

WELCOME

COLORADO RURAL HOUSING PRESERVATION ACADEMY

Session 1, Topic 2:
USDA RD Housing and 515 Transfers

VIRTUAL SESSION:
MAY 19, 2020



Housekeeping Notes

- This webinar is being recorded, and all audience members are muted as they log in
- Please use the **Chat Feature** to submit questions during the presentation
- After the presentation, we will open up the lines for Q&A by using the **Raise Hand Feature**
- All participants will receive a copy of today's webinar recording and PowerPoint slides
- Please be patient with technical difficulties

WHAT WE DO

COLORADO RURAL HOUSING PRESERVATION ACADEMY

- A series of no-cost training and peer learning sessions designed to help rural housing providers and nonprofits acquire and/or preserve affordable housing in rural Colorado
- Ultimate goal is to preserve affordable housing options for low-income rural populations in the state.

SESSIONS:

- Overview & Introduction to Rural Rental Housing and Preservation
- USDA Rural Development Transfer Process and Development Rehabilitation
- Preservation Financing and Deal Structuring
- Supportive Policy
- Buyer/Seller Conference
- Financing and Deal Structuring Part 2
- Property Management



The Colorado Health Foundation™



RURAL HOUSING
PRESERVATION
ACADEMY

AGENDA

9:00

Welcome and Introductions

9:15

USDA Multi-Family Housing Programs

10:00

Break

10:05

Overview of USDA 515 Transfer
Process

10:45

Questions and Wrap up



OUR SPEAKERS:

**Phillip Dawson,
Colorado USDA RD Housing Director**

**Robert McElroy,
USDA Multi-family Loan Specialist**

**Jodi Allgood,
USDA Multi-family Loan Specialist**





United States
Department of
Agriculture

Rural Development

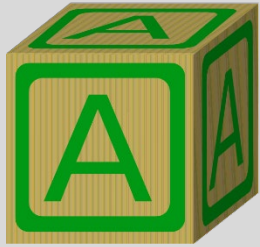


USDA Rural Development

Infrastructure, Partnerships, and Innovation

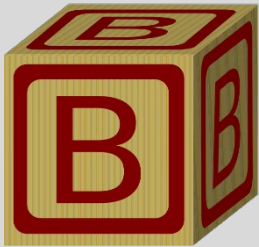
Multi-Family Housing Programs Overview

ABCs of Rural Development



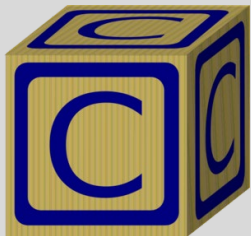
Affordable Housing

Funding for homeownership loans and rental complexes.



Business and Economic Development

Funding for Technical Assistance, Business Start Up, Marketing and Feasibility Studies.



Community Infrastructure

Funding for the bricks and mortar of infrastructure needs in a community.

Affordable Housing

Affordable Housing:

- Funding for homeownership loans and rental complexes across the state
- Guaranteed & Direct Home Loans
- Home Repair Loan and Grants
- Multi-Family Housing Complexes (Family, Senior, and Farm Labor)

Business and Economic Development

Business and Economic Development Programs

- Funding for Technical Assistance, Business Start Up, Marketing and Feasibility Studies
- Business & Industry Guaranteed Loans
- Rural Business Development Grants
- Value Added Producer Grants
- Renewable Energy for America Program – Grants and Guaranteed Loans



Community Infrastructure



Community Infrastructure

- Funding for the bricks and mortar of infrastructure needs in a community
- Community Facility Loans and Grants
- Water and Waste Water Loans and Grants
- Broadband Loans and Grants

Colorado Rural Development Office Locations

Denver State Office

Denver Federal Center
Building 56, Room 2300, P.O. Box 25426
Denver, CO 80225-0426
Phone: (720) 544-2903

Alamosa Area Office

101 S. Craft Drive
Alamosa, CO 81101
Office (719) 589-5661 x4

Cortez Local Office

628 W. 5th Street
Cortez, CO 81321
Office (970) 565-9045, x4

Craig Local Office

145 Commerce Street
Craig, CO 81625
Office (970) 824-3476 x4

Delta Area Office

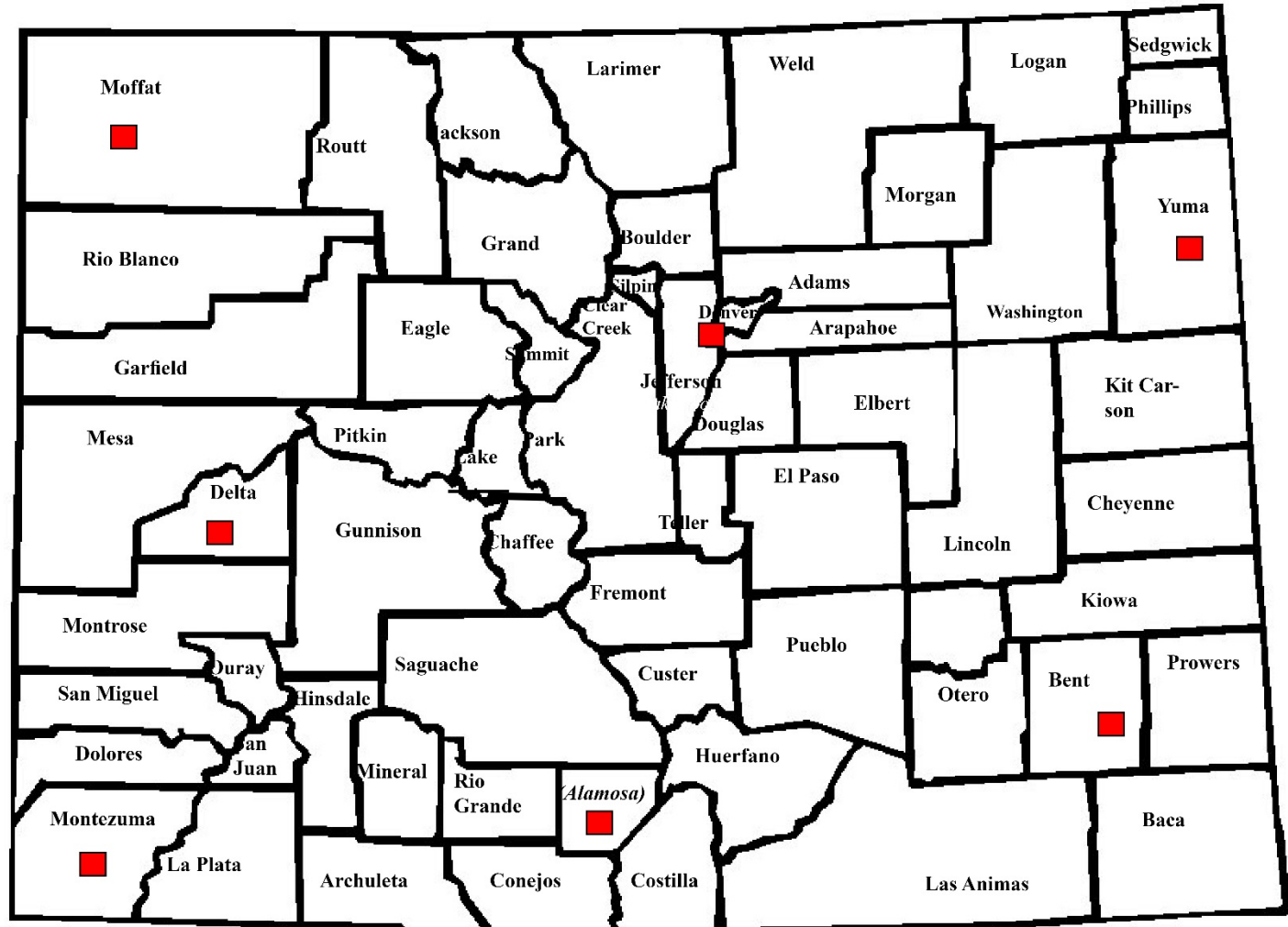
690 Industrial Blvd.
Delta, CO 81416
Office (970) 874-5735 x4

Las Animas Area Office

760 Bent Ave
Las Animas, CO 81054
Office (719) 456-0120 x4

Wray Area Office

247 N Clay, Suite 2
Wray, CO 80758
Office (970) 332-3107 x4



Multi-Family Housing 515 Program

- Our Direct Loan Program that finances two types of apartment complexes in eligible rural areas
 - Family
 - Elderly/Disabled
- Tenants who are in the very-low, low and moderate income up to 80% of the county's AMI (area median income) are eligible to live in 515 properties
- Loan term is a 30 years, amortized over 40 to 50 years with the intent to keep affordable housing in the communities where it is needed

Multi-Family Housing 514/516 Program

Farm Labor Housing Direct Loans & Grants

- Financing in the form of Loans and Grants
- Provides affordable housing for year-round and migrant or seasonal domestic farm laborers
- Housing may be constructed in urban or rural areas, as long as there is a demonstrated need

Multi-Family Housing Rental Assistance

- Subsidy paid to 515 and 514/516 owners
- Tenants pay 30% of their income; Agency makes up the difference

Multi-Family Housing 538 Program

- Provides guarantees for loans for private-sector lenders
- Used in conjunction with LIHTC loans
- Can be used to finance housing for tenants that cannot afford conventional rents but do not need subsidy
- The guarantee is typically 90 percent for For-Profit Entities and 97 percent for Nonprofit Entities

Colorado Multi-Family Housing Portfolio

By the Numbers

RD Portfolio of Properties	National	%	Colorado	%
Number of RRH MFH Complexes*	13410		128	
Family	8570	64%	81	63%
Elderly	4542	34%	47	37%
514 Off Farm Labor	518	4%	14	11%
515 Direct	12886	96%	114	89%
516 On Farm Labor	6		0	
Revenue Producing Units	411510		3540	
RA Units	282996	69%	2870	81%
Vacant Units	25059	6%	262	7%

*National total difference due to (congregate, group, mixed, etc.) None in CO

Maturing Mortgages and Trends

- Nationally 145 Maturing Mortgages by 2022
- Colorado has zero Maturing Mortgages in the next two years
- Majority of projects in the state are 20 years or older
- Of 128 projects in state, 13 have conducted Capital Needs Assessment. 8 Have completed CNA(s) through rehab

Maturing Mortgages and Trends (cont.)

- 301/2,870 (10%) Unused RA Units in CO vs 15,060/283,042 (5%) Nationally
- Of the 301 Unused RA 97 are in the 514 Farm Labor Program
- Represents changing demographics in Rural Communities
- Automation, Urbanization, Changing Incomes, etc.

Preservation & Revitalization

- New Management
- Transfer of Ownership
- Acquisition/Rehab
- Core funding sources will most likely not be Federal
- LIHTC, DOH, CBDG, DOLA, USDA (538/MPR)

Questions?

Contact us:

Phillip Dawson phillip.dawson@usda.gov

Jodi Allgood jodi.allgood@usda.gov

Robert McElroy robert.mcelroy@usda.gov

For more information visit www.RD.usda.gov/CO

Colorado Rural Housing Preservation Academy

Overview of USDA RD's MFH Transfer Process

Top 10 Colorado 515's on RD's 6-17 mortgage maturity "exit" list

- | | | |
|---------------------------------------|----------------------------|----------|
| ◇ 2020 Pioneer Valley in Flagler | 12-unit Elderly, with 0 RA | NP Owner |
| ◇ 2023 Barbara Court in Montrose | 24-unit Family with 18 RA | NP Owner |
| ◇ 2024 Centennial Manor in Brush | 48-unit Elderly with 13 RA | NP Owner |
| ◇ 2024 Sunshine Manor I in Las Animas | 10-unit Elderly with 8 RA | NP Owner |
| ◇ 2026 Homestead Apartments in Otis | 9-unit Elderly with 6 RA | NP Owner |
| ◇ 2026 Villa East in Haxtun | 10-unit Elderly with 3 RA | NP Owner |
| ◇ 2028 Casa De Cortez in Center | 24-unit Family with 23 RA | NP Owner |
| ◇ 2028 Casita Del Sol in Alamosa | 24-unit Family with 23 RA | LP Owner |
| ◇ 2028 Cortez Apartments in Cortez | 43-unit Family with 35 RA | LP Owner |
| ◇ 2028 Grand Manor in Delta | 10-unit Elderly with 10 RA | NP Owner |

Colorado Prepayment Request on RD's "MFH Property List"

- ◇ Harvest Heights Housing in Stratton (Kit Carson County)
- ◇ 12-unit Elderly, with 12 RA
- ◇ Owner: The Stratton Area Foundation
- ◇ Contact: Amy Martel
- ◇ Accepted Date: 01/07/2020
- ◇ Appraised: \$1,000,000

RD's Basic Preservation Strategy

Components of all deals

- **Project is needed in market**
- **Post transaction owner is eligible**

Basic Feasibility Thresholds

- **CNA to determine capital needs, timing and funding**
- **Underwriting to determine feasibility and tools**
- **SUSTAINABLE RENTS = SUSTAINABLE PROPERTIES!**
- **CNA needs - O&M - operating cushion – vacancy - accounts current**

RD's Basic Preservation Strategy

Basic Feasibility Thresholds (continued)

- **Seller payments and increased RTO is market based**
 - **Market value for equity when hard loan part of deal**
 - **CRCU limit for equity payment and increased RTO**
 - **CRCU test with any MPR tools**
- **Consider impact on tenants**

**Long Term Commitment – RD's RA funding/Owner's
RUP**

Overview of Access to Preservation Resources



Stay or sell with the MPR

(MFH Preservation and Revitalization Demo)

(NOSA)

Access RD rehab funds – key tool: deferrals (also 515, 0% or soft loans, NP grants)

No RA

Simple (stay in owners)/Complex (transfers)Portfolio (transfers and stay in owners)



Transfer

(Handbook 3 – Chapter 7)

Access 3rd party funding – only source of seller payment outside prepayment - Complicated

Apply thru RD Office

Low rents = tight deals and “Pie split” issues common



Prepayment Process

(Handbook 3 – Chapter 15)

Access RA, RTO and equity loan incentives (stay in owners or transfers)

Apply thru RD Office – Process strictly regulated by Statute

Waiting list and no more access to Sales to Non-profits resources

Overview of Access to Preservation Resources

Substitution of GP's or LP's for a "no-rehab" transfer (Handbook 3 - Chapter 5)

- Access to project control - no new resources available (existing RA helps)
- Notify RD Office for concurrence and white knights beware – you own the good and bad now!

Stay-in rehabilitation including energy efficiency upgrades

- Funding from reserves, non-RD funds, rent savings or higher rents supported by RA

Access to RA

- Prepayment Incentive
- Transfer in RA for a tenant with a LOPE letter
- Unused RA via the UNL for the tenant with the greatest need
- Unused RA via the UNL for a preservation project – prepare to demonstrate
 - Owner contribution to preservation effort
 - Continued need in the community
 - Leverage from other sources

Advice to developers on a preservation strategy:

Look for deals that work – the four “R” analysis

- **RENTS** - What’s the gap between current basic rents, Fair Market Rents (FMR’s) and 60% LIHTC Rents?
- **RA** - How many RA units and %? Can RD loans be deferred, soft funds be used to reduce RA increase?
- **RUPS** – Find out about RUPs and prepayment restrictions (pre or post 89) as they affect value and options.
- **REHAB** – How much (CNA & Statement of Work (SOW))? Rehab or Transfer/Rehab? RD must know to approve.



Next Level – RTO,
management fee, reserves,
current occupancy &
eligible for LIHTC, cash
flow, RD classification and
findings



Common RD Areas of Concern – Transfer Apps (per Dean Greenwalt presentation – 2015)

1. **Incomplete information**
2. **Inadequate CNAs and Scope of Work Statements**
3. **Unacceptable Appraisals**
4. **Unreasonable/Unjustified O&M expenses**
5. **3rd Party Business terms**
6. **Projected Rents, rent loss, vacancies and market data not rationalized**
7. **Unrealistic expectations**

Advice from the school of hard knocks: Communicate!

What's the plan?

Who are the key players?

- Developer, seller, buyer, lender, LIHTC Agency, other financing, mortgage broker, syndicator, credit enhancer, bond issuer

What are the deadlines?

Important goal – one CNA and one appraisal – your provider must work with RD

How will capital needs be determined?

- Full CNA, 3rd party requirements, scope of work, post rehab CNA

Advice from the school of hard knocks: Communicate!

When and what appraised values?

What is the impact of key RD underwriting issues?

- CRCU/equity/reserves/RA/Tenant impact

What are the limitations of specific loans?

- Pre-92/post-89/RUPS

What are subordination expectations?

For portfolio transactions –
Run a trial one through first

Successful strategies to coordinate and cooperate

Agree to a Scope of Work

- First CNA – full review of needs
- Add third party requirements – to get tax credits what must you do
- Agree to a Scope of Work
- Revised CNA to reflect post rehab per Scope of Work

Expect and schedule a series of meetings with all parties

- Issues will rise throughout the process
- Establish a positive effective working relationship

Successful strategies to coordinate and cooperate

Establish realistic underwriting expectations

- Equity and RTO increase must fit within CRCU
- The gap between current rents and CRCU is a pivotal feasibility measure
- Some projects may not have the market position to satisfy all expectations

Is an HQ underwriter available for fast tracked help advice and solutions?

Big Deals need big-time teamwork

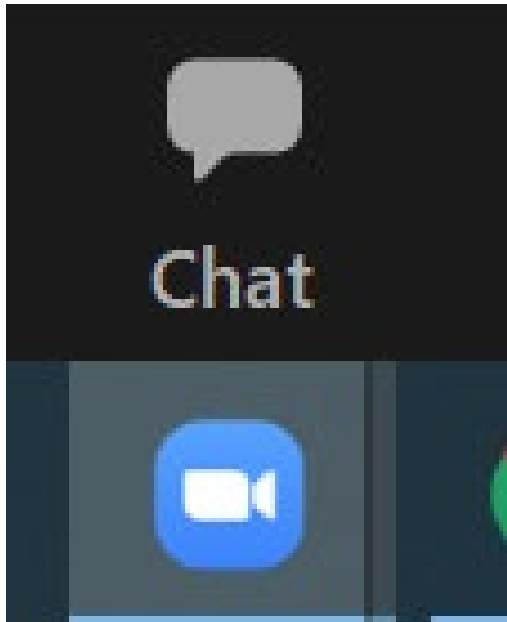
- Coordinate developer, financial and RD resources (loan/servicing and technical)
- Focus on critical times – application, underwriting, obligation, closing, and construction

Some basic advice on a Multi-Funder preservation strategy:

- ◇ **Working with Multi-Funder MFH Transfers**
 - ◇ **Extremely tight or conflicting funding deadlines require significant coordination among funding partners.**
 - ◇ **The traditional developer led models where the transaction is independently presented to various funding entities at different times in different formats is difficult to pull off.**
 - ◇ **RD as the holder of the original note and mortgage and provider of RA and setter of rents can not be the last one in the mix.**

Get RD Done Right!
Contact: Larry Anderson 571-296-4746 or
landerson32@cox.net





Questions?

Please use the chat feature in Zoom to submit questions to the panel

Thank you