HUD Refinancing Program a Plus for Older Properties

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

Eden Housing was just wrapping up an event to showcase green retrofits on its Eden Issei Terrace property in Hayward, Calif. when a call came from the U.S. Department of Housing and Urban Development’s (HUD’s) Washington, D.C. office. Word of Eden Housing’s successful green panel event, which the not-for-profit developer hosted in celebration of the San Francisco Bay Area’s Affordable Housing Week, had reached HUD’s headquarters where Secretary Shaun Donovan had a new affordable housing initiative to announce. It was decided that Eden Issei Terrace, a nearly 30-year-old building that has realized electricity savings of 44 percent through energy retrofits financed in part by HUD’s now-exhausted Green Retrofit program funds, was the ideal place for the agency to unveil Green Refinance Plus. The new loan program allows affordable properties to refinance their mortgages and access capital for energy improvements simultaneously.

When One Program Closes

“Retrofits produce a savings that we can reinvest into the property for capital improvements that benefit the residents, preserve affordability and sustain the property for the long term,” said Melanie Burnett, Eden Housing asset manager. In Eden Issei Terrace’s case, the 100-unit residence for low-income seniors was fortunate to receive a state solar rebate and one of the last funding awards under the Green Retrofit program, which allowed the developer to install solar panels, high-efficiency water-heaters, energy-efficient lighting, water-conserving fixtures and formaldehyde-free insulation. Eden Housing estimates that those improvements have resulted in initial utility savings of 38 percent for gas, 44 percent for electricity and 21 percent for water.

“Look at what you can do if you rehab older properties and make green upgrades – you get these great savings and increase tenant comfort,” Burnett said. “Eden Issei is a demonstration of what could happen with the Green Refinance Plus program.” While the upgrades went a long way toward securing Eden Issei Terrace’s long-term stability by reducing ongoing utility costs, staff said the building still needs an extensive rehabilitation.

Finding the capital to carry out needed renovations, let alone...
energy upgrades, can be a challenge for affordable properties in their twilight years. The $250 million in Green Retrofit program grants, funded through the American Recovery and Reinvestment Act, was subscribed quickly and HUD no longer accepts applications under the program. Now developers are seeking fresh funding sources such as the newly created Green Refinance Plus initiative, as well as programs that are not tethered to refinancing, to support energy improvements, Burnett said. (Read more about the initiative in Policy Points on page 8.)

Stay in the Black by Going Green
Green Refinance Plus, introduced in May, provides funding to refinance, preserve and retrofit existing affordable multifamily properties, including those that are already in FHA’s or Fannie Mae’s portfolios. The program is designed to refinance the expiring mortgages of low-income housing tax credit (LIHTC) and other affordable developments into new mortgages that cover the cost of maintenance and upgrades. HUD says that by splitting the refinancing loan risk between the two agencies, the program provides lower debt service coverage and higher loan-to-value ratios, allowing owners to borrow additional funds to make energy improvements. “Large green rehabs fit into refinancing or syndication because those are the times when there’s an influx of money into the property,” Burnett said, noting that she expects owners of the many properties around the country that are reaching year 15 to take a close look at the program.

“All across the country, owners of affordable housing properties are looking for a way to refinance their mortgages and to make energy improvements and other needed renovations at the same time,” Donovan said in a press release. “This program kills two birds with one stone.”

FHA and Fannie Mae said they anticipate an initial refinance volume of $100 million, with an average loan amount of between $3.5
million and $5 million. FHA will insure an additional percentage of the loan – up to 5 percent – to provide funds for cost-saving energy improvements such as energy efficient windows and appliances as well as other needed property renovations. The program is an enhancement of FHA and Fannie Mae’s Risk Sharing program, which HUD introduced in the 1990s. Eligible properties must be at least 10 years old and borrowers must obtain a green physical needs assessment from a qualified provider.

A Step Forward

Developers and owners have expressed optimism about Green Refinance Plus, which some have interpreted as a sign that HUD is moving in the right direction. “I haven’t met anyone who doesn’t want to make green upgrades if they can,” Burnett said. “We’re hoping that if this program is successful there will be another one right behind it.” She added that the developer is examining its portfolio carefully to see if Eden Issei Terrace or another of Eden Housing’s 75 properties could benefit from Green Refinance Plus.

If owners manage to pass their energy savings on to residents, they will also reap the benefits of programs like Green Refinance Plus, said Chickie Grayson, president and CEO of Enterprise Homes. Even residents who pay for their own utilities will enjoy lower energy bills and a healthier living environment, she noted, and reduced operating costs through energy upgrades may also help them avoid rent increases.

“In this environment, a lot of people are embarking on rehabilitating existing portfolios, so [HUD’s] timing is good,” Grayson said. “It’s very forward-thinking of HUD to do this now.”

Fannie Mae’s lender networks began accepting applications for Green Refinance Plus in June. More information about the program is available on HUD’s web site at www.hud.gov.
continued from page 3
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