WELCOME

COLORADO RURAL HOUSING PRESERVATION ACADEMY

Session 2, Topic 1: The 515 Transfer Process and 538 Financing

VIRTUAL CONVENING

AUGUST 5, 2020



HOUSEKEEPING NOTES

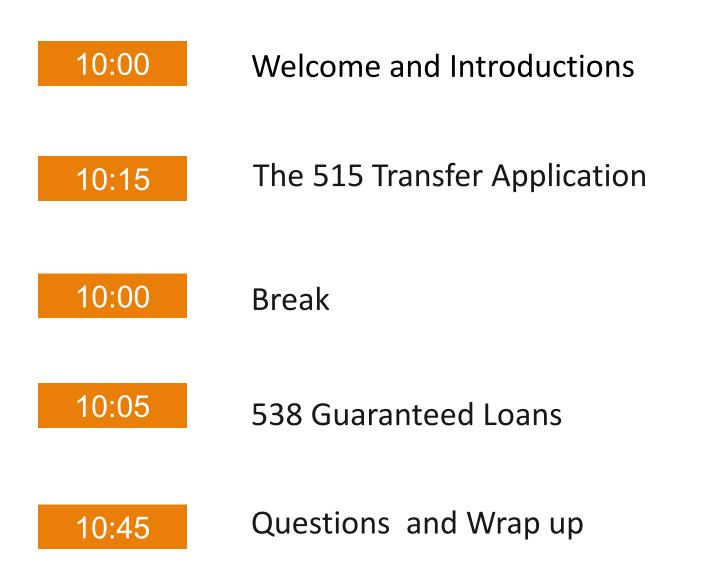
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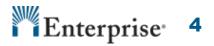


ABOUT ENTERPRISE

OUR VISION & MISSION

ONE DAY every person will have an affordable home in a vibrant community, filled with promise and the opportunity for a good life.

OUR MISSION is to create opportunity for lowand moderate-income people through affordable housing in diverse, thriving communities



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.
 - 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

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THANK YOU

OUR PARTNERS







The Colorado Health Foundation™



A Health Equity Foundation



Colorado Rural Housing Preservation Academy

Overview of USDA RD's MFH Transfer Process. Deeper Dive 8-5-2020

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Looking for deals that work:

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?**
- **<u>RUPS</u>** Find out about RUPs and prepayment restrictions (pre or post 89) as they affect value and options.
- **<u>REHAB</u>** How much (CNA & Statement of Work (SOW))? Rehab or Transfer/Rehab? RD must know to approve.

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

When you have found a deal that might work – Make a data request directly to RD after a letter of intent has been signed by a seller

- You have found a potential RD MFH to purchase and you want to get to the point • where you can make a well-informed offer. A good strategy is to ask RD for their information so that you and RD will be working with the same data.
- The following screen contains information that a purchaser should have the seller • request directly from RD. It offers a good preliminary review of project status and operations. The potential purchaser may prepare the letter for the seller, but the seller must sign and authorize RD to release the information.
- The second screen contains operational and financial information a purchaser • should understand well after performing an initial analysis using this data.

Specific Property Data request from owner to RD

♦ Form RD 3560-7 from the audited financial statements from MINC for the last three years on FIN 1700. The FIN 1700 should be in excel format for conversion into the RD underwriting template (PAT).

- Proposed Budget on FIN 1000
- ♦ Form RD 3560-10 from the audited financial statements from MINC for the last three years.
- ♦ Copy of the initial and any subsequent loan agreements and notes.
- Most recent project worksheet on PRJ 2000.
- ♦ Copy of the current interest credit and rental assistance agreement.
- ♦ AMAS M1FI Screen including the current remaining unpaid balance.
- ♦ A copy of any restrictive use agreement or covenant.
- ♦ Project Reserve Balance FIN 2000.
- ♦ Rent History PRJ 3050.
- ♦ Quick Check Report.
- ♦ Occupancy history for 5 years on PRJ 4200.
- Orgon Copy of the original loan agreement and note.

General advice on a preservation data review strategy:

♦ Next Level – review status and project performance by looking at: **⊗RTO ♦** Management fee **⊗**Reserves **Ourrent and historical occupancy ♦ Eligible for LIHTC Cash** flow **\otimes RD classification and findings** ♦ If it looks good - Make an offer and get a purchase and sales agreement **♦ PSA should always be subject to RD approval**

Proposed Transaction

- ♦ Executive Summary narrative draft
- ♦ Required written statements and certifications 12 statements in 3 docs
 - ♦ **seller statements** signed doc
 - ♦ buyer statements signed doc
 - ♦ joint statements signed doc
- Application supplement Attachment 7-B-2
- ♦ Contact list Attachment 7-B-3
- ♦ Application for partial release, subordination or consent Form RD 3560-1
- Purchase and sales agreement signed doc
- ♦ Current Preliminary Title Report signed doc
- ♦ Legal Services Agreement signed doc



- ♦ The Project and proposed repairs
 - ♦ Capital Needs Assessment Final report
 - **♦ Repair Agreement** word doc
 - ♦ **Cost estimate** Form RD 1924-13
- Documentation of Market Rents and Value
 - ♦ Appraisal for USDA Security Value report
 - ♦ Appraisal As-Is Unrestricted same report
 - Rent Comparability Study may not be needed
 - Ourchaser's best available evidence to support CRCU if no appraisal



- ♦ Financial Aspects of the Transaction
 - ♦ Application for Federal Assistance Form SF 424 & attachments
 - ♦ Proposed Project Budget Form RD 3560-7
 - ♦ Sources and Uses of Funds statement PAT Template
- ♦ Third Party Funding
 - Applications(s) for funding from each source doc or templates
 - ♦ Financial Pro Forma information PAT template
 - Environmental information report
 - **Commitment letters or equivalent** signed letter
 - Regulation requirements for third party funding word doc
 doc
 - ♦ Interim Financing word doc

- ♦ Purchaser's Resume (for principals) doc
- ♦ Previous participation certification Form HUD 2530
- ♦ Identity of interest certification Form RD 3560-30 or 3560-31
- ♦ **Debarment/Suspension Certification** Form AD 1047 or AD 1048
- Ourchaser's Financial Statements w/Attachment 7 B-4 doc and Attachment 7 **B-4**
- ♦ Credit Report Fees checks for principals
- ♦ Proof of citizenship Fed Tax ID or SS #
- ♦ Proposed Management
 - ♦ Complete management plan Per RD 3560
 - ♦ Attorney Opinion Re: Proposed Lease and Compliance Per RD 3560
 - ♦ Management Certification Form RD 3560-13
 - ♦ Affirmative Fair Housing Marketing Plan Form HUD 935.2A

- ♦ Proposed Organizational Documents for Purchaser Organizational documents - doc Attorney certification certifying legal sufficiency - doc
 ♦ Other **♦ Assurance agreement** - Form RD 400-4 **♦ Equal Opportunity agreement** - Form RD 400-1 ♦ Lobbying Certification – Attachment 7 B-5 & SF-LLL if applicable ♦ Certification Regarding Drug-Free Workplace Req - Form AD 1049 or AD 1050
 - ♦ Certification Regarding Collection Policies Form RD 1910-11
 - **♦ Letter from HUD concurring in transfer of HAP Contract** letter
 - ♦ Request for Rental Assistance Form RD 3560-25



Common RD Areas of Concern – Transfer Apps

(per Dean Greenwalt presentation -2015)

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

- ♦ Proposed Organizational Documents for Purchaser
 - Organizational documents doc
 doc
 - Attorney certification certifying legal sufficiency doc
 doc
- ♦ Other
 - **♦ Assurance agreement** Form RD 400-4
 - **♦ Equal Opportunity agreement** Form RD 400-1
 - ♦ Lobbying Certification Attachment 7 B-5 & SF-LLL if applicable
 - ♦ Certification Regarding Drug-Free Workplace Req Form AD 1049 or AD 1050
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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

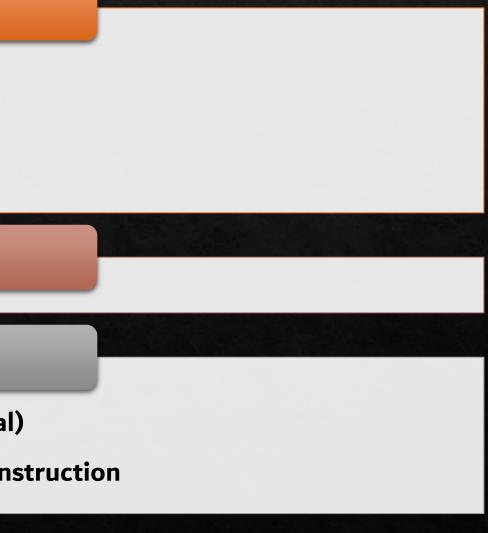
Establish realistic underwriting expectations

- 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 team work

- 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 preservation strategy:

Over Working with Multi-Funder MFH Transfers

partners.

different formats is difficult to pull off.

\otimes RD as the holder of the original note and can not be the last one in the mix.

- **Extremely tight or conflicting funding deadlines** require significant coordination among funding
- **The traditional developer led models where the** transaction is independently presented to various funding entities at different times in
 - mortgage and provider of RA and setter of rents

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

W sp • I

What are subordination expectations?

For portfolio transactions – Run a trial one through first

What are the limitations of specific loans?

• Pre-92/post-89/RUPS

RD Preliminary Assessment Tool (PAT)

Standard underwriting format used for all RD MFH transactions (other funders have their versions) includes:

♦ General Information – Size and location of project, number of units, original funding, current account and loan balances

♦ Sources and Uses – Sources for all transactional funding and detailed projected hard and soft uses and contingencies

♦ Reserve Sizing – Based on a CNA, 20 years of capital spending and funding to track long term capital uses and funding availability

♦ Rents and Operations – Current and projected rents and incomes as well as operational expenses, based on most recent 3 years

♦ Pro Forma - 15 year trending examines inflation's effect on project income and expenses and project's ability to maintain NOI and DCR

♦ Review Tool – Quick look to see if underwriting standards are met.

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New Underwriting Principles (Chpt 7 Handbook 3)

Project is needed in community

Post transaction owner is eligible

Post transaction rents will not displace current tenants Rents don't exceed the lesser of CRCU or restricted rents

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Capital and accessibility needs addressed

RD recognized equity must be supported by an appraisal and underwriting

New Underwriting Principles (Chpt 7 Handbook 3)

Equity defined by market value RD approved appraisal

If no equity an "exit incentive" (IE) may be paid under certain conditions

Either Seller Equity or El – not both

Third party loans and guarantees encouraged Rents don't exceed the lesser of CRCU or restricted rents

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RD MFH HQ approves any equity amounts and **RTO**

New RTO to be calculated at the time of transfer

New TRANSFER Thresholds (Chpt 7 Handbook 3)

Post transfer rents – lesser of HOME (if used), LIHTC or CRCU

Rents must cash flow in proposed operations -Vacancy and contingency at 5%, NOI to meet 1.15 DSCR or higher 3rd party DSCR

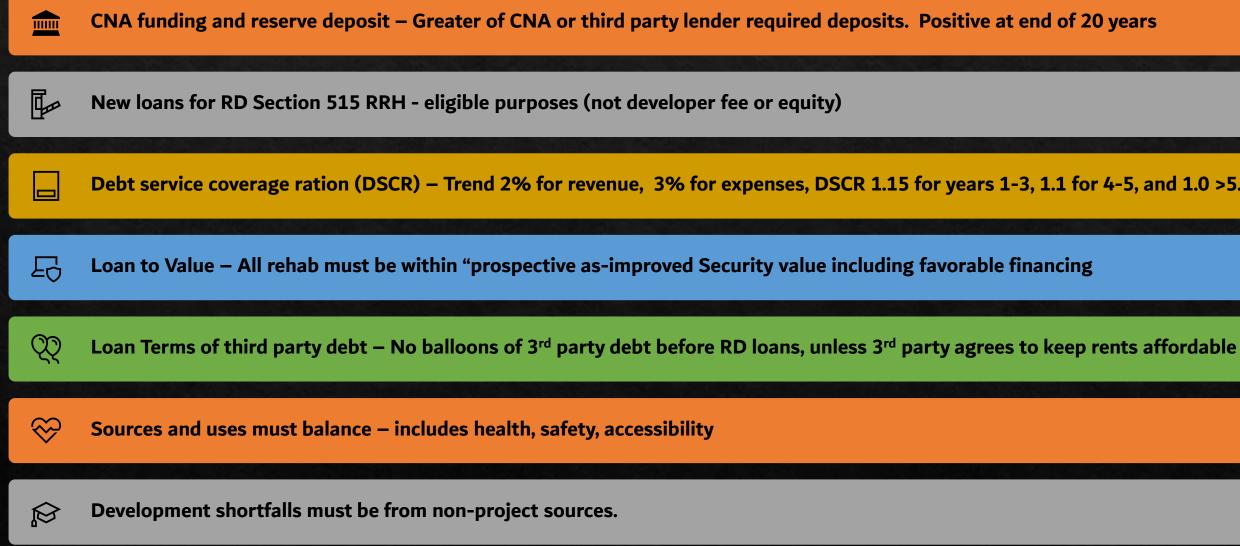
Operating expenses – No more than 10% reduction from 3 year avg. General operating account minimum requirement – 20% of operations

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Vacancy/Bad debt loss – max 10% for > 16 units, 15% for < 16, and should be most recent 3 year plus 2%

Tenant protection – Owner must protect all non-RA tenants from rent increase caused by transaction

New TRANSFER Thresholds (Chpt 7 Handbook 3)



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Why the MPR is a good idea for the Program



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Free TA and Pilot Program to help NP or PB Preservation

NOSA funding for Free Technical Assistance (TA) for Non **Profits (NP) in Second year**

- 4 TA providers can help in a variety of ways to preserve RD funded Section 515s
- For properties RD anticipates exiting before 2036
- TA providers provide free TA as needed big or small issues
- Contacts and more information on upcoming slides

June 14, 2019 Unnumbered letter encourages NP to participate in Preservation

- Developer loan
- Hard cost contingency
- Grants
- Loan to Security value
- Allows a "two step" transfer process
 - Step one Purchase the property

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 Allows a NP to earn an ROI based on investment or an Asset Management Fee up to \$7,500, "investment may include:

• Step two - Perform the rehabilitation

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



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Questions?

Use Chat Feature to submit Questions to the panel.



