

Preserving Affordable Rural Rental Housing

New Tools and Promising Practices

May 4, 2017

Organized by the Board of Governors of the Federal Reserve System

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Welcome

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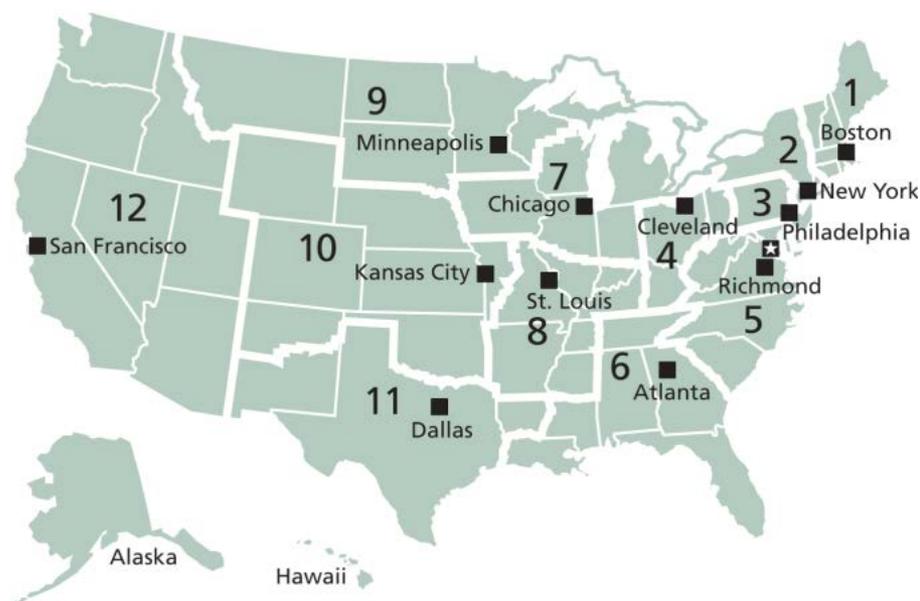
In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

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Community Development (CD)

- The CD function within the Federal Reserve System – consisting of individual departments at each of the 12 Federal Reserve Banks and at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, non-profits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters and Agenda

- Bryan Hooper, Deputy Administrator for Multifamily Housing, U.S. Department of Agriculture (USDA), Rural Housing Service (RHS)
- Elizabeth Nash, Vice President of Data and Product Development, PolicyMap
- Rick Goodemann, Chief Executive Officer, Southwest Minnesota Housing Partnership (SWMHP)
- The following will be discussed:
 - New data and tools the USDA made available for assessing preservation deals
 - A new online tool for assessing market conditions around USDA properties
 - Ways to incorporate these new tools into rental preservation workflows

Preserving Rural Development's (RD's) Affordable Rental Housing

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RD Rental Housing Vital Statistics

- Section 515 direct loan portfolio (as of March 31, 2017):
 - 13,600 properties containing 413,000 units
 - Represents current investment of \$10.5 billion
 - Nearly 275,000 units receive rental assistance (RA)
 - Average property age approximately 30 years

Mortgage Maturity

- Beginning in 2014, some properties began to have their Section 515 loans mature.
 - Between 50–100 properties' loans will mature each year through 2023.
- Issue: Once RD's loan naturally matures, RA benefits are no longer available for the tenants in the property.
 - The rural community loses critically needed affordable housing for very low-income families.

RD Actions to Retain Maturing Affordable Rental Housing

- We cannot save vital rural rental housing on our own, as we do not have the resources to do that. We need to work with partners like you to do so.
- First step: Make the public aware of the potential loss of affordable housing.
 - In 2016, RD developed and published a Multi-Family Housing Property Preservation Tool showing loan maturity dates for all Section 515 properties and Section 514 farm labor properties.
 - RD also engaged PolicyMap to include RD multifamily properties on its mapping tool.

Rural Development Actions

- The Property Preservation Tool was recently updated to show portfolio status as of December 31, 2016.
- The Property Preservation Tool is available at:
http://public.tableau.com/views/USDARuralDevelopmentMulti-FamilyHousing/Overview?:embed=y&:showVizHome=no&:display_count=y&:display_static_image=y&:bootstrapWhenNotified=true
- Next step: Incentivize property retention through transfers of ownership:
 - Introduced a pilot program to incentivize non-profits to acquire maturing mortgage properties from existing owners—enlists the help of both for-profit and non-profit institutions in the bid to keep this affordable housing
 - Pilot program became effective March 1 and is open for two years.

Rural Development Actions (continued)

- Incentivize existing owners by allowing owners interested in retaining their property with RD to do so in one of two ways:
 - Reamortize existing loan, extending term by as much as 20 years:
 - Most reamortizations approved have been for shorter periods to allow for the orderly transfer of the property.
 - Defer existing loan for up to 20 years, possibly with rehabilitation financing included
- Either method retains a Section 515 loan on the property, keeping it eligible to receive RA.

Tools to Preserve Housing

- Technology: RD's Preliminary Assessment Tool:
 - Designed for use by both buyers/sellers and RD to underwrite property transfers
 - Incorporates most industry standards
 - Provides transactional transparency
 - Capable of including multiple forms of financing, such as tax credits and other financing
- Human capital: RD field staff and headquarters' underwriting experts

USDA RHS PolicyMap Tools

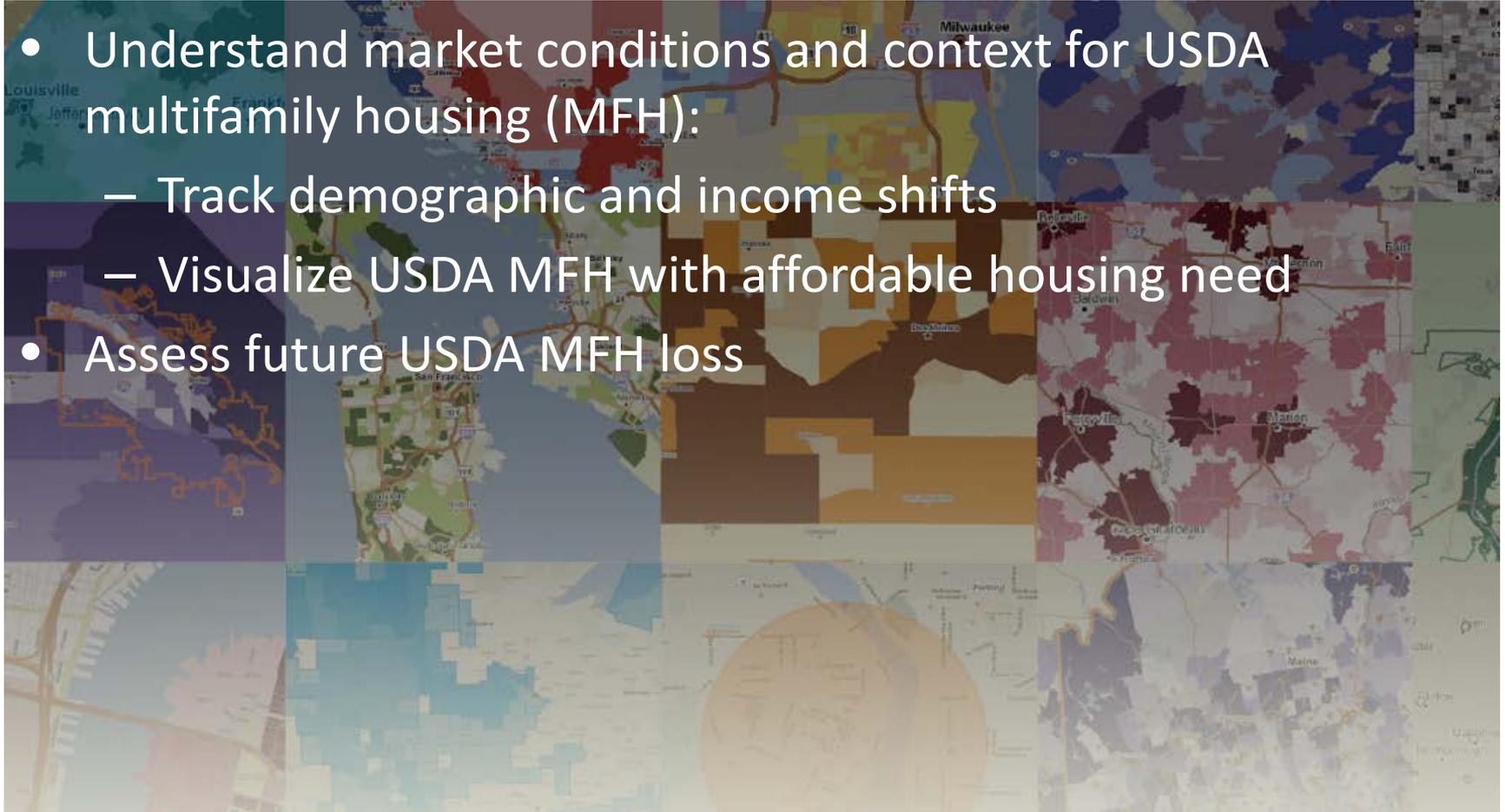
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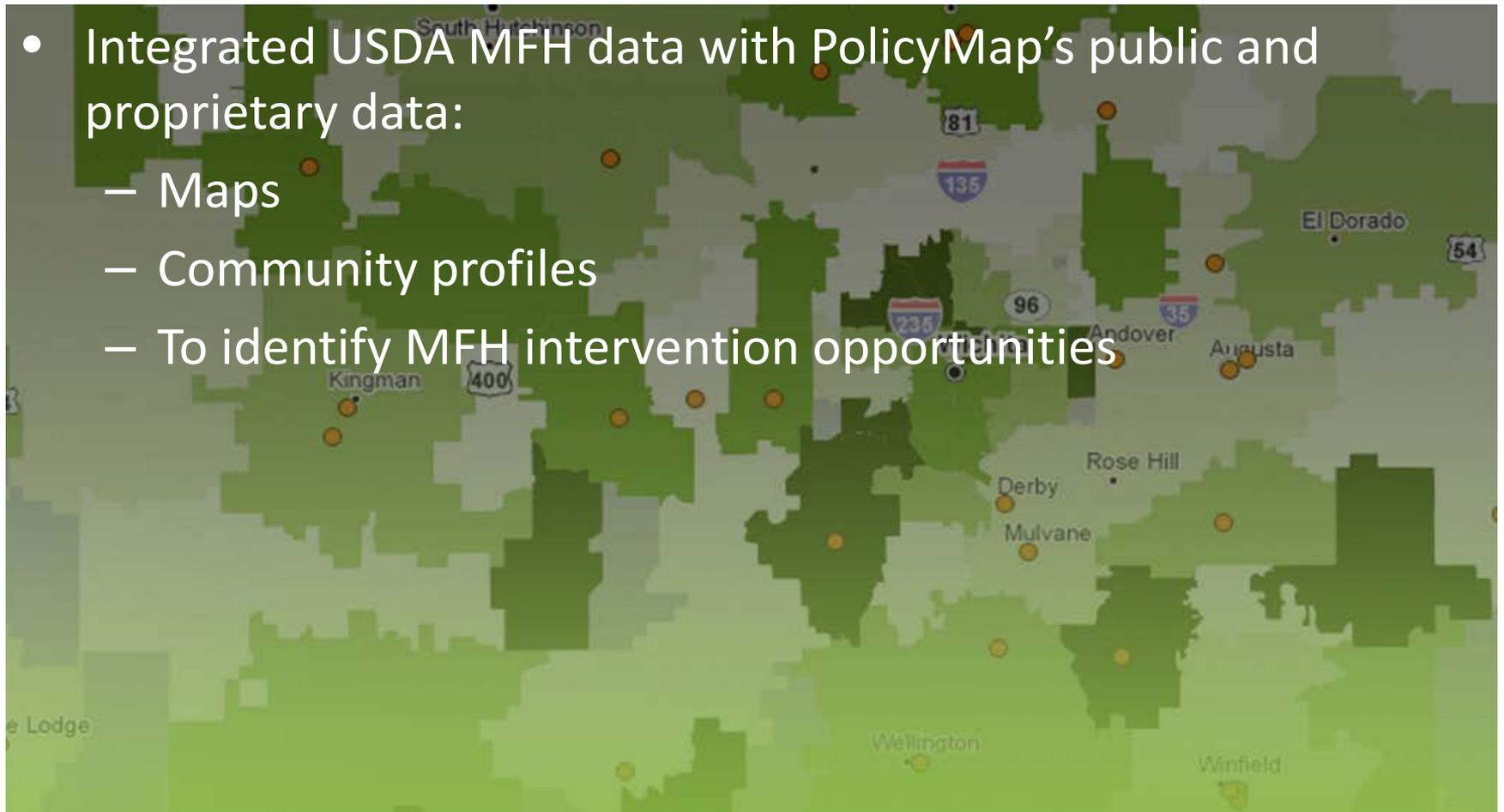
USDA RHS PolicyMap Tool Objectives

- Understand market conditions and context for USDA multifamily housing (MFH):
 - Track demographic and income shifts
 - Visualize USDA MFH with affordable housing need
- Assess future USDA MFH loss

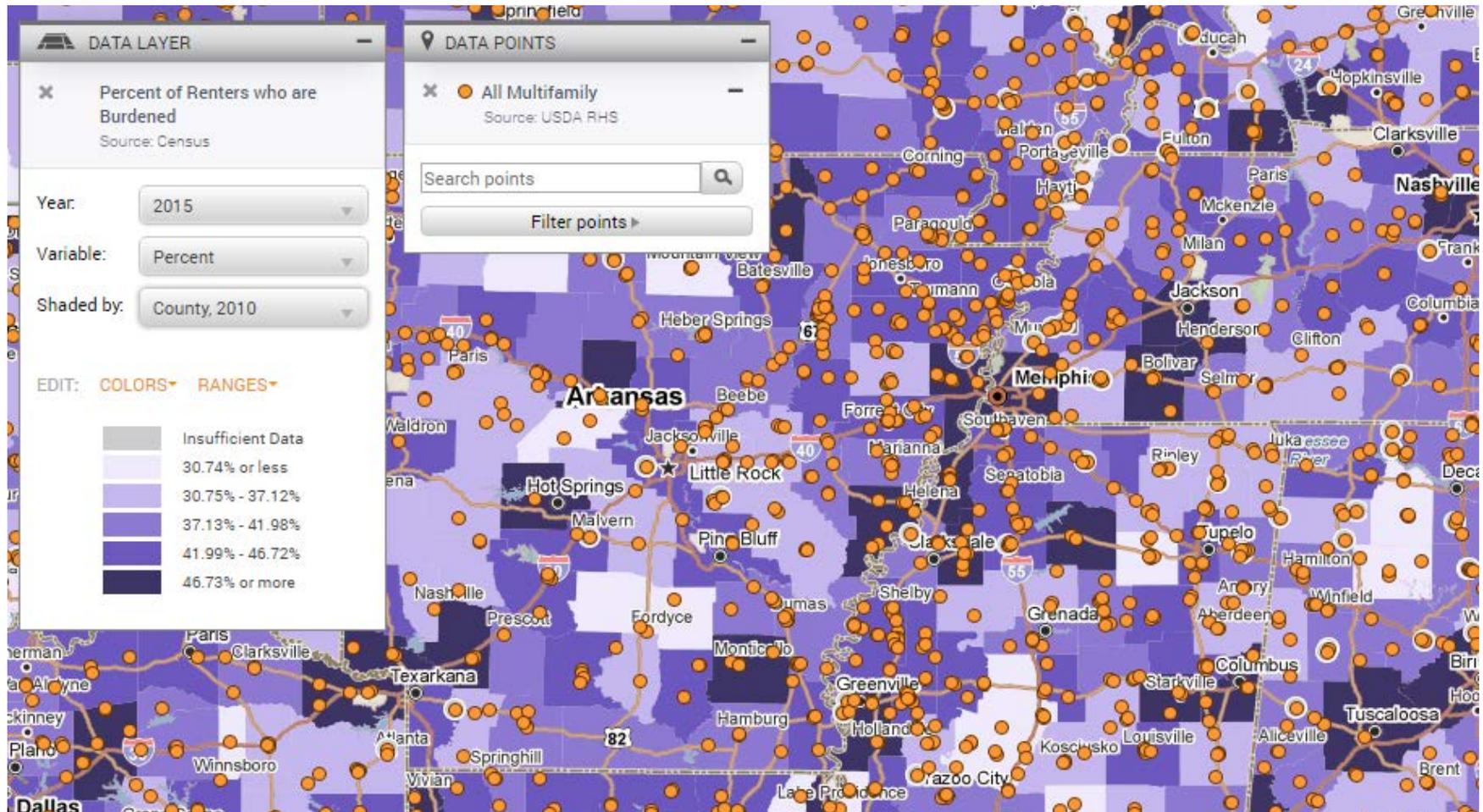


Understanding USDA MFH Market Conditions and Context

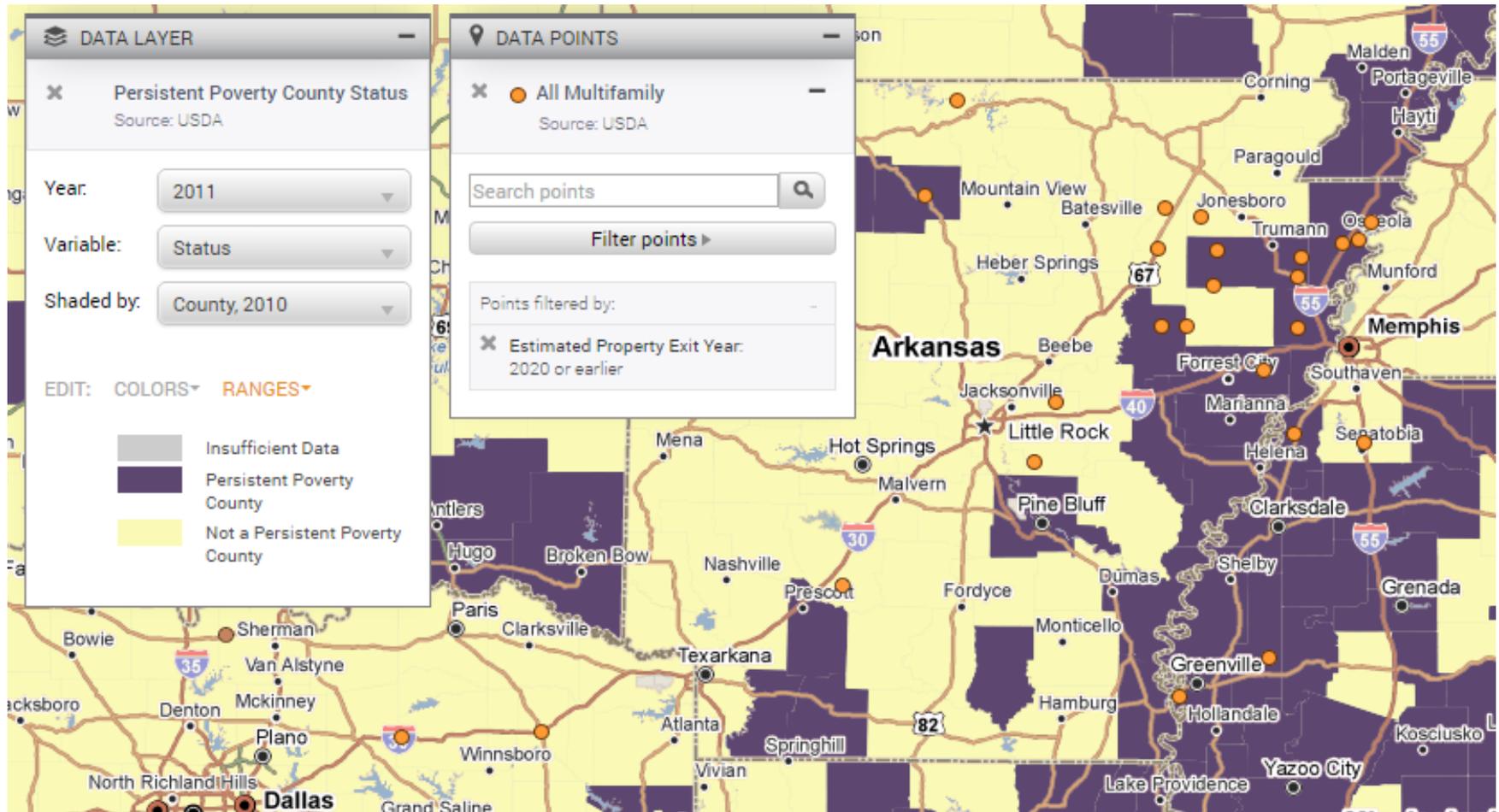
- Integrated USDA MFH data with PolicyMap's public and proprietary data:
 - Maps
 - Community profiles
 - To identify MFH intervention opportunities



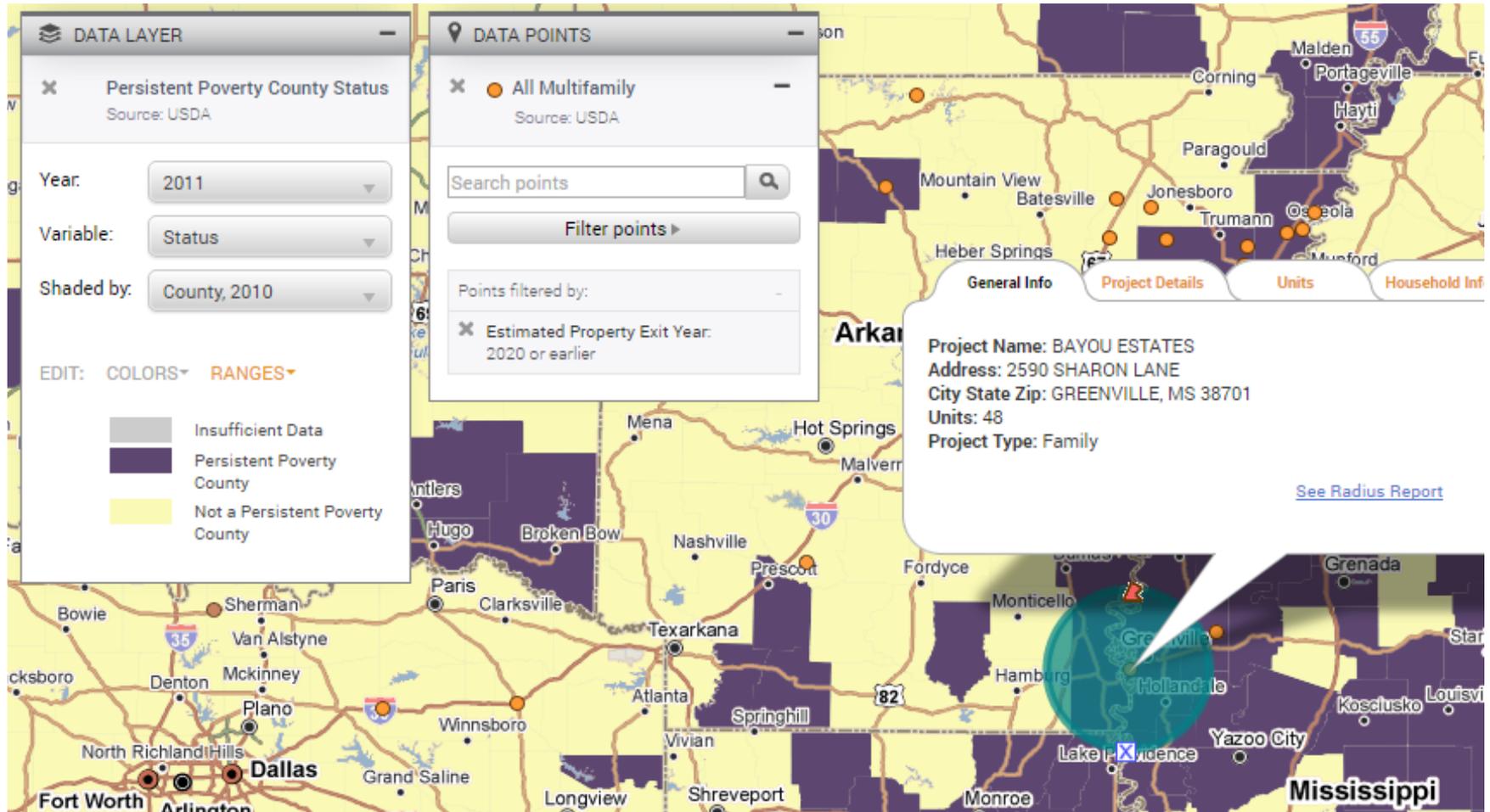
Map: USDA MFH and Cost-Burdened Renters



Map: USDA MFH and Persistent Poverty

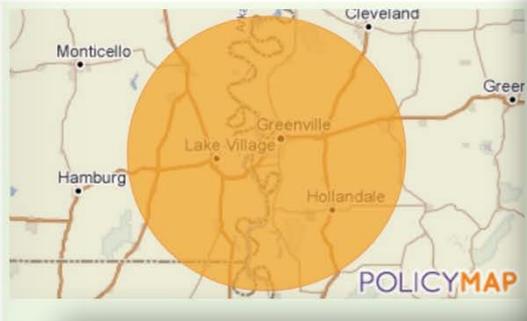


Map: USDA MFH Property 30-Mile Radius



Community Profile: 30-Mile Radius

Community Profile Report of Custom Region: 2590 Sharon Ln Greenville MS



(-) Racial Characteristics:

Of the people living in this area in between 2011-2015, **30.09%** are White, **67.95%** are African American, **2.08%** are Hispanic, **0.17%** are American Indian or Alaskan Native, **0.58%** are of "some other race" and **0.59%** are of two or more races. The population that each segment represents in the report area is compared to the percent it represents in the state.

Between 2000 and 2011-2015, the White population changed by **-33.25%**, the African American population by **-14.38%**, and the Hispanic population changed by **39.21%**.

Race	2000	2010	2011-2015	Percent of Total Population in 2011-2015	Percent of Total Population in 2011-2015
White	27,428	18,648	18,308	30.09%	
African American	48,288	42,849	41,346	67.95%	
Asian	352	346	384	0.63%	
Native Hawaiian or Pacific Islander	13	13	0	0%	
American Indian or Alaskan Native	109	92	105	0.17%	

(-) Incomes:

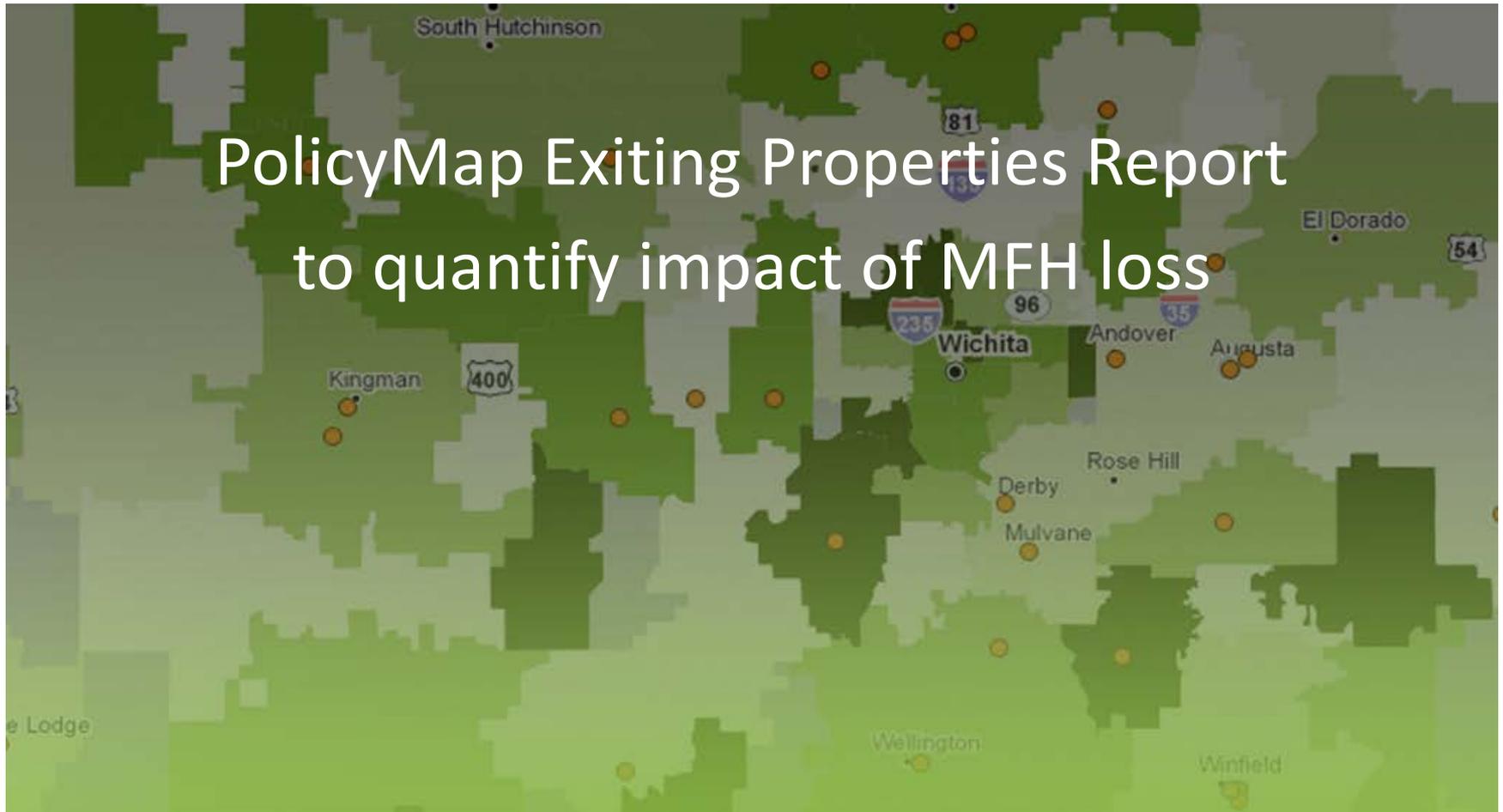
The median household income for the study area in 2015 by the Census' American Community Survey.

The number of households divided by income category of less than \$50,000, compared to **59.55%** of people in the state of Mississippi.

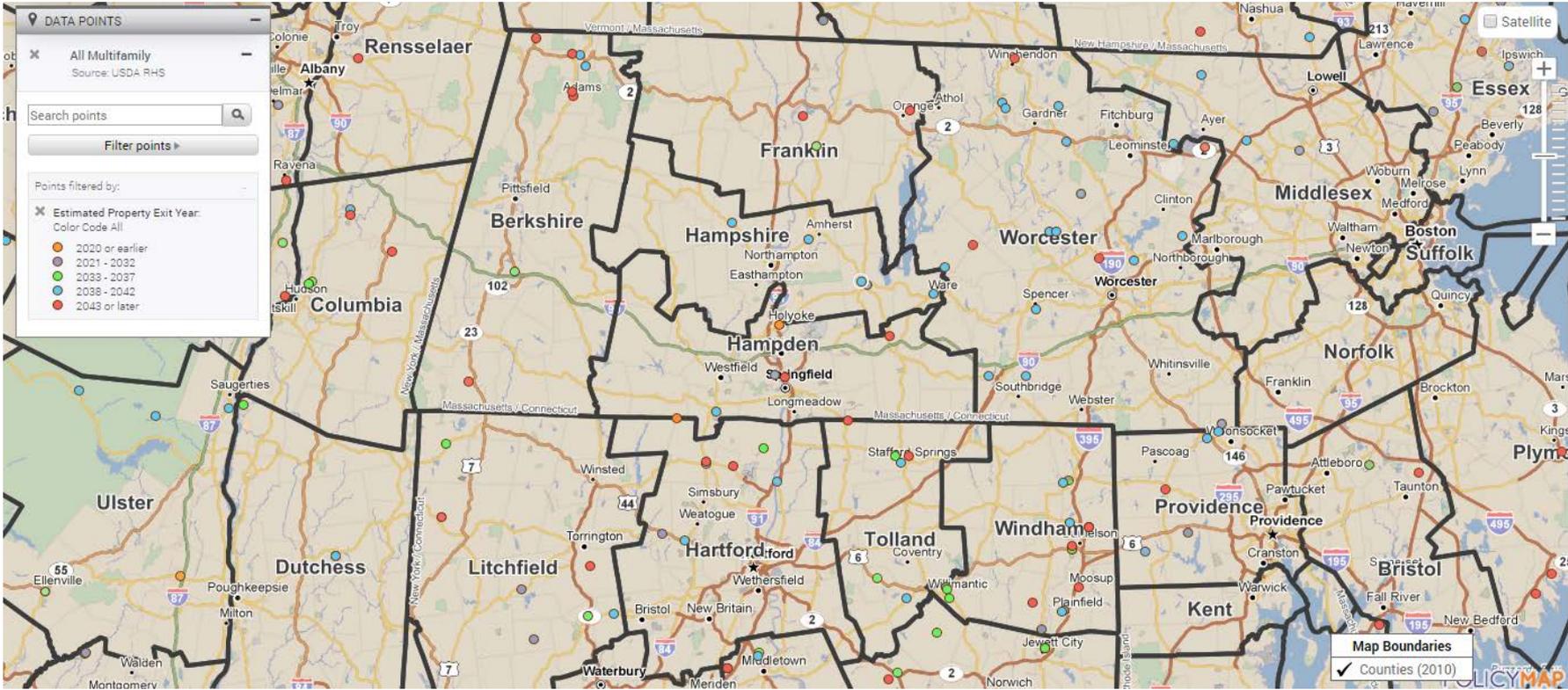
2011-2015 Annual Income Category	Number of Households
Report Area	
Less than \$25,000	10,292
\$25,000 - \$34,999	2,591
\$35,000 - \$49,999	3,035
\$50,000 - \$74,999	3,377
\$75,000 - \$99,999	1,330
\$100,000 - \$124,999	796

st, McGehee School District, East Carroll Parish School District, Dermott School District, Benoit School District
 a's 5th District (Ralph Abraham - R), Mississippi's
 State Senate District 13, State Senate District 22,
 e House District 29, State House District 30, State

Assessing Future Loss of USDA MFH



USDA MFH Exiting Properties



USDA MFH Exiting Properties Report

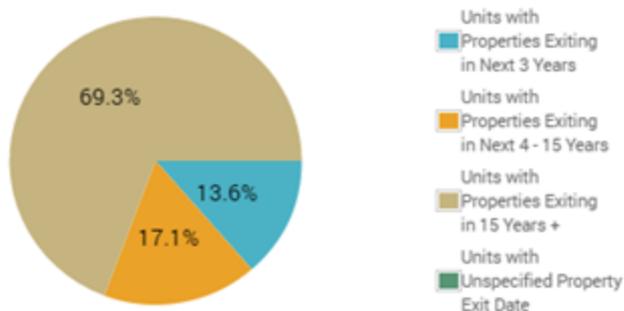
USDA RD Multifamily Housing Projects and Units

	Exiting Properties	All Properties
USDA RD Multifamily Housing Projects	2	6
USDA RD Multifamily Housing Units	19	140

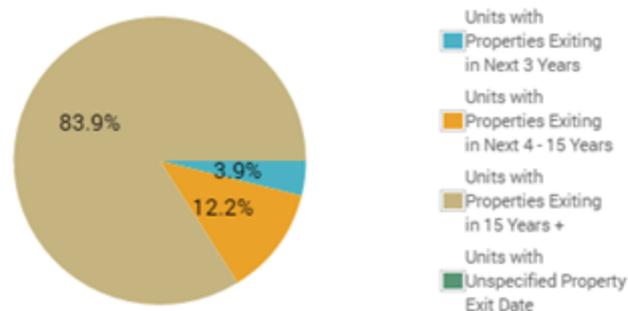
Other Subsidized Housing Projects

	Number of Properties	Properties with Contracts Expiring in Next 15 Years
HUD Multifamily Housing Projects	105	0
HUD Low-Income Housing Tax Credit (LIHTC) Projects	89	N/A

USDA RD Multifamily Housing Units by Property Exit Date in Hampden



USDA RD Multifamily Housing Units by Property Exit Date in Massachusetts

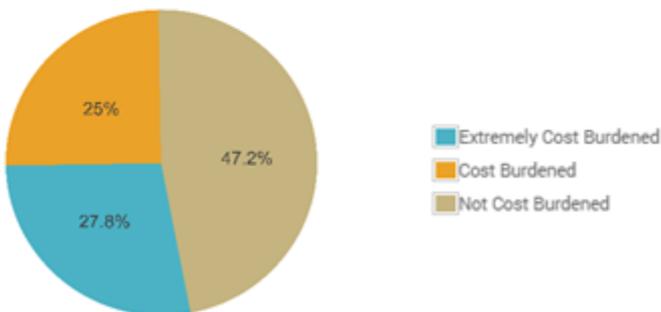


USDA MFH Exiting Properties Report (continued)

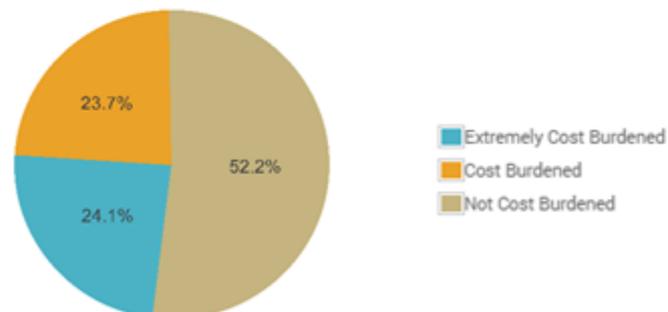
Renters and Cost-Burdened Renters

	Number of Households	Percent of Households	Percent of Households (Massachusetts)
Renters	67,813	38.3%	37.9%
Owners	109,087	61.7%	62.1%
Total	176,900	N/A	N/A

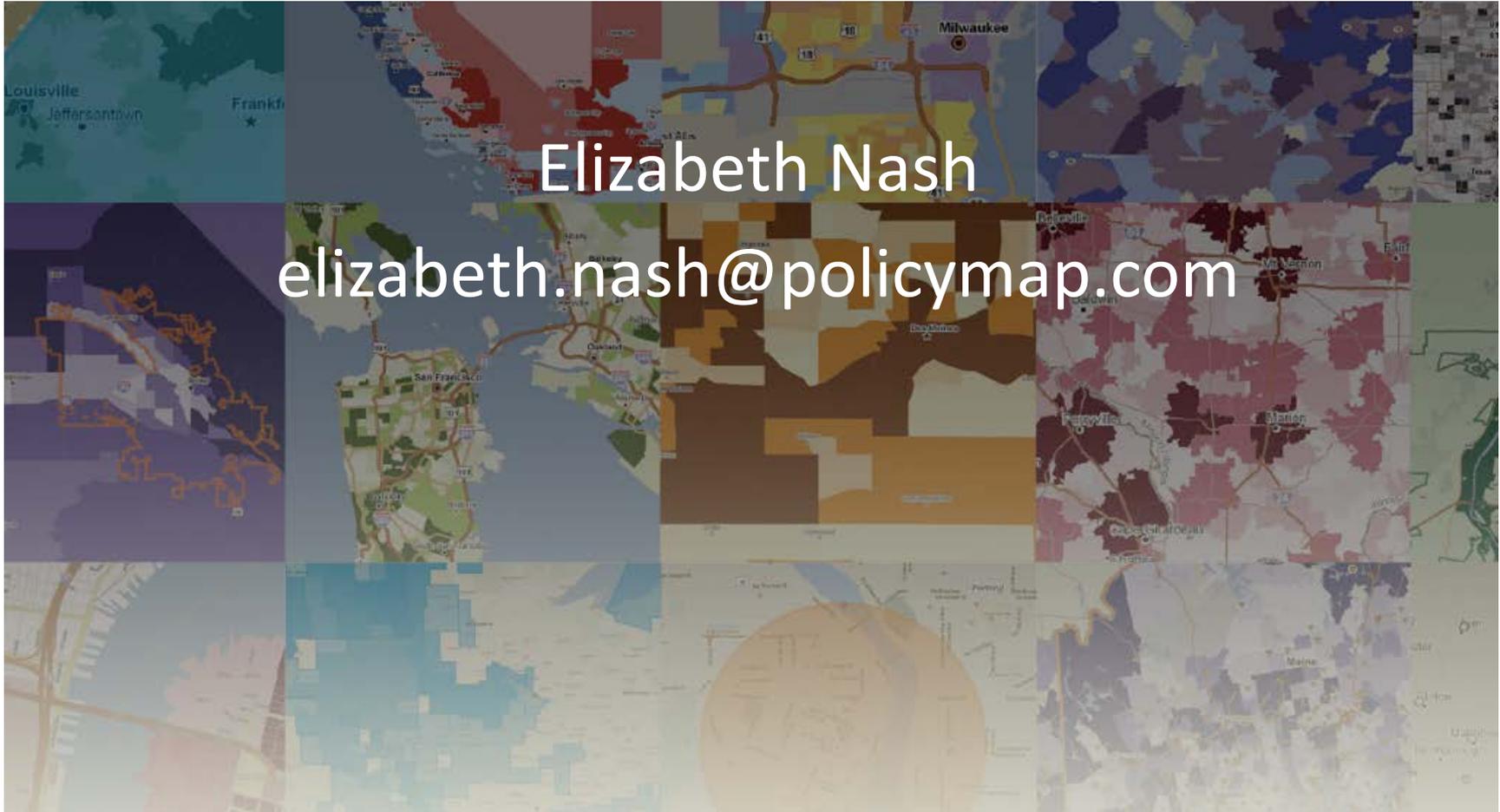
Renters and Cost-Burdened Renters in Hampden



Renters and Cost-Burdened Renters in Massachusetts



USDA RHS PolicyMap Tools



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Preserving Affordable Rental Housing in Rural Minnesota

Rick Goodemann

Chief Executive Officer

Southwest Minnesota Housing Partnership

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SWMHP

- Established in 1992 to address growing housing needs within 14 counties of Southwest Minnesota
- Now serves over 30 counties in Minnesota and has expanded to Iowa
- Mission of creating thriving places to live, grow, and work through partnerships with communities
- Listen to community needs and seize opportunities with the big picture in mind



Affordable Housing Preservation

- SWMHP acquires and rehabilitates properties at risk of losing federal rental subsidies or converting to market rate through sale.
 - Preserve the structure as quality housing
 - Preserve the federal rental supports for residents
- SWMHP's impact:
 - 1,653 multifamily units owned in 27 communities
 - 29 properties developed for other owners
 - 1,880 multifamily units receive rehabilitation assistance



SWMHP Rural Development

Section 515 Preservation

- SWMHP owns six Section 515 properties consisting of 343 units.
 - Properties range in size from 12 to 131 units.
- SWMHP began Section 515 acquisitions in 2003.
- Five out of six are single-asset transactions.
 - One is a five-property transaction.
- There are no typical transactions:
 - Transfers with state rehab funding
 - RD Multifamily Preservation Pilot (MPR)
 - LIHTCs
 - Section 515 debt deferral
 - Allocation of recaptured RA
- Administer Minnesota rental rehab funds:
 - Ten loans to Section 515 properties – 216 units/\$3.1 million – since 2012

Nimens-Espegard Apartments Crookston, Minnesota

- 98 units – 100% RA
- 3 buildings – 1 senior/2 family
- Good condition:
 - Owner wanted to exit
- Sales price set at market value:
 - Owner donated portion of value
- Total development cost: \$5,566,307
- Financing structure:
 - Section 515 assumption/reset – 1%, 30-year, \$203,101
 - Section 515 owner equity loan – 1%, 30-year, \$1,525,885
 - RD Preservation Revolving Loan Fund – 2%, 30-year, \$1,500,000
 - Housing finance agency – \$1,987,321
 - CD block grant – \$350,000



Nobles Square Apartments Worthington, Minnesota

- 48 units – 100% RA
- Two buildings – family
- Moderate condition: \$47,000/unit
- Sales price set at market value
- Total development cost: \$4,595,393
- Financing structure:
 - Section 515 transfer – 1%, 30-year, \$445,961
 - LIHTC 9% equity – \$0.82/\$1, \$2,419,488
 - SWMHP – deferred fee/deferred loan – 8%/30-year, \$359,318
 - Housing finance agency – 0%, \$567,506
 - Community development block grant – 0.25%/30-year, \$350,000
 - Greater Minnesota Housing Fund (CD Financial Institution) – 0%, \$408,000



SWMHP Rural Development Section 515 Preservation Pipeline

- Portfolio transaction:
 - 22 properties, 421 units (Minnesota)
 - Partner substitutions with rehab:
 - 9 properties, 106 units
 - 9% LIHTC – MPR – Section 538:
 - 2 properties, 48 units
 - Bond/4% – MPR – housing finance agency soft debt:
 - Section 538 – 11 properties, 267 units
 - 360 project-based assistance units
 - Sales prices negotiated set at restricted or market valuation
 - Partner interest value set at \$1.00
 - SWMHP rejected 4 properties in the portfolio.
- Tax credit allocation and soft funding committed for portfolio in October 2016
- New application being prepared for a 56-unit property in June 2017



Questions?

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org
2. Type your question into the chat box of the webinar

Wrap Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website and in the next few days, we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website along with archived materials from past sessions:
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Related Resources



FedCommunities.org
Federal Reserve community development resources promoting
people, place, policy and practice, and small business

- In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.
- It provides an array of practical resources to help you in your role as a CD professional, whether your work involves supporting people, places, the policy and practice of CD, or small business development.