Increasing Effectiveness to Maximize Reach and Resources

By Nancy Rase, President and CEO, Homes for America

A major culprit driving today’s affordable housing challenges is largely one of reverse correlation. As the expectations and requirements of government funders expand, the amount and duration of housing subsidies is on the decline. Meanwhile, as programs serving very low-income households grow scarce, the need among moderate-income households continues to rise.

In the past three decades, housing programs have come and gone, with many today that largely resemble their predecessors. Today’s housing developer must comply with rules based upon 50 years of add-ons to previous programs. As a result, housing development and ownership is fraught with regulatory burdens and inefficiency.

Standardization & Centralization

It’s time to rethink the structures for administering housing programs to increase effectiveness while maximizing resources. Here are some recommendations:

- **Standard forms.** Affordable housing typically requires multiple funding sources. Each funding source requires its own application and due diligence documents. As a result, developers must provide the same information in multiple formats for each lender, investor or grant maker. Standard forms would go a long way toward reducing the burden on developers. Each stakeholder’s goal is to determine whether the developer can meet its obligations and that the proposed project is financially viable. Funders should be able to make this determination using the same set of forms, much like in single-family mortgage lending.

- **Centralized underwriting.** Separate underwriting by each party duplicates funder resources and drives up housing costs. Each lender or investor must hire staff to underwrite and evaluate the deal and manage construction, charging fees or using portions of the public funds to cover these costs.

- **Streamlining the process.** In the for-profit world, large multifamily and commercial developments are often financed by multiple lenders, but they typically buy participations and rely on one bank to conduct the underwriting, processing and closing within standards agreed upon in advance. The affordable housing industry should operate similarly to reduce duplicate staffing at each lender and agency. Much confusion would be avoided if lenders and investors used the most stringent underwriting as the basis of a deal, and omitted all of the less stringent requirements from the documents. Centralized underwriting would also reduce the burden on developers who must work with multiple parties to complete a transaction.
Pre-negotiated terms for cash-flow sharing and exit. Rather than negotiating cash-flow splits for each deal, funders should negotiate one standard cash-flow waterfall that clarifies benefits and recipients. For example, public lenders could all share in the cash flow based on the proportion of their funding. Having a single set of rules for all deals would reduce the time spent, thereby lowering costs. Similarly, when a project is sold or refinanced, each party’s benefit from the deal should be pre-negotiated.

Streamlined compliance. Physical inspections are time-consuming for agencies and organizations, and disruptive for residents. Rather than having multiple agencies conduct their own inspections and information requests, agencies should collaboratively conduct inspections and share the results. Only a few jurisdictions have adopted this cooperative approach.

Each entity must make its own decisions about funding allocations, but it is unnecessary for each one to perform its own underwriting and compliance. Funders should ensure that common form documents reflect their priorities. Meanwhile, trusting other agencies or third parties to carry out underwriting and/or inspections could reduce the cost and labor load for all parties. HUD is making some advances in this area. The agency is working with the USDA, IRS, and local and state funders to develop more efficient compliance-monitoring systems that permit local governments to underwrite and process loans and grants under certain programs after HUD has made funding awards.

Entity-Based System

Much of today’s affordable housing funding is based on projects rather than entities. Unfortunately, no matter how strong the project concept, it cannot be brought to completion and under good stewardship without owner/sponsor capacity. It may be time to give an entity-based system a try. Affordable housing is a complex business that requires experienced, capable staff, financial strength and sophisticated financial systems. While not every organization can replicate these strengths, they provide a good foundation for housing development and ownership.

Entities seeking to develop and/or own affordable housing should:

- Demonstrate capacity to use funds effectively and efficiently
- Prove that residents have a high level of satisfaction
- Operate the properties at a high physical- and financial-performance level

If designed correctly, an entity-based system could award funding fairly to competent groups large or small. The latter are often overlooked by allocating agencies as well as larger regional or national developers.

About the Author

Nancy Rase brings more than 30 years of experience in affordable housing and community development. While on sabbatical from her permanent position as president and CEO of Homes for America, Rase served as a senior community development fellow at Enterprise. She worked primarily with Enterprise’s Partner Sustainability team to develop and share tools and recommendations for building stronger and more resilient affordable housing and community development organizations.