



Kentucky
Housing
Corporation

Investing in quality housing solutions.

CREATIVE FINANCING STRATEGIES

2015 Affordable Housing Conference



Panelist

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Financing Strategies - FHA

- Why FHA?
 - Best Combination of Terms and Rates
 - Favorable underwriting
 - Assurances of “Section 8 Overhang”

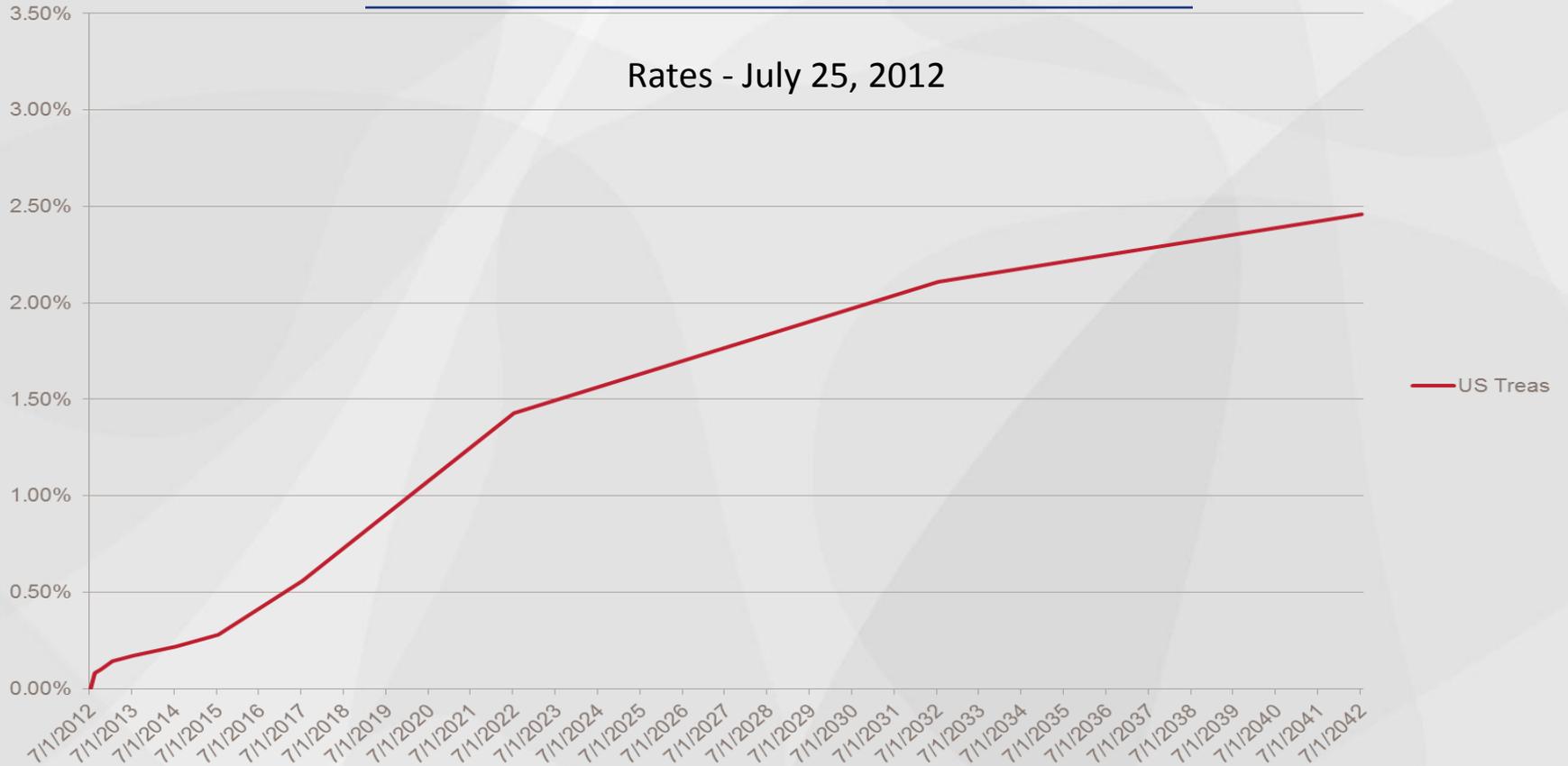
Financing Strategies - FHA

10 yr Treasury Yield

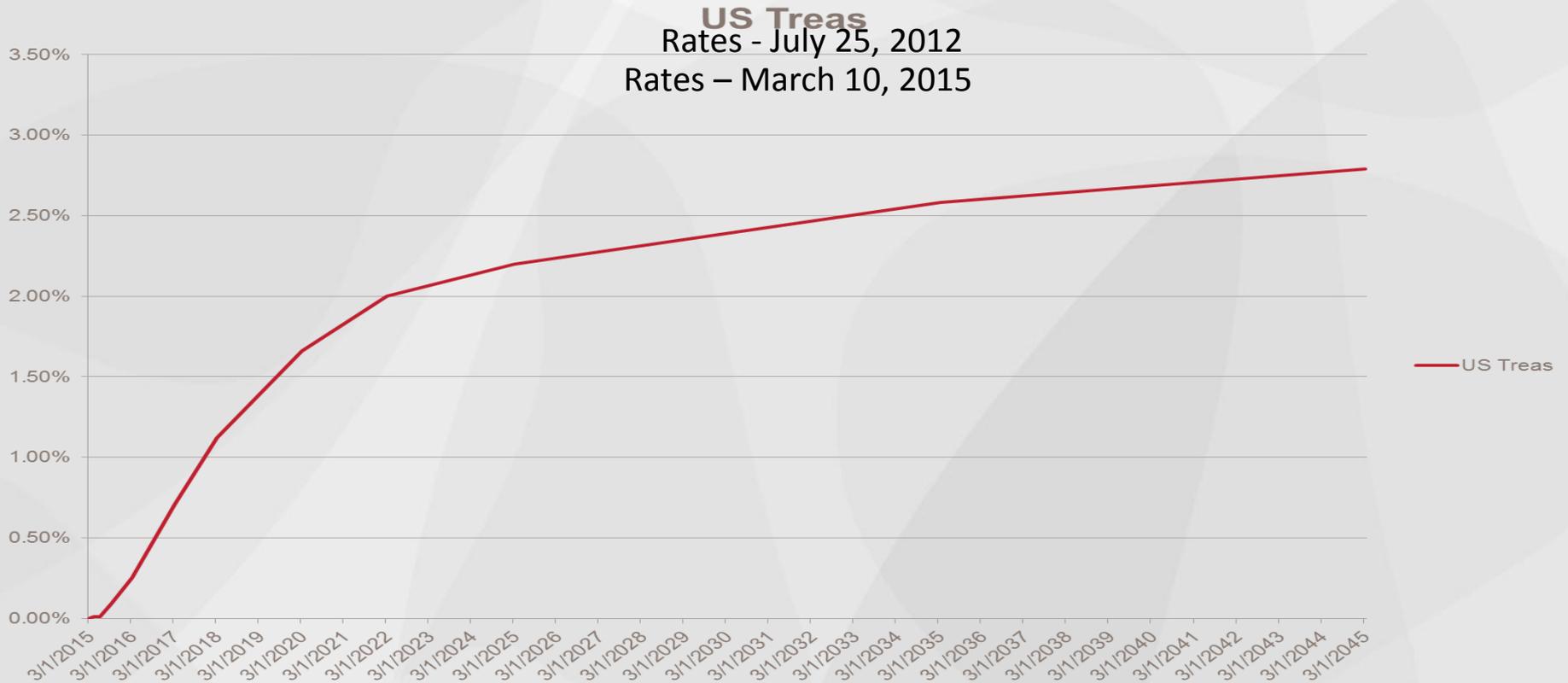


Financing Strategies - FHA

US Treas



Financing Strategies - FHA



Financing Strategies - FHA

- Changes in FHA MAP Guide
 - Favorable Underwriting
 - Decreases in minimum vacancies
 - Decreases in debt service ratio
 - Increases in per unit 223(f) construction costs
 - Relaxing LIHTC Equity Pay-ins

Financing Strategies – Section 8 Programs

- RAD Transactions
- Creates new Section 8 contract
- Projects with little to no debt—More to rehab

- Section 8(bb) Transfers
- Allows the transfer of Section 8 contracts between projects
- Some offices have been making allocation available to new projects when former Section 8 projects choose not to renew

Financing Strategies – Fannie Mae

- Fannie Mae Funded Forward
 - Fannie Mae issues a forward commitment agreeing to purchase the permanent mortgage at a specified interest rate following construction completion, lease-up, and stabilization. Concurrently, Fannie Mae advances funds on an interest-only basis to the lender to finance the construction or rehab. Funded Forward Rate Lock Commitments are fully collateralized by a Letter of Credit or other acceptable collateral.
 - Up to 30 year term & Up to 30 year amortization;
 - 90% LTV
 - 1.15x Minimum DSCR

Financing Strategies – Freddie Mac

- Direct Purchase of Tax-Exempt Loans
 - Freddie Purchases a tax-exempt obligation issued by the Kentucky Housing Corporation
 - Immediate fixed-rate financing; up to 35 years amortization with a balloon up to 18 years
 - 1.15x Minimum DSCR
 - LTV 85% of adjusted value or 90% of market value
 - Maximum term: 18 years
 - Maximum Amortization: 35 years

Financing Strategies – CDFIs

- **Community Reinvestment Fund**

- A national, non-profit CDFI based in Minneapolis, MN
- CRF has a 26-year history of working with community partners to provide access to capital in low-income communities to:
 - Preserve and increase affordable housing
 - Grow businesses
 - Create and save jobs
 - Improve schools and community facilities

Loan size: \$500,000 - \$5 million

Minimum property Units: >20 units

Loan term/amortization: 15/15, 30/30

Security position: First Lien

Debt Service Coverage: 1.25:1

Loan to Value: <75%

Forward Commitment Available: No

Indicative rate: 15/15 = 5.67% 30/30 =



Financing Strategies – CDFIs

- **Community Reinvestment Fund – Risk Sharing**

Loan size: \$500,000 - \$10 million

Minimum property Units: >20 units

Loan term/amortization: 15/15, 30/30, 40/40

Security position: First Lien

Debt Service Coverage: 1.15:1

Loan to Value: <85%

Forward Commitment Available: Yes

Indicative rate: 15/15 = 5.18% 30/30 = 5.43% 40/40=5.58%

Financing Strategies – USDA

- Section 538 Guaranteed Loan Program
 - LTV & DSC limitations
 - 90% of Acquisition Cost/90% of New Construction
 - 1.15 Debt Coverage Ratio
 - Non-recourse
 - Fixed rate
 - Can be combined with 4% and 9% tax credits
 - No Davis Bacon requirement
 - Can be fully amortizing or balloon structure
 - Can be used as a construction/permanent or permanent only
 - Ability to restructure underlying 515 to preserve rental assistance

Financing Strategies – Bridge Lending

- LIHTC Bridge Loans
 - Delay investor contribution beyond the initial LIHTC delivery schedule;
 - Increases investor yield which enables the investor to increase pricing;
- Acquisition Bridge Loans
 - Efficient execution for quick site control;
 - Acquisition Bridge Lender is typically your permanent lender;

Financing Strategies – OCFC Predevelopment Lending

	<u>Predevelopment Loan</u>	<u>Acquisition Loan</u>	<u>Acquisition Loan (Preservation only)</u>	<u>Equity Bridge Loan</u>	<u>Permanent Loan</u>
Uses	Predevelopment costs – application & reservation fees, market & environmental studies, professional fees, zoning, etc.	To acquire land and/or buildings for affordable housing development	To preserve existing affordable housing that is “at-risk”	To bridge investors tax credit equity into a project	Long-term 1 st mortgage debt
Minimum Loan Amount	\$10,000	\$10,000	\$10,000	\$10,000	\$100,000
Maximum Loan Amount	\$150,000	\$1,000,000	\$5,000,000	\$5,000,000	\$1,000,000

Financing Strategies – OCFC Lending Guidelines

- All projects must be either multifamily or single family properties
- Geographic focus can vary between loan fund products (*check the term sheets provided*)
- The borrowing entity is the LLC or LP
 - But may be nonprofit, public housing authority or for-profit entities
- There are no prepayment penalties with any loan
- Loan fees can be included in loan amount (*except permanent loans*)
- Developer Fees and Operating Costs are not eligible for funding

Financing Strategies – OCFC Lending Guidelines

Collateral

- Guarantee from individual, parent of borrower, developer or another entity with net worth
- First or Second Mortgage
- Security Interest in tax credits
- Pledge of limited partner's capital contribution

Fees

- Origination Fee – greater of \$1,000 or 1%
- Servicing Fee – greater of \$1,000 or 1%
- Lender legal fees
- All fees are paid at closing



Financing Strategies

- Case Studies
 - Taylor Ridge, Independence, Kentucky