# *Advancing the Development of Comprehensive State Policy for Housing*

## Affordable Housing in West Virginia
## An Analysis of Structure & Financing Options

Research Conducted For
The West Virginia Housing Policy Group
May, 2015

*Research Conducted by:*
*Collective Impact, LLC*

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# Introduction

The West Virginia Housing Policy Group (HPG) was formed in 2012 to elevate the importance of housing through research, education, and public policy. Through its unique partnership, the HPG works with stakeholders and policy makers to advance a comprehensive housing policy framework that is built upon core guiding principles. To carry out its work, the HPG has developed a multi-year action plan and has formed subcommittees to implement established priorities and recommendations.

Participants in HPG meetings include federal and state housing agency administrators, housing developers, representatives of local housing agencies and nonprofit housing organizations and intermediary support organizations. CommunityWorks in West Virginia, Inc. provides support for the work of the HPG through a grant from the Claude Worthington Benedum Foundation.

In order to better understand the administrative structure and financing opportunities that supports the affordable housing system in the state, ComunityWorks in WV Inc., acting on behalf of the West Virginia Housing Policy Group entered into a contract with *Collective Impact, LLC* to conduct research related to the current housing system structure and financing. The objectives of this research are:

- Identify primary funding streams supporting the development, rehabilitation and preservation of affordable housing.
- Provide information about process, eligibility and requirements to access major housing programs.
- Establish recent trends in funding that supports the affordable housing industry.
- Identify challenges and obstacles related to accessing funding for housing projects.
- Provide recommendations that might contribute to a more efficient system of affordable housing development, rehabilitation, and preservation.

# Research Methodology

*Collective Impact, LLC* utilized a variety of strategies to secure the necessary information for this report including:

- Interviews and follow-up phone calls with state and federal officials overseeing major affordable housing programs;
- Data requests from federal and state agencies;
- Interviews with local housing developers and non-profit organizations;
- A survey of local affordable housing organizations;
- Web-based research and review of available data related to housing programs, allocations of funding and expenditures;
- Review of previous surveys and interviews conducted over the past 3 years; and
- Review of the State of West Virginia Single Audit of federal program expenditures.

Information was gathered through the above processes related to allocations and expenditures, key sources of funding for development, perceived barriers to accessing funds and other issues.

## Report Organization

The report is organized into four parts.

A general overview of the *Housing System* in West Virginia addressing structure, key agencies, administration, programs and information about recent trends in available funding is presented in Part 1 of the report. Part 1 establishes the overall contextual environment for West Virginia's housing system and housing-related programs.

Part 2 of the report is focused more specifically on discussion of programs and funding streams that would be most likely to support affordable housing development, rehabilitation or preservation in West Virginia. For purposes of the report "affordable housing" is defined as housing for moderate, low, and very low income individuals and families with incomes at or below 120% of area median income.

Part 3 of the report provides a discussion of findings from the research (interviews and surveys) related to key issues and barriers to accessing additional affordable housing resources.

Part 4 outlines the main conclusions from the research and makes recommendations based on the findings that appear to be beneficial in improving access to resources for affordable housing development, rehabilitation and preservation in West Virginia.

# Part 1 - General Overview of West Virginia's Affordable Housing System

### Administration and Structure

The overall *Housing Services System* in West Virginia is made up of a number of federal and state agencies, banks and lending institutions, local non-profit housing organizations and private developers. Financing is provided through a large number of funding streams. For purposes of this report, we shall refer to a funding stream as a discrete and identifiable flow of money from a funder to a local individual or organization. Thus, statutorily defined federal programs generally have a funding stream attached to them, state defined programs also usually have an amount of dollars assigned to them that is disbursed to borrowers, grantees, etc. through a defined process which varies from one program to another. In addition to discretionary grants and formula-based allocations to the state, funding streams may be in the form of loans, loan guarantees, tax credits or subsidies depending on the nature and purpose of the program. A diagram illustrating the administrative structure, major funders, and relationships to local housing stakeholders making up the *Housing Services System* in West Virginia may be found in Appendix A.

Principle administrative agencies and institutions, and the significant programs offered through these entities are discussed as subsets of the overall system and grouped as follows:

- Banks and Lending Institutions
- U.S. Department of Housing and Urban Development (HUD)

- U.S. Department of Agriculture - Rural Development (USDA)
- The U.S. Department of the Treasury (Treasury)
- West Virginia Housing Development Fund (WVHDF
- West Virginia Affordable Housing Trust Fund (WVAHTF)
- West Virginia Department of Revenue & State Historic Preservation Office (SHPO)
- Intermediary Organizations

## Banks and Lending Institutions

A large part of the overall financing of the *Housing System* in West Virginia is supported through the mortgage market and traditional mortgage loans to qualified homebuyers by private banks or other lending institutions. Since this report is primarily focused on development, rehabilitation and/or preservation of "affordable housing", it does not attempt to examine the private mortgage market in any level of detail. Furthermore, information about mortgage loans made by private banks is not easily available for analysis.

Filings required under the Home Mortgage Disclosure Act provide some indication of the volume and trend in home mortgages over recent years. Data is available through FY13 and it reflects an increasing trend in mortgage lending in the state since 2010.

**Chart 1**

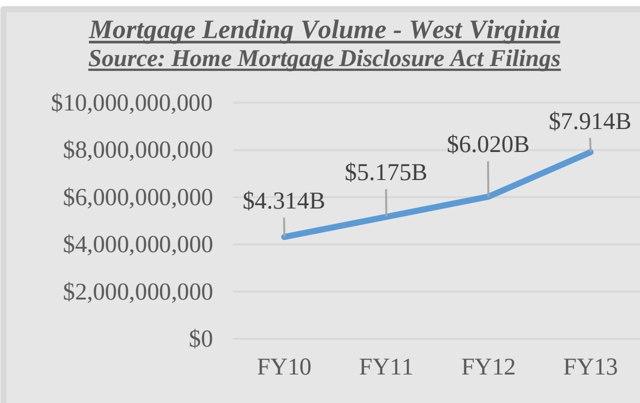
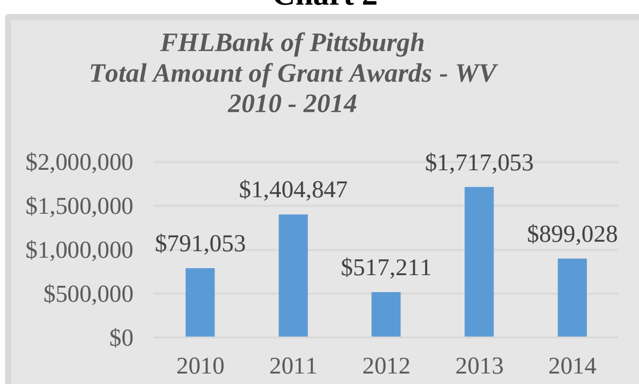



Chart 1 shows the total mortgage volume in West Virginia for the period FY10 through FY13.[1]

The Federal Home Loan Bank of Pittsburgh provides capital to member banks operating in West Virginia in order to promote lending at attractive rates and terms. FHL Bank Pittsburgh makes available an $825 million noncompetitive revolving loan pool to member financial institutions through its Community Lending Program. These funds allow member banks to make loans for community and economic development projects that create housing and promote other community development activities.

**Chart 2**




The FHLBank Pittsburgh's Affordable Housing Program is a grant program designed to assist local member banks to partner with non-profits, private developers and other agencies/organizations to develop affordable housing in local West Virginia communities.

FHLBank Pittsburgh grant awards made through member banks for the period 2010 to

2014 are shown in Chart 2.[2] These grant amounts reflect funds awarded but not necessarily funds disbursed to grantees. Awarded funds are drawn over a multi-year period and the total funds awarded are not always drawn down by grantees. Funds actually disbursed during the period 2010-2014 in West Virginia totaled $2,801,603 and include funds that were awarded as far back as 2004.[3]

## U.S. Department of Housing and Urban Development (HUD)

HUD administers a large number housing-related programs. Programs are generally grouped into four categories:

- Community Planning and Development,
- Fair Housing and Equal Opportunity,
- Multi-Family Housing, and
- Public Housing.

Some of these programs are insured mortgages or other types of mortgage assistance and not direct funding to support housing-related services; thus, the investments through HUD programs discussed here include both direct funding and the value of loans and loan guarantees supported through HUD programs. Within each of these categories are multiple distinct programs with differing regulatory requirements. Some of the HUD programs provide primary sources of funding for affordable housing development, rehabilitation or preservation while others tend to be allocated to sustain existing projects and programs within the state. HUD programs also provide financing and support in a variety of ways including formula-based allocations, competitive grants, loan guarantees, mortgage assistance and direct subsidies for rental assistance.

The federal resources available to West Virginia through HUD have been steadily declining in recent years. Since the dollar amounts discussed in the following paragraphs for each category of HUD programs includes the value of mortgages assisted through HUD programs as well as direct funding allocated in the state, the figures reflect overall value and not necessarily direct funding.

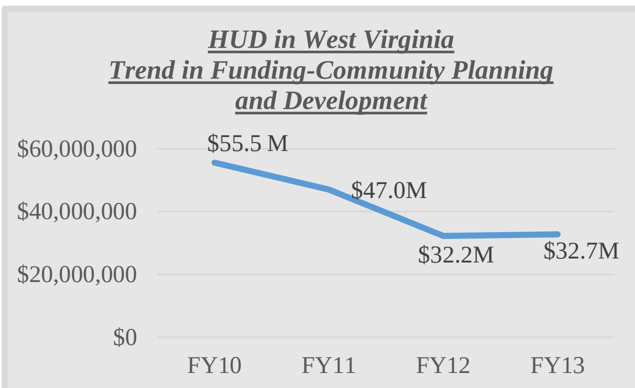
Programs administered by HUD include:

- **Community Planning and Development Programs**
    - Neighborhood Stabilization Program
    - Community Development Block Grant (CDBG)
    - HOME Investment Partnerships Program (HOME)
    - Emergency Solutions Grants (ESG)
    - Continuum of Care (COC)
    - Rural Housing /Economic Development
    - Section 108 Loan Guarantees
    - Housing Opportunities for Persons with AIDS (HOPWA)
    - Economic Development Initiative (EDI)
    - Brownfields Economic Development Initiative (BEDI)
    - Technical Assistance
    - Appalachian Regional Commission Grants

Over the four year period of time examined (FY10 to FY13), the only CPD programs consistently funded each year are those that are supported through a formula allocation to the state and local entitlement communities including CDBG, HOME, ESG, HOPWA; and the homeless assistance funding (COC program) provided to state and local governments that prepare a Continuum of Care Plan. There was no funding awarded to the state during the four year period (FY10-FY13) through some of the CPD programs including the Rural Housing/Economic Development program which was replaced by the Rural Innovations Fund. There has not been any funding appropriated at the federal level for this program in recent years.

There have also been no applications submitted for Section 108 Loan Guarantees from either the state or local CDBG entitlement communities since 2007. There was some "special project" funding awarded in FY10 for specific projects in West Virginia through grants earmarked by Congress totaling $8,287,500. There has been no funding appropriated for these "special project grants" to designated recipients since 2010.

**Chart 3**

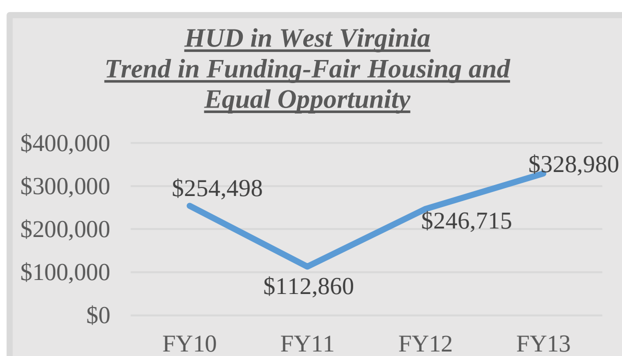



Total federal funds made available through funding streams attached to the community planning and development programs (CPD) have steadily declined from $55,541,975 in FY10 to $32,728,273 in FY13, a 41% decrease over the four year period.[4]

This trend in available dollars through the HUD – CPD programs is illustrated in Chart 3. These figures include both the entitlement communities and the state formula allocations through the Community Development Block Grant (CDBG) which account for aproximately half of the total amount of HUD-CPD funds available. CDBG state funds are used primarily for water and sewer infrastructure development; however some CDBG funding is used for housing development by local entitlement communites.

- **Fair Housing and Equal Opportunity Programs**
  - Fair Housing Initiative Program (FHIP)
  - Fair Housing Assistance Program (FHAP)

**Chart 4**



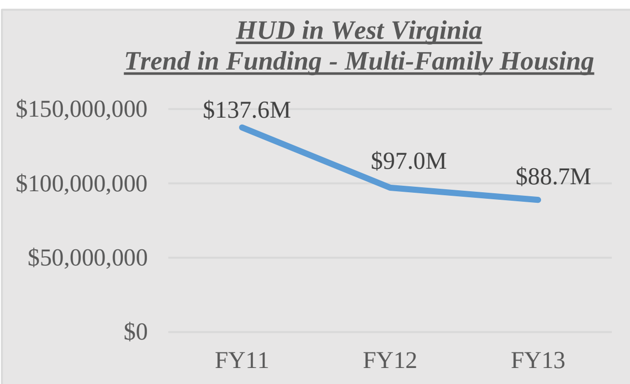

The Fair Housing programs are formula grant programs that provide funding in West Virginia to investigate and enforce discrimination complaints in housing and provide education and outreach services about fair housing laws. The formula allocation to the state has increased over the period examined from $254,498 in FY10 to $328,980 in FY13 – see Chart 4.[5]

- **Multi-Family Housing Programs**
  - Project Based Rental Subsidies (Sec. 8)
  - FHA Insured Mortgages
  - Section 202 Supportive Housing for the Elderly
    - Capital Advance Awards
  - Sec. 811 Supportive Housing for Persons with Disabilities
    - Project rental Assistance Awards
    - Capital Advance Awards
  - Service Coordinator
  - Other Grants (Emergency Capital Repairs, Demolition, Planning, Congregate Housing)

This group of programs includes the value of FHA Insured Mortgages although this is not direct funding. The Sec. 8 rental subsidies provided to developers and owners of multi-family housing is also included in this category of programs. Other multi-family programs are primarily discretionary, competitive grants and require an application in response to a federal Notice of Funds Availability (NOFA). Discretionary funding for development of housing for the disabled (Sec 811) and the elderly (Sec 202) has not been awarded to West Virginia since FY11. Funding through these programs is available through an increasingly competitive national competition.

The total value of HUD investments through the multi-family programs was not available for FY10; thus, Chart 5 shows a three-year trend in funding.

**Chart 5**



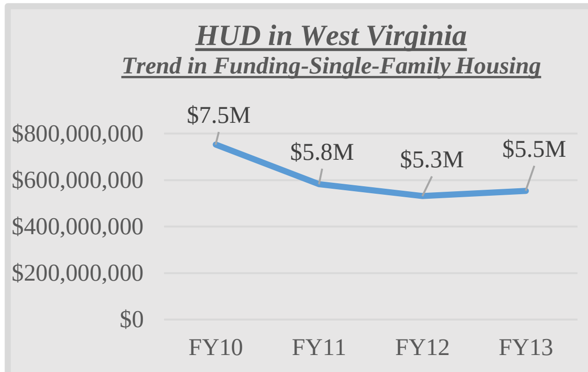

The overall value of assistance provided for multi-family housing has declined over the period from $137,618,395 in FY11 to 88,715,814 in FY13.[6] This decline is primarily in the value of FHA insured mortgages over this timeframe. The direct funding available for multi-family housing (not including the FHA insured mortgages) has remained fairly constant over the period, although as previously mentioned there have been no funds awarded for Sec 811 or Sec 202 developments since FY11.

Chart 5 shows the trend over the three year period in the total of direct funding plus the value of the insured mortgages that support multi-family housing in the state.

- **Single Family Housing Programs**
  - Sec 203(b) Mortgage Insurance
  - Sec 203(k) Loans for Rehab & Repairs
  - Sec 234(c) Condos

- Home Equity Conversion Mortgages
- Energy Efficient Mortgages
- Housing Counseling

**Chart 6**



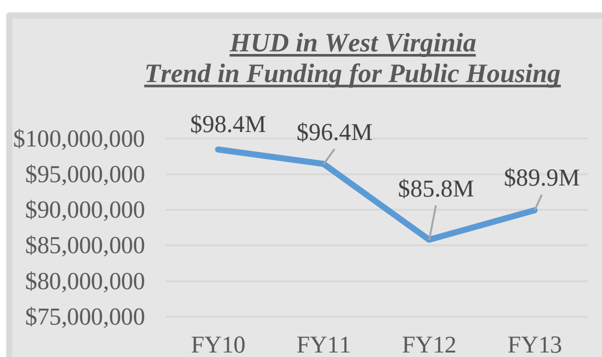

These programs are primarily designed to assist low income families in obtaining a home.

The value of the insured mortgages through the Sec 203(b) Insured Mortgage Program accounts for 94 to 95 percent of the totals reflected in Chart 6.[7] This program, 203(b), provides mortgage insurance to Federal Housing Administration (FHA) approved lenders against risk of default.

Single-family home purchases and repairs supported by HUD programs has also declined over the four-year period where the most recent data is available from $752,634,176 in FY10 to $554,057,177 in FY13.

- **Public Housing Programs**
  - Sec 8 Rental Assistance (including disaster vouchers)
  - Sec 8 Mod/SRO
  - Sec 8 Family Self Sufficiency/ROSS grants
  - Public Housing Family Self Sufficiency/ROSS grants
  - Veterans Assisted Public Housing
  - Capital Fund Program (Improvements)
  - Resident Initiatives (FSS,ESC/SCPH/ROSS)
  - Moderate Rehabilitation
  - Operating Subsidy to Public Housing Authorities
  - Replacement Housing Funds
  - HOPE VI

**Chart 7**



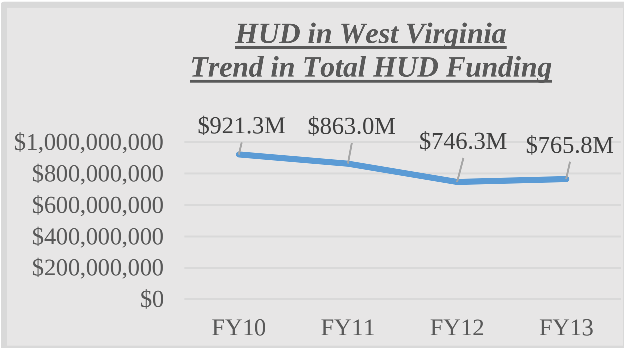

The total public housing investments have declined somewhat over the four year period where data was made available from $98,446,604 in FY10 to $89,948,322 in FY13. See Chart 7.[8]

HUD support of public housing programs is provided through a number of funding streams. Funds are not necessarily provided to the state every year for all programs listed above.

## Total HUD Investments in West Virginia

Total HUD investments through all programs over the period examined reflect a declining trend in overall federal support.

**Chart 8**




In FY10 the total value of the HUD investments amounted to nearly a Billion dollars ($921,301,788) but that figure declined by nearly 17% over the next three years to $765,778,566 in FY13.

Chart 8 shows the four-year trend in the total investments in West Virginia by the Department of Housing and Urban Development over the four year period examined.[9] The total of the funds made available through HUD reflected in Chart 8 is generally drawn down and expended for the intended purposes according to state and regional HUD officials.

Federal funding through most HUD programs is awarded on a competitive basis through applications prepared by eligible applicants in response to periodically released NOFAs. Four HUD funding streams remain formula based annual allocations to the states – the Community Development Block Grant (CDBG), the Home Investment Partnership Program (HOME), Emergency Solutions Grants (ESG), and Housing Opportunities for Persons with AIDS (HOPWA). Two of these (CDBG & HOME) have particular applicability to affordable housing development and they will be discussed more extensively in Part 2 of the report.

## U.S. Department of Agriculture - Rural Development (USDA-RD)

Distinct programs contributing to West Virginia's housing system available through the U.S. Department of Agriculture include:

- Sec 538 Rural Rental Housing Guaranteed Loans
- Sec 515 Direct Loans for Rental Housing
- Sec 521 Rural Rental Assistance Program
- Sec 502 Direct Loan Program for Low Income Homebuyers
- Sec 502 Loan Guarantees to banks and other lenders
- Sec 504 Rehabilitation Loans
- Sec 504 Rehabilitation Grants
- Sec 533 Housing Preservation Program

The **Sec 538 Rural Rental Loan Guarantees Program** enables USDA-RD to guarantee loans from approved private banks or other approved lenders that are made to develop affordable rental housing. Borrowers can be individuals, nonprofit and for profit corporations, partnerships, state and local agencies, LLCs and Trusts. The borrower must contribute initial capital equal to at least 2% of the loan amount.

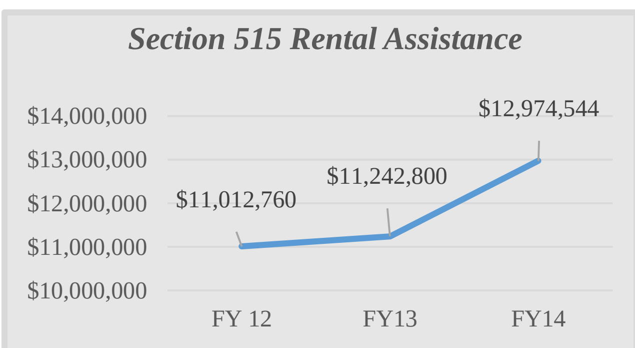
These loan guarantees are competitive with an application process established by a Notice of Funds Availability (NOFA) when funding is appropriated. Two Sec 538 loans were made in West Virginia in FY12 amounting to $1,210,000 and loans in FY14 totaled $2,115,000. There were no Sec 538 loans in FY13.[10]

The **Sec 515 Direct Loan Program** provides loans to develop rural rental housing for low income families. USDA-RD makes these loans directly to successful applicants. Funds may be used to purchase buildings or land, to construct or renovate buildings, and to provide necessary facilities such as water and waste disposal systems. Borrowers can be individuals, nonprofit and for profit corporations, partnerships, limited partnerships, limited equity cooperatives and public agencies. The application process is competitive and established by a Notice of Funds Availability (NOFA) when funding is appropriated. There have been no recent Sec 515 loan guarantees approved in West Virginia.

Sec. 538 and 515 loans and loan guarantees are approved by USDA on a case by case basis. There is no specific allocation of funds made to West Virginia for these programs. When a request for funding under these programs is received by the state USDA office, the request is reviewed to see if it contains all the essential elements of a complete application. If so, the application is sent in to the USDA National Office for approval. Applications are funded from an account maintained at the federal level until the available funds are depleted.[11]

The **Sec 521 Rural Rental Assistance Program** provides rental subsidies for persons with very low and low income, the elderly and persons with disabilities who reside in Sec 515 financed developments.

***Chart 9***




Payments are committed to the project owner on behalf of tenants residing in a designated number or percentage of the 515 developed units. Demand for rental assistance in existing projects far exceeds available funding and renewals receive priority; thus, renewals of rental assistance agreements account for nearly all available funding. Rental assistance payments through the Sec 521 program in West Virginia amounted to a total of $11,012,760 in FY12 and rose to $12,974,544 in FY14.

The **502 Direct Loan Program** is designed to assist low and very low income homebuyers who do not qualify for traditional mortgage loans. Payment assistance is provided through this program to eligible homebuyers to reduce the mortgage payment required for a period of time resulting in favorable terms for the homebuyer. There are requirements for borrowers to qualify for these loans and also for the properties purchased through this program. Loans are made to qualified individuals directly by USDA-RD.

**Table 1 – USDA-RD Sec 502 Direct Loans**[12]

| Fiscal Year | Program Allocations | Program Expenditures |
|---|---|---|
| FY12 | $11,008,000 | $11,838,616 |
| FY13 | $11,315,000 | $10,465,144 |
| FY14 | $12,862,353 | $5,455,282 |

Federal allocations to this program in West Virginia and actual loans made for each year (FY12-FY14) are summarized in Table 1.

As can be seen in Table 1, Allocations of funds for 502 Direct Loans have increased over the most recent three year period where data is available.

**Sec 502 Loan Guarantees** are provided to commercial lenders in order to mitigate the risk involved in making a mortgage loan to a low income borrower. Eligible borrowers must have a reliable income and may have an income up to 115% of the adjusted area median income (AMI). Homes purchased through this program are modest as payments cannot exceed 29% of the borrower's gross monthly income. Lenders must be approved by the USDA-RD Rural Housing Service.

Available funding for this program and funds expended over a three year period are summarized in Table 2.

**Table 2 – USDA-RD Sec 502 Guaranteed Loans**[13]

| Fiscal Year | Program Allocations | Program Expenditures |
|---|---|---|
| FY12 | $231,161,425 | $222,025,798 |
| FY13 | $280,756,876 | $272,634,576 |
| FY14 | $293,905,680 | $242,954,209 |

Available federal dollars through USDA-RD to support the Guaranteed Loan Program for low income buyers has increased over the period FY12 to FY14.

**Sec 504 Rehabilitation Loans and Grants** provide funding to low and very low homeowners to make repairs and improvements that make the dwelling more safe and sanitary or to remove health and safety hazards. Grants are only available to persons 62 yrs. or older who cannot repay a Sec 504 loan. Loans of up to $20,000 and grants of up to $7,500 are available to qualified homeowners. Table 3 summarizes available funds and expenditures for the recent three year period for both loans and grants made through the Sec 504 program.

**Table 3 – USDA-RD Sec 504 Loans and Grants**[14]

| Fiscal Year | Program Allocations Loans | Program Expenditures Loans | Program Allocations Grants | Program Expenditures Grants |
|---|---|---|---|---|
| FY12 | $200,000 | $265,784 | $418,000 | $596,340 |
| FY13 | $347,000 | $370,562 | $377,000 | $474,989 |
| FY14 | $350,000 | $207,810 | $407,248 | $ 60,337 |

Available funding for the Sec 504 Loans has been increasing over the period and the grant funds have remained relatively stable. Since funding can be expended through federal programs over multiple years the low amount of grant funds expended in FY14 is not of particular concern.

**Housing Preservation Grants (Sec 533)** provide funds to state or local governments and nonprofit sponsoring organizations for repair and rehabilitation of low and very low income housing. Grants are competitive and they are made available in areas where there is a concentration of need.

Table 4 summarizes the grant awards made in West Virginia over the period from FY12 to FY14.

**Table 4 – USDA-RD Housing Preservation Grants (Sec 533)**[15]

| Fiscal Year | Program Allocations | Program Expenditures |
|---|---|---|
| FY12 | $59,935 | $59,935 |
| FY13 | $54,400 | $54,400 |
| FY14 | $60,337 | $60,337 |

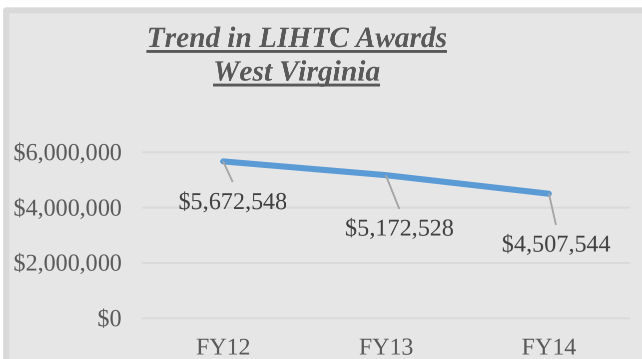
As can be seen by the figures in Table 4 there have been few successful applications over the recent three year period.

## U.S. Department of the Treasury

Housing related funding is made available through the U.S. Department of the Treasury as tax credits and through competitive awards to Certified Development Financial Institutions (CDFIs).

The **Low Income Housing Tax Credit (LIHTC)** is a primary source of financing for the development and rehabilitation of rental housing. Each state has an allocation of tax credits available for award to developers of qualified rental projects through a competitive application process administered by the state housing financing agency. In West Virginia this is the Housing Development Fund (HDF). Once awarded, private for-profit developers may use the tax credits themselves or sell the credits to investors. Syndicators are paid a fee to oversee these financial transactions. Non-profit housing organizations may also compete for the tax credits by partnering with a syndicator.

**Chart 10**




The process typically ends with developers, whether for-profit or non-profit, selling the tax credits to investors through a syndicator in order to secure needed capital for rental housing development. Investors may then claim the credits over a number of years.

LIHTC allocations to the state have decreased somewhat in recent years from $5,672,548 in FY12 to $4,507,544 in FY14. All allocated tax credits are awarded each year.[16]

The federal **Historic Rehabilitation Tax Credit** is also available. This program provides for tax credit of 20% of the cost of rehabilitating a structure listed on the national historic register. This federal tax credit can help offset the costs of rehabilitation of a historic building that will be used as rental housing or a primary residence. The tax credit must be claimed by the property owner and certified by the National Park Service.[17]

The U.S. Treasury's **CDFI Fund** provides financing on a competitive basis to certified Community Development Financial Institutions and non-profit organizations who have as a principal purpose the development or management of affordable housing. Two programs are of particular interest: the **Capital Magnet Fund** and the **CDFI Program**.

Through the **CDFI Program** two types of awards are made through a nationwide competition.

- Financial Assistance (FA) Awards are awards of up to $2 million to certified CDFIs for financing capital, loan loss reserves, capital reserves, or operations. FA awards are made in the form of equity investments, loans, deposits, or grants, and the CDFI is required to match its FA award dollar-for-dollar with non-federal funds of the same type as the award itself.
- Technical Assistance (TA) Awards are made to build capacity to provide affordable financial products and services to low-income communities and families. Grants may be used for a wide range of purposes. For example, awardees can use TA funds to purchase equipment; for consulting or contracting services; to pay the salaries and benefits of certain personnel; and/or to train staff or board members. The CDFI Fund makes awards of up to $125,000 under the TA component of the CDFI Program.

The **Capital Magnet Fund (CMF)** provides competitively awarded grants to CDFIs and qualified nonprofit housing organizations. CMF awards can be used to finance affordable housing activities as well as related economic development activities and community service facilities. Awardees utilize financing tools such as loan loss reserves, loan funds, risk-sharing loans, and loan guarantees to produce eligible activities whose aggregate costs are at least ten times the size of the award amount.

Grant awards from the U.S. Treasury's CDFI Fund are highly competitive. There are six certified CDFIs currently operating in West Virginia and two of these organizations have received CDFI Fund awards in recent years (FY12-FY14).

- Natural Capital Investment Fund, a multi-state organization that provides loans to small business entrepreneurs for development of eco-friendly businesses has received $2,400,806 in CDFI Fund grants.
- Woodlands Community Lenders focusing on small business financing, including commercial building redevelopment and limited multi-family housing projects, has received $200,000 in CDFI Fund grants over the three year period - $100,000 in FY13 and again in FY14.[18]

Although the CDFI Fund is a potential source of financing for affordable housing development and favorable term mortgage financing, the limited grant awards provided to certified CDFIs operating in West Virginia have been primarily for business development.

## West Virginia Housing Development Fund (WV HDF)

The Housing Development Fund is the state's primary housing finance agency. Most programs operated by the WV HDF are supported from the sale of housing finance bonds and the repayment of mortgage loans. The vast majority of financing provided by the WV HDF amounting to well over 90% of the total investments is in the form of mortgage loans for the purchase of single family homes.

### Single Family Bond Programs

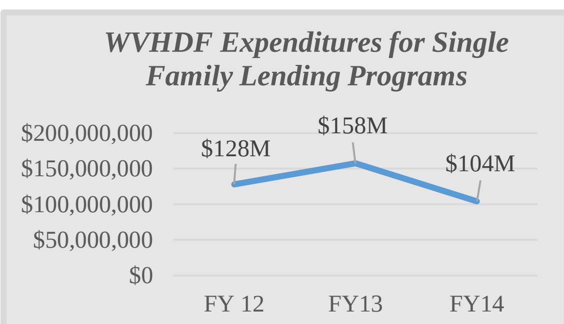
The Single Family Bond Programs include the 1st Time Homebuyer Program and the Movin' Up Program.

These are mortgage loan programs driven by demand within the mortgage market.

- The **1st Time Homebuyer Program** provides mortgage financing for 1st time buyers. The mortgages approved through these programs have price and income limits and are supported by the sale of tax exempt mortgage revenue bonds.

- The **Movin' Up Program** is the Housing Development Fund's newest program, and it provides financing from taxable bond mortgage repayments within the Housing Finance Resolution for borrowers who may have outgrown their current residence. Because these funds are derived from taxable bond sources, the Movin' Up Program does not have the first-time homebuyer requirement. Earnings from the receipt of mortgage repayments of approximately $32 million annually provide a self-sustaining revenue stream to support the Movin' Up Program.

***Chart 11***




The trend in investments made in single family housing through these programs in recent years is shown in Chart 11.[19] The investments made tend to rise and fall with demand and the strength of the housing market and the Housing Development Fund has flexibility to sell more or less bonds as demand for these mortgage products changes.

### Other Programs Operated by the WV HDF

Other housing programs administered by the WV HDF consist of a variety of single and multifamily programs funded by general reserves and earnings. These programs are designed to provide a full range of housing assistance to West Virginia citizens and to meet the Housing Development Fund's mission of providing safe, decent and affordable housing.

The **Land Development Fund** provides below-market interest rate, long-term loans to qualified builders and developers for the purpose of acquiring and making improvements to land for residential housing and nonresidential construction. Currently, this program has approximately $5.9 million and receives repayments of approximately $185,000 annually.

The **Leveraged Loan Program** provides permanent financing for multifamily rental projects, which may receive part of their financing from equity raised through the syndication of Low-Income Housing Tax Credits and other permanent lenders. Many of these loans are guaranteed under the USDA Section 538 Guaranteed Rural Rental Housing Program. Currently, this program has approximately $7.5 million and receives repayments of approximately $2 million annually.

The following programs are revolving loan programs that recycle loan repayments back into new loans. The Board of Directors has the authority to move funds between the various programs as needed.

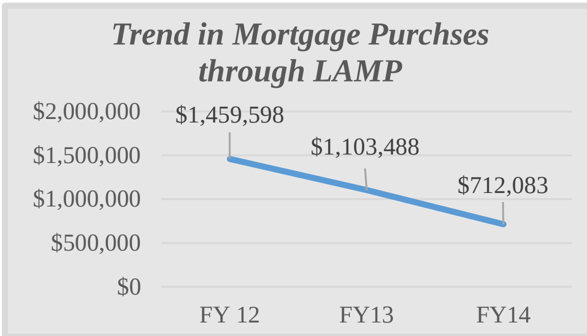
The **Down Payment and Closing Cost Assistance Program** assists borrowers in the Housing Development Fund's single family programs with down payment and closing costs associated with the purchase of a home. Under this program a borrower can get an additional loan of up to $15,000 to cover these costs. Currently, this program has approximately $2.3 million and receives repayments of approximately $1.6 million annually.

The **Mini-Mod Rehabilitation Program** allows owners of rental properties to borrow up to $25,000 per unit to rehabilitate existing rental units. The amount of the loan depends upon the Housing Development Fund's lien position and whether the project receives any federal rental assistance. Currently, this program has approximately $1.4 million and receives repayments of approximately $284,000 annually.

The **Demolition Program**, which is generally targeted to municipalities, provides loans to assist cities and counties throughout West Virginia in the acquisition and/or demolition of blighted properties which constitute health and safety hazards. Currently, this program has approximately $1.4 million and receives repayments of approximately $4,000 annually. With the passage of HB 2810, the Demolition Program will be transitioned to the West Virginia Property Rescue Initiative. The HDF will be allocating $1 million to this program over the next 5 years. Additionally, the HDF will provide technical assistance to communities to participate in the program by facilitating training opportunities.

The **Low Income Assisted Mortgage Program (LAMP)** was established to help non-profit housing groups have a market to sell mortgages and thereby increase their production of owner-occupied housing for very low-income families. LAMP provides a secondary market where non-profit groups can sell their existing single family loans to the Housing Development Fund. The proceeds of those loan sales can then be used to construct additional housing units. Currently, this program has approximately $650,000 and receives repayments of approximately $467,000 annually.

**Chart 12**

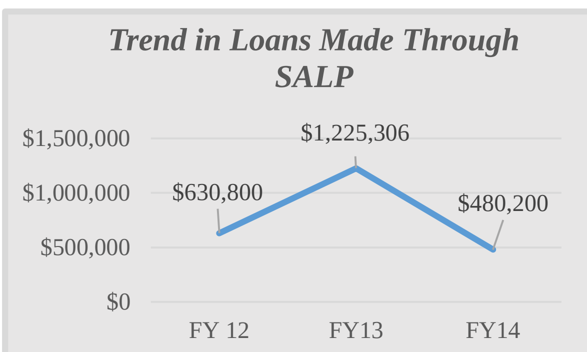



Recent trends (see Chart 12) indicate a decline in the number of mortgages purchased from non-profit housing organizations – primarily Habitat for Humanity programs.[20]

The **Special Assistance Lending Program (SALP)** is a grant program generally limited to $125,000 which is designed to provide construction and rehabilitation financing assistance to nonprofit organizations engaged in the development of properties that improve group home housing opportunities and promote the general welfare of special needs populations or low and very-low income populations.

The SALP program works with state and local organizations that provide non-traditional group housing to special needs populations. These special populations may include homeless individuals and families, victims of domestic violence, neglected and abused children, the elderly, very low income, individuals with HIV, persons recovering from alcoholism or drug abuse, disabled veterans, and families in transition from shelters to traditional housing.

***Chart 13***




The Fund typically allocates $1 million annually. In recent years, the total amount loaned through the SALP program has varied from a high of $1,225,309 in FY13 to $480,200 in FY14.

The **New Construction Financing Program** encourages WV licensed home builders and modular home dealerships to build single-family homes for sale to the public at a price not to exceed the Fund's current Mortgage Revenue Bond Program house price limits. The Program may provide financing for both land acquisition and construction. Funding for the Program is currently at $1.5 million.

The **On-Site Systems Loan Program** (OSLP) was created in partnership with the West Virginia Department of Environmental Protection (DEP). Under this program the Housing Development Fund is authorized to borrow up to $1,000,000 from the DEP Clean Water Revolving Loan Fund. These funds are loaned to state residents to upgrade, replace or repair inadequate septic systems. Currently, the program has approximately $800,000 available from the DEP.

### Federal Programs Operated by the WV HDF

The Housing Development Fund also is the state level administrator for the U.S. Department of Housing and Urban Development's **HOME Investment Partnership Program** (HOME). A minimum of 15% of available HOME Program funds are spent for projects developed by approved

Community Housing Development Organizations (CHODOs) and ten percent is used to offset the administrative costs incurred by the WV HDF.

The application process for federal **Low-Income Housing Tax Credits** allocated to West Virginia by the U.S. Department of the Treasury is also administered by the WV HDF. The Housing Development Fund, as the state's authorized issuer of low income tax credits, coordinates the awarding of these credits on an annual basis.

## The West Virginia Affordable Housing Trust Fund (WVAHTF)

The West Virginia Affordable Housing Trust Fund was established through legislation to receive dedicated sources of revenue that can only be used to support affordable housing in West Virginia. The WVAHTF is mandated by the State Legislature to encourage stronger partnerships and collaboration by providing capital to community-based housing organizations that would, in turn, assist low and moderate-income individuals in West Virginia acquire affordable housing. The WVAHTF is supported by a $20 real estate transfer fee assessed on all real estate transactions in the state. The annual funding level depends upon the level of real estate activity and the strength of the housing market.

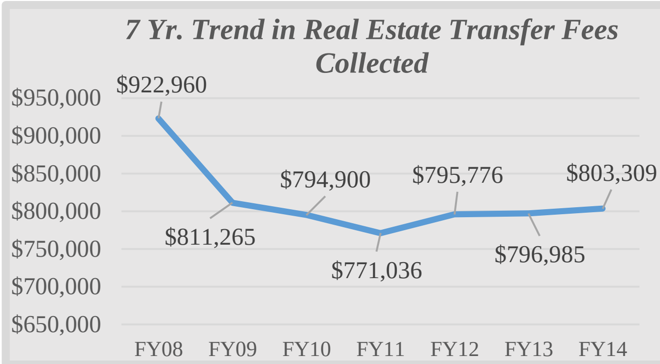
The Affordable Housing Trust Fund operates two programs. A forgivable loan program (essentially a grant program) used to make awards that promote the development, rehabilitation or preservation of affordable housing; and a revolving loan fund program to support affordable housing development.

The **Forgivable Loan Program** is designed to provide awards through a competitive request for proposals process. Eligible applicants include local 501(c) (3) non-profit organizations, units of local government, public housing authorities and regional or state-wide non-profit housing assistance organizations. Through this program, housing providers in the state may apply for assistance in finance capacity building efforts, homebuyer counselling programs, and project predevelopment costs. The Trust Fund also supports new construction and rehabilitation projects for low to moderate income citizens of the state generally in combination with other sources of financing.

Forgivable loans through the WVAHTF are one of the only flexible sources of financing available to assist with housing development in West Virginia. The Forgivable Loan Program often provides the necessary support for pre-development related costs necessary to secure other sources of project financing.

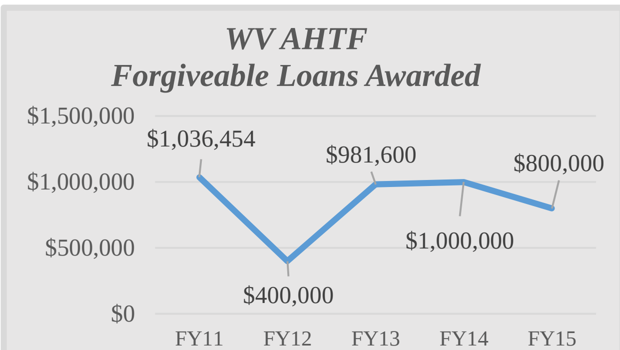
The **Revolving Loan Program** is a relatively new program that provides loans to successful applicants to assist in the development of affordable housing. Loan repayments go back into the revolving fund providing for a self-sustaining revenue stream to make more loans in the future.

Chart 14




Trends in revenue available to support the trust fund operations and programs may be seen in Chart 14.[21] These amounts each year are the sole source of revenue available to the WVAHTF to support administrative costs and make loans. As can be seen in the chart, the highest level of real estate activity and income for the fund over the period was in FY08 at $922,960. Income fell in FY09 to $811,265 and has remained reasonably stable at around $800,000 per year over the last six completed fiscal years.

Chart 15




The amount of awards made from the fund has varied over recent years from a low of $400,000 in FY12 to a high of $1,036,454 in FY11. Since these amounts are forgiveable, they are not repaid and future awards are based on future receipts through the real estate transfer fees.

Revolving loans made since inception of the revolving loan fund amount to a total of $463,750. Of this awarded amount, $263,500 has been disbursed through the current fiscal year. Table 5 sumarizes the awrads and disbursements from the WVAHTF revolving loan fund since its inception in FY13.

**Table 5 – Affordable Housing Trust Fund - Revolving Loan Fund[22]**

| Fiscal Year | Loan Amount Awarded | Loan Amount Drawn |
|---|---|---|
| FY13 | $108,250 | $75,000 |
| FY14 | $131,000 | $61,000 |
| FY15 | $224,500 | $127,500 |

These loans are not forgivable; thus, repayment of the loans will serve to replenish the revolving fund.

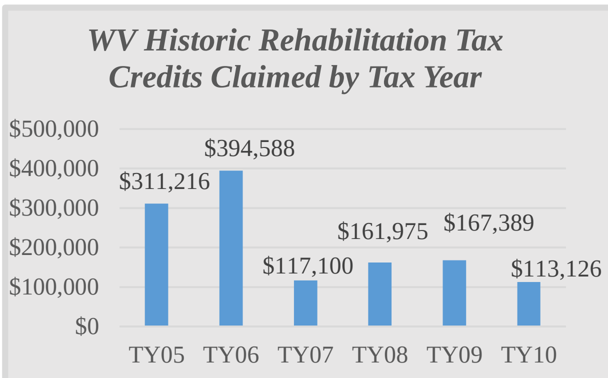
## West Virginia Department of Revenue and State Historic Preservation Office

**Historic Rehabilitation State Tax Credits** are available to homeowners and developers to assist with the rehabilitation and preservation of historic properties in West Virginia. A state tax credit of 20% is available to the homeowner to assist with restoration of properties listed on the National Register of Historic Places. The Rehabilitation Investment Tax Credit Program provides a West Virginia state income tax credit for the rehabilitation of historic private residences. This is a 20% state income tax credit which is based on the expenditures necessary to carry out material rehabilitation of historic private residences. The credit is applied directly against taxes owed by the owner. The credit may be carried forward for up to five years from the year it is earned.

Projects that qualify for the WV State Rehabilitation Investment Tax Credit must:

- Be a certified historic building.
- The building must be a private residence. This includes condominiums.
- The West Virginia State Historic Preservation Office (SHPO) must review all applications to determine if the rehabilitation work meets established standards.
- The project must meet the material rehabilitation test. The owner must spend an amount greater than 20% of the assessed value of the building, not including the value of the land. The expenditure necessary to qualify as material rehabilitation must take place in the 24 month period ending on December 31 of the taxable year for which the credit will be claimed.

***Chart 16***




Information about the volume of residential tax credits claimed is only available through tax year 2010. Tax credits claimed over the period 2005 through 2010 are shown in Chart 16.[23]

A 10% state tax credit is also available for restoration of historic properties that are used for commercial purposes.

Under the provisions of the Tax Reform Act of 1986, a 20% federal tax credit is available for the substantial rehabilitation of commercial, agricultural, industrial or rental residential buildings that are certified as historic. The credit is applied directly against taxes owed by the owner. Coupled with the 10% state income tax credit available to owners, the total (federal and state) credit on a qualified residential rental project is 30% of approved rehabilitation costs.

Requirements for claiming the state and federal Commercial Rehabilitation Investment Tax Credit include:

- The property must be a certified historic building. To be certified a building must be individually listed on the National Register of Historic Places or must be eligible to be individually listed or it must be a contributing building in an historic district that is listed on the National Register of Historic Places or eligible to be listed.
- The building must be a depreciable structure used for an income producing purpose including but not limited to commercial, industrial, agricultural, rental residential or bed and breakfast.
- The National Park Service (NPS), based on advice and recommendations offered by the West Virginia State Historic Preservation Office (SHPO), determines if the rehabilitation work meets acceptable standards.
- The owner must spend more than $5,000 or an amount greater than the adjusted basis in the building (whichever is larger), on the approved rehabilitation project. The adjusted basis is the depreciated value of the building, not including land value, when the project starts.

Information about commercial historic rehabilitation tax credits claimed in West Virginia is only available for tax years 2005, 2006 and 2008. In 2005, state tax credits amounting to $815,154 were claimed, in 2006, $901,265 were claimed, and in 2008 a total of $528,106 in state commercial historic rehabilitation tax credits were claimed.[24]

## State and National Intermediary Organizations

In West Virginia, *CommunityWorks in West Virginia, Inc.* a statewide intermediary, provides a variety of services to local housing related agencies and organizations through training and technical assistance, innovative mortgage lending products, and a member support program including advocacy at the federal and state levels.

*CommunityWorks in West Virginia, Inc*. is a certified CDFI with the US Department of Treasury and a Chartered Member of *NeighborWorks® America*.

During the most recent three-year period of 2012 – 2015, *CommunityWorks in West Virginia* has provided just under $2.17 million in financial assistance to support affordable housing in West Virginia as follows:

- Mortgage Loans - $966,135
- Owner Occupied Rehab Loans - $142,381
- Commercial Loans to nonprofits - $523,160
- Owner Occupied Repair Grants - $535,000

National or regional intermediaries that have a presence in West Virginia include:

- Federation of Appalachian Housing Enterprises (FAHE),
- Rural Local Initiatives Support Corporation (Local LISC),
- The Housing Assistance Council (HAC),
- Opportunity Finance Network (OFN),
- Enterprise Community Partners,
- The Housing Development Partnership, and
- National Capital Investment Corporation.

These intermediaries provide access to resources including training, technical assistance and capacity building services. Small grants and loans may also be available through these organizations that can assist local affordable housing organizations.

Many of the programs and related funding streams discussed in Part 1 of this report provide funding that is used to sustain current services or previously developed housing. Resources for new housing development, rehabilitation or preservation are more limited – essentially a subset of the overall housing system and the programs discussed in Part 1. The key programs and funding streams generally tapped for development, rehabilitation and preservation projects will be discussed in Part 2 of the report.

# Part 2 – Discussion of Notable Programs Specifically Contributing to Housing Development, Rehabilitation and Preservation

Many of the housing-related funding streams summarized in Part 1 generally support ongoing housing-related community services and/or mortgage loans to homebuyers. Financing available through many of these funding streams is used to sustain currently existing housing options and home purchases through the general housing marketplace.

In Part 2 of the report, the focus will be more specifically on programs and funding streams that can be used to support the development of additional affordable housing options and/or rehabilitation and preservation of current affordable housing. Some of these programs provide financing for community and economic development projects in addition to creating additional housing options and many are discretionary and available funds are awarded through nationwide competitive solicitations.

The diagram in Appendix B provides a visual illustration of key housing agencies and organizations and many of the specific programs and funding streams that are available to support the development, rehabilitation and preservation of affordable housing. This part of the report discusses the more notable possibilities and potential financing options; thus, it is these programs that local housing organizations and developers should monitor for financing opportunities.

## Federal Programs Focused on Development, Rehabilitation and Preservation

### Low Income Housing Tax Credits

The single most important financing stream for the development of multi-family rental housing is the federal **Low Income Housing Tax Credit**. In West Virginia the federal tax credits made available to the state are awarded by the WV Housing Development Fund through a competitive annual process. The equity produced through the sale of these tax credits is used to leverage capital investments that account for 90% of all new multi-family housing developments in the nation.

There is a 10% "set aside" of the tax credits for non-profits and a 51% stake by a non-profit is necessary to meet the "set aside" requirement. Some states award the tax credits exclusively or in large part to non-profit developers. In West Virginia, nearly all LIHTC credits are awarded to large for-profit developers.

The LIHTC finances a portion of the development costs for new housing projects but other sources of funding must also be packaged to support rental housing development. Federal law requires that the LIHTC be used to finance housing projects that serve low income households and are affordable over the longest period of time. Nationwide, the LIHTC has provided more than 2.5 million rental units since its inception in 1986.[25] In West Virginia the LITHC was responsible for the development of 1,741 units over the three year period FY12-14.[26]

### Sec 108 Loan Guarantees

The Sec 108 program is the component of the Community Development Block Grant program that provides communities with a financing option for economic development, housing rehabilitation, public facilities and/or large scale multi-use projects. The Sec.108 loan guarantee program allows local or state governments to transform a small portion of allocated CDBG funding into federally guaranteed loans large enough to fund large scale development. A small portion of the CDBG formula allocation must be pledged as security for the loan and the maximum allowable repayment period is 20 years. Only four Section 108 loans have been approved in West Virginia in the past, and there has been no Sec. 108 activity in West Virginia since 2007.

**Table 6 – Recent History of Section 108 Loan Guarantee Activity in WV[27]**

| ***Community*** | ***Year Approved*** | ***Amount of Loan*** |
|---|---|---|
| Huntington | 2000 | $1,720,000 |
| Wheeling | 2001 | $2,250,000 |
| Huntington | 2002 | $1,600,000 |
| Parkersburg | 2007 | $2,150,000 |

All four approved loans were secured by local entitlement communities – two loans to Huntington, one to Wheeling, and one to Parkersburg.

The West Virginia State Consolidated Plan provides for applications to be accepted from non-entitlement communities for Sec 108 loan guarantees; however the focus of any such loans is to be on economic development and job creation. There has never been a Section 108 application submitted by the state proposing to use any of the state allocation of CDBG funds to secure a Section 108 loan.

## HOME

The Home Investment Partnerships Program administered by HUD at the federal level provides funding for housing development and leveraging of other investments. HOME funds can be used to provide mortgage financing, build or rehabilitate housing and for other expenses related to development of non-luxury housing. These funds are awarded each year as formula grants to the state and to local governments of entitlement communities (participating jurisdictions). Participating jurisdictions in West Virginia include Charleston, Huntington, Martinsburg, Parkersburg, and Wheeling.

In West Virginia the state allocation of HOME funds is administered by the WV Housing Development Fund and these funds are used primarily to finance mortgage loans to low income borrowers.

**Chart 17**

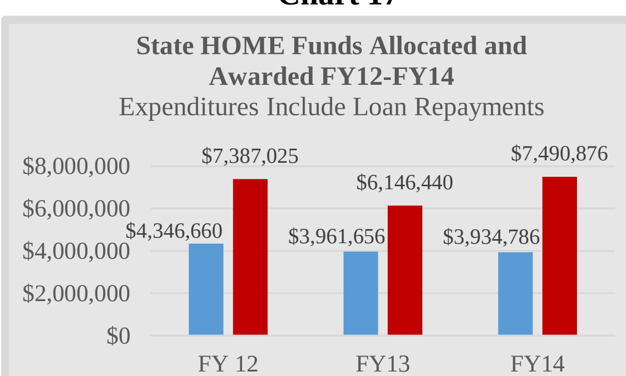
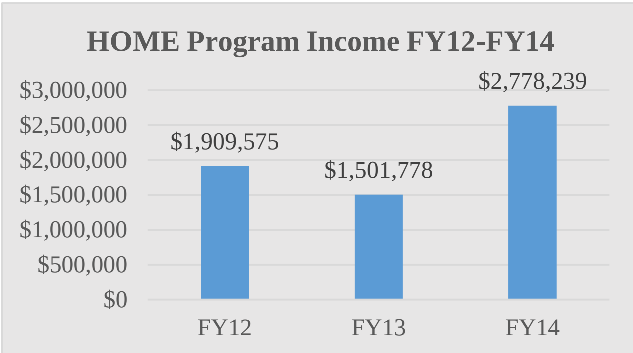



Chart 17 compares the HOME state allocation with total expenditures of state HOME funds for each year during the three-year period FY12–FY14.[28] The proceeds from repayment of previous HOME financed loans and unexpended HOME allocations from previous years have increased the total HOME dollars available each year. This has resulted in an ability to award substantially more funding through the HOME program than the amount of HOME funds made available through the formula-based allocation each year. The chart shows each year’s state formula allocation in blue and the total amount of expenditures (including loan repayments and previous year's remaining allocations) in red.

**Chart 18**




Income generated from HOME financed mortgage repayments is an increasingly important source of funds for new investment. This income is particularly important as the annual federal allocations of HOME dollars continues to decrease.

The Housing Development Fund generated a total of $6,189,592 during the three year period from FY12 to FY14.[29] Chart 18 reflects the program income generated over these years.

### USDA Sec 515 Rural Rental Housing, Sec 538 Guaranteed Loans and Sec 533 Housing Preservation Grants

Three of the USDA-Rural Development programs are designed to promote the development of new affordable housing.

The **Sec. 515 Rural Rental Housing Loans** are available to developers (including non-profit organizations) for the purchase of buildings or land, to construct or renovate buildings and to provide necessary facilities such as water and waste disposal systems. These loans are competitive and targeted to communities determined to be in need of rental housing. Very low and low income families, the elderly, and persons with disabilities may live in Sec 515 financed housing. Loans are for up to 30 years at an effective rate of 1% amortized over 50 years.

**Sec 538 Guaranteed Loans** are made by banks and approved lending institutions to develop affordable rental housing in rural places. Sec 538 guaranteed loans are generally combined with other financing such as LIHTC tax credits, a HOME grant or loan, tax exempt bond financing or a second bank loan. Lenders set the terms up to a maximum of 40 years at a maximum allowable interest rate defined in the USDA-RD Notice of Funds Availability.

**Sec 533 Housing Preservation Grants** are awarded on a competitive basis to "sponsoring organizations" serving designated "areas of need". Grant funds are combined with other sources of funding and used to assist very low or low income homeowners or owners of rental housing for low income persons in making repairs or financing rehabilitation of owner occupied homes or rental properties. Assistance may be provided in the form of grants, loans or subsidies as defined in the sponsor's application for a Sec 533 grant.

### Federal Home Loan Banks

Federal Home Loan Banks provide capital to member banks operating in West Virginia in order to promote lending at attractive rates and terms. The FHL Bank Pittsburgh makes available an $825 million noncompetitive revolving loan pool to member financial institutions through its Community Lending Program.

FHL Bank Pittsburgh also operates a grant program in cooperation with member banks to assist non-profit housing organizations, private developers, and other agencies/organizations in their efforts to develop affordable housing. The Affordable Housing Program grants provide funding for five to six housing development projects each year through a competitive grant application process.

### The National Housing Trust Fund

Administered by the Department of Housing and Urban Development, the National Housing Trust Fund (NHTF) will begin providing block grants to the states primarily directed at the protection, preservation, rehabilitation, or operation of affordable rental housing. This formula based allocation should provide about $3 million dollars to assist with affordable housing development, rehabilitation and preservation in West Virginia beginning in 2016.

## State Programs Focused on Development, Rehabilitation and Preservation

### WV Housing Development Fund Programs

Four programs operated by the West Virginia Housing Development Fund appear to be particularly relevant in assisting both private developers and non-profit organizations in their efforts to develop affordable housing.

The **Leveraged Loan Program** provides loans that are often guaranteed through the USDA Sec. 538 Guaranteed Rural Rental Housing Program. These loans are packaged with other sources of financing such as the Low Income Housing Tax Credits or loans from other lenders to promote the development of rental housing in West Virginia.

The **Land Development Fund** provides loans at below market interest rates for land acquisition and development necessary for residential housing development.

The **Mini-Mod Rehabilitation Program** is designed to provide financing for owners of rental properties necessary to rehabilitate rental units. Loans of up to $25,000 per rental unit are available through this program.

The **Low Income Assisted Mortgage Program** provides a secondary market to non-profit groups where they can sell existing single family mortgages in order to raise the capital needed to build more single family homes.

The **Special Assistance Lending Program (SALP)** provides grants limited to $125,000 to nonprofit organizations for construction and rehabilitation of properties that improve group home housing opportunities for special needs or low and very-low income populations.

The Housing Development Fund Board has the authority to allocate more or less funding to each of these programs as demand for these resources increases or decreases.

### Affordable Housing Trust Fund Programs

The West Virginia Affordable Housing Trust Fund administers two programs that support a wide range of development, rehabilitation and preservation initiatives. The Trust Fund supports projects selected through an application process with forgivable loan awards that do not have to be repaid.

A wide range of affordable housing projects are supported by the Affordable Trust Fund's **Forgivable Loan Program** ranging from small awards of less than $10,000 to larger awards in excess of $150,000. These awards often provide needed financing to leverage other funding sources for affordable housing projects.

The Trust Fund also has established a **Revolving Loan Fund Program** to support affordable housing projects through loans with favorable terms that are repaid to replenish and sustain the fund for future loan making.

### CommunityWorks in West Virginia, Inc.

*CommunityWorks in West Virginia Inc.* provides technical assistance and financing for housing development through a statewide network of member organizations and other local non-profits.

## Other More Specialized Funding Streams

The U.S. Department of the Treasury's **Community Development Financial Institutions (CDFI) Fund**, makes available several funding steams to Certified CDFIs to support the development of affordable housing and promote economic and business development. These awards are made through a nationwide competition. Successful applicants must able to demonstrate an ability to use the award to leverage other resources. Since CDFI programs place a high priority on production of housing units and leveraging of additional investments (in excess of ten times the award amount), it is difficult for small non-profits operating in small markets such as those in West Virginia to successfully compete for these awards.

- The CDFI **Financial Assistance Awards** (FA awards) provide up to $2 million for financing capital, loan loss reserves, capital reserves, or operations.
- **Technical Assistance (TA) Awards** of up to $125,000 are made to build capacity to provide affordable financial products and services to low-income communities and families.
- **The Capital Magnet Fund** made awards nationally to 23 organizations (13 non-profit housing groups, 9 CDFIs, and 1 tribal housing authority) in 2010. No awards have been made through the CMF since the first round in 2010; however, it appears there will be a new round of funding through the Capital Magnet Fund program within the next year. These funds can be used not only for affordable housing but also for economic development projects and community service facilities.

**Historic Preservation Tax Credits** can assist with financing of the preservation and restoration of historic properties at both the state and federal levels. A 20% federal tax credit and a 10% state tax credit is available for costs associated with restoration of properties listed on the national historic register when used for commercial purposes that would include affordable housing. These tax credits are available to the property owner and the restoration must meet standards established by the National Park Service at the federal level and the State Office of Historic Preservation at the state level.

The **Self Help Home Ownership Program (SHOP)** is a competitive program awarded through a national competition. An annual NOFA defines the program requirements and application process. SHOP awards are made to regional and national non-profit organizations and consortia to purchase home sites and improve infrastructure in order to develop decent, safe and sanitary non-luxury housing for low income persons and families who would otherwise not become homeowners. SHOP grantees must leverage other funds for the construction or rehabilitation of the housing units. The homebuyers must be willing to contribute significant amounts of their own "sweat equity" toward construction or rehabilitation of their home.

There are only four regional and national organizations currently funded to serve as intermediaries for the SHOP program. Two of these have a nationwide service area and are potential sources of support for interested West Virginia programs. These are Habitat for Humanity International and the Housing Assistance Council.

Two federal programs administered by HUD and one state program administered by the Housing Development Fund provide financing options for the development of housing options for the elderly and special needs populations.

At the federal level, HUD's **Sec. 811 Supportive Housing for Persons with Disabilities** and **Sec. 202 Supportive Housing for the Elderly** programs provide capital advances to nonprofit organizations for the development of affordable housing to specific populations.

The Sec 811 Project Rental Assistance (PRA) program provides rental assistance low income persons with disabilities residing in housing funded through federal HOME funds or Low income Housing Tax Credits. These PRA awards have become increasingly competitive in recent years. Since 2012, the Sec 811 funds are awarded through a national process defined by a Notice of Funds Availability (NOFA). Although West Virginia agencies have submitted proposals for Sec 811 funding they have not received any funds through these programs in recent years.

The WV Housing Development Fund provides funding for the development of special needs housing through the **Special Assistance Lending Program**. This program provides grants to non-profit community agencies and organizations interested in constructing group housing for special needs populations. A wide range of relatively small scale (up to $125,000) special needs housing development is possible through this program.

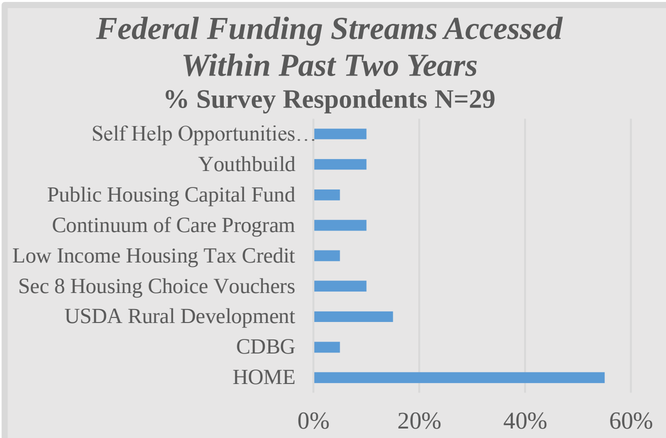
USDA's **Rural Community Development Initiative (RCDI)** provides funding through a nationwide competition to improve housing, community facilities, and community economic development projects in rural areas. Awards are made to intermediary organizations to support technical assistance to sub-grantees related to a wide range of housing and economic development activities. Grant awards are between $50,000 and $250,000 and must be matched with an equal amount of funds from non-federal sources.

# Part 3 – Research Findings

## Current Access to Funding for Affordable Housing Development

Twenty-nine key informants representing a diversity of affordable housing organizations located across West Virginia were asked in a survey conducted in November of 2014: "Which funding streams have you accessed in the past two years to support your work"? The only federal funding stream mentioned by a majority of the respondents was the HOME program which was accessed by 55% of those persons completing the survey.

*Chart 19*



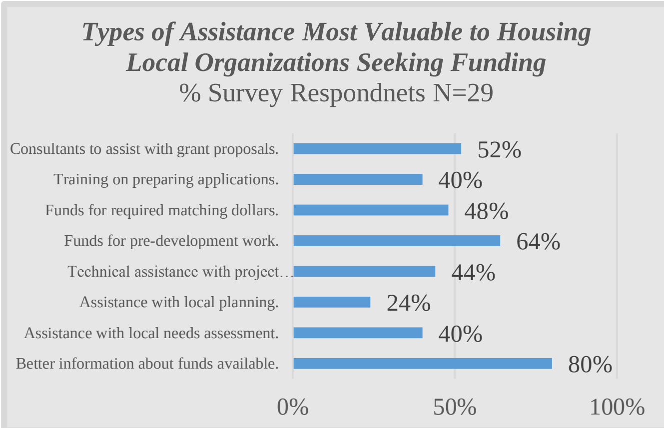

Other federal funding streams mentioned in response to the question include: USDA Rural Development programs, the Community Development Block Grant, HUD public housing programs, Low Income Housing Tax Credits, the Self Help Opportunities Program (SHOP), Youth Build and the Federal Home Loan Bank of Pittsburgh. With the exception of the HOME program, only one or two of the survey respondents (5 to 10 percent) indicated they received funding from the other federal programs mentioned. Thus, based on the limited number of survey responses, it appears the only federal program tapped by a relatively large number of housing organizations is HOME.

Local housing organizations primarily tend to rely on funding obtained through the West Virginia Affordable Housing Trust Fund and the West Virginia Housing Development Fund to complement the limited formula allocations available through federal funding streams. Half of the organizations responding to the survey also indicated they had loans from local banks to support a portion of the work they carry out. Survey responses indicate many local affordable housing organizations rely on limited financing from the HOME program, occasional grants from the West Virginia Affordable Housing Trust Fund, and loans from local banks or intermediary organizations. Some non-profit housing organizations are also able to successfully compete for tax credits or competitive grants (from the Federal Home Loan Bank-Pittsburgh or other sources) to support local housing development activity.

Although there appears to be reliance on a limited number of funding streams, it is not due to a lack of trying. Seventy percent of the organizations represented in the survey responses said they had submitted unsuccessful applications for funding through discretionary programs to support affordable housing projects within the past two years.

*70% of survey respondents said they had applied for discretionary funding during the past two years but were unable to successfully compete.*

***Chart 20***




When asked what prevented them from obtaining additional funding, 64% of the survey respondents said the program they had applied to was competitive and their application was not selected.

When asked what types of assistance would have been most valuable in their attempts to seek additional funds, 80% of the survey respondents said "better information about what types of funds are available", and 64% said "funding for pre-development work necessary to apply for project funding". 52% of the survey respondents indicated "access to consultants to assist with development of competitive applications" would have been valuable and 48% said having "funds for required matching dollars" would have been helpful. 44% of those responding also said they needed technical assistance with project development.

Those key informants (developers and local housing organization directors) interviewed were also asked about funding streams they relied upon. The interviewee responses about the most frequently accessed funding streams tended to support the survey findings. Funding streams mentioned by key informant interviewees included HOME, some USDA-Rural Development programs, the Low Income Housing Tax Credits, conventional loans from banks, grants from the Affordable Housing Trust Fund, and loans through intermediaries (most often FAHE, the Housing Assistance Council and the Rural Local Initiative Support Corporation).

The principle funding streams accessed by local affordable housing organizations is shaped by the type of organization. Local developers rely more heavily on tax credit financing, Habitat programs tend to generate more private donations (in some cases tapping the state's Neighborhood Investment Program to incentivize donations), public housing authorities receive funds through HUD's public housing streams and programs for the homeless, and Community Housing Development Organizations may tap the funds set aside through HOME or other funding streams that are directed specifically to CHODOs.

Findings of a survey of 206 persons knowledgeable of local housing issues conducted for the Housing Policy Group in March of 2013 were consistent with the more recent survey findings related to a need for technical assistance to assist local organizations in accessing financing. When asked: "Do you think it is important for state and federal agencies that fund housing programs to provide technical assistance to local communities to assist them in designing and financing housing projects?" 92.3% of the 206 respondents said "yes". This same survey found that 62.3% of the respondents feel there needs to be more joint planning involving local government, local housing organizations, developers and other housing stakeholders; and more than half (51.4%) believe housing development is not seen as a critical component of community and economic development in West Virginia.

Lack of capacity to develop and manage housing projects is an issue mentioned repeatedly by interviewees and survey respondents. It is not uncommon for a local housing organization to invest considerable time and money in pursuing funding for a project only to have the project fall through based on a determination by the potential funders that the organization lacks the capacity to manage the project. The lengthy process required to put together financing packages coupled with the capacity-related issues many local housing organizations experience can result in money being left on the table that could otherwise have been used for housing development.

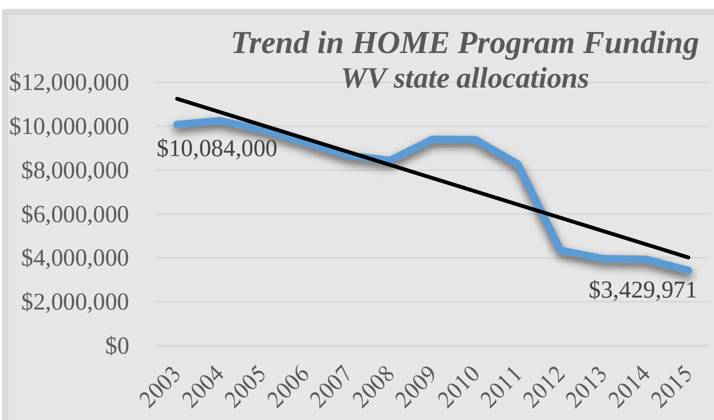
## Barriers and Issues Negatively Affecting the Financing of Affordable Housing Projects

The research (both surveys and interviews) over the past few years has consistently identified several different types of issues that frustrate the efforts of local affordable housing organizations to develop, rehabilitate and preserve affordable housing options. Although there were many different issues identified through the research, the major issues (or barriers) can be grouped into the following typology.

- Declining levels of funding available.
- Lack of ability to compete for discretionary funding.
- Difficulty in navigating application processes and putting together financing packages.
- Lack of coordination among different funders related to projects supported from multiple funding streams.
- Layering of regulatory requirements, record keeping, and reporting.
- Lack of investment and support by state government.

<u>Declining Trends in Federal Funds Available</u>

***Chart 21***




One of the factors affecting access to funding is there simply isn't as much money available as there used to be. A prime example of the declining trend in federal funding is the HOME program which is relied upon by many local housing organizations as a source of support. HOME funds available through the state allocation have steadily declined over the past 12 years from approximately $10.1 million in FY03 to $3.4 million in FY15 (see Chart 21).

With the exception of some increase due to stimulus funds after the mortgage crisis, there has been a dramatic declining trend in HOME funding. Funding available through other federal housing programs has also been cut in recent years.

The Community Development Block Grant state allocations have been reduced from over $20.4 million in FY03 to $12.8 million in FY15, and most other HUD programs have experienced declining levels of funding as well.

> *"Federal and state funding seems to be disappearing so there is more reliance on private financing which creates a financial burden some non-profits cannot bear."*
> - Survey Respondent

One interviewee stated his organization doesn't even try to secure financing through public programs since so little funding is available, "it is so time consuming, and generally unrewarding". This organization relies almost exclusively on traditional bank loans for housing development.

The primary source of financing for rental housing development is the Low Income Housing Tax Credit (LIHTC); however, non-profit developers in West Virginia have limited access to equity generated from these credits as most are awarded to large for-profit entities.

<u>Ability to Compete for Discretionary Funding</u>

Several of the persons interviewed remarked on the disadvantages of being a relatively small state with no major metropolitan areas. Interviewees are generally of the opinion that discretionary federal funding tends to be awarded to larger urban areas and one interviewee stated that national intermediaries also tend to invest available dollars in larger areas where they can get the greatest "bang for their limited buck".

> *"The scoring of proposals for discretionary funds is biased toward urban areas".*
> - Federal Interviewee

The criteria used to score applications for many of the limited discretionary funding awards puts West Virginia housing organizations at a disadvantage since levels of housing production and past track records of production are often considered in making awards. Another factor that frustrates West Virginia organizations in their attempts to compete for funds with larger areas is a lack of ability to leverage other financing since financing leveraged by a discretionary award is often a factor in who gets the money. This tends to create a situation where the rich get richer and the poor get poorer. As more funding is cut from formula allocations and moved to discretionary competitive programs, the remaining funds tend to be more directed to grantees with established track records and pre-existing relationships with the funding agency.

Still another contributing factor that limits access to discretionary funding is the very limited availability of technical assistance and support in preparing applications either through state funded programs or private corporations. There are no specialized firms with extensive experience in accessing financing for housing in West Virginia that can be enlisted to assist in development of grant applications. An example of a private firm that specializes in assisting state and local governments as well as non-profit organizations in preparing competitive applications is *JPH & Associates* based in Florida. Among the services this firm provides is consulting services to nonprofit sponsors to evaluate and assemble funding applications for HUD's Sec 811 housing program for the disabled and Sec 202 housing program for the elderly. The firm has secured $364 million for their clients through these programs. This is only one example of such firms across the nation that specialize in developing winning proposals that West Virginia applicants must compete with.

Complexity of the Application Processes

> *"Each individual housing program is inflexible with its application process, requirements and timelines which limits our ability to package funding across several programs."*
> - Local Developer

Local developers and nonprofit organizations interviewed were unanimous in their opinion that application processes for funds through most housing-related programs were difficult to negotiate and package together.

One of the key informants interviewed said each application process requires several steps and often results in significant time wasted.

> *"We worked on an application for funding from the Housing Development Fund for a project and incurred the expense of hiring an architect and revising work plans at HDF's request. After 14 months of work we received a letter denying funding based on financial capability to manage the project."*
> - Local Housing Organization Representative

Putting together necessary funding from multiple sources is challenging since the timeframe for accessing funds from one source may expire before other funds can be made available. The application process can take years according to one of the key informants interviewed. In some cases a great deal of time, money and effort is invested in pursuing a deal only to be told that the application will not qualify for funding.

Several interviewees appear to have the impression that HOME program funds are not used as flexibly in West Virginia as they could be. The perception is that the generally conservative nature and need to maintain high bond ratings within the state housing finance agency that administers the program (HDF) tends to mediate against flexibility and innovation within the HOME program. A director of a local organization responding to the survey remarked about the process of accessing HOME dollars: "The process is extremely time consuming with all the documents required to verify your organization has the capacity to develop and manage a housing project once it is completed."

Although several interviewees tend to think HOME funds could be used more flexibly and expressed frustration related to the cumbersome process required to access HOME dollars, current federal regulations governing the program make it difficult for the Housing Development Fund to use these dollars in more innovative ways. Nevertheless, to the extent possible, steps should be taken in the future to explore ways that HOME program funds could be used more flexibly in order to assure that all HOME income and new federal allocations are invested in projects within the required timeframes.

Lack of Coordination Among Key Funders

The various programs that support housing development, rehabilitation and preservation are not well coordinated with one another. Each has their own application procedures and requirements that are not the same or even similar from one program to another. One individual responding to the most recent survey of local housing organizations related a story about a single family energy efficient home project where the homebuyer could not close on the purchase due to conflicting requirements between the USDA-RD loan and the requirements imposed by HOME program funds secured through the Housing Development Fund. The house sat vacant for 15 months and the one-year Builder's Warranty expired before the loan could be closed.

State officials interviewed acknowledge that nearly all housing projects of any size require securing funds from multiple sources but there appears to be little coordination among the potential funders in putting together financing packages. It is the project developer that must try to put together financing from multiple funders and align the timeframes involved. The application process can, however, be unpredictable as to the length of time it may take to secure a commitment of funds. It is not unusual to have prospective project financing in place only to find that one source of funding expires before other needed funds are made available. As one key informant explained: "The project may require that funds from funder A be secured before funder B will commit their share of the funding, but the timeframe for getting the application approved by funder B expires before the process can be completed with funder A".

> *"We have had to return money that was already awarded to the funder due to not being able to get other pieces of the financing package in place within a reasonable timeframe."*
> - Local Affordable Housing Organization Administrator

<u>Layering of Regulation and Requirements from Multiple Funders</u>

As was previously mentioned, housing projects generally require funding from multiple sources in order to put together sufficient funding to support development. We have also mentioned the lack of consistency in the application procedures from one potential funding source to another. In addition, requirements for record keeping, accounting, reporting, loan repayments, grants management, etc. are defined by each individual funding stream. The resulting "layering", as one state official described it, of all the regulatory and accountability requirements are simply overwhelming to all but the most seasoned of affordable housing organizations.

State and federal officials interviewed for this report often referred to a general lack of capacity by local developers and non-profits seeking financing for housing projects, although specificity about what capacities are lacking is often not provided by a potential funder when applications are rejected. It would appear, however, that the multiple layers of application and project management requirements when trying to package financing from several different funding streams is challenging for many local affordable housing organizations to negotiate.

<u>Investment and Support from West Virginia State Government</u>

There is essentially little or no appropriation of state funds to support the development of affordable housing in West Virginia. The programs operated by the Housing Development Fund are all self-supporting. These programs are supported by the sale of tax exempt bonds, operating funds generated through loan repayments, and/or by federal funds (HOME and the LIHTC awards process). The WV Affordable Housing Trust Fund is supported by a small transfer fee attached to each real estate transaction in the state but the Trust Fund receives no state appropriated funding.

The state also does not invest in any type of statewide agency or organization whose job it is to assist local organizations and developers in accessing financing. *CommunityWorks in West Virginia, Inc.* provides assistance to a broad range of local affordable housing organizations to the extent its limited resources allow but this statewide intermediary receives no state funding.

Local housing groups require guidance in documenting housing needs, developing plans, identifying development partners and sites and preparing applications for funding. Some states provide state funded support to local non-profits in order to assist them in developing and securing financing for housing projects.

In Virginia, the Virginia Community Development Corporation (VCDC) was established by the General Assembly in order to put money into affordable housing through a revolving loan fund and also to provide the types of technical assistance necessary to support local organizations in putting together the complicated deals necessary to finance new housing development. This state supported entity works with private investors to generate capital and has worked with over 50 local organizations to assist them in accessing funding.

> *"We sometimes work with local housing organizations for as long as five years to assist them in putting together financing for a housing project."*
> - Director, Virginia Community Development Corporation

As was pointed out during the interview with the director of the VCDC, it is generally not the job of a state housing financing agency (in WV the Housing Development Fund) to assist local organizations to access financing. He believes "it is to the advantage of non-profits to have two separate agencies – one to manage the bond sales and generate financing and another to assist local housing organizations in accessing funding." Each has a different culture and different priorities.

In Connecticut the *Housing Connections* program is provided by Local Initiatives Support Corporation through a contract with the Connecticut Housing Finance Authority. The statewide program offers resources in the areas of finance and investment, organizational and community development, regulatory requirements, and public policy. Housing Connections also helps local organizations to create local housing plans as appropriate, addressing the local needs and character of the community.

Several other state supported agencies or organizations were discussed in a best practices report prepared for the West Virginia Affordable Housing Trust Fund in 2012.[30]

## Part 4 – Conclusions and Recommendations

Development, rehabilitation and preservation of affordable housing in West Virginia is extremely challenging for a number of reasons.

Conclusions from this research include:

- The housing system is a complex array of largely uncoordinated agencies, programs and funding streams that is difficult to negotiate.

- There is no centralized data depository where reliable, statewide information about available funding, trends in expenditures, housing costs, market characteristics, and other housing related information may be accessed making it difficult to monitor activity related to trends in housing development and financing.

- Federal funding for housing has been declining for several years and that trend is expected to continue.

- Much of the public funding available is tied up in sustaining existing programs and services and not available to support new development.

- The West Virginia Affordable Housing Trust Fund is able to provide local non-profits with a wide range of pre-development and development assistance since the WVAHTF programs are supported through a flexible revenue stream not subject to excessive regulatory requirements.

- Local nonprofits and developers are increasingly reliant on banks and other lending institutions for financing to support housing development as funding through federal programs is reduced and programs become more competitive.

- Housing development, rehabilitation and preservation often requires securing financing from a number of different funders each with their own application process, requirements and decision making timeframes.

- Putting together the necessary financing for a housing project can take years and available funding can be lost due to an inability to secure one or more pieces of the funding package within a reasonable timeframe.

- Many smaller affordable housing organizations lack the necessary organizational capacity to secure financing and mange housing projects.

- Affordable housing organizations often do not know why an application for funds was rejected since the decision-making process often lacks transparency.

- The rural nature and relatively small population of West Virginia results in competitive disadvantages when seeking federal discretionary funds.

- West Virginia state government does little to support and assist affordable housing organizations in developing housing options.

Recommendations are based on the findings from the research related to housing development, rehabilitation and preservation; interviews with state and federal officials, local developers, and representatives of affordable housing organizations; and surveys of key stakeholders conducted over recent years.

- ✓ Hold discussions among primary funders of housing development, rehabilitation and preservation projects to identify ways to better coordinate and streamline funding application procedures and timeframes. Key programs discussed in Part 2 of this report and illustrated in Appendix B should be encouraged to participate in a process to examine ways they might work together to package resources to support housing projects.

- ✓ Develop a partnership with the Virginia Community Development Corporation to assist local developers in West Virginia in accessing financing.

- ✓ Increase the level of technical assistance available to local housing organizations and nonprofit developers in order to build their capacity to secure financing and manage housing projects.

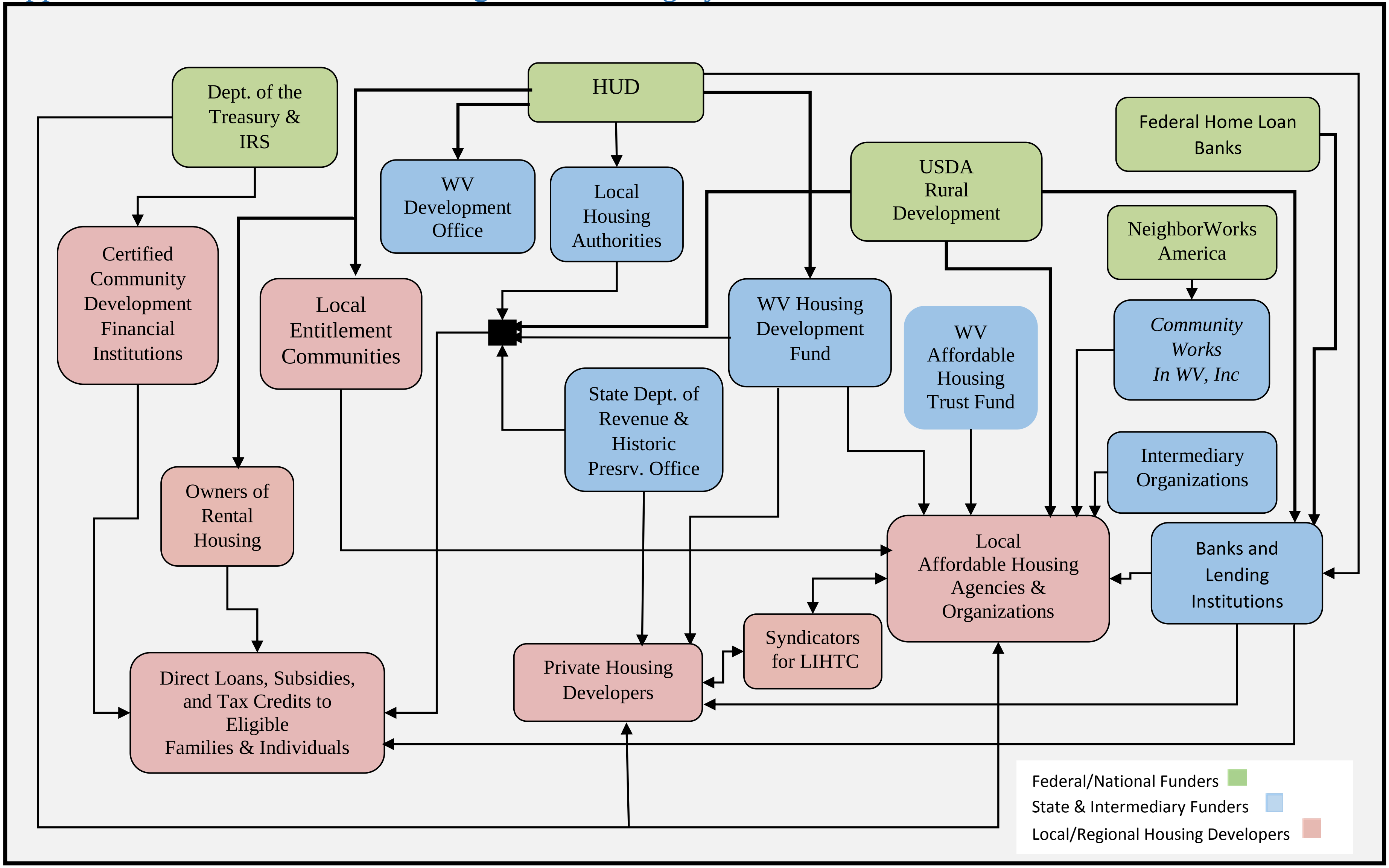
- ✓ Provide a range of assistance to local affordable housing organizations related to project design, financing and other issues through a state funded contract with a qualified intermediary organization.

- ✓ To the extent possible under federal regulations, use federal HOME dollars more creatively to incentivize housing development through demonstration projects, rehabilitation and funding of necessary pre-development costs.

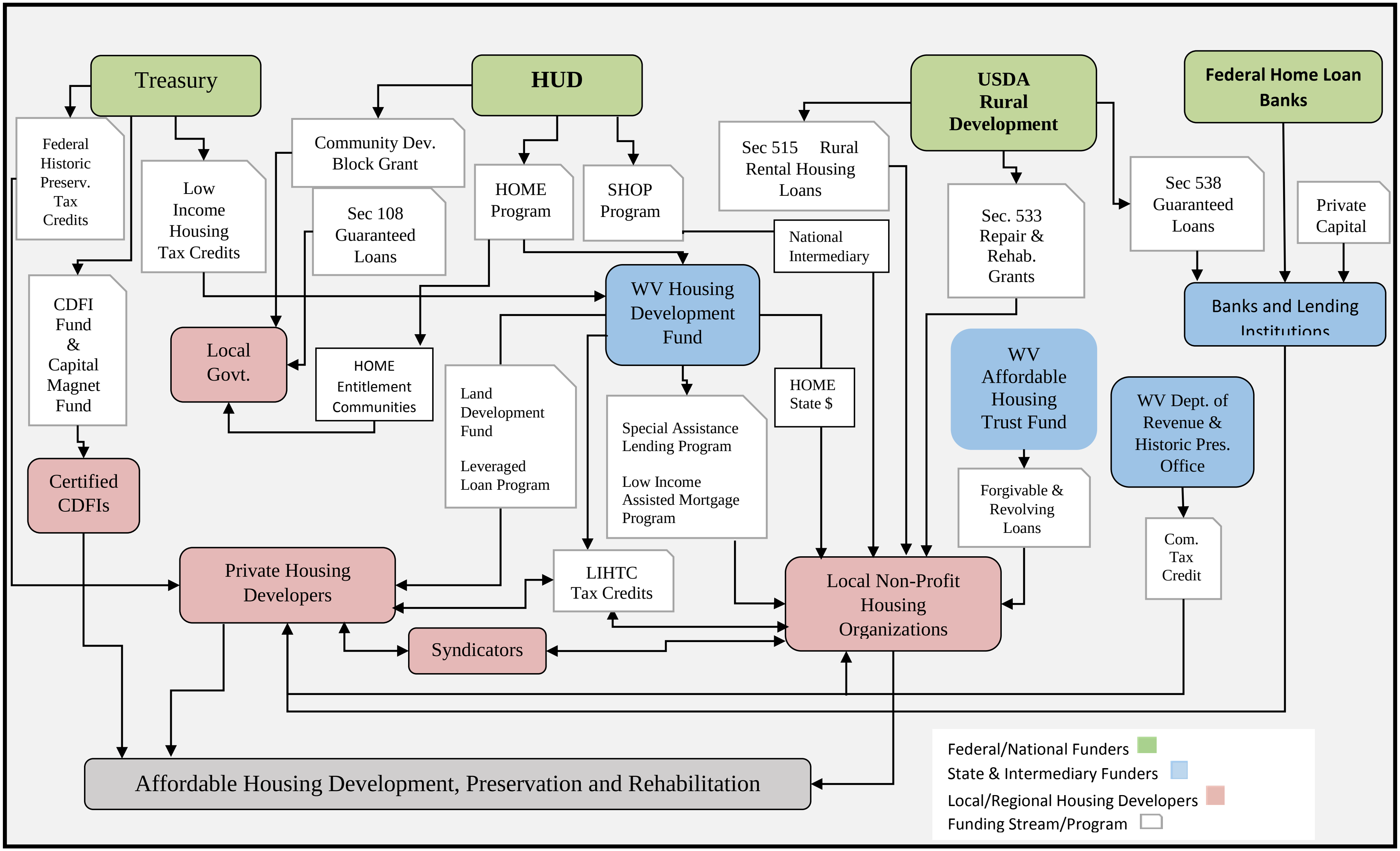
- ✓ Increase the percentage of Low Income Housing Tax Credits set aside for non-profit developers and local affordable housing organizations.

- ✓ Work with the Office of the Governor to address identified barriers to accessing funds available for affordable housing development.

# Appendix A - Overview of West Virginia's Housing System



# Appendix B - Financing Affordable Housing Development, Rehabilitation & Preservation



## Appendix C - Data Challenges

It is important that the reader understand the limitations of available data and information about funds available and funds actually spent to support affordable housing in order to interpret the information provided in this report. A number of factors were encountered that frustrate the compiling of consistent and accurate information about housing-related allocations and expenditures over the past several years. These factors place limitations on attempts to compile a comprehensive picture of the overall financing picture and the ability to provide detailed information about funds available and funds that actually get to local housing development projects.

**Lack of Access to Information about Financing through Private Sources:**

Private Banks and lending institutions provide much of the capital for housing mortgages and development through the private housing market and information about these transactions is not publically available except in broad and general terms.

**Lack of Access to Recent Information from Different Funders over a Consistent Time Period:**

In some cases an administering agency was able to provide financial information at the program level through FY14 or FY15 but in other cases, program level information was available only for lagging years (for example FY10 through FY12).

**Funds Allocated for Multiple Purposes:**

Many federal and state programs support different types of projects through a particular program allocation or funding stream. In some cases the program purpose is discrete and program rules or regulations require that the available funding be used to support affordable housing for low income households. In other cases where program funds may be used for multiple purposes, there is no way to know what portion of the available funding is used for what purpose without access to internal agency documents.

**Variable Accounting Procedures:**

Federal and state programs also maintain different types of internal procedures for keeping track of income and expenditures and these dollars may or may not be accounted for in ways that can easily inform the research undertaken through this project. In some cases a detailed review of specific grants, loans or other sources of financing would be necessary at the agency level in order to provide accurate information about what specific types of projects were supported and/or the portion of overall spending that supports affordable housing development, rehabilitation or preservation.

Compiling information about funds available and funds expended is further complicated by the use of different fiscal year periods for different funding streams. Funding through federal programs is generally accounted for on a federal fiscal year basis (October through September), state funds are allocated and expended on a state fiscal year basis (July through June), and tax credits that contribute to housing development would be compiled on a calendar year (tax year) basis.

**Multiple Year Awards and Draw Downs:**

Funds allocated and available through federal and state programs in any given year do not have to be used that year. Generally speaking, available funds may be used over a period of three years from the time they become available or in some cases over a considerably longer period of time. Thus, there is no real correlation between the amounts of funding available during a particular period of time (a fiscal year for example) and the amount of funds actually awarded, encumbered, or spent during that same period of time. This makes it difficult to compare the funding coming in with funding going out except in general terms over a multi-year period.

Also, a funding award may be made by the financing agency for a project that may take several years to complete. Consequently the funds awarded (through grants, loans or tax credits) may be drawn upon as needed over multiple years, partially drawn, or not drawn at all due to delays in project implementation. Again, this process makes it difficult in some cases to determine with a high degree of accuracy what funds are actually used and when they are used to support affordable housing development without a detailed review of internal agency awards and draw-downs of awarded funds.

End Notes

[1] Home Mortgage Disclosure Act data.
[2] From awards posted on FHLB-Pittsburgh website.
[3] Information provided by FHLB-Pittsburgh.
[4] Financial data provided by HUD WV State Office.
[5] Financial data provided by HUD WV State Office
[6] Financial data provided by HUD WV State Office
[7] Financial data provided by HUD WV State Office
[8] Financial data provided by HUD WV State Office
[9] Financial data provided by HUD WV State Office
[10] Financial Data provided by USDA WV State Office
[11] USDA WV State Office - response to inquiry about funds available through Sec 538 & Sec 515 programs.
[12] Financial Data provided by USDA WV State Office.
[13] Financial Data provided by USDA WV State Office.
[14] Financial Data provided by USDA WV State Office.
[15] Financial Data provided by USDA WV State Office
[16] Financial data provided by WV Housing Development Fund.
[17]For further information about the federal Historic Rehabilitation Tax credit see http://www.irs.gov/pub/irs-utl/faqrehab.pdf
[18] CDFI Fund website grant awards listings.
[19] Financial data provided by WV Housing Development Fund.
[20] Financial data provided by WV Housing Development Fund.
[21] Data provided by the WV Affordable Housing Trust Fund.
[22] Data provided by Affordable Housing Trust Fund.
[23] WV Department of Revenue data.
[24] WV Department of Revenue.
[25] *A Tax Credit Worth Preserving*, New York Times Editorial, December 20, 2012.
[26] Data provided by the WV Housing Development Fund.
[27] Information provided by HUD Regional Office, Pittsburgh.
[28] Data provided by the WV Housing Development Fund.
[29] Data provided by the WV Housing Development Fund.
[30] Promising Practices in Affordable Housing, Report to the Affordable Housing Trust Fund, 2012.