January 3, 2014

The Regulations Division
The Honorable Helen R. Kanovsky
Office of the General Counsel
Department of Housing and Urban Development
451 7th Street SW
Room 10276
Washington, DC 20410-0500

Dear Ms. Kanovsky:

On behalf of NeighborWorks® America (also known as the Neighborhood Reinvestment Corporation) I want to thank the Department of Housing and Urban Development for the opportunity to provide comment regarding the “Small Multifamily Building Risk Share Initiative” published in the Federal Register on Monday, November 4, 2013.

Given that the rule is currently pending before a NeighborWorks America’s board agency, these comments have not been submitted to or approved by NeighborWorks America’s board. These comments reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals.

NeighborWorks America and its network are extremely effective in helping low and moderate-income families and communities. Together, NeighborWorks and its network assisted almost 305,000 families with their housing needs in FY 2012 alone, including creating 15,000 new homeowners along with owning and managing 102,200 units of affordable rental housing for low- and moderate-income individuals and families.

**Small Multifamily Properties Are An Important Affordable Housing Resource**

The need for quality affordable rental housing will be more important than ever in 2014 and beyond. More than one-third of Americans live in rental housing and this number is growing, as many families dealt with the impact of foreclosures by moving into rental housing. NeighborWorks organizations are committed to developing, owning and managing rental properties that have long-term economic sustainability, maintain strong performance and operate as assets to the communities in which they are located, and that serve low- and moderate-income families, veterans, the elderly, and people with special needs.
In FY 2013, the average size of NeighborWorks network rental properties was close to 50 units. The median project has 37 units. Financing for these properties is available from lenders such as national or regional banks and bank consortia, including community, regional, and national banks. FHA mortgages are used frequently. Other products are supported by the Housing Finance Agencies and the GSEs (Fannie Mae and Freddie Mac). More affordable financing/access to capital, however, is needed for small multifamily properties with between 5 and 49 units or with loan amounts that do not exceed $3,000,000. We applaud this proposal by the Department that will provide another channel by which these properties could obtain capital for repairs and renovations that will help to preserve an essential source of affordable housing.

Comments on the Proposed Risk Sharing Initiative

Allow other mission-focused entities to participate. As drafted, the initiative focuses on CDFIs as the primary participants. Many state and local housing finance agencies (HFAs) have the combination of lending capacity, affordable housing expertise, and local market knowledge well-suited to this initiative. Many are already FHA lenders. NeighborWorks America would support adjusting qualification requirements so that the participation of HFAs, or other appropriate mission-focused entities, is not prohibited.

Allow joint ventures of any composition to participate as long as a mission entity is in control. Consortium lending is a well-tested mechanism for community development and affordable housing loans. As written, however, the initiative seems to require that consortiums or joint ventures include two or more for-profit lenders with a mission entity in control (Section IV.A.3). NeighborWorks supports the requirement that a qualified mission entity be in control, however, we do not see why consortiums of any size or composition cannot participate. In some rural areas, there may be only a single for-profit lender wishing to participate with a nonprofit partner. In others areas, there may be several nonprofits who find efficiency in cooperating on a joint venture. We recommend that HUD allow joint ventures of any composition provided a mission entity is in control.

Using existing standards to qualify participating entities is logical. NeighborWorks supports HUD’s use of existing standards to qualify participating entities rather than creating yet another set of requirements. For example, relying on the standards set by the Federal Housing Finance Agency for CDFIs to join the Federal Home Loan Bank system is a good starting point. The standards provide a rigorous threshold but also allow HUD discretion to apply them to mission-driven organizations that are financially sound but do not perfectly fit into traditional financial measures.
Clarify that program officers need multifamily experience, not FHA-specific experience. The rule requires that the loan officer in charge of the lending operation that participates in the initiative have “at least 3 years of experience in FHA mortgage operations” (Section IV.B.1) as part of overall approval as an FHA lender. However, this restriction could exclude individuals with relevant multifamily lending experience outside of FHA. Particularly since this initiative aims to offer FHA financing in a subset of the market that has not had a significant FHA presence, we recommend that any relevant multifamily lending experience satisfy the requirement.

Amend the requirement for 93% project occupancy for refinancing. The requirement that a QPE refinanced loan will only be permissible if project occupancy is not less than 93 percent makes refinancing small projects very difficult and for projects with ten or less units virtually impossible if there is even one vacancy. NeighborWorks recommends lowering the occupancy standard percentage to increase the usability of the refinance feature.

Financial Capacity Issues: Having flexibility on net asset ratio (Section IV.B.2.a) is positive for restricted funds. Requiring three years positive net income may be tough for some CDFIs (Section IV.B.2.b). Having a loss in a year with a significant write-down experience, for example, would eliminate any CDFI for three years, an outcome that will not broaden participation. NeighborWorks America suggests that the Department consider average positive net income over the prior three years or some equivalent that will ensure participation as well as strong financial capacity. We support the flexibility in the qualifying and alternative loan loss reserves and lease requirements (Section IV.B.2.c).

Including cooperative housing is helpful. We appreciate that the initiative makes cooperative housing eligible, as it is a form of tenure that plays an important role in several housing markets.

Allowing new construction would assist where stock is limited. The program requirements specifically outline substantial rehabilitation and the financing of existing projects without substantial rehabilitation. It does not appear, however, to support new construction of units. In some areas of the country there is a need for new affordable housing units, not just the rehabilitation or refinancing of existing units.

Proposed Statutory Changes: The initiative as proposed is a good step, but statutory changes, as described in the supplementary information to the proposed regulation, would allow broader participation of lenders and property owners. Such changes should be considered as they would allow this initiative to reach many more small multifamily properties.
Background Information Regarding NeighborWorks America

NeighborWorks America was established by Congress in 1978 as the Neighborhood Reinvestment Corporation. The Corporation receives a direct annual federal appropriation. The corporation’s Board of Directors is made up of senior representatives of the federal financial regulatory agencies (the Federal Reserve; the Federal Deposit Insurance Corporation; the Comptroller of the Currency; the National Credit Union Administration) and the U.S. Department of Housing and Urban Development.

The primary mission of NeighborWorks America is to expand affordable rental and homeownership opportunities and to strengthen communities across the United States. NeighborWorks America provides support to more than 240 local and regional community-based NeighborWorks organizations, as well as training and service to the broader community development field. NeighborWorks organizations serve urban, suburban and rural communities in all 50 States, the District of Columbia and the Commonwealth of Puerto Rico.

Closing Comment

In closing, NeighborWorks America would like to thank the Department of Housing and Urban Development for issuing this proposed initiative under the Risk Sharing program for Small Multifamily properties. The need for financing for this important affordable housing resource is great and we support your effort to expand its availability.

Sincerely,

Eileen M. Fitzgerald
President and Chief Executive Officer