair period (see below for details).
8. Copy of any 8823 forms that get issued by MSHA or NHHFA, as well as any other notice from them about impact of damage on project compliance.

- Keep in mind that State HFA is obligated to report to the IRS (form 8823) any casualty loss <u>that renders apartments uninhabitable</u>. Your goal should be to have them issue that report only after the damage is corrected, which is feasible if the repairs get done within a reasonably short time frame. That's probably the turf of the HFA's Director of LIHTC Compliance.

- GP should contact any mortgage lenders on the project about their expectations for getting the insurance proceeds settled.

- Please note that IRS rules say that tax credits for individual units cannot be claimed for any month during which the apartment is not habitable (determined if the unit is off line as of the last day of the month). Many LIHTC industry professionals believe that temporary, small casualty events which occur during a calendar year <u>but which are cured before year-end</u> should not cause tax credit loss. However, uninhabitable units as of December 31st likely reduce tax credits earned for that year.

Don't be too alarmed – contact NNEHIF Asset Management Department for an estimate of the $ tax credit at risk per unit in the affected property.

Generally we believe routine property & casualty policies would not cover this type of financial loss, but GP may want to consult with partnership's insurance agent at same time that rent loss coverage is evaluated.

- GP should consult with the partnership's accountant and possibly NNEHIF's accountant about the impact of the property damage - if any - on annual tax credits to be claimed. While no final decision on that score is needed until the next annual tax reporting cycle, senior representatives of GP and the management company should have the accountant's estimated tax credit total for the involved year. Contact us if you need guidance in getting this estimate.