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Community Housing Development Organizations

HUD OAHP & NCSHA

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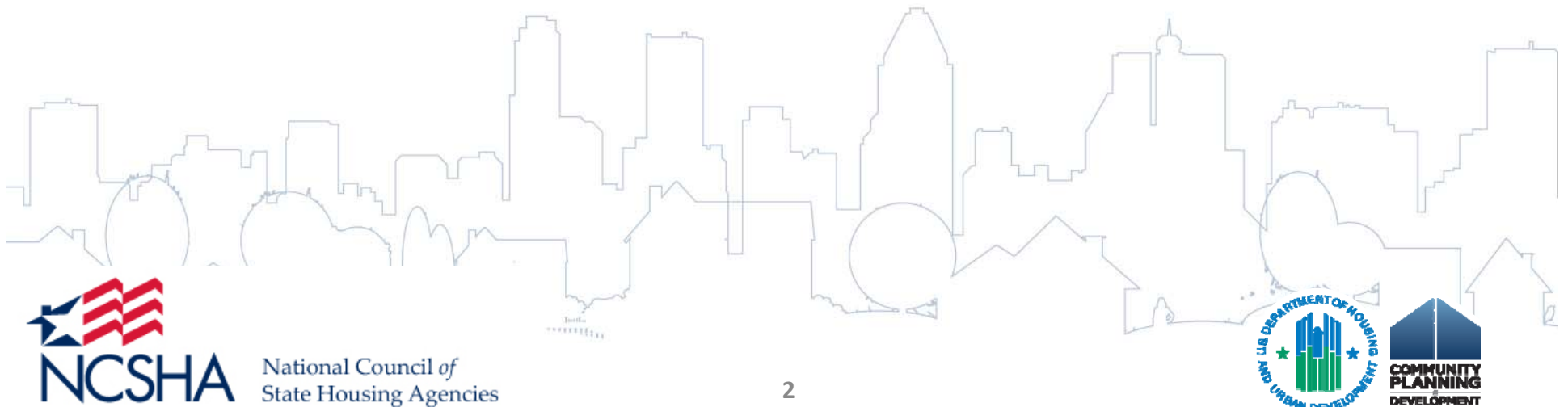


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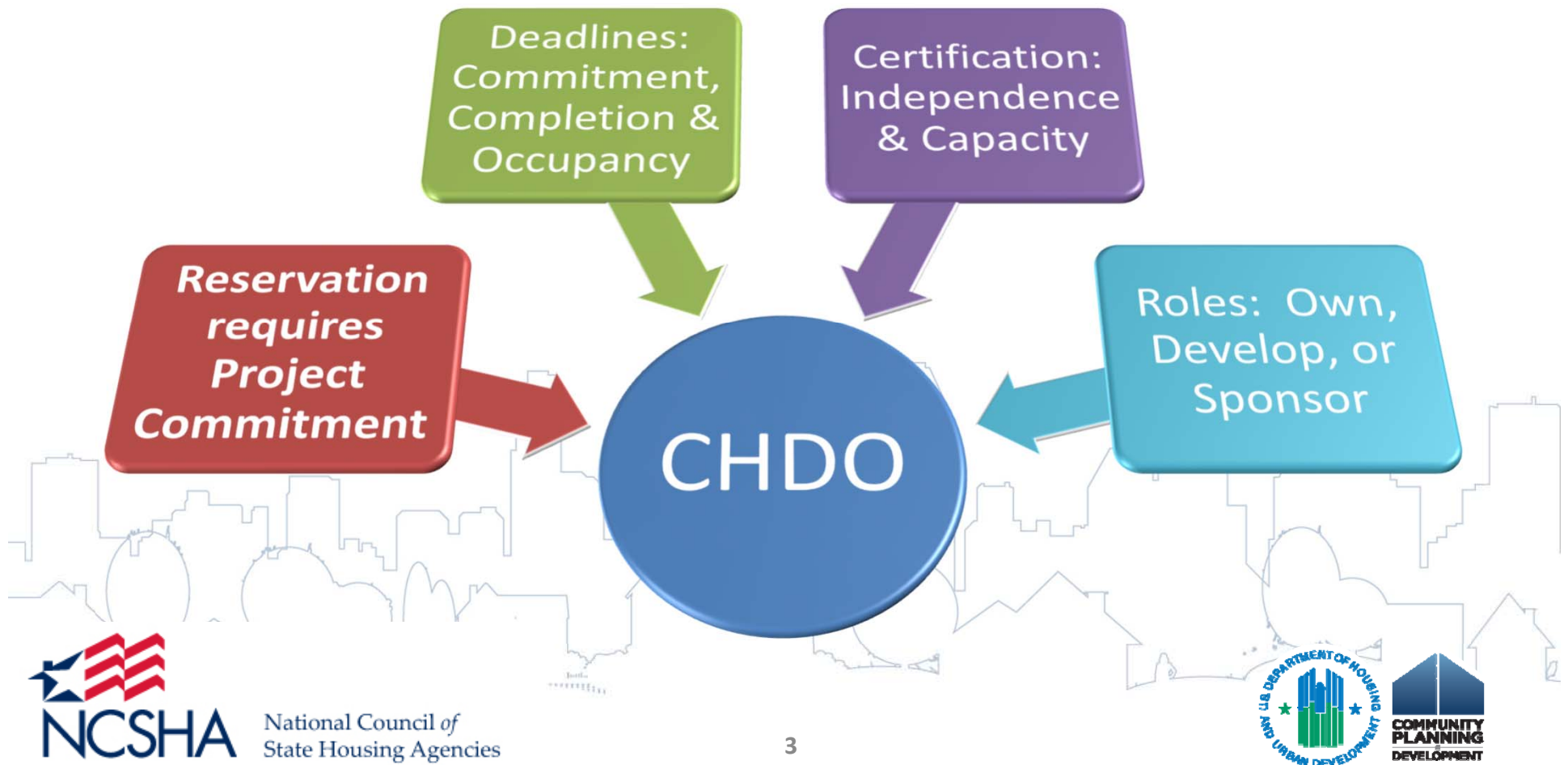


CHDO Topics

- Review of regulatory requirements
 - Commitments & deadlines
 - Certification & roles
- Discussion of capacity issues & workouts



2013 Rule CHDO Changes



CHDO **Reservations** **Commitments**

- To reserve CHDO set-aside funds, funds must be **committed** to a specific CHDO project
 - Non-project-specific reservations no longer count toward CHDO set-aside requirements
- PJs must reserve CHDO set-aside to specific CHDO projects within 24 months of HOME agreement
 - CHDO reservation deadline – still by program year, not covered by appropriation language

Project Commitment

Project Underwriting
(§92.250(b))



CHDO Certification
(§92.2 & 92.300(a))



CHDO Reservation
(Project Commitment §92.2)



Environmental
Clearance (§92.352)



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CHDO Deadlines

- CHDO reservation: 24 mos. from PJ Agreement
- Project:
 - Homebuyer: project completed/sold within 4 years
 - 9 months from construction completion to ratified sales contract (part of 4 years)
 - Rental: project completion (work completed, funds expended) within 4 years of commitment
 - 18 months from completion for initial occupancy (occupancy not part of 4 years)

CHDO Certification

- Each time it commits funds to a specific CHDO project, a PJ must certify that the nonprofit:
 - Meets CHDO definition (including the staff capacity requirement)
 - Has capacity to fulfill specific role (owner, developer, sponsor) it will assume for the project
- This is in addition to the underwriting and other conditions for a project commitment

Meeting the CHDO Definition

Legal structure

Independence from gov't or for-profit entities

Accountable to LI community

Capacity & experience (role)



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CHDO Legal Structure

- To be eligible, organization must:
 - Be organized under state and local law
 - Have among its purposes to provide decent and affordable housing to low income persons
 - Net earnings provide no benefit to members, founders, or other individuals
 - Not be under control of individuals/entities seeking to profit
 - Have IRS tax exempt status
 - Not be a governmental entity (PJ, other Jurisdiction, tribe, PHA, IHA, HFA, RA)



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Independence

- Applicable to all CHDOs
 - Max. 1/3 of board public officials or gov't employees
 - CHDO employees cannot be gov't officials/employees
- If created by a governmental entity
 - Gov't entity cannot appoint more than 1/3 of board, those members may not appoint remaining 2/3
- If created by for-profit
 - For-profit can't be housing development/mgt entity
 - For-profit can't appoint more than 1/3 of board...
 - For-profit officers/employees can't be CHDO employees

Accountable to the LI Community

- CHDO must have designated service area
 - May be multi-jurisdictional, but not entire state, and
 - At least one year of service (not limited to housing)
- At least 1/3 LI representation on board
 - Low-income residents of the community
 - Residents of low-income neighborhoods
 - Elected representatives of LI neighborhood org
 - Gov't officials/employees/appointees not counted to LI
- Formal process for LI input on project design, development & management

Capacity

- Financial mgt system: **2 CFR 200.302 - .303**
- CHDO must have paid staff with capacity to oversee project
- CHDO must demonstrate capacity in relation to its “role”
 - Own, Develop, and Sponsor roles as defined in §92.300(a)(2) - (6)



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Staff Capacity

- Paid staff capacity appropriate to CHDO role
 - Could be full-time or part-time
 - Must be directly paid by CHDO: W-2 or contracted
- Staff cannot be:
 - Donated by, contracted through, or cost allocated from another entity (including parent nonprofit)
 - Board members or volunteers
 - Consultants—except 1st year of CHDO funding
 - Officials/employees of govt or of for-profit creator



Draft CHDO Checklist

Checklist Item	Set-Aside Reservation	Pre-Development Loan	Operating Expenses
1. Legal Structure	✓	✓	✓
2. Independence	✓	✓	✓
3. LI Community Accountability	✓	✓	✓
4. Capacity	✓	✓	✓*
5. Role	✓	✓	
6. Pre-development costs		✓	
7. Operating expense eligible			✓

*Exception: Can award funds to an organization without staff capacity only if the operating award will allow the organization to obtain staff capacity needed for project funding.

PJ Implications: Certification

- Tie certification to project funding
 - Ensure full updated review for CHDOs receiving multiple commitments
- Set framework to evaluate staff capacity
 - Skills, prior experience, availability
 - Varies by project type & role
- Document board independence
 - Governmental entity relationships need to be documented for all board members & staff



Roles: Own, Develop, or Sponsor

- Own, Develop, and Sponsor roles defined in §92.300(a)(2) - (6)
 - Previously in CPD-97-11
- Key considerations:
 - Ownership/development activity
 - Ownership/control by CHDO
- CHDO must demonstrate capacity in relation to its “role” – certify for specific project role

CHDO as Developer: Homebuyer

- CHDO owns, rehabs or constructs, then sells
 - If wholly-owned subsidiary, HUD waiver needed
- Written agreement with CHDO must include:
 - Actual sales price or method for determining it
 - Disposition of sale proceeds: return to PJ as PI or CHDO to retain as Proceeds (and use of proceeds)
- Not CHDO-specific, but all buyers must be underwritten, no more one-size fits all DPA

CHDO as Owner: Rental

- CHDO itself acquires & owns rental housing
- CHDO does not have to develop
 - If development, CHDO can hire/oversee project manager or developer to rehab/construct
- CHDO must be owner in fee simple or have long-term ground lease during development and affordability period

CHDO as Developer: Rental

- CHDO itself owns and develops housing
- CHDO arranges financing and is in sole charge of construction or rehab
- CHDO must be owner in fee simple or have long-term ground lease during development and affordability period



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CHDO as Sponsor: Rental Turnkey to Other Nonprofit

- CHDO develops housing on behalf of another non-profit and transfers title after completion
 - Conveyed at pre-determined time to pre-identified nonprofit
 - Other nonprofit cannot be created by governmental entity, but can be another CHDO
- If transfer does not happen, CHDO must maintain ownership for affordability period



CHDO as Sponsor: Rental CHDO Affiliate

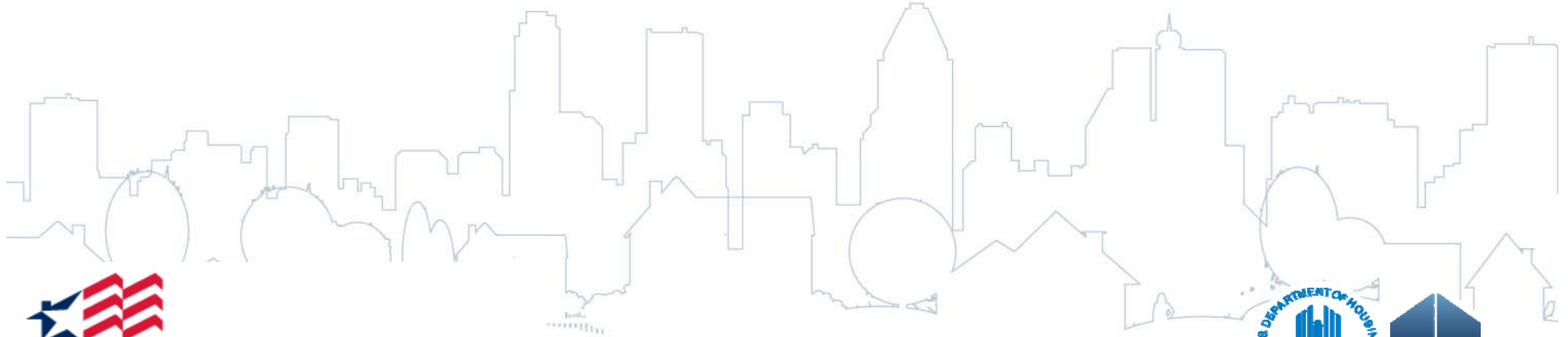
- Rental housing is “sponsored” by a CHDO if owned or developed by a:
 - For-profit or nonprofit that is wholly-owned subsidiary of the CHDO; or
 - If owned by an Limited Partnership (LP) or Limited Liability Company (LLC), the CHDO or its wholly owned subsidiary must be the sole general partner (LP) or sole managing member (LLC) (with limitations on replacement)
- PJ must provide (loan) funds directly to ownership entity

Implications: Roles

- Assess impact of role requirements
 - Owner role expands opportunity for CHDOs without “development” experience, some may be new CHDOs
 - Sponsor role impacts on LIHTC projects
 - No more joint ventures
 - Can’t grant to CHDO as intermediary; must loan to ownership entity
 - Written agreement provisions re: maintaining CHDO status, removal/replacement of CHDO

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Discussion: Addressing CHDO Capacity Issues & Workouts



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What Are Your CHDO Challenges?

- Attracting/qualifying CHDOs?
- Making CHDO projects financially viable?
- CHDOs not able to maintain/manage housing?
- CHDOs losing/abandoning CHDO status?
- CHDOs going out of business?
- Other?

It's Not Just A Regulatory Issue

- Funding is lower → fewer CHDOs supported
 - But CHDO funding was never sufficient to fully support CHDOs
- Other funding also is being reduced → increasing difficulty for nonprofits to survive
- CHDO is a long-term commitment (period of affordability) → PJs cannot fund CHDOs that cannot survive

Dual Survival Imperatives



Projects must be financially viable and self-sufficient, and should fully compensate CHDOs for development & management



Non-profits must act like businesses, and must plan, manage and diversify to ensure their long-term survival



Organizational Survival Strategies

- Integrate strategic planning
- Enhance financial management & control
- Diversify operations & revenue sources
- Broaden roles
- Analyze/stabilize portfolio
- Expand partnerships
- Consider mergers & acquisitions

Project Strategies

- Projects must be feasible and viable, not a drain on nonprofit resources
- Focus on underwriting:
 - Analyze market demand (is it sustainable demand?)
 - Properly capitalize improvements (useful life)
 - Provide funding sufficient to ensure operating viability (POA operating analysis & funding of reserves)
 - Fund full developer fees (disburse by milestones)
 - Assess capacity to manage

Ways to Assist with HOME

- Technical assistance
- Operating assistance
 - Maximum 5% of award
 - Set-aside funding or expected within 24 months
- Pre-development loans
 - Maximum 10% of set-aside funding
 - Forgivable if project infeasible
- CHDO proceeds
 - Net sales proceeds from homebuyer
 - Not limited to HOME uses but for LI housing

Pro-active Monitoring

- It's not just about compliance, but about viability → asset management perspective
 - Physical inspections – not just for minimum deficiencies, but for deferred maintenance
 - Financial review – financial red flags, e.g.:
 - Revenues not increasing or declining
 - Increased vacancy & collection loss
 - Missed reserve contributions
 - Increasing payables
 - Organizational health (turnover, fin health)



Project Workouts

- If project problems, analyze for project workout. Workout principles:
 - Expose all problems (not just tip of the iceberg)
 - Don't just band-aid symptoms
 - Over-engineer the workout for long-term viability
 - All parties must come to the table & participate in the workout solution

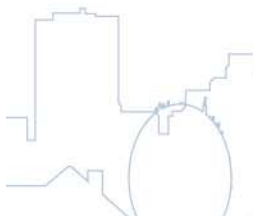
HOME & Workouts

- Consider changes to HOME loan terms
 - Generally, cannot “double dip” during the POA
 - However, 92.210 sets conditions for additional HOME investment or change in assisted units
- Request HUD TA
- Also, consider operating expenses & CHDO proceeds, if available

Organizational Workouts

- If CHDO organization is failing, conduct org assessment & provide TA to stabilize
- If CHDO is not viable
 - Sell/transfer project(s) to another CHDO to retain CHDO status of funds
 - Use ROFR or other legal options to gain control & preserve units (& avoid repayment)

Wrap Up



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