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California Housing Partnership Corporation's Federally Assisted Multifamily Housing Database and Risk Assessment 2006

The California Housing Partnership Corporation (CHPC) maintains a database of federally subsidized multifamily housing in the state of California. The database contains information on more than 150,000 federally subsidized apartments that are at-risk of conversion to market rate. The database contains information not only on the type of units, the amounts and expiration dates of the various subsidies, but also owner and manager contact information. The database is updated on a quarterly basis with information received directly from the Department of Housing and Urban Development (HUD) on the current status of HUD administered rental subsidies and subsidized mortgages insured by the Federal Housing Administration (FHA). The database also contains some information on properties subsidized by the U.S. Department of Agriculture (USDA) through its Section 515 mortgage and Section 521 Rental Assistance programs although this is generally less complete because USDA does not provide regular updates. The database does not currently contain information on apartments subsidized by state and local programs.

INVENTORY

The types of rental and mortgage subsidies tracked in the database and listed under the "Inventory" heading are listed below. Note that some projects have both rental assistance (Section 8 or 521) and assisted mortgages (Section 236, 221(d)(3), or Section 515), some have only Section 8, and some have only assisted mortgages. The categories above the line "Total Federally Assisted Units" count these separately with no overlap.

<u>Project-Based Section 8</u>: Section 8 is a rent subsidy program in which tenants pay no more than 30% of their income for rent with HUD paying the difference up to the contract rent amount. All Section 8 properties listed in the database are project-based, which means the subsidy is attached to the specific project, rather than tenant vouchers, which move with the individual tenant. Many of the HUD assisted mortgage programs (Section 236, Section 221 (d)(3), Section 202, Section 811) and USDA Section 515 program have project-based Section 8 in addition to the assisted mortgage. Other projects have project-based Section 8 with financing that does not carry low-income restrictions (whether or not they are HUD insured). Project-based Section 8 contracts have terms of up to 20 years, except for those financed by the California Housing Finance Agency, which have terms of 30 years. Project-based Section 8 contracts began expiring in 1997 but can generally be renewed for one to five years, subject to annual appropriations by Congress, and for 20 years by nonprofit controlled entities able to demonstrate substantial public benefit.

Section 221(d)(3): This program, started in 1961, provided HUD mortgage insurance with a Below Market Interest Rate (BMIR) of 3%. Loans were for 40 years and could be prepaid in 20 years. Most of these loans were restructured under the Title II and Title VI preservation programs in the early 1990's.

Section 236: This mortgage insurance program began in 1968, providing 40-year loans that originated at market interest rate, which was typically 7%. These loans could be prepaid in 20 years. HUD provides a monthly Interest Reduction Payment (IRP) subsidy to reduce the effective mortgage interest rate paid by the owner to 1%.

Section 515: USDA Rural Development (RD) administered direct mortgage program, which began in 1949, provides loans for rental housing in rural communities. Loans have terms of up to 50 years with an interest rate of 1%. Many of the projects have either Section 8 or Section 521 Rental Assistance attached to some or all of the apartments. The right to prepay a 515 mortgage depends on the date of the initial subsidy. Projects with an initial subsidy prior to 1980 were considered unrestricted and therefore eligible for prepayment at any time. Projects with an initial subsidy between 1980 and 1989 were subject to 20-year Restrictive Use Provisions (RUPs). Projects with an initial subsidy from 1990 to present are prohibited from prepaying the mortgage. By 2010, over 70% of California's 515 portfolio – an estimated 280 projects – will be eligible to prepay, although there are some limitations on the ability of owners to prepay and to sell the properties.

Section 521 Rental Assistance: This is RD's equivalent of project-based Section 8 contracts. Tenants pay up to 30% of their income for rent with USDA paying the difference up to the contract rent amount. Most contracts are for five-year terms and are subject to regular renewals for the duration of the Section 515 mortgage.

RISK ASSESSMENT

Each property in the database is assigned a level of risk of conversion. There are three levels of risk: At-Risk, Lower Risk and Low Risk. Properties are **At-Risk** when they are within five years of the end date of the most valuable subsidy or rent restriction. For example, a property with a Section 8 contract that expires four years from the date of the last update is considered **At-Risk**. Properties are at **Lower Risk** of conversion when their most valuable subsidy or rent restriction is scheduled to terminate within six to ten years of the current date. Properties are **Low Risk** when their subsidies and/or rent restrictions will expire more than 10 years in the future. If a property is owned by a nonprofit organization, the database assumes that the risk of conversion to market is one level lower than it otherwise would be. While this is not always accurate, on average we have found that the risk of conversion is lower when a property is owned by a nonprofit whose mission is typically to maintain the affordability of apartments for lower income households.

Lost to Conversion: Counts all federally subsidized apartments that have opted out of their Section 8 contracts or lost their Section 521 Rental Assistance. In the case of properties that never had a rent subsidy, those that have prepaid their subsidized mortgages are considered Lost to Conversion. The database does not count as lost those properties that have refinanced their subsidized mortgages but continued their Section 8 or Section 521 Rental Assistance contract. The reason we do not count properties that prepay their mortgages but still have project-based rental assistance contracts as lost is that the prepayment does not cause any loss of affordability since the portion of the rents paid by the tenants is set independently by the project-based rent subsidy contract. In other words, the same people can still afford to live there and there is not threat of displacement caused by the loss of the mortgage.

Preserved: We count as "Preserved" those properties that have been acquired by owners with a new regulatory agreement with a government entity that commits them to keeping the apartments affordable to the same income group for at least another 30 years. In the case of properties with project-based rental subsidies, there must be an extension of the rent subsidy contract, typically for 20 years for Section 8 properties, and five years for Section 521 properties.

BY YEAR ANALYSIS

Section 8 Expirations by Year: Original Section 8 contracts were for long terms (typically 20 years) and had an expiration date. This section indicates the original expiration date of the project-based Section 8 contracts. Most contracts that have expired are now on annual renewals. Some have been renewed for longer terms (5, 10, and 20 years), but are still subject to annual appropriations by Congress.

Mortgages Prepaid by Year: Prepayment is when an owner of an FHA-insured property elects to pay off an FHA-insured mortgage, removing the affordability restrictions in the mortgage and regulatory agreement. The Section 236 and 221(d)(3) mortgages were first eligible for prepayment beginning in 1996. Prior to that time, many projects were restructured under Title II (ELIHPA) and Title VI (LIHPRHA). This section shows the number prepaid in each year since then. If a project also has Section 8, it is still counted in this section, so there is overlap with the "Section 8 Opt-Outs by Year.) Note: Affordability is maintained on a property with a prepaid mortgage if the property has a project-based Section 8 contract.

Section 8 Opt-Outs by Year: Opting out occurs when an owner of a property with a project-based Section 8 contract terminates the contract. Any Section 8 contract that has been terminated is shown here with the opt-out date. Project-based Section 8 contracts were first eligible to be terminated in 1997.

Please feel free to call Elyse Perry, Coordinator, at 415-433-6804 ext 13 if you have questions.

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