CAROLINAS COUNCIL FOR AFFORDABLE HOUSING

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Message from the President

I want to say "Thank You" to all of the members of the Carolinas Council for Affordable Housing for helping us make 2012-2013 an exceptional year! We finished up the year with a very successful Annual Meeting, with more than 167 members and participants in attendance. The Annual Meeting Committee, headed up by Mike Holoman, did a splendid job, and presented many exciting topics and excellent speakers.

Special "Thanks" to Partnership Property Management for donating the $500.00 gift certificate to Myrtle Beach Marriott Grand Dunes Resort for the raffle. Proceeds from the sale of raffle tickets combined with several individual donations in the total amount of $1,510 went to the Myrtle Beach Homeless Shelter/Street Reach. They were very grateful for the donation, and asked us to express their gratitude to our members who made it possible. Thanks to all for helping ease the pain of homelessness!

As always, in conjunction with the general sessions, CCAH provided an all-day Properties Training and Education (PTE) session. Training this year was on RD compliance and management issues, and was presented by Zeffert & Associates. We have received lots of positive feedback on this training.

In addition to the Annual Meeting, CCAH provides training throughout the year. The most recent training was RD Training Day Camp for site managers. The RD presenters — Beverly Casey, Barbara Owens, Rebecca Dillard, and Ann Sherrill — did an outstanding job and made the day-long sessions informative and fun. Please see a more extensive write-up on this elsewhere in this newsletter.

The Annual Meeting Committee and Education Committee are busy planning the 2014 Annual Meeting and, 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 2014 Annual Meeting to Debbie Honeycutt, Annual Meeting Committee Chairperson. Her e-mail is dhoneycutt@gemmanagement.net. If you would like to suggest topics for the PTE, you may send those to Fran Whittendon, Education Committee Chairperson, at franw@dthmanagement.com.

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2013 NC & SC Rural Development Awards

North Carolina Awards

Tammy Narron, Site Manager of the Year - Family Housing

Doris Duff, Site Manager of the Year - Elderly Housing

Ricky McMillian, Maintenance Manager of the Year

South Carolina Awards

Tierney Boone, Site Manager of the Year - Family Housing

Shameka Ford, Site Manager of the Year - Elderly Housing

William J. Kelly, Maintenance Manager of the Year

Washington Report

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Nooley Reinheardt & Associates
Governmental Relations & Public Affairs Consulting Since 1981
TheNooley@gmail.com

September 18, 2013

Call Congress Dysfunction Junction, put it in Deunification County, allow it to write its own allocation plan, and then give it a boost as a Difficult to Legislate Area, and it still couldn't close a deal.

In that environment, most immediate for our interests between now and Christmas are budget issues (FY '14 appropriations/sequestration) and the possible introduction of full blown tax reform legislation in both the House and Senate.

The new fiscal year is days away and there is no clear path, or even a blurred wilderness trail, to keeping the government open. But it is the program funding levels in the final CR (continuing resolution) for fiscal '14, after however many stop gap measures are necessary, that are important to us.

Funding Prospects for FY 2014

There are multiple possibilities for the final number for FY 2014 for all discretionary spending programs, including affordable housing. For simplicity, the lowest number (current year appropriations minus the next sequestration installment payment of $109B) would be devastating to low-income housing programs — and all other sectors including defense.

The most optimistic funding numbers for both HUD and USDA housing programs, while just okay, would still be a victory under these circumstances.

And it does not help that it is not clear what spending levels this president might or might not accept, something that worries his own Democratic allies on the Hill.

With no prospect of them now passing, in review, both the House and Senate appropriations committee bills would have been, in relative terms, good for most rural housing programs, including rental assistance. HUD fared better in the Senate bill, but the House version made new deep cuts in most areas. Again, the four respective money bills are permanently stalled in both bodies.

Prospects for Tax Reform

Senate Finance Committee chairman Max Baucus (D-Montana) contends that Members of Congress will come to view passage of tax reform legislation as a political positive, rather than a possible liability, for those running in 2014.

The chairman says he will move a tax bill this year that cuts both corporate and individual rates. One "little" complication, however: The Senate Democratic leadership wants up to $1 trillion in new revenue for deficit reduction that would eliminate the need for sequestration.

The committee also rather quietly floated the option of doing piecemeal tax reform, cutting a comprehensive bill into pieces. The most obvious division would be doing corporate and individual tax changes independently, and then at some point somehow trying to cobble them into a single bill.

Congressman Dave Camp (R-Michigan), who heads the powerful House Ways and Means panel, continues to meet with his (Republican) members with the intent of also moving tax reform legislation out of the committee this year.

Mr. Camp proceeds while acknowledging that House Majority Leader Eric Cantor (R-Virginia) did not include tax reform on the fall agenda he distributed to the Republican Conference. Chairman Camp, like Senator Baucus, intends to reduce both corporate and individual rates, and any revenue increase is a non-starter for Republicans.

The key here in Senator Baucus' statement is "passage" of tax reform legislation (that could become law). House Republicans would have to find the votes to pass a bill that is not likely to become law and that has a lot more losers than winners. The political perils are obvious.

Not necessarily unique to this 113th Congress, the easiest vote for members is almost always the vote not taken.

Prospects for LIHTC

There is a cautious expectation in the affordable housing industry that the LIHTC will be preserved, with permanency for the flat 9 percent credit and inclusion of the fixed rate for some 4 percent activities, in both the House and Senate bills – when and if they are introduced.

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A Washington Report
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My expectation that we will be included in both bills is a bit softer than that of some of my colleagues. This is both caution and my political gut, and the fact that it is difficult as hell to get rates to the levels both chairmen are talking about without sacrificing many popular and effective tax preferences.

Our inclusion in the anticipated tax proposal packages is important in and of itself. It is also possible that whatever is introduced could be the foundation for future tax bills if nothing passes in the next 12 months, but I tend to discount this. It is, however, very probable that whatever is introduced in the House and Senate will influence the drafting of an eventual extender package – probably a 2014 effort that would have to be made retroactive

Debt, Deficit, and Housing Finance Reform

Otherwise, the debate over increasing the debt ceiling is of universal interest. Republican leaders in the House have floated the idea of tying the debt ceiling to tax reform, but the odds of that diminish rapidly as the latest deadline for paying existing bills comes closer.

Remember that the last time Congress made something contingent on another action was in the Budget Reform Act of 2011 which got us sequestration instead of a rational and balanced approach to deficit reduction.

Related to both the funding and tax debate, the Congressional Budget Office this week, in the most simple of terms, said the deficit/debt problem is not discretionary spending (which actually continues to decline in real terms) but entitlement programs related to the exploding number of baby boomers becoming eligible for retirement and health benefits. The cost of other entitlement programs and the expense of servicing the debt as interest rates increase are also major factors.

Additionally, House and Senate committees continue to move forward on housing finance reform (Fannie and Freddie), but on completely divergent tracks as you would expect. The administration is apparently waiting for the right moment to fully engage. HUD Secretary Shaun Donovan, to his credit, has been talking in more detail at recent industry meetings.

The House is also looking at major remodeling of FHA at some point.

In the case of both the GSEs and FHA, multifamily, the success story in both instances, is not part of the focus.

President's Message
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We are pleased that everyone seems to enjoy Myrtle Beach Marriott Grand 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 2016.

SAVE THE DATE! Mark your calendars for April 27-29, 2014, for the upcoming 2014 Annual Meeting. 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 2014.

Again, thanks to everyone for making 2012-2013 a very successful year. We don't want to overlook our sponsors and exhibitors. Without you we couldn't possibly provide the excellent meetings that we have each year. We are grateful to you for your support!

We look forward to an even more successful and prosperous 2014, and wish all you the best!

Linda Wall
President

EDUCATION

Trainers Beverly Casey, Barbara Owens, and Ann Sherrill

CCAH sponsored "RD Training Day Camp for Site Managers" in three separate North Carolina locations on August 26, 27, 28, 2013. Attended by more than 350 people, the training sessions were very well received. Trainers were Beverly Casey, Rebecca Dillard, Barbara Owens and Ann Sherrill. Our trainers were prepared with important information, fun, games, and prizes. CCAH provided each attendee with a spiral bound training manual. Attendees gave very positive feedback about the training materials and subject matter discussed. They enjoyed coffee service upon arrival, box lunches and an afternoon beverage break

Carolinas Council for Affordable Housing makes every effort to sponsor or co-sponsor several training sessions annually. Usually the training sessions are held (1) in late winter, (2) at the annual meeting, and (3) in the late summer or fall of each year. Our intent is to have excellent trainers, provide quality training information and to keep the cost affordable for CCAH members. CCAH Members have the advantage of being able to use their Properties Training and Education (PTE) credits in payment or partial payment for registration fees.

RD Training Day Camp - Fletcher

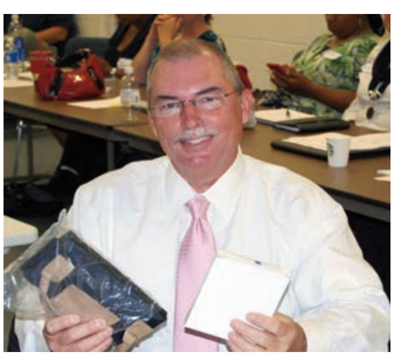
CCAH is always open to constructive suggestions for training. If anyone sees a need for a specific kind of training, please email your suggestion to the CCAH Office at ccahboard@aol.com, and we will try our very best to include your suggestion in our training program.

Jeopardy game - Fletcher

RD Training Day Camp - Winston-Salem

Jeopardy game - Smithfield

RD Training Day Camp - Smithfield



Rick Allen won fabulous prizes.

Find Great Tenants Through the North Carolina Supportive Housing Program

The new North Carolina Supportive Housing Program provides rental assistance and in-home services to individuals moving from care facilities to rental housing. Transition teams are using **NCHousingSearch.org** to find properties for tenants who are ready to move.

You are invited to list your North Carolina rental properties on NCHousingSearch.org, which is a free service for listing all of your properties. All types of rental units are needed.

Benefits include

- subsidy *with no term limits* paid directly via direct deposit the first of the month
- quick tenant processing
- streamlined program requirements - inspections not always needed

Qualified professionals and case workers help tenants be successful for the life of the lease.

For more information about the application process, contact Quadel at NCSHPinfo@NCQuadel.com or (919) 415-2772.

To list properties, e-mail NCSH@socialserve.com or call toll free (866) 973-3147 to market your units.

CCAH now accepts Credit Cards!

Pay for
Lease Products, Membership, Registrations
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Complete the Credit Card Authorization Form found on our website (www.carolinascouncilforaffordablehousing.com) and fax to 919-774-7713
DO NOT EMAIL CREDIT CARD INFORMATION!

Case in Point: Immediate Funding Available with Fannie Mae

Jeff Banker, Lancaster Pollard

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Fannie Mae provides financing for a wide spectrum of the multifamily market, including conventional, rent restricted, cooperatives, seniors, student housing and manufactured housing communities. For affordable housing developers seeking a versatile and timely financing option, Fannie Mae's Multifamily Affordable Housing Finance program may be a good fit. The program is designed to provide financing for affordable multifamily apartments with low income housing tax credits (LIHTCs), Sec. 8 and income- or rent-restrictions.

Two recent projects aptly demonstrate the program's attributes for affordable housing providers.

Wateree Villas: Acquisition-Rehabilitation

Located in Camden, S.C., 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 Lancaster Pollard, the developer was able to obtain a $2.2 million fixed-rate Fannie Mae loan to use in conjunction with its 9% LIHTCs.

Because the project was completely occupied throughout the rehabilitation, Lancaster Pollard was able to structure an immediate funding through the Moderate Rehabilitation program—taking less than three months from engagement to closing. It provided several advantages, including:

- 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.
- No letter of credit required during the construction period.

The immediate funding structure resulted in a lower interest rate for Wateree. Additionally, the loan has an 18-year term and 30-year amortization. The financing will provide for major renovations at approximately $52,000 per unit throughout the property. Major renovations include building a new children's playground with toddler lot, a new covered picnic area, a new drip-line irrigation system and new Energy Star-rated appliances for the units' kitchens. Also included are new plumbing systems, sinks, bathtubs and several other upgrades. The successful acquisition-rehabilitation positions Wateree Villas as a quality affordable housing complex that will be able to serve its residents well into the future.

Elmwood Apartments: Acquisition

Dietz Property Group, a real estate investment firm, sought financing to acquire Elmwood Apartments, a 110-unit affordable housing project located in Marysville, Ohio. Elmwood was originally constructed in 1995 with LIHTCs and had entered its extended use period. Facing a strict time constraint due to the purchase agreement, Dietz needed to expedite financing in order to complete the acquisition. Lancaster Pollard recommended Fannie Mae as the funding source.

Lancaster Pollard was able to move from engagement to closing in about 80 days, meeting Dietz's timing requirement. The developer acquired the property for nearly $4.2 million and financed over $250,000 in repairs. The loan has a 12-year term with a 30-year amortization.

Fannie Mae's processing times (90 days or less) are typically shorter than HUD/FHA processing time, which is a function of its risk-sharing model. In contrast, HUD/FHA financing is nonrisk-based, so interest rates are typically lower but processing times are longer (150 days or more). Understanding the tradeoff between financing options is key. After all, time is money.

As demonstrated by the Wateree Villas and Elmwood Apartment projects, the Fannie Mae Multifamily Affordable Housing program with immediate funding is a versatile product that can be used for refinancings, straight acquisitions and acquisition-rehabilitations. With its competitive pricing and term flexibility, funding with Fannie Mae can be a timely and cost-efficient financial solution.

Redefining Rural: How the Census Changes Rural Multifamily Housing

Carl Wagner, Lancaster Pollard

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The distinction between an urban community and a rural one seems simple. Urban communities are cities with large populations; everything else is rural. That simplicity, however, quickly vanishes as one begins to examine just what encompasses everything else.

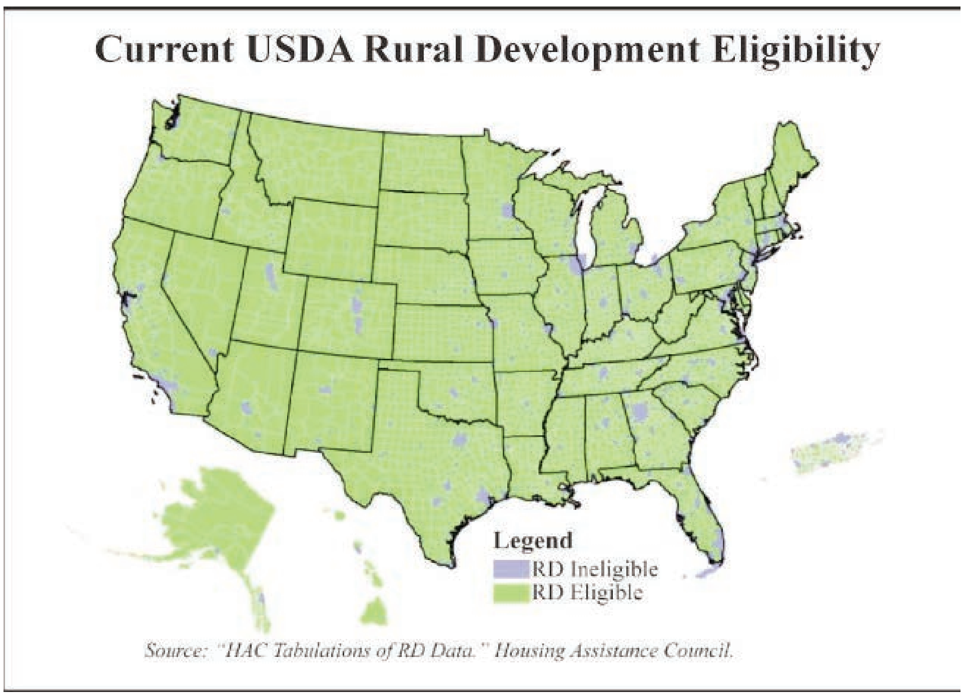
Throughout much of its history, the United States was largely rural in both population and landmass. The percentage of the population living in rural areas, however, has been steadily declining for decades, and today stands at 20% of the U.S. population. According to the 2010 census, although 20% of the population is rural, over 95% of the land area is rural. Attempting to classify 95% of the United States with simple categorizations is no doubt a futile task as there are too many geographic and economic variations.

For the purposes of the United States Department of Agriculture's (USDA) Rural Development (RD) multifamily housing programs, there are both certainties and uncertainties. What is certain is which rural communities qualify for USDA-RD multifamily housing programs today. What is uncertain is how long those definitions will last.

Currently, for direct and guaranteed loan programs, such as the USDA Sec. 538 program, USDA defines rural as a community with

- A population of 10,000 or less; or
- A population of 10,000 to 20,000 not contained within a metropolitan statistical area (MSA); or
- A population of 10,000 to 20,000 that has a serious lack of mortgage credit.

However, that 20,000 threshold has proved flexible over recent decades due to the concept of "rural in character," a designation made by USDA. A grandfather clause has allowed communities with populations up to 25,000 to still qualify for USDA-RD programs if they are rural in character.



On Oct. 1, 2013, USDA will begin using population data from the 2010 census to determine which communities qualify as being rural. Concurrently, the grandfather clause that allows communities up to 25,000 to retain eligibility will expire. The result will be that 933 rural communities will no longer be eligible for USDA-RD programs either because the grandfather clause they relied upon to retain eligibility expires or because the increase in their population for the first time puts them above the population threshold.

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Waiting for Congress

Congressional action may delay this change and allow those communities to retain their eligibility. To do so, Congress would need to pass a budget or continuing resolution (CR) with an appropriation extending the current rural definitions.

With both political parties staking out their positions on opposite ends of the spectrum as the fall debate over the budget and debt ceiling approaches, a swift compromise seems unlikely. The most likely outcome may very well be another CR; however, with talk of a government shutdown already permeating the Capitol's atmosphere, uncertainty may be the only certainty for those waiting on Congressional solutions.

As such, rural housing developers need to be prepared for three possible outcomes:

1. The changes to definitions of rural go into effect on October 1, 2013, as planned, leaving 933 communities no longer eligible for USDA RD multifamily housing programs. Developers will need to adjust accordingly and seek alternative financing sources to complete their projects.

2. An appropriation is passed that extends the rural definition for a finite number of years, possibly until 2020, meaning rural developers can continue to take advantage of USDA RD programs.

3. The issue, likely as result of a CR, is postponed one year. In that case, rural developers considering new projects may want to act quickly to utilize USDA RD programs before this debate rears its head again in 2014.

Regardless of which outcome ultimately becomes reality, it is essential for rural housing developers to understand their options. The most likely outcome, according to affordable housing industry insiders, is that the current definitions will be extended for one year with a permanent solution to be decided upon in 2014. Assuming that is the case, rural developers pursuing substantial rehabilitation, acquisition or new construction projects may want to consider taking advantage of financing options, such as the USDA Sec. 538 program, while they still can.

How USDA Sec. 538 Works

The USDA Sec. 538 program is designed for the development of affordable rental housing for low- to moderate-income households with incomes up to 115% of the area median income. Rural communities with populations of 20,000 or less are eligible. The Sec. 538 program can be used for the new construction, substantial renovation or acquisition of multi-family properties.

As an example, Montpelier Gardens, a 41-unit affordable housing complex owned by the Buckeye Community Hope Foundation, recently completed a substantial renovation using the 538 program. The $1.1 million loan from USDA was used in conjunction with $1 million from the Housing Development Assistance Program (HDAP) and $1.8 million in 4% low income housing tax credits (LIHTCs) to renovate the property. Located in Montpelier, Ohio, the village has a population of less than 5,000, making it eligible for the 538 program.

Montpelier Gardens, Montpelier, Ohio

Should the current definition of rural not be extended by October 1, many rural developers, who may once have considered the 538 program, will have to look elsewhere. There are programs through the U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration (FHA) that may work, particularly the FHA LIHTC pilot and the Sec. 221(d)(4) programs.

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Using FHA

The FHA Sec. 223(f) pilot program, introduced last year, was designed specifically for use with LIHTCs. Thus, if a rural developer with tax credits was planning on using the USDA Sec. 538 program for refinance, moderate rehabilitation and/or acquisition transactions, but found they no longer could due to eligibility changes, then the 223(f) LIHTC pilot program might be the next best fit. The pilot program allows borrowers to benefit from an accelerated and streamlined process as well as FHA's low interest rates and nonrecourse, 35-year terms. The accelerated processing makes tax credit timing constraints compatible with FHA insurance processing. In order to ensure that the application process is accelerated, HUD has pared down the standard Sec. 223(f) application by eliminating sections that are not relevant to tax credit projects. The result will be the closing of HUD-insured loans through the Sec. 223(f) program within 120 days from receipt of lender applications to closing. Limitations to the pilot program include per unit repairs ($40,000 per unit, including all construction costs) and the inability to finance new construction projects.

The FHA Sec. 221(d)(4) program is used for the new construction or substantial rehabilitation of multifamily rental apartments. Benefits include: a nonrecourse feature; 40-year term; low, fixed interest rates; and the ability to use it in conjunction with LIHTCs. Developers seeking new construction financing may want to consider the 221(d)(4) program as an alternative to the 538 program.

For those developers seeking a refinance or acquisition without the use of LIHTCs, the FHA Sec. 223(f) program would likely be the best option. The program offers the nonrecourse feature, 35-year term and low, fixed rates subject to market conditions.

Looking Forward

For developers currently in the process of purchasing land in rural areas, it is especially important they be aware of the 2010 census implementation in regards to city boundary lines. When distinguishing where a rural area ends and an urban area begins, township barriers are often used. In this case, it is possible that one side of a street could be eligible and the other would not be. It is also quite possible that a developer could purchase a lot under the assumption that it was rural only to later learn that it no longer qualifies as such. In that scenario, it is too late to use the USDA Sec. 538 program.

The big picture scenario for rural eligibility definitions and the 2010 census is likely a case of *when* as opposed to if. At some point, the 2010 census will define what communities qualify for rural multifamily programs. Whether that happens before the 2020 census or not remains to be seen. There is one certainty in this maze of uncertainty: informed and aware affordable housing developers will be best positioned for the future of rural multifamily housing.