



THE AFFORDABLE HOUSING STUDY COMMISSION

AMENDED

SHIP Administrative Issues Workgroup Conference Call Summary January 16, 2007

Workgroup Members: George Romagnoli, Ann Kashmer, Helen Feinberg, Michael Hervey, Mandy Hines, Randy Wilkerson

Participating Public: Greg Rice, Florida Department of Elder Affairs; Glen Morris, Palm Beach County; Sadie Cooper, City of Ft. Pierce; Janet Gilliard and Commissioner Gordon Norris, Hardee County; Angela Bauldree, City of Tamarac; Nyla Campbell, City of Lakeland.

Staff: Odetta MacLeish-White, Darlene Raker, Terry Auringer

Workgroup Chair George Romagnoli called the meeting to order at 2:05pm. The scope of work outlined in the agenda was accepted, and the agenda amended to allow discussion of the challenges to combining SHIP with single family tax exempt bonds before review of the SHIP statute and rule. The approved scope of work is as follows:

- 1) Review SHIP statute and rule, section by section
- 2) Administrative challenges to combining SHIP with other funding sources
 - a) Income eligibility verifications/verifications of deposit
 - b) Burdensome file sharing requirements
 - c) Expenditure definitions
- 3) Discuss HB 1363 for any pertinent issues
- 4) Examine minimum allocations:
 - a) What are the pressures on the current minimum allocation?
 - b) What is the per capita allocation for each county?
 - c) How are other SHIP programs affected if we change the minimum allocation?

Challenges of combining SHIP with Single Family Tax Exempt Bonds: Helen Feinberg set out some context for the use of SHIP and single family tax exempt bonds:

- 1) A major use of SHIP funds is down payment assistance;
- 2) Tax exempt bonds can be issued to purchase mortgages with some of the lowest interest rates in the country;
- 3) Moreover, bond programs offer uniform terms and a master servicer to provide uniform underwriting and compliance monitoring.
- 4) It makes sense to combine a subsidy like SHIP that is most often used for down payment assistance with the most affordable mortgage product. However, there are a number of challenges to combining SHIP with single family bonds.

The workgroup focused its discussion on the following challenges to combining SHIP with tax exempt bonds:

- 1) Verification of Deposit forms and other forms that may not otherwise be required for a Fannie Mae/FHA loan.
- 2) The move to automated credit underwriting by private lenders which SHIP programs maintain manual underwriting has resulted in different approvals for the same client.
- 3) Definition of expenditure of SHIP funds within 24 months.

Verification of Income/Deposit Forms

Bond programs and Florida Housing, when combining its own bonds with HOME or HAP, rely on lender verification of income. However, SHIP local governments often require a separate verification of income after the lender's process. George Romagnoli noted that there are a number of methods for verifying income and employment – the real issue is why SHIP programs require something other than the forms which are acceptable to banks, namely pay-stubs. SHIP counts sources of income from all members of the applicant household, unlike banks and other lenders who consider specific sources of income from only the applicant. Ann Kashmer also noted that banks are prohibited by fair housing laws from asking certain questions about income, a restriction not faced by SHIP administrators. A number of SHIP administrators on the call identified the following as reasons why they prefer to do separate income verification:

- Separate verification and the use of verification of income forms from payroll departments protect the SHIP program in audit;
- Verification of income forms allow more specific descriptions of income sources, such as part time income, commissions or bonuses;
- Verification of income also prevents fraud by applicants who may bring in old paystubs.

Randy Wilkerson pointed out that pay-stubs could be acceptable if they are recent and cover a certain period of time to show consistent income; they would also have to show the types of income received. George Romagnoli also noted that verifications of income are not necessarily more secure than pay-stubs as anyone in the human resources department issuing the verification form can sign it.

Where SHIP funds have been successfully blended with bonds, it has been the result of close relationships with lending institutions which understand the level of detail needed for SHIP. Another practice which has eased the use of SHIP with local bonds has been to pre-certify an applicant for SHIP's requirements and then send the applicant to a lender for loan approval. City of Boca Raton utilizes this approach as does the City of Ft. Pierce.

Underwriting requirements relating to income ratios

Some SHIP programs have refused to make loans to applicants who show that they would spend more than 30% of their income for housing although the SHIP statute at F.S. 420-9071(2) specifies that affordability need not be restricted to 30% if the primary lender determines that the household can support higher payments. Participants on the call felt that, for the most part, SHIP administrators understand that they have this leeway, but are choosing not to use it. Keeping closely to a 30% definition of affordability has prevented predatory lending practices.

Definition of “Expended”

Helen Feinberg explained that some auditors only count SHIP dollars as expended when the mortgage pool is purchased by the bond trustee. This purchase point can occur after the 24 month expenditure period required by the SHIP statute. George Romagnoli pointed out that the correct definition of expended is tied to the date of the loan closing, and the real issue is that each loan must be associated with an individual applicant but local governments try to draw down their funds in a lump sum without showing the links to specific applicants. To address this, SHIP administrators should maintain an internal accounting system that shows how SHIP funds are linked to specific applicants and/or to move unspent funds into another fiscal year thus preserving its availability.

The workgroup asked Study Commission staff to research and report back whether or not the Florida Housing Coalition provides a training session on how to combine SHIP with bonds. If there is no such program, the workgroup can develop suggestions for the parameters of such a program. Rather than change existing regulations or requirements, share practices that are working in SHIP programs.

Following this discussion, the workgroup conducted a section by section review of the SHIP statute (F.S. 420.9091-9079).

Review of SHIP Statute

Definitions:

- Affordable – Ann Kashmer noted that this definition allows more than 30% of income to be deemed affordable if the first mortgage lender is satisfied that the household can afford mortgage payments in excess of the 30% benchmark.
- Annual Gross Income – several questions were posed on this definition. What exactly is mandated by 24 CFR Part 5 which defines annual income under the Section 8 housing assistance payments program? This definition also allows income to be projected forward from the date of determination; it was asked if banks annualize income into the future.
- Eligible Housing – this section prohibits mobile homes from SHIP funding. Members of the workgroup felt this was a punitive feature of the statute, particularly when post 1994 HUD code mobile homes are much stronger than their predecessors. Mandy Hines noted that she can't hook older mobile homes up to city water and sewer connections which further penalizes most vulnerable populations. **The workgroup felt this issue should be raised at a full Commission meeting.**
- Income Definitions – the various income definitions for low, moderate and very low income require a cap of 140% of the various AMIs adjusted for family income. Study Commission staff was asked to calculate how this 140% cap might change in escalating wage scenarios – are households moved out of their income eligibility ranges?
- Program Income vs. Recaptured Income – there was clear consensus on the call that the distinction between these types of income creates more administrative work while most local governments effectively treat the two types of income as the same.

State Housing Initiatives Partnership Program: no comments or changes, although Ann Kashmer pointed out that this section of the statute includes support for leveraging SHIP funds with active partnerships.

Local Housing Distributions: no comments or changes

Local Housing Assistance Plans:

- Call participants confirmed with SHIP staff that the definition of essential services personnel found in Section 3(a) of this section does require an amendment of their local housing assistance plan unless they have received CWHIP funds or it is time for regular review and update of the plan.
- Section 4(e) of this part of the statute requires annual compliance monitoring for rental units receiving \$3000 or more in SHIP funds. Call participants agreed that this section creates a prohibitive level of administrative work and discourages local governments from partnering with smaller properties that may be a good source of rental units. The Hurricane Housing Recovery Program suggested language that raised this monitoring level to \$10,000.
- Percentages – two points were raised by the workgroup in connection with the 65% home ownership requirement: first, George Romagnoli asked Study Commission staff to research how many SHIP programs are receiving more program income than allocation, as a way to examine which programs have access to unrestricted income to use for rental. Mandy Hines suggested that the HHRP option of requesting a waiver to this requirement was useful in her county’s recovery efforts. There was no comment on the 75% construction requirement other than Randy Wilkerson’s note that this requirement keeps the SHIP statute a production program. **The workgroup felt percentages should be discussed at a full Commission meeting.**
- Administrative Fees – George Romagnoli proposed the administrative fee on both allocation and program income should be 10%. There was some discussion about the pressure on counties receiving the minimum allocation which find it very difficult to administer the program on \$35,000 and have to combine their SHIP funds with other programs to pool administrative fees to pay for staffing. Some of the pressures include the difficulty in finding staff in small counties and the increases in cost of business. Study Commission staff pointed out that more detail setting out the context for raising the administrative fee will make the argument more compelling.
- Annual reports – SHIP staff explained that the annual reports deadline is set at Sept. 15th of each year to allow them time to review for compliance and receive corrections in time for their reporting deadlines to the legislature and others. Call participants suggested that the ability for a county’s local elected official to assign a designee to sign off on the annual report can ease some of the time constraints.

Adoption of Affordable Housing Incentive Strategies: no comments or changes

State Administration of Local Housing Distribution Funds: no comments or changes

Local Government Housing Trust Fund: no comments or changes however Study Commission staff was requested to research the amount of Florida Housing's compliance monitoring fee and how it is allocated.

There being no public comment, the call was adjourned at 4:05pm.