Enterprise

Rural Rental Housing Preservation Academy

April 23, 2025

Housekeeping

All registered attendees will receive the slides via email

This session is being recorded. You will also receive a copy and it will be posted on the Enterprise website

We will answer questions throughout the presentation. Please submit them using the Q&A, chat or raise hand function

The link to register for upcoming sessions will be shared at the end of the presentation

LAND ACKNOWLEDGMENT

Enterprise Community Partners

OUR VISION
A country where home and community are steppingstones to more.

OUR MISSION
To make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all. We focus on three pillars:

- Increase Housing Supply
- Advance Racial Equity
- Build Resilience and Upward Mobility

Enterprise Community Partners

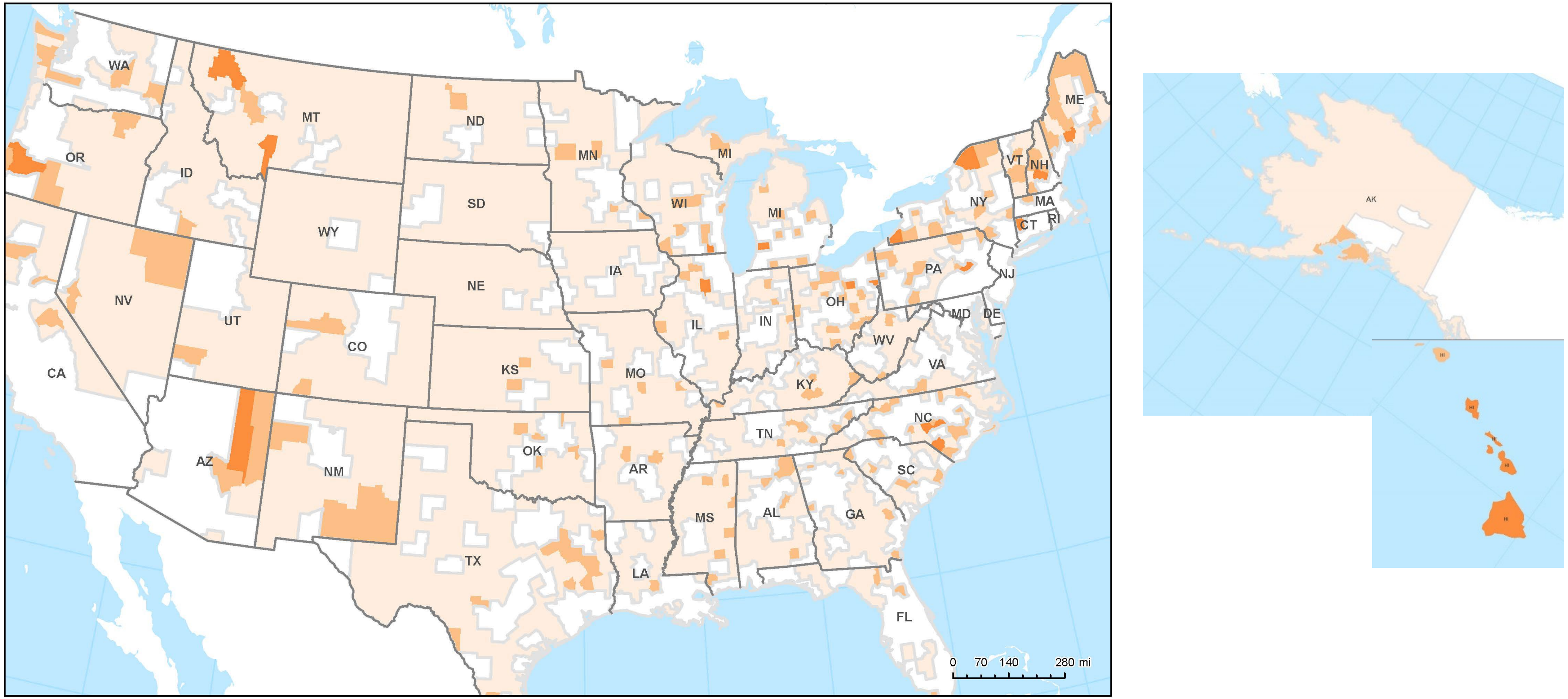
Unmatched breadth, scale and expertise across the entire spectrum of affordable housing...

...creating a positive feedback loop that does it all under one Enterprise roof.

Why Rural?

- Poverty remains a challenge in many rural communities. 70 percent of the 473 "persistent poverty" counties in the United States are rural.[2]
- USDA Section 515, the largest federal affordable rental housing program for rural communities is largely at risk of losing restriction and rental assistance.
- LIHTC New Construction Not Reaching Many Rural Communities (size, scale, incentives)
  - Incomes
  - Cost of Construction
  - Market

What/ Where is Rural?



Note: map shows nonmetro counties

Population size 7/1/2019

- 86 - 50,000
- 50,001 - 100,000
- 100,001 - 1,000,000
- 1,000,001 - 2,500,000
- 2,500,001 - 10,039,107
- No data

Units: Number Date: 10/21/2020

Source: USDA Economic Research Service, ESRI.
For more information:
http://ers.usda.gov/data-products/atlas-of-rural-and-small-town-america.aspx

Why Preservation?

- Costs less than new construction
- Prevents displacement
  - Keeps low -income individuals and vulnerable populations, such as Seniors & People With Disabilities Housed
- Keeps Valuable Subsidies in State
- Avoids NIMBYism
  - Already developed, sited

Rural Rental Preservation Academy

WHAT IS IT?

- 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 communities
- Serves to raise awareness about the acute and urgent housing challenges facing rural communities
- Through focused training, we work to build the capacity of affordable developers to acquire, rehab and operate currently affordable properties at risk of being bought by predatory developers or private equity firms
- Supplemented by a Technical Assistance cohort, which provides peer learning/support networks for non-profit owner operators and public housing authorities

2025 Rural Rental Housing Preservation Academy

WHAT TO EXPECT

Overview and Introduction to Rural Rental Housing Preservation

- Introduction to Rural Development 515 Transfer Process
- Strategies for 515 Preservation: Case Studies
- Capital Needs Assessment and Operating Budget

Basic Deal Structuring

- Pro forma development- Preliminary Assessment Tool (PAT)
- National Policy Conversation
- Funding Beyond RD: LIHTC, Bonds and Third-Party Lenders/ Connecting Buyers and Sellers


critical
headaches
Redemption
expensive
challenging
funding
critical
critical
critical
opportunity
important
difficult
challenging
difficult
important
difficult
critical
important
headaches
headaches
critical
Redemption
challenging
Redemption
difficult
funding
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critical
funding
difficult
headaches
important
important
expensive
difficult
Redemption
important

What is Affordable Rural Housing?

- USDA Rural Housing Service (RHS)
- HUD
- LIHTC

- Naturally Occurring
- Single Family or Multifamily
- Combination of Programs and Funding Sources

USDA Rural Housing Service

Funding for Construction

Section 515 - Family and Elderly/Disabled Housing

Direct loans, terms of 30-50 years, income restrictions, 1% interest rate

Section 514/516 - Domestic Farm Labor Housing

Direct loans and grants, 33-year term, 1% interest rate, income restrictions, one household member must meet the Domestic Farm Labor definition

Section 538 – Guaranteed Loans

Loan guarantees for private-sector loans, income restrictions cannot exceed 115% of AMI

USDA Rural Housing Service

Funding for Rehabilitation

Section 515 Subsequent Loans

Direct loans, terms of 30-50 years, income restrictions, 1% interest rate

Section 538 – Guaranteed Loans

Loan guarantees for private-sector loans, resident incomes cannot exceed 115% of AMI

Multifamily Preservation and Revitalization (MPR program)

Grants, debt deferrals, zero- and low-interest loans for existing owners

USDA Rural Housing Service

Funding for Rental Assistance

Section 521 Rental Assistance

Project based, ensures the tenant pays only 30% of their adjusted income, only for properties that have an active Section 514 or 515 direct loan

Stand Alone Rental Assistance/“Decoupling”

Section 521 project based rental assistance, but after a direct loan has been paid off. Currently only available through a special pilot program to properties with loans maturing in FY25.

What’s the big deal about Section 515?

Why is it so important – and difficult – to preserve this housing?

Lots of Homes

384,529 units in 87% of counties

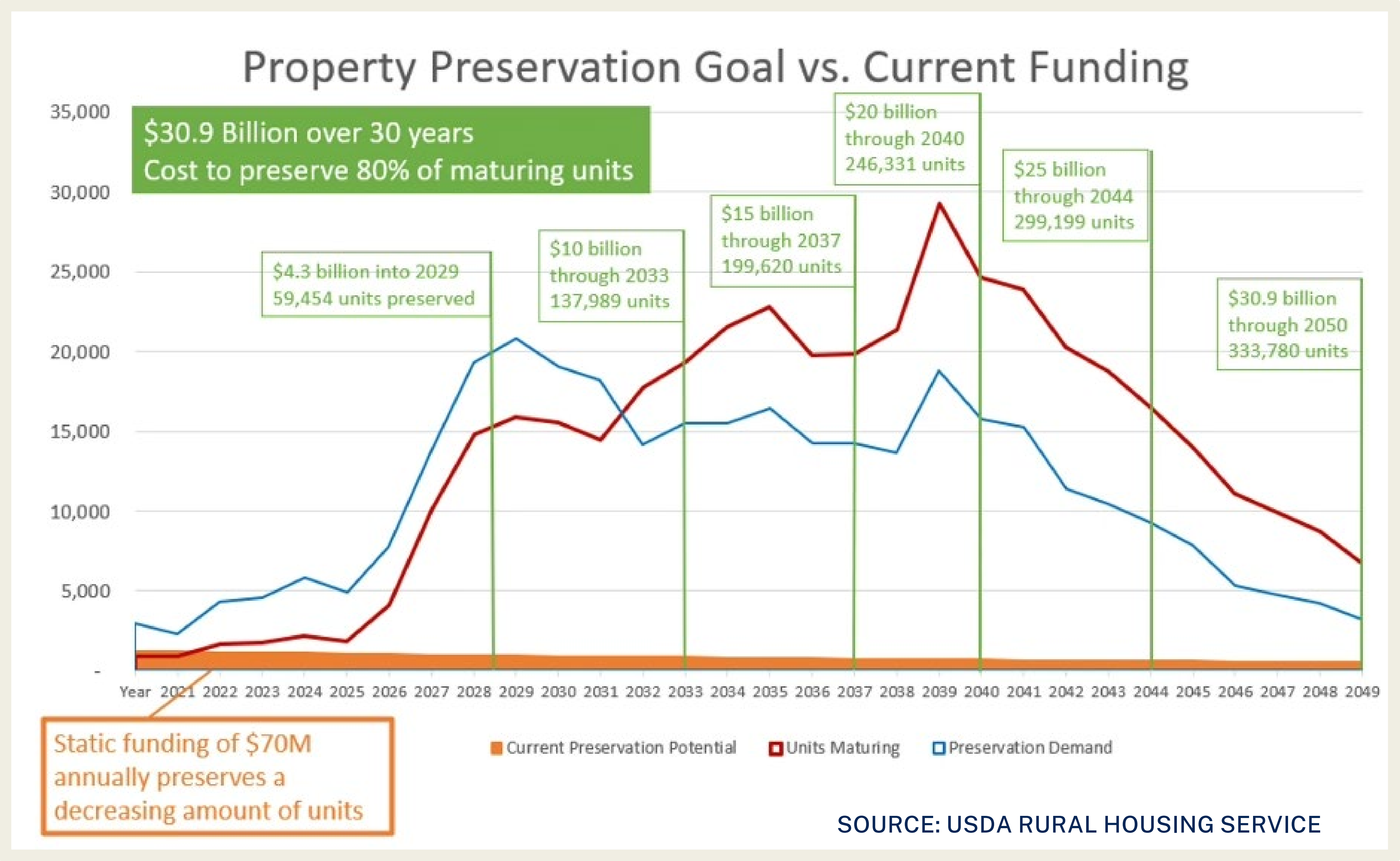
Maturing Quickly

Average age of 37 years

Vulnerable Residents

About 1/3 are seniors, about 1/5 are people with disabilities, and the average household income is $14,000

Mortgage Maturity is an Existential Risk



SOURCE: USDA RURAL HOUSING SERVICE

Risk: Program Exit via Maturity

- Mortgage maturity: The loan matures, and the owner pays it off, eliminating project-based rental assistance
    - Possible interventions: loan term extensions; stand alone rental assistance (SARA) contract
    - Challenges: Owners may not realize the consequences of maturity in time; owners in strong markets may value higher profits over maintaining RD assistance; SARA contracts beyond 2025 require ongoing Congressional action

Estimated Program Exit Year Range	Sec 514	Sec 515	TOTAL	Sec 514 %	Sec 515 %
Prior to 2024	23	164	187	4.9%	1.3%
2025-2029	54	1063	1,117	11.4%	8.5%
2030-2034	68	2672	2,740	14.4%	21.3%
2035-2039	120	3268	3,388	25.4%	26.1%
2040-2044	118	3370	3,488	25.0%	26.9%
2045-2049	64	1552	1,616	13.6%	12.4%
2050-2055	25	451	476	5.3%	3.6%
TOTAL	**472**	**12,540**	**13,012**		

Risk: Program Exit via Prepayment

- Prepayment: Owners of properties built before 12/15/89 may be eligible to prepay their mortgage and leave the Section 515 program early. RD assesses the potential impacts of a prepayment based on the need for the housing and civil rights analysis. Depending on the outcome of this analysis, the owner may be allowed to exit the program without restrictions, with restrictions, or may be required to offer the property for sale to a nonprofit. If the loan is prepaid, tenant protections are in place and tenants are eligible for vouchers.
  - Possible interventions: buying the property during the "sale to nonprofit" phase, especially because these transactions may be attractive to third party funders like housing finance agencies; RD may be able to offer additional funding or RA
  - Challenges: Poor advertising in "sale to nonprofit" phase; prepayment may be approved without restrictions depending on RD analysis

Risk: Poor Physical Condition

- Many RD properties that are 30+ years old are well-maintained but haven't received any significant rehabilitation, and some properties have low reserve account balances that haven't kept pace with property needs. A capital needs assessment (CNA) will be required.
  - Possible interventions: Recapitalizing a project with third-party funds, such as the low-income housing tax credit (LIHTC) program; recapitalizing a project with RD funds
  - Challenges: Determining whether a property has such a poor physical condition that it has reached functional obsolescence from the perspective of a lender or RD; sometimes it may be necessary to challenge the idea that "not all properties are preservation-worthy;" continuing appropriations from Congress are needed for Section 515 subsequent loans, MPR money and other sources of funding

Risk: Poor Ownership or Management Conditions

- There are many different types of RD owners from sole proprietors to large companies. It is similar with management agents, varying from single-property owner/managers to large national management companies, all with their own possible challenges.
  - Owners or managers of any kind may not comply with RD or third-party funder requirements, causing issues for maintaining RA or other funding
  - Non-profit boards may have difficulty retaining members and lack organizational capacity
  - Deceased borrowers may have heirs that are not interested in ownership
- Possible interventions: Buying a property may be easiest when the owner is looking to exit the program or remove a challenging property from their portfolio
- Challenges: Any partnership or ownership disputes should be treated with extreme caution by preservation buyers

Risk: Financial Weakness

- Delinquency is very low in the RD portfolio (less than 2%), but high vacancy rates in weak markets, and inadequate rents can strain the finances of a property. If a community is not “desirable” to tenants, properties may struggle to fully lease up all units.
- Possible interventions: Seeking additional RA funding to expand assisted units; seeking higher RA for units that are already assisted
- Challenges: Broader market conditions and issues like decreasing jobs in your area may be beyond your control
- *Note: Stand Alone Rental Assistance contracts allow for FMRs to be used, which are almost always higher than RD’s budget-based rents*

Opportunity: Policy

We use our expertise in rural housing and policymaking to:

- Develop and support legislation
  - *Rural Housing Service Reform Act (S.1260)*
  - *Affordable Housing Credit Improvement Act (H.R.2725)*
- Advocate for robust funding
  - USDA Section 521 Rental Assistance, MPR and Section 515
  - HOME and CDBG Programs
- Give input on federal regulations
  - Section 515 mortgage decoupling pilot program
  - Fannie Mae and Freddie Mac "Duty to Serve" plans

TECHNICAL ASSISTANCE & THE TRANSFER PROCESS

Stages of USDA Transfer Application Process

There are four stages to the approval process to know

Stage 0 – Prepare

Unofficial, critical stage

- Concept call with USDA
- Request MFIS Reports
- Order appraisal for CRCU's, Post Rehab Value, LTC/LTV
- Order C.N.A.
- Order/create 504 Plan
- Plan Scope of Work
- Cost estimate; involve GC
- Start management docs
- Start construction/architect contracts

Stage 1 – Processing

Initial Application Submission

All items in 7-B-1 submitted via CloudVault simultaneously

Review will not begin until all items have been received

Submit Plans, Specs (Front End Manual), AIA Contracts (drafts), & management documents for review and concurrence

Consider construction path: Bid out, Owner/Builder or Waiver

Stage 2 - Underwriting

Underwriting review of Preliminary Assessment Tool (PAT)

Final review of the following:

- Operating expenses
- Rent levels
- Reserve requirements
- Tenant Protection Account
- Insurance
- Cost estimate
- Third party financing terms
- Third party loan documents
- Total Development Costs
- Narratives

Issues Letter of Conditions

Stage 3 – Closing/OGC

Closer will be assigned and work with OGC to close.

Closer will prepare closing package for OGC review.

OGC will review:

- Organizational documents
- Third party loan documents
- Intercreditor Agreements
- Subordination Agreements
- Attorney Opinions

Upon approval OGC will issue the Closing Instruction and provide Agency Loan documents to close.

Stage 0 – Prepare for Application

Predevelopment is the most important part of the process ☺

Unofficial, critical stage

- Site Control – required, min. 1 Year.
- Schedule a concept call with USDA
- Request MFIS Reports from USDA
- Order appraisal from experienced provider. Check with State and lender requirements. Use USDA guidance.
- Order As-Is C.N.A. Use USDA for guidance before starting process.
- Review current 504 Transition Plan. All properties must have one, good for 3 years. Cost can be paid by Replacement Reserves.
- Establish a Scope of Work with architect based on approved As-is C.N.A.
- Cost estimate; involve GC to obtain bid from SOW.

Other long lead items of Due Diligence:

- Engage borrower counsel

- Create or determine your borrowing entity
  Entity will need the following:
  i. Register with DUNS and SAMs
  ii. Letter from IRS of EIN number
  iii. File with the State
  iv. Provide all entity documents created for GP/MM
  v. Draft an Organizational Chart with EIN numbers for all nesting entities

- Engage an Architect
- Open title – Request Preliminary Title Commitment
- Select Management Agent
- Prepare development model and operating pro forma

Initial Application vs. Complete Application

The argument continues….. While you may read and reference the 7-B-1 in Chapter 7, please be advised that this does not constitute a "Complete Application". Further guidance and materials are to be submitted as per Handbook 1924 - Construction Guide and Handbook 1970 – Environmental Guide.

Chapter 7 – 3560; 7-B-1
Initial Application

- ❖ Basic deal items listing 45 checklist items.
- ❖ All items must be in final form and executed.
- ❖ Electronic signatures are okay.
- ❖ Label each item according to the number referenced when submitting to CloudVault.
- ❖ Do not submit piecemeal. Instead submit all completed items at one time. Review does not begin until all items have been received.

Handbook 1924-A
Construction Requirements

- ✓ Explains the various approaches to General Contractor and Borrower methods
- ✓ Requirements for GC Contracts
- ✓ Requirements for Architect Contracts
- ✓ Attachments to AIA Documents
- ✓ Development Standards
- ✓ Inspection Responsibilities
- ✓ Drawings, Specs, P&P Reqs., etc.

Handbook 1970
Environmental Requirements

- ➢ Outlines Environmental Policies
- ➢ NEPA – National Environmental Policy Act of 1969
- ➢ 1970-B NEPA Categorical Exclusions (CATEX)
- ➢ If no footprints are moved or added on an existing 515; a CATEX is not required. (Subject to Agency review)
- ➢ If 538 Loan is involved, a NEPA is required.

(Consider other reports needed by other funders at this time.)

Transfer of Ownership Timing

Production and Preservation Division Multifamily Housing Transfer Applications	
FY Received	Average Number of Days from Application Recevied to Date Closed
FY 2024	0 years 8 months 18 days
FY 2023	0 years 9 months 26 days
FY 2022	0 years 11 months 2 days
FY 2021	1 years 0 months 11 days

*as of January 15, 2025

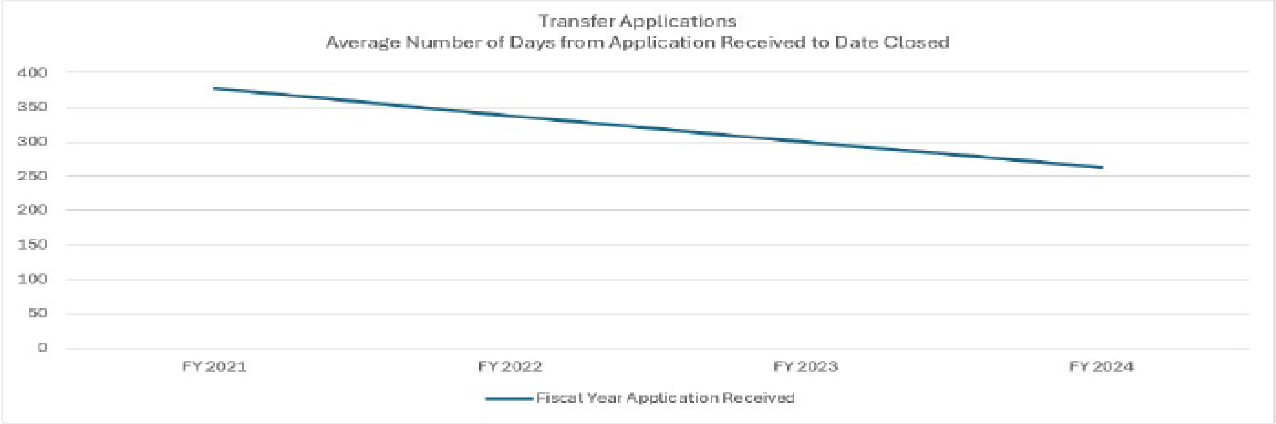


Table from USDA RD, Jan 2025

Simple Transfers

- Simple transfer pilot program was published in the Federal Register on 12/9/2022
- Offers 3 options:
  - Option 1 with expedited ownership change required
  - Option 2 is a simple transfer with rehabilitation
  - Option 3 is a simple transfer with future rehabilitation/recapitalization plan for non-profits
- Simple transfers include restrictions on new debt, equity payouts, and other limitations that are not included for standard transfers

REGISTER FOR OUR NEXT SESSION

THANK YOU!