PRESERVING AND IMPROVING SUBSIDIZED RENTAL HOUSING STOCK SERVING OLDER PERSONS: RESEARCH AND RECOMMENDATIONS FOR THE COMMISSION ON AFFORDABLE HOUSING AND HEALTH FACILITY NEEDS FOR THE 21ST CENTURY

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NATIONAL HOUSING TRUST

Executive Summary

We live in an aging nation. This demographic reality is irrefutable. As we proceed through the first decade of the 21st Century, our nation will be increasingly challenged by problems that confront our current and future elderly households. Safe, accessible, and affordable housing is critical to good health and function at any age. But the relationship between housing and health is, perhaps, more apparent when one is faced with the frailties associated with old age. As we age, more and more health care is provided at our homes. Future demographic drivers call for numerous innovations to meet the affordable housing and supportive services needs of older persons. Much has been written about the *production* of new units to meet these needs. This document, written for the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century focuses on *preserving and improving existing* senior affordable housing.[1]

While the goal of preservation may be obvious, it is not always clear how this stock should be recapitalized and improved. Affordable senior housing, like its occupants, is undergoing an "aging process." Most of it was developed through private/public partnerships more than two decades ago and much of the stock is itself in need of updating and repair. Not surprisingly, as the average age of the population in this housing has climbed, so have their needs. The dilemma that confronts us is how to both preserve what we have and, simultaneously, meet the changing needs of those who call it home.

The goal of this study is threefold:

(1) To provide specific data on the existing subsidized elderly rental housing stock in the United States.

(2) To summarize that data in a comprehensive, easy-to-read format for the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century and the general public. This report will include information on what properties have already been "converted" to market rate units where the majority of the units are occupied by older persons, the ages and races of the existing occupants, and the number of properties serving primarily the elderly that may be capable of refinancing in the not too distant future.

[1] The National Housing Trust wishes to acknowledge the generous and unstinting assistance of the following individuals in the preparation of this document for Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century: Andrew Kochera, AARP Public Policy Institute; Don Redfoot, Ph.D., Senior Policy Advisor, AARP; Gary Eisenman, Related Capital Companies; and Michael Reardon, Nixon, Peabody, LLC.

(3) To make recommendations on how to preserve and improve existing subsidized elderly homes. Our analysis includes a discussion of new tools approved by HUD to preserve elderly, HUD-insured properties. These include: prepayment of existing Section 202 loans; the use of 501(c)(3) bonds, private activity bonds, and low-income housing tax credits to revitalize this stock; the possible curtailment of debt in Section 202 properties; and policy recommendations to facilitate the conversion of existing subsidized housing serving primarily the elderly to assisted living facilities.

We begin with a general summary of the various federal programs that serve the rental housing needs of older persons. In particular, we focus on those programs that have HUD Section 8 or other types of federal subsidies. The document proceeds to analyze what we have chosen to designate as "primarily elderly" properties, that is, properties where over 50% of the households served are older persons, age 62 or over. In our study, we found that in recent years, more than 250 properties that primarily serve the elderly have prepaid their HUD FHA-insured mortgage or opted out of their Section 8 contracts, in the process releasing over 20,000 apartments from their previously regulated rents. We expect this trend to continue since many properties that primarily serve older persons have high interest rates with current rents below market. At the same time, we believe a good case can be made to current and future owners of this housing that their economic interests and preservation of affordable housing can be readily aligned.

Indeed, signs of hope are emerging. New HUD tools are at our disposal to renovate subsidized, senior housing. Additionally, state and local housing finance agencies, increasingly aware of this housing problem, are providing greater resources for its resolution. Some subsidized housing owners are already converting their facilities to assisted living sites to accommodate the changing needs of their tenant profile. In this study, the Trust explains how an owner of primarily elderly, subsidized housing can use some of these tools to rehabilitate the property without raising the occupants' rents. The Commission should encourage these trends and propose other meaningful, cost-efficient programs to save this unique housing resource.

Moreover, our recommendations recognize the devolution of housing programs and resources to state and local governments. As the Commission will see, a great many states are already devoting considerable resources, including low-income housing tax credit set asides, for the preservation of the primarily elderly, subsidized housing stock. However, much more can be done. The data reveals that this problem will grow in the coming decades. The federal government still has a strong role to play, including encouraging state and local governments to "steer" their resources towards maintaining this unique housing stock. The adoption of the Affordable Housing Preservation Act of 2001 would be a significant step in that direction.

The recommendations that follow flow directly from the Trust's initial analysis of the data and our belief that the federal government cannot abdicate its role to save this housing. No one expects the federal government to do this by itself. But, the federal government can play a significant role by: (1) Setting aside existing resources for preservation; (2) Increasing the flexibility of existing HUD tools for preservation; and (3) fully funding programs that match state and local efforts to preserve primarily elderly, subsidized housing.

Recommendations

RECOMMENDATION #1: Recommend that an ongoing database be established providing project specific information on primarily elderly, subsidized properties that a) have Section 8 contract rents at or below market and/or b) have loans with significantly high current interest rates. These properties arguably have a high risk of mortgage prepayment and should be placed on an "early warning" list to be shared with state housing finance agencies, HUD, the Rural Housing Service and the general public.

RECOMMENDATION #2: Recommend that state housing finance agencies set aside or prioritize the use of low-income housing tax credits and private activity bonds to preserve and improve affordable, subsidized, primarily elderly housing.

RECOMMENDATION #3: Recommend that Congress strongly encourage HUD to facilitate "Mark Up to Market" Section 8 contract rents for elderly, subsidized properties with current rents below market to prevent Section 8 opt outs by private owners and permit current nonprofit owners the resources needed to meet their ongoing operating costs. Additionally, it is absolutely critical that nonprofit owners of such properties receive distributions from their properties to meet other mission-related activities.

RECOMMENDATION #4: Recommend that useful information be provided to owners of existing HUD-insured, Section 236 properties primarily serving older persons. The distribution of information should include a simple explanation of how the owner can take advantage of HUD's Section 236 "decoupling process" to rehabilitate the property and keep it affordable.

RECOMMENDATION #5: Recommend Congress urge HUD to immediately establish a program for use of the recaptured interest reduction payments that are now in an IRP Pool at HUD. Furthermore, Congress should urge HUD to use at least a third of these for the preservation and improvement of existing HUD-insured, Section 236 properties primarily serving older persons.

RECOMMENDATION #6: Recommend Congress urge HUD to permit subordination of its Section 202 mortgage to new debt brought in with tax credits where the new debt and tax credits actually enhance the property's value and livability.

RECOMMENDATION #7: Recommend Congress encourage HUD to prepare a report to explain to Section 202 owners the comparative costs and benefits of prepaying its current loan with 501(c)(3) bonds or refinance with new debt and low-income housing tax credits.

RECOMMENDATION #8: Recommend that Congress revisit the issue of waiving all or part of the existing debt on Section 202 properties supported by Section 8.

RECOMMENDATION #9: Recommend Congress fund a meaningful study of how to best facilitate conversion, where appropriate, of existing subsidized housing to assisted living facilities. This study should document the costs of such conversion, and in particular, conduct a cost/benefit analysis of such conversion. The study should determine whether conversion to assisted living prevents premature institutionalization, and it should ask practitioners to provide detailed training on how to efficiently undertake these conversions. Congress should allow industry practitioners and others to provide detailed testimony on the recent Senate Bill 1886, the "Assisted Living Tax Credit Act," introduced by Senator Dodd (D-CT), which allows for a business credit for supported elderly housing.

RECOMMENDATION #10: The Commission should urge Congress to immediately consider, amend and adopt Senate Bill 1365, the Affordable Housing Preservation Act of 2001. *The Commission should urge Congress to amend the Senate Bill 1365 to include Section 202 housing as eligible for grants provided pursuant to the Act*. Further, the Commission should recommend that at least $300 million of funds should be devoted to the Affordable Housing Preservation Act of 2001 and that no less than a third of these funds should be devoted to the preservation and improvement of primarily elderly, subsidized housing.

Narrative

A. The Need to Preserve and Improve Affordable Rental Housing for Older Persons

We live in an aging Nation. The demographics are irrefutable:

- Growth in senior households (ages 65 and older) will surge in the coming decades. By 2030, the senior population will double to nearly 70 million, bringing their share of the total U.S. population to 20 percent. The number of those aged 85 and older will nearly quadruple, going from 3.5 million to 14 million by 2030.[1]

- Further, almost a third of the growth between now and 2010 of one-person households will be for those over age 65.[2]

- Assisted communities are home to only 3% of the Nation's senior population.[3] Nevertheless, as elderly households age in place, the need for future *affordable* assisted living increases. The possibility of converting elderly, subsidized dwellings to assisted living facilities is just now being explored.

- 4.6 million elderly households are renters; almost a third of these households–1.5 million–pay more than 50 percent of their incomes for rent and/or are living in substandard housing.

- The median net worth of elderly rental households is less than $7,000 compared with the median net worth of $141,000 for elderly homeowners.[4]

- Older renters in subsidized housing are two to three times as likely to report disabilities than older homeowners.[5]

- Wealth and income disparities will widen, limiting the housing choice of poor elderly households: "[t]he sharp disparity in wealth among baby boomers will carry well into their retirement years, leaving many lower income seniors with few housing and special care options. Elderly renters will face particularly onerous housing cost burdens."[6]

- The number of older persons residing in subsidized housing (over 1.9 million) is actually greater than the number of persons residing in our Nation's nursing homes.[7]

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1 Joint Center for Housing Studies of Harvard University, *Housing for Seniors*, 2001.

2 Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2001*, p. 10.

3 Ibid.

4 Ibid.

5 AARP Public Policy Institute, *Adding Assisted Living to Subsidized Housing: Serving Frail Persons with Low Incomes*, Wilden and Redfoot, January 2002.

6 *Housing forSeniors*, 2001.

7 National Center for Health Statistics, 2000 and data derived from AARP study, January 2002.

- In recent years, nearly 900,000 unsubsidized, affordable housing units have been lost from the affordable housing stock due to demolition or rising rents; an additional 150,000 subsidized units have been converted to market rate housing.[8] Most subsidized senior housing facilities have long waiting lists. For instance, the AARP study of Section 202 facilities shows there is a Nationwide average of nine older applicants for every vacant Section 202 apartment that becomes available each year. A similar waiting list confronts those who are in line for a low-income housing tax credit unit.[9]

B. Types of Existing Subsidized Rental Housing Primarily Occupied by Older Persons

Over the past 40 years, the Federal government has, through a private/public partnership, produced more than 800,000 apartments specifically designed to provide decent, safe and affordable homes to poorer, older persons. This apartment inventory constitutes the most significant source of affordable housing for our Nation's elderly population. The following describes the programs that produced this important housing resource.

Section 221(d)(3) BMIR and Section 236

The Housing Act of 1961 authorized the Section 221(d)(3) below-market interest rate (BMIR) program. The program insured 40-year mortgages made directly to nonprofit and limited dividend sponsors. Typically, the interest rate was 3 percent. The Housing and Urban Development Act of 1968 added Section 236 to the National Housing Act, which combined 40-year mortgage insurance with subsidized interest payments to the lender for the production of low-cost housing. The interest rate subsidy lowered the effective rate to the owner to 1 percent. Eventually, many of these projects received additional project-based Section 8 assistance to provide additional rental assistance payments to owners on behalf of very low-income (50% median-income or less) tenants.[10] Nearly 1 million apartments were produced under the Section 221(d)(3) BMIR and Section 236 programs. Under both programs, the owner had the "right to prepay" the mortgage after 20 years and end the affordability restrictions.

Some Section 236 projects are nonprofit sponsored developments specifically designed for older persons. Indeed, a flurry of these Section "236/202" elderly developments occurred between 1969 and 1976, in large part due to the moratorium on construction of elderly Section 202 properties between 1969 and 1976.

According to data analyzed by the National Housing Trust for the Commission, 657 properties with 91,956 Section 221(d)(3) BMIR and Section 236 affordable, subsidized

[8] Compilation of data from National Housing Trust and the Joint Center for Housing *Studies' The State of the Nation's Housing: 2001*.

[9] "Serving the Affordable Housing Needs of Older Low Income Renters: A Survey of Low Income Housing Tax Credit Properties" (Executive Summary), Andrew Kochera, AARP Public Policy Institute, January 2002.

[10] Generally rental assistance from the Federal government covers the difference between what the tenant is obligated to contribute towards rent—typically 30% of his/her income—and the rent charged by the landlord. Because tenants' incomes are so low, their payment often does not pay the operating cost of the property. At least 13,686 project-based properties, containing 914,847 Section 8-assisted apartments, will have their Section 8 contracts expire during the next five years.

apartments are primarily (50% or more households in property are 62+) elderly properties. Many more elderly households—163,958 households according to HUD data—reside in 221(d)(3) BMIR and Section 236 apartments in properties that are not primarily elderly.[11]

Section 202 program

Congress enacted the Section 202 elderly housing program in the Housing Act of 1959. The Section 202 program has been successful, producing more than 320,000 apartments, of which approximately 170,000 are also assisted with Section 8 housing subsidies. Since 1959, the Section 202 program has gone through three basic program structural changes. The recent Affordable Housing for Seniors and Families Act has initiated a fourth basic structural change in the program.

Initial Program Structure. When enacted in 1959, the Section 202 program provided direct loans from the Federal government to eligible nonprofit entities. Originally, the loans were typically for a 40-year term at a 3 percent interest rate, although later HUD determined the interest rate based on the cost of government borrowing. The loans could be used to cover the costs of new construction or substantial rehabilitation of rental housing for the elderly and the handicapped and the loans could not be repaid without the approval of the government. The requirements for the operation of the projects were embodied in a Regulatory Agreement that controlled the rent levels to ensure project affordability. However, there was no rental assistance provided to the project owners. Tenant rents were set at the level necessary to cover the cost of repaying the loans and project operations. While much of this stock is in decent physical condition, there has not been sufficient income to allow for major capital improvements.

Introduction of Section 8 Rental Assistance. As the cost of government borrowing increased, the interest rates on Section 202 elderly housing projects rose, making it more difficult to maintain affordability in the projects. In 1975, HUD was authorized to provide Section 8 assistance to Section 202 elderly housing projects. Between 1975 and 1990, HUD provided direct loans to eligible nonprofit borrowers under a 40-year note and mortgage. Simultaneously, HUD provided properties with 20-year Section 8 project-based rental assistance contracts. With the exception of projects that closed between approximately 1977 and 1981, the notes and mortgages on these projects cannot be prepaid without the approval of HUD. Operations of these projects are governed by a Section 202 Regulatory Agreement and Section 8 housing assistance payments contract. Today, the Section 8 contracts are renewed on an annual basis at rents that are the lesser of the existing rent multiplied by the applicable operating cost adjustment factor (OCAF) published by HUD or at a budget-based rent.

Capital Advance Program. In the National Affordable Housing Act of 1990, Congress significantly altered the structure of the Section 202 elderly housing program. First, Congress provided for two separate and distinct programs for older persons and for persons with disabilities. New construction under the Section 202 program is now exclusively for older persons—defined by HUD as persons 62 years of age and older. Second, Congress changed the

[11] U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *A Picture of Subsidized Households in 1998*, August 1998.

program from a loan program to a capital advance program. Under the capital advance program, HUD basically provides a grant to the project that the owner is not required to prepay unless the owner does not operate the project in accordance with the program requirements for the 40-year term of the capital advance. HUD has structured the program so that the obligation of the owner to operate the project in accordance with the Section 202 program requirements is secured by a zero-interest, 40-year note and mortgage, which is not required to be repaid unless the owner is in default. Third, Congress decided that the rental assistance received by Section 202 projects would no longer be provided through the Section 8 housing assistance payments program. Instead, HUD provides a renewable rental assistance contract (PRAC) to Section 202 projects. The operation of the PRAC is essentially the same as the Section 8 housing assistance program, but the appropriations for the rental assistance are provided under the Section 202 program and not under the Section 8 program.

Affordable Housing for Seniors and Families Act. In December of 2000, Congress again made significant changes to the structure of the Section 202 program. First, Congress amended the Act to provide for a change in the nature of eligible ownership entities. Over the years, one of the constants in the Section 202 elderly housing program was the requirement that the project be owned by a nonprofit entity. In the new legislation, Congress amended the eligible owner definition of "private nonprofit organization" to include for-profit limited partnerships, in which the sole general partner is an organization that qualifies as a private nonprofit organization, or corporations that are wholly owned and controlled by a private nonprofit organization. Through this amendment, Congress intends to bring to the Section 202 program additional funding sources that have previously not been available to these projects, including most particularly the possible use of low-income housing tax credits. Second, Congress enacted legislation that requires HUD to approve the prepayment of Section 202 loans with a prepayment plan under which (i) the owner agrees to operate the project under terms at least as advantageous to tenants as required under the original Section 202 program terms or the Section 8 housing assistance payments contract and (ii) the prepayment may involve refinancing of the loan if the refinancing results in a lower interest rate and reductions of debt service. At least 50% of any Section 8 savings resulting from the refinancing shall be made available to the owner for purposes such as increased supportive services, rehabilitation or retrofitting of buildings and units, or the construction of additional facilities for the project which could include facilities such as additional community space or assisted living facilities.

In addition to providing the owner savings resulting from a refinancing, the new law contains other provisions that may be used in the prepayment and refinancing plan, including:

- The law requires the Secretary to make available to the owner funds in the project's residual receipts account (these accounts accrue when the annual income to the owner from tenant payments and HUD rental assistance payments are more than are needed to meet project debt service and operating expenses) and the reserve for replacement accounts. The residual receipts account must be maintained at a minimum of $500 per unit and the reserve for replacement account must be maintained at a minimum of $1,000 per unit.

- The law limits the amount of residual receipts funds made available for supportive services to fifteen percent of the costs of increased services, but does not specify other activities that the owner can undertake with the residual receipts funds made available to the owner. It provides that the reserve for replacement amounts made available may be used for rehabilitation and retrofitting, and the construction of an addition or other facility, including assisted living facilities, at the project or in the community as described above.

Section 202 Refinancing Candidates. The new Section 202 prepayment and refinancing legislation could help preserve some of this valuable housing stock. However, the utility of the prepayment provisions will depend on the individual circumstances of the project, including factors relating to when the project was developed and the willingness of the current owner to "share control" with other partners.

The following table summarizes various types of Section 202 properties and the predicted likelihood that these properties will or will not prepay their current HUD loans and/or pursue now available low-income housing tax credits for rehabilitation or other uses.

	Current Terms of Mortgage/ Rental Assistance	Right to Prepay?	Residual receipts and Replace. Reserves?	Who "owns" the reserves?	Likely to use Section 202 prepay option?	Likely to compete for tax credits?
Initial Section 202 Program	40-50 years at 3%	Only with HUD approval	Not much	Owner	Yes, if HUD will subordinate existing note.	Yes, if can refinance with subordination of existing HUD note
1975-1990 Section 202 Program	40 year market rate mortgage; always with Section 8 contract for only 20 years.	Only with HUD approval unless built b/t 1977-1981. Where HUD approves, must show that tenants are advantaged by the prepayment.	Often substantial	Generally, the owner if notice of selection given before end of 1979	Yes, if current rate is above approximately 9%	Yes, if can work out details on what entity provides tax credit guarantees, etc.
Current Section 202 Capital Advance Program	40 year capital advance-grant	N/A	Yes	HUD	No	Yes, but only if HUD will subordinate its loan to new debt that comes with tax credits.

For those projects that do not have a right to prepay without HUD approval, HUD requires that the owners demonstrate that the proposed prepayment is advantageous to the tenants. Such advantages could include extensive retrofitting and renovation, construction of new, co-located facilities such as a clinic, community space, or assisted living facilities, a rent freeze or rent subsidy for unassisted tenants, or increased supportive services. In addition, HUD requires the owner to execute a Use Agreement in the form established by HUD that requires that the project continue to be operated in accordance with the Section 202 program requirements.

In *Section F, Point 4* below and Tab 8, the Trust and the Related Companies have produced a proforma example of a potential refinancing of a Section 202 property with low-income housing tax credits. While not all Section 202 properties should be refinanced, we do believe the Commission should aggregate better data on the rents and loan balances of

Section 202 properties. Then, we suggest that these owners be contacted about the potential costs and benefits of refinancing with low-income housing tax credits.

Finally, a number of hurdles exist with respect to the development of new projects under this mixed finance development method, particularly when the sponsor plans to use low-income housing tax credits.[12]

Section 515 program

The Section 515 multifamily housing program was authorized in 1962. The Rural Housing Service (RHS) of the U.S. Department of Agriculture currently administers the Section 515 program.[13] The Section 515 program is a direct loan program under which private sponsors receive low-interest rate loans from the Rural Housing Service in return for renting to persons with low and moderate incomes. Unlike the Section 221(d)(3) BMIR and Section 236 programs, Section 515 is still financing the construction of affordable housing though funding cuts in recent years have substantially reduced the number of new units being constructed.

Approximately 67 percent of Section 515 units, mostly those constructed in the 1970s, also receive Section 8 rental assistance or rental assistance under the RHS Section 521 program, whose terms and conditions are quite similar to Section 8. Generally, projects developed before December 15, 1989 may prepay their mortgages after twenty years and end the low-income use restrictions.

According to data published in 2001 by the Rural Housing Service, approximately 177,577, or 41 percent of households residing in Section 515 units are elderly.[14] In the Trust's analysis of HUD-assisted properties, we found that 798 Section 515 properties with 21,571 Section 8 assisted units are primarily (50% or more households in property are 62+) elderly properties.

Section 515 Occupied Units	432,246
Section 515 Units Occupied by Elderly Households	177,577
Section 515 Units with Project-Based Assistance	317,727
Section 515 Units with Project-Based Section 8	50,628
Section 515 Units with Project-Based Section 8 (Primarily Elderly)	21,571

[12] Generally, in order to qualify for 9% tax credits, the Section 202 capital advance funds will need to be made available to the project by way of a loan in order to include these funds in eligible project basis. Another similar issue is the treatment of the PRAC payments that are provided to the project as rental assistance. The Internal Revenue Service has determined that the provision of Section 8 rental assistance, and Section 9 operating subsidy in the context of mixed finance development public housing projects, are not Federal grants that require a reduction in tax credit basis. However, even though for all intents and purposes the PRAC is the same as Section 8 assistance, it is legally authorized under Section 202 and not under Section 8.

[13] This program was once known as the Farmers Home program.

[14] U.S. Department of Agriculture, Rural Housing Service, *Results of Fiscal Year 2001 Fair Housing Occupancy Survey*, 2001.

C. *Overall Data on Senior Households Residing in HUD Subsidized Housing, Section 515 RHS Housing and Housing Developed with Low Income Housing Tax Credits or the HOME Program.*

A Picture of Subsidized Households in 1998, published by HUDUSER in August 1998, enumerates the vast array of Federally subsidized and public housing occupied by older persons.[15]

	Total	Age 62+
HUD Programs		
Public Housing	1,120,000	358,400
Section 202	319,502	319,502
Section 221(d)(3)	109,861	21,437
Section 236	429,567	146,053
Section 8 new/rehab	744,889	343,673
Tenant-based Section 8	1,420,000	213,000
Rural Housing Service		
Section 515	453,275	190,829
Federal Incentives		
Low-Income Housing Tax Credits	433,427	108,357
HOME	125,000	20,016
TOTAL	5,155,621	1,721,266

These numbers produced, in part, from A Picture of Subsidized Households in 1998 show that 1.7 million older persons live in subsidized housing. *However, this number includes all elderly households in properties that may not primarily house elderly households.*

D. The Overall Data for "Primarily Elderly" Subsidized Housing

For purposes of this report, the National Housing Trust generated new information for the Commission that examines subsidized properties that primarily house the elderly. For the Commission to make recommendations, especially recommendations about the preservation of properties that primarily house the elderly, we recommend the Commission first focus on those properties where the majority of the occupants are elderly (50 percent or more households are 62 or over) and/or the client group for the property is classified by HUD as elderly. The subsidized "primarily elderly" rental housing stock currently constitutes more than 10,000 properties with over 800,000 assisted units throughout the United States. The annual median income of residents in subsidized housing is approximately $8,200 (in 1998 dollars). Approximately 21.6 percent of households in primarily elderly properties are minorities and 67.4 percent are female-headed.

[15] The National Housing Trust wishes to thank the AARP Public Policy Institute for its summation of this data, reproduced here from various reports published by the Institute. Attached at Tab 1 is a Summary of Federal Rental Housing Programs produced by the AARP in May 2001.

E. Conversion of Primarily Elderly Subsidized Housing to Market Rate Properties: Opt Out and Prepayment Statistics

The preservation of primarily elderly, subsidized housing becomes increasingly important as one reviews data documenting the conversion of this stock to market rate rentals. Since FY 1996, the number of affordable, subsidized, elderly properties has declined because some of the properties have been converted to market rate rentals. Federally subsidized rental housing enables many poor, older persons to live in affordable housing without having to move or worry about being able to afford the rent. The sense of security provided by this housing is placed at risk where owners decide to convert to market rate housing. The potential loss of this housing places older Americans in competition with others in seeking affordable rents in a market with fewer and fewer choices. This random process, like a game of "musical housing" leaves poor elderly with few options. Owners may convert to market rate rentals by either prepaying their HUD-insured mortgage or "opting out" of their Section 8 contract:

- According to National Housing Trust data, 99 primarily elderly properties with 11,024 apartments have prepaid their HUD-insured mortgages through September 2001, and had their affordability restrictions removed.

- According to data produced for this report, owners have opted out of Section 8 contracts in 155 properties through September 2001, covering 9,040 Section 8-assisted, primarily elderly apartments**. All told, the number of subsidized, primarily elderly apartments converted to market rent in the recent past is more than 20,000 apartments Nationwide.**[16]

This trend will presumably continue as the Trust has determined that at least 4,400 elderly properties consisting of over 324,000 Section 8-assisted apartments have Section 8 contract rents less than market (defined as 110% of FMR) and, for purposes of this report, are defined as "at-risk" of being converted to market rate rentals.[17] Of these, nearly 180,000 apartments have Section 8 rents below 90% of Fair Market Rent.[18]

The conversion from subsidized to market rate properties is particularly difficult for older persons. AARP found in a recent study that:

> "Many residents in these elderly projects are frail and would face substantial difficulties in today's housing market. Due to their limited incomes and incidence of disability, locating alternative affordable housing suitable to their needs would be difficult if owners were to convert their projects to market rate housing. Many of the elderly projects have special design features (such as grab bars and elevators), special services (such as meals or housekeeping), and special staffing (such as service coordinators). When these residents lose their homes in subsidized projects, they are losing more than rental assistance and a community of friends – quite often they are

[16] See Tab 2 for elderly opt outs and mortgage prepayments by State.

[17] See Tab 3 for State by State listing of at-risk properties.

[18] See Tab 4 for 90% FMR Table by State.

losing supportive services and project features that are critical to their continued independence."[19]

Analysis of Primarily Elderly Housing and Units Currently At Risk

Financing Type	Primarily Elderly Properties		Units Lost through FY2001		Units at Risk of Loss (Rents <=110% of FMR)		Ability to Refinance[20]		Ability to Refinance AND at Risk of Loss	
	Prop.	Units	Prop.	Units	Prop.	Units	Prop.	Units	Prop.	Units
202s[21]	4,468	285,356			2,000	125,692	1,674	99,271	358	23,616
236 & 221(d)(3) BMIR	657	91,956	99	11,024	545	52,820	532	51,934	532	51,934
Other Section 8[22]	5,344	425,790	155	9,040	1,864	145,489	375	31,205	80	7,347
TOTAL	10,469	803,102	254	20,064	4,409	324,001	2,581	182,410	970	82,897

More detailed tables with State-by-State information are included in Tabs 2 through 4, which describe the elderly subsidized housing landscape in greater detail. Also included in Tab 9 is an exemplar of a "total State" expiring Section 8 database for primarily elderly properties.

Notably, the more than 800,000 elderly, subsidized housing units tend to have the following characteristics:

- In general, this housing has Section 8 contract rents above the fair market rent, but a majority of the stock is probably below the market rents for the surrounding neighborhood—approximately 45% of the stock have Section 8 rents at or below 110% of the Fair Market Rent.[23]

- A very large percentage of HUD Section 202 loans have high interest rates (above 9%). The Trust found that 1,674 Section 202 properties with 99,271 units have interest rates at or above 9%. This means that, depending on the condition of the

[19] AARP Public Policy Institute, *Adding Assisted Living to Subsidized Housing: Serving Frail Persons with Low Incomes*, Wilden and Redfoot, January 2002.

[20] Ability to refinance is defined any Section 236-insured property with rents at or below market (<=110% FMR) and other non-236 properties with interest rates of 9%.

[21] Prior to 1990, Section 202 financing was available to developers of housing for both elderly and disabled, low-income households. This report focuses only on those properties that are for the elderly, and therefore, the total number of units will be less than the number of units for the Section 202 program as a whole.

[22] Other Section 8 is defined as any Section 8-assisted property that is not insured under the Section 202, Section 236 or Section 221(d)(3) BMIR programs. Some of these properties may not have a HUD-insured mortgage.

[23] Fair Market Rent is not really a proxy for "market" or "street rent." Because Fair Market rent is a derivative of the 40th percentile of rents paid by recent movers, Fair Market Rents are often lower than what is often considered market rent in a neighborhood. As a consequence, HUD housing practitioners often use 110% of FMR as a general proxy for market rent.

property and prevailing interest rates, the refinancing of these loans may well make sense for the property and its nonprofit ownership.[24]

RECOMMENDATION #1: Recommend that an ongoing database be established providing project specific information on primarily elderly, subsidized properties that a) have Section 8 contract rents at or below market and/or b) have loans with significantly high current interest rates. These properties arguably have a high risk of mortgage prepayment and should be placed on an "early warning" list to be shared with State housing finance agencies, HUD, the Rural Housing Service and the general public.

F. Current Federal, State and Local Initiatives to Preserve and Improve Elderly, Subsidized, Rental Housing

1. Increasing Use of Tax Credits to Preserve and Improve Elderly, Subsidized Housing

The Low-Income Housing Tax Credit program is widely regarded as the Nation's most successful and productive affordable housing program. The tax credit program annually produces between 75,000 and 100,000 affordable apartments Nationwide. In 2000, the low-income housing tax credit and private activity bond allocation provided to the States was increased by approximately 50% (25% increase per year over 2 years). To determine the use of such credits, State housing finance agencies hold annual hearings to examine the most important housing needs in their respective jurisdictions.

Again, much has been or is being written about the use of tax credits to produce quality elderly, affordable housing. *For this report, we focused on the use of tax credits to preserve existing primarily affordable housing.* It turns out that allocation of low-income housing tax credits to existing affordable, subsidized, rental properties for the elderly is an increasingly important resource for their preservation in the Nation's affordable housing inventory.

To assess the interest of the various State agencies in preserving subsidized, elderly, rental housing, the National Housing Trust undertook a survey of State housing finance agencies charged with the responsibility of allocating competitive 9% low income housing tax credits for its respective jurisdictions. We asked a set of questions designed to determine the allocation priority, if any, of low-income housing tax credits and private activity bonds to preserve subsidized, elderly, rental housing.

[24] This is not to suggest that residents of Section 202 properties would necessarily be adversely affected by prepayments by their owners. Quite the contrary; as the proforma examples in this paper indicate, refinancing at a lower rate may enable the nonprofit borrower to complete required repairs, increase reserves and maintain rents at current levels.

Here are some of the State Housing Finance Agency survey highlights:

- 38 State housing finance agencies responded to the survey;
- Over half of the respondents, 22 in all, had some form of set aside or priority in their scoring system for allocating scarce 9% low income housing tax credits to creation or preservation of elderly housing;
- 25 of the responding States anticipate the use of non-competitive private activity bonds and 4% credits for the preservation of elderly, rental housing.
- 15 State respondents anticipate that the demand to use private activity bonds and 4% credits to preserve elderly, subsidized, rental housing will increase over the next 5 years.

The results of the survey are included in Tab 5.

RECOMMENDATION #2: Recommend that State housing finance agencies set aside or prioritize the use of low-income housing tax credits and private activity bonds to preserve and improve affordable, subsidized, primarily elderly housing.

2. Prevent Section 8 Opt Outs and Allow Nonprofit Owners a Reasonable Rent to Meet Ongoing Operating Expenses: Encourage HUD to Facilitate Marking Below-Market Section 8 Contract Rents Up to Market:

For approximately 2 years, between 1998 and 2000, a spate of Section 8 contracts was terminated. Notably, some of these properties housed elderly residents. Stories about elderly residents being evicted for failure to pay sky-high, market level rents created a news controversy across the U.S.[25]

These developments prompted a reaction from the Federal government. In 2000, HUD implemented a program to reduce the number of Section 8 contract terminations. Designed to give owners of below-market, Section 8 properties rents that were more equivalent to “street rent,” HUD Notice 99-36 permitted owners to “mark up” the property’s below-market Section 8 rents to market rents. Importantly, owners were permitted to obtain increased cash flow from the property as well. As noted in the table above, some 4,409 Section 8 primarily elderly properties with 324,001 assisted units currently have Section 8 rents arguably below market.[26] Presumably, if owners of these properties were given an appropriate incentive to keep their properties affordable, they would be less likely to opt out of their Section 8 contracts. There are really two separate issues raised by an opt out of a Section 8 contract, depending on the ownership entity:

[25] Selected stories about the termination of Section 8 contracts for properties that housed elderly residents are attached in Tab 6.

[26] Defined as 110% of Fair Market Rent.

1. A for-profit owner of a primarily elderly, Section 236 property has a duty to its investors to assure reasonable cash flow. The Mark Up to Market procedure, if applied correctly, should permit the owner to increase cash flow, effectively reducing the incentives to opt out.

2. An equally positioned nonprofit owner may not be as likely to opt out, but that same nonprofit owner would want to make sure the operator could meet reasonable expenses. Allowing the nonprofit owner the option of Marking Up to Budget, not to exceed market rents, helps the nonprofit meet its ongoing operational and repair needs. Moreover, many of these nonprofit owners would be willing to take distributions from these "Mark Ups" and, in turn, dedicate these distributions to their mission of saving or producing affordable housing. Therefore, HUD should allow the nonprofit owner to receive distributions for this purpose.

RECOMMENDATION #3: Recommend that Congress encourage HUD to facilitate "Mark Up to Market" Section 8 contract rents for elderly, subsidized properties with current rents below market to prevent Section 8 opt outs by private owners and permit current nonprofit owners the resources needed to meet their ongoing operating costs. Additionally, it is absolutely critical that nonprofit owners of such properties receive distributions from their properties to meet other mission-related activities.

3. Interest Reduction Payment Decoupling of Primarily Elderly Section 236 Properties

Section 236 of the National Housing Act of 1968 authorized below-market interest rate insured loans to private builders who agreed to develop affordable units reserved for low-income families and seniors. The program lowered the loan's interest rate to 1%. The difference between a market rate mortgage and the 1% mortgage is called an "Interest Reduction Payment." (IRP). The entire stream of IRP funds were allocated at the time the mortgage was approved, creating a revenue source available to the project for entire term of the mortgage. *The Trust has determined that 628 Section 236 properties with 88,716 apartments are occupied primarily by older persons. Approximately 85% of these properties, 532 properties with 75,762 apartments (51,934 of these with Section 8 assistance), have Section 8 rents that are presumably below market levels.*

Pursuant to HUD Notice 00-8, an owner of a Section 236 property can refinance the asset through what practitioners refer to as "decoupling the IRP."[27] The key to this concept is that HUD will allow an owner of a Section 236 property to transfer or refinance the property *without loss* of the existing Interest Reduction Payment. This can be a powerful finance tool, depending on the amount of the Interest Reduction Payment and the amount required to reposition the property. The result can be a win-win for both owners and the residents of these properties. The essentials of the program are summarized in the following table.

[27] HUD issued guidelines on decoupling the IRP on May 16, 2000 in HUD Notice 2000-8.

Summary of Section 236 IRP Decoupling Program

Eligibility	Any Section 236 property (including Section 236 elderly properties)
Process	Submit proposal to HUD Multifamily.
Eligible Mortgagee	Any mortgagee may qualify if public agency agrees to monitor use agreement; if no public agency will monitor, then must use FHA insurance from a HUD approved lender and HUD will monitor agreement.
Term and Amount of IRP	In accordance with remainder of the IRP schedule. Owners can also choose to reduce the annual subsidy and extend the IRP schedule.
Rents	Budget based rents allowed to cover operating costs including new debt service. Rents are capped at comparable market rent LESS the IRP. Rent increases may not exceed 10%. If need more than 10% hike, must appeal to HUD Headquarters.
Limit on Distributions	Annual distributions range from 6% to 10% of new tax credit or other equity.
Affordability/ Use Agreement	Maintain Sec.236 occupancy and income restrictions, i.e. occupants must earn less than 80% of median and pay affordable rents until at least 5 years after the original maturity date of the mortgage. No involuntary displacement. If the owner retains project based Section 8, then the Section 8 stays in place for the balance of the use agreement. If the owner opts out of Section 8, tenants are eligible for enhanced vouchers.

A significant number of Section 236 decoupling transactions have already taken place. The National Housing Trust and others have concluded transactions that combine the Section 236 IRP Decoupling concept with private activity bonds and four percent low-income housing tax credits. Maintaining the IRP for the remaining term, typically about 13 years, is a critical funding resource for making the transaction financially feasible. In these transactions, one set of bonds is issued on the revenue stream of the property, and another set is issued on the IRP stream of income. Standard & Poors rates the IRP payments as investment grade, thereby making this debt instrument more attractive to investors. Tenants are protected against a significant rent hike through the continuation of the project-based Section 8 contract or the receipt of enhanced vouchers to eligible residents, which are triggered, as a matter of law, by the prepayment of the Section 236 mortgage.

The benefits of decoupling the IRP in these transactions are substantial. A 25-30-year-old property is rehabilitated and amenities updated in the range of $10,000 to $15,000 per unit. Valuable affordable housing stock is preserved and improved for another 30 years. Because many of these transactions use tax-exempt bonds and tax credits, States—not the Federal government—are choosing which properties to preserve.

SAMPLE PROJECT

To demonstrate the benefits of a sample Section 236 IRP Decoupling transaction for the Commission, the Trust has prepared the following information on a real project located in Anderson, South Carolina. It is a family project, but the financial information is one that could be equally applicable to an elderly Section 236 property.

Background:

- 200 apartments in Anderson, SC
- 100% Section 8 with annual contract renewals
- Property is almost 30 years old
- Section 236 mortgage

Acquisition Plan

- Will perform immediate rehabilitation of $3.77 million ($18,850/unit)
- Seeking Federal and State funding to improve security and eliminate drug trafficking
- Obtain private activity bonds and 4% credits for rehab
- Use IRP decoupling to help fund rehabilitation.

	Cash Flow	Rehab	Fees	Debt
Anderson Gardens (Before)	Di minimis	None	None	$5 M at 7%
Anderson Gardens (After IRP Decoupling and Tax Credit Acquisition by Nonprofit)	$80,000	$18,000/unit	$781,000 split between for profit developer and nonprofit general partner	$5.95 M at variable rate, now at 2%

Not every primarily elderly, Section 236 property can benefit from decoupling the IRP. Another tool, however, is available, which the Commission should strongly urge HUD to employ to save primarily elderly, subsidized housing. In 1998, Congress gave the HUD Secretary the right to retain IRP in a “pool” that could be set aside for rehabilitation of Federally assisted and insured properties.[28] To date, none of these funds have been expended. According to HUD’s February 2002 budget submission to Congress, approximately $300 million of these funds are now available. At a time of shrinking resources, it is ironic that HUD has not acted to use these

[28] P.L. 105-65 established new authority for the Secretary to recapture interest reduction payment subsidies from Section 236-insured multifamily properties for purposes of providing rehabilitation grants to properties suffering from deferred maintenance. Section 531 of P.L. 105-65, enacted in 1997, authorized the HUD Secretary to make these grants for the capital costs of rehabilitation to owners who demonstrated need and also had insufficient project income to support such rehabilitation. Section 533 of the HUD FY 2001 Appropriations Act added the amendment that the program be structured as a grant or loan

funds in the manner Congress intended. The Commission should urge HUD to immediately establish a program for use of these funds and, furthermore, seek at least a third of these funds to be used for primarily elderly, subsidized housing stock

RECOMMENDATION #4: Recommend that useful information be provided to owners of existing HUD-insured, Section 236 properties primarily serving older persons. The distribution of information should include a simple explanation of how the owner can take advantage of HUD's Section 236 "decoupling process" to rehabilitate the property and keep it affordable.

RECOMMENDATION #5: Recommend Congress urge HUD to immediately establish a program for use of the recaptured interest reduction payments that are now in an IRP Pool at HUD. Furthermore, Congress should urge HUD to use at least a third of these for the preservation and improvement of existing HUD-insured, Section 236 properties primarily serving older persons.

4. Prepayment of Section 202 Loan with 501(c)(3) Bonds

Where the project's current interest rate is relatively high, where competition for tax credits is significant, and where the repair needs are not considerable, the current nonprofit owner may be wise to establish a 501(c)(3) pool to provide bond financing for senior, subsidized housing.[29]

In order to determine the feasibility of refinancing a Section 202 property with 501(c)(3) Bonds, the Related Company and National Housing Trust have created a sample proforma for the Commission demonstrating how this bond tool could help rehabilitate a property.

We titled the property "**Anytown Apartments.**" Anytown is a 180-unit Section 202 property with an original mortgage of $7.4 million. That mortgage has a current interest rate of 9.25% with a 40-year term. The unpaid principal balance is $5.7 million. Current debt service is $702,000 annually. Cash flow is approximately $67,000 annually. The current, stabilized debt and cash flow are included in Tab 7.

We then constructed a scenario in which the current owner prepaid the current loan and refinanced with 501(c)(3) bonds. The results are as follows:

- We reduced the current debt service from $702,000 to $667,000, for a savings of $35,000 annually;
- We provided the operator an additional $3,000/unit that could be used for reconfiguration or rehabilitation of the apartments;

[29] The State of California is considering establishing such a loan pool for Section 202 properties. The term for the Section 8 loan would be approximately 30 years. The loan is sized commensurate with affordable rents at 30% of 50% of adjusted median income (AMI). The California Housing Finance Agency would use HUD Risk Share insurance on the bonds. Excess proceeds would be used for rehabilitation. The second loan is supported by the difference between 30% of 50% of AMI and the Section 8 rent, where the Section 8 contract rent is above 30% of 50% of median income. The second loan is for a shorter term (e.g. 10 or 15 years).

- Cash flow was maintained at current levels;
- The owner and its technical assistance advisor have up to $100,000 to split between them in pursuit of their own missions.

Clearly, this option is generally limited to properties with higher interest rates. Nevertheless, the Trust found that 2,056 primarily elderly properties with 133,743 total units have interest rates at or above 9 percent and may be refinancable using 501(c)(3) bonds.[30]

5. Use of Tax Credits to Refinance Section 202 properties

Using **Anytown Apartments** as our sample property, the Related Companies and the National Housing Trust constructed a proforma in which the current nonprofit owner prepaid the Section 202 loan, refinancing with private activity bonds and 4% low-income housing tax credits. The results of the proforma, included in Tab 8, are as follows:

- The debt service was reduced from $702,000 to $697,000, for a savings of $35,000 annually;
- Rehabilitation assistance of an additional $16,000/unit that could be used for reconfiguration or rehabilitation of the apartments;
- Cash flow was maintained at current levels;
- The owner and the technical assistance advisor have up to $700,000 to split between them in pursuit of their own missions.

Comparative Analysis of "Anytown Apartments"
(Current Operations, Refinancing with 501(c)(3) Bonds
and Refinancing w/ Private Activity Bonds and Tax Credits

	Sole Nonprofit control	Cash Flow	Rehab	Fees	Debt
Current Operating Budget and Stabilized Cash Flows	Yes	$67,000	Replacement reserves. No ability to finance significant rehab	None	$5.7 m. at $702,000 debt service on annual basis.
Refinance with 501(c)(3) Bond	Yes	$67,000	$3,000/unit plus building of reserves.	$100,000 split with advisor	$7.2m at $667,000 debt service on annual basis.
Refinance with Private Activity Bonds And 4% Low Income Housing Tax Credits	Not clear. Must negotiate with private syndicator.	$69,000	$16,000/unit	$700,000 developer fee split between current owner, tax credit consultant and, perhaps for profit partner.	$8.8m at $697,000 debt service on annual basis.

[30] See Tab 10 for HUD-insured elderly properties with interest rates at or above 9%.

The use of low-income housing tax credits as a significant refinancing tool requires that HUD subordinate any remaining existing debt to the new debt brought in by the owner or purchaser. That will allow the property to retain its current Section 202 loan and, perhaps, use the operating cost savings to fund increased services on site**. The Trust makes two suggestions that the Commission might consider in its deliberations concerning the potential use of low-income housing tax credits to preserve and improve Section 202 properties.**

RECOMMENDATION #6: Recommend Congress urge HUD to permit subordination of its Section 202 mortgage to new debt brought in with tax credits where the new debt and tax credits actually enhance the property's value and livability.

RECOMMENDATION #7: Recommend Congress encourage HUD to prepare a report to explain to Section 202 owners the comparative costs and benefits of prepaying its current loan with 501(c)(3) bonds or refinance with new debt and low-income housing tax credits.

5. Debt Forgiveness for Outstanding Section 202 Loans Supported by Section 8

The American Association of Homes and Services for the Aging (AAHSA) has proposed "PRAC Conversion," to convert approximately 260,000 elderly housing units assisted with Section 8 contracts to a project rental assistance contract (PRAC) and would substitute a capital advance for the unpaid principal balance of the Section 202 loan. Henceforth, the property would receive operating assistance under a PRAC, based on the actual property budget. Presumably, the new property would have sufficient equity to refinance the property. Whether HUD would permit the PRAC to be used to pay for debt service associated with this refinancing is not clear.

This approach could have a significant up-front, one-time budget cost.[31] This cost would presumably be offset by the benefits to the occupants and the operators of these properties, as the conversion effectively reduces their reliance on ongoing Section 8 assistance. The Trust has not studied this matter closely, nor do we opine on the wisdom or lack thereof of forgiveness. At the same time, it is plainly obvious that this forgiveness would relieve these properties of enormous subsidies, which could be at risk of loss at some point in the future. Moreover, to the extent that forgiveness of this debt would, in fact, assist nonprofit operators in maintaining the existing Section 202 stock, we believe the Commission could ask Congress to revisit this issue, with a

[31] According to HUD, the one-time cost for this forgiveness depends on the type of "budget scoring" used to determine the impact on HUD's budget. Under the current scoring rules pursuant to the Budget Enforcement Act, the cost of forgiving approximately $7.8 billion would be *either $3.6 or $10.6* billion in both budget authority and outlays in the year in which the debt is forgiven, depending on the scoring rules used. If taken outside of these rules, the cost would be effectively zero since HUD would recover the cost of forgiveness by saving Section 8 subsidy payments equal to the amount of forgiveness. Under current "pay as you go" rules, if the item were legislated by the authorizing committee, it would be a mandatory cost; if legislated as part of the VA/HUD Appropriations process, the discretionary costs would be "scored" against HUD's discretionary budget. See May 19, 2000 letter from HUD to Honorable Alan B. Mollohan, Ranking Minority Member, Subcommittee on VA, HUD and Independent Agencies.

particular focus on the current owners' needs as well as the salvation of the Section 202 inventory.

RECOMMENDATION #8: Recommend that Congress revisit the issue of waiving all or part of the existing debt on Section 202 properties supported by Section 8.

6. Conversion of Subsidized Housing to Assisted Living Facilities

If "aging in place" has any meaning for poorer senior citizens living in subsidized, rental housing, it means that they are able to grow older with dignity. As reported in a recently published study by Harvard University's Joint Center for Housing Studies:

> "There are a significant number of expenses and inefficiencies associated with this separation of health and housing services. ... When seniors, often the most stable forces in the neighborhood, are forced out in search of more adequate and affordable health and housing services, communities suffer."[32]

In part, this means that their present housing can be reconfigured or modified to function as an assisted living facility. Research is currently emerging that indicates that this may be a trend the Commission should recognize.[33] Some research indicates that providing assisted living services to a targeted population in subsidized, elderly projects could reduce costs toward nursing homes. If *premature placement* in nursing homes can actually be reduced, this option should be fully explored.

HUD appropriations for fiscal years 2002 and 2003 included funds to retrofit subsidized elderly housing projects for assisted living. This permits the seniors to remain in the same residential development even if their need for supportive services increases. The program provides funding for the physical reconfiguration of the units, but not for support services. Assisted living was recently authorized as an eligible site for use of HUD rental assistance vouchers. The need for affordable assisted living has also become evident to those who syndicate low-income housing tax credits. Senate Bill1886, introduced in December 2001 by Senator Dodd and titled the "Assisted Living Tax Credit Act," would create a new "supported elderly housing tax credit."

In January 2002, Robert Wilden, past national director of elderly housing at HUD, and Donald L. Redfoot, Senior Policy Advisor at AARP's Public Policy Institute, published a report on converting subsidized housing to assisted living facilities.[34] They note that the number of elderly residents residing in subsidized housing (over 1.9 million) is actually greater than the

[32] Harvard University Joint Center for Housing Studies, *Aging in Place: Coordinating Housing and Health Care Provision for America's Growing Elderly Population*, October 2001.

[33] "[T]he desire to remain in their current residence for as long as possible becomes more prevalent as age increases." Between 75 and 95% of seniors want to do so, with the number increasing as their age increases. AARP, *Fixing to Stay: A National Survey of Housing and Home Modification Issues*, May 2000.

[34] AARP, *Adding Assisted Living Services to Subsidized Housing: Serving Frail Older Persons with Low Incomes*, January 2002.

number of persons residing in our Nation's nursing homes.[35] The authors analyzed over 20 housing developments that provided assisted living services in subsidized housing. Housing funding sources ranged from public housing funds to low-income housing tax credits.[36] In particular, they noted that a large number of Section 236 developments apparently have occupancy problems because the owners cannot lease up the efficiency apartments. In at least a few of the cases they studied, converting these efficiency units to assisted living apartments actually helped the owner meet its operating expenses.[37]

The authors made clear that this was an exploratory set of case studies. Nevertheless, it provides some very useful, if preliminary, insights:

- The means by which sponsors "converted" subsidized housing to assisted housing facilities varied widely;
- The types of services provided varied considerably.

There clearly is no precise data on the nature or breadth of "premature placement" in nursing homes. But it seems obvious that the time is ripe for a full-blown study of the costs and benefits of funding more assisted living facilities for poorer, older persons.

RECOMMENDATION #9: Recommend Congress fund a meaningful study of how to best facilitate conversion, where appropriate, of existing subsidized housing to assisted living facilities. This study should document the costs of such conversion, and in particular, conduct a cost/benefit analysis of such conversion. The study should determine whether conversion to assisted living prevents premature institutionalization, and it should ask practitioners to provide detailed training on how to efficiently undertake these conversions. Congress should allow industry practitioners and others to provide detailed testimony on the recent Senate Bill 1886, the "Assisted Living Tax Credit Act," introduced by Senator Dodd (D-CT), which allows for a business credit for supported elderly housing.

7. Matching Grants for Preservation of Primarily Elderly, Subsidized Housing

As the authority for housing programs is increasingly delegated to State and local governments, Congress should encourage State and local governments to meet the preservation needs of primarily elderly, subsidized housing. The expansion of housing initiatives at the State and local level has crucial ramifications for Federal housing policy. Indeed, Federal housing policy can be tailored to encourage State and local preservation initiatives. For example, a bill

[35] Data derived from AARP and National Center for Health Statistics, 2000.

[36] For purposes of their report, Wilden and Redfoot defined "assisted living" as support for activity for daily living (ADLs) *and* instrumental activities of daily living (IADLs). ADLs include bathing, dressing, toileting, transferring, and eating. IADLs include escort help for outside appointments, medicating monitoring, bill paying and health status monitoring. Finally, most sponsors surveyed provided 24-hour supervision and medication management. Not all projects provided all of the services defined in this footnote, but all were focused on increasing supportive services for their residents.

[37] Ibid and conversation with Don Redfoot, February 4, 2002.

currently pending in Congress, if amended, could generate hundreds of millions of State and local funds to preserve affordable, primarily senior housing.

The Affordable Housing Preservation Act of 2001 (Senate Bill 1365) is sponsored by Senators Kerry (D-MA), Grossly (R-IA), Dayton (D-MN), Einstein (D-CA), Schemer (D-NY), Sardines (D-MD), Beaux (D-LA), and Wellstone (D-MN). The Act authorizes Federal matching grants for State or local funds committed to preserving and improving affordable housing. Grants may match State or local funds on up to a two-for-one basis. By providing a two-for-one match, the Act essentially triples the amount of State or local funds earmarked for preservation. Where a State has not devoted its own funds for preservation, the Act authorizes that grants be provided at 50% of tax credits, HOME funds and other Federal funds "steered" to the preservation of affordable housing. According to the Act, Section 202 properties are currently not eligible for the preservation matching grants.

RECOMMENDATION #10: The Commission should urge Congress to immediately consider, amend and adopt Senate Bill 1365, the Affordable Housing Preservation Act of 2001. *The Commission should strongly urge Congress to amend Senate Bill 1365 to include Section 202 housing as eligible for grants provided pursuant to the Act.* Further, the Commission should recommend that at least $300 million of funds should be devoted to the Affordable Housing Preservation Act of 2001 and that no less than a third of these funds should be devoted to the preservation and improvement of primarily elderly, subsidized housing.

Conclusion

As the growth of senior households surges in the coming decades, the need for affordable rental housing for seniors will also increase. While production of new units may be necessary to meet this need, the preservation and improvement of existing affordable senior housing is critical. Existing affordable senior housing, like its occupants, continues to age and will require maintenance, modernization, and services in order to meet the needs of the older population. Fortunately, tools are being developed and used that give us hope that this stock can be preserved. This report has documented the uniqueness of this housing inventory and explained how this resource can be preserved and improved.

Elderly Mortgage Prepayments by State

State	Properties	Units
California	46	5,221
Colorado	2	227
Connecticut	1	159
Delaware	1	169
Florida	1	176
Illinois	2	183
Indiana	1	48
Maine	1	200
Massachusetts	3	342
Michigan	3	325
Minnesota	3	474
Mississippi	1	100
Montana	2	124
Nevada	1	112
New Hampshire	1	24
New York	2	623
Ohio	4	754
Oregon	6	205
Pennsylvania	2	436
South Carolina	1	104
Tennessee	1	80
Texas	3	398
Washington	8	361
Wisconsin	3	179
TOTAL	**99**	**11,024**

Data compiled from several HUD sources and not independently verified.

National Housing Trust, 2002.

Elderly Section 8 Opt Outs by State

State	Properties	Contracts	Assisted Units	Total Units
Alabama	2	2	50	146
Arizona	2	2	207	388
Arkansas	3	4	170	296
California	39	39	3,805	3,960
Colorado	3	5	290	409
Connecticut	1	1	50	50
District of Columbia	1	2	65	93
Florida	3	3	43	389
Georgia	1	1	20	94
Idaho	2	2	45	45
Illinois	4	4	202	711
Indiana	2	2	75	75
Iowa	8	8	311	311
Kansas	3	3	109	454
Kentucky	1	1	14	170
Louisiana	1	1	41	56
Maine	1	1	32	32
Maryland	3	3	67	376
Michigan	3	3	171	483
Minnesota	1	2	8	69
Mississippi	2	2	45	116
Missouri	1	1	8	40
Montana	2	2	23	68
Nebraska	1	1	9	52
Nevada	1	2	28	90
New Hampshire	5	5	260	375
New Jersey	1	1	24	24
New York	3	3	258	347
North Carolina	1	1	10	10
North Dakota	3	3	94	94
Ohio	13	13	783	948
Oregon	7	7	148	253
Pennsylvania	1	1	94	101
Puerto Rico	1	1	31	130
South Dakota	2	2	43	52
Tennessee	3	3	87	197
Texas	6	8	543	1,173
Utah	2	2	50	50
Washington	10	10	400	686
West Virginia	1	1	20	200
Wisconsin	3	3	171	171
Wyoming	2	2	136	136
TOTAL	**155**	**163**	**9,040**	**13,920**

Data compiled from several HUD sources and not independently verified.

National Housing Trust, 2002.

Total and At-Risk Elderly Properties with Project-based Section 8

	ALL CONTRACTS			RENTS <= 110% OF FMR		
State	Properties	Assisted Units	Average Percent Rent to FMR	Properties	Assisted Units	Percent of All Contracts
Alaska	18	502	89.9%	10	186	37.1%
Alabama	149	9,076	125.8%	47	2,730	30.1%
Arkansas	151	5,549	123.8%	61	1,736	31.3%
Arizona	85	5,754	104.8%	45	3,313	57.6%
California	692	54,944	92.8%	456	37,356	68.0%
Colorado	168	10,377	101.4%	110	7,648	73.7%
Connecticut	201	15,536	104.2%	99	5,938	38.2%
District of Columbia	23	2,593	74.0%	19	2,142	82.6%
Delaware	26	2,441	104.5%	14	1,239	50.8%
Florida	287	25,497	97.9%	181	16,427	64.4%
Georgia	158	13,512	103.0%	93	9,022	66.8%
Guam	1	49	0.0%	1	49	100.0%
Hawaii	37	2,341	100.8%	21	1,585	67.7%
Iowa	188	9,116	116.9%	51	2,317	25.4%
Idaho	70	2,495	144.7%	15	446	17.9%
Illinois	352	31,772	127.3%	106	9,757	30.7%
Indiana	219	15,597	122.5%	66	4,642	29.8%
Kansas	146	7,222	117.3%	48	2,751	38.1%
Kentucky	216	13,691	130.6%	66	4,032	29.5%
Louisiana	104	9,054	118.6%	31	2,082	23.0%
Massachusetts	402	37,616	102.3%	239	21,648	57.5%
Maryland	153	14,482	108.1%	77	6,788	46.9%
Maine	174	5,909	158.2%	22	822	13.9%
Michigan	363	37,149	107.3%	193	19,492	52.5%
Minnesota	332	16,620	115.0%	146	8,779	52.8%
Missouri	245	16,062	116.6%	95	7,149	44.5%
Mississippi	153	7,517	123.7%	53	2,651	35.3%
Montana	61	2,666	120.5%	27	1,140	42.8%
North Carolina	252	12,641	103.7%	127	6,310	49.9%
North Dakota	86	1,952	118.5%	24	582	29.8%
Nebraska	144	4,627	113.7%	53	1,580	34.1%
New Hampshire	114	4,655	131.8%	24	956	20.5%
New Jersey	264	31,177	106.7%	114	11,093	35.6%
New Mexico	41	2,412	111.6%	22	1,044	43.3%
Nevada	21	1,606	91.0%	14	1,173	73.0%
New York	655	54,913	108.9%	300	25,330	46.1%
Ohio	556	41,248	117.8%	225	18,448	44.7%
Oklahoma	92	5,089	136.2%	23	1,442	28.3%
Oregon	152	6,740	113.6%	66	3,109	46.1%
Pennsylvania	503	40,951	134.7%	145	11,788	28.8%
Puerto Rico	77	6,242	143.5%	14	1,441	23.1%
Rhode Island	128	12,022	130.8%	21	1,384	11.5%
South Carolina	107	6,983	118.0%	46	3,249	46.5%
South Dakota	109	2,876	127.5%	30	912	31.7%
Tennessee	231	17,594	114.9%	102	8,605	48.9%
Texas	285	19,966	105.7%	149	10,889	54.5%
Utah	48	2,511	101.3%	31	1,841	73.3%
Virginia	147	13,912	101.0%	83	7,642	54.9%
Virgin Islands	3	153	0.0%	3	153	100.0%
Vermont	84	2,458	145.1%	8	228	9.3%
Washington	248	11,814	94.3%	179	8,693	73.6%
Wisconsin	430	24,122	114.2%	185	11,137	46.2%
West Virginia	95	6,995	147.5%	16	710	10.2%
Wyoming	31	1,031	118.3%	13	395	38.3%
TOTAL	**10,077**	**711,829**		**4,409**	**324,001**	**45.5%**

Data compiled from several HUD sources and not independently verified.

National Housing Trust, 2002.

Elderly Properties with Project-based Section 8 (rents <=90% of FMR)

	RENTS <= 90% OF FMR		
State	Properties	Assisted Units	Percent of All Contracts
Alaska	9	167	33.3%
Alabama	27	1,539	17.0%
Arkansas	34	834	15.0%
Arizona	30	1,959	34.0%
California	324	27,274	49.6%
Colorado	57	4,256	41.0%
Connecticut	69	4,218	27.1%
District of Columbia	11	708	27.3%
Delaware	8	825	33.8%
Florida	101	9,343	36.6%
Georgia	60	5,603	41.5%
Guam	1	49	100.0%
Hawaii	12	505	21.6%
Iowa	32	1,595	17.5%
Idaho	11	318	12.7%
Illinois	64	5,324	16.8%
Indiana	31	1,391	8.9%
Kansas	22	945	13.1%
Kentucky	34	1,979	14.5%
Louisiana	22	1,539	17.0%
Massachusetts	144	11,412	30.3%
Maryland	43	3,191	22.0%
Maine	10	380	6.4%
Michigan	105	8,898	24.0%
Minnesota	78	4,460	26.8%
Missouri	54	3,587	22.3%
Mississippi	34	1,599	21.3%
Montana	6	229	8.6%
North Carolina	76	3,481	27.5%
North Dakota	17	335	17.2%
Nebraska	26	854	18.5%
New Hampshire	16	620	13.3%
New Jersey	79	6,120	19.6%
New Mexico	13	670	27.8%
Nevada	7	664	41.3%
New York	209	15,392	28.0%
Ohio	129	9,854	23.9%
Oklahoma	13	872	17.1%
Oregon	34	1,823	27.0%
Pennsylvania	85	6,793	16.6%
Puerto Rico	9	754	12.1%
Rhode Island	12	627	5.2%
South Carolina	14	960	13.7%
South Dakota	12	355	12.3%
Tennessee	60	4,313	24.5%
Texas	89	6,111	30.6%
Utah	17	850	33.9%
Virginia	46	3,230	23.2%
Virgin Islands	3	153	100.0%
Vermont	2	64	2.6%
Washington	93	4,444	37.6%
Wisconsin	71	3,024	12.5%
West Virginia	11	482	6.9%
Wyoming	7	236	22.9%
TOTAL	**2,583**	**177,208**	**24.9%**

Data compiled from several HUD sources and not independently verified.

NHT / Enterprise Preservation Corporation

Anytown Apartments

SCENARIO

Prepay a Sec. 202 mortgage, and refinance with 501(c)(3) bonds.

PROPERTY PROFILE

Number of Units:	180	Current Financing:	0	Asking Price:	-
Type:	0	Loan Balance:	5,699,411	Offer Price:	5,700,000
Section 8 Units:	0	Interest Rate - First Trust:	9.25%	NHT/E Valuation:	
Section 8 Expires:	1/0/2000	Reserve Balances:	-		

UNIT MIX AND RENTS

UNIT TYPE	CURRENT # OF UNITS	# OF UNITS PROPOSED	CURRENT RENTS	FMR RENTS	STREET RENTS	50% TAX CREDITS	60% TAX CREDITS	PRO-FORMA YEAR 1	PRO-FORMA YEAR 2	PRO-FORMA YEAR 3
Efficiency	60	60	0	0	675	0	0	675	689	703
1 Bedroom	120	120			765			765	780	796
Total Units	180	180								

DEVELOPMENT BUDGET

ITEM		TOTAL AMOUNT	PER UNIT
Uses of Funds			
Acquisition		5,700,000	31,667
Rehabilitation		554,400	3,080
Replacement Reserve Capitalization		77,400	430
Owner & TA Consultant Fees		100,000	556
Estimated Financing Costs		162,586	903
Other		980,580	5,448
Debt Service Reserve Funds		-	-
TOTAL USES OF FUNDS:		7,574,966	42,083
Sources of Funds			
1st Trust		6,327,600	35,153
2nd Trust		996,900	5,538
3rd Trust		-	-
Equity/Gap		-	-
Non-Loan Equity	Residual Receipts, Rep. Reserve Fund	250,466	1,391
Tax Credits		-	-
TOTAL SOURCES OF FUNDS:		7,574,966	42,083

KEY ASSUMPTIONS

FINANCING SOURCES & TERMS

Bridge Financing:	0		
Interest Rate	0.000%	Term (in years)	-
Permanent Financing Features		501(c)(3) Bonds	
		Senior/Subordinate Debt Structure	
1st Trust	Sr. Rated & Insured Bond		
2nd Trust	Jr. Rated, Uninsured Bond		
3rd Trust			
Equity/Gap			
Non-Loan Equity	Residual Receipts, Rep. Reserve Fund		
LIHTax Credit Rate:	NA	Price:	NA
Historic Rehab Rate:	NA	Price:	NA

	1st	2nd	3rd
Interest Rate	7.200%	9.000%	
Amort. Term in Years	30	10	
Loan to Value	86%	100%	
Debt Coverage Ratio	142%	110%	

OPERATING BUDGET

Stabilized Year: 1

ITEM	TOTAL AMOUNT	PER UNIT
Administrative Expenses	43,460	241
Management Fee	64,800	360
Utilities	152,460	847
Repairs & Maintenance	146,262	813
Payroll*	176,784	982
Real Estate Taxes	108,000	600
Insurance, Other Taxes & Miscellaneous	19,800	110
Total Operating Expenses:	711,566	3,953
Contribution to the Replacement Reserve	54,000	300
Financing Costs:	13,656	76
Total Expenses and Reserves:	779,222	4,329

Property Taxes Reduced: 0%

CASH FLOW PROJECTION:

		Year 1	Year 2	Year 3
Rental Income		1,587,600	1,619,280	1,652,400
Interest Income including DSR Interest		-	-	-
Laundry Income		11,700	11,934	12,173
Other Income		3,240	3,305	3,371
Gross Income:		1,602,540	1,634,519	1,667,944
LESS: Vacancy	5.55%	(88,969)	(90,745)	(92,600)
LESS: Expenses		(725,222)	(746,569)	(768,556)
LESS: Reserve Contributions		(54,000)	(54,000)	(54,000)
Net Operating Income:		734,349	743,205	752,787
1st Trust Debt Service		(516,060)	(516,060)	(516,060)
Mortgage Insurance Premium		0	0	0
Second Trust Debt Service		(151,540)	(151,540)	(151,540)
Third Trust Debt Service		0	0	0
Return on Equity		0	0	0
Other Ongoing Financing Costs		0	0	0
Cash Flow to Borrower:		66,749	75,605	85,187
Per Unit Per Month:		31	35	39

Development Budget
Anytown Apartments

Prepay a Sec. 202 mortgage, and refinance with 501(c)(3) bonds.

ITEM	TOTAL AMOUNT	UNIT PRICE	UNIT OF MEASURE	QUANTITY (CALCULATIONS)	NOTES
HARD COSTS:					
Acquisition - Land	$ 855,000	15%		5,700,000	
Acquisition - Building	$ 4,845,000	85%		5,700,000	
Rehabilitation-Hard Cost	$ 504,000	$ 504,000	Lump Sum	1	
Rehabilitation-Gen. Requirements	$ -	0.00%	% of	$ 504,000	
Rehabilitation-Profit	$ -	0.00%	% of	$ 504,000	
Rehabilitation-Contingency	$ 50,400	10.00%	% of	$ 504,000	
		Total Rehab:	$ 554,400	3,080	per unit
TOTAL HARD COST BUDGET:	$ 6,254,400				
SOFT COSTS:					
CLOSING					
Survey	$ 12,600	$840	building	15	
Title Search & Examination Fee	$ 4,000	$4,000	lump sum	1	
Title Policy	$ -	*included in title search & exam.*			
Recording Fees	$ 21,974	0.30%	of mortgages	$ 7,324,500	
Transfer Fees	$ -	*included in recording fees above.*			
ARCHITECTS & ENGINEERS					
Architect/Engineering Design & Project Supervision	$ 37,500	7.44%	Construction Budget	$ 504,000	
Environmental Assessment	$ 7,000	$7,000	Lump Sum	1	
Construction Lender Rehab Inspection Fee	$ -	$500	visit		
LEGAL					
Legal - Preparation of TPA	$ -	$20,000	Lump Sum		
Legal - Purchaser	$ 191,530	$191,530	Lump Sum	1	
Legal - Seller	$ -	*Costs borne by Seller*			
Legal - HUD	$ -	*Costs borne by HUD*			
LOAN RELATED COSTS					
TOTAL LOAN COSTS INCLUDING:	$ 162,586	2.22%	of mortgages	$ 7,324,500	
Underwriter's Fee					
Legal					
Appraisal					
Market Study					
Origination Fee					
Prepaid Mortgage Insurance	$ -	0.00%	of 1st trust	$ 6,327,600	
LOC enhance bonds during construction	$ -	0.00%	Bond Issue X Constr. Period	$ -	
DEVELOPMENT					
Builder's Risk Insurance	$ -	0.00%	Constr. Budg.	$ 554,400	5 basis points of Constr. Budg.
Owner Refinancing Fee	$ 100,000	1.37%	Dev'l Budg.	$ 7,301,774	Cash out to the owner
Technical Assistance Dev. Consultant	$ 77,000		Lump Sum	$ 1	Fee to Refinance consultant
Relocation/Misc.	$ -	0	Lump Sum	$ -	

Development Budget

Anytown Apartments

Prepay a Sec. 202 mortgage, and refinance with 501(c)(3) bonds.

ITEM	TOTAL AMOUNT	UNIT PRICE	UNIT OF MEASURE	QUANTITY	NOTES
		CALCULATIONS			
OTHER					
Prepaid Property/Hazard Insurance	$ 21,200				
Furniture, Fixtures & Equipment	$ 20,000				
Transition Reserve	$ 348,464			$59,297	
Marketing	$ -		Lump Sum		
Audit	$ -		Lump Sum		
Tax Credit Consultant	$ -		Lump Sum		
Tax Credit Fees	$ -		Lump Sum		
Miscellaneous/Contingency	$ 178,877	29.00%	other soft costs	$ 616,816	
Start-up Working Capital	$ 60,435	1	1 mth operate	$ 60,435	
Initial Deposit to Replacement Reserve	$ 77,400	430	unit	180	HUD requires 1,000/unit
Funded Operating Deficit *(Don't rename this line item)*	$ -	0	Vac Apt Months	$ -	

TOTAL SOFT COST BUDGET:	$ 1,320,566	**17.43%** of total development budget			
		21.11% of hard costs			
SUBTOTAL:	$ 7,574,966				
Debt Service Reserve Fund	$ -	0	months	$ -	
		2.22%	**=Cost of Issuance on 1st Trust**	**$**	**162,586**
TOTAL DEV. COST	$ 7,574,966	**2.0%**	**=Maximum Allowed on TE Bonds**	**$**	**146,490**
			Amt. Included in Taxable Tail	**$**	**16,096**

Total Rehab as % of dep. basis	9.82%
First trust as % of dep. Basis plus land	97.31%
Dev. Fees as % of TDC:	2.36%

		Actual		
Hard Costs		6,254,400		
Soft cost 1: All Except Dev. Fees Below		826,854	$	-
Working cap thru end		137,835	0	
		7,219,089	0	
Contingency-% of soft cost 1		82,685	10.00%	
TDC Subtotal:		7,301,774		
Development Fees				
Development Oversight		100,000	1.37%	
Development Consultant		77,000		
Tax Credit Consultant		0		
Development Fee Subtotal:		177,000		
Contingency-% of Dev. Fees		17,700	10.00%	
	TDC Total:	7,496,474		
Max. Development Fees:	**15%**	1,124,471	of TDC	

Anytown Apartments

NHT / Enterprise Preservation Corporation

SCENARIO

Prepay a Sec. 202 mortgage, and refinance using Private Activity Bonds and LIHTC.

PROPERTY PROFILE

Number of Units:	180	Current Financing:	0	Asking Price:	-
Type:	0	Loan Balance:	5,699,411	Offer Price:	5,700,000
Section 8 Units:	0	Interest Rate - First Trust:	9.25%	NHT/E Valuation:	
Section 8 Expires:	1/0/2000	Reserve Balances:	-		

UNIT MIX AND RENTS

UNIT TYPE	CURRENT # OF UNITS	# OF UNITS PROPOSED	CURRENT RENTS	FMR RENTS	STREET RENTS	50% TAX CREDITS	60% TAX CREDITS	PRO-FORMA YEAR 1	PRO-FORMA YEAR 2	PRO-FORMA YEAR 3
Efficiency	60	60	0	0	675	0	0	675	689	703
1 Bedroom	120	120			765			765	780	796
Total Units	180	180								

DEVELOPMENT BUDGET

ITEM		TOTAL AMOUNT	PER UNIT
Uses of Funds			
Acquisition		5,700,000	31,667
Rehabilitation		2,901,600	16,120
Replacement Reserve Capitalization		61,200	340
Developer Fee		700,000	3,889
Estimated Financing Costs		267,611	1,487
Other		1,182,666	6,570
Debt Service Reserve Funds		670,846	3,727
TOTAL USES OF FUNDS:		11,483,923	63,800
Sources of Funds			
1st Trust		7,734,000	42,967
2nd Trust		984,400	5,469
3rd Trust		-	-
Equity/Gap		-	-
Non-Loan Equity	Residual Receipts, Rep. Reserve Fund	249,987	1,389
Tax Credits		2,515,536	13,975
TOTAL SOURCES OF FUNDS:		11,483,923	63,800

KEY ASSUMPTIONS

FINANCING SOURCES & TERMS

Bridge Financing:	0		
Interest Rate	0.000%	Term (in years)	-
Permanent Financing Features		Private Activity Bonds Senior/Subordinate Debt Structure	
1st Trust	Sr. Rated & Insured Bond		
2nd Trust	Jr. Rated, Uninsured Bond		
3rd Trust			
Equity/Gap			
Non-Loan Equity	Residual Receipts, Rep. Reserve Fund		
LIHTax Credit Rate:	3.66%	Price:	0.8000
Historic Rehab Rate:	NA	Price:	NA

	1st	2nd	3rd
Interest Rate	6.250%	9.000%	
Amort. Term in Years	35	10	
Loan to Value	91%	102%	
Debt Coverage Ratio	140%	110%	

OPERATING BUDGET

Stabilized Year: 1

ITEM	TOTAL AMOUNT	PER UNIT
Administrative Expenses	33,588	187
Management Fee	64,800	360
Utilities	144,837	805
Repairs & Maintenance	136,080	756
Payroll*	168,883	938
Real Estate Taxes	108,000	600
Insurance, Other Taxes & Miscellaneous	19,800	110
Total Operating Expenses:	675,988	3,755
Contribution to the Replacement Reserve	54,000	300
Financing Costs:	15,398	86
Total Expenses and Reserves:	745,386	4,141

Property Taxes Reduced: 0%

CASH FLOW PROJECTION:

		Year 1	Year 2	Year 3
Rental Income		1,587,600	1,619,280	1,652,400
Interest Income including DSR Interest		-	-	-
Laundry Income		11,700	11,934	12,173
Other Income		3,240	3,305	3,371
Gross Income:		1,602,540	1,634,519	1,667,944
LESS: Vacancy	5.55%	(88,969)	(90,745)	(92,600)
LESS: Expenses		(691,386)	(711,665)	(732,553)
LESS: Reserve Contributions		(54,000)	(54,000)	(54,000)
Net Operating Income:		768,185	778,109	788,790
1st Trust Debt Service		(548,706)	(548,706)	(548,706)
Mortgage Insurance Premium		0	0	0
Second Trust Debt Service		(149,640)	(149,640)	(149,640)
Third Trust Debt Service		0	0	0
Return on Equity		0	0	0
Other Ongoing Financing Costs		0	0	0
Cash Flow to Borrower:		69,839	79,764	90,445
Per Unit Per Month:		32	37	42

Development Budget
Anytown Apartments

Prepay a Sec. 202 mortgage, and refinance using Private Activity Bonds and LIHTC.

ITEM	TOTAL AMOUNT	UNIT PRICE (CALCULATIONS)	UNIT OF MEASURE	QUANTITY	NOTES
HARD COSTS:					
Acquisition - Land	$ 855,000	15%		5,700,000	
Acquisition - Building	$ 4,845,000	85%		5,700,000	
Rehabilitation-Hard Cost	$ 2,340,000	$ 2,340,000	Lump Sum	1	
Rehabilitation-Gen. Requirements	$ 187,200	8.00%	% of	$ 2,340,000	
Rehabilitation-Profit	$ 140,400	6.00%	% of	$ 2,340,000	
Rehabilitation-Contingency	$ 234,000	10.00%	% of	$ 2,340,000	
		Total Rehab:	$ 2,901,600	16,120	per unit
TOTAL HARD COST BUDGET:	$ 8,601,600				
SOFT COSTS:					
CLOSING					
Survey	$ 12,600	$840	building	15	
Title Search & Examination Fee	$ 10,000	$10,000	lump sum	1	
Title Policy	$ -	*included in title search & exam.*			
Recording Fees	$ 26,155	0.30%	of mortgages	$ 8,718,400	
Transfer Fees	$ -	*included in recording fees above.*			
ARCHITECTS & ENGINEERS					
Architect/Engineering Design & Project Supervision	$ 37,500	1.60%	Construction Budget	$ 2,340,000	
Environmental Assessment	$ 8,000	$8,000	Lump Sum	1	
Construction Lender Rehab Inspection Fee	$ -	$500	visit		
LEGAL					
Legal - Preparation of TPA	$ -	$20,000	Lump Sum		
Legal - Purchaser	$ 213,487	$213,487	Lump Sum	1	
Legal - Seller	$ -	*Costs borne by Seller*			
Legal - HUD	$ -	*Costs borne by HUD*			
LOAN RELATED COSTS					
TOTAL LOAN COSTS INCLUDING:	$ 267,611	3.07%	of mortgages	$ 8,718,400	
Underwriter's Fee					
Legal					
Appraisal					
Market Study					
Origination Fee					
Prepaid Mortgage Insurance	$ -	0.00%	of 1st trust	$ 7,734,000	
LOC enhance bonds during constructio	$ -	0.00%	Bond Issue X Constr. Period	$ -	
DEVELOPMENT					
Owner Refinancing Fee	$ 100,000	0.00%		$ 2,901,600	Cash out to the owner
Dev. Fee	$ 700,000	7.05%	Dev'l Budg.	$ 9,924,384	
Technical Assistance Dev. Consultant	$ 77,000		Lump Sum	$ 1	Fee to the Refinance consultant
Relocation/Misc.	$ 2,000	2000	Lump Sum	$ -	

Development Budget
Anytown Apartments

Prepay a Sec. 202 mortgage, and refinance using Private Activity Bonds and LIHTC.

ITEM	TOTAL AMOUNT	UNIT PRICE	UNIT OF MEASURE	QUANTITY	NOTES
		CALCULATIONS			
OTHER					
Prepaid Property/Hazard Insurance	$ 21,200				
Furniture, Fixtures & Equipment	$ 20,000				
Transition Reserve	$ 348,464			$56,332	
Marketing	$ 27,500	27500	Lump Sum		
Audit	$ -		Lump Sum		
Tax Credit Consultant	$ -		Lump Sum		
Tax Credit Fees	$ -	17,750.00	Lump Sum		
Miscellaneous/Contingency	$ 221,145	15.00%	other soft costs	$ 1,474,298	
Start-up Working Capital	$ 57,615	1	1 mth operate	$ 57,615	
Initial Deposit to Replacement Reserve	$ 61,200	340	unit	180	HUD requires 1,000/unit
Funded Operating Deficit *(Don't rename this line item)*	$ -	0	Vac Apt Months	$ -	

TOTAL SOFT COST BUDGET:	$ 2,211,477	**19.26%**	of total development budget
		25.71%	of hard costs
SUBTOTAL:	$ 10,813,077		

Capitalized Interest Reserve	$ 670,846	0	months	$ -		
		3.07%	**=Cost of Issuance on 1st Trust**		**$**	**267,611**
TOTAL DEV. COST	$ 11,483,923	**2.0%**	**=Maximum Allowed on TE Bonds**		**$**	**174,368**
			Amt. Included in Taxable Tail		**$**	**93,243**

Total Rehab as % of dep. basis	33.77%
First trust as % of dep. Basis plus land	81.87%
Dev. Fees as % of TDC:	7.21%

		Actual		
Hard Costs		8,601,600		
Soft cost 1: All Except Dev. Fees Below		1,094,517	$	-
Working cap thru end		118,815	0	
		9,814,932	0	
Contingency-% of soft cost 1		109,452	10.00%	
TDC Subtotal:		9,924,384		
Development Fees				
Development Oversight		700,000	7.05%	
Development Consultant		77,000		
Tax Credit Consultant		0		
Development Fee Subtotal:		777,000		
Contingency-% of Dev. Fees		77,700	10.00%	
	TDC Total:	10,779,084		
Max. Development Fees:	**15%**	1,616,863	of TDC	

Elderly Properties with HUD-Insured Mortgages
(Interest Rates of 9% or Above)

State	Properties	Section 8 Units	Total Units
Alabama	40	2,434	2,441
Arizona	31	1,563	1,574
Arkansas	47	1,410	1,428
California	156	11,889	12,355
Colorado	50	2,588	2,592
Connecticut	34	2,340	2,627
Delaware	5	482	487
District of Columbia	6	737	741
Florida	66	5,835	5,872
Georgia	33	2,479	2,485
Hawaii	4	110	113
Idaho	6	293	296
Illinois	58	4,475	4,643
Indiana	43	2,349	2,355
Iowa	28	1,452	1,459
Kansas	18	713	723
Kentucky	61	3,416	3,429
Louisiana	30	2,470	2,483
Maine	27	769	774
Maryland	25	2,116	2,124
Massachusetts	55	4,283	5,347
Michigan	70	5,489	5,679
Minnesota	41	1,796	1,798
Mississippi	46	2,181	2,189
Missouri	55	3,413	3,507
Montana	5	283	322
Nebraska	14	586	587
Nevada	8	464	482
New Hampshire	9	297	299
New Jersey	40	4,201	4,573
New Mexico	7	366	367
New York	170	13,357	13,519
North Carolina	85	3,456	3,466
North Dakota	2	63	63
Ohio	129	7,660	7,735
Oklahoma	35	1,524	1,535
Oregon	17	774	783
Pennsylvania	107	7,174	7,239
Puerto Rico	36	2,608	2,610
Rhode Island	10	852	855
South Carolina	28	1,707	1,715
South Dakota	1	0	31
Tennessee	53	3,001	3,041
Texas	86	5,167	5,196
Utah	13	492	493
Vermont	7	167	169
Virgin Islands	1	56	56
Virginia	33	2,852	2,879
Washington	39	1,671	1,696
West Virginia	20	1,400	1,420
Wisconsin	60	2,823	2,861
Wyoming	6	230	230
TOTAL	**2,056**	**130,313**	**133,743**

Data compiled from several HUD sources and not independently verified.

National Housing Trust, 2002.