



Comptroller of the Currency
Administrator of National Banks

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Community Developments

Spring 2008

The OCC's Community Affairs Newsletter

Preservation of Affordable Multifamily Housing

Preservation

of Affordable
Multifamily Housing



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A Look Inside...

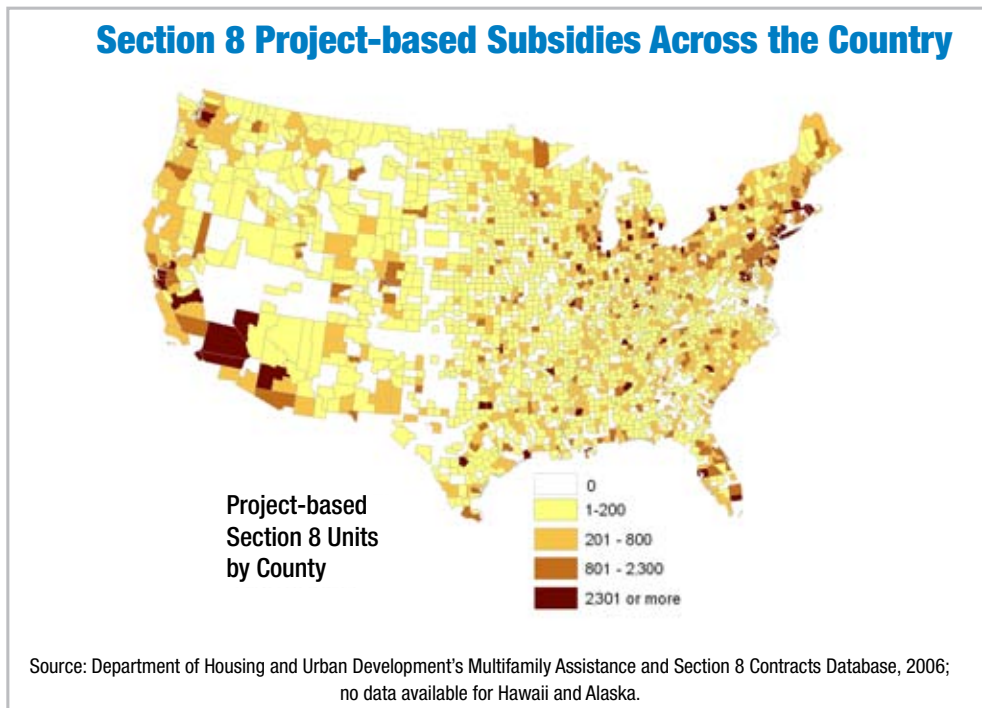
by Barry Wides, Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency (OCC)

Privately owned affordable multifamily housing provides shelter to millions of U.S. households that do not own their own homes. A significant share of this housing is made affordable to lower income families through federal subsidy programs. These programs began in the early 1960s and continue today. Over the past 40 years, the programs have supported the development of more than three million housing units.

Each of these programs provides some form of subsidy to help maintain rent levels affordable to their targeted tenants. All of these programs incorporate subsidy expiration dates, generally 20 to 40 years following the start of the subsidy for each project. Some of the subsidies in the form of initially below-market interest rates have lost value in the current environment of low interest rates. We are now entering a phase in which these expiring and obsolete subsidies will ultimately affect the loss or preservation of millions of subsidized affordable multifamily housing units in communities across the United States.

Affordable multifamily housing preservation is a complex puzzle with many pieces, including multi-layered financing, tenant relocation, local regulations governing rehabilitation, and other issues. Successful projects typically involve the participation of specialized partners, and, fortunately, industry experts are available to help coordinate these efforts.

This issue of *Community Developments* examines how banks can participate in preserving the affordability of these



multifamily housing units. It examines how four banks of various sizes have invested their resources toward meeting this important goal. It also examines several prominent multi-lender consortiums that support affordable multifamily housing preservation.

Banks that invest their resources in affordable multifamily housing preservation can receive not only a market-rate return on their investments, but may also obtain positive Community Reinvestment Act (CRA) consideration for these activities. Supporting the supply of affordable housing is one of the core activities addressed by the CRA. Indeed, preserving the existing supply of affordable housing is a critical investment strategy toward maintaining healthy communities.

We hope you will find this newsletter helpful as your bank explores opportunities in the affordable

multifamily housing preservation arena. With the help of banks partnering with other specialized actors, we can stem the loss of affordable multifamily units and help maintain the affordable multifamily housing that is so essential to the well-being of our nation's neighborhoods.

Community Developments

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A Place I Can Afford to Call Home

How Banks Help Preserve the Nation's Supply of Affordable Rental Housing

by John C. Dugan, Comptroller of the Currency

This issue of *Community Developments* focuses on affordable rental housing – and on how banks and partnering institutions and agencies are working to make such housing available to more lower income Americans.

Some 34 million American households occupy rental housing, so there are significant opportunities for banks to lend and invest in this sector. But there are significant challenges as well.

Between 1993 and 2003, the number of rental units affordable to households in the bottom third of household income distribution – those earning \$16,000 or less annually – declined by 13 percent, or roughly 1.2 million units. Many of these properties had to be vacated because of neglected maintenance. Others were upgraded and now command much higher rents or have been converted to condominiums.

As a general rule of thumb, lower income households can afford to pay no more than 30 percent of their income for housing (\$400 per month for a family earning \$16,000). That's well below median rents for decent housing today. Historically, a significant share of the rental housing available to lower income households has been made affordable through federal subsidy programs. Over the past 40 years, subsidies have supported the development of more than 3 million rental housing units.

Many of these long-term subsidies are expiring, however, and more than 200,000 units with project-based

assistance have been lost from the affordable rental housing inventory over the past decade. This trend is likely to continue in the years ahead.

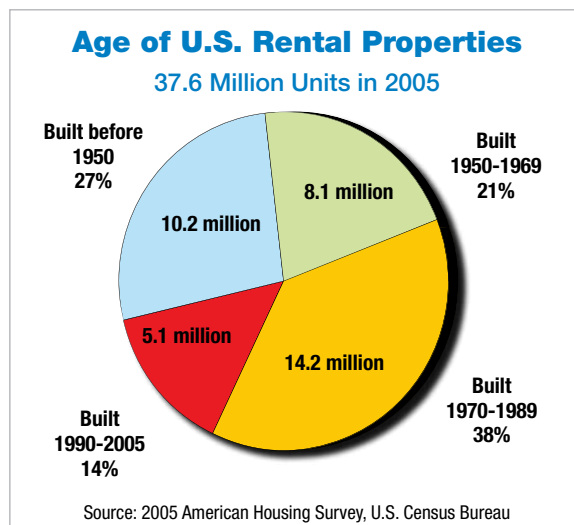
How Banks Can Help

Any crisis creates opportunities as well as challenges, and the loss of affordable rental housing is no exception. Because of the robust and continuing demand for affordable housing, innovative financial institutions can make significant direct or indirect investments profitably.

Banks working with specialized partners in viable local markets can stem the loss of affordable multifamily units and help maintain housing that is essential to the well-being of our nation's communities. If positioned correctly, banks can help meet the nation's growing need for affordable shelter while making safe, sound, and cost-effective investments in their communities.

The learning curve for banks investing in this sphere can be steep, but the upside can be commensurately rewarding. Banks that invest their resources in affordable multifamily housing preservation can receive not only a market-rate return on their investments, but may also receive positive CRA consideration for activities that support the supply of affordable housing, one of the core activities addressed by CRA.

This issue of *Community Developments* offers numerous success stories in bank multifamily rental housing investment.



For example:

- A Chicago bank put together \$66 million in deals that have rescued nearly 1,000 affordable rental units.
- In Washington state, a major bank's long-term loans helped a nonprofit acquire more than 900 rental units in rural areas.
- Working with bank partners, a nonprofit dedicated to preserving rental housing for very low-income residents saved more than 4,500 apartments in eight states and the District of Columbia.

Keys to Success

A closer look at these and similar success stories indicates that preserving affordable multifamily rental properties requires commitment and expertise. Preservation can mean tackling myriad challenges, including multi-layered financing, tenant relocation, and complex local building codes and standards governing rehabilitation.

Success requires determination, deal-making skills, and perseverance.

Few persons or institutions acting alone have the necessary resources and expertise. Managing the entire development process – the planning, financing, permitting, construction, and restoration of rental properties – can be a Herculean task. So one of the most important keys to undertaking such projects successfully has been the creation of effective local partnerships.

Successful partnerships involve the participation of specialized partners, including government agencies, foundations, nonprofit organizations, and multilender investors. Many banks have leveraged their resources – and accelerated the successful completion of profitable housing investment projects – by partnering with community development financial institutions (CDFIs) and similar entities steeped in local knowledge and community contacts.

Broad-based initiatives are equally crucial to the success of any strategy to preserve affordable rental housing. For example, the MacArthur Foundation has launched a long-term, \$150-million campaign to call attention to the importance of affordable rental housing, stimulate new policies to preserve and expand the nation's stock, and facilitate new investment and ownership arrangements. Commitments on that scale make such investments even more attractive to banks.

Working with the OCC

As the federal banking regulatory agency charged with overseeing national bank investments in community development, the OCC is taking steps to increase the capacity of banks we supervise to finance

affordable rental housing for low- and moderate-income persons.

National bank investments in affordable rental housing are typically made through the public welfare investment authority provided to national banks under the National Bank Act, which is implemented by Part 24 of the OCC's regulations. In 2006, the OCC led the way in encouraging Congress to raise the cap on such investments.

Under the previous public welfare investment authority, national banks could commit no more than 10 percent of their capital and surplus to qualifying investments primarily promoting the public welfare. Even with this limitation, during the previous decade national banks made more than \$15 billion in public welfare investments in affordable rental housing in all 50 states – investments so successful that many banks indicated they would do more if the limit were raised. Assessing the risks and rewards, the OCC recommended raising the limit to 15 percent. Congress agreed and in late 2006 enacted the change we proposed.

Unfortunately, Congress at the same time limited banks' opportunities to invest in affordable multifamily rental housing by cutting back national banks' authority to make direct investments in mixed income projects in middle-income areas. The unintended consequence has been to discourage bank investments in areas eligible for CRA credit – economically distressed middle income rural communities, disaster-stricken areas, and neighborhoods targeted by government agencies for revitalization.

Fortunately the House of Representatives has addressed this problem by passing the Depository Institution Community Development

Investments Enhancement Act (H.R. 1066). This legislation would restore the broader, long-standing authority for national banks and state-chartered banks that are members of the Federal Reserve System and would provide the same investment authority to federal savings associations. The Senate Committee on Banking, Housing, and Urban Affairs is now considering the legislation S.2487. Enactment of this change would help banks and thrifts to participate more broadly in the affordable rental market and assist in preserving the declining inventory of multifamily rental housing.

Looking Forward

As the articles in this issue make clear, there's no magic wand that will instantly reverse the current decline in the number and condition of affordable rental properties. But as these case studies and best practices also show, the achievements made possible by banks and their community partners are well worth the hard work necessary to preserve these units and bring stability and vitality back to our nation's older neighborhoods and communities. I encourage national banks interested in more information on investments in this important part of the housing sector to contact the OCC.

You can find a Directory of Affordable Rental Preservation Resources at www.occ.gov/cdd/spring08/cd/index.htm.

Saving America's Affordable Rental Housing Stock

The Need and the Role of National Banks

by Michael Bodaken, President, National Housing Trust and Todd Nedwick, Assistant Director, National Preservation Initiative, National Housing Trust

Preserving affordable rental housing has become a crucial strategy toward solving the housing dilemma facing communities all across America. Our nation's supply of its most affordable apartments is decreasing at an alarming rate. According to the Joint Center for Housing Studies at Harvard University, from 1993 to 2003, the number of apartments that rent for \$400 or less declined by 1.2 million because of conversions to higher cost rentals, gentrification, abandonment, or demolition. More than 1 million additional federally assisted or insured rental apartments are at risk over the next several years as owners contemplate opting out of the federal programs and converting their properties to more expensive housing.

The National Housing Trust (NHT) is a leading national nonprofit engaged in housing preservation through public policy initiatives, lending, and real estate development. Over the last 13 years, we have saved more than 21,000 affordable apartments in 40 states and the District of Columbia. We believe the impending expiration of federal housing contracts presents an opportunity to reinvest in and safeguard affordable housing for another generation of families and seniors.

At the Trust, we have seen firsthand the successes that can occur when innovative local, state, and federal policy leaders, dedicated mission-driven housing developers, and private lenders commit to preserving affordable

housing. The key to preservation is deploying sufficient resources in a timely, responsible fashion. In this article, we describe how national banks can play an essential and profitable role in housing preservation and provide examples of how some banks are already playing a key role.

We also observe that state and local policy leaders are recognizing that preservation is sensible public policy and show how they are increasingly devoting otherwise scarce resources to preservation. In short, intelligent investment in bridge financing, and bond or tax credit equity purchasing can earn a lender the prevailing market rate and harness efficiencies that ultimately benefit low-income renters.

How Did We Get Here?

The federal assisted housing story begins in 1937 with the National Housing Act. The act committed the United States "to remedy the unsafe and unsanitary conditions and the acute shortage of decent, safe and sanitary dwellings for families of low income in rural or urban communities that are injurious to the health, safety and morals of the citizens of the nation."

In 1949, Congress established as a cornerstone of national policy "the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family." Congress reaffirmed this policy in 1968, declaring that "the highest priority and emphasis should be given to

meeting the housing needs of those families for which the national goal has not become a reality."

Between 1965 and 1974, private builders were offered below-market interest rate Federal Housing Administration-insured loans for affordable units reserved for low-income families and seniors. The program was highly successful, generating the development of more than 600,000 homes during this decade. These properties are often referred to as "older assisted housing."

Apartments created under the Section 8 New Construction/Substantial Rehabilitation (NC/SR) program are typically referred to as "newer assisted housing." The program was made part of the Housing and Community Development Act of 1974 during the Nixon/Ford administrations. Designed for private operation, this program provided federal insurance as an option. All these units received project-based subsidies. This program produced almost one million apartments between 1974 and 1983 in nearly every community in the nation.

Rural areas have also benefited from the U.S. Department of Agriculture's Section 515 program, which has subsidized the development of more than 400,000 units of affordable rental housing.

Lastly, the federal Low-Income Housing Tax Credit (LIHTC) program has subsidized the production and preservation of more than 1.4 million

rental units since its inception in 1987. This program is authorized under the federal tax code but is administered primarily by state housing finance agencies.

Many federally assisted homes have rents well below market rents. But today their future in high-cost housing markets is threatened. Many properties have increased substantially in value, giving owners the incentive to opt out of the federal programs and convert the housing to market rate. Compounding these market developments, many federally assisted homes have “expiring subsidies,” as the 15- to 40-year

According to HUD data, contracts on more than 900,000 Section 8 units will expire over the next five years.

term of affordability required under the various programs comes to an end. Other properties are suffering from physical deterioration and need significant capital improvements. In any of these cases, the nation loses essential resources, unless these properties are saved.

The opportunity to preserve HUD-assisted or insured multifamily housing presents itself in a variety of scenarios, most of which are triggered by an owner’s decision to leave the HUD programs by selling the property, opting out of the Section 8 contract, or prepaying the FHA-insured mortgage. More and more owners are considering their options. According to HUD data, contracts on more than 900,000 Section 8 units will expire over the next five years. The unpaid principal balance on the loans on these properties is well over \$50 billion.

What roles can national banks play to preserve affordable housing?

Lenders can, and are, playing a crucial role in preservation. Consider the following examples:

- **Sharing in the risk of predevelopment financing.** The most difficult aspect of pursuing preservation projects occurs in the predevelopment phase. In order to evaluate the financial feasibility of preservation plans, studies must be completed, and professionals must be engaged. Should the transaction proceed to a closing, all of these costs are recouped. However, if the project does not move forward, most or all of these are sunk costs. This is a tremendous challenge for undercapitalized nonprofits.

Both financial institutions and nonprofit developers would benefit if they shared in this risk. Banks could agree to provide predevelopment dollars for a particular project, matched in part by the nonprofit developer, in exchange for a more substantial and/or longer term participation in permanent future financing of the project. Lenders’ more substantial roles might include direct purchase of tax-exempt bonds, direct purchase of low-income housing tax credits, or provision of construction loans.

- **Investing in intermediaries such as CDFIs.** Community development organizations are also raising funds to finance predevelopment and interim development loans at below-market rates to local nonprofit developers. Banks are providing key investments to capitalize these funds.

Galen Terrace Development Budget

The NHT recently preserved Galen Terrace Apartments, an 83-unit, 100 percent project-based Section 8 property in Washington, D.C. The project’s budget demonstrates the opportunities available to banks: 42 percent of funds were raised from tax-exempt bonds placed with MMA Financial and 34 percent of funds were raised from tax credit equity.

Sources of Funds

Tax-Exempt Bonds	\$ 5,660,000
LIHTC Equity	4,702,000
City Loan	3,252,000
Total	\$13,614,000

Uses of Funds

Acquisition	\$ 2,777,000
Rehabilitation	5,393,000
Soft Costs	5,444,000
Total	\$13,614,000

Source: NHT

For example, the NHT Community Development Fund provides early financing to developers to help them purchase and renovate affordable apartments. Bank of America and SunTrust Bank are major investors in the fund. To date, loans totaling more than \$7 million have been made to help save more than 4,700 apartments. These loans have leveraged \$390 million in private financing to fund affordable housing preservation.

- **Providing favorable permanent financing terms.** We are seeing more and more lenders use 40-year private placements as a means to preserve affordable housing, particularly in high-cost

areas where the purchaser needs additional proceeds to make the financing work. The NHT recently preserved and improved Galen Terrace Apartments (see sidebar on page 6) in Washington, District of Columbia. We received a 40-year amortization on tax-exempt bonds privately

Nearly all states now prioritize preservation in their LIHTC programs [and] state housing trust funds.

placed with MMA Financial that yielded proceeds of \$4.5 million. Amortizing the bonds over a shorter 30-year term would have caused a gap of \$350,000, more than \$4,000 per unit.

- **Providing standby letters of credit to help enhance the credit rating of 501(c)(3) bonds.** This is particularly useful when used with so-called “Lower Floater” type bonds when the interest rate of the bonds varies over time. The letter of credit can help reduce the interest rate, ultimately lowering the cost of permanent financing and making the transaction more economically feasible. Thus, for the purchase of Walden Oaks, a Section 8 property in Woodstock, Illinois, First Chicago Bank and Trust provided a \$550,000 letter of credit to enhance a \$3,425,000 seven-year mini-permanent participation loan issued by the Local Initiatives Support Corporation, the Housing Partnership Fund, and Enterprise Community Partners. The acquisition enabled the Hispanic Housing Development Corporation to preserve 192 rental units at risk because of strong market pressures.

- **Purchasing tax credits.** LIHTCs are increasingly being used to help purchase and renovate existing multifamily housing. The same firm that provides the bridge and the take out financing can purchase the property’s tax credits. In any given year, LIHTCs are used to preserve and improve more than 60,000 apartments throughout the United States. The total amount of tax credit funding is more than \$2 billion.

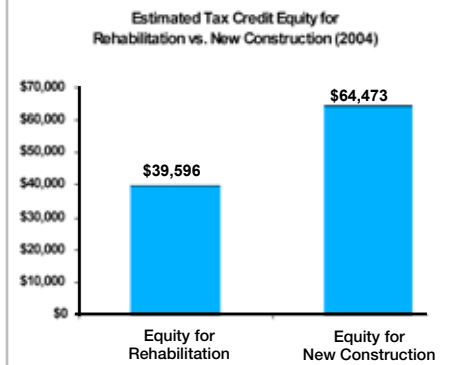
Times Have Changed: Preservation Is a Priority for State and Local Housing Agencies

In response to substantial reductions in federal support for affordable housing at the same time as the loss of assisted affordable housing has accelerated, many states, cities, and counties are increasing resources dedicated to affordable housing preservation and development. For instance, nearly all states now prioritize preservation in their competitive LIHTC programs. Similarly, nearly all state housing trust funds now support preservation activities, and many funds prioritize them as preferred activities. At the local level, some counties dedicate tax revenues to affordable housing preservation. Several local governments facilitate landlord participation in the project-based Section 8 program by providing a guarantee, pledging their own resources to replace federal Section 8 payments to landlords when the federal government fails to meet its obligations. For more information on state and local preservation policies, visit the public policy section of NHT’s Web site: www.nhtinc.org/pub_pol.asp.

Conclusion

We are now faced with an opportunity to safeguard hundreds of thousands of affordable homes that serve as the

Preservation Is Cost Effective



- Rehabilitated properties received less than \$40,000 in tax credit equity for each apartment.
- Each newly constructed apartment received approximately \$65,000 in equity.

Source: NHT

foundation of vibrant communities. Never has the opportunity to harness market forces to do social good been greater. The resources exist. The choice is ours.

For additional information, visit NHT at www.nhtinc.org, or contact Michael Bodaken at mbodaken@nhtinc.org or Todd Nedwick at tnedwick@nhtinc.org.

HUD Preservation Tools

A number of federal tools and programs exist to help preserve the subsidized affordable housing stock. These tools provide incentives to owners to remain in the federal programs, provide funds for property rehabilitation and gap financing through grants or loans, or help facilitate the transfer of a subsidized property to a nonprofit, mission-driven organization.

Preservation Tool	Applicable Properties	Description of Tool
Mark-to-Market Debt Restructuring	Project-based Section 8 properties with an FHA-insured or HUD-held mortgage and where Section 8 contract rents are above-market rate.	The HUD-insured mortgage is bifurcated. The first is sized to an amount that is supportable at market rate rents. The remaining unpaid principal balance is structured as a HUD-held note that is serviced with 75 percent of surplus cash. The restructuring allows owners to finance rehabilitation needs and cover operating expenses. Repair escrows are provided for immediate capital needs, and increased deposits to reserve accounts are made to address long-term physical needs. In addition to cash flow, owners receive fees based on operating performance and a return on investments required by the program.
Mark-Up-to-Market	Project-based Section 8 properties owned by a for-profit or limited dividend entity with Section 8 contract rents that are below-market rents but in excess of 100 percent of HUD's published "fair market rent."	This tool provides incentives for owners with below-market rents to remain in the Section 8 program. Owners are permitted to increase rents up to the lesser of market rate levels or 150 percent of HUD's published "fair market rent." The increased cash flow resulting from the higher rents may be used to recapitalize the property and increase distributions to owners of limited-dividend projects.
Mark-Up-to-Market for a Nonprofit Transfer	Project-based Section 8 properties being transferred to a nonprofit organization when Section 8 contract rents are below-market rents (FMR).	This tool provides resources for nonprofit, mission-driven organizations to acquire and preserve Section 8 properties. Nonprofit buyers are permitted to increase rents up to the lesser of "post-rehab" market rents or 150 percent of HUD's published "fair market rent."
Mark-Up-to-Budget	Project-based Section 8 properties owned by nonprofits when rents are below market.	This tool provides resources for nonprofit owners to recapitalize a Section 8 property. Nonprofit owners are permitted to increase below-market rents up to 150 percent of FMR (or higher if HUD permits) if project needs are justified. Higher rents allow nonprofit owners to support additional debt for rehabilitation or to increase contributions to the replacement reserve for future repairs.
FHA Risk Sharing Loans	All types of eligible properties provided that the loans result in affordable housing.	Insurance for mortgages of multifamily housing projects with loans are underwritten by a Housing Finance Agency (HFA). HUD and HFAs share in the risk of the mortgage. HFAs may elect to share from 10 to 90 percent of the loss on a loan with HUD. The HFA reimburses HUD in the event of a claim pursuant to terms of the risk-sharing agreement.
Section 236 IRP Decoupling	Properties with mortgages subsidized through the Section 236 program.	Original Section 236 financing provides ongoing interest reduction payments (IRP) in amounts that reduce the effective interest rate on the mortgage to 1 percent. In a decoupling transaction, the Section 236 mortgage is prepaid, and the previously budgeted IRPs are retained. The anticipated flow of funds from the IRP can be leveraged to support debt in addition to what can be supported by the net operating income, providing additional funds for rehabilitation needs.
HOME and CDBG Grants	Programs administered by states and localities to determine eligible properties.	These are federal block grant programs that provide state and localities with a source of funding to meet their community development and affordable housing needs. Rehabilitation of subsidized rental housing is an eligible activity that competes with other types of uses.
Project-based Vouchers	Project-based voucher assistance not available for rental units assisted under certain federal housing programs (e.g., rental rehabilitation and public housing).	Project-based vouchers are a component of a public housing agency's (PHA) housing choice voucher program. A PHA can attach up to 20 percent of its voucher assistance to specific housing units if the owner agrees to rehabilitate the units. Rehabilitated units must require at least \$1,000 of rehabilitation per unit to be subsidized, and all units must meet HUD housing quality standards.

For further information, visit HUD at www.hud.gov or the FHA at www.fha.gov.

Source: HUD

Banking on Preservation

New Opportunities for Banks to Preserve and Improve the Existing Stock of Affordable Rental Homes

by Debra D. Schwartz, Director of Program-related Investments, The John D. and Catherine T. MacArthur Foundation

With so much attention and concern focused on homeownership and rising foreclosure rates, it is easy to forget that one-third of all U.S. households, roughly 37 million, currently rent their homes. The fact is that nearly all of us are or have been renters at some point in our lives, and only a minority of low-income renters benefit from direct government subsidies.

Unfortunately, our nation's existing supply of subsidized and unsubsidized affordable rental homes is eroding, even as the need for decent, low-cost homes continues to grow. Harvard University's Joint Center for Housing Studies reports that over the past 10 years two existing units were lost for every affordable rental newly built. Without concerted action, our nation's stock of affordable rental housing is projected to fall by another million units or more in the decade ahead.

Why Preserve and Improve Affordable Rental Homes?

Affordable rental housing is a precious national resource. For those who cannot afford homeownership, rental housing allows families and the elderly to live in stable, diverse communities close to services, transit, and work.

In 2005, more than 15.6 million renter households had annual incomes at or below \$24,000. They can afford an apartment that costs at most \$600 per month, but the median monthly rent for a newly constructed apartment currently averages \$850.



This rural, upstate New York preservation project in Hudson Valley received financing from the Housing Assistance Council, U.S. Department of Agriculture (USDA), U.S. Treasury Department, and the MacArthur Foundation.

Federal and state government programs currently provide more than \$30 billion annually to make privately owned housing more affordable for low-income renters. Nonetheless, the number of renters paying more than half of their income for housing or living in severely substandard housing now totals nearly 9 million. This is the highest number reported since HUD began collecting data in 1990. This increase in "worst case" housing needs occurred among all family types and in all regions of the country.

Part of the problem is that wages at the bottom of the economic ladder have not kept pace with rising rents. The stock of low-cost rental homes also has fallen because of demolition, condominium conversion, and the expiration of

government subsidies and affordability restrictions. Between 1993 and 2003, the number of housing units renting for \$400 per month or less, in inflation-adjusted terms, declined by 1.2 million.

Billions of taxpayer dollars were invested over the past 50 years to create and maintain the rental homes now being lost. Preserving and improving the existing stock of affordable housing capitalizes on this past investment while also making cost-effective use of newly raised capital. The NHT recently determined that it costs approximately 40 percent less to preserve an existing apartment than to build one anew. Renovating an existing building produces less construction waste, uses fewer new materials, requires less energy than



Mercy Housing rehabilitated Cobble Knoll with long-term loans from US Bank.

“best-in-class” business practices and financial reporting.

Bank Support for Affordable Housing Preservation

A growing number of banks and financial institutions recognize the urgent need to combat the loss of affordable rental housing in urban, suburban, and rural communities throughout the United States. Working in partnership with nonprofits, foundations, and the public sector, these banks are seizing the window of opportunity that exists to preserve and improve tens of thousands of affordable rental homes each year. In addition to the strategies and examples offered by Michael Bodaken on page 5 of this issue, the following are examples of how banks can invest and partner to help preserve affordable rental housing.

Short-term Loans for Preservation Projects

The combination of market pressures and time-sensitive regulatory requirements frequently creates a “need for speed” among preservation buyers. Predevelopment and interim acquisition loans are critical in

these situations because they enable preservation-minded buyers to compete effectively for properties that are at risk of conversion to condominiums, higher-cost rentals, or

“opt out” from government subsidy programs and expiring affordability restrictions. A preservation buyer may need predevelopment financing to cover early due diligence and earnest money deposits. When multiple regulatory agencies are involved or extra time is needed to obtain and close on tax credits and other long-term financing, an interim loan may be needed for a few months or as long as two or three years.

Arizona Bank and Trust is helping meet this critical need for Community Services of Arizona (CSA), a nonprofit developer and operator of affordable housing in the Southwest. Using a secured line of credit from this bank, CSA can acquire small multifamily apartment buildings, up to about 12 units in size. The \$2 million line of credit is a key part of CSA’s effort to preserve smaller multifamily projects

Strength Matters for Community Development Real Estate Institutions

Strength Matters is a collaborative effort among many national and local organizations in the affordable housing field to increase the capacity of community development real estate institutions (CDREIs). The organization is coordinated by NeighborWorks America and funded by The John D. and Catherine T. MacArthur Foundation. Strength Matters’ mission is to lay the groundwork for more investors to support the capital needs of CDREIs.

CDREIs are nonprofit organizations focused primarily on the development, preservation, and long-term ownership of affordable housing and commercial real estate serving low-income communities or households. The infusion of increased capacity and financial resources will better enable CDREIs to preserve affordable rental housing units.

Three focus groups of investors, chief executive officers, and chief financial officers proposed in 2006 the following initiatives for Strength Matters to:

- Develop financial reporting best practices for CDREIs.
- Develop common underwriting and monitoring guidelines for investors in CDREIs.
- Research and recommend reducing policy constraints confronting CDREIs.
- Document strategies to improve overall CDREI financial sustainability.

For further information about Strength Matters, contact Frances Ferguson, Director of the NeighborWorks Multifamily Initiative, at FFerguson@nw.org.

in the Phoenix area. Access to these funds enables the nonprofit to act quickly in the marketplace to secure a preservation opportunity and to take up to a full year to replace the line with a permanent loan and other resources from the local government subsidy providers.

When communities lose their rental stock, it becomes more difficult to accommodate a diverse population with a healthy mix of incomes, ages, and occupations.

Providing capital to CDFIs is another way for banks to help preservation buyers meet their predevelopment and interim financing needs. CDFIs can blend bank funds with below-market, unsecured loans from foundations like MacArthur to offer customized, timely financing on attractive terms. A number of CDFIs cater to the preservation market and have the expertise to assess and resolve complex financing and regulatory issues that frequently crop up for preservation projects. Today's national leaders in this arena include National Housing Trust Community Development Fund; the Housing Partnership Fund; Neighborhood Capital Corporation; Enterprise Community Loan Fund; and Local Initiatives Support Corporation (LISC).

Rehab Construction Loans for Preservation Projects

Financing is almost always needed whether a preservation project requires extensive renovations or modest rehab. "Green" upgrades are increasingly part of this mix. Energy-efficient improvements enhance the affordability of the existing multifamily rental stock while reducing the carbon footprint of renters. These loans may be in the form

Why Owners Sell Affordable Rental Units

Rental housing continues to meet the needs of about one in three families in the United States, or more than 35 million people, at any given time. This population is projected to rise by another 2 million households over the next 10 years. More than half (about 19 million) of today's renters live on annual incomes that qualify for government housing programs, and only 5 million (over 25 percent of the needy population) receive direct housing assistance. While the number of families that need affordable rental units is increasing, the number of rental units being built and maintained as affordable is declining.

The stock of affordable rental units is eroding because a number of economic factors are coalescing and encouraging owners to sell the properties. Some of the reasons for selling are:

- In hot real estate markets, large financial profits can be made by converting properties to market-rate rental units or by selling units as condominiums. For many owners, this is merely good business.
- In weak real estate markets, owners may be unable to generate enough cash flow to support debt service. This is especially common after the expiration of a rent subsidy.
- Older buildings may need substantial capital and energy improvements for stability. In many cases, when cash flow is limited and may only support debt service, properties are left to deteriorate.
- Building management issues, including criminal behavior, may need to be addressed. Minimal cash flow and/or poor management may leave issues unaddressed and undesirable for owners.
- Many original owners are interested in divesting properties they have owned for 30 and 40 years to focus on retirement and liquidating assets.
- Many original owners had 15- and 20-year government subsidies with affordability restrictions. These are nearing the end of the obligation period, and owners are looking for financial options.
- Some of the subsidies, in the form of below-market interest rates, have lost value in the current environment of low interest rates. Owners are uninterested in government funding programs because they can find alternative financing without rent restriction requirements.

of standard construction loans or can be revolving lines of credit to facilitate access by nonprofit developers working on multiple projects.

SunTrust Bank has provided a line of credit to the Maryland-based nonprofit Homes for America that enables this active, capable nonprofit to quickly acquire and renovate its preservation properties. The bank conducts only minimal underwriting for each project and funds up to 90

percent of each acquisition. For a recent project in Richmond, Virginia, the bank's initial acquisition loan was followed by a \$3.2 million loan for rehabilitation costs provided at the closing of the tax credit syndication. A permanent mortgage from the state housing agency and equity paid off the bank's loan after the rehab work was completed for this 102-unit property serving low-income families.

Long-term Financing for Preservation Projects

Beyond providing loans for predevelopment, acquisition, and renovation of preservation projects, banks are actively involved as sources of market-rate, first-mortgage loans. Locally based community banks also play an active role in this market. They can be especially important partners in smaller preservation projects that fall outside the guidelines for typical sources of public subsidy and debt financing.

A growing number of banks and financial institutions recognize the urgent need to combat the loss of affordable rental housing in urban, suburban, and rural communities throughout the United States.

For example, long-term loans from US Bank were instrumental to the success of Mercy Housing's groundbreaking acquisition of a 926-unit portfolio of rental properties located in rural areas across Washington state (see photo on page 11). The property serves both low-income families and seniors, about half of which receive direct rental assistance from the USDA. This groundbreaking project subsequently became an important model for the USDA Rural Development Multi-Family Housing Preservation and Revitalization Program, which is working to save hundreds of at-risk affordable rental properties in rural communities nationwide.

In Maryland, Susquehanna Bank has helped Homes for America carry out two preservation projects with long-term loans subsidized through the



Walden Oaks is a 192-unit rental property in Woodstock, Illinois. The preservation of the project included a critical letter of credit that helped mitigate significant interest rate risk.

Affordable Housing Program (AHP) of the Federal Home Loan Bank of Atlanta. Each of the projects has fewer than 50 units and has needed only a small amount of subsidy for acquisition and minor rehab. Neither project was a good fit for other local or state funding programs.

Credit Enhancement to Mitigate Special Risks

Some preservation projects face unusual funding risks and timing challenges related to government appropriations refinancing prohibitions associated with particular types of government-backed mortgages. By providing letters of credit, banks help preservation buyers bridge these problematic funding and timing gaps.

For example, Labe Bank in Chicago provided a \$550,000 letter of credit that helped Hispanic Housing Development Corporation preserve a 192-unit rental property in Woodstock, Illinois, which is home to seniors, physically handicapped individuals, and low-income families. Three community

development financial institutions (Local Initiatives Support Corporation, Enterprise Community Loan Fund, and the Housing Partnership Fund) came together to provide a loan that allowed Hispanic Housing to cover its full purchase price, while leaving in place a government-backed second mortgage that could not be refinanced for another seven years. While the three lenders are sharing the future refinancing risk associated with this loan, the bank letter of credit mitigated significant interest rate risk to which they also were exposed, making it a key element in this innovative transaction.

Public-Private Preservation Funds

Larger preservation projects may prove especially difficult and costly if the developer needs to cobble together interim acquisition loans from multiple sources. This might be necessary when individual lenders are unable to extend the full amount of financing needed. Across the country, foundations, government, and leading

banks are working together to create dedicated, geographically targeted financing vehicles that help overcome these critical financing barriers for preservation projects.

In 2005 New York City launched a \$200 million Housing Acquisition Fund backed by \$8 million in public funds, \$32 million provided by a group of six foundations, including the MacArthur Foundation, and loan purchase commitments from a syndicate of 16 banks, led by JPMorgan Chase. Together, the public and foundation funds are being used as a guaranty pool to provide credit enhancement for short-term acquisition/bridge and predevelopment loans that the banks agree to fund on favorable, pre-negotiated terms.

Working through New York's new fund, one of its designated originators, Enterprise Community Loan Fund, provided a \$23 million loan in mid-2007 to Fordham-Bedford Community Development Corporation. Fordham-Bedford used the loan proceeds to purchase a portfolio of six unsubsidized rental buildings in the Bronx. To retire the bridge loan and secure the long-term affordability of its newly acquired properties, the organization will use a future allocation of LIHTCs and a mix of other long-term capital sources.

Other regionally focused public-private acquisition funds are operating, in development, or actively under consideration in: Washington, District of Columbia; Atlanta; Louisiana; Los Angeles; Chicago; Florida; and Portland, Oregon. In Chicago, the nonprofit Community Investment Corporation used a below-market loan from the MacArthur Foundation to help raise a \$22-million bank pool led by Park National Bank. Funds from this

bank pool will enable the organization to expand its work on behalf of the city of Chicago's innovative Troubled Buildings Initiative and the Cook County Preservation Compact.

To undertake acquisitions of large properties or portfolios, substantial early-stage funds may be required.

To provide both short- and long-term financing for preservation projects in rural areas, the Housing Assistance Council has established a national loan fund with program-related investment funding from MacArthur, a long-term loan from the USDA, and a recent grant award from the U.S. Treasury Department. During its first year, this new fund provided financing for 12 preservation projects, including properties in Washington state, Kansas, New Mexico, and upstate New York.

An Ongoing Priority for Community Investment

This mounting track record of innovative financing activity and preservation success is encouraging. But much remains to be done. The best available data suggest that 50,000 to 100,000 units are preserved each year, but an average of 150,000 or more are being lost. As long as affordable housing remains a pressing concern, preservation needs will have to be met. As with all real estate, rental properties require periodic recapitalization and renewal, notwithstanding the lack of dedicated programs designed to address this ongoing affordable housing need.

More than dollars and buildings are at stake. When affordable rental homes are lost, families and seniors with modest means and few housing alternatives are destabilized. When

communities lose their rental stock, it becomes more difficult to accommodate a diverse population with a healthy mix of incomes, ages, and occupations. Moreover, a growing body of research indicates that people who live in stable, affordable homes near where they work do better in holding jobs, and their children do better in school. For aging seniors and others with health problems or physical limitations, stable and affordable housing often is a critical lifeline that provides ready access to vital services.

To directly counter the losses otherwise projected to occur over the decade ahead, existing affordable rental homes must be preserved and improved. Banks can play a vital role in this arena, helping to address a pressing community need while capitalizing on a time-sensitive opportunity. Through partnerships with the public, nonprofit, and philanthropic sectors, banks can deliver the capital and financial tools that capable, mission-driven preservation owners need to carry out successful projects, to strengthen communities, to expand social and economic opportunity, and to provide decent, affordable housing for many years to come.

Debra D. Schwartz leads the foundation's \$75 million national initiative, Window of Opportunity: Preserving Affordable Rental Housing. More information about the foundation and its support for affordable housing is available at www.macfound.org.

Bank Support of Preservation

Section 2 includes four articles that describe how three large banks and one midsized bank use business lines to invest in and support affordable multifamily housing preservation. MB Financial, a midsized bank, engages in preservation projects primarily through its bank community development corporation (CDC). JPMorgan Chase, PNC, and Wachovia each use multiple lines of business to participate in both debt and equity investment opportunities, though they differ somewhat in how they organize their participation. The articles describe how the banks are organized, how preservation investments are handled, and how each bank carries on a particular activity. The specific aspects of each bank's approach to preservation are illustrated so they can be replicated by other institutions. This article illustrates the multi-level financing required for many preservation projects, and how banks can help facilitate the complex transactions required to accomplish these projects.

College Park Apartment Homes

(formerly Bradford Court Apartments)

Sources and Uses of Funds

Sources

Project NOI Bonds	\$ 5,371,886
IRP Support Bonds	2,045,602
State Trust Funds	750,000
DuPage County	903,830
LIHTC Equity	4,690,680
Federal Home Loan Bank(s) AHP	500,000
Total	\$ 14,261,998

Uses

Hard Costs	\$ 10,852,112
Soft Costs	1,923,856
Developer Fee	1,486,030
Total	\$ 14,261,998

Source: MB Financial

MB Financial: A Preservation Case Study

by Thomas P. FitzGibbon, President, MB Financial Community Development Corporation

Over the past 10 years, The MB Financial Community Development Corporation, a subsidiary of MB Financial Bank, N.A., Chicago, has built a strong reputation in the fight to preserve affordable housing for low- and moderate-income (LMI) residents. Since 1998, MB Financial has pulled together \$66 million in deals that rescued nearly 1,000 units of affordable multifamily housing for populations that face severe challenges in finding rentals: elderly residents, low- and moderate-income families, and tenants with mental or physical handicaps.

Established in 1995, MB Financial Bank is the \$7.9 billion lead bank for MB Financial, a multi-bank holding company. MB Financial CDC manages high-quality debt transactions that provide market-rate return to the bank, while maximizing opportunities to leverage conventional lending within MB Financial Bank's CRA assessment area.

The activities of MB Financial CDC, which shares common management and directors with the bank, are solely attributable to MB Financial Bank. Its work helped the bank achieve an outstanding overall CRA rating in 2006.

Bradford Court Apartments

MB Financial CDC's experience and reputation has led many organizations to seek the company's help. In 2003, four different sources each came to the bank hoping it could assist in preserving the Bradford Court Apartments in Addison, Illinois. The story behind the apartments is common in many suburban neighborhoods.

Home prices are high in the Village of Addison, a western suburb of Chicago

with well-respected schools and parks, a median income of nearly \$54,000, and a population of about 36,000. The 200-unit Bradford Court Apartments was an oasis of affordability for its 140 low-income and 60 very low-income households.

Yet all was not well with Bradford Court. The project-based Section 8 contract that generated most of the development's rental stream was nearing expiration. As this deadline grew closer, the out-of-state passive owner invested less effort in property management and deferred physical maintenance of the project. This contributed to the continuation of the development's long history of violence involving gang members and drug dealers.

The time was right for new ownership. But in the hot housing market of DuPage County, Illinois, affordable housing advocates were concerned that the new owners might not maintain the property with the same levels of affordability as had been present under the Section 8 contract. The new owners would need to make a substantial investment in both physically rehabilitating the property and providing more active management to address the effect of the previous years of neglect.

The Hampstead Companies of San Diego, California, a for-profit developer with extensive low-income housing preservation experience, was interested in taking over and rehabilitating the property. They drew upon MB Financial CDC's expertise in these multi-layered financing transactions and ultimately put together a proposal that would maintain the development's



Bradford Court Apartments, renamed College Park, is a 200-unit rental housing project in Addison, Illinois.

long-term financial viability and housing affordability.

Complexity Is Common

At purchase, the Hampstead Companies replaced the existing mortgage with a Section 236(b) mortgage, through which HUD subsidizes its mortgage debt service in return for the owners' commitment to long-term affordability. They also renewed the development's Section 8 contract with HUD, which subsidizes low-income tenants' rental payments. Together, the Section 236 loan and Section 8 contract help to lower the operating costs that must be covered by tenant rental payments. The project also benefited from using 9 percent LIHTCs, taxable bonds issued by Illinois Housing Development Authority (IDHA), an IDHA State Trust Fund Loan, and the restructuring of an existing DuPage County CDBG loan.

MB Financial also received a \$500,000 Chicago Federal Home Loan Bank AHP grant with the Housing Opportunity Center, a Chicago affordable housing advocacy group serving as its nonprofit sponsor (see sidebar on page 17). A frequent participant in the AHP program, MB Financial has received \$11.2 million in AHP funds since 2003, which funded 26 projects throughout the Chicago land market, including 1,145 units within Chicago.

College Park was a typical deal for the CDC in that it created a profit in the bank's charitable grant fund and was short term.

Lastly, the Hampstead Companies agreed to defer its fee until the project was complete. In addition, six sources

of funds were brought together to make this deal work (see table on page 15).

As they moved toward closing the deal, the Hampstead Companies faced the challenge of allocating \$5.5 million in 9 percent LIHTCs before the end of the 2003 or they would be lost. MB Financial entered the deal in September of 2003.

An additional complication involved the LIHTC equity investor, who was not willing to advance any funds until the project was certified as compliant with the LIHTC programs tenancy requirements. This would not occur until after construction was complete and leased with tenants income-qualifying under the program. All parties to the transaction needed to be flexible and creative during the last 90 days to help the deal come together.

Although that combination of funds and deferred fees generated enough capital to fund the purchase of the property, Hampstead Companies still needed an additional \$2 million to fund rehabilitation costs. With the year-end tax credit deadline looming, MB Financial stepped in with a \$1.9 million loan and a \$100,000 letter of credit. This basically served as a bridge loan until the LIHTC equity contributions became available following project certification. With so many layers of financing, and with the political and legal work that went into this structure, it was like a big dance.

In the end, the partners managed to close the deal with no time to spare. I had no New Year's Eve celebration because we were here closing the loan. We literally funded the initial disbursement at 5 p.m. on December 31.

Tenant Unknown

Hampstead Companies assumed ownership, changing the name of the complex to College Park Apartment Homes. Its first task was to identify the occupants of the buildings' units. Despite an official 5 to 10 percent vacancy rate, people were living in all the apartments or using them for other purposes. After evicting the squatters, the developers created an accurate rent roll and began moving tenants into the units the squatters had occupied. That created enough real vacancies for Hampstead Companies to start a building-by-building gut rehabilitation.

The grounds improvements included dedicated, refurbished play areas for children and basketball and tennis courts. Parking areas were resurfaced.

People want to be proud of where they live and people in the surrounding area want to be proud of the development that abuts them. The developer paid attention to that immediately. A new community center gave residents a place to gather, while new laundry facilities improved their everyday lives.

During the renovations, MB Financial continued to show its flexibility when it allowed the Illinois Housing Trust Fund to act as disbursement agent, for bond issuance proceeds, as well as the \$2 million from MB Financial. MB Financial sent its own inspectors to check on the project periodically as well.

Double Bottom Line

The complexity of the financing and the challenges inherent in turning around projects, such as College Park, tend to cloak the mission of MB Financial CDC to provide a market rate return to the bank, while maximizing opportunities to leverage conventional

FHLBanks Affordable Housing Program Offers Grants for Development and Preservation

The AHP offered by the Federal Home Loan Banks (FHLBanks) provides subsidized advances and grants to support homeownership opportunities for individuals and families earning at or below 80 percent of area median income. The program also supports rental housing that sets aside at least 20 percent of units for occupancy by very low-income households earning at or below 50 percent of area median income. AHP funds can also be used for special-needs housing, such as single-room-occupancy units for the homeless, transitional housing, supportive housing, and units equipped for the elderly and persons with disabilities.

Member banks apply for funds by competing in semiannual AHP grant rounds on behalf of housing projects with not-for-profit, for-profit, or public entity sponsors. Applications with not-for-profit sponsors receive extra points in this competition. Generally, funds can be used for acquisition, construction, or rehabilitation costs associated with qualifying affordable housing projects. By statute, a rental project receiving an AHP grant must maintain at least 20 percent of

its units affordable to households earning at or below 50 percent of area median income. However, project competition under the banks' scoring systems usually results in more extensive targeting of affordable units for households. Rental projects receiving AHP funds must maintain income targeting and rent affordability (rents may not exceed 30 percent of the targeted income levels) for 15 years following project completion. Homeowners assisted with AHP are subject to a retention period of five years. Specific guidelines are published in the AHP Implementation Plans issued by each of the 12 FHLBanks, in consultation with their respective advisory councils.

AHP grants for rental housing are granted competitively on a "need for subsidy" basis. The maximum grant a project can receive is either the difference between the project's sources and uses of funds, or the maximum grant amount per project as published in the appropriate implementation plan, whichever is lesser.

For further information, visit www.fhlbanks.com/html/programs.html.

lending within the bank's CRA assessment area.

College Park was a typical deal for the CDC in that it created a profit in the bank's charitable grant fund and was short-term. The fund covers the CDC's operating expenses and would also cover any losses. Only over a year after rehab started, 80 percent of the units were upgraded and occupied. Despite that quick pace, fewer than a half-dozen families were displaced during the rehabilitation.

MB Financial CDC focuses on double bottom line investments to develop an extensive grant program that has provided considerable dollar amounts to many local nonprofit community-based organizations. Often, these grants are enhanced by community development lending or active involvement by bank staff in the community group.

For additional information, contact Thomas P. FitzGibbon at (847) 653-1996 or tfitzgibbon@mbfinancial.com.

JPMorgan Chase: A Large Bank's Approach to Preserving Affordable Multifamily Housing

by Kristopher M. Rengert, Community Development Expert, OCC

JPMorgan Chase (JPMC) supports affordable multifamily housing preservation efforts across its different lines of business. In this model, divisions within the overall JPMC corporate structure are responsible for different types of affordable multifamily housing preservation activities. In some situations, these divisions may participate together in a particular deal. In other instances, because of the unique nature of affordable multifamily housing preservation deals, participation may be limited to only one division.

JPMC has three primary business units that are regularly involved in financial transactions supporting affordable multifamily housing preservation. These are the Commercial Bank, JPMorgan Securities (JPMS), and JPMorgan Capital Corporation (JPMCC), with the latter two being housed within the Investment Banking division.

Commercial Bank

The Community Development Real Estate Group (CDRE), a unit in the Commercial Bank, provides more than \$1 billion in loans almost exclusively in affordable housing with a significant portion in preservation projects. In the affordable multifamily housing preservation arena, this includes letters of credit that serve

as credit enhancement for rated municipal and state tax-exempt bond issues, construction loans, and permanent financing. The CDRE has also participated in the creation and funding of multiple pooled loan funds that facilitate real estate acquisition by not-for-profit entities seeking to preserve the affordability of multifamily housing.

As a noteworthy example, JPMC played a leadership role in the creation of the New York City Acquisition Fund. This is a fund to help non-profit organizations compete more effectively with for-profit entities in acquiring affordable housing properties that might otherwise be converted to market-rate housing units. The Acquisition Fund provides rapid access to bridge financing for acquisition



JPMorgan Chase's refinancing of the 11-story Phelps House in New York City reduced debt-service payments and improved services for tenants.

Investment Example: Phelps House

The Phelps House project provides a useful example of the layered financing typically required to make affordable multifamily housing preservation projects feasible. JPMC provided an 18-month standby letter of credit for up to \$12.645 million and a construction loan for up to \$3.4 million for the refinance and moderate rehabilitation of an 11-story, 169-unit low-income senior rental property on the upper west side of Manhattan. This property, known as Phelps House, was constructed in 1983 and carried a HUD Section 202 mortgage dating from 1990.

The following is a brief summary of the sources of capital and required financial transactions employed (see table below). The project sponsor, Goddard Riverside Community Center, prepaid its 9.25 percent Section 202 loan, which was set to mature in 2030, and recapitalized the project using \$12.645 million of fixed-rate tax-exempt private activity bonds and \$6.645 million of equity raised from the sale of 4 percent LIHTC. Other sources of capital included \$410,000 of existing reserves, a \$3.9 million subordinated seller note, and a \$711,000 deferred developer fee. The JPMC letter of credit provided construction-period credit enhancement for the bonds.

Collateral for both the letter of credit and the construction loan included a first mortgage lien with cross-collateral, cross-defaults and assignments of various income streams (e.g., rent) associated with the property. Upon the completion of construction and

lease-up, the JPMC construction loan was repaid from tax credit equity and the JPMC letter of credit was replaced by New York City Residential Mortgage Insurance Corporation (NYC REMIC) mortgage insurance.

This project worked to the mutual benefit of JPMC and Goddard Riverside and the tenants of Phelps House. The refinance of the Section 202 loan led to a substantial reduction in debt service payments, which in turn meant that Goddard Riverside could improve services for tenants. Tenants enjoy a range of improvements including a modernized elevator, new roof, new windows, kitchen and bathroom upgrades, and program and community space improvements.

This deal is a win, win, win to JPMC, Goddard, and the community because it makes good business sense and supports community reinvestment. Because of the high demand for affordable senior housing in this market area and a substantial waiting list of households wishing to live in this development, the project was considered by JPMC to be a low-risk investment. It resulted in the preservation of affordable multifamily housing for 168 low-income senior households.

For additional information, contact Mark Willis, Executive Vice President, JPMorgan Chase Bank, N.A. at mark.a.willis@chase.com or visit www.jpmorganchase.com.

and predevelopment costs, which is then taken out once developers have lined up conventional acquisition/construction financing. The fund is supported by a syndicate of 16 banks; JPMC serves as the senior lender agent for the syndicate and provides a \$40 million line of credit, which is used to initially fund individual projects prior to their transfer to the fund's core revolving credit facility.

The Acquisition Fund includes an approximately \$192 million revolving line of credit maintained by the 16-bank syndicate. These funds are secured by a \$40 million guarantee by the New York City Department of Housing Preservation and Development and a group of six charitable foundations. The

Sources and Uses of Funds for Phelps House

Sources

Tax-Exempt Bonds (NYC Housing Development Corporation)	\$ 12,645,000
LIHTC Equity	6,645,000
Construction Loan	3,400,000
Subordinated Seller Note	3,981,845
Transfer of Existing Reserves	410,046
Deferred Developer Fee	710,674
Construction Loan Repayment	(3,400,000)
Total	\$ 24,392,565

Uses

Acquisition	\$ 12,629,362
Hard Costs	6,222,195
Soft Costs	2,142,545
Reserves, Working Capital	915,000
Developer Fee	2,483,463
Total	\$ 24,392,565

Source: JPMorgan Chase

Acquisition Fund has been operational since October 2006 and so far has closed four projects with a substantial pipeline of projects in process.

JPMC played a leadership role to help nonprofit organizations compete more effectively with for-profit entities.

The Community Development Intermediaries Lending and Investing (ILI), another unit within the Commercial Bank, participates as a lender or investor in a number of community loan funds across the United States. Many of these funds, such as the one administered by The Community Preservation Corporation in the New York-New Jersey-Connecticut tri-state area and the Community Investment Corporation in Chicago regularly invest in affordable multifamily preservation projects.

JPMorgan Securities

JPMorgan Securities (JPMS) is the business unit responsible for purchasing bond securities. These include the purchase of tax-exempt bonds issued by municipal or state agencies to finance affordable multifamily housing preservation projects. These are frequently associated with projects supported by 4 percent LIHTCs issued by state housing finance agencies. JPMS buys bonds both to hold in portfolio and to pool and sell.

JPMS frequently partners with the CDRE Group on affordable multifamily housing preservation projects. Typically, JPMS purchases a tax-exempt bond that provides construction and permanent financing

for the project. The Real Estate Group underwrites the real estate, administers the disbursement of bond proceeds during the construction period, and assumes credit risk prior to completion and income stabilization of the asset. Once the required occupancy and debt service tests are achieved, credit risk is transferred back to JPMS.

JPMorgan Capital Corporation

JPMCC is responsible for tax-preferred investments such as LIHTC projects. JPMCC has invested in more than 50 affordable multifamily housing preservation transactions in the last four years. These are typically projects where a property subsidized under an older federal program (e.g., Section 202, Section 8, or Section 236) is recapitalized through the LIHTC program, resulting in reduced ongoing debt service obligations and new capital to be used to upgrade aging properties. Long-term Section 8 contracts are also renewed, allowing these properties to maintain affordable rents.

JPMC bankers regularly provide technical assistance to nonprofit affordable housing developers.

JPMCC invests in LIHTC projects through four investment vehicles. As the sole investor, JPMCC invests in private label syndicated funds, direct investments through a developer, guaranteed investments, and multi-investor funds.

JPMCC partners with the CDRE on transactions where the CDRE Group finances construction and sometimes permanent debt, and JPMCC

provides LIHTC equity. To date, these groups have partnered on many new construction and public housing transformation projects, creating efficiencies and savings to the project.

Nonfinancial Support of Affordable Multifamily Housing Preservation

In addition to its financial investments in affordable multifamily housing preservation projects, JPMC also provides nonfinancial support in this arena. The firm has worked with municipal agencies, charitable foundations, and other organizations to develop policies and entities supportive of affordable housing preservation. JPMC bankers also regularly provide technical assistance to nonprofit affordable housing developers and other partners who may need assistance in putting together preservation deals. This is a particularly valuable contribution for partners with limited experience in preservation work as these deals tend to include multiple financial layers.

For additional information, contact Mark Willis, Executive Vice President, JPMorgan Chase Bank, N.A. at mark.a.willis@chase.com or visit www.jpmorganchase.com.

PNC: A One-Stop Shop for Multifamily Affordable Housing Finance

by Derek Hyra, Community Development Expert, OCC

PNC MultiFamily Capital is a division within PNC's Real Estate Finance Group that provides a comprehensive "one-stop shop" for multifamily preservation and other rental housing finance needs. PNC arranges equity for affordable housing through its LIHTC syndication business and invests in tax credits for its own portfolio. On the debt side, PNC offers predevelopment funds for properties with tax credits awards, bridge loans, letters of credit, construction loans, and permanent financing.

Diversification through Acquisition

Over the last decade, PNC has made a number of acquisitions to obtain the necessary housing finance capacities to form an inclusive unit where all the tools needed for affordable multifamily housing are integrated. These acquisitions include Columbia Housing Corporation, which has specialized knowledge in tax credit syndication; certain assets of the TRI Capital Corporation, which specialized in FHA and Freddie Mac mortgage lending; and ARCS Commercial Mortgage, a Fannie Mae Delegated Underwriting and Servicing (DUS) multifamily lender. PNC has three primary offices specializing in the affordable multifamily businesses in San Francisco, Portland, and Louisville, each representing the key housing sector business acquisitions.

PNC has made a number of acquisitions to form an inclusive unit for affordable multifamily housing.

As a result of these acquisitions, PNC offers the following financing resources for multifamily affordable housing finance.

LIHTC Products

The acquisition of Columbia Housing Corporation gives PNC the necessary tools to provide equity for affordable multifamily finance through investments for its own account or on behalf of its institutional clients. Projects may include those receiving 4 percent or 9 percent LIHTCs as well as projects receiving LIHTCs in combination with historic rehabilitation tax credits. PNC also offers a construction to permanent loan program for tax credit transactions.

PNC has funded more than \$2 billion of tax credit equity investments, syndicated to more than 100 corporate investors as well as made substantial investments in its own portfolio.

As a major tax credit syndicator, PNC arranges broadly diversified LIHTC multi-investor funds for institutional investors, as well as LIHTC proprietary funds for investors seeking specific portfolio characteristics that are not available in the multi-investor funds. PNC has funded more than \$2 billion of tax credit equity investments, syndicated to more than 100 corporate investors as well as made substantial investments in its own portfolio.



Before: Flat Shoals apartments, in Atlanta, Georgia, before renovations began.



After: The rehabilitated apartments of Flat Shoals.

Mortgage Financing Products

PNC is an approved lender under three multifamily loan programs, through which they offer construction and long-term financing products.

• Federal Housing Administration:

As a result of PNC's 2001 acquisition of TRI Capital Corporation, PNC acquired the capacity to originate FHA-insured multifamily loans through FHA's Multifamily Accelerated Processing program. The FHA mortgage insurance programs allow the bank to provide credit enhancements on tax-exempt bond issues, the proceeds of which are used to fund long-term permanent loans required for affordable housing preservation projects. PNC MultiFamily Capital uses these FHA loan insurance products in heavily subsidized Section 8 or Section 236 interest

rate programs for preservation projects. These transactions also involve PNC issuing a Ginnie Mae mortgage-backed security which uses the FHA-insured project mortgage as collateral. These Ginnie Mae securities are then held by a bond trustee as credit enhancement for the tax-exempt bonds.

- Fannie Mae and Freddie Mac:** PNC expanded its capacity to provide conventional long-term multifamily debt through its acquisition of ARCS Commercial Mortgage last year. Through this acquisition, PNC became a DUS lender for Fannie Mae, and extended its capacity as a Program Plus lender for Freddie Mac nationwide. PNC was also recently approved as a Delegated Underwriting partner for Freddie Mac. This relatively new program expedites access to Freddie Mac loans for properties benefiting from LIHTCs.

PNC has found opportunities to securitize some its multifamily permanent loans.

PNC also makes direct loans, outside of the FHA and the government-sponsored entity programs, and has found opportunities to securitize some of its multifamily permanent loans. The rating agencies have become more comfortable with including permanent mortgage loans associated with 9 percent LIHTC transactions in commercial mortgage-backed securities, and PNC is taking advantage of this emerging market. Additionally, if long-term financing for 4 percent LIHTC transactions is being provided through the proceeds of tax-exempt

bonds, PNC can facilitate this through its Direct Bond Purchase program.

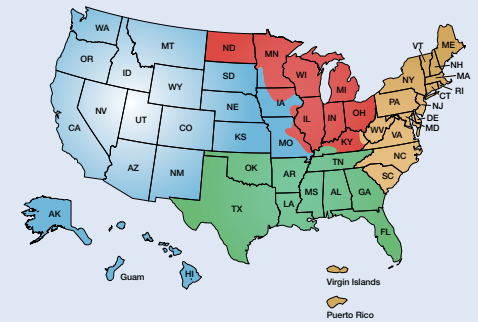
Flat Shoals Apartments

One illustrative example of when PNC used its various product lines to preserve affordable housing is the Flat Shoals development (see photo on page 21), a 228-unit apartment complex in Atlanta, Georgia. Originally built in the mid-1960s, Flat Shoals sustained fire damage to two of its buildings in early 2004. To assist in the restoration of these buildings, PNC provided a \$9.8 million construction loan and a \$4.1 million bridge loan and served as the tax credit syndicator responsible for bringing \$6.7 million of equity into the project. PNC also provided a forward commitment from Freddie Mac for the enhancement of tax-exempt bonds during the permanent financing stage. This comprehensive financing structure enabled two developers, Bi-Coastal Development and Craig Taylor/Pro-Housing, to restore this affordable complex to its original state.

The rehabilitation of the damaged apartments took three years to complete and was done building by building in phases, so tenants were relocated for a minimal amount of time. The rental units were all one- and two-bedroom apartments, and 90 percent of the units were made available to residents with income at or below 60 percent of the area median income.

For more information on PNC, contact Amy Vargo, Vice President, Corporate Communications, The PNC Financial Services Group, at (412) 762-1535, e-mail amy.vargo@pnc.com. or visit PNC's Web site at www.pnc.com.

OCC's District Community Affairs Officers Provide Community Development Consultations



- Central District
- Northeastern District
- Southern District
- Western District

The OCC's District Community Affairs Officers (DCAOs) are available to consult with national banks to help meet CRA and community development goals. A typical consultation lasts about two hours and, depending on the preferences of the institution, is attended by the members of the bank's senior management, CRA, compliance, Chief Financial Officer (for investments) and lending teams. DCAOs assist with such topics as:

- Ascertaining local credit needs and suggesting ways that banks can improve their CRA performance and expand their community development activities in rural and urban markets.
- Developing strategies for forming successful partnerships with community development organizations and government agencies.
- Developing successful strategies for expanding community development lending, investments, and services.
- Reviewing product and service opportunities for the preservation of affordable rental housing, promotion of homeownership, and development of small businesses.

To request that the OCC provide a community development consultation at your bank, please contact one of the DCAOs in your district. All of them are listed in "This Just in..." feature on pages 41- 43.

Wachovia: A Focus on Preserving Affordable Multifamily Housing through Relationships

by Kristopher Rengert, Community Development Expert, OCC

Wachovia Corporation supports the preservation of affordable multifamily housing through multiple lines of business, including its Community Development Finance, Agency Lending, Municipal Products and Tax Credit Investment groups. These groups invest Wachovia resources directly and link clients to the resources of partner institutions to finance affordable multifamily housing preservation across the United States.

Community Development Finance

By providing acquisition loans to developer clients, Wachovia's Community Development Finance (CDF) group enables clients initially to purchase affordable multifamily housing developments, and hold them, while arranging permanent financing. The group also provides construction loans for projects requiring significant rehabilitation. CDF invests directly in projects and participates in multi-lender consortiums, such as the New York City Acquisition Fund, to support affordable multifamily housing preservation efforts. CDF also provides short-term letters of credit during the construction period to enhance tax-exempt bonds issued to support affordable multifamily housing preservation.

Agency Lending

Wachovia's Agency Lending Group includes the Affordable Housing Group (AHG). The group focuses on issuing permanent debt for affordable multifamily housing projects. Wachovia defines affordable housing



Gates of Ballston, Arlington, Virginia, contains 464 affordable units of housing preserved by Wachovia Bank.

for those purposes as any project with income or rent restrictions from federal affordability programs. AHG issues permanent debt on housing projects with LIHTCs of 9 percent and 4 percent with tax-exempt bonds, and on preservation deals, including the refinance of Section 8 properties, Section 236 decoupling transactions, and Section 202 refinances. This debt may be issued as conventional loan products or a direct bond purchase.

AHG is a pass-through lender and does not hold these loans in its portfolio. It is an agency lender for both Fannie Mae

and Freddie Mac, providing clients access to permanent debt to refinance affordable multifamily housing developments. Through the Fannie Mae and Freddie Mac product lines, Wachovia shares in the risk with any affordable loan. The bank is also an FHA-approved lender and is authorized to issue Ginnie Mae mortgage-backed securities through the FHA Group within the AHG. This provides clients with access to government-insured permanent loan products.

Municipal Products

The Municipal Products Group (MPG) houses Wachovia's municipal bond investment banking, sales and trading, and derivatives businesses. MPG is an active underwriter of tax-exempt housing bonds, serving in the bond underwriting syndicates of more than 20 state and local housing agencies. MPG is also an active investor and trader of all types of municipal bonds with a portfolio of \$5 billion. MPG supports the preservation of affordable multifamily housing by underwriting for sale or directly purchasing multifamily housing bonds as part

of Wachovia's direct bond purchase program. For the direct bond purchase program, MPG provides municipal bond structuring, funding, and interest rate hedging resources. MPG also relies on the affordable housing lending and construction risk management expertise of the Affordable Housing and Community Development Finance Groups to maintain the credit quality of its multifamily bond portfolio.

Tax Credit Investments

The Tax Credit Investment Group (TCIG) provides equity for affordable multifamily housing preservation



efforts through the purchase and syndication of LIHTCs (and in some instances, historic tax credits) associated with these deals. Supporting its roles as both LIHTC investor and

Wachovia Bank's Gates of Ballston Project

The Gates of Ballston project involves the preservation of 464 units of affordable multifamily housing in Arlington, Virginia. The property was originally constructed in the late 1930s and early 1940s as workforce housing and suffered from both structural obsolescence and deferred maintenance. The poor conditions resulted in market rents that were affordable to lower income households but also threatened the loss of affordability if the property were rehabilitated. The strong real estate market in the D.C. area would have commanded substantially higher market rents for updated rental units in this location.

This property was listed for sale by its Texas-based owners in 2002. Arlington County, concerned over the chronic loss of affordable housing within its jurisdiction, moved quickly to facilitate and subsidize its purchase by the AHC, a local nonprofit affordable housing developer.

In 2005, AHC refinanced the property to raise funds for a five-phase gut rehabilitation of all of the units and the new construction of 19 additional units on a section of the property previously occupied by a trash incinerator. This recapitalization raised a total of \$107 million and included tax-exempt bonds, both low-income and historic tax credits, local government contributions, and developer equity contributions. Wachovia purchased all of the tax credits. (See table on page 25.)

Prior to closing, AHC was facing a \$3 million deficit to close the deal and retain rents affordable for current residents. As a nonprofit developer with a mission to provide affordable housing, it was important to AHC not to displace current tenants and to retain as many affordable units as possible.

AHC approached Wachovia with this concern, and, in consultation with Arlington County, they arrived at an innovative solution. The new 19-unit building that had been slated for apartments was instead developed as market-rate condominiums named Gatehouse Condominiums. The profits generated by the sale of the condominiums would be used to subsidize the costs involved in preserving the affordable apartments.

Wachovia was able to use flexible underwriting to help make this strategy work. The Wachovia Community Development Finance (CDF) group provided a two-tiered loan combination for the new construction that included a construction loan for the Gatehouse Condominiums and a loan against its land equity and future profits. This included \$4.1 million in senior financing and \$740,000 in mezzanine financing. The fact that the CDF group does not typically provide mezzanine financing was a special accommodation for this partner to help make the project work.

The Wachovia loan generated \$1.5 million over and above the funds AHC needed for the new construction of the condominium building. This made up nearly half of the \$3 million shortfall AHC needed to close on the refinancing of the apartment. AHC made up the remainder of the shortfall with developer equity in the form of deferred fees and predevelopment costs. Wachovia also purchased the nearly \$30 million in LIHTC and historic tax credits. By using its local market knowledge, strong partner relationship, flexible underwriting, and engagement in multiple lines of business, Wachovia was able to earn a market rate of return on debt and equity investments while helping to preserve 464 affordable rental units in one of the hottest housing markets in the country.

syndicator, Wachovia's Tax Credit Asset Management (TCAM) group monitors the construction and post-construction performance of LIHTC projects, in which Wachovia or its clients have equity investments.

Wachovia, through its MPG, supports the preservation of affordable multifamily housing by purchasing multifamily housing bonds.

To identify LIHTC opportunities for both affordable housing preservation and new construction, the TCIG divides the United States into six territories, each of which is covered by a tax credit investment team of up to five people. These teams develop and maintain relationships with developers active in the LIHTC industry. They also monitor the state allocation processes for LIHTCs in individual states to ensure that they are aware of, and in a position to bid for, emerging LIHTC purchase opportunities. Counterparts in other Wachovia groups also are alert for potential LIHTC opportunities, which they refer as appropriate to the TCIG.

Integration Across Business Units

Whenever possible, Wachovia employs multiple lines of business to support one project. Each business unit considering a deal weighs which other business units within Wachovia might appropriately participate and makes such referrals to their clients. This collaboration produces additional business opportunities for Wachovia as well as better customer service for the bank's clients. Wachovia draws on the expertise of different business units to provide funding terms that are attractive to borrowers while also adequately managing the risks



Gates of Ballston offers open, green space for tenants to enjoy.

Gates of Ballston Acquisition and Renovation Budget

Sources

Tax-Exempt Bond A (Virginia Housing Development Authority, fixed)	\$ 21,000,000
Tax-Exempt Bond B (Arlington County)	29,000,000
Tax Credit Equity (LIHTC and historic)	30,000,000
Deferred Loan (Arlington County)	8,000,000
Deferred Developer Fee	12,500,000
AHC Equity/Interim Loans	3,300,000
Income from Operations	2,900,000
Total	\$106,700,000

Uses

Acquisition	\$ 38,800,000
Hard Costs	32,800,000
Soft Costs Including Financing	20,600,000
Developer Fee	14,500,000
Total	\$106,700,000

Source: Wachovia

of financing affordable multifamily housing preservation.

(The sidebar on page 24 illustrates an example of a project in which Wachovia employed multiple business units to support preservation in a housing development that was previously a market-rate affordable property.)

For further information, contact Eileen Stenerson, Senior Vice President, Wachovia Community Development Finance, at eileen.stenerson1@wachovia.com.

State Agencies and Preservation

Section 3 includes two articles that describe innovative programs administered by Oregon and Massachusetts to promote and support the preservation of affordable multifamily housing. Oregon has designed the Oregon Affordable Housing Tax Credit program in addition to using its LIHTC and tax-exempt bond allocations to support preservation projects. This program enables developers to access below-market interest rate loans by providing tax credits to lending institutions as compensation for providing subsidized interest rates. Massachusetts has designed its tax-exempt bond program to target aggressively the preservation of at-risk affordable multifamily housing, ensuring that this limited resource is directed to the most essential projects. Massachusetts also targets a substantial portion of its LIHTC allocations each year to affordable multifamily housing preservation projects.

Preserving Oregon's Affordable Housing Resource

by Lynn Schoessler, Housing Finance Section Manager, Oregon Housing and Community Services Department

“Preserve precious resources.” This theme has become a principle in Oregon that guides the practices of many businesses and organizations nationwide. State housing finance agencies are no exception. In Oregon, the state housing finance agency, Oregon Housing and Community Services Department (OHCS), has applied the principle of resource preservation to retaining the state’s affordable housing stock.

Oregon is neither a leader nor a follower among the 46 states that prioritize preservation of affordable housing in allocating the LIHTCs and using their private activity bond cap. Affordable housing is a rental resource for both the urban and rural population of the state. Oregon has prioritized the federally subsidized rental units

that have project-based Section 8 assistance from HUD or Section 515 assistance from the USDA. These affordable rental units are considered an irreplaceable resource in today’s environment of diminished federal housing support. Preserving these properties is such a high priority that the Oregon Qualified Allocation Plan (QAP) for the distribution of LIHTCs has set aside 30 percent of the tax credits for preservation projects.²

Oregon is a relatively small state with a population of 3.7 million. Its affordable housing stock includes more than 300 projects with over 10,000 units built with HUD Section 8 or USDA Section 515 rental assistance. These units are a crucial resource for Oregon’s lower income households. Their federal rent subsidy contracts have been extended to ensure that the flow of more than \$39 million per year in rent subsidies will continue for the state’s most “housing vulnerable” residents. The owners of these properties must be able to recapitalize and rehabilitate these affordable units, many of which have deteriorated.

Oregon's Preservation Strategies

In the 1970s, Oregon eagerly accepted HUD’s initial offer to provide rent subsidies for state-financed rental housing through the Section 8 program. The state ultimately financed 122 projects with more than 4,000 units before the program ended. Although Oregon has only 1 percent of the nation’s population (at that time), it has 10 percent of the national inventory of uninsured Section 8



The Oregon Housing and Community Services Department provided financing for Forest Hills, an apartment complex in Reedsport, Oregon, included in the Northwest 12, with 20 units of affordable family housing.

²According to the QAP, “Preservation projects include, but are not limited to, those federally financed existing projects where at least 25 percent of the existing project’s units have project-based rental assistance which are currently offering rents below market, such as financing by HUD and USDA Rural Development...”

projects. Preserving these properties is thus disproportionately important in Oregon. And because Oregon was one of the first states to initiate this finance arrangement and to deal with the expiring subsidy contracts, its approach to preserving these units is being watched nationally. OHCS is evaluating projects 12 to 14 months in advance of the loan maturity and expiration of the Section 8 contract by contacting owners to determine their interest in renewing contracts, selling the properties to nonprofit organizations, or opting out of the program. To date for projects with subsidy contracts that have either already expired or that are set to expire within the next year, 80 percent of the units, or more than 600 apartments, have been retained in the communities as deeply subsidized, affordable housing resources.

The optimal preservation strategy for OHCS is convincing the present owner to renew its Section 8 contract and continue to operate the property as affordable housing. The more challenging preservation scenario is arranging and financing new project ownership. Federal and local agencies and OHCS expert staff, particularly the area HUD or rural development office, must work together to assemble the resources necessary to finance the acquisition price, perform necessary rehabilitation, and establish renewed subsidy contracts. Oregon has been supported by staff at the federal agencies, and the efficiency of contract renewals is increasing. But approval of each contract renewal is considered “on a project-by-project basis only.”

(For an example of an acquisition and rehabilitation project supported by OHCS and a discussion of Oregon’s state-level preservation programs, see the sidebar on page 28. For information about HUD multifamily preservation

Northwest 12 Multifamily Preservation Project Financing Package Overview

Sources of Funds

Tax Credit Equity	\$ 9,318,112
Preservation Fund Grant*	1,704,986
Weatherization Grant	361,635
Loan w/ Oregon Affordable Housing Tax Credit.....	18,084,500
Total.....	\$ 29,469,233

Uses of Funds

Acquisition.....	\$ 12,121,200
Rehab Hard Costs	10,186,200
Soft Costs Including Development Fee	7,161,833
Total.....	\$ 29,469,233

*The 2007 Oregon legislature dedicated \$8.1 million to preserving Oregon’s uninsured, Section 8 portfolio.

Source: OHCS

tools, see the sidebar on HUD Preservation Tools on page 8.)

In addition to its economic attractiveness, preservation of affordable housing is viewed as a “green” building activity. Renovation of existing buildings produces less construction waste, uses fewer new materials, and requires less energy than new construction. Preservation does not require new land development. And, to the degree feasible, Oregon’s use of weatherization funds to upgrade the energy efficiency of the units in its preservation strategy saves both energy and tenant utility expense. OHCS encourages the adoption of green building practices, and costs associated with implementation are eligible for reimbursement.

Missing Pieces for an Affordable Housing Preservation System

Preserving affordable housing, particularly those units with federal rent subsidies, is a priority for Oregon. OHCS has committed its resources

to this activity in partnership with for profit and nonprofit owners as well as the lending community. And while a significant effort has been initiated, several activities remain to be undertaken for Oregon to have a comprehensive system for assuring project preservation. Three activities are the immediate focus of a broad partnership of preservation interests. The first effort is to create an accessible database and Web site for all preservation projects statewide. There is significant information available from separate federal and state agency sources, but nowhere is the information consolidated or accessible, much less searchable. OHCS is taking the lead on this activity and currently working to develop this database for the public’s use.

Another shortcoming of the nascent Oregon state preservation “system” is the lack of a financing pool to acquire properties for preservation and hold them until permanent financing can be assembled. Such a holding pool is urgently needed to purchase properties for sale by impatient owners that want to sell now, or to flip the properties to other than affordable housing uses, such as condominium conversions.

The state housing agency is partnering with lenders and philanthropic organizations to develop a \$50 million pool. This holding pool will address the immediate need to preserve federally subsidized properties by providing acquisition financing for nonprofit developers. In the longer term, the holding pool organizers expect it to assist in the preservation of the affordability of LIHTC properties when they reach the end of their required affordability period.

Preservation of affordable housing is a 10-year strategy for OHCS and its community partners. The Oregon legislature recently supported the preservation strategy and provided additional housing resources to OHCS. The preservation activity has just begun and will continue until Oregon reaches its goal to preserve 85 percent of its affordable housing.

For further information, contact Lynn Schoessler at (503) 986-2073 or Lynn.Schoessler@state.or.us.

Preserving the Northwest 12

The current acquisition and rehabilitation of 12 properties by Northwest Real Estate Capital Corporation (NRECC), a 501(c)(3) nonprofit organization, illustrates the complexity of preservation activities in rural areas. The projects, known as the “Northwest 12,” are geographically dispersed throughout rural Oregon. The furthest distance between projects is 400 miles; no project in the package is closer than 30 miles from one another. Project sizes range from 8 units to 50 for a total of 312 units in the 12 projects.

For the Northwest 12, average per unit costs include \$38,850 for acquisition, \$32,650 for rehabilitation, and \$4,000 for soft costs, such as bond issuer and lender fees. These average total preservation costs of \$75,500 per unit demonstrate the dramatic cost effectiveness of preservation compared with new construction expenses. New construction of affordable units typically costs \$180,000 to \$200,000 per unit depending on location. The extent of rehabilitation needed for the Northwest 12 is atypical; the cost savings would be greater if rehabilitation was carried out in the more typical range of \$20,000 to \$30,000 per unit. Also, as stand-alone transactions, rehabilitation of the smallest projects included in the Northwest 12 would not be economically feasible. By grouping the smallest properties with the larger acquisitions, the total package, including the 8 unit projects, became possible.

Because the competition for 9 percent tax credits is severe even with a set aside for preservation activities, NRECC elected to use the department’s tax-exempt bond financing and 4 percent LIHTCs. This financing also includes OHCS housing preservation trust funds³ and weatherization grant resources.

Unlike many other states when tax-exempt bonds typically are used in conjunction with 4 percent LIHTCs for long-term financing, OHCS often elects to use the tax-exempt bond cap for short-term financing to access the 4 percent tax credits and projects. Oregon then uses conventional permanent loans along with the tax credits. The exhausting or “burning” of the tax-exempt bonds makes sense in Oregon because of a unique Oregon affordable housing finance tool called the Oregon Affordable Housing Tax Credit (OAHTC). OAHTC facilitates

conventional financing at interest rates lower than tax-exempt bond financing rates. It provides a state income tax credit for affordable housing loans in which a lender reduces the interest rate by up to 400 basis points from market rates. The lender can then recover the gap between the rate provided to the affordable housing developer and the market rate through the state tax credit. Only fixed-rate financing is eligible for this program. In return for access to this program, sponsors and their lenders must demonstrate for a 20-year term that the benefit of the tax credit will be passed on entirely as reduced rents for their lower income tenants. (Low-income households are those having less than 80 percent of the area median income for OAHTC.) Alternatively, sponsors may use the benefit from the tax credit to support the financing of preservation of affordable housing, as NRECC is doing.

In the case of the Northwest 12, US Bank is acting as the conduit lender for acquisition and rehabilitation costs. At the end of the rehabilitation work, the bonds will be paid off, and US Bank will provide a conventional loan for the permanent financing, subsidized by the OAHTC tax credits, described previously. Each property’s permanent loan is expected to have an interest rate of 3.25 percent as a result of the OAHTC subsidy.

The coupling of OAHTCs with a conventional loan enables participating lenders to achieve an adequate rate of return on their loans. Claiming the tax credit at year end with the state tax return increases the yield on the loan to a market rate, as well as likely resulting in positive CRA consideration for the lender. Importantly, the lower cost of capital to the project sponsor is an important tool in financing the preservation of affordable multifamily housing.

The time to package and pursue the transaction for the Northwest 12 has been lengthy. Initial discussions with OHCS began in early 2006 and have continued ever since with HUD, the lender, and equity investor. The bond closing for the Northwest 12 took place in late September 2007, roughly 20 months after talks began.

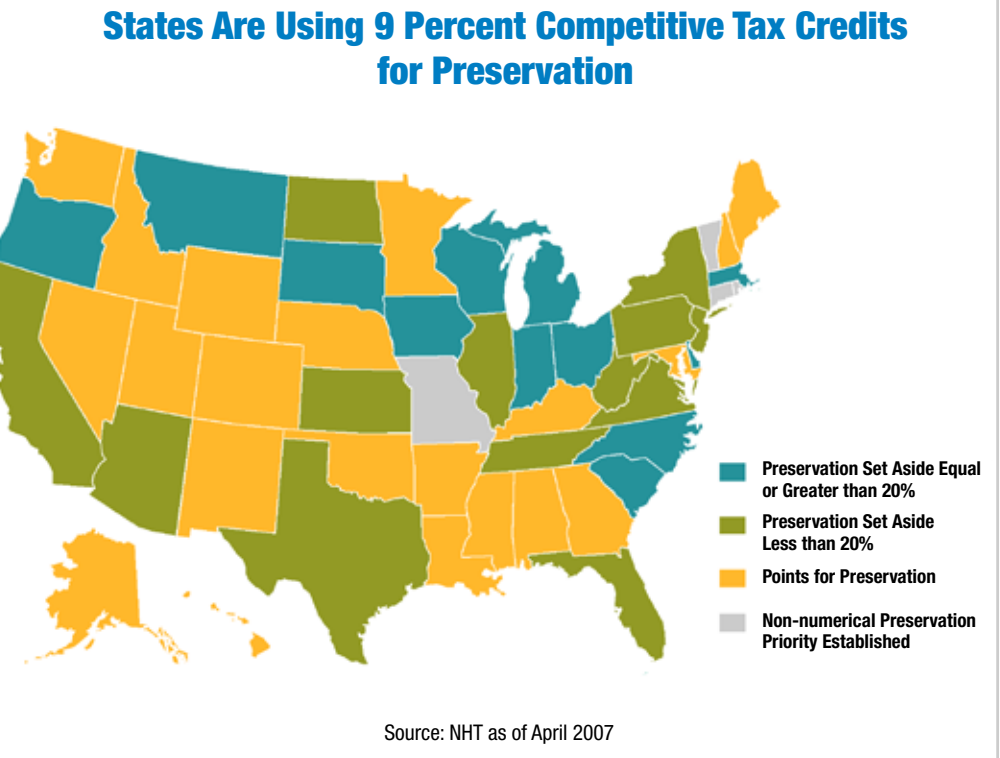
³The 2007 Oregon Section 8 funds will ensure that existing housing is preserved and that federal rental subsidies, supporting these projects, are maintained.

State Housing Bonds Preserve Affordable Rental Housing in Massachusetts

by Nancy Andersen, Manager, Rental Development, and David Keene, Manager, Rental Preservation, Massachusetts Housing Finance Agency

In Massachusetts and other states, private activity tax-exempt bond financing has become a popular tool for preserving affordable housing because of the below-market interest rates and the low-income housing tax credits that are available when this financing source is used. After January 1, 2002, the total volume of tax-exempt bonds that may be issued by a state each year is limited to the greater of \$225 million per state or \$75 per capita, amounting to roughly \$463 million in Massachusetts. In recent years, the state has allocated approximately 30 to 40 percent of its total private activity bond volume cap to the Massachusetts Housing Finance Agency (MassHousing). The agency divides its available cap among single and multifamily housing activities.

Tax-exempt bond financing is particularly useful for preserving low-income housing for several reasons. Because interest paid on the bonds is tax-exempt, investors can accept a lower nominal interest rate than they might require on a taxable investment. Additionally, the bonds can be structured as fixed-rate loans for as long as 40 years. Lower borrower interest rates resulting from the tax exempt financing, combined with the longer repayment period, contribute to reduced debt service for affordable housing developers using this resource.



Tax-exempt bonds can also enable affordable housing developers to take advantage of an additional subsidy resource. If 50 percent or more of a preservation project's cost (total development costs including land) is financed with tax-exempt bonds, the entire project can qualify for LIHTCs typically referred to as "4 percent tax credits."⁴ These can be sold to LIHTC investors to raise equity capital for the project.

Banks can participate in tax-exempt bond activity, in support of both affordable multifamily housing preservation, and their own bottom line, in multiple ways. Banks may issue either short-term construction

or longer term permanent credit enhancement through letters of credit. These letters may result in fees received by the bank and a better rated, and more marketable, bond for the project sponsor. Banks may also purchase bonds, either to hold in portfolio or to bundle and sell as securities. Banks may also purchase the 4 percent LIHTCs associated with tax-exempt bond deals in which they do not purchase the bonds for their own portfolio. In addition to a positive bottom-line impact, banks may receive positive CRA consideration for investing in tax-exempt bonds that specifically support affordable housing.

⁴Although there is a cap on the amount of tax-exempt bonds a state can issue each year, there is no statutory limit to the amount of 4 percent LIHTCs that can be issued.

How Massachusetts Uses Tax-exempt Bonds

MassHousing has become a leader in using tax-exempt financing in combination with low-income housing tax credits to preserve at-risk affordable rental housing. The MassHousing criteria for the use of private activity bond volume cap for preservation of affordable rental housing are: (1) risk of conversion to market-rate housing, (2) risk of loss of habitability; and (3) need for moderate-to-substantial capital replacements.

Risk of conversion to market-rate housing is defined as when:

- All existing low-income use restrictions have expired, or the owner can take unilateral action to opt out of all such use restrictions within the next 18 months.
- The value of the property as market rate housing is likely to be as high or higher than its current value as subsidized housing.
- The existing owner has indicated an interest in converting to market-rate housing, or to sell to an entity that will convert to market-rate housing.

The other two criteria, risk of loss of habitability and moderate/substantial capital needs, are defined on the basis of “imminent” rehabilitation needs within one to three years. This threshold of capital needs has been set at varying amounts, from \$10,000 per unit to as high as \$35,000 per unit.

Massachusetts has also targeted its LIHTC program to support affordable multifamily housing preservation programs. The various Qualified Allocation Plans (QAPs) issued by the Massachusetts Department of Housing and Community Development (DHCD)

have set aside 35 to 50 percent of tax credit allocations for at-risk preservation projects.

At-risk preservation projects are determined under the QAPs as:

- A project whose owner can prepay an FHA-insured or MassHousing-financed loan (or prepay and opt-out of a Section 8 project-based contract) within nine months of the date of the tax credit application. In addition, the project cannot be subject to any other use restriction that would effectively limit the owner’s ability to convert the development to nonaffordable use.
- Distressed or foreclosed properties at risk of being lost as affordable housing without an infusion of new capital or a new ownership structure. Such distressed and at-risk properties are evaluated based on a capital needs study that indicates at least \$10,000 per unit of new capital is needed to address immediate repair and replacement needs.

Results in Massachusetts

MassHousing has originated more than \$1 billion of loans to preserve nearly 30,000 units of affordable rental units in 193 developments. Over half of this \$1 billion of lending involved tax-exempt private activity bonds. The remaining half involves refinancings of debt only, or refinancings with 9 percent tax credit equity investment.

MassHousing has also used tax-exempt bonds creatively to preserve public housing units. MassHousing issued tax-exempt bonds and used the proceeds to make loans to the housing authorities. The loans were secured by annually appropriated federal public

housing subsidies, known as “capital funds.” By capitalizing a portion of each housing authority’s expected stream of capital funds over the next 20 years, MassHousing enabled these local public housing authorities to undertake substantially greater rehabilitation than would have been possible year-to-year, thus assisting in the modernization of this distressed, federally assisted public housing stock. In all, 509 units of public housing received \$14.8 million in loan funds, enabling roughly \$29,000 in rehabilitation and modernization per unit.

Overall, the use of tax-exempt bond financing combined with 4 percent tax credits has provided a powerful tool to MassHousing to preserve at-risk properties.

Overall, the use of tax-exempt bond financing combined with 4 percent tax credits has provided a powerful tool to MassHousing to preserve at-risk properties. This successful strategy will continue and likely accelerate in the future as more at-risk properties approach their mortgage maturity in the next five-to-ten years.

For further information, contact Nancy Andersen or David Keene at the Massachusetts Housing Finance Agency at (617) 854-1000.

Nonprofits and Preservation

Section 4 includes two articles examining the roles nonprofit organizations play in preserving affordable multifamily housing. The first article features four nonprofit developers who partner with financial institutions, city and state agencies, and others to create the necessary layered financial packages, rehabilitate, and ultimately manage the units as affordable housing. The nonprofit organizations discussed here include Preservation of Affordable Housing (POAH); National Church Residences; Mercy Housing; and Community Housing Partners. The second article examines the Troubled Building Initiative (TBI) created and funded by Chicago and administered by the Community Investment Corporation (CIC) of Chicago. This program returns poorly maintained multifamily buildings to productive use and provides them with responsible owners and managers. CIC has partnered with the MacArthur Foundation and a consortium of banks to use the TBI program as a resource for affordable multifamily housing preservation.

Nonprofits Meet Housing Preservation Challenges

by Letty Shapiro, Community Development Expert, OCC

Nonprofit organizations, seeking to preserve the stock of affordable multifamily housing in America, face enormous challenges. These include the expiration of project subsidies, competition from for-profit investors seeking acquisitions, and the sheer difficulty of pulling together multi-layered funding from public and private sources of support.

Despite those challenges, nonprofits are successfully preserving affordable multifamily housing in a variety of market settings, often with the help of bank partners. Given the localized nature of both the real estate market and the programs aimed at preserving affordable housing, some of the most successful nonprofits

operating in this sector take widely differing approaches to overcome common issues that cross market lines. The following article presents four snapshots of successful nonprofit affordable housing developers.

Preservation of Affordable Housing: Serving the Neediest Renters

Preservation of Affordable Housing (POAH) is headquartered in Boston. It works in an extremely slim niche of the housing market: the preservation of existing privately owned rental stock that serves residents earning as little as 30 to 50 percent of area median income.

The national nonprofit has acquired, financially restructured, and/or physically rehabilitated to date more than 4,500 apartments in 37 developments in eight states and the District of Columbia.

While POAH's projects cross geographic boundaries and are located in urban, rural, and suburban areas, they have one thing in common. The properties are at risk of being "lost" because of the expiration of the funding agreement that subsidizes tenants' rents, such as the HUD's Section 8 program.

As those decades-old agreements approach expiration, project owners in strong real estate markets can reap large gains by converting their holdings into market-rate rental apartments or selling them as condominiums. In rural markets, property owners who do not sell may still be unable to generate enough cash flow to support



Mercy Housing — Catalina Apartments, Tacoma, Washington, was just one of a package of 30 buildings preserved as low-income rentals by Intercommunity Mercy Housing.

debt service after the expiration of the subsidy. “In weakened markets, we see a different problem. Landlords stop investing in the building because they decide there is no upside, and the building degrades until it’s uninhabitable,” says POAH Manager of Communications Karen Blomquist.

POAH’s first task is often to raise awareness of the niche of housing preservation in which it specializes. Local government officials and the populations they serve are often unaware that there are subsidized housing units in their communities because these buildings seem to have always been there, says Blomquist.

Public policy supporting funding for affordable housing has been weakened since many of these properties were built, she points out, so an aggressive set of policies are needed to secure funds to subsidize these properties for low-income families and seniors.

POAH often turns to bank partners to enable it to put together projects at a fair price to sellers and fund the substantial capital and energy improvements older projects require. “We are always looking for allies in this transaction-to-transaction business,” says Blomquist. The majority of POAH’s bank partners participate through the purchase of LIHTCs. Other banks supply acquisition, rehabilitation, and construction loans.

A Hot Market Deal

A recent POAH transaction saved an 82-unit high-rise serving low-income elderly residents and two others nearby with 172 additional apartments. They are located in a “hot” downtown Providence, Rhode Island neighborhood, where nearby parks, restaurants, and shopping had driven up market prices. “As the mayor said,

if we lost those units, the city could not replace them,” says Blomquist.

It’s unusual to have local government quickly join in on the preservation effort. In many markets, the need to preserve a low-income multifamily property is not always apparent because the buildings blend into the neighborhood and become a natural part of its fabric.

Nonprofits are successfully preserving affordable multifamily housing in a variety of market settings, often with the help of bank partners.

There is no typical POAH transaction. Each project involves an alphabet soup of all levels of government agencies and programs that are put together with grants, loans, tax credits, and bank funding. Every time POAH goes into a new city or state, it has to figure out what funding is available. And, at each round of state and federal funding, the rules can change, explains Blomquist. “It’s a continually evolving process.”

POAH’s knowledge of the many ways the preservation puzzle can fit together enables the nonprofit to successfully preserve low-income housing. That expertise, along with POAH’s national scope; familiarity with federal, state, and local housing finance; and financial acumen, makes it an attractive partner to many capital providers, including banks, insurance companies, and foundations that want to participate in preserving affordable housing.

National Church Residences: Pressure to Turn Market Rate

One of the toughest challenges facing organizations trying to preserve affordable units in recent years is the

increasing flow of capital into the multifamily markets.

“When use restrictions are coming to an end,” says Jim Baugh, Vice President for Acquisitions and Development for National Church Residences, Columbus, Ohio, “owners know the property is more valuable because it can be converted to a market-rate project. They’re looking for the highest bidder.” National Church Residences (NCR) frequently finds itself bidding against investors looking to park funds from the Internal Revenue Service Section 1031 like-kind exchanges, in which investors avoid capital gains by reinvesting the proceeds of a property sale.

NCR is a faith-based, mission-driven organization that was created in 1961 by the Reverend John R. Glenn and four Ohio Presbyterian churches to serve older adults’ housing, social, and human needs. NCR today boasts a \$700 million portfolio of affordable housing, health care, assisted living, and supportive services for modest-incomes seniors and families throughout the United States and Puerto Rico.

“One of our objectives is to preserve all the affordable housing we can because of the increasing numbers of baby boomers aging at a time when affordable senior housing is dwindling through attrition and turnovers to market rate,” says Baugh.

Fortunately for NCR, there are many financial options, and cities are recognizing the importance of inclusionary housing, which brings diverse income groups together in a single neighborhood, he points out.

One locality that seriously considers the need for senior housing is Pacifica, California, which in 2000 became one of the first jurisdictions in the United

Rural Preservation Issues and Resources

Rural areas face the potential loss of not only HUD- or LIHTC-financed rentals but also units funded by the USDA Section 515 rental housing program. Since 1962, Section 515 has enabled the USDA to provide low-cost loans directly to the developers of affordable rentals. The vast majority of Section 515 tenants have incomes under 50 percent of area median income, and more than half of the tenants are elderly or disabled.

The majority of the more than 400,000 units in the Section 515 portfolio were constructed in the 1970s and 1980s and now need repairs and updating. In addition, many owners of developments funded in 1989 or earlier seek to prepay their Section 515 mortgages, and some prepaid units cease to be affordable for their low-income tenants. (Section 515 mortgages made after December 15, 1989, cannot be prepaid.)

While USDA does not have the equivalent of HUD's Mark-to-Market program, a variety of resources can help finance the preservation of Section 515 properties.

Section 538 guaranteed rental housing loans can be used by purchasers or stay-in owners of Section 515 properties, alone or with tax credits or other financing. USDA provides a 90 percent guarantee and interest credit on \$1.5 million of the loan amount down to the long-term monthly applicable federal rate at the date of loan closing. Program terms include a minimum 1.15 debt

service coverage ratio and 40-year amortization. Eligible lenders are those approved by, and active with, Fannie Mae, Freddie Mac, or the FHA, or those approved by USDA.

Rental assistance for tenants may be available to increase the viability of some preservation deals. Some current Section 515 tenants receive Section 8 vouchers from HUD or Section 521 rental assistance from USDA. USDA sometimes provides new rental assistance units as incentives to owners to stay in the program rather than prepaying their mortgages. In addition, since fiscal year 2006, USDA has provided its own vouchers to enable current tenants to remain in prepaid properties.

For more information about rural preservation, please visit the Housing Assistance Council's Web site at www.ruralhome.org/issues/preservation and USDA's Multi-Family Housing Preservation and Revitalization Restructuring Demonstration Program page at www.rurdev.usda.gov/rhs/mfh/MPR/MPRHome.htm. Examples showing how the resources previously mentioned have been used for rural preservation are highlighted in the summer 2007 issue of the Housing Assistance Council's *Rural Voices* magazine, available at www.ruralhome.org/manager/uploads/VoicesSummer2007.pdf. For further information, contact Leslie Strauss at: leslie@ruralhome.org.

States to use eminent domain to take an at-risk affordable senior property, the Ocean View Senior Apartments.

The city stepped in when the owners of the 100-unit project approached the expiration of their HUD-subsidized loan and revealed plans to turn the property into market-rate apartments. "That would have left 100 seniors, many of whom had lived there for decades, with few options since no other affordable senior facility existed within 60 miles," Baugh says.

The owners, who had purchased the Ocean View the year before, realized a \$1.1 million profit. However, the property still required significant rehabilitation. The city did not want to hold or manage the property, so it turned to NCR, which purchased the property with funds from the Housing Authority

of the county of San Mateo, the city of Pacifica, the California Housing Finance Agency, and banks that invested in the deal through LIHTCs.

Mercy Housing: Big Deals No Problem

Not all subsidized multifamily projects fall under HUD's jurisdiction. The USDA also administers several programs that support the development and preservation of affordable multifamily rental housing (see sidebar above).

Affordable developments subsidized by USDA programs are facing preservation challenges similar to those encountered by developments supported by HUD programs. As in urban and suburban areas, nonprofit organizations are often at the forefront of efforts to preserve affordable rental housing in rural areas. Recently, USDA

needed a nonprofit developer to bid against a for-profit developer for a package of 30 multifamily properties with expiring subsidies. USDA turned to Intercommunity Mercy Housing (IMH), the Washington state regional office of the Denver-based national nonprofit Mercy Housing, because it is an experienced owner, manager, and preserver of low-income housing.

The 30 properties, spread throughout Washington, had been owned by a single investor who built them in the 1970s and 1980s. The investor did not want the units he had worked hard to keep affordable over the years to be sold at market rate, but the buildings were appealing to for-profit developers who saw the potential for higher cash flows because of their location in strengthening markets, explains Walter Zisette, Intercommunity



Community Housing Partners recently completed a “green” renovation of Yorktown Square II, which provides housing to low-income residents of Yorktown, Virginia.

Mercy Housing Vice President of Real Estate Development.

Mercy credits US Bank, Minneapolis, with making the deal occur. US Bank provided nearly \$20 million in financing and agreed to purchase tax-exempt bonds issued by the Washington State Housing Finance Commission to fund 30 individual transactions. Mercy acquired 926 units for nearly \$33,000 per unit.

Each property was separately financed and structured. In each case, Mercy took out a USDA rural development Section 515 loan, paid off the previous owner, and carried a balance with new sources of funding, including new Section 515 loans and the tax-exempt bonds US Bank purchased. The state also provided a \$1 million investment from its Housing Trust Fund, which made the properties eligible for permanent real estate tax abatements.

Ultimately, US Bank’s involvement gave it additional leverage in its relationships with public sector officials. Additionally, the bank’s flexibility in both timing and loan terms was essential in enabling Mercy to complete the transaction while adhering to the state and federal funding programs’ more rigid requirements.

Community Housing Partners: Preserving Rural Affordable Housing

Community Housing Partners (CHP) of Christiansburg, Virginia, focuses on acquiring aging rural multifamily properties, refinancing them to raise funds for their rehabilitation, and managing the refurbished units. CHP’s primary service area is the southeastern United States, where it has found a strong unmet need for this activity. There are thousands of units in these aging developments that are often in poor condition and could be lost from the affordable housing supply. To rehabilitate these units and maintain their affordability for low-income tenants, CHP has become an expert in combining resources from different subsidy programs and other funding sources. CHP is adept at using the complicated management systems that such financing schemes require.

CHP’s Property Management Division has also become expert in managing properties with tiered rent structures that target both very low- and low-income residents, says Director of Multi-Family Housing Development Operations Kathy Talley. CHP was one of the first nonprofits to rehabilitate a low-income property using USDA Rural Development (RD) program funds combined with LIHTCs. “We’ll

have different basic rent levels for households at 40 percent, 50 percent, and 60 percent of area median income for one-, two-, and three-bedroom units,” she explains. “So, we’ll literally have up to nine basic rents and up to nine waiting lists, one for each tier.”

Banks can support the preservation of low-income housing by bringing deals to the attention of nonprofits.

CHP receives funding regularly from NeighborWorks America (NWA), of which they are a member organization. They have also received, through their bank partners, grants from the Federal Home Loan Bank of Atlanta’s AHP (see sidebar on page 17). CHP’s bank partners have been valuable resources, not only for delivering AHP grants but also for providing construction loans and permanent financing for their projects.

Timing is the biggest challenge in bringing together RD, LIHTC, NWA, and AHP funding. Each of these programs have different grant application cycles. (LIHTC and RD are annual, and NWA and AHP are semiannual.) Each program also has different sets of requirements for preconditions for committing or disbursing funds. Ultimately, experience in navigating this funding mechanism maze is one of the valuable attributes strong nonprofits like CHP bring to the table. By working with the right nonprofit partners, banks and other investors are insulated from these types of issues.

CHP improves efficiency and generates fees by serving as its own developer and construction manager

and by maintaining architectural and construction management functions internally. Although construction management and architectural fees are earned up front, CHP often defers developer fees, putting them back into the deal to help cover expenses. If the property operates as expected, it will generate enough income to allow CHP to recoup these fees over time.

CHP’s dedication to green construction also sets it apart from other nonprofit developers. It recently completed one of the first green low-income multifamily renovations, Yorktown Square II in Yorktown, a USDA Section 515/LIHTC deal. For example CHP’s Energy Services Department helped shepherd the Yorktown Square II project by training subcontractors how to recycle materials on the job. “Banks like to invest in green construction projects, because it shows their support of innovative affordable housing efforts,” CHP’s Talley reports. Green construction also indirectly improves housing affordability for tenants through significantly reduced utility costs.

What Banks Can Do

While each of the four nonprofits profiled in this feature have a unique approach to preservation issues, they all agree on the vital role banks can play in preserving low-income housing.

The most important way banks can support the preservation of low-income housing is to provide nonprofit developers serving that market with the funds needed to do this work, Mercy Housing’s Zisette says. This includes debt and equity financing for predevelopment, acquisition, and construction/rehabilitation phases of preservation projects. A capacity

grant from the MacArthur Foundation enabled Mercy to hire the development professionals that accomplished the Washington state deal. Banks that provide grants may see a downstream benefit from future loans, Zisette adds.

Another way that banks can support the preservation of low-income housing is by bringing deals to the attention of nonprofits. “I have a couple of bankers who tell me when new properties come on the market, or when they are approached by borrowers who are either in trouble or want to sell,” Zisette says.

“Word of mouth deals are our most successful,” according to NCR’s Baugh. “The HUD office is more likely to play ball with us than a profit-focused group, because of our mission orientation and willingness to do difficult deals.”

Nonprofit developers also qualify for tax exemptions, special financing, soft funding, deferred amortization schedules, and grants that can help improve a property’s cash flow and occupancy.

“I’d like banks, when they see an at-risk project, to think about the nonprofits and how they could assist with refinancing and restructuring,” Zisette says.

For more information, contact POAH at www.poah.org; NCR at www.ncr-home.org; Mercy Housing at www.mercyhousing.org; Community Housing Partners at www.communityhousingpartners.org.

Chicago's Troubled Building Initiative

Revitalizing Affordable Housing

by Kristopher Rengert, Community Development Expert, OCC

Across the United States, most moderately priced rental housing is market-rate housing. In many communities, substantial numbers of these units are in older buildings. In some markets, many of these affordable units are at risk of loss from the housing stock because their owners are not providing the necessary physical maintenance. Many cities have thousands of units in this downward spiral, where intervention is needed to stem the decline. This article looks at Chicago's response to disinvestment in the city's multifamily inventory and roles that banks have played in preserving these units in the housing stock as safe and affordable rental units.

Chicago's Troubled Building Initiative

Chicago has more than its share of troubled multifamily properties. Unlike many cities, Chicago has expedited the process of taking control of properties whose owners are unwilling to make basic repairs and, when necessary, of conveying the properties to new owners that will. In 2003, Chicago created a unique program called the Troubled Building Initiative (TBI), bringing together the expertise of senior staff from nine city departments – Housing, Buildings, Law, Administrative Hearings, Water, Planning, Human Services, Police, and Streets and Sanitation – and a not-for-profit housing organization, Community Investment Corporation (CIC).

TBI's goal is to circumvent the downward cycle that can occur when a housing court orders a landlord to make improvements. In most cities,



CIC rehabilitates troubled buildings, like this one in the Chicago area, to reduce the loss of deteriorating housing.

if the landlord does not comply with a repair order, the housing court will generally order the landlord to vacate the property. That leaves an abandoned property and the possibility that the property will have to be demolished. No one wins in this situation. Instead, TBI allows housing court judges to order necessary repairs, maintenance or property management in neglected buildings and to appoint receivers to undertake this work.

Chicago authorized CIC to administer TBI and to act as a receiver to troubled buildings. The city provides CIC with \$2 million in grant funding each year from its Community Development Block Grant allocations and from local government revenue to administer TBI. Under this program, when a property is referred to TBI, the city and CIC work through the housing court to pressure the owner to bring the property into compliance. If these efforts are unsuccessful, the Cook County Housing Court appoints a receiver, with specific responsibilities. These might include management of the building, completing emergency repairs, evicting

bad tenants, and evaluating the long-term viability of the property based on occupancy rates, physical condition, rent levels, and rehabilitation potential.

Since 2003, CIC has overseen more than 300 buildings with 5,900 units through TBI. The 29 or so buildings a year taken over through receivership by CIC usually have been beset by health and safety violations, and often, severe gang and drug problems. About 190 TBI buildings have been either rehabilitated and returned to productive use or are in the process of renovation. Only nine have been demolished. The remaining buildings continue in the court process or under receivership.

When TBI was established, CIC was the only receiver used by the program. Now, multiple organizations serve as receivers, depending on the responsibilities included in specific receiverships and the capabilities of each organization. CIC continues to be the receiver used most often as well as the administrator of the TBI program on behalf of the city of Chicago.

How TBI Works

When a building is referred to TBI, the building receives an initial examination to determine whether it meets TBI's criteria. If it does, a process begins. CIC identifies ownership and history and if possible begins working with the owner to discuss what needs to be done to bring the building into compliance. At the same time the Department of Buildings inspects the property and works to file a case in housing court. Once in court, the city and CIC continue to put pressure on the owner. If the owner cannot show that he/she is taking steps toward compliance, a receivership petition is filed by the city and heard by the judge. If the petition is granted, the judge appoints the receiver.

Charges for work performed by the receiver are either paid by the owner or are rolled into a lien against the property in the form of a receivership certificate. This lien has priority over anything other than real estate taxes, including any existing mortgages against the property. If the receivership continues for an extended period, the receiver may ask the judge for an "interim certificate" for accumulated charges. This certificate can then be filed against the property title at the Cook County Recorder of Deeds Office, where it accumulates interest at 9 percent per annum. If the certificate is not paid within 90 days, the receiver can initiate foreclosure proceedings.

Technically, this process could result in a foreclosure auction, but this rarely occurs. Typically, once foreclosure proceedings begin, the existing owner is motivated to sell the property to a new owner, who pays off the certificate. The new owner must appear before the housing court to demonstrate that it is a suitable owner for the property. If the judge concurs, the new owner

Community Investment Corporation

Community Investment Corporation (CIC) was founded in 1974 by a group of banks that wanted to help preserve stable, affordable housing in underserved Chicago neighborhoods through a multilender vehicle that allowed them to share the risks associated with this sort of investment. CIC has grown over the past three decades. It now includes 50 investors, mostly banks that have pledged a revolving loan pool of more than \$550 million. In 2006, they were involved in the preservation of 240 buildings, including nearly 5,000 housing units, and experienced a loan loss rate of zero.

CIC uses these funds to provide mortgage loans for the acquisition and rehabilitation of multifamily apartment buildings in the six-county area in and around Chicago. CIC makes loans that other financiers do not, because they have experienced staff and the flexible funding tools appropriate for the environment in which they work. Since 1984, CIC has made 1,352 loans resulting in the rehab of 39,000 units and a total CIC loan amount of \$777 million.

In 2003, CIC joined forces with Chicago to target the worst buildings in a neighborhood. "Worst" has been defined by CIC to be either or both physical and social deterioration. Thus, these buildings may suffer from inadequate maintenance and aging, as well as crime, drugs sales, gang violence, and tenant abuse. TBI finds buildings and conveys them to new owners who will rehabilitate them using CIC financing. At the beginning of 2007, TBI had processed more than 300 building and rehabilitated (completed or in process) an additional 170 buildings with more than 8,557 units total.

For additional information, contact Michael Bielawa at (312) 258-0070 x222 or visit www.cicchicago.com/index.html.

pays any remaining costs due the receiver. The receivership is removed, and the property moves back into the productive housing stock. CIC may play a facilitating role in identifying suitable new owners and bringing them to the settlement table.

CIC can also acquire troubled buildings by purchasing existing liens for back taxes and then foreclosing on the property. The city can expedite the process by assigning liens to CIC to help it to take ownership. After acquiring the property, CIC will usually resell it to a responsible new owner, typically to one committing to maintain the property as affordable housing.

How TBI Preserves Affordable Housing

Troubled buildings tend to be in neighborhoods where market rents are

low enough to be affordable to low- and moderate-income households. This is because of the market realities that motivate owners of properties in higher-cost neighborhoods to maintain their buildings. As such, TBI effectively functions as an affordable housing preservation program in lower-cost neighborhoods, although maintaining the condition of the buildings remains its primary goal. Absent TBI, many of the troubled buildings would eventually be lost from the affordable housing inventory via abandonment or demolition.

When troubled buildings occur in higher cost neighborhoods, which is rare, or in transitioning neighborhoods where housing costs are on the rise, which is more common, buildings moving through TBI are vulnerable to loss from the affordable housing

inventory via conversion to higher rent units. In this scenario, generally, if the property is ultimately transferred to a for-profit entity, it will likely become market-rate housing beyond the financial reach of low- and moderate-income households. If it is transferred to a nonprofit entity, it is likely to reenter the affordable stock in rejuvenated form. Although both the city and CIC are committed to preserving affordable housing, the end use of a building is not always within TBI's control. The number one goal of the program is to eliminate the blight and influence of troubled buildings and preserve the existing multi-unit housing stock.

Chicago authorized CIC to administer TBI and to act as a receiver to troubled buildings.

In an effort to make TBI operate more efficiently to stabilize troubled buildings and bring them back into the productive housing stock as affordable housing, CIC, Park National Bank, and the MacArthur Foundation have created a \$20 million line of credit to purchase buildings. This fund is particularly important because it enhances CIC's ability to purchase mortgages or real estate-owned property directly from banks and sell the properties once title has been obtained to new owners who will rehabilitate and maintain the properties as affordable housing. CIC will also often provide the financing for the rehabilitation. Park National Bank committed the full \$20 million for the line of credit, and then sold participation to other banks, raising \$11 million to date. The MacArthur Foundation has contributed \$2 million as part of a \$5 million guarantee provided by CIC to guarantee the line of credit. Participants in the line

of credit include MidAmerica Bank, Clarendon Hills, Ill.; Charter One Bank, Chicago; Bank of America, Charlotte; Shorebank, Chicago; Cole Taylor Bank, Rosemont, Illinois; and Northern Trust, Chicago.

TBI Helps Reluctant Landlords Exit and Improves Chicago's Neighborhoods

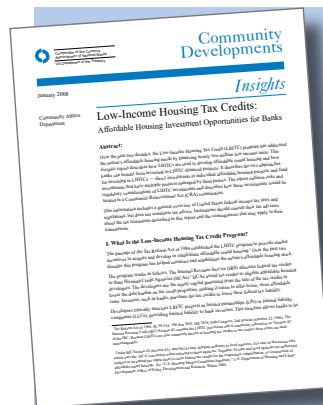
TBI is a public-private partnership serving Chicago's residents and improving Chicago's neighborhoods. The owners whose buildings are ordered into receivership are often looking for a way out because they are tired of being cited by the city in housing court and may have delinquent utility or tax bills. Note holders, too, typically cooperate in helping to rectify the property's problems because when the court appoints a receiver, the receiver lien supercedes the first lien in Illinois.

In addition, city laws make the lien holder responsible for the condition of the property. While the city has not pursued actions against lien holders of properties with housing court violations, it could do so. So, when CIC offers to purchase the first lien from the note holder, most lenders prefer to sell.

As the receiver lien goes through a normal foreclosure process, the lender can bid on the property at the judicial sale and pay off the certificate's value. But in general, most lenders do not want to put troubled properties into their real estate owned portfolios, so they negotiate the purchase of their lien by CIC.

Ultimately, for most parties, TBI leads to a positive outcome. Many owners are helped to rid themselves of a property that they no longer wish to own. Current and future tenants benefit from higher quality housing, usually at affordable rents. Residents and property-owners in the surrounding neighborhoods benefit from troubled buildings being renovated or removed. Chicago, its neighborhoods, and its residents all benefit from a well maintained housing stock, increased property tax receipts, decreased municipal costs, and the preservation of quality affordable housing.

For additional information, contact Kris Rengert at (202) 874-4798 or Kristopher.Rengert@occ.treas.gov.



Recently Released OCC Publication
Low-Income Housing Tax Credits: Affordable Housing Investment Opportunities for Banks

The February 2008 edition of *Community Developments Insights* describes how LIHTCs are used to develop affordable rental housing and how banks can benefit from investing in LIHTC-financed projects. It describes the two approaches for investing in LIHTCs—direct investments in individual affordable housing projects and fund investments that have multiple projects managed by third parties. The report outlines risks and regulatory considerations of LIHTC investments and describes how these investments would be considered under the CRA.

Compliance Corner

Preserving Affordable Rental Housing Is a Key Consideration under CRA

by Kristopher M. Rengert, Community Development Expert, OCC

This issue of *Community Developments* illustrates how banks help to further the preservation of affordable multifamily housing in communities across the United States. Banks may receive positive CRA consideration for their participation in affordable multifamily housing preservation activities.

Generally, under the CRA, positive consideration will be given to activities that support the provision of affordable housing (including multifamily rental housing) for low- or moderate-income persons. These activities must benefit the bank's assessment area(s) or the broader statewide or regional area that includes the bank's assessment area(s).

These activities are measured by the lending, investment, and service tests through which examiners consider the community reinvestment performance of large banks. Thinking about these tests should be useful for other types of banks (e.g., small, intermediate small, wholesale, or limited purpose banks) in considering how their affordable multifamily housing preservation activities might be viewed in their respective CRA examinations.

The Lending Test

The 2001 Interagency Questions and Answers Regarding Community Reinvestment (66 *Federal Register*, p. 36626) provides criteria for community development loans. These loans include, but are not limited to, loans to:

- Borrowers for affordable housing rehabilitation and construction

and permanent financing of multifamily rental property serving low- and moderate-income persons.

- Nonprofit organizations serving primarily low- and moderate-income housing or other community development needs.
- Financial intermediaries including Community Development Financial Institutions (CDFIs), CDCs, minority- and women-owned financial institutions, community loan funds or pools that primarily lend or facilitate lending to promote community development.
- Local, state, and tribal governments for community development activities.

This guidance also notes that the rehabilitation and construction of affordable housing may include the abatement or remediation of, or other actions to correct, environmental hazards, such as lead-based paint, present in the housing, facilities, or site.

In the 2001 Interagency Questions and Answers Regarding Community Reinvestment (66 *Federal Register*, p. 36632), the regulatory agencies explain that lending commitments (for example, letters of credit) are considered for the lending test at the option of the lending institution. Commitments must be legally binding between an institution and a borrower. Information about lending commitments will be used by examiners



The New York Equity Fund financed the Laura B. Thomas Homes in Central Harlem, New York—a multifamily preservation project sponsored by Abyssinian Development Corporation.

to enhance their understanding of an institution's performance.

Articles throughout this issue of *Community Developments* describe how many of these community development lending activities might work in an affordable multifamily housing preservation context:

- Providing bridge financing for acquisition and predevelopment costs.
- Extending loans at below-market interest rates.
- Bolstering financial intermediaries supporting preservation: providing loan funds through financial

intermediaries for predevelopment and interim development costs.

- Providing standby letters of credit to enhance the credit rating of 501(c)(3) bonds by reducing the risk faced by the bond buyers. The letter of credit can help reduce the interest rate paid by the preservation organization.

Similarly, providing loan financing on market-rate terms may also receive positive CRA consideration as previously described from the 2001 Q and A. But below-market interest rate terms might receive more positive consideration than standard terms, as these might be thought to be innovative or flexible lending practices.

The Investment Test

In the 2006 Interagency Questions and Answers Regarding Community Reinvestment (71 *Federal Register*, p. 12433), the regulatory agencies provide expanded guidance on qualified investments. These investments include, but are not limited to, investments, grants, deposits, or shares in or to:

- Organizations engaged in affordable housing rehabilitation and construction, including multifamily rental housing.
- Projects eligible for low-income housing tax credits.
- State and municipal obligations, such as revenue bonds, that specifically support affordable housing.

Michael Bodaken and Todd Nedwick, in their article, describe how some of these community development investments might work in an

affordable multifamily housing preservation context:

- Share in the risk of predevelopment financing: provide predevelopment funding in the form of a grant for feasibility studies, planning activities, or other early stage requirements, with the expectation of more substantial participation if and when the project is developed.
- Providing favorable permanent financing terms: purchasing 40-year private placement bonds (as opposed to shorter term bonds).
- Purchasing LIHTC: purchasing the tax credits associated with an affordable multifamily housing preservation project. National banks may make these investments under the Part 24 Public Welfare Investment Authority (see www.occ.gov/cdd/pt24toppage.htm).

Other qualified investments may also apply to the affordable multifamily housing preservation arena. For instance, banks (or their CDCs) might make investments, grants or deposits in organizations engaged in affordable multifamily housing preservation activities.

The Service Test

Large banks are subject to the Service Test as part of their CRA examinations. In the 2006 Q and A (71 *Federal Register*, p. 12432-3), the regulatory agencies provide expanded guidance on community development services. These services include, but are not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal, or government organizations serving low- and moderate-income housing.
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing.
- Providing technical assistance on financial matters to small businesses or community development organizations, which might include:
 - Furnishing financial services training for staff and management.
 - Contributing accounting/bookkeeping services.
 - Assisting in fund raising, including soliciting or arranging investments.

Multifamily affordable housing preservation often can be quite complex, involving multiple layers of financing. Many organizations working in this arena would benefit from assistance from bank staff to help them in organizing their particular deals, as well as in attracting additional potential participants.

The OCC's DCAOs can provide technical assistance to national banks seeking further information about how their support of affordable multifamily rental housing might receive positive CRA consideration. National banks can also contact their bank examiners or DCAOs if they have questions about what qualifies for CRA. Please see www.occ.treas.gov/cdd/contacts.htm for contact information for DCAOs or pages 41- 43 in this issue.

This Just in ... the OCC's Districts Report on New Opportunities for Banks



Bonita Irving (617) 854-6547

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KeepSpace Communities Initiative

Rhode Island Housing, the state affordable housing agency, recently introduced a KeepSpace Communities Initiative to address affordable housing needs in the state. The initiative is a sustainable housing development program designed to encourage the creation of environmentally friendly, mixed-use and mixed-income communities. Rhode Island Housing dedicated \$10 million to this initiative. This investment will be combined with other funding programs and serve as a mechanism to help spur funding of potential developments.

Rhode Island Housing is seeking proposals for up to five models of KeepSpace Communities that increase the supply of affordable homes, are ecologically based and economically sound, and promote alternative transportation and energy and water resources conservation. The funded developments will serve as models for future projects. The initiative is designed to encourage partnerships among developers, government agencies, nonprofits, and funders in creating affordable and economically sustainable communities throughout Rhode Island.

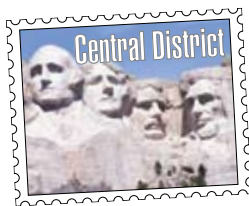
For more information about the KeepSpace Communities Initiative, contact Joe Voccio at Rhode Island Housing at (401) 457-1284 or jvoccio@rihousing.com or Tony A'Vant at (401) 457-1103 or tavant@rihousing.com.

New Funds for Affordable Housing in New Jersey

New affordable housing will be developed throughout New Jersey as a result of a partnership between two state agencies. In a joint effort, the New Jersey Department of Community Affairs and the Housing and Mortgage Finance Agency will award more than \$54 million in affordable housing funds to local developers. The statewide Balanced Housing/Home Express program contributed \$39 million, and \$15 million will come from the federal LIHTC program. The award is expected to attract \$136 million in investment capital. Through this effort, 12 communities across the state will receive support for the creation of 723 affordable rental housing units and the preservation of 339 units.

The New Jersey communities to receive the funding include Camden, Deptford, East Orange, Evesham, Franklin Township, Gloucester Township, Hoboken, Jersey City, Long Branch, Passaic, Plainfield, and Toms River. Both for-profit and nonprofit developers will participate in constructing or preserving housing in these areas.

For more information, visit www.nj-hmfa.com or call (609) 278-7400.



Paul Ginger (312) 360-8876

Norma Polanco-Boyd (216) 447-8866

Chicago Loan Fund, an Active CDFI Lender

The Chicago Community Loan Fund is a nonprofit and certified community development financial institution serving the Chicago metropolitan area. It provides loans for affordable housing projects. Recent investments include:

- Three loans totaling more than \$1 million for an affordable housing project in a Chicago suburb and a mixed-income development and a mixed-use project in two Chicago neighborhoods.
- A \$500,000 predevelopment loan to a partnership headed by nonprofit developer Turnstone Development with the purchase of the Caroline Apartments, a rental building in Riverdale, Illinois, a suburb of Chicago. The building will be rehabbed and converted to 50 units of affordable rental housing. The fund is co-lending with a bank on this project.
- A \$250,000 construction loan to the nonprofit People's Community Development Association of Chicago for a 12-unit mixed income

condominium development in the East Garfield Park neighborhood of Chicago.

- A \$295,000 predevelopment loan to the nonprofit Back of the Yards Neighborhood Council (BYNC) for a new mixed-use building in the Brighton Park neighborhood that will consist of 60 affordable rental units for seniors, a daycare center, a community center, and office space for BYNC.

The fund has more than \$17 million in assets. Since its inception in 1991, the fund has made more than 130 loans totaling approximately \$25 million. The fund also provides technical assistance to prospective nonprofit borrowers, beginning with a regular series of one-day, intensive "Project Readiness" workshops. Banks can assist the fund by (1) referring prospective borrowers that do not meet conventional credit criteria to the fund; (2) participating in structured fund financing packages; and (3) providing grants and in-kind donations to the fund.

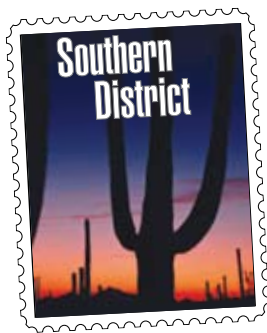
For more information, visit www.cclfchicago.org or contact Calvin Holmes at (312) 252-0440.

Cornering the Market on Innovative Rental Opportunities

Cornerstone Community Loan Fund was founded in 1986 to provide a means for people to support economic justice and opportunity in Greater Cincinnati and Northern Kentucky. The fund has expanded its scope to create conditions for low-wage families to develop ownership skills and economic assets. Through the Cornerstone Renter Equity program, the working poor can move from renting to investing in housing and financial assets. Cornerstone organizes and trains groups of households to cooperatively take on the care and management of their housing in exchange for "equity credits." Households earn equity credits each month that rent is paid on time, when they participate in the resident organization and when they perform routine maintenance responsibilities. The credits can be converted to a cash payment through Cornerstone after five years.

Through this program, residents benefit from gaining both ownership skills and financial equity. Participating property owners benefit from reduced operating costs and turnover, plus higher long-term property value. The community becomes more stable as residents take greater interest in their housing and neighborhood. Cornerstone is currently seeking additional financial institutions to invest in the fund by lending to it at below-market interest rates.

For further information, please visit www.cornerstoneloanfund.org or contact Margery Spinney at (513) 369-0114 or mspinney@cornerstoneloanfund.org.



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David Lewis (214) 720-7027

Rural Economic Development Opportunities

Rural Texas may soon benefit from more jobs, greater economic opportunities, an increased tax base, and a higher quality of life through an innovative housing program tied directly to job creation in rural communities. The Texas Department of Housing and Community Affairs has released a \$5 million Notice of Funding Availability (NOFA) for a new rental housing development program. The program is designed to develop affordable rental housing for low-income Texans with rural economic development projects that have been recently developed or are currently under development. These funds are available through a special allocation from the federal Home Investment Partnerships (HOME) program.

Organizations and persons that are interested in applying for funds may need bank partners to complete the development financing because funds made available under this program will provide only a portion of development costs. Eligible applicants include nonprofit housing organizations, public housing authorities, sole proprietors, and local government agencies that are seeking to develop affordable rental housing in nonparticipating jurisdictions as designated by HUD. Funds must be tied to the creation of new or expanded job opportunities currently in development or created within the previous 18 months at the time the application is submitted. Only housing developments that employ at least 10 new positions will be considered, and employment sites must be located no more than 20 miles from the proposed housing development. Applications for funding must provide evidence of a definite and long-term employment commitment from the employer.

For more information on NOFA and this new initiative, please visit www.tdhca.state.tx.us/home-division/mf-home/docs/07-RHD-NOFA-job-creation.pdf, contact Skip Beaird at (512) 475-0908, or via e-mail at skip.beaird@tdhca.state.tx.us.

Alabama Asset Building Coalition

The Alabama Asset Building Coalition is a partnership among federal, state, and local governmental agencies, nonprofit organizations, and the corporate community. Through the use of Individual Development Account (IDA) programs, the 41-member coalition enables Alabamians to develop assets that support generational wealth building and self-sufficiency. Currently, the coalition sponsors IDA program activity in Blount, Colbert, Etowah, Jefferson, Mobile, St. Clair, Shelby, Sumter, and Walker counties. During 2008, expansion is expected to include Uniontown, Auburn, and Montgomery.

The United Way of Central Alabama is fiscal sponsor and lead agency for the coalition's \$1.7 million Assets for Independence initiative for working families to open IDAs. These matched savings accounts accelerate earned income savings for first-time homeownership, post-secondary education, or small business capitalization. In only one year, 40 participants have opened IDA accounts, two families have purchased homes, and one person has paid for post-secondary education. The coalition offers financial literacy education as part of the IDA programs so people can make informed decisions when borrowing, spending, saving, or investing money. The coalition also provides free income tax assistance preparation to help accelerate IDA savings.

All local matching IDA funds are held in reserve until the qualifying asset or service is purchased and only then disbursed to the vendor. In addition, UWCA handles all the administrative responsibility. Banks may be eligible to receive CRA investment test credit by contributing matching funds and/or service test credit by holding the saver's account.

Contact DeForrest Brown at (205) 458-2056, dbrown@uwca.org, or Shirley Worthington at (205) 458-2073 or shirleyw@uwca.org for details on how to become involved.

Small Business Investment Opportunity

Plexus Fund I is a Small Business Association-licensed “debenture” small business investment company (SBIC) formed in 2005 with offices in Charlotte and Raleigh, North Carolina. Plexus Fund I’s five principals worked together since 1995 at a predecessor investment fund, making Plexus Fund I a first-time fund managed by experienced industry professionals with a proven track record of providing not only capital but also strategic advice and counsel to its portfolio clients. Plexus provides patient capital to lower middle market companies experiencing rapid growth, to private companies making acquisitions, and to support strong management teams participating in recapitalization transactions. Plexus typically invests up to \$5 million per transaction and looks for companies with a sustainable competitive advantage led by strong management teams. Clients generate more than \$10 million in revenue and \$1 million in cash flow. Plexus will participate in financing transactions of up to \$25 million as a non-control investor.

While Plexus Fund I is closed to new investors, the principals plan to accept investors into Plexus Fund II in the near term. Fund II is also expected to be a licensed debenture SBIC with the same CRA credit opportunity for banks, with limited partner investment commitments expected to range from \$500,000 to \$5 million. A bank’s investment in a Plexus Fund may be a “qualified investment” for CRA purposes.

To reach Plexus, please call Bob Anders at (704) 927-6246 or visit its Web site at www.plexuscap.com.



Susan Howard (818) 240-5175

Dave Miller (720) 475-7670

Century Housing

Century Housing has provided affordable housing financing, technical assistance, and residential supportive services in Southern California for more than 25 years. Originally established by a 1979 consent decree as part of the I-105 (Century) Freeway, the Century Freeway Housing Program supported the financing and construction of more than 3,700 homes. In 1995, the organization was privatized and became Century Housing. It expanded its services to provide other life-enriching programs for project residents, including job training, homeless services, seniors and wellness programs, and tutorial services. Century Housing has participated in the creation of more than 12,000 units and \$330 million in financing for low- and moderate-income (LMI) persons and families.

Century has spurred development by creating and administering loan pools both directly and through Century Community Development (CCDI), its CDFI subsidiary. Century’s loan pools have generated more than \$125 million in financing for 49 projects in Los Angeles and Orange counties. Investors have included financial institutions and foundations.

Century Community Lending Company (CCLC) is another subsidiary of Century Housing. It is a \$50 million fund that closed in 2006. It provides rehab/construction loans to small project (2-12 units) owners and developers. The fund is modeled on New York’s Community Preservation Corporation Fund. It is a “one stop shop” for affordable housing developers and owners.

CCDI closed its first \$15 million loan pool, the Century Community Development Investment Fund, in 2005, with 18 small and midsized banks participating. Its second fund is scheduled to close later this year.

Century has a goal of reaching \$200 million in investment commitments in its funds within the next few years.

For more information, contact Stephen Peelor at (310) 642-2034 or visit www.centuryhousing.org.

Low Income Housing Institute’s Community Development Lending Opportunities

The Low Income Housing Institute (LIHI) was created in 1991 to develop and manage low-income housing throughout the Puget Sound region of Washington. In 1994, the Fremont Public Association of Seattle merged its housing development with the institute, creating one of the largest and most active low-income housing organizations in Washington. Working with 35 private and public funding partners, the institute raised more than \$260 million in capital, which has supported the development of more than 3,000 units of housing for low-income families. Currently, the institute owns or manages 48 properties containing more than 1,600 housing units for low-income families, individuals, seniors, people with disabilities, and women and children at risk. The institute’s support services provide case management, financial literacy, technology training, referral services, and youth programs to help its residents achieve stability and security in their lives.

The institute is currently developing 13 new projects that will provide nearly 450 housing units and community services for low-income families. The institute periodically seeks private and public funding in the form of loans and grants to support its housing projects.

For additional information, please contact Sharon Lee, the organization’s director at (206) 443-9935 or visit LIHI’s Web site at www.lihi.org/index.htm.



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