TO: CARH Board of Directors

FROM: Colleen M. Fisher CMF
Executive Director

Date: March 22, 2017

Re: National Office Report

The following are the national office and membership related activities that have been undertaken for the CARH membership since the last board of directors meeting in January:

- Continued to brief Congressional staff on Rural Development's (RD) multifamily programs and the need for oversight hearings, particularly before the Senate Banking Committee which would explore the agency's current preservation policies and procedures.

- Continued to work with a coalition of affordable housing groups on a variety of issues including the Fiscal Year (FY) 2017 budget and Continuing Resolution, as well as the recently released FY 2018 "skinny" budget. Continued to monitor funding for all RD's housing programs including the Rental Assistance (RA) program.

- Continued to work with ACTION coalition on Housing Credit/Bond Issues and potential tax reform.

- Continued to work with the HOME coalition, a group of industry representatives, on funding for the HOME program.

- Continued to talk to a variety of individuals from the Government Accountability Office (GAO) on the myriad of studies they are undertaking which are analyzing rural housing programs, particularly as they impact preservation of the current portfolio.

- Worked with other affordable housing groups on a myriad of portfolio servicing issues, both at RD and at HUD. Also continued to work on resolving preservation regulatory issues, including appraisal and underwriting concerns.

- Continued to work with the Section 538 lenders group on further legislative and regulatory improvements to the Section 538 program.

- Attended opening of apartment community in Central Virginia that was financed in part by the Section 538 program. Similar openings across the country were held as the program reached the $1 billion level in loan commitments.

- Participated on an industry panel at the National Council of State Housing Agencies' Legislative Conference.

- The January/February edition of *CARH News* was published. The March/April edition will be published in late-April.

- The 2nd Quarter edition of *Insights for Onsites* is being drafted and will be distributed in the spring.

- Distributed the CARH membership directory to all members.

- Continued to send Preferred Buyer Vendors updated CARH membership and property information, and to solicit new marketing materials. Continued to approach additional vendors in order to add to preferred buyers program, as identified in membership survey.

- Continued to inform members of industry news through CARH's broadcast e-mails. Issued seven new alerts since the last Board meeting.

- Maintained the "Affordable Housing Headlines" section on the CARH website. This section provides daily breaking news that affects CARH members from the *Washington Post*, *The Hill News*, the *New York Times*, the *Wall Street Journal*, and many more news organizations.

- CARH continues to use Twitter as an additional way to communicate with our followers providing CARH-related information and breaking news. We are located on Twitter @CARHNews.

- Continue to use LinkedIn account as another opportunity to use social media to inform our members and recruit new members. We are located under Companies by searching "Council for Affordable and Rural Housing."

- Continue to use Facebook Page that is linked to our Twitter feed. The page serves to bring up-to-date CARH news to members, as well as to disseminate relevant industry information. You can find us at "Council for Affordable and Rural Housing."

- Continued to work on CARH website, updating it regularly through content management system, observing traffic to the site, in order to collect data useful for marketing purposes.

- Continued to send direct and electronic marketing pieces to potential members referred by other CARH members and the CARH website.

- Continued to work on various industry issues, compiling CARH member comments and supplying information as requested.

- Continued to update membership databases and electronic membership directory on CARH website.

Council for Affordable and Rural Housing
Serving the Affordable Housing Needs of Rural America

TO: Rich Davis, Acting Administrator
Rural Housing Service

FROM: Colleen M. Fisher
Executive Director

DATE: March 23, 2017

RE: Section 538 Program Improvements: Recommendations from Stakeholders

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The Section 538 Guaranteed Multifamily Loan Program, enacted in 42 USC Section 1490p-2, operated pursuant to regulations at 7CFR Part 3565 and RD Handbook 3565, is an essential multifamily finance tool for new construction and preservation of aging at-risk affordable housing. Section 538 provides substantial assistance and credit liquidity to rural areas that have had insufficient access to credit.

The program is currently oversubscribed for the second straight year, even though it struggled in some past years primarily due to long processing times for individual loan reviews at Rural Development ("RD"). One major stumbling block in many past years was the NOFA—notice of funding availability—process. RD needed about six to twelve months to issue an annual NOFA, causing long periods of inactivity in some prior years and deterring applicants from applying due to lack of predictability. With additional commitments from RD staff, additional training of staff and administratively smoothing out some processing steps, the program went from struggling to now being oversubscribed. From this, we know there is even greater unmet credit need in rural areas with more program authority and a guaranteed, unbroken 'any time of year' processing cycle. As such, CARH's Section 538 working group, consistent of multiple Section 538 lenders and borrowers, urge RD to take under strong consideration the following program efficiency and improvements:

1. **Eliminate the NOFA and NOSA process to allow consistent and continuous underwriting and origination**. The Agency's September 12, 2016 letter ("Response") responding to our prior correspondence on the first four points noted RD agreed with eliminating the unnecessary NOFA regulation "as soon as possible". We ask when we can expect such elimination of this unnecessary process and if there is anything we can do to help elevate procedural change through the regulatory process.

2. **Reduce the annual guarantee fee commensurate with similar loan products**. The Response stated the Agency was reviewing this option. We understand the program has demonstrated to be cost effective and the default rate is so low that the fees collected are

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that current demand, with the NOFA removed, would serve to meet as much as $300 million a year.

6. **Streamline the underwriting process**. Different RD State offices have different interpretations of the same underwriting process. Furthermore, most offices see only a few 538 loans a year and have minimal staff assigned. It is hard for anyone to become proficient under these circumstances. If most of the underwriting could be done through a smaller dedicated staff, directly coordinating different regions of the country, then RD staff will be much more familiar and more consistent in their practices. The regional staff could certainly consult with the local offices for information and feedback but this would expedite the process and provide more standard interpretations.

7. **RD should issue Conditional Commitments prior to the completion of all due diligence for permanent financing only guarantees, so-called Option 1 538 guarantees.** One condition would be no adverse information resulting from that due diligence. Specifically, RD should issue prior to all environmental due diligence. The environmental process is very time consuming and experience has shown that we are not finding many adverse environmental issues. This may be because the majority of loans are on existing properties, (preservation properties) that already went through environmental reviews in the past. This could be accomplished through a standing exception to environmental review. The National Environmental Policy Act ("NEPA"), and RD rules, guidance, Instructions and Executive Orders pursuant to NEPA have created a confusing and imprecise set of procedures and standards that confuse the RD staff, the 538 program participants, and waste significant amounts of time and money. It is typical in real estate transactions to obtain commercial Environmental Reviews to confirm the absence of reasonably detectable environmental concerns, or to isolate and minimize any concern. The owner and finance parties have material incentive to do this due to their concern for their residents and employees and the possibility of enormous litigation liability if there is an environmental issue. We ask for a simplified set of procedures that permit processing while completing environmental work as long as completed before closing, and a clear single process for obtaining environmental review by RD.

8. **An additional request for Option 1, permanent financing only guarantees is to treat this Option as an immediate delivery permanent loan product similar to the HUD 223f program for existing properties.** We ask that RD Recognize where there is rehabilitation connected to the proposed financing there will be a repair escrow controlled by the lender or work verified by the lender. In sum, the full amount of loan is issued and held in escrow at initial closing, which typically occurs at closing of the property acquisition. This would allow the lender to fix the interest rate at initial closing and remove interest rate risk. There would be an interest-only payment period for the escrowed funds, until construction is completed and funds disbursed. Currently, the interest rate charged in approximately 1% or 100 basis points lower.

March 22, 2017

The Honorable Benjamin Carson
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, S.W., Room 10276
Washington, D.C. 20410-0500

Dear Secretary Carson,

We, the undersigned, would like to take this opportunity to congratulate you on your recent confirmation as Secretary of the U.S. Department of Housing and Urban Development (HUD). Our organizations represent thousands of firms involved in the multifamily rental housing industry, including the building, operation and management of affordable rental housing properties, and also the affordable single family housing industry. We look forward to working with you toward our shared goal of meeting the need for quality affordable housing.

This letter expresses our deep concerns regarding HUD's proposed rule, "Floodplain Management and Protection of Wetlands; Minimum Property Standards for Flood Hazard Exposure; Building to the Federal Flood Risk Management Standard" ("the proposal") (Docket No. FR-5717-P-01, RIN 2501-AD62). We believe that this proposal unnecessarily increases the cost of constructing new multifamily rental and single family housing, inappropriately burdens the private sector and jeopardizes housing opportunities for low and moderate income families. For these reasons, we respectfully request that HUD withdraw this proposed rule.

HUD published the proposal in the *Federal Register* on October 28, 2016 to expand its floodplain management oversight. The comment period ended on December 27, 2016. The proposal is a response to President Obama's Climate Action Plan, which resulted in Executive Order 13690 and the Federal Flood Risk Management Standard (FFRMS). According to the proposed rule, single family homes purchased with FHA mortgage insurance would have to be elevated an additional two feet when they are built or substantially improved within the 100-year floodplain. Multifamily builders would face the added burden of the new two foot elevation requirement when using FHA mortgage insurance for new construction or substantial rehabilitation projects both within the 100-year floodplain and in a horizontally expanded FFRMS floodplain area for which maps do not exist. HUD's new flood risk measures would also apply additional elevation and flood-proofing requirements to projects that use federal grants, such as the HOME Investment Partnerships and Community Development Block Grant programs.

HUD's proposal will increase construction costs and project delays for single family homes targeted for purchase using FHA programs intended to serve low- to moderate-income buyers. We are especially concerned that the additional elevation and flood-proofing requirements for multifamily properties using FHA mortgage insurance and / or HUD grant programs will make many projects infeasible due to increased construction costs and the inability to offset these

National Association of Housing Cooperatives
National Leased Housing Association
National Multifamily Housing Council