



**An Exploration in
Federal Rural Rental
Housing Policy:
Conference Summary**

April 2017

National Rural Housing Coalition
1331 G Street, NW 10th Floor • Washington, DC 20005

The National Rural Housing Coalition

This report was prepared by Rapoza Associates on behalf of the National Rural Housing Coalition (NRHC).

NRHC is a national membership organization comprised of rural community activists, public officials, and nonprofit developers that fights for better housing and community services for low-income, rural families. NRHC is managed by Rapoza Associates, a public interest lobbying, policy analysis, and government relations firm located in Washington, D.C. that specializes in providing comprehensive legislative and support services to community development organizations, associations, and public agencies.

Acknowledgements

NRHC would like to thank PNC Bank for its generous support of this report.

In preparing this report, NRHC benefitted from the advice and participation of its Board of Directors, many of whom are working to develop and preserve rural rental housing. We also appreciated the participation of USDA Rural Housing Services staff who participated in a full-day discussion of rental housing issues and were available to answer our questions.

National Rural Housing Coalition

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Introduction

In November 2015, the National Rural Housing Coalition (NRHC) convened for its annual business meeting. At the meeting, the NRHC Board of Directors (Board) discussed the U.S. Department of Agriculture's (USDA's) rental housing programs in great detail. Members of the Board, many of whom are leaders in rural housing and community development, concluded that NRHC should further examine the issues facing these programs by hosting a conference on USDA's multifamily housing portfolio.

On October 4, 2016, the NRHC Board of Directors, USDA staff and other industry leaders met for a daylong conference: An Exploration in Federal Rural Rental Housing Policy. By doing so, NRHC hoped to inform the Board, and the public in general, about the status of the portfolio and preservation issues, as well as present potential business opportunities for nonprofit involvement in the solution. This whitepaper provides a summary of the conference and findings. The day consisted of six sessions. The agenda from the conference is included at the end of this paper.

The Rental Housing Report, which NRHC released in conjunction with this paper, further examines the issues discussed at the conference to and includes a detailed overview of the USDA multifamily housing programs and the problems facing the portfolio.¹

Background

The backdrop of this paper is an approaching crisis regarding the portfolio of USDA rural rental housing projects financed under Section 514 and 515, farm-worker and rural rental housing, respectively. Even as USDA has shifted resources from new construction to preservation, there have not been adequate funding available to rehabilitate and preserve the portfolio, deliver sufficient long-term preservation incentives, or protect the tenants from rent overburden.

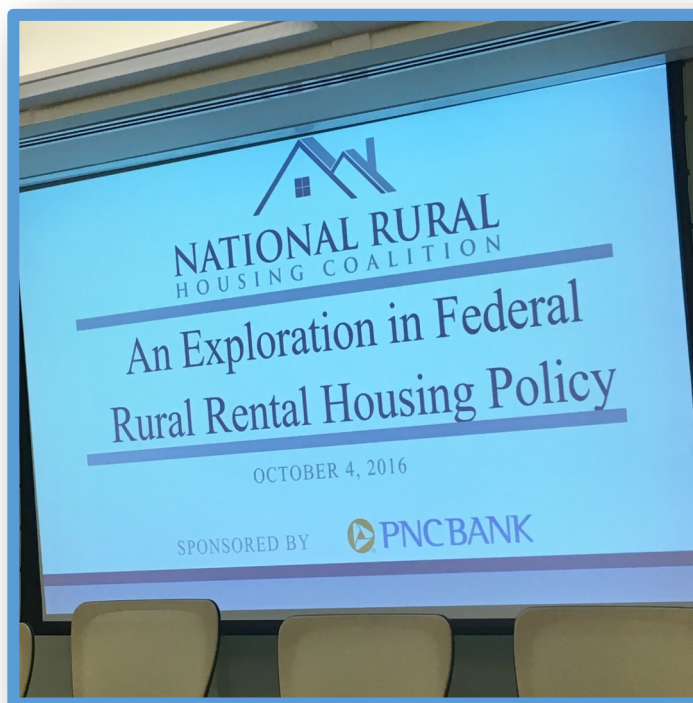
As an increasing number of owners wished to

prepay their loans, Congress created a loan prepayment regulation process between 1979 and 1992 that introduced restrictions on the right to prepay. Preservation incentives were created for

owners based on the amount of equity in their properties. The Rural Housing Service (RHS) did not have sufficient Section 515 or rental assistance funding to meet the demand for incentives which resulted in a number of lawsuits brought by owners seeking the right to prepay or compensation for not being allowed to prepay.

In addition, the Section 515 properties in the

loan portfolio are aging with the average project being 34 years old. Many of the properties are in



desperate need of rehabilitation and infrastructure replacement. The most recent USDA report indicates a 20 year cost estimate of over \$5.5 billion to maintain the portfolio.

Since 2006, Congress has provided funding for the Multifamily Preservation and Revitalization (MPR) Demonstration program. This funding allows RHS to provide assistance to preserve and renovate existing Section 515 and Farmworker housing developments and vouchers for families who might be displaced in the event of prepayment. A combination of funding resources, often in the form of deferred USDA loans, HOME or CDBG and LIHTC, are typically assembled in the financing package Requests for restructuring regularly total over \$2 billion per year. Since 2006, USDA has financed the preservation of some 30,000 units. While the MPR program has had an important contribution for important contribution for rural rental housing preservation, it is nowhere near addressing the size and scope of the problem – over 400,000 in in some 13,000 developments across the country.

Finally, there is a rising tide of maturing mortgages, which will result in increasing affordability issues for low- and very-low-income rural renters. As Sections 515 and 514 loans have matured, those developments and their tenants are no longer eligible for rental assistance. USDA has already lost a substantial number of units, losing 2,646 in 2015 alone from 205 properties, and this trend is expected to continue over the next several decades. If existing refinancing programs are not expanded and new preservation policies and practices are not explored, rural communities across the country will lose this essential source of affordable housing.

First Session: An Introduction to USDA Rural Rental Housing

The first session served as an introduction to the USDA multifamily housing programs, including

Section 515 Rural Rental Housing Loans, Section 514 Farm Labor Housing Loans, Section 521 Rental Assistance and the Multifamily Housing Preservation and Revitalization program (MPR).²

Michael Feinberg, a Senior Policy Analyst for the Research and Information Division at the Housing Assistance Council (HAC) presented the results of his analysis of USDA multifamily housing data during the first session and informed attendees of both the current state of the portfolio and the rate of mortgage maturation. This session provided conference attendees with the foundation needed for a thoughtful and detailed look at the issues facing USDA's multifamily housing properties.

The USDA rental housing portfolio totals over 417,000 units. Of the total number of Section 515 properties, over 85 percent are at least 21 years old, and 45 percent are more than 31 years old. The average annual income for tenants in these properties is \$12,377, and 80 percent of tenants receive some form of rental assistance (from Section 521, U.S. Department of Housing and Urban Development (HUD) Section 8, HUD Housing Choice Voucher, or other public or private subsidy or voucher). The first rural rental housing loans were made in 1963, and lending began to pick up steam in 1973. From 1977 to 1985, when rural rental housing funding was at its peak, over 200,000 units were financed. Most of the Section 515 loans made at that time were for 50 years, so there will be an increasing number of loans that will reach maturity in the near future.

Mr. Feinberg reported that properties in USDA's multifamily housing portfolio are expected to exit at an increasing rate due to prepayment or mortgage maturity. This means that, while there are currently more than 13,000 properties in the portfolio, as more and more loans are paid off or mature the portfolio will continue to shrink each year. Between 2016 and 2027, the rate of maturation

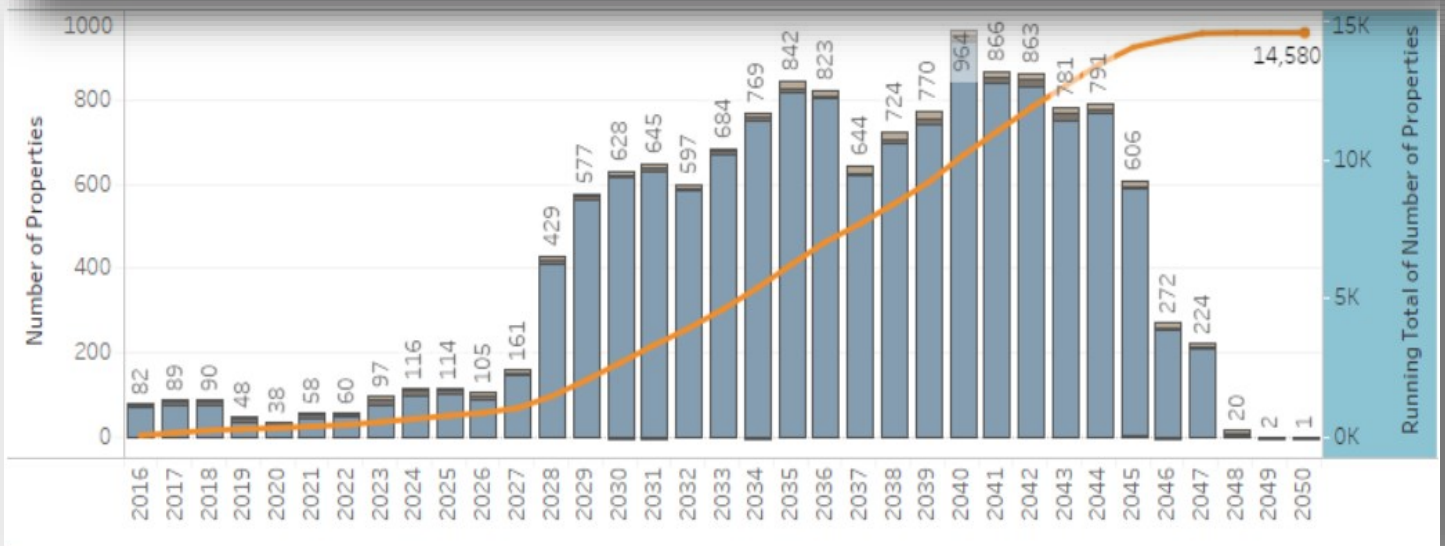
Key USDA Rental Housing Programs	Description
Section 515 Rural Rental Housing Loans	Section 515 operates through a public-private partnership established between USDA and housing developers. USDA provides direct loans at a subsidized interest rate to the housing developers, mostly for-profit entities, who use the funds to compete for financing to acquire, rehabilitate, or construct rental housing and related facilities. Because Section 515 Loans are for 30-year terms, can be amortized for up to 50 years and feature interest rates subsidized to as low as 1 percent, the program can develop and preserve housing opportunities that are affordable for some of rural America's most vulnerable residents.
Section 514 Farm Labor Housing Loans	Section 514 loans are made to farmers, associations of farmers, Indian tribes, nonprofit organizations, public agencies, and others for the purpose of developing housing for farm laborers. Further, Section 514 is the only federal program designed to increase access to affordable housing for America's farmworkers. Loans are for 33 years at a 1 percent interest rate, unless otherwise noted. The 2016 USDA report found that there is currently an annual reserves for replacement deficit of \$15 million annually (\$187 million over 20 years) for 15,839 units of Section 514 off-farm housing.
Section 521 Rural Rental Assistance	Section 521 Rental Assistance is the rental subsidy used in conjunction with Section 514 and Section 515 loans and lower each tenant's monthly rent to no more than 30 percent of the tenant's monthly income. It serves some of rural America's most vulnerable residents, including aging seniors, individuals and families with very low incomes, persons with disabilities and farmworkers. Without assistance from the Section 521 program, these individuals would not be able to access clean, decent and affordable housing.
Multifamily Housing Preservation and Revitalization (MPR) Program	The MPR program was established to restructure USDA multifamily housing loans, including both Section 515 and Section 514, and provide grants in order to revitalize the properties and extend their affordable use. This program provides necessary tools for preserving USDA's multifamily housing portfolio through an annual demonstration program. The MPR effectively attracts three times its funds in investments from the Low Income Housing Tax Credit (LIHTC) and other sources.

and prepayment averages around 74 properties per year. However, the number of properties exiting the USDA portfolio skyrockets in 2028 to 407, and averages 556 properties per year for the next five years (2028 through 2032). Between 2032 and 2050, an estimated 12,530 properties will mature or be prepaid, with the greatest loss, 927 properties, with some 30,831 units, exiting, occurring in 2040.³

Second Session: Current USDA Rural Rental Housing Policies

The second session of the conference included a presentation by several USDA professionals, including the Under Secretary for Rural Development, Lisa Mensah, the Administrator for the Rural Housing Service, Tony Hernandez, and the Deputy Administrator for the Rural Housing Service, David Lipsetz. In recent years, USDA staff, under the leadership of Under Secretary Mensah and Administrator Hernandez, have devoted their

Mutli-Family Housing Property Exit Dates



Source: U.S. Department of Agriculture data via their online tool on Tableau Public. Available at: <https://public.tableau.com/profile/greg.steck7461#!/vizhome/USDARuralDevelopmentMulti-FamilyHousing/Overview>.

time, attention and resources to policy and procedures related to rural rental housing. Efforts to improve the management of the portfolio and increase the availability of data on the portfolio, such as a new system for estimating rental assistance costs and an updated assessment of the status of the multifamily portfolio, have allowed policymakers and the public to have a clearer view of what the need for rural rental housing is now and will be in the future. The updated assessment found that the financial need of the USDA portfolio has more than doubled in the past 12 years. In 2004, USDA estimated that to preserve the portfolio, \$2.6 billion would be needed over the next 20 years. In the 2016 report, the estimated need had increased to \$5.596 billion over the next 20 years, just to preserve USDA's rental housing stock. Of that amount, \$4.7 billion relates to Section 515 developments.⁴

During this session, David Lipsetz gave a presentation on a new tool, released on October 28, 2016, designed to help potential buyers of USDA's multifamily properties identify the where the properties are located, with the goal of con-

necting potential buyers with current owners interested in selling their properties.⁵ This tool, which is now online, profiles individual properties by providing details such as the loan type, participation in the MPR program, property type (elderly, mixed use, etc.), loan term, whether LIHTC was used, prepayment eligibility and maturity date.

Third Session: Identifying the Issues and Solutions for the Portfolio

Following the USDA panel, Larry Anderson, the Vice President of Rural Housing Preservation Associates, the Rural Rental Housing development arm of Leon N. Weiner Associates, and Richard Price, a partner at NixonPeabody, provided insight into the transfer and preservation process for USDA rental housing properties, including providing a few recommendations on improving the process

Many USDA policies and procedures were written at a time when more resources were availa-



Panelists Richard Price and Larry Anderson discussed the issues facing the rural rental housing portfolio with moderator, Tom Collishaw of Self Help Enterprises.

ble at USDA, and the Department could provide 100 percent of the financing for a rental housing development as well as fund rental subsidies. Today, USDA resources are far more limited and most preservation and renovation projects are financed through the use of multiple sources: state bonds, the HOME Investment Partnership Program (HOME) and Community Development Block Grants (CDBG) from HUD and, almost always, the Low Income Housing Tax Credit (LIHTC). USDA rules, written for another time, do not contemplate the assembly of capital that is now necessary to finance preservation. As a result the process of resolving conflicting rules between other financing sources and USDA is time consuming.

Among the recommendations presented by Mr.

Anderson and Mr. Price were centralizing approval of preservation financing at the USDA national office, revamping procedures and regulations to better accommodate other financing sources, search out new financing sources including from Fannie Mae and Freddie Mac and greater use of loan reamortization to extend the availability of affordable rental housing developments.

Fourth Session: Other Federal, State, and Local Preservation Programs and Policies

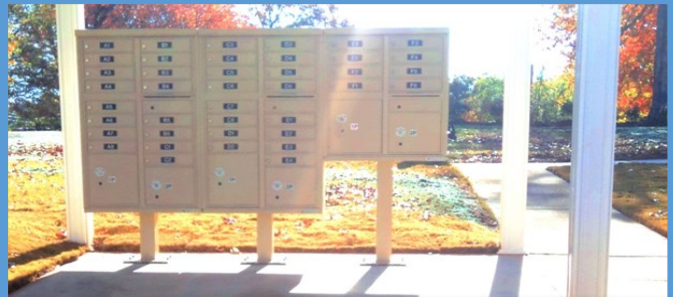
The use of LIHTC, the HOME program, CDBG, and other state resources for preservation was discussed in the next panel. The panel included Garth Rieman, from the National Council of State Housing Agencies (NCSHA), Kathryn Peters, the executive director of the Kentucky Housing Corporation (KHC), Andrea Ponsor, the Policy Director for the Local Initiatives Support Corporation (LISC), David Lipsetz, from USDA, and John Linner, who serves as a consultant to the National Development Council (NDC).

Throughout the day, LIHTC in particular was cited as a key subsidy source for preservation.⁶ As noted in the NRHC's Rural Rental Report, Section 515 was a key tool for bringing LIHTC to rural areas. As funding for Section 515 has dried up, the use of LIHTC in rural areas has declined. By itself LIHTC, does not provide an adequate subsi-

What is the Low Income Housing Tax Credit?

The Low Income Housing Tax Credit (LIHTC), originally authorized in 1986 as part of comprehensive tax reform, is the largest single federal financing source of affordable housing. LIHTC is allocated to the states on a per capita formula and states are required to prepare a Qualified Allocation Plan (QAP) that delineates the policy and priorities of the state in using the Credit. Owners of LIHTC financed housing are required to either rent 40 percent of their units to households earning 60 percent or less of Area Median Income (AMI), or rent 20 percent to households earning no more than 50 percent of AMI. Since 1986, LIHTC has helped build nearly 2.8 million units of multifamily housing.

The attention is in the details. Preservation transfers also involve much needed renovations for aging properties, including bringing the property into compliance with Section 504 of the Rehabilitation Act, updates to mail facilities and improvements to retaining walls. Below are some examples from Greystone.



Before

After

dy for low income tenants and is almost always used with other financing sources. For rural projects, which are smaller and have fewer economies of scale, filling the financing gap is challenging.

There are two subsidies available under LIHTC. The nine percent credit covers 70 percent of the low income unit cost without additional federal subsidies. The four percent credit is roughly equal to 30 percent of the low income unit cost for new construction or acquisition of an existing building. Because it supplies a lower level of subsidy, the four percent credit is typically used with tax exempt bonds and other additional funding sources from HUD – HOME and CDBG; USDA

Section 515 and MPR and the Federal Home Loan Bank Affordable Housing Program.

Kathryn Peters discussed how Kentucky used the four percent credits for rural rental housing preservation by dedicating time and resources to research, educating policy makers and local leaders about the importance of preservation, combining the four percent credit with tax-exempt bonds (TEB projects) and additional soft subsidy from participating jurisdictions, and developing a “preservation-minded” Qualified Allocation Plan (QAP). By completing portfolio transactions, which combine multiple smaller properties into one portfolio, KHC is able to have a broader impact and reduce the overall cost-per project. This

strategy has increased the number of preserved units, and KHC has found that a single TEB project can increase the total number of annual units preserved by 30 to 50 percent. Between 2009 and 2016 KHC financed the preservation of more than 7,500 preservation units.

Fifth Session: Successful Preservation Strategies

Although there are many challenges to rural rental housing preservation, there are number of success stories as well. The next panel included two practitioners who shared their real-world experiences in preserving rural multifamily housing properties. Tanya Eastwood, the President of Greystone Affordable Housing Initiatives, and Rick Goodemann, the founding Executive Officer of the Southwest Minnesota Housing Partnership, each described a specific project their organizations were involved in, including how they got started in the preservation process, the obstacles they encountered and overcame, and the status of those projects today.

Among the challenges in the preservation process is the scope of the problem – over 13,000 developments, the majority which are older and

in need of renovation – and the transaction costs involved in working with several state and federal agencies and programs to assemble the capital to finance the preservation effort. The Greystone model, which is illustrated in a case study at the end of this report, involves aggregating smaller properties into a single, larger portfolio, thereby creating economies of scale, and helping the deal become financially possible. Greystone utilizes both nine percent and four percent LIHTC with TEBs and serves multiple roles throughout the transaction including as partner, developer, consultant, leader, and construction manager. By combining smaller properties into a single portfolio, Greystone is able to refinance and achieve economic viability for the pooled transaction.

The 4 percent LIHTC subsidy, which, as explained above, is less competitive at the state level, lends itself to Greystone's model – consolidating a large number of projects to better spread subsidy and transactions costs and take advantage of economies of scale. With this model Greystone has preserved 8,287 units in 238 Section 515 properties in eight states (Alabama, Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee and Virginia). In addition,

Greystone has 7,859 units in 180 properties in their preservation pipeline. These properties are located in Florida, Georgia, Kentucky, Louisiana, Oklahoma, Michigan, North Carolina, New Jersey, New York, and South Carolina and include Section 515, Rental Assistance Demonstration (RAD) properties, and affordable non-profit (non 515) properties (a majority are Section 515 properties). The average size of a Greystone portfolio transaction is 803 units and 24 properties.



Rick Goodemann from Southwest Minnesota Housing Partnership discussed the successes and problems his organization faced in its preservation efforts.

Portfolio projects require the cooperation between more lenders and owners as well as more third party funding than single-portfolio transfers, which can make this approach difficult for smaller organizations. The method used by Southwest Minnesota Housing Partnership has traditionally been to focus on single-asset transactions that refinance and rehabilitate a single property. This typically involves the use of nine percent credits, and combines that financing with multiple funding sources, including Section 515, financing from the state housing finance agency, CDBG, and financing from Community Development Financial Institutions. In total, Southwest Minnesota Housing Partnership has acquired and rehabilitated 1,653 units in 27 communities in Minnesota. In addition, it has rehabilitated 29 properties for other owners.

While Southwest Minnesota Housing Partnership has been successful in using the nine percent credit, which allows them to rely less of outside financing, the organization is moving to the four percent portfolio model due to the competitive nature of the nine percent application process and because the end-project cost per-unit is reduced with the portfolio method due to the economies of scale.

Sixth Session: Findings and Conclusions

The final panel of the conference provided an opportunity to discuss future policy, procedure, and resource issues facing the USDA multifamily housing portfolio. The discussion was led by Kathleen Tyler, the Director of Farmworker Housing Programs for Motivation Education & Training, Inc. (MET, Inc.), and included Eileen Fitzgerald, the President and CEO of Stewards of Affordable Housing for the Future (SAHF), Stan Keasling, the CEO of the Rural Community Assistance Corporation (RCAC), Marty Miller, the



Before (top) and after (bottom) photos of a kitchen renovation by the Kentucky Housing Corporation. The kitchen remodel was part of the renovations KHC completed for the Winterwood Portfolio, utilizing four percent LIHTC.

Executive Director of the Office of Rural and Farmworker Housing (ORFH), and Leslie Strauss, a Senior Policy Analyst at HAC.

Throughout the day, two over-arching problems for USDA's multifamily housing portfolio were identified. First, USDA lacks the financial resources needed to just maintain existing properties, which are on average, over 30 years old and in need of substantial repair. As noted above, the most recent USDA report indicates that over \$5.5 billion is needed to maintain and preserve existing properties over the next 20 years.

Second, related to the age of the portfolio, there is a rising tide of maturing Section 515 mortgages. In the near future the number of maturing mortgages will grow from a trickle to a tidal wave. As these properties exit the portfolio, USDA rent-

al assistance ends, which creates affordability issues for the very-low income tenants residing in these units.

Rental assistance, which is essential for low-income families living in USDA multifamily housing properties, is contingent on a Section 515 or 514 loan. The simplest way to ensure that rental assistance continues is to require the Secretary of Agriculture to offer Section 515 financing for projects with maturing loans. This financing could be used to facilitate a transfer to another owner, repair and rehabilitate the project or reamortize existing debt. Any owner that accepts the offer for new or subsequent Section 515 financing will also accept a continuation of Rental Assistance for term of the loan, thereby securing housing assistance for current tenants, and encouraging the preservation of rental housing for future tenants. This however will require a better, more comprehensive policy for providing refinancing and subsequent loans to keep the rental assistance in place.

There was also widespread recognition that current USDA funding alone is not enough to meet the rehabilitation and preservation needs of the rural multifamily housing portfolio. The Fiscal Year 2017 Senate Appropriations Bill for the Department of Agriculture (S. 2956) included provisions aimed at improving rural multifamily housing programs, and conference attendees focused on two of the provisions in particular. The first provision is to allow nonprofit entities and public housing authorities to earn a return on investment (ROI) on their own resources, including proceeds from LIHTC syndication as well as their own contributions, grants and developer loans at favorable rates and terms. Currently, for-profit entities are allowed to earn an ROI, while nonprofit developers are not. This provision would address that gap, ensure that nonprofit entities are on equal footing and encourage increased nonprofit participation.

The other notable provision from the Senate bill is the allocation of \$1 million for the creation of a pilot program to provide technical assistance to facilitate the transfer of USDA multifamily housing properties to nonprofit entities. As was discussed throughout the day, the existing policies and requirements for transfers are burdensome and difficult. Dedicated technical assistance will aid nonprofit entities through the process and encourage increased preservation.

In addition, as mentioned above, LIHTC is essential for addressing the issues facing the USDA portfolio. It is not possible to purchase and renovate existing Section 515 and 514 properties without assembling several sources of capital and subsidy, of which LIHTC is the central element. While the four percent tax credits are more accessible in rural areas than the nine percent tax credits, both are highly competitive.

Rental developments in rural area are smaller and lack the economies of scale of urban developments. As noted, in recent years, the use of LIHTC has fallen off in rural areas, largely because of the demise of section 515 loans. The lack of subsidy available to be used in conjunction with the Credit has limited the utility of LIHTC in some smaller poorer communities. Banks that invest in LIHTC depend on both the financial return as well as the credit under the Community Reinvestment Act (CRA). Many smaller, poorer communities are not covered by CRA, thereby reducing banks' incentive to invest.

Additionally, throughout the course of the day, it became clear that states prefer to use the nine percent credit on new construction properties and the four percent credit on rehabilitation projects. As explained above, the four percent credit can be difficult to use in smaller projects, like those undertaken by Southwest Minnesota Housing Partnership. That means that organizations must then secure financing from many different sources in order to preserve a property.

Panelists and attendees discussed the importance of modifying state LIHTC application processes to prioritize the preservation of rural rental properties, to provide additional incentives for rural projects and encourage more nonprofit organization involvement with the preservation effort. As a result of this meeting, NRHC will renew its focus on advocating and supporting LIHTC.

Recommendations

NRHC makes the following recommendations to address the issues facing the USDA multifamily housing portfolio:

1. Continue progress in revamping Section 515 rules to accommodate other partners, including state housing agencies and other federal agencies.
2. Mission driven organizations are an important resource for preserving and maintaining affordable rental housing in rural America. USDA should revamp rules to encourage participation by nonprofit organizations and public housing agencies. This should include encouraging these organizations to use LIHTC in funding the acquisition and preservation of Section 515 and Section 514 developments. Under current regulations, nonprofit agencies cannot include LIHTC proceeds in calculating return on investment.
3. Affordable housing finance is a complex business. Property owners need additional technical assistance to acquire and preserve Section 515 and Section 514 developments. Many current owners are small business people who started working with Sections 515 and Section 514 in the mid-1970's. As a group they are nearing retirement and many are anxious to sell or transfer their properties. USDA assistance in understanding the relevant rules, regulations and resources could help these owners make the right decisions in preserving housing.
4. The availability of rural rental assistance is contingent on a property having a Section 515 or Section 514 mortgage. USDA should address the emerging increase of maturing mortgages by encouraging owners to take advantage of MPR and other tools for refinancing developments with Section 515. With the extended financing in place, rental assistance will continue through the term of the new loan.
5. While LIHTC is a key ingredient, it is increasingly difficult for rural properties to get the nine percent credits; and especially challenging for rural properties to accumulate the additional subsidy necessary to effectively employ the four percent credits. Policy makers at the state level should consider providing additional nine percent credits to rural areas or, failing that, encourage the greater allocation of HOME and CDBG to accommodate the four percent credit in rural areas.

Success Stories

**Greystone Affordable Housing Initiatives
Southwest Minnesota Housing Partnership**

Greystone Affordable Housing Initiatives LLC

Preserving Oft-Overlooked Housing

Greystone Affordable Housing Initiatives LLC (Greystone) recently orchestrated a complex financial transaction to preserve 1,058 affordable housing units deemed at risk of exiting the U.S. Department of Agriculture's (USDA's) Rural Development Section 515 program. The company bundled 24 separate multifamily properties serving low-income house-

holds in 12 different counties scattered across rural Florida into a single bond issue and transferred them to new ownerships (an affiliate of The Hallmark Companies, Inc.), which extended the affordability restrictions for another 30 years.

Although the primarily garden-style communities maintained an average vacancy rate of less than 10 percent, all were

Contact:

Tanya Eastwood, President
4025 Lake Boone Trail, Suite 209
Raleigh, NC 27607
T: (919) 573-7502
Email: tanya.eastwood@greyco.com

built in the late 1970s and early '90s and were showing their age. "The buildings were approaching the end of their lives," said Tanya Eastwood, President of Greystone's affordable housing group. "They had minimum built-up capital reserves for extensive rehabilitation, and there were little viable resources within Rural Development to assist with large-scale preservation. Many of the properties were also at the end of their restricted-use agreements; therefore, the owners were ready to sell and exit the program."

Greystone is a real estate finance and transaction management firm with a deep passionate focus on meeting the challenges frequently experienced by both non-profit and for profit owners with the recapitalization and preservation of affordable housing properties. The company assists with the acquisition, and rehabilitation of properties, including performing due diligence, securing financing, and managing the rehab process.

The Florida preservation initiative began in the fall of 2015, and was certainly no easy feat. Preserving these units required a highly complex \$130 million effort, combining both public and private funding. It included a single issuance of \$42 million in multifamily private activity tax-exempt bonds by Osceola County Housing Authority, and a purchase of 4 percent Federal Low Income Housing Tax Credits by Boston Financial Investment Management, generating \$28 million in capital contributions. The financing plan also included the assumption and subordination of \$27 million of original USDA Section 515 debt, which is a direct loan program designed to provide subsidized loans to owners of affordable housing in rural markets. Final funding included senior debt of \$30 million and other funding sources totaling \$3 million.



The complexity came from not only the sheer volume but also all the different parties involved □ with some having different or competing agendas. “We were dealing with 24 different sellers who we had to get to the table at the same time and numerous deadlines related to tax credits, bonds, financing applications and approvals, and third party reports with varying expiration dates,” said Campbell Brown, Senior Vice President of Greystone.

“One of the most unique elements that Greystone brings to the table as a transaction manager is that we are investing in the deal from day one,” continues Eastwood. “When you try to close on 24 properties at the same time, it takes a tremendous amount of money to complete appraisals, market studies, capital needs assessments, rehab scopes of work and drawings, legal due diligence, etc. That is often a real stumbling block for many of the current Rural Development property owners, as most do not have that kind of ‘at□risk’ money lying around. And chances are that, if one never closed, the costs are never recouped.” In this particular transaction, Greystone invested close to \$1.4 million in due□diligence costs, with an exposure of more than \$2 million if the deal did not close.

Substantial renovations, averaging \$32,000 per unit, will include both interior and exterior improvements. Particular emphasis will be placed on bringing the properties up to modern standards, addressing accessibility, functional obsolescence and deterioration. The rehabilitation plan includes a fast□paced construction process, estimated to be completed within 12 months, during which time no residents will be permanently displaced.

Achievements in Partnership with Affordable Housing Owners	
Portfolio Transactions Closed	AL, FL, GA, KY, NC, SC, TN, & VA
Portfolio Transactions in Progress	FL, GA, KY, LA, OK, MI, NC, NJ, NY, & SC
Affordable Properties Preserved to Date – Completed	238 properties, 8,287 units
Affordable Properties Preserved to Date – In Progress	180 properties, 7,859 units
Average Portfolio Size	24 properties, 803 units
Total Development Costs on Completed Portfolios	\$842 million

A National Model

Greystone believes this initiative can serve as a valuable model for preserving other aging Rural Development properties. There are approximately 14,500 remaining Rural Development properties across the country, representing close to half a million units with over \$5 billion of estimated capital needs. However, preservation done one at a time would be economically impractical. Furthermore, the learning curve for such complex financings for most owners and operators (whose daily focus is typically property management) would be frustratingly steep – not to mention the necessary time commitment would cripple most organizations.

Greystone continues to provide both the creative solutions and crucial financing needed to satisfy the often conflicting needs of multiple parties, and the disciplined transaction management to get deals done. Greystone is dedicated to sustaining and expanding affordable housing throughout the United States, particularly in rural markets.



Southwest Minnesota Housing Partnership

Why Housing Matters

Contact:

Rick Goodemann, Chief Executive Officer
2401 Broadway Avenue
Slayton, MN 56172
(P): 507-836-1602
(F): 507-836-8866

Victoria Thorp was born and raised in Crookston, MN. Vicki had the opportunity when she was sixteen to live for a year with her sister in New Orleans and fell in love with Louisiana. After graduating from Crookston High School, Vicki moved to the French Quarter and lived and worked there for over 40 years until August 28, 2005. Vicki fled from the French Quarter with a

small suitcase and her cat in a three car caravan the afternoon before Katrina's landfall. Having no car she left with a former boyfriend, his current girlfriend, his parents and sister with four cats and two dogs for Baton Rouge. A friend took all of them in as well as other travelers, until there was no more floor space for sleeping bags. This included twelve pets as well. Vicki stay ten days in Baton Rouge until her brother, William who was the caretaker at Nimens-Espegard Apartments secured an apartment for Vicki and arranged a flight to Grand Forks, North Dakota where William gave her a ride to Crookston. Vicki lost everything in Katerina. Her apartment was destroyed, all of her possessions were lost and her place of employment was severely damaged and never re-opened for business.

She found a very welcoming community upon her return. Community members made donations, provided furnishings and helped her to feel welcome in Crookston. The residents and manager helped her to make a new home at Nimens-Espegard Apartments where she has lived for the past 10 years since fleeing Katrina. Vicki's story is a remarkable commentary on kindness exhibited by friends, family and in particular complete strangers in a time of crisis.

The Nimens-Espegard Project

Nimens-Espegard is a 98 unit Section 515 development located in Crookston, MN. Constructed in 1977, Nimens became at-risk of loss due to pre-payment eligibility and the owner's desire to exit the Rural Development program. As the largest property in RD's Minnesota portfolio with significant rental assistance, keeping the property in the program and rents affordable for the low income residents was a priority.

The property was identified by the Minnesota Preservation Plus Initiative (MPPI), which is a 10 year partnership to pro-actively preserve Minnesota's existing affordable housing. Nimens was at risk of converting to market-rate housing because of its good condition and a strong local market. The MMPI partners contacted the Southwest Minnesota Housing Partnership (SWMHP) to consider acquiring and preserving the property, even though the property was located well north of SWMHP's traditional operating area. The partners were seeking an experienced, preservation-oriented buyer who has previous Rural Development acquisition experience and capacity to rehabilitate, own and manage the property long-term.

The co-funders and members of MPPI, including USDA Rural Development, the Greater Minnesota Housing Fund, and Minnesota Housing Finance Agency, each contributed equity loans, new below-

market debt and subsidy with twenty (20) new rental assisted units being obtained. The property was acquired and rehabilitated in 2015.

Total financing for this project was \$5,566,307 and included:

- USDA Rural Development (1st lien): \$1,728,986
- Greater MN Housing Fund /USDA RD Multifamily Housing Preservation Revolving Loan Fund (2nd lien): \$1,500,000
- (2nd lien): \$1,500,000
- Minnesota Housing Finance Agency: (soft second): \$1,987,321
- City of Crookston (Small Cities/CDBG): \$350,000

There were many challenges to this project, including the multi-year transfer approval process with USDA Rural Development; existing disincentives for Non-profit ownership including lack of return to owner and/or asset management fees, and, due to the urgent need to quickly preserve the project, it fell out of the nine percent LIHTC funding cycle. In the end, this was the largest existing USDA property in Minnesota, and it was successful due to the pro-active effort with contributions from all funders.

Southwest Minnesota Housing Partnership

The Southwest Minnesota Housing Partnership is a non-profit community development corporation serving communities throughout southwest and South Central Minnesota. The Mission of the Partnership is to “Create thriving places to live, grow, and work through partnerships with communities.” SWMHP aims to build strong and healthy places to live so that the communities in the region thrive.



Endnotes

1. “A Review of Federal Rural Rental Housing Programs, Policies and Practices,” the National Rural Housing Coalition (Apr. 2017) <http://ruralhousingcoalition.org/archives/1274>. The report contains a more detailed overview of the programs discussed during the conference and in this document.
2. Tadlock Cowan, “An Overview of USDA Rural Development Programs,” Congressional research Service (Feb. 10, 2016) <http://nationalaglawcenter.org/wp-content/uploads/assets/crs/RL31837.pdf>.
3. “Maturing USDA Rural Rental Housing Loans: An Update,” *Rural Policy Note*, Housing Assistance Council. August 29, 2016. http://www.ruralhome.org/storage/documents/policy-notes/rpn_maturing-mortgages-usda-2016.pdf.
4. “USDA Rural Development Multi-Family Housing Comprehensive Assessment,” prepared by CoreLogic, Inc. and RSM US LLP. March 1, 2016, <https://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf>.
5. To access the tool, please visit: <https://public.tableau.com/profile/greg.steck7461#!/vizhome/USDARuralDevelopmentMulti-FamilyHousing/Overview>.
6. Mark Keightley, “An Introduction to the Low-Income Housing Tax Credit,” Congressional Research Service (Feb. 12, 2013) <https://fas.org/sqp/crs/misc/RS22389.pdf>.

NATIONAL RURAL HOUSING COALITION

1331 G Street, N.W., 10th Floor, Washington, DC 20005 · (202)393-5229 · fax (202)393-3034 · <http://ruralhousingcoalition.org>

NRHC Rural Rental Housing Conference

AN EXPLORATION IN FEDERAL RURAL RENTAL HOUSING POLICY

SPONSORED BY PNC BANK

October 4, 2016

8:00 a.m. – 9:00 a.m. Registration & Breakfast

Welcome: Karen Speakman, Deputy Director, NCALL (DE); President National Rural Housing Coalition

9:00 a.m. – 9:30 a.m. For close to 50 years federal rural rental housing programs, through Sections 514, 515, 516 and 521, have been an important source of affordable housing. This session provides an overview of rural rental housing issues, providing an introduction to rental assistance, maturing mortgages, preservation, and rental housing stock.

Michael Feinberg, Housing Assistance Council

Moderator: Karen Speakman, NCALL (DE)

9:30 a.m. – 10:30 a.m. Over the last 24 months USDA has devoted a good amount of time, attention and resources to policy and procedures related to rural rental housing. A new system for estimating rental assistance costs is in place and an update assessment of status of the multifamily portfolio was recently released. That report indicates there is more work ahead to preserve the existing stock. Top USDA officials will provide an update on rental housing policy and procedures in light of the new report.

Lisa Mensah, Under Secretary for Rural Development

Tony Hernandez, Administrator, Rural Housing Service

David Lipsetz, Deputy Administrator Rural Housing Services

Moderator: Eileen Fitzgerald, Stewards of Affordable Housing for the Future

10:30 a.m. – 10:40 a.m. – BREAK

10:40 a.m. – 11:30 a.m. Preserving rental housing in an era of declining resources is challenging. There is not one source of capital that can finance a transfer or rehabilitation of rural rental housing on its own. Assembling the capital stock often runs into policies and procedures that impede, rather than expedite, the process. Two experts will provide insights into the transfer and preservation process and make recommendation on ways to improve it.

Larry Anderson, Rural Housing Preservation Associates, LLC

Richard Price, NixonPeabody

Moderator: Tom Collishaw, Self-Help Enterprises

11:30 a.m. – 12:45 p.m. There are resources available for rural rental housing transfer and preservation at the federal level, through USDA multifamily programs, and at the state, through the Low Income Housing Tax Credit (LIHTC), the HOME program and other state resources. This session will include a discussion on strategies and solutions using a range of federal and state financing tools.

Garth Rieman, National Council of State Housing Agencies

Kathryn Peters, Kentucky Housing Corporation

Andrea Ponsor, Rural LISC

David Lipsetz, USDA Rural Development

John Linner, National Development Council

Moderator: Julie Bornstein, Coachella Valley Housing Coalition

12:45 p.m. – 1:45 p.m. LUNCH

1:45 p.m. – 2:45 p.m. Despite the challenges there are number of success stories for rural rental housing preservation. The panelists will describe their projects, how they got started, the obstacles encountered and overcome and the status of their project today.

Tanya Eastwood, Greystone Affordable Housing Initiatives

Rick Goodemann, Southwest Minnesota Housing Partnership

Moderator: Selvin McGahee, Florida Non Profit Housing, Inc.

2:45 p.m. – 3:00 p.m. BREAK

3:00 p.m. – 4:00 p.m. This final panel provides an opportunity to discussion future policy, procedure and resource issues.

- Stan Keasling, RCAC
- Eileen Fitzgerald, Stewards of Affordable Housing for the Future
- Marty Miller, Office of Rural Farmworker Housing
- Leslie Strauss, Housing Assistance Council

Moderator: Kathy Tyler, MET, Inc.



For more information please visit
www.ruralhousingcoalition.org