



BOARD OF DIRECTORS

Agenda Item # 10

Innovation Committee

Willie Spears, Chairman

August 14, 2013

Table of Contents

Agenda.....	3
Minutes.....	4
Discussion regarding Use of Program Income from Mid-City Gardens.....	8
Discussion and Resolution regarding issuance of an RFQ for Special Rental Assistance Demonstration (RAD) Development Team.....	16
Discussion regarding Rick Share Program.....	19



Louisiana Housing Corporation

August 7, 2013

INNOVATION COMMITTEE MEETING

AGENDA

Notice is hereby given of a regular meeting of the Innovation Committee to be held on **Wednesday, August 14, 2013 at 9:30 A.M.**, Louisiana Housing Corporation Building, **Committee Room 2**, located at 2415 Quail Drive, Baton Rouge, Louisiana, by order of the Chairman.

1. Call to Order and Roll Call.
2. Approval of the Minutes of the June 12, 2013 Committee Meeting.
3. Discussion regarding **Use of Program Income from Mid-City Gardens Apartments (1690 North Boulevard, Baton Rouge, LA)**; and providing for other matters in connections therewith
4. Discussion and Resolution regarding issuance of an **RFQ for Special Rental Assistance Demonstration (RAD) Development Team**; and providing for other matters in connections therewith. Staff recommends approval.
5. Discussion regarding **Risk Share Program**; and providing for other matters in connections therewith.
6. Other Business.
7. Adjournment.

Frederick Tombar, III
Executive Director

If you require special services or accommodations, please contact Board Coordinator and Secretary Barry E. Brooks at (225) 763 8773, or via email bbrooks@lhc.la.gov.

Pursuant to the provisions of LSA-R.S. 42:16, upon two-thirds vote of the members present, the Board of Directors of the Louisiana Housing Corporation may choose to enter executive session, and by this notice, the Board reserves its right to go into executive session, as provided by law.

**Louisiana Housing Corporation
Innovation Committee
Minutes of the Meeting
Wednesday, June 12, 2013
Committee Room 1
10:15 a.m.**

Committee Members Present

Chairman Willie Spears
Mr. Mayson H. Foster
Mr. Matthew Ritchie

Committee Members Absent

Ms. Ellen M. Lee

Board Members Present

Mr. Malcomn Young

Board Members Absent

Treasurer John N. Kennedy
Dr. Daryl Burckel
Mr. Guy T. Williams
Mr. Michael Airhart

Staff Present

Loretta Wallace
Rene' Landry
Janel Young
Charlette Minor
Don Hutchinson
Brad Sweazy
Todd Folse
Mary Brooks
Leslie Strahan
Christine Bratkowski
Patricia Hampton

Others Present

See attached Sign-In Sheet

Call to Order and Roll Call. The meeting was called to order by Committee Chairman Willie Spears 10:15 a.m. Ms. Patricia Hampton called the roll; there was a quorum.

Approval of Minutes. On a motion by Mr. Guy Williams, seconded by Mr. Mayson H. Foster, the minutes of the February 13, 2013 meeting were accepted without correction.

Chairman Willie Spears explained that the Innovation Committee would not be meeting every month because some of the things we are working on takes a lot of research. Innovation is not a one-time thing., We want to focus on improving efficiency, productivity, and promptness for our clients. Mr. Spears said that the world was changing, and we must be in tune with what partners and others are doing,

Mr. Spears asked Mr. Bradley Sweazy to talk about the changes that are being made in the Accounting and IT departments, Mr. Sweazy said that the culture of change is upon us. Change is the market place for efficiency and effectiveness. All effort will be made to reduce paper and increase efficiency. Mr. Guy Williams suggested eliminating paperwork, fax machines and the mail room. An independent company has been contracted to design a new LHC website. Once completed, each department will have the ability to make revisions. This will take 3 to 4 months to complete. Mr. Sweazy said that LHC is in the process of making these changes.

Adjournment: There being no further business, a motion to adjourn was made by Chairman Spears and seconded by Mr. Young. The meeting adjourned at 10:41 a.m.

Committee Secretary



LOUISIANA HOUSING CORPORATION

INNOVATIVE COMMITTEE MEETING

Wednesday, June 12, 2013 @ 10:15 A.M.

Guest Sign-In Sheet

GUEST NAME	FIRM
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PLEASE, PLEASE PRINT

1. MARLA Y. NEWMAN

LHA

2. Pat Haughey

LHA

3. Larry Hays

our PLAN B

4. Randy Oliver

Our Plan B

5. J Kemp

CPEX

ICM
PLEASE PRINT CLEARLY

GUEST NAME

FIRM

6. Mary Brooks

LHC

7. Patricia Hampton

LHC

8. _____

9. _____

10. _____

11. _____

12. _____

13. _____

14. _____

15. _____

16. _____

17. _____

18. _____

19. _____



Homeownership Development Plan for Mid City Gardens

**Program Description
Program Budget
Program Application**

August 2013



TABLE OF CONTENTS

I.	Program Summary	3
II.	Program Participants and Roles	3
A.	Louisiana Housing Corporation	3
B.	Contractor Qualifications	3
III.	Funding	4
A.	Proposed Sale Price	4
IV.	Targeted Household	4
A.	Eligibility of the Applicant	5
B.	Substandard Condition	5
V.	Disbursement of Funds	6
VI.	Fair Housing	7
VII.	Unit Type	7
VIII.	Proposed Timeline and task	7
IX.	Marketing	8

I. PROGRAM SUMMARY

The Louisiana Housing Corporation (LHC or “Corporation”) will acquire vacant, abandoned and foreclosed properties in the vicinity of the Mid City Gardens Apartment in order to rehabilitate or redevelop homes for low to moderate income households.

LHC will work with local real estate professionals to assist in identifying sites that are available in eligible Neighborhood Stabilization Program (NSP) census Tracts. LHC may partner with East Baton Rouge Office of Community Development (OCD) and East Baton Rouge Redevelopment Authority (RDA) to acquire and redevelop properties that have been adjudicated. Properties that are in salvageable conditions can be rehabbed and put back into commerce and other properties that cannot be rehabbed will be demolished and redeveloped.

LHC staff has received environmental clearance on several sites around the perimeter of the Mid City Gardens apartments. Some of the property owners have been identified and LHC has begun dialogue with the owners in an effort to acquire the sites.

II. PROGRAM PARTICIPANTS

A. Role of the Louisiana Housing Corporation

The primary responsibility of the Corporation is to oversee the Homeownership Development Plan for Mid City Gardens “Program”. Accordingly, the Corporation will be the liaison between the contractor and the homeowner. And will serve as the facilitator for the administration and implementing of the Program. The Corporation will designate a contact person to begin the unit identification process and to assist the contractor in the administration of the Program. The Corporation staff will work closely with the contractor in ensuring that all complaints and/or concerns are addressed in a timely manner. The Corporation will provide funds to the Contractor to cover costs associated with the administration of this Program.

The Corporation is responsible for (but not limited to) the following:

- Determining eligibility of homeowners according to program guidelines (e.g. income and ownership).
- Advertising the program availability.
- Assisting with the closeout of the Program.
- Any other services required pursuant to the performance of duties relative to the Program.
- Assist with selection of the contractor(s) to perform work by accepting and overseeing bid.
- Negotiate the contractor’s contract. The Agency must ensure that the contractor is not on HUD’s list of debarred contractors and there must be a system in place to verify contractor

eligibility and to check client references. All firms used must perform quality work, be licensed and maintain general liability and workman's compensation insurance coverage.

B. Program Contractor

The Corporation will employ and enter into contract with a contractor to assist in the administration of the Program. Each contractor must:

Possess or demonstrate one of the following:

- General Contractor's/Residential Contractor's license issued by the State of Louisiana's Licensing Board for Contractors or a professional license in the fields of Architecture or Engineering, supplemented by verifiable experience related to Construction Management, or
- Completed coursework related to construction practices and renovations (e.g. courses in Architecture, Home Inspection, Construction Technology/Management, etc.), or
- Evidence of substantial paid experience in the field.
- Have experience with and access to devices or computer programs to determine pricing for renovation projects.
- Have knowledge of general office practices, the ability to analyze situations, and the ability to solve problems as required.
- Contractor must submit copies of plans and designs, copies of all required permits, copies of all certificates of insurances, the "no work" affidavit and proof of appropriate current zoning to the Corporation before construction can begin.

III. FUNDING

Funding for the homes will come from rent income from Mid City Gardens apartments. As rent funds are generated the more homes will be built. LHC may provide a construction loan to Developer/Contractor and interest paid on Construction Loan would be an allowable NSP expense. Today with 48 occupied units we generate \$32,735 in rent income. When all 60 units are occupied we will generate \$40,570 in rent income. On a monthly basis Administrative Expenses & Management fees are projected to be \$5,032; Utilities \$2,569; Insurance \$4,234; and Operating & Maintenance \$4,234. After all the fees are paid Mid City Garden apartments will make \$24,501 from rent income. Currently the average cost for building a home is around \$90.00 per square foot. Building a 2 bedroom 1 bath home at roughly 1,100 square feet would average about \$99,000 per home. The Corporation would like to build a home for every \$120,000 that is generated from rent incomes which will then take 4 and 5 months once fully occupied. Upon completion and sale of these homes, we can use the funds from the sales along with the rents from Mid City Gardens apartments to build more homes at a faster pace.

A. Proposed Sales Price:

Sales price will be determined based on appraisal, square footage and amenities. Prices will be set to maintain an affordable level for low to moderate income individuals. According to NSP rules, the homes will sell for the lower of either the development cost or appraisal. Homes that are not sold in 9 months (new HOME regulations) will be converted to permanent rental housing. Any income generated by these assets would revert back to the Corporation.

IV. TARGETED HOUSEHOLDS

All homes will be sold to persons whose household income does not exceed 120% of Area Median Income (AMI) based HUD's established income limits.

A. Eligibility of the Applicant

Applicant must provide: the name and source(s) of income for all occupants residing in the dwelling. Current check stubs, recent federal income tax return with W-2 statements, and/or other documentation to adequately document all income sources should be included.

B. Substandard Condition

One or more conditions which render the dwelling unsafe or unsanitary as prescribed by the following: 1) Utilized in HUD's Real Estate Assessment Center (REAC), 2) Southern Standard Building Code, 3) local codes and/or 4) any performance standards further specified by LGU, the Fair Housing Act, and Section 504 of the Rehabilitation Act of 1973.

C. Purchase Assistant steps for buying a home

- ◆ Applicant must contact bank for mortgage pre-qualification letter
- ◆ Applicant submits a completed application package to the Corporation
- ◆ The Corporation verifies all income and asset information
- ◆ The Corporation will send an eligibility letter
- ◆ Applicants must attend a Homebuyer's Educational Workshop
- ◆ The Applicant will take the Eligibility letter to the bank
- ◆ Bank will provide the commitment letter
- ◆ Applicant submits the commitment letter to the Corporation
- ◆ Corporation approves mortgage
- ◆ Loan Closing

(Attached you will find the NSP Assistance Application Packet)

V. DISBURSEMENT OF FUNDS

- A. This is a reimbursement Program, funds will not be advanced, except as specifically provided for herein. Payments will be made for eligible expenses actually incurred and expended by the contractor, and are not to exceed actual cash requirements. Payments will

be adjusted by LHC in accordance with any program income balances available in the contractor's accounts. In addition, LHC reserves the right to liquidate funds available for costs incurred by LHC on behalf of the Contractor.

- B. The LHC will allow an advance to the contractor of up to fifteen percent (15%) of the total construction cost for each project. The advance may be requested after the completion of the environmental review process.
- C. The funds shall be disbursed upon the submission by the contractor of documentation, deemed satisfactory to the LHC, as to all expenses for which each reimbursement is requested. Each reimbursement request shall include supporting documentation demonstrating the value of the work in place at the time of the request. LHC will pay to the contractor funds available based upon the information submitted by the contractor and consistent with any approved budget and LHC policy concerning payments.
- D. The first draw request must be accompanied by the following:
 - 1. The Project Budget;
 - 2. The Project Schedule;
 - 3. A certificate of general liability insurance coverage of at least one million dollars (\$1,000,000.00);
 - 4. A certificate of builder's risk insurance coverage of at least one million dollars (\$1,000,000.00) if obtained in the aggregate, or of at least the total construction cost of the project if obtained on a per unit or per structure basis;
 - 5. A certificate of workers' compensation and employers' liability insurance coverage of at least one million dollars (\$1,000,000.00);
 - 6. A copy of the general construction contract;
 - 7. A copy of the Agreement signed by the LHC and Contractor;
 - 8. A set of the designs and specifications for the project;
 - 9. An affirmative marketing plan;
 - 10. A copy of the executed Declaration of Restrictive Covenants, recorded with the Clerk of Court in the parish where the property is located;
 - 11. A "no work" affidavit to be recorded on the property;
 - 12. A completed W-9 form; and

13. A completed direct deposit form.

- E. The second draw request and all subsequent draw requests, will have ten percent (10%) withheld until the construction of each unit is final as evidenced by an occupancy permit for each unit and sub-contractors' lien release affidavits. Each draw is subject to review and inspection by the LHC for a determination as to the value of the work completed for that draws and must be accompanied by photographs that clearly show the progress.

VI. FAIR HOUSING

The Federal Fair Housing Act, Title VIII of the Civil Rights Act of 1968, as amended by the Fair Housing Amendments Act of 1988, prohibits discrimination in housing and related transactions on the basis of race, color, national origin, religion, sex, handicap, and familial status. Coverage of handicap and familial status by the Federal Fair Housing Act became effective on March 12, 1989. All construction consultants must certify that all activities engaged in during their renovation project were in accordance with the Fair Housing laws.

VII. UNIT TYPES

Market studies will be ordered by the Corporation to assess what the immediate housing needs are for the general area. The units will be developed according to state and federal building codes with energy efficient components to reduce utility costs for homeowners. The study will also address the household income stream of potential purchasers and whether there is a pool of qualified applicants to purchase the homes once they are built.

VIII. PROPOSED TIMELINE AND TASK

<u>Month</u>	<u>Task Needed</u>
1	Complete market study to determine needs
2	Engage Realtor to identify available sites
3	Begin environmental review process if required, along with title review and appraisals.
4	Begin acquisition and closing on properties already cleared and Bid for Architect.
5	Finalize selection of Architect, develop plans and budget.
6	Prepare scope of work and Bid for Contractor
7	Finalize Selection of Contractor; enter into agreement and Begin Construction.
8	Begin Selection of Marketing Agent.
9	Order appraisals to determine final sales price.
10	Begin the sale of completed units.

IX. MARKETING

The homes will be aggressively marketed by REALTORS as well as through local non-profit housing organizations, LHC website and other media. The goal is to have qualified pre-approved buyers for each home prior to completion. LHC plans on holding community meetings put up flyers and have articles and advertisements placed in various news organizations hoping to draw interest from the various individuals and families who would be homeowners. The Corporation will take the name, number and date of each person inquiring about the project and place them on a waiting list. Advertisements should be placed in local and regional newspapers, and radio commercials and broadcasts. Notices should also be sent to local fair housing commissions, are churches, local and regional housing agencies, local housing authorities, lending institutions, social service agencies, and nonprofit organizations.

Marketing will be included in non-English publications based on prevalence of particular language groups in the regional area

LOUISIANA HOUSING CORPORATION

The following resolution was offered by Director _____ and seconded by Director _____:

RESOLUTION

A resolution authorizing the Louisiana Housing Corporation (“Corporation”) to issue a Request for Qualifications (“RFQ”) soliciting proposals for the development of a Special Development Team to assist in the promotion and implementation of the Rental Assistance Demonstration program (“RAD”) from the Department of Urban Housing and Development (“HUD”); and providing for other matters in connection therewith.

WHEREAS, the Board of Directors of the Louisiana Housing Corporation and staff have expressed a need to preserve affordable housing in the state of Louisiana; and

WHEREAS, HUD has issued a call for applications for the conversion of public housing units to either Project Based Vouchers (PBVs) or Project Based Rental Assistance (PBRA) under the RAD notices to support the conversion; and,

WHEREAS, RAD is a central part of HUD's rental housing preservation strategy, which works to preserve the nation's stock of deeply affordable rental housing and among HUD programs, and build strong, stable communities.

WHEREAS, Notice PIH-2012-32 (HA), REV-1 recommends that Public Housing Authorities or owners who lack experience in accessing various forms of debt and/or equity capital consider engaging consultants and/or development partners to augment their capacities with utilizing RAD.

NOW THEREFORE BE IT RESOLVED by the Board of Directors of the Louisiana Housing Corporation, acting as the governing authority of said Corporation, that:

SECTION 1. The Corporation is hereby authorized to issue an RFQ to solicit proposals from qualified Developers for assistance in the promotion and implementation of the RAD Program.

SECTION 2. The Chairman, Vice Chairman, Interim Executive Director, Chief Operations Officer, Executive Counsel and/or Secretary of the Corporation are hereby authorized, empowered, and directed to execute any forms and/or documents required to be executed on behalf of and in the name of the Corporation, the terms of which are to be consistent with the provisions of this resolution as approved by the Corporation's counsel.

This resolution having been submitted to a vote, the vote thereon was as follows:

YEAS:

NAYS:

ABSENT:

ABSTAIN:

And the resolution was declared adopted on this, 14th day of August 2013.

Chairman

Secretary

**STATE OF LOUISIANA
PARISH OF EAST BATON ROUGE**

I, the undersigned Secretary of the Board of Directors of the Louisiana Housing Corporation (“Board”), do hereby certify that the foregoing two (2) pages constitute a true and correct copy of a resolution adopted by said Board on August 14, 2013 entitled, “A resolution authorizing the Louisiana Housing Corporation (“Corporation”) to issue a Request for Qualifications (“RFQ”), soliciting proposals for the development of a Special Development Team to assist in the promotion and implementation of the Rental Assistance Demonstration program (“RAD”) from the Department of Urban Housing and Development (“HUD”); and providing for other matters connected therewith.”

IN FAITH WHEREOF, witness my official signature and the impress of the official seal of the Louisiana Housing Corporation on this, the 14th day of August 2013.

Secretary

LOUISIANA HOUSING CORPORATION

PRESERVATION RISK SHARING LOAN PILOT INITIATIVE

PROGRAM OVERVIEW

The Louisiana Housing Corporation (the “**LHC**”) is proposing a Preservation Risk Sharing Loan Pilot Initiative (the “**Preservation Pilot Initiative**”) by activating its HUD/HFA Risk Sharing Program to refinance or to finance the acquisition, recapitalization and rehabilitation of existing affordable multifamily housing developments throughout the State of Louisiana. The Preservation Initiative will

- (i) require the submission of a complete LIHTC Application, including an independent Capital Needs Assessment which will serve as the basis of establishing the minimum rehab budget (not less than the minimum rehab required under Sections 42 and 142(d) of the Internal Revenue Code) and the reserve for replacement requirements (not less than the minimum in the State’s 2014 QAP);
- (ii) offer Soft Funds in the form of a subordinate mortgage loan in an amount equal to the lesser of (a) twenty percent (20.0%) of a project’s post-completion appraised value or (b) \$10,000 per unit (**Soft Funds Investment Minimum**) payable annually from 50% of surplus cash (LHC has budgeted HOME Funds in the aggregate amount of \$_____ to the Preservation Pilot Initiative);
- (iii) mandate that any development costs in excess of Completed Valuation may only be financed with a Deferred Developer Fee not exceeding 50% of the Developer Fee or with not more than 50% of any tax credit equity from low-income housing credits (“**LIHTCs**”) made available in connection with the rehabilitation;
- (iv) evenly (50%) split with FHA the LHC share of a Level I Risk Sharing Loan;
- (v) limit all Level I Risk Sharing Loans to 80% or less of an affordable housing development’s post-completion appraised value (**LTV Limit**);
- (vi) require debt service coverage ratio (**DSCR**) of not less than 1.2 for all Level I Risk Sharing Loans;
- (vii) require asset management in the same manner associated with TCAP and 1602 funded projects; and
- (viii) either limit the number of housing units in a single building following a review of the building’s base flood elevation or require replacement cost supplemental flood insurance.

APPLICATION GUIDELINES

All applicants should obtain a copy of and review the Corporation's Section 542(c) HFA Risk Sharing Multifamily Underwriting Bond Financing Program Guide (the "**LHC Risk Sharing Guide**"). Applicants should then discuss their projects with LHC staff and LHC's Teaming Partner prior to submitting a complete electronic LIHTC Application that constitutes the Risk Sharing Application.

No project shall be processed under the Preservation Pilot Initiative with less than thirty (30) units. The Preservation Pilot Initiative has four stages which incorporate elements of HUD's Multifamily Accelerated Processing (MAP) Guide as amended November 23, 2011 (the "**MAP Guide**").

The stages are:

- (1) Letter of Interest and submission of the LIHTC Application for the proposed project;
- (2) Board Eligibility and Preliminary Bond Approval/Inducement Resolution;
- (3) Conditional Underwriting Approval/Final Bond Resolution; and
- (4) Pre-Closing Documentation.

ELIGIBLE PROJECTS

While the LHC Risk Sharing Program Guide permits the construction of new rental housing units, the FHA Risk-sharing loan guarantees in the Preservation Pilot Initiative will be limited to existing residential rental developments that (i) were financed with LIHTCs and are in good standing with the LHC, (ii) are beyond their initial 15-year Compliance Periods associated with the prior allocation of LIHTCs and (iii) are beyond their periods of affordability if the project previously received any assistance with HOME Funds.

LHC RISK MANAGEMENT GUIDELINES

In order to protect the LHC from the risks inherent in an existing project that is substantially rehabilitated, certain risk mitigation measures must be provided by developers:

- Construction period letter of credit
- Construction guarantee from a creditworthy institution or high-net worth individual
- Fixed price construction contract
- Construction performance bonds in place
- Continuous asset management by LHC using AMEC Model

FEE SCHEDULE	
Application Fee (non-refundable)	\$1,500.00
Bond Financing Fee	Annual 0.1% of Outstanding Bond Amount required to finance the Risk Sharing Loan
Sec. 542(c) HUD/LHC Risk-Sharing Program	
- <i>Financing Fee as % of Risk Sharing Loan</i>	2.0%
- <i>Placement Fee as % of Risk Sharing Loan</i>	1.0%

LEVEL I RISK SHARING

Program Overview

Section 542(c) of the Housing and Community Development Act of 1992 (the “**Risk-Sharing Program**”) enables HUD and state and local housing finance agencies (“**HFAs**”) such as the Louisiana Housing Corporation (the “**Corporation**” or “**LHC**”) as successor in interest to the Louisiana Housing Finance Agency (the “**LHFA**”) to provide risk-sharing arrangements to help HFAs provide greater access to insurance and credit for multifamily loans. Section 542(c) provides credit enhancement for mortgages of multifamily-housing projects whose loans are underwritten, processed, serviced, and disposed of by HFAs. HFAs select the level of risk to share with HUD. Level I Risk-Sharing requires HFAs to undertake at least 50% of the default risk with HUD.

LHFA’s Risk-Sharing Default Experience

Payment Defaults from Catastrophic Floods: The only payment defaults experienced by the LHFA Risk-Sharing Program were the payment defaults for the 202 elderly high rise developments in Orleans and St. Bernard Parishes. These payment defaults were caused by catastrophic flood damage from by Hurricane Katrina that shut down these developments over an extended time period. The national flood insurance program (**NFIP**) casualty loss limit for flood damage is limited on a building basis and is generally insufficient to pay-off the Risk-Sharing Loan in the event of a catastrophic flood such as the one caused by Hurricane Katrina.

Notwithstanding the 202 defaults from the flood damage, most of the defaulted 202 elderly developments have been redeveloped with the LHC and HUD being made whole in the redevelopment process. LHC’s debentures to HUD have been paid off in connection with all of the redeveloped 202 defaulted projects. Several defaulted 202 Risk-Sharing Loan debenture to HUD remain to be extinguished; however, following redevelopment of the remaining 202 elderly developments, the LHC and HUD will have fully recovered all principal and interest due on the Risk-Sharing and Subordinate Loans without loss and with a profit.

Payment Defaults from Non-flood Hazards: There have been no payment defaults within the LHFA/LHC Risk-Sharing experience unrelated to catastrophic flood disasters. Non-flood casualty losses under the LHFA/LHC Risk-Sharing Program are routinely covered by insurance recoveries from rated insurance carriers. Casualty and hazard insurance policy coverage includes coverage against loss by fire and allied perils, general boiler and machinery coverage, builder’s all-risk and business income coverage in an amount at least equal to the development or project cost (less estimated land cost). All such policies will name the LHC as loss payee lender.

Catastrophic Flood Mitigation Measures

The LHC Risk-Sharing Program may mitigate the risk of unrecoverable losses in connection with projects located in an area identified by the Federal Emergency Management Agency (**FEMA**) from catastrophic floods by limiting the number of residential housing units in a single building following a review of the building's base flood elevation and/or by requiring replacement cost supplemental flood insurance in an amount equal to the building's replacement costs.

Arguments in Favor of LHC Activating Risk-Sharing Program

- (1) The Risk-Sharing Program permits developers to access the high-grade municipal bond market through a Federal guarantee and also allows the LHC to leverage its balance sheet for the advancement of its mission.
- (2) Level I Risk-Sharing permits the Corporation to establish suitable standards to underwrite, originate and service multifamily housing loans to construct, refinance, or substantially rehabilitate affordable multifamily rental housing units.
- (3) The LHC selected default risk under the Level I Risk-Sharing Program is limited to 50% of the Risk-Sharing Loan principal.
- (4) Risk-Sharing Loan underwriting will require the submission of a complete LIHTC Application, including an independent Capital Needs Assessment, which will serve as the basis of establishing the minimum rehab budget (not less than the minimum rehab required under Sections 42 and 142(d) of the Internal Revenue Code) and the reserve for replacement requirements (not less than the minimum in the State's QAP or the Capital Needs Assessment).
- (5) LHC may either limit the number of housing units in a single building following a review of the building's base flood elevation or require replacement cost supplemental flood insurance.
- (6) Casualty and hazard insurance policies cover the LHC as loss payee lender against loss by fire and allied perils, general boiler and machinery coverage, builder's all-risk and business income coverage in an amount at least equal to the development or project cost (less estimated land cost).
- (7) Maximum loan-to-value (**LTV**) ratios for Risk-Sharing Mortgage Loans will be established by the LHC, currently proposed to be 80% or less of an affordable housing development's post-completion appraised value (**LTV Limit**).

- (8) Soft Funds in the form of a subordinate mortgage loan may be offered by the LHC either to achieve the maximum LTV or to further reduce the LTV.
- (9) LHC may mandate minimum Deferred Developer Fee not exceeding 50% of the Developer Fee or with not more than 50% of any tax credit equity from low-income housing credits (“**LIHTCs**”) made available in connection with the rehabilitation.
- (10) LHC will require a debt service coverage ratio (**DSCR**) of not less than 1.2 for all Level I Risk Sharing Loans.
- (11) LHC will require asset management in the same manner associated with TCAP and 1602 funded projects.

Arguments Opposing LHC Re-Activating Risk-Sharing Program

- (1) LHC’s experience with defaulted 202 loans identified casualty loss and payment default risks in connection with catastrophic floods are not covered by standard NFIP insurance and the cost for obtaining coverage may not be financially feasible.

Statement of
The National Council of State Housing Agencies
To the House Financial Services Subcommittee on Housing and Insurance
On the Government's Role in Multifamily Housing Mortgage Insurance
May 16, 2013

Thank you Chairman Neugebauer, Ranking Member Capuano, and members of the House Financial Services Subcommittee on Housing and Insurance, for convening this hearing on multifamily housing finance programs. We appreciate the opportunity to present written testimony for the hearing record in support of strengthening FHA's affordable multifamily lending capacity by authorizing Ginnie Mae to securitize FHA-insured multifamily loans under the FHA-Housing Finance Agency (HFA) Risk-Sharing program. Enhancing this program's proven ability to address our nation's growing affordable rental housing need at no cost and with minimal taxpayer risk is a sound, prudent course of action at this time.

The Financial Services Committee included this authority in the Housing Preservation and Tenant Protection Act, H.R. 4868, which it reported in 2010. HUD, FHA, Ginnie Mae, and several affordable housing industry groups all support the proposal, which the Administration included in its FY 2013 and FY 2014 Budgets.

The National Council of State Housing Agencies (NCSHA) is a national nonprofit, nonpartisan association that represents the interests of state HFAs before Congress and the Administration. NCSHA's members are the HFAs of the 50 states, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands.

HFAs administer several key federal housing programs, a number of which are essential to affordable rental home production efforts, including tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), HOME, and the FHA-HFA Risk-Sharing program. We thank you for your long-standing, bipartisan support of these programs and urge you to seize every opportunity to preserve and strengthen them, especially as Congress strives to further reduce the federal deficit and reform our housing finance and tax systems.

State HFAs are widely known for their safe and sound first-time homebuyer lending programs, which have provided a reliable source of affordable mortgage money for working families over many decades in strong and weak economies. HFAs apply the same rigor in their multifamily development evaluation and underwriting as they do in their single-family work and with similar success. Default and foreclosure rates on Housing Credit and Housing Bond-financed rental housing developments are extremely low.

Address the Growing Need for Rental Housing

A strong arsenal of financing tools is essential to combat the shortage of affordable rental housing in this country, which is becoming even more severe as the full impact of the prolonged housing and economic crises is felt. Harvard University's Joint Center for Housing Studies' report, *The State of the Nation's Housing 2012*, found that the housing bust and the Great Recession helped to swell the ranks of low-income renters in the 2000s, increasing the already intense competition for a diminishing supply of affordable units. Some 10.7 million households, fully 27 percent of all renters, now spend over half their incomes on housing.

According to the Joint Center, the number of renters earning \$15,000 or less (in real terms) grew by 2.2 million between 2001 and 2010. The number of rental units that were both adequate and affordable to these households, however, declined by 470,000 over this period. As a result, the gap between the supply of and demand for these units widened. By 2010, the shortfall of affordable units had more than doubled to 5.1 million units.

To address this problem while facing serious federal and state fiscal constraints, the Joint Center asserts that, "The challenge for policy makers is therefore to use scarce public resources as efficiently as possible, but without undermining the nation's ability to address the urgent needs of its citizens." The FHA-HFA Risk-Sharing program is a proven example of one such approach.

Authorize Ginnie Mae to Securitize FHA-HFA Risk-Sharing Loans

Congress has the opportunity now to make greater use of a sound and proven housing program and delivery system to support the development of affordable rental homes by allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans. In granting this authority, Congress would:

- Make the highly successful FHA-HFA Risk-Sharing program even more effective, efficient, and productive;
- Achieve greater affordability within FHA-financed rental housing;
- Increase FHA multifamily productivity while reducing FHA's workload and risk;
- Further utilize the well-established, state-based HFA delivery system; and
- Generate revenue for the federal government.

Build on the Highly Successful FHA-HFA Risk-Sharing Program

Established in 1992 to increase and speed up FHA's multifamily mortgage production by drawing upon state HFA multifamily lending experience and expertise, the FHA-HFA Risk-Sharing program has been very successful, with 26 state HFAs financing over 1,000 loans, totaling nearly \$6 billion in principal and supporting more than 110,000 affordable rental

homes. This activity has generated jobs, increased tax revenue, and promoted economic growth.

The FHA-HFA Risk-Sharing program allows state HFAs that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans. To qualify to participate in the program, an HFA must have a “top-tier” rating by a nationally recognized rating agency or otherwise demonstrate its capacity as a sound and experienced agency based on its track record in financing multifamily housing, fund balances, administrative capabilities, investment policies, internal controls, financial management, portfolio quality, and state and local support. The HFA must have at least five years of experience in multifamily underwriting. It also must maintain adequate reserves, hold a top-tier rating, or establish a dedicated account acceptable to HUD to demonstrate its ability to fulfill its financial obligations to FHA.

Under the program, FHA provides full insurance on the loans, and the HFA agrees to accept up to 90 percent of the risk of losses on them. The more risk an HFA assumes, the more underwriting flexibility FHA permits it. In the event of a default, FHA and the HFA apportion the loss according to the risk-sharing agreement they have made.

The program’s loan default rates are very low and premium revenue has exceeded total claims, generating net revenue for the federal government. Since 2009, there have been 26 claims within the FHA-HFA Risk-Sharing program, as compared with 434 multifamily claims with full FHA insurance. According to HUD’s Office of Evaluation, the FHA-HFA Risk-Sharing program’s claim rate has been 2.6 percent since 2009, while the claim rate for multifamily loans with full FHA insurance has been 4.9 percent.

Seize This Opportunity to Make the FHA-HFA Risk-Sharing Program Even More Productive and Efficient

Permitting Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would reduce the cost of financing rental housing developments, making it possible to achieve lower rents and reach even lower income tenants. If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points, or two percent. This rate reduction would lower rents and potentially reduce the need for and cost of other federal housing subsidies.

Most FHA-insured multifamily loans are packaged into Ginnie Mae securities issued by lenders. Ginnie Mae guarantees the timely payment of interest and principal, which increases investor interest and drives down the interest rates on the securities and the underlying loans.

FHA-HFA Risk-Sharing loans, however, cannot be securitized through Ginnie Mae, so they have historically been financed through other means, including tax-exempt Housing Bonds or GSE participation investments. The statutory prohibition against Ginnie Mae securitization

was put in place when the Risk-Sharing program was untested. The program now enjoys more than 20 years of proven success.

Ginnie Mae securitization of FHA-HFA Risk-Sharing loans would increase liquidity, reduce financing costs, and enable HFAs to make more loans supporting the development and preservation of affordable rental housing. This housing activity would in turn stimulate local economies by creating jobs, increasing tax revenue, and expanding investment.

The FHA-HFA Risk-Sharing program increases efficiency by delegating processing, underwriting, and servicing to state HFAs. This reduces the workload on HUD staff and leads to faster loan processing than is common under the traditional FHA insurance programs. Strengthening the FHA-HFA Risk-Sharing program by allowing Ginnie Mae securitization will multiply these advantages and amplify the Risk-Sharing program's benefits.

Achieve Greater Affordability in FHA-Financed Rental Housing

Unlike virtually all other FHA multifamily loan insurance programs, all developments financed under the FHA-HFA Risk-Sharing program must qualify as affordable housing under the same requirements that apply to the Housing Credit and Housing Bond programs. This means that:

- 20 percent of the development's units must be both rent-restricted and occupied by households with incomes of 50 percent or less of the HUD-determined area median income (AMI); or
- 40 percent of the units must be both rent-restricted and occupied by families whose income is 60 percent or less of AMI.

A rent-restricted apartment's rent cannot exceed 30 percent of the imputed income based on the income limit for that apartment, i.e., the 50 percent and 60 percent of AMI limits mentioned above. HFA responsibilities under the Risk-Sharing program include identifying the appropriate rent and income limits for each development to ensure compliance with program affordability requirements.

In contrast, virtually all other major FHA multifamily mortgage insurance programs do not carry any rent restrictions or income limit affordability requirements. According to HUD, "The Risk-Sharing program is an increasingly important part of HUD's strategic goal to support affordable housing preservation and development."

Allow a Limited But Important Expansion of Ginnie Mae Activity

Enacting this authority would not expand significantly Ginnie Mae's role in affordable housing. Ginnie Mae already securitizes FHA-insured loans. Congress provided \$500 billion in

mortgage-backed securities guarantee authority to Ginnie Mae in FY 2013, and Ginnie Mae is requesting the same amount for FY 2014.

HUD's FY 2014 Budget estimates total HFA Risk-Sharing loan activity of \$170 million in FY 2013, one percent of all expected FY 2013 FHA multifamily loan activity and less than a fraction of one percent of all estimated Ginnie Mae activity. Even if allowing Ginnie Mae securitization of FHA-HFA Risk-Sharing loans doubled the program's volume, it would still total less than one percent of all Ginnie Mae activity.

Based on a survey NCSHA conducted of all HFAs last year, allowing Ginnie Mae securitization would likely lead to a small increase in total program volume. Though the increase is expected to be small, it would represent vital affordable housing lending that would probably not be conducted without federal support.

Authorizing Ginnie Mae to securitize Risk-Sharing loans makes sense even in light of imminent housing finance reform. Enacting this authority does not limit the range of Congress' potential future actions or change Ginnie Mae's role in the multifamily housing market. It is just a small common sense change that would permit Ginnie Mae to securitize FHA's Risk-Sharing loans in addition to the many other FHA multifamily loans it already securitizes.

Reduce Taxpayer Risk

Allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would reduce the risk to and involvement of the federal government in affordable housing by allowing state HFAs, which are best suited to meet the needs of their communities with this innovative tool, to take on a portion of that risk and underwrite the loans. In addition, FHA-HFA Risk-Sharing loans securitized by Ginnie Mae may replace some loans that would have been fully insured by FHA, reducing taxpayer risk by transferring some of that risk to HFAs.

Generate Revenue for the Federal Government

The Congressional Budget Office (CBO) estimated in 2010 that allowing Ginnie Mae to securitize HFA Risk-Sharing loans would result in \$20 million in mandatory savings over 10 years (\$2 million annually). The Administration's FY 2014 Budget documents also show that the Risk-Sharing program is a money-maker for the federal government.

Allowing Ginnie Mae Securitization of Risk-Sharing Loans Is a No-Cost, Low-Risk, Prudent, Helpful Proposal

In conclusion, the FHA-HFA Risk-Sharing program has been very successful since its inception. Given the program's proven track record, lifting the prohibition on Ginnie Mae securitization is a prudent decision that would help meet our nation's affordable housing challenges with minimal risk and no additional cost to the federal government.

202 PROJECTS

Project Name	Property Address	Parish	No. of Buildings	No. of Units	Risk Sharing Mortgage	Subordinate 202 Mortgage	Home Note	Congressional District
Annunciation Inn	1220 Spain Street New Orleans, LA 70117	Orleans	1	106	\$3,040,000.00	\$1,111,654.00	\$1,327,610.00	2
Beau Sejours	125 Ola Street CarenCro, LA 70520	Lafayette	14	105	\$2,000,000.00	\$277,720.00	\$421,023.00	7
Delille Inn	6924 Chef Menteur Hwy New Orleans, LA 70126	Orleans	1	51	\$1,440,000.00	\$823,400.00	\$680,498.00	2
Nazereth Inn	9630 Hayne Blvd New Orleans, LA 70127	Orleans	1	150	\$3,800,000.00	\$1,565,615.00	\$1,350,049.00	2
Nazereth Inn II	9630 Hayne Blvd New Orleans, LA 70127	Orleans	1	120	\$2,900,000.00	\$2,432,195.00	\$1,046,715.00	2
Pecan Villa Apts	611 S. Bonnor Street Ruston, LA 71270	Lincoln	3	61	\$1,450,000.00	\$209,052.09	\$586,894.00	5
Place Dubourg	210 Rue Dubourg Laplace, LA 70068	St. John the Baptist	1	115	\$3,400,000.00	\$1,273,619.00	\$1,110,775.00	3
St. Bernard Manor I	2400 Archbishop Hannan Blvd. Meraux, LA 70075	St. Bernard	1	82	\$2,600,000.00	\$655,732.00	\$431,068.00	3
St. Bernard Manor II	2400 Archbishop Hannan Blvd. Meraux, LA 70075	St. Bernard	1	82	\$2,600,000.00	\$840,042.00	\$454,567.00	3
St. John Berchmans Manor	3400 St. Anthony Ave. New Orleans, LA 70122	Orleans	1	150	\$4,880,000.00	\$1,703,806.00	\$846,165.00	2
St. Martin Manor	1501 N. Johnson Street New Orleans, LA 70115	Orleans	2	140	\$3,350,000.00	\$439,997.00	\$2,516,636.00	2
1540 House (St. Martin House)	1540 N. Johnson Street New Orleans, LA 70116	Orleans	1	12	\$120,000.00	\$99,231.00	\$114,024.00	2
Villa Additions	6101 Douglas Street New Orleans, LA 70117	Orleans	1	75	\$2,380,000.00	\$754,648.00	\$471,059.00	2
Villa St. Maurice	500 St. Maurice Ave New Orleans, LA 70117	Orleans	2	110	\$3,230,000.00	\$341,766.00	\$1,350,383.00	2
Westminister Gardens	501 W. Hanson Hammond, LA 70403	Tangipahoa	5	40	\$830,000.00	\$177,673.00	\$249,458.00	1
Westminister Homes	1810 N. Cary Jennings, LA 70546	Jefferson Davis	4	40	\$810,000.00	\$377,612.00	\$239,325.00	7
Westminister Tower	2301 Idaho Street Kenner, LA 70062	Jefferson	1	200	\$5,750,000.00	\$1,463,412.38	\$1,607,605.00	2
Wynhoven II	4600 Tenth Street Marrero, LA 70072	Jefferson	1	150	\$4,450,000.00	\$1,118,261.00	\$1,756,225.00	2
TOTALS				1789	\$49,030,000.00	\$15,665,435.47	\$16,560,079.00	
= defaulted properties								

2000 Risk Sharing Pilot Program

Project No.	Project Name	Address	Parish	Developer Name	No. of Bldgs.	No. of Units	Loan Amount	Closed/Funding Date	District	Placed in Service / Cost Certification
RS 20-01	Charleston Oaks Apartments	4256 Jefferson Street, Baker LA 70714	East Baton Rouge	Charles Mayer	7	30	\$ 310,000.00	06/20/01	6th	1995-Project, #95-07
RS 20-02	Azalea Terrace Apartments	100 Azalea Terrace Lane, Minden, LA 71055	Webster	Irene Desadier	6	24	\$ 192,500.00	06/20/01	4th	1994-Project, #94-17
RS 20-04	Wingfield Apartments	104 North 14th Street, Kinder, LA 70648	Allen	Rierner Calhoun, Jr.	14	40	\$ 282,500.00	06/22/01	4th	1999 Project, #99-21
RS 20-06	Willowbrook Apartments	1301 West Willow Street, Lafayette, LA 70501	Lafayette	Rierner Calhoun, Jr.	20	40	\$ 575,000.00	06/29/01	4th	1999 Project, #99-24
TOTALS					47	134	\$ 1,360,000.00			

2011 Multifamily Bonds

Table 8: Risk-Sharing

				Cumulative		
Agency Name	Properties	Units	Bond Dollars Issued	Properties	Units	Bond Dollars Issued
California HFA	99	9,857	55,990,000	192	19,493	603,037,243
Colorado HFA	0	0	0	93	8,574	387,986,929
Connecticut HFA	2	398	27,610,000	4	818	40,799,000
District of Columbia HFA	0	0	0	24	2,404	196,816,122
Florida HFC	0	0	0	58	15,813	773,303,215
Idaho HFA	0	0	0	2	278	7,810,000
Illinois HDA	0	0	0	13	1,445	93,724,148
Kentucky HC	0	0	0	52	1,962	26,235,720
Louisiana HC	0	0	0	22	1,923	64,695,000
Maryland DHCD	9	940	67,675,000	23	2,938	177,900,000
MassHousing	14	1,977	260,019,083	142	19,054	1,817,401,268
Michigan SHDA	N/AV	N/AV	N/AV	10	879	40,537,250
Minnesota Housing *	10	843	8,890,000	36	3,336	96,306,563
Missouri HDC	0	0	0	55	5,844	234,375,000
Montana BoH/HD	0	0	0	10	482	10,849,000
New Hampshire HFA	3	169	12,445,000	42	2,652	171,010,000
New Jersey HMFA	0	0	0	41	6,132	340,337,653
New Mexico MFA	0	0	0	16	2,368	102,690,200
New York State HCR	0	0	0	11	1,436	50,655,000
Oregon HCS	0	0	0	42	3,621	195,935,000
Pennsylvania HFA	0	0	0	10	1,026	23,195,000
Rhode Island Housing	3	313	19,140,000	76	6,935	292,258,100
South Dakota HDA	3	377	14,940,000	6	754	29,880,000
Vermont HFA	9	672	28,549,796	11	829	38,643,796
Washington SHFC	14	1,653	157,944,468	14	1,653	157,944,468
Wisconsin HEDA	0	0	0	7	454	N/AV
Total	166	17,199	653,203,347	1,012	113,103	5,974,325,675

Minnesota Housing: The counts above include all HUD Risk-Sharing loans that had units placed in service in 2011.