With better policy design and implementation, we can achieve efficiencies in the delivery of affordable housing program resources and, at the same time, achieve better outcomes for residents and communities.
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Introduction

The United States is rethinking its support for the housing sector. The financial crisis that began in the mortgage markets exposed many flaws throughout the nation’s housing finance system. This new recognition of weaknesses in the system, coupled with the fiscal and budget crisis, has forced policymakers to reexamine all aspects of the public’s support for housing. The Administration and the Congress are rewriting the rules of housing finance. On-budget resources for affordable housing embedded in the tax code and federal appropriations are at risk. Additional significant policy changes are inevitable.

At the same time, there is also a heightened awareness of the nation’s profound housing needs. Millions of families pay more than 50 percent of their incomes in housing costs. Millions more are living in houses in which they owe more to the bank than the home is worth. The collision of growing unmet needs and shrinking resources forces us to reconsider how best to meet our nation’s housing challenges.

A decent home in a safe neighborhood is the foundation for the long-term success of families and individuals. Housing is most families’ largest expense. Managing this expense is critical for managing household budgets. Stable, quality housing improves school performance, diminishes health problems for children and parents, and lessens psychological stress. The absence of stable housing affects kids’ performance in school and leads to long-term societal costs in reduced productivity. Affordable housing that is linked with services can improve human outcomes and lower the costs of other public systems such as health care.
The Housing Partnership Network is a member-driven organization comprised of 100 entrepreneurial nonprofits that operate all across the country. The members are diversified social enterprises combining a mission focus with business acumen. The members’ businesses include lending, real estate development, property management, and housing counseling. Collectively, they have 13,400 employees, $1.3 billion in annual revenues, and have served 4.3 million low-income people.

The Network is best described as a business collaborative. The members’ senior leadership comes together with their peers to exchange information, solve problems, and share best practices. Their collaborations have spawned member-owned businesses that improve member operations and advance innovations in the practice of affordable housing and community development. For example, when insurance costs spiked after 9/11, members launched a captive property and casualty insurance company that today insures approximately 60,000 homes with $7.0 billion of insurance-in-force. In response to hurricanes Katrina and Rita, the Network started the Gulf Coast Housing Partnership to help rebuild affordable housing in that region. Gulf Coast communities now have 1,670 more homes and nearly a quarter of a billion dollars in additional community housing investments. Other businesses that have emerged from these collaborations include a group buying service for building materials, a company that acquires and modifies distressed mortgage notes to help homeowners stay in their homes, a new web-based approach to homebuyer education, and a multifamily real estate investment trust.

The premise of this paper is that with better policy design and implementation we can achieve efficiencies in the delivery of affordable housing program resources and, at the same time, achieve better outcomes for residents and communities. Our recommendations for changes in policy and practice results from a yearlong policy development process among the members of the Housing Partnership Network. We reviewed best practices in the field and looked for practical, substantive changes to make more effective use of existing resources. Some of the ideas evolve from Network member innovations and many have been put into practice already. Others come from our ongoing international exchange with strong nonprofits in the United Kingdom, Canada, and Australia. Policy should embrace these innovations and encourage them to flourish.
Policy Recommendations

This paper outlines a series of policies to improve the country’s approach to affordable housing and community development by making both more cost-effective. Our policies support those tools such as the Low-Income Housing Tax Credit that allow strong organizations to leverage private capital for housing and community development. What we propose are incremental changes that over time can reorient our system from its current focus on process and compliance toward a new focus on performance and outcomes.

Our recommendations are organized in five categories:

1. New Models for Developing, Preserving, and Managing Rental Housing
2. New Models for Homebuyer Readiness and Sustainable Homeownership
3. Reform of the Delivery System to Emphasize Capacity and Performance
4. Growth of CDFIs as a Source of Community Capital
5. Achievement of Outcomes Beyond Housing

Many of the policy proposals are discussed in greater detail in the Appendices.

1. New Models for Developing, Preserving, and Managing Rental Housing

Allow Greater Flexibility for Portfolio Level Management.

This is a period of enormous pressures on federal housing resources. Yet, it is also an opportune time to recognize the significant benefits that could result from the government allowing owners greater flexibility to manage their properties as a portfolio. Current policies and programs drive affordable housing owners to manage each development as a separate entity with its own financing, compliance, and reserves. Portfolio level flexibility would allow owners to raise capital at the enterprise level and invest that capital in the long-term sustainability of the properties as affordable housing.

With portfolio flexibility, owners and managers could achieve operating cost savings – and use these to expand their service platforms for the residents. A flexible system could create significant savings by reducing compliance costs and reporting. The economies of scale achieved by managing housing as a portfolio can help address the problem of aging housing projects that need recapitalization and new management. Older HUD Section 202 properties and Low-Income Housing Tax Credit (LIHTC) properties at the end of their 15-year compliance period are good places to begin consolidating portfolios. Policy should seek to create incentives for acquisition of troubled or aging affordable housing portfolios by well-managed, sustainable organizations that can recapitalize the stock and manage it well over the long term for the benefit of residents and
the community. There is an opportunity to reinvest resources now used unproductively for paperwork and compliance to instead prolong the useful life and affordability of properties and provide additional resident services.

Flexible management of portfolios should also allow organizations to more efficiently raise larger amounts of capital at the enterprise level and then deploy this capital to those places in their portfolios with the greatest needs and the greatest return on the investment dollar. Policy should increasingly allow and encourage this aggregation and deployment of capital. We need to replicate the efficiencies and capacity of REITs and housing associations in the United Kingdom within the affordable housing delivery system. Strong balance sheets will allow housing providers to obtain a credit rating and, thereby, gain access to international capital markets. Access to this kind of capital will increase an organization’s ability to preserve its existing properties, acquire or build new, and deliver positive impacts in the community.

A more flexible portfolio approach would also allow a high performance, mission-focused organization some ability to allocate its rental assistance resources among the properties in its portfolio. The ability to transfer available rental assistance to newly acquired or developed properties would open up an array of possibilities to: preserve affordable housing assets; create new mixed-income housing in stronger markets; de-concentrate poverty in existing properties; and provide wider opportunities for residents to live in locations of their choice. (See Appendix 1 “Portfolio Flexibility and Enterprise Finance” and Appendix 2 “A Portfolio Level Management Demonstration”).

**Advance Single-Family Rental Housing Management.**

An important new breakthrough in America’s housing policy perspective is the growing recognition of the importance of the single-family rental housing inventory as an affordable housing asset. Fifty-five percent of the rental units in the United States are single-family homes. Much of this stock is affordable for lower-income and working people without public subsidies. At the same time, much of this stock is not professionally managed and, as a result, many single-family communities of homeowners resist rental housing in their neighborhoods. An increased policy
emphasis on the management of this housing inventory could increase its public acceptance and reposition this stock as an important component of the nation’s housing strategy.

One of the silver linings of the otherwise dark cloud of the foreclosure crisis is the increased interest in the management of single-family housing as rental housing units. This new focus raises the possibility that the country can build a new asset class of professionally managed, scattered-site, single-family rental housing with access to appropriate portfolio level capital. Some of this housing is in high opportunity neighborhoods with access to good schools, providing an important benefit to families. Policy should encourage the acquisition of this inventory by high-capacity nonprofits through bulk REO disposition strategies with joint venture or seller financing features. Likewise, policy initiatives should facilitate the growth of nonprofit property management capacities. Participants in this new delivery system would benefit from improved access to capital sources for the acquisition and rehabilitation of single-family properties, made possible through revisions to the Federal Housing Administration’s (FHA) lending programs. (See Appendix 3 for details on “Scattered Site Rental Housing”).

Streamline the Federal Government’s Rental Assistance Programs.

In moving toward more effective delivery of affordable housing resources, the Network continues to support a more comprehensive version of HUD’s Rental Assistance Demonstration. The core idea that the government, housing providers, and residents would all benefit from streamlining the more than 13 different project-based rental assistance programs into a single common project-based rental assistance contract remains valid. In reducing the complexity of the current balkanized system, government and providers alike could save large amounts of administrative, compliance, accounting, and legal costs. Even more important is that a system of standardized rental assistance contracts and market rents creates better incentives for management and provides greater access to private capital – all of which translates into better places to live for the residents.

2. New Models for Homebuyer Readiness and Sustainable Homeownership

The deflation of the housing bubble and the subsequent foreclosure epidemic makes us think again about how we encourage and support homeownership. On the consumer side, many families have had their credit profiles damaged. On the lending side, credit standards have tightened significantly. It is very likely that access to credit from mainstream financial institutions will remain constrained for a long time as new regulations are written, new capital requirements are implemented, and the secondary market is reconfigured.
New Approaches to Housing Counseling.

The financial meltdown has served to reinforce the role and value of housing counselors. They serve as trusted advisors to consumers preparing to purchase a home and are there when homeowners run into trouble paying their mortgages. Home loans to counseled borrowers performed well throughout the crisis despite the broader economic downturn. Many households having trouble paying their mortgages turned to housing counselors to help navigate the complexities and risks of the loan modification and foreclosure processes.

We need to build a stronger, more sustainable, broadly available housing counseling system by requiring counseling in more instances and creating a dedicated funding source. Policies that support web-based learning and certify homebuyer readiness should also be encouraged. Web-based learning can be delivered at lower cost and greater convenience to the consumer, can extend into rural areas, and can respond to the ways in which many – especially young people – learn and access information today.

Hybrid Tenure Products to Bridge Between Renting and Owning.

The restructuring of the housing financing system will likely lead to a tighter credit environment. Therefore, policy efforts should focus on the challenge of creating new pathways to homeownership for young families and low-income households in this new market environment. One particularly important consideration is the embrace of hybrid housing tenure models that help families move between renting and owning their homes.

Hybrid tenure products include lease purchase, shared equity, shared appreciation, community land trusts, and earned homeownership approaches. Many communities and providers around the country have experimented successfully with these models but we have so far failed to make these interventions widely available. Policy makers should focus on products and services in this space that are replicable and scalable, beginning with FHA risk-sharing products to increase the availability of financing for hybrid tenure approaches.

Homeownership Stewards.

There is an increasing role for a new kind of institution that promotes low-income homeownership opportunities and serves as a homeownership steward. The homeownership steward is a nonprofit that helps to ensure long-term homeownership success by providing its customers
with access to a spectrum of services from homebuyer readiness resources, hybrid-tenure financial products, first-or-second lien mortgage financing, down payment assistance, and an ongoing trusted advisor/counseling role – throughout the homeownership experience.

These organizations would arrange partnerships with financial institutions or build their own lending operations as CDFIs. In order to succeed as a social enterprise, the homeownership steward would need to develop reliable revenues from fees for service and/or their lending businesses. In order to ensure that low-income homebuyers and homeowners have access to ongoing, lifelong advisory services, policy should require a fee on mortgages that would become a revenue stream for these organizations. With an assured revenue stream, advisors are present at the pre-purchase stage; at the decision point of lease vs. buy under hybrid-tenure models; and at refinancing, remodeling, and sale. The homeownership stewards are there if the homeowner encounters financial difficulties during homeownership. (See Appendix 4 “The Homeownership Steward Model”).

3. Reform the Delivery System to Emphasize Capacity and Performance

The successful long-term management of affordable housing in a constrained resource environment will require an increasing reliance on high-capacity organizations. Government should adopt policies that identify, and support the growth of the stronger performers in the system.

A better organized delivery system would discern the financial strength, management strength, and the mission-orientation of each of the entities in the delivery system. Policymakers need to develop a system that can identify which organizations can consistently deliver quality housing that will remain affordable over the long-term; have high levels of customer service; and deliver positive neighborhood benefits and linkages to the surrounding community. With better mechanisms to identify strong performers and a better approach to helping organizations meet high performance standards, policies could then ensure that more of the resources flow through high-capacity organizations and that more of the affordable housing inventory is owned and managed by high performing groups.

Grow Nonprofit Strength through the Capital Magnet Fund.

Policy should pursue the goal of helping capable nonprofits grow and build even stronger balance sheets. The Capital Magnet Fund (CMF) is a promising approach to meet these needs. The CMF was created as part of the Housing and Economic Recovery Act of 2008 (HERA). The program is designed to provide impact investments in high-performing affordable housing lenders and developers. By law, CMF investments must leverage more than 10 times the CMF grant amount in private investments and serve to strengthen the financial capacity of mission-driven affordable housing providers. Policymakers should support continued funding for the Capital Magnet Fund. (See Appendix 5, “The Capital Magnet Fund”).
**Create a Rating System for Affordable Housing Providers.**

We recommend the establishment of an independent, third-party registration and certification regime to rate affordable housing providers. Much as child care providers or hospitals need accreditation in order to receive public funds, before receiving public funds, a new rating system should assess public, for-profit, and not-for-profit affordable housing providers on measures of financial strength, enterprise sustainability, management capacity, experience in managing specific asset classes, and customer service experience.

A rating system for mission-oriented affordable housing providers makes a new regulatory relationship between the government and higher-rated housing providers possible. Ratings would allow a greater focus on outcomes and performance rather than rules and process. With a credible, independent rating system, policymakers could grant more flexibility to highly-rated entities and encourage resources and assets to flow to these enterprises.

This rating approach is critical to the long-term preservation of affordable housing in which the public has made a significant investment. With a rating system, policymakers could provide appropriate incentives for affordable housing assets to come under more capable management and committed stewardship over time. (See Appendix 6 “Creating a Rating System for Affordable Housing Providers”).

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**4. Grow CDFIs as a Source of Community Capital**

Community Development Financial Institutions (CDFIs) serve as an important source of gap and at-risk capital for community development activities that private financial institutions are often reluctant or unable to provide. CDFI lending supports health care, child care, charter school, small business, and public facility development – and supports affordable housing development. If high-performing nonprofit housing developers are to play a bigger role in the housing and community development delivery system, they will need new and expanded sources of mission-oriented capital. CDFIs are uniquely positioned to play an expanded role in providing community capital.
**Encourage CDFI Membership in the Federal Home Loan Bank System.**

The HERA legislation passed in 2008 made possible CDFI membership in the Federal Home Loan Bank System. The Federal Home Loan Banks are a potentially potent partner with the CDFI industry because they represent the promise of access to patient, longer term capital that is essential to sustainable affordable housing and other community real estate investments. Expanding the number of qualified CDFIs that achieve Federal Home Loan Bank membership and increasing the amount of business that the CDFIs and the banks do together is an important policy outcome.

**Implement the CDFI Bond Guarantee Program.**

Another important new source of patient, long-term community capital is the CDFI Bond Guarantee program of the U.S. Treasury. The program is authorized to provide $1 billion in guarantees per year at no cost to the government. When fully implemented, the bond guarantee program can provide CDFIs with a source of long-term, patient capital and, over time, serve to build new and stronger relationships between CDFIs and the capital markets.

**Ensure Full CDFI Participation in Federal Guarantee Programs.**

Policy should increase the role for CDFIs in the delivery of a wider range of federal guarantees, including those issued by the Federal Housing Administration (FHA), the Small Business Administration (SBA), and the Department of Agriculture’s Rural Housing Service (RHS). With this expanded array of new tools and capital resources, CDFIs are not only poised to enhance their involvement in affordable housing but are also positioned to increase their roles in financing the other types of development that are a part of a community’s success, including charter schools, community health centers, child care facilities, and other public facilities – where CDFIs already play an important financing role. (See Appendix 7 “Expanding CDFIs as a Source of Community Capital”).

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5. **Achieving Outcomes Beyond Housing**

Affordable housing has a powerful impact that goes beyond the four walls of an affordable home. The lack of affordable housing has a negative impact on health care costs and education outcomes. Properly sited affordable housing with services can help people get and keep jobs and improve their lives. Planning that takes into account both the affordable housing needs and the transit needs of a growing region maximizes the impact of both investments by creating the linkages between where people live and where they work. In short, housing is a platform that can increase the success of other systems.

It is critical that the new policy framework take advantage of what we have learned about using investments in affordable housing to elevate social outcomes for residents of that housing. We can achieve these better outcomes if we can manage the housing with this goal in mind and
better integrate the housing with other flows of federal funds designed to provide social services, education, health care, workforce development, and transportation.

**Serving Seniors and Saving Health Care Dollars.**

An increased focus on providing services in affordable housing for seniors is an important strategy in the nation’s efforts to control health care costs. Policymakers need to prioritize emerging models for senior housing in which the affordable housing is combined with health care assistance and other services. Affordable housing plus services calibrated to the daily living needs of seniors as they grow older and frailer can allow people to age in place. This allows society to avoid the higher costs of assisted living and nursing home care. If this approach were adopted on a wide scale, it could save a significant amount of federal health care dollars. (See Appendix 8 “Housing and Health Care”).

**Service Coordinators Bring Linkages to Mainstream Services.**

The efficiency gains from new, more flexible approaches to rental housing ownership and management should free up resources to fund resident service coordinators. Service coordinators link the residents of affordable housing properties to other social services systems such as job training, educational resources, or health care. With these connections, affordable housing can serve as a more effective platform to help residents move up and out of poverty or age in place and avoid more expensive forms of assisted living. Current practice limits the ability of housing providers to fund service coordinators for family developments especially. Owners of affordable housing that serves families should have the same ability to fund resident services coordinators out of project cash flow income as is currently allowed in some senior housing.

**Choice Neighborhoods.**

One important initiative that embodies a holistic approach linking affordable housing to other systems is Choice Neighborhoods. Choice Neighborhoods is a HUD-funded grant program that leverages private capital to rebuild troubled public housing and HUD-insured housing.
rules require grantees to provide services that benefit the residents and the surrounding community, including improved schools, crime prevention, and other critical supports that go into creating a healthy community. The program supports high capacity, mission-driven nonprofits to lead or partner in local strategies that link housing with broader neighborhood change.

**Asset Building Strategies.**

A new approach to affordable housing should also incorporate the successful asset building strategies that have been adopted successfully in many affordable rental housing developments and in many low-income homeownership projects across the country. A wider embrace of savings programs that allow residents of assisted housing to retain some portion of new earnings would help low-income families save money. In some instances, asset building strategies would allow families to save the down payment resources they need to buy a home. Well-designed and managed homeownership programs can also serve to help low-income families to increase their net assets.

**Sustainable Communities.**

New approaches to affordable housing can improve environmental quality. How and where we build housing impacts energy and water use, traffic congestion, transit use, and other environmental concerns. Green building techniques can make properties more energy and water efficient, which lowers a building’s operating costs, saves money, and, at the same time, improves the environment. The linkages between transportation funding and affordable housing can benefit the environment by encouraging transit use and reducing greenhouse gas emissions from cars. Policies should reward local officials for transit-oriented housing development that increases transit ridership and provides low-income families with access to employment opportunities. Thoughtful planning also preserves existing affordable housing near new transit developments when property values rise as a result of those developments. More than 250,000 units of expiring affordable housing are within half a mile of transit across the nation. (See Appendix 9, “Housing and Sustainable Communities”).
Most of the policy recommendations in this paper are pragmatic, incremental, low-cost ideas – many of which are in practice successfully somewhere in the world today. Yet, if policy makers were to adopt this series of ideas in their entirety, it would lead to very different and much more effective delivery of affordable housing and community development resources. At the core of this approach is a call for policy to place a higher premium on “who” delivers affordable housing and community development services and less of a focus on managing “how” these resources are deployed. Strong, mission-oriented, entrepreneurial organizations provided with the right incentives, the necessary management flexibility, and the capacity to interface with other large public and private systems like finance and health care can achieve better outcomes for the people and communities they serve. Policy should identify and support these organizations, give them flexibility to do the work, and then hold them accountable for performance and outcomes.
Portfolio Flexibility and Enterprise Finance

The government could deliver affordable housing at lower costs and achieve better outcomes for residents if it allowed providers greater flexibility to manage their properties as a portfolio. Current policies drive owners of affordable housing to manage each development as a separate stand-alone entity with its own financing, compliance, and reserves. With an increased ability to manage affordable housing subsidies and housing assets as a portfolio, owners could create efficiencies that lower operating costs and augment the benefits to society from these activities.

Three types of flexibility could prove meaningful: 1) Aggregating operations and compliance management; 2) Raising capital at the enterprise level and deploying it across the entire portfolio; and 3) Increasing the ability to assign project-based subsidies to other properties.

Managing at the portfolio level would allow for cost savings for both HUD and the property manager. For example, both parties could save money by moving to a single portfolio-level audit rather than having to provide an audit for each property. Potential savings nationwide are quite large. For example, owners could provide the Department of Housing and Urban Development (HUD) and/or the state with a single audit for the portfolio rather than pay for an audit of each property as required under current practice. A Housing Partnership Network member, ACTION Housing in Pittsburgh, pays $6,200 per property annually to purchase audits on each of its 12 developments for people with disabilities. ACTION’s accountant could do a single audit for all 12 properties for $18,000. A portfolio approach could potentially save $56,000 a year or $1.7 million over the life of the HUD contracts. And, HUD would save by having fewer documents to review.

The ability to raise capital at the enterprise level would also provide significant cost savings. With portfolio level capital, owners can often get better terms because the loans are larger and often cross-collateralized. Transaction costs are lower on a single portfolio loan than managing debt secured by each of the properties in the portfolio. For example, Lancaster, Pennsylvania-based Housing Development Corporation MidAtlantic (HDC) refinanced seven tax credit properties with a single bond issue. The transaction allowed HDC to aggregate seven cash flows into one, reduce the audit requirements from seven to one, and provide resources to invest in solar energy and high efficiency heating systems that will sustain the properties for another 30 years. The preservation of the housing portfolio would, therefore, benefit from the ability of the owner/managers to deploy available capital to those properties where the investment is needed and can have the greatest impact.
The ability to borrow at the enterprise level is dependent upon a variety of policy changes. The first change is providing managers with the ability to aggregate the cash flows from multiple properties to pay back the debt. The ability to secure a single debt instrument against multiple properties is important. Stronger enterprise level balance sheets are also important. Finally, lenders and investors need to have confidence in the regulatory regime to understand the reliability of the public resources that support the social enterprise and how these interact with the enterprise’s sustainability and credit worthiness. A credible rating system measuring the strength and performance of the enterprise should serve to give comfort to potential investors in affordable housing enterprises.

A new portfolio approach would allow qualified owners to move existing resources that are now locked up at the project level to support other properties in their portfolio. In this framework, equity, excess reserves, and/or residual receipts associated with a property that is operating well could move to a weaker property in the portfolio to improve its operating performance and/or preserve it as affordable housing over a longer period of time. If allowed to manage at the portfolio level, the owner could deploy available capital resources across the portfolio to obtain the highest return on investment for the benefit of the overall portfolio, the residents, and the government. For example, with greater flexibility to move resources across a portfolio, owners could target available resources to properties where an investment in energy conservation – new windows, insulation, and/or high-efficiency heating and cooling systems – has the greatest payoff in terms of utility cost savings. HUD spends an estimated $6 billion per year on utility costs through its various affordable housing programs. A portfolio approach to energy conservation alone could create large savings for the government.

Flexibility should also exist in the management of the rental assistance contracts at a portfolio level. With a single enterprise-level rental assistance contract, high-capacity nonprofit organizations would commit to maintain the same number of deeply subsidized apartments for a similar population to that already occupying its units. The flexibility in the contract would allow owners to reposition rental assistance on other properties in their portfolios or to new properties. Moving units to other properties could serve to preserve more buildings as affordable resources and expand resident choices. In certain higher cost markets this flexibility would allow the owner to convert existing 100 percent subsidized properties to more sustainable mixed-income properties and use the transported rental assistance to create new communities of mixed-income housing that would include deeply targeted subsidies but also include workforce housing opportunities. Strategies to move the rental assistance would require a high level of resident consultation.
Portfolio flexibility should be granted to only the strongest participants in the delivery system with a demonstrated mission of service to residents. One of the critical elements to advancing portfolio management flexibility is the assurance that the housing entity also understands the performance of each property in its portfolio. If the government is to allow portfolio flexibility, participants must be able to demonstrate good asset management where entities can discern the physical conditions, capital needs, and operating performance of each of its properties. This level of understanding is critical for the accurate deployment of available capital and for the maximization of the performance of the portfolio as a whole.

Portfolio flexibility can help solve the policy problem posed by the aging inventory of subsidized housing that needs recapitalization and better management. Significant portions of the affordable housing inventory – for example, Section 202 properties or Year 15 Low Income Housing Tax Credit properties – are often in need of new capital and would benefit from consolidation into larger portfolios. The efficiencies of scale of managing housing as a portfolio can make it possible for high-performing nonprofits to take on neglected properties and turn them around, with benefits for the residents and surrounding communities.
Appendix 2

A Portfolio Level Management Demonstration

This paper proposes a national demonstration program for strong nonprofit housing ownership/management organizations designed to test the benefits of portfolio flexibility. The demonstration should test the ability of nonprofits to achieve better asset management, increased operating efficiencies and cost savings, and/or better customer service and resident outcomes through the application of this greater flexibility.

Eligibility:
- HUD would authorize up to 50 approved demonstration projects across the country.
- A demonstration project must include three or more properties with a single owner.
- Nonprofits with demonstrated management, financial, compliance, and reporting strength would be eligible.
- The applicant must demonstrate a system for property-level asset management.
- The applicant will designate which properties it will include in the demonstration and submit pro forma balance sheets and income statements for the proposed consolidated entity.

Flexibilities: Nonprofits selected to participate will have the ability to:
- Convert rental assistance contracts on multiple properties into a single rental assistance contract with the government covering all the properties included in the demonstration;
- Provide a single compliance report and a single annual audit to the government for the consolidated properties;
- Utilize excess cash flows, reserves, and residual receipt accounts from one property to meet the capital needs of other properties in the designated portfolio;
- Issue debt secured/cross-collateralized by the enterprise, the entire portfolio, or a subset of properties in the portfolio;
- Transfer rental assistance to units in new or newly acquired developments for inclusion in the portfolio with appropriate resident protections (no involuntary displacement) and consultations; and/or
- Convert existing rental assistance contracts into a MAHRA-like project-based Section 8 contract at renewal date.

Government benefits:
- Nonprofit participants will agree to share efficiency savings with the government.
- Mechanisms for sharing the savings could include:
  - Reducing above-market rents over a specified period of time;
  - Using savings to fund resident services or resident coordinators;
  - Making investments to extend the useful life of the property; and
  - Extending the number of years in the contract to keep units affordable.
Scattered-Site Rental Housing

Fifty-five percent of the nation’s rental housing is single-family housing. This stock is an extremely important unsubsidized, affordable housing resource to the country. Much of this rental housing is naturally affordable; much of it has more bedrooms than the typical multifamily unit, making it suitable for families, and much of it is located in communities with access to better schools, transportation, and employment opportunities. At the same time, there is resistance in many single-family housing communities to renters. In part, this is because the housing is often not professionally managed and often not well maintained.

A housing reform agenda would employ strategies to move more single-family housing to new professional management by scaled nonprofit enterprises with the capacity to manage the properties toward better outcomes for residents and communities. One of the important lessons we have learned from successful models of managing scattered site rental housing in the United Kingdom is that scale matters.

Ironically, the current foreclosure crisis provides an opportunity to move more of the single-family rental housing into aggregated ownership and management structures. There are large inventories of real estate owned (REO) by banks, the government (FHA) and the Government Sponsored Enterprises (Fannie Mae and Freddie Mac) that are coming on the market through bulk sales. New businesses are forming to manage REO for the financial institutions as rental housing before the properties come to market. In the short term, we need to manage this REO to keep it from deteriorating and affecting the surrounding community. Rental strategies are part of this. Over the longer term, new professional management for single-family rental housing is an important new breakthrough in affordable housing.

First, and foremost, policymakers need to expand the bulk sales and “first look” programs to preserve the assets and ensure that the properties are sold to competent property managers who care about the residents and the communities. With bulk sales, the sellers should provide financing, allow for joint ventures, and include other sales terms that allow nonprofits and other mission-oriented purchasers to participate. In addition, the bulk sales strategy needs to occur at sufficient scale to help address the difficult economics of property management. A scattered-site rental inventory is heterogeneous and dispersed, making it more difficult and costly to manage. With economies of scale, property managers can overcome some of these challenges.
Second, a scattered-site rental strategy would benefit from hybrid-tenure models, in which the renters have an opportunity to work toward owning the home. Most of the single-family stock was built for homeownership. For both practical and societal reasons it is important to make this stock available to homeownership use. Residents with an equity stake in the home and the potential to earn ownership over time become allies and partners to the property management company in the upkeep of the property.

Third, we need to devise financing mechanisms through which nonprofits have the opportunity to acquire and rehabilitate the single-family rental housing stock to aggregate portfolios at a sufficient scale to make the property management economical and to deliver good services to the residents. Purchasers will also need access to capital for fixing up the home to make it marketable to renters but also to increase community acceptance.

Ideally, purchasers would have access to financing secured by an entire portfolio of single-family and small multifamily rental properties, increasing the ability of the owner to acquire and sell properties more efficiently. Policy makers should examine ways to expand existing FHA multifamily insurance authorities to serve this purpose. However, policy makers should also consider revitalizing the existing FHA 203(k) program or modifying the Section 203(b) program to support the accumulation of single-family rental portfolios. 203(k) is currently a good tool for acquisition and rehabilitation of single-family properties, but its use overall is quite limited with only 21,000 loans guaranteed nationwide in 2011. To make this a viable tool for nonprofits to create a larger portfolio of scattered-site rental assets, HUD will need to change the program’s current practice of limiting loans to one borrower at a maximum of seven properties. Expansion of 203(k) to support larger portfolios of nonprofit-owned, scattered-site rental housing would come in conjunction with new ratings systems to ensure that the flexibility implied here is only provided to strong performers with management and financial capacity to serve as counterparties to the government and assume this level of risk.

Appendix 3: Scattered-Site Rental Housing, Continued
The Homeownership Steward Model

In the aftermath of the subprime lending meltdown, the nation needs to rebuild the path to the American Dream of homeownership for low-income families. Mortgage markets today are characterized by very tight credit parameters. Otherwise good borrowers are having difficulty getting access to credit to purchase homes at a time when housing affordability is at all-time lows. And, access to credit for low-income and low-wealth families is likely to remain constrained into the future as regulators implement new rules designed to avoid another financial crisis.

As we rewrite the rules of housing finance and reassess low-income homeownership strategies, policymakers need to consider various approaches to ensure that low-income households can see a path to owning their own homes—so that, if the homeowner is prepared, lenders will provide the credit, and the houses will be affordable. This path must be one where the homeownership commitment is sustainable over the longer term.

This requires a new kind of institution that serves as a “homeownership steward”. Homeownership stewards are comprehensive social enterprises that ensure long-term homeownership success by providing their lower-income customers with access to homebuyer readiness resources, access to hybrid-tenure products, first- and second-lien mortgage financing, and/or down payment assistance, and an ongoing trusted advisor relationship throughout the homeownership experience.

These organizations could partner with other financial institutions or organize their lending operations as CDFIs that access capital through their membership in the Federal Home Loan Bank System and through their participation in the FHA’s or Rural Housing Service’s loan guarantee programs. In rural areas it is also important that nonprofit housing providers have access to the RHS Section 502 Direct Loan program which has been perhaps the most important tool over the years for providing homeownership opportunities to low-income households. These new social enterprises would need to achieve a certain level of financial strength and a strong capital base to manage their financial operations and their stakes in the owner-occupied homes they support.

We propose a fee on mortgages to pay for the on-going advisory services provided through the homeownership steward model. With an assured revenue stream, advisors are there at the pre-purchase stage, at the decision point of lease vs. buy under hybrid-tenure models, and at refinancing, remodeling, and sale. The homeownership stewards are there if the homeowner encounters financial difficulties during homeownership.

A proposed registration and certification system would also benefit this sector by identifying the high-capacity organizations capable of playing this role and managing the resources. The strength and competence of the players in this new system could be assured by an independent, third-party entity that would certify the capacity of housing counseling agencies.
The Capital Magnet Fund

Mission-driven, high-capacity housing developers, owners, and managers, and Community Development Financial Institutions (CDFIs) that are working to improve low-income communities would benefit from a source of enterprise-level capital with which to strengthen their balance sheets and leverage other private capital resources. A competitive grant program administered by the CDFI Fund – the Capital Magnet Fund – effectively fulfills this need.

Congress authorized the Capital Magnet Fund (CMF) in the Housing and Economic Recovery Act of 2008 (HERA). The program provides a source of funding for CDFIs and nonprofit housing developers to finance affordable housing for low-income families and some economic development in support of that affordable housing. The funds are awarded competitively and by law must leverage at least $10 of other funding for every $1 in grant funds.

At its creation, the CMF was funded by a fee assessed on loan acquisitions by the Government Sponsored Enterprises – Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac were put into government conservatorship shortly after the passage of HERA, and the regulator decided not to provide funding for the CMF at that time. In its FY 2010 budget request, the Treasury requested $80 million in appropriations for the CMF. Congress supported this request and the CDFI Fund was able to make an initial round of CMF grants.

In this initial CMF funding round, the CDFI Fund received applications from 230 organizations requesting over $1 billion in grants. On October 1, 2010, the CDFI Fund made 23 awards totaling $80 million to organizations serving 38 states. The grantees were 13 nonprofit housing organizations, nine CDFIs, and one tribal housing authority. Forteen awardees serve non-metropolitan areas. Awardees have used their CMF grants to leverage and fund thousands of affordable multifamily and single-family housing units across a range of projects including: 67 multifamily rental units on Skid Row in Los Angeles for extremely low-income individuals; 56 units of low-income senior housing in Puerto Rico; 50 new units of housing for seniors in Shreveport, LA; and four manufactured housing parks converted from investor-owned to resident-owned communities.

Some of the grant recipients have reported on their experiences from the initial CMF funding round. The lessons from the first round include:

- Demand for affordable housing capital is strong, and the CMF is particularly valued for its enterprise-level support for CDFIs and affordable housing developers.
• For many, the CMF grant has increased the awardee’s access to capital and the ability to innovate to meet local affordable housing needs.

• Non-profit affordable housing developers have valued the newly acquired ability to lend from the enterprise level to their developments and will likely retain this lending capacity.

• CMF is frequently used for predevelopment, acquisition, and some construction projects.

• As annual income verification requirements are very similar, many awardees are using CMF to support Low Income Housing Tax Credit projects.

Unfortunately, to date this has been the only round of CMF funding. Applicant scoring data from the 2010 funding round secured through a Freedom of Information Act request indicates that 91 organizations, requesting a total of $467 million, scored in a range that placed them in a highly qualified pool, suggesting numerous great opportunities to deploy additional resources for the program that went unfunded. At a ten-to-one leverage ratio, these highly qualified projects could have attracted more than $4.6 billion in additional investments in affordable housing. It is important to identify future funding sources for this model program.
Creating a Rating System for Affordable Housing Providers

We propose the creation of a ratings system for affordable housing developers and managers that is similar to the ratings or accreditation systems that exist in other fields like health care, child care, and education. The public sector needs to have confidence that housing developers and managers have the ability to operate housing assets sustainably over the long-term with a focus on performance that best serves the residents. The creation of a ratings system would allow government entities to make better decisions about which organizations can do the best job managing affordable housing and make the most efficient use of limited public resources. The same rating system should apply to all public, private, for-profit or not-for-profit entities that participate in federal housing programs.

A rating system should assess the financial strength and performance and impact performance of housing developers and managers. The ratings should include governance, financial strength, management capacity, customer and resident services, risk management, and community impacts. The ratings should be done by an independent, third-party organization with expertise in the use of financial data, impact analysis, and performance benchmarks. Initial assessments should be paid for at least in part by the federal government, state housing finance agencies, banks, philanthropy and other lenders and investors in affordable housing who would benefit from a well-run system. It is important that the ratings be made credible by aligning the funding for the ratings with those who have a long-term interest in successful affordable housing. Over time, we would expect that the rating agency would achieve self-sufficiency based on fees paid by both the organizations that are rated and others that rely on the ratings.

The rating process would allow policy makers to identify strong and capable housing providers that qualify for a new, more flexible relationship with the government. The rating system could detail the capabilities and strengths of the organizations who will serve as their designees in delivering affordable housing resources. More highly rated enterprises would gain greater flexibility in the management of the housing assets they own and become preferred acquirers for affordable housing stock that is transferred to new management.

This proposal is an antidote to federal regulations for affordable housing programs that have grown overly complex and costly. A new approach would allow affordable housing owners and managers freedom from regulations and greater flexibility to manage assets on a portfolio basis. The current web of restrictions and requirements has arisen because of past abuses in the maintenance and financial management of affordable housing. Government can relax its suffocating regulations if it receives assurances that its counterparties can perform and are accountable to performance goals. An established rating mechanism could provide these assurances.
There are several models for performance ratings in the housing and community development field that could become the basis for a new ratings system. The CDFI Assessment and Rating System (CARS) is an independent, third-party rating system which aids investors in assessing CDFIs’ financial strength, performance, and impact. CARS ratings are paid for by potential investors in CDFIs and include past performance, current financial position, and risk factors. Ratings are based on five years of historical performance. The CARS rating system is similar in many ways to the ratings that the bank regulatory agencies use for insured depositories. Like bank exams, CARS ratings are based on on-site examinations including a comprehensive analysis of financial and programmatic information, an extensive review of loan files and risk management systems, and in-depth interviews with managers and board members.

There are other rating systems that could be useful templates for creating a rating system for affordable housing developers. NeighborWorks® America rates the performance of its nonprofit housing grantees by requiring all grantees to participate in a program review every 36 months. In a process similar to CARS, NeighborWorks conducts on-site interviews of staff, inspects documents and files, and issues a final program review report that details results of the process.

The Strength Matters® initiative, a collaboration between the Housing Partnership Network, NeighborWorks America, and Stewards of Affordable Housing for the Future, is another resource that could contribute to a ratings system. Participating nonprofit organizations share financial information and project data that allows organizations to benchmark their performance against peers and share best practices. Strength Matters is not a ratings system per se, but the Strength Matters database of financial and program impact information can provide quantitative rigor to a ratings system that also includes qualitative factors. One of the purposes of the Strength Matters collaboration is to move the affordable housing industry toward consensus on what strong performance looks like.

Creating a ratings system for affordable housing organizations is a long-term project that would need to build on existing initiatives that have worked well. Ultimately, a credible, independent ratings system would help create more transparency and efficiency in accessing capital from private lenders. It also would make it possible for government entities like HUD or state housing finance agencies to responsibly deregulate an overly complex and bureaucratic system by giving them the information they need to choose efficient mission-driven housing managers to provide affordable housing.
Expanding CDFIs as a Source for Community Capital

Since the enactment of the Riegle Community Development and Regulatory Improvement Act in 1994, successful CDFIs have grown in scale and impact. These CDFIs have reached a level of sophistication such that policy makers increasingly rely on the stronger CDFIs to tackle tougher, more intractable problems.

In addressing America’s affordable housing and community development challenges, CDFIs have a larger role to play in the provision of capital to the network of social enterprises that are developing and managing the nation’s affordable housing. Social enterprises in the affordable housing business need large amounts of flexible capital. Most importantly, they are looking for longer loan terms to match the long-term nature of the housing assets financed by those loans, and are also looking for capital in more risky positions – in the pre-development and construction stages or in a second, mezzanine position behind other private capital. Sometimes it is difficult to find private capital for properties where the success of the properties relies on a strong service program for needy residents. As we move toward the aggregation of capital at the enterprise level to support larger portfolios of housing, we will want to look for sources of enterprise level finance. Strong CDFIs – with ready access to capital of their own – may have a role in meeting these various needs when private capital cannot or will not step in.

One of the biggest barriers to CDFIs addressing the capital needs of large developers and owners of affordable housing is the limited ability of even the strongest nonprofit CDFIs to provide capital at sufficient scale and at terms that are particularly useful to the larger housing social enterprises. In order to expand the availability of community capital to address the affordable housing and community development needs, in which the terms and scale of the lending is are crucial, the government can take steps to expand the availability of long-term capital to CDFIs. Among the policy agenda items to achieve this goal are:

- Increased CDFI membership at Federal Home Loan Banks. Membership provides CDFIs access to long-term debt through Federal Home Loan Bank advances;

- Implement and institutionalize the CDFI Bond Guarantee program. The program is authorized at $1 billion in guarantees per year and has no cost to the government. The CDFI Bond Guarantee program will provide CDFIs with a source of long-term patient capital. Over time the program should evolve to allow CDFIs to issue guaranteed debt to private capital markets.

- Increase the role for CDFIs in the delivery of federal guarantee programs including looking for new mechanisms for innovation with the Federal Housing Administration to provide enterprise level finance or financing for hard to finance housing like scattered-site rental or small multifamily properties.
Policymakers are increasingly recognizing what many nurses and doctors could tell us: the houses and neighborhoods where people live can have an impact on their health and life expectancy. As Marjorie Paloma of the Robert Wood Johnson Foundation points out: “This growing recognition of housing, neighborhoods, and factors such as income and education – the social determinants of health – has led the health sector, and increasingly the housing and community development sectors, to look beyond improving access to health care to address root causes to help people avoid getting sick in the first place.” (The Intersection of Health Philanthropy and Housing, Shelterforce, Spring 2012.) Collaborations between the housing and health care sectors that recognize the upstream causes of poor health have great promise to both reduce health care costs and improve quality of life.

The supportive housing model for linking health care services to affordable housing flows out of work done in serving chronically homeless populations, many of whom suffer from mental illness or substance dependencies. Research conclusively demonstrated that supportive housing was no more expensive than serving these populations who were otherwise accessing public resources through stays in the county jails, visits to emergency shelters and detoxification centers, and visits to hospital emergency rooms. This insight has led to an evolution in federal policy toward homelessness that is based on a recognition that the solution starts with housing.

Similarly, interdisciplinary thinking about the health and housing needs of senior citizens offers a path to both save on the costs of nursing home admissions and hospitalizations, and provides the elderly a much better quality of life. By 2050, the number of U.S. citizens aged 65 or older will increase from 40 million today to more than 88 million. The number of people aged 85 or older will triple to 19 million. These demographic changes have dramatic implications for society as a whole, health care spending, and the demand for affordable housing. Affordable housing providers will need to adapt to serve an older population with health and mobility issues.

It will save significant public resources if we can devise mechanisms to keep people in their homes longer and avoid institutionalization. Affordable multifamily housing can help by becoming platform to efficiently deliver less expensive health care resources and help seniors with daily activities. Service-enriched affordable housing can improve the quality of life for seniors and save the government the cost of nursing home care.
In order for affordable housing to adapt to the challenge of serving increasingly frail seniors, housing providers need access to health care and social services funding to pay for service coordinators and health care workers. There is a modest amount of funding available through HUD for the 202 Supportive Housing for the Elderly program to serve low-income older adults, but the demand for this program far outstrips the funding available. Reimbursement structures and regulations for the mainstream health care funding systems – Medicare and Medicaid – have made it difficult for housing providers to successfully serve the evolving needs of seniors. Nonetheless, national and regional nonprofit housing providers have developed affordable housing with enhanced services models that respond to the increasing needs of seniors. These models often rely on partnerships between health care providers and housing developers.

Mercy Housing, an HPN member that has developed more than 39,000 affordable homes, is one nonprofit that has been at the forefront of efforts to include health services as part of its housing projects, creating better life outcomes for residents. Mission Creek Senior Community in San Francisco was developed by Mercy Housing in partnership with the San Francisco Redevelopment Agency, the San Francisco Department of Public Health, and the San Francisco Public Library. The project combines 139 units of affordable senior housing with an Adult Day Health Center, ground floor retail space, and a new branch of the San Francisco Public Library. Part of the innovative program that created Mission Creek Senior Community shifted fifty residents from a city-run nursing home to this affordable senior housing with supportive services. The City of San Francisco has attested that the Mission Creek Senior Community has saved the City nearly $1.5 million a year over the cost of nursing home care for these residents. Most importantly, these residents enjoy better quality of life as well.

Innovative collaborations between health care providers and affordable housing developers ought to be the rule, not the exception. Public policy should support models of affordable multifamily housing combined with health care and services to help older adults continue to live in their own homes as they age. The health care savings that are associated with minimizing hospitalizations and unnecessary nursing home admissions need to be redirected into affordable housing for seniors with appropriate support services. As the elderly population increases, a combined housing and services model offers a solution that is both humane and cost-effective.
Housing and Sustainable Communities

Just as housing has an impact on health and education outcomes for individuals, housing also influences environmental outcomes. Environmental quality, economic growth, and transportation needs are influenced by how and where we build housing. Building housing that is energy efficient and well-located with access to jobs and transportation is more efficient than building sprawling, poorly planned communities. A sustainable communities agenda should achieve better coordination and linkages among transportation, housing, community development, and environmental policies to achieve results that have a positive financial, social, and environmental impact.

There are many different ways to make housing more sustainable in the long run. Green building practices reduce the operating costs of affordable housing by reducing energy and water use. Good stormwater management practices can lessen the impact of housing development on watersheds, thus avoiding the need for costly environmental mitigation. These techniques make housing more sustainable environmentally and financially. Energy-efficient retrofits of existing affordable housing can both reduce the carbon footprint of the built environment and improve housing conditions for residents. Policymakers should continue to offer incentives for affordable housing developers to build, using cost-effective, proven, green-building techniques.

The location where housing is built also impacts the environment. It might cost less in the short term to build affordable housing in auto-dependent locations on the periphery of metropolitan areas. Over the long term, however, the costs of sprawl, traffic congestion, and environmental degradation may outweigh any savings on land acquisition costs. Locating housing to take advantage of existing infrastructure, transit, and job opportunities makes communities more sustainable in the long run. Policymakers should continue efforts to support robust local planning which ensures that transportation, housing needs, and the environment are all considered by local officials when making land-use and zoning decisions.

Cities across the country are expanding transit systems to improve access to jobs, spur economic development, and reduce traffic congestion and lower the levels of greenhouse gas emissions. In general, these investments in light rail systems and bus rapid transit stations increase property values and house prices in nearby areas. Absent intentional strategies to increase affordable housing options near transit stations, these investments in transportation can have a negative impact on housing affordability.
Transit-Oriented Development (TOD) is the linkage between new publicly-owned transportation infrastructure and the accompanying development of privately-owned infrastructure. For a transit network to attain the ridership it needs, our cities have to develop high-density, economically diverse real estate nodes around transit stops. Such nodes are anchored by housing because that is where transit customers live. Affordable homeownership and rental housing opportunities are critical elements of a successful neighborhood surrounding a transit node. Providing low-income families with access to rental housing and low-cost transportation facilitates labor mobility. TOD is based on the reciprocal relationship between transportation policies and comprehensive community development policies: how do we best use transit to serve the communities and how do we best manage the development of communities that can be or are served by transit? These policies ameliorate the negative impact the transportation investments can have on housing affordability.

The set of policies dealing with transportation, environmental protection, and affordable housing that make communities more successful and sustainable should be continued and expanded:

- **Sustainable Communities grants** make it easier for localities to make good decisions about where housing, transit and economic development should be located. These vital planning efforts should be continued.

- The **selection criteria for affordable housing projects** should favor developments that are energy- and water-efficient, environmentally friendly, and sited in a way that takes advantage of infrastructure already built.

- The **Department of Transportation should aggressively implement** the changes to the New Starts program that make it easier for localities with more affordable housing to get their transit projects funded. This gives localities an incentive to fund affordable housing.

- **Preserving affordable housing around transit stops** should be a priority for state and local resources. The National Housing Trust has developed data systems to track subsidized and unsubsidized affordable housing preservation opportunities near transit. In 20 major metro areas in the U.S., 250,000 HUD-assisted senior and family apartments are within a half mile of mass transit. Of these, 160,000 are within a quarter mile of mass transit. Contracts on all of these apartments expire between now and 2015.

- **CDFIs should leverage philanthropic capital** and Financial Assistance grants from the CDFI Fund to create TOD loan funds that finance land acquisition along planned transit lines so that affordable housing can complement the transit expansion.
The premise of this paper is that with better policy design and implementation we can achieve efficiencies in the delivery of affordable housing program resources and, at the same time, achieve better outcomes for residents and communities. The Housing Partnership Network collectively reviews best practices in the field and looks for practical, substantive changes to make more effective use of existing resources.
The Housing Partnership Network is a collaborative of the nation’s leading housing and community development nonprofits.

The Network’s member-driven activities are supported by a Boston-based staff with satellite offices in Washington D.C. and Minneapolis.