FROM THE PRESIDENT’S DESK

First of all, let me begin by saying I think that continuing education for site managers and project owners is the foundation of the Rural Rental Housing Association of Texas. I was pleased by the attendance last month at our training seminar in Abilene. That turnout provides support for my belief that the managers of Section 515 properties have a great desire to perform their jobs to the best of their ability and in conformity with Rural Housing Service regulations. I want to publicly thank the Rural Development State Director, Francisco “Paco” Valentin, Jr., for his support of our education efforts and for allowing the active participation of Rural Development personnel from the various local servicing offices. I believe I speak for all members of the Association by stating that Rural Development’s presence at these sessions are extremely valuable and productive.

Secondly, speaking of compliance, we understand that borrowers are receiving letters from the Rural Development State Office, following inspections and compliance reviews, detailing the notice of findings and giving them 30 days to respond regarding corrective actions and specific completion dates. We urge everyone to please respond to these letters, within the specified time, in order to avoid non-compliance with USDA Rural Development regulations and initiation of servicing actions. If any borrower receives this type of letter and needs either administrative or management assistance, in order to comply, please contact the Association Office at 254.778.6111 and we will work to assist you. The Association is working to put more emphasis on efforts to improve the overall quality of the 515 portfolio. The Association must remain vigilant for opportunities to cooperate with state and federal agencies that will forward the goal of rural rental housing.

Lastly, on a very sad note, our thoughts and prayers go out to the Ed Ipser family for the passing of Ed last week. Ed was a long-serving RRHA of Texas Board Member, and also served as Chairman of our Awards Committee for numerous years. He will be greatly missed.

Warren Maupin

RURAL RENTAL HOUSING ASSOCIATION OF TEXAS

RRHA UPDATE

MARCH 2011

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EXCHANGE FUNDS RESCUE REHABS

By Carrie Hoover, Hamilton Valley Management

Since 1987, small USDA properties have sought to fund projects by obtaining tax credits, which are awarded on a point system administered by the Texas Department of Housing and Community Affairs (TDHCA). Once obtained, tax credits were sold to securities companies like Fannie Mae and Freddy Mac; the subsequent funds typically equaled 80-90% of total funding. After the subprime mortgage crisis hit, only a few large banks were left with the ability to purchase tax credits. With the goal of obtaining CRA (Community Reinvestment Act) credits, the big banks began to cherry-pick the tax credit market, choosing only the largest, most profitable (typically new urban) developments. Small, rural rehabs were completely shut out.

In 2009, the U.S Treasury attempted to provide for USDA and other rural properties by creating Exchange Funds. Since few tax credit properties were utilizing the tax credits, the money set aside for that purpose was funneled into the Exchange Fund Program. TDHCA administers the program in Texas and prioritized funds for rural areas.

A number of rehabs in the works in 2008 and 2009 were stalled indefinitely until the Exchange Fund Program was implemented. One such project was Alta Vista Apartments, a 64-unit property in Marble Falls. “Alta Vista I was built in 1981,” said developer Dennis Hoover of Hamilton Valley Management in Burnet. “If we were going to get another 30 years out of the complex, we needed to replace roofs and parking lots, put in new energy-efficient appliances and flooring, and bring the property to code.” In addition to the latter improvements, the multifamily property also received a new community room and playground.

Joe Chamy of Integra-Peak Management said that rehabilitating Crestmoor Park South in Burleson would not have been feasible without exchange funds. The original owner was unable to make the improvements necessary to bring the 33-year-old property into line with TDHCA requirements. Chamy adds that, though interplay between USDA and TDHCA was initially confusing, all parties were dedicated to the program’s success and to moving the rehab deals along.

Developers were also pleased to add to the local economy. Warren Maupin, Maupin Development Company, utilized exchange funds in rehabilitating Holland House, a 68-unit multifamily property in Holland. The deal originated in 2007, but was stalled before receiving exchange funds. With the project now approaching completion, Maupin estimates that the rehab involved 15 subcontractors, in addition to creating 80 temporary and three permanent jobs.

Hoover, Chamy, and Maupin all commented on the good reception from the surrounding communities. Excited tenants and enthusiastic city councils are extra incentive to move the rehabs to completion. “Without this, residents would not have had access to a safer, habitable environment,” said Chamy. “Everybody was a winner.”

continued on page 8
RRHA OF TEXAS CONVENTION PLANS

The 2011 RRHA of Texas Annual Convention & Trade show will be held July 12-15, 2011 at the Omni Mandalay Hotel in Irving. Plans for the convention are shaping up to be another great meeting. Without a doubt, RRHA’s Annual Convention and Trade Show will be...

EDUCATIONAL . . . with personally enriching, informative sessions presented by professionals in our industry.

INFORMATIVE . . . with exhibit booths of products, supplies and services important to apartment owners and managers.

AFFORDABLE . . . only $250 for 2 full days of educational opportunities to give you a professional edge, a unique trade show to heighten your awareness of products/services available, and social functions to allow networking among peers and relaxing with friends.

TUESDAY | JULY 12

➤ GOLF | Tour 18 Golf Course Dallas | Imagine yourself playing on carefully simulated holes from some of the greatest golf holes in America. This collaboration of incredible replicas offers one fantastic challenge after another, creating a uniquely memorable experience. When we say Tour 18 Dallas takes Texas golf to new heights, we are not just talking about the spectacular 25 mile views you’ll enjoy while playing our challenging championship course. Our attention to detail and unquestionable standards for beauty and challenge will make you appreciate the great golf courses from which these simulations were chosen.

➤ SPORTING CLAYS HUNT | Location to be announced

➤ COWBOYS STADIUM | This unique and phenomenal stadium was completed in May of 2009 in Arlington, Texas and fills up 73 acres. It is 900 feet long and the domed room is the largest dome ever constructed for a sports stadium in the world. The cost to build the stadium totaled $1.5 billion [yes, billion] which makes it the most expensive sports venue ever built. Our guided tour will begin at the Main Club, with stops to include a private suite, the radio and print media press boxes, Cotton Bowl offices, Dr. Pepper Star Bar, and the Ford Motor Company Fountain. From there, we will go down to the event level where you’ll see the field, the Miller Lite Club, post-game interview room, and both the Cowboys and cheerleaders locker rooms. The tour will end in the Cowboys Stadium Pro Shop. This tour promises to be a “mind-boggling” outing. Transportation will be provided.

➤ OPENING RECEPTION | “WHAT AM I?” | DINNER [All-American Pastime Food] ... RRHA kicks-off its Opening Reception on Tuesday night. What better way to kick off our convention and mingle with friends and acquaintances? Our Opening Reception will begin with dinner, followed by the new game in town — “What Am I?”. It’s the opening night party that NOBODY misses! Unwind, spend some quality time with your associates, and make invaluable networking connections.

WEDNESDAY | JULY 13

After a long day of educational seminars, Wednesday night’s activity will be just what the doctor ordered...LAUGHTER. We will be privileged to have comedian Adam Ace. Mr. Ace has burst onto the comedy scene with his crazy style of performing! A full time professional performer, Adam’s show combines interactive comedy, youthful creativity, popular music, dancing, and lots of audience participation into a fast paced high-energy thrill ride. Unlike any comedy show you’ve ever seen!

THURSDAY | JULY 14

On the last night of the convention, following dinner, we will welcome J.D. Monson, professional singer and songwriter. Mr. Monson has over 500 songs in his repertoire, and will surprise you with his ability to perform favorites that you will absolutely love, with his strong, soulful, southern voice [J.D. is well known for his authentic Johnny Cash impersonation]. He will perform Country and Western, Texas Country, Classic Rock, and original music. There will definitely be something for everyone.

We fully expect that this year’s convention will be one of the most entertaining and educationally beneficial presentations that we have ever had available, but in order to make it truly special, we need you. You make RRHA what it is. So, come on to Irving, join us for some fun and education, and I promise you will be glad you did. More details coming soon.
**SPOTLIGHT... A SUCCESS STORY**

**Submitted by Vicki Dolan, Ezell Management Company**

Our manager at Alvarado Heights Apartments, Josh Wilson, received a frantic phone call from a tenant at home one evening while he was cooking dinner. The tenant said that her son had locked himself in his bedroom and was threatening to kill himself. Josh ran over to the apartment, banged on the bedroom door and there was no response. The door was locked, so Josh kicked it open. The tenants son had hung himself with a belt in the closet. Josh lifted him up enough to unhook the belt. When the police and paramedics arrived, they all agreed that if Josh had not done what he did, the boy would have been dead by the time they arrived. “HATS OFF” to our managers who definitely go above and beyond the call of duty. Good job, Josh!

**IN MEMORY**

Edward A. Ipser, Sr., long-time RRHA of Texas Board Member and Awards Committee Chair, died unexpectedly March 21, 2011 in Fort Worth. Ed, 76, leaves to cherish his memory, his wife, Annice, two daughters, and a son. Services were held on Saturday, March 26, 2011 at St. Andrew Catholic Church in Fort Worth, with burial following on Monday at the Dallas-Fort Worth National Cemetery.

Many of you will remember that Ed received the RRHA of Texas coveted W. S. Allen Award during our annual convention in 2009. This award recognizes an individual member who has performed a special service or contribution to the RRHA of Texas beyond that normally expected which significantly furthers the work and mission of the Association. We all know that Ed was very deserving of this award. Please keep the Ipser family in your thoughts and prayers during this difficult time.

**FIRES . . . IT CAN HAPPEN TO YOU**

**Submitted by Linda Farral, Hamilton Properties**

**FIRE SAFETY**

- Never leave cooking unattended
- Keep cooking areas clear of combustibles
- Wear short or tight-fitting sleeves when you cook. Avoid reaching over the stove—sleeves of robes, dresses, housecoats could catch fire.
- Pure polyester, nylon, and wool are reasonably flame-resistant.
- Keep handles of your pots turned inward so the pots can’t be knocked or pulled over
- If grease catches fire, carefully slide a lid over the pan to smother the flames, then turn off the burner.
- Never throw water or anything else onto a grease fire
- Never put foil or other metals in a microwave oven
- Keep appliance cords away from the edge of the counter if an appliance gives off smoke or a burning odor, unplug it immediately and have it checked for repair. Have cords replaced on appliances if they are frayed or broken. Do not place extension cords under rugs or in other places where they may be stepped on and broken.
- Establish a “safe area” where a child can be placed away from risk. Establish a “no zone” in front of the stove, and teach your child to stay away from that area.
- Test smoke detectors once a month. Replace dead batteries immediately. Clean away any dust or cobwebs from the face of the detector.
- Matches and lighters are tools for adults. Keep them where children can’t reach them. Teach children to give matches and lighters to adults.
- Smokers need watchers. Make sure smokers extinguish cigarettes in large, deep ashtrays. Empty ashtrays into the toilet. Check under sofa and chair cushions for cigarette butts before going to bed.
- NEVER SMOKE IN BED

LEARN NOT TO BURN . . National Fire Protection Association
**WHAT’S NEW AT SHCC**

**Upcoming Training Programs Offered by SHCC**

Southwest Housing Compliance Corporation [SHCC] takes pride in our efforts to continuously devise training to assist owners in maintaining compliance with HUD regulations. Whether you are struggling with EIV, or are trying to learn more about the Management Review Process, HAP Voucher Processing, REAC Inspections, or renewing your HAP Contract, SHCC provides training to address your specific needs. In addition to participation in the annual RRHA convention, SHCC facilitates quarterly SHCC Update Workshops throughout the state. The next SHCC Update is tentatively scheduled for May 2011 in the Midland/Odessa area. Please monitor the SHCC website at [www.shccnet.org](http://www.shccnet.org) for definite dates and registration information. We hope to see you there!

**HUD Releases the Revised ACC**

For several years, the affordable housing industry has awaited HUD’s revision of the Annual Contributions Contract (ACC) between Section 8 Performance-Based Contract Administrators (PBCAs), like SHCC, and HUD. HUD completed this process and on February 28, 2011, released the revised ACC. With the launch of this revised ACC, HUD also released its Invitation to bid the PBCA contracts for each of the 50 states under the revised ACC. HUD plans to award all PBCA contracts by July 2011 and begin the revised ACC on October 1, 2011. SHCC is currently preparing a proposal to continue their work as the PBCA for Texas and Arkansas. SHCC welcomes your comments and support of the job we have done working with you and your staff. If you would like to offer any comments regarding your experience with SHCC, please contact us.

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**NEW MEMBERS**

**ASSOCIATE MEMBER**

Thomas Ford Gibson
Becky Gibson
Gibson Consulting LLC
6658 Youree Drive, Suite 180
PMB 403
Shreveport, Louisiana 71105-4651
318.524.0177 | Fax 318.524.0214
ford@fgibsonconsulting.com
... Consulting ...

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**ATTITUDE**

A positive attitude causes a chain reaction of positive thoughts, events, and outcomes. It is a catalyst . . . A spark that creates extraordinary results.

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**RRHA OF TEXAS UP COMING EVENTS**

**APRIL 12-13, 2011**
Fundamentals of Property Mgmt. Seminar
Hilton Garden Inn | Temple, Texas
Registration: 8:30 a.m.
Seminar Begins: 9:00 a.m.

**JULY 12-15, 2011**
33rd Annual Convention & Trade Show
Omni Mandalay Hotel at Las Colinas
Irving, Texas
CONSIDERATIONS WHEN CONSIDERING BONDS IN 2011
By Brian Coate

After a three-year slump in which the market for them evaporated, 4% low-income housing tax credits are starting to return as an equity option for affordable housing developers. In larger markets, developers have been able to find investors willing to purchase 4% tax credits at competitive rates. This year, banks will continue to need Community Reinvestment Act credit, and more banks are expected to report profits, which should increase their demand for both 4% and 9% low-income housing tax credits (LIHTCs).

While pricing has not recovered to 2008 levels of around 85 cents on the dollar, it has improved dramatically over this time last year, when a dollar of credit provided less than 65 cents of equity. Currently average pricing has hovered around 75 cents with recent numbers approaching 80 cents in larger markets. Sophisticated developers have been negotiating their own tax credit pricing with their banks and have been re-pricing projects with multiple syndicators. With new investors in the market, such as Google and larger insurance companies, pricing is expected to improve in the coming year. This means that there is more equity money available in 4% tax credit projects, making them a more viable financing option.

The slow revival of non-competitive equity, and agency-enhanced bonds’ ability to provide competitive construction financing, behooves borrowers to once again put tax-exempt bonds on the table alongside taxable notes and compare the cost of capital and other benefits, opportunities and concerns. There are several reasons enhanced tax-exempt bond transactions can provide competitive financing:

- Unlike 9% tax credits, most states do not have strict timing restrictions on when 4% applications can be submitted, so funding cycles can be more flexible. This benefits borrowers that seek acquisition financing or have existing loans with hard maturity dates.

- Even when tax-exempt interest rates are only slightly lower than taxable rates, the cost savings can be considerable for larger projects, which have economies of scale and can offset the extra closing costs associated with tax-exempt bonds.

- Newer rehabilitation projects that do not require extensive repairs can use tax credits to limit the equity required at closing.

Staying on top of the taxable/tax-exempt comparison and on various enhancements’ availabilities will help attentive borrowers adapt their plans to capitalize on the most cost-effective methods. To do this, borrowers pursuing capital in 2011 will need to do the math, investigate available bond enhancements, and stay abreast of pending regulatory and budgetary changes to ensure they are aware of and have access to every option.

DO THE MATH
Tax-exempt bonds’ additional closing costs, including negative arbitrage escrows and fees for trustees, underwriters and attorneys, have historically been offset by the lower interest rates provided by tax-exempt bonds. From 1981 through 2006, the interest rate on 30-year, AAA-rated, tax-exempt municipal bonds on the last day in December was an average of 88% of the interest rate on 30-year taxable Treasury notes. Few anomalies disrupted this fairly steady relationship, which, while not an exact comparison of the rates housing borrowers were receiving, provides a comparable point of reference.

For the past couple of years, however, the need to run cost comparisons of taxable and tax-exempt bonds was moot: taxable loans were going to be less expensive every time. Since 2008, the tax-exempt securities noted above have averaged higher interest rates than 30-year taxable Treasury notes.

Tax-exempt bonds have simply been more costly and, since 4% tax credits were drawing few investors, they did not even offer much access to tax credit equity.

In the past several months, tax-exempt pricing has begun to drop again, if slowly. The ratio at the start of 2011 was 106.8%. On average, it has trended downward since then and was at 102.6% on Feb. 17.

With the market fluctuation and uncertainty, borrowers should work with their lenders to monitor the impact of further potential drops in the interest cost of tax-exempt bonds and the related ability to access 4% LIHTC equity.

INVESTIGATE ENHANCEMENT
Currently, one of the greatest challenges with both taxable and tax-exempt bonds is finding an investor willing to buy bonds at an interest rate affordable to the borrower. Few affordable housing developers can issue highly rated investment-grade debt on their own credit strength. Fortunately, numerous options exist to enhance a bond offering and increase its appeal to investors.

Fannie Mae, the U.S. Department of Agriculture, the Federal Housing Administration and Standard & Poor’s each offer credit enhancement options that can be utilized with tax-exempt (or taxable) bonds. While raising the credit rating on a tax-exempt bond issuance may not reduce the interest rate to below taxable levels, it may bring it down low enough to make it affordable to a borrower who could then have access to 4% LIHTC equity, without the competitive 9% tax credit application process.

continued on next page
CONSIDERATIONS WHEN CONSIDERING BONDS IN 2011, continued from previous page

Each of these enhancements has its own restrictions and nuances. Borrowers should seek a lender familiar with both tax-exempt underwriting and various enhancement types in order to receive the most comprehensive capital cost comparison.

KEEP AN EYE ON THE HILL

Major regulatory and budgetary changes on the horizon would affect LIHTC financing options. In its Feb. 11 report to Congress, the U.S. Treasury Department included two 2012 budget proposals that would change the way LIHTCs are calculated. The first proposal would allow income averaging, which would allow more tenant flexibility for owners. The second proposal would allow a 30% basis boost for certain “bond financed projects in the context of preserving, recapitalizing and rehabilitating existing affordable housing.” This also would increase the number of projects that could qualify for tax-exempt financing. The “Reforming America’s Housing Finance” report includes strong support for the affordable rental market, saying, “[t]he Administration will explore ways to provide greater support for rental housing. One option would be to do so by expanding FHA’s capacity to support lending to the multifamily market.”

Many of the proposed plans mandate that the programs be able to fund themselves, a requirement Lancaster Pollard believes would ensure their long-term sustainability. The Obama administration also plans to increase partnerships with private lenders and industry experts to improve the viability of these sweeping changes. Partnering with an experienced development and financing team is more important than ever to ensure borrowers remain compliant with changing regulations and make use of some very positive proposed changes.

CONCLUSION

The market for tax credits has expanded into non-traditional buyers, and demand is forecast to continue to rise in the near future. While the relationship between taxable loans and tax-exempt bonds will not revert immediately to more typical ratios, affordable housing borrowers who stay on top of market movements and changing program regulations will be better prepared when more viable tax-exempt opportunities arise.

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EXCHANGE FUNDS RESCUE REHABS, continued from page 2

An act in Congress is pushing for the Exchange Program to be extended, which would be a great help to developers. Patrick Barbolla, Fountainhead Management, currently has six exchange deals. Before he shouldered the projects, four of the properties were dealing with serious deterioration while the other two were facing foreclosure. “I wish we could keep [the exchange] going, at least in rural Texas,” he commented.

Other states are also enjoying the benefits of exchange funds. Murray Calhoun, MAC-RE, LLC, is rehabilitating two properties in Louisiana, one of which had been run through by three hurricanes. “The only thing that will make these rehabs work is exchange funds,” he declared.

Paul Patierno has seven USDA deals in California, where exchange funds allowed him to close on transactions that appeared impossible. One of the properties was set to be converted to conventional “market” housing by the seller; the families living there would have lost their homes. After a massive rehab, the property is now recommitted for affordable use for the next 55 years. “Whoever’s side you’re on, Democrat or Republican,” said Patierno, “we were able to make good use of this part of the stimulus package.”

All the developers agreed that TDHCA and Rural Development worked tirelessly to preserve affordable housing properties for rural Texans. Hoover said, “both agencies went above and beyond to close these deals by the required deadlines.”

10 April Foolish Thoughts . . .

1. Gargling is a good way to see if your throat leaks.
2. I don’t eat snails. I prefer fast food. ~ Strange de Jim
3. I’m on a 30-Day Diet. So far I’ve lost 15 days.
4. I used to eat a lot of natural foods until I learned that most people die of natural causes. ~ Author Unknown
5. I believe five out of four people have trouble with fractions.
6. Depression is merely anger without enthusiasm.
7. I am a nobody . . . and nobody is perfect; therefore, I am perfect.
8. Change is inevitable except from vending machines.
9. Good advice on an aspirin bottle: Take two aspirins and keep away from children.
10. “I am.” is reportedly the shortest sentence in the English language. Could it be that “I Do” is the longest sentence?
Rental Occupancy Mgmt. | 3560 Training Class
Abilene | February 2011

TRainers:
Left: Danna Hoover, Hamilton Valley Management, Inc.
Right: Charles Tidmore, Tidmore Management, Inc.