NCSHA 2015 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 10, 2015

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact Matt Cunningham at mcunningham@ncsha.org or 202-624-5424.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: ______________________________

HFA: ______________________________

Submission Contact: (Must be HFA Staff Member) ______________________ **Email:** ______________________

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

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Use this header on the upper right corner of each page:

HFA: ______________________________

Entry Name: ______________________________

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
Annual Report	Empowering New Buyers	Federal Advocacy	Financial
Creative Media	Encouraging New Production	State Advocacy	Human Resources
Promotional Materials and Newsletters	Home Improvement and Rehabilitation		Operations
			Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	Are you providing visual aids?
Encouraging New Production	Combating Homelessness	Special Achievement	Yes
Multifamily Management	Housing for Persons with Special Needs		No
Preservation and Rehabilitation			

Rental Housing - Encouraging New Production
MassHousing – Getting the Deal Done: How One HFA Replaced 9% Credits with 4% Credits

BACKGROUND

Whether rental or homeownership, affordable housing typically is supported in part – often in large part – by scarce public subsidies overseen and distributed by public lenders. The lenders' goal is to make the best investments possible – investments that will support the production or preservation of decent, safe, affordable housing that will serve thousands of tenants or homeowners for many years. As public lenders evaluate affordable housing proposals to determine whether an investment should be made, they must weigh many factors and carefully analyze each proposed project. Every public dollar counts and every public dollar for housing must be invested wisely.

Unfortunately, as every housing finance agency knows only too well, the climate for the financing of affordable housing is one of constrained public resources – and this is not a circumstance which will likely abate. The federal resources available to support the production of new affordable housing have decreased dramatically over the past several years. The cuts to important federal programs such as the HOME program and the Community Development Block Grant program have caused repercussions throughout the affordable housing delivery system. States and municipalities have far fewer federal dollars to invest in affordable housing projects than they did a decade ago.

To complicate the challenge, the federal reductions have occurred at a time of great need for affordable housing production – and particularly for affordable multifamily rental housing. In Massachusetts, Governor Deval Patrick acknowledged this reality and in 2012 announced an ambitious goal to create 10,000 units of housing in multi-family developments on an annual basis. The plan was announced along with a strong recommendation for greater collaboration among state agencies, authorities and local community organizations across the Commonwealth.

THE PROBLEM

In Massachusetts, the Department of Housing and Community Development (DHCD) is the "line-agency" for the Commonwealth and the allocator of the 9% Low Income Housing Tax Credit (LIHTC). With the Governor's new goal – DHCD decided to focus the 9% credit exclusively on production. Given this increased commitment, a number of developments submitted to DHCD in the spring funding round received commitments of soft debt but there were insufficient 9% tax credits available for all of these projects.

The need for collaboration between MassHousing and DHCD to help solve this problem was obvious. DHCD approached MassHousing to ask for its ideas on stretching the use of the 9% tax credit. Given the scarcity of the 9% tax credit, MassHousing offered to give project sponsors the option of either resubmitting their applications at the next funding round or working with MassHousing for other possible funding options. Specifically, MassHousing would work to evaluate whether a tax exempt bond and 4% tax credit funding structure could be made feasible which would then allow the project to move forward immediately.

Given MassHousing's understanding of the larger housing finance agency universe – it seems to be a common theme that there is a great deal of volume cap available that can generate 4% credits for affordable housing financing while at the same time there is a scarcity of 9% credits. For example, Massachusetts has a two year supply of volume cap capacity and is four times oversubscribed for the 9% credit.

MassHousing believed that there were likely deals that could be financed utilizing funds available within the volume cap – coupled with 4% tax credits instead of 9% tax credits – but it would require some creative review – and some careful underwriting to determine where these opportunities lay.

As a practical matter, MassHousing's strong in-house underwriting capacity allowed it to fine tune the underwriting parameters to better evaluate the equity gap created by replacing 9% credits with 4% credits. The predominate factor for all proposals was a development's limited ability to support permanent debt. The 9% credit deals are, by their nature, heavily affordable and as such unable to support much permanent debt. A critical piece of MassHousing's efforts therefore, would be to serve as a source for additional soft debt that could be utilized in the financing structure of each deal. In utilizing 4% credits – coupled with this soft debt from MassHousing that did not have to be repaid immediately – MassHousing essentially created a funding package that filled the gap created by the loss of equity for a 4% tax credit transaction versus a 9% tax credit transaction.

As part of its overall efforts to enhance the viability of these deals, MassHousing also worked closely with developers to negotiate a 25% fee deferral off what is allowed under the state's Qualified Allocation Plan (QAP). This concession was one additional piece of the creative financing structure that made it possible for these deals to move forward – and it was exactly this enticement – the ability to move a deal forward in that fiscal year – that helped convinced developers to work with MassHousing in this way.

MassHousing reviewed a total of seven development proposals that had originally been considered in the funding round for 9% credits through DHCD – but for which funds would not be available. These deals were resubmitted as 4% tax credit and tax exempt bond transactions, and ranged from proposals for 32 to 84 units, 100% low income, mixed income and age restricted proposals. Of these seven, MassHousing's careful review and underwriting demonstrated that three transactions could benefit from the creative financing MassHousing was proposing, and ultimately two sponsors chose to move forward with MassHousing.

EXAMPLES

The developments in Massachusetts which have benefitted from MassHousing's program to utilize 4% credits in place of 9% credits are:

The Voke School. This is a transaction involving the acquisition and adaptive re-use of the former Worcester Vocational Technical School located in Worcester, Massachusetts into 84 units of mixed-income housing. Forty-two of the units are restricted for residents with incomes at or below 60% of AMI. Nine (or, 10% of the total) of these units are further restricted at or below 30% of AMI. The remaining 42 units are unrestricted workforce units.

Upon presentation, the development had a funding gap of $6.4 million as a result of the lack of a 9% Tax Credit award. The transition to a 4% Tax Credit deal reduced the gap to $3.6 million. This gap was ultimately reduced through a combination of resources as follows:

- MassHousing soft subordinate loan of $780,000 and increased greater permanent debt of $220,000 through refined upfront underwriting;
- DHCD additional soft subsidy of $1 million and State Tax Credits totaling $200,000;
- Developer fee deferral of $762,000;

- City of Worcester additional HOME funds of $200,000; and,
- Massachusetts Historical Commission increase of Tax Credits totaling $700,000.

These resources then leveraged a MassHousing tax credit equity bridge loan of $14.8 million, and a $2.3 million permanent loan.

Sitkowski School Apartments. This is a transaction involving the acquisition and adaptive reuse of the former Sitkowski School into 66 units of affordable housing for seniors 55 years and older located in Webster, Massachusetts. Fifty-three (80%) of the units are restricted for residents with incomes at or below 60% of AMI. Five (8%) of the units are restricted for residents with incomes at or below 50% of AMI, and eight (12%) of the units receive project-based Section-8 – and set aside for residents with incomes at or below 30% of AMI.

Upon presentation, the development had a funding gap of $8.7 million as a result of the lack of a 9% Tax Credit award. The transition to a 4% Tax Credit deal reduced the gap to $4.5 million. This gap was ultimately reduced through a combination of resources as follows:

- MassHousing soft subordinate loan of $2,066,000 million and increased greater permanent debt ($250,000) through refined upfront underwriting;
- DHCD additional soft subsidy of $250,000 and State Tax Credits of $210,000 from DHCD;
- Developer fee deferral of $355,173;
- Massachusetts Historical Commission increase of Tax Credits ($659,000).

These resources leveraged a MassHousing tax credit equity bridge loan of $8.1 million, and a $1,750,000 million permanent loan.

CONCLUSION

So much of what must happen in the financing of affordable housing in this area of limited resources is taking existing resources – and programs that have existed for many years – and turning them around to be utilized in new – and hopefully more effective ways. It is not practical to wait for the allocation of new housing subsidies. Rather, housing finance agencies must look at their available resources and determine what programs are underutilized – and then find a way to enhance their effectiveness. In a snapshot in time, many HFAS are awash in volume cap and 4% tax credit capacity and starved for 9% tax credit equity allocations.

The shift of new production deals at MassHousing from 9% tax credits to 4% tax credits got important high quality deeply affordable housing built while freeing 9% capacity for deals that could not go forward any other way. MassHousing provided the “but for” resource that made these deals happen when they did and insisted on meaningful contributions from all parties, including the developer. It is highly replicable by other states that find they are oversubscribed in their 9% tax credit funding rounds – but may have resources available on the 4% side. It also encourages a collaborative effort with other funders – and even a reasonable concession from developers to help them be part of the solution. It is interesting to note that DHCD now requires that all deals pre-screen on this basis.

The winners? All of the low income individuals, elders and families who will have new, safe and decent affordable housing opportunities because of an attitude that believes that there is always another option to get a deal off the drawing board and into the ground.