Oregon
Theodore R. Kulongoski, Governor

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January 6, 2011

To: Partners of Oregon Housing and Community Services

From: Victor Merced, Director

Re: New Term of Affordability for OHCS Multifamily Programs

During the past year, Oregon Housing and Community Services has explored adopting a standard long-term affordability period for all projects to which it makes grants or loans. Affordability periods currently range from 10 to 30 years depending on the funding source. A standard affordability period would assure housing availability for the longest possible term.

Applicability

If approved by the State Housing Council, this affordability term will apply to all new OHCS funding awards – through the Consolidated Funding Cycle, requests for proposals, or other application processes. OHCS will also apply the standard to all per capita credits, grants and low-interest or deferred-payment loans made from the Housing Trust Fund, HOME program, General Housing Account, Low Income Weatherization, Preservation Funds, and other grant programs.

The new affordability term will not apply to projects receiving solely OHCS bond financing or 4% LIHTCs. However, bond-financed and 4% LIHTC projects that also receive grant or loan subsidies must comply with the standard.

Background on issue

Despite annual allocations of grant and tax credit resources to create affordable housing, the need for affordable housing continues to grow. Oregon must hold onto its existing supply of affordable housing and invest state resources in new housing that returns the longest-term of affordability for low-income families.

Across Oregon, a growing number of projects have reached the end of affordability requirements. Some properties developed in the early 1990s have met their contractual requirements and have been released from their regulatory agreements. Owners of these properties may now convert the units to market rate. Once converted, these affordable units are lost forever. The public investments made through OHCS resources now become the owner's equity.

Preventing the loss of federal subsidies

In addition, since 2005 housing partners in Oregon have been working to prevent the expiration of Section 8 project-based assistance contracts which ensure that Oregon's very lowest income populations have a place to live. Millions of dollars have been invested and will continue to be invested over the next four years to retain this subsidy. By establishing a longer-term affordability requirement for these properties, Oregon can slow the rate at which it loses existing affordable housing and free more resources to address the growing housing needs.

In order to prevent the continual loss of affordable housing, opt-outs by owners and protect the housing needs of lower-income tenants, OHCS proposes to increase the length of time owners must comply with rent and income restrictions on subsidized properties.

Other affordability term models

In developing its proposed policy on long-term use, OHCS looked at steps taken by other resource providers. Action has been taken by other states and localities to retain affordable housing for longer terms than required by federal or state regulations. The Low Income Housing Tax Credit (LIHTC) program is considered the benchmark or standard of affordable housing programs. The LIHTC industry has developed best practices that have been accepted by most housing finance agencies. OHCS researched the qualified allocation plans of several state housing finance agencies to see if any states require affordability terms longer than the 30-year minimum, or provide incentive points to applicants that extend their compliance term beyond 30 years. Our research shows that most of the states surveyed encourage sponsors to commit to more than 30 years of affordability. The period of affordability ranged from 35 to 50 years.

The City of Portland adopted an ordinance that imposes a 60-year affordability period on all rental housing developments created or preserved with city subsidy.

Please refer to the enclosed spreadsheet that summarizes affordability requirements by various states and localities.

OHCS proposed term of affordability

After a review of the practices in other states, OHCS is proposing a standard term of affordability for all new projects receiving OHCS subsidies, as follows:

> Owners receiving OHCS per capita credits, grants or loans (excluding projects receiving solely bond financing or 4% LIHTCs) will be required to maintain the property as affordable for 60 years. Property owners will have the opportunity to buy out of the affordability at years 40 or 50. To encourage the owner to keep the property affordable, the balance will reduce over time.

- After 40 years, 100 percent of the OHCS grant and loan subsidy will be due at a 'to-be-determined" interest rate.
- After 50 years, 100 percent of the OHCS grant and loan subsidy will also be due, but the "to be determined" interest rate will be lower.
- At 60 years, repayment of OHCS subsidy will be forgiven.

OHCS understands that market circumstances or physical conditions may prohibit a property from maintaining long-term affordability. As such, any policy adopted must provide the OHCS director with discretion to modify terms of this policy or repayment requirements.

The table below shows a possible repayment scenario of a $200,000 investment.

Repayment Scenario of OHCS Investment of $200,000		
	Repayment at simple interest	Repayment compounded annually
40 years at 3%	$440,000	$652,408
50 years at 2%	$400,000	$538,317
60 years	0	0

Your feedback appreciated

We invite you to share your thoughts about the proposal presented here and also welcome any alternative suggestions you might have. Your feedback will help the State Housing Council make its final recommendation on affordability terms to the department's director.

OHCS will present this proposal at the January 21, 2011 meeting of the State Housing Council. This will include the proposed term of affordability, as described above, and information on other state policies. The Council will discuss and act on the proposal at a later meeting.

Please provide your comments by January 31, 2011 to: Betty Markey, Senior Policy Advisor, 503.986.2116 or betty.markey@state.or.us and Lisa Joyce, Policy and Communication Manager, 503.986.0951 or lisa.joyce@hcs.state.or.us.

We look forward to hearing from you.

TERM OF AFFORDABILITY

Program		Other State or Locality Affordability Terms												
		Oregon	Washington State	Alaska	Colorado	California	Massachusetts	Alabama	Idaho	Florida	Nevada	Arizona	Portland	Eugene
LIHTC **30 year minimum affordability**	30 year minimum	X		X								X		
	Incentive points for longer term		40 years		35 or 40 years	55 years	50 years or perpetuity	35 years	40 years	31 to 50 years	35-50 years			
HOME **Apply HOME program affordability terms.** **Rehab from 5-15 years** **New Construction 20 years**	HOME program minimum	X		X				X	X used to incentivize	X used to incentivize to 50 years	HOME program minimums unless project receives LIHTC or Trust Fund, then tied to applicable program.	X		X
	Longer required term or incentive points		40 years required		30 years required	55 years for new construction and acq/rehab additional 10-20 years for rehab only	30 years required						60 years based on city ordinance	
State Trust Fund or other programs		10-30 years	40 years required		30 years required		30 years required	N/A	N/A		30 years	same as HOME		20 years

Proposed OHCS Affordability Term

40/60 year affordability term. 60 year affordability with 40 year buy out.	
Discontinuance of affordability after year 40, owner to repay OHCS investment.	Repayment of investment at set interest rate compounded annually
Discontinuance of affordability after year 50, owner to repay OHCS investment.	Repayment of investment at a lower interest rate compounded annually
At end of 60 years repayment of recoverable grants and deferred loan could be forgiven.	
Case by case modifications subject to department approval.	
Owner ability to recapitalize project	May need to refinance and recapitalize at year 30 or later to complete major repairs. This policy would permit owner to pull out equity at time of refinancing and recapitalizing project. OHCS subsidies would subordinate to new debt.