



CONNECTICUT HOUSING FINANCE AUTHORITY

POLICY STATEMENT

Policy #:	Title:	Effective Date:
CHFA-2010-1	Preservation of Housing Affordability	01/28/2010

POLICY STATEMENT

The Connecticut Housing Finance Authority (CHFA) will preserve the long term affordability of rental housing financed and supported with federal, state, CHFA and private resources in a manner which advances CHFA's mission to alleviate the shortage of housing for low and moderate income families and persons; and will maximize the prudent use of available Authority resources to the greatest extent possible. This policy will prevent the loss of affordable housing units by:

- Extending low-income unit affordability;
- Requiring that properties are maintained to CHFA quality standards over the long term;
- Ensuring that CHFA asset management oversight is maintained;
- Providing sufficient financial incentive for private owners to maintain existing housing as affordable throughout the term of any new financing; while,
- Ensuring that funds continue to be provided for additional affordable housing by maintaining current interest income to CHFA through the original mortgage term.

GUIDELINES

In furtherance of this policy, CHFA will establish a Preservation of Housing Affordability Program (PHAP) consistent with the following guidelines:

- Prepayment of a CHFA mortgage will be considered only where consistent with CHFA preservation objectives and in the event that the options available under its Preservation of Housing Affordability Program do not achieve these objectives.
- Equity take-out (i.e. the amount of any proceeds available from the financing which can be retained by the owner after all CHFA requirements have been met) will be permitted after all CHFA requirements have been met. These CHFA requirements will include:
 1. "Pre-funding" of replacement reserves based on CHFA analysis of a current capital needs assessment.



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2. CHFA determination of required operating escrow amount.
3. CHFA determination of appropriate residual receipts distribution or other requirements deemed necessary and appropriate to ensure continued service as quality affordable housing.

CHFA will make available tax-exempt private activity mortgage revenue bond financing, associated 4% Low Income Housing Tax Credits, taxable mortgage financing, as well as other sources of funds, as well as restructuring of current CHFA mortgages to fund transactions that achieve its objectives.

CHFA will offer mortgage restructuring and financing for properties in the CHFA loan portfolio and fund acquisition and rehabilitation of HUD assisted or other assisted properties not in the CHFA portfolio. A variety of measures providing incentives for current owners to participate will be available, including prepayment, equity take-out, and the investment of existing reserves and residual receipts in the property.

BACKGROUND AND STATEMENT OF NEED

A. CONSIDERATION OF NEED

It is the mission of CHFA to alleviate the shortage of affordable housing for low and moderate income households across the state. For low income renters, CHFA's mission can be accomplished through the development of new affordable rental housing or by preserving housing already developed for this purpose.

More than 19,500 units of privately owned affordable assisted rental housing in Connecticut serving extremely low income, very low income and low income households will reach mortgage maturity and/or housing assistance contract maturity dates over the next ten years. More than 9,500 of these units are currently mortgaged through CHFA. The balance are privately mortgaged or assisted through the federal Department of Housing and Urban Development (HUD), including many assisted through long term Section 8 project-based subsidy contracts. These constellations of private housing developments which are nearing mortgage and/or contract maturity (expiring use) are the focus of this policy.

This housing serves a valuable public purpose, providing critical affordable housing for extremely low income and very low income households across Connecticut, including some of the poorest

elderly and families in the state, many with incomes less than \$10,000. For example, more than 50% of the assisted housing supported by long term Section 8 assistance contracts is occupied by



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low income elderly households. Average household income in such developments financed by CHFA is about \$14,000. According to the American Community Survey about half of all renters in Connecticut are rent-burdened, paying more than 30% of their income in rent. The lowest income renters, such as those residing in this assisted housing, are the most cost impacted.

Upon the maturity of mortgages on these properties, low income service obligations and associated subsidy contracts end unless renewed. As this is privately held housing, owners will have options beyond continued long term occupancy of these properties by low income households, creating the risk that affordable housing will be lost at a time when Connecticut continues to experience a serious shortage of affordable rental housing for very low income households.

B. CONSIDERATION OF COST

Upon maturity of these loans, owners will be able to sell or refinance their properties to realize long term equity returns. Some owners may, however, wish to continue as owners, obtain new or renewed long term assistance contracts, reinvest in their properties and continue low income service. Some will maintain their properties in low income service on a short term basis while assessing long term options for the future use of the property as other than low income service. These actions could result in the loss of existing affordable housing units.

The cost of acquiring and rehabilitating such properties for a new extended low income service period is far less than building new housing and can be achieved for 10-30% of new construction cost per unit while also extending federal subsidies that have been discontinued for new construction.

CHFA needs to develop an approach to the preservation of affordable housing for new extended low income service periods that will provide incentives sufficient for current private owners to maintain the properties and reinvest the capital necessary to maintain them rather than pursue options that would remove these properties from low income service.

IMPLEMENTATION & RESPONSIBLE DEPARTMENTS

CHFA will implement this policy through the creation of its Preservation of Housing Affordability Program (PHAP) and engage in outreach and education efforts with owners to encourage their participation.

CHFA will support and participate in federal and state initiatives and programs that support its preservation objectives.

Specifically, this program will be implemented as follows:



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Finance Department will develop and implement a housing affordability preservation program which has the following components: (a) annual goals for affordability preservation; (b) communication and outreach to eligible owners; (c) incentives to induce participation and (d) a mortgage finance and restructuring program for owners of properties financed by CHFA, and e) a mortgage finance program for other owners.

Implementation of this program will be as follows:

- **Planning and Research Unit:** will provide analysis of CHFA and HUD financed properties that are likely candidates for preservation financing through CHFA and support the development of initiatives and programs required to preserve affordable housing consistent with this policy.
- **Asset Management Department:** will inform CHFA mortgagors of the option to restructure their mortgages and obtain additional financing through CHFA consistent with this policy.
- **Multifamily Housing Development:** will actively solicit interest and promote the use of tax-exempt bonds and 4% Low Income Housing Tax Credits for the acquisition and rehabilitation of HUD assisted housing not in the CHFA portfolio consistent with this affordable housing preservation policy through the periodic Notice of Funds Availability (NOFA) process for tax-exempt bond financing.
- **Asset Management, Finance, Multifamily Housing Development and Legal Departments:** will develop CHFA Procedures required for the restructuring of mortgages and the provision of additional debt consistent with this policy.

Responsible Department: Finance Department

Responsible Position: Executive Vice President - Finance

RELATIONSHIP TO OTHER POLICIES AND GUIDELINES

Preserving affordability within the assisted housing portfolio is consistent with state housing policy to extend the useful life of previously developed assets already serving low income households within the State's communities.

Additionally, investment on the preservation of housing affordability as described in this policy statement, supports other state housing policies as this investment:

- mitigates homelessness by providing for the continued availability of housing for extremely low income households;



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- provides continued affordable housing for low income elderly, thus delaying nursing home admission;
- enables new capital investment in energy saving and environmentally sound property improvements that conserve natural resources; and
- continues to provide low income families with the affordable housing that can serve as the basis for stable family life and the realization of other educational and employment opportunities.

This policy does not address the substantial redevelopment of various assisted housing assets or the typical funding and financing of routine capital maintenance which are available through other ongoing housing development finance programs and processes.

Other relevant CHFA standards and requirements are in CHFA's Procedures which incorporate: 1) CHFA's multifamily mortgage underwriting standards, multifamily asset management requirements and the Section 8 Preservation program, and 2) the Low Income Tax Credit Qualified Allocation Plan (QAP) and Compliance Monitoring Plan and Procedures.

Board Approval

Date of Board Approval:

January 28, 2010

Effective Date:

January 28, 2010, May 24, 2010REV

Signed:

Timothy F. Bannon
CHFA President-Executive Director

Date: