

1st of the Month

Affordable Housing Technical Review



Issue: # 1

May 2010



"Parkside", a 77-unit affordable housing community in San Diego Completed in 2010 by Wakeland Housing & Development Corp.

About Us

LeSar Development Consultants provides a full range of consulting services primarily to local government agencies involved in redevelopment, community development, affordable housing, and homelessness.



"

Greetings!

We are pleased to share with you our very first edition of *1st of the Month!* Every month LeSar Development Consultants compiles for its clients and friends -- all busy affordable housing practitioners -- the most important technical news regarding funding rounds, changes to program regulations, and other items relevant to the development and management of affordable housing. We are delighted to begin sharing these important bits of news with you.

We hope you will find *1st of the Month* a useful tool. We welcome your comments and suggestions.

Sincerely,
Jennifer LeSar
President & CEO

"

HCD Releases New NOFA Schedule

Updated April 20th, 2010

Here is the HCD updated NOFA schedule as of April 20th, 2010 to aid you in planning for your release of your own NOFAs and for helping position your priority projects.

Noteworthy are the following allocations and application due dates:

MHP General	\$25	MM due July 22 nd
MHP Homeless Youth	\$23	MM over the counter starting May 6 th
Joe Serna Jr Grants	\$40	MM for farm worker rental due July 29 th
EHAPCD *	\$40	MM due on July 15, 2010

* Emergency Housing and Assistance Program Capital Development

[Click here to continue reading](#)

Source: Department of Housing and Community Development

Judge to Rule on CRA Lawsuit on or Before May 4th

**Decision to have large impact across California
Redevelopment Agencies**

In July 2009, legislators and the Governor approved budget bill ABX4-26 as part of the 2009 State budget which authorizes a devastating \$2.05 billion raid of local redevelopment funds, including \$1.7 billion in FY 2009-10 and another \$350 million in FY 2010-11. The California Redevelopment Association and two of its member agencies filed a lawsuit on October 20, 2009 to challenge the constitutionality of State raids of redevelopment funds. Judge Connelly is set to rule on the merits of this case on or before May 4, 2009.

How will this ruling impact funds for affordable housing?

For FY 2009-2010, a redevelopment agency may suspend all or part of the required 20% allocation to its low- and moderate-income housing fund in order to make the required payments. If needed, the agency may also borrow accumulated funds from its Housing fund for the FY 2009-10 year payment only. It cannot do the same for the second year, FY 2010-11 payment.

The Housing Fund must be repaid by June 30, 2015. If the agency fails to repay the Housing Fund, the required allocation of tax increment to the Housing Fund is increased to 25% for most agencies for as long as the project area continues to receive tax increment.

Many agencies will have no alternative but to borrow at least a portion of the SERAF payment from its Housing Fund. This will result in the delay or elimination of many affordable housing projects where redevelopment funding is a key component of the financing that leverage other State and Federal financing sources.

Source: California Redevelopment Association

HUD Announces Improvements to NSP

Changes intended to accelerate purchase and rehab of foreclosed and abandoned properties

WASHINGTON D.C. - April 2, 2010 - The U.S. Department of Housing and Urban Development (HUD) announced today changes to its *Neighborhood Stabilization Program (NSP)*, which helps communities acquire, rehabilitate and re-sell foreclosed and abandoned properties more quickly and help prevent further decline in hard-hit neighborhoods. Specifically, HUD will change how it defines *foreclosed and abandoned* to include properties in mortgage default and uninhabitable homes with lingering code violations. These expanded definitions, effective immediately, will increase the reach of NSP by allowing more properties to qualify, remove existing barriers caused by market conditions, and help state and local grantees to meet a Congressional requirement that they obligate all of their NSP1 funding by September of this year.

"The original NSP rules this Administration inherited through language from the 2008 legislation limited the impact of the Neighborhood Stabilization Program and we've heard that clearly from our partners on the ground," said HUD Secretary Shaun Donovan. "The rules needed to be more flexible so our local partners can put taxpayer dollars to work quickly to stabilize neighborhoods hard-hit by foreclosure. It is my goal to make HUD the kind of federal partner that listens and responds to the needs of communities, so that we can work together to rebuild our neighborhoods and our economy."

HUD Assistant Secretary for Community Planning and Development Mercedes Márquez added, "It became clear to us that the Neighborhood Stabilization Program as originally designed was too restrictive and limited the ability of our local partners to put this funding to work quickly. We need to be more flexible so our local partners can respond to market conditions and reverse the effects of foreclosure in these neighborhoods as quickly as possible."

Redefining "foreclosed"

HUD previously defined the term *foreclosed* to apply only to properties where the foreclosure process was completed. Local communities suggested this narrow definition was not a good fit for market conditions since many properties were lingering in the foreclosure process and beyond the reach of NSP. The original definition limited a grantee's ability to intervene strategically when a lender initiates but does not complete foreclosure, or where a default is allowed to linger. In addition, many lenders are transferring properties to aggregators or loan servicers, which then arrange for final disposition. In some of these cases, the previous policy did not consider the properties to retain their foreclosed status after title is transferred to the aggregator or servicer.

Properties will now be eligible for NSP assistance if any of the following conditions apply: The property is at least 60 days delinquent on its mortgage and the owner has been notified; or the property owner is 90 days or more delinquent on tax payments; or under state or local law, foreclosure proceedings have been initiated or completed; or foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, subrecipient, developer, or end user.

Redefining "abandoned"

When the NSP program was originally designed following passage of the *Housing and Economic Recovery Act of 2008*, the term abandoned was defined as a property that had been foreclosed upon and was vacant for at

least 90 days. This definition effectively excludes properties abandoned by owners but where tenants are still in place thereby precluding local communities from assisting the properties with NSP funding or protecting the tenants' occupancy. HUD determined this limitation was a substantial barrier to the preservation of existing affordable housing.

To address this limitation, HUD is expanding the definition of an abandoned property to include homes where no mortgage or tax payments have been made by the property owner for at least 90 days or a code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions within 90 days of notification of the deficiencies.

Source: Department of Housing and Urban Development

HUD Sustainable Communities NOFA Issuance Delayed Until May or June 2010

Applicants must register by May 14th, 2010

On February 10th, 2010, HUD published the Sustainable Communities Planning Grant Program Advance Notice and Request for Comment. HUD sought input from state and local governments, regional bodies, community development entities, and a broad range of other stakeholders regarding how the Grant Program should be structured. Approximately 900 comments were received which HUD is now in the process of reviewing and analyzing. As a result, the Sustainable Communities Planning Grant NOFA, originally scheduled for April 10th, 2009, is not expected to be issued before May 2010.

In order to submit an application, applicants must complete a five-step registration process due by May 14th, 2009. This process can be quite time consuming (between 2-4 weeks) so applicants should plan accordingly.

[Click here to continue reading](#)

Source: Department of Housing and Urban Development

California "Sustainable Communities Planning Grant" RFP Put On Hold

Postponed by Strategic Growth Council as of April 1, 2010

As of April 1, 2010, the Strategic Growth Council has postponed its request for proposal process for Sustainable Communities Planning Grants. View the [final program guidelines](#).

Housing California will keep you updated with any updates. In the meantime, if you have questions about next steps, contact the Strategic Growth Council at 916.445.9016.

Source: Housing California

National Housing Trust Welcomes Legislation to Preserve Affordable Housing

Proposed Legislation Serves as Affordable Housing Safeguard

WASHINGTON, D.C. - March 19, 2010 - The National Housing Trust welcomes the introduction of legislation by Congressman Barney Frank (D-MA) to preserve affordable rental housing. H.R. 4868, the Housing Preservation and Tenant Protection Act, was formally introduced this week after careful consultation with affordable housing advocates and industry leaders.

"Preserving affordable housing is cost effective, environmentally responsible, and is the logical first step in solving our nation's housing dilemma," noted Michael Bodaken, president of the National Housing Trust.

"One-third of our nation's families and seniors depend on quality rental housing," Bodaken said. "Federally assisted rental housing is a unique housing resource because it provides homes affordable to those with worst case housing needs at a time when housing affordability challenges are growing worse. This preservation bill safeguards affordable apartments that are home to more than one million extremely low income families, elderly and disabled persons."

The Trust has testified before Congress on the need for comprehensive policy reform to support responsible long-term affordable rental housing ownership, encourage and streamline sales and transfers of at-risk affordable rental properties to qualified preservation owners, and provide support to existing families and seniors who wish to remain in their homes if affordability requirements end. H.R. 4868 includes many policy recommendations made to Congress by the National Housing Trust and the National Preservation Working Group, a coalition of nonprofit organizations supporting affordable rental housing.

Bodaken also noted that pressure on rental housing prices continues in light of the current foreclosure crisis.

"As foreclosures on homes and apartment buildings continue to unfold, a growing number of renters are competing for a limited supply of affordable housing," Bodaken explained. "Many of these families will be seeking apartments at the lower end of the of the cost spectrum, where there is already a shortage of affordable rental housing for the poorest households. We welcome the introduction of this important legislation and urge its enactment by Congress."

Source: National Housing Trust

Housing for the Homeless Opens in S.F.

Opening of eight-story building in the Tenderloin

SAN FRANCISCO-If Edward Erhardt had a little money, he would often buy a can of bug killer so he could spray the sidewalk or wherever he would be sleeping later that night.

These days he no longer has to worry about ants and cockroaches. Known as "Popeye" for his resemblance to the spinach-eating sailor, he recently moved into 149 Mason Street, a new 56-unit development for formerly homeless individuals.

"It's a second chance on life," said Erhardt, who had been living at a shelter since last August.

Glide Economic Development Corp. and Tenderloin Neighborhood Development Corp. (TNDC) held a grand opening for the eight-story building

at the edge of San Francisco's Tenderloin neighborhood at the end of March.

The day was not about celebrating bricks and mortar, said Mayor Gavin Newsom.

"It's celebrating the fact that people don't have to worry about where they are going to cook their meals," he said. Or, worry about where they would go at night or sharing a bathroom with strangers.

Newsom said the development proves that the problem of homelessness can be solved. "Shelters solve sleep, housing solves homelessness," he said.

Newsom recently announced that 1,679 new units of permanent supportive housing for the chronically homeless have been developed within the last five years, pushing the city past the halfway mark of 3,000 units in 10 years as called for in the city's Plan to End Homelessness.

Changing lives

In addition to the furnished apartments, 149 Mason offers a host of services for residents. Glide Health Services will launch its first satellite clinic to provide on-site medical services.

The units are targeted to persons with incomes below \$9,000 per year, all of them homeless or at risk of becoming homeless, said city officials.

"When you have a home like this, you also change your life," said the Rev. Cecil Williams of Glide.

Don Falk, TNDC's executive director, added that the building is also an important step for establishing a stronger community in the Tenderloin neighborhood.

The studio apartments are subsidized by the city's Local Operating Subsidy Program, which provides operating subsidies to developments that make permanent housing and supportive services available to qualified residents. Rents for the new units are based on income and will range from 20 percent to 40 percent of the area median income or approximately \$300 to \$700 a month.

The development is designed by HKIT Architects.

The \$29.7 million project was financed by several different sources, including low-income housing tax credit equity provided by AEGON USA. Other supporters include the Mayor's Office of Housing, city and county of San Francisco, California Department of Housing and Community Development, Local Initiatives Support Corp., Federal Home Loan Bank of San Francisco, and Silicon Valley Bank.

Source: Affordable Housing Finance Magazine

Insurance Companies, GSEs Go Neck-and-Neck

Insurance companies to start providing alternative source of capital

Fannie and Freddie are no longer the only games in town.

Life insurance companies have stepped back into the multifamily arena, closing the pricing gap with the government-sponsored enterprises (GSEs).

For much of 2009, life insurance companies were reduced to spectators, watching the GSEs win deal after deal. But in the fourth quarter, the sector

stirred as its cost of capital began to lower. By the end of the first quarter of 2010, firms such as Prudential, MetLife, and Northwestern Mutual were back in lending stride.

"Our ability to be more competitive with the agencies on pricing right now is better than it's typically been," says Mark Wilsmann, managing director of the commercial real estate operations of New York-based MetLife. "If it fits the agencies' box cleanly, it's still very hard for the life companies to compete. But as that box gets smaller, the life companies will be a better alternative."

Finding Opportunity

MetLife sees some opportunity this year lending for assets that don't fit the GSEs' increasingly shrinking credit box. For instance, new properties still in lease-up-which may be just 85 percent occupied-or good properties in "pre-review" markets where the GSEs are less inclined to lend.

For those life insurance companies that also offer GSE debt, the quotes from each side of the house are closer than they've been in years. For instance, Prudential has licenses with the GSEs and the FHA and also offers portfolio loans through its general account. When a borrower comes calling, the company runs the numbers through all of its platforms to come up with competitive quotes.

"For a number of years, that was just a pro-forma exercise because our general account was not going to be the most competitive source," says David Durning, senior managing director at Newark, N.J.-based Prudential Mortgage Capital Co. "The difference today is we are seeing and winning business and the life company pricing is in the mix now."

And the longer the term, the better the pricing that life insurance companies can offer. "When you get to 10 years, and longer, the life companies are right on top of, or can sometimes even be inside of, where the agencies are today," says Durning.

Leverage Shortfall

Pricing is one thing, but proceeds are another. Life insurance companies are notoriously conservative in their underwriting, with the majority of deals at 65 percent loan-to-value (LTV) and below. Some, like MetLife and Prudential, will stretch up to 75 percent for the cream of the crop, but those are exceptions that prove the rule.

Life companies have other strengths to make up for this leverage shortfall, often competing more on flexibility. Since they take a case-by-case view of deals-as opposed to the GSEs' formulaic approach-life companies have more latitude in structuring deals.

"If a transaction involves the need for a different kind of structure or flexibility, nonstandard terms or speed of execution, then the life companies still have an edge over the agencies today," Durning says.

Another key feature of portfolio lenders is the fact that their debt is not securitized, which makes it much easier for a borrower to communicate with its lender. One of the biggest pitfalls of securitized debt is the inability of a borrower to renegotiate after closing-their debt is owned by various third-party investors with no interest in working with the borrower.

Portfolio lenders, though, often feature one direct point of contact. "The person you do the loan with is the person you're going to be talking to if anything comes up during the life of the loan," Wilsmann says. "You always

know where to find them. That's a key point that we sell."

Broker's View

Some of the other active life insurance companies today include Cornerstone, Aetna, Guardian, and Cigna, according to brokers.

"The life companies have always wanted to do multifamily, and they're ready at a moment's notice to exploit a hole in the capital stack if they can," says Amos Smith, a senior vice president at Irvine, Calif.-based Johnson Capital. "They are, by nature, very conservative, but they have much more flexibility in their underwriting."

One such area ripe for exploitation-and an example of the sector's flexibility-is in rehab deals, which the GSEs are much less active in today. While life insurance companies overwhelmingly favor stabilized assets, rehab loans are still possible for the right customers.

"For the highest-quality borrowers, you'll see the largest life companies carve out a bucket of money for deals that need some rehabilitation," Smith says. "It's all very structured, very transaction-specific financing."

Source: Affordable Housing Finance Magazine