



**Department of Commerce**

# **National Housing Trust Fund Stakeholders Meeting**

**Presented by Nathan Peppin  
Project Management & Underwriting Manager  
Housing Finance Unit**

January 30, 2017 (Olympia)  
February 7, 2017 (Spokane)

# Today's Objectives



- **Overview of the National Housing Trust Fund (NHTF)**
- Commerce's 2016 Allocation Plan
- Options for the 2017 Allocation Plan
- Open Conversation



# What is the National Housing Trust Fund?

- Enacted in 2008 as part of the Housing and Economic Recovery Act of 2008 (HERA)
- Formula-based block grant awarded to states
- Dedicated funds, not subject to Congressional appropriations cuts (however, appropriated funds can be added)
- NHTF is not intended to replace existing HUD programs
- Intended to provide revenue to build, preserve, and rehabilitate housing for people with the lowest incomes



# Where does the money come from?

- Funding will come from 4.2 “basis points” (0.04%) on new business from Fannie Mae and Freddie Mac
- Funneled through CDFI Fund at U.S. Treasury Department
- In April 2016, HUD announced a \$174 Million allocation
- Washington State received \$3.2 million in 2016 and expects to receive a minimum of \$3 million in 2017



# How does it work in Washington State?

- HUD issued an Interim Rule in 2015 (mainly modeled after the HOME program)
- The Washington State Department of Commerce has been designated as the NHTF Administrating Agency
- Commerce develops annual allocation plans based on specific criteria:
  - Public participation via a public hearing & comment period
  - Recipient eligibility requirements
  - Priority funding criteria
  - Affordable rents
  - Affordability period



# NHTF vs. HOME

HUD Requirements	HOME	NHTF
Environmental Review	✓	✓
Uniform Relocation Act	✓	✓
Section 104(d) 1:1 Replacement	✓	n/a
Accessibility and Fair Housing (Section 504)	✓	✓
Affirmative Fair Housing Marketing Plan	✓	✓
Section 3	✓	✓
Davis Bacon & Related Acts	✓	n/a
24 CFR Part 5 (Equal Access Rule, MBE/WBE, Religious Org. Participation, etc.)	✓	✓
Lead Based Paint (24 CFR Part 35)	✓	✓



# How can NHTF be used?

## Rental Housing

Increase, preserve, and operate rental housing units for ELI and VLI households

## Homeownership

Increase homeownership opportunities for ELI and VLI households

While both extremely low income (ELI) and very low income (VLI) households can benefit, there is a clear emphasis on ELI households:

- If the amount of NHTF funds available in a fiscal year is <\$1 billion, grantees must spend 100% of the funds for the benefit of ELI households.
- If the amount of NHTF funds available in a fiscal year is  $\geq$  \$1 billion, grantees must spend at least 75% of funds for the benefit of ELI households.



# How can NHTF be used? (continued)

- At least 80% of the allocation must be used for the production, preservation, rehabilitation, or operation of **rental** housing:
  - Of the amount used for rental, up to 30% can be used as an operating subsidy
- Up to 10% may be used for **homeownership**
- Up to 10% of the allocation may be used for overall program administration and planning





# A Breakdown Example

**\$3M = Total State Allocation**



**10% = \$300K for program administration**

**10% = \$300K for homeownership**

**80% = \$2.4M for rental housing**

**70% of the rental allocation = \$1.68M for capital investments**

**30% of the rental allocation = \$720K for operating subsidies**



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# 2016 Allocation Plan

- Integrated into the State's 5-Year Consolidated Plan and Action Plan, which include all HUD grants to Commerce: CDBG, HOME, HOPWA, ESG
- In 2016 Commerce developed an [Allocation Plan](#) based on following criteria:
  - Public participation via a public hearing & comment period
  - Recipient eligibility requirements
  - Priority funding criteria
  - Affordable rents
  - Affordability period



# 2016 Allocation Plan (continued)

- Funds allocated in the 2016 funding cycle:
  - Addressing the immediate need for new affordable housing rental units
  - Run concurrently with the State HTF and HOME competitive process
  - Two projects awarded NHTF funds in December 2016
- 2016 Allocation Plan can be found on the Commerce website:

<http://www.commerce.wa.gov/building-infrastructure/housing/national-housing-trust-fund/>



# 2016 Allocation Plan (continued)

## Eligible applicants must:

- Comply with the NHTF 30-year affordability period requirement
- Demonstrate ability and financial capacity to complete and manage the project long-term
- Demonstrate familiarity with the requirements of Federal, State, or local housing programs
- Have experience and capacity to conduct eligible NHTF activities
- Be a non-profit community- or neighborhood-based organization, public housing authority, or municipality



# 2016 Allocation Plan (continued)

## Ranking criteria:

1. Geographic/statewide diversity
2. Readiness & capacity:
  - Full project funding
  - Site control
  - Recent relevant experience in affordable housing
  - Capacity to develop and manage the project
  - Secure service commitments, if applicable
3. Federal, State, or local project-based rental assistance



# 2016 Allocation Plan (continued)

## Ranking criteria (continued):

4. Affordability period: min. 30 years (40-50 years if funded by State HTF)
5. Meeting the priority housing needs of the State:
  - Population served
  - Homeless and special needs services
  - Greatest need and local support
  - Access to employment, transportation, and partnerships with school districts
  - Evergreen Sustainable Development Standards
6. Leverage of other funds



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# 2017 Estimated Planning Timeline

## Stakeholder engagement:

- January 30 – Olympia
- February 7 – Spokane

## Consolidated Plan / CAPER timeline:

- April 2017 – 2017 Proposed Allocation Plan released
- April 2017 – Open 30-day public comment period on the 2017 Draft Action and Allocation Plan, including public hearing in Olympia
- May 2017 – Action and Allocation Plan submitted to HUD
- September 2017 – 15-day public comment period on CAPER
- September 2017 – CAPER submitted to HUD



# NHTF Eligible Activities for Consideration

- Real property acquisition
- Site improvements
- Conversion
- Demolition
- Financing costs
- Relocation costs
- Operating costs and operating cost reserves ( $\leq 30\%$  of each grant)
- Reasonable administrative and planning cost



# Forms of Assistance to Projects

- Equity investments
- Interest-bearing loans or advances
- Non-interest bearing loans or advances
- Interest subsidies
- Deferred payment loans
- Grants
- Other forms of assistance approved by HUD



# Eligible Project Costs

- Development hard costs
- Refinancing costs
- Acquisition costs
- Related soft costs
- Operating cost assistance and operating cost assistance reserves ( $\leq 30\%$  of annual grant)
- Relocation costs
- Costs related to payment of loans



# New Construction



- At a minimum Commerce will continue utilizing new construction as a primary method of delivering new units of affordable housing to the marketplace.



# Rehabilitation

- To incorporate rehabilitation Commerce must establish standards that describe the methods and materials and the applicable codes that the housing must meet at project completion, to include:
  - If occupied – free of all life-threatening deficiencies
  - For rental housing – must estimate the remaining useful life of major systems
  - For multi-family with 26+ units – the useful life analysis must be done through a capital needs assessment, and where the useful life is less than the affordability period, a reserve must be established to cover those costs
  - For homeownership – major systems must have a minimum of 5 years of useful life remain or must be repaired or replaced



# Rehabilitation (cont.)

- Must meet lead-based paint requirements at 24 CFR part 35
- Must meet accessibility requirements of 24 CFR part 8, 28 CFR parts 35 and 36; and 24 CFR 100.25, and other improvements that are not required by the regulations or statute that permit use by a person with disability
- Where relevant housing must be rehabilitated to mitigate the impact of potential disasters, in accordance with applicable State and local codes, ordinances, and requirements, or other requirements established by HUD
- In the absence of state and local codes, housing must meet the International Existing Building Code of the International Code Council



# Rehabilitation (cont.)

- All housing must be decent, safe, sanitary and in good repair as described at 24 CFR 5.703
- HUD will inspect and provide actionable feedback based on the HUD prescribed physical inspection procedures (Uniform Physical Condition Standards)
- Commerce must review and approve written cost estimates and ensure that construction contracts and work will meet the rehabilitation standards
- Commerce must conduct initial, progress, and final inspections to ensure work is done in accordance with the work write-ups





# Questions for Rehabilitation

- Commerce, with HOME, at some point decided not to pursue rehabilitation as an option for HOME funds; this is in part due to the significant oversight involved in bringing a built environment up to HUD standards. Should Commerce review that approach?
- Is there a significant advantage to rehabilitation over new construction?
- Is there a significant difference for homeownership vs. multi-family rehabilitation that could lead to a unique answer to each?
- Other?



# Operating Subsidy

- Eligible costs include insurance, utilities, real property taxes, maintenance, and scheduled payments to a reserve for replacement of major systems
- Operating cost assistance can ONLY be provided if the NHTF-assisted units do NOT have project-based assistance
- Operating costs assistance must be based on the underwriting of the project and must be specified in the written agreement between the state and the recipient
- Funding for operating cost assistance may be provided in addition to funding an initial operating deficit reserve, which is a reserve to meet any shortfall in project income during the period of project rent-up (not to exceed 18 months)



# Operating Subsidy (continued)

For reserves funded with non-appropriated NHTF funds (i.e., the allocations from Fannie Mae and Freddie Mac):

- The assistance must be calculated using HUD methodology
- The reserve may be funded for the amount estimated to be necessary for the entire period of affordability at the time of executing the written agreement

For reserves funded with appropriated HTF funds:

- The assistance must be calculated using HUD methodology
- For each grant, assistance is limited to the amount necessary for a period of up to 5 years



# Operating Subsidy (continued)



- Rule would allow Commerce to commit single year NHTF funds upfront to cover future year operating cost assistance during a project's affordability period



# Questions for Operating Subsidy

- Does the subsidy actually create a sustainable project for the 30-year required affordability period?
- Will a subsidy tied ONLY to the NHTF units provide sufficient stability to the overall project performance?
- Where are the funds held and how are they released (e.g., monitoring projects and require confirmation funds are used for an eligible use)?
- Other?



# Homeownership

- 10% limit of state's annual NHTF grant
- If national NHTF allocation is less than \$1 Billion, 100% of the NHTF funds must serve ELI (30% AMI and below)
- First-time homebuyers
- 30-year affordability period required
- Build, rehabilitate, or preserve affordable owner-occupied housing
- Help with down-payments, closing costs, or interest-rate buy-down



# Questions for Homeownership

- Commerce, with HOME, at some point decided not to pursue homeownership as an option for HOME funds; this is in part due to the significant oversight and monitoring involved. Should Commerce review that approach?
- Are there particular programs within homeownership that stakeholders prefer (e.g., new construction, DPA, etc.)?
- Is the 30% AMI requirement a viable model for sustainable successful homeownership?
- Other?



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## Contact us

### **Housing Finance Unit**

Nathan Peppin

360.725.2983

[Nathan.Peppin@commerce.wa.gov](mailto:Nathan.Peppin@commerce.wa.gov)

<http://www.commerce.wa.gov/building-infrastructure/housing/national-housing-trust-fund/>