COVID-19 Crisis Response: Policy

Monday, April 13th, 2020 - 3:00 – 4:30 EDT

* **Objective of the Meeting:** To provide a forum for HPN member staff to discuss COVID-19 impacts on short term and long term member operations, emerging challenges, and potential state and federal policy proposals to address/overcome those challenges.

Key Discussion Points

* **Welcome/Overview**
* Lisa noted a wide variety of progress on policymaking and advocacy at the state level on multifamily and single family work.

**California Proposals: Multifamily**

* Linda Mandolini from Eden Housing: Proposal called “Keep California Housed” which provides a backstop for multifamily affordable housing portfolio. It is a temporary rent subsidy for properties that need it, and is restricted in nature. There is no dollar amount associated with the proposal yet.
* If the entire portfolio of restricted housing, mostly tax credit housing, ran at 50% vacancy, we would loss $1.3B in rental income for the rest of the year. Trying to figure out what properties could ask for subsidy and developing threshold criteria. A proposal has been sent to the state. The challenge is coming up with a number that would help properties break even to avoid default or a little more to assist with unforeseen costs.
* When it was sized for the Eden portfolio, it would cost $1,000 per unit to get through the year.
* Lisa asked a question about the calculation, and if this includes the tenant share of those in assisted units and the full rent in the non-assisted LIHTC and NOAH units.
* Linda: Tenant rent only.
* 86% Economic Occupancy (dollars collected) for April, and foresee May being worse with recent mass layoffs. Tenants are trying to pay whatever they can. Seniors are on a fixed income and are able to make rent, but families are more likely to miss rent.
* Lisa: Is California looking at forbearing splits of cash flow (going back to the state)? And are you allowed to use reserves for unusual expenses?
  + Linda: Looking for all of the above. State Housing Agency has a lot of subordinate debt and are scheduled to get their 2019 cash distributions on their splits in the next 60 days. We are proposing to hold those back for the benefit of the properties as additional reserves.
  + Also proposed a pooled reserve for anything that is funded with state loan programs, but is unlikely to be adopted.
  + State Housing Finance Agency already issued forbearance guidelines. They are the lender, and are allowing 30 days at a time with up to 90 days. Applicants must document hardship.
  + Across the board to lenders and investors, Eden is asking to use operating reserves to cover deficits.
* Joe Flatley asks how you thinking about forbearance versus use of operating reserves to cover deficits.
  + Linda: Looking on a case by case basis at forbearance. None of the forbearance deals look great because loans will need to be paid back next year and also due to the complexity of deals. If a property is far in the hole, we are not sure how we will get it back to normal operating levels. A lot of national for-profits want forbearance. Are you seeing any lenders willing to take their unpaid debt service and tacking it to the end of the loan?
  + Joe: Single family side, definitely. The financing on multifamily is more complicated.
* Linda: Organizations may need to tap operating reserves for liquidity for the site. Running operating reserves to zero may not be doable for everyone. Funding to replenish reserves may be required to keep orgs/sites functioning.
  + Pat Sheridan shared – “The State of Maryland has offered up a program of allowing owners to retain the portion of cash flow annual mortgage payments calculated at year end that would have been paid to the state, typically 50/50 with the owner and keep it for COVID expenses, if needed and justified, and matched by a similar size contribution of the owners' portion of cash flow distribution.”
  + Linda: Would love if California did this. It’s what Eden had proposed.
  + Kathy Ebner: Deferment allows for a holding pattern until June 15th. The state agreed to defer so that we could use this time to negotiate something further. Virginia’s VHDA provided guidance and is following the Fannie Mae format for three months of deferred payments. But rather than have the payment occur over the 12 month period, the payments can occur over a 48 month period.
  + Lisa: Was the state of Maryland proactive or did it take much advocacy?
  + Kathy: It took *a* lot of pushing. The Maryland Housing Coalition has been holding weekly calls with the state housing agency and the coalition offered this idea up. The agency adopted it and issued formalized guidance.

**Massachusetts Proposals: Multifamily**

* Joe Flatley: CHAPA has been organizing weekly calls. The state housing agency’s has issued bulletins. Boston has stopped construction. Mass Housing Investment Corporation has $140M in deals under construction now, and they are 95% completed. There are LIHTC adjuster consequences. Unions are pressuring the Governor of Massachusetts to stop construction more broadly.
  + Looking at LIHTC portfolio, and stress them by assuming a 25% loss of rents in unassisted units and assuming Section 8 units may carry themselves. The unassisted units may loss 3 months, 25%, and most properties have operating reserves to cover themselves for 18 months. Most of the LIHTC portfolio can withstand the stress of this, with the exception of a few. But it depends on how long this goes on.
  + Some concern about HUD subsidy layering guidelines issued a couple of months ago; guidance pushes debt service coverage to 1.10 - 1.15x. Not sure if HUD will be enforcing this. For deals MHIC is trying to close now, they would like to see higher debt service coverage. Concern mostly for Section 8 projects.
* Lisa: Is there discussion about downward adjusters and delayed lease up period?
* Joe: We are not there yet. We are going to work with investors to share the pain.
* Questions from the chat: Are people hearing anything about relaxation of LIHTC penalties if a sponsor misses their placed in service deadline in 2020? For later in 2020, what are the LIHTC pricing impacts for deals hoping to close later in 2020? What is Joe seeing regarding new deald for the second half of 2020?
  + Pricing: It’s too early to tell what’s going to happen with investors. Investors aren’t immediately walking away from deals that were already priced and ready to close. Obviously closings are being held up and not able to start construction. There might be downward pricing through the course of the year.
  + Penalties: PIS delays would result in a loss of credits. Would result in a downward adjuster typically because the investor is losing value of the credit. Investors are concerned with this, and MHIC will be reporting to investors this week. The expectation is that they will work with investors to absorb a lot of the loss. Foresees a substantial paid fee upon the completion, but will negotiate with owners and sponsors to contribute something on a deal by deal basis.
* Nina Dooley comments – “Linc is mirroring a lot of what Linda shared. In the 2008 downturn, we lost Redevelopment in CA. Linc is messaging to state leaders that ‘Affordable housing is an economic stimulus that we need right now as we provide jobs, business income, local taxes and fees during construction and throughout the projects’ lifecycles.’ We hope others will join us in the messaging across the country.”
  + As we move towards recovery, we will want to think about how we message affordable housing as a stimulus to the economy.

**Illinois Proposals: Single Family Homeownership**

* NHS Chicago is using a three-fold strategy:
  + Forbearance – asked Governor Pritzker to back non-federally assisted mortgages; nationally, this is 30% of all mortgages. Governor deferred to the Illinois Department of Financial and Professional Regulation, and IDFPR released some guidelines on forbearance which mirror Fannie and Freddie’s guidelines. It’s not clear what the oversight is on Fannie & Freddie regulations, which many are interpreting that missed mortgage payments can be tacked on to the end as opposed to immediately after the forbearance expires. The gubernatorial administration sees the forbearance issue outside of their legal purview. California had issued stronger executive orders, and in Illinois, we were mildly successful on the forbearance issue.
  + Foreclosure mitigation and counseling – Seeking help from the housing finance agency. Housing counselors are helping guide homeowners through the future repayment obligations and how to talk to lenders.
  + Funding for mortgage assistance – Illinois was part of 18 states receiving Hardest Hit Funds in 2010. It provided up to $30,000 to help with mortgage assistance for those behind on payments. Looking to get the Hardest Hit Fund reinstated, and it would be great to develop a multistate coalition of support. The Fund would be targeted to homeowners already on forbearance plans, but whose lenders expect a lump sum immediately after the 90 day period. Would also like to target payments towards small landlords (1-4 units, owner occupants).
* Proof of considerable need: The City of Chicago used inclusionary zoning funds for a mortgage assistance lottery up to $1,000. 8,300 applications were received for 2,000 grants.
* Meaghan McCarthy: Housing counseling organizations are concerned with what happens after foreclosure and eviction moratoria are lifted. They may not see an increased volume of activity right now, but are expecting a lot of demand to deal with homeownership concerns. Those working in rental counseling are seeing significant demand. Around the last crisis, a lot of capacity was built up in the housing counseling industry, but it contracted as funding went away. A challenge these counseling groups face include rebuilding their capacity.
* Sarah: What other states or cities are providing mortgage assistance?
  + Lisa: Would be great to understand what other states are doing to support single family homeownership as a knowledge sharing and how to support additional state level policy advocacy.
  + Peter Elkowitz: New York State is putting out an RFA for $20M in Foreclosure and Default counseling.
* Sarah: For any federal proposals we are lifting up as a network, would suggest rental assistance should be paired with homeownership assistance; many homeowners are at 30% AMI and struggling as well.
  + Many others on the call seconded the need to highlight affordable homeownership.

**HPN’s Federal Response**

* Shannon Ross: Congress passed three pandemic response bills. Read more about it in April’s Policy News. The CARES Act’s headline program is the Paycheck Protection Program through SBA. There are other provisions around forbearance and $4B for Emergency Solutions Grants.
  + Consensus that these bills are not enough, and are looking for $250B more in the PPP. Currently at a standstill due to additional demands for healthcare workers and states.
* Before the third bill, intermediary groups (HPN, Stewards for Affordable Housing for the Future, Opportunity Finance Network, LISC, National NeighborWorks Association, and Enterprise) met to discuss a joint policy response. Two prong approach:
  + Program: $48B
    - For rental assistance to go directly to owners
    - Also available for homeownership
  + Capital Magnet Fund: $2.5B, waiving the 10:1 leverage requirement
* There are also many other proposals we are tracking including changes to LIHTC, funding for CDFIs, and others.
* Linda asked if the ESG program allows for tenant subsidy to go directly to landlords.
  + Shannon and Lisa: There is a $100B proposal for ESG circulating. The main reason HPN is looking towards the HOME Program is the flow of funding to owners. ESG program is focused on getting funds directly to tenants. ESG funding can go to non-profits, but it unclear what happens when the owner of a property is a for-profit.
  + Linda: If ESG funding goes out one tenant at the time, it would bottleneck the system. Policy recommendation - States should be authorized to administer funds directly to landlords supporting subsidized (or unsubsidized affordable) housing. Can this be written into the ESG bill? We keep hearing that ESG will be the vehicle that moves.
  + Shannon: Democrats in the House see ESG as the vehicle, but it is not being warmly received in the Senate. We are open to seeing this funding go through with some of it going to unrestricted units.
  + Lisa: There are more champions of HOME in the Senate.
* Linda also asks, “Also, there are a number of non profits who do not qualify for PPP program due to size. Is HPN working on an exemption for the housing non profits?”
  + Lisa: We should continue thinking about this.
  + Volunteers of America, MidPen, TCB, Mercy and National Community Renaissance are all over 500.
  + Chris Neary: Congressman Seth Moulton introduced legislation to allow nonprofits over 500 employees to access PPP.
* Chris Persons asked, “How did we land on the $48B for HOME?”
  + Shannon: Initially requested $10B for rental assistance assuming other rental assistance funds would be available. We realized that operating funds, gap financing, homeownership, and dire rental projections would need to be addressed. We are trying to crunch the data to support this claim; please send any information to HPN. In a nationwide estimate, there will be $12B lost in rental income per month.
  + Lisa: We estimate half would go to rental assistance for NOAH and LITHC properties, and the other half would go to other expenses such as operating, homeownership, etc. The concern is that the need for assistance is emerging and hasn’t been proven yet, but with the flexibility of HOME, it should address various needs with enough funding for each state.
* Nina asks, “For the Cap Mag Fund, would this include adding more housing entities to the program? It’s been very competitive and limited to who gets to participate.”
  + Shannon: Past cycles have awarded ~$100M. With $2.5B, we hope that this will fund more entities across the country. We suggest a rapid approval for the awards.
* Shannon: We are interested in what others are seeing in terms of federal policy proposals. Please send them to the HPN Policy team.

**Facilitated Discussion**

* Chris Neary: Back to LIHTC pricing, we are taking a dimmer view of where the market is going. From investors, we’ve heard that it’s been business as usual, but we are also hearing that they don’t want to work with developers they have not worked with before.
  + A group of 20 syndicators sent a letter to FHFA asking raise the cap on GSEs’ LIHTC investments because both are capped at $500M/year. Cinnaire sent a separate letter urging FHFA to address this issue because the LIHTC market is sensitive, and investors could pull back in the next quarter. In the 2008 crisis, Fannie and Freddie exiting the market was a destabilizing factor. We have not heard from FHFA yet. Advocacy efforts led by CREA. Trying to get ahead of future production.
  + Lisa: MF developers are voicing concerns about tax credit appetite, pricing issues and liquidity requirements, etc.
* Mark Deitcher asked, “Is fixing the 4% credit a priority to be put in one of the future stimulus bills?”
  + Shannon: Yes, this is the priority ask of the ACTION Campaign and AHTCC, and they are putting forth recommendations. So far, there hasn’t been opportunity for tax changes, but we are talking to tax staffers.
* Peter Elkowitz: Been following the executive order, and affordable housing is an essential construction service. Affordable housing is defined as having 20% of units or greater as affordable. On the single family side, construction is still moving. Purchasers are having a harder time because they have lost income and/or investments have reduced with the stock market. New York State has been working on a $20M for foreclosure prevention program, and we are waiting for the details. We’ve had to cut down on staff in the office, and staff are working from home at reduced productivity. We might want to think about streamlining remote closings and virtual notaries. We are still waiting to understand all the ramifications of this different kind disaster.
* Lisa: 86% economic occupancy for Eden; are others seeing a significant drop off of rental income since March?
  + Linda: By the end of the month, we should see 97% collections. We were expecting a bigger drop off.
  + Barbara Torpy: In Vermont, we have only had two weeks of people out of work, and are reporting 86% rent payment. Expecting a bigger hit at the end of the month.
  + Adam Weinstein: First week of April, we saw a substantial drop off of 50% of tenant paid portions (leaving out rental subsidies), in New York City. Some of this reflects fear instead of economics. NYC also has an eviction moratorium.
  + Lisa: Alan in Minnesota was worried about the eviction moratoria expiration, and this could result in a huge human disaster with evictions and there are not permanent solutions in place.
  + Linda: Concerned with how we get tenants out of the mounting levels of unpaid rent. We’ve tried to send tenants to tenant relief funds, but money is running out fast.
* Adam’s question regarding states/localities and if they have instituted distribution of ESG/CDBG funds and if so, how?
  + Linda: Small locality in California with a small amount of money, and they are going to their City Council to talk about how they should spend those dollars.
  + Shannon: The intermediary group is looking for how states and localities are advocating for these funds to be used for rental assistance. We hope to give an update on this later.
  + Linda: For the next call, we should have some ESG intel on how it can be used and how it can be used to support owners. CDBG may be used for health and safety primarily; Hayward, CA has a great need for PPE for first responders. CDBG might also go to substantial homeless populations.
  + Ellen: Had a conversation with House Financial Services staffer on HOME versus ESG. The staffer mentioned that there will be a way for ESG funds to be channeled to owners. At least owners’ concerns are on their radar. It might be important to express these concerns to the Hill. Local ESG agencies may have difficulty deploying the $100B efficiently, and state HFAs made more sense.
* Question to the group: Are there any other things on the policy front that have not been mentioned?
  + Linda: Would be interested in how states are managing their homeless population now and at a later time, whether it is through buying motels or RVs to house them.
  + Chris: Borrowed from California’s playbook for Washington, and will give an update at a later time.
  + Linda: Eden has been doing a lot of work around the digital divide. With all the schools closing, there is an evident gap in connectivity. Senator Harris has a proposal. We should be pushing for connectivity language and money in broadband expansion into affordable housing. HUD and LIHTC programs should also embrace this move towards virtual processes. HPN may be able to push this issue with housing authorities.
  + Barbara: Would like to second the broadband issue, especially as it relates to rural areas.

**Resources**

Intermediary Proposals for [HOME](https://housingpartnership.net/ideas/resources/home-covid-19-relief-proposal) and [Capital Magnet Fund](https://housingpartnership.net/ideas/resources/intermediary-covid-19-proposal)