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# National Housing Trust Fund: What We Know and Where We Are Going

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# The Agenda



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1. The NHTF Rule
2. Tentative Timeline
3. Underwriting Example
4. Stakeholder Questions



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# Purpose

The National Housing Trust Fund (HTF) is a new affordable housing production program that will complement existing Federal, State, and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low-income (ELI) and very low-income households (VLI), including homeless families.

# A Few Definitions...



- **Extremely Low Income**
  - Low-income families whose annual incomes do not exceed 30% of the median family income of a geographic area
- **Very Low Income**
  - Low-income families whose annual incomes are in excess of 30% but not greater than 50% of the median family income of a geographic area



# Formula Allocation



- States' Allocations are determined by 4 factors
  1. Shortage of rental units affordable to ELI households
  2. Shortage of rental units affordable to VLI households
  3. Ratio of ELI households with either incomplete kitchen or plumbing facilities, overcrowded, or cost burdened
  4. Ratio of VLI households that are cost burdened



# Formula Allocation



- Statute requires a minimum allocation for each state - \$3 Million
- If fully funded, some estimates have Missouri at approximately \$14 Million





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# Eligible Costs

- Development Hard Costs
- Refinancing Costs
- Acquisition Costs
- Related Soft Costs
- Operating Cost Assistance and Reserves\*
- Relocation Costs
- Costs Related to Payment of Loans



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# Eligible Forms of Assistance



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- Equity Investments
- Interest-Bearing Loans or Advances
- Non-Interest Bearing Loans or Advances
- Interest Subsidies
- Deferred Payment Loans
- Grants
- Other Forms of Assistance Approved by HUD



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# Operating Cost Assistance and Reserves

MHDC can provide up to one-third of each annual grant for operating cost assistance and operating cost assistance reserves.





# Operating Cost Assistance and Reserves

- Eligible Costs Include:
  - Insurance
  - Utilities
  - Real Property Taxes
  - Maintenance
  - Scheduled Payments to a Reserve for Replacement of Major Systems





# Operating Cost Assistance and Reserves

- Can only be provided if the HTF-assisted units do not have project-based assistance
- Must be based on the underwriting of the project
- Must be specified in the written agreement





# Operating Cost Assistance and Reserves

- As the HTF is currently funded (through Fannie Mae and Freddie Mac),
  - The reserve may be funded for the amount estimated to be necessary through the affordability period
  - Must be funded at the time of executing the written agreement



# Income Limits

- The First Year and Years When Total Funds Are Less Than \$1 Billion
  - All Funds Are For ELI Households
- Years When Total Funds Are Greater Than \$1 Billion
  - 75% of Funds for ELI Households
  - Up to 25% for VLI Households

# Per-Unit Subsidies

- MHDC Will Establish Limits on What Can Be Invested Per Unit
- Current Per-Unit HOME Limit Examples:

	Efficiency	1-Bdrm	2-Bdrm	3-Bdrm
Kansas City	\$157,621	180,692	219,718	284,245
St. Louis	157,621	180,692	219,718	284,245
Springfield	140,426	160,980	195,749	253,237
Columbia	147,590	169,194	205,736	266,157

# Rental Housing Guidelines



## Rents

- Maximum is 30% of the income of a household at 30% AMI, adjusted for number of bedrooms
  - Rent limit includes utility allowance
- If HTF Unit receives Federal or State project-based rental subsidy, the maximum allowable rent is the allowable rent under the subsidy program as long as tenant does not pay more than 30% of their adjusted income





# Rental Housing Guidelines



## Affordability Period

- HTF Units must have at least a 30-year period of affordability
- If affordability restrictions are terminated before 30 years, total HTF allocation must be repaid to HUD



# Rental Housing Guidelines



## Fixed and Floating Units

- Development must designate between:
  - Fixed – units remain the same throughout the affordability period
  - Floating – units are changed to maintain compliance with the requirements during the affordability period



# Rental Housing Guidelines



## Lease Terms

- Must be a written lease for at least 1 year, unless a shorter period is mutually agreed upon
- The lease may NOT contain the following:
  - Agreement to be sued
  - Treatment of property
  - Excusing owner from responsibility
  - Waiver of notice to be sued; legal proceedings; jury trial; right to appeal court decision
  - Tenant chargeable with cost of legal actions regardless of outcome
- Mandatory support services



# Onsite Inspections



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MHDC will be conducting onsite inspections during the affordability period to ensure the housing complies with applicable property standards



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# Onsite Inspections



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- Inspection Requirements
  - First inspection will occur within 12 months of completion
  - Subsequent inspections will occur at least every 3 years
  - Property owner will certify every year that buildings are suitable for occupancy
  - Inspections will be based on a statistically valid sample of units
  - MHDC will verify information submitted



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# Current Tentative Timeline



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February 18 – Fannie and Freddie filed annual reports for SEC that cite \$186.6 Million for NHTF

Mid-March – HUD publishes state Allocation Plan guidance

Mid-April – HUD publishes NHTF allocations to states in Federal Register

March-April – States develop Allocation Plans following ConPlan public participation

May-June – States submit Allocation Plans and HUD has 45 days to review

Summer – Distribute NHTF funds

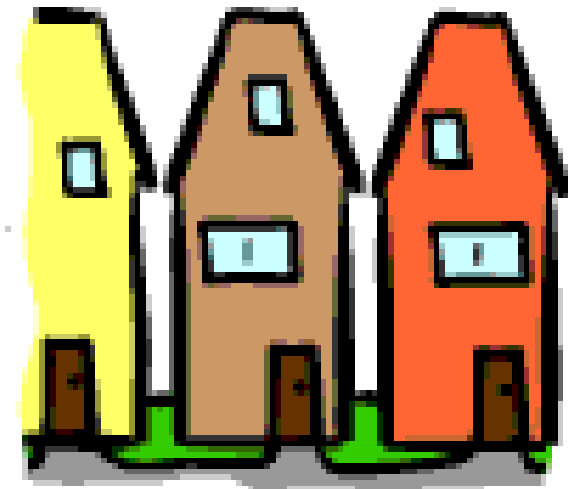


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# Underwriting Example



- 29 Units in Balance of State
- Senior Site
- 5 Special Needs Units with Rent Assistance
- 1 & 2 Bedrooms
- All Units Affordable at 60% AMI



# Underwriting Example



## Construction Budget

## Operating Outlook

Total Development Budget	\$4,450,000
TC Equity	785,000
Construction Loan	2,785,000
HOME	500,000
Grant	23,000
Developer Fee Post-Const.	267,000
Other Costs Paid Post-Const.	90,000

Bdrm Size	# of Units	Monthly Rent
1-Bed	11 Units	\$449/Mo.
2-Bed	18 Units	\$571/Mo.

Yearly Income approx. \$156,060  
approx. \$5,100/unit

## Operating Expenses

Yearly Expenses approx. \$129,800  
approx. \$4,480/Unit

\* \$60,000 Emergency Reserve







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# Underwriting Example

## Pro Forma

	Year 1	Year 5	Year 10	Year 15
Income w/ Vacancy	148,000	160,000	177,000	195,000
Expenses	121,100	136,000	158,000	183,000
Reserves	8,700	9,800	11,300	13,000
<b>Cash Flow</b>	<b>18,200</b>	<b>14,200</b>	<b>7,700</b>	<b>** -1,000</b>

### Assumptions –

- \* 2% Yearly Increase in Income
- \* 3% Yearly Increase in Expenses and Reserves



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# A Note On Income Limits...



What does 30% AMI look like in our example?

# of People in Household	Yearly Income	Monthly Income	30% of Monthly Income
1	\$11,580	\$965	\$290
2	\$13,230	\$1,103	\$331
3	\$14,880	\$1,240	\$372
4	\$16,530	\$1,378	\$414



# Underwriting Example - #1



## With Vouchers

\$500,000 – NHTF Funds

5 NHTF Units

NHTF rents set by subsidy program, and tenants paying 30% of income

## New Unit Make-Up

Size	# of Units	Unit Type	Rent
1 Bdrm	9	Tax Credit	\$459
2 Bdrm	15	Tax Credit	\$581
1 Bdrm	2	NHTF	\$570
2 Bdrm	3	NHTF	\$800



# Underwriting Example - #1



## Construction Budget

## Operating Outlook

Total Development Budget	\$4,450,000
TC Equity	785,000
Construction Loan	2,740,000
NHTF	500,000
Grant	23,000
Developer Fee Post-Const.	267,000
Other Costs Paid Post-Const.	135,000

Bdrm Size	# of Units	Monthly Rent
1-Bed	9 Units	\$459/Mo.
2-Bed	15 Units	\$581/Mo.
1-Bed	2 Units	\$570/Mo.
2-Bed	3 Units	\$800/Mo.

Yearly Income approx. \$170,000  
approx. \$5,600/unit

\* \$60,000 Emergency Reserve

## Operating Expenses

Yearly Expenses approx. \$129,800  
approx. \$4,480/Unit



# Underwriting Example - #1



## Pro Forma

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30
Income w/ Vacancy	162,000	175,000	193,000	213,000	235,000	260,000	287,000
Expenses	121,000	136,000	159,000	183,000	212,000	246,000	286,000
Reserves	9,000	10,000	11,000	13,000	15,000	18,000	21,000
<b>Cash Flow</b>	<b>32,000</b>	<b>29,000</b>	<b>23,000</b>	<b>17,000</b>	<b>8,000</b>	<b>-4,000</b>	<b>-20,000</b>

### Assumptions –

- \* 2% Yearly Increase in Income
- \* 3% Yearly Increase in Expenses and Reserves



# Underwriting Example - #2



No Vouchers with Market Rate Units

\$550,000 – NHTF Funds

5 NHTF Units

## New Unit Make-Up

Size	# of Units	Unit Type	Rent
1 Bdrm	7	Tax Credit	\$459
2 Bdrm	12	Tax Credit	\$596
1 Bdrm	2	NHTF	\$310
2 Bdrm	3	NHTF	\$372
1 Bdrm	2	Market	\$544
2 Bdrm	3	Market	\$696



# Underwriting Example - #2



## Construction Budget

## Operating Outlook

Total Development Budget	\$4,500,000
TC Equity	785,000
Construction Loan	2,680,000
NHTF	550,000
Grant	24,000
Developer Fee Post-Const.	267,000
Other Costs Paid Post-Const.	194,000

Bdrm Size	# of Units	Monthly Rent
1-Bed	7 Units	\$459/Mo.
2-Bed	12 Units	\$596/Mo.
1-Bed	2 Units	\$310/Mo.
2-Bed	3 Units	\$372/Mo.
1-Bed	2 Units	\$544/Mo.
2-Bed	3 Units	\$696/Mo.

\* \$110,000 Trust Fund Reserve

Yearly Income approx. \$157,000

approx. \$5,100/unit

## Operating Expenses

Yearly Expenses approx. \$129,800

approx. \$4,480/Unit



# Underwriting Example - #2



## Pro Forma

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30
Income w/ Vacancy	149,000	161,000	178,000	197,000	217,000	240,000	264,000
Expenses	121,000	136,000	158,000	183,000	212,000	246,000	286,000
Reserves	9,000	10,000	11,000	13,000	15,000	18,000	20,000
<b>Cash Flow</b>	<b>19,000</b>	<b>15,000</b>	<b>9,000</b>	<b>1,000</b>	<b>-10,000</b>	<b>-24,000</b>	<b>-42,000</b>

### Assumptions –

- \* 2% Yearly Increase in Income
- \* 3% Yearly Increase in Expenses and Reserves





# Underwriting Example - #3



With No Vouchers

\$600,000 – NHTF Funds

5 NHTF Units

## New Unit Make-Up

Size	# of Units	Unit Type	Rent
1 Bdrm	9	Tax Credit	\$459
2 Bdrm	15	Tax Credit	\$606
1 Bdrm	2	NHTF	\$310
2 Bdrm	3	NHTF	\$372



# Underwriting Example - #3



## Construction Budget

## Operating Outlook

Total Development Budget	\$4,570,000
TC Equity	783,000
Construction Loan	2,620,000
NHTF	600,000
Grant	23,000
Developer Fee Post-Const.	267,000
Other Costs Paid Post-Const.	277,000

Bdrm Size	# of Units	Monthly Rent
1-Bed	9 Units	\$459/Mo.
2-Bed	15 Units	\$606/Mo.
1-Bed	2 Units	\$310/Mo.
2-Bed	3 Units	\$372/Mo.

Yearly Income approx. \$153,000  
approx. \$5,300/unit

\$180,000 Trust Fund Reserve  
\$15,000 Deferred Developer Fee

## Operating Expenses

Yearly Expenses approx. \$129,800  
approx. \$4,480/Unit



# Underwriting Example - #3



## Pro Forma

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30
Income w/ Vacancy	145,000	157,000	174,000	192,000	212,000	234,000	258,000
Expenses	121,000	136,000	158,000	183,000	212,000	246,000	286,000
Reserves	9,000	10,000	11,000	13,000	15,000	18,000	20,000
<b>Cash Flow</b>	<b>15,000</b>	<b>11,000</b>	<b>5,000</b>	<b>-4,000</b>	<b>-15,000</b>	<b>-30,000</b>	<b>-48,000</b>

### Assumptions –

- \* 2% Yearly Increase in Income
- \* 3% Yearly Increase in Expenses and Reserves



# Underwriting Example - #4



## Vouchers and Market Rate Units

\$440,000 – NHTF Funds

5 NHTF Units

### New Unit Make-Up

Size	# of Units	Unit Type	Rent
1 Bdrm	7	Tax Credit	\$459
2 Bdrm	12	Tax Credit	\$581
1 Bdrm	2	NHTF	\$570
2 Bdrm	3	NHTF	\$800
1 Bdrm	2	Market	\$529
2 Bdrm	3	Market	\$691



# Underwriting Example - #4



## Construction Budget

Total Development Budget	\$4,390,000
TC Equity	785,000
Construction Loan	2,790,000
NHTF	440,000
Grant	24,000
Developer Fee Post-Const.	267,000
Other Costs Paid Post-Const.	84,000

## Operating Outlook

Bdrm Size	# of Units	Monthly Rent
1-Bed	7 Units	\$459/Mo.
2-Bed	12 Units	\$581/Mo.
1-Bed	2 Units	\$570/Mo.
2-Bed	3 Units	\$800/Mo.
1-Bed	2 Units	\$529/Mo.
2-Bed	3 Units	\$691/Mo.

Yearly Income approx. \$176,000

approx. \$6,100/unit

## Operating Expenses

Yearly Expenses approx. \$129,800

approx. \$4,480/Unit



# Underwriting Example - #4



## Pro Forma

	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30
Income w/ Vacancy	167,000	181,000	200,000	220,000	243,000	269,000	296,000
Expenses	121,000	136,000	158,000	183,000	212,000	246,000	286,000
Reserves	9,000	10,000	11,000	13,000	15,000	18,000	20,000
<b>Cash Flow</b>	<b>37,000</b>	<b>35,000</b>	<b>31,000</b>	<b>24,000</b>	<b>16,000</b>	<b>5,000</b>	<b>-10,000</b>

### Assumptions –

- \* 2% Yearly Increase in Income
- \* 3% Yearly Increase in Expenses and Reserves



# Underwriting Examples



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## Take Aways

- Even on paper, it is clear these developments will require a lot of thought and foresight
- A few units with low rent limits have a big impact on development income
- Rent assistance makes a huge difference



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# Underwriting Example



What can development team do to ensure a successful development?

- Rental subsidies
- Well thought-out unit mix and operating budget
- Strong development team including property management and service providers





# Underwriting Example

What can MHDC do to try and ensure that these developments are successful?

- Additional Rent Assistance Reserves for the Full 30-Year Affordability Period

# Looking Ahead

Currently, MHDC is in the process of seeking public input from as many stakeholders as possible

We have formulated a series of questions to gather a combination of broad and focused feedback/ideas/opinions...

# Stakeholder Questions

1. The program requirements state that NHTF funds can be used for Rental Production and Homeownership housing through the following activities and expenses:
  1. Real Property Acquisition;
  2. Site Improvements;
  3. Related Soft Costs;
  4. Demolition;
  5. Financing Costs;
  6. Relocation Assistance;
  7. Operating Cost Assistance for Rental Housing (Less Than or Equal to 30%); and
  8. Reasonable Administrative and Planning Costs.

**With this in mind, how do stakeholders envision Missouri using our NHTF allocation?**

# Stakeholder Questions

2. The program requirements state the NHTF funds can be allocated through the following forms of assistance:
  1. Equity Investments;
  2. Interest-bearing Loans or Advances;
  3. Non-interest Bearing Loans or Advances;
  4. Interest Subsidies;
  5. Grants; or
  6. Other Forms of Assistance Approved by HUD.

**With this in mind, how do stakeholders envision Missouri allocating NHTF?**

# Stakeholder Questions

3. The program requires that states give priority for funding based on the following:

1. Geographic Distribution;
2. Ability to Deploy Funds Quickly;
3. Rent Levels;
4. Affordability Period;
5. Ability to Leverage funds, and
5. Merits of the Project.

**With this in mind, how do stakeholders think MHDC should evaluate proposals based on the aforementioned priorities?**

# Stakeholder Questions

4. How do stakeholders envision a rent structure that keeps projects financially feasible for at least 30 years (the minimum required affordability period)?

5. MHDC is interested in how stakeholders propose we determine operating assistance for each NHTF development. The regulations limit yearly allocation to one third of the funds for operating assistance. How would stakeholders like to see assistance determined? Should MHDC allocate operating assistance initially and have developments renew later based on need or allocate funds initially for the entire affordability period?

# Stakeholder Questions

6. Rehab developments may have difficulty with current tenants being ineligible to occupy NHTF units because they are over income; with this in mind, do the stakeholders have an opinion on whether MHDC should prioritize new construction projects?

7. How would stakeholders feel about developments that have 100% of the units reserved as NHTF units as opposed to developments that have only a portion of units reserved as NHTF units? This would mean that the entire development would have an income limit of 30%.

# Stakeholder Question

8. MHDC recognizes that NHTF funds will be serving households throughout the state that may need additional services. Should services be required for NHTF projects? If so what kind of services? How should the services be paid for? Should the services be development-wide or targeting toward the specific NHTF units?



# Stakeholder Questions

9. Do stakeholders see the possibility for NHTF units that do not target Special Needs households? How could NHTF serve those working households that are not Special Needs?

10. Is there a particular population that you believe would be best served by the NHTF program?

# Contact Information

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# The End



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