

Making It Work!



Welcome to HAC's webcast!

The webcast, sound, and recording will begin at 2:00 pm EST.

To submit a question during the webinar please use the chat box on the lower right-hand side of the screen. If you would like to verbally ask a question, please click the "Raise Hand" button at the top of the screen.

Making It Work:

Creative Ways to Utilize HAC Loan Products in Your Affordable Housing Development



Presented by:

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HOUSING ASSISTANCE COUNCIL

September 24, 2014



Housing Assistance Council

Building Rural Communities



- Established in 1971
- National nonprofit organization
- Created to increase the availability of decent and affordable housing for low-income people in rural areas throughout the U.S.
- Provide services to local, state, and national organizations

Housing Assistance Council

Building Rural Communities



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Upcoming Events



SAVE THE DATE!!!

2014 National Rural Housing Conference: Retool...Rebuild...Renew!

Date: December 2-5, 2014

<http://www.ruralhome.org/calendar/upcoming-event>

Register online @ <http://www.cvent.com/d/l4qdnd>

registration@ruralhome.org

Or

Shonterria Charleston, 404-892-4824 ext. 27 or shonterria@ruralhome.org

HAC Loan Funds



Goals/Objectives

- Provide short term capital for single and multifamily projects
- Assist in leveraging other funding sources
- Develop a network of partnership through the layering of loan structures

Track Record

- \$52 million in lending capital
- Loan Commitments
 - 2,278 = \$307 million
 - 49 states
 - 69,000 housing units and water/sewer system

HAC Loan Funds



Eligible Projects/Locations

- Single family
 - Self-help housing
 - Manufactured housing
- Multifamily
 - Rental
 - USDA Section 514, 515, 516
- Rural communities
 - Less than 25,000

Eligible Organizations

- Community-based nonprofits
- Self-help housing sponsors
- Native American tribes
- Public agencies
- Units of local governments
- Cooperatives
- For-profit entities

Units Being Developed?



What type of units are you developing?

- Single Family Only
- Multifamily
- A Combination of Both

HAC Loan Products Available



Predevelopment*

Site Acquisition*

- *Land Banking*

Site Development*

Construction*



Preservation

Self-Help Housing

** May be in the form of a line of credit (project-based), letter of credit, guarantee, compensating deposits; loan limits may apply*

MULTIFAMILY VS SINGLE FAMILY DIFFERENCES



Multifamily

- How much will units rent for?
- What size term loan can be supported by the rental income?
- Developer earns developer fees and/or later from property cash flow.

Single Family

- What will the sale prices be?
- What size mortgages can each home buyer qualify for based on income?
- The developer earns fee from the profit margin on the sales of the units.

MULTIFAMILY VS SINGLE FAMILY DIFFERENCES



Multifamily

- Interim loan has to be repaid within a term of 3-5 years (except Preservation Loan).
- loan is paid by permanent loan.
- Source of repayment at interim is the NOI on the property.

Single Family

- Interim loan is paid incrementally through construction or perm loan.
- The construction to perm loans are the consumer's mortgage loans.
- The term lender's sources of repayment are from the consumer's income.

Single Family Developers Poll



Do you believe the housing market (single family) is getting better in your service area?

If yes:

- We are witnessing more demand
- Mortgages/financing is easier (homebuyers)
- Cost to build a home are stable/affordable

If No:

- Foreclosures are still an issue
- Mortgages/financing is harder (homebuyers)
- Costs to build a home are getting higher

MULTIFAMILY VS SINGLE FAMILY DIFFERENCES



Multifamily

- Developer's portfolio can be a source of "recurring" cash flow as show below:

Equation:

Rent less vacancy

= Effective Gross Income

Less Operating Expenses

= NOI Less *Debt Service*

= *Cash Flow*

Single Family

- Developer's homes have to be built/rehab and sold in order to generate cash flow.

Equation:

Sales Price

Less Cost to Build

= Gross Profit

Less Closing Costs/overhead

= *Net Profit*

Multifamily Developers Poll



For the multi family housing developers, have you seen a growing or increased demand for rental housing in your service area?

Yes

No

MULTIFAMILY/SINGLE FAMILY SIMILARITIES



- They are residential properties
- Loan budgets Include
 - ✓ Land & Improvement costs
 - ✓ Construction Costs (material & Labor)
 - ✓ Financing Costs
 - ✓ Other Soft Costs
- Market Demand is influenced by:
 - ✓ Population growth (job growth)
 - ✓ Income Levels of the Families

HAC LOAN FUND PRODUCTS



Multifamily

- Predevelopment
- Acquisition
- Interim Financing (Site & Unit Construction)
- Preservation (only longer term financing Loan PRLF)

Single Family

- Predevelopment
- Acquisition
- Interim Financing (Site & Unit Construction)
- SHOP (Self-Help Housing)
- Manufactured Housing

TYPES OF HAC LOANS/PRODUCTS DISCUSSED



- ACQUISITION/PREDEVELOPMENT
- CONSTRUCTION MULTI-FAMILY PROPERTY
- SITE DEVELOPMENT/ CONSTRUCTION
- PRESERVATION LOAN

HAC LOAN – Acquisition and Predevelopment



Acquisition

- Negotiate on multiple sites (until execute contract).
- Commitment Letter from HAC for loan amount to purchase the site.
- Work with HAC staff to close on contract date.
- Turnaround time to close.

Predevelopment

- Developer will have a secured lien on subject property.
- Max. LTV \leq 100%; as-improved lot value; combined acquisition and predevelopment loan amount in first lien position.
- ❖ HAC can reimburse some predevelopment expenses.

HAC LOAN – Acquisition and Predevelopment



ACQUISITION - \$224,000

- Commitment Letter in hand can go contract land.
- Provided the Commitment Letter within 30-60 days.
- Work with HAC staff to close loan by closing date.

PRE-DEVELOPMENT - \$276,000

- Pre-development includes reimbursement of engineering, environmental, site appraisal, etc.
- Closing condition – Firm commitment letter from the improvement lender/other sources

ACQUISITION LOAN SOURCES & USES



SOURCES

- HAC \$500,000
- Borrower \$360,000
- Bank \$652,000

- Total Sources: \$1,512,000

USES

- Predevelopment \$276,000
- Acquisition \$419,000
- Improvements \$817,000

- Total Uses: \$1,512,000

HAC NEW UNIT CONSTRUCTION LOAN FOR MULTIFAMILY PROJECT



- Borrower owns the land seeks financing to build three unit rental property.
- Borrower will build 6 triplexes – 18 units total.
- Units will serve elderly and disabled residents; first units will receive Section 8 rent subsidies up to Fair Market Rents.
- Property zoned properly, all improvements to the site, HAC's loan \$176,000 represents 37% of total costs to build first three units.

NEW CONSTRUCTION MULTIFAMILY



- 63% of funding comes from HUD's Rural Innovation Fund.
- local bank will provide the permanent loan.
- Borrower pays to HAC quarterly interest only payments from loan closing.
- Bank and HAC share.
- HAC 37% LTV; HUD subordinates lien position
- Revolving the loan for next three units.

CONSTRUCTION LOAN SOURCES & USES



SOURCES

- HAC \$176,000
- HUD Grant \$300,000
- Total Sources: \$476,000

❖ Bank \$176,000 perm loan takes out HAC

USES

- UNIT CONST. \$476,000
- Total Uses: \$476,000

HAC SITE IMPROVEMENT LOAN



- Other sources/lenders involved for high off-site costs.
- Site loans fill gaps in the development costs.
- Site loans are the riskiest type of loans.
- loans typically for on-site costs with some small amounts for off-site.

HAC SITE IMPROVEMENT LOAN



- Interest only quarterly payments, interest carries to total development costs by developer.
- Loan pays for site development costs including clearing & grading, sewer, water connections or septic installation, permit & impact fees, off-site force main improvement, and other related costs.
- Total development cost budget demonstrates release price per lot (collateral).
- Appraisal and environmental third party reports due at application (no delays) or before closing (condition).

SITE DEVELOPMENT LOAN SOURCES & USES



SOURCES

- HAC \$400,000
- County-Bond 225,783
- Developer 48,763

- Total Sources: \$674,546

USES

- Soft Costs \$ 55,000
- Hard Costs:
 - Off site 225,783
 - On site 327,763
- Contingency 66,000

- Total Uses: \$674,546

PRESERVATION LOAN



ACQUISITION

- Acquire USDA existing 90 unit Section 515 property (Senior Housing).
- Borrower assumes existing loan(s) USDA combined.
- Existing reserve accounts transferred with property

REHABILITATION

- Capital Needs Assessment (CNA) by third party provided.
- Units needed rehab work from foundation, exterior walls finish, plumbing, flooring, insulation, roofs, fascia and trim, etc.

HAC PRESERVATION LOAN



ACQUISITION - \$290,000

- HAC funds were approved to pay for seller's equity.
- Existing USDA debt was deferred until 2029.
- Existing reserve account transferred to the borrowing entity.

REHABILITATION - \$110,000

- Subsequent loan by USDA at \$900,000 allows for rehab work.
- HAC's loan is used to complete rehab (gap).
- HAC loan term, amortized 30 yrs. due in 15 yrs. @ 5% interest for Non-Profit

PRESERVATION LOAN SOURCES & USES



SOURCES

- Existing reserve \$114,290
 - 515 Loan (new) 900,000
 - HAC Loan 400,000
- ❖ Total Sources \$1,414,290

USES

- Existing reserve \$114,290
 - CNA – Rehab \$900,000
 - Gap Rehab \$110,000
 - Cash Proceeds
to Seller: \$290,000
- ❖ Total Uses \$1,414,290

SUMMARY AND CONCLUSIONS



UNFORSEEN CHALLENGES IN DEVELOPING PROPERTY

- Qualifying families for mortgage loans (difficult)
- Construction costs continue to get higher
- Competition for resources (water rights)

Mitigating Factors

- Financial strength of the borrower
- Track record of the sponsors
- City and county support for the development
- Relationship with construction and subordinate lenders

HAC Loan Products Recap



Loan Product	Loan Limits	Max. Term (years)	Interest Rate NP FP	HAC Service Fee	Max. LTV
Predevelopment	≤ 10% of loan fund assets	5	5% 8%	1%	≤100%
Site acquisition • <i>Land Banking</i>	≤ 10% of loan fund assets <i>\$750,000 – Identified site</i> <i>\$50,000 – unidentified site</i>	5	5% 8%	1%	≤100%
Site development	≤ 10% of loan fund assets	5	5% 8%	1%	≤100%
Construction	\$750,000	3	5% 8%	1%	≤100%
Preservation	Determined by CNA	30	5% 8%	1%	≤100%
Self-help housing	\$15,000/unit	4	0% N/A	N/A	≤100%

NP – Nonprofit; FP – For-profit

Application Process



LOAN INQUIRY

- Discuss proposed project with HAC Loan Officer to determine eligibility
- Loan application sent to organization

APPLICATION SUBMISSION

- Complete and submit all required documents
- Loan Officer assigned

UNDERWRITING PROCESS

- Third party verification
- Communications with applicant
- Criteria
 - Organizational capacity/experience
 - Financial capacity
 - Quality of program design
 - Leveraging of private/public resources
 - Underserved areas/populations
- Internal review by management

LOAN COMMITTEE ACTION

- Application presented/reviewed by HAC Loan Committee
- Actions (approve, reject, or defer)
- If approved, commitment letter issued that outlines terms/condition

Questions



Contact



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<http://www.ruralhome.org/hac-services/lending>

Wrap Up



Materials from today's webinar
and the recording will be available
on HAC's website.

www.ruralhome.org

