



September 22, 2025

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RE: Public Comment on Draft 1, 2026 Housing Development Gap Financing Guidelines

Dr. Price,

We commend the Ohio Housing Finance Agency (OHFA) for thoughtful and substantive improvements reflected in the Draft 1 of the 2026 Housing Development Gap Financing (HDGF) Guidelines. The proposed changes signal a significant and positive evolution of the HDGF program, transforming it from a niche funding source into a more robust, strategic tool designed to address the state's critical housing needs. This maturation represents more than a simple program update; it is a fundamental shift that elevates the HDGF program into a primary policy instrument for creating affordable housing in Ohio.

Three advancements in the 2026 draft guidelines are particularly noteworthy.

1. First, the transition from the 2023 program's rolling, non-competitive application process to a structured, competitive funding round represents a major step forward in program administration. The 2023 structure, which accepted applications until resources were committed, favored speed over strategic impact. In contrast, the 2026 draft establishes a clear program calendar with distinct deadlines for a multi-stage review process. This competitive framework enhances transparency, ensures all projects are evaluated equitably against the same criteria, and empowers OHFA to strategically direct its limited resources to the most impactful and well-conceived developments.
2. Second, the integration of sophisticated, data-driven, and place-based scoring criteria is a commendable innovation. The introduction of tools like the Neighborhood Opportunity Index demonstrates a deep commitment to evidence-based policymaking. The very complexity and detail of the 48-page draft guideline document, a significant expansion from previous iterations, signals that the program is now designed to attract a more sophisticated pool of applicants and projects. This evolution from a reactive gap-filler to a proactive, data-informed policy instrument is a testament to OHFA's forward-thinking leadership.
3. Finally, the formalization of a rigorous, upfront due diligence process is a critical structural enhancement that underpins the program's strategic evolution. The shift from the 2023 program's simple "Notice of Intent to Apply" to the 2026 "Proposal Application" represents a significant structural change. By requiring foundational documents such as preliminary architectural plans, a comprehensive market study, a Phase I Environmental Site Assessment, and conditional financial commitments at the initial proposal stage, OHFA is ensuring that only viable, well-conceived projects enter the competitive pool. This front-loading of due diligence de-risks the development pipeline, protects the integrity of the competitive framework, and aligns the program with the best practices of the sophisticated development partners it now seeks to attract.

The following recommendations are offered in a spirit of partnership, with the goal of refining this new framework to maximize its efficiency, practicality, and ultimate success. These adjustments are proposed as necessary refinements to ensure this new, more rigorous system functions as intended for the high-capacity development partners it is now designed to engage.

Recommendation 1: Streamline Developer Eligibility by Leveraging Existing LIHTC Due Diligence

We recommend the 2026 HDGF Guidelines be modified to automatically grant Experience and Capacity (E&C) approval for the HDGF round to any development team that has already secured E&C approval for any OHFA Low-Income Housing Tax Credit (LIHTC) round within the 2025 or future 2026 program year.

The 2026 draft guidelines introduce a new requirement for a separate Experience and Capacity submission for the HDGF program. While the intent to ensure developer qualification is sound, this approach creates an unnecessary administrative redundancy that may have unintended negative consequences for the program. The due diligence, financial scrutiny, and assessment of professional capacity required to pass OHFA's LIHTC E&C review are substantially more rigorous than what is necessary for a smaller-scale, non-syndicated HDGF project. A development team that OHFA has already vetted and approved to execute a complex, multi-million-dollar LIHTC transaction is demonstrably qualified to undertake a smaller HDGF development. Requiring a separate, duplicative review process consumes valuable staff resources at OHFA and imposes an additional compliance burden on development teams.

This separate eligibility track may have the unintended consequence of narrowing and reducing the quality of the applicant pool for the HDGF program. The current structure establishes two distinct and resource-intensive application pathways—one for LIHTC and one for HDGF—each with its own rules, fees, and limitations. High-capacity development teams operate with finite pre-development resources, both in terms of capital and staff time. Faced with a choice, these teams are more likely to focus their efforts on the larger, more financially impactful LIHTC program. The additional administrative hurdles of the HDGF program, such as a duplicative E&C review, combined with its restrictive application limits, may deter these highly experienced teams from pursuing the very "missing middle" (4-24 unit) projects the HDGF program is designed to support. By creating this barrier, the E&C requirement risks sidelining the state's most capable developers from participating meaningfully in the HDGF program.

Furthermore, this redundancy creates inefficiency not only for developers but also for OHFA itself. Under the proposed guidelines, OHFA staff would be required to process and review two separate E&C submissions from the same development team for two different programs within the same year, even though the core information being reviewed—financials, organizational structure, and past performance—is largely identical. This duplicative work represents an inefficient use of limited agency resources, particularly during a demanding application season. By aligning the eligibility processes, OHFA can better leverage the entire pool of proven development talent to address the full spectrum of housing needs. This change would enhance administrative efficiency for all parties and encourage the state's most experienced developers to apply their expertise to the HDGF program, increasing the likelihood of successful project outcomes.

Recommendation 2: Calibrate Affordability Scoring to Maximize Unit Production and Financial Viability

We recommend revisiting the "Percent of 50% AMI Units to Total Units" scoring criterion to instead measure and reward the "Percent of 60% AMI Units to Total Units." The existing threshold requirements for a minimum number of units at or below 50% Area Median Income (AMI) should be retained to ensure compliance with state and federal requirements.

The 2026 draft introduces a new 15-point scoring incentive for projects that maximize the proportion of units affordable to households at or below 50% AMI. While the goal of serving very low-income households is laudable, using this deep affordability level as a primary driver of competitive scoring may inadvertently undermine the program's overall production goals and the financial feasibility of the projects it seeks to fund. The program's threshold requirements, as detailed on page 16 of the Guidelines, already guarantee that every funded project will serve very low-income households by mandating that 35-40% of affordable units are restricted at or below 50% AMI. The scoring criteria should therefore be calibrated to encourage the maximum production of total affordable units with the available funds.

The financial difference between a unit restricted at 50% AMI and one at 60% AMI can be substantial. The lower rental revenue generated by 50% AMI units directly reduces a project's Net Operating Income (NOI), which in turn constrains the amount of conventional mortgage debt the project can support. This creates a larger financing gap that must be filled with a greater allocation of scarce public subsidy. A scoring system that heavily incentivizes this deeper targeting places the program's competitive framework in direct conflict with its goal of fiscal efficiency. In a competitive round where maximizing points is the primary driver of application strategy, developers will be compelled to propose projects with a high percentage of 50% AMI units to secure the 15 points, even if those projects are financially strained and require an outsized HDGF award per unit. This can lead to a less efficient allocation of state resources, where one "high-scoring" but expensive project is funded instead of two or three more moderately targeted but highly viable projects. The scoring metric, as written, actively works against the goal of maximizing the return on public investment.

Furthermore, aligning the primary scoring incentive with the 60% AMI level would harmonize the HDGF program with the Low-Income Housing Tax Credit (LIHTC) program. A foundational requirement for LIHTC projects is the "40-60 test," which mandates that at least 40% of units serve households at or below 60% of AMI. This income level is the established industry benchmark for balancing meaningful affordability with project viability. Experienced affordable housing developers have their underwriting models, financial assumptions, and operational frameworks built around this 60% AMI standard. By adopting this same benchmark for scoring purposes, OHFA would create policy consistency across its programs, allowing developers to apply familiar standards and financial models. This would make the HDGF program more accessible and predictable for development partners, ultimately encouraging wider participation and streamlining the path from application to construction. By shifting the scoring incentive to 60% AMI, OHFA would enable more projects to become financially feasible with a more modest HDGF investment, allowing the \$10,000,000 program allocation to support a greater number of developments and produce more total affordable housing across Ohio.

Recommendation 3: Increase HDGF Request per Unit Scoring

We recommend that OHFA revise the "HDGF Request per Unit" scoring criterion to establish a more realistic incentive structure that aligns with the program's own cost standards and the financial realities of affordable housing development. Specifically, we propose that the threshold for receiving the maximum 15 points be increased to \$150,000 per unit, with points declining to zero for requests of \$225,000 per unit or more.

The 2026 draft guidelines laudably seek to incentivize cost efficiency. However, the current calibration—awarding maximum points for a per-unit subsidy of \$62,500 or less—creates a significant internal policy contradiction. The guidelines require HDGF projects to meet the high-quality 9% LIHTC Cost Containment Standards which, for new construction in metropolitan counties, permit a Total Development Cost (TDC) of up to \$382,909 per unit. Financial modeling based on these cost standards demonstrates that a viable new construction project requires a per-unit subsidy of approximately \$260,000. This amount is consistent with the subsidy levels provided by the 9% LIHTC program, which typically covers 50-70% of a project's costs and serves as the primary industry benchmark.

The current scoring criterion, therefore, creates a paradox: a project built to OHFA's required quality standards will need a subsidy that makes it non-competitive, while a project designed to be competitive will have an unrealistic budget that jeopardizes its ability to proceed. This misalignment threatens to deter high-quality applicants, incentivize under-resourced proposals that will fail in underwriting, and compromise the long-term physical quality of funded projects.

By recalibrating the scoring incentive to award maximum points for a more realistic subsidy request of \$150,000 per unit, OHFA can resolve this contradiction. This revised structure would continue to reward efficiency and the leveraging of other resources but would not unfairly penalize well-structured projects that reflect the true costs of development. This adjustment is critical to ensuring the HDGF program attracts a robust pool of high-quality, viable applications from across the state and successfully achieves its goal of financing the creation of durable, impactful affordable housing.

Recommendation 4: Increase Maximum HDGF Requests

We recommend that OHFA increase the maximum HDGF award limits to reflect the true costs of development under the new guidelines. Specifically, we propose increasing the maximum request for projects in Non-Participating Jurisdictions (Non-PJs) to at least \$4,000,000 and increasing the allowable HDGF portion of Total Development Costs (TDC) from 50% to 75%.

The 2026 draft guidelines create a laudable new standard for quality by mandating adherence to 9% LIHTC cost standards. However, the proposed maximum award of \$1,500,000 for Non-PJ projects is insufficient to meet this standard and represents a decrease from the \$2,000,000 allowed in 2023. As demonstrated by financial modeling, a representative 20-unit project requires a subsidy of over \$5 million, or nearly 70% of TDC. The current caps (\$1.5M and 50% of TDC) create a structural barrier to feasibility.

This is particularly problematic for the 70% Non-PJ set-aside. The current caps make it highly unlikely that OHFA will receive a sufficient number of viable applications from these priority areas, undermining a central goal of the program. By increasing the award limits, OHFA will ensure that its funding parameters are consistent with its quality standards, enabling the development of high-impact projects in the communities that need them most and making the Non-PJ set-aside a functional reality.

Recommendation 5: Amend Incentives for Leveraging External Capital

We recommend OHFA both clarify the definition of eligible funds and adjust the scoring calculation for the "Percent of Non-OHFA Gap Funds Committed" criterion. First, the guidelines should explicitly define "Non-OHFA Gap Funds" to as permanent, subordinate financing from public, quasi-public, or philanthropic sources unassociated with the development team. Second, the scoring calculation should be adjusted to a sliding scale that awards maximum points for leveraging external funds equivalent to 50% of total development costs.

The 2026 draft laudably introduces a new 15-point scoring item to incentivize leveraging external capital, with a stated rationale of fostering "cross-sector collaboration and... local investment in affordable housing". However, the criterion is undermined by two key weaknesses: an ambiguous definition of eligible funds and a structurally flawed scoring formula. As written, the term "gap fund" could be interpreted to include standard financing mechanisms like construction loans, conventional permanent loans, or deferred developer fees, which do not represent the true external community investment the criterion is designed to encourage. By explicitly defining eligible funds as permanent soft loans or grants from sources such as local HOME and CDBG programs, Federal Home Loan Bank grants, and local housing trust funds, OHFA would ensure the scoring criterion precisely targets and rewards the intended outcome.

In addition to clarifying the definition, strengthening the scoring incentive is crucial. The proposed linear calculation— $(\text{Total Committed Non-OHFA Gap Funds} / \text{Total Development Costs}) * 15$ —is mathematically and logically flawed. It provides a weak incentive at achievable levels of leverage and becomes nonsensical at the high end. For example, a project would need 100% non-OHFA funding to receive the full 15 points, at which point it would not be applying for HDGF at all. More practically, a developer who secures external funds equal to 20% of total development costs—a significant achievement requiring substantial effort—would receive only 3 points ($20\% \times 15 = 3$). This is not a strong enough reward to effectively motivate developers to pursue these complex, collaborative funding partnerships.

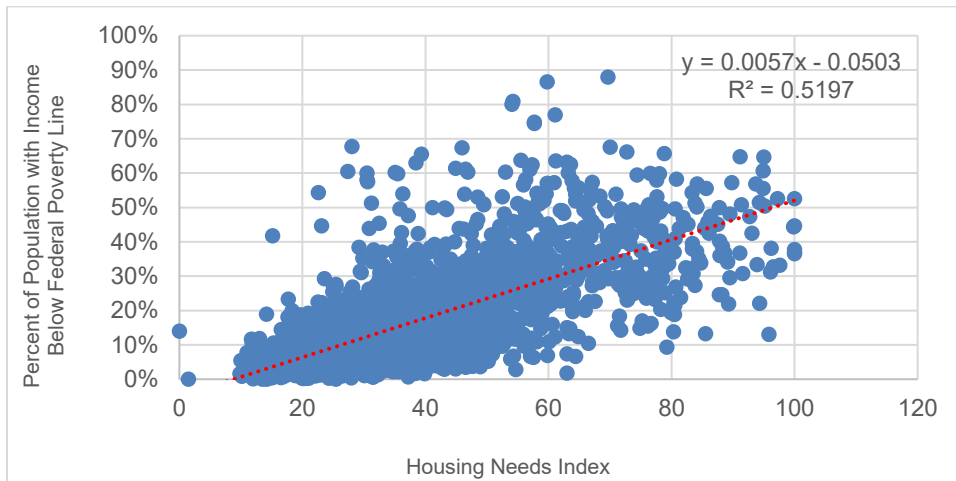
A more effective structure would be a recalibrated sliding scale that awards the maximum 15 points when a project secures non-OHFA gap financing equivalent to 50% of total development costs. This approach creates a powerful and, importantly, achievable target for development teams. It also creates policy alignment, as the program's threshold requirements already cap an HDGF request at 50% of total development costs. This revised structure sends a clear policy signal: "We will award maximum points if you bring a dollar for every dollar we invest." This transforms the criterion from a minor bonus into a central strategic driver. It would strongly incentivize developers to build the robust local partnerships OHFA wants to see, effectively allowing the \$10,000,000 HDGF program to catalyze at least \$20,000,000 in total affordable housing development. This revised incentive structure would serve not just as a financial mechanism, but as a powerful policy tool to foster the robust, multi-sector collaborations essential for solving Ohio's complex housing challenges.

Recommendation 6: Rebalance Geographic Scoring to Prioritize Opportunity and Fair Housing

We recommend rebalancing the scoring weights for place-based criteria to prioritize the Neighborhood Opportunity Index (NOI) over the Housing Needs Index (HNI), or that the HNI be removed from the competitive scoring entirely.

The draft guidelines introduce two powerful but fundamentally opposing indices for geographic scoring. As demonstrated in data analysis submitted for the 2026-2027 9% LIHTC QAP, the Housing Needs Index (HNI) exhibits a strong, positive correlation with poverty ($R^2 = 0.5197$), meaning that, as a census tract's poverty rate increases, so does its HNI score.

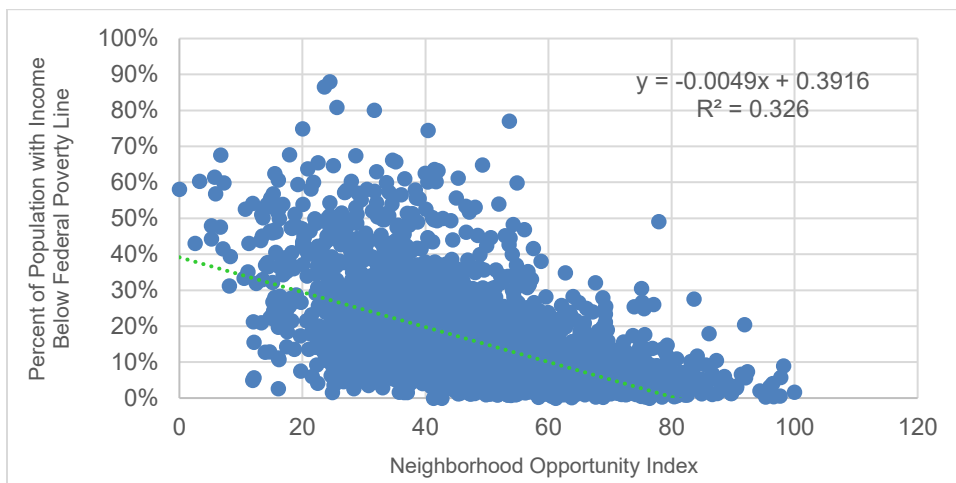
Exhibit 1: Housing Needs Index vs. Percent of Population with Income Below the FPL



Source: [OHFA 2026-2027 9% LIHTC QAP Second Draft](#) and [U.S. Census Bureau American Community Survey](#)

Conversely, the Neighborhood Opportunity Index (NOI) incentivizes development in low-poverty areas, showing a strong inverse relationship with poverty rates ($R^2 = 0.326$) as demonstrated in Exhibit 2.

Exhibit 2: Opportunity Index vs. Percent of Population with Income Below the Federal Poverty Line

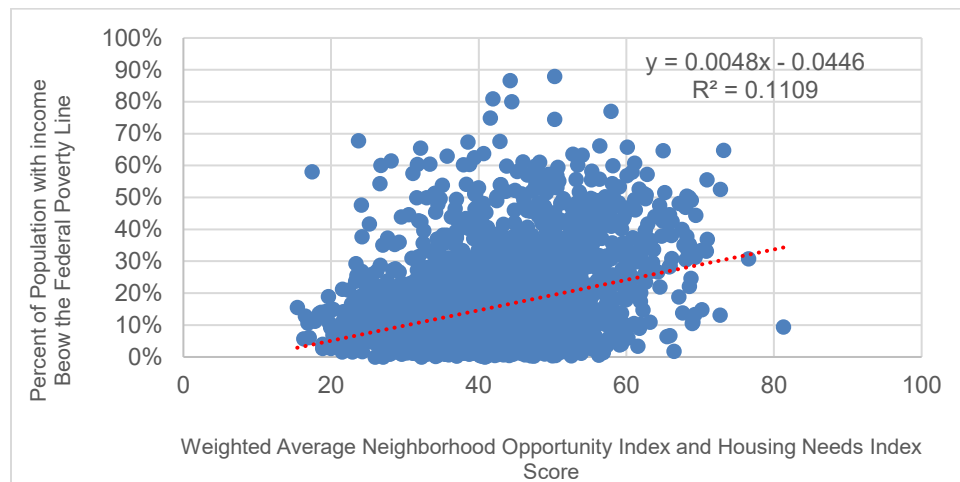


Source: [OHFA 2026-2027 9% LIHTC QAP Second Draft](#) and [U.S. Census Bureau American Community Survey](#)

These two indices are not complementary; they are oppositional policy drivers.

In the current HDGF draft, the HNI is awarded up to 20 points, while the NOI is awarded only 15 points. This structure actively works against the goal of affirmatively furthering fair housing. By assigning more weight to an index that is positively correlated with poverty, the scoring formula inadvertently neutralizes the positive impact of the NOI and creates a competitive incentive to site projects in higher-poverty areas. Exhibit 3 indicates that, when combining the NOI with the HNI using OHFA's current weights, this draft's geographic scoring is positively correlated ($R^2 = .1109$) with a census tract's poverty rate.

Exhibit 3: Weighted Opportunity Index and Housing Needs Index vs. Percent of Population with Income Below the Federal Poverty Line



Source: [OHFA 2026-2027 9% LIHTC QAP Second Draft](#) and [U.S. Census Bureau American Community Survey](#)

This undermines the very purpose of an opportunity index, which is to counteract historical tendencies toward concentrating affordable housing in impoverished communities and to expand housing choice for low-income Ohioans. The scoring system, as weighted, sends a mixed and counterproductive signal to developers about OHFA's geographic priorities and creates a clear path toward developing in higher-poverty areas, perpetuating the very patterns that fair housing policy seeks to dismantle.

To ensure the HDGF program achieves its goal of creating a more equitable housing landscape, the scoring weights must be properly calibrated. The most direct solution would be to remove the HNI from the competitive scoring section, allowing the NOI to serve as the sole, clear indicator of geographic preference for opportunity-rich areas. Alternatively, if both indices are retained, their weights should be reversed to award more points to the NOI than the HNI (e.g., 20 points for NOI and 15 for HNI). This recalibration would ensure the HDGF program meaningfully rewards projects that expand housing choice and promote economic mobility.

Summary and Conclusion: A Path to a More Efficient, Equitable, and Impactful Program

The proposed 2026 HDGF Guidelines represent a significant and positive maturation of the program. The increased funding, competitive structure, and data-driven approach position the HDGF program to be a powerful tool in addressing Ohio's affordable housing crisis. The recommendations outlined in this letter are offered to further strengthen this excellent framework by enhancing its efficiency, equity, and overall impact. By implementing these changes, OHFA can better ensure that the HDGF program achieves its full potential, advancing our shared mission to "Open the Doors to an Affordable Place to Call Home" for residents in every corner of our state.

Sincerely,

A handwritten signature in black ink, appearing to read 'Taylor Koch', written in a cursive style.

Taylor Koch
Development Officer
Hill Tide Partners