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 is the Rural 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
COLORADO 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
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:

- 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 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

• 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
• 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
### By the Numbers

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

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

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
<table>
<thead>
<tr>
<th>Year</th>
<th>Location</th>
<th>Type</th>
<th>Units</th>
<th>Residents</th>
<th>Owner Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Pioneer Valley in Flagler</td>
<td>Elderly</td>
<td>12</td>
<td>RA 0</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2023</td>
<td>Barbara Court in Montrose</td>
<td>Family</td>
<td>24</td>
<td>RA 18</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2024</td>
<td>Centennial Manor in Brush</td>
<td>Elderly</td>
<td>48</td>
<td>RA 13</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2024</td>
<td>Sunshine Manor I in Las Animas</td>
<td>Elderly</td>
<td>10</td>
<td>RA 8</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2026</td>
<td>Homestead Apartments in Otis</td>
<td>Elderly</td>
<td>9</td>
<td>RA 6</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2026</td>
<td>Villa East in Haxtun</td>
<td>Elderly</td>
<td>10</td>
<td>RA 3</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2028</td>
<td>Casa De Cortez in Center</td>
<td>Family</td>
<td>24</td>
<td>RA 23</td>
<td>NP Owner</td>
</tr>
<tr>
<td>2028</td>
<td>Casita Del Sol in Alamosa</td>
<td>Family</td>
<td>24</td>
<td>RA 23</td>
<td>LP Owner</td>
</tr>
<tr>
<td>2028</td>
<td>Cortez Apartments in Cortez</td>
<td>Family</td>
<td>43</td>
<td>RA 35</td>
<td>LP Owner</td>
</tr>
<tr>
<td>2028</td>
<td>Grand Manor in Delta</td>
<td>Elderly</td>
<td>10</td>
<td>RA 10</td>
<td>NP Owner</td>
</tr>
</tbody>
</table>
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

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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
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

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Overview of Access to Preservation Resources

<table>
<thead>
<tr>
<th>Substitution of GP’s or LP’s for a “no-rehab” transfer (Handbook 3 - Chapter 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Access to project control - no new resources available (existing RA helps)</td>
</tr>
<tr>
<td>• Notify RD Office for concurrence and white knights beware – you own the good and bad now!</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stay-in rehabilitation including energy efficiency upgrades</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Funding from reserves, non-RD funds, rent savings or higher rents supported by RA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Access to RA</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Prepayment Incentive</td>
</tr>
<tr>
<td>• Transfer in RA for a tenant with a LOPE letter</td>
</tr>
<tr>
<td>• Unused RA via the UNL for the tenant with the greatest need</td>
</tr>
<tr>
<td>• Unused RA via the UNL for a preservation project – prepare to demonstrate</td>
</tr>
<tr>
<td>• Owner contribution to preservation effort</td>
</tr>
<tr>
<td>• Continued need in the community</td>
</tr>
<tr>
<td>• Leverage from other sources</td>
</tr>
</tbody>
</table>
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?**
  - Important goal – one CNA and one appraisal – your provider must work with RD

- **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

- 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