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FHA Adds Another 'Brick in the Wall' to Boost Supply of Affordable Housing

By Brian Patrick Eha

With the supply of affordable housing shrinking rapidly, federal housing agencies continue to offer new incentives to encourage the development or redevelopment of multifamily properties aimed at low-income renters.

The latest to do so is the Federal Housing Administration, which last week cut insurance rates for multifamily mortgages in the hope that it will motivate developers to acquire and rehabilitate aging apartment complexes.

The rate reduction comes at a time when federal agencies, private lenders and advocacy groups alike are searching for ways to fix the affordable-housing shortage, which has grown worse in recent years even as the U.S. economy has recovered from the Great Recession. Affordable-housing advocates say the move is already helping to boost the supply of modestly priced rentals, though they continue to press for more meaningful steps, such as the expansion of a popular low-income housing tax credit program.

Falling household incomes, which have returned to 1995 levels, together with the difficulty of obtaining mortgage credit, have kept homeownership rates low, pushing more people of all ages into the rental market and causing rental prices in desirable cities such as New York and San Francisco to soar. According to Harvard University's Joint Center for Housing Studies, 37% of all U.S. households, some 43 million families and individuals, are now renting – the highest level in 50 years.

But while construction in many cities is booming again, most new developments are targeting renters at the upper end of the market. Meanwhile, the United States loses more than 300,000 affordable units each year, according to the U.S. Department of Housing and Urban Development. Between 2000 and 2015, some 338,000 people left Washington, D.C., due to a lack of affordable

"If I can only afford \$1,500 a month, it doesn't do me much good to know that there are units readily available at \$3,000," said Benson "Buzz" Roberts, the president and chief executive of the National Association of Affordable Housing Lenders.

The goal of the FHA insurance-rate cut is not to encourage new development, which is often prohibitively expensive, but to make it more attractive for developers to fix up and preserve existing housing stock. "What we're seeing every year is affordable housing that is older – that was created 20, 30 years ago – that is in need of being rehabbed," said Robert Likes, the head of affordable-housing lending at Cleveland-based KeyCorp. "It needs new money to come in to fix the project up."

As of April 1, annual rates for properties of which at least 90% of the units are classified as Section 8 or meet Low-Income Housing Tax Credit requirements have been lowered to 25 basis points, an approximately 50% reduction from prior rates. Annual rates for mixed-income properties that set aside some units for low-income renters have been lowered to 35 basis points, down from as many as 70 basis points previously.

The FHA is also slashing upfront premiums, with rates now being set at 25 basis points for "broadly affordable" properties and 35 basis points for mixed-income properties. The agency estimates that the new rates will lead to the rehabilitation of 12,000 units of affordable housing across the country each year.

The rate reduction was announced in January, and it is already influencing deals. Robert Barolak, the president of Harmony Housing, a nonprofit owner and operator of affordable housing in several states, says the change has spurred his staff to look harder at properties they would not otherwise have considered buying. "We are putting in a bid to buy and do a modest renovation on a property of 200 units [in Texas] that we would have passed on before this reduction," he said.

Similarly, Hal Keller, the president of Ohio Capital Corporation for Housing, an independent nonprofit in Columbus, Ohio, that serves as a financial intermediary between developers and investors, says that the FHA's action is helping to spur the rehabilitation of a 42-unit building for seniors in downtown Alliance, Ohio.

The rate cut, Keller points out, will result either in higher-quality housing or in savings that are passed on to renters. "It just makes deals go better," he said. "It either means that you can borrow a little bit more – and do more rehab – or if they don't borrow a little bit more, they can keep the rents a bit lower."

This is not the FHA's first effort to goose investment in affordable housing.

Last summer, the agency unveiled a new risk-sharing initiative to allow lenders to originate long-term, fixed-rate mortgage loans on small multifamily properties with the FHA providing insurance for up to 50% of the risk, allowing banks to hold less capital against the loans.

Fannie Mae and Freddie Mac have also recently expanded or launched programs that aim to grow the secondary market for fixed-rate loans on redevelopment projects.

Roberts calls the new insurance-rate reduction a “brick in the wall” – a welcome change but not a total solution. **What everyone – from banks to capital providers to trade groups – seems to agree on is that**

much more needs to be done. Among the items on their wish list are property-tax abatements and waivers of impact fees, which developers have to pay for sewers and other infrastructure beyond what is covered by the local government. “Since costs have gone up to build and preserve housing, it requires a lot more capital. We’ve got to find a way to control costs,” Likes said.

The crisis has become a growing concern for lawmakers. Last week, Sen. Maria Cantwell, D-Wash., joined with the grassroots coalition ACTION to launch a campaign calling for the LIHTC to be expanded by 50%. Such an expansion represents a kind of Holy Grail for the housing indus-

try, and the NAAHL’s Roberts, for his part, says there is “plenty of capital out there to absorb it.” Between 70,000 and 80,000 units a year are constructed or rehabilitated using LIHTC credits, he said, but otherwise there is hardly any new construction for low- or moderately priced housing.

“I’d be happy to double it,” Roberts added. “It’s just a matter of what can be done politically.”

Ultimately, he said, the FHA insurance-rate cut won’t make a huge difference, “but it’s going to be part of the solution. It’s not how many home runs you hit, it’s how many runs you score. Sometimes you score runs with home runs and sometimes you score runs by playing little ball.”

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