



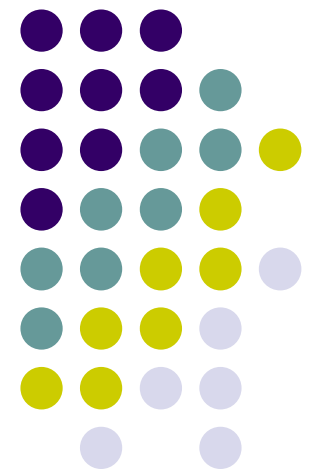
Affordable Housing
Preservation Initiative

Affordable Housing Preservation Federal Policy Context

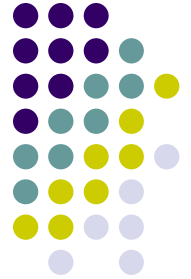
Vincent O'Donnell, Vice President

vodonnell@lisc.org

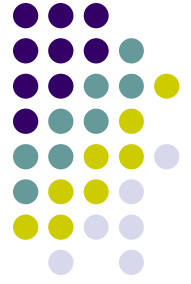
November, 2011



What is LISC?



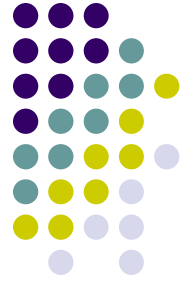
- Local Initiatives Support Corporation
 - LISC is dedicated to helping nonprofit community development organizations transform distressed communities into healthy and sustainable communities of choice- good places to work, do business, and raise children.
 - LISC local offices serve 30 urban areas and Rural LISC works with 74 partner CDCs in 36 states nationwide
- LISC's Preservation Initiative
 - Provided \$80 million in financing since 2002 to preserve 15,000 homes
 - Supports LISC local offices and our nonprofit partners with financing, project-specific TA, creation of preservation strategies and partnerships, and policy analysis
 - Produces information products: guides, webcasts, trainings



Overview

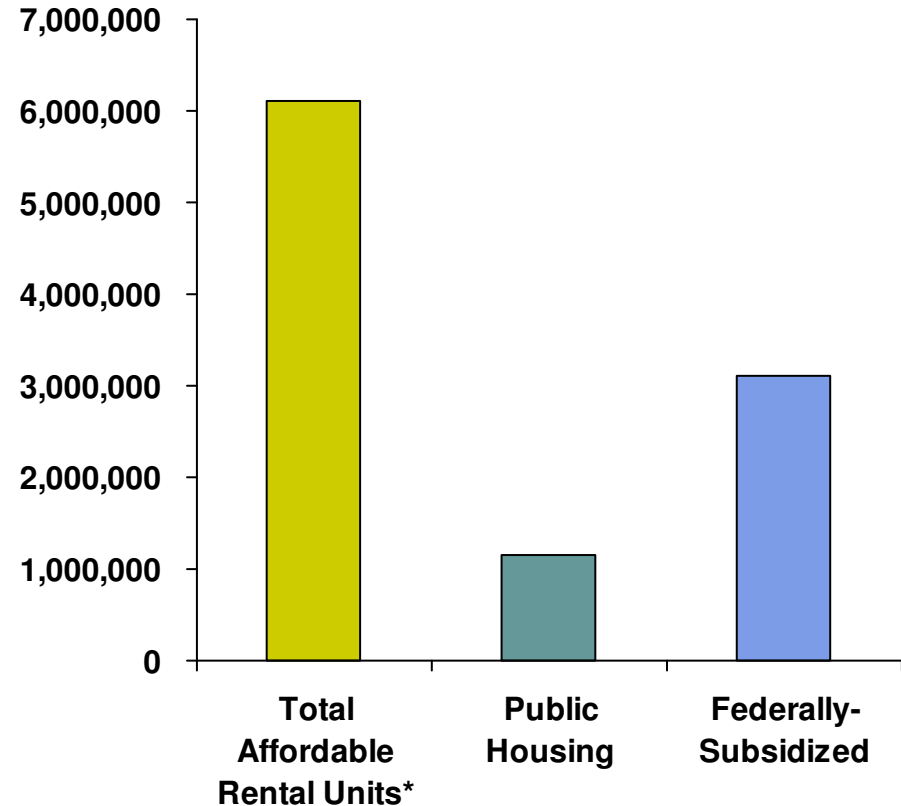
- What is the universe of at-risk affordable housing?
- Why is affordable housing at risk?
- What policies are in place and being considered to help stem the tide?
- How can we make the inventory sustainable?

What Do We Mean By Affordable Housing?

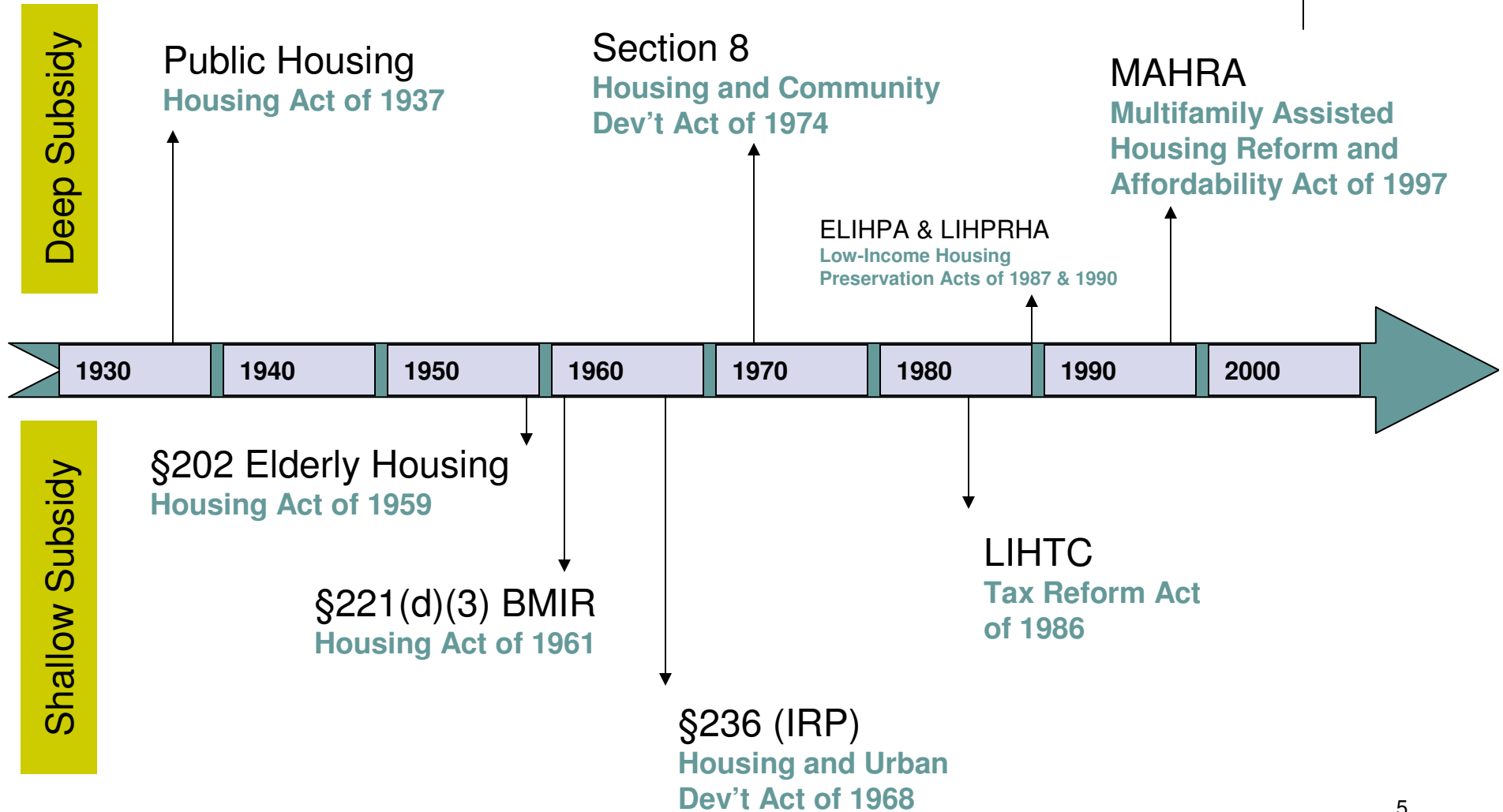


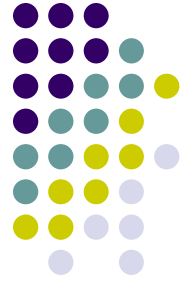
- Federally Subsidized
 - Privately owned but publicly subsidized housing through HUD, RHS, IRS
- Public Housing
 - Federally subsidized
 - State and local public housing
- Private Housing
 - “Market Rate” Affordable

Approximate Distribution of Affordable Housing by Type



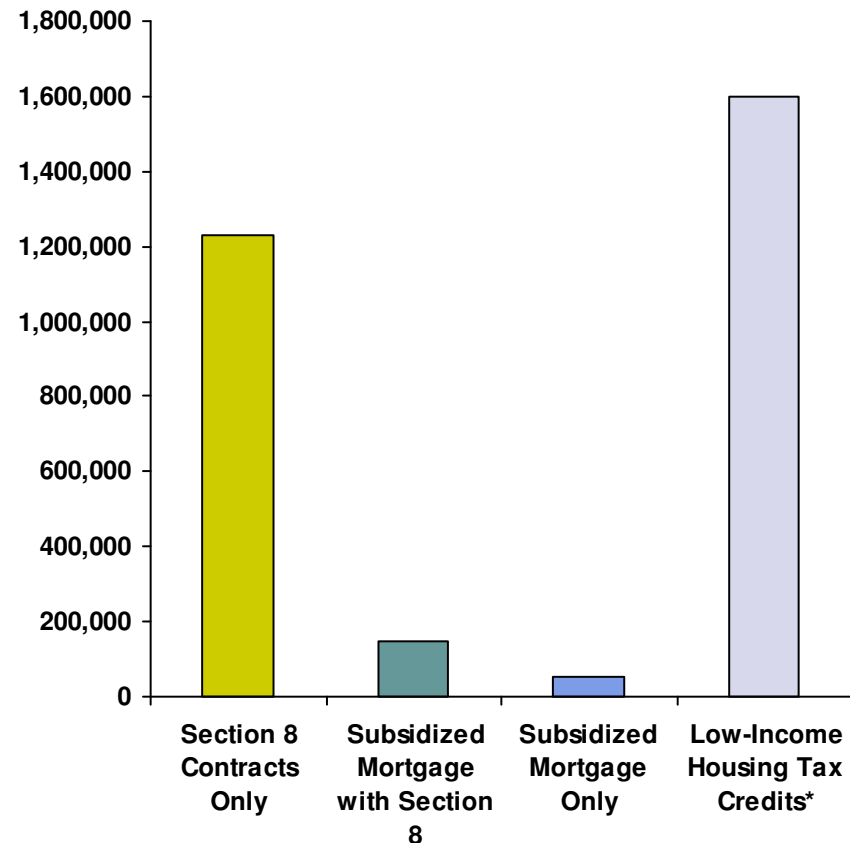
Timeline of Federal Housing Programs



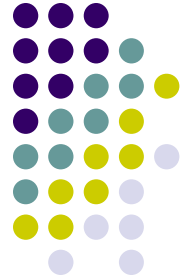


Assisted Housing Stock

- Section 8 Rental Assistance
 - Tenants pay 30% of income toward housing
- Subsidized FHA Mortgages
 - Rents are budget-based
- Low-Income Housing Tax Credits
 - Rents set affordable to targeted incomes between 40% and 60% of AMI



* Includes only 9% LIHTC Units



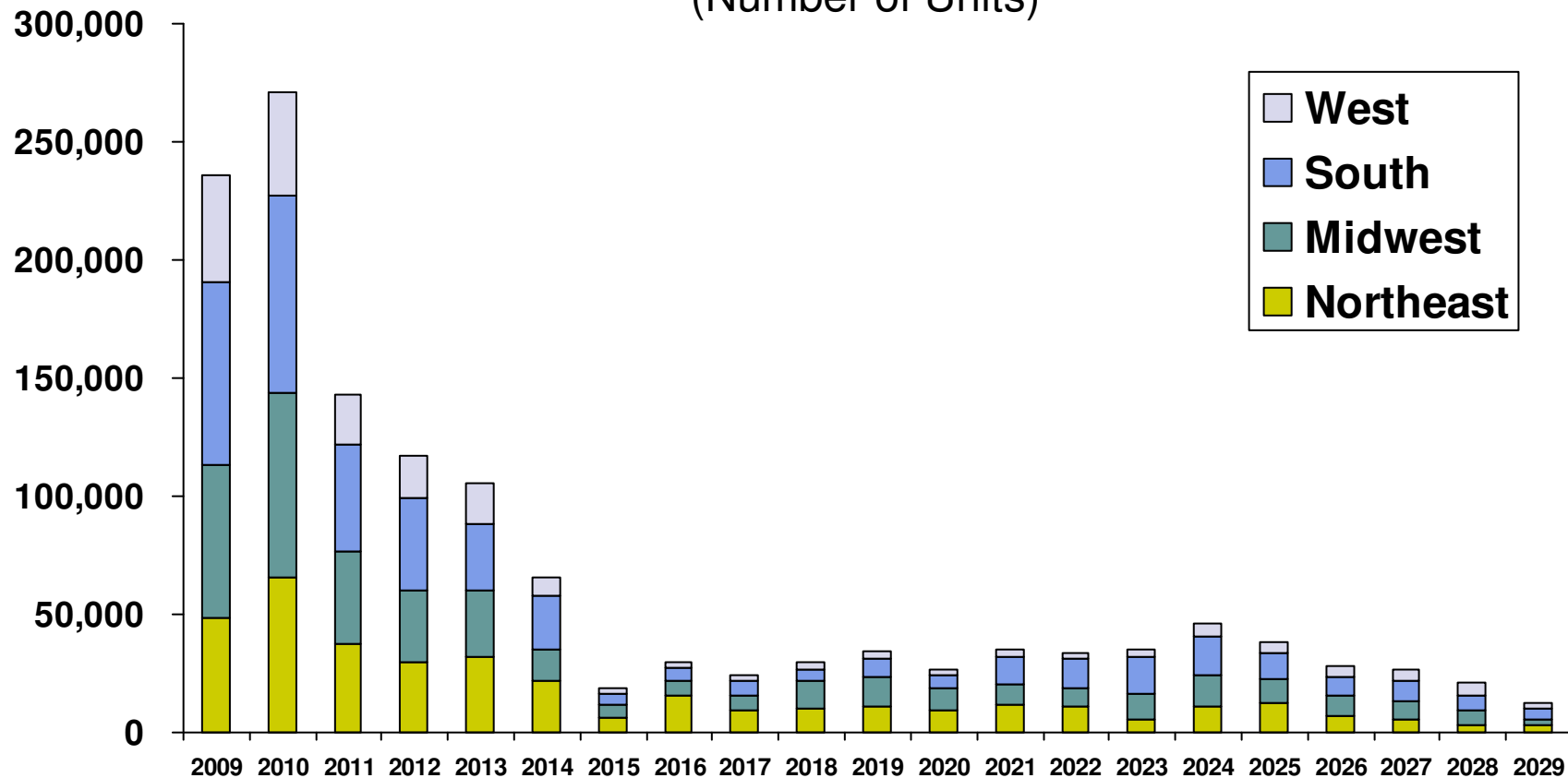
Types of Risk

- Market Risk
 - Gentrification – conversion to market rate
 - Neighborhood distress – negative impacts on property
 - Obsolescence – physical and environmental
- Policy Risk
 - Contract expiration – owners have rights to renew but can opt-out
 - Mortgage prepayment/maturity – no protection at maturity
 - Appropriations risk – HUD can only renew “subject to appropriations”
 - HUD enforcement actions – terminate S8 contract or foreclose
- Owner Capacity/Incentive Risk
 - Owner pulling money out, neglecting property
 - Unsophisticated owner misses program opportunities

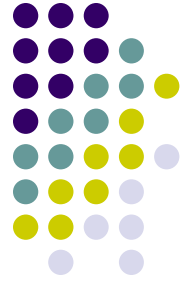
Measuring the Risk: Section 8 Contracts



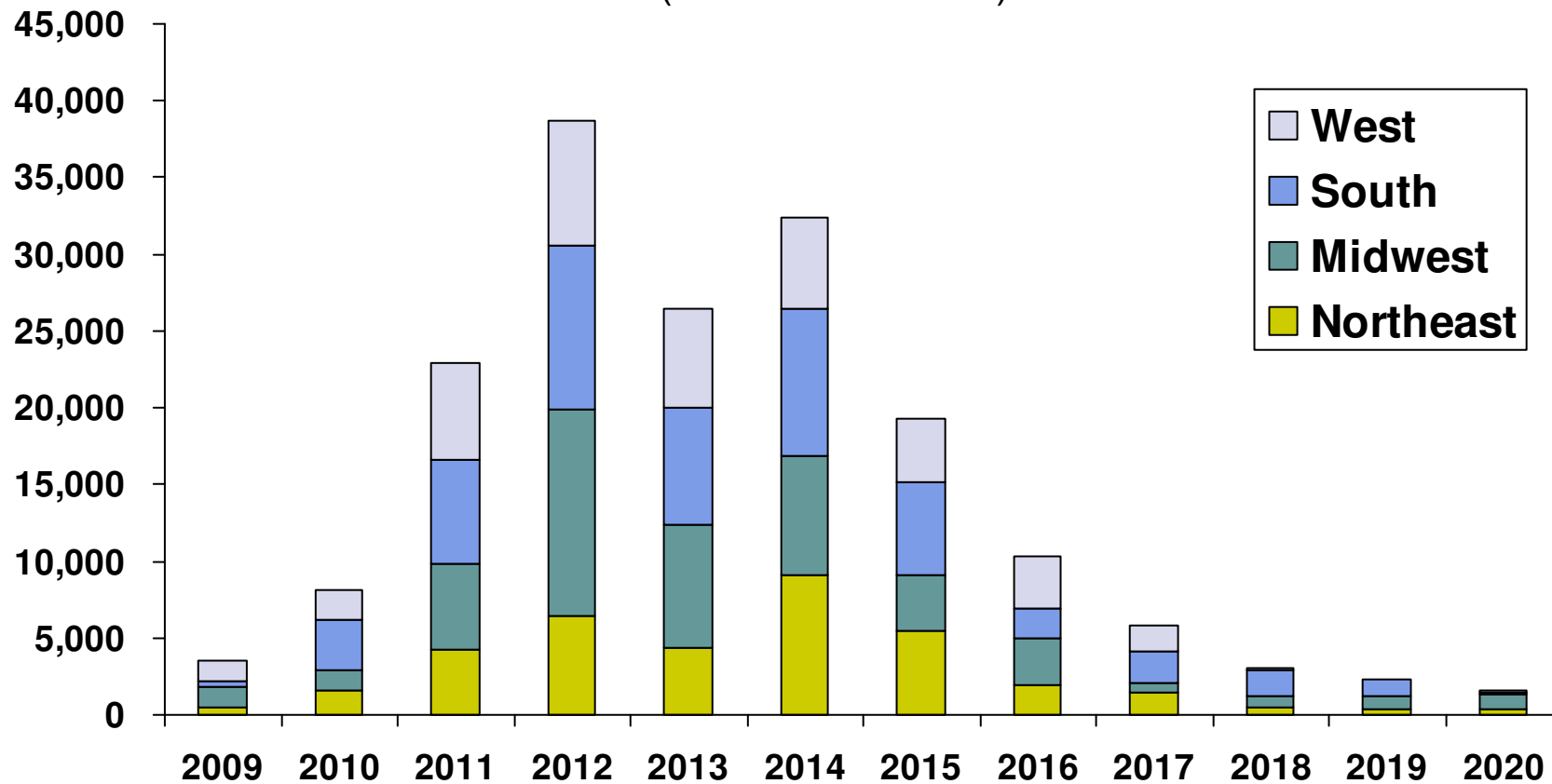
Section 8 Contracts by Year of Expiration
(Number of Units)



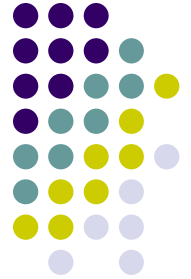
Measuring the Risk: Subsidized Mortgages



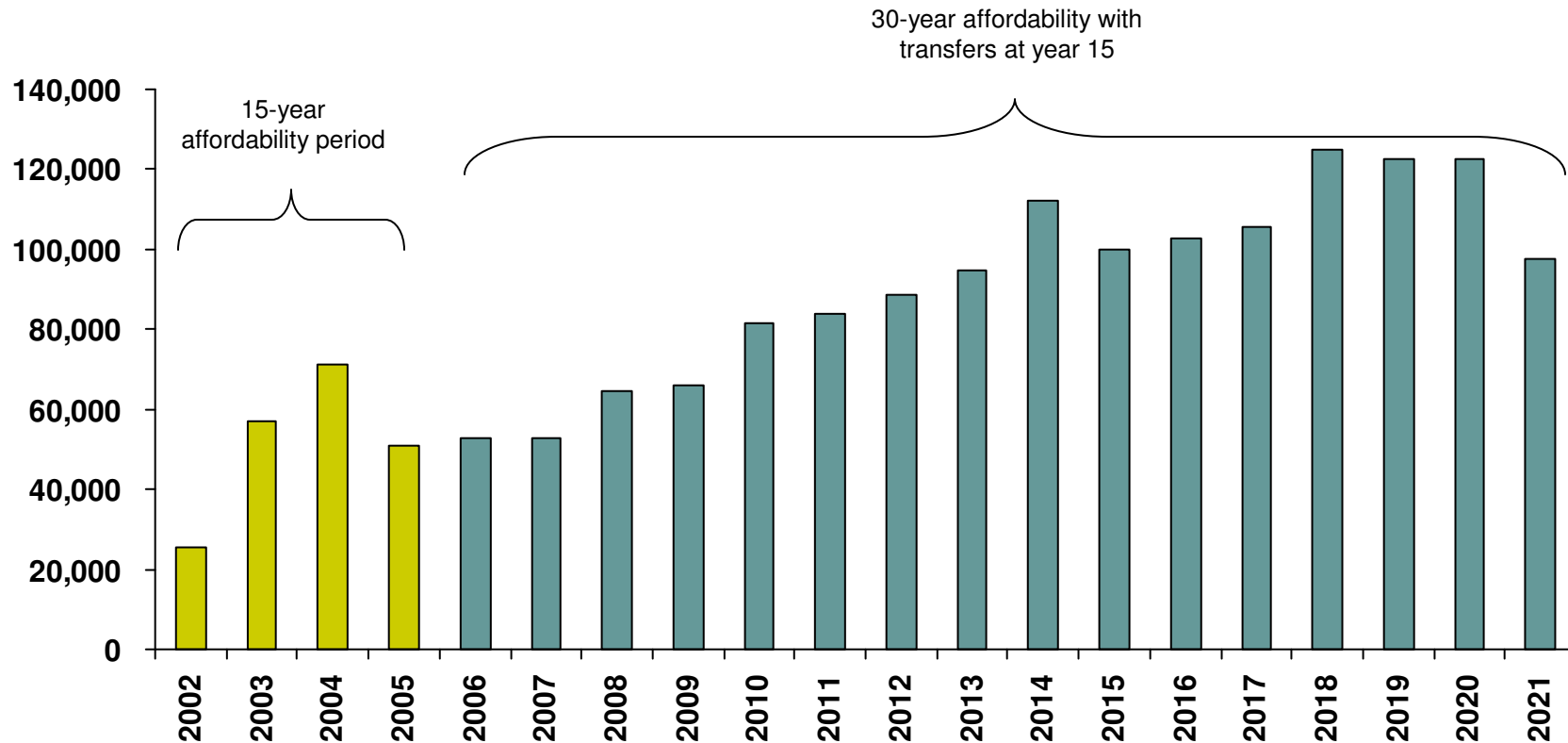
Subsidized Mortgages by Year of Maturity
(Number of Units)



Measuring the Risk: LIHTC Year 15



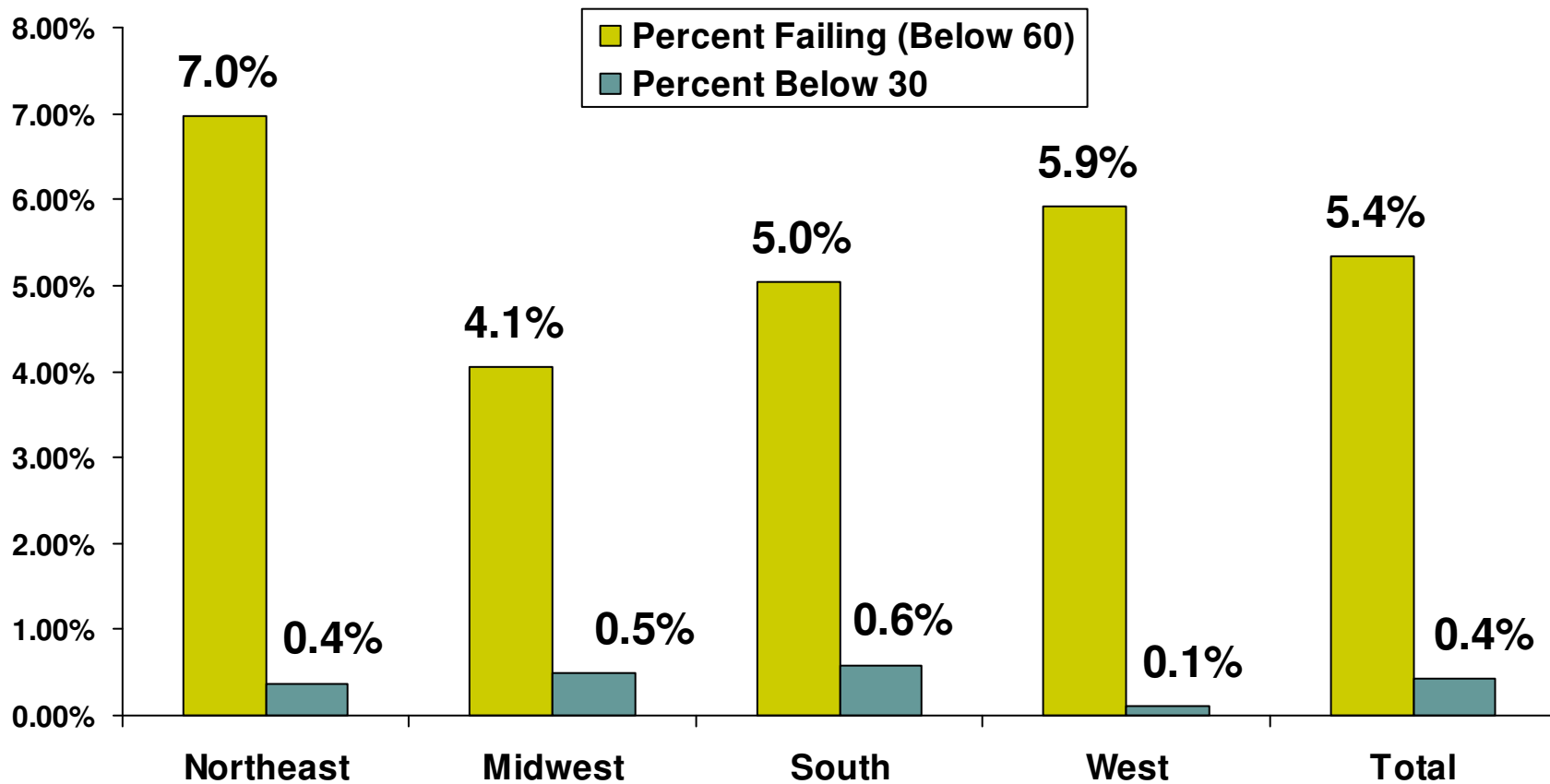
Estimate of LIHTC Volumes Hitting Year 15
(Number of Units)



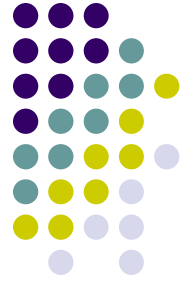
Measuring the Risk: Physical Deterioration



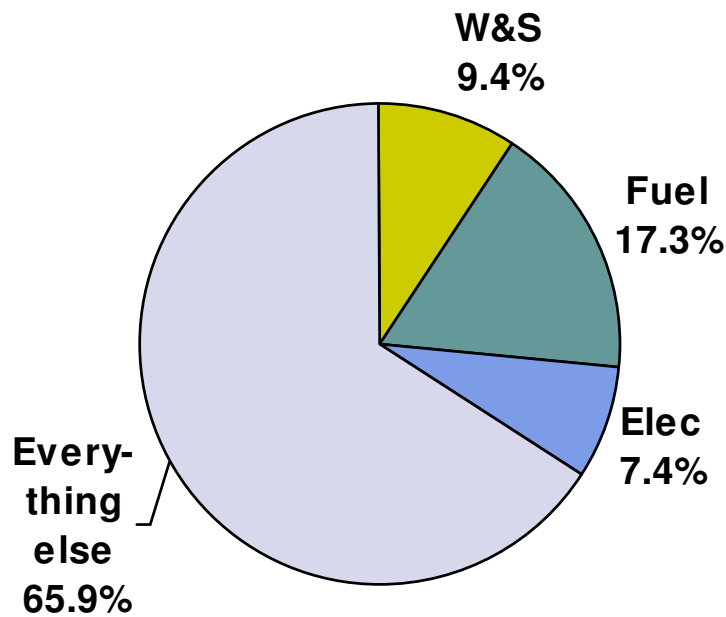
Properties with Failing REAC Scores



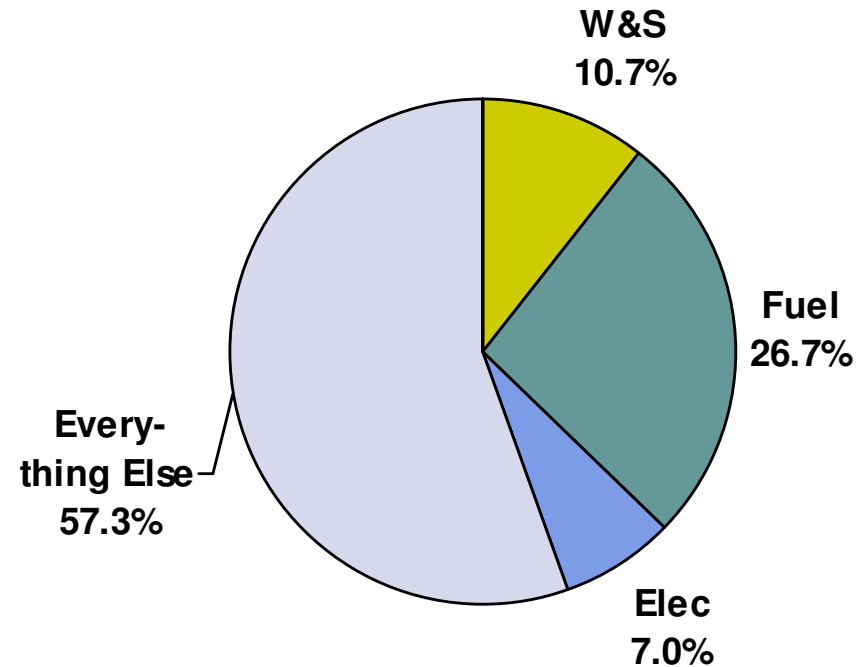
Measuring the Risk: Energy Inefficiency



NYEF Utilities as % of M&O 1997/8 vs. 2007

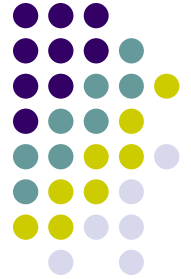


1997/8
M&O = \$4,261
Utilities = 34.10%



2007
M&O = \$6,325
Utilities = 44.4%

Existing Federal Preservation Tools



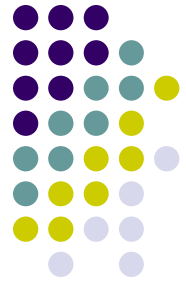
- Section 8 Contract Renewals
 - Mark to Market and M2M Green
 - Mark up to Market/Budget
- IRP Decoupling, other refinancing
- 202 Refinancing (“old law” and post-1974)
- PHA Project-Based Vouchers (PBVs)
- Tax Exempt Bonds / LIHTC
- Enhanced Vouchers (EVs) for Tenants
- Project-basing EVs: Moving to Work PHA; FY 2012 provides limited new authority.

Preservation Elements of Stimulus Legislation



- 2008's Housing and Economic Recovery Act
 - GSE (Fannie/Freddie) Duty to Serve Preservation
 - Tax Credit Program Reforms – 10 year rule and related party ownership, coordination with LIHTC/HUD; Discretionary basis boost.
 - Project-Based Voucher Enhancements – allows terms to 15 years
 - Neighborhood Stabilization Program – Foreclosed multifamily
- 2009's American Recovery and Reinvestment Act
 - Fully Funded Project-Based Section 8
 - Energy Retrofits for Assisted Housing: \$250 million
 - Tax Credit Assistance Program and Exchange
 - Weatherization: \$5 billion through Dept. of Energy

2010 Omnibus Preservation Bill: H.R. 4868

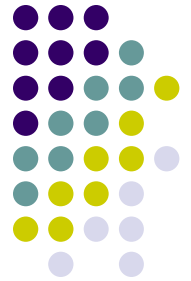


- Preservation “wish list”
- Included reforms to Section 202 and RHS
- Some provisions could be handled administratively by HUD
- Failed: lack of industry consensus; poison pills

Provisions of Preservation Bill

- Rent Supplement, RAP Conversion to Section 8
- Year 40 subsidized mortgage maturity
- Right of First refusal
- Project-basing Enhanced Vouchers
- Incentives to preserve HFA-financed properties
- Prohibit federal pre-emption of state preservation laws
- Rehab grants for distressed properties
- Establish HUD mandate to preserve distressed housing
- Clarify Mark-up-to-Market in LIHTC properties
- Update Mark-to-Market restructuring
- Streamline continued use of existing subsidies
- Improve tenant protections
- Tenant capacity building
- Transparent property data

S.118: Section 202 Supportive Housing for the Elderly Act



- Facilitates refinancing of “old law” §202s.
- Creates new project-based Senior Preservation Rental Assistance Contract.
- Clarifies use of equity takeout for mission.
- Permits reconfiguration.
- Clarifies subordination and waiver of Flexible Subsidy repayment.

Section 8 Voucher Reform Act



- House passed bill in 2007; Senate introduced 2008
- Now: Section 8 Savings Act
- Preservation-related PBV provisions proposed:
 - Increase allowable share of a PHA's vouchers that can be project-based from 20% to an additional 5% to serve disabled, elderly and homeless persons. Base limit on units, not dollars.
 - Relax income-mixing requirements for tight markets and targeted populations
 - Increase maximum initial contract term to 20 Years
 - Good cause eviction protection
- Issue: Proposed increase in minimum S.8 tenant share.

Administration's Preservation Initiatives



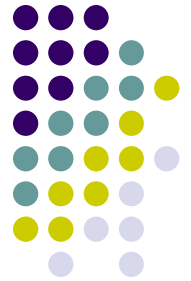
- Fully fund Section 8 requirements
- Choice Neighborhoods (FY 2010, 2011, 2012)
 - Expands HOPE VI concept to federally-assisted housing
 - Connection with school reform and other interventions
- Green Finance Plus
 - Joint program: FHA and FNMA
 - Reduced DSC, increased LTV
 - Result: 4-5% increase in loan proceeds
 - Green PNA required

Administration's Preservation Initiatives (continued)



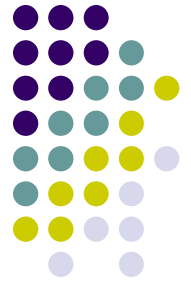
- Energy Innovation Fund (FY 2010 Funding)
 - \$25 million Multifamily Energy Pilot Program
 - Catalyze innovations in the residential energy efficiency
 - Help create a standardized home energy efficient retrofit market
 - Financing and applied research tranches
 - Data-driven

Administrative Preservation Measures



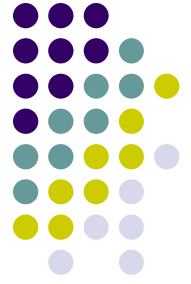
- Multifamily Preservation Website
- Flexible Subsidy repayment
- Clarification of long-term S.8 renewal terms
- Guidelines for “old law” §202 refinancing
- Subordination of §202 direct loans
- Assumption, Subordination or Assignment of Mark to Market (MTM) Program Loans
 - Eliminate 3 year time limit for QNP assignment?

Administrative Preservation Measures (Continued)

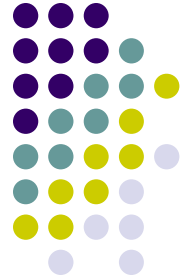


- Conversion of Efficiency Units to One-Bedroom
- Small-area FMR Demonstration
- Collection Procedures for Delinquent Section 202 Direct Loans
- Nonprofit Equity Takeout
- Use of reserve for replacement fund in post-mark-to-market properties.
- Clarification and Implementation of Tenant Participation Requirements
- Revised 2530 Flag Protocol

Administrative Preservation Measures (Pending)



- Section 8 Renewal Guide Revisions
- Clarification of Preservation issues for LIHPRHA and ELIHPA properties
- Clarification of authorities to transfer project-based Section 8
- Implementation of new FY 2012 authority for Rental Assistance Demonstration and renewal & project-basing of “orphan” rental assistance



Other Preservation Issues

- Troubled Properties Spectrum of Actions
 - Improved asset management
 - Enforcement
 - Foreclosure – S.8 HAP Termination
 - Disposition: role of unit of local government; owner selection; adequacy of repairs; future use restrictions and rental assistance



Fair Housing and Preservation

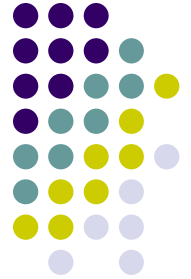
- Subsidized housing is an important fair housing resource
- HUD Secretary is committed to fair housing
- HUD proposed rule clarifying and expanding disparate treatment procedures.
- Supreme Court will hear *Magner v. Gallagher*, over disparate treatment test, which can be a preservation tool.

Budget Control Act of 2011: Sequence



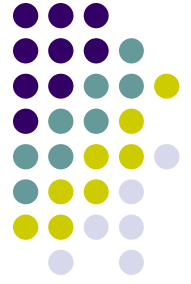
- Debt Ceiling Raised (*estimated to be sufficient until early 2013*)
- \$900 billion in binding discretionary spending caps through 2021 (vs. 2011 level, inflation-adjusted)
- Balanced Budget Amendment required vote
- Joint Select Committee vote and report on additional \$1.5 trillion in deficit reduction through 2021
- Up or Down vote in both Houses
- Real deadline = January 1, 2013?
- Lame Duck session begins November 7, 2012

Budget Control Act of 2011: Sequence (continued)



- Enforcement: Sequestration (automatic spending cuts) if at least \$1.2 trillion in deficit reduction is not achieved..
- Sequestration begins January 1, 2013, 1/4 into FY 2013.
- Line-by-line in 2013; allocable by Appropriators after then.
- Disparate effect of rigid formula cuts: e.g., rental assistance

Considerations for a New Preservation Agenda

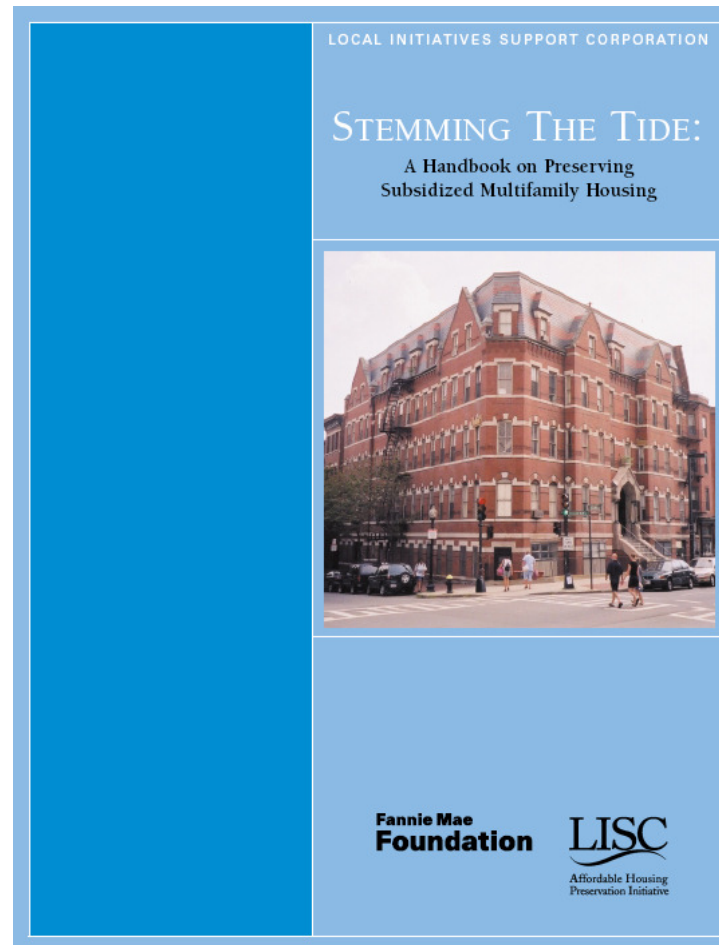
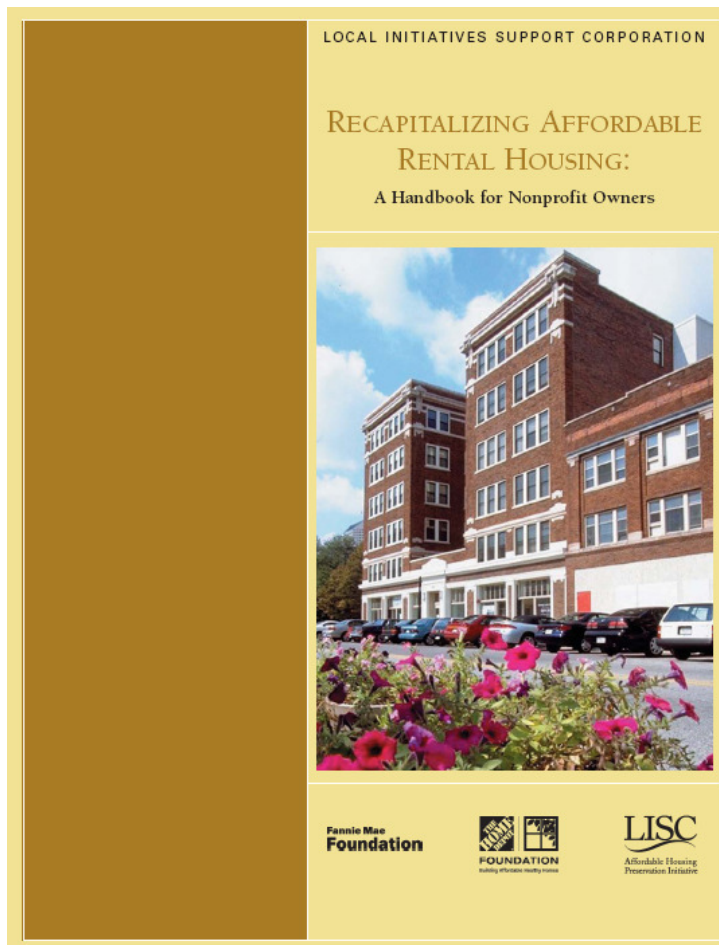


- Reality: New Resource Scarcity
- Role of state & local government
- Neighborhood Context
- Balancing Incentives with New Resources
- Incentives vs. Mandates
- Universe of Preservation

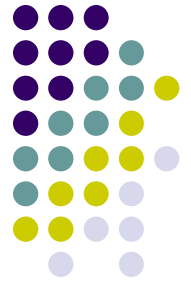
LISC's Preservation Resources



www.lisc.org/preservation



LISC's Green Preservation Resources



www.lisc.org/greenpreservation

