

# PHILADELPHIA MULTIFAMILY HOUSING HUB NEWS



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[www.hud.gov/local/shared/working/r3/mfhsg.cfm?state=pa](http://www.hud.gov/local/shared/working/r3/mfhsg.cfm?state=pa)

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### 150th Issue

The May 2011 edition of Philadelphia Multifamily Housing Hub News, marks the 150th issue of its publication.



We hope that, over the past 12 1/2 years, you have found our monthly newsletter both informative and enjoyable.

### HUD's FY 11 Budget



The following excerpted remarks were provided to the HUD staff by Secretary Donovan, in response to HUD's FY 11 budget:

"On behalf of all Americans, leaders in both parties came to a compromise on a budget that invests in our future, including key HUD priorities, while making the largest annual spending cut in our history.

The President made (it) clear...that reducing our deficit will be based on the values of shared responsibility and shared prosperity.... responsibility and shared prosperity are the hallmarks of HUD's FY 2011 budget as well. We too have made tough choices so we can do our part in reducing the deficit- while at the same time focusing on protecting the families that we currently serve, prioritizing renewals over new construction, keeping current recipients in their homes and serving the most vulnerable.

For example:

- Total Tenant Based Rental Assistance funding is \$187 million above FY 2010.
- Project Based Rental Assistance is \$700 million above the FY 2010 level including an increase of \$606 million for renewals. This is sufficient to renew all existing vouchers and provide funding for thousands of new vouchers for homeless veterans.
- Housing Opportunities for Persons with AIDS will be funded at \$334 million.
- Homeless Assistance Grants will be funded at \$1.9 billion.
- The Public and Indian Housing Operating Fund is funded at \$4.6 billion, a reduction of \$158 million from FY 2010.
- The FHA single family loan commitment is \$400 billion- the same as in FY 2010.

However...we have had to make some painful cuts, including:

- \$900 million reduction in CDBG
- \$460 million reduction in the Public Housing Capital Fund.
- Elimination of housing counseling funding.
- HOPE VI is funded at \$100 million and up to \$65 million of that may be provided for Choice Neighborhoods.
- Funding of \$100 million is provided for the Sustainable Communities Initiative, although the President's budget requested \$150 million for the program.

I know that for many of you, this budget won't be easy and will force us to do more with less...By providing a platform for opportunity, choice, and access to the middle class for families nationwide, HUD has a critical role to play in realizing the President's vision for America."



### Improved NOFA Process

Secretary Shawn Donovan has asked HUD's Chief Operating Officer (COO), Estelle Richman, to put in place a more streamlined, efficient, transparent, and effective NOFA process for awarding competitive grants that will enable HUD to get our funding to our grantees within 6 to 9 months of receiving our annual budget, at the latest. This will be accomplished by taking the following steps:



- The clearance process, which currently requires approximately 20 offices to sign off on each NOFA, will be streamlined.
- The Office of Strategic Planning and Management will be emphasizing accountability and transparency for the NOFA process. This will happen by tracking programs, from the initial NOFA through review, award, and obligations, and working with employees to keep them moving and identifying holdups in order to make the process consistently better and faster.
- Secretary Donovan and COO Richman are asking all offices not to wait until a budget passes to begin the work and planning needed in order to obligate grant money to our grantees.
- HUD plans to move to a system releasing NOFAs without dollars being specified, subject to appropriations- a practice currently used by other federal Departments and which has been approved by OMB.

While improving the NOFA process will not be easy, HUD welcomes the challenge to demonstrate that it can be an efficient and effective steward of taxpayer dollars.

### How "Walkable" is Your City/Town?

There is an excellent on-line resource that rates the "walkability" of cities and towns, based on a 0-100 scale.

Plug in any address on WalkScore.com to get the location's score and a map of nearby amenities, such as schools, grocery stores, and restaurants. You will also get a transit score that calculates how accessible the address is to public transportation.



The City of Philadelphia, for example, averages a score of 74. This means that it is "very walkable and most errands can be accomplished on foot."

### State AHMAs

Did you know that the Philadelphia Hub has four active Affordable Housing Management Associations (AHMAs) within its four-state jurisdiction? They are as follows: PennDel AHMA (eastern PA and DE), PAHMA (western PA), JAHMA (NJ), and Mid-Atlantic AHMA (WV). If you do not belong to one, consider joining. They provide a wealth of information through annual conferences, workshops, training sessions, and networking with other housing professionals, as well as promote excellence for those engaged in the management of affordable housing.



### Home Energy Bills



Last month, the Obama administration released \$311 million in emergency funds to states to help poor families struggling to pay high home energy bills.

The new money for the federal Low Income Home Energy Assistance Program (LIHEAP) brings the total to \$4.2 billion for the fiscal year ending Sept. 30. The program provides heating and cooling subsidies for the poor.

Home heating aid advocates said that many poor families have been hard hit by this year's colder than normal winter, rising fuel prices, and unemployment, particularly in the Northeast, where people depend more on heating oil.

Mark Wolfe of the National Energy Assistance Directors' Association said much of the new money, however, will go to states in the West and South because the Northeast and many colder weather states had already obtained the brunt of their funding. (The association is made up of state officials who administer LIHEAP).

### Foreclosure Sale Postponement

The May 4 foreclosure sale of Elders Place I & II has been postponed to May 24, 2011.

### NJ Fertilizer Law

In response to serious problems regarding the suburban run-off of fertilizers, New Jersey has implemented the most restrictive law of its type in the nation to cleanup state waterways and educate the public. The rules that will apply to both professionals and homeowners include:



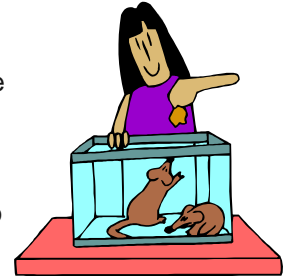
- A March 1 to Nov. 15 season for homeowners who fertilize their own lawns.
- A March 1 to Dec. 1 season for lawn care professionals, who convinced lawmakers they need the extra two weeks to wrap up their fall season.
- Fertilizer must not be applied within 10 feet of a water body or left scattered on pavement.
- Lawn fertilizers must contain at least 20% of their nutrients as slow-release nitrogen.
- Phosphorus is being phased out of lawn fertilizer and will be allowed only in cases where a soil test reveals a specific deficiency in that nutrient. Slow-release nitrogen formulas will be phased in over the year.
- Fines for violations can be up to \$500 for a first offense or \$1,000 for a second offense. The state Department of Environmental Protection can seek an additional civil penalty of \$1,000 for egregious violators.
- All professional applicators are certified through the New Jersey Agricultural Experiment Station at Rutgers University starting in 2012. (Landscapers and lawn care pros need to know: proper use and calibration of spreaders and other equipment, the environmental impact of fertilizer and how it can contribute to nutrient pollution in waterways, how to interpret fertilizer labels, and the best management practices developed by the New Jersey Agricultural Experiment Station at Rutgers for managing nutrients in turf.

Project owners and managers in New Jersey should become familiar with this new law to insure that they and their landscapers are in full compliance.

### Service Animals

The U.S. Department of Justice has issued new guidelines concerning service animals under the Americans with Disabilities Act.

Specifically the new federal guidelines limit service animals to dogs and housebroken miniature horses. Yard animals, rodents, spiders, monkeys, snakes, and cats are now excluded, as well as any service animals that only provide emotional support or comfort. Previously the law used to say a service animal could be any animal trained to do a task for an individual.



DOJ revised its service-animal recommendations because of comments from businesses, state, and local governments, and people with disabilities. The regulation is not binding on states, municipalities, and other agencies, which are free to adopt the policy or to make their own. HUD, along with DOT, still allows service animals of all types, as well as emotional support animals.

### 9 Steps Toward Green

To assist property managers and other affordable housing professionals in retrofitting affordable housing with green features, the Local Initiatives Support Corporation (LISC) released an excellent guide, 9 Steps Towards Green: Introducing Sustainability to Affordable Housing on a Limited Budget. The guide provides information on budget-saving affordable housing retrofits that also incorporate techniques for reducing energy use, lowering utility bills, and improving indoor air quality.



For each recommendation, the LISC guide includes information on the cost of implementation and also when the owner/manager can expect to see a return on her investment.

For additional details and a link to the guide, please visit:

[http://www.lisc.org/docs/ISC\\_9\\_Steps\\_Toward\\_Green.pdf](http://www.lisc.org/docs/ISC_9_Steps_Toward_Green.pdf)

### **Section 202 Refinancing**

HUD is encouraging projects with direct loans under the Section 202 Housing for the Elderly/Handicapped Program to refinance their loans.

Depending on the interest rate of the original loan and the remaining term, refinancing could potentially reduce monthly debt service cost, or enable the project to obtain funds for needed repairs and capital improvements.



That new debt capital can be put to effective use for the needs of aging properties, including repairs, system upgrades, reconfiguration and social service needs of the residents.

Owners of existing Section 202 developments may refinance their direct HUD loans through HUD-approved MAP lenders under more favorable terms and conditions.

Owners must agree to maintain affordable occupancy restrictions, to comply with HUD requirements, and to undertake appropriate rehabilitation of the property.

Prepayment of the HUD loan is permissible without any change to the Section 8 subsidy payments, as long as the debt service savings and additional funds accessed are invested in the property or to the benefit of the residents.

Lender refinancing programs can offer lower interest rates and extended amortization terms. Debt service savings can be used to leverage additional loan proceeds to fund renovation, additions, or other senior amenities.

Enhanced cash flow can be used to fund service and other resident programs, or a combination of rehabilitation and services, subject to HUD approval.

Existing reserve accounts may be used to fund rehabilitation, subject to HUD approval. Eligible non-profit sponsors may also use refinancing for the acquisition and rehabilitation of existing Section 202 properties.

In summation, Section 202 refinancings have been a win-win situation for project owners and HUD (preservation of affordable housing) and we hope to see many more such transactions in the future.

### **Section 811 Project to Grow Food**

The sponsor of Ogden Gardens, a 4-unit Section 811 project currently under development, has been approached by Philadelphia Orchard Project (POP), a non-profit organization that promotes the growing of healthy food, green spaces, and community food security.

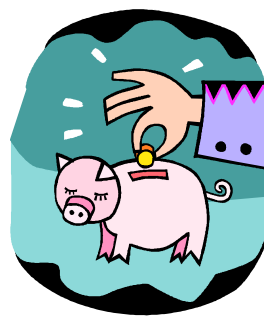
Specifically, POP works with community-based groups and volunteers to plan and plant orchards filled with useful and edible plants. POP provides the plants, trees, and training. Non-profits own, maintain, and harvest the orchards, expanding community-based food production. Orchards are planted in formerly vacant lots, community gardens, schoolyards, and other spaces, almost exclusively in low-wealth neighborhoods where people lack access to fresh fruit.



In this case, the project's sponsor has negotiated an agreement with POP to plant fruit trees and flowers on the Ogden Gardens' site. The cost to Ogden Gardens will be offset by a reduction in the general contractor's sub-contract for landscaping and remaining contingency funds. The result will be a much enhanced open space around the building and a way for the residents to connect with the wider community.

HUD recognizes that what people eat and the environmental factors of where they live can contribute to a healthier lifestyle. This is a positive step in helping residents and communities, like Ogden Gardens, to become more sustainable.

### **Financial Literacy Courses**



The Delaware Money School, the signature program of the nonprofit Delaware Financial Literacy Institute, is offering more than 600 free, no-hassle personal finance classes a year.

Classes are held throughout the state of Delaware, as well as online. On-line courses are open to everyone, regardless of their state

of residence. See:

<http://www.delawaremoneyschool.com/newsletter.pdf>

## What is the Mark-to-Market Program?

The Mark-to-Market (M2M) program was established by the Multifamily Assisted Housing Reform and Affordability Act of 1997 as a process for restructuring multifamily properties insured by the Federal Housing Administration (FHA) when their contracts expire. It is overseen by the Office of Affordable Housing Preservation (OAHP), a division of HUD. Prior to October 1, 2004, the division was called OMHAR.



The overall goal of the program is to reduce federal spending on housing subsidies by making it financially feasible for multifamily properties currently charging rents greater than comparable market rents to survive and offer quality, market-competitive housing at comparable market rents. As part of this process, eligible properties work with a Participating Administrative Entity (PAE), usually a housing authority or state housing finance agency, to identify appropriate market rent, identify improvements necessary for the property to be competitive in the marketplace, and identify methods of restructuring the finances of the property in order to make operating at comparable market rents financially feasible.

Properties with expiring subsidy contracts are eligible for the program if they meet all of the following requirements:

- Multifamily housing (4 or more units).
- One or more FHA-insured or HUD-held mortgages (except Section 202 or if financed by state/local government).
- Receives project-based assistance (Section 8 contract).
- Project-based rents exceed comparable market rents.
- Owner is in good standing.

The first goal of the M2M program is to *reduce project-based Section 8 subsidized rents that are greater than market level in projects with FHA-insured mortgages*. The program authorizes HUD to reduce Section 8 rents to market rent levels in these projects. In some cases the project will remain viable with the reduced rents, without further action by OAHP. These are called “Lite” transactions or “rent restructurings.” The processing required for these transactions is limited and no long-term use agreement is obtained from the owner. In many cases, however, a simple rent reduction would result in a default because a project would no longer be able to pay its expenses and debt with the reduced income. Therefore,

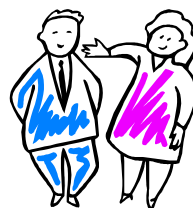
M2M authorizes partial or full payments of mortgages from the FHA Insurance Fund to reduce the size of the first mortgage debt. By reducing the monthly mortgage payment to the point where market rents can adequately cover it (and appropriate project expenses), the Section 8 subsidy is reduced and the project remains viable. These transactions are called “Fulls” or “mortgage restructurings.” The processing required for these transactions is quite substantial, and a 30-year Use Agreement, requiring that the property continue to provide affordable housing, is obtained from the owner.

In a Full transaction, the existing FHA-insured first mortgage is paid off in its entirety and a new, generally much smaller mortgage, is put in its place. In most, but not all, cases the new mortgage is also FHA-insured. In many cases, the amount of the claim (mortgage) payment is not forgiven. The project carries this amount as additional debt in second and third mortgages that are payable only to the extent funds are available over time or at the time the project is sold or refinanced.

The second goal of the M2M program is *the preservation of affordable rental housing where it is needed*. Aspects of the program targeted to this goal include:

- Provision for current project repairs where needed, through a rehabilitation escrow that provides for repairs to be completed after closing. Those repairs may include items necessary to bring the property up to a reasonable non-luxury standard, such as the installation of air conditioning in areas where all the comparable properties are air-conditioned.
- Requiring ongoing deposits to reserves for replacement that are designed to assure that the property remains sound during the entire term of the new mortgage. These are nearly always much greater than the reserves that were required under existing HUD mortgages.
- Authority to grant above-market rents in jurisdictions where there is a need for affordable housing and the property cannot be made financially viable with market rents. The above market rents must be sufficient to pay for projected operating costs and any new debt service on the property. These are called “exception rents.” By statute, no more than 5% of the properties in the program may have exception rents.

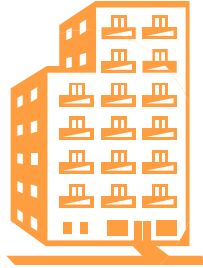
## New Hub Employee



The Philadelphia Hub welcomes new employee, Mark O'Matz. Mark is an architect and will start work in the Pittsburgh Program Center next month.

### Focus on West Virginia

On December 21, 2010, The Charleston Program Center closed a Section 221(d)(4) transaction on Senior Towers, a 93-unit 100% Section 8 a subsidized property in Martinsburg, West Virginia.



This deal will substantially rehabilitate this 30-year-old property through modernizing the elevators, replacing all appliances, installing new common area ceilings, remodeling common area restrooms, replacing windows, replacing all apartment kitchen cabinets, replacing kitchen and bathroom flooring, and, finally, installing new entry doors.

The transaction involved a \$2.8 million dollar FHA-insured mortgage, nearly \$575,000 in TCAP funds and \$3.5 million in tax credit proceeds. An application was submitted prior to the passage of the Recovery Act, which was withdrawn, as the developer had applied and received TCAP funding which, in West Virginia, is awarded as a zero interest cash flow loan. The inclusion of the TCAP funds reduced the HUD insured mortgage to 40% of the total development cost- which is the lowest that the West Virginia office has ever processed.

The keys to the success of this application were an experienced developer that was knowledgeable with tax credits, the award of TCAP funds further reduced the Departments long term exposure, and a coordinated effort between the lender, the state housing finance agency and HUD to complete the underwriting.

### Rural Area- Database and Mapping Tool



The following resources are available to provide information on rural areas:

Rural Fair Housing Complaints and Enforcement- advice and complaints from FY98 to FY 08:

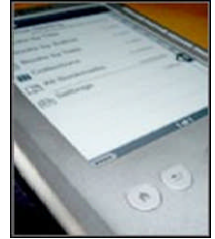
[www.ruralhome.org](http://www.ruralhome.org)

Atlas of Rural and Small Town America- demographic, economic, and agricultural data:

[www.ers.usda.gov/data/ruralatlas/](http://www.ers.usda.gov/data/ruralatlas/)

### HUD USER E-Bookstore

HUD's Office of Policy Development & Research is pleased to present a new online feature, the HUD USER eBookstore. The eBookstore offers an array of its most popular research publications in digital formats that can easily be transferred onto most eReaders and tablets.



The HUD USER eBookstore currently offers more than 40 documents as free downloads in three digital formats- Mobi for mobile devices, ePub, an open-source option, and PDF, a common format for portable documents. Now you can take our housing reports, policy analysis publications, and periodicals (including the new Evidence Matters newsletter) with you on the go, for use whenever and wherever you need them. See: <http://www.huduser.org/portal/eBookstore.html>

### Calendar Contest

You are reminded that the National Affordable Housing Management Association (NAHMA) is currently conducting its annual calendar contest. The theme and sub-theme of the contest are "Open Doors with Your Imagination," and "Explore the Magical World of Books and Reading."



The contest is open to children, residents 55 years or older, and special needs residents. The 13 winning entries will appear inside the pages of the 2012 calendar. Prizes will range from \$100 to \$2,500. Projects must submit their residents' entries through their local AHMA (e.g., [www.penndelahma.org/](http://www.penndelahma.org/)) by May 20, 2011. For additional details see:

[www.nahma.org/content/calendar2008.htm](http://www.nahma.org/content/calendar2008.htm).

### Loan Closings



Three projects closed in PA during the month of April: *Insured-* St. Clair Woods and Donora Towers; and *Section 202-* Vantage Court Senior Housing.