National Housing Trust Statement to House Subcommittee on Housing and Community Opportunity

House Financial Services Committee

Washington, D.C.

July 20, 2004

Chairman Ney, Ranking Member Waters and members of the Subcommittee, thank you for inviting me to testify today. My name is Michael Bodaken. I am the President of the National Housing Trust ("the Trust") a national nonprofit organization formed in 1986, dedicated exclusively to the preservation of affordable housing. Our Board of Directors includes representatives of all major interests in the preservation area, including tenant advocates, owners and managers, state housing agencies, national and regional nonprofit intermediaries, housing scholars and other housing professionals who care deeply about protecting this irreplaceable resource.

The Trust serves as a preservation clearinghouse to the public and private sector. In addition to its public policy and program monitoring role, the Trust provides technical assistance to nonprofits seeking to protect and secure affordable multifamily housing, makes loans to others to finance such activities and in a joint venture with the Enterprise Foundation, has preserved and improved thousands of apartments which it owns as the managing general partner. Over the past decade, the Trust's technical assistance, lending and ownership efforts have helped save nearly 16,000 apartments in over 30 states. More than 85 percent of these apartments are existing HUD insured and/or subsidized, multifamily housing including Section 236 and 221(d) (3) BMIR properties, properties eligible for preservation in HR4679.

Introduction

Today's testimony will cover the following discrete areas:

- Explain why it is critical to preserve federally assisted, well located, mixed income housing.
- Provide some technical suggestions to the language of HR4679, the "Displacement Prevention Act of 2004."

1. Preserving the Stock of Federally Assisted Housing Is Crucial: This Stock is Geographically Widespread Throughout Every State

The nation's market supply of decent, affordable housing for poor families and elderly does not currently meet the demand for that product. All too often, this fundamental fact is lost in our discussions of contemporary housing and community development policy.

The Trust therefore welcomes the introduction of HR4679. The "Displacement Prevention Act" would help preserve and improve an important segment of the affordable, privately owned HUD subsidized inventory. The bill allows those of us concerned about this issue an opportunity to remind our elected leaders of the endemic loss of this government resource and the role of the federal government in its salvation at an acceptable cost to the American taxpayer.

The January 2004 GAO report “More Accessible Data Could Help Efforts to Preserve Housing for Low Income Tenants” makes clear that since the 1950’s, HUD has subsidized approximately 1.7 million rental units in over 23,000 privately owned properties that are generally affordable to low income residents. Indeed, as the tables accompanying the GAO report make clear, this housing is spread across every state and nearly every Congressional district in the nation. According to HUD, the vast majority of those occupying this housing are very low income households; 40 percent are said to be elderly households.

The context in which HR4679 is introduced is a supply of subsidized housing *already* at risk of loss. Indeed, over 15 percent of this housing resource has *already* been taken from our nation’s affordable housing inventory. Over the past three decades, real estate inflation has sharply increased the value of many of these properties. As a result, many of the properties have been converted to market rate properties. Indeed, according to a report published by the Trust just two months ago, over 300,000 valuable HUD subsidized units have been lost to this 1.7 million unit inventory just over the past 8 years.

The number of project-based units subsidized through HUD rental assistance and mortgage subsidy programs has thus declined to no more than 1.4 million affordable apartments in 2004. There are various reasons for this decline, including owners’ decisions to opt out of Section 8 contracts upon expiration, termination of Section 8 contracts by HUD due to enforcement actions and prepayment of HUD insured mortgages. A copy of the Trust report documenting this HUD subsidized housing loss is attached at **Tab 1**.

Any attempt to stem this rising tide of housing loss is more than welcome. While we agree with the GAO that accessing existing data is a necessary first step, this does not constitute a sufficient response to this pending housing crisis. As recently noted by the Joint Center for Housing Studies of Harvard University:

> “The already scarce supply of low-cost housing continues to
> Shrink because of physical deterioration on the one hand and
> Gentrification on the other. . . . .
> But long term contracts for subsidized rental units continue to expire,
> placing huge demands on the limited supply.”
>
> **State of the Nation’s Housing, 2004**, p. 28.

Affordable Housing Loss Due to Mortgage Maturation

As the GAO report makes clear, there are affordable HUD subsidized housing losses just on the horizon. The GAO report explains where there is no existing subsidy other than the HUD mortgage in place, elderly and family tenants residing apartments with maturing mortgages are threatened with involuntary displacement. According to the GAO, more than 193,000 apartments may lose their current affordability as property owners who hold mortgages with favorable FHA financing finish paying off their HUD below market rate mortgage. Once the mortgages mature, the owner is generally free to convert the property to market. If the owner prepays the mortgage, tenants receive enhanced vouchers. However, in any event, owner choices as mortgages mature will undoubtedly lead to loss of critically needed affordable housing and potential displacement of tens of thousands of families and elderly households. Indeed, according to the GAO, over 100,000 of these apartments have no other government support which means the 200,000 individuals who reside in these apartments, many of whom are elderly or disabled, are at particular risk of displacement.

While the GAO observed that different states had varying rates of loss due to mortgage maturation, the data indicates the potential loss is geographically widespread. As indicated in **Tab 2**, nearly half of the states stand to lose more than 20 percent of their entire, existing HUD subsidized housing stock unless something is done now to attenuate this issue. For example, in California, more than 25 percent of its existing HUD stock is within the universe surveyed by the GAO. 17 percent of Ohio's HUD assisted stock is in this same circumstance.

HR4679 Authorizes Three Methods to Help Preserve the Affordability of this HUD Housing Resource

Consistent with current federal preservation law, the bill provides incentives to owners of these properties in return for which the properties would remain affordable to low and moderate income households. HR4679 authorizes HUD to use $675 million of previously appropriated, but unused, HUD funds for up to 1,835 properties covered by two of HUD's below market rate insured mortgage programs: Section 221(d) (3) BMIR or Section 236. The bill would allow HUD to provide resources to owners (or purchasers, infra) for one of three purposes:

1. *Rehab Grants*: A one time grant could be provided to owners for rehabilitation of the property who agree to extend the affordability requirements for a minimum of 20 years.

2. *Acquisition Grants*: A one time grant to nonprofits would be provided for the acquisition of Section 221(d) (3)BMIR or Section 236 properties with expiring mortgages in return for the nonprofit agreeing to maintain the affordability requirements for the remaining useful life.

3. *Annual Gap Payments*: Where the subsidized rent was below comparable market rent, the bill would allow current owners to cover the difference between the subsidized rent and the comparable market rent, so long as the owner agreed to extend affordability requirements for not less than 10 years.

Such HUD payments would be targeted to properties that were clearly in need: the bill provides needs based criteria such as the date of mortgage maturation, the extent to which the apartments are occupied by low income residents and to the extent the owner's agreement of affordability exceeds the minimum eligibility thresholds. HUD is free to adopt other criteria in the regulations adopted to implement the bill.[1]

Technical Suggestions to Strengthen And Further Implement the Intent of HR4679

The Trust strongly supports HR4679. The bill artfully balances the interest of owners and the public interest in maintaining this housing resource. What follows are a few suggestions that we believe will accomplish the goals of the authors and target federal preservation resources to existing state and local preservation resources.

1. *The Form of Federal Assistance Should Be Either Grants <u>or Deferred Loan</u>, at the Owner's or Purchaser's Option. Owner or Purchasers Who Syndicate With Low Income Housing Tax Credit Will Be Able To Access More Tax Credit Equity from States for Preservation if the Federal Assistance Is Structured as a Loan.*

Faced with a growing affordable housing crisis, state and local governments are increasingly turning their attention to preserving existing HUD assisted, multifamily, affordable homes. Many states and localities are devoting precious resources, including low income housing tax credits, private activity bonds and other state and local funds to this end.

Three years ago, the Trust conducted an informal survey of housing finance agencies to determine which agencies were prioritizing or setting aside low income housing tax credits to preserve federally-assisted or insured, multifamily housing. At that time, only six states were concerned enough about the loss of federally-assisted housing to dedicate a portion of their most plentiful housing resource—low income housing tax credits—to preserve and improve affordable, multifamily homes. Today, more than 40 city and state agencies prioritize preservation through points or a specific preservation set-aside in their Qualified Allocation Plans (QAPs).

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[1] In other testimony before the Subcommittee, Recap Advisors observes that owners are more likely to prepay their mortgages as their mortgage balances decline towards the end of the amortization period. The tenants will receive enhanced vouchers, but the nation will still suffer a loss of housing stock. We join Recap in recommending that HR4679 be adopted and that Congress extend Section 8 voucher eligibility to properties owned by nonprofits or assisted by Rent Supplement.

We now estimate that over 30,000 HUD assisted and/or insured, multifamily units were preserved and improved with low income housing tax credits over the past year (See **Tab 3** for the latest NHT Working Paper: "Affordable Housing Preservation Initiatives: A State by State Summary").

HR4679 allows federal resources to play a role together with states and localities. To the extent states and localities are using low income housing tax credits to preserve HUD assisted stock, HR4679 should allow the federal resources to be treated as either a grant or "loan." Current tax credit rules allow the user more "credit" if the resources brought to the transaction are not treated as taxable income. Grants are typically treated as income. Hence, the nonprofit purchaser or owner may well elect to treat the HUD resource as a loan to maximize the tax credit equity available to help preserve the property.[2]

2. Permit or Require HUD to Defer or Eliminate Flexible Subsidy Loans Made on Maturing HUD Section 236 or 221(d) (3) BMIR Mortgages.

According to knowledgeable observers, many Section 221(d) (3) BMIR and 236 projects are burdened with "flexible subsidy" loans that will come due, with accrued interest, at the time of HUD mortgage maturity—jeopardizing their continued affordability. HR4679 should include a provision authorizing HUD to forgive or defer these loans where owners agree to extend affordability for the term of deferment, e.g., a minimum of 20 years. The choice of forgiveness or rollover should be at the owner's option; for-profit owners may face adverse tax consequences if debt is entirely forgiven. Because such loan forgiveness or deferral is not counted as part of HUD's appropriation, this suggestion has no appropriations impact. At a minimum, HUD should provide the subcommittee a list of all properties in data gathered by the GAO which have flexible subsidy loans as part of their current financing.

[2] Although not asked to comment on the matter, the Trust believes that there is sufficient nonprofit capacity to acquire and keep affordable properties sold by owners of properties with maturing mortgages. The overall capacity and sophistication of nonprofits has increased dramatically over the past 5 years. National and regional nonprofit organizations are pursuing preservation like never before. The John D. and Catherine T. MacArthur Foundation has funded a preservation loan and grant program of up to $45,000,000 to foster preservation at the national, regional and local level. Moreover, a number of national nonprofit organizations have formed their own membership group, Stewards for Affordable Housing for the Future ("SAHF" pronounced "SAFE"). SAHF's nonprofit members own more than 62,000 affordable apartments in 46 states.

3. *Make Clear that "Nonprofit Entities" Should Include Limited Partnerships or Limited Liability Corporations controlled by the Nonprofit organization or its affiliate as a Managing General Partner or Managing Member. There is Ample Precedent for this Clarification.*

As explained above, owners and nonprofits are increasingly using low income housing tax credits in the preservation and improvement of existing, affordable HUD multifamily stock. Often the actual ownership organization is required to be legally defined as a limited partnership or limited liability corporation. Hence, the bill should recognize this in its language offering assistance to "nonprofit entities." The eligible nonprofit entity should further be defined to include limited liability corporations, the sole member of which is a nonprofit, as a nonprofit organization under the bill.

There is ample precedent for this change: Appendix C HUD's current Mark-to-Market Program Operating Procedures Guide allows for limited partnerships where the sole General Partner and where the Limited Liability Company's sole managing member is a nonprofit. Further, Chapter 15 of the Section 8 Renewal Policy Guide recognizes that a "nonprofit "controlled" limited partnership" can get Mark-up-to-Market under the nonprofit exception.

4. *Allow Nonprofit Buyers to Use the Acquisition Grant for the Purchase Price of the Property and Allow Nonprofit Purchasers the Rent Subsidy Assistance Offered to Current Owners.*

Section 3(c) (3) of HR4679 covers the eligible uses a nonprofit may use in its acquisition of a multifamily property covered by the Act. HR4679 does not allow for the eligible use to include the purchase price of the property. The Trust urges the Subcommittee to delete this provision to allow the grant to include the purchase price to be an eligible use of the grant.

Section 3(d) of HR4679 permits gap payments to current owners to cover the difference between the subsidized rent and the comparable market rent, so long as the owner agreed to extend affordability requirements for not less than 10 years. This same resource should be available to nonprofit buyers. If nonprofit buyers purchase properties at market prices, they may well need to raise rents to cover the increased debt service/loan costs of acquisition and rehabilitation. The Trust often assists nonprofit buyers who ask HUD for comparable "mark-up-to-market" assistance in such transactions. Essentially, the provision of such "mark-up-to-market" rental assistance prevents this rent hike from being unfairly foisted upon existing low income renters.[3]

[3] The Trust strongly supports providing enhanced vouchers to residents of these properties at time of mortgage maturation. Moreover, the notice provision in the Act could prove useful to a locality that intends to make a last ditch effort to save the housing prior to mortgage maturation.

Exit Tax Relief

The Trust understands that this subcommittee does not have jurisdiction over housing tax matters. However we did want to briefly mention how very encouraged and grateful we are by Congressman Ramstad's and Cardin's introduction of legislation to preserve affordable housing. That legislation, the "Affordable Housing Preservation Tax Relief Act," (HR3485) is a welcome attempt to address tax issues associated with the preservation of HUD assisted and insured, multifamily housing. The Trust applauds these efforts.[4]

Congress established the Millennial Housing Commission (MHC) and charged it with taking a thorough look at what the government was doing to fill the huge unmet need in this country for affordable housing. One of the key recommendations in that report was for Congress to provide a "new tool" to encourage the transfer of affordable housing properties to entities that agree to maintain the properties and keep them affordable. The Ramstad-Cardin legislation closely tracks these recommendations and we look forward to continuing to work with the authors to see that their legislation, or some variation of it, becomes law. We encourage the Subcommittee to support their efforts, given the critical role that this Subcommittee plays in affordable housing policy.

Conclusion

Thank you again for the introduction of HR4679. The adoption of HR4679 *today* can mitigate tomorrow's affordable housing loss.

[4] The Joint Center for Housing Studies of Harvard University has observed: "Unless relieved of this 'exit tax,' these owners will remain reluctant to sell their properties at a price that would allow community organizations to purchase and preserve the affordable units. Although preserving low-cost housing can be expensive (especially if lead based paint is involved), replacement is typically even more costly. "**State of the Nation's Housing, 2004,** p. 29.

Working Paper

State and Local Housing Preservation Initiatives

Faced with a growing affordable housing crisis, state and local governments are increasingly turning their attention to preserving existing multifamily, affordable homes. Many states and localities are devoting their precious resources, including low income housing tax credits, private activity bonds, and other state and local funds, to this end.

We are interested in adding any state or local initiatives that either set-aside funds for or prioritize preservation projects. If you determine that an initiative described in this document no longer reflects the current state of affairs or have any information that would update or add to this document, please let us know. Please contact Tracy Kaufman at the National Housing Trust (tkaufman@nhtinc.org; 202-872-1911 ext. *820).

Two years ago, the National Housing Trust (NHT) conducted an informal survey of state housing finance agencies to determine which agencies were prioritizing or setting aside low income housing tax credits to preserve federally-assisted or insured, multifamily housing. At that time, fewer than six states were concerned enough about the loss of federally-assisted housing to dedicate a portion of their most plentiful housing resource—low income housing tax credits—to preserve and improve affordable, multifamily homes. Today, more than 40 city and state agencies prioritize preservation, through points or a specific preservation set-aside, in their Qualified Allocation Plans (QAPs).

The attached information is part of NHT's ongoing effort to identify state and local level initiatives that preserve affordable, multifamily housing. This is a work-in-progress and does not necessarily reflect to depth of any one initiative or the breadth of initiatives around the country. However, we have made a good start. The information we have gathered includes preservation initiatives related to State QAPs for Low Income Housing Tax Credits, private activity bonds with 4% low income housing tax credits, and housing trust funds, as well as other state and local initiatives.

Please Note:
This document is no substitute for one's own research. Specifically for state Qualified Allocation Plans (QAPs), scoring will vary widely. For the purposes of this document, NHT has reviewed each QAP to determine what, if anything, was mentioned about housing preservation. A particular state QAP may appear at first blush to encourage preservation, but that the competition within the state and/or mixing of "preservation points" with other tax credit priorities makes the preservation "priority" more or less meaningful.

Much of the information on the allocation of 2003 Low Income Housing Tax Credits and Private Activity Bonds was generously provided by *Affordable Housing Finance* magazine (Alexander & Edwards Publishing, Inc.; 800-989-7255; www.housingfinance.com).

NATIONAL HOUSING TRUST

WORKING PAPER

State and Local Housing Preservation Initiatives

Alabama

Low Income Housing Tax Credits (9% Credits)

The draft 2004 QAP awards 2 points to HUD and USDA RD distressed properties (defined as at risk of foreclosure) and 5 points for rehabilitation of existing multifamily residential rental housing (minimum $10,000/unit).

Allocations: In 2002, $8 million in tax credits were reserved for 19 projects, with the median project size of 72 units. The Alabama Housing Finance Authority indicate they are seeing more rehabilitation of existing units.

Private Activity Bonds with 4% Credits

Allocations: The Alabama Housing Finance Authority indicates that they prefer acquisition and rehabilitation projects. Of the eight projects financed with private activity bonds in 2002, six were for acquisition and rehabilitation, totaling 877 units.

Alaska

Low Income Housing Tax Credits (9% Credits)

2004 QAP provides a 10% set-aside for Rural Development Section 515 properties.

Allocations: Six projects received $2 million in low income housing tax credits in 2003.

Private Activity Bonds with 4% Credits

Allocations: Alaska receives about $225 million for its private activity bond program and applications are accepted on a continuous basis.

Arizona

Low Income Housing Tax Credits (9% Credits)

The draft 2004 allocation plan provides a set-aside for one acquisition/rehab development located in an urban area where 100% of the units undergo rehabilitation and one acquisition/rehabilitation development located in rural area where 100% of the units undergo rehabilitation.

25 points are available for projects that are newly funded by USDA such as the Section 515/514/516 and Section 538 programs.

Allocations: In 2002, $9.6 million in tax credits went to 21 projects with 1,394 units. $1.9 million of those reservations were for acquisition/rehabilitation. In 2003, 20 projects received a total of $9.9 million in tax credits.

Private Activity Bonds with 4% Credits

Allocations: In 2003, Arizona's tax-exempt housing bond program received $40.9 million. Applications for rental housing were triple the supply. Arizona distributes private activity bonds by lottery. Projects selected are required to meet criteria as evaluated through a feasibility/marketability hearing.

Arkansas

Low Income Housing Tax Credits (9% Credits)

2004 allocation plan awards 10 points when a project "involves preservation and rehabilitation of existing affordable housing." The state also provides 10 points for projects involving "rehabilitation of existing structures (minimum $10,000 per unit)."

Allocations: Tax credits were awarded to 25 projects, six of which were rehabilitation projects, in 2003. There were 44 applications in 2003, up from 33 the previous year.

Private Activity Bonds with 4% Credits

Allocations: Arkansas had a $284.3 million private activity bond cap in 2003, including $37 million for rental housing.

California

Low Income Housing Tax Credits (9% Credits)

5% set-aside for "at-risk" projects defined as projects with subsidies (including tax credits) that expire within two years prior to or after the application date. First generation tax credit projects (allocated credits between 1987-89) with expiring compliance and affordability periods are classified as at-risk projects in order to compete under the at-risk set-aside.

10 points are provided to at-risk properties as meeting housing needs.

Allocations: Overall, the at-risk set-aside in the tax credit program was oversubscribed. The set-aside had been reduced from 10% to 5% in 2003 because this category had been undersubscribed for the past few years. In 2003, 4 at-risk projects were awarded 9% federal credits totaling to more than $2.96 million. CTCAC also awarded 2 of these at-risk projects with approximately $1.68 million in state credits. In 2004, about $62 million will be available in tax credits.

Private Activity Bonds with 4% Credits

The California Debt Limit Allocation Committee (CDLAC) increased the basis adjustment multipliers in the 4% program by 20% for all tax-exempt bond projects, making it easier to raise enough equity to make preservation acquisitions with minor to mid-level renovations feasible. CDLAC also provides federally-assisted at-risk projects with up to 20 points for projects applying for tax-exempt bonds.

Allocations: The demand for tax-exempt private activity bonds increased dramatically in 2003. CDLAC awarded a total of $1.56 billion for rental housing in 2003. The 2003 allocation helped preserve 1,380 income and rent restricted units that were at-risk of losing affordability restrictions. For 2004, the overall volume cap is $2.84 billion, with rental housing capped at $1.55 billion.

The tax credit and bond allocation committees decided to direct the majority of the preservation financing toward bonds as the main vehicle to finance preservation. In California today there is less demand for bond allocation (1 to 1 demand for 2003) then 9% credits, consequently there is greater utilization of these two resources.

Housing Trust Funds

Los Angeles

In February 2003, the Los Angeles City Council approved guidelines for expenditure of the Affordable Housing Trust Fund. Those guidelines include 10% that will remain flexible with the priority going toward preservation of housing that is at risk of converting to market rate. The guidelines also establish that 60% of the Trust Fund will be for multifamily rental projects serving households at or below 60% of the area median income.

The local HUB in Los Angeles has implemented a innovative type of trust. For those 236 projects that are sold by non-profits and HUD must approve the prepayment, 75% of the sales proceeds are deposited in a trust to promote additional or preservation of affordable housing. The non-profit the may access those funds (which are kept separate) for future preservation or development transactions. The trust monies can also be used for making loans or paying predevelopment costs.

Other Preservation Initiatives

Since it was approved by voters in November 2002, Proposition 46 has funded a state Multifamily Housing Program (MHP) in the amount of $150 million per year for five years and this program also provides extra points for at-risk projects and is not available to projects applying for 9% credits.

Along with the MHP funding from Prop 46 mentioned above, the bond act also authorized a preservation acquisition fund. The bond provided $45 million of acquisition monies that would be levered 3 to 1 with CalHFA funds to provide short term acquisition funds (ex. Acquisitions price of $10 million, Prop 46 funds contribute $3 million , CalHFA $7 million), Loan guidelines call for expedited processing with the loan due in two years. In the event the permanent financing is inadequate to cover all projects (acquisition and rehab), then a portion of the Prop 46 funds may remain on the project as a residual receipts subordinate loan.

California Housing Finance Agency (CalHFA) uses the following to foster preservation of affordable housing: (1) facilitating rapid acquisition financing by nonprofits by utilizing an internal warehouse line of funds which in turn are reimbursed by pooled 501(c)(3) bond offerings; (2) purchase of Fannie Mae's portfolio of HUD Section 236 loans to help implement IRP decoupling; (3) facilitating the acquisition of several large at-risk properties by one for-profit preservation buyer, using interest only and mezzanine financing during rehabilitation.

In addition, CalHFA will lend against the Section 8 increment depending on the position of market rents and the length of the contract. This "B" piece structure has been used effectively on existing Agency Section 8 loans (essentially refinancings involving a sale) and for other Section 8 brought into the Agency's portfolio.

HUD 202 loans will also be financed by the Agency where the loan amount is set to the existing Section 8 rent levels (with potentially some adjustment for market) for a 20 or 30 year term. These loans are insured under FHA Risk Share.

RHS 515 loans have been financed using RHS's ability to offer their loans at 1%. The rents on these projects are generally low, consequently the level of rehabilitation that can be undertaken is limited.

Los Angeles

In June 2003, the LA City Council created the LA Affordable Housing Preservation Program, modeled after similar programs in Denver, Sacramento and San Francisco. The program includes the creation of a new noticing ordinance, new financing guidelines and a new position for a preservation coordinator.

Pacifica

Last year, the City of Pacifica entered into a "friendly condemnation" to secure affordability of a federally-assisted development serving seniors in that community. City funds were mixed with CalHFA funds to facilitate transfer to an existing nonprofit. CalHFA used 501(c)(3) bond debt as the long term financing vehicle. Agency funds were used on an short term basis to fund the acquisitions quickly to meeting the timeframe imposed by the Court.

San Francisco

San Francisco guarantees lenders, owners & purchasers of federally-assisted housing that it will "make up the difference" between restricted rents and market rent if the federal government fails to provide Section 8 subsidies to existing properties. Restricted rents are the tax credit eligible or tax-exempt bond eligible rents that typically range from 45-60% of adjusted median income. The San Francisco Redevelopment Agency has stringent notice and code enforcement requirements to compel owners to cooperate with the SFRDA in maintaining affordability. The SFRDA also uses a leasehold structure where they City purchases the land and executes a lease to the new owners. This method insures the project remains affordable for as the City requires.

Colorado

Low Income Housing Tax Credits (9% Credits)

The 2004 QAP provides 15 points for preservation developments, defined as: (1) developments eligible for acquisition/rehab credits that have federally-subsidized rental assistance and are likely to lose that subsidy, and their low income use, within 2 years from the time of application without federal LIHTCs, or (2) developments that currently have rents that, although not restricted by any federal or state program, are within the federal tax credit rent limits. For acquisition/rehabilitation developments or rehabilitation only, hard costs for rehabilitation must be at least $6,600 per unit in order to be eligible for tax credits.

Allocations: Tax credit applications are accepted on an "open" basis during the first full business day of every month, beginning February 2, 2004 until November 1, 2004. CHFA has about $8 million in LIHTC authority each year and often grants "preliminary reservations" of credits, carrying forward these credits into the next calendar year and they also make some reservations in advance for the next year. In 2003, , more than $12 million in credits were reserved, of which about $1.4 million went to acquisition/rehabilitation projects. In 2004, 11 applications for a total of $6.7 million in credits are under review by CHFA, 4 of which involve acquisition/rehabilitation.

Private Activity Bonds with 4% Credits

Colorado often uses 4% credits for preservation.

Allocations: CHFA has about $90 million in bond cap in 2004 - about the same as the bond cap in 2003, but up from $40.6 million in 2002. In 2002, municipalities and Colorado's Department of Local Affairs (DoLA) used an additional $98.5 million of 2002 bond cap for multifamily housing and $53.2 million for mortgage revenue bonds. DoLA started 2003 by allocating a statewide balance of $19.1 million to multifamily housing in the Denver area.

Other Preservation Initiatives

Colorado has also used the Colorado Housing and Finance Authority’s (CHFA) internally funded subsidy source to fund 2nd positions at 1%, lowering the total overall interest rate to acquisition borrowers to 5%.

Since 1999, CHFA has had a multifamily refinance program in place for existing borrowers, both within and outside of the CHFA portfolio. The main highlights of the Multifamily Refinance Program include offering loans of up to 100% of the total project cost, along with providing additional funds to complete rehabilitation. For loans within the CHFA portfolio previously financed by tax-exempt private activity bonds, CHFA can re-cycle funds into a new bond issue, thereby leveraging more funds without using new bond cap.

CHFA has internal funding pools used to make very low interest loans on smaller transactions (under $500,000). We also use these internal sources to "blend" with bond monies to create a lower interest rate to the borrower when needed.

CHFA has also been able to offer interest rate reductions to borrowers in situations where the property is struggling to meet debt service. These relief efforts are more carefully reviewed, however.

Connecticut

Low Income Housing Tax Credits (9% Credits)

Provides priority to the development of housing that "preserves the existing stock of Federally assisted low-income housing, where loss of low income service is possible upon prepayment of a mortgage or expiration of housing assistance contracts." LIHTCs will be allocated first to nonprofit set-aside applicants, then to applications from General Class I, then to the extent available to applications from General Class II. Applications for assistance necessary to preserve Federally assisted units that will be lost due to mortgage prepayment, subsidy contract opt-out or subsidy contract termination are considered General Class II. State Plan provides that Class I priority projects "add a larger proportion of units with more than two bedrooms." This seems to conflict with a policy that preserves existing projects without reconfiguring to "add" 2 or more bedroom units.

Allocations: Connecticut had $6 million in allocating authority for tax credits in 2003, minus the $2 million in 2003 authority that the state had forward-reserved in 2002. The state reserved $1.7 million from its 2004 authority in 2003 to makeup for that forward reservation, bringing the 2003 total to $5.7 million. Winners were announced in May, with nine projects receiving tax credits, including three neighborhood rehabilitation projects that will fix up abandoned buildings and the second phase of work at a large 236 development (SANA Apartments). CHFA is allocating tax-exempt bonds on a case-by-case basis for multifamily projects.

Private Activity Bonds with 4% Credits

Allocations: The Connecticut Housing Finance Authority allocates tax exempt bonds on a case-by-case basis for multifamily projects and usually receives 60% of the state's total $246 million in private activity tax exempt bond allocating authority.

Delaware

Low Income Housing Tax Credits (9% Credits)

DSHA has set up pools for allocating tax credits. Developments will compete only within their respective pools. Developments are ranked within those pools and the highest scoring developments in each are separately evaluated to determine the amount of tax credits required. Each year DSHA establishes the percentage of available credits for each Pool. For 2003, the Preservation Expiration Pool has approximately $300,000 of Tax Credit Authority. The following types of projects are eligible for this pool: (1) Any Pre-1990 tax credit housing development, which has completed its compliance period that is in need of substantial rehabilitation, and at risk of losing its affordability and (2) Any currently occupied subsidized housing development in need of substantial rehabilitation and/or at risk of losing its affordability.

Allocations: In 2003, Delaware reserved tax credits for 6 projects. $746,683 in tax credits were reserved for two projects with a total of 149 units in the preservation pool.

Private Activity Bonds with 4% Credits

Allocations: While the state had a $225 million private activity bond cap with a $37.8 million set-aside for housing in 2002, there were no applications for multifamily housing bonds.

Housing Trust Funds

According to the Center for Community Change, a coalition of financial services and nonprofit housing community organizations in Delaware has proposed a 5 year strategic housing plan that includes using the state's Housing Development Fund (a housing trust fund supported through document recording fees) to preserve existing affordable rental housing with federal subsidies.

District of Columbia

Low Income Housing Tax Credits (9% Credits)

The DC Department of Housing and Community Development (DHCD) provides 5 points for the preservation of housing with expiring Section 8 assistance for tax credits applicants.

Allocations: The demand for tax credits in DC exceeded supply by 4 to 1, with reservations of $1.5 million.

Private Activity Bonds with 4% Credits

The District of Columbia Housing Finance Agency (DCHFA), the provider of tax-exempt private activity bonds and 4% credits for the District of Columbia, provides 10 "bonus points" for proposals that preserve subsidized housing with an expiring use restriction and 10 additional points for projects that limit rent hikes to no more than 10% per year.

Allocations: In 2003, the private activity bond cap was $228.6 million. Applications are accepted on a rolling basis.

Housing Trust Funds

The newly created Washington Area Housing Trust Fund (WAHTF) launched a join initiative with the National Housing Trust Community Development Fund (NHTCDF). NHTCDF agreed to provide up to $1 million in matching loans to developments that meet both organizations' underwriting requirements. The Enterprise Foundation also agreed to collaborate on preservation deals.

On June 6, 2003, the DHCD released an RFP making $25 million in local Housing Production Trust Fund money available. $7 million of that funding is specifically targeted for the preservation of rental housing with expiring federal subsidies. DHCD also provides 5 points for the preservation of housing with expiring Section 8 assistance for DC's Housing Production Trust Fund applicants.

Other Preservation Initiatives

On June 6, 2003, DHCD released an RFP targeting $1.5 million of the $8.5 of CDBG/HOME funds towards the preservation of properties with expiring federal subsidies. DHCD also provides 5 points for the preservation of housing with expiring Section 8 assistance for HOME and CDBG applicants.

Florida

Low Income Housing Tax Credits (9% Credits)

Allocations: The demand for tax credits in Florida exceeded supply by almost 4 to 1, while they have more tax-exempt bond cap to distribute in 2003 than they have applications. Total authority in 2002 was $29 million in tax credits, with 36 projects receiving credits.

Private Activity Bonds with 4% Credits

Although the State of Florida does not have a specific set-aside, it is worth noting that the state’s entire $299 million housing bond allocation and the companion 4% tax credit has been earmarked for multifamily housing developments (both new and existing) in 2003. Any local bond money not allocated by November 2003 is redirected to the State (FHFC) and then is typically used for both single family and additional multifamily housing.

Allocations: Florida Housing has more tax exempt bond cap to distribute in 2003 than it does applications.

Georgia

Low Income Housing Tax Credits (9% Credits)

Up to 5 points are awarded for preservation of existing affordable housing defined as a project with low income housing tax credits that will expire in 2003. Up to 4 points are awarded for an application that proposes the preservation of a previously HUD or USDA-funded affordable non-public housing project. Up to 2 points are awarded for an application that proposes the preservation of any other affordable housing project. To receive the 2 points, the Sponsor must provide documentation of the rent and income restrictions applicable to that property. The agency will not award points for preservation on projects that have "affordable" rents but no actual rent or income restrictions.

Allocations: The Georgia Department of Community Affairs (DCA) received 61 applications for tax credits in 2003. Applicants requested nearly $28.9 million in tax credits, while the state only has about $15.9 million in authority.

Private Activity Bonds with 4% Credits

Allocations: In 2003, Georgia has $272.9 million in state tax-exempt private activity bond cap for housing programs. Applications are accepted all year and allocations for multifamily housing projects are made on a first come, first served basis followed by a rating system if necessary.

Hawaii

Low Income Housing Tax Credits (9% Credits)

2003 QAP provides up to 6 points for a project that "will be receiving project based rental assistance subsidies which would result in eligible tenants paying approximately 30% of their gross monthly income towards rent." Eligible programs include, but are not limited to, Section 515 or Section 8 programs.

Allocations: The demand for tax credits decreased significantly in 2003. While the state has approximately $2.3 million in authority, only four applicants requested $1.4 million in tax credits in 2003.

Idaho

Low Income Housing Tax Credits (9% Credits)

The state awards 10 points to developments that preserve existing low-income units (defined as a development that will be converted to market rate units at the end of its affordability regulatory agreement). The state will award 20 points to acquisition/rehabilitation developments with an existing project based assistance contract that will be retained under the new ownership.

Allocations: Idaho reserved $2.65 million in tax credits to 10 projects with a total of 416 units in 2003.

Illinois

Low Income Housing Tax Credits (9% Credits)

$3 million set aside (up from $2.5 million in 2003 and $1.5 million in 2000) in state QAP for rehabilitation of currently occupied low-income housing developments whose eligibility for conversion to market rate housing is imminent (2-3 years) or projects otherwise in danger of being lost due to need for substantial rehabilitation. If not fully utilized in Round 2, remaining funds go into the general pool. Applies to (1) preservation-eligible projects under ELIHPA or LIHPRHA, (2) projects with expiring Section 8 contracts, regardless of whether the Owner has given notice of its intent to allow such contracts to expire, (3) projects with HUD-held mortgages, and (4) qualifying projects originally funded by RHS.

In addition, up to five points are provided in the general scoring categories for properties with project-based assistance (McKinney, Housing Choice Vouchers, Housing Choice Voucher Conversion, USDA Rural Development project-based

Allocations: IHDA has $18 million in available tax credits during 2004. In December 2003, IHDA had received 59 applications for the first round of the 2004 tax credits. Award recommendations of $1.5 million were made for 2 preservation projects. In the second round, 44 applications were received in total, with 7 seeking qualification under the preservation set-aside. In 2003, all $18 million of the state's 2003 tax credits were reserved. Four projects had funds reserved under the preservation set-aside.

Chicago

The City of Chicago has listed preservation as one of its preferences for awarding 9% credits.

Allocations: In 2004, Chicago's Department of Housing will allocate $5 million in tax credits, as it did in 2003. In 2002, $1 million of that year's $5.4 million in tax credits financed rehabilitation projects.

Private Activity Bonds with 4% Credits

Allocations: In 2004, IHDA requested that $150 million of the $945 million bond cap go to housing. In 2003, IHDA was allocated $60 million in tax-exempt private activity bond cap to be used for multifamily housing. By December 31, 2003, $121 million in tax-exempt bond financing had been provided to six multifamily projects.

Chicago

The City of Chicago has devoted a substantial amount of private activity volume cap and 4% credits to preservation.

Housing Trust Funds

According to the Center for Community Change's Housing Trust Fund Project, the Illinois Affordable Housing Trust Fund made a specific grant of $100,000 to Tenants United for Housing, to provide technical services for tenants statewide who live in HUD-assisted properties eligible for Mark-to-Market. Services include outreach, training, and organizing of tenants to assure protection and preservation of units reserved for low-income tenants. Loans from the Trust Fund may also be used to refinance existing mortgages that will facilitate the preservation of affordable housing and for acquisition and rehabilitation of existing housing. Approximately $35 million is available each year, with a maximum award of approximately $750,000.

Other Preservation Initiatives

Illinois has created the Illinois Affordable Housing Tax Credit (IAHTC) which allows individuals or organizations to donate cash, securities, personal property or real estate to participating non-profit housing developers in exchange for a state income tax credit of 50 cents on a dollar. Aggregated amount of donation must be at least $10,000. Under the program, $1 million is earmarked for technical assistance and general support and $2 million for Employer Assisted Housing. Funds must be used for projects that meet the definition of affordable housing. IHDA is the IAHTC administrator for the state and gives preference to projects that "emphasize preservation, serve lower-income people, are ready to proceed financially and serve special needs populations. The Chicago Department of Housing is the IAHTC administrator for the City of Chicago.

Within the Multifamily Department, IHDA works with existing owners to help meet the rehabilitation needs of older developments and to encourage owners to keep their developments in the afforable housing stock. The department helps IHDA-financed properties to refinance to help rehab and preserve the property and acts as a PAE in HUD's Mark-to-Market process.

Cook County

The Cook County Class S Program was set up to preserve project-based Section 8 multifamily rental housing as decent, safe and affordable for low- and moderate-income households in Cook County. This incentive allows a 50% tax assessment reduction for those units that remain affordable through the project-based Section 8 program. Eligible properties are those subject to a project-based Section 8 contract in an area where market-rate rents exceed otherwise allowed rents through the project-based Section 8 program. Qualified properties must renew their contracts through the HUD Mark Up To Market (MUTM) program, and Section 8 units must be retained during the five-year term of the renewed MUTM contract. The assessment reduction is calculated according to the proportion of Section 8 units in the building.

The county's Class 9 Program offers a 50% reduction to developers who complete major rehab on multifamily buildings and keep rents below certain levels. Properties are eligible for a 16% assessment level for a period of 10 years that can be renewed for additional 10-year periods.

Indiana

Low Income Housing Tax Credits (9% Credits)

Indiana's draft 2004 QAP--which pertains to tax credits, tax exempt bonds, HOME funds and the state's Low Income Housing Trust Fund money--has a 10% set-aside for developments which involve the substantial rehabilitation of a currently occupied low income housing development with a minimum 25% occupancy rate and/or a development otherwise in danger of being lost as affordable housing. This includes developments being removed by a federal agency developments utilizing HOPE VI funding, and the conversion of existing market rate housing to affordable housing. Rehab cost must be at least $10,000/unit to be considered in this category ($7,000 for other set-asides).

Indiana also provides 3 points for federally assisted low-income housing developments with at least 50% of its units in danger of being removed by a federal agency from the low-income housing market due to eligible prepayment, conversion or financial difficulty.

Allocations: In 2003, three preservation projects received tax credit allocations through the preservation set-aside. A total of $1.24 million in tax credits were allocated to these projects, preserving 211 units.

Private Activity Bonds with 4% Credits

Allocations: While almost $92 million in private activity bond cap was designated for rental housing, only $37.5 million in bonds were issued for 9 projects.

Iowa

Low Income Housing Tax Credits (9% Credits)

The 2004 QAP includes a 20 percent set-aside of the annual State Ceiling for the preservation of qualifying Projects. Projects applying for this set-aside must be one or more of the following: (1) federal, state, or locally assisted housing preservation including low-income housing units subsidized under Section 236, Section 221(d)(3), Section 8 project-based rental assistance, Section 221(d)(4), Section 515 or similar programs; (2) adaptive reuse of existing buildings; and (3) conversion of existing market rate developments to affordable housing.

Additionally, Preservation Projects will receive 15 points (down from 30 points in 2003). Preservation Projects are defined as a Project that has federal subsidy (HUD Section 8 or USDA Section 515) and is likely to lose their low-income status (HUD-opt out notice or USDA prepayment filed), or in need of repair or a pre-1990 Section 42 Project that has successfully completed their 15-year compliance period.

A rehabilitation threshold of at least 10% of adjusted basis or $6,000/low-income unit (up from $3,000 in 2003) is required. IFA reserves the right to award additional credits, if available, to projects involving acquisition/rehab, adaptive reuse or historic preservation if project costs exceed original cost estimates.

Allocations: 48 projects, 9 of which were preservation projects, applied for $13.7 million in tax credits in 2004. More than $6 million was awarded to 19 projects, with 3 of those involving preservation or adaptive reuse. As of March 2004, more than $4.4 million had been reserved, with 8 projects involving acquisition/rehabilitation and one other project involving rehabilitation only.

Private Activity Bonds with 4% Credits

Allocations: In 2004, the state has $235.5 million in total bond cap, with $22 million for rental housing. In 2003, bond funding of $20.4 million supported four rental properties.

Housing Trust Funds

The Iowa State Housing Trust Fund is held within the Iowa Finance Authority (IFA). There are two programs operated under the Trust Fund--the Local Housing Trust Fund Program and the Project-Based Housing Program. 40% of available money from the Trust Fund is allocated to the Project-Based Housing Program. The Project-Based Housing Program assists in funding the development and preservation of affordable single and multi-family housing units. For 2004, IFA awarded approximately $1.78 million in funds to 12 organizations, $550,000 of which was awarded to 3 organizations under the Project-Based Housing Program. No local housing trust funds received more than $1.2 million

Other Preservation Initiatives

IFA's Mulitifamily Preservation Loan Program provides loans to nonprofit and for-profit sponsors to preserve existing multifamily affordable housing at risk of being lost from the stock. Activities eligible for assistance include acquisition with substantial rehabilitation (acquisition with minor repairs possible for nonprofit owners), loan restructuring in Mark-to-Market program, restructuring of LIHTC or IFA loan projects pursuant to a workout plan, restructuring of HUD/USDA projects that are held or troubled, restructuring of HAF or IHC loans, restructuring of troubled LIHTC projects, and rehabilitation needed to eliminate health or safety threat (for nonprofit-owned properties only). The maximum loan amount and term is $2 million and 30 years respectively.

IFA also has a Main Street Revitalization Loan program and since 2002 has made 9 loans ranging from a low of $50,000 to a high of $250,000. Loan were made for such things as rehabilitation of 2nd/3rd floors into office/community space; rehabilitation of 2nd floor into apartments; rehabilitation of building for clothing store, restaurant and commercial space. This program is intended to provide financing to facilitate upper floor housing, infill development projects and commercial properties situated in the downtown area of communities participating in the Iowa Main Street Program administered by the Iowa Department of Economic Development. Iowa's Main Street Program currently has 33 active communities. They range from a population of 465 to 80,505. While their sizes vary, their goals are the same; to maintain and develop their downtown areas. Access to affordable loans has been identified as a major obstacle to downtown development. As communities realize the fact that upper floor downtown housing can be part of Iowa's housing shortage solution and that people are willing to live in qualify upper floor housing units, more and more are pursuing this alternative. It supports centralized living; increases the social, physical, economic and political values of a community's heart and soul, its historic downtown.

Kansas

Low Income Housing Tax Credits (9% Credits)

10 points are given to developments that preserve existing low-income properties that would be subject to foreclosure or default if tax credits were not available.

Allocations: By the summer 2002, the state had used up its 2003 tax credits on 27 projects, including at least one acquisition/rehabilitation project.

Private Activity Bonds with 4% Credits

Allocations: In 2002, the state did more than $80 million in tax exempt multifamily bond business, nearly tripling its previous levels.

Kentucky

Low Income Housing Tax Credits (9% Credits)

The 2004 allocation plan specifies approximately $1.2 million to be utilized for projects that are rural or preservation projects. Preservation projects are projects that are the rehabilitation of already existing low income units provided that the rehabilitation will repair or replace components that are either in immediate need of repair or replacement or are functionally obsolete or require modification or enhancements to meet new applicable federal, state or local housing or building code requirements.

In the 2004 allocation plan, 15 points are awarded to projects that involve the acquisition and rehabilitation or rehabilitation of a project to prevent foreclosure and/or loss of the project for use by low-income households. This can be defined as those projects eligible for waiver under IRC Section 42(d)(6), or projects that have previously received Housing Credit and the compliance period has ended. Projects can also receive 10 points for the preservation (excluding acquisition only projects) of other existing housing stock.

Allocations: In 2002, 39 projects received $7.9 million in credits.

Private Activity Bonds with 4% Credits

Allocations: According to the Kentucky Housing Corporation, while they have offered tax exempt bonds for the past two years for multifamily development, there has been minimal interest. Approximately $20 million out of the state's $306 million bond cap is available for multifamily housing.

Louisiana

Low Income Housing Tax Credits (9% Credits)

Seven (7) Congressional Districts are allocated 14.0% each of the State's Credit Ceiling. There are sub-pools in each Congressional District from which qualifying applications may request a reservation of tax credits. The revitalization sub-pool receives 3.25% of the credit ceiling, totaling 22.75% set-aside for any particular sub-pool. The revitalization pool includes Mark-to-Market projects. There are also 50 points awarded for abandoned projects.

50 points awarded for abandoned projects.

Allocations: More than $12.2 million in tax credits were requested in 2003, with more than $7.59 million reserved for 30 projects.

Maine

Low Income Housing Tax Credits (9% Credits)

In Maine's 2004 & 2005 QAP, one of the stated priorities is for "projects involving acquisition and/or rehabilitation, which add to or significantly rehabilitate the existing rental housing stock, and are rent-restricted to the lowest income households." The QAP provides 3 points to projects involving rehabilitation of existing housing stock that also provide protection against displacement and substantial increases in housing costs attributable to the rehabilitation. The QAP also includes a 90-year affordability period as a new threshold requirement.

Allocations: Allocations are capped at $500,000 per project, up from $450,000 in 2003. Five applicants were allocated at total of $1.9 million in tax credits for 134 units in 2003.

Private Activity Bonds with 4% Credits

Allocations: $30 million out of $228.6 million in total private activity bond cap is set-aside for rental housing. Applications are accepted on a case-by-case basis. Seven multifamily projects received bonds in 2003.

Maryland

Low Income Housing Tax Credits (9% Credits)

Allocations: Maryland has an estimated $9.7 million in LIHTC authority for 2004. As of June 2003, $3.1 million from 2004 credits had been reserved. In 2003, 18 projects were awarded tax credit reservations totaling to about $9.7

Private Activity Bonds with 4% Credits

In early 2002, the Department of Housing and Community Development's (DHCD) Community Development Administration secured $50 million in private activity bond funds from the State, specifically devoted to the preservation of multifamily affordable housing that is at risk of loss to the state's affordable housing stock due to conversion to market rate and/or deterioration. It is our understanding that Maryland will commit an additional $50 million from the same source in 2003.

Allocations: Approximately $106 million in new bond cap will be available to DHCD in 2004, but with prior year carryovers, refundings and transfers of authority, considerably more should be available. DHCD anticipates more than $200 million in volume cap could be allocated in 2004 for multifamily financing. An increased number of requests for financing preservation projects emerged in 2003 but only about half of the $409 million private activity bond cap for 2003 was allocated as of June, with $102.4 million going to rental housing.

Housing Trust Funds

The Maryland Affordable Housing Trust (MAHT) awards loans or grants of up to $100,000 to help provide housing for households earning less than 50% of area or statewide median income. Eligible uses of MAHT funds include the acquisition, construction, rehabilitation or preservation of affordable housing, such as the purchase of federally assisted housing to guarantee continuation of federal assistance.

Montgomery County

The Housing Initiative Fund in Montgomery County prioritized the preservation of federally-assisted properties. According to the Center for Community Change's Housing Trust Fund Project, the fund has preserved the county's entire stock of expiring Section 236 housing (preserving 460 units); provided loans to the local housing authority to purchase four 100% project-based Section 8 buildings (preserving 407 units); Memorandum of Agreement between owners of 20% project-based Section 8 properties who were planning to opt-out that resulted in the preservation of 309 units in seven privately held Section 8 properties (county provides tax abatement to bridge the gap between the amount HUD pays in rent and market rate rents, provides bridge loans when HUD rent payments are delayed, reimburses for the cost of market studies and other expenses HUD requires in order to document rent increases and covers the cost of extraordinary damages to a unit).

Other Preservation Initiatives

A large percentage of the Preservation projects we assist are financed with tax exempt bonds under the Multifamily Bond Program (MBP). Many of these projects represent preservation of federally assisted projects in order to preserve the existing project- based rental and interest rate subsidies. Substantial rehabilitation also occurs in order to modernize the units. Until 1/2/04, preservation of affordable units was one of the four threshold criteria needed to qualify for bond financing with Maryland DHCD. Due to sufficient bond cap to assist preservation projects on a first come, first serve basis and the large number of older projects needing revitalization in geographic markets throughout the State, Maryland removed Preservation as a threshold criteria. They are still able to actively provide financing for Preservation projects and have seen no decrease in activity to date. Projects requesting 9% credits and State soft loans are only awarded funds on a competitive basis. Currently, the Qualified Allocation Plan (QAP) and Multifamily Rental Financing Program Guide gives bonus points for rehabilitation. Most of the projects that earn these points are projects that agree to long term use restrictions of at least 40 years and are representative of preservation projects also.

Massachusetts

Low Income Housing Tax Credits (9% Credits)

The first of 10 principles listed in the 2004 QAP is to "redevelop first." The QAP gives "preference to redevelopment of brownfields, preservation and reuse of historic structures and rehabilitation of existing housing and schools."

For 2004, 35% of the allocated credits are awarded to preservation projects, defined as (1) expiring use restriction projects, (2) "opt-out" Section 8 projects, and (3) other "at risk" units located in distressed or foreclosed properties.

Private Activity Bonds with 4% Credits

Allocations: Massachusetts allocated $150 million of its total $526 million in bond cap to multifamily projects in 2003.

Housing Trust Funds

The guidelines for the Affordable Housing Trust Fund describe how funds "may be used to support the acquisition, development or preservation of affordable housing units."

The preservation of federally assisted rental housing is specifically discussed: "In accordance with the Statute, projects for the preservation of existing federally-assisted rental housing that have expiring affordable use restrictions are eligible to receive financing. Applications proposing the preservation of federally-assisted rental housing at risk of loss due to mortgage pre-payment, or non-renewal of rental assistance contracts, as set forth in Section 3 of the Statute, shall be evaluated according to the following criteria: 1. Immediacy of risk loss of long-term affordability, taking into account any and all use restrictions; 2. Presence of economic risk, as measured by indicators including but not limited: to market demand, building condition, and level of equity; 3. Availability of other preservation funding resources; and 4. Impact on existing tenants."

Cambridge

Cambridge launched CITYHOME in July 1995 with $2 million to the Trust Fund. Since then, according to the Center for Community Change's Housing Trust Fund Project, the city has contributed more than $24.5 million to CITYHOME, in an effort to preserve and increase affordable rental and homeownership opportunities for low and moderate income residents. More than 1,300 affordable units have been created or preserved. The Trust Fund provided technical as well as financial assistance to tenants and owners of four properties, preserving more than 1,000 additional affordable units. The fund has also helped local nonprofits acquire multifamily properties at risk of becoming unaffordable to low-income households due to the loss of rent control in the city.

Other Preservation Initiatives

For its own agency-financed, Section 8 developments, the State of Massachusetts has adopted a creative HUD Rent Adjustment Waiver that replaces HUD's "10% rule" with a calculation of initial difference by comparing the existing Section 8 FMR to the original Section 8 Gross Rent at the development. This has resulted in a much better proxy for market rent, keeping existing owners in the Section 8 program.

Michigan

Low Income Housing Tax Credits (9% Credits)

The selection criteria in the 2003 QAP increases the preservation "holdback" of $3.5 million of its $17 million in 9% credits for projects that preserve affordable housing, defined as already existing low income units which are within 2 years of any permitted prepayment or loss of use restriction and which will remain low income for at least 15 years. The credits will be allocated on a first come, first served basis.

Allocations: In 2004, there were 17 Preservation Holdback applicants for almost $5.3 million. The state made 11 reservations under the Preservation Holdback (953 units) for almost $3.4 million. In 2003, 14 allocations for 909 units were made through the preservation holdback for almost $3.1 million.

Michigan has a combined application for the low income housing tax credit, "TEAM" tax-exempt bond lending, 501(c)(3) Preservation Program and the Section 202 and Section 236 Preservation Program. The deadline for project applying under the Preservation Holdback of the tax credit program is August 16, 2004.

Private Activity Bonds with 4% Credits

In 2003, MSHDA allocated $120 million in tax-exempt bonding capacity to the Section 236 and Section 202 Preservation Program. The program is used for the acquisition and preservation of affordable housing units in developments currently assisted under the federal Section 236 and 202 programs. A minimum of $5,000 per unit of rehabilitation is required. MSDHA has a portfolio of more than 10,000 Section 236 units.

In 2003, Michigan also used $75 million in private activity bond cap for their modified pass through program as well as $3.1 million from HOME for preservation.

Other Preservation Initiatives

The State of Michigan has created a "Plethora of Preservation Programs" that won a program excellence award from the National Council of State Housing Agencies in the fall of 2002.

MSHDA's "TEAM" tax-exempt bond lending, 501(c)(3) Preservation Program is a loan program for the preservation of affordable housing units. The program may be used to acquire market units to convert to affordable units. Some level of rehabilitation is required.

The "Section 8 Preservation Program" funded with MSHDA internal funds offers owners an equity take-out, interest rate reduction and increased cash flow for waiving their right to opt out.

Minnesota

Low Income Housing Tax Credits (9% Credits)

For 2004, one of the minimum threshold requirement is: projects which preserve existing subsidized housing, if the use of tax credits is necessary to (1) prevent conversion to market rate use or (2) to remedy physical deterioration of the project which would result in loss of existing federal subsidies.

The state awards 100 points--higher than any other category in the QAP--to Non-Tax-Exempt, Minnesota Housing Finance Agency (MHFA) Credit Ceiling, Competitive Round Projects that preserve federally-assisted units (federally- assisted low income housing which, due to mortgage prepayments or expiring rental assistance, would convert to market rate use or due to physical deterioration or deterioration of capacity of current ownership/management entity would lose its federal subsidies within 2 years of the application date). 10 points are awarded to Tax-Exempt, Non-MHFA Credit Ceiling, and Non-competitive Round Projects for preservation. 100 points are also available to existing MHFA Tax Credit projects applying for tax credits from MHFA's competitive allocation process.

Up to 18 points are given to an owner that has entered into negotiations with a Local Housing Authority to receive Project-Based Rental Assistance.

MHFA had a holdback of HTCs for developments that preserved federally assisted developments in its 2003 and 2004 QAPs. HTCs were awarded to four developments, preserving a total of 168 units. Unfortunately, this holdback is not being offered in the 2005 QAP, however MHFA will continue to have Preservation as a priority in both the HTC program as well as the deferred loan programs.

Allocations: While the amount of tax credits requested in 2003 was more than double the amount reserved, two of the seven cities and counties that suballocate credits returned theirs to MHFA. In 2003, acquisition/rehabilitation projects received only $1.4 million of the $9 million in credits. The tax credit amount per unit doubled in 2003, the median credit reservations decreased by 30% and the median project size went from 56 units to 40 units.

Private Activity Bonds with 4% Credits

The share of the state’s tax-exempt bond cap allocated to the housing pool is $133.9 million in 2004, up from $80.5 million in 2001. The MN Housing Finance Agency received almost $93.2 million in entitlement authority in 2004, up from $86.7 in 2003.

Housing Trust Funds

About $4 million provided annually, devoted primarily to physically preserve the existing affordable housing stock as well as the new construction of permanent supportive housing. MHFA also provides rental assistance and/or operating subsidies with this funding source.

Other Preservation Initiatives

One of MHFA’s five goals in its 2004-2007 Strategic Plan is to "preserve strategically the existing affordable housing stock." They are acting on this plan through a wide variety of initiatives.

MHFA's Preservation Affordable Rental Investment Fund Program (PARIF) is $9.273 million program subject to biennial appropriations. PARIF is a statewide program that provides low interest-deferred loans to help cover the costs of preserving permanent affordable rental housing with long term project-based federal subsidies that are in jeopardy of being lost. The program provides funds to help cover the costs of acquisition, rehabilitation and debt restructuring of federally assisted developments, as well as equity take-out deferred loans. Eligible developments are those which receive project-based federal subsidies. The subsidies must be at risk of loss within two years, due to owner cancellation, a failing physical inspection and/or diminishing ownership capacity. Since 1998, MHFA's PARIF program has awarded $64 million to 81 developments containing 6,400 units.

The State of Minnesota has also devoted $37 million in General Fund appropriations to the preservation of federally-assisted housing in that state. So far as the Trust is aware, apart from Montgomery County, Maryland, this is the only municipality or state to have devoted its general tax dollars to this type of effort.

MHFA uses its HOME funding as well as state appropriations to provide long term deferred no or low interest loans to promote the development or redevelopment of the state’s affordable housing stock. The HOME program’s recent expenditures have concentrated about 40% of it’s funding on Rural Development preservations.

MHFA has a Redefined Equity II program and also a bond refunding program for FAF developments. Both of these programs are very economical ways to provide financial incentives to owners of federally assisted housing in exchange for longer term commitments to remain in the federally assisted programs. Thru the Spring of 2004, MHFA has preserved 31 developments with over 1,400 units, with a PV of $94 million in Section 8 payments over the course of the preservation, with no financial outlay to the MHFA.

Mississippi

Low Income Housing Tax Credits (9% Credits)

For 2004, the Mississippi Home Corporation will reduce the minimum score required to seventy (70) points (from 75) for preservation developments that are committed to providing one hundred percent (100%) of the units set-a-side for tenants at or below sixty percent (60%) of the county median gross income for forty (40) years or longer.

The 2004 QAP provides 5 points for a development that "preserves existing developments serving low-income residents that would be lost due to conversion to market rate, loss of rental assistance, foreclosure or default, and mortgage prepayment. To be eligible, the development must be currently in danger of conversion, foreclosure, or default.

Allocations: The state forward commits tax credits from the upcoming year's authority. The 2003 projects received $4.9 million in 2004 tax credits, with less than 1% of the credits reserved for acquisition/rehabilitation projects. Developers are able to apply for 2005 credits in the next funding round.

Private Activity Bonds with 4% Credits

Allocations: Mississippi has an estimated $112.5 million in statwide private activity tax-exempt bond authority for housing in 2004. In 2003, MHC provided bond financing for 4 multifamily projects.

Missouri

Low Income Housing Tax Credits (9% Credits)

The non-numerical criteria in Missouri's 2004 QAP includes the "preservation of existing affordable housing."

Private Activity Bonds with 4% Credits

There is no formal selection criteria for bond authority but, according to Affordable Housing Finance magazine, the Missouri Department of Economic Development (DED) has an agreement with MHDC to refer housing projects for evaluation, with a preference for rehabilitation over new construction.

Allocations: In 2003, 5 multifamily projects received bond financing. A greater portion of the bond cap will be awarded to multifamily housing in 2004. DED gave a carryforward allocation of $70 million to MHDC for multifamily housing rehab projects for 2004.

Housing Trust Funds

One of the evaluation factors for the Missouri Housing Trust Fund is: "Does the proposal preserve an existing affordable housing structure?"

Other Preservation Initiatives

The MHDC Rental Housing Production and Preservation Program provides funding to developers for the acquisition and rehabilitation or new construction of rental housing for low and moderate income families. The MHDC funds are typically combined with Low Income Housing Tax Credits to fund affordable Multifamily housing developments. The program provides below market interest rate construction and permanent financing.

MHDC approved funding for 47 affordable rental housing developments as part of its Rental Production and Preservation Program on Friday, Jan. 23, 2004. The proposals were funded after MHDC staff reviewed 114 proposals submitted as part of the program. The funded developments included 17 rehabilitation projects with more than 1,000 units.

During the 2003 tax credit round (Missouri allocates in January for that year's 9% credit), the state stretched its funds by allocating MHDC or HOME funds, but no 9% credit, for a few properties that would work with a bond allocation and 4% credit. According to the State HFA Executive Director, tax credits, HOME or MHDC funds are used for a great number of properties currently funded with RD (rural) mortgages, but in need of preservation. These are done as acquisition properties, preserving the physical asset as well as the Section 8 HAP contract.

Montana

Low Income Housing Tax Credits (9% Credits)

The 2004 QAP awards 2 points for projects that propose the preservation of existing federally assisted housing stock or increases the affordable housing stock through the use of either the Rural Development 515 program, HOME program, the CDBG program or the FHLB Affordable Housing Program (AHP).

Allocations: In 2004, $2.3 million in credits are available. 18 projects requested $4.38 million, including 2 acquisition/rehab projects.

Private Activity Bonds with 4% Credits

Allocations: Of Montana's more than $228.5 million bond allocation in 2003, more than $65.6 was allocated to housing.

Nebraska

Low Income Housing Tax Credits (9% Credits)

Allocations: The Nebraska Investment Finance Authority (NIFA) made tax credits reservations for 11 projects in 2003, for a total of more than $3.3 million for 529 units. Of those 10 projects, 2 were acquisition/rehabilitation projects, totaling $1 million for 188 units.

Private Activity Bonds with 4% Credits

Allocations: Nebraska has a $228.6 million private-activity tax-exempt bond cap, none of which is set aside for housing. There were four multifamily deals completed in 2002 and 2003, totaling more then $900,000 in 4% tax credits.

Nevada

Low Income Housing Tax Credits (9% Credits)

The draft 2004 QAP provides 2 points for "at risk properties as listed in the National Housing Trust Publication".

Private Activity Bonds with 4% Credits

Allocations: Nevada's 2003 state ceiling is almost $228.6 million, with $100 million for multifamily housing.

New Hampshire

Low Income Housing Tax Credits (9% Credits)

For 2004, projects that are located in formally designated community revitalization areas, such as HUD Enterprise Zones, Main Street programs, designated blighted areas, or otherwise targeted areas can receive 2 points for preserving and renovating existing housing.

Allocations: During the first two rounds of 2003, seven projects with 211 units received more than $2.33 million tax credit reservations.

Private Activity Bonds with 4% Credits

Allocations: The New Hampshire Housing Finance Agency (NHHFA) will have $144.3 million in tax-exempt private-activity bond authority in 2004, $26 million of which will be reserved for rental housing.

Housing Trust Funds

The 1988 session of the General Court appropriated the initial $4,000,000 for acquisition, development, and preservation of low-income housing. This initial appropriation was entirely committed by 1989. However, this fund has been replenished through program income, tax-exempt bond fees, earnings, and, in 2002, with a state appropriation of $5 million recapitalization of the Fund.

The fund is used to provide loans and grants to support rental housing, group homes, and manufactured housing cooperatives. Funds are typically reserved for below market rate loans or grants to cover financing gaps or fund projects that cannot support debt. Both for and non-profit sponsors are eligible for financing.

New Jersey

Low Income Housing Tax Credits (9% Credits)

The 2003-2004 allocation plan includes four "funding cycles". The Final Cycle includes a HOPE VI set-aside and a preservation set-aside. The 2nd reservation of credits from the Final Cycle will be given to the highest-ranking eligible application from a preservation project. The QAP defines a "preservation project" as an existing, currently occupied affordable housing project at risk of losing its affordability controls.

Allocations: The New Jersey Housing and Mortgage Finance Agency (NJHMFA) plans to reserve $15.5 million in tax credits in 2004 and expects approximately double that amount in applications. In 2003, the demand for tax credits was twice the available supply, with a total of $31 million in applications and more than $11 million reserved.

Private Activity Bonds with 4% Credits

Allocations: In 2003, the NJHMFA used approximately $90 million of the state's $644 million in total bond cap to finance 13 multifamily projects. Two of the 13 projects were preservation projects. The new financing extended affordability an average of 20 years and funded rehabilitation work of over $10,000 per unit.

Other Preservation Initiatives

The NJHMFA allocated $20 million from their General Funds to fund a Small Rental Project Preservation Loan Program. The program will be used to stabilize and preserve existing occupied small rental housing projects (with 5-25 rental housing units), which require moderate rehabilitation.

The Agency allocated $40 million of reserves to provide a lower than market rate financing. These taxable funds allow a steady flow of dollars into preserving affordable housing and are not reliant on bond funding.

The Agency formed a division of lending whose main focus is financing preservation. The Division of Multifamily Lending currently has a pipeline of 15 projects representing over 3,200 affordable units and $50 million in financing.

New Mexico

Low Income Housing Tax Credits (9% Credits)

The state awards 15 points to projects that preserve affordable housing. Specifically, points are awarded to previously subsidized projects in which rents for 75% of the units are currently in excess of Tax Credit Ceiling rents and will be reduced to Tax Credit Ceiling Rents, or for which use restrictions are to expire on or before December 31st, 2006.

In addition, new allocations can be awarded to projects previously subsidized with credits. Existing projects that previously received tax credit allocations and are now eligible under Code Section 42(d)(2) for new acquisition tax credits may apply for a current allocation. However, the Projects must demonstrate a real risk of loss of affordable units and an addition of significant improvements and services to enhance livability for the tenants.

Allocations: The demand-to-supply ratio increased to 1.63 to 1 for 2003. Median awards increased to $397,691 and median project size increased to 78 units in 2003.

Private Activity Bonds with 4% Credits

Allocations: The New Mexico State Board of Finance allocated $37 million in private activity bonds to 10 multifamily projects in 2003. In 2004, the State Board of Finance's recommendation is to increase this allocation to $45 million, more than 19% of the total allocation, for multifamily housing.

New York

Low Income Housing Tax Credits (9% Credits)

The New York State Division of Housing and Community Renewal (DHCR) is the lead Housing Credit Agency for the State of New York. Of DHCR's $24 million available for LIHTC reservations, up to $2 million may be made available for preservation projects as defined in DHCR's QAP. Preservation is defined as property being rehabilitated to extend its useful life and is (1) consistent with a public agency work out, (2) is part of a community revitalization plan or (3) is in danger of being lost as an affordable housing resource.

DHCR's QAP also indicates that if a project includes the rehabilitation of any occupied residential building(s), the acquisition costs of the building(s) may not exceed 25% of the total development costs of the project unless it is a Preservation Project.

The state's remaining $10 million in credits for 2003 are suballocated to the New York State Housing Finance Agency (HFA), the New York City Department of Housing Preservation and Development (HPD) and a rural housing agency, the Development Authority of the North Country.

Allocations: Historically, demand for tax credits has outpaced supply, with demand exceeding supply by 4 to 1 in 2003. State agencies will award $34 million in credits in 2003. In 2002, the average allocation was about $420,000, with projects averaging 40 units.

New York City

A suballocation of New York State's 9% low-income housing tax credits is provided to the City of New York. New York City publishes its own QAP for this suballocation. The City's QAP does not provide a special priority or "set aside" for the preservation of federally assisted housing.

Allocations: New York City received 105 applications totaling $15.3 million for its $11.8 million share of the state's $34 million in federal tax credits in 2003.

Private Activity Bonds with 4% Credits

The $140 million Housing Opportunities and Preservation in the Empire State (HOPES) program in New York State is a set-aside of private activity bonds with 4% credits for preservation. Administered by HFA, the funding includes $100 million of the state's tax-exempt bond cap, plus $40 million in 4% low income housing tax credits. Section 202, Section 8 and Mitchell Lama Projects are all eligible for HOPES.

Allocations: In 2003, New York will allocate $750 million of its $1.5 billion in private activity bond cap to multifamily housing projects. By the end of May 2003, HFA had allocated bond cap to 10 projects (with plans to finance 5-10 more before the end of the year), six of which are preservation projects. In 2002, HFA provided tax-exempt financing to 11 projects, including 5 preservation projects.

New York City

New York City receives a separate suballocation of the State's tax-exempt bonding authority. The New York City Housing Development Corporation (HDC) is authorized to issue tax-exempt bonds for the development of multifamily housing. HDC does not provide a special priority or set aside for the preservation of federally assisted housing.

Allocations: The city will allocate $175 million in tax exempt bond cap to multifamily projects in 2003.

North Carolina

Low Income Housing Tax Credits (9% Credits)

The State will award up to the lesser of the following amounts to projects proposing rehabilitation of existing housing: 1) twenty percent (up from 10% in 2003) of the state's total federal tax credit ceiling, or 2) the amount required for 10 projects (up from 5 in 2003). Rehabilitation projects will not be eligible for credits other than in this set-aside. In order to be eligible for rehabilitation funding, a project must a) have committed mortgage subsidies from a local government in excess of $5,000 per unit or federal project-based rental assistance for at least 30% of the unts, b) have been placed in service on or before December 31, 1986, c) require rehabilitation expenses in excess of $15,000 per unit, d) not have an acquisition cost in excess of 60% of the total replacement costs, e) not be feasible using tax exempt bonds, and f) have less than $7 million total or $100,000 per unit in replacement costs.

In the 2004 QAP, NCHFA is permitted to allocate 2004 tax credits outside of the normal process to projects that meet one of five requirements including preventing the loss of federal investment.

Allocations: For 2002, the state received requests for triple the amount of credits than it had to allocate.

Private Activity Bonds with 4% Credits

North Carolina will allocate the multifamily portion of the state's tax-exempt bond authority and accompanying 4% credits in the following order of priority: 1. Projects that serve as a component of an overall HOPE VI revitalization effort 2. Rehabilitation projects 3. Adaptive re-use projects and 4. Other new construction projects.

Allocations: Out of the $128 million in private activity tax exempt bond cap requested for multifamily housing, $57 million had been allocated as of May 2003, including five acquisition/rehabilitation projects. An estimated $75 million will be set aside in 2004 for multifamily housing.

North Dakota

Low Income Housing Tax Credits (9% Credits)

10% of the state's housing credit ceiling (minimum $200,000) was set aside for applications involving preservation of existing affordable housing properties in 2003. Both acquisition with rehabilitation and rehabilitation-only applications were eligible under this set aside.

Federally assisted properties, including existing Housing Credit properties currently serving low income residents which are "at-risk" of being lost from the state's affordable housing inventory were not tax credits allocated, receive 10 points.

Allocations: The state has $2.3 million in tax credit authority in 2003. By the Fall of 2003, formal reservations had been granted for $1.56 million in tax credits. Awards included $234,910 to preserve 40 units of affordable housing in 2

Ohio

Low Income Housing Tax Credits (9% Credits)

In the 2004 QAP, 15% of the low income housing tax credits are set aside in a "preservation pool." Applicants can participate in the pool if they are eligible for at least 90% of points in "at-risk" criterion or received allocation of credits in 1987, 1988 or 1989.

The maximum allocation for non-preservation projects is $1.1 million. However, a user may be eligible for $400,000 in additional credits for projects eligible to participate in the preservation pool.

A developer may also receive 25 points for "at-risk" housing--defined as Section 8 expiring by December 31, 2006, troubled USDA Rural Development Projects, Portfolio Reengineering Projects, Section 202 or 811 projects placed in service prior to 1979, and existing Section 236 Projects. Partially-assisted projects can receive the 25 at-risk points on a pro-rated basis.

Allocations: There was increased demand for tax credits in 2003, with $48.5 million requested and $20.1 million reserved. Preservation project applications more than doubled, with 24 applicants in 2003. The median tax credit award rose to $575,697 in 2003 from $312,996 in 2002. The median project size also increased to 66 units in 2003 from 42 units in 2002. Approximately 58% of the 2003 authority went to new construction projects, while acquisition/rehabilitation received three times as many credits as substantial rehabilitation.

Private Activity Bonds with 4% Credits

Allocations: In the last couple of years, demand has been less than supply for multifamily set-aside awards, so all qualifying applicants have received awards. For 2003, the tax-exempt private activity bond set-aside for multifamily housing was increased to $120 million from $56 million. All 18 qualifying applicants were funded. Many of the projects (70%) were acquisition/rehab, with most preserving Section 236 or Section 8 properties.

Oklahoma

Low Income Housing Tax Credits (9% Credits)

Allocations: Oklahoma's 2003 tax credit allocations for both Round 1 and Round 2 totaled 20 projects with 1,059 units for almost $6.8 million.

Oregon

Low Income Housing Tax Credits (9% Credits)

In the draft 2005-2006 Qualified Allocation Plan, the state maintains the 25% set-aside for preservation projects. Preservation projects include but are not limited to those federally financed existing projects where at least 25% of the project's units have project based rental assistance or are expiring LIHTC which are currently offering rents below market. Projects participating in, but limited to the following programs, are considered federally financed: HUD, USDA Rural Development, and the Federal LIHTC programs. Preservation projects also include projects participating in programs that include the replacement of existing affordable housing units including the HOPE VI program.

Allocations: In 2003, the state reserved about $6.2 million in tax credits, with $1 million going to acquisition/rehabilitation. Oregon Housing and Community Services indicated that as much as 40% of the 2004 credits might go to preservation.

Private Activity Bonds with 4% Credits

Allocations: Approximately 40% ($124.5 million) of the state's 2004 total bond cap would be allocated to Oregon Housing and Community Services, with as much as $100 initially available for multifamily housing.

Other Preservation Initiatives

Portland

The City of Portland requires owners to provide a 210 day notice of intention to opt out of a Section 8 contract and specifically mention that the City may issue condemnation proceedings to pay the owner fair market value if the City chooses to do so. During this time, the owner may not take action that would preclude the City of Portland from succeeding under the HUD contract or negotiating purchase of the building. The process is complex, requiring at least 2 appraisals of the property. In order to effectuate the ordinance, the City has established a Preservation Line of Credit (agreement with a local lender) that provides short-term resources to complete the transaction within 120 days.

The City of Portland prioritizes HOME, CDBG and tax increment dollars for preservation of Section 8 housing.

The City is exploring a proposed regional real estate transfer tax for preservation capital.

Pennsylvania

Low Income Housing Tax Credits (9% Credits)

PHFA continued its two-cycle application for 2004, one in October and one in April. The 2004 QAP increases the preservation set-aside to 20% (up from 10% in 2003) for "at risk" developments defined as within 2 years of prepayment or contract expiration, with a "likely conversion to market rate housing or equivalent loss of low income use restrictions." This preservation set-aside may also be used for rehabilitation of an existing Section 8 development for immediate repair needs and/or for modifications required by new building requirements where improvements are greater than $10,000/unit.

PHFA also combined the application for its PennHomes, no interest loan program, and low-income housing tax credits.

Allocations: PHFA had almost twice as many low-income housing tax credits as developers requested in 2003 ($15.1 million in applications for $27.4 million available credits). PHFA indicates that increases in operating expenses have made it more difficult to get deals done. PHFA plans to reserve $21.6 million in tax credits in 2004.

Private Activity Bonds with 4% Credits

The bond program typically funds a few multifamily projects each year, totaling approximately $50 million. Qualified projects tend to receive allocations, with HOPE VI and preservation deals commonly receiving allocations.

Allocations: Applications will be accepted anytime before September 2004 for an allocation of 2004 tax-exempt bond financing.

Housing Trust Funds

Philadelphia

More than 60 organizations in Philadelphia, PA endorsed a housing trust fund proposal released on October 21, 2003. According to the Center for Community Change, the trust fund's primary mission will be to support housing production--both rehabilitation and new construction--by nonprofit community development organizations, including partnerships with for profit developers. Supporting housing preservation will also be an important purpose of the housing trust fund. While the proposal still needs to secure both state legislation and the city's approval, Philadelphia Mayor John Street is on record in support of the concept of a housing trust fund.

Rhode Island

Low Income Housing Tax Credits (9% Credits)

For competitive 9% tax credits, the Rhode Island agency does not appear to have a strict set aside, but the QAP observes that the State of Rhode Island's local criteria for distributing tax credits includes, but is not limited to, "The need to preserve affordable rental housing threatened by expiring federal subsidies or eligibility for prepaying subsidized mortgages."

Allocations: In 2003, more than $3.8 million in tax credits were requested. Five out of eight applications were awarded a total of $1.9 million in tax credits. The 9% applications funded were new production. Usually, but not exclusively, the Agency endeavors to use 9% credits for new production and the 4% credits are typically used for preservation and/or mixed income deals.

Private Activity Bonds with 4% Credits

Reports are that the Rhode Island Housing and Mortgage Finance Program has experienced an increase in the a state program that uses tax exempt bonds and 4% tax credits to preserve the affordability of Section 8 projects with RIHMFC mortgages. The properties must stay affordable for up to 40 years beyond the expiration of the current affordability restriction. In exchange, owners receive access to half of the project residual receipts account. The remainder goes to a state affordable housing trust fund.

Allocations: In 2003, the state had a tax-exempt bond of $228.6 million, none of which is set aside for housing. In 2003, RIHMFC used proceeds of three bond issues totaling $90 million to preserve the affordability of 18 Section 8 developments with expiring contracts, preserving more than 1,874 units.

Housing Trust Funds

Proceeds from the residual receipt accounts from Preservation transactions are deposited in a Housing Trust Fund. In some instances, the Corporation will make loans from the Trust Fund to Borrowers to ensure the Preservation of the property. Depending on the deal, the loan may be amortizing or it may be repaid through available cash flow.

Other Preservation Initiatives

RIH's website states "We will finance the purchase of or re-finance existing Section 8 apartments in exchange for extending the affordability restrictions beyond the term of the original HAP contract. This program also can give Section 8 owners access to a project's residual reserves." RIH's Preservation Program is intended to provide owners or buyers of Section 8 developments with incentives to maintain these developments as quality affordable housing for a period of 40 years beyond any current use restrictions. Certain procedures are established to obtain the RIH's approval of mortgage loans, additional financing, distributions of residual receipts, and the allocation of tax credits, which are intended to further these objectives. The primary sources of financing are tax-exempt bonds, proceeds from the sale of 4% LIHTC's and the development's existing reserves. Taxable loans are also available if owners choose to refinance without a sale.

In 2003, the State of Rhode Island plans to float an up to $50 million in taxable and tax exempt bonds to preserve the affordability of as many a 15 Section 8 New Construction projects.

South Carolina

Low Income Housing Tax Credits (9% Credits)

South Carolina State Housing Finance and Development Authority (SHFDA) sets aside 25% of the general pool for rehabilitation projects in 2004.

Allocations: In 2003, South Carolina awarded tax credits to a total of 25 projects, 3 of which were acquisition/rehabilitation projects.

South Dakota

Low Income Housing Tax Credits (9% Credits)

South Dakota's 2004-2005 QAP specifically states "an analysis will be made to determine the risk of prepayment or opt out of any existing federal rental subsidy contract (e.g. HUD Section 8 contract) and therefore the risk of losing affordable housing supply. Those properties that are financially feasible are located in a market with substantiated need and indicate the greatest risk for converting to market rate housing will be given priority for funding." SDHDA will allocate 60 percent of the total annual credits available for rehabilitation and/or acquisition and rehabilitation projects.

Projects involving existing development receive 50 points while new construction projects receive up to 10 points.

Allocations: In 2003, SDHDA reserved more than $1.7 million in tax credits for 10 development with 250 low-income units.

Tennessee

Low Income Housing Tax Credits (9% Credits)

Up to 35 points are provided in the 2004 QAP for rehabilitation developments involving replacement of major building components as identified in the physical needs assessment. A development which is part of a restructuring pursuant to the Multifamily Assisted Housing Reform and Affordability Act of 1997 remains eligible to apply for Tax Credits in an amount which would not produce syndication proceeds in excess of 17% of rehabilitation costs required under that program.

Allocations: The state had $10.4 million in total tax credit authority in 2003. 47 applicants applied for those tax credits, with a more than 2 to 1 ratio of demand to supply in the state. A total of $13.38 million was allocated in 2003 (both reserves and carry over) for 3,193 units.

Private Activity Bonds with 4% Credits

On January 28, 2004, THDA authorized the allocation of $99 million in tax-exempt bond authority for multifamily developments. Tax-exempt bond authority will be allocated only to eligible applications on a first come, first served basis.

Texas

Low Income Housing Tax Credits (9% Credits)

For 2004, the Texas Department of Housing and Community Affairs (TDHCA) apportions tax credits among the Uniform State Service Regions based on each region’s need for housing assistance. At least 15% of the allocation to each Region is set aside for "at risk" developments. To be eligible, project’s affordability restrictions must expire within two years, or the mortgage must be prepayable or be capable of being fully paid off within two years. Projects must renew or retain any federal assistance for which they remain eligible. TDHCA allows expiring tax credits to apply under the "at risk" set-aside.

Allocations: While demand for tax credits more than doubled the supply available in 2003, requests fell slightly from last year. In 2003, 68 projects received approximately $38.7 million in tax credit reservations with 121 applicants seeking more than $82 million in tax credits. The rural and at-risk set-asides were undersubscribed. In 2002, the median tax credit award was $551, 425 and the median project size was 110 units. About $34 million went to new construction projects, $2.3 million to acquisition and rehabilitation and $1.6 million to substantial

Private Activity Bonds with 4% Credits

20% of the multifamily cap is reserved for TDHCA thru Auguest 15, 2004. The Texas State Affordable Housing Corporation will receive 10% and the remaining 70% of the multifamily cap is reserved for local issuers until August 15. TDHCA moved from a strict lottery system to a merit-based system in 2004.

Allocations: Texas will have $1.66 billion in total private-activity bond authorization in 2004, with rental housing estimated to receive approximately $366.6 million.

Housing Trust Funds

TDHCA's Housing Trust Fund (HTF) had $2 million available in 2004 to finance, acquire, rehabilitate, and develop safe, decent and affordable rental housing for low, very low, and extremely low income individuals and families.

Other Preservation Initiatives

TDHCA maintains lists of affordable housing portfolios on its website and classifies each property by its priority for being preserved. In addition, their website provides a bulletin board that allows affordable housing property owners interested in selling their properties to get in touch with potential buyers interested in maintaining affordable housing.

TDHCA's demonstration program, the Multifamily Housing Preservation Incentives Demonstration Program, finances existing multifamily rental properties which have previously been financed or subsidized through a state or federal housing program, and which are encumbered by regulatory restrictions to provide housing for families of low, very-low, or extremely low income. Eligible activities include acquisition, rehabilitation, acquisition and rehabilitation, or new construction for the purpose of replacing existing or previously existing multifamily properties. The maximum application amount is $20,000 per rental unit, not to exceed $1,000,000 in total.

Utah

Low Income Housing Tax Credits (9% Credits)

In the 2003 QAP, Utah sets aside approximately 65% of the Credit Ceiling Amount into a general pool. Within the general pool, 25% is set aside for rehabilitation and another 25% is set aside for preservation of HUD projects. The preservation pool is only available to those projects maintaining a HUD Housing Assistance Program or RD 515 assistance contract.

Allocations: Tax credit applicants requested $7.6 million in credits while only $4.5 million were available in 2003. The 17 projects that received tax credit had a median of 51 units and received a median of $263,894 in tax credits per project.

Private Activity Bonds with 4% Credits

Allocations: In 2004, the Small Issue Account (multi-family affordable housing and manufacturing facilities) has a volume cap of more than $56 million, 24% of the total volume cap.

Housing Trust Funds

Utah's Olene Walker Housing Trust Fund prioritizes gap financing to preserve at risk federally subsidized projects. According to the Center for Community Change's Housing Trust Fund Project, nonprofit developers are funded to buy and manage projects where owners are opting out or prepaying mortgages of federal project-based section 8 properties. They are also monitoring potential rent increases to market rate on Low Income Housing Tax Credit properties with lapsing rent restrictions.

Vermont

Low Income Housing Tax Credits (9% Credits)

The third of four evaluation criteria in the 2004-2005 allocation plan states that "Preference must be given for the acquisition and rehabilitation of existing federally subsidized projects, where the preservation of a project's existing affordability is at risk." Federally subsidized and at risk is defined as a development currently occupied by low-income households that faces, within the next five years: (1) a loss of deep rental assistance or other operating subsidy; and (2) faces prepayment of its mortgage or other action by its owner that would terminate federal low income use restrictions). Preference may also be provided to any project(s) that is slated to receive federal funding specifically for the preservation of the units as affordable housing. Examples include but are not limited to RD 515, Section 8, Section 23, Section 236, and Section 221(d)(3).

Allocations: Competition for tax credits in the state increased in 2003. Almost $2 million in tax credits were reserved and allocated for eight projects, including one acquisition/rehabilitation project and one rehabilitation project.

Virginia

Low Income Housing Tax Credits (9% Credits)

Virginia awards 20 points to developments subject to HUD’s Section 8 or Section 236 programs or Rural Development’s Section 515 program. In addition, 10 points are awarded to developments receiving new project-based subsidy from HUD or Rural Development for the greater of 5 units or 10% of the units of the proposed development. Points are also awarded for commitments by the applicant to provide relocation assistance to displaced households.

Allocations: In 2003, $16 million in tax credits were reserved for 53 projects with more than $20.9 million in tax credits requested.

Private Activity Bonds with 4% Credits

Allocations: In 2003, Virginia Housing Development Authority (VHDA) received a private activity bond allocation of $147.6 million in addition to $97 million from the governor's discretionary fund and $71.4 million from the industrial development bond pool.

Other Preservation Initiatives

The State of Virginia set aside $2 million of the Virginia Housing Fund for below market loans for the preservation of Section 8 and Section 236 through refinancing in the summer of 2002.

The State of Virginia also created its own Community Development Financial Institution (CDFI) to attract private sector funds for small grants, bridge or predevelopment loans. The CDFI's express purpose is to aid in the preservation of affordable units for low-income renters.

Washington

Low Income Housing Tax Credits (9% Credits)

One of the selection criteria in the Washington State Housing Finance Commission's (WSHFC) qualified allocation plan is to "preserve federally assisted projects as low-income housing units." Points are given for projects where at least 50% of the existing units are at-risk of conversion to market rate within 5 years of the application date.

Allocations: For 2004, more than $19 million in total credits for 42 projects were requested for the $11.5 million in total authority. In 2003, more than $20.1 million was requested, with $10.2 million allocated to 28 projects for 1,001 units. Of those, 5 were preservation projects with 263 units.

Private Activity Bonds with 4% Credits

Allocations: Approximately $138 million in tax-exempt private activity bonds is available for housing in 2004. Two preservation projects with 203 units were allocated 4% credits and tax-exempt bonds.

Housing Trust Funds

Washington's Housing Trust Fund was increased by $2 million from the previous budget for a total of $80 million. The Housing Trust Fund has helped preserve the housing stock through rehabilitation of existing structures and through investment in formerly federally-assisted housing that is at risk of being converted to market rate housing.

Other Preservation Initiatives

The Washington State Housing Finance Commission (WSHFC) proposed a "Multifamily Affordable Housing Preservation Program" in the fall of 2002. It proposes to dedicate a significant portion of WSHFC’s resources to preservation. The program proposed to use up to 20% of existing tax credits and multifamily bonds to fund preservation. Applications would be accepted and decisions made throughout the year. A final report on Stakeholder Feedback was issued in January 2003. Initial implementation of the program was postponed in order to comply with state regulations and the Commission ultimately decided to stay with points and set-asides in existing programs versus a special allocation of credits and bonds.

WSHFC provided initial funding to Impact Capital, a fund that provides pre-development, bridge and other financing for projects developed or rehabilitated by nonprofit organizations. The Commission devoted nearly $5 million of its own earned income to the loan fund. Private banks, non-profits, foundations and local governments have contributed to this loan fund as well, bringing the total funds available to nearly $23 million. In 2003, 8 preservation projects with 422 units received funding from the Impact Capital fund.

12 USDA preservation projects with 405 units were issued nonprofit bonds for setting aside 20% of their units but will likely maintain all units as low income.

Seattle

The City of Seattle has actively used local and federal resources to preserve affordable housing. Since 1999, the City has preserved four Section 8 buildings with a total of 126 units. The City used a combination of long-term, low interest loans and credit enhancement to preserve these units.

The City also has a bridge loan program designed to help non-profits acquire buildings while they are arranging permanent financing. The City has used this tool to preserve 205 units in an important downtown Section 8 building.

In September 2002, the City of Seattle approved a $86 million housing levy over 7 years (2003 through 2009). More than 65% of the levy will fund rental preservation and production.

West Virginia

Low Income Housing Tax Credits (9% Credits)

2003-2004 QAP has a 20% set-aside for "HUD Preservation or New Construction (includes HOPE VI)". This category is exclusively for either preservation of existing HUD low-income residential rental units or for a newly constructed property financed or guaranteed through any qualified HUD financing or guarantee program to produce newly constructed low-income residential rental units.

Within the "HUD Preservation or New Construction" set aside, 30 points are awarded to rehabilitation projects with less than 51 units, 20 points to rehabilitation projects with more than 50 units, and 10 points to acquisition and rehabilitation projects with less than 51 units.

Allocations: $4.4 million in tax credits are available in 2003 (including $1.2 million carried forward from 2002).

Wisconsin

Low Income Housing Tax Credits (9% Credits)

Wisconsin's amended 2003-2004 QAP increases the preservation set-aside to 40% of its credits ($3.809 million), an increase from 35% in the original 2003-2004 QAP and up from 20% in 2001. Applicants can qualify for this set-aside in 3 ways, including Federally Assisted Properties which are currently subsidized under the following or similar programs: Section 236, Section 221(d)(3) Below Market Rate, Section 221 (d)(3) with rental assistance, Section 8 project-based new construction, Section 221 (d)(4) and Section 515 Rural Housing. Neighborhood preservation in targeted census tracks as well as conversion of existing market rate development to affordable housing also qualify for the preservation set-aside.

Allocations: For 2004, $8.8 million was allocated for 1,559 units. Of that total, $3.9 million was allocated for the preservation of 789 units. Reservations of $9.5 million in tax credits were announced for 2003. These tax credits financed 32 projects with 1,626 units.

Private Activity Bonds with 4% Credits

Allocations: For 2004, the state's tax exempt private activity bond authority is approximately $408 million, more than half of which can be used for rental housing, home loans and beginning farmer bonds.

Other Preservation Initiatives

WHEDA offers current owners of existing WHEDA-financed Section 8 loans preservation financing to restructure existing loans to preserve affordable housing. They offer Equity take-out loans that allow owners to get cash out to use for other purposes. They also offer below-market interest rates to help make providing affordable housing profitable.

In March 2004, Governor Jim Doyle announced WHEDA's $10 million initiative to help preserve affordable housing for seniors and other lower income Wisconsin residents. The Wisconsin SOS program, "Saving Our Stock" of Affordable Housing, will focus on project-based Section 8 housing developments.

The governor also named 12 public members to a Task Force for Housing Preservation. Staffed and assisted by WHEDA, the task force will look at additional measures the state and other organizations can implement to preserve affordable housing. Task force members include professionals from the housing development industry, financial experts, community organizations, and government officials.

WHEDA is working on a 3 year strategic plan to be approved by its Board, with one of the largest components of the plan being the preservation of affordable housing.

Wyoming

Low Income Housing Tax Credits (9% Credits)

The 2004 QAP for Wyoming does not contain any set-aside or prioritization for preservation.

PLEASE NOTE: Most of the allocation information was provided by Affordable Housing Finance magazine (Alexander and Edwards Publishing, Inc.; 800-989-7255; www.housingfinance.com).

NATIONAL
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Changes to Project-Based Multifamily Units in HUD's Inventory Between 1995 and 2003

Number of Affordable Project-Based Units Declines by 300,000

ABSTRACT

Since the 1960s, HUD has provided several different types of subsidies to encourage private developers to construct or rehabilitate affordable multifamily rental housing. The number of units made affordable to low-income families, seniors and persons with disabilities through these subsidies, however, has declined significantly in recent years. Analysis of HUD data finds that between 1995 and 2003, the number of such units dropped from 1.7 million to 1.4 million. The loss of 300,000 affordable rental units is substantially larger than previous estimates. This loss is especially concerning in light of the shortage of other available affordable housing for extremely low-income households across the country.

To help cushion the loss of affordable rental units and avoid displacement of low-income households, Congress funded additional housing vouchers. Yet this increase in "tenant-based" assistance did not fully offset the reduction in affordable units: there was a net loss of at least 74,000 rental subsidies between 1995 and 2003.

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EXECUTIVE SUMMARY

In recent years, concern has increased about the loss of privately owned housing made affordable to low-income families and seniors through HUD project-based housing assistance. These losses have been precipitated by the expiration of long-term Section 8 contracts and the ability of owners to prepay their HUD-assisted mortgages. This paper examines the change in HUD's project-based inventory since 1995 and the extent to which units lost from this inventory were replaced by other forms of HUD assistance.

Data compiled from various HUD documents and sources show a loss of approximately 300,000 project-based units. The number of project-based units subsidized through HUD rental assistance and mortgage subsidy programs has declined from 1.7 million units in 1995 to 1.4 million units in 2003. There are various reasons for this decline, including owners' decisions not to renew (or to "opt out" of) Section 8 contracts upon expiration, termination of Section 8 contracts by HUD due to enforcement actions, and prepayment of HUD-insured mortgages.

HUD-Assisted, Project-Based Multifamily Units from 1995 to 2003

	1995	2003	Loss
Project-Based Rental Assistance	1,464,426	1,302,085	162,341
Section 236	146,539	64,484	82,055
Section 8 Moderate Rehabilitation	105,845	46,830*	59,015
TOTAL	1,716,810	1,413,399	303,411

Project-Based Rental Assistance. The majority of these units, currently more than 1.3 million units, are subsidized through rental assistance programs, including project-based Section 8, Rent Supplement, and Rental Assistance Payments (RAP). These subsidies, sometimes called "deep subsidies," cover the difference between an affordable, income-based rent paid by a household and the actual rent of the unit. Since 1995, more than 160,000 units have lost their project-based rental assistance due to opt-outs or termination of contracts by HUD due to enforcement actions.

Section 236. Units with project-based assistance provided through a mortgage subsidy under the Section 236 mortgage insurance program have also declined, from approximately 146,500 units in 1995 to 64,500 in 2003. This loss of more than 82,000 units reflects the prepayment of mortgages by owners, which terminates the requirement to keep rents affordable. Assistance on these units, sometimes referred to as "shallow subsidies," typically provides less rental assistance per household than Section 8 and usually reduces the rents by some small fixed amount.

Section 8 Moderate Rehabilitation. Another rental assistance program, Section 8 Moderate Rehabilitation (Mod Rehab), has suffered a decline of between 51,000 and 67,000 units. Although data on this housing is limited, available data show a drop from nearly 106,000 units in 1996 to between 40,000 and 55,000 units at the end of 2003.

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* The report defines a range of Section 8 Moderate Rehabilitation units due to a difference between HUD data sources concerning the number of Mod Rehab units. This number reflects the average of this range (39,173 to 54,487).

The National Housing Trust appreciates the invaluable assistance provided by the Center on Budget and Policy Priorities (CBPP) in the development of this analysis. We have relied on CBPP's research for the components of the report concerning new vouchers and the change in the number of Moderate Rehabilitation units.

From 1995 to 2003, HUD awarded nearly 170,000 tenant protection vouchers in connection with the loss of HUD-assisted, project-based units. Assuming that HUD fully compensated public housing agencies for the loss of Section 8 Mod Rehab units over this period, HUD awarded a total of between 221,000 and 236,000 vouchers over this period. This resulted in a net decline of at least 74,000 housing subsidies between 1995 and 2003.

The overall loss of more than 300,000 HUD-assisted, project based units and the net decline in housing subsidies is particularly troubling given the current shortages of affordable rental housing across the nation, especially for low and extremely low-income households. Questions remain about whether tenant-based assistance provides an equivalent substitute for project-based assistance, particularly at the local level. Further study needs to be undertaken to examine how this change from project-based assistance to vouchers impacts communities.

NARRATIVE

Since the 1960s, HUD has provided a variety of different types of subsidies to encourage and support the construction or rehabilitation of affordable multifamily rental housing by private developers and to help low-income families afford their rents.

- Some of these subsidies may be characterized as "deep subsidies," which means they cover the difference between an affordable income-based rent paid by a household (approximately 30 percent of income) and the actual rent of the unit (or some equivalent). As a general rule, deep subsidies are needed to make housing affordable to poor or near-poor households, even when such households include a full-time wage earner. This type of assistance is typically provided through rental assistance payments from HUD to owners, the majority of which is provided through various components of the project-based Section 8 program. Under project-based Section 8, HUD typically entered into long-term contracts with property owners, usually between 20 and 40 years, to serve low-income families. Other deep subsidy programs include the Rent Supplement and Rental Assistance Payments (RAP) programs.

- "Shallow subsidies," by contrast, provide less assistance per household and usually reduce the rents by some relatively small fixed amount. This type of assistance was provided during the 1960s and 1970s through a mortgage subsidy under HUD's 221(d)(3) Below Market Interest Rate (BMIR) and Section 236 mortgage insurance programs. In exchange for participating in these programs, owners were required to make units available to low-income families at HUD-approved rents for the term of the mortgage, typically referred to as use restrictions. Many of these properties later received some form of rental assistance to help them cope with the rapidly rising operating costs of the mid-1970s.

Since the mid-1990s, the number of properties with project-based subsidies has decreased with the conversion of many of these units to market-rate housing. Beginning in the mid-1980s, prepayment restrictions on HUD-subsidized mortgages began expiring, allowing owners to prepay the mortgages and thereby terminate the property's use restrictions. After a period in the late 1980s and early 1990s when prepayment of these mortgages was prohibited, owners were again permitted to prepay their low-interest mortgages and convert the property to market-rate housing or another use.

In addition, project-based Section 8 contracts began expiring in the mid-1990s. Upon expiration, owners could discontinue (or "opt out" of) their contracts or renew contracts on a year-to-year basis. Since the mid-1990s, many units of housing with project-based assistance have been lost from the overall portfolio of project-based units as owners have prepaid their mortgages and/or opted out of their contracts.

This analysis examines the changes in the HUD project-based housing stock since 1995 and data on the replacement of units lost from the inventory with other forms of HUD assistance, primarily Section 8 tenant-based vouchers. Using data from a variety of HUD sources, it analyzes specific questions concerning HUD-assisted multifamily housing.[1]

The data in this analysis have been compiled from a number of different HUD documents and sources. To permit others to verify the information provided, detailed source notes are provided in the Data Appendix. Definitions of the HUD terminology referenced in this document, including brief descriptions of the covered programs, are provided in the Glossary.

How many deeply subsidized, project-based multifamily units were in HUD's inventory in 1995 and how many are there currently?

This question focuses exclusively on the privately owned multifamily units in HUD's inventory that provide deep subsidies through project-based rental assistance. Most of these units are subsidized through the project-based Section 8 program. In addition to project-based Section 8, this question covers the much smaller Rent Supplement and RAP programs. Together, these programs subsidize the vast bulk of HUD's deeply subsidized, project-based multifamily stock operated by private owners.[2] Data on a fourth HUD deeply subsidized project-based program operated by private owners—the Section 8 Moderate Rehabilitation (Mod Rehab) program—are set out separately for a number of technical reasons discussed in the Glossary.[3] The few deep subsidy HUD multifamily programs that have been excluded are noted in the Endnotes.[4]

Analysis of HUD data shows that in 1995 approximately 1,464,000 units were deeply subsidized through one of the following HUD project-based multifamily programs: Project-based Section 8, Rent Supplement, and Rental Assistance Payments. As of October 2003, approximately 1,302,000 deeply subsidized units through these programs remained.[5] Unit counts for each program are in the Data Appendix.

As shown in the following table, the total number of deeply subsidized units administered by the Office of Housing declined by approximately 162,000 units between 1995 and October 2003. In addition, there was a decline of between 51,000 and 67,000 deeply subsidized, project-based units in the Section 8 Mod Rehab Program.[6] **In all, the data show a total loss of approximately 221,000 deeply subsidized, project-based units in HUD's inventory.**

The principal cause of the decline in deeply subsidized HUD multifamily units between 1995 and 2003 was the decision by owners not to renew or otherwise to opt-out of their Section 8 (or other deep subsidy) contracts upon expiration of the contracts. Some of the decline may also be attributable to enforcement actions by HUD to terminate or decline to renew the contracts of owners who were out of compliance with HUD rules (for example, by not properly maintaining their properties).

What was the overall loss of HUD-assisted, project-based multifamily units, with both deep and shallow subsidies, between 1995 and 2003?

This question takes a broader look at the HUD-subsidized, privately owned multifamily stock. It examines units with deep subsidies administered through the Office of Housing, in the project-based Section 8, Rent Supplement, and RAP programs, and through local housing authorities, in the Section 8 Mod Rehab program. It also includes units with shallow subsidies through a HUD-subsidized mortgage program, such as Section 236 or Section 221(d)(3) BMIR. Data collected on these programs show the net loss of HUD-assisted, project-based multifamily units between 1995 and 2003. Due to data limitations, units with mortgages subsidized under the Section 221(d)(3) programs are not included in this analysis.[7]

As noted above, there was a net loss of approximately 162,000 deeply subsidized project-based multifamily units administered by the Office of Housing between 1995 and 2003. The analysis determined that there was an additional loss of between 51,000 and 67,000 Section 8 Mod Rehab units and approximately 82,000 Section 236 units over the same time period. **In all, these data show an *overall* loss of 295,000 to 311,000 HUD-assisted, project-based multifamily units between 1995 and 2003.**

Net Decline in HUD-Assisted Multifamily Subsidies between 1995 and October 2003[i]

Project-Based Multifamily	1995	2003	Reduction
Deep Subsidies, Office of Housing[ii]	1,464,426	1,302,085	162,341
Section 8 Mod Rehab	105,845	39,173 - 54,487	51,358 - 66,672
Section 236	146,539	64,484	82,055
Subtotal: Project-Based Unit Loss	**1,716,810**	**1,405,742 - 1,421,056**	**295,754 - 311,068**
Tenant-Based Vouchers Issued for Conversion Actions, 1995 - 2003			
Tenant-Protection Vouchers related to Office of Housing Conversions			(169,932)
Tenant-Based Vouchers related to Mod Rehab Conversions[iii]			(51,358 - 66,672)
Subtotal: Tenant-Based Vouchers			**(221,290 – 236,604)**
Net Loss of HUD-Assisted Multifamily Subsidies:			**74,464**[iv]

[i] The Data Appendix provides source notes and more detailed unit counts.

[ii] Includes Project-based Section 8, Rent Supplement, and Rental Assistance Payments (RAP).

[iii] Assumes HUD fully compensated public housing agencies for the loss of Section 8 Mod Rehab units over this period by issuing an identical number of tenant-based vouchers.

[iv] The actual decline is likely to be larger, as data limitations prevent the incorporation of data on the loss of Section 221(d)(3) BMIR properties.

To what extent has the reduction in project-based multifamily units between 1995 and 2003 led to a "net" reduction in the number of rental subsidies provided by HUD?

This question examines the net effect on the number of HUD-funded subsidies for privately owned multifamily housing. It compares the loss of project-based units to HUD's issuance of tenant protection vouchers to protect families facing significant rent increases because of opt-outs or prepayments of HUD-assisted multifamily properties. It considers the extent to which this loss of project-based units was compensated, at least in part, by the issuance of tenant protection or other tenant-based vouchers. Because housing vouchers are not attached to a specific project or property, but rather move with the tenant to a unit of the tenant's choice, these vouchers are known as tenant-based subsidies. Other subsidies covered in this paper are project-based subsidies that are attached to specific properties.

As explained in more detail in the Glossary, tenant protection vouchers are tenant-based Section 8 vouchers (also known as Housing Choice Vouchers) that are issued by HUD to residents when certain HUD-assisted multifamily housing properties cease participation in HUD's programs or when public housing units are demolished or sold.[8] Qualifying residents of the affected properties receive first priority for the vouchers.

From the period beginning with fiscal year 1995 and ending with fiscal year 2003, an analysis of the data shows that between 221,000 and 237,000 tenant protection vouchers were issued by HUD. This total results from the following:

- HUD awarded an estimated 170,000 tenant protection vouchers related to opt-outs, prepayments, or HUD enforcement actions (collectively known as conversion actions) associated with properties administered by HUD's Office of Housing.[9] Additional information on tenant protection vouchers issued since 1995 is included in the Data Appendix.
- It is likely that the decline of between 51,000 and 67,000 Section 8 Moderate Rehabilitation units in this period was fully compensated by the award of tenant-based housing vouchers. However, HUD does not publicly announce the award of vouchers related to the conversion of Section 8 Moderate Rehabilitation units; therefore, we cannot confirm whether full replacement, in fact, occurred.[10]

As noted above, there was an overall loss of 295,000 to 311,000 HUD-assisted, project-based multifamily units between 1995 and 2003. Assuming HUD fully compensated public housing agencies for the loss of Section 8 Mod Rehab units, **the total number of vouchers issued was between 221,000 and 237,000, resulting in a net decline of about 74,000 subsidies.**[11]

CONCLUSION

This loss of more than 300,000 HUD-assisted, project based units and the net decline in available subsidies is particularly troubling given the current shortages of affordable rental housing across the country, especially for low and extremely low-income households. According to recent data:

- The shortage of affordable housing is geographically widespread. In no housing market in the nation can a household earning today's minimum wage reasonably afford a modest one-bedroom rental apartment.[12]
- More than 5 million very low-income households pay more than half of their income for housing or live in severely distressed housing.[13]
- In 2001, the 9.9 million renters earning less than $17,500 outnumbered the supply of affordable rental units by 2 million and 2.7 million of these affordable units were occupied by higher-income households.[14]

Construction of new multifamily rental units has barely kept up with the losses, with a net increase of only about 100,000 units since 1993.[15] These new units are too expensive for the lowest income renters—the median monthly rent is about $850 for a newly built apartment compared to the $375 maximum affordable rent for the lowest-income renter households.[16]

While it is clear that there was a significant loss of project-based housing and available subsidies, a number of other matters require further exploration that are not addressed in this analysis. One of these is the fundamental change in the character of the subsidies when tenant-based assistance is provided by HUD in an attempt to offset the loss of project-based assistance. This is a highly significant change whose possible implications are beyond the scope of this paper. Another issue is the impact of the conversion from project-based to tenant-based subsidies on local communities. Certain communities may have experienced greater losses in the number of subsidies than others.[17] Both of these issues deserve further scrutiny.

ENDNOTES:

[1] As indicated in the Data Appendix, the unit counts for 1995 and 2003 come from different data sources. While each represents the best available data source for that point in time, comparisons across data sources inevitably raise questions about data compatibility and comprehensiveness. Readers should therefore exercise some degree of caution in interpreting the changes in unit counts over time.

[2] Deep rental subsidies provided through public housing agencies—public housing and housing vouchers—are not part of this analysis.

[3] Section 8 Mod Rehab was designed in 1978 to be an expansion of the rental certificate program to stimulate moderate levels of rehabilitation to upgrade and preserve the nation's housing stock. Like project-based Section 8, it provides project-based rental assistance for low- and very low-income families, but the contract is between the owner and a local housing authority.

[4] This paper does not cover the following newer HUD multifamily subsidy programs that provide deep rental subsidies to elderly and disabled households through HUD contracts with private owners because there is little reason to believe they are in immediate danger of leaving the subsidized inventory: Section 202 PAC (awarded in 1989 and 1990) and Section 202 and Section 811 PRAC (awarded from 1991 through the present). The paper also does not cover housing vouchers that public housing agencies have chosen to attach to a specific development (i.e., to project-base). Under the new project-based voucher authority that Congress enacted in October 2000, families can retain voucher assistance when they move (using the next voucher available to the PHA) and the vacated units remain under a contract for project-based voucher assistance to serve families from the waiting list. HUD does not maintain data on the number of vouchers that PHAs have project-based. The term "project-based Section 8" as used in this paper does not include project-based vouchers.

In addition, unless the properties have project-based Section 8 or another form of HUD-funded project-based rental assistance covered by this paper, data on the following properties have been excluded from this paper: Section 202 Direct, Low-Interest Loans; Section 202 Direct, Formula Interest Rate Loans; Section 221(d)(3) properties other than 221(d)(3) BMIR; and Section 231. FHA-insured properties that are not subsidized by HUD are also excluded from this paper, as are properties that are funded through the Low-Income Housing Tax Credit program, the Tax-Exempt and 501(c)(3) Bond program, or other non-HUD sources that do not have HUD-funded project-based rental subsidies. Multifamily properties funded by states and localities with funds provided by HUD through the HOME Investments Partnerships Program or the Community Development Block Grant (CDBG) program are also excluded.

[5] In addition, in October 2003, there were approximately 40,000 to 54,000 units of deeply subsidized multifamily housing financed through the Section 8 Moderate Rehabilitation program administered by local and state public housing agencies (including approximately 6,235 units with direct contracts with the Office of Housing for properties that have gone through Mark-to-Market), plus an additional 11,357 single room occupancy units for the homeless subsidized through a special component of the Section 8 Moderate Rehabilitation program authorized and funded as part of HUD's homeless assistance programs. The range given for Mod Rehab units is due to two apparently irreconcilable HUD data sources concerning the number of Mod Rehab units administered by PHAs that expire in 2004.

[6] In 1996, there were 105,845 units of deeply subsidized multifamily housing financed through the Section 8 Moderate Rehabilitation program, not including the SRO Mod Rehab units. The decline of approximately 51,000 to 66,000 project-based Moderate Rehabilitation units between 1996 and 2003 is not discussed because vouchers issued by HUD to compensate for the loss of Mod Rehab units are not counted as tenant-protection vouchers and no information is publicly available on how many such vouchers have been issued.

[7] We were unable to include Section 221(d)(3) BMIR units without rental assistance in this analysis due to limitations in the data sources. The mortgages for a substantial share of Section 221(d)(3) BMIR properties have been assigned to HUD. There is insufficient publicly available information about which of these properties remain in HUD's inventory to permit inclusion of this program. Because there has almost certainly been a loss of Section 221(d)(3) BMIR properties due to prepayment, the effect of this exclusion is to underestimate the loss of privately owned, project-based multifamily units between 1995 and 2003.

[8] The totals above, however, exclude tenant protection vouchers associated with the demolition or disposition of public housing. The vouchers are generally administered by a public housing agency in the same community as the property leaving HUD's inventory.

[9] This analysis focuses solely on tenant protection vouchers issued in relation to opt-outs or prepayments of project-based housing administered by HUD's Office of Housing. This analysis does not consider the extent to which the award of tenant-protection vouchers by HUD's Office of Public and Indian Housing has fully compensated for the loss of public housing units through demolition, disposition, and such programs as HOPE VI.

[10] In a notice issued April 22, 2004, HUD announced that the policy of full replacement of expiring Mod Rehab contracts that are not renewed has changed. The notice states: "Funding for the replacement vouchers may be limited to the number occupied at the time of HAP (contract) expiration." (Notice PIH 2004-7, p. 8)

[11] The actual "net decline" is probably larger, as this analysis does not consider the loss of Section 221(d)(3) BMIR units due to data limitations.

[12] *State of the Nation's Housing: 2003*, Joint Center for Housing Studies of Harvard University, 2003, p. 27.

[13] *Trends in Worst Case Needs for Housing, 1978-1999: A Report to Congress on Worst Case Housing Needs Plus Update on Worst Case Needs in 2001*, Office of Policy Development and Research, U.S. Department of Housing and Urban Development, December 2003.

[14] *State of the Nation's Housing: 2003*, Joint Center for Housing Studies of Harvard University, 2003, p. 28.

[15] *Ibid*, p. 20.

[16] U.S. Census Bureau,

[17] While the number of tenant protection vouchers awarded in connection with Office of Housing programs between 1995 and 2003 appears to be essentially the same as the decline in deeply subsidized units administered by that Office over the same time period, some of these vouchers were awarded in connection with the prepayment of properties that only have a shallow subsidy (i.e., Section 236 or Section 221(d)(3) BMIR properties that do not have rental assistance such as Section 8). For this reason, it is likely that at least some communities that experienced a loss of deeply subsidized, project-based units did not receive an equivalent number of tenant-protection vouchers as compensation.

DATA APPENDIX

Changes in Unit Counts

The following are more detailed unit counts, along with source notes, for the properties discussed in this analysis.

	1995[1]	2003[2]	Reduction
1. Project-Based Section 8[3]	N/A[4]	1,266,202	
A. Section 8 NC/SR[5]	[897,000]	[830,492]	66,508
(i) Section 202 w/ § 8[6]	[223,699]	[206,253]	[17,446]
(ii) Non-202 NC/SR[7]	[673,301]	[624,239]	[49,062]
(a) HFDA[8]		[221,080]	
(b) RHS 515 w/ § 8[9]		[44,581]	
(c) All other NC/SR		[358,578]	
B. Section 8 LMSA[10]	[462,691][11]	[334,961]	91,847[12]
C. Section 8 Property Disposition	[54,706]	[58,490]	(3,784)
D. Section 8 Preservation	[50,029][13]	[42,259]	7,770[14]
2. Rent Supplement	[incl. in § 8 LMSA]	16,954	
3. Rental Assistance Payments (RAP)	[incl. in § 8 LMSA]	18,929	
Subtotal: Deep Subsidies, Office of Housing[15]	**1,464,426**	**1,302,085**	**162,341**
4. Section 8 Mod Rehab	105,845	39,173-54,487[16]	51,358-66,672
5. Section 236[17]	146,539[18]	64,484[19]	82,055
Totals	**1,716,810**	**1,405,742-1,421,056**	**295,754-311,068**

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[1] Data in this column come from *HUD's Picture of Subsidized Households, 1996*, unless otherwise noted. The data in this publication for Section 8 project-based assistance and other Office of Housing programs are derived from a HUD data file dated 10/1995. This means that these data actually reflect conditions in 1995, rather than 1996. The data for Section 8 Moderate Rehabilitation units are derived from a HUD data file dated September 1996.

[2] Unless otherwise noted, data in this column come from HUD's Multifamily Assistance and Section 8 Contracts Database, as of October 9, 2003, as published on HUD's Office of Multifamily Housing website, http://www.hud.gov/offices/hsg/mfh/exp/mfhdiscl.cfm. These data reflect a unit count at a point in time and not the average for the prior (2003) or upcoming (2004) fiscal year. In general the averages for the 2003 fiscal year are slightly higher than these figures indicate, and the averages in each category during 2004 fiscal year may be slightly lower due to the loss of project-based units.

[3] Includes all project-based Section 8 programs administered by HUD's Office of Housing with the exception of a small number (about 6,000) of Section 8 Moderate Rehabilitation units administered by the Office of Housing in 2003. See Glossary for a complete list. Does *not* include tenant-based Section 8 (including project-based vouchers) or the majority of Section 8 Moderate Rehabilitation, which have traditionally been administered by HUD's Office of Public and Indian Housing.

[4] A 1995 figure for project-based Section 8 assistance is unavailable because *Picture of Subsidized Households, 1996*, includes Rent Supplement and RAP contracts within the total for Section 8 LMSA. The combined totals of project-based Section 8, Rent Supplement, and RAP are shown under "Subtotal: Deep Subsidies, Office of Housing."

[5] Section 8 NC/SR stands for Section 8 New Construction / Substantial Rehabilitation.

[6] These are properties financed through Section 202 Direct, Low-Interest Loans or Section 202 Direct, Formula Interest Rate Loans that also have Section 8. In *Picture of Subsidized Households, 1996*, HUD included all Section

202 developments with Section 8 within Section 8 NC/SR. We have followed this convention, even though it is likely that some of these Section 8 subsidies are actually Section 8 LMSA. To avoid double counting, none of these subsidies are counted with Section 8 LMSA.

7 Non-202 NC/SR stands for all Section 8 New Construction / Substantial Rehabilitation subsidies other than Section 202 with Section 8.

[8] HFDA stands for Section 8 properties financed or insured through State Housing Finance Agencies.

[9] RHS 515 w/ § 8 stands for RHS Section 515 properties with Section 8.

[10] Section 8 LMSA stands for Section 8 Loan Management Set-Aside.

[11] *Picture of Subsidized Households, 1996* includes Rent Supplement and RAP contracts within the total for Section 8 LMSA.

[12] This represents the difference in the combined sums for Section 8 LMSA, Rent Supplement, and RAP between 1995 and 2003.

[13] No data are available on the number of "preservation" units that existed in 1995. This is the maximum number of preservation units with Section 8 subsidies that HUD's budget documents for fiscal year 2004 indicate could need renewal this year. It is likely that all preservation units are now subject to annual renewal.

[14] The reduction in preservation units could have been greater than indicated if more than 50,029 units were available in 1995.

[15] Includes project-based Section 8, Rent Supplement, and Rental Assistance Payments (RAP). The 1995 data source does not provide separate counts for the latter two programs.

[16] HUD data (November 2003) indicate that 26,414 regular Mod Rehab subsidies are being renewed under the tenant-based portion of the Housing Certificate Fund in FY 2004. In contrast to the November 2003 figure, HUD's 6/30/2003 expiration schedule shows a total of 48,252 Mod Rehab units administered by the Office of Public and Indian Housing in FY 2003, of which 41,113 were due to expire in 2004. In addition, there were 5,620 to 6,235 Mod Rehab units, which HUD includes under the Housing portion of contract renewals due to oversight by that Office after developments go through the Mark-to-Market process. The lower figure is included in HUD's 6/30/2003 expiration schedule and the higher figure in the Congressional Budget Justifications submitted in February 2003. We cannot reconcile these sets of figures, and therefore have used a range. These figures do not include any Section 8 SRO Mod Rehab units for the homeless, which are excluded from this analysis.

[17] To prevent double counting, unit counts for the Section 236 program exclude units that also have project-based Section 8, Rent Supplement, or Rental Assistance Payment contracts.

[18] The figures we report for Section 236 without rental assistance in 1995 are likely to be somewhat lower than the true numbers for 1995. As indicated in HUD's notes on the table for "Housing Sub-programs" in *Picture of Subsidized Housing, 1996*—the source of these data—"The number of subsidized units here is slightly less than in other tables, since active projects in the files with zero units are counted as zero here, but their size is estimated for other tables."

[19] This figure is based on a 9/30/2003 extract of HUD's F47 database. A list of properties identified as Section 236 properties in either the currently insured inventory or the inventory of mortgages that have been assigned to HUD was compiled and then compared against the list of properties with Section 8 assistance in HUD's expiring Section 8 database. The figure reported here is the number of units in those properties that do not appear to have Section 8 rental assistance. The figure we report is almost certainly too high, as many of the properties whose mortgages have been assigned to HUD have either prepaid, opted out, or otherwise terminated participation in the Section 236 program. The exact figure, however, cannot be ascertained from the publicly available data. To prevent double counting, unit counts for the Section 236 program exclude units that also have project-based Section 8, Rent Supplement, or Rental Assistance Payment contracts.

Tenant Protection Vouchers

The following table provides information on the number of tenant protection vouchers awarded in each year covered by this analysis that were related to opt-outs, prepayments, or HUD enforcement actions associated with HUD-assisted housing administered by HUD's Office of Housing.[1]

Tenant protection vouchers issued in connection with the demolition of public housing or Section 23 are not included in these totals. These data also do not reflect vouchers issued in connection with the expiration or termination of Section 8 moderate rehabilitation contracts.

FY	TP Vouchers Related to Opt-Outs	TP Vouchers Related to Prepayment or Expiration of Preservation Contracts	TP Vouchers Related to Property Disposition	Total
1995[2]	7,515	0	3,667	11,182
1996	0	4,526	6,975	11,501
1997	2,289	5,584	2,334	10,207
1998	11,977	10,293	3,499	25,769
1999	11,310	7,304	1,977	20,591
2000	13,840	9,988	4,243	28,071
2001	13,576	9,079	3,538	26,193
2002	7,125	7,553	2,122	16,800
2003	6,609[3]	10,053	2,956	19,618
Total	**74,241**	**64,380**	**31,311**	**169,932**

[1] Data on the number of Office of Housing-related tenant protection vouchers awarded each year were compiled from the following *Federal Register* notices: 61 FR 4455-76 (Feb. 6, 1996) for FY 1995 awards; 62 FR 32,891 – 32,902 (June 23, 1997) for FY 1996 awards; 62 FR 66,648 – 9 (Dec. 19, 1997) for FY 1997 awards; 64 FR 4,688 – 4,695 (Jan. 29, 1999) for FY 1998 awards; 65 FR 17,662-17,671 (April 4, 2000) for FY 1999 awards; 66 FR 12,537-41 (Feb. 27, 2001) for FY 2000 awards; 67 FR 4,458 – 4,468 (Jan. 30, 2002) for FY 2001 awards); 67 FR 71,583 – 87 (Dec. 2, 2002) for FY 2002 awards; and 69 FR 7,779 – 7,786 (Feb. 19, 2004) .

[2] The Feb. 6, 1996 funding announcement does not indicate which of the 15,030 certificates or vouchers awarded for "replacement, relocation, opt-outs" are related to opt-outs of Section 8 or other project-based subsidies, as opposed to public housing. For purposes of this analysis, we have assumed that half of the awards are related to opt-outs of Section 8 or other project-based subsidies and half are related to public housing.

[3] Includes 614 vouchers awarded as replacement for Rent Supplement assistance.

GLOSSARY

Deep Subsidy

A government subsidy that covers the difference between an affordable income-based rent paid by a household (approximately 30 percent of income) and the unit's actual rent (or some equivalent). Deep subsidies are generally necessary to make housing affordable to households with incomes below the poverty line and to many households with incomes just above the poverty line.

This paper provides data on three types of deep subsidies administered by HUD's Office of Housing: Project-based Section 8, Rental Assistance Payments, and Rent Supplement. It also provides some data on the Section 8 Moderate Rehabilitation program, a deep subsidy program administered by HUD's Office of Public and Indian Housing.

Two other programs discussed in this paper—the Section 221(d)(3) BMIR program and the Section 236 program—are shallow subsidy programs that provide significantly less assistance per household than deep subsidy programs. The average incomes of households served by shallow subsidy programs tend to be higher than those of deep subsidy programs.

Opt-Out

This is a decision by an owner of a project-based Section 8 or Rent Supplement property not to renew its housing assistance payment contract with HUD upon expiration of the owner's contract with HUD. (It is not clear whether HUD classifies a decision by a RAP property not to renew upon expiration as an opt-out.)

Under the Section 8 and Rent Supplement programs, private owners entered into contracts with HUD (or a state housing finance agency that had a contract with HUD) for an extended period of time (i.e., 20 or 40 years). During the contract period, the owners made their properties available to low-income households who paid approximately 30 percent of their income for rent and utilities. HUD paid the owners a subsidy based on the difference between the residents' contributions and agreed-upon rents for the units.

Upon expiration of their contracts with HUD, owners have the option to continue to participate (possibly subject to new conditions) or to opt-out of the program. Owners that opt-out of the program are usually free to use their property as they wish, unless they are subject to restrictions based on receipt of other subsidies.

Prepayment

This is a decision by an owner of a Section 236 property or a Section 221(d)(3) BMIR property to prepay the owner's subsidized mortgage.

The rights of owners to prepay their mortgages have varied over time, but at present, owners have fairly broad flexibility to prepay. Prepaying removes the restrictions associated with the Section 236 or Section 221(d)(3) BMIR program. Some properties that prepay, however, are still under contract with HUD to participate in a deep subsidy program such as project-based Section 8.

Project-Based Section 8

Established by the Housing and Community Development Act of 1974, the project-based Section 8 program currently provides a deep subsidy to more than 1.2 million households. In some HUD-assisted properties, Section 8 is the only form of government rental subsidy. In others, Section 8 is combined with another HUD subsidy program such as Section 221(d)(3) BMIR or Section 236, with Low Income Housing Tax Credits, or with other government subsidies. By definition, project-based Section 8 assistance remains with the unit. If a family assisted with project-based Section 8 moves, the family loses its subsidy. (See below concerning project-based vouchers.)

There are many variants of project-based Section 8, including:

● Section 8 New Construction / Substantial Rehabilitation. These Section 8 subsidies were issued to support the financing of new construction or substantial rehabilitation of properties for low-income families. No new commitments have been issued since 1983.

● Section 515 / Section 8. These are properties that have both project-based Section 8 assistance and Section 515 subsidized loans from the Rural Housing Service of the U.S. Department of Agriculture. They are located in areas that were rural at the time of the original awards in the late 1970s and early 1980s.

● Section 8 Loan Management Set-Aside (LMSA) Contracts. This program provided rental assistance to FHA-insured properties experiencing financial difficulties.

● Section 8 Property-Disposition Contracts. This program was used to provide rental assistance in connection with the sale of HUD-owned properties or the foreclosure of HUD-held mortgages for properties that formerly had FHA insurance.

● Section 8 Preservation. These are project-based Section 8 contracts awarded as part of a package of preservation incentives authorized by the Emergency Low Income Housing Preservation Act of 1987 (ELIHPA) and the Low Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA).

NOTE: Project-based Section 8 does not include Section 8 Housing Choice Vouchers that public housing agencies have chosen to attach to a specific development (i.e., to project-base). Unlike project-based Section 8 subsidies, project-based vouchers allow families to retain voucher assistance when they move (using the next voucher available to the PHA) and the vacated units remain under a contract for project-based voucher assistance to serve families from the waiting list.

Rental Assistance Payments (RAP)

Established by the Housing and Community Development Act of 1974, RAP provides a deep subsidy to residents of some Section 236 properties. It works much like the project-based Section 8 program.

Rent Supplement

Established by the Housing and Urban Development Act of 1965, Rent Supplement was a predecessor to the project-based Section 8 program that provided a deep subsidy to residents of properties insured and/or subsidized by HUD. Most Rent Supplement contracts were converted to project-based Section 8 assistance, but a small number remain.

Section 8 Moderate Rehabilitation (Mod Rehab)

Although most of HUD's project-based, deep subsidy programs are administered by the Office of Housing, the Section 8 Moderate Rehabilitation (Mod Rehab) program has traditionally been administered by the Office of Public and Indian Housing. This is because the Mod Rehab program has been run through public housing agencies, rather than directly through private owners. (The small number of Mod Rehab properties that have gone through Mark-to-Market are now administered by the Office of Housing.)

Mod Rehab subsidies supported the financing of moderate rehabilitation of multifamily housing for low-income families. The program provides families with a deep subsidy much like a project-based Section 8 subsidy. (The Section 8 Mod Rehab program has also been used to finance the development of single-room occupancy (SRO) units for the homeless under the McKinney-Vento Act. Mod Rehab SRO units are not covered by this fact sheet.)

Vouchers issued in connection with the expiration or termination of Mod Rehab contracts are not included in the awards of tenant protection vouchers periodically announced by HUD in the *Federal Register*. Nor are they publicly disclosed in any other source. Rather, HUD treats them as an internal accounting matter as part of the administration of HUD's housing assistance payment contracts with public housing agencies. Accordingly, such vouchers could not be included within question 3. To preserve the symmetry between questions 1 and 2 on the one hand and question 3 on the other, Mod Rehab totals are set out separately in questions 1 and 2.

Section 221(d)(3) Below-Market Interest Rate (BMIR)

This program insured and subsidized mortgage loans to facilitate the new construction or substantial rehabilitation of multifamily rental housing for low- and moderate-income households. Residents generally play a flat rent called the BMIR rent that is not dependent on their income. It provides a shallow subsidy. As explained in the Endnotes to the principal text, data limitations prevent inclusion of this program in this analysis.

Section 236

Established by the Housing and Urban Development Act of 1968, the Section 236 program is a shallow subsidy program that combines federal mortgage insurance with interest-reduction payments that lower the effective interest rates of properties to as low as one percent. Although most families in the Section 236 program pay a flat rent known as the Section 236 basic rent, some families pay an income-based rent and others pay a ceiling rent known as the Section 236 market rent.

Tenant Protection Vouchers

These are tenant-based Section 8 vouchers (also known as Housing Choice Vouchers) that are issued by HUD when certain HUD-assisted, multifamily housing properties cease participation in HUD's programs or public housing units are demolished or sold. The vouchers are generally administered by a public housing agency in the same community as the property leaving HUD's inventory. Qualifying residents of the affected properties receive first priority for the vouchers.

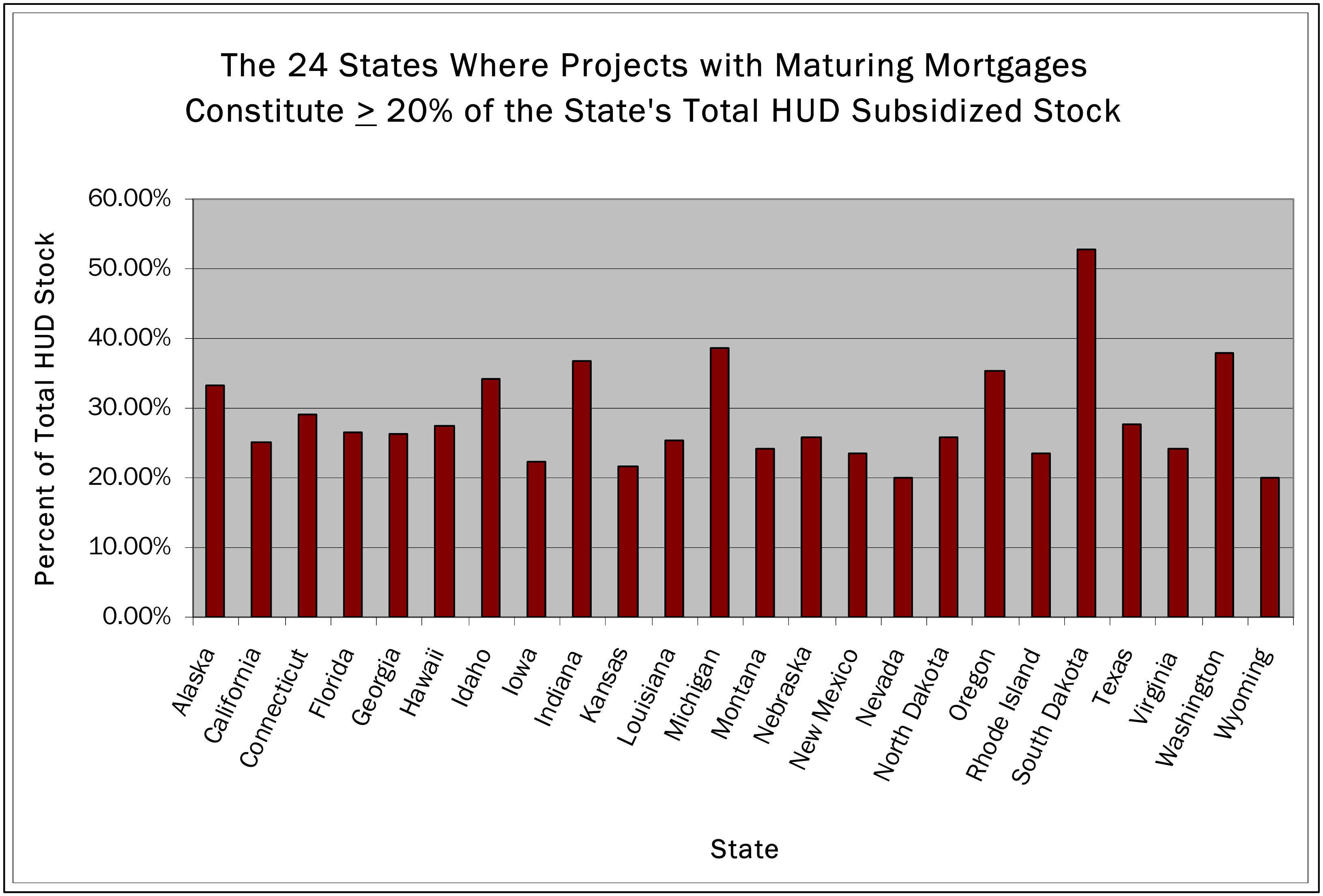
Households that receive a voucher either stay in their current unit or locate other housing of their choice in the private market, with the voucher helping to subsidize their rents. Participating households generally pay about 30 percent of their income for rent.

The primary purpose of tenant protection vouchers is to protect the low-income residents of the affected properties who are unable to afford market rents. Some tenant protection vouchers (particularly a form known as "enhanced vouchers") help residents to stay in their properties even after the properties have been converted to market-rate housing. The vouchers also help to minimize the net loss of federal housing subsidies in the communities affected by opt-out, conversion, or HUD enforcement actions.

The rules for determining how many and what kind of vouchers to issue in different circumstances have changed over time. At present, most opt-outs and some prepayments lead to the award of enhanced vouchers, which provide higher subsidy levels as long as the households receiving the vouchers continue to stay in the property that is opting out or prepaying. (They convert to regular vouchers when the recipients move or when the vouchers are reissued to new families.) Other opt-outs and prepayments lead to the award of regular vouchers.

This fact sheet does not cover tenant protection vouchers issued in connection with the demolition or disposition of public housing units.

NOTE: Some properties have multiple subsidy types. To avoid double counting, the data for Section 236 properties in this paper are limited to those properties that do *not* also have a deep subsidy. Section 236 properties that also have a deep subsidy are counted under that deep subsidy. For example, Section 236 properties with project-based Section 8 are counted as project-based Section 8 properties.



The 24 States Where Projects with Maturing Mortgages
Constitute ≥ 20% of the State's Total HUD Subsidized Stock
Percent of Total HUD Stock
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Alaska
California
Connecticut
Florida
Georgia
Hawaii
Idaho
Iowa
Indiana
Kansas
Louisiana
Michigan
Montana
Nebraska
New Mexico
Nevada
North Dakota
Oregon
Rhode Island
South Dakota
Texas
Virginia
Washington
Wyoming
State