



Neighborhood Stabilization Program Long-Term Rental Oversight Webinar Part 2

Presented by the U.S. Department of Housing and Urban Development

U.S. Department of Housing and Urban Development • Community Planning and Development



Today's Webinar Hosts...

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Today's Agenda...

PART TWO...

Administering Long-Term Rental Oversight:

- Unit Quality and Inspections
- Monitoring

Troubled Projects and Other Real Scenarios:

- Determining when a project is troubled
- Most common challenges



Quick Review!



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Period of Affordability (PofA) and Compliance

| Activity | NSP Investment Per Unit | Length of Compliance/Affordability period |
|--|--------------------------------|--|
| Rental housing acquisition and/or rehabilitation | Less than \$15,000 | 5 years |
| | \$15,000 - \$40,000 | 10 years |
| | More than \$40,000 | 15 years |
| New construction of rental housing | Any \$ | 20 years |
| Refinancing of rental housing | Any \$ | 15 years |

- Deferment to HOME Program (HOME is minimum standard)
- Structure deals with more or less NSP units based on risk versus PofA
- Other lenders in rental deals – the PofA terms
- The driving element behind long-term rental compliance monitoring
- Enforcement – legally binding documents/recorded restrictions

NSP Requirements for Rents:

- Implementation of “affordable rents” definition from substantial amendment
 - Amendment governs rent:
 - Defining rent using HOME safe harbor
 - Other rent definitions such as LIHTC
 - Applying rent definitions to different project types
 - Calculating LH25 rents
- *Rent definition must address reasonableness and ensure developer is not unduly enriched by upfront subsidies versus long-term cash flow and debt service

NSP Requirements for Rents cont'd:

- Considerations for utility allowances:
 - Ensure project agreement defines utilities and how to determine applicable utility allowances
 - Part of LTRC – checking leases and rent calculations for utility allowances
 - HOME utility provisions not automatic/required; may utilize project-based utility model, local HA, other generally approved utility allowance calculations

Leases!

HOME Program Safe Harbor: Governed under 92.252

All tenants must have a written and executed lease...minimum period of lease is one year (exception, transitional housing projects, but both parties must agree); leases must be renewable except for good cause

Key Project Rule considerations:

- Leases containing prohibited terms are critical to enforcement
- Leases in multiple-source projects – may require additional language/riders – a standard HUD lease generally does not comply with requirements
- Complete annual review of leases
- Leases govern rent and utility allowance



Unit Quality and Inspections



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In This Module...

- This module will cover:
 - Unit standards requirements
 - Initial and ongoing physical inspection requirements

Unit Standards

- All projects funded under NSP1, NSP2, and NSP3 must comply with state and local laws, codes, and other requirements.
 - Grantees may impose stricter standards (impose HOME property standards)
 - NSP3 required specific safety and habitability standards for new construction and rehabilitation, including Energy Star standards and “green” rehab and construction requirements – applies to rehab during PofA if undertaken
 - Lead-Based Paint applicability

Inspections

- Initial project completion/occupancy inspection required.
 - No on-going property or inspection standard
 - HIGHLY recommended that Grantees impose an on-going inspection and property standard
 - Utilize schedule for completing inspections of units
 - Policy for addressing deficiencies
 - Securing the investment for PofA
 - Other funding sources may require different ongoing criteria

Inspections Cont'd...

- Inspection policy/procedure items to consider:
 - Staff role/outourcing – local jurisdiction building inspectors
 - Training/certifications; lead inspections
 - Forms, checklists, frequency
 - Components of checklist – initial vs. ongoing
 - Inspection schedules
 - Tracking system for inspections – following up on deficiencies
 - Ownership/management self-inspections and reports



Monitoring



In This Module...

- This module will cover:
 - Project Monitoring
 - Policy and procedure requirements
 - Monitoring systems and tracking
 - Documents and forms

Monitoring!

- Long-term Rental Compliance Oversight and project monitoring.
 - Monitor to maintain the investment
 - Components of an effective plan/policy/procedure:
 - Defined duties relative to staff and requirements
 - Written policies and procedures, actual documentation systems and standard forms
 - Schedules for completing tasks



Poll Question #1: Frequency of Monitoring

NSP Monitoring Requirement:

- All Grantees are required to have a monitoring plan or policy for the implementation and enforcement of affordable rents (only at initial occupancy) and tenancy incomes for the PofA – on-site and desk monitoring
- Plan or policy includes:
 - Systems for enforcement
 - Documentation and recordkeeping
 - Addressing required/recommended components
 - Rents and incomes
 - Financial conditions
 - Physical conditions
 - Records and other federal requirements
- Monitoring verifies ongoing compliance and provides feedback for future funding decisions/underwriting

Monitoring Cont'd...

- NSP basics require the PofA is achieved through compliance with tenancy requirements
 - Regardless of frequency of monitoring, projects must be in compliance with both tenancy and rent requirements for the life of the PofA

Projects do not survive on meeting this standard alone!

Monitoring – Project components

- Project components should be considered for review on an annual basis either through reporting or inspection:
 - Reviewing cash and operating pro-formas
 - Capital needs assessment – ongoing updates
 - Developer/owner financials
 - Physical conditions – inspections or owner reports of repairs
 - Marketing and tenant selection
 - Leases and income certifications

A monitoring strategy...

- Regardless of system and schedule – consider annual reporting requirements
 - Components of annual versus ongoing tracking
- Based on reviews of components, consider a risk-based monitoring strategy
 - Set a monitoring schedule based on project size and financial risk/risk for issues at project
 - Higher risk projects – property owners/managers do not report as requested/required – on-site vs desk monitoring

Monitoring – Project components cont'd

- Utilizing annual reporting

Annual Owner Certification example:

- Captures unit and tenant information
- Captures rent information – rents and utilities
- Captures status of unit
- Reports type of unit
- Can report other project components
- Provides for cross check against leasing and income certifications

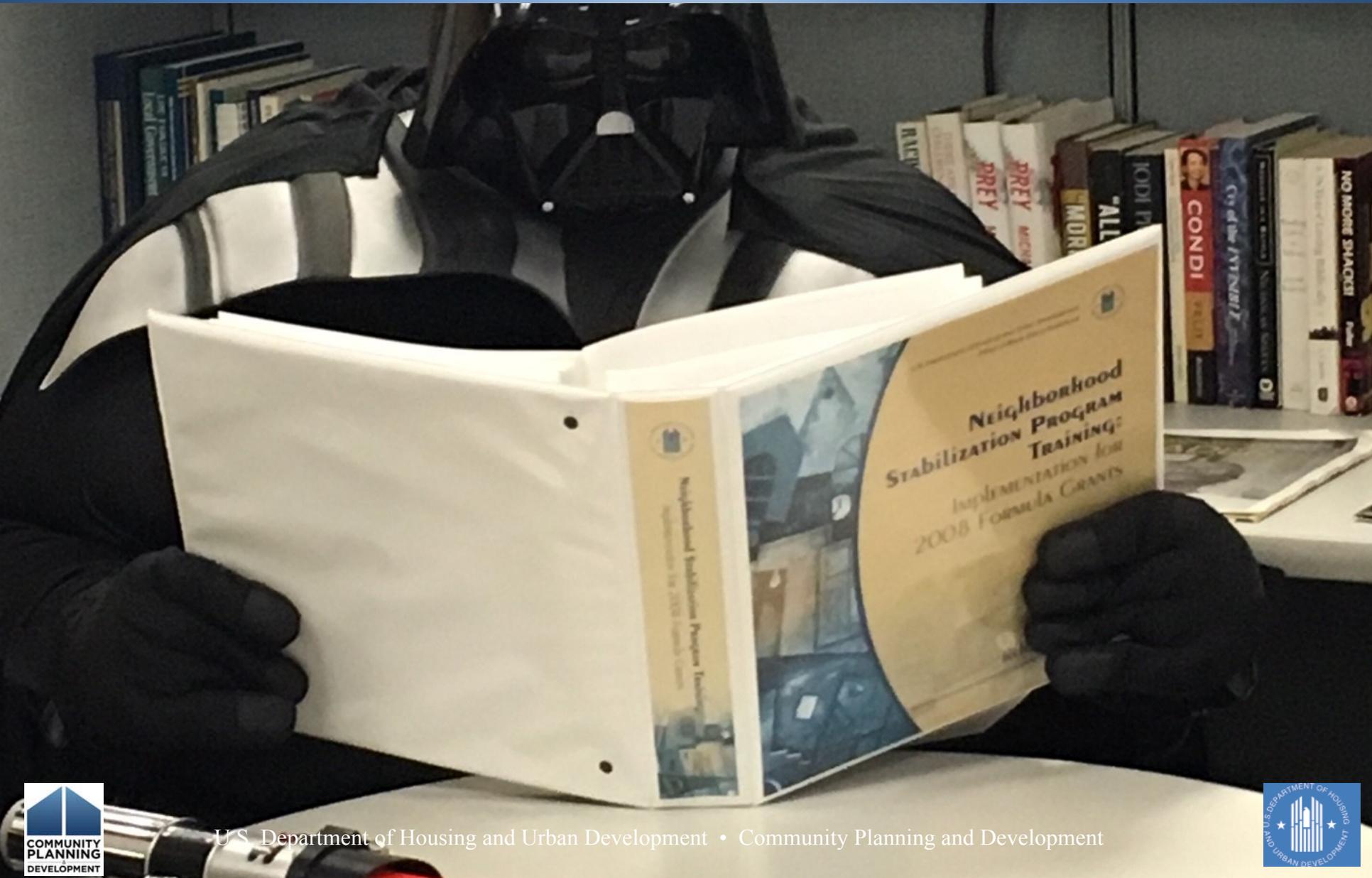


EXERCISE!

Using sample compliance tools



Part 1 Questions...





Troubled Projects



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What is Asset & Portfolio Management?

The goal of asset and portfolio management is to maintain housing quality for tenants, financial viability for the owners, and long-term affordability for the community:

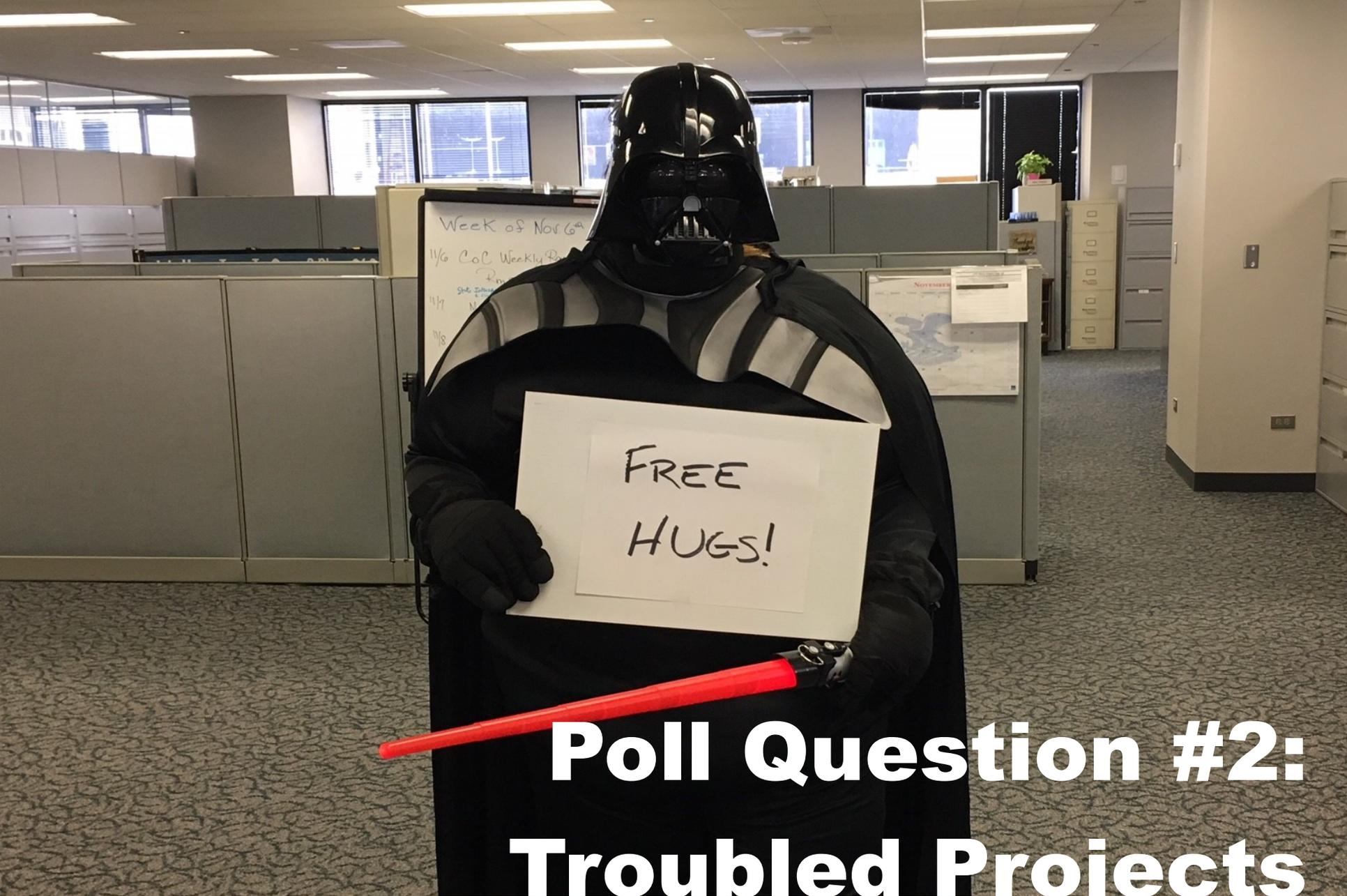
- Portfolio management is a planned approach to Grantee assessment of entire universe of NSP rental projects – scattered site versus multi-family may have different considerations
- Track all projects while in affordability period
- Assess for financial and market viability – not just immediate compliance
- Intervene where necessary – early and often

Why do Portfolio Management?

- Portfolio maintenance can be more efficient use of staff time in the long-term
- Failure to oversee projects may result in:
 - Properties with declining value and marketability
 - Financial failure of owner
 - Loss of affordable units to community
 - Loss of program income
 - Repayments to HUD

What is a troubled project?

- Main trending troubled project types:
 - Projects that have not adhered to long-term affordability terms – Grantees not following up on annual requirements, property owners have changed – Grantee unaware of changes
 - Projects that are financially vulnerable – some larger scale rental developments
 - Projects that are with owners that have no business being owners of affordable housing – cities or smaller Grantees that aren't accustomed to such projects maintained ownership



Poll Question #2: Troubled Projects



Recognizing risk factors:

- Reporting:
 - No submissions or incomplete/errant submissions of required Grantee reports
 - Lack of knowledge of project make-up
- Financial:
 - Decreasing or low cash balance
 - Increasing tenant accounts receivable
 - High vacancy rates, slow turn-around
 - Failure to make reserve deposits
 - Changes to debt service

Recognizing risk factors cont'd:

- Rents and operating expenses:
- Assess average rent levels v. market
 - Are there regional issues?
 - Rents must be competitive
 - What is the rate of NSP rent increase? How does this compare to state/local underwriting standards?
- Review average operating expenses:
 - What is the rate of increase? How does this compare to the state/local underwriting standards?
 - Are there spikes in particular issues:
 - Are current maintenance assumptions adequate?

Recognizing risk factors cont'd:

Debt payments and Monitoring Findings:

- Are most owners making their payments on all loans?
 - Is there an increase in delinquencies & defaults?
- Is there a significant increase in monitoring findings?
 - If yes, what areas/topics?
 - Recordkeeping issues – tenant income certifications, missing leases
 - Wrong rents

Recognizing risk factors cont'd:

Other indicators:

- Deteriorating property condition
 - Code violations
- Increasing and unexpected capital needs
- Poor local economy/increasing crime conditions
- Tenant complaints
- High property management staff turn-over

Ways of Assessing Data

- Are there particular projects that are a concern?
 - Look for outliers
 - Watch projects over time for rents/emerging issues
 - Look for trends by region, owner, state recipient, etc.
- Develop early warning systems

Do Adjustments Need to be Made?

- If indicators show an issue, need to address:
 - Can higher rents be supported given target tenant population & market?
 - Are lower expenses achievable?
 - Is a lower reserve deposit prudent?
 - Can more favorable mortgage financing be obtained?
 - Can additional public funds be obtained?
 - Working with other funders...

At Risk Projects

- Despite Grantee's efforts, properties can still fail:
 - During pre-development and development OR
 - After the property is operational
- Grantee's should work to:
 - Underwrite for long-term viability
 - Protect Grantee rights and options in legal documents
 - Monitor projects for viability
 - Intervene to minimize financial losses
- Make management aware of potentially troubled properties

Options to Address at Risk Projects

- Seek improved management and marketing
- Request change of property manager
- Utilization of reserves – revision to reserve terms
- Seek additional owner funds
- Request that owner seek other funding sources
- Private lender changes their terms
- Re-finance existing debt
- Transfer project ownership
- Change NSP financing terms or defer payments
- Foreclosure

Final Questions...

