

MaineHousing Affordable Housing Preservation Initiative

With the cost of creating new affordable apartments at \$150,000 or more per unit, and with a scarce supply of deep federal subsidies, the preservation of Maine's existing low-cost apartments is becoming increasingly important.

It is especially important for Maine to preserve existing apartments serving extremely low-income households, such as those initially developed through the federal Section 8 New Construction and Substantial Rehabilitation Program. Units this affordable – tenants pay 30% of their income for rent, regardless of how little that income is – cannot be created through the shallower subsidy provided by Low Income Housing Tax Credit Assistance funding, unless there is additional subsidy beyond the tax credit.

MaineHousing has responded to the challenge of preserving existing subsidized apartments by creating an affordable housing preservation initiative, which involves three distinct programs. MaineHousing developed the initiative to preserve existing affordable properties in MaineHousing's portfolio – and at the same time extend the low-income benefit and/or improve the property's energy efficiency so they will continue to provide affordable housing for a longer period.

The three programs are:

- The **Loan Modification Program**, which offers owners of MaineHousing-financed multi-family properties the opportunity to restructure existing MaineHousing debt by modifying interest rates, extending loan terms, or both. Developments financed under MaineHousing's Rental Loan Program, loans subject to Housing Assistance Payment contracts, and loans subject to a Federal Adjustment Factor (FAF) Refunding Agreement are eligible to apply.
 - Example: Prospect Manor in Biddeford, Maine, provides 50 units of affordable rental housing to very low-income seniors. It is a project based Section 8 development, beset with rising operating costs and ongoing debt service requirements. The project owners applied for and received a Loan Modification from MaineHousing. The modification extending the property's debt for an additional 19 years on two original notes. This allowed for a reduction in annual debt service of more than \$47,500. With a substantial reduction in debt service, Prospect Manor was able to turn around a deficit cash position and extend the affordability period for seniors living in the housing by an additional 4 years.
- The **Subsequent Loan Program**, which provides additional financing to owners of existing MaineHousing-financed properties for such things as unanticipated operating shortfalls, capital improvements, property rehabilitation, energy efficiency improvements, creation of new units, and equity takeout. In return for the subsequent loan, owners usually extend affordability of the units.

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- Example: Pleasant Street Apartments in Saco is a 45-unit Section 8 property that provides affordable housing to very low-income families. It received help from both the Loan Modification program and Subsequent Loan program. Using the Loan Modification program, the owners extended the debt 25 years, resulting in a reduction in annual debt service of \$119,956. This also extended the low-income benefit for all the apartments in the complex for another 25 years. The reduction in debt service allowed the owner to take out a Subsequent Loan for \$525,000 for a 30-year term at a fixed 7% rate. This money was used to make capital improvements to the property and provide equity to the owner.
- The **Multi-Family Home Energy Loan Program** (Multi-Family HELP), which provides low interest rate loans for multifamily housing improvements that increase energy efficiency and conservation of resources, thereby preserving the quality of housing for Maine residents and reducing property operating expenses. Property owners who make improvements identified in an energy audit generally reduce energy consumption by 15% to 20% annually.
 - Example: MaineHousing's first Multi-Family HELP loan closed in the fall of 2008. It involved the Village View Townhouses, a 30-unit family property located in Freeport, Maine that was having difficulty affording increased heating costs and did not have sufficient reserves to finance the needed upgrades on its own. The HELP loan enabled the owners to upgrade its heating system and weatherize the units. The estimated annual savings from these improvements is \$12,128.

MaineHousing began this initiative in 2005 with the Loan Modification program, and soon after started the Subsequent Loan program. In 2008, a time when property owners saw heating oil costing over \$4 a gallon and were worried they could not afford the cost to heat their properties, MaineHousing added the Multi-Family HELP component.

Multi-Family HELP does not directly extend the affordability, but in effect it makes it possible for the owners to continue providing the affordable housing, which they otherwise may have been forced to sell or face possible foreclosure due to the high cost of operating expenses, principally heating fuel.

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The three programs have been successful in retaining affordable apartments for Maine's low-income seniors and families.

Overall, the three programs have helped 28 developments with more than 1,200 affordable apartments, and extended affordability by a total of 264 years.

- The Loan Modification program is responsible for helping 12 developments with 464 apartments, and extending the low-income benefit of the units by 198 years.
- The Subsequent Loan program has extended affordability in 11 projects, with 348 units, and added an additional 66 years of affordability.
- The Multi-Family HELP program, during its first year of operation, is being used to reduce energy costs in five properties with a total of 460 apartments.

The bottom line is that since the introduction of these programs, property owners now have options through MaineHousing and a process that is more efficient and cost effective than refinancing through a conventional lender. As a result, we are seeing fewer instances where properties are converted to market rate apartments because owners pre-paid their loans in order to finance with other lenders.