

December 18, 2006

[Bond Property Owner]  
[Bond Organization Name]  
[Bond Property Street Address]  
[Bond Property City, State Postal Code]

**RE:** Washington State Housing Finance Commission Bond Program Compliance Revisions  
**Property:** *Clarified Bond Vacant Unit Policy for All Bond Properties*

Dear Owner:

I am writing to inform you about immediate changes to the way you must treat vacant units in bond-financed properties. These changes will also affect how you complete your annual report.

Our legal counsel has advised that we modify our monitoring procedures in order to maintain conformity with current IRS regulations concerning the meeting of set-aside commitments for bond properties.

#### *Counting Vacant Units*

In order to count a vacant unit toward set-aside numbers, the **vacant unit must have been last occupied by an income-qualified household**. Vacant units that have never been rented, or were last rented to a market-rate household, cannot be counted toward the property's set-aside commitment. While this practice is intended by IRS regulations, the Commission historically has not articulated it clearly to owners and managers.

To help you maintain an accurate accounting of your property's vacant units and their usage in set-aside numbers, the Commission now requires that you list **qualified units and any vacant units you are counting toward your set-aside(s), along with information on the last household to occupy the vacant units**, on Part B of the *Certificate of Continuing Project Compliance* (CCPC) report. The Commission is updating the instructions of the CCPC so that it will be clear how to list the property's units on your reports. As you know, you must demonstrate that your property is meeting its set-aside requirements as of December 31<sup>st</sup> of each reporting year. We must have the rental history for vacancies you are counting toward your set-aside(s) so that we can determine if those units are being counted appropriately.

#### *Non-Compliance*

Upon receipt of each report, the Commission will review the property's information and determine whether or not a correction letter needs to be sent. If we discover non-compliance related to your minimum set-aside requirements, we will issue a correction letter asking you

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to submit a plan for how your property will be brought back into compliance. This preliminary notice will be copied to our Capital Projects Division Director. If the property responds within the letter's timeframe and continues to work with us to correct the noncompliance, we will extend the correction period as needed. If the letter's response timeframe goes by with no response or action from the property, we will issue a letter giving the property 60 days to come back into compliance. The 60-day notice will be copied to our legal counsel. Again, if the property responds appropriately and continues to work with us to correct the noncompliance, we will extend the correction period as needed. If the 60 day period goes by with no action from the property, we may be required to take steps to convert the property's bonds to taxable status.

The Commission understands that the changes outlined above are significant departures from processes and standards we have communicated previously. In light of recent research and guidance, we believe that these changes are required to help you keep your property in compliance with bond program requirements, and to help you avoid bond-related, bank-imposed or IRS penalties. Our goal is to partner with and support you in maintaining your bond-financed property according to program rules so that your property can successfully house its residents and serve its community for years to come.

Thank you for your cooperation. Do not hesitate to contact your Compliance Officer, Melissa Donahue, Division Manager, or myself if we can be of service in assisting you to meet these clarified standards.

Sincerely,

*Tim Sovold*

Tim Sovold, Director  
Compliance & Preservation Division  
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Register for Broadcast E-mail at our web site: [www.wshfc.org/managers/](http://www.wshfc.org/managers/)

cc: Property Manager  
Property Name.