



November 4, 2009

The Honorable Mercedes Márquez
Assistant Secretary for Community Planning & Development
U.S. Department of Housing & Urban Development
451 Seventh Street, SW
Washington, DC 20410

Dear Assistant Secretary Márquez:

Thank you for meeting with representatives of several state Housing Finance Agencies (HFAs) and me the other day to discuss financing affordable housing for persons with extremely low incomes (ELI), defined as incomes at or below 30 percent of area median income. We appreciate HUD's efforts to assist HFAs and others provide affordable housing for ELI families.

The principal challenge in financing housing for ELI families is generating enough rental income to pay the debt service and operating expenses necessary to develop and run such housing. Even when all debt service is eliminated, ELI families paying 30 percent of their income for rent do not generate enough income to pay many developments' operating expenses. Therefore, some source of additional operating assistance is necessary.

One of the most common sources of operating support is rental assistance that pays the difference between an ELI family's rent contribution and the total rent necessary to support the development. But such rental assistance is scarce, and tenant-based vouchers and short-term rental assistance contracts do not provide enough certainty for lenders to commit to financing housing with high proportions of ELI families. Another option is capitalizing operating reserves that can be drawn upon to pay the difference between rental income and operating expenses.

But any of these strategies are more difficult to implement if developments have a high percentage of ELI families. As we discussed with you during our meeting, several HFAs have succeeded in housing ELI families by developing mixed-income housing with some of the apartments in such developments dedicated to housing them. Without considerable rental assistance or operating assistance, it is very difficult to target more than 20 percent of a development's apartments to ELI families.

Another obstacle to financing affordable housing for ELI families is the separation of subsidies among different program administrators. Often, it is difficult to combine Housing Credits, rental assistance, HOME, and other subsidies in one development when different agencies administer them. If more of these subsidies were aligned in individual agencies, they could be coordinated much more easily. For example, if Housing Credit allocating agencies had project-based rental assistance they could provide to ELI families in their Housing Credit developments, they could dedicate more of those developments' apartments to ELI families.

As HUD develops the regulations for the National Housing Trust Fund, we urge it to take into account the obstacles to providing affordable housing for ELI families. Specifically, we ask you to provide as much flexibility as possible to use Trust Fund resources for operating assistance, including reserves. We also encourage you to limit the percentage of apartments in particular developments that must be targeted to ELI families.

We also recommend that HUD support efforts to dedicate a limited amount of rental assistance to state HFAs that they could use to provide affordable housing for ELI families.

Thank you for your consideration. We will send you separately the additional state-specific information you asked for regarding individual states' experiences with financing affordable housing for ELI families. Please let us know if we can provide any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth Rieman", with a long horizontal flourish extending to the right.

Garth Rieman

cc: Cliff Taffet
Marcia Sigal