

# CAROLINAS COUNCIL FOR AFFORDABLE HOUSING



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## Message from the President

FIRST OF ALL, I want to say a special “Thank You” to all of the members of the Carolinas Council for Affordable Housing (CCAH), and especially to our Past President Linda Wall, for helping us make 2013-2014 a great year! I am excited about working with you all to make 2014-2015 another exceptional year.

The 2014 Annual Meeting Committee, headed up by Debbie Honeycutt, did an outstanding job and presented many exciting topics and excellent speakers. In conjunction with the General Sessions, CCAH provided an all-day Properties Training and Education (PTE) session. Training was on Practical Solutions to Real Fair Housing & Section 504, and was presented by E&A Team, Inc. Mark English also did a presentation to the General Session on 504/ADA along with upcoming changes. We have received lots of positive feedback on both of these. We finished up the year with a very successful Annual Meeting, with more than 180 members and participants in attendance and 20 Exhibitors. We don’t ever want to overlook our many Sponsors and Exhibitors because without them we couldn’t possibly provide the excellent meetings and training that we have each year. We are grateful to you for your support!

In addition to the Annual Meeting, CCAH provides training throughout the year. The most recent training was for site managers and maintenance technicians. The presenters — NCHFA Russ Griffin and Susan Westbrook, and USDA-RD Lee Phipps — did an outstanding job in the day-long sessions.

The Annual Meeting and Education Committees are busy planning the 2015 Annual Meeting, and we will be celebrating CCAH’s 30<sup>th</sup> Anniversary this year. You will not want to miss it, so watch for more details and save the dates NOW: **April 26-28, 2015**. As always, we welcome your input on ways we might improve our Annual Meetings as well as any suggestions for topics you might want to hear discussed at the meeting or for the PTE training. This is YOUR meeting, and we want YOUR participation. Please send any suggestions you may have for topics for the 2015 CCAH Annual Meeting to Scott Alderman, Annual Meeting Committee Chairman, at [salderman@landura.com](mailto:salderman@landura.com). If you would like to suggest topics for the PTE, you may send those to Michael Blackburn, Education Committee Chairman, at [michael@formosamanagement.com](mailto:michael@formosamanagement.com).

We are pleased that everyone seems to enjoy Myrtle Beach Marriott Grande Dunes Resort as the venue for our Annual Meeting. That is why we continue to book this resort for future meetings. We are currently booked there through 2017.

Don’t forget -- SAVE THE DATES! Mark your calendars now for CCAH Annual Meeting, April 26-28, 2015. Time is flying by, and it will be here before you know it. You don’t want to miss the exciting things we have in store for our 30<sup>th</sup> Anniversary Celebration!!

Thanks again to everyone for making 2013-2014 a very successful year!

Fran Whittenton, President

# Washington Report

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**November 12, 2014**

NO MATTER HOW dysfunctional the next Congress turns out, it is folly to think that we will not face serious challenges with program funding levels and the future of the LIHTC and tax-driven affordable housing programs – whether or not lawmakers gain ground in the elusive, perhaps quixotic, quest for tax reform.

Congress reconvenes today, November 12, for a lame duck session that will be the first test of will, and good will, after the \$4 billion mid-term elections and a 70-year record low voter turnout which yielded a Republican gain of (probably) nine seats in the Senate [for a 54-46 majority] and a GOP majority in the House approaching an astounding 250 seats.

The CR (continuing resolution) funding the government expires on December 11. If leaders of both parties can muster the votes to pass a second resolution for the remainder of fiscal 2015, it will be a signal that some cooperation may be possible. However, if the CR becomes contentious because of either the funding cap agreed to on a bipartisan basis a year ago or because of poison amendments to the measure, hang on.

And for FY 2016, sequestration returns with \$109 billion in automatic cuts, with deeper reductions in defense-related spending because of previous agreements, if Congress allows the caps in the Budget Control Act of 2011 to remain. More likely with this new Congress are efforts to make deeper cuts in discretionary domestic spending, which would put many HUD and USDA housing programs in further jeopardy.

The package of expired and expiring tax provisions is something leaders of both parties in both chambers apparently would like to get off the table before Christmas. But, as is the case with an omnibus CR for the remainder of the fiscal year, there are a number of

returning and new Republicans on both sides of the capitol who would prefer to delay any tax action until 2015 when they control both the House and the Senate. Part of the rationale for the delay is so a Republican Congress could make some provisions permanent, but that could also complicate the ultimate task of tax reform.

An unsatisfactory compromise would be to do an extenders package just for 2014. The Senate Finance Committee earlier this year approved the bipartisan EXPIRE ACT with a two-year extension (2014 and 2015) of 50+ provisions, including the nine percent floor with the additional modification including a four percent floor for acquisitions. A lame duck one-year extension might make the tax season a bit easier, but leaves every industry with that dreaded uncertainty for 2015.

If Congress does not extend the expiring provisions now or early in the new year, we will be back here at this time next year while lawmakers cling to the hope they can pass at least a corporate tax reform measure that the president would sign.

But as we all keep repeating, it cannot and should not be assumed that Congress will not somehow do a tax package, nor can we assume that things will work out for the Housing credit “because they always do.”

The process of drafting comprehensive tax reform legislation, whether it goes anywhere or not, is the biggest threat we have seen since the efforts to sunset the LIHTC in the early 1990s. With a rewrite of the code also come some opportunities not only to protect but to enhance the Credit program.

Much more as things wind down, and Congress, particularly the 50 or so departing House members and up to a dozen Senators, try to get out of town.

# 2015 Annual Meeting

## Come Celebrate CCAH's 30th Anniversary

THE ANNUAL MEETING Committee is working hard to make sure the 2015 CCAH Annual Meeting is a huge success. This year we will be celebrating our 30<sup>th</sup> Anniversary, and we are hoping to have a record turnout!!

The committee members are thinking up topics that will benefit all in attendance. We have spoken with attorneys for North Carolina and South Carolina concerning training on the CCAH lease. Their office handles landlord/tenant matters for management company clients that deal with Rural Development, LIHTC, and HUD properties. The trainings are great for everyone and will cover practical issues that come up day to day and "red flags" that managers should be aware of as well as answer any particular question our members have.

We are still gathering ideas to make the Annual Meeting informative, educational, and fun!! If you have any topics you would like to see covered, please contact me at 336-760-8100, or the CCAH office at 919-774-7713.

Thanks and we look forward to seeing you at the beach!

Scott Alderman  
Chair of the Annual Meeting Committee

**From the Golf Committee:** We have booked the 2015 CCAH Annual Meeting Golf Tournament for Sunday April 26, 2015, at Pine Lakes Country Club. Tee times for the event will start at 9:09 a.m. We will be working on securing donations, giveaways, and prizes between now and the tournament.

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## Education Committee Report

DURING THE 2014 fall training sponsored by Carolinas Council for Affordable Housing, 480 people attended the three North Carolina locations: Smithfield, Winston-Salem, and Mills River.

At those trainings, attendees heard from North Carolina Housing Finance Agency representatives Russ Griffin and Susan Westbrook. Their presentation focused on site inspections and compliance reviews for Tax Credit sites. USDA-RD representative Lee Phipps offered useful information regarding supervisory and compliance reviews at USDA-RD properties. The training was well received by attendees.

The 2015 Annual Meeting will include training with our main topic for site managers and regional property managers focusing on Landlord Tenant Law and the CCAH lease. Watch for additional information to come.

If you have specific training topics that you would like to see Carolinas Council for Affordable Housing sponsor, please email your suggestions to the CCAH office: [ccahboard@aol.com](mailto:ccahboard@aol.com). We are always happy to hear from you, and your suggestions provide us with direction to better serve our membership.

Michael Blackburn, Chair, Education Committee

## Moderate Rehabilitation with Fannie Mae: An Opportune Financing Option

By Jeff Banker and Brian Meilton, Lancaster Pollard

Reprinted with permission from Lancaster Pollard's *The Capital Issue* (August-September 2014) at [www.lancasterpollard.com](http://www.lancasterpollard.com)

Like everything in life, we want choices. Affordable housing developers are no different—particularly, when it comes to finding a permanent financing solution to pair with low-income housing tax credits (LIHTCs).

Recently, discussion has largely been focused on the U.S. Department of Housing and Urban Development's (HUD) new LIHTC Pilot Program. Although that is indeed a strong option, there is another solution out there that deserves attention—using the Fannie Mae Multifamily Affordable Housing (MAH) Program for moderate rehabilitations.

### What's MAH All About?

A moderate rehabilitation using the MAH Program can work exceedingly well with both 4% and 9% LIHTCs. The program can be a particularly attractive option in a rising interest rate environment due to the speed of execution—typically several months quicker than comparative long-term options with HUD.

By taking advantage of a compressed processing time, it offers flexibility to experienced developers. While some agency permanent financing programs can take nine or more months from engagement to closing, the average closing time of several complicated transactions recently financed through Fannie Mae was just four months.

The program also is ideal for affordable projects undergoing moderate rehabilitation with minimal tenant disruption while using tax credits and a HAP contract. The deal team—lender, developer, general contractor and architect—are particularly important as experience in completing successful rehabilitation of similar projects is critical.

### Program Features

The MAH Program has several benefits that distinguish it from other permanent financing sources. While HUD's LIHTC Pilot Program has a very rigid hard cost limitation of \$40,000 per unit, Fannie Mae can allow for greater flexibility. Additionally, while HUD may require Davis-Bacon wage rates, Fannie Mae does not.

Other significant advantages of the program include:

- ◆ The ability to lock the rate on an immediate basis to take advantage of current low interest rates versus a forward rate lock.
- ◆ The removal of conversion risk as the loan begins amortizing immediately.

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- Fannie Mae does not require a letter of credit or substantial escrows. It requires a project capital assessment (PCA) and lender review, rather than a costly and potentially lengthy architecture and cost review as part of FHA transactions. All of these characteristics add up to a reduced processing time and reduced costs associated with a Fannie Mae transaction.

As mentioned above, a key attribute is the ability to take advantage of immediate fixed rates, which helps tremendously with debt pricing when compared with a forward rate. The interest rate is locked prior to closing and the loan is fully funded on day one. A repair escrow is funded at closing to fund the rehabilitation. Generally, waivers allow for a staged funding of this repair escrow to match the equity pay-in schedule negotiated between the developer and syndicator.

### Fannie Mae MAH Program

#### ADVANTAGES

- ◆ Efficient Timing
- ◆ Low Cost of Capital
- ◆ Limited Financial Covenants
- ◆ Limited Recourse
- ◆ Risk-Based Financing
- ◆ Equity Extraction Option
- ◆ High Leverage Point
- ◆ Fully Assumable

#### DISADVANTAGES

- ◆ Eligibility Requirements
- ◆ Balloon Maturity

The loan is nonrecourse and is available in 15- and 18-year terms with a 30-year amortization. The debt begins to amortize immediately, however, this is offset by eliminating conversion or potential resizing risk that often can be a concern with LIHTC projects. Transactions also can be creatively structured to take advantage of bond credit enhancement. The “sweet spot” for the program would be in the range of \$30,000 to \$40,000 in hard costs (higher also available) with minimal relocation and an experienced development team. Quality third-party reports, such as appraisal, PCA, phase one environmental assessment, survey, title and termite inspection, can be used from the tax credit process with appropriate reliance letters. This can help save time and money potentially avoiding the need to obtain additional reports.

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## FHA Mortgage Insurance

### ADVANTAGES

- ◆ Long-Term Fixed Rate
- ◆ Low Cost of Capital
- ◆ No Financial Covenants
- ◆ Fully Amortizing
- ◆ Limited Recourse
- ◆ High Leverage Point
- ◆ Fully Assumable

### DISADVANTAGES

- ◆ Longer Deal Cycle
- ◆ Higher Upfront Costs
- ◆ No Risk-Based Pricing

## MAH Program in Action

Wateree Villas in Camden, S.C., and Crescent Gardens Apartments in Wilson, N.C., provide excellent examples of a developer obtaining financing through Fannie Mae's MAH Program.

Wateree Villas is an 80-unit family development that consists of 14 one- and two-story town houses and a community building. The project, originally constructed in 1979 and previously renovated in 1994, was in need of upgrades to the building exteriors, unit interiors and the community building to preserve and maintain the property for future affordable tenants. The developer, Affordable Housing Partners, Inc., was awarded 9% LIHTCs from the South Carolina State Housing Finance and Development Authority and sought funding from Fannie Mae's Moderate Rehabilitation program to complete the acquisition and rehabilitation of Wateree Villas. Working with its lender, the developer was able to obtain a \$2.2 million fixed-rate Fannie Mae loan to use in conjunction with its 9% LIHTCs.

When Affordable Housing Partners received tax credit allocations for their next project, they again selected the MAH Program due to its successful execution for Wateree Villas. The MAH Program was used to acquire and rehabilitate an apartment complex in conjunction with LIHTC equity. Crescent Gardens is a 100-unit family development that consists of 18 residential buildings and a community building. The project, originally constructed in 1978, was in need of similar upgrades as Wateree Villas. The developer was awarded 9% LIHTCs from the North Carolina State Housing Finance Authority and state tax credits through the North Carolina Housing Finance Agency and sought funding from the Fannie Mae MAH Program to complete the acquisition and rehabilitation.

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This time the developer was able to obtain a \$1 million fixed-rate Fannie Mae loan to use in conjunction with its tax credits. The transaction was completed in an efficient time frame, closing only 90 days after engagement. In addition, the transaction closed within the prescribed time frame of the purchase option between the seller and buyer, enabling the developer to avoid negotiating an extension.

The lender and its counsel were able to identify the necessary business and legal waivers to close within this short time frame. For example, a waiver was received to allow the state tax credits to close after the closing of the Fannie Mae transaction. This was to accommodate the uniqueness of the state tax credit program in North Carolina which funds transactions on a specific timeframe and eliminated a potential delay of several months. Additionally, because the project will be completely occupied throughout the rehabilitation, the lender was able to structure an immediate funding.

### **Speed of Execution**

In summary, the Fannie Mae Multifamily Affordable Housing Program is efficient and versatile. The established and reliable program provides fixed and immediate pricing, 15- or 18-year terms and can be executed in an accelerated timeframe.

Fannie Mae's processing times are typically at 90 days or less. In contrast, HUD financing is nonrisk-based, so interest rates are typically lower and processing times are longer at 150 days or more. Understanding the trade-off between financing options is key, especially in a rising interest rate environment. After all, time is money.

Ideal candidates are developers that have closed several LIHTC transactions, but are looking for speedier execution than HUD or other funding sources can achieve. New tax credits, assumption and extension of an existing HAP contract and minimal tenant relocation are all key attributes. A good lender can further compare and contrast the economics of a HUD loan, such as one through the LIHTC Pilot Program, to a moderate rehabilitation using Fannie Mae's MAH Program to allow a borrower to make an informed financing decision that will result in a successful transaction.

## CCAH Office Notes

### Dates to remember:

- **2015 Membership Renewals** are due January 1-31, 2015. Renewals will be mailed in early December.
- **2015 Electronic Leases** may be purchased any time after December 1, 2014. For those of you who use the electronic leases, your 2014 lease runs out as of December 31, 2014.
- **2015 Annual Meeting** will take place **April 26-28, 2015**, at the Marriott Grande Dunes Resort in Myrtle Beach, SC. The **golf tournament** will be on Sunday morning, April 26. We will again have the huge buffet at the Sunday evening reception. More details to come in February. Mark your calendars now!

**Fall Training Manuals:** We have a few training manuals remaining. Any member who would like to purchase additional training manuals from the fall training may contact the CCAH Office. We will sell them to you for our cost of \$5.00 each, plus shipping.

**Board Note:** If you would like to become more involved with CCAH, please send an e-mail to the CCAH Office. We are always eager to hear from our members concerning training, newsletter articles, and issues concerning the affordable housing industry. We are happy to hear from you!