NCSHA National Council of State Housing Agencies

2019 NCSHA

Attacking the Gaps: Strategies for Financing Affordable Multifamily Housing

October 21, 2019

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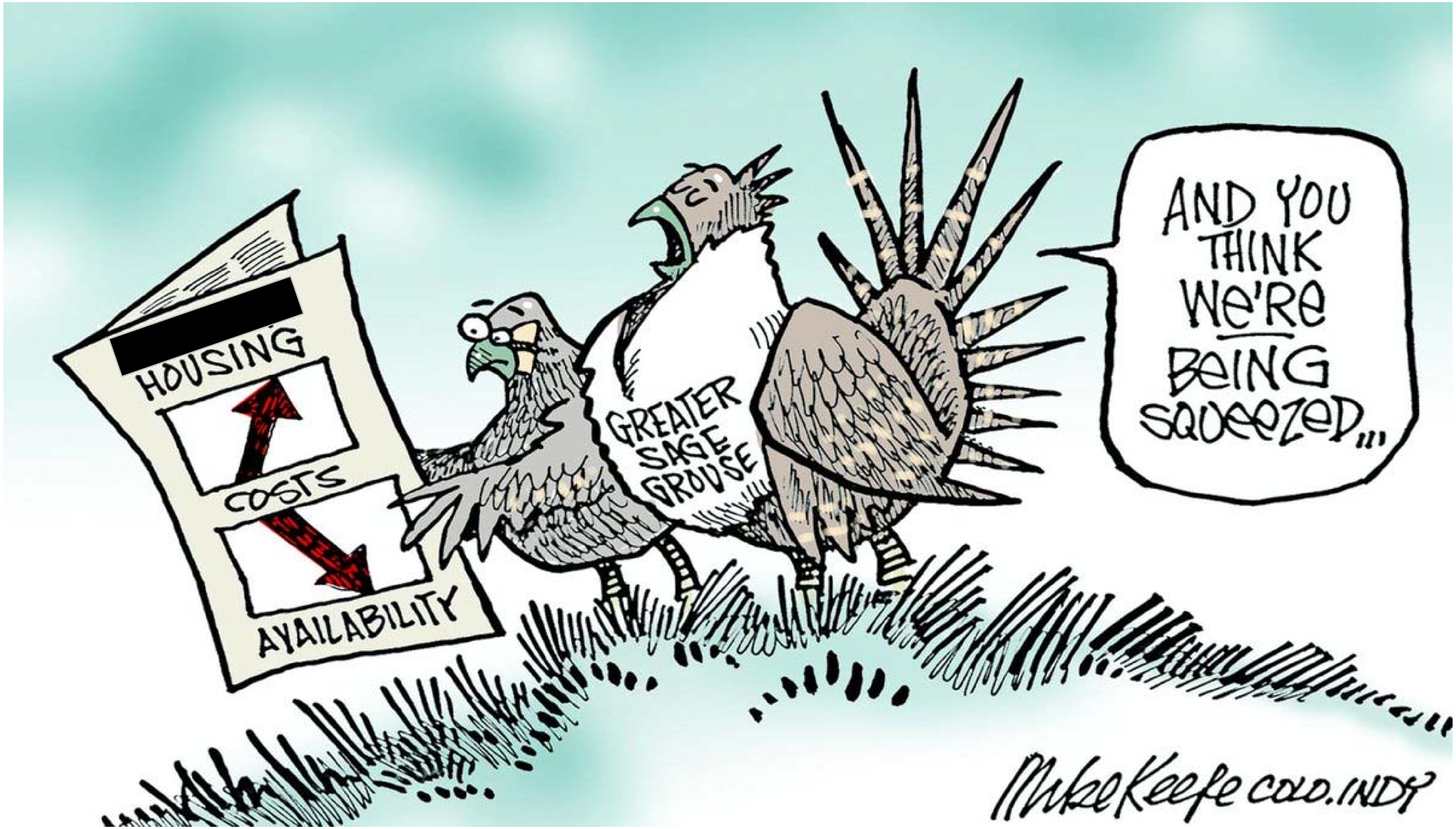
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HOUSING
COSTS
AVAILABILITY
GREATER SAGE GROUSE
AND YOU THINK WE'RE BEING SQUEEZED...
MikeKeefe COLO.INDY

Addressing the Gap Requires a Concerted Effort: Federal, State, Local and Private Partners

Affordable Housing Credit Improvement Act

- **Increasing 9% Tax Credits by 50%**
  - Typically reserved for new construction and substantial rehab
  - Created to provide 70% subsidy to a project on a PV basis
  - Fixed at 9% in 2015
- **Stabilizing 4% Tax Credits**
  - Available for rehab and new construction projects
  - Created to provide 30% subsidy to a project on a PV basis
  - Since June 2011, 4% tax credit rates have reset at 3.15% -3.32%[1]
  - Stabilizing the 4% tax credit provides predictability and more production
- **50% Equity Boost for Properties with Tenants Earning <30% AMI**
  - States currently can award up to 30% Basis Boost to provide additional housing credit for most needed developments
  - The 50% basis boost would apply only to the portion of a development reserved for extremely low-income tenants

[1] Source: National Housing & Rehabilitation Association

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▪ Affordable Housing Credit Improvement Act (cont'd)

– Reforming Multi-Family Recycling

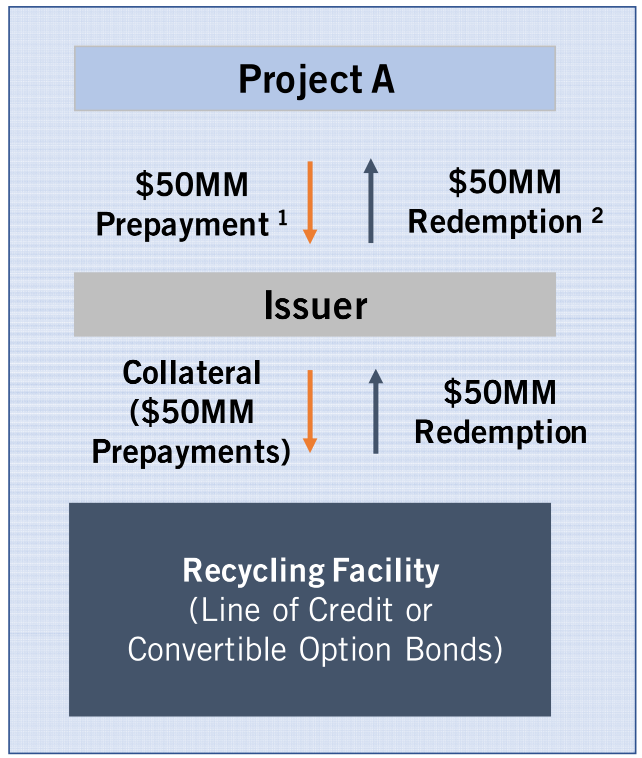
- **Allow recycled volume cap to be used for single-family financings**

  New volume cap can be diverted to multi-family financings, which comes with 4% tax credits as a bonus

- **Extend the 6-month recycling window to 12 months**

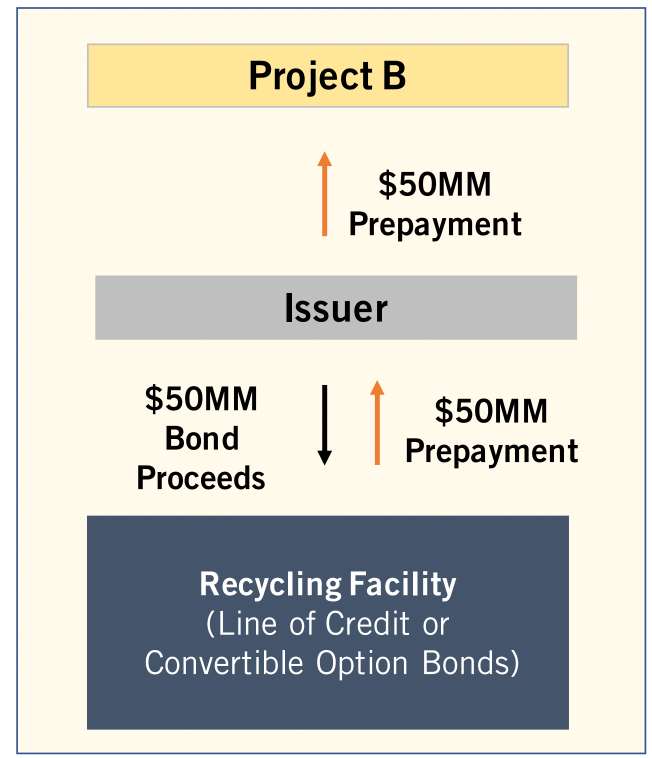
  Mitigates one of the challenges in utilizing recycled cap

Recycling Volume Cap is Created Via a Refunding



Up to 6 months later....

There is a 6 Month Window to Use Recycled Volume Cap



1. Prepayments are received 4 years from original issuance
2. Original bonds are redeemed through a refunding note issuance or bank facility draw

Addressing the Gap Requires a Concerted Effort: Federal, State, Local and Private Partners

- **Rental Assistance Demonstration ("RAD") Program**
  - **Public Private Partnership Brings in Private Capital to Public Housing**
    - Public housing is typically funded with Section 9 money which funds the Operating Fund and Capital Fund
    - RAD converts Section 9 to project based Section 8
      - Greater funding certainty and access to private capital
      - Well established program
  - **No New Volume Cap will be used in the NYCHA RAD Conversion**
    - NYCHA supplies 175,000+ units or 8% of NYC's rental housing stock[1]
    - NYCHA's plan calls for the conversion of 62,000 public housing units over 10 years
    - Taxable Bonds, recycled volume cap, NYCHDC's resources, and governmental purpose bonds are available financing tools
  - **In addition to RAD, the City of New York plans to provide $3.6 in capital contributions over 10 years to preserve NYCHA's housing stock**

[1] Source: NYCHA 2.0 Plan

Addressing the Gap Requires a Concerted Effort: Federal, State, Local and Private Partners

- **Volume Cap Preservation Strategies**
  - **Evaluate Allocating New Volume Cap for Multi-Family Financings**
    - As-of-rights tax credits can stretch that resource
  - **Allocate New Volume Cap for New Construction over Permanent Financings**
    - New construction typically requires more capital than preservation
  - **Use Recycled Volume Cap or Taxable Bonds to Finance Costs over the 50% Test**
    - Additional volume cap over the 50% test does not grant more tax credit production
    - $10MM qualified basis that receives $7MM in volume cap receives approximately $3MM in subsidy. The additional $2MM in volume cap allocated creates a loss of about $600,000 in subsidy for another project

Addressing the Gap Requires a Concerted Effort: Federal, State, Local and Private Partners

Workforce and Middle-Income Housing Alleviates Pressure on Lower Income Housing Stock

NYC HDC

- **Mixed Middle (M2)**
  (i) 20 at 50 or 25 at 60
  (ii) min. 30 at 80-100
  (iii) the rest at 130-160
- **Mix and Match**
  (i) 50 at 80-165
  (ii) 50 at up to 60
- **Mixed Income**
  (i) 50 at Market Rate
  (ii) 30 at 80-165
  (iii) 20 at up to 60
- **Recycled Cap for 1st loans for Middle Income units**
- **Corporate reserves and City/State funds for Subordinate loans**

MassHousing

- **Workforce Housing Fund launched in 2016, $100MM**
  Subordinate loans provided for projects with incomes at 60% to 120% of AMI
- **Funding from Working Capital Fund**

CalHFA California Housing Finance Agency

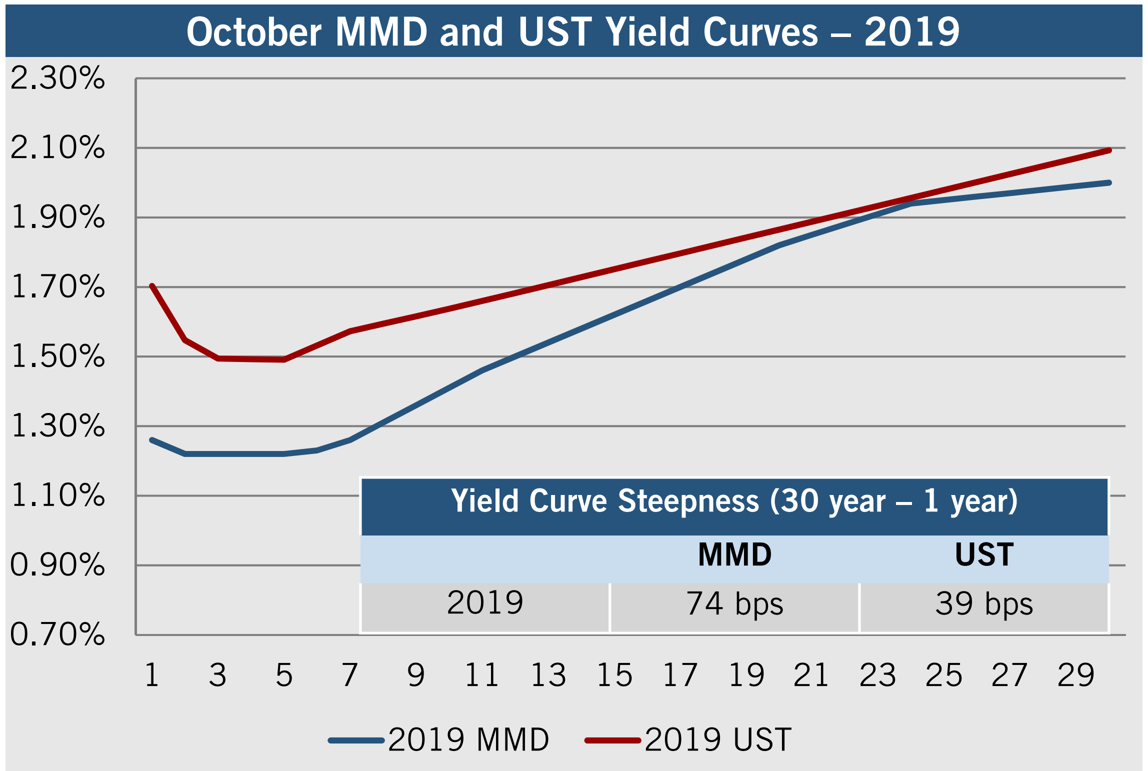
- **Building Homes and Jobs Act (SB2)**
  Effective January 1, 2018, SB2 established a permanent ongoing source of funding for affordable housing development
- **Beginning 2019, CalHFA receives 15% of the SB2 annually**
  -Expected to be $30-45MM
  -Provides subordinate loans to newly constructed residential mixed income housing with unit restrictions between 30% and 120% of AMI

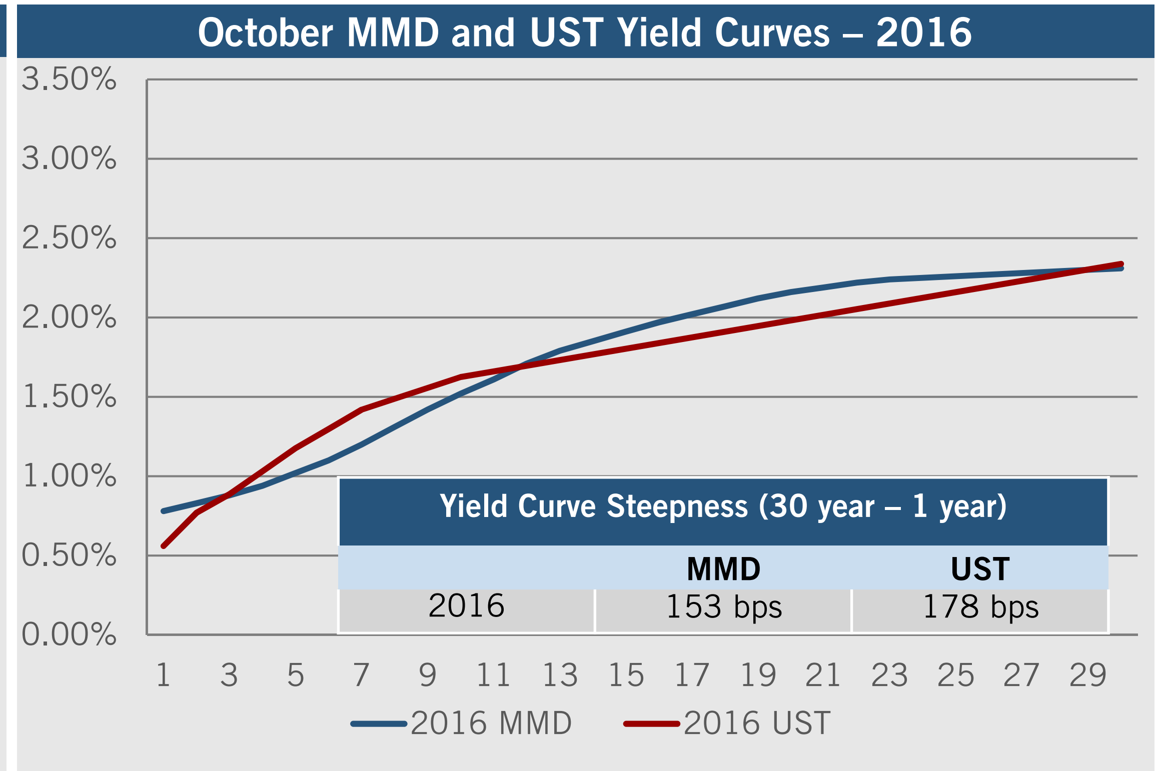
chfa

- **Workforce housing investments funded from balance sheet**
- **CHFA is an equity participant**

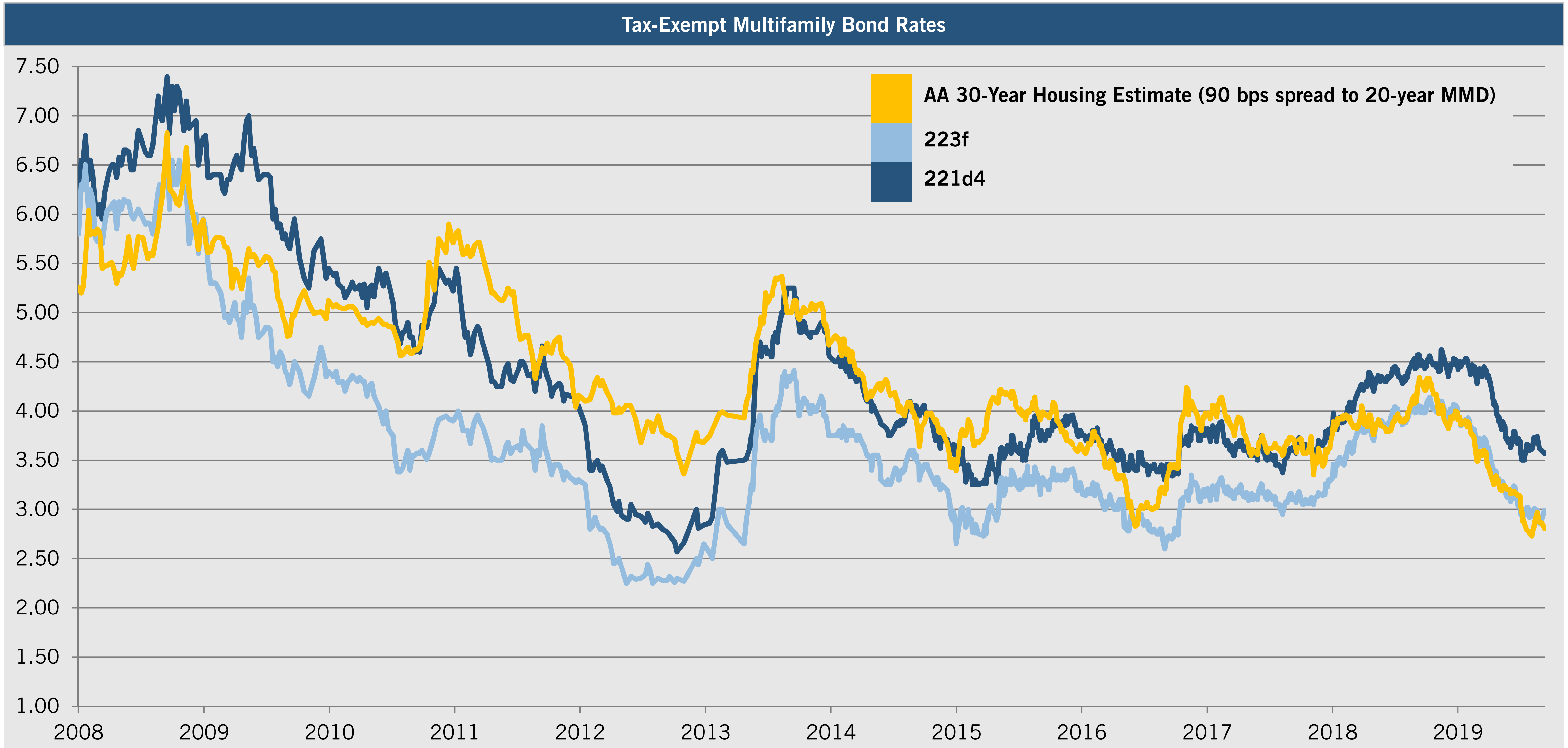
Addressing the Gap Requires a Concerted Effort: Federal, State, Local and Private Partners

- **Building an HFA's Balance Sheet Can Contribute to a Wider Array of Affordability**
  - **Seize market opportunities**
    - Current market creates an opportunity to utilize mortgage revenue bonds





Multi-Family Cost of Funds Comparison



Source: Thomson Reuters and Berkadia.

HFA Direct Lending Models

	General Obligation Bonds	Structured Finance	Open Indenture	FHA Risk-Share
Overview	**Use G.O. rating to fund loans through debt issuance**	**Structure to rating agency criteria to achieve ratings**	**Over-collateralized Indenture with insured and uninsured loans**	**Use unique insurance product for HFA loans to secure debt**
Strengths	✓ Direct underwriting ✓ Potentially more straightforward disclosure ✓ Structuring flexibility ✓ No DSRF	✓ Minimal capital ✓ Favorable rating agency view of affordable housing ✓ Criteria change risk ✓ Challenges with more depressed areas ✓ Can be paired with tax credits	✓ Build up of wealth through spread earnings over time ✓ Program underwriting flexibility ✓ Structuring flexibility	✓ Unique tool with 100% federal guarantee ✓ Programmatic efficiency with 50/50 program ✓ Can be paired with bank cash-collateralized structure ✓ 40 year term
Challenges	✗ G.O. capacity	✗ Typically lower leverage ✗ A rating cap	✗ Need for capital ✗ Value takes time	✗ Davis-Bacon wages or need to cover construction risk ✗ Initial set-up with FHA/HUD
Cost of Capital	2.90--3.30%	3.10--3.55%	2.95--3.35%	2.90--3.30%

Note: Jefferies' estimate for cost of capital

The HFA Model is Working

COST OF FUNDS

✓ With recent yield curve shifts, tax-exempt advantage is back

RISK-SHARE

✓ Unique loan enhancement product with longer term (40 years), providing up to 5% of additional value in proceeds or reduced debt service

NEGATIVE CARRY

✓ Reduced benefit of competing drawdown products likely to continue as yield curve flattens

SUBSIDY CAPITAL

✓ Greater need for subsidy due to higher costs and reduced LIHTCs brings HFAs to the table

AFFORDABLE HOUSING MANDATES

✓ Regulatory focus on affordable housing increases need for HFAs as partners