

Small Rental Program Status

Purpose

The Small Rental Property program seeks to rebuild storm-damaged one- to four-unit rental properties to address the housing needs of low to moderate income households in the areas of the state sustaining the most storm damage to rental property. At the same time, the Program will allow landlords to restore their properties and rebuild the infill housing stock prevalent in these communities. The Rental Program provides financial incentives in the form of forgivable loans to property owners to help restore their damaged units and offer them at affordable rents for a ten-year period. Property owners have the option of renting units at market rates, but receive no funding for these units.

\$751 million in funding is allocated for the 13 most impacted parishes due to Hurricanes Katrina and Rita by the amount of rental damage: Acadia, Calcasieu, Cameron, Iberia, Jefferson, Orleans, Plaquemines, St. Bernard, St. Tammany, Tangipahoa, Terrebonne, Vermillion, and Washington Parishes.

Property owners of owner-occupied three- or four-unit rental properties were eligible to apply to this program and would receive a Rental Program award for any affordable rental unit, and a Road Home Homeowner award for the owner-occupied unit. The owner of an owner-occupied double unit had the option of applying to either the Homeowner or Rental Programs.

A set-aside for nonprofit organizations was available to organizations that met Rental Program eligibility requirements and agreed to keep the rental units in the Rental program at affordable rates for at least 20 years.

The total funding allocated to the program is \$866 million. \$751 million is reserved for Small Rental, \$40 million for the First Time Homebuyer Pilot, and \$75 million for the Soft Second initiative for Louisiana Land Trust Properties. Together these programs have a 18,000 unit production goal.

Current Program Design

Participating property owners are required to accept limits on the rents they charge and the incomes of the tenants they select for a period of ten years. The amount of financing is provided in three tiers based on the income level of the tenants to be served: At 80% of the Area Median Income (AMI) or less; at 65% AMI or less; and at 50% AMI or less. The highest amount of funding per unit is available to property owners who agree to offer the lowest rents.

Awards are offered as no interest, no payment, forgivable loans, awarded once the units are repaired and income eligible tenants are identified. The loan is due only upon resale of the property or failure to comply with the rent restrictions and household incomes.

Progress and Achievement

Applications Process

- 18,781 Applications
- 9,904 Conditional Awards
- 5,952 Awards Accepted worth \$518 million

Commitment Letters

- 4,819 Commitment Letters of 5,952 awards mailed worth \$389.7 million
- Represents 9,314 units including 8,258 affordable units

- 2,943 Commitment Letters accepted
- 1,564 of these accepted Commitments report 75 – 100% construction complete

Awards Closed

- \$28.9 million in awards disbursed
- 433 closings
- 613 units including 358 affordable units

Challenges

Commitment Letters Not Mailed

- 1,133 not mailed
- Most due to Title verification and Environmental Notice to Proceed (Historic Preservation)

Commitment Letters Not Accepted

- 1,876 of these 4,819 Commitment Letters mailed not returned, a 61% apparent decline rate

Applicants' ability to obtain financing to complete Construction

- Absence of sufficient insurance proceeds or personal resources
- Risk of post-Katrina/Rita lending
- Credit challenges of applicants
- Validity of Commitment Letter to the financial community
 - Perception of the Road Home Program
 - Requirements for release of award funding
- Current challenges of financial environment

Applicants' failure to complete the Scoring Items as selected on their original application (i.e. via Final Inspection)

Issues with title and environmental approval for some applicants to achieve a Commitment Letter

Solutions

Program's Response to Date

- Established and implemented Financial Advisor Team (WHEN)
- Established and implemented Outreach Events (INFO ON TIMEFRAME AND NUMBER)
- Redesigned to Workshop format with roll-out in October (WHEN)
- Compliance with Scoring Items: Self-certification of certain program-defined criteria permitted, as a last resort
- Allowed tenants to move-in prior to closing has been in place

Direct Funding Rehab Program

The program will establish direct funding for owners currently active in the Small Rental Program. Direct funding will be available for applicants who didn't have resources or were unable to obtain financing from banks to restore their properties. Participants who accept this option will be held to Small Rental Property program requirements as well as federal regulations and U.S. Department of Housing and Urban Development (HUD) requirements associated with

rehabilitation programs (Should explain these requirements briefly). The process will work as follows:

- A construction estimator visits the property to determine its current condition and completes a scope of work required to repair the units to the standards established by the program and a cost estimate to complete.
- The applicant uses the scope of work to select a qualified Louisiana contractor and established a fixed price for the work.
- The applicant closes on the direct loan and construction begins.
- Throughout the construction process, the program monitors construction completed, confirms conformity to the approved scope of work, and approves the construction draw requests submitted by the contractor and the applicant.
- The State advances funds to the applicant jointly with the contractor.
- Construction is completed and the Parish issues a Certificate of Occupancy to the owner.
- The State conducts a final inspection and closes the Direct Loan.
- The applicant now complies with the remaining requirements of the Incentive Loan Program.

The State may act as a construction lender and perform all functions in-house or contract with local banks to provide construction lending services. Through both scenarios the state would continue to provide compliance and oversight.

Current applicants to the Small Rental Program must have received and returned a Commitment on or before a deadline to be established and the property must have remaining construction to complete. If the property is subject to existing debt, the lender must agree to the owner's participation in the Direct Loan initiative.

The Direct Loan amount will be the estimated repair costs plus a contingency amount. This loan may be higher than the existing Small Rental award. However, the needed Direct Loan amount will not be higher than a loan limit, to be determined based on an maximum amount per structure, per unit bedroom count, and square footage. We expect that the amount of the award will be subject to the subtraction of any SBA loan amount. However, we expect that there will be no other possible duplication of benefits that need to be deducted from Program advances. This will be confirmed with HUD.

We expect that program funding will be available during the first quarter of 2009, but will be contingent on completion of the program set-up.