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OCTOBER 14–17, 2014 • THE SHERATON DOWNTOWN DENVER, COLORADO

# **Multi-family Affordable Housing Capital Solutions**

Becky Christoffersen, Midwest Housing Development Fund, Inc.

## Midwest Housing Development Fund, Inc.

- CDFI since 2000
- Revolving loan fund
  - Affordable Housing
  - Primarily rental housing at or below 60% AMI
- Predevelopment/Acquisition
- Construction
- Gap Financing
- Permanent Financing
- Since inception 128 loans, \$32MM
- Loan capital \$13MM

## Capital to Support CDFI's

- Since financial meltdown of 2008.....
  - Predevelopment
  - Construction
  - Gap financing
  - Permanent financing

# Predevelopment Lending

- Unique challenges
  - Unsecured
  - Take out financing
  - Underwriting in process
  - Sunk costs

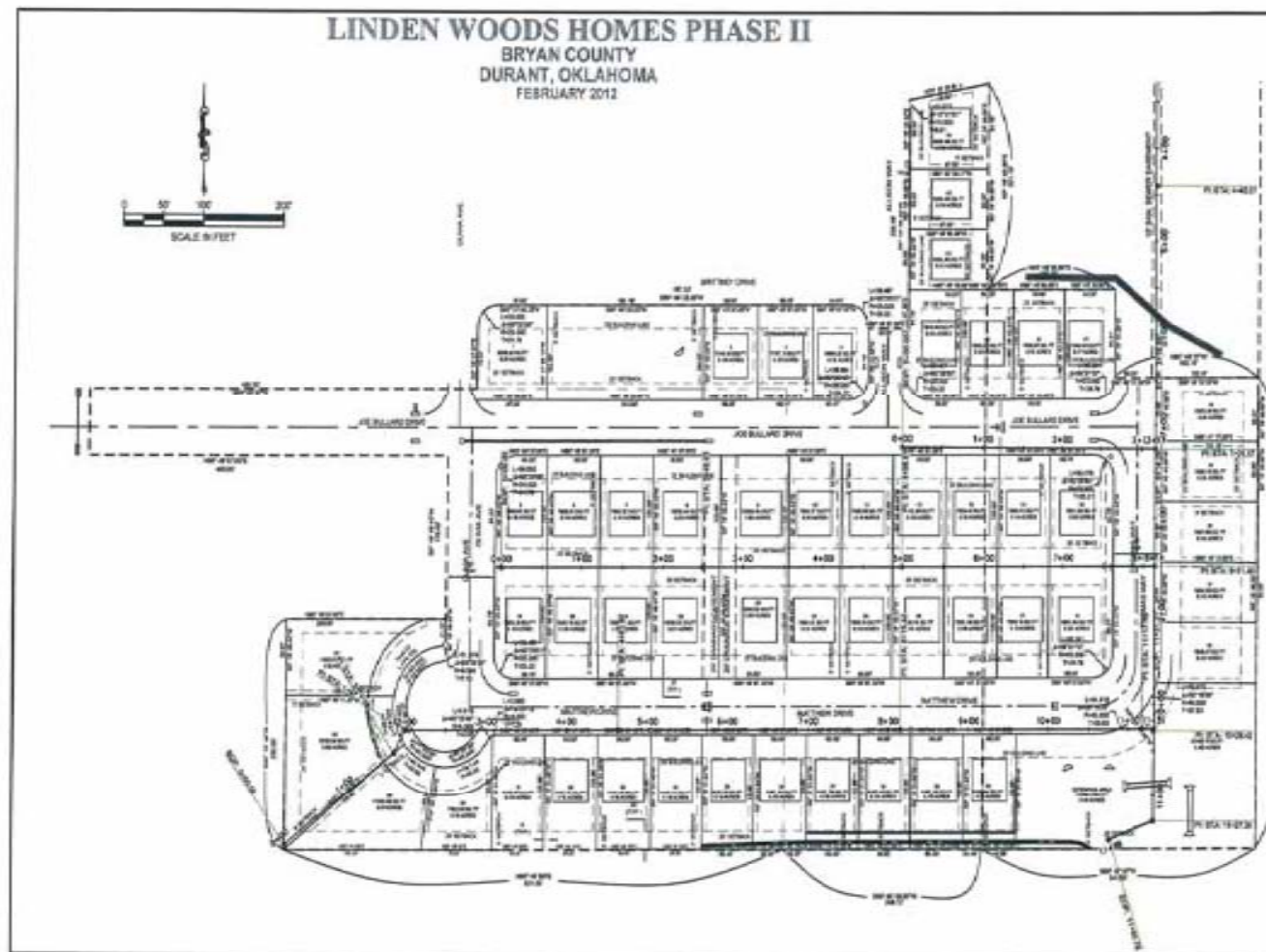
## 2014 OPPORTUNITY FINANCE NETWORK CONFERENCE



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## 2014 OPPORTUNITY FINANCE NETWORK CONFERENCE







# Predevelopment Lending

- Loan funded by a state wide nonprofit
  - Geographical requirements
  - 3.5%, 5 year
  - Participate in process
- Sources of capital
  - Equity
  - Grants
  - Other CDFI's and nonprofit organizations
    - Serving the area
    - Available cash
    - Desire to invest that cash
    - Mission related to community stability



# Construction Lending

- Unique challenges
  - Subordinated lien/guaranty position
  - Required funding position
  - Security from the GC
  - Construction management policies
  - Tax out financing
  - Cost cap limitations

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## Crane Building

- Sources of financing:
  - Primary construction loan-amount determined by appraisal
  - 15 year tax abatement
  - State historic tax credits
  - State enterprise zone tax credits
  - Federal historic tax credits
  - Federal low income housing tax credits

# Construction Lending

- Loan funded by state HFA
  - Secured
  - HFA approves each loan
  - Geographical requirements
  - 5 year term
- Sources of capital
  - Banks
  - State/local governments

# Gap Financing Lending

- Unique challenges
  - No guaranty
  - Subordinated lien position, maybe
  - Underwriting and believing repayment
    - May be cash flow contingent
    - May rely on some future source of funding
    - May rely on balloon payment





# Gap Financing Lending

- Loan funded by CDFI Award
  - Preserve affordable housing in Kansas
  - Last year matching funds were not required
  - Grant capital
- Sources of capital
  - CDFI Fund
  - FHLB-revolving loan fund
  - State and local government-HOME, Trust Funds
  - Foundations



# Permanent Lending

- Unique challenges
  - Loans not fully amortizing
  - Conversion periods
  - Forward commitments
  - Fixed interest rates
  - Need may arise from a work out



# Permanent Lending

- Loan funded by a local nonprofits
  - Preserve this property
  - We have to make effort to refinance once stabilized
- Sources of capital
  - 15-30 year capital is a challenge
  - FHLB membership
  - Insurance companies
  - Take out-CRF
  - Other panelists.....



## FHA/HUD Programs

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# FHA Programs

- **Section 220:** - Financing for Apartments in Urban Renewal Areas
- **Section 221(d)4:** - New Construction or Substantial Rehabilitation of Apartments
- **Section 223(f):** - Acquisition or Refinance of Apartments & Co-Ops
- **Section 231:** - New Construction or Substantial Rehabilitation of Apartments where all residents must be 62 years or older.
- **Section 232:** - New Construction or Substantial Rehabilitation of Skilled Care Nursing Homes, Intermediate Care, Assisted Living and Personal Care Facilities (Board and Care Facilities)
- **Section 232/223(f):** - Acquisition or Refinance of Skilled Care Nursing Homes, Intermediate Care, Assisted Living and Personal Care Facilities (Board and Care Facilities)
- **Section 223(a)(7):** - Refinance of Existing FHA Insured Mortgages (Reduce the Interest Rate and Pay Associated Costs)
- **Section 241:** - Supplemental Loan Program for Renovation or Expansion of Existing FHA Insured Apartments, Nursing Homes, Assisted Living Facilities and Personal Care Facilities
- **Section 242:** - New Construction or Substantial Rehabilitation of Acute Care Facilities including Critical Access Hospitals
- **Section 242/223(f):** - Acquisition or Refinance of Acute Care Facilities including Critical Access Hospitals

# Special Program Features:

- Construction / Permanent Financing Available
- Fixed Rate
- Non-Recourse (1st Lien)
- Assumable
- Up to 35 year term and amortization (Acquisition or Refinance)
- Up to 40 year term and amortization (New Construction or Substantial Rehabilitation)
- 83.3% to 90% LTV (Acquisition or Refinance)
- 83.3% to 90% LTC (New Construction or Substantial Rehabilitation)
- Minimum Debt Service Coverage (DSC) ratio of 1.11
- No programmatic minimum or maximum loan size

# FHA Section 223(f)

## Mortgage Insurance for Affordable Housing Projects Acquisition or Refinance

The 223(f) Program features: high leverage, fixed rate, long-term, self-amortizing, non-recourse, assumable, first lien mortgage debt for the acquisition or refinance of affordable housing properties. The program is insured by the Federal Housing Administration and provides access to affordable financing for capital needs nationwide.

- Minor repairs (not to exceed the greater of \$6,500/unit times the area high cost factor, or 15% of the “as-improved” market value) may be included in the loan amount.
- At least three years shall have passed since original Certificate of Occupancy was granted.
- Property must have economic occupancy rate of 85%.

Eligible Borrowers: Single Asset Entity, for-profit, not-for-profit, and municipally-owned

Loan Term: The lesser of 35 years, or 75% of the remaining economic life, as determined by appraisal.

Loan Amount: Refinance Transactions: Lesser of: 85% of the HUD appraised value of the physical improvements, debt service coverage at 1.176:1, or up to 100% of the sum of outstanding indebtedness plus transaction costs, or 80% if cash out.  
Acquisition Transactions: Lesser of: 85% of HUD appraised value, 85% of the acquisition price plus transaction costs, or 1.176:1 debt service coverage.

Interest Rate: Subject to market conditions, the fixed interest rate.



# LIHTC Pilot Program FHA 223(f)

To be eligible under the LIHTC (Low Income Housing Tax Credit) Program a property must:

- Be a residential multifamily rental property, operating under rent and income restrictions; Skilled or assisted living properties are not allowed.
- Have existing Tax Credit or Bond Cap allocations, or reasonably close substitutes acceptable to HUD.
- Have Project Occupancy be no less than 85% for the previous 12 months for rehab and refinances, or reach 90% for 3 months prior to loan submission, for new construction.

**Eligible Borrowers:** Newly constructed or rehabilitated stabilized tax credit  
Re-syndicated tax credit projects  
Affordable apartments with 90% of units with project-based rental assistance

**Rehab Allowance:** Program allows up to \$40k per unit

**Loan Term:** Up to 35 years, or 75% of the remaining economic useful life

**Loan Amount:** **Refinance Transactions:** 87% LTV for subsidized, 100% of the estimated value, debt service coverage at 1.15:1, or for Affordable up to 85% LTV, and 1.17:1 for debt service.

**Acquisition Transactions:** 87% LTV for subsidized, 90% of the estimated value, debt service coverage at 1.15:1, or for Affordable up to 85% LTV, and 1.17:1 for debt service.

**Secondary Debt:** May be allowed if financed from third party government sources.

# FHA Section 220 and 221(d)

## Mortgage Insurance for Affordable Housing Projects New Construction or Rehabilitation

The 220 and 221(d) Programs feature: high leverage, fixed rate, long-term, self-amortizing, non-recourse, assumable, first lien mortgage debt for the new construction or substantial rehabilitation of affordable housing properties. These programs are insured by the Federal Housing Administration and provide access to affordable financing for capital needs nationwide.

- Includes an interest only construction period – rate locked prior to closing
- No post construction loan to value test
- No lease up requirements prior to commencement of amortization
- Financing may be combined with governmental loans or grants
- FHA insurance, when combined with a Ginnie Mae security, provides AAA credit enhancement for bonds.

Eligible Borrowers:	Single Asset Entity, Multifamily properties of 5 or more units: garden/mid-rise/high-rise DSC range from 1.11 to 1.15
Loan Term:	Up to 40 years amortization plus construction period
Loan Amount:	For Profit: 83% (market rate) 87% (affordable) 90% (subsidized), includes “as is” value of land Not for Profit: Up to 95% of costs, including the “as is” value of land
Interest Rate:	Subject to market conditions, the fixed interest rate is set at initial closing.

# Why Relationship?

- A CDFI is generally providing early capital (predevelopment and acquisition) and a relationship with a long term lender is helpful to provide:
  - (1) take out source for your capital
  - (2) possibly ease of execution with the borrower to deal with both lenders underwriting expectations from the onset
  - (3) technical assistance resource- i.e. a lender you can call that can give guidance on the likelihood of your early predevelopment or acquisition loan being taken out by the borrower expected FHA.

# Why OMHHF?

- Not “Loan Jockeys ”
- Experience
- Partnership
  - With borrower, internally, other lending sources
- Solve problems
  - Think outside the box
- Committed

# CASE STUDIES

FHA 221(d)4 w/ LIHTC



## American GI Forum Apartments Robstown, Texas



FHA Program: 221(d)(4) SR LIHTC Affordable

Loan Amount: \$1,794,300

Mortgage Term: 40 years

LIHTC'S: \$5,764,811

Originator: William B. Montez

HOME grant: \$450,000

With the need for affordable housing increasing near the Eagle Ford Shale oil fields in South Texas, the owners and HUD determined that a substantial rehabilitation was necessary to continue use of this facility as affordable housing. Affordability is particularly critical because of the dislocation of many lower and moderate income families by landlords seeking to capitalize on the higher asking rents from oil field workers. This was a complete rehab with some selective building extension modifications to accommodate larger kitchens and living areas. This project consists primarily of duplexes and single family homes. A new multi-use community center was also constructed. The FHA provided a relatively lower risk 24% of the debt with over \$5.7 million in tax credits and a \$450k HOME grant from the Texas department of Housing & Community Development to complete development cost funding. The project is over 90% Section HAP Assisted and a 20 year HAP extension contract with approval from HUD's Office of Affordable Housing Preservation (OAHP), which further enhanced affordability.

Financing provided by Oppenheimer Multifamily Housing & Healthcare Finance, Inc.

FHA 221(d)(4) w/ LIHTC



**Wesley Village Retirement Community**  
Oklahoma City, OK

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FHA Program: 221(d)(4)

Mortgage Term: 40 years

Loan Amount: \$4,950,000

Originator: Mike Hammond

**Project Summary:** Wesley Village utilized a FHA 221 (d)(4) Construction Loan in conjunction with .35% one-year Tax Exempt Bonds and a 4% Low Income Housing Tax Credit to finance the total development cost of the transaction. The project was operating as an out-of-date Section 8 housing development in downtown Oklahoma City. Oppenheimer's client used the proceeds to fund the purchase, rehab and permanent financing of the building that enables them to preserve low income elderly housing for the tenants now and for the foreseeable future. Oppenheimer's FHA group and Oppenheimer's Public Finance group worked side by side to secure one of the first tax credit 221(d)(4) deals done nationwide in 2014 and the first deal of this kind through the Oklahoma Housing Finance Agency in over 10 years.

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Financing provided by Oppenheimer Multifamily Housing & Healthcare Finance, Inc.



# QUESTIONS then HAPPY HOUR!



# ***THANK YOU***

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