



NATIONAL HOUSING & REHABILITATION ASSOCIATION

2011 SPRING DEVELOPERS CONFERENCE

ERICH YOST

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Tuesday, May 24, 2011



HUD INSURED FINANCING



- **FHA Insurance Program**
- **FHA Insurance Program National Data Trends**
- **Los Angeles Hub FHA Activity**
- **Los Angeles Hub Initiatives**
- **LIHTC Pilot**



FHA INSURANCE PROGRAM



MAP PROGRAM / MAP LENDER



- **HUD Insures the Loans**
 - Pays the lender an insurance claim in the event of default
- **MAP = Multifamily Accelerated Processing**
- **MAP Programs**
 - 223(f): Refinance
 - 223(a)(7): Refinance of Existing HUD Insured Loans
 - 221(d)(4): New Construction or Substantial Rehabilitation
- **AAA-rated credit enhancement for tax-exempt bond deals**
- **MAP Lender**
 - Approved by HUD



221(D)(4) PROGRAM

Loan Term and Amortization

- Construction loan plus up to 40-year permanent loan /40-year Amortization (interest only during construction period)

Maximum Loan Amount

- Maximum loan amount will be the *lesser of*:
 - a) A percentage of replacement cost, including as is value of land for new construction and value of property for substantial rehabilitation, as follows:
 - (i) 83.33% for market rate transactions;
 - (ii) 87% for affordable transactions; and
 - (iii) 90% for projects with 90% or greater rental assistance.
 - b) FHA mortgage statutory per unit limits adjusted for local high cost factor, or
 - c) An amount that achieves a minimum debt service coverage, as follows:
 - (i) 1.20 DSC for market rate properties;
 - (ii) 1.15 DSC for affordable transactions; and
 - (iii) 1.11 DSC for projects with 90% or greater rental assistance.

Cost of offsite improvements, FF&E, marketing, construction contingency and operating deficit reserve excluded from loan amount.





221(D)(4) PROGRAM



Fixed Rate

- Yes, for both Construction and Permanent.



Eligible Borrowers

- Single Asset Entity (for both profit and non-profit).



Occupancy Requirement

- Underwritten at a maximum 95% occupancy.



Recourse

- Non-recourse for both Construction and Permanent.



Prepayment

- Negotiable.



Assumable

- Subject to Lender and HUD approval and payment of assumption fee.





221(D)(4) PROGRAM



HUD Application Fee

- Non-refundable fee of \$3 per \$1,000 (0.3%) of the mortgage amount due to HUD with the firm commitment submission package.



HUD Inspection Fee

- 0.5% of the mortgage amount for new construction or 0.5% of the cost of repairs for substantial rehab.



Legal/Closing Fee

- Borrower pays Lender's counsel fee and miscellaneous closing costs.



HUD Mortgage Insurance Premium (MIP)

- HUD sets the cost of the FHA Insurance. The MIP is paid in advance for the construction period and is escrowed monthly after amortization commences.





221(D)(4) PROGRAM

Substantial Rehabilitation Is Defined As:

- **1) Cost of improvements more than higher of:**
 - a) 15% of post-rehabilitated appraised value, or
 - b) \$6,500 per unit adjusted for local high cost factor, or
- **2) replacement of two or more major building components**





221(D)(4) PROGRAM

Affordable is Defined As:

- For purposes of applying the affordable housing underwriting standards and program requirements, as set forth below, “affordable” is defined as:
 - 1) projects that have a recorded regulatory agreement in effect for at least 15 years after final endorsement,
 - 2) projects that meet at least the minimum Low Income Housing Tax Credit (LIHTC) restrictions of 20% of units at 50% of the Area Median Income (AMI), or 40% of units at 60% of AMI, with economic rents (i.e. the portion paid by the tenants) on those units no greater than rents on those units no greater than LIHTC rents, and
 - 3) mixed income projects if the minimum low income unit rent and occupancy restrictions and regulatory agreement meet the above criteria.
- Projects need not use LIHTCs to qualify for affordable underwriting so long as they have, and are in compliance with, a recorded regulatory agreement imposing the minimum low income occupancy and restricted rent tests in (a), above, and having a term of at least 15 years after final endorsement.





221(D)(4) PROGRAM



221(d)(4)	DSCR	LTV / LTC
Affordable	1.15	87.0%
Market Rate	1.20	83.3%



221(D)(4) PROGRAM



221(d)(4)	Max Occupancy
Affordable	95%
Market Rate	93%

Affordable if a property has:

- at least 90% of units covered by a rental assistance contract, or
- affordable rent restrictions on 100% of units with all unit rents at least 20% below comparable market rents



FHA INSURANCE PROGRAM NATIONAL TRENDS





HUD's Portfolio



- Insured and Subsidized
 - ✓ 2.2 million units / 30,300 projects
- Insured Fund = \$38 Billion 19 Months Ago now \$60 Billion
- 1.4 million units assisted through project-based Section 8 with an Annual outlay of \$9 B
- Balance of 800k units are market rate or provide affordability through LIHTC or a subsidized mortgage
- Of our 1.4 million Assisted Units:
 - ✓ In the last 15 years lost nearly 170,000 Section 8 units due to opt-out
 - ✓ 220,000 “at risk” of loss due to opt-out or failure at the end of 2010
 - ✓ 450,000 “at risk” as of 2011 year end



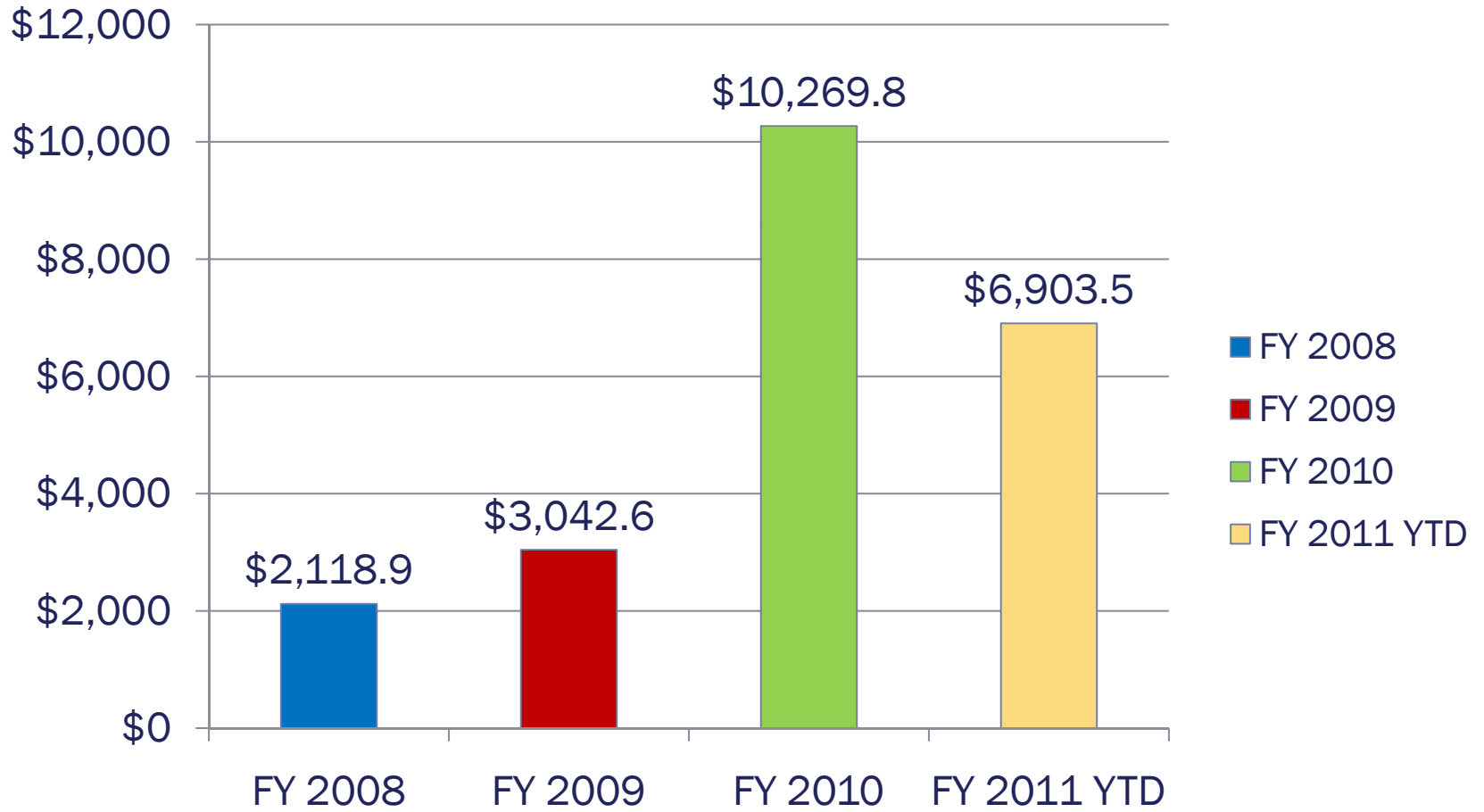
HUD's Insured Portfolio Trends

- 19 Months Ago Insured Fund = \$38 Billion
- Currently = \$60 Billion
-





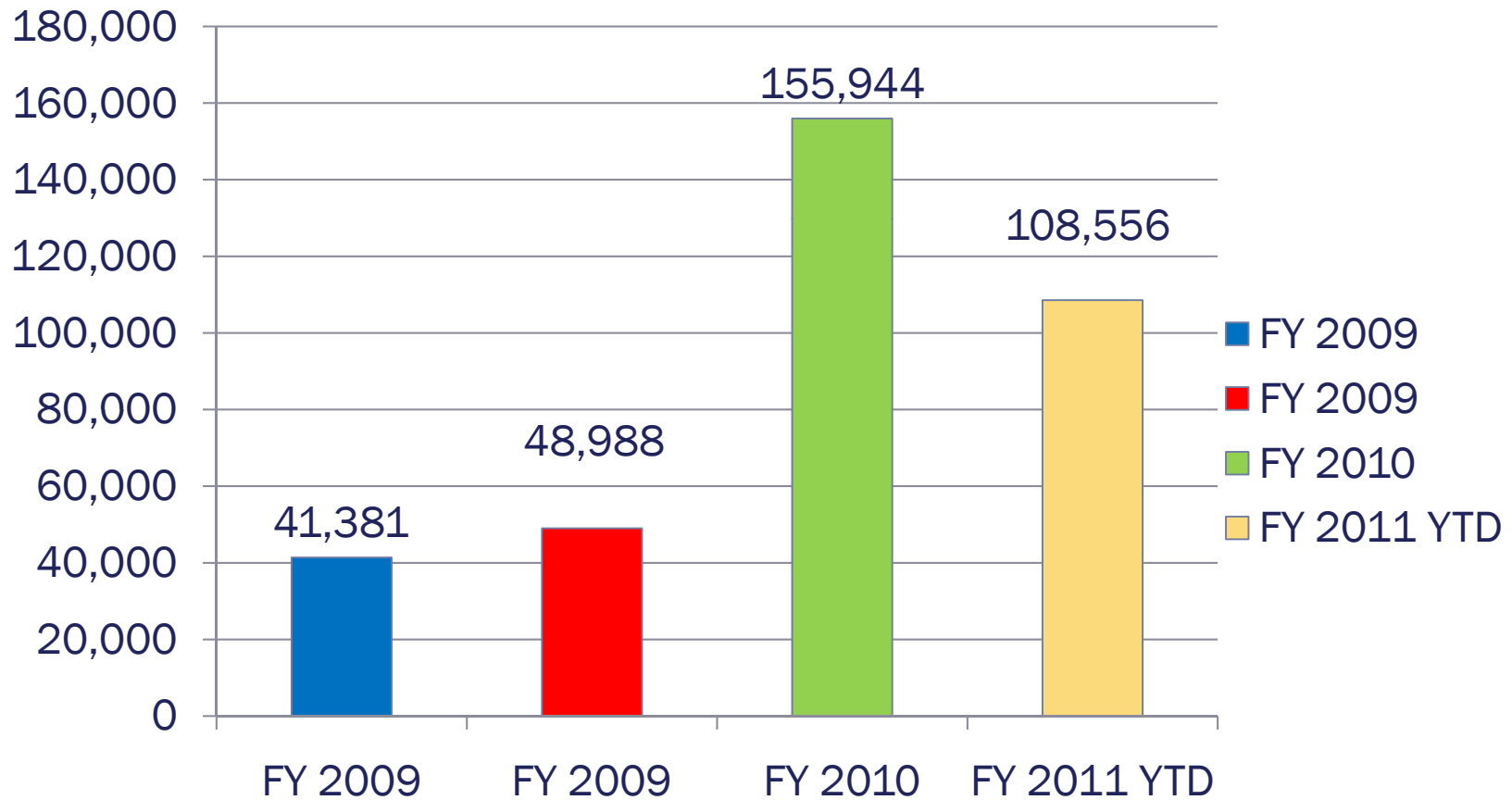
The Pace of New Endorsements Continues at 2010's Record Levels



NC/SR, 223f and 223a7 Programs



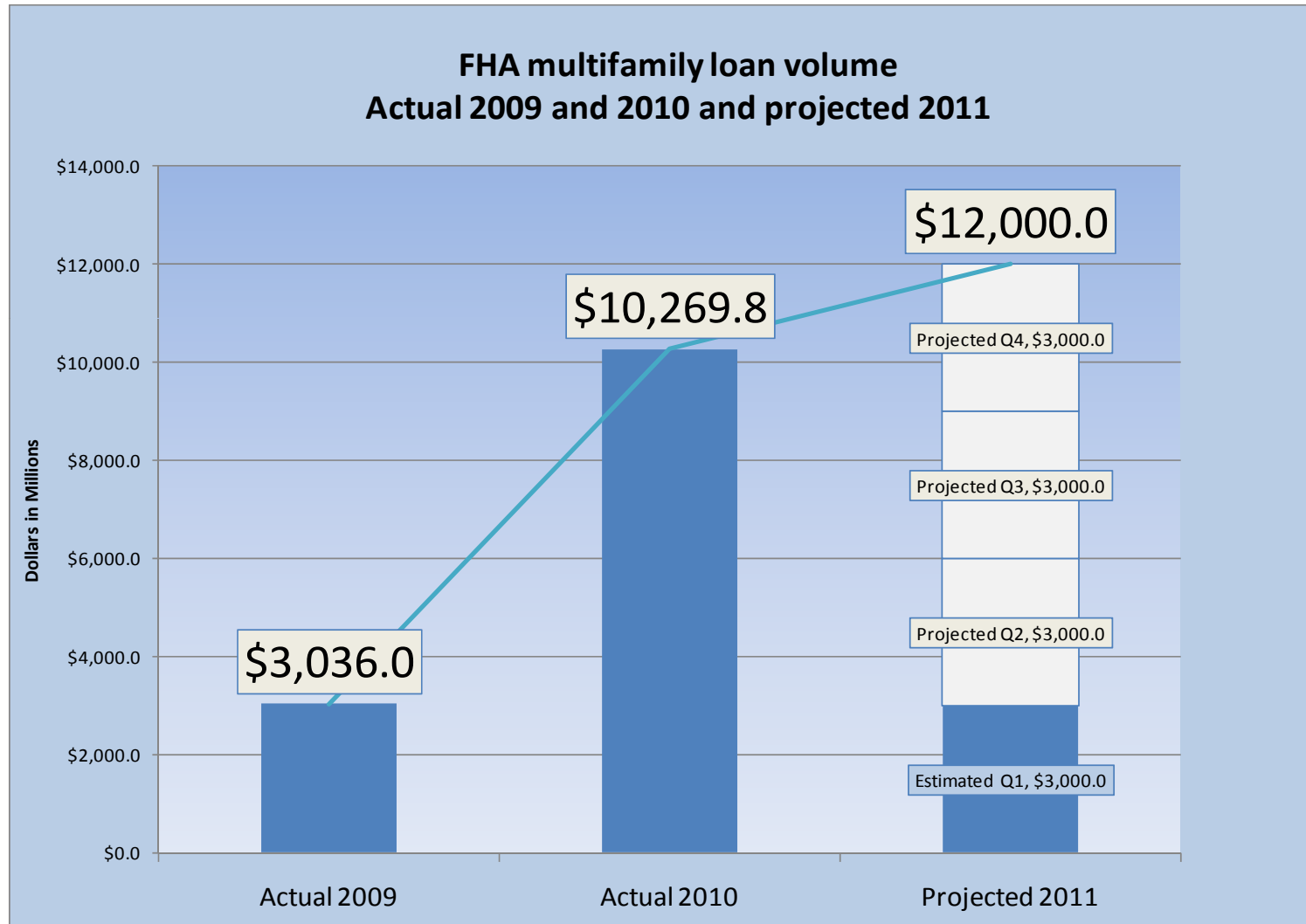
Total Units funded in 2011 are Projected to Exceed FY 2010's Record



NC/SR, 223f and 223a7 Programs

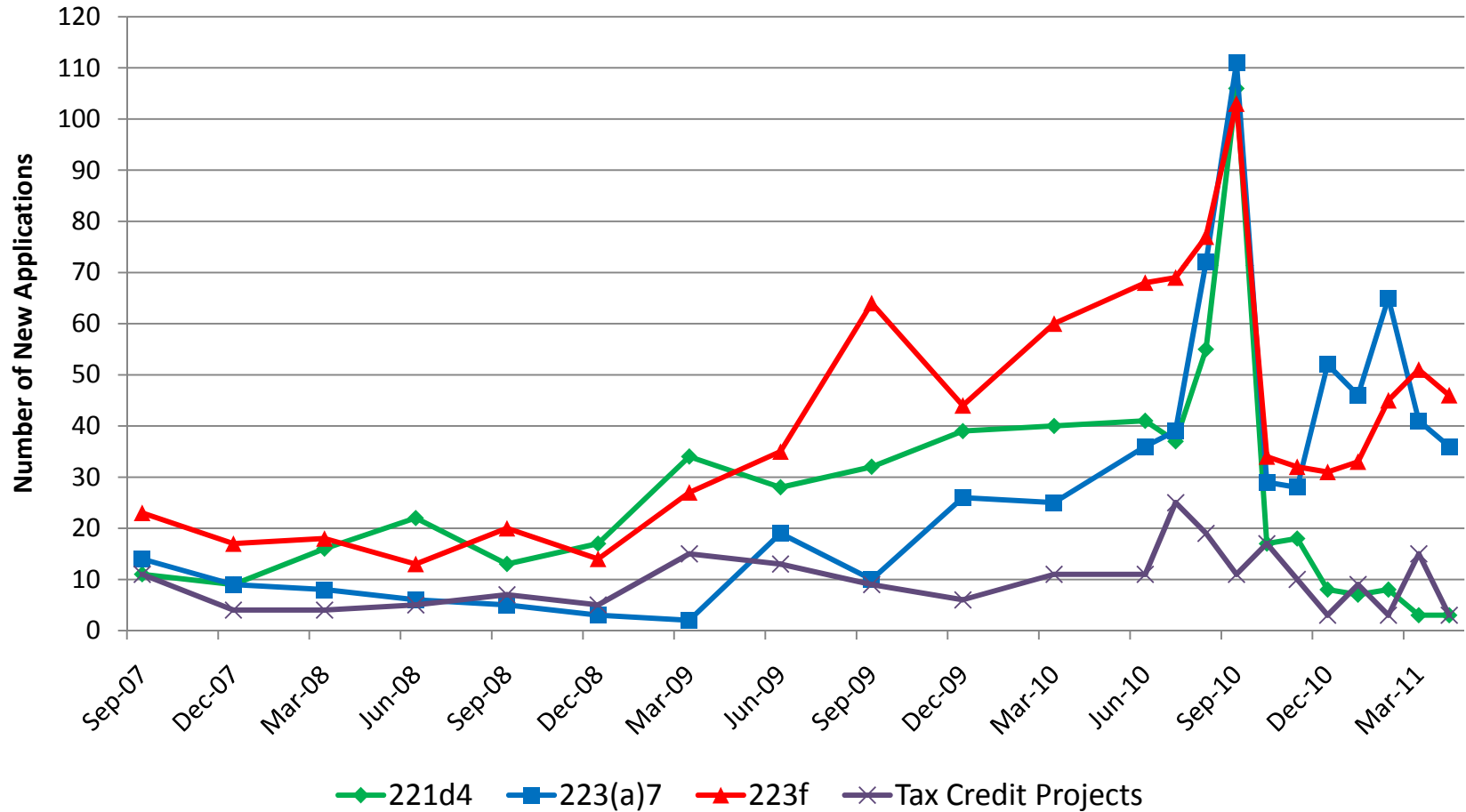


Projected 2011 Volume





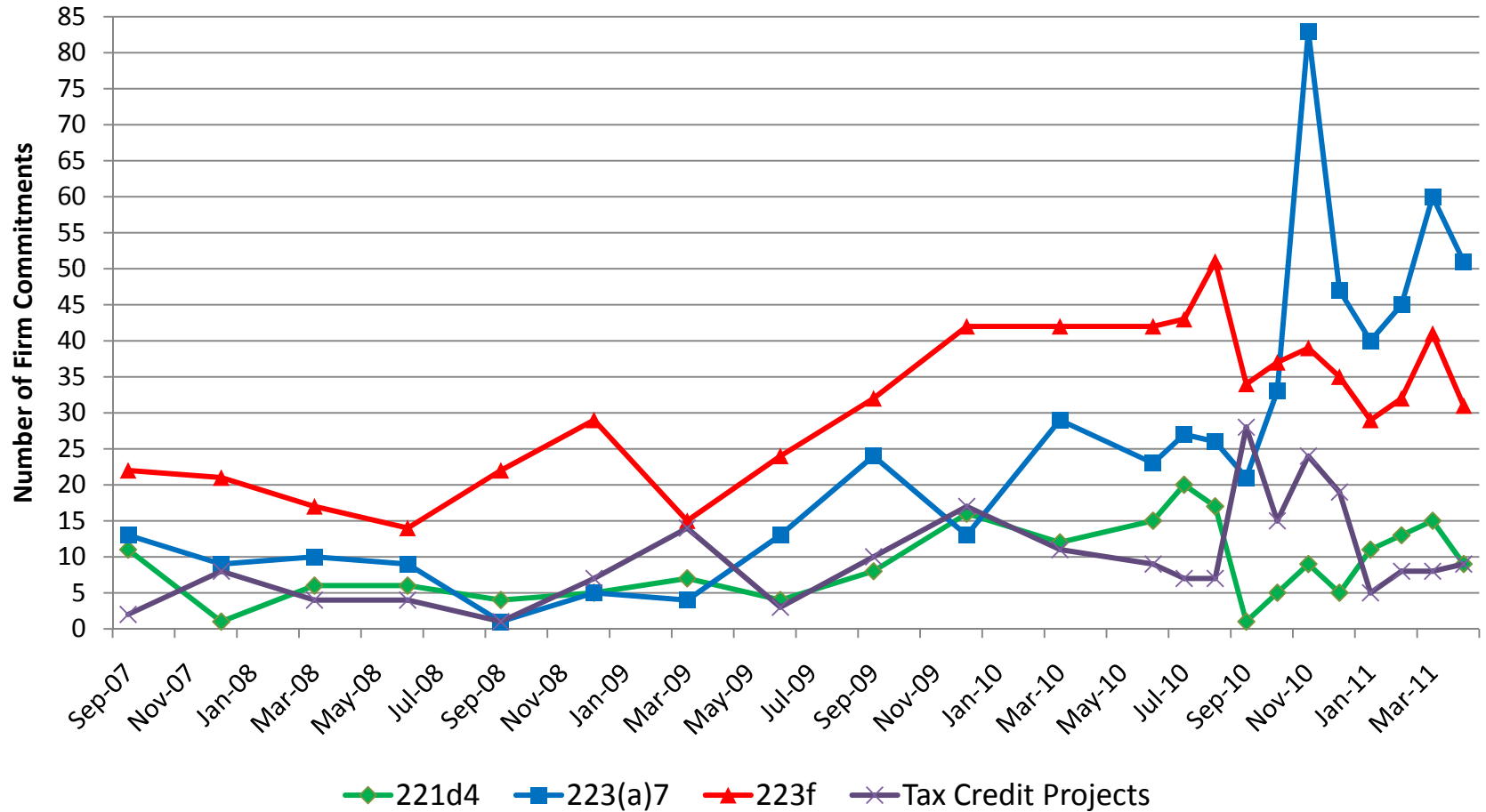
Applications Spiked Before Implementation of New UW Standards



FY 2011 YTD: 633 Applications



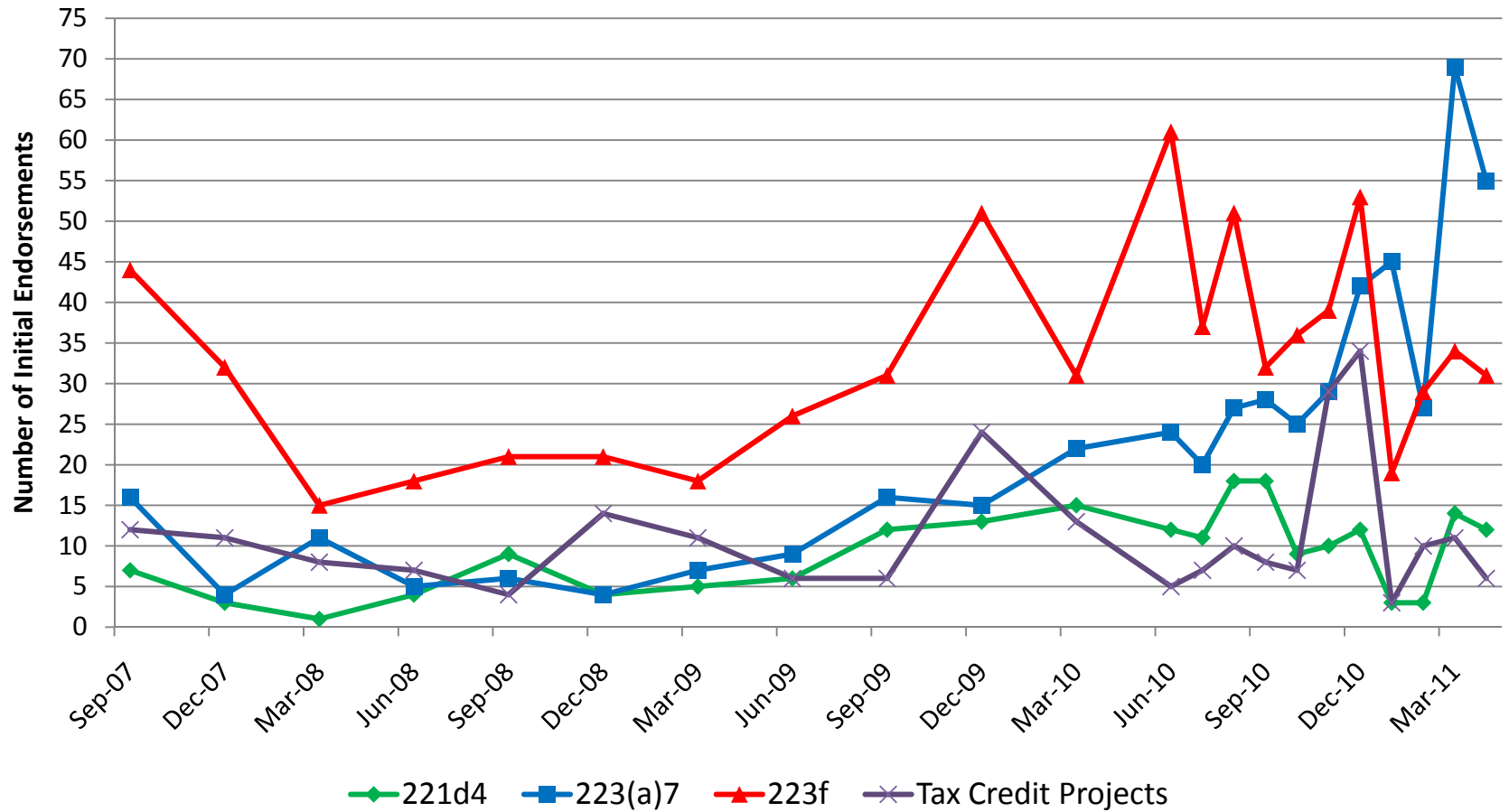
Firm Commitments at Record Pace



FY 2011 YTD: 670 Firm Commitments



Initial Endorsements Continue at Record Pace



FY 2011 YTD: 596 Initial Endorsements vs FY 10 total 898 Initial Endorsements



NATIONAL TRENDS



FY 10 ENDORSEMENT TRENDS (#)

	NC/SR	223f	223a7	Total
# of Projects	205	473	220	898
# of Units	37,391	81,307	37,246	155,944
# (Bils)	\$3.8	\$4.5	\$2.0	\$10.3

Pre-Endorsement Pipeline

	NC/SR	223f	223a7	Total
# of Projects	411	392	255	1,058
# of Units	71,358	61,547	39,420	172,325
# (Bils)	\$8.7	\$3.9	\$2.2	\$14.8



HUD MULTIFAMILY DEVELOPMENT FY 2011 INITIATIVES



- Risk Mitigation Implementation
- FHA Process Improvements
- Rental Demonstration Program (Formerly TRA)
- Preservation
- Choice Neighborhoods
- 202/811 reform
- Renewed Sense of Partnership with Program Participants



HUD MULTIFAMILY DEVELOPMENT FY 2011 POLICY DELIVERABLES



- New Loan Documents
- Revised and Updated MAP Guide
- Commercial Income Underwriting Guidelines
- Large Loan Underwriting Adjustments
- Tax Credit Pilot
- Tiered Lender and Underwriter Approval
- Credit Watch System



HUD MULTIFAMILY DEVELOPMENT FY 2011 POLICY DELIVERABLES



Multifamily Preservation Training



- 8 Cities in the US



- 3 Day Training



- Nuts and bolts of HUD programs including

- ✓ Refinance
- ✓ IRP decoupling
- ✓ HAP Contract Renewals (Allow 20 Year HAP Contracts)
- ✓ Financing options





LOS ANGELES HUB FHA ACTIVITY





LOS ANGELES HUB INITIATIVES



ENDORSEMENT TRENDS (#)

SECTION	FY 08	FY 09	FY 10	FY 11 YTD	PIPELINE
221(d4) / 220		1	2	7	6
223(a7)	1	1		9	14
223(f)	8	4	20	5	30
Other	7	5	1		
TOTAL	16	11	23	21	50



LOS ANGELES HUB INITIATIVES

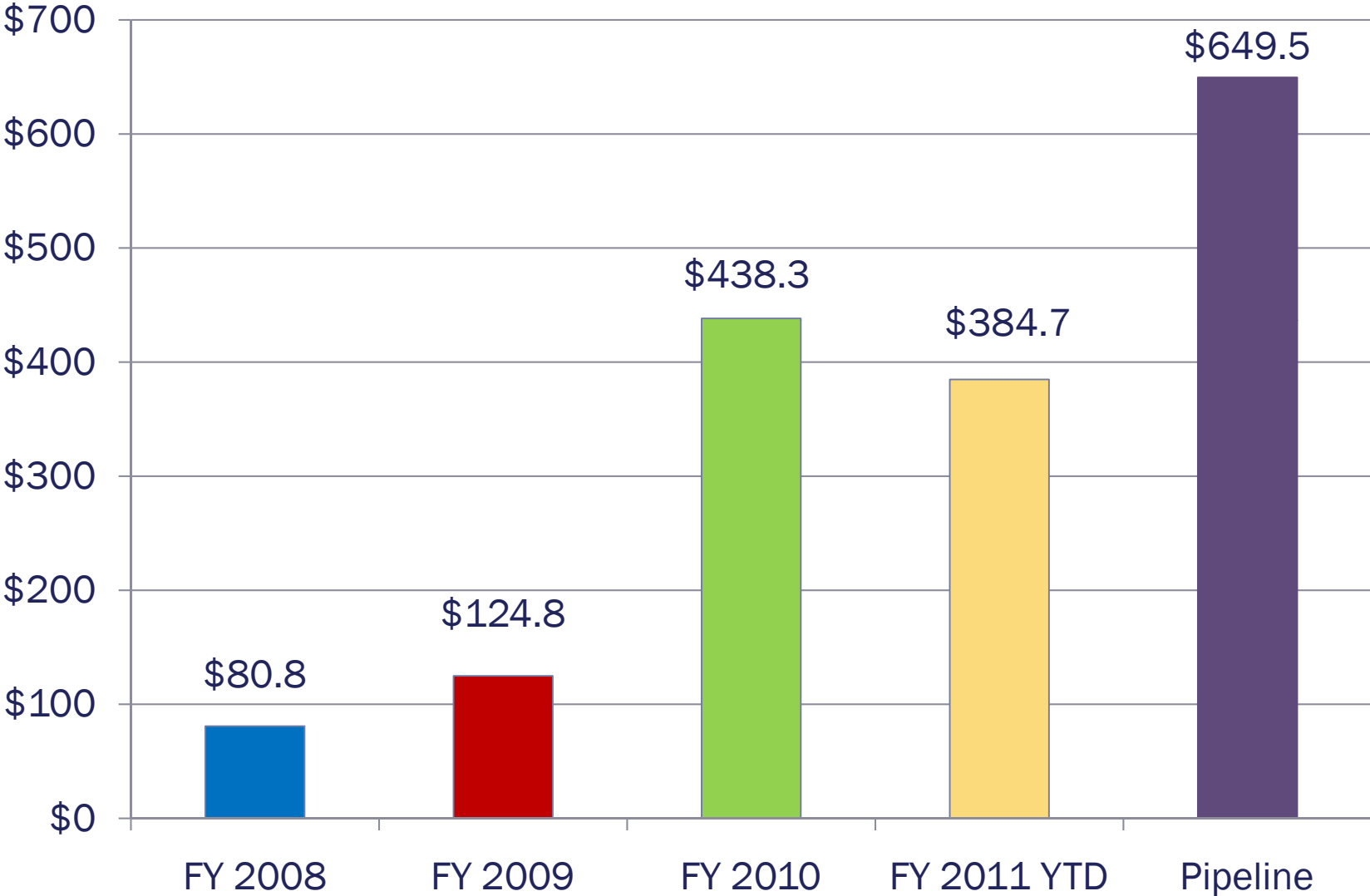


ENDORSEMENT TRENDS (\$)

SECTION	FY 08	FY 09	FY 10	FY 11 YTD
221(d4) / 220		52,450,000	38,083,400	193,977,500
223(a7)	1,363,600	1,657,600		82,059,600
223(f)	26,370,800	40,307,900	389,582,300	98,844,600
Other	53,503,000	30,419,500		
TOTAL	\$80,787,400	\$124,835,000	\$438,268,500	\$384,745,200

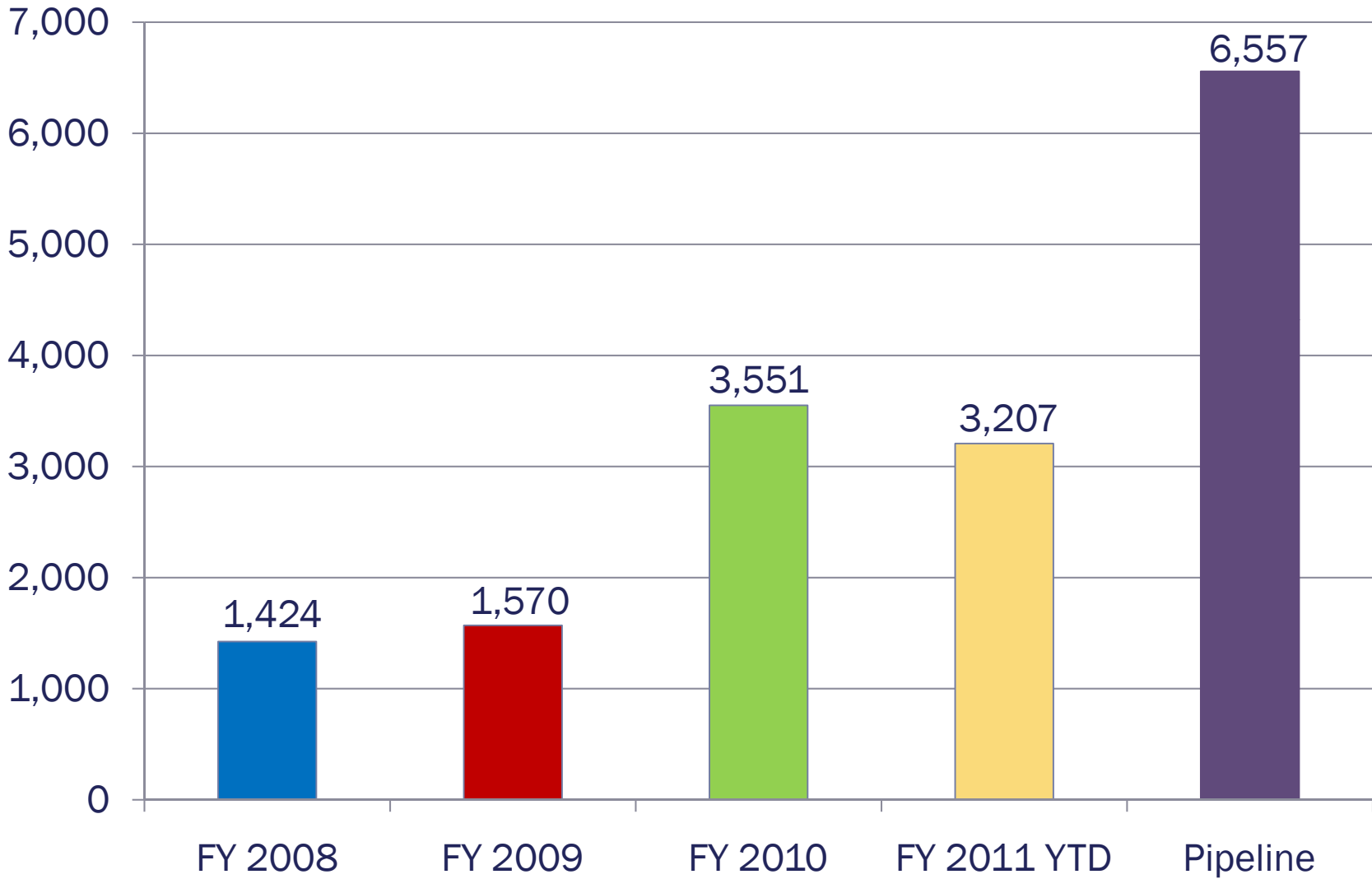


Los Angeles Hub Endorsements – In Millions





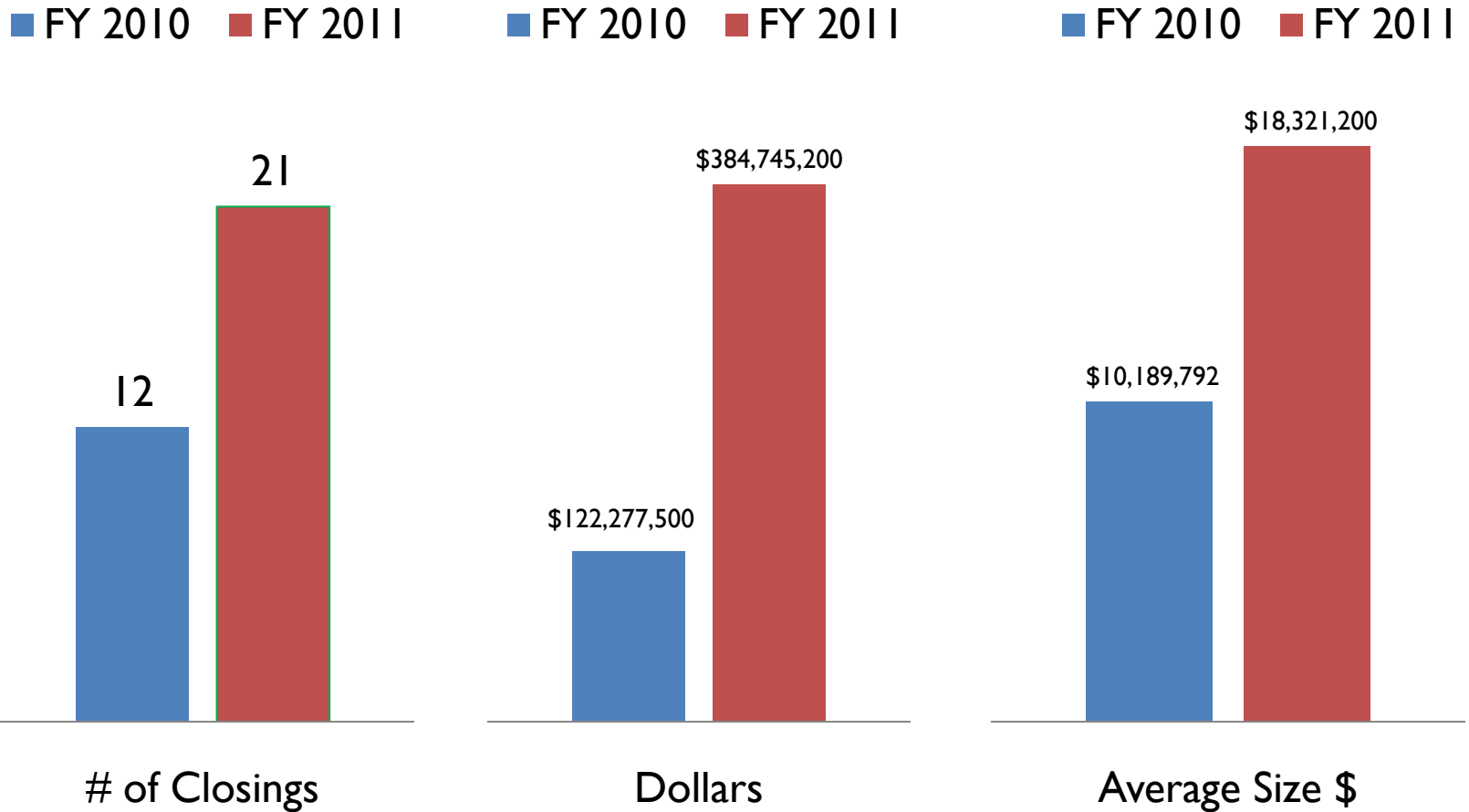
Los Angeles Hub Endorsements – Number of Units





LOS ANGELES HUB ENDORSEMENT TREND

Comparison of Endorsements for Fiscal Year to Date for 7 Months



FY 2010: 23 Endorsements, \$438,268,500, Average Size \$19,055,152





LOS ANGELES HUB INITIATIVES

PIPELINE

SECTION	NUMBER OF PROJECTS	% OF TOTAL NUMBER OF PROJECTS	NUMBER OF UNITS
221(d4) / 220	6	12%	1,045
223(a7)	14	28%	2,122
223(f)	30	60%	3,390
TOTAL	50	100%	6,557





LOS ANGELES HUB INITIATIVES

PIPELINE

SECTION	DOLLARS	% OF DOLLARS	AVERAGE SIZE \$
221(d4) / 220	\$ 186,435,000	28.7%	\$ 31,072,500
223(a7)	\$ 162,729,500	25.1%	\$ 11,623,536
223(f)	\$ 300,289,717	46.2%	\$ 10,009,657
TOTAL	\$ 649,454,217	100%	\$ 12,989,084

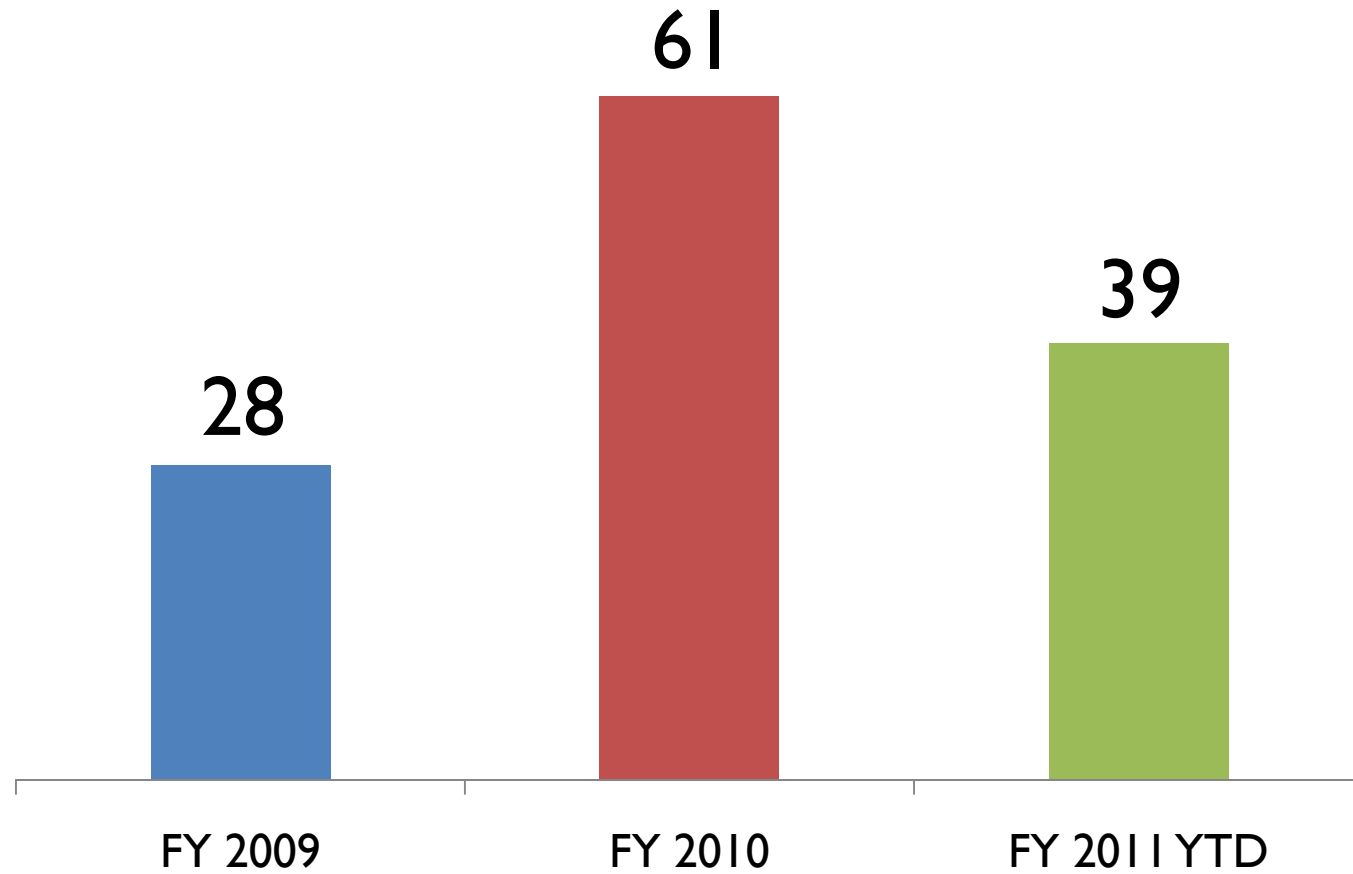




LOS ANGELES HUB INITIATIVES



of Applications Received



Scoping Meetings: 38 Transactions



LOS ANGELES HUB INITIATIVES

UNDER CONSTRUCTION

TYPE	NUMBER OF PROJECTS	NUMBER OF UNITS	INITIAL ENDORSEMENT
SUB-REHAB	7	732	\$ 80,943,800
NEW CONSTRUCTION	4	900	\$173,233,400
TOTAL	11	1,632	\$254,163,700

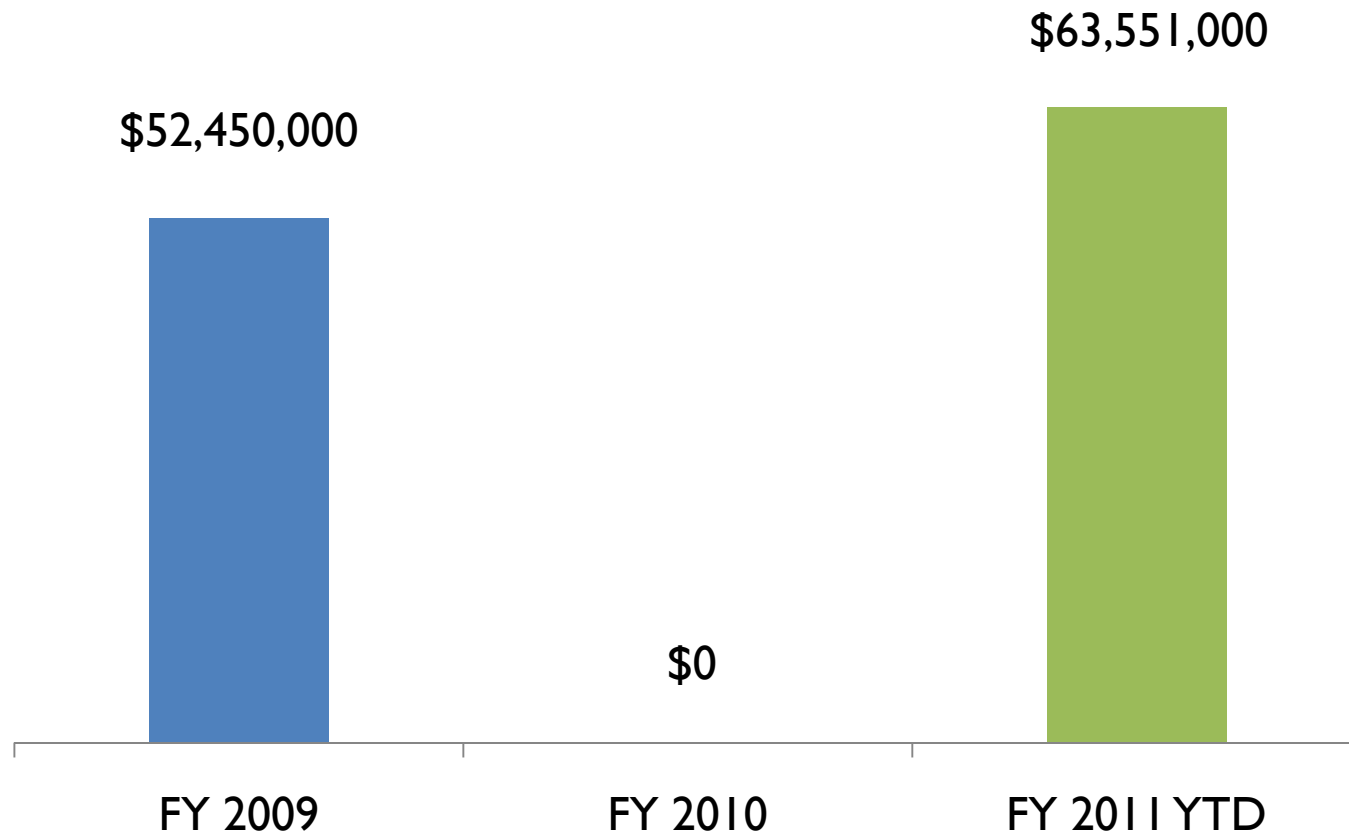
Includes: 8 LIHTC (4% and 9%)
3 with NIBP
1 transaction is 100% market rate





LOS ANGELES HUB INITIATIVES

LIHTC Endorsements





LOS ANGELES HUB RECENT TRENDS



- Continued interest to finance large-scale construction projects
- Need for permanent financing on existing LIHTC projects
- A resurgence in developers utilizing LIHTC's & Bond financing in conjunction with FHA financing
- Prepayment activity has picked up slightly
- Section 223a7 activity has increased
- Continued need for three-year rule waivers on a number of Section 223f's
- We continue to do business with a new crop of MAP lenders



LOS ANGELES HUB INITIATIVES



LOS ANGELES HUB PROCESS IMPROVEMENT INITIATIVES



- Improved Reporting Tools for Managing Projects through Processing
- Proactive Communication / “Where is?” / Eliminate “Hud-aches”
- Regularly Scheduled Meetings
 - Weekly priorities are set on Monday
 - Project Manager meetings on Wednesdays
 - Setting Dates
- Scoping Meetings are Critical for Flushing out Issues / Timing
- Adhere to norm of “First-In-First-Out” application processing
- Leveraging under utilized staff (assigning MAP applications to TAP Team)
- Improve channels of communication – Internal and External (Outreach)
- Utilizing OAHP to process 223(a)(7)s



LOW INCOME HOUSING TAX CREDIT PILOT





TAX CREDIT PILOT

LIHTC Streamline Process



- Selected Lenders.... Experience with LIHTC
- Selected Deals Low leverage, Affordable
- Selected HUD Review Greater Delegation to Lenders
- ID HUD Tax Credit Staff
- Reduce HUD Processing Steps
- “Legacy” Project for HUD Leadership and Staff
- Policy = Chris Tawa / Processing = Margaret Salazar

Primary Focus Adapt FHA Programs for use by LIHTC Projects

- Increase Scope of Rehab under 223(f)
- Simplify 221(d)(4) requirements for New Const/Sub Rehab



TAX CREDIT PILOT



LIHTC Pilot Working Group

- 2008 HERA Legislation
- Work with the MBA
- Big Player in 9% Market
- 3 Prongs
 - New Construction – 4% or 9%, may or may not include Section 8
 - Expanded Refinance – Expanded scope of work, Section 8 for 90%
 - Insurance Upon Completion – takeout product
- Weekly Conference Calls
- Lenders, HQ staff and some Hub / PC staff



TAX CREDIT PILOT



LIHTC Pilot Working Group

- Goal is Firm in 60 Days
- Max Loan around \$15 Million
- Maximum LTC of 75%
- Rents below market 10 to 20%?
- Standard UW Narrative
- Rely on 3rd Party Reports Available / Application Materials
- Year 1: 4 or 5 Hubs
 - Los Angeles / Ft Worth / Atlanta / Baltimore
 - Roll-out Nationwide in Year 2



LIHTC PROPOSALS – INCOME AVERAGING

Under the proposed statutory changes, a third criterion would augment the current two alternative caps on household income (all households in low-income units at or below 50 percent, or 60 percent, of area median income (AMI)).

If a property owner elects the new criterion, the property would be compliant only if:

- At least 40 percent of the units in the property are low-income units;
- The *average* income of households occupying the low-income units is no greater than 60 percent of AMI; and
- No household occupying a low-income unit has income above 80 percent of AMI.





LIHTC PROPOSALS – INCOME AVERAGING



The income averaging proposal would be applicable to projects utilizing the 9% or the 4% LIHTCs.

In addition to facilitating mixed-income affordable housing generally, income averaging may be especially helpful in rural areas and in regions with high rents, to promote neighborhood revitalization and to preserve existing affordable housing.



LIHTC PROPOSALS – BASIS BOOST

This proposal would potentially grant a 30% increase in eligible basis to certain projects seeking to preserve, recapitalize, and/or rehabilitate federally assisted affordable housing.

- The increase would be available only to bond-financed projects offering 4% as-of-right LIHTC's
- Would be capped at 0.4 percent of the annual private activity bond volume cap.
- Federally assisted stock includes HUD, USDA and UST-supported properties.





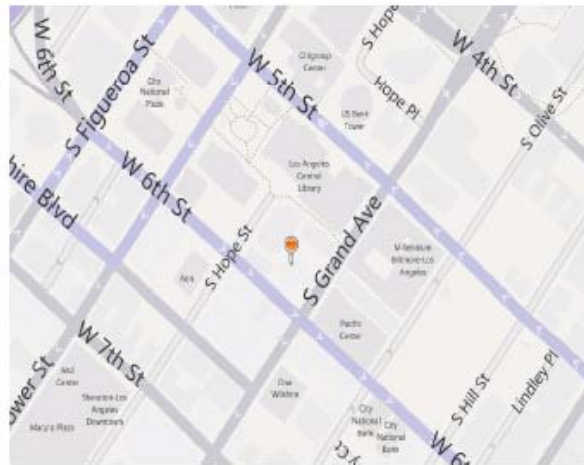
SAVE THE DATE: OPEN HOUSE AT HUD



JUNE 14, 2011, 1:00 - 3:00pm

Please join the Los Angeles Multifamily hub for an open house. This is an opportunity for owners, managing agents, lenders, and other HUD partners to meet with your associates here in the LA office.

Light Refreshments will be provided. For more details and to RSVP, please visit hudla.eventbrite.com.



Our office is located at 611 W. 6th Street, Suite 800, Los Angeles, CA in downtown LA

If you have any questions, please contact us at 213 534 2656 or LOSMultifamilyInterns@hud.gov



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