

Soft Financing & Housing Choice Vouchers

Governor's Housing Task Force
CHALLENGES Study Group Meeting
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What is “Soft Financing”?

- For tax credit properties, once permanent debt financing and equity are considered, there is often a financing gap between the total costs to develop the property and the supportable debt plus tax credit equity that needs to be filled.
- To bridge the gap, developers often must obtain funding from a variety of federal, state and local sources, that can be used to finance the creation and preservation of affordable housing.
- Often referred to as “soft financing” or “soft debt,” funding from these sources often have more favorable financing and repayment terms than conventional loans.

Source: <https://rentalhousingaction.org/wp-content/uploads/2021/11/NovogradacSoftFinancingSourcesSummary-April2021-Final.pdf>



Typical “Soft Financing” Sources

- HUD block grant programs: HOME and CDBG
- Project Based Rental Assistance (PBS8, PBVs, Section 811 etc.)
- Special Needs Programs under McKinney-Vento Homeless Assistance funds
- USDA Multifamily Housing Programs
- Federal Sources authorized by Federal Housing Finance Agency (FHFA)...programs funded by contributions from Fannie Mae, Freddie Mac, and the Federal Home Loan (FHL) Banks:
 - National Housing Trust Fund (HTF). HUD allocates HTF funding by needs-based formula to states for the production or preservation of affordable housing for very low-income households.
 - Capital Magnet Fund (CMF). Competitively awards money to nonprofit housing organizations and Community Development Financial Institutions (CDFIs).
 - Affordable Housing Program (AHP). Each FHL Bank must establish an AHP and dedicate 10% of its annual earnings.
- State Housing Tax Credit
- State and local affordable housing programs, including issuance of new bonds or bonding authority, state or local housing trust funds, assistance in form of relief from property taxes, state and local rental assistance programs, tax increment financing
- Deferred developer fees
- Seller notes

Source: <https://rentalhousingaction.org/wp-content/uploads/2021/11/NovogradacSoftFinancingSourcesSummary-April2021-Final.pdf>



Montana Housing Division Affordable Multifamily Resources

Program	“Available”
Low-Income Housing Tax Credits (LIHTC) Est. based on 2024 (\$2.90 x state population, \$3,360,000 minimum)	33,600,000 (10-year credit)
Volume Bond Cap Estimate based on 70% state issuer portion for 2025	277,999,050
Coal Trust Multifamily Homes (CTMH)* \$65 million total authorized	9,005,623
Multifamily Loan Program (MFLP)* No ongoing source	0
Housing Montana Fund (HMF)* No ongoing source	116,425
HOME Investment Partnerships (HOME)**	600,000
HOME-ARP One time only. 2 nd round application deadline April 30, 2024	3,189,291
National Housing Trust Fund (HTF)**	1,002,768
Community Development Block Grant (CDBG)**	447,394
CDBG-CV one time only. All funds committed	0

*Revolving Loan Funds. Available balance based on loan payoffs and monthly P&I payments

**HUD CPD Funds, available balance based on federal appropriations to HUD. FFY24 HOME & HTF funds won't be available from HUD until Sept. 2024 due to Congressional delays in passing budget.



Available Resources Cont.

➤ **Coal Trust Multifamily Homes**

- Viability and demand of program subject to changes in Coal Trust Tax Performance Yield and conventional financing interest rates
- First lien position can pose challenges with other funding sources
- Subject to paying property taxes requirement is limiting for nonprofit applicants; increases annual operating expenses

➤ **Multifamily Loan Program & Housing Montana Fund**

- Lending interest rate tied to income targeting (able to go lower than CTMH)
- No on-going fund source or state appropriations; subject to repayments to RLF

➤ **HUD Programs**

- Montana's CDBG, HOME and HTF annual allocations are modest and include significant compliance requirements

➤ **Other “Soft Financing”**

- Other soft financing resources such as grants, 0% deferred or forgivable loans are scarce in Montana



Coal Trust Multifamily Homes Projects

	City	Project	Units	Loan Amount	Type	Status
HB 16 - \$15M	Belt	Golden Valley Homes	22	803,060	Rehab	Approved February 2020; Closed
	Cascade	Quiet Day Manor	20	872,500	Rehab	Approved February 2020; Closed
	Livingston	Livingston Cottages	12	900,000	New	Approved February 2020; Closed
	Havre	Highland Manor	32	1,932,000	Rehab	Approved February 2020
	Helena	Firetower	44	2,674,631	Rehab	Approved April 2020; Closed
	Joliet / Laurel	Spruce Grove	62	5,173,486	Rehab	Approved April 2020; Closed
	Havre	Oakwood Village	60	2,100,000	Rehab	Approved April 2020; Closed
Total			252	14,455,677		
HB 819 - \$50M	Great Falls	Carter Commons	25	1,700,000	New	Approved September 2023
	Helena	Twin Creek 9%*	20	915,758	New	Approved October 2023
	Hamilton	Riverstone Senior Apartments	23	1,550,000	New	Approved October 2023
	Billings	Mitchell Court	32	1,700,000	New	Approved October 2023
	Darby	Welcome Way Apartments	24	2,090,000	Acq. / Conversion	Approved Oct 2023; Closed
	Lolo	Two Rivers Community	59	5,460,833	Acq. / Preservation	Approved December 2023
	Belgrade	Stan's Garden Community	39	5,356,765	Acq. / Preservation	Approved December 2023
	Helena	Twin Creek 4%	52	7,686,748	New	Approved January 2024
	Whitefish	Alpenglow 2*	24	2,500,000	New	Requested - staff underwriting
	Bozeman	Rocky Mountain Flats*	300	8,550,000	New	Requested - staff underwriting
	Elmore Roberts	Great Falls*	60	4,000,000	Rehab	Application pending
	Eddna Court	Superior*	8	475,000	Rehab	Application pending
Total			666	41,985,104		
Total Authorized from Coal Trust Tax Fund				65,000,000		
Total Committed (includes pending increase for Twin Creeks 9%)				40,915,781		
Total Pending* (includes 2 apps at underwriting, 2 apps pending submission)				15,525,000		
Remaining Available After Commitments (Includes loan P&I payments)				9,005,623		



State Housing Tax Credit / State Housing Trust Fund

38 states have a State Housing Trust Fund:

Arizona, Arkansas, Colorado, Connecticut, Florida, Georgia, Hawaii, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia

23 states have a State Housing Tax Credit:

Arizona, Arkansas, California, Colorado, Connecticut, Georgia, Hawaii, Illinois, Maine, Massachusetts, Minnesota, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Utah, Vermont, Virginia, Wisconsin

[Source: State Housing Finance Agency Factbook: 2022 NCSHA Annual Survey Results](#)



Rental Assistance Programs

Federal Programs:

- Housing Choice Vouchers (HCV) also known as Section 8 Vouchers
 - Veteran Affairs Supportive Housing (VASH and PB VASH)
 - Mainstream Vouchers
 - Emergency Housing Vouchers (EHV)
- Project-Based Section 8 Contract Administration (PBS8)
- Moderate Rehabilitation Contract Administration (Mod Rehab)
- Section 811 Project Rental Assistance (PRA)



Objective & Goals

Objective: Maximize use of federal rental assistance programs to serve Extremely Low- and Very Low-Income Montanans

2025 Biennium Goals:

1. Increase training and coordination with field agency partners
2. Pursue maximum flexibility for HUD Fair Market Rents / Voucher Payment Standards within parameters of federal regulations
3. Release Request for Proposals (RFP) for project-basing Housing Choice Vouchers and other to-be-identified RFPs for improved service delivery for HCV participants and landlords
4. Expand rental assistance special programs as federal opportunities arise, in partnership with the Department of Public Health & Human Services, Montana Continuum of Care and other partners



Fair Market Rents

- HUD uses Fair Market Rents (FMR) to determine payment standard amounts for the Housing Choice Voucher program (typically between 90 and 110 percent of FMR)
- FMRs are based on Standard Quality, Recent Mover rents
 - Standard Quality rents from 5-Year American Community Survey
 - Adjustment from smallest area with statistically valid 1-Year Recent Mover data
 - Consumer Price Index (CPI) Adjustment
 - Trend Factor based on HUD forecast of expected growth in gross rents in 4 Census Regions
- In September 2022, HUD released a Notice of FY2023 Fair Market Rents. Numerous commenters submitted concerns around the accuracy of HUD's FMR methodology in rural areas
- HUD reiterated its commitment to improving the accuracy of FMR calculations for all areas. However, HUD's response also indicated that "Assessing the accuracy of FMRs is difficult because at any given time the true 40th percentile rent paid by recent movers is unknown."



LIHTC Rent to Voucher Payment Standard Comparison

Lewis & Clark County example:

	2023 LIHTC 60% AMI Rent Limits*	2024 HUD Fair Market Rent	2024 Voucher Payment Standards (HUD-approved 120% FMR waiver)
Studio / Efficiency	1,093	729	928
1 Bedroom	1,171	837	1,066
2 Bedroom	1,405	1,057	1,347
3 Bedroom	1,624	1,370	1,745
4 Bedroom	1,812	1,575	2,007

- During COVID-19, HUD instituted a waiver to the 90-110% of FMRs calculation.
- Under this waiver, PHA's could request up to 120% of FMR, which Montana Housing fully utilized.
- Resulting Voucher Payment Standards, even at 120% of FMR, are insufficient to cover even a 60% AMI restricted rent in a LIHTC property.
- Our 2024 VPS are still less than 2023 LIHTC 60% rent limits.

*Applicable 2023 limits for LIHTC projects placed-in-service prior to 1/1/2009. 2024 LIHTC limits not yet released. The LIHTC program has slight difference in rent limits based on place-in-service year due to federal HERA legislation.



Factors Impacting Voucher Utilization

- Shortages in housing keeps current inventory full and property managers do not need to participate to keep housing units occupied.
- Rental home must comply with HUD Housing Quality Standards
 - HUD shifting to new NSPIRE standard, requiring additional training for PHA inspectors & landlords
 - [Montana Structures with Parcel Earliest Build Year Dashboard](#) indicates most of Montana's housing stock was built between 1961 - 2000
- Voluntary landlord / property owner participation
 - Landlords can realize more rental income by leasing units at market rate
 - No source of income protection at state or local level
- Limited housing navigation assistance to aid participants with apartment search
 - HCV participants may have challenges with prior rental history, poor credit etc.
 - Limited resources for security deposits, application fees and other participant needs to secure housing
- Stereotypes or stigma associated with "Section 8"



Montana Housing Division

Multifamily Affordable Housing Investments (2023)

- 33 projects comprised of 1,731 rental homes
 - 716 new or market to affordable conversion rental homes
 - 1,055 acquisition/rehab and preserved rental homes
- \$438 million in Total Project Costs
- \$157,300 average affordable housing investment per unit
- Direct and indirect economic impact estimates:
 - 4,347 jobs created
 - \$260 million wages paid

