



October 5, 2005

Senator Richard Shelby
Chair
Banking, Housing and Urban Affairs
110 Hart Senate Office Building
Washington, DC 20510

Senator Paul Sarbanes
Ranking Member
Banking, Housing and Urban Affairs
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Representative Michael G. Oxley
Chair
House Financial Services
2308 Rayburn House Office Building
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Representative Barney Frank
Ranking Member
House Financial Services
2252 Rayburn House Office Building
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Senator Christopher S. "Kit" Bond
Chair
Appropriations Subcommittee for
Transportation, Treasury, et al.
274 Russell Senate Office Building
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Senator Patty Murray
Ranking Member
Appropriations Subcommittee for
Transportation, Treasury, et al.
173 Russell Senate Office Building
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Representative Joe Knollenberg
Chair
Appropriations Subcommittee for
Transportation, Treasury, et al.
2349 Rayburn House Office Building
Washington, DC 20510

Representative John Olver
Ranking Member
Appropriations Subcommittee for
Transportation, Treasury, et al.
1111 Longworth House Office Building
Washington, DC 20510

Re: Potential Loss of nearly \$500 Million to Save HUD Assisted or Insured, Multifamily Housing

The National Preservation Working Group is an organization dedicated to the preservation of existing, affordable, multifamily, federally assisted and insured housing stock. We are comprised of a unique mix of organizations representing nonprofits, tenants and state housing finance agencies. We write to you on behalf of ourselves and many other organizations dedicated to the preservation and improvement of HUD assisted housing throughout the nation.

It has come to our attention that the 2005 Reconciliation Measure proposed by the Administration would drastically reduce or eliminate 'Upfront Grants' when currently affordable HUD-owned multifamily properties are sold.

The Administration's proposal covers the situation where a property has defaulted and HUD has acquired title. The Upfront Grant may be used to remedy problems with the operation and repair of these properties. As HUD opines: "These authorities allow the use of rehabilitation Grants and property sales at prices below their market value for properties in mortgage default. (P. 564 of The Budget for Fiscal Year 2006, Housing Programs; **Attachment 1**). The 5 year "savings" equal \$460 million.

Under current HUD regulations HUD has discretion to provide an Upfront Grant to a public entity or other purchaser equal to the lesser of 50% of the Total Development costs or \$40,000 per unit. The program has been responsible for the preservation and rehabilitation of thousands of affordable apartments per year. The Grant may be used for rehabilitation and/or replacement of some or all units in such properties. The purchaser must agree to affordability and maintenance of the property up to HUD standards for at least 20 years.

The Administration's proposal would essentially eliminate this valuable housing program. Ironically, the program was developed in order to take the redevelopment expense "off budget" while using the private sector's ability to accomplish the rehabilitation more promptly and efficiently than HUD could.

The current proposal will actually increase the government cost to save this badly needed housing. The results of the proposed changes are set forth below:

- It would subject Upfront Grants to the HUD discretionary budget process, thereby requiring direct appropriations;
- It would drastically reduce such appropriations, ostensibly to control outlays. According to the relevant budget tables, such expenditures would be reduced by \$60 million in FY'2006 and by approximately \$460 million by years 2006-2010 (See attached OMB Table, **Attachment 2**).
- It would actually cost HUD more to dispose of multifamily properties currently held by HUD. The legislation would actually increase HUD's overall cost of preserving units by requiring HUD to maintain the properties in its portfolio longer.

These Upfront Grants are only provided through a Request for Proposal or negotiated sales to cities or Public Housing Authorities. The Grants have been instrumental in helping to save greatly needed affordable housing throughout the U.S.

The following examples illustrate the outcomes that have been achieved with the Upfront Grant program. For example in the case of Edgewood Terrace two high rise, one mid rise and 8 garden buildings on 16 acres in Washington, DC, Community Preservation Development Corporation (CPDC) used an Upfront Grant from HUD to completely renovate and turnaround a large, troubled HUD owned multifamily community. Today, Edgewood Terrace is a model, mixed income community. After 9 years of ownership, median household income of tenants has increased from \$9,000 to \$21,000. At Wardman Court, formerly Clifton Terrace, in northwest Washington, D.C., CPDC used an Upfront Grant to leverage other private financing to turnaround two rental buildings and convert a third rental building into affordable, condo ownership. Project summaries of Edgewood Terrace and Wardman Court are attached in **Attachment 3**.

A more recent successful Upfront example is that of the Gates-Patchen housing complex in Brooklyn's Bedford-Stuyvesant section. The attached July 24, 2005 Daily News article tells the story in detail (**Attachment 4**). When the 104-unit building went into foreclosure two years ago, tenants saw an opportunity to save their homes by becoming homeowners themselves. At Gates Patchen, HUD used an Upfront Grant to as a key element of the residents' purchase and rehabilitation program. Plans call for every apartment to be gutted and the entire building completely rehabilitated. In another instance, Secretary Jackson attended the successful turnaround of the Ennis Francis Houses, a HUD assisted property in Harlem. There, the Abyssinian Development Corporation (ADC), an innovative not-for-profit organization dedicated to renewing and reclaiming the spirit of Harlem, saved the housing from a foreclosure that would have resulted in displacing hundreds of families. See attached press release quoting HUD's Acting Regional Director from New York in praising the turnaround of Ennis Francis Housing (**Attachment 5**).

The project most immediately in peril if the Administration's proposal were adopted is the Lawndale Restoration project in Chicago, Illinois. This project consists of 1,240 units of project-based Section 8 housing located in 100 buildings throughout the North Lawndale community on the West side of Chicago. HUD has commenced foreclosure proceedings against the owner and is negotiating with the City of Chicago to conduct a negotiated sale of the project. It is contemplated that the City of Chicago would acquire the project from HUD for \$1 and immediately convey the individual buildings to approximately 25 new owners who have been qualified by the City to purchase and rehabilitate the buildings.

As part of the negotiated sale HUD is offering to make available up to \$25 million in Property Disposition Upfront Grants to help fund the \$50 million in rehabilitation that is required at the buildings. Provision of Upfront Grants is a necessary element of the financing plans of the majority of the purchasers that are being qualified to acquire the buildings by the City. If the Upfront Grants were not available, it is quite likely that the City would not participate in this preservation initiative because there are not sufficient alternative rehabilitation funding resources

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available to address the needs of these buildings. As a result, 1,200 units will be at risk of either being lost altogether or “redeveloped” with inadequate funds and sent back in to a downward spiral.

The projects cited above are merely illustrative of the properties eligible for Upfront Grants. In truth, Upfront Grants are needed across the nation. The Urban Homesteading Assistance Board (UHAB) has maintained a list of properties that would have been theoretically eligible for Upfront Grants prior to the time that the properties were placed on HUD’s foreclosure list. These properties on the foreclosure list could become eligible for Upfront Grants if HUD eventually acquires title. A total of 80 buildings in 28 states are included in that list (**Attachment 6**).

We urge you to reject the Administration’s Reconciliation Measure that would drastically reduce Grants for HUD owned properties and actually raise the cost of disposing of such properties.

Thank you.

Very truly yours,



Michael Bodaken
President

Enclosure

cc:

National Housing Conference

National Housing Law Project

National Low Income Housing Coalition

National Alliance of HUD Tenants

Enterprise Foundation

Local Initiative Support Corporation

Stewards of Affordable Housing for the Future

Association of Housing and Neighborhood Developers

California Housing Partnership

Community Economic Development Assistance Corporation

Chicago Community Development Corporation

Community Preservation and Development Corporation

Housing Preservation Project

Urban Homesteading Assistance Board