MORTGAGE FINANCE

IHDA Executive Director Seeks to Increase Multifamily Financing, Address Foreclosure Crisis

Increasing the availability of debt financing for low-income housing tax credit and other affordable multifamily projects and tackling the foreclosure crisis are top priorities of Mary Kenney, the new Illinois Housing Development Authority (IHDA) executive director.

An attorney with more than 14 years in affordable housing, community development, and municipal finance, Kenney served as IHDA's general counsel before being appointed as executive director in late March. She discussed her plans for the agency in an interview with HDR.

Illinois has experienced a high number of foreclosures, with 900,000 homeowners in the foreclosure process just in Chicago, according to Kenney. "At the same time, we're seeing homeowners who have been foreclosed on becoming renters," she said, while private financing for rental properties has fallen.

"So we're looking at a variety of ways to expand financing for the multifamily sector," Kenney said.

Multifamily Financing

One approach IHDA is exploring is to develop multifamily mortgage-backed securities (MBS) which can be sold directly to investors instead of through the secondary market.

While affordable multifamily projects can serve tenants up to 120 percent of area median income (AMI) under Illinois law, most of the MBS-funded loans would be used in conjunction with tax credits and would be subject to tax credit income limits.

IHDA operated a limited direct MBS sale program in the past, but it was suspended because of the lack of investor demand, Kenney said.

IHDA also still has funding available under the Treasury Department's new issue bond purchase program (NIBP). The agency is seeking to use some of the NIBP funding to leverage private investments for affordable multifamily developments, she said.

Tax Credit Issues

Kenney also wants to bolster investor demand for rural tax credit projects in the southern part of Illinois, which are having problems in obtaining funding.

"The equity market is significantly better, especially in Chicago, but I would like to see it improve downstate as well," she said.

Kenney said IHDA has tried to address differences in investor demand by instituting a geographic allocation process so that rural projects don't have to compete against urban projects for credits.

Another one of Kenney's goals is to encourage development of supportive housing projects. Currently, IHDA requires tax credit projects to set aside a certain percentage of units as supportive housing, but Kenney said she wants to provide more incentives for supportive housing.

IHDA has received $130 million from the state to build affordable housing, and the agency is setting aside $30 million to help finance the development of supportive housing as well as housing for veterans, according to Kenney. "We felt lucky to receive that commitment of resources from the state considering its budget problems," she added.

Supportive and veterans housing are also high priorities for Illinois Gov. Pat Quinn (D), Kenney noted.

Dealing with Foreclosures

To address the state's foreclosure crisis, Kenney said she wants IHDA to continue to provide funding for foreclosure counseling. IHDA has been using $425 million it received from the Treasury Department's hardest-hit fund to assist 16,000 to 20,000 homeowners facing foreclosure, she said.

Kenney has also launched a retention program to keep troubled homeowners with IHDA mortgages in their homes by offering loan modifications.

In addition, IHDA is working with nonprofits to purchase delinquent single-family mortgages from certain lenders, she said. "We're hoping to purchase mortgages at a discount and restructure the loans" to make payments affordable to homeowners, she said.

Kenney said she also wants IHDA to use mortgage revenue bond financing to provide loans to new home buyers to purchase vacant, foreclosed homes. "We're looking for ways to stabilize the supply of vacant homes," she added.

EQUITY INVESTMENT

Small Segment of Portfolio Experiencing Financial Problems

ATLANTA — (By an HDR Staff Correspondent) — Although the majority of low-income housing tax credit projects are performing well, a small number of projects which are located in economically hard-hit markets or which were poorly underwritten and managed are experiencing financial difficulties and could fail, according to speakers at the National Council of State Housing Agencies (NCSHA) conference on June 15.

"Tax credit properties are good performers, but it's not 100 percent by any means," said Jenny Netzer, chief executive officer of Tax Credit Asset Management, which specializes in workouts of troubled tax credit projects.

While no one could have foreseen the depth of the economic downturn, struggling properties were underwritten with insufficient reserves and weak sponsors, Netzer said. A significant number of troubled projects also had poor management and deferred maintenance, she noted.

"When times are good, you can get by with so-so management," Netzer commented. "But when times are tough, you see the difference between good and bad management."

Fred Copeman, a tax attorney and principal with the Reznick Group in Boston, said his survey of 19,100 properties found only 102 had gone into foreclosure. Another survey conducted by Ernst & Young, LLP, found that only

129 of 15,174 projects had been foreclosed between 1991 and 2006, an annualized foreclosure rate of 0.08 percent. The comparable rate for non-tax credit projects was 0.27 percent.

Financial Problems

Despite the low foreclosure rate, investors and syndicators are continuing to see financial problems in some of their properties. Marianne Votta, senior vice president and an asset management executive with Bank of America Merrill Lynch, said 1,077 of the company's 5,600 tax credit properties, or 19.2 percent, are on a watch list because they are behind on their debt service by four months.

Of those projects, 1 percent have been placed on a high-risk watch list because they are at risk of losing their tax credits and require "substantial amounts" of additional funds, according to Votta. Bank of America Merrill Lynch experienced 11 foreclosures in 2010 and two so far in 2011, Votta added.

Greg Judge, chief operating officer for Boston Financial Investment Management, said that the percentage of his company's tax credit portfolio on a watch list is slightly lower than Bank of America Merrill Lynch's, though it still has a number of projects considered to be high-risk.

Red Stone Equity Partners, a tax credit investor, has 7 percent of its tax credit portfolio on a watch list, according to Larry Brattain, managing director of asset management.

PROGRAM ADMINISTRATION

IRS Provides Relief for Missouri Storm Victims; Morgan Stanley, NEF Announce Disaster Rebuilding Fund

The Internal Revenue Service and Morgan Stanley in conjunction with the National Equity Fund (NEF) are providing housing and economic relief for victims of recent storms, tornadoes, and floods in the Midwest.

The Internal Revenue Service is allowing Missouri low-income housing tax credit projects to temporarily rent vacant units to displaced over-income individuals without the loss of tax credits.

The relief was announced in Notice 2011-47, which was released on June 15 and is scheduled to be published in the July 5 Internal Revenue Bulletin.

The notice temporarily suspends the income limitations for projects in areas designated for individual assistance by the Federal Emergency Management Agency (FEMA) under a major disaster declaration issued on May 9.

Under the notice, the Missouri Housing Development Commission (MHDC) may allow project owners to provide housing for a temporary period which can't extend beyond June 30, 2012. MHDC will determine the appropriate period for each project.

Status of Vacant Units

Under the terms of the notice, during a project's temporary housing period, the status of a vacant unit temporarily occupied by a displaced individual won't change from the unit's status before the displaced person moves in.

For projects in the first year of the credit period, displaced individuals occupying a vacant unit will be deemed qualified low-income tenants for purposes of determining the project's qualified basis and for meeting the project's low-income set-aside.

For projects past their first year, a low-income unit vacant prior to the notice's May 9 effective date will continue to be treated as a vacant low-income unit even if it is occupied by a displaced person. Similarly, a market-rate unit that was vacant before May 9 will continue to be treated as a vacant market-rate unit while it houses a displaced individual.

Consequently, housing a displaced individual won't affect a building's applicable fraction, qualified basis, and compliance with applicable income restrictions.

In addition, the next available unit rule will be suspended during the temporary housing period, and an owner won't be responsible for attempting to rent a unit occupied by a displaced person to a low-income household.

Also, the non-transient-use restrictions will not apply to any unit occupied by displaced individuals during the temporary housing period.

Additional Requirements

For a project to be eligible for a suspension of income restrictions, a displaced individual occupying a vacant unit must have lived in a jurisdiction designated for individual assistance as a result of the storms, tornadoes, and flooding that began in Missouri on April 19. Also, rents for low-income units housing displaced individuals can't exceed tax credit limits.

Owners must notify MHDC of vacant units that are available for rent to displaced persons, and projects can't evict tenants to provide temporary housing for displaced individuals.

Owners must keep records for displaced individuals, and they must certify the date a displaced individual's occupancy begins and when a project's temporary housing period ends.

The certifications and records for displaced individuals must be kept for annual compliance monitoring.

Disaster Fund Established

Morgan Stanley and NEF have established a $100 million disaster-area development fund that will invest in low-income housing tax credit projects in counties designated as disaster areas between April and June 2011 in Missouri, North Carolina, Alabama, Arkansas, Georgia, Iowa, Kentucky, Minnesota, Mississippi, North Dakota, Ohio, South Dakota, and Tennessee.

The fund, which will be managed by NEF, will provide tax credit equity for new construction or rehabilitation projects and is expected to be able to replace up to 1,000 affordable housing units and create up to 4,000 jobs.

NEF also is combining funding from the Morgan Stanley fund with $4 million in predevelopment loans available for projects that begin construction by March 2012.