

Outlook



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IN THIS ISSUE: Presidential Perspective • Words from Washington • USDA New Loan Modification Program • Tax Credit News • Social Media and You • NAHMA Educational Scholarship • NAHMA Affordable Housing Advocate

Presidential Perspective - Why Is Your State Meeting Important?

As we begin our yearly SAHMA state meetings, I ask you to consider all of the hard work that has been accomplished by people such as yourself to make each meeting specific and special to their state. Planning for each meeting starts, at least, one year in advance, with each State Director and State Meeting Coordinator working with SAHMA staff on logistical details and then meeting with their respective state committee volunteers and O/A's in their state to help plan an agenda and form a planning committee. They also solicit feedback from regulatory partners to assist in the process as well. Although that may sound simple, each state can have unique issues that need to be addressed and getting input from various stakeholders creates a well-rounded meeting agenda.



PRESIDENT of
Southern Development Management Company, Inc.

Reese B. Quick
SAHMA PRESIDENT

It is important that the planning committee tackle as many diverse issues as possible to reach the wide scope of the attendees. Interest varies from Sec 8, tax credits, compliance, EIV, the ever popular bed bugs, resident issues, REAC and maintenance issues just to name a few. Each State Director and State Meeting Coordinator also travel to the SAHMA Regional Conference annually to participate in a workshop to discuss the different techniques states use to present sessions, add-on classes, trade shows, and awards, and how they are received by the attendees. It is important to the planning committee that their state meeting is informative, innovative, fun and well attended; it is representative of their hard work.

Once the event is at hand, all of the months of planning and hard work culminate in a terrific three-day event for you, and the volunteers take center stage to facilitate the meeting. They are needed as moderators, to perform registration, assist attendees and speakers locate classrooms, reconnect lost items with their owners, serve as IT specialists, greeters, problem solvers, and for crisis resolution. Some may think SAHMA volunteers do it for the glory. Ask any volunteer, there is no glory, just tired feet, and the feeling that maybe, just maybe, they made a difference in YOUR day. SAHMA is all about helping each other. The State Meetings are a place where we can do just that. We meet to learn. We meet to talk to one another and share stories. We meet to see people face to face that we usually only know through email. We meet to revitalize ourselves. We meet to discuss what is important for our property, our state, and what affects us within our industry in our state. Affordable housing can be difficult when working with REAC's, EIV's, MOR's, bedbugs, changes in regulations and the myriad of other issues that are a daily part of our lives in this industry. But sometimes, our jobs affect our heart. We see a lot of things others do not. Sharing in the fellowship that SAHMA provides gives us an opportunity to reflect on what we do, and appreciate how important our work is for so many in need.

Your State Meeting is important for so many reasons. Each meeting offers training and information sessions intrinsic to your state. I ask you to attend your State Meeting this year. Take the opportunity to meet your session speakers and share your thoughts or stories with your colleagues and peers. Introduce yourself to the Regulatory Partners in attendance, they want to meet you too! Take time to thank the vendors for their sponsorship. Make an effort to make a new friend, greet a new colleague, and even thank a volunteer, as they will now return to their "fulltime" job. After all, they did it for YOU, not the glory!

Words from Washington - It's February, So It's Budget Time...

George C. Caruso, CPM, RAM, SHCM, HCCP

The Cooper Companies - Consultants



The President's Fiscal 2017 arrived on Capitol Hill for distribution February 9th. The full document comes in two volumes, approximately 2,500 pages of text, tables, and diagrams. With the exception of the cover, there are no pictures in the document which makes it slow going and sleep inducing in some parts.

In the years I have been watching the Budget Process, the final budget of a two-term President is generally greeted at best with a yawn, everyone understands that there will be someone new doing the next budget, and when you have a split government, with one party controlling the White House and another party controlling one or both Houses of Congress, the budget becomes a political football of the first order. This year is not much different than the last year of the Reagan,

Clinton, and Bush 43 Administrations, we had split governance in all those years, and the reaction is remarkably the same. The good news for SAHMA Members is that both HUD and USDA Rural Housing Services programs are among the least contentious parts of the 2017 Budget.

*The top line spending numbers for 2017 are already agreed,
and the individual appropriations for most HUD Programs are
generally agreed as we start the process*

As you would predict Speaker Ryan and Majority Leader McConnell had not much positive to say about the budget. The respective Chairmen of the Appropriations Committees pronounced them as dead on arrival. However, this time, around there is already a binding agreement between the President and Congress on the overall spending levels for 2017 since it is covered under last year's budget agreement that was reached just before Speaker Boehner adjourned.

There will be a lot of debate about spending generally, but other parts of the budget where the President is proposing significant policy items will see the most high-profile debates. An example of that is the \$10.00 per barrel tax on oil to fund infrastructure; it is controversial, and likely will disappear without a trace from the final adopted appropriation bills.

HUD's Press Release detailed the important elements of this Budget according to the Secretary and President, quoting directly:

- I. Providing over \$38 billion in rental housing assistance to support 4.5 million low-income families through the Housing Choice Voucher, Project-Based Rental Assistance, and Public Housing Programs;*
- II. Ending family and chronic homelessness, and continuing to make progress across all targeted populations, by investing \$11 billion in mandatory spending and \$2.8 billion in discretionary spending for targeted homeless assistance;*
- III. Improving mobility for low-income families to access higher opportunity areas by investing \$15 million for a Mobility Counseling Demonstration, and ensuring that Public Housing Authorities (PHAs) have sufficient resources to promote mobility by increasing PHA administrative fees to a fully-funded level of \$2.1 billion;*
- IV. Investing \$200 million to transform neighborhoods with distressed HUD-assisted housing and concentrated poverty into opportunity-rich, mixed-income neighborhoods through the Choice Neighborhoods program;*
- V. Providing \$786 million to address the housing and community development needs of Native Americans, including \$20 million targeted to Native youth;*

Continued on page 3

VI. Narrowing the digital divide for students and families in HUD-assisted housing through actions that include a strategic investment of \$5 million for the ConnectHome initiative;

VII. Preserving affordable housing units through the Rental Assistance Demonstration program by providing \$50 million and a targeted expansion to include certain properties that provide housing for the elderly;

VIII. Investing \$300 million in local community efforts to reduce barriers to housing development and increase housing affordability; and

IX. Increasing job training and financial incentives for employment for public housing and Native American households through Jobs-Plus, an evidence-based program funded at \$35 million.

Looking beyond the general summary to the programs of the most interest to SAHMA Members, here are the summary proposed funding levels for 2017 along with the final 2016 funding levels for reference.

2017 HUD and USDA Budget Proposals			
(In Millions of Dollars)	Fiscal 2016	Fiscal 2017	Change
Project Based Rental Assistance (S-8)	\$ 10,620	\$ 10,816	1.8%
Section 202 Renewals	\$ 433	\$ 505	16.6%
Voucher Renewals	\$ 17,681	\$ 18,447	4.3%
Voucher Admin Fees	\$ 1,650	\$ 2,077	25.9%
New Vouchers for Veterans	\$ 0	\$ 88	
Public Housing Operating	\$ 4,500	\$ 4,569	1.5%
Public Housing Capital	\$ 1,900	\$ 1,865	-1.8%
CDBG Grants	\$ 3,000	\$ 2,800	-6.7%
HOME Funds	\$ 950	\$ 950	0.0%
USDA Rural Rental Assistance	\$ 1,390	\$ 1,405	1.1%
USDA Section 515 Direct	\$ 28	\$ 33	17.9%

Section 8 Project Based Assistance – Is proposed at \$10.8 Billion which is close to full funding, we still have concerns that the program funding is slightly underfunded, but the proposal should get all current properties through GFY 2017.

Section 202 – Funding is increased almost 17% to allow for full funding of the renewal of all current 202 contracts, and \$75 Million for Service Coordinator Grants in 2017. Disappointingly HUD is not proposing any new PRAC Grants for additional units. With the Baby Boomers retiring at the rate of 10,000 per day, the demand for elderly housing for Seniors who have either not been able to save, or have planned for retirement poorly will soar. If only 3% of the Boomers, of whom I am one, planned badly for retirement, that translates to a need for more than 109,000 additional Section 202 units a year each year for the next 20 years.

HUD has effectively been out of the new development business for senior units for five years now; pressure on the existing portfolio will continue to build.

Public Housing – Overall Public Housing continues to be funded at about 85% of needed funding; the 2017 proposals for Operating are up about 1.5% while the proposal for capital spending is down 1.8%. The two funding proposals leave Public Housing Authorities with essentially flat funding for the third year running.

Voucher Programs - Voucher Renewals are proposed for a 4.3% increase, which is an improvement over the recent past. However with market rents moving up nationally at about a 7% rate according to the Census Bureau's fourth quarter 2015 survey's the program continues to slowly lose ground in a lot of markets.

The Voucher Administrative Fees are scheduled for a significant increase, nearly 26%. This will start to take some of the pressure off PHA's that have not seen much help in offsetting increasing costs in recent years.

A new allotment of \$88 Million for Homeless Veterans Housing Vouchers is included in the proposal. While this is net new money in the language of Washington, this program is likely to be approved since there is Bipartisan support for assisting homeless veterans.

Community Development Block Grants - For the last three budget cycles, CDBG has been the balancing number that gets reduced to allow for Vouchers and Section 8 to be increased. That remains the case for 2017; the program is being cut 6.7%.

Continued on page 4

HOME – The Home Program is being held flat at \$950 Million.

HOME and CDBG taken together are the two programs that have traditionally provided the gap funding for Tax Credit development. With these two programs being slowly reduced, the gap financing on new Tax Credit deals has to come from outside sources.

Rural Housing Programs - The Rural Rental Assistance program is getting a very slight increase for 2017, and Section 515 Loans are being increased by \$5 Million from \$28 to \$33 Million, which will fund several additional developments.

Overall the 2017 Budget proposals are about what we expected when the two-year Budget and spending deal was made between Congress and the President. In the current fiscal environment, all the major HUD and USDA Programs will continue as they have the last three years.

Both the President and Speaker Ryan have said that they want to do something to address the growing Income Inequality issue this year. While we have yet to see the proposals each side will bring to the discussion, it is encouraging that there is a general recognition that we need additional resources put to ensuring that every American Family has a decent place to live.

It is going to be a contentious year overall, at the moment you cannot turn a television on in South Carolina without seeing campaign ads, and shortly that will also be the case in most of the other SAHMA states. Fortunately for us, the HUD and USDA Budgets are not on the top of the list of priorities that will be debated this year. Having said that, I see no reason to believe that we will see a final set of Appropriations bills until after the Election. Neither side wants to go first and give the other side something to contest, and despite repeated cries by the Leadership on both sides of the Aisle, Regular Order is not yet with us, and there is no reason to believe that all the 2017 Appropriation Bills will be done by the time Congress recesses for the elections.

Assuming the calendars posted are followed, Congress will actually only be in Washington working about 85 days between now and the election. Assisted and Affordable housing is running under the Radar this year, and that is not an altogether bad place to be. We continue to monitor the situation, and will keep you posted.

To see the full highlighted version of the **HUD Budget click here**, and the **RHS Provisions of the USDA Budget click here**.

George C. Caruso, CPM, RAM, SHCM, HCCP
SAHMA Director Emeritus
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USDA Announces New Loan Modification Program

Jeff Banker

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Following the example of the U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration (FHA), the United States Department of Agriculture (USDA) is now offering note modifications—a low-cost alternative for housing owners to reduce annual debt service and thereby increase the overall financial performance of the property.

What are Note Modifications?

The key benefits of USDA-insured financing include long-term fully amortizing debt, reasonable transaction costs, nonrecourse and minimal covenants. With its new note modification program, USDA is trying to add to that list of benefits.

Continued on page 5

Currently, the 538 program cannot be utilized for a pure refinance unless it is taking out a construction loan. Since a refinance is not allowed, one option is to reduce the interest rate while keeping all the other covenants of the loan untouched. Although the borrower does not have the option of pulling equity out of the deal, it does allow for debt service savings and the agency can provide a faster turnaround by focusing on one loan parameter—the interest rate. Like any other government agency financing program, the key for the borrower will be to fit into the programmatic requirements.

On July 30, 2015, Tony Hernandez, administrator of the Housing and Communities Facilities Program, issued an unnumbered letter (UL) titled “Guidance on Loan Modifications in the Section 538 Guaranteed Rural Rental Housing Program (GRRHP).” The letter explains that the request to make the modification can only come from the incumbent lender and should include the following:

- A summary of the transaction detailing the projected change in the interest rate debt service savings and confirmation the project will have a debt service coverage ratio (DCR) in excess of 1.15:1
- The most recent and interim financial statements and lender analysis
- Sources and uses statement disclosing all fees
- Certification from the lender stating that:
 - The original term of the guaranteed loan will not be modified
 - Outstanding principal balance will not be modified
 - There is no negative impact to the tenants
 - The borrower is in compliance with all program requirements
 - There are no asset management issues
 - The modification meets state law requirements
 - Any out-of-pocket costs incurred by the lender or the owner related to the modification cannot be paid from project funds.

If the note modification is approved new lockout terms and prepayment terms may be added to allow the mortgage to be re-securitized with Ginnie Mae. USDA has established a 30 business day timetable to respond to a written request. Requests approved by the state office must receive national office concurrence. The state office will review and approve all closing documents as applicable.

Current Note Modification Status

Once USDA instituted the note modification program, its first step was working with Ginnie Mae to allow for the releases of the loan guaranty from the securitized pool. The next step consisted of USDA documenting the change to the interest rate in the loan note guaranty (LNG). On September 1, 2015, USDA agreed to review existing loans for approval of note modifications. This was the final step to consummate the loan modification program.

As of December 1, 2015, USDA had approved 26 loan modifications across 10 states, according to USDA leadership during a Section 538 Guaranteed Rural Rental Housing Program Industry Forum on Dec. 1. The average interest rate before the loan modification was 6.2% and the average rate after the modification was 5.03%, a 19% reduction. Further, many additional loans are engaged and packages are being submitted to a number of state offices across the country, giving borrowers nationwide the benefit of debt service savings and increasing the safety of the overall portfolio for USDA and its lenders.

In one example, the **Texas Housing Foundation** completed a note modification of San Gabriel Crossing, a 76-unit affordable housing complex in Liberty Hills, Texas.

Continued on page 6

The successful transaction reduced San Gabriel's interest rate by 21% and provides the facility annual savings of approximately \$30,500, with total savings over the remaining term of approximately \$1 million. Those savings can be used to maintain and improve the facility for the residents of San Gabriel Crossing (pictured below).



Should You Seek a Lower Rate?

Although there are some significant benefits to lowering interest rates through the note modification program, there are some items that the borrower should consider before initiating the process. Chief among them are the lockout provisions and prepayment penalties associated with a USDA loan. These provisions could dilute the benefits of lowering the rate for the borrower, who may have to consider paying the existing investor(s) a pre-payment penalty. For some borrowers, modifying the note rate may be cost prohibitive as the prepayment penalties could erode the debt service savings. Moreover, the revision of the rate will put the facility into another lockout period with new provisions for prepayment. All costs are eligible to be included in the revised interest rate, including: prepayment penalties, lender's financing fee, lender's counsel fee, borrower's counsel fee and title expenses.

A quick review of the existing loan could easily address the eligibility and costs associated with the loan modification. Compared to other options for lowering interest rates, such as a full-fledged refinancing of a loan, these costs are still a bargain. Other benefits include:

- The time it takes to modify the interest rate is much less than the time it takes to refinance. The whole process could take less than eight weeks from when the lender is engaged. Considering the volatility in interest rates and impending decline in the Federal Reserve's bond buying program, this quick turnaround can reduce interest rate risk associated with longer processes.
- Another benefit of a note modification is that it does not require credit approval from USDA as these facilities are already in USDA's portfolio and are being monitored on a regular basis.
- The out-of-pocket costs of the note modification are less than the cost of a traditional refinancing program because there are no third-party costs and all costs of the loan modification are built into the new interest rate.

Like any other refinancing, timing is important. Interest rates have increased from historic lows in 2012 and 2013, but are still well below historical averages. Borrowers with USDA Sec. 538 loans who want a lower interest rate should consider the note modification program as they can lower their cost of capital without investing significant money or time.

Jeff Banker is a vice president with Lancaster Pollard in Columbus. Adam Diehl is a vice president with Lancaster Pollard in Columbus. To view the original print of this article [click here](#) or [click here to view in pdf format](#).

Tax Credit News

New IRS Regulations Amend Compliance Monitoring Requirements

The Internal Revenue Service (IRS) issued a notice that amends the Low Income Housing Tax Credit (LIHTC) compliance monitoring requirements to revise and clarify physical inspection and certification review rules. The IRS also published Revenue Procedure 2016-15 which further explains the implementation of the new regulations.

This document contains final and temporary regulations for compliance-monitoring duties of a State or local housing credit agency on physical inspections and low-income certifications and other documentation. IRS originally requested comments on its compliance monitoring requirements in Notice 2012-18, issued in March of 2012.

The new regulations will provide greater flexibility for the minimum number of units for which an agency must conduct physical inspections and low-income certifications. They also eliminate the “same unit” rule, which required agencies to conduct both physical inspections and low-income certification reviews on the same units, and the regulations permit the physical inspection protocol established under HUD’s Real Estate Assessment Center (REAC) to satisfy the LIHTC physical inspection requirements, so long as the inspection satisfies the following requirements as outlined in Revenue Procedure 2016-15.

The minimum number of units that must undergo a physical inspection are revised to include the lesser of 20 percent of the low-income units in the project, rounded up to the nearest whole number, or the number of units set forth in the Minimum Unit Sample Size Reference Chart (which is included in Revenue Procedure 2016-15). The Reference Chart allows agencies to undertake physical inspections on fewer than 20 percent of the units in larger properties. Prior to these regulations, the IRS required Housing Credit agencies to inspect at least 20 percent of all units in the project. The regulations apply the same number of units to low-income certification reviews.

To view the Amendments to the Low-Income Housing Credit Compliance-Monitoring Regulations at NAHMA.org, please visit <http://bit.ly/FederalRegisterVol81> or view the Amendments to the Low-Income Housing Credit Compliance-Monitoring Regulations by [clicking here](#).

To view Revenue Procedure 2016-15, including the Minimum Unit Sample Size Reference Chart, at NAHMA.org, please [click here](#).

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Social Media and You

Doug Jeffries, COS

SAHMA Regional Director - Social Media
Franklin Asset Management Co., Inc.

In the age of Facebook, Twitter, and Instagram, information about your property/company can travel at the speed of viral. Many of us have a web presence, even if we don't know it. Complaints about faulty plumbing or rude staffers are some of the most common and can be unmeasurably costly. Taking steps to ensure a positive reputation are really the responsibility of property owners, management companies, and site managers. For the record, you will never be able to stop negative claims or complaints about your property, but you can put forth your vision of your communities. That vision can help to temper the conversation about your community and allow the public to make their own judgment calls about it.

How you ask? Through the modern miracle of social media, we have a voice in the conversation about our communities. With a small investment of time and energy, anyone can successfully create a social media presence that will allow potential residents to see the value in our product. For example, with a Facebook page, one could share 'goings on' in an apartment complex and create a real sense of community. They say a picture is worth a thousand words, so sharing photos of resident activities, property amenities, smiling staff members, etc. speaks volumes to the feeling of your community. **I would note that sharing photos of residents, especially children, should be considered carefully and I would recommend having residents sign a release allowing those photos to be published publicly.

Continued on page 8

As an informational tool, social media can be used as another outreach for the site staff. A calendar of events (rents due, inspection day, popsicle party, etc.) can be posted on a community calendar (think electronic community newsletter). For potential residents, a social media presence can be used to glean information about your site. What do the grounds look like? What is the apartment lay out? Is there a playground? What is the phone number or address? Where is the community in relationship to shopping, hospitals, schools, etc.? Does the community offer activities for its residents?

The darker side of social media should be considered as well. Allowing open comment sections is not recommended. Every community has one, but the 'chronic complainer' can put an abrupt end to your social media goals. If you give voice to the good comments, you will also, in fairness, need to give voice to the bad ones as well. Failure to do this can open the door to a fair housing complaint. By simply not allowing ANY comments EVER, you steer clear of a potential minefield of issues that can arise.

Your social media pages can also be linked to other internet venues that can offer help to potential residents and residents alike. For example, if you create a YouTube page for your property, you can have videos of your apartments, grounds, and activities if you like. A YouTube page could be used as a training tool for your site staffers covering simple how to items, or for residents covering house rules for example. The ideas are only limited by your creativeness.

I hope that this article inspires you to look beyond the newspaper as a means of outreach in your communities. With an investment of time, social media can and will work for you.

NAHMA Educational Foundation Scholarship Program 2016 Application Available

In 2015, nine residents of SAHMA member communities received NAHMA Educational Foundation Scholarships. Let's double that number this year – here's how:

The NAHMA Educational Foundation has made the 2016 **scholarship application** available to worthy student/residents. This year will be the 10th consecutive year that the foundation has made scholarships available. The application can be accessed at <https://scholarship.indatus.com/nahma> or by going to the NAHMA website at www.nahma.org and clicking on the Educational Foundation icon. Eligibility for the program requires that an applicant be a resident in good standing at an AHMA affiliated apartment community and be either a high school senior or a matriculated student at an accredited college or trade/technical school. High school seniors must have a minimum of a 2.5 grade point average and matriculated post-secondary students must be maintaining at least a 2.3 grade point average in order to apply.

The process requires applicants to provide online an application form, an essay, two references and a Certification of Residency in Good Standing form. A current grade transcript is also necessary and is the only application component sent via U.S. Mail to the foundation. All necessary forms are provided within the web-based application and no hard copies are needed.

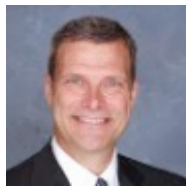
In 2007, the foundation awarded 22 scholarships worth a total of \$22,000 and last year 85 scholarships were awarded worth \$212,500. Through the nine-year history of the program, more than \$725,000 has been awarded to NAHMA Scholars residing in communities served by 16 different AHMAs.

"The award history of the scholarship program demonstrates an impressive and progressive history of support for NAHMA scholars looking to continue their education. The foundation is hopeful that we can again increase the number of awards and the total amount of money being distributed while maintaining our individual award amount of \$2,500 per recipient in 2016. With the ever escalating cost of higher education our scholarships can have a positive financial impact on our residents that are pursuing their educational goals," NAHMA Educational Foundation Chairperson, Melissa Fish-Crane, said during a recent foundation meeting.

The deadline for completed applications is 10 p.m. EST on Friday, May 27. Please alert your residents about the scholarship program so that they can take advantage of the lengthy timeline that remains to complete their application.d (below).

NAHMA Affordable Housing Advocate of the Year

Larry Sisson Named NAHMA Affordable Housing Advocate of the Year



Larry Sisson, president of TESCO Properties Inc., serves on the Leadership Council of SAHMA and is a past president of the organization. He is also a member of NAHMA's board of directors. Sisson is being recognized for his outstanding leadership of NAHMA's Regulatory Affairs Committee as vice chair, and then chair, over the past four years. He is a national instructor and is certified to teach NAHMA's Fair Housing Compliance course and the Certified Professional of Occupancy course. He has also taught REAC inspection protocol on a national level.

Mr. Sisson will be presented with this award during the NAHMA Winter Meeting on March 7th in Washington, DC.