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Regulatory Compliance Through a Service-Enriched Housing Model

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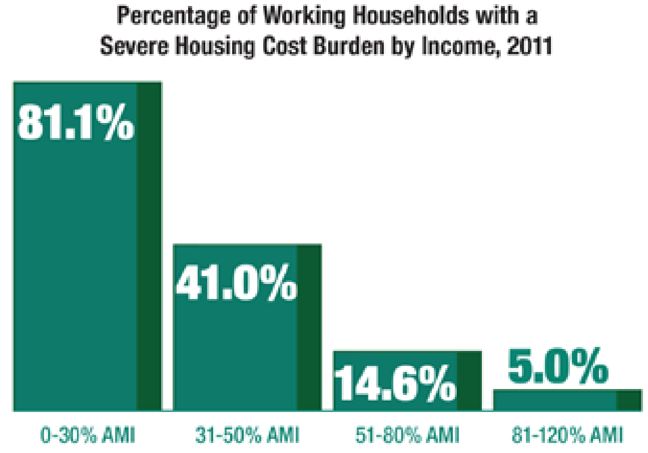
Accountability matters. At a time when affordable housing industry leaders are making the case for the low-income housing tax credit (LIHTC) program to lawmakers in Washington, D.C., it is imperative that those receiving tax credits be the best possible stewards of those increasingly valued dollars. As the pool of federal funds for affordable housing continues to diminish, housing finance agencies (HFAs) are likely to be more rigorous in auditing LIHTC properties and recapturing credits when the property is not operating within the terms of the regulatory agreement. One area that has come under increased scrutiny is how effectively operators of affordable multifamily projects are meeting their commitments to residents. The LIHTC application process encourages owners and developers to focus on areas of need and offer services that benefit the property's residents. Although it is easy to neglect community service offerings until the property is cited for being out of compliance, a savvy developer will see that a comprehensive services package meets regulatory requirements while also being cost-effective.

Qualified Allocation Plan Incentives

Each state's LIHTC application process is different, but many qualified allocation plans (QAPs) weight selection criteria based on the state's greatest housing needs. When weighting selection criteria, states consider a number of variables such as the state's public housing waiting list, housing needs characteristics and proximity to transit, to name a few. However, one constant across all state agencies is the higher the score the more likely an LIHTC development will be well-received and subsequently funded.

A growing trend in QAPs is to award additional points to developments that provide supportive social services to residents. Developers can garner additional points for services such as job readiness assistance, financial literacy or basic computer skills. Outlining these services in the LIHTC application builds the foundation for the agency-issued regulatory agreement. Though not required, partnering with a certified service provider also helps make the case that if the HFA awards credits, the developer will follow through on this service commitment. More and more, compliance authorities view contracted third-party service providers as evidence that the property will provide the promised services. As states become aware of the positive financial effect that these types of services can have on a community, they have the opportunity to improve their QAPs and their screening processes. With each LIHTC cycle, regulatory agreements can be improved and offset some of the existing



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regulatory agreements that are too vague, lack proper support or fail to enforce the required resident services plan.

Why It Matters

Since the economic downturn, the percentage of working households with a severe housing cost burden has skyrocketed. The Center for Housing Policy recently released "Housing Landscape 2013," an annual report that examines housing affordability for working households. For the third year, the report found that the housing burden has risen for working renters. Households with the lowest earning potential, those with incomes up to 30 percent of area median income (AMI), are the hardest hit. Without a viable support structure, these households are one obstacle away from financial ruin, putting their housing at risk and potentially placing them in jeopardy of homelessness. For much of the population served by affordable housing, the household is one life-changing event away from eviction.

Proper implementation of a value-based supportive services program improves the lives of residents, which has a direct connection to the overall community's financial strength. When residents work with supportive service providers to get on a realistic path to self-sufficiency, they are more economically stable and become longer term residents. Thus, there is a clear correlation between the stability of the resident population and the financial health of the property. Restated, when communities provide supportive services, the asset as a whole benefits allowing it to remain in service and house individuals who need affordable housing. The Pennsylvania Housing Finance Agency found in a study titled "Family Resource Center Initiative (FRCI)" that communities that deployed a resident services program performed better in three out of four tracked property management performance indicators than those without these benefits.

Per Unit Costs	Legal Expenses		NSF and Late Fees		Bad Debts		Unit Turnover	
	2005	2006	2005	2006	2005	2006	2005	2006
FRCI Developments	$31*	$34*	$44	$40	$90*	$125*	18%*	16%*
Comparison Group	$60	$84	$31	$33	$134	$166	33%	23%

** Asset management indicator is better for FRCI Developments than for Comparison Group.*

Source: Pennsylvania Housing Finance Agency; Family Resource Center Initiative

This illustrates that a focused and well-coordinated delivery of supportive services is the best investment that an allocating agency can make when reviewing applications. It also highlights the need to solidify resident services in the affordable housing

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market as a vehicle for fulfilling federal and state compliance components. As state budgets shrink, competition for these dollars will be fierce. States will look for ways to weed out projects that do not incorporate elements that demonstrate a high rate of return from a financial perspective and humanitarian standpoint.

Fostering for Other Funding Sources

Currently, there is a noticeable deficiency in resident services in the multifamily industry. This is largely a result of a lack of proper funding to support effective delivery. To produce concrete examples of the LIHTC's success, the affordable housing community must foster funding pools that enable effective delivery of these proven tools to preserve affordable assets and stable resident populations. Syndicators and equity professionals are pushing 4 percent tax-exempt bond deals, blended projects with historic or new markets tax credits, and mixed-use projects that can be combined with sustainable communities grants. However, each of these funding sources are subject to the same shrinking pool of federal funds. The LIHTC industry should take the program's proven return on investment and use it to solicit participation from a broader range of investors. This would allow affordable housing professionals to capitalize on the proven ability of service-enriched housing to act as a catalyst and stabilize the affordable housing sector, which would benefit all involved parties, especially affordable housing residents.

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