

HOUSING FINANCE PLAN 2009 through 2010

Washington State Housing Finance Commission
1000 Second Avenue, Suite 2700, Seattle, Washington 98104-1046
(206) 464-7139 (Seattle); 1-800 767-4663 (within Washington State)
www.wshfc.org

Our Mission

We are a publicly accountable, self-supporting team dedicated to increasing housing access and affordability and to expanding the availability of quality community services for the people of Washington.

Our Operating Vision

We are a catalyst to join resources and partnerships creating greater access to housing and community services.
Every Commission contact is positive and informative.

Our Shared Values

We value:

Teamwork

Every employee's contribution

A trusting, respectful dialogue with one another

A safe environment to express opinions

Personal responsibility

Flexible and innovative leadership

Willingness to accept constructive feedback and change

Sharing information

A helpful attitude toward clients

Table of Contents

Mission, Vision, Values.....	2
Introduction.....	4
Overview of the Housing Finance Commission.....	8
The Proposed Housing Finance Plan for 2008-2009.....	10
Proposed Uses of Available Resources	21
Other New Initiatives.....	25
Appendix A: General Policies of the Housing Finance Commission.....	27
Appendix B: Homeownership Financing Programs and Policies.....	30
Appendix C: Capital Projects Financing Programs and Policies.....	38
Appendix D: The Low Income Housing Tax Credit Program and Policies ..	51
Appendix E: The Finance Division.....	60
Appendix F: The Compliance & Preservation Division.....	62
Appendix G: Recent Accomplishment of the Commission.....	64
Appendix H: Major Accomplishments since 1983.....	66
Summary.....	67

INTRODUCTION

The publication of the **Housing Finance Plan for 2009-2010** reflects the first time the Commission has revised a Plan prior to the end of the two year period. There are two reasons for this early revision: 1) the legislature has asked us consider some additional factors in the use of our resources; and, 2) federal legislation and market conditions have changed significantly between the end of 2007, when the last revision was made, and the beginning of 2009. In an effort to be responsive to changing market conditions and resources, we chose to revise the plan one year earlier than required.

In addition, the Commission has chosen to use the Housing Finance Plan as our strategic planning document rather than undertake the development of a new five year strategic plan when our current plan expires in 2009. While we intend to adjust our longer term strategic directions at the annual commissioner planning session, we think using a shorter period for general planning purposes better reflects the rapid rate of change and the practicalities of operating in a market environment.

The basic format of the Plan has not changed. Following these introductory remarks, you will find an overview of the Commission, our Plan for financing affordable housing during the next two years and a detailed description of Commission policies for each of our programs. In the back of the document you will also find a presentation of the results achieved by the Commission.

From time to time, readers of the Plan have inquired why we do not include a section that summarizes the economic situation in the state in the Plan. The answer is a pragmatic one. There are many places the economic situation of the State is summarized at any given time and it would make the Housing Financing Plan unmanageably long if we included an economic summary in the Plan.

Changing Market Conditions

The challenge of providing affordable housing remains, even as significant economic turmoil challenges our state and our economy. The recent disruptions and turmoil in the financial and housing markets have not only lowered housing prices in Washington and created more demand for affordable rental housing, they have had a negative impact on our ability to access the financial markets for a number of months. Therefore, our task is made even more challenging as we both try to respond to changing financial market conditions and predict what conditions will be during the term of this Plan. While we assume the markets

will stabilize sometime during the Plan period, we cannot predict with certainty the timing or extent of the corrections that we hope will come.

Looking Ahead

Although the Housing Finance Plan focuses mainly on the next two years, the long-term nature of housing requires us to think about contingencies that could arise over the next two decades. In our previous Plan, we talked about the challenges posed by the aging of the baby boom generation. The statistics remain the same, between 2008 and 2020, Washington's population of persons 65 and older will increase by 75 percent, going from 686,000 to 1,200,000 persons. As a result of this demographic change, we feel it is necessary to keep focusing on preparations to meet the future housing needs of our senior citizens.

In the previous Plan, we talked about the potential impact of the sub-prime crisis and the early indications of problems in the mortgage markets that would have such a huge impact on the ability of borrowers to obtain mortgages at decent terms. Now we are writing about a decline in home prices that exceeds 13% statewide between 2007 and 2008 and the resulting upheaval in the housing markets caused by the take-over of Fannie Mae and Freddie Mac by the Federal Housing Finance Agency. We could not have predicted the full economic turmoil that has occurred in the financial markets as a result of the breadth and depth of the sub-prime crisis.

While the loss of value varies by neighborhood, city and zip code, there is no doubt that many people in Washington have suffered a loss in the value of their home. While we predicted that the impact of the sub-prime crisis would be less on Washington than on other states, we won't know the final impact until sometime in late 2012, after the majority of the sub-prime mortgages in the nation reset. Beyond the sub-prime problems, the nation is now entering what is predicted to be a deep recession that will bring with it more job losses, more economic slowdowns and undoubtedly more foreclosures. This will continue to cause challenges in the state's economy, as well as the nation's financial markets, that we cannot accurately predict.

New Things to Consider

Our enabling legislation (RCW 43.180) specifies a number of issues related to the housing market and affordable housing needs that we should consider in the development of the Housing Finance Plan. As requested by the legislature, we are adding some additional items that are taking on more importance in the affordable housing policy discussions in our state. First though, let's list the original policy issues we were asked to consider. These included:

- (1) The use of funds for single-family and multifamily housing;

- (2) The use of funds for new construction, rehabilitation, including refinancing of existing debt, and home purchases;
- (3) The housing needs of low-income and moderate-income persons and families, and of elderly or mentally or physically handicapped persons;
- (4) The use of funds in coordination with federal, state, and local housing programs for low-income persons;
- (5) The use of funds in urban, rural, suburban, and special areas of the state;
- (6) The use of financing assistance to stabilize and upgrade declining urban neighborhoods;
- (7) The use of financing assistance for economically depressed areas, areas of minority concentration, reservations, and in mortgage-deficient areas;
- (8) The geographical distribution of bond proceeds so that the benefits of the housing programs provided under this chapter will be available to address demand on a fair basis throughout the state;
- (9) The use of financing assistance for implementation of cost-effective energy efficiency measures in dwellings.

To this list of considerations, we are adding the following issues to consider during the development of this Plan:

- (10) To increase the supply of affordable and decent housing throughout the state;
- (11) The use of funds to promote the provision of affordable housing for the longest period of time possible;
- (12) The use of funds to promote increased housing density;
- (13) To give priority for the allocation of multifamily bond cap to eligible applications submitted by non-profit organizations;

While we take all of these issues into consideration during the development of this Plan, we do not always implement specific programs to address each issue at any given time; nor will we necessarily provide a summary of our considerations regarding each item mentioned.

Rather, we use our evaluation criteria and program policies to give weight and priority to activities within a program that address one or more of the issues outlined above and by directing available resources to meet appropriate objectives. By reading the program policies and allocation criteria that are used to select projects and allocate resources you can understand how we have given consideration to these issues in our programs and financings.

Acknowledgements

For the successes we have achieved, we want to thank our partners, including state agencies, local housing authorities, nonprofit organizations and our business partners in the banking, finance and construction industries. Without your assistance and cooperation we could not be successful. We also want to thank the Commission's hard-working staff, which maximizes the use of our resources through their professional expertise, dedication and creativity.

We would also like to acknowledge the citizens of Washington who participate in our programs. The need for decent, affordable housing is constant, yet at different points in their lives, people may need help. Our programs are designed to assist young families, people who need affordable rental homes and the elderly, to maintain a secure living situation. Helping the people of Washington by opening doors to a better life is the reason we exist.

We specifically want to acknowledge that Governor Gregoire and our state legislature share our belief that housing matters, as evidenced by their strong support of affordable housing programs. We thank them for that support and urge them to continue their investment in housing that is affordable for all Washington residents.

While the challenges remain significant, our state has a track record of positive responses and a tremendous network of public, private and nonprofit providers and financiers of housing that has repeatedly risen to the challenge of making affordable housing available to many of our residents. We look forward to continuing to work with this network over the next two years to address the housing needs across Washington.

Karen Miller
Chair, WSHFC

OVERVIEW OF THE HOUSING FINANCE COMMISSION

The Washington State Housing Finance Commission is a self-supporting agency, which achieves its social and economic objectives at no cost to the taxpayers of our state.¹

The Commission was created in 1983 to act as a financial conduit which, without lending the credit of the state, can issue non-recourse revenue bonds; participate in federal, state, or local housing programs; make additional funds available at affordable rates to help provide housing throughout the state; and encourage the use of Washington forest products in residential construction.

The Commission is authorized to provide construction and permanent financing for low- and moderate-income housing, nonprofit facilities, capital equipment and beginning farmers and ranchers within the state.

The Commission has 11 voting members. Two commissioners, the State Treasurer and the Director of the Department Community Trade and Economic Development (CTED), serve ex officio and eight commissioners are appointed by the Governor for four year terms. The Chair of the Commission is appointed by the Governor and serves at the Governor's pleasure. The Commissioners represent various geographic, business, and public interests.

In 1987, the Commission was designated as the state's allocating agency for the federal Low-Income Housing Tax Credit program. In 1990, the Commission's authority was expanded by the legislature to finance nursing homes, as well as capital facilities and equipment owned by nonprofit 501(c)(3) organizations. In 2005 the Legislature gave the Commission the authority to issue bonds for beginning farmers and ranchers. In addition, the Commission has contracted with CTED to administer programs such as the Land Acquisition Program, the Rapid Response Program and the Equity Fund, which are financed in whole or in part by state funds. These programs may or may not continue to be administered by the Commission in the future.

The Commission's enabling legislation requires a State Housing Finance Plan (the "Plan") to be updated from time to time (currently every two years, by the Commission's choice) and requires the Commission to report to the legislature at least every two years on the implementation of the Plan. The Plan outlines

¹ The Commission receives no direct state appropriations. It does, however, administer contracts for other state agencies using state funds when the Commission's involvement can add value or is required by law.

the policies of the Commission and provides a brief overview of the housing finance programs the Commission intends to offer during the Plan period. The Commission reports to the legislature on the financing completed in compliance with the Plan through its annual report. The Plan will remain in effect until it is replaced or revised by a subsequent Plan that is adopted by the Commission. More detailed information regarding individual programs that the Commission operates is available by request.

This is the Housing Finance Plan for calendar years 2009 and 2010. To receive information regarding the financing programs of the Commission, go to our Web site at www.wshfc.org; write the Washington State Housing Finance Commission, 1000 Second Avenue, Suite 2700, Seattle, Washington 98104; call (206) 464-7139 or 1-800-767-HOME (in-state only); or e-mail ask-me@wshfc.org. Requests for more information may be directed to the Communications Manager.

PROPOSED FINANCING PLAN
FOR 2009-2010

AVAILABLE RESOURCES

The following sections summarize the potential resources the Commission expects to have available for use in calendar years 2009 and 2010.

UNIFIED VOLUME CAP AUTHORITY FOR TAX-EXEMPT BONDS

The Tax Reform Act of 1986 imposed a Unified Volume Cap (also known as “private activity bond cap” or “bond cap”) on the issuance of private activity tax-exempt bonds in each state. The Department of Community, Trade and Economic Development (CTED) is authorized to allocate the bond cap on a calendar year basis under federal and state law, as explained in more detail below.

The “Consolidated Appropriations Act of 2001,” (the Act) raised the private activity bond/state volume cap and indexed annual increases to inflation thereafter. The Act also increased the federal Low-Income Housing Tax Credit authority of the state and indexing increases to inflation thereafter. The Act also made significant changes in the requirements of the Tax Credit program that were incorporated into the Commission’s 2001 Qualified Allocation Plan, Rules and Policies.

Additionally, federal legislation has mandated new and more comprehensive inspection requirements for all Tax Credit projects. The Commission has implemented these changes with training for staff and our industry partners.

The actual amount of Private Activity Volume Cap (bond cap) and Low Income Housing Tax Credits has been adjusted several times since 2002 to reflect growth in population and inflation. The state’s 2009 private activity bond cap will be \$90 per capita, up from \$85 per capita in 2008. The state’s 2009 Housing Credit authority will be \$2.30² per capita, up from \$2.10 per capita in 2008.

THE IMPACT OF STATE LEGISLATION

In 2001, the Governor signed into law Senate Bill 5197, which raised the initial allocation of bond cap for the Housing category from 25 to 30 percent. Increases also went to the Student Loan, Exempt Facility, and Small Issue categories proportionally, reducing each category’s initial allocation by one percent when

² This includes the temporary one year increase provided by the Housing and Economic Recovery Act of 2008.

the state's allocation reached \$75 per capita in 2002 and reducing the Remainder category to three percent.

The bill further provided that when the Public Utility District (PUD) category was no longer eligible to issue tax-exempt bonds (having used the \$750 million authorization provided by Congress), the allocation to the Housing category would increase by an additional two percent (raising it to 32 percent); Student Loans, Exempt Facilities, and Small Issues would each increase by one percent; and the Remainder category would increase from three to eight percent. This change occurred in calendar year 2008.

THE IMPACT OF RECENT FEDERAL LEGISLATION

The federal Housing and Economic Recovery Act of 2008 (HERA), which was passed by Congress and signed by the President on July 30, 2008, allows a one-time temporary increase in the national bond volume cap (hereafter referred to as HERA bond cap). The increase became available immediately upon the President signing the bill and must either be used prior to the end of the 2008 calendar year or carried forward prior to the end of the 2008 calendar year for use in 2009 or 2010. The new cap authorized under the Act is to be used only for Housing projects. The state of Washington received \$202,541,072 in HERA Bond Cap. The Act also provided a temporary 20 cents per capita increase in the Low Income Housing Credit program.

The Governor issued Executive Order 08-04 authorizing CTED to allocate the HERA bond cap according to the state's bond cap law, which is outlined below. This additional HERA bond cap for housing will be tracked separately from regular 2008 bond cap, as required under federal law.

On October 16, the IRS issued Revenue Procedure 2008-66, which provided inflation-related adjustments for many tax-related items, including the states' Low-Income Housing Credit authority and Private Activity Bond volume cap. Under the notice, each state's 2009 private activity bond cap will be \$90 per capita up from \$85 per capita in 2008. Each state's 2009 Housing Credit authority will be \$2.30 per capita up from \$2.10 per capita in 2008. The Housing Credit authority amount includes the 20 cents per capita increase also enacted in the Housing and Economic Recovery Act of 2008.

CURRENT STATE LAW FOR THE ALLOCATION OF BOND CAP

State law for the allocation of private activity bond cap is contained in RCW 39.86, which was first enacted in 1987 and has been amended several times. In general, the section outlines how private activity bond cap will be allocated to the issuers in the state for purposes of financing housing, student loans, small industrial development projects and certain exempt facilities. Rules for the allocation of bond cap have been adopted and can be found under the

Washington Administrative Code (WAC) 365-135. The following paragraphs generally summarize the policies for the Housing category.

Eligible housing is considered to be single-family housing financed with mortgage revenue bonds and mortgage credit certificates and multifamily residential rental projects, as described in the IRS code.

State law provides that each issuing category shall have an initial allocation representing a percentage of the available bond cap each year. In the Housing category, the current initial allocation amount is 32 percent of the state's volume cap. This initial allocation amount may only be modified to reflect an issuer's "carryforward"³ amount.

At the time the bond cap allocation law was adopted, there existed three state issuers that used private activity bond cap: the Student Loan Finance Association, the Housing Finance Commission, and the Community Economic Revitalization Board (CERB). At a later date, CERB terminated its bond program and the Student Loan Finance Association ceased operations.⁴

In recognition of these statewide issuing authorities, the law recognized 'Programs' for housing, student loans, and CERB in the allocation of bond cap. In additional recognition of statewide issuing authority, the Housing and Student Loan categories were not subject to "recapture"⁵ before December 15 each year. Other categories of bonds are subject to recapture between April 15 and September 15 of each year. Further recognition of the Commission as a statewide issuing authority is contained in the Commission's enabling legislation. At a later date, additional recognition was given the Washington Economic Development Finance Authority (WEDFA), which was created in 1990 as a statewide program.

The law provides general criteria that should be considered by CTED for the allocation of bond cap that include the need for the bond cap, the amount of bond cap available, the public benefit to be achieved, the cost or availability of alternative financing methods, and certainty of use of the allocation. More detailed criteria are specified for some categories in the law and rules, including criteria for the Housing category that was promulgated in the enabling legislation of the Commission.

³ "Carryforward" is an amount of bond cap from one calendar year which is carried forward for the next three calendar years to allow the financing of a specifically identified project. If the bond cap is not used during the three year period to finance the identified project, it expires.

⁴ The Washington Higher Education Facilities Authority was authorized to issue student loan bonds in 2007.

⁵ "Recapture" means that on a specified date, an issuer must return to CTED, for use in the Remainder category, any unused bond cap that was allocated for a specific project at the beginning of the calendar year.

The Commission's enabling legislation (RCW. 43.180.200) specifies that any state ceiling with respect to housing shall be allocated in accordance with a formula giving 80 percent to the Commission and 20 percent to the other housing issuers in the state, such as housing and public development authorities. RCW 43.180.200 then provides that CTED may adopt rules for the allocation of bond cap to housing issuers other than the Commission that will consider the following five factors: (1) the amount of housing to be made available by such applicant, (2) the population within the jurisdiction of the applicant, (3) coordination with other applicable federal and state housing programs, (4) the likelihood of implementing the proposed financing during that year, and (5) consistency with the Plan of the Commission. Any unused portion of the 20 percent shall be added to the allocation of the Commission.

RCW 43.180.200 also provides a pro-active process whereby the Commission may recapture, after notification, an allocation to another issuing authority in the housing category that is not likely to be used during the year. This process has never been used by the Commission, although some bond cap allocations have gone unused and were subject to such recapture. The Commission reserves the right to implement this process in the future.

The Commission is also authorized to assign a portion of its allocation to another issuing authority. The Commission has exercised this assignment authority on numerous occasions to help other housing issuers meet emergency needs and development deadlines. The Commission normally coordinates such assignments with CTED to be sure the request is recommended by CTED and to be assured that the Commission will receive replacement bond cap in the process.

The rules promulgated under WAC 365-135 establish further guidelines for the allocation of bond cap by CTED and the collection of fees to operate the bond cap allocation program.

ALLOCATING PRIVATE ACTIVITY BOND CAP BETWEEN PROGRAMS

The Commission determines how to allocate the volume cap made available to it between single family and multifamily programs by considering a number of significant factors in the last quarter of the year in question. These factors include: the amount of unused carryforward from previous years still available to each program; the amount of short-term bond proceeds available to the single family programs for the coming year; the estimated rate of mortgage pre-payments that may be re-used under the "ten-year rule;" the amount of unused volume cap that may be available at the end of the current year that can be "carried forward" pursuant to the code; current and anticipated demand for single family and multifamily loans and the anticipated demand for, and use of, volume cap during the coming year by other housing issuers and issuers in other

user categories. In addition, the Commission considers the current and anticipated economic climate, interest rates, house prices, income levels, and need for affordable housing throughout the state.

On September 24, 2007, the Commission adopted a strategy for using bond cap in the single family and multifamily programs of the Commission based on the amount of bond cap available to the Commission in any given year. The adopted strategies provide guidelines and considerations for using bond cap and implementing program changes based on a high level of bond cap, a medium level of bond cap or a low level of bond cap being available for the programs of the Commission.

After taking these and other factors into account, the Commission designates the amount of volume cap carryforward it may receive from CTED in December to the single-family and multifamily programs and the amount of bond cap to be received in the coming year that it wants to allocate to each program.

ACTING AS THE STATE'S "BOND BANK"

The Washington State Housing Finance Commission has been informally acting as the state's unified volume cap "bond bank" since approximately 1988. Working in cooperation with the administrator of the Bond Cap program at CTED, the Commission has cooperated to prevent any of the state's unified volume cap from expiring for lack of use by issuers in the State. Another benefit of this informal arrangement has been to provide CTED with more flexibility in the use of bond cap to meet the State's current and future needs. These benefits have been accomplished in several ways.

- The Commission has acted as the "bond bank" by being allocated the majority of the unused bond cap that is available on December 15 of each year. The Commission is a good recipient for these funds because it has an unmet demand for the use of bond cap, primarily in its home-ownership programs, and often in its multifamily programs, which ensures that the carryforward authority will be used within the three-year carryforward period.
- The Commission has greater flexibility than non-housing issuers in the designation of carryforward to a program category since it must only designate the authority to the "single-family" or "multifamily" program rather than specific projects.
- The Commission can transfer a portion of its carryforward authority to other housing issuers when necessary, thereby ensuring even more potential uses of the authority to meet state housing needs. The Commission has never turned down a transfer request from another

housing issuer to meet an urgent bond cap need after verifying with CTED that the transfer is necessary and recommended by CTED.

- The Commission has generally traded-in to CTED an amount of future bond cap authority equal to the amount of carryforward that it receives each year. This trade-in provides CTED additional flexibility by increasing the Remainder category it uses to meet yearly demand for bond cap that exceeds the initial allocation for purposes such as student loans, economic development, exempt facilities, and housing.
- The Commission has followed a practice of using the oldest bond cap first to ensure that any bond cap that has been previously allocated to it as carryforward gets used before the expiration of the three-year carryforward period.

PRESERVING BOND CAP USING PUBLIC POLICY CRITERIA AND TAXABLE BONDS

In 1988, as a result of the passage of the Unified Volume Cap by Congress, the Commission experienced its first shortage of bond cap in its multifamily programs. In response, the Commission developed criteria that would ensure an equitable distribution of volume cap statewide based on housing needs assessed by the Commission. The Commission developed the bond cap allocation criteria to serve this purpose. Applications for bond cap were scored according to the public policy criteria that would be met by the project and the bond cap was allocated to those projects with the highest scores until the supply of bond cap was exhausted. These criteria were used for a number of years with minor adjustments.

In 1995, driven by growing demand for the four percent Low Income Housing Tax Credits available to projects financed primarily with private activity bonds, the Commission made significant revisions to the *Housing Evaluation Policy*. First, *Readiness Criteria* were added which required developers to issue their bonds in the year that the allocation was received or the allocation would expire; and second, developers using bond cap from the Commission were given incentive points to use taxable bonds to finance a portion of their project. The result has been that only those projects that can immediately use the bond cap, meet the highest public policy objectives, and use less bond cap, receive an allocation of this limited public resource.

The Commission also put some limits on its own use of bond cap for its single-family programs to make sure that bond cap was used most efficiently: bonds are not issued unless the mortgage rate is deemed reasonable by the Executive Director of the Commission; lenders are limited to collecting no more than 2 points (two percent) in fees when participating in the program; and the Commission began financing between 10 and 25 percent of its single-family

programs using taxable bonds, when market conditions allowed, to preserve bond cap.

Between 2004 and 2006 however, interest rates were at historically low levels and negative arbitrage was at historically high levels, making it financially infeasible for the Commission to issue taxable bonds as part of its single family programs. During the 2006 - 2008 Plan, the bond market remained such that no significant use of taxable bonds was possible. If the bond market cooperates, the Commission may again use taxable bonds with its tax exempt bonds to expand its single family lending capacity.

PRESERVATION OF PREVIOUSLY ISSUED BOND CAP UNDER THE "TEN-YEAR RULE"

Federal tax law provides that the Commission may, in its Single-Family Programs, use funds received from the pre-payment of a single-family loan during the first ten years after the original loan was issued as part of a tax-exempt bond issue to finance additional loans. This is referred to as the "Ten-Year Rule." After a tax-exempt loan has been outstanding for ten years, the funds received from pre-payment of a loan may only be used to pay off/redeem outstanding bonds under the original bond issue.

In 1997, the Commission began an aggressive program of preserving the stream of pre-payments received in the single-family programs of the Commission under the "Ten-Year Rule" and using the funds to make additional first-time homebuyer loans. The Commission, working in cooperation with its finance team and Fannie Mae, first developed the Monthly Roll-Out program to recapture and re-use the stream of pre-payments coming to the Commission from single-family loans. As a result of this effort, between 1997 and 2000, the Commission recycled approximately \$183 million of pre-payments back into our House Key Homeownership program, providing approximately 1,830 more families with the opportunity to own their first home.

Later, the Commission used the Merrill Lynch Drawdown Bond program to recapture and reuse the stream of pre-payments coming to the Commission from single-family loans. The use of this program was initiated in 2002 but ceased in 2007. Currently, the Commission does not have a specific program to recapture and reuse pre-payments. However, the Commission intends to reinstate this program to conserve bond cap as soon as it is financially feasible to do so.

BOND CAP AVAILABLE DURING THE PLAN

Due to the annual allocation of the unified volume cap, the Commission tracks available authority by the year in which it is allocated. The Commission, however, has the authority to carryforward authority from the year of allocation for a period of three additional years. The Commission must identify a specific

program for which the authority will be used in order to carryforward. The Commission has carried forward volume cap authority from previous years for both single-family and multifamily programs. Once a determination is made to carryforward the volume cap authority for either single-family or multifamily purposes, the specific program designation may not be changed.

Based on the IRS estimated population for 2009 and bond cap at \$90 per capita, the total estimated unified volume cap for the state in 2009 is \$589,430,160.⁶ The estimated amount for 2010 is \$598,459,500⁷.

State law reserves 32 percent of the state's annual unified volume cap for housing bonds during the Plan period. Therefore, in 2009, \$188,617,651 is estimated to be available for housing and in 2010 \$191,507,040 is estimated to be available for housing.

Of this housing portion, the Housing Finance Commission receives 80 percent and public housing authorities and other local issuers receive the remaining 20 percent of the total housing bond cap. Therefore, the Commission will have an estimated initial allocation of \$150,894,121 for 2009 and \$153,205,632 for 2010.

The Commission begins the Plan period with the following amounts of carryforward bond cap and approximately \$20,000,000 of preserved bond cap available for single-family financing in the Merrill Lynch Drawdown Program.

Source	Single-Family	Multifamily	Unallocated
ML DDP	\$ 20,000,000	\$ NA	
2006 "CF"	\$	\$ 18,800,516	
2007 "CF"	\$	\$ 3,164,023	
2008 "CF"	\$153,649,620	\$153,649,620	
HERA Cap	\$100,000,000	\$ 95,041,072	
2010	\$	\$	\$153,205,632
Total	\$273,649,620	\$270,655,231	\$153,205,632

LOW INCOME HOUSING TAX CREDITS

The state's annual Tax Credit authority during the Plan period is estimated at \$2.30 per capita in 2009.⁸ For 2010, the amount will be \$2.10 of credit per state resident, based on the inflation adjusted value calculated by IRS:

⁶ Based on an estimated population of 6,561,569.

⁷ Based on an estimated population of 6,649,550

⁸ In July of 2008 Congress passed the Housing and Economic Recovery Act. This legislation provided a temporary 10% per capita increase in the Housing Credits in 2008 and 2009. For Washington State, this means approximately \$1.29 million in additional annual credit in 2009.

2009	\$15,063,215
2010	\$13,964,055

Any credits that are returned from previous credit reservations due to the inability of projects to meet reservation requirements or placed-in-service deadlines will be added to the annual tax credit authority and/or carried over to the next year, as appropriate, to award to other projects.

There is also the possibility that additional credit may be available to Washington through access to the national pool of credit authority made available each year, from credits not used by other states. In order to use this authority, Washington must allocate 100 percent of the previous year's credit. While the Commission has been able to access credit from the national pool every year except one, the amount available has decreased significantly.

PUBLIC PURPOSE BONDS

The Commission may issue public purpose bonds on behalf of public entities, such as public housing authorities or units of local government, to produce affordable housing. There is no limit on such authority, but the market for such issuance will be limited to public entities that do not wish to issue their own bonds.

PROGRAM INVESTMENT FUND

In 1989, the Commission created its Program Investment Fund (PIF) by earmarking a majority of the reserves earned from its ongoing operations for investment in higher risk housing programs which, in conjunction with the Commission's other programs, enhance our ability to serve low-income and special target households. Program Investment Funds are strategically invested in low-income housing, special-needs housing, and facilities that provide community services primarily to low-income persons. Access to this source of capital has helped bring to fruition projects and programs that otherwise would not have been possible using traditional tax-exempt financing. As of September 30, 2008, the Program Investment Fund had approximately \$53.2 million of Commission reserve funds and \$11.9 million of partner investments, a total of \$65.1 million.

SUMMARY OF PROGRAM INVESTMENT FUND INVESTMENTS:

- **Homeownership Programs Fund:**

The Homeownership program investments are used to expand homeownership and the use of the House Key Program, the Commission's first-time homebuyer and first-mortgage loan products. Numerous down-payment assistance programs have been developed by

the Commission that are funded through the Program Investment Fund with its reserves and by partners who share the Commission's goal to increase homeownership.

The down-payment assistance programs include House Key Plus, House Key Rural, House Key Plus-CLT (Community Land Trusts), House Key Teacher, House Key Veterans, House Key Plus-Seattle, House Key Plus-ARCH (East King County), House Key Bremerton, House Key King County, the Open Door program, and a downpayment assistance program for use with individual development accounts. Additional programs include, the HomeChoice program, which provides homeownership opportunities for persons with disabilities; the Urban Self-Help program and the Self Built program, which provide sweat equity opportunities for first-time buyers; the purchase of Habitat for Humanity International notes secured by Habitat mortgages to provide liquidity for Habitat chapters in Washington State so they can build additional homes; and the Single-Family Construction Financing program for farm workers in cooperation with Washington Agricultural Families Assistance.

Total investment: Approximately \$30 million Commission funds, \$10.9 million partner funds

- **Capital Plus Program:**

The Capital Plus Program was created in partnership with the Washington Community Reinvestment Association (WCRA) to make loans for small nonprofit projects that can not economically use the Commission's traditional bond financing programs.

Total investment: \$7 million Commission funds

- **Affordable Housing Preservation:**

The Affordable Housing Preservation program helps maintain the affordability of housing units when the low-income use obligations expire and to provide predevelopment loans for new projects. The Commission has invested \$5.5 million in the form of a two percent loan for a twenty-year term with Impact Capital, a statewide nonprofit community development lender and technical assistance provider. The Commission has agreed to increase its investment \$250,000 each year at its option, through June 30, 2009. In addition, \$245,000 has been invested in other multifamily housing projects that benefit higher-risk and special-needs populations through the Commission's Affordable Housing Initiative.

Another investment in this category is an investment to prevent the bankruptcy and closure of an important nursing home and Alzheimer's disease care facility serving the Central Seattle African American

community. \$1.6 million was invested in the Leon Sullivan Health Care Center in conjunction with a loan of \$900,000 from Bank of America.

Total investment: \$6.1 million Commission funds

- **Skokomish Tribal Housing t3ba.'das Project**

The Skokomish Tribal Housing t3ba.'das (“our blunt point” in the Skokomish Tribal native language) Project is part of a master plan to create a new 240 acre tribal settlement above the Skokomish River floodplain. This \$1 million investment will help in the construction and financing of 20 single-family homes for sale to tribal members.

Total investment: \$1 million Commission funds

- **Construction Defect Insurance Program**

The Construction Defect Insurance Program (CDIP) was created to encourage the development of single-family housing for low- to moderate-income households by assisting nonprofit developers to finance a portion of their construction defect insurance premiums. After completion of construction, the program allows the purchaser to finance the pro-rata share of the premium for their unit at favorable terms through a Commission-sponsored second mortgage loan, in effect transferring the short-term obligation of the developer to a longer-term, but economically feasible, obligation of the purchaser.

Total investment: \$1 million Commission funds

- **Land Acquisition Program**

In 2007 the Legislature passed House Bill 1401 establishing a Land Acquisition Program to allow public and private nonprofit organizations to borrow money to purchase sites for future housing development at very low interest rates. The sites purchased with the funds are not required to be developed for up to five years but development of the affordable housing must be completed within eight years. The amount of \$1 million was appropriated to CTED for this program and CTED contracted with the Commission to administer the fund. The Commission has committed an additional \$7 million of PIF money to this program.

Total investment: \$7 million Commission funds

- **For Future/Emergency Designation in 2009/2010:**

Approximately \$1.4 million

HOUSING COUNSELING GRANTS, 2009 AND 2010

The Commission has been very fortunate to receive a significant amount of money for pre-purchase and post-purchase counseling over the last few years. The sub-prime crisis has accelerated the need for post-purchase counseling in

Washington, even though we have not suffered as many foreclosures as other states. The chart and information below summarizes the pre-purchase and post-purchase counseling funds that were available in 2008 and will continue to be available in 2009 and 2010, as long as funds remain in the grants.

Grant Year	Grant Source	Counseling Grant Amount	PRE-Purchase	POST
FY 2008/09	SuperNOFA*	84,000	**42,000	42,000
FY 2008/09	State	480,000	155,000	325,000
FY 2008/09	NeighborWorks	892,589	0	892,589
FY 2009/10	HUD	500,000	0	500,000
Totals		1,956,589	197,000	1,759,589

*SuperNOFA Down from **\$148,624** in FY 2007/08

**Application to HUD includes Pre-purchase, Post-purchase Default and Commission Homebuyer Education Seminars, so split pre & post 50/50.

Because HUD appears to be lowering the amount of funds it will make available to Washington based on our lower incidence of foreclosures, we cannot accurately predict the amount of additional money that will become available to the Commission in 2009 and 2010. We also cannot predict which additional opportunities we may have during the Plan period to apply for counseling funds from other sources. However, based on the current split between pre-purchase and post-purchase counseling funds available, it is fair to predict that we will not have sufficient pre-purchase counseling funds to meet demand for pre-purchase counseling across the state.

PROPOSED USES OF AVAILABLE RESOURCES

PROPOSED USE OF SINGLE-FAMILY AUTHORITY

The Commission has the ability to use the Mortgage Credit Certificate Program (MCC) during the plan period. Due to the market turmoil and the large amount of bond cap available, the Commission may choose to use bond cap authority for an MCC program during the plan period. The Commission will continue to process transfers of previously issued MCC's upon request.

During the 2007 - 2008 Plan period, the Commission had a goal to increase the number of single-family homes financed by the Mortgage Revenue Bond programs by ten percent each year. However, due to the shortage of bond cap in

2008, we were not able to sustain this level of growth. In fact, the Commission may not be able to sustain its 2008 level of operation in the Homeownership arena unless market conditions significantly improve in the first half of 2009.

Source	Single-Family	
ML DDP	\$	20,000,000
2008 “CF”	\$	153,649,620
HERA Cap	\$	100,000,000
2009 Cap		(traded-in for carryforward)
2010	\$	<u>\$153,205,632</u>
Total	\$	\$273,649,620
		\$153,205,632

PROPOSED USE OF MULTIFAMILY AUTHORITY

The Commission will begin 2009 with \$270,655,231 in carryforward authority from previous years as shown in the charts below.

Source	Multifamily	Unallocated
ML DDP	\$ NA	
2006 “CF”	\$	18,800,516
2007 “CF”	\$	3,164,023
2008 “CF”	\$	153,649,620
HERA Cap	\$	95,041,072
2009 Cap		(traded-in for carryforward)
2010		<u>\$153,205,632</u>
Total	\$270,655,231	\$153,205,632

Although the need for affordable multifamily and senior rental housing remains high, it is almost certain that the continuing turmoil in the credit markets in 2009 will have an effect on the availability of credit to develop housing and sell bonds in the Plan period. There will have to be a significant improvement in market conditions and investor interest in order to maintain the 2008 level of multifamily financing. While the recently enacted Housing and Economic Recovery Act provides a temporary increase of bond authority for 2008 and 2009, fewer borrowers are expected to apply for the program due to the continued uncertainty in the credit and bond markets. As a result, there should be no lack of available bond cap for eligible projects that can proceed despite the economic turmoil.

PROPOSED USE OF TAX CREDIT AUTHORITY

The Commission allocated over \$14.2 million of Tax Credits in 2008 when all sources of credit were combined. Based on the adjustments explained above caused by the Housing and Economic Recovery Act of 2008, the Commission anticipates allocating approximately \$29 million during the Plan period.

2009	\$15,063,215
2010	<u>\$13,964,055</u>
	\$ 29,027,270 ⁹

In 2008 we saw a significant retraction of investors willing to buy credits and those that remained in the market were seeking higher yields and were becoming very selective about projects in which to invest. Therefore, we anticipate that 2009 will see a continuation of lower pricing for developers and less interest in special needs projects, rural projects and investment with inexperienced developers without a successful track record. As a result, we anticipate that the sale of tax credits during the Plan period will be significantly slower and more difficult than in 2008 and the Commission may have to reduce our public benefit criteria and set-asides to make projects more attractive to remaining investors.

The Commission usually has additional credit authority from credits recaptured from previous credit reservations that do not result in a project being placed in service. The Commission may also receive additional credits during the Plan period from the national pool of credits not used by other states. However, we expect that the continuation of the credit crisis in the financial markets as described above will significantly restrict the number of tax credit investors that will be willing to buy tax credits during the plan period, even though Washington is a more attractive market for investors than many other states in the nation.

POTENTIAL REFUNDING AUTHORITY

The Commission has available from previous bond issues tax-exempt bond proceeds, which may, under limited circumstances, be refunded for future use. At the present time, only scheduled maturities of outstanding bonds may be predicted for potential refunding. However, additional refunding authority may become available due to the prepayment of mortgages or other circumstances. The use of such authority depends on the ability of the Commission to schedule new bond issues to coincide with maturing bonds and other refunding opportunities. Therefore, it is not possible to anticipate the total refunding potential at this time.

For the first time the Housing and Economic Recovery Act allows the reuse of bond authority from prepayments of tax-exempt bonds used for multifamily projects under limited circumstances. Bonds that are paid off within 4 years of original issuance may be reissued as refunding bonds for another project within six months of the payoff. This refunding authority may only be used once and cannot be used for projects that also have an allocation of low-income housing tax credits. Although the Commission has limited demand for bond authority for

⁹ This is stated as first year authority. Over ten years this represents \$290,272,700 in credit authority.

projects that do not use the low-income housing tax credits in the Multifamily Housing Program, we will implement a procedure to make use of this additional authority on an on-going basis whenever possible.

TAXABLE BOND AUTHORITY

The Commission has the ability to issue taxable bonds and does not have a specific annual limit on such authority. The Commission will continue to issue taxable bonds in conjunction with its tax exempt bonds whenever it is financially feasible to do so and maintain the goals of the Commission's programs. By integrating the issuance of taxable bonds with the tax-exempt bonds issued by the Commission, we are able to expand the number of housing units financed during the Plan period.

However, the use of taxable bonds is limited by current market conditions and changes in interest rates and negative arbitrage. The most likely scenario during this Plan period will be using taxable "tails" on Multifamily Housing bond issuances. Using taxable bonds in the Single Family programs will not be possible under current market conditions.

501(C)(3) BOND AUTHORITY

The Commission has the authority to issue bonds for housing projects owned by nonprofit organizations that meet certain criteria under federal tax law. A wide variety of housing can be financed with such bonds including: multifamily rental housing, group homes, single-room occupancy apartments, continuing care retirement units, congregate housing, nursing homes, and assisted-living units. The Commission will continue to use 501(c)(3) financing authority outside of the unified volume cap to finance housing projects owned by nonprofit organizations during the Plan period as market conditions permit.

The Commission can also issue bonds for nonprofit organizations to finance facilities and purchase equipment. A wide range of projects, including schools, performance halls, museums, YMCA and YWCA facilities, work training facilities, administrative offices for nonprofit organizations, and other types of capital investments are eligible for financing. The Commission will continue to use this authority as much as market conditions permit.

A 2003 decision by the Commission to accept applications from non-pervasively sectarian kindergarten through twelfth grade religious schools and provide tax-exempt financing for these institutions has increased demand for the issuance of 501(c)(3) bonds during the previous Plan period. Applications from religiously and non-religiously affiliated nonprofit schools represent a substantial number of bond issues in this program. Demand is expected to remain strong throughout the Plan period but may be restricted by market conditions.

501(c)(3) bonds are not subject to the unified volume cap under federal tax law at the present time. Therefore, the Commission has no limits on the amount of 501(c)(3) bonds it can issue during the Plan period.

PROGRAM INVESTMENT FUNDS

While the Commission has been able to add to the Program Investment Fund through the generation of positive cash flow since 1989, it's difficult to predict the amount that the Commission will be able to add to the Program Investment Fund each year during the Plan period. Given the likelihood that the current financial turmoil will continue in 2009, the Commission may see a significant reduction in revenues during the Plan period, which would negatively impact further transfers to the Program Investment Fund.

In 2001, the Commission determined that its General Operating Reserve amount should be increased to \$18 million. This was necessary to ensure the adequate accounting and compliance support required due to the increase in the amount of bonds the Commission currently has outstanding (over \$4.0 billion) and the need to provide additional revenue from the interest earned on the General Reserve investments to support operating expenses. Given the recent growth in our outstanding indebtedness, the Commission may need to consider increasing our General Operating Reserves in the future.

OTHER NEW INITIATIVES

The Commission may be undertaking several initiatives during the Plan period that are as yet undeveloped. These are in response to the changing housing market, economic conditions and changing housing conditions in the state. These new initiatives will be developed in cooperation with interested parties and the housing industry through the use of email list serves, focus groups, public meetings and public discussion at Commission meetings.

- The Commission is exploring the development of a market rate taxable mortgage program to be offered in conjunction with the Commission's other homeownership programs. The Commission is considering offering this program, if it is financially feasible, with downpayment assistance from the Commission.
- The Commission is continuing to work with community land trust (CLT) organizations and hopes to provide additional funding for the newly created Regional CLT organization.
- The Commission continues to explore alternative models to finance and house the state's growing population of senior citizens. We will continue to work with our partners in this arena.

- Workforce housing has become a much greater need across the State of Washington as the disparity between the increased cost of housing and the much slower increase in wages has widened. The Commission is working with the City of Seattle on a new workforce housing program that will require legislative action during the Plan period to implement.
- The Commission is also dedicated to encouraging more nonprofit organizations to use the Multifamily Bond program to develop rental housing units. The Equity Fund was authorized by the Legislature in 2008 to provide \$10 million to help nonprofits use this program in conjunction with low-income housing tax credits.
- The Commission established a program in 2008 to provide downpayment assistance for the purchase of a home to persons who are participating in an eligible program offering individual development accounts.

These and other program innovations may be completed during the Plan period.

APPENDIX A

GENERAL POLICIES OF THE HOUSING FINANCE COMMISSION

All programs and operations of the Commission will ensure that borrowers and beneficiaries of its programs receive equal treatment in accordance with state and federal law.

The Commission is dedicated to encouraging opportunities for minority- and women-owned businesses to contract with the Commission and will conduct its procurement activities to encourage such opportunities. Currently, the Commission encourages participation by minority or female-owned bond underwriting firms for each publicly sold bond sale, and is committed to achieving and surpassing diversity goals. The Commission's bond counsel is encouraged to subcontract with a minority- or women-owned firm.

The Commission is committed to encouraging minorities, women and other under-represented groups to participate fully in Commission programs and to provide equal employment opportunities and achieve cultural diversity within the Commission.

The Commission will finance housing for people who, by virtue of age, income, or infirmity, have difficulty obtaining adequate housing. The Commission will give priority to the development of programs and projects that provide housing for the largest number of low- and moderate-income families and persons possible. The Commission will, whenever feasible, give special attention to programs and projects that provide housing for special-needs populations, but the Commission recognizes that housing for low and moderate-income families is also a prime Commission goal.

In the development of financing programs, the Commission will encourage local governments to identify areas or neighborhoods of special need within the state that should receive priority attention under individual programs. Such priority attention may be given to declining urban neighborhoods, areas that are economically depressed, areas of minority concentration, Indian reservations, mortgage-deficient areas, rural areas and communities that are not receiving a fair share of housing assistance under federal, state and local programs. These may be in addition to the target areas established by federal regulations. The general guidelines for receiving priority assistance have been established by the Commission and are available on request.

The Commission will make every effort to work in cooperation with other federal, state and local agencies and organizations to identify special housing and nonprofit capital facility needs within the state and to develop cooperative

programs that will provide opportunities to address these special financing needs. The Commission has cooperatively worked with Fannie Mae, HUD, Rural Housing Service, the FDIC, Department of Community, Trade and Economic Development (CTED), the Federal Home Loan Bank, The Department of Social and Health Services (DSHS), members of the Legislature, the Department of Financial Institutions, Freddie Mac, local housing authorities and a significant number of city and county governments to implement and coordinate financing programs.

To facilitate such cooperation between the Commission and other agencies, the Commission has consistently used a list of agencies and interested parties that receive notices of Commission actions and proposed actions through regular mailings. In the future, however, the Commission will provide more information via its website and email list serves and reduce the reliance on mailed notices to interested parties. To effect this change, the Commission is currently revising its rules to transfer notice procedures from notice through the mail to notice being provided on its website or a recorded telephone message. Once the rules have changed, agencies and interested parties will be notified of the change and assured of consistent notification of Commission activities through access to our website, www.wshfc.org, regular electronic mailings and telephone access to a recorded message.

The Commission will continue to work cooperatively with the private sector to establish such programs, guidelines, regulations and procedures as necessary to meet the objectives of the Commission with the assistance of the private sector. Whenever possible, the Commission will use existing guidelines, procedures and regulations that are compatible with the programs and procedures of the private sector to maintain a cooperative working relationship. The Commission will continue to provide workshops, training sessions, conferences and individual meetings with private developers and offer appropriate opportunities to learn about new financing tools and structures.

The Commission will develop guidelines and qualifications for participation of private lenders in the programs of the Commission. These will encourage participation by all qualified lending institutions throughout the state. It may be necessary, however, for the Commission to limit participation in programs due to limited resources or lack of performance on the part of some lenders in previous programs. The Commission will make a special effort to involve those lending institutions in the state that provide service to rural areas to overcome the centralization of private lending resources in urban areas.

The Commission recognizes that the cooperation of both the public and private sectors of the housing and finance industry will be necessary to make the Commission's programs work properly and will strive to coordinate with both sectors of the housing and finance industry in a cooperative manner. The

Commission will make specific efforts to coordinate with CTED, particularly its Housing and Local Government divisions, and with the state Department of Social and Health Services (DSHS), and the Department of Financial Institutions (DFI) where housing and service programs overlap.

APPENDIX B

HOMEOWNERSHIP FINANCING PROGRAMS

The Commission currently operates thirteen homeownership programs: House Key, House Key Plus, House Key Plus Seattle, House Key Plus King County, HomeChoice, House Key Rural, House Key Schools, House Key Veterans, House Key Plus ARCH (East King County), House Key Bremerton, House Key CLT, a program for use with individual development accounts and Homebuyer Education. The Commission also provides House Key and Homebuyer Education Instructor Training.

HOUSE KEY FIRST-TIME HOMEBUYER PROGRAM

The House Key program offers below-market rate first mortgage loans to first-time homebuyers in the state. By issuing tax-exempt mortgage revenue bonds, the Commission reduces mortgage costs for low- and moderate-income borrowers who might not otherwise be able to buy a home. The Commission works through a network of participating lenders who originate the mortgage loans for first-time homebuyers who qualify under certain income and purchase price restrictions.

In 1992, the Commission introduced the **First Serve Reservation system** to the House Key program. The First Serve Reservation System encompassed a major change in the House Key program. The Housing Finance Commission now pays the costs of issuance for the mortgage revenue bonds supporting the program and takes the risk that mortgages under the program will not be originated.

This change has given the Commission better control over House Key mortgage funds during the origination period and has allowed the Commission to issue bonds in smaller, more frequent series, lessening non-origination risk to the Commission due to interest rate fluctuation. The First Serve Reservation system speeds up the origination process by allowing participating single-family lenders to reserve available House Key mortgage funds for an eligible borrower on a first-come, first-served basis.

In order to implement the First Serve system, the Commission developed a training curriculum for loan officers participating in the House Key program. Once trained, they receive an individual identification number acknowledging their training and are, in turn, the first to receive notification of fund availability and changes in the program.

Nonprofit organizations and local governments may apply to the Commission for Priority Organization Status. Once approved as a Priority Organization, they

can then access Priority Organization program funds for their clients earning at or below 80% of area median income. The Priority Organization program was created in July 2001 as a pilot program to facilitate longer origination and loan-purchasing timelines not permitted using current House Key program limitations.

IN-HOUSE PROGRAM ADMINISTRATION

In 1999, the Commission began reviewing House Key loans for tax compliance in-house and now performs all House Key program administration functions. The use of an online reservation and tracking system saves time and related costs to lenders; improves communications between the Commission and lenders; creates new business opportunities and most importantly, enhances customer service.

HOUSE KEY PLUS DOWN PAYMENT ASSISTANCE (DPA) PROGRAM

For many Washington families, the biggest obstacle to homeownership continues to be the down payment requirement. During this previous Plan period, the Commission increased the House Key Plus Down Payment Assistance (DPA) program loan limits to \$10,000 as a way to provide additional funds to first-time homebuyers who lack the income to save for the higher costs of purchasing a home.

More than \$13.2 million in funds have been made available for the House Key Plus Down Payment Assistance program. The program initially received \$200,000 from the Office of Trade and Economic Community Development; \$200,000 from Seafirst Bank; \$30,000 from Continental Bank; and \$530,000 from the Commission's Program Investment Fund (PIF). Subsequent to the initial funding, notes totaling \$4.5 million from Fannie Mae and additional PIF funds have provided a continuous means of funding the program. Through June 2008, this program has provided approximately \$14.1 million in downpayment assistance to 4,456 families across the state.

HOMECHOICE

HomeChoice is a Fannie Mae-designed single-family mortgage loan program that accommodates the mortgage underwriting needs of low to moderate-income individuals who have disabilities or who have family members with disabilities living with them. HomeChoice mortgage loans are available through Fannie Mae-approved lenders working in partnership with state and local housing and disability agencies, support service organizations, people with disabilities, and homebuyer education counselors. The program offers specially tailored homebuyer education, below-market rate financing, and down payment assistance. In this program, social service providers play a major role in the

identification and coaching of prospective homebuyers. As of June 30 2008, the Program has assisted 731 families.

HOUSE KEY RURAL

A down-payment and closing cost assistance program developed in partnership with CTED's Housing Trust Fund dollars, which is available to eligible first-time homebuyers buying a home in a rural area. Qualified buyers earn less than 80% of area median income. As of June 30, 2008, the Program has assisted 161 families.

HOUSE KEY PLUS SEATTLE

House Key Plus Seattle has assisted 220 families to purchase their first home with incomes of 80 percent or less of area median income within the city of Seattle. This program, in partnership with the city of Seattle, was announced in March 2004.

HOUSE KEY SCHOOLS

House Key Schools is a second mortgage down-payment assistance program for teachers and employees of community or technical colleges and K-12 public or private schools. As of June 30, 2008, the Program has assisted 23 families.

HOUSE KEY VETERANS

House Key Veterans is a second mortgage down-payment assistance program for Veterans who have served our country. As of June 30, 2008, the Program has assisted 8 families.

MORTGAGE CREDIT CERTIFICATE PROGRAM

A Mortgage Credit Certificate (MCC) is a federal income tax credit for first-time homebuyers. With the MCC, the qualified homebuyer is eligible to reduce their amount of federal tax liability equal to a portion of the annual interest paid on their mortgage in the form of a special tax credit. Since the re-introduction of the program in June 30, 2007, 115 MCCs have been issued and the program has been fully allocated.

HOMEBUYER EDUCATION PROGRAM

In cooperation with participating lenders, realtors and nonprofits organizations throughout the state, the Commission offers free seminars to potential homebuyers. The seminars encompass pre- and post-purchase information, emphasizing the importance of budgeting and a good credit history. Homebuyer Education seminars are based on a model developed by Fannie Mae and GE

Mortgage Insurance Company. As of June 30, 2008, 137,237 potential buyers have attended 10,395 free seminars throughout the state since 1991. Seminar participants learn not only about the Commission's homeownership programs, but also about a variety of other affordable housing loan programs and how to avoid predatory lending practices.

HOMEBUYER EDUCATION INSTRUCTOR TRAINING

Through the Commission's **Homebuyer Education Instructor Training program**, lenders, staff of nonprofit organizations, and real estate professionals learn how to market effectively and teach industry-recognized, Commission-sponsored homebuyer education seminars.

In the first half of the training, topics such as organization, structure, ethics, registration procedures, teaching styles, and subject requirements are covered. In the second half of the training, participants get the opportunity to review materials from all approved mortgage insurance providers; share lessons learned; discuss marketing strategies, publicity, and upcoming program changes; and work through several group projects to be used in the seminars.

The seminars led by these Commission-trained instructors educate potential homebuyers about the purchase and subsequent maintenance of a home. The seminars have been recognized by all secondary markets, insurers, and lenders for meeting or exceeding the guidelines set for such education. In addition, attendees receive six clock hour credits through the Department of Licensing for required continuing real estate education.

Each instructor who participates in the training agrees to standards ensuring that all seminars:

- are at least five hours in length, to cover specified major aspects of the home buying process,
- are presented using an open, unbiased format,
- use approved training materials and handouts,
- are offered by trained and certified professionals, and
- are not used to make sales presentations or direct marketing pitches by either the instructor(s) or any guest speakers.

SINGLE-FAMILY HOUSING POLICIES

WHO IS ELIGIBLE FOR A SINGLE-FAMILY LOAN?

In compliance with Internal Revenue Service (IRS) guidelines, eligible borrowers in the House Key program are persons who have not had a "present ownership interest" in their principal residence during the three years preceding their Commission loan. These borrowers are defined as first-time homebuyers.

This requirement does not apply to persons obtaining a loan for a residence located in a federally defined targeted area.

The Commission establishes income limits for each single-family program with consideration to federally prescribed maximum limits and different housing costs and levels of income in various parts of the state. Income limits are established for each program with the objective of serving first-time homebuyers given the cost constraints of the Commission at the time of the program and the cost of housing within the state. It is important that the programs of the Commission serve primarily borrowers who need House Key assistance to purchase a home.

It is also important that the Commission make every effort to serve the public purposes established by the legislature to maintain public confidence that the Commission's programs are a benefit to those families and persons needing such assistance in Washington. The Commission establishes other eligibility criteria as required by market conditions for each single-family program and those criteria are available through participating lenders and the Commission on request.

NEW CONSTRUCTION VERSUS EXISTING HOUSES

Given the legislative purpose of increasing the use of Washington forest products, the Commission has determined that the single-family programs of the Commission should provide funds for new construction. Approximately twenty-four percent of current Mortgage Revenue Bond funds are used to finance new construction of affordable homes for low- and moderate-income families. The remaining seventy-six percent of the available funds are used to finance the purchase of existing homes.

The Commission recognizes that emphasizing the purchase of existing houses provides an opportunity for as many low and moderate-income families as possible to purchase affordable housing. Existing houses are generally less expensive than new houses, and in areas of the state experiencing rapidly escalating house prices, existing homes offer the only source of affordable housing for low and moderate-income borrowers. However, the Commission encourages the construction of new houses for low and moderate-income families where this is feasible or subsidies are available to achieve this goal.

The Commission reviews the distribution of funds between new construction and existing housing on a regular basis and will adjust the program outlines as necessary to promote the achievement of the goals of the Commission.

THE ELDERLY AND PHYSICALLY/MENTALLY DISABLED

The Commission is dedicated to providing the elderly and the physically/mentally disabled with equal access to Commission loans and requires that lenders apply appropriate underwriting standards to elderly and physically/mentally disabled applicants as they apply to all other applicants for single-family loans. In addition, the Commission allows improvements to be made in existing houses to make them accessible to the physically/mentally challenged and meet American Disabilities Act (ADA) requirements. These may be included as part of the purchase price of existing homes under the single-family programs, as long as the costs are reasonable and the work is completed prior to loan closing.

Through its HomeChoice homeownership program, the Commission provides financing to people with disabilities or who have family members with disabilities living with them.

GEOGRAPHIC DISTRIBUTION OF FUNDS

In order to promote the greatest possible geographic distribution of Commission funds throughout the state and to benefit the largest number of persons in all geographic areas of the state, the Commission has established the following goals for the distribution of funds for the single-family programs during the current Plan period.

Target Areas: Target areas are established by federal regulations and local request. The Commission shall continuously make available single-family authority for the purchase of homes in targeted areas, pending market conditions.

Non-Metropolitan Areas: The Commission is committed to providing an equal opportunity for all qualified residents of the state to benefit from the single-family programs. The Commission recognizes that the non-metropolitan areas of the state are less likely than metropolitan areas to have mortgage funds available through conventional sources. Therefore, the Commission promotes the use of approximately 10 percent of the single-family authority in non-metropolitan areas of the state. The Commission continues to take the following actions to encourage the use of this authority in non-metropolitan areas:

- Promote the use of the Rural Housing Service's Single-Family Housing Guaranteed Loan program with the House Key program. The program allows qualified borrowers in rural areas to finance up to 100 percent of the value of the property with House Key rates and fees.

- During the origination of House Key loans, the Commission endeavors to designate at least one lender in every geographic area of the state. Special efforts are made to inform the general public of participating lenders that serve rural areas.
- Special attention will be paid to nonprofit programs such as experienced self-help organizations and other nonprofit sponsors that can assist in the packaging of loans or the construction of houses in rural areas that are not well served by conventional resources.

Metropolitan Areas: Metropolitan areas of the state (those counties designated as Standard Metropolitan Statistical Areas (SMSA) use the remaining available single-family authority and any un-obligated authority from target and non-metropolitan areas., The Commission may find it necessary, from time to time, to limit the amount of money in any one geographic area when area conditions such as rapid economic growth create unreasonable demands on Commission funds. In the past, the Commission found it necessary to limit funds in King, Pierce, and Snohomish Counties (the Tri-County area) in order to ensure that other parts of the state have an opportunity to benefit from the Commission's programs. Because the Commission strives to offer a continuous supply of funds, area set-asides of funds are not anticipated during the next Plan period.

In the House Key program, available funds are distributed on a first-come, first-served basis. Lenders may reserve funds for eligible borrowers by using the on-line reservation system. The Commission allocates House Key funds based on the policy of the oldest and/or highest interest rate moneys being made available first.

Special set-asides may be made available to public bodies or nonprofit organizations under the single-family programs using the criteria developed by the Commission. The Priority Organization program guidelines described in the description of single-family programs is an example of such a program. For more information, contact Commission staff. Approved mortgage lenders will be required to provide mortgage loans to eligible first-time homebuyers on a first-come first-served basis. Exceptions may be granted for limited commitments to builders of new houses, specified set-asides, or other requirements of the Commission.

PURCHASE PRICE LIMITS

The Commission determines purchase price limits that are appropriate for each single-family program based on the interest rate, income limits and other program requirements necessary for implementation. Currently, the Commission uses information developed in cooperation with the Washington Center for Real Estate Research (WCRER) at Washington State University, property sales data collected from counties, and lender input to establish

appropriate purchase price limits. The limits established by the Commission do not exceed the purchase price limitations set by federal regulations, but may be lower than the maximum federal limits.

APPENDIX C

CAPITAL PROJECTS FINANCING PROGRAMS

The Commission currently operates four financing programs in the Capital Projects division: the Multifamily Housing Bond program, the Nonprofit Housing program, the Beginning Farmer/Rancher Program, and the Nonprofit Facilities Financing program. These programs have separate financing options that address specific owners, housing needs, or financing problems that have been identified by the Commission.

The Commission will continue to offer technical assistance to nonprofit organizations and developers of low-income housing. The Commission will provide this assistance in cooperation with lenders, local governments, and other state agencies to increase the general capacity of these developers in all areas of the state and especially in areas where resources are scarce.

MULTIFAMILY HOUSING BOND PROGRAM

The Multifamily Housing Bond program is primarily intended to finance multifamily projects developed by for-profit developers and nonprofit organizations that want to gain access to low-income housing tax credits with tax exempt bonds. Through this program, developers can obtain taxable or tax-exempt mortgages for the acquisition, new construction, or rehabilitation of housing projects. Projects developed under the program must either set aside 20 percent of the units for occupancy by persons earning less than 50 percent of area median income, or 40 percent of the units for occupancy by persons earning less than 60 percent of area median income.

Bonds issued through this program are subject to the Unified Volume Cap, which places a limitation on the amount of bonds that can be issued in a year. In years when demand for bond financing through this program exceeds the amount of bond volume cap available, projects will be required to compete for financing by scoring the highest number of points on the Housing Evaluation Policy and meeting Readiness Criteria that require a project to issue bonds within the year that bond cap authority is allocated. This competition was activated in 1995 and has continued each year since due to the high demand for tax-exempt financing and the limited amount of Unified Volume Cap available.

The Housing Evaluation Policy is reviewed on an annual basis to ensure that it is responsive to changing conditions in the multifamily housing market. The Policy was revised in 2008. At the beginning of the 2008 program year the large number of applications exceeded the bond cap authority, and the Commission

had to create a waiting list. However, with the tightening in the credit and equity markets in response to the crises in the financial markets, a number of projects were no longer able to obtain the necessary financing. Until the markets stabilize, it is difficult to predict what affect the market and credit problems will have on the demand for financing through the Plan period. Since multifamily development has a significant economic impact, a decrease in production will have a negative impact in many sectors of the region.

The Commission may also use current refunding authority to refund a portion of the multifamily bonds previously issued to finance multifamily projects. This would be done to extend the period of the Regulatory Agreement and potentially to take advantage of current lower interest rates. The Commission will also develop a program to take advantage of any refunding bond cap authority that becomes available as the result of provisions in the 2008 Housing and Economic Recovery Act, which now allows multifamily bonds which are paid off within 4 years of original issuance to be used to fund new bond issues within limitations.

NONPROFIT HOUSING PROGRAM

The Nonprofit Housing program is available only to nonprofit organizations designated as such under section 501(c)(3) of the tax code. This program is designed to finance the full range of senior living options provided by nonprofit organizations, from independent living through assisted living, continuing care retirement communities, group homes, and nursing homes. This program also provides financing for nonprofit-sponsored multifamily housing and housing for special-needs populations. Federal law applies more liberal guidelines to nonprofit bonds regarding the use of bond proceeds than is allowed for-profit-owned projects. For example, nonprofit organizations can refinance higher interest taxable debt with below-market tax-exempt debt. The savings result in increased income for operations and more stable nonprofit organizations.

In response to the needs of nonprofit organizations using this program, the Commission revised and streamlined regulatory processes and procedures and reduced fees to nonprofit organizations using the program. This was designed to help organizations reduce unnecessary paperwork and expenses and to give each organization more flexibility to design options that fit their individual missions and requirements. Bonds issued through this program are not restricted under the Unified Volume Cap. Therefore, there is no competition among the users of this program. Low-Income Housing Tax Credits cannot be used in conjunction with this type of bond.

In 1989, the *Housing Needs Study* identified the elderly as a population that needed special attention if sufficient housing were going to be developed to meet future needs. As a result, the Commission sought additional authority in 1990 to finance nursing homes and significantly revised its policies and programs for financing housing for the elderly. Since 1990, the Commission has

been a leader in the issuance of tax-exempt bonds to finance housing for the elderly on a national level.

In 2004 the Commission engaged the Washington Center for Real Estate Research to prepare a study of housing options and services that are currently available to seniors in the state. This study was completed in 2007 and is now available on our website. We also completed a second study on the perceptions of Washington residents nearing retirement on their need for housing, their ability to pay and the availability of appropriate housing in their areas. (Go to www.wshfc.org to view the studies)

The Commission continues its work with partners such as the Aging Services of Washington and other governmental and nonprofit agencies and organizations serving the elderly to ensure that programs are responsive to the changing needs of our state's senior population. We are also participating with other agencies and nonprofit providers in the development of new models to ensure that the state's seniors will have adequate housing and needed services into the future.

NONPROFIT FACILITIES FINANCING PROGRAM

The Nonprofit Facilities program provides tax-exempt financing exclusively for capital projects that are developed and owned by nonprofit organizations and that do not include a housing component. Federal law allows nonprofit organizations to use tax-exempt bonds to finance any capital expenditures, including land acquisitions, construction, and capital equipment, provided they are used in the furtherance of the nonprofit mission approved by the IRS. These bonds are not subject to the Unified Volume Cap. Facilities or equipment financed through this program must be wholly owned by a 501(c)(3) nonprofit organization.

The 1990 Legislature gave the Commission the authority to issue tax-exempt bonds to finance any capital expenditures for nonprofit organizations that have been designated by the Internal Revenue Service as a 501(c)(3) organization under the Internal Revenue Code. Under this general authority, the Commission has issued bonds for a variety of purposes including educational institutions, recreational facilities, administrative offices, performing arts facilities, animal shelters, and training and work facilities for the disabled.

Commission-issued bonds to finance nonprofit facilities may either be publicly sold or privately placed with a willing purchaser through a program such as the Streamlined Tax-Exempt Placement (STEP) program. Generally, nonprofit organizations choose publicly sold debt for larger projects when savings from the lower interest rate achieved by a public sale are greater than the higher initial cost of such a transaction. For projects under \$3 million, a private placement is often more cost effective.

The Commission continues to refine its policies dealing with bonds issued through this program to allow borrowers as much flexibility as possible in choosing financing structures that fit their financial strategies. To help nonprofit organizations assess the most beneficial financing structures, the Commission provides technical assistance to these client organizations, including five hours of free consultation with a qualified financial advisory firm selected by the Commission.

BEGINNING FARMER/RANCHER LOAN PROGRAM

In 2005 the legislature gave the Commission the authority to issue bonds on behalf of beginning farmers and ranchers across the state. Loans up to a lifetime maximum of \$450,000 per family can be made for land acquisition, agricultural buildings and improvements, farm equipment and animals. The Commission has entered into a partnership with Northwest Farm Credit Services to make and service these loans. The Commission has formed additional partnerships with agriculturally related agencies and organizations to help ensure the success of this new program and is planning to sponsor several farm finance workshops in the Plan period with these partners.

The first loans were made in 2008. It is expected that at least 8 loans will be closed by the end of 2008. With the continued partnership of Northwest Farm Credit Services demand should be strong throughout the Plan period.

The bonds are subject to the Unified Volume Cap under the Small Issue category. The Commission worked with the Department of Community Trade and Economic Development to develop procedures for the allocation of bond authority for the new program.

OTHER FINANCING PROGRAMS

The Commission works hard to develop financing structures that meet the special financing and pricing needs of nonprofit organizations and these are outlined in the following paragraphs.

PRE-DEVELOPMENT LOAN PROGRAM AND AFFORDABLE HOUSING PRESERVATION PROGRAMS WITH IMPACT CAPITAL

In cooperation with Impact Capital the Commission developed a pre-development revolving loan program to supplement other sources of pre-development funds in the state for nonprofit organizations. The Commission encouraged Impact Capital to make available pre-development funds for projects outside of King, Snohomish, and Pierce counties. This revolving loan fund was initiated with approximately \$750,000 of Commission earnings from a preservation funding program in cooperation with HUD. This loan fund has revolved 5 ½ times and with every dollar from this fund an additional \$154

dollars has been leveraged from other sources to provide housing for very-low income households.

In August 2000, the Commission loaned \$4.75 million of its Program Investment Funds to Impact Capital to support preservation efforts through a five-year agreement to invest funds in the Washington Community Investment Fund (WCIF), managed by Impact Capital. The Impact Capital Fund provides pre-development and high-risk capital to assist owners, developers and other housing providers to preserve affordable housing. Through October 2007, the Commission's funds combined with those of several private lenders have resulted in \$21,797,477 in loans to assist in the acquisition, rehabilitation, refinancing and preservation of 8,095 affordable housing units. In recognition of this success, in 2005 the Commission decided to renew this agreement for an additional five years and increased its investment to \$5.0 million. The investment was increased again in 2007 to \$5.25 and to \$5.50 million in 2008.

STREAMLINED TAX-EXEMPT PLACEMENT (STEP)

The STEP program is designed for projects that will use a predetermined tax-exempt financing structure to privately place bonds with a financial institution. The program is intended to finance the acquisition, rehabilitation, or new construction of housing or nonprofit facilities. Nonprofit organizations may also refinance existing taxable loans for such purposes. The program uses standardized documents and lower fees that are attractive to smaller projects. The Commission continues to refine the program in response to the needs of both the borrowers and the participating lenders.

Both for-profit and nonprofit developers may use the program under specific guidelines. For-profit projects require authority under the Unified Volume Cap, but nonprofit projects do not.

THE CAPITAL PLUS PROGRAM

The Commission continues its ongoing partnership with the Washington Community Reinvestment Association (WCRA) by investing \$7,000,000 in a revolving loan fund to finance nonprofit capital projects, land, buildings or equipment, that are too small to be economically feasible through the tax exempt bond programs. With a maximum loan amount of \$500,000 and a ten-year term, this program is ideally suited to those nonprofit projects that create a high public benefit but do not necessarily attract the interest of conventional lenders.

WCRA administers this program for the Commission. Approximately \$1 million in loans are made yearly, with \$4.788 million now committed to eighteen projects serving low-income and special needs populations. Program guidelines were recently revised to allow nonprofit resident associations access to the program for financing to save mobile home parks that are at risk of closure.

TAXABLE BONDS

The Commission issues taxable bonds to finance the cost of issuing or refunding tax-exempt bonds and will do so in the future. Blending taxable and tax-exempt bonds also stretches the amount of bond financing available for multifamily and assisted living projects when bond authority under the Unified Volume Cap is limited. Since 1995, the Commission has encouraged the use of taxable bonds in conjunction with its programs, which has resulted in the issuance of more than \$196.6 million of taxable bonds. Through the Housing Evaluation Policy the Commission encourages developers to make use of taxable bonds by awarding points for financing a portion of their projects with taxable bonds.

Affordable multifamily projects are subject to the same cost pressures as any other project as the cost of land and construction continue to escalate. These cost increases have a significant impact on the amount that can be borrowed and repaid. This makes the lower tax-exempt interest rate more important than ever. While the Commission will continue to encourage the use of taxable bonds when issuance authority is limited, it will also strive to keep a good balance to ensure that the projects remain financially sound over the long term.

OTHER PRESERVATION EFFORTS

The Compliance & Preservation division, in coordination with other divisions of the Commission, participated in coalition efforts to design several programs to preserve affordable housing. In October 1998, the Commission was approved as a Participating Administrative Entity by HUD to administer the Mark-to-Market program. This program targeted projects with FHA mortgage insurance and above-market subsidized Section 8 rents. The Commission was tasked with restructuring the debt and/or subsidy at a market-supportable level for eligible projects. The Commission's contract was terminated in 2001 after restructuring 19 projects with 876 affordable units.

The Commission issued a report on the success of public efforts to preserve Section 8 housing in Washington in early 2002. The report, Public Funding Can Make a Difference, illustrated the importance of the Housing Trust Fund and other public funding sources in preserving expiring Section 8 housing units.

The Compliance and Preservation division conducted a series of Focus Groups around the state to assist in determining how to best invest the Commission's limited resources in Preservation activities. This process was outlined in a public report, "Cooperatively Developing a Multifamily Housing Preservation Program", published in January, 2003.

In consultation with the Washington Low-Income Housing Alliance, The Commission published a Tax Credit Property Risk Analysis Report, in February,

2003, which quantified the risk of conversion of low-income apartment units to market rate rentals.

The Commission published Qualified Contract Process procedures in June, 2004. These procedures outline the process an owner must follow if they wish to exercise their IRS-allowed option to sell a tax credit property after year-15 of the restricted use period.

In March 2005, the Commission published streamlined monitoring procedures for properties after year-15 in the restricted use period. The Commission typically monitors properties for up to 40 years, but the IRS only provides oversight during the first 15 years. The Commission made an effort to streamline procedures for owners to require compliance only on those issues that will preserve units for their intended use.

The Commission continues to explore other methods to preserve affordable housing financed with Commission bonds and/or low-income housing tax credits, and is specifically focused on multifamily projects that have regulatory commitments that are expiring in the next few years.

POLICIES FOR BOND-FINANCED CAPITAL PROJECTS

GENERAL POLICIES

The projects financed under the Capital Project division's programs must meet the following requirements:

LOCATION

The project must be located in Washington State, or, in the case of nonprofit capital equipment, used to benefit Washington State residents.

COORDINATION WITH UNITS OF LOCAL GOVERNMENT

The Commission recognizes the need for inter-governmental coordination in the consideration and selection of bond-financed projects. Accordingly, the Commission holds public hearings prior to committing Commission bond authority for any housing or nonprofit capital project. Notice of the hearing is published at least 14 days prior to the hearing in one or more newspapers of general circulation including the area in which the project will be located.

The public hearing notice is mailed to the chief executive officer of the local jurisdiction where the proposed project is located. The Commission invites members of both the local government and the general public to testify with respect to the project proposal. The local government may comment at the hearing on the consistency of the proposed project with local plans, policies, and ordinances. The Commission hears the testimony and considers it as part of the

financing process. However, the Commission does not overrule local determinations with regard to land use, zoning, and permitting processes.

Commission-financed projects should be in compliance with Consolidated Plans and local Growth Management Act (GMA) housing elements (if adopted). This coordination process helps to direct Commission authority to projects whose zoning, land use, and designs meet local codes and avoid delays in project completion caused by non-compliance with local codes. The review process also maintains a cooperative working relationship between local governments and the Commission.

The Commission is particularly interested in working with cities and other areas of local government on multifamily housing projects and nonprofit capital facilities that are included in housing assistance plans, downtown revitalization programs, the local or state Consolidated Plan, a local or regional Growth Management Plan, and economic development efforts of such governments. These, as well as other projects of special interest to local governments should be brought to the attention of the Commission at the earliest opportunity so that potential methods of cooperative financing may be explored.

The Commission has been a leader in coordinating joint federal, state, and local compliance review of affordable housing programs. Several years ago, the Commission signed Memorandums of Understanding (MOUs) with the City of Seattle, the State Department of Community Trade and Economic Development, the state USDA Rural Development office, and most recently the City of Tacoma to coordinate monitoring and on-site inspection services. The Commission also has an MOU with the Seattle Housing Authority to accept PHA documentation of income for several project-based Section 8 properties. Informal working agreements exist with several other agencies to share monitoring and inspection resources, including King County, Snohomish County, the Northwest HUD office and Bremerton Housing Authority's Contract Administration Services.

The Commission recognizes that communications between a project developer and local governments, residents in the project area, and the general public can foster a better understanding and positive community relationships for all of the parties. Accordingly, the Commission encourages developers and members of the community to develop appropriate avenues of communication for the discussion of project proposals.

FINANCING AND RATING REQUIREMENTS

Since the Commission does not pledge the good faith or credit of the State of Washington, bonds issued through its programs must be able to be repaid from project earnings or other sources. The Commission has adopted several policies concerning its housing and nonprofit capital facilities programs to determine if bond financing is appropriate for the project. These policies require or give guidance on such concerns as credit enhancement, the sale of unrated bonds, and the structuring of variable rate bonds.

DISPLACEMENT AND RELOCATION

The Commission recognizes that displacement of low- and moderate-income persons from existing neighborhoods and buildings is often a consideration in the development and financing of multifamily housing projects. The Commission intends to prevent displacement of families to the greatest degree possible. To this end, projects involving residential rental buildings that are subject to the Tenant Landlord Act must submit and receive approval of a relocation plan for the existing tenants from the local government. A copy of the letter from the local jurisdiction, either approving the plan, or stating that it is not necessary, will be required for any such financing.

The conversion of rental units to condominiums often results in the reduction of available rental units for, and the displacement of, low and moderate-income families. Therefore, the Commission prohibits the conversion of multifamily projects financed with tax-exempt bond proceeds to condominiums for a minimum of 15 years, or the period specified by federal regulation, whichever is longer.

ACCESSIBILITY TO THE DISABLED

Newly constructed projects must meet federal, state, and local ADA accessibility requirements. The Commission encourages for-profit multifamily developers through its Housing Evaluation Policy to provide special services and amenities for their disabled residents.

REGULATORY REQUIREMENTS FOR HOUSING PROJECTS

For projects financed with tax-exempt authority subject to the Unified Volume Cap or projects participating in the Low-Income Housing Tax Credit program, the developers elect to provide that either: (1) 40 percent or more of the units in the project must be occupied by persons having incomes of less than 60 percent of the area median income (adjusted for family size), or (2) 20 percent or more of the units must be occupied by persons earning less than 50 percent of the area median income (adjusted for family size), or (3) a very low-income option provided by federal regulations for some programs.

For projects financed with tax-exempt authority not subject to the Unified Volume Cap, the Commission has established low-income set-aside options. By providing options the Commission recognizes that nonprofit organizations are different and fulfill their missions in a variety of ways.

Borrowers using the Nonprofit Housing program have four options:

- A. No formal Low-Income Set-Aside commitments. This option allows the individual nonprofit to serve its target clients in the most flexible manner. All nonprofit organizations make commitments to provide public benefits as determined in their designation as a nonprofit organization under section 501(c)(3) of the Tax Code.

- B. Federally Required Low-Income Set-Asides. Federal law requires, depending on the use of bond proceeds and the physical configuration of the project, the set-aside of 20% of the units for residents at 50% of median income or 40% of the units for residents at 60% of median income. All projects that fall into this category must make the required set-asides.
- C. Optional Formal Low-Income Set-Aside Commitments. State law provides that nonprofit-owned projects that provide housing for the elderly and use tax-exempt bonds to finance their facility may qualify for a property tax exemption if they agree to the following low-income set-asides. Nonprofit organizations wishing to qualify for this tax exemption may select this option, and the Commission will certify compliance to the State.
1. The owner is required to set aside 10% of the total units eligible for financing by the Commission for tenants or families with incomes at or below 80% of the state or local median income, whichever is higher, and 10% of the total for tenants or families with incomes at or below 50% of the state or local median income, whichever is higher. The set-aside units must be available so long as the bonds are outstanding, but not less than 20 years from the later of bond closing or the date on which one-half of all units are first occupied; or,
 2. The owner is required to set aside 20% of the total units eligible for financing by the Commission for tenants or families with incomes at or below 50% of the state or local median income, whichever is higher, and 10% of the total for tenants or families with incomes at or below 80% of the state or local median income, whichever is higher.
- D. Low-Income Set-Asides Under the Fee Waiver. The Commission is concerned that nonprofit organizations providing housing to very low-income people, particularly the elderly, are finding it increasingly difficult to meet rising operating expenses in an environment of shrinking resources. In order to assist nonprofits that have as a mission the provision of housing to low-income people, the Commission offers a reduction in the annual fees if the nonprofit agrees to commit to one of the following set-aside options. The savings generated through this fee reduction are intended to help increase the stability and soundness of the project and the organization.
1. At least 75% of the units are occupied by residents with “low-income” (80% of the area’s median income, adjusted for family size); and additionally, up to 25% of the units may be leased to residents without regard to income limitations, or
 2. At least 20% of the units are occupied by residents with “very low-income” (50% of the area’s median income, adjusted for family size), or
 3. At least 40% of the units are occupied by residents with income that does not exceed 60% of the area’s median income, adjusted for family size, or

4. If the provider is an assisted living facility or nursing home, at least 20% of all units/beds must be reserved and rented to residents/patients who are eligible for Medicaid, or
5. If the provider is a Continuing Care Retirement Community (CCRC), at least 20% of the assisted living and nursing home beds must be reserved for residents/patients who are eligible for Medicaid.

A housing project owner enters into an agreement with the Commission to ensure compliance with the low- and moderate-income requirements of the Commission. In addition, each owner that makes a formal set-aside commitment is required to accept and record deed restrictions requiring that the entire project be maintained and operated as a residential rental project for the period as required by federal regulations and Commission policy.

THE ALLOCATION OF BOND CAP AUTHORITY

The Commission has developed a process for allocating private activity bond cap among multifamily developers that apply for bond financing based on readiness and public benefit because demand for bond cap has historically been greater than the amount available. The Commission has adopted Rules under WAC 262-01-140 for the allocation of private activity bonds. The Rules set forth the principles by which the Commission allocates multifamily bond cap to carry out this Plan and which apply to all applicants.

In addition, every year the Commission publishes a Housing Evaluation Policy that describes the process and criteria that will be used by the Commission staff to evaluate and rank projects for allocation of the Commission's multifamily portion of the private activity bond cap. This is done in furtherance of this Plan and the Rules.

The Housing Evaluation Policy is intended to be an interpretive or policy statement to provide guidance to applicants and to the Commission staff, but is not binding upon the Commission or the Director of the Capital Projects division. Neither is it binding upon the Executive Director of the Commission, to whom such decisions may be appealed. The Director of Capital Projects has been delegated the authority to distribute bond cap pursuant to the Rules.

The *Housing Evaluation Policy* is subject to change by the Commission, based on, among other things, developments under federal law. The Commission staff may modify the *Policy* as well as the forms, legal documents, and other materials used by the Commission staff, as necessary and appropriate unless otherwise prohibited by law.

The *Housing Evaluation Policy* is applied to those projects that compete for the allocation of bond cap authority. Projects are ranked according to their *Housing Evaluation Policy* scores and financing is allocated to those projects receiving the highest scores. Projects must demonstrate readiness to finance and use the allocation of bond cap authority in a timely manner.

The purpose of the *Readiness Criteria* is to ensure that projects applying for a reservation of bond cap from the Commission will be able to close their bonds in the year in which the allocation is made. A reservation of bond cap may only be made for applicant projects that make complete submissions, respond completely to the *Readiness Criteria*, meet the minimum threshold score, and pay the appropriate fees. The bond cap allocation made to the project may be revoked if the timing requirements for the issuance of bonds are not met during the year.

In general, the *Housing Evaluation Policy* gives priority to projects supported by federal, state, and local governments; to those located in targeted and distressed areas; and to projects consisting of 75 units or less. It also gives priority to projects with set-asides and referral agreements for the disabled, large families or other special-needs populations; to the rehabilitation or preservation of existing housing; to the use of sustainable building practices; and to projects which leverage the use of tax-exempt resources using other funding sources or a portion of taxable bonds. The point criteria recognize the public benefit and value provided especially by projects that are sponsored and operated by nonprofit organizations. The Commission reviews the *Housing Evaluation Policy* annually, in consultation with industry leaders and the general public.

Copies of the most current *Housing Evaluation Policy* and the *Readiness Criteria* may be found in the Capital Projects section of the Commission's website www.wshfc.org. Please be aware that they may be revised during the Plan period. You may also contact the Commission at 206-464-7139 and request that a copy be faxed or mailed to you.

POLICIES ADDRESSING HOUSING PEOPLE WITH SPECIAL NEEDS

To promote the development of affordable housing for the elderly, the Commission created the Housing for the Elderly program in 1990, in consultation with the elder-care industry. The Housing for the Elderly program has now been folded into the Nonprofit Housing program, however, the Commission continues to place special emphasis on projects that serve the elderly. The Commission has created specific policies for these housing providers, including the circumstances for financing Continuing Care Retirement Communities (CCRC) and set-aside requirements for nonprofit providers of housing for the elderly. The Commission plans to continue to work with developers of housing for the elderly as well as those who provide services for the elderly to ensure that the program continues to meet the needs of Washington State's older citizens.

The Commission encourages the development and financing of additional rental housing opportunities for the physically/mentally disabled. To achieve this purpose, the Commission gives preference in the *Housing Evaluation Policy* to projects that actively work with nonprofit organizations serving the disabled and make special efforts to provide housing units for these populations. The

Commission will continue to look for ways to facilitate partnerships between housing and service providers.

The Commission recognizes that affordable rental housing for families is greatly needed throughout Washington State. Often, the development of projects for family occupancy receives less attention than other housing needs. Housing for low and moderate-income families may not be recognized as the highest priority in many local communities. However, the Commission will continue to encourage the development of housing that will serve low and moderate-income families in its programs.

EQUITY FUND

In 2008 the Legislature authorized the expenditure of \$10 million to create a fund that would assist eligible Washington organizations (as defined under RCW 43.185A.040) to gain access to the low-income housing tax credits through the use of tax-exempt bonds issued through the Commission's Multifamily Housing Program. The Department of Community Trade and Economic Development (CTED) was directed to enter into an agreement with the Commission to administer and implement the program.

CTED and the Commission developed the program guidelines and executed an agreement for the program's implementation in 2008. The committed funds are to be spent or contractually obligated prior to June 30, 2009. Projects receiving these funds may not receive project funds from the Housing Trust Fund. The funds will be structured in accordance with the federal requirements of the Low-Income Housing Tax Credit program. Any funds not spent by the end of the contract period will be returned to the State.

The Equity Fund was opened for applications in 2008. Two applications were received and evaluated according to the policies and procedures of the Multifamily Housing Program. They will receive an allocation of bond cap authority from the 2009 program.

APPENDIX D

THE LOW INCOME HOUSING TAX CREDIT PROGRAM

The low-income housing tax credit program is an incentive program created to encourage the construction or rehabilitation of buildings for low-income residents. This program is a product of the Tax Reform Act of 1986, and is codified in Section 42 of the tax code of the Internal Revenue Service. Tax credits provide owners and investors with a dollar-for-dollar reduction in their tax liability. The credit is available for a ten-year period and the amount of credit awarded to a project is based on the costs of developing the project and the number of qualified low-income units in the project.

The Commission is the designated authority for allocating low-income housing tax credits in the state of Washington. The laws governing the program impose requirements on owners that the Commission is charged with administering and monitoring. As the allocating agency, the Commission also has the ability to develop additional requirements beyond the federal code for administering the program. State guidelines may be more restrictive than federal guidelines.

A *Qualified Allocation Plan (QAP)*, a requirement of the tax code, provides general guidance on how the Commission will administer the tax credit program, what priorities and preferences exist, and what specific criteria are considered for awarding credit to projects. Any modification to the *QAP* is subject to public hearing prior to adoption by the Commission and approval by the governor. In addition to the *QAP*, the program's *Policies* provide specific guidance about applying for and receiving credit and the responsibilities that an allocation of credit carries with it.

There are two credit rates, or Applicable Percentages: a "9% Credit" and a "4% Credit": the present value of the credit over a 10-year period equals 70% ("9% Credit"); or, 30% ("4% Credit") of a project's qualified basis, depending on the type of project.

The "9% Credit" is available for new construction and substantial rehabilitation projects. The "4% Credit" is available for projects which involve acquisition of an existing building or for projects which are financed with other federal subsidies (using tax-exempt bond financing, for example). As mentioned previously, the Commission allocated \$2.00 in per capita authority in 2008. In 2009 this authority will be temporarily increased to \$2.30 per capita, resulting in approximately \$15 million in 2009 first year credit.

Projects financed in part with tax-exempt bonds may couple the bonds with the "4% credit". Doing so requires that the tax-exempt bond amount represent at least 50 percent of the project's total cost. The tax credits allocated to tax-

exempt bond transactions are allocated outside of the per capita authority amount and are limited by the private activity tax-exempt volume cap authority of the state.

By federal law, ten percent of the credit amount is set aside for projects developed by qualified nonprofit corporations. The Commission has also established credit set-asides for rural projects (15%), and for projects financed by the Rural Housing Service of the U.S. Department of Agriculture (5%). Additionally, beginning in 2004 the Commission established a temporary five year credit set-aside for projects that have secured funding through the HUD-HOPE VI program. This set-aside will end in 2009.

Washington's tax credit allocation process is objective and competitive. The Commission conducts one competitive application round per year. Applications are self-scored based on criteria set forth in the program's *Policies*. Applications are due in January and allocation decisions are made by April. Projects must be completed in the year they receive their reservation of credit or, by meeting certain completion thresholds, the credit may be "carried over" for up to two additional years.

As part of the application process, the Commission performs an underwriting analysis that involves a review of a project's sources and uses, marketability and need, and overall financial feasibility and long-term viability.

Tax credit projects are rent and income restricted for up to 40 years. Owners are required to annually certify tenant incomes, calculate the correct rent amounts, and submit reports to the Internal Revenue Service (IRS) and the Commission. The IRS may assign substantial recapture penalties to the owner if these requirements are not met during the initial 15-year compliance period. In addition, the Commission may sue for specific performance under the project's Regulatory Agreement (Extended Use Agreement) for the duration of the 30 to 40-year extended use compliance period.

The Commission reviews reports, audits records, conducts on-site visits, and provides ongoing training sessions for project owners and managers in compliance procedures. The Commission provides on-line bond and tax credit compliance manuals for use by on-site managers to help them understand their compliance responsibilities; in addition, the Commission makes available frequently-updated resources on its website www.wshfc.org for use by owners, managers and residents. The Commission also assumed a leadership role in developing a nationally recognized program of coordinated compliance review for projects utilizing funding from various public funding sources (e.g., Low-Income Housing Tax Credits, the state Housing Trust Fund, cities, counties, USDA, HUD, etc).

The Commission also recently published streamlined compliance procedures for properties which have reached year-15 in the typical forty-year restricted use period. The Commission typically monitors properties for up to 40 years, but the IRS only provides oversight during the first fifteen years. At the end of this 15 year period IRS compliance ceases and only state oversight continues. Therefore, the Commission may institute more lenient compliance guidelines for properties that have good compliance records. The Commission wants to work with owners as properties age to focus on essential reporting and monitoring that maintains the property for its intended use. To that end, the Commission also works closely with owners of financially troubled projects, coordinating efforts with public and private lenders to find workable solutions that preserve affordability levels and long-term restricted use periods.

POLICIES FOR THE TAX CREDIT PROGRAM

ELIGIBLE BORROWERS AND PROJECTS

The Commission must, by law, give preference to projects that serve the lowest income tenants for the longest period of time. Beyond the federal requirements imposed on the tax credit program by Section 42 of the tax code, the Commission has developed additional requirements that must be met by project owners to ensure the goals of the program are met. These requirements are included in the *QAP* and the *Policies*.

The *QAP* and the *Policies* include specific selection guidelines called the Allocation Criteria. Most of these criteria are given a point value and used to rank projects against other applications. After all projects are scored, credits are awarded to eligible projects in descending point order until all credits are allocated. Under these criteria, the Commission requires that all applications must have a minimum point score to be considered for an allocation of tax credits.

The Allocation Criteria include:

FULLY FUNDED PROJECTS

Top priority is given to fully-funded applications. To be considered fully-funded, applicants must demonstrate that at the time of application, all necessary funding commitments have been made.

REHABILITATION VERSUS NEW CONSTRUCTION

Points are awarded to projects that rehabilitate existing housing.

SPECIAL NEEDS POPULATIONS

Points are awarded to projects that set-aside a certain percentage of the total units for populations with special needs, including the homeless, farm workers, the elderly, the physically or mentally disabled and large households. Of these categories, highest priority is given to projects serving the homeless or farmworker households.

Nearly 800 units serving the homeless have resulted from homeless policy incentives. This policy is intended to coordinate with our statewide goal of reducing homelessness in Washington by fifty percent by 2015.

Since initiating a farm worker priority in 1998, over 900 units of permanent farmworker housing have been financed in 47 different projects.

HOUSING NEEDS

Periodically the Commission conducts a housing needs study, to determine by county, areas of highest to lowest needs. Need is based on population, housing affordability, existing supply, and family income. This allocation criterion awards priority points to projects based on location.

As a related benefit criterion, points may be also be awarded to projects located in difficult development areas and qualified census tracts designated by HUD, or targeted areas designated by local jurisdictions and approved by the Commission. This encourages developers to locate projects in these areas.

COORDINATION WITH UNITS OF LOCAL GOVERNMENT

The tax credit program requires consistency with state or local Consolidated Plans. The developer of a qualified project must demonstrate that proposals are in compliance with the local housing plans covering the project area. In an effort to coordinate development with local governments, points are awarded to projects that leverage a substantial funding commitment from other public sources (federal, state, and/or local governments). This allows local governments to direct funding commitments to projects that best meet their respective funding priorities while at the same time enhancing a project's scoring for eligibility for the tax credit program.

The Commission works continuously with a group of state and local government funding agencies called the "Public Funders" to develop methods of streamlining the processing of affordable housing projects through the tax credit and other programs.

As previously mentioned, the Commission has formed several partnerships with these other public agencies for compliance monitoring and on-site inspections. These partnerships, in the form of Memorandums of Understandings (MOU), have allowed for streamlining of paperwork requirements for projects with funding from multiple public funding sources. This has resulted in a decrease in the number of on-site inspections through a sharing of information for managers and owners.

DISPLACEMENT AND RELOCATION

The Low-Income Housing Tax Credit *QAP and Policies* discourage displacement and relocation of existing tenants and requires any project that involves existing tenants to have a relocation plan subject to Commission approval. The Commission's relocation policy also requires certain notification requirements be met.

OTHER ALLOCATION CRITERIA

Other allocation criteria included in the *Policies* include the following:

- Points may be awarded on a sliding scale for increasing the percentage of units set aside for lower-income populations.
- Points may be awarded to projects that are “at-risk” of being converted to market rate housing.
- Points are awarded for every year beyond the initial 15 years of restricted rents for all applicable low-income units (projects typically are restricted for 40 years).

LAND ACQUISITION PROGRAM

The Land Acquisition Program (LAP) is to establish a revolving loan program for assisting eligible organizations (as defined under RCW 43.185A.040) in Washington to purchase land suited for either multi or single- family affordable housing development. This is not a short term acquisition bridge financing program, but instead a program intended to assist with site acquisition for eventual use (within 8 years) as affordable housing. In addition to affordable housing, the LAP may be used to acquire land on which facilities providing supportive services to affordable housing residents and low-income households in the nearby community may be developed.

Initially the LAP will be a pilot program which will evolve based upon the needs of participants and as available resources for the program increase and/or change. The WSHFC anticipates that it will be a rolling loan program with no

application deadline. Applications will be accepted and projects considered for funding based upon the availability of funds. The intent of the program is to respond quickly to the potential needs of applicants to secure sites as they become available in markets where there is an urgent need for affordable housing and there is competition for limited developable land.

All housing developed under the LAP is intended to target populations at or below 80 percent of the area median income and, for rental projects, will include a 30-year affordability use restriction. Up to \$400,000 of the appropriated state funds will be made available to eligible applicants operating homeownership self-help building programs. If this amount is not lent for these programs within a reasonable time, the remainder will be made available to other eligible organizations.

LAP loans may be outstanding for up to 8 years. However, it is anticipated that most loans will be repaid within 4-6 years. Interest payments will be deferred for the term of the LAP loan, which is intended to be paid off with the proceeds of construction financing in order to recycle the funds for use in future transactions. Specific terms and conditions of the loans will be set forth in a loan agreement and deed of trust.

The WSHFC, in partnership with CTED, adopted guidelines and requirements that are necessary to administer the LAP. Eligible applicants must include in their application evidence of site control, a proposed affordable housing development plan indicating the number of affordable units planned, a description of any other facilities being considered for the property and an estimated timeline for completion of the development.

Evaluation criteria will include, but not be limited to, the following:

- Suitability of site for affordable housing and facilities that provide supportive services;
- Suitability analysis will include consideration of site's access to transportation, use of existing infrastructure, proximity to necessary services and amenities, and ability to contribute to healthy neighborhood or community development.
- Organizational and financial capacity of the applicant to develop the project;
- Urgency to acquire site in order to provide affordable housing;
- Leveraging of other sources of acquisition funding; and
- Balancing need and geographic distribution

Applications are considered by an advisory committee with final approval made by the Executive Director of the WSHFC. A representative of CTED will be a member of the LAP advisory committee. Staff will report periodically to the Board of the WSHFC on the status and progress of the LAP.

Within five years of receiving a loan, a loan recipient must present the WSHFC with an updated development plan, including a proposed development design, committed and anticipated additional financial resources to be dedicated to the development, and an estimated development schedule, which indicates completion of the development within eight years of loan receipt.

The program provides that if a loan recipient does not place affordable housing into service on a property for which a loan has been received under this section within the eight-year period specified or if a loan recipient fails to use the property for the intended affordable housing purpose consistent with the loan recipient's original affordable housing development plan, then the loan recipient must pay to the WSHFC an amount consisting of the principal of the original loan plus compounded interest calculated at the then current market rate. In addition, loan documents will stipulate that the land may be transferred to another eligible organization to be developed for affordable housing consistent with the intent of the LAP. In the event of a transfer or sale of the land, there will be a cap on appreciation realized by the seller (the original LAP borrower).

In partnership with CTED, the WSHFC will develop performance measures for the program.

RAPID RESPONSE PROGRAM

The Rapid Response Program (RRP) is a loan program to assist eligible Washington organizations (as defined under RCW 43.185A.040) purchase real property (including land, building or mobile home parks) for the preservation or development of affordable housing and community facilities. These properties must be located in rapidly gentrifying or redeveloping areas, or in communities with a significant low-income population that is threatened with displacement by such gentrification. The intent of this program is to position eligible organizations to quickly respond to those market conditions that threaten affordable housing and communities. RRP loans are not intended to pay construction or rehabilitation costs.

EHB 3142 (now codified at Chapter 112, Laws of 2008) was passed during the 2008 Legislative Session and \$10,000,000 of state funds were appropriated to create an affordable housing and community facilities rapid response loan program. EHB 3142 directs the Department of Community Trade and Economic Development (CTED) to contract with the Washington State Housing Finance Commission (WSHFC) to establish and administer this program.

The WSHFC, in partnership with CTED, developed guidelines to administer the RRP and performance measures to evaluate the program. The WSHFC anticipates that the RRP will be a "rolling" loan program with no application

deadline. Applications are accepted and projects considered for funding based upon the availability of funds and the urgency of the submitted proposals. Applications are considered by an advisory committee, including a representative of CTED, with final loan approval made by the Executive Director of the WSHFC. Staff will report periodically to the Board of the WSHFC on the status of the RRP.

All housing developed under the RRP is intended to target populations at or below 80% of the area median income and will be subject to a minimum of 30-years of affordability. RRP loans may be outstanding for up to 50 years. The specific terms and conditions of RRP loans will be set forth in a loan agreement and deed of trust and will be subject to the parameters outlined in EHB 3142.

Eligible applicants must include in their application:

- A description of the property being considered;
- An explanation of why it is urgent to acquire the property to provide and preserve affordable housing or community facilities;
 - If preservation, describe the existing housing and the demographics of current households.
- If land, provide a description of proposed development for the site;
- If existing housing, describe the rehabilitation needs and proposed financing;
- Estimated timeline for completion of the proposed development or rehabilitation;
- Evidence of site control;
- Evidence of organizational and financial capacity of the applicant to develop and operate the project;
- Evidence of other funding sources.

Highest priority will be given to proposals that:

- Preserve mobile home parks facing closure; objective is to preserve opportunity for existing population to remain.
- Properties in neighborhoods in King County that are facing gentrification or redevelopment; objective is to preserve existing affordable units or to develop new affordable units or community facilities.
- Properties located in the City of Spokane that are facing the threat of displacing low-income tenants due to the loss of affordable housing rental units; objective is to preserve existing affordable units or to develop new affordable units or community facilities.

Additional evaluation criteria:

- Urgency to acquire property in order to provide or preserve affordable housing;
- Organizational and financial capacity of the applicant to develop the project;
- Leveraging of other sources of acquisition funding;
- Balancing need and geographic distribution; and
- Ability to repay RRP loan.

If a loan recipient (a) does not place affordable housing or community facilities into service within three years on a property for which a loan has been received, or (b) fails to use the property for the intended affordable housing purpose consistent with the loan recipient's development plan, then the loan recipient may be required to pay to the WSHFC an amount consisting of the principal of the original loan plus compounded interest calculated at the then current market rate. The land may be transferred to another eligible organization to be developed for affordable housing or community facilities consistent with the intent of the RRP. In the event of a transfer or sale of the land from an RRP borrower, there will be a cap on the appreciation available to the seller.

Compliance and other on-going requirements or considerations will be determined prior to final loan approval.

APPENDIX E

THE FINANCE DIVISION

The Finance Division performs the fiscal transaction and reporting functions for the Commission and summarizes its financial activities in three funds: General Operating, Program Investment, and Bonds.

General Operating Fund: The General Operating Fund accounts for the fiscal activities related to the administration of its ongoing program responsibilities. Revenues of the General Operating Fund are derived primarily from fees earned on bond issues, tax credit allocations, compliance monitoring, and interest income on operating and Program Investment Fund investments. All funds received by the Commission are generated by its activities. Expenditures, which are not appropriations of the State, were \$8.6 million for the fiscal year ended June 30, 2008.

The Commission first adopted a General Operating Fund Reserve Policy in 1989. The current policy requires the maintenance of general reserves of \$18 million based upon capital adequacy analyses. General reserves provide income to fund current operations, help to ensure a sufficient revenue stream for the Commission to remain independent of State funds, and safeguard the Commission's ability to meet its future legal and program obligations.

PROGRAM INVESTMENT FUND

The Commission established its Program Investment Fund in 1989. This fund represents Commission reserves above those required by the General Operating Fund Reserve Policy and is strategically invested in programs to support the financing and production of low-income housing, special needs housing and facilities that provide community services. In addition, the Commission has entered into agreements with other public and private entities with which there is strategic alignment of interest in particular program investments whereby they provide funds to the Commission for additional funding and expansion of these activities.

BOND PROGRAM FUND

All activities of Commission-issued bond transactions are established under separate Indentures of Trust. All financial activities of these Indentures are recorded by the Commission in this fund. Further, the Commission summarizes its bond activities by program type: Single-Family Home Ownership,

Multifamily Housing, Nonprofit Housing and Nonprofit Facilities. At June 30, 2008 the Commission had 340 active bond transactions with \$3.96 billion of outstanding debt.

APPENDIX F

THE COMPLIANCE AND PRESERVATION DIVISION

This Compliance and Preservation division ensures that owners and managers of Commission-financed projects provide affordable, income-restricted units to the general public. As of September 30, 2008, the Commission monitors nearly 65,000 multifamily units statewide in over 800 properties, including nearly 50,000 units set aside for low-income individuals and households. These properties also include units set aside for large families, disabled persons, the elderly, farm workers, and transitional and permanent housing for formerly homeless persons. In exchange for participation in the Commission's favorable financing and tax credit equity programs, owners sign long-term regulatory agreements that incorporate requirements of the federal tax code and state rules and regulations.

The Division annually conducts nearly 20 compliance training workshops across the state for tax-exempt bond and tax credit-financed projects. These workshops and others sponsored by industry partners attract more than a thousand property management and property ownership personnel annually. Additionally, the Division creates and maintains updated online manuals, forms, Frequently Asked Questions (FAQs); an online searchable list of all properties by city, county or zip code and numerous resource links for use by owners, managers and residents. The division also electronically distributes a monthly E-News update on compliance and preservation issues to over 900 subscribers.

The financing of affordable housing is very complex and often requires multiple sources of private and public funding. Each of these funding sources may have statutory or policy related reporting and/or compliance requirements. This can be cumbersome for projects as these requirements may necessitate both desk level and on-site reviews. The Commission took the leadership in bringing together a group of the largest public funding organizations (public funders) that worked diligently to standardize reporting documents and share the on-site inspection responsibilities, dramatically reducing the administrative burden for project owners and residents.

To date, the Commission has formal written agreements with the City of Seattle, the State Department of Community Trade and Economic Development, the State USDA Rural Development office, the Seattle Housing Authority and the City of Tacoma. The Commission also works closely with and has informal working agreements with the Northwest Regional HUD office, the Bremerton Housing Authority Contract Administration Services team, King County, Snohomish County and the IRS. The participating public funders meet bi-monthly.

These agreements provide for one annual report format and one inspection report to be shared by all participating organizations. Each participating entity agrees to accept the review and inspection work of other participants. This has established a level of specialization among the partners and has ensured maximum adherence to public policy in the operation of low-income apartment developments statewide. Owners and managers have expressed appreciation for the significant reduction of duplicative inspection and reporting requirements.

Over the past ten years, the Commission has explored several programs designed to preserve affordable housing stock. This includes our participation on several local and statewide coalitions concerned with preserving affordable housing; our appointment by HUD as a Participating Administrative Entity in the Mark-to-Market program; conducting several studies on the preservation of “at risk” Section 8 projects; and, exploring innovative ways to utilize Commission funds in the preservation of expiring bond and tax credit projects.

In 2005, the Division published streamlined compliance procedures for tax credit-financed properties which have reached year-15 in their restricted use period. During the first fifteen years, staff reports noncompliance issues to the IRS, who provide national oversight for the tax credit program. After year-15, the IRS has no mechanism to recapture tax credits from owners and has subsequently left it up to states to outline and enforce long-term monitoring requirements. The Division worked closely with owners, managers and other state housing agencies to establish streamlined procedures that will reduce costs, meet regulatory requirements and result in quality living units for residents, yet omit unnecessary regulatory burdens.

In 2006, the Division amended guidelines to allow the IRS income recertification waiver process. This waiver allows qualified tax credit property owners to refrain from completing annual income re-certifications on qualified households. Owners must request the waiver and pass a strenuous third-party audit before being approved. For successful owners, the waiver greatly reduces the time spent on unnecessary income re-certifications. The waiver allows Compliance staff to spend less time reviewing paperwork and more time focusing on serious compliance issues.

As properties age, the Compliance & Preservation Division also works closely with owners and managers to preserve commitments in properties that may be experiencing significant financial hardship or severe repair and maintenance problems. The Commission has developed an in-house cross-divisional team to track and review “troubled properties”, working closely with owners and managers and in coordination with other public and private funding sources.

APPENDIX G

RECENT ACCOMPLISHMENTS OF THE HOUSING FINANCE COMMISSION

The Commission continues to be a leader in new and innovative programs to assist Washington's low- to moderate-income residents to obtain affordable housing. Recently developed programs and projects include:

- Expanding the **Capital Plus program**, developed in conjunction with the **Washington Community Reinvestment Association**, which creates a \$7 million revolving loan fund for small nonprofit capital projects; Revised the Capital Plus program guidelines to allow nonprofit resident cooperatives buy mobile home parks at risk of closure.
- Continuing the Capital Project division's popular series of **workshops for nonprofit organizations on capital project financing and fund raising**. Eight workshops have been presented throughout the state providing training to over 1,000 people.
- Partnering with Washington Agricultural Families Assistance (WAFAs) to increase homeownership opportunities for Washington's agricultural workers. By providing low-cost construction financing for WAFAs with the use of the Commission's Program Investment Funds and House Key first mortgage loans to the agricultural worker homebuyers, five families were able to purchase newly constructed homes in the city of Ephrata.
- Renewing a five-year agreement with Impact Capital to preserve affordable housing. The Commission had invested \$5.50 million dollars in the WCLF revolving loan fund by June 30, 2008. This fund provides pre-development and bridge financing to assist in the preservation of affordable housing units.
- Adopting a recertification waiver process for 100% "affordable" properties. The waiver allows owners of qualified properties to refrain from completing annual re-certifications on qualified households. For successful owners, the waiver greatly reduces staff time spent on unnecessary re-certifications and allows Compliance staff to spend more time focusing on compliance issues which demand time and expertise to resolve.

- Implemented a new Veteran's Down-Payment Assistance Program at advantageous terms to encourage military veterans to purchase their first home, as directed by the Legislature.
- Expanded our HouseKey Schools Down-Payment Assistance program to serve employees of public and private K-12 schools and employees of Community Colleges.
- Implemented the Beginning Farmer/Rancher Loan Program in partnership with Northwest Farm Credit Services to help Washington families realize the dream of farm ownership.
- In July of 2007 the Commission received confirmation from the Department of Personnel for its Performance Management Program and implemented its Individual Recognition Compensation Program for general service employees.
- As provided by the legislature in 2008, developed the Equity Fund to assist eligible nonprofit organizations to gain access to the low-income housing tax credits through the use of financing with tax exempt bonds.
- As provided by the legislature in 2008, developed the Rapid Response Program to provide financial assistance to preserve affordable housing and community facilities in rapidly gentrifying areas.

APPENDIX H

MAJOR ACCOMPLISHMENTS SINCE 1983

Between 1983 and June 30, 2008, the Commission has:

- Provided 4,456 first-time buyers with an average of \$ 3,105 in down payment assistance totaling \$14.1 million through its House Key Plus program.
- Financed 40,155 homes for first-time homebuyers using almost \$3.6 billion through its House Key and other homeownership programs.
- Sponsored 10,395 free Homebuyer Education Seminars to educate 137,237 persons throughout the state since 1991. Surveys indicate that 52% of the participants purchase a home within 18 months of taking the seminar.
- Provided 731 HomeChoice down payment assistance second mortgage loans to people with disabilities to purchase their own home. This assistance has totaled more than \$1.1 million.
- Provided 220 House Key Plus Seattle loans totaling \$11,488,052 as down payment assistance for people who purchase their first home with incomes of 80 percent or less of area median income within the city of Seattle.
- Provided 161 loans totaling \$1,457,382 as down payment and closing cost assistance for rural borrowers who earn 80 percent or less of area median income.
- Allocated \$2.68 million in Housing and Urban Development Funds to 45 nonprofit organizations and \$571,355 of Rural Housing and Economic Development funds to 16 nonprofit organizations to provide statewide housing counseling services.
- Financed 25,744 units/beds for the elderly worth over \$1 billion through its multifamily bond financing programs.
- Financed 37,364 apartment units worth more than \$1.83 billion dollars through its Multifamily Housing bond program.
- Financed 12,003 units of housing worth more than \$1.09 billion built by nonprofit organizations using 501(c)(3) bonds.

- Allocated more than \$2.6 billion (calculated as 10 year's of credit) of Low Income Housing Tax Credits to help finance approximately 45,860 affordable housing units.
- Issued more than \$698 million of bonds to finance 134 nonprofit-owned capital facilities through its Nonprofit Financing program to support nonprofit community organizations throughout the state.
- Issued \$684,800 in bonds through the Beginning Farmer/Rancher Program with a commitment for \$1,237,150 through the end of 2008.
- Conducted nationally recognized training workshops to educate for-profit and nonprofit developers about financing products and compliance requirements.
- Instituted a nationally recognized compliance program based on technical assistance and education for project owners and managers.
- Successfully monitored over 65,000 multifamily units (**including nearly 50,000 affordable units**) in 800 properties across the state, constructed or rehabilitated with financial assistance through the Commission's programs.
- Successfully sponsored *Housing Washington*, a statewide annual housing conference, for the past fourteen years. The most recent conference, *Housing Washington 2008*, was attended by over 800 paid registrants and attracted speakers and attendees from across the nation.

SUMMARY

The Commission may change the policies and guidelines for the programs it operates during the Plan period. The Commission, as a rule-making body, will consider proposed changes at public meetings since policies and guidelines are generally subject to public hearing prior to consideration by the Commission. All Commission meetings are open to the public and persons wishing to see agendas for future meetings and minutes of previous meetings may find these documents on the Commission's web site at www.wshfc.org. Persons without access to a computer may call the Commission at 206-464-7139 and request that copies be mailed to them.