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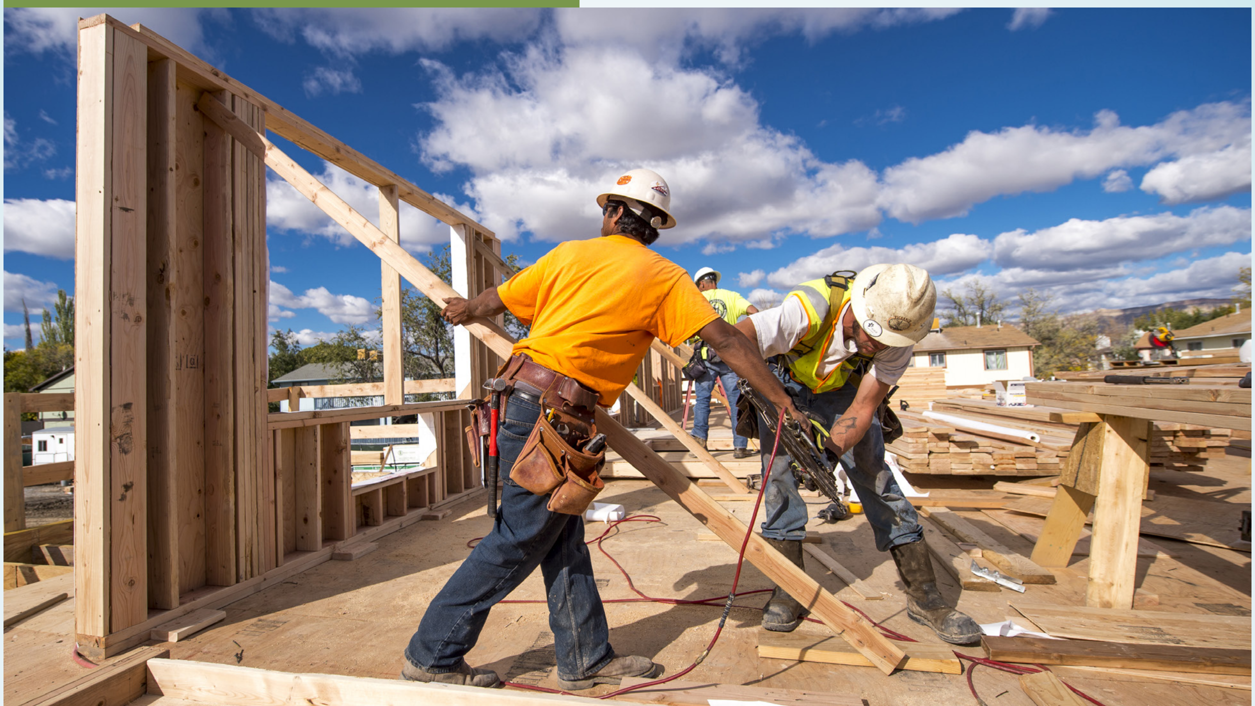

Housing Affordability in Colorado

federal resources

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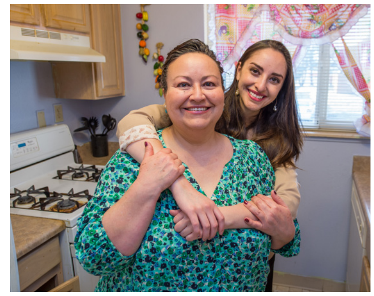
Contents

The federal government has established several partner agencies and resources to help states and local communities provide a variety of affordable housing options for their residents. Most programs have very specific requirements concerning their use and eligibility for participation.

Government-sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac, and Federal Home Loan Banks



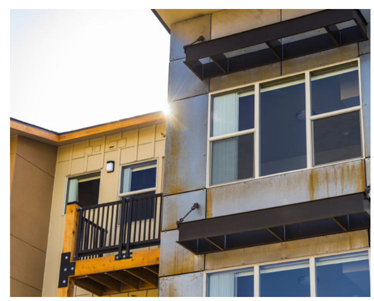
GSEs help bring capital to the housing markets and are regulated by the Federal Housing Finance Agency (FHFA).

Fannie Mae and Freddie Mac purchase and securitize loans from approved lenders, which then use the proceeds to finance more mortgages for single-family and multifamily properties.

Federal Home Loan Banks provide advances, or long-term and short-term secured loans and other financial products, to support their members' affordable housing and community investment activities.

Together, GSEs are critical to providing liquidity, stability, and affordability to the mortgage market, particularly for long-term, fixed-rate mortgages that have become standard in the U.S. housing market.

U.S. Department of Housing and Urban Development (HUD)



Established in 1965, HUD's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. To fulfill this mission, HUD administers a variety of federal appropriated grant and loan programs. Funding for HUD and its programs is authorized annually through the Transportation-HUD budget appropriation.

Among the most commonly used HUD programs in Colorado are:

Community Development Block Grants (CDBG)

Created under the Housing and Community Development Act of 1974, these grants provide funds to local and state governments to support housing for low- and moderate-income populations as well as economic development.

Based on a population-driven formula, localities may either be entitled to receive a direct allocation of CDBG authority, or non-entitlement municipalities or counties may receive a portion of the state's CDBG allocation administered by the Colorado Department of Local Affairs (DOLA).

Funds must be used for activities that benefit low- and moderate-income persons, prevent or eliminate slums or blight, or address community development needs of particular urgency.

Community Development Block Grants – Disaster Recovery (CDBG-DR)

HUD provides flexible grants to help cities, counties, and states recover from presidentially declared disasters, especially in low-income areas, subject to availability of supplemental appropriations. Congress may appropriate additional funding for the CDBG program as Disaster Recovery grants to rebuild affected areas and provide crucial seed money to start the recovery process.

Colorado Department of Local Affairs administers the state's CDBG-DR grant dollars received for flood and fire recovery programs. The program addresses housing, infrastructure, planning, and economic development, including agricultural businesses.

Emergency Solutions Grant (ESG) Program

The ESG is a federal grant designed to help improve the quality of existing emergency shelters for the homeless, make additional shelters available, meet the costs of operating shelters to provide essential services to homeless individuals, and help prevent homelessness. ESG also provides short-term homeless prevention assistance to persons at imminent risk of losing their own housing due to eviction, foreclosure, or utility shutoffs.

Colorado's allocation of ESG program funds is administered by the Colorado Department of Local Affairs, Division of Housing (DOLA-DOH). Local government agencies and private nonprofit organizations are eligible recipients of ESG funds. Grantees, except for state governments, must match ESG funds dollar-for-dollar with their own locally generated funds.

Federal Housing Administration (FHA)

FHA was created in 1934, and became part of HUD in 1965. FHA provides mortgage insurance on mortgage loans made by FHA-approved lenders. FHA administers both single-family and multifamily mortgage insurance programs, which protect lenders against losses in the case of default by the borrower. Loans must meet certain requirements established by FHA to qualify for insurance.

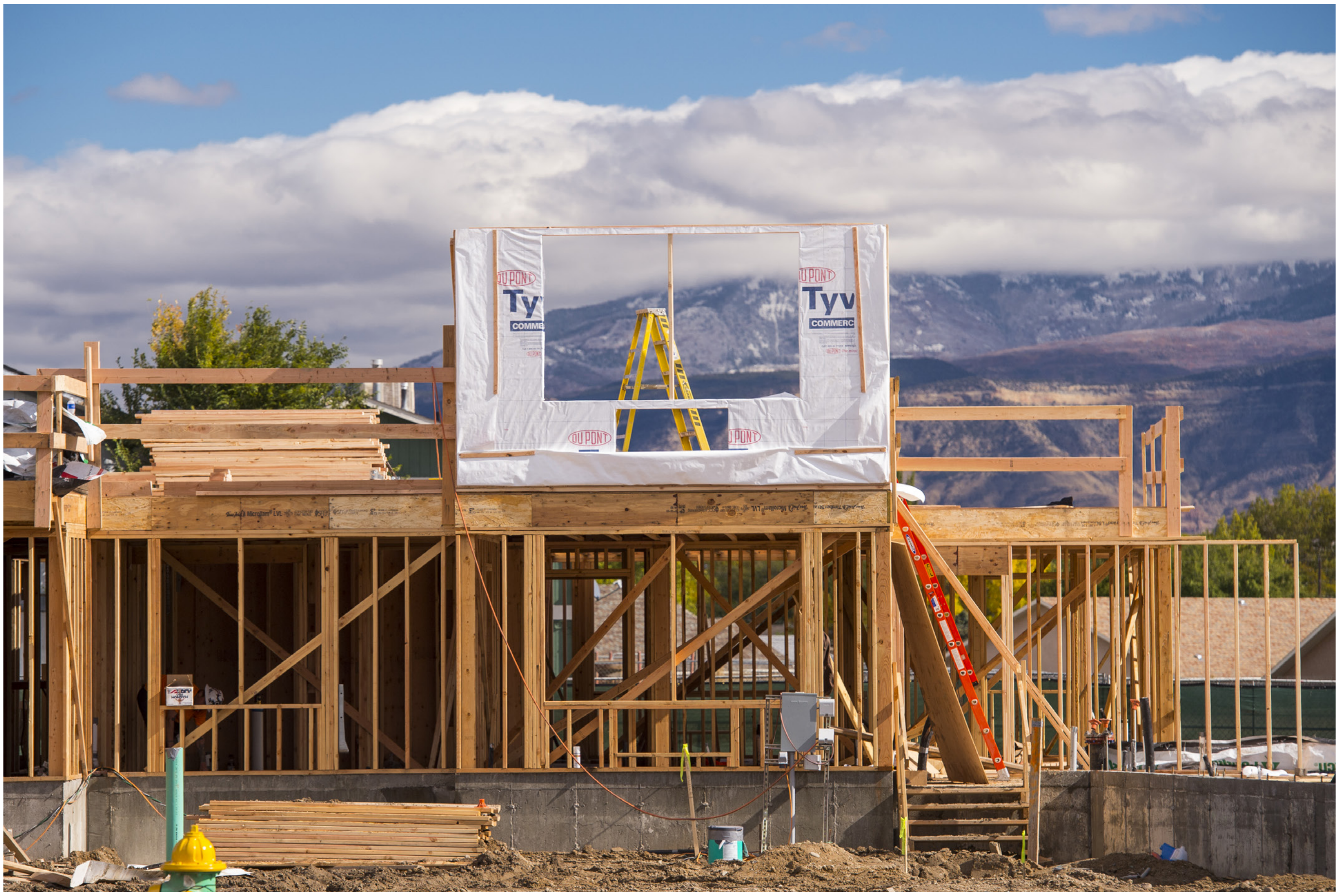
Ginnie Mae

Ginnie Mae increases capital in the nation's housing markets by providing a guaranty that mortgage lenders can leverage better pricing for their mortgage loan pools in the secondary mortgage market. This increases liquidity in the market and enables lenders to use their proceeds to fund new mortgage loans. Ginnie Mae programs support single family, multifamily, and manufactured housing loans.

Unlike the GSEs, Fannie Mae and Freddie Mac, Ginnie Mae does not buy or sell loans, or issue mortgage-backed securities (MBS). Instead, Ginnie Mae guarantees investors the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans – mainly loans insured by FHA or guaranteed by the Department of Veterans Affairs (VA). Other guarantors or issuers of loans eligible as collateral for Ginnie Mae MBS include USDA/Rural Development, and HUD's Office of Public and Indian Housing.

Home Investment Partnership Program (HOME)

Created by the National Affordable Housing Act of 1990, the HOME program is a federal block grant that provides states and localities resources to fund a wide range of affordable housing activities. States and localities may use HOME to finance new construction, rehabilitation, down payment assistance, and rental assistance for low-income households.



States receive 40 percent of total HOME funding and localities receive 60 percent based upon a formula used to determine need. The state's HOME allocation is administered by DOLA-DOH. Local governments, nonprofits, or private developers may apply to receive funds available through DOLA-DOH's HOME program funds.

Housing Choice Vouchers - Section 8

The Housing Choice Voucher (HCV) program is the federal government's largest program for assisting very-low-income families, the elderly, and persons with disabilities to afford decent, safe, and sanitary housing in the private market. The program serves the most economically vulnerable in the nation, and without the benefit of the program, many would be at immediate risk of homelessness. Nationally, of the households receiving HCV assistance, 75 percent are extremely low-income, with incomes at or below 30 percent AMI; 27 percent have a disabled head of household; and 22 percent are elderly.

Vouchers are administered locally by public housing agencies (PHAs), and in Colorado, DOLA-DOH. Funding for the HCV program consists of two main components:

1. Housing Assistance Payments (HAP) made to owners to cover the difference between a rent contribution and the unit rent, and
2. Administrative fees paid to PHAs to cover the cost of administering the program.

HCV participants receive rental assistance that is paid to the landlord directly by the PHA on behalf of the participating tenant. The participant then pays the difference between the actual rent charged by the landlord and the amount subsidized by the program. The participant must pay a minimum of

30 percent of their adjusted monthly income toward rent and utilities. The tenant is free to choose any housing that meets the requirements of the program, which may include single-family homes, townhomes, or apartments.

PHAs administer the project-based program by determining recipient eligibility, establishing allowable rent levels, and determining whether the properties for rent comply with the housing quality standards established under the program.

There are several categories of HCV available to serve distinct populations, including:

- Family Unification Program (FUP)

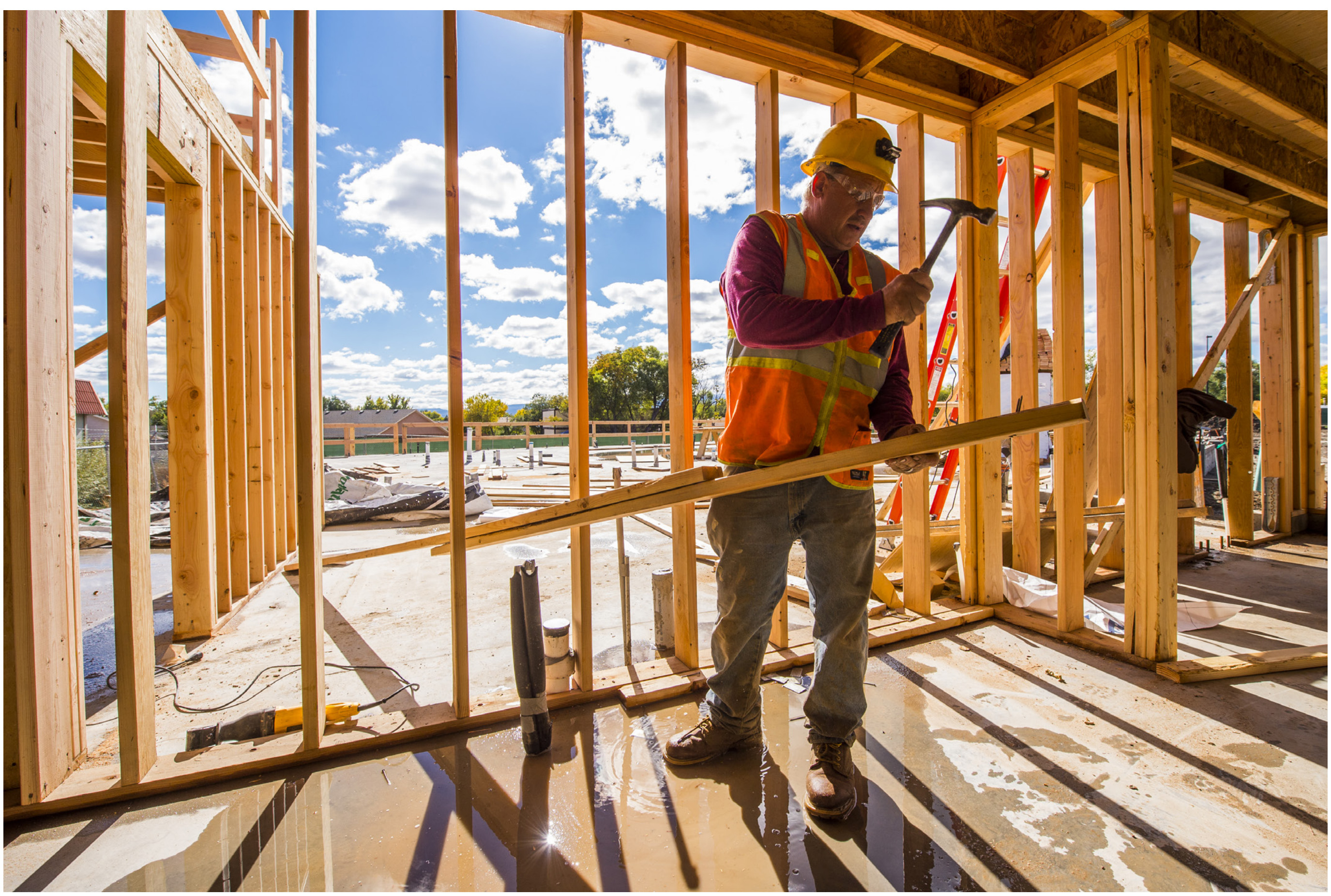
  FUP is a program under which Housing Choice Vouchers are provided to assist homeless youth aging out of the foster care system (ages 18-21), and families where available housing is an obstacle to obtaining full custody of their children. Colorado's Division of Local Affairs partners with the Colorado Division of Child Welfare and local service providers to administer FUP.

- HUD-Veterans Affairs Supportive Housing (HUD-VASH) Vouchers

  The HUD-VASH program combines Housing Choice Voucher rental assistance for homeless veterans with case management and clinical services provided by the Department of Veterans Affairs (VA). VA provides these services for participating veterans at VA medical centers and community-based outreach clinics. HUD and VA award vouchers based on geographic need and PHA administrative performance.

- Project-based Section 8

  Up to 20 percent of a PHAs vouchers may be used as project-based rental assistance, which means that they are attached to a specific housing unit. In order to receive project-based vouchers, the property owner must agree to either rehabilitate or construct the units, and/or set-aside a portion of the units in an existing development for a fixed period.



In 2017, there were 16,085 project-based Section 8 housing units in Colorado. Colorado Housing and Finance Authority (CHFA) serves as HUD's performance-based contract administration for the Project-based Section 8 program in Colorado.

- Section 811

  The Housing for Persons with Disabilities (Section 811) program provides rental assistance for extremely low-income people with significant and long-term disabilities, enabling them to access affordable, private housing of their choice. In 2017, 369 units in Colorado were supported through the Section 811 program.

Housing Opportunities for Persons with AIDS (HOPWA)

The HOPWA program provides housing assistance and supportive services to low-income people with HIV/AIDS and their families. HOPWA funds may also be used for health care and mental services, chemical dependency treatment, nutritional services, case management, assistance with daily living, and other supportive services.

Under the HOPWA program, HUD makes grants to local communities, states, and nonprofit organizations for projects that benefit low-income persons living with HIV/AIDS and their families.

In Colorado, the DOLA-DOH provides the state's allocation of HOPWA funding to the Colorado AIDS Project, which distributes funds to the Boulder County AIDS Project, Northern Colorado AIDS Project, Southern Colorado AIDS Project, and Western Colorado AIDS Project according to needs in their respective areas. The funding is primarily used to provide rental assistance and supportive housing services.

HOPE VI and Choice Neighborhoods

The HOPE VI Program was developed to help eradicate severely distressed public housing and revitalize communities through physical improvements, management improvements, and social and community services that address resident needs.

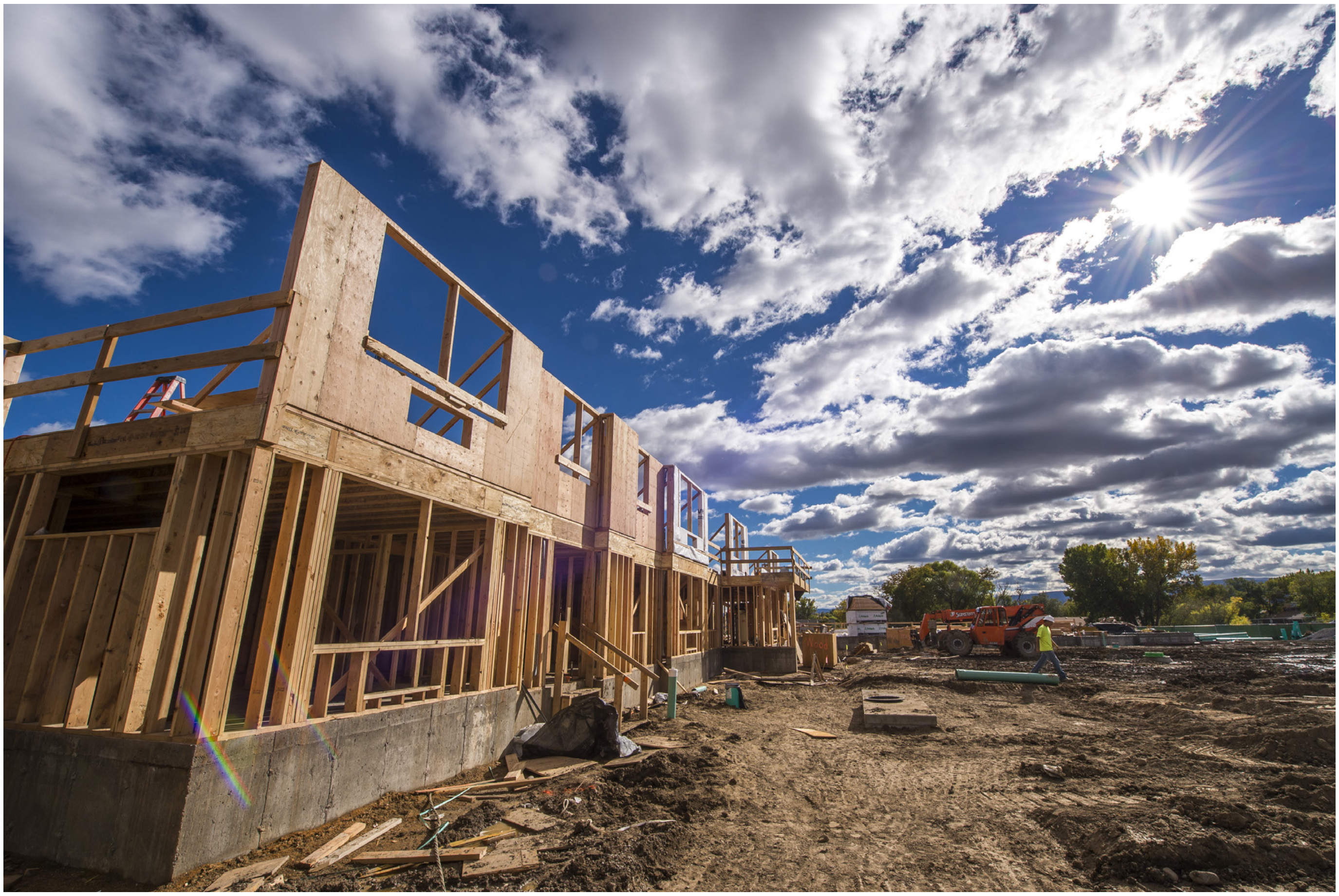
Any public housing authority that has severely distressed public housing units in its inventory is eligible to apply for available HOPE VI Revitalization Grant funds or HOPE VI Main Street Grants.

Revitalization Grants fund:

- Capital costs of major rehabilitation, new construction, and other physical improvements;
- Demolition of severely distressed public housing;
- Acquisition of sites for off-site construction; and
- Community and supportive service programs for residents, including those relocated as a result of revitalization efforts.

Main Street Grants provide assistance to smaller communities in the development of affordable housing that is undertaken in connection with a Main Street Revitalization effort.

In 2010, HUD introduced a new program called Choice Neighborhoods that builds on the success of the HOPE VI program. Choice Neighborhoods expanded eligibility for participation in the program to include local governments, nonprofits, and private developers. Most importantly, Choice Neighborhoods emphasizes expanded partnerships and strategic investments in schools and safety. While HUD invests in housing and economic activities, the Departments of Education and Justice will make complimentary, competitive investments.



National Housing Trust Fund (HTF)

The HTF is a permanent federal fund authorized by the Housing and Economic Recovery Act of 2008. It is intended to provide grants to states to increase and preserve the supply of rental housing and increase homeownership for extremely low and very-low-income households.

HERA requires Fannie Mae and Freddie Mac (the GSEs) to transfer a percentage of their new business to finance the HTF. However, due to the GSEs being placed into conservatorship, contributions were initially suspended by the GSE's conservator, FHFA. On December 11, 2014, FHFA announced it was directing the GSEs to begin setting aside funds for the HTF starting on January 1, 2015.

Each state will receive these grants, which will be allocated according to a needs-based formula calculated by HUD. Eligible HTF activities are defined as the production, preservation, and rehabilitation of rental housing and the production, preservation, and rehabilitation of housing for homeownership, including down payment assistance, closing cost assistance, and assistance for interest rate buydowns.

For years in which there is more than $1 billion in the HTF, 75 percent of assistance received must benefit extremely low-income families (30 percent AMI and below), and up to 25 percent must benefit very-low-income families (50 AMI and below).

For years in which there is less than $1 billion in the HTF, 100 percent of all assistance must be used benefit extremely low-income families (30 percent AMI and below).

State spending on homeownership activities is limited to not more than 10 percent of total assistance provided.

Shelter Plus Care Program (S+C)

The Shelter Plus Care Program is designed to help the most vulnerable and hard-to-serve segment of the homeless population obtain permanent supportive housing. Those served include disabled persons with severe mental illness, AIDS, or chronic substance abuse problems who are often residing on the streets or in shelters.

The program provides grants to public agencies for projects that offer participants a variety of housing choices coupled with supportive services to create environments that range from highly supportive to independent living.

Self-Help Homeownership Opportunity Program (SHOP)

SHOP awards grant funds to eligible national and regional nonprofit organizations and consortia to purchase home sites and develop or improve the infrastructure needed to set the stage for sweat equity and volunteer-based homeownership programs for low-income persons and families. In Colorado, organizations such as Habitat for Humanity utilize SHOP grant funds to further their mission.

Treasury and HUD Affordable Rental Housing Financing Partnership

Through a partnership established by the U.S. Department of Treasury and HUD, the Federal Financing Bank (FFB) provides financing for multifamily mortgage loans insured by HUD's FHA Multifamily Mortgage Risk Share Program.

Under the FHA Risk Sharing program, state housing and finance agencies (HFAs) underwrite and make loans, which are insured by FHA. These insured loans are sold to investors in the tax-exempt bond market. Should the loan default, the HFA lender and FHA will share the loss. Since 2010, the program rate of default is less than 0.13 percent.

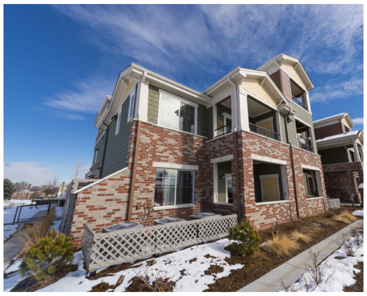
Internal Revenue Service (IRS)

The IRS is the nation's tax collection authority and is responsible for administering and enforcing all tax law. During President Reagan's administration, the Tax Reform Act of 1986 authorized two of the nation's most widely used affordable housing programs – Low Income Housing Tax Credits and Private Activity Bonds. Administration of these programs is conducted by states, with ultimate oversight and compliance enforced by the IRS.

Low Income Housing Tax Credits (LIHTC or Housing Credits)

LIHTC is a federal tax credit that offers a dollar-for-dollar reduction in a taxpayer's income tax liability in return for making a long-term investment in the development or preservation of affordable rental housing.

State agencies award Housing Credits to developers, who then sell the credits to private investors in exchange for equity funds to support the development. These funds allow developers to borrow less money and pass on the savings in lower rents to low-income tenants. Investors, in turn, receive a 10-year tax credit based on the cost of constructing or rehabilitating apartments that cannot be rented to households earning 60 percent or less of area median income (AMI).



The program allows states to allocate Housing Credits to developments they select pursuant to qualified allocation plans (QAPs) developed by each state that identify the type, location, and other characteristics of affordable housing needed throughout the state. The QAPs must describe the criteria agencies will apply in allocating the Housing Credit, and are subject to review on an annual basis after a public hearing and comment process. In this way, the Housing Credit empowers states to respond to the housing needs, priorities, and challenges that state considers most important.

There are two types of federal LIHTC:

- 9 percent Competitive LIHTC

  Is limited by a population driven formula, and competitively awarded to developer applicants. Equity raised from the sale of a 9 percent LIHTC allocation is designed to offset approximately 70 percent of the cost of an affordable housing development.

- 4 percent Non-Competitive LIHTC

  Is designed to offset approximately 30 percent of the cost of an affordable housing development.

Private Activity Bonds (PAB)

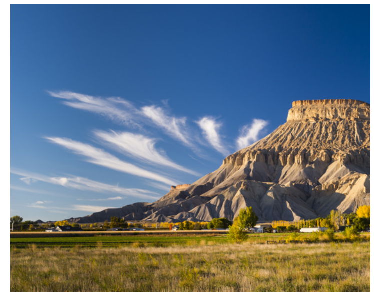
PAB are a special class of tax-exempt bonds that were created as part of the Federal Tax Reform Act of 1986. They are used as a means of raising investor capital to support very specific privately developed projects, including:

- The construction or acquisition and rehabilitation of affordable multifamily housing for low- and moderate-income individuals and families;
- The purchase of mortgages made to income-qualified first-time homebuyers;
- The provision of Mortgage Credit Certificates, a federal income tax credit benefit for income-qualified first-time homebuyers;
- The purchase of real estate or equipment for a smaller manufacturing projects;
- To acquire and redevelop blighted areas, prepare land for redevelopment, and relocate occupants of structures on acquired property;
- The construction of hazardous waste facilities, local district heating and cooling facilities, local electric energy or gas facilities; and
- To support real estate or equipment purchases by nonprofits or private universities.

The benefit of PAB is that interest paid to the bondholders is exempt from federal income tax, which generally results in a lower borrowing cost for the eligible project.

Based on a population-driven formula, localities may either be entitled to receive a direct allocation of PAB authority, or for those non-entitlement municipalities or counties, the state's PAB allocation is administered by the Colorado Department of Local Affairs.

USDA/Rural Development



USDA/Rural Development offers loans, grants, and loan guarantees to support essential services such as housing, economic development, health care, first responder services, and equipment, water, electric, and communications infrastructure in rural communities.

Among USDA/RD's affordable housing programs are:

- Section 515 Rural Rental Housing Loans

  The Section 515 program finances direct, competitive mortgage loans made to provide affordable multifamily rental housing for very-low, low-, and moderate-income families, elderly individuals, and persons with disabilities. USDA defines very-low-income as below 50 percent AMI, low-income as between 50-80 percent AMI, and moderate as $5,500 above the low-income limit.

- Section 538 Multifamily Housing Program

  The Section 538 program provides federal government guarantees for loans made by commercial lenders to developers of multifamily rental housing for low- and moderate-income residents in rural areas, and is intended to support rural households with incomes up to 115 percent AMI.

- Section 502 Loans

  The Section 502 program is primarily used to help low-income individuals or households purchase homes in rural areas. They can be direct or guaranteed. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including water and sewage facilities. Loan applicants may have an income up to 115 percent AMI. Families must not have an ownership interest in other residential housing and must be able to afford the mortgage payments, including taxes and insurance. In addition, applicants must have reasonable credit histories.

Veterans Affairs (VA)

VA helps service members, veterans, and eligible surviving spouses become homeowners. As part of the VA's mission, they provide a home loan guarantee benefit and other housing-related programs to help buy, build, repair, retain, or adapt a home for personal occupancy. VA home loans are provided by private lenders, such as banks and mortgage companies. VA guarantees a portion of the loan, enabling the lender to provide borrowers with more favorable terms.

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