

HUD offers affordable options

During what everyone hopes will prove to be the worst of the current economic crisis, the multifamily sector proved to be one of the few asset classes where substantial loans continued to be made. This was due, almost exclusively, to the continued lending by Freddie Mac and Fannie Mae as other lenders virtually ceased making new loans while the real estate market corrected (and continues to correct) itself. Earlier this year, however, the agencies implemented new, more strict lending guidelines for multifamily properties that include higher minimum debt-coverage ratios and decreased maximum loan-to-value ratios. With these new guidelines in place and other lenders still largely on the sidelines, obtaining acquisition financing for multifamily properties is proving a challenge. However, for those looking to acquire affordable housing apartment projects (or projects with an affordable housing component), a number of federally and locally administered grant and loan programs are available. This article introduces two such programs. Additionally, from an ongoing operations perspective, there are a number of programs available to affordable housing apartment owners intended to ensure the viability of such projects. One example is described at the end of this article.

■ **HUD's HOME Program.** The HOME Program provides federal funds to state and local governments to be used in public-private partnerships for the acquisition and rehabilitation of (and construction of new) low-income housing. Annually, the HOME Program distributes about \$2 billion to state and local governments, making it the largest federal block grant program designed to create affordable housing for low-income households. Once awarded funds from the U.S.

Department of Housing and Urban Development, participating jurisdictions create their own eligibility requirements for partnerships with private developers and owners as set forth in consolidation plans that are approved by HUD, and such jurisdictions may use such funds in a variety of ways (e.g., as equity investments, interest-bearing loans or advances, noninterest-bearing loans or advances, interest subsidies, deferred payments loans, grants, or other forms of assistance that HUD determines to be consistent with the purposes of the HOME Program's enabling legislation). Note, howev-

er, that some jurisdictions, such as Denver, only provide loans with its HOME Program funds.

■ **HUD's Community Development Block Grant Program.** The Community Development Block Program is a HUD program that provides annual grants to entitlement communities, which are major metropolitan cities like Denver, based on a formula that considers an area's population, poverty level, incidence of overcrowded housing and age of housing. These grants are intended to be used to create viable urban communities by providing housing and other services to low- and moderate-income individuals. As with the HOME Program, participating jurisdictions create their own eligibility requirements, subject to certain restrictions, based on a

consolidated plan that identifies the types of activities that they wish to fund. Eligible activities include, but are not limited to, the following: acquisition of real property, relocation and demolition, rehabilitation of residential and nonresidential structures, construction of public facilities, and assistance to profit-motivated business that carry out economic development. Ineligible activities include, but are not limited to, the following: acquisition, construction, or reconstruction of buildings for the general conduct of government; political activities; certain income payments; and construction of new housing by units of general local government. While participating jurisdictions make decisions about the types of projects that they wish to fund, the consolidated plan must include several required certifications, including a certification that at least 70 percent of the program funds will be used for activities that benefit

low- and moderate-income persons. Community Development Block Grant Program funds are allocated to participating jurisdictions based on a formula that considers an area's population, poverty level, incidence of overcrowded housing and age of housing.

■ **HUD's Section 8 Housing Choice Voucher Program.** As noted in the introduction, after closing there are additional programs that an apartment owner may be able to take advantage of to ensure the viability of the affordable housing project (or affordable component thereof). Such programs include partnerships with housing agencies and, depending on market conditions, tax credits for rehabilitation. HUD's Section 8 Housing Choice Voucher Program, also known as tenant-based vouchers (as opposed to project-based vouchers), is a federal program that provides rental assistance to

low-income families, the elderly and persons with disabilities. Though funded by HUD, the project is administered locally by public housing agencies. Participants (meaning qualified tenants receiving the vouchers) are eligible to choose any housing that meets the program's requirements and is not limited to units that are located in subsidized housing projects. To be eligible, a tenant's income may not exceed 50 percent of the

median income for the county or metropolitan area in which the participant chooses to live. By law, the overseeing public housing agency must allocate 75 percent of its vouchers to applicants whose adjusted gross incomes do not exceed 30 percent of the area median income. Because the housing vouchers are made on behalf of the participating family or individual, a property owner does not apply for funds, but an

owner who receives approval to participate in the program as a landlord will receive rent payments directly from the Denver Housing Authority.

These are but a few of the programs available to apartment project owners and purchasers, and each provides an important alternative source of funding for apartment projects providing affordable housing.

**Erik Estrada helped research this article.▲*



Joseph E. Lubinski
Real estate associate,
Ballard Spahr Andrews
& Ingersoll LLP, Denver