What’s Your Game Plan?
Resyndicating Permanent Supportive Housing

May 22, 2017

Sponsored by Enterprise and LISC
Funded by a Grant From the Hilton Foundation

Welcome!
Introductions & Goals for the Day
### Today’s Agenda

- Welcome  
  - Planning & Goal Setting  
  - Staffing Your Resyndication  
    - Break  
  - Establishing Financial Feasibility: Know Your Property  
    - Lunch  
  - Exercise: Regulatory Agreements  
    - Break  
  - All in the Details: Tax & Other Minutiae  
  - Government Lender Loan Modifications  
  - The Investor Perspective: Behind the Curtain  
  - Wrap up

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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<tbody>
<tr>
<td>9:00</td>
<td>Welcome</td>
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<tr>
<td>9:15</td>
<td>Planning &amp; Goal Setting</td>
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<tr>
<td>10:00</td>
<td>Staffing Your Resyndication</td>
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<tr>
<td>10:30</td>
<td>Break</td>
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<tr>
<td>10:45</td>
<td>Establishing Financial Feasibility: Know Your Property</td>
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<td>12:15</td>
<td>Lunch</td>
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<td>12:45</td>
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<td>3:00</td>
<td>The Investor Perspective: Behind the Curtain</td>
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<tr>
<td>3:50</td>
<td>Wrap up</td>
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Planning & Goal Setting

- Limited Partner Exit vs. Resyndication Transaction
  - Separate transactions
  - Combining can confuse issues & prevent exit on beneficial terms
- Goal Setting
  - Allocating staff resources
    - Churning portfolio vs. new housing production
  - Many types of goals for resyndicating properties
    - Portfolio and individual property basis
    - Examples:
      - Address capital needs
      - Stabilize troubled operations
      - Need to generate capital for pending investor exit
      - Pending loan maturity or rate reset
      - Generate organizational income (developer fees)
  - Collect Data / Develop Dashboard Tool

Collect Data / Develop Dashboard

- Partnership Status
  - First credit year
  - Current credit year
  - End of initial compliance period
  - Option/ROFR terms
  - Capital Accounts (projected/actual)
  - Investor benefits (projected/actual)
  - Exit tax liability
Collect Data / Develop Dashboard

- Physical Condition
  - Units
  - Age
  - Type (population)
  - Operating anomalies
  - Cash flow
  - High repairs
  - Capital needs
  - Greening opportunities
  - Obsolescence
  - Reserves status
  - Status of rental / operating subsidies
  - Location / market

Collect Data / Develop Dashboard

- Debt Status
  - Lenders (who)
  - Loan balances (including accrued interest)
  - Maturities, balloons, rate resets
  - Prepayment penalties / lockouts
  - Reg. restrictions (incomes / rents)
  - Public lenders’ refinancing restrictions
Dashboard Examples

Assess Portfolio Needs and Opportunities

- Examples of needs:
  - Capital needs
  - Operating deficits and/or depleted reserves
  - Obsolete physical program
    - Common PSH example:
      - SRO units too small
      - No ADA access/UFAS compliance
      - Insufficient community and/or service provision space
  - Difficult or obsolete population restrictions
    - Early problems with HIV senior buildings
    - Conflicting or evolving definitions
Assess Portfolio Needs and Opportunities

- Examples of opportunities:
  - High income restrictions
  - Strong rental submarket
  - Trapped equity (projected FMV > debt)
  - Large property
  - Strong cash flow

Decision Time: How to Evaluate

- What are goals for this property?
- Is this a good resyndication candidate?
- If yes, move to feasibility analysis
- If no, can pair with another property?
- If no, work out plan to address ops issues

- Will recapitalizing / resyndicating help achieve goals?
- Will equity size attract investment?
- Can issues be addressed w/ resyndication?
Staffing Your Resyndication

Who Does the Work?

Staffing Your Resyndication

- Resyndication = multidisciplinary team sport
- Staff skill sets required
  - Development experience
  - Asset management experience
  - Knowledge of property operations
- Without clear structure, potential for conflicts & missed opportunities
### Establishing Financial Feasibility

**Who does what?**

- Review audits
- Review reg agreements
- Review loan documents
- Prepare new operating budget
- Compare rent roll w/ new & old restrictions
- Develop rehab scope / wish list
- Negotiate with existing public lenders
- Apply for energy efficiency rebates
- Obtain loan statements from bank, gov’t lenders
- Tenant meetings
- Relocation oversight
- Contractor negotiation
- Negotiate LPA and loan documents

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**Establishing Financial Feasibility**

*Know Your Property*
First, Know Your Property

Running a resyndication model is NOT step 1.

Know Your Property: Gather Due Diligence

- Most recent audits (2 years)
- Current rent roll
- Current affordability chart
- Current year’s operating budget
- Regulatory agreements
- Preliminary title report
- Loan documents (promissory note)
- Ground lease (if applicable)
- Most recent loan statements
- Internal data (dashboard report, CNA, etc.)
Know Your Property: Financial Performance

- Cash flow
  - Operating in the black?
  - Are you feeding the property?
  - Positive or negative trending?
  - Expenses high or spiking in certain areas
    - Repairs
    - Security
    - Utilities
- Reserves
  - Funded regularly?
  - Are reserves depleted?

Know Your Property: Capital Needs

- Capital Needs Assessment
  - CNA report captures deferred maintenance
- Develop Property Wish List
  - May not be captured by CNA
  - Capital repairs & upgrades for next 15+ years
  - Consider building / unit function
    - Community / supportive services space
    - Obsolete SRO units
    - Section 504 / UFAS requirements
    - Energy efficiency improvements
Know Your Property: Income, Rent, Population Restrictions

- Examine all regulatory agreements for:
  - Income restrictions
  - Rent restrictions
  - Population restrictions

- In addition, look for:
  - Restrictions on cash flow
    - For example, are services costs included in operating expense definition?
  - Restrictions on GP / LP asset fees

- Be careful! Mistakes are easy

Know Your Property: Income, Rent, Population Restrictions

- Odds & ends:
  - Old covenants may not restrict 100% of units
    - Typ. for City of LA
  - Pre-2000 (approx) TCAC reg. agreements specify average affordability, not bands of units
  - Unit mix may not match
    - Esp. documents done for predev / constr loans
  - Definitions for target populations may have been superceded
    - e.g., HEARTH Act
Know Your Property: Income, Rent, Population Restrictions

• More odds & ends:
  • Redevelopment Rents
    • CRL affordability definitions:
      • Very Low-Income
        • 50% AMI (income), 50% AMI (rent setting)
      • Lower Income
        • 80% AMI (income), 60% AMI (rent setting)
      • Moderate
        • 120% AMI (income), 100% AMI (rent setting)
    • CRL definitions (CA Health & Safety Code) calculate off 100% Area Median Income as published by HCD
    • CRL = different household size than federal programs
      • CRL: 1 person / bedroom + 1 additional person
      • Federal: 1.5 persons / bedroom

HCD Incomes (2016)

LIHTC Incomes (2016)
Know Your Property: Income, Rent, Population Restrictions

- Synthesize restrictions to understand lowest common denominator rents
  - Example
- Compare with rent roll
  - Do restricted units match expected affordability?
    - Rents: compare maximum rents with current
    - Develop average rents for each unit type & affordability level
    - Also extract current utility allowances
- Actual ops may differ from what’s required by documents!
Know Your Property: Existing Debt

- Gather key data on all existing loans
  - Include other partnership debts
- Review audit, prom. notes, loan statements
  - Maturity date
  - Interest rate (incl. simple or compounding)
  - Principal balance
    - Current & projected through closing date
  - Accrued interest (soft loans)
    - Current & projected through closing date

Know Your Property: Existing Debt

- Repayment terms
  - For amortizing loans:
    - Prepayment penalties
    - If public bond offering, be aware of redemption dates
      - Redemptions are inflexible and require notice + cash to trustee
  - For soft loans:
    - Residual receipts definition
    - Residual receipts share
- Actual RR payments for last few years

- Doc. terms & cash paid important for understanding gov't lender's perspective on negotiating a loan extension
Know Your Property: Existing Debt

- Odds & ends:
  - Check audit & promissory note for interest forgiveness language
    
    Accrued but unpaid interest shall be due and payable only to the extent the fair market value of the Project exceeds the outstanding balance on this Note, together with the outstanding balance on all promissory notes secured by deeds of trust encumbering the Project which are senior to the Partnership Deed of Trust.

  - Loan balances may differ between lender statement & audit
    - Check loan statements from government lenders
  - Loans may be “mirror” from gov’t to sponsor, sponsor to LP
  - Debt also includes unpaid partnership debts
    - Accrued GP asset fees, GP loans, etc.

Financial Feasibility: Key Issues

- Purchase Price / Valuation
- Rent Setting
- Operating Expenses
- Existing Debt
- Typical Financing Structures
- Funding Sources
- Technical Issues
- Issues Unique to PSH
- Trends & Themes
Financial Feasibility: Purchase Price

Why start here?

- Basic concept: LP purchases property for greater of FMV or debt
- TCAC sale price provisions:
  - 4% Projects
    - Greater of outstanding debt or appraised value
    - Acquisition basis = Appraised value
  - 9% Projects
    - Outstanding debt – cannot exceed even if appraised value is higher
    - No acquisition credits unless SRO or SN
    - Portfolio rehabs tend to leave acquisition basis “on the table” to boost tie-breaker

Financial Feasibility: Purchase Price

- Appraisal approach:
  - As-is value determines acquisition basis for LIHTC

- Goals:
  - Maximize total value
  - Minimize land value

- Because of rent restrictions, restricted income approach will govern
Appraisal: Income Approach

- **Premise:** How much is market willing to pay for future income stream?
  - Translates future cash flow into present value (i.e. property value)
  - Property as investment that generates return

Income Approach (cont.)

- **Formula**
  \[
  \frac{\text{Net Operating Income (NOI)}}{\text{Capitalization (cap) Rate}} = \text{Value}
  \]
- **Sample project**
  - 50 units
Income Approach (cont.)

- **Solve for Net Operating Income**

  Monthly gross income $50,000  
  X 12 months  
  Gross Potential Income $600,000  
  Vacancy allowance (5%) ($30,000)  
  Effective gross income $570,000  
  Expenses ($5,000/pupa) ($250,000)  
  Taxes & assessments ($20,000)  
  Net operating income (NOI) $300,000

Income Approach (cont.)

- **What is a cap rate?**  
  - Indicator of how fast investment will pay for itself in net cash flow  

- **How do we use it?**  
  - Divide future income stream (i.e. NOI) by cap rate to yield present value  
  - Is a percentage but commonly referred to as an integer  
    - Cap rate of 5 – 8.00%  

- **Cap rate inversely affects value**  
  - Lower cap rate = higher value  
  - Higher cap rate = lower value
Income Approach (cont.)

- Who sets cap rates?
  - Market-derived
    - Based on comparable sales
    - Determined by appraiser

Income Approach (cont.)

- **Sample income approach (50 units)**
  
<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tr>
<td>Gross Potential Income</td>
<td>$600,000</td>
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<tr>
<td>Vacancy allowance (5%)</td>
<td>($30,000)</td>
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<tr>
<td>Effective gross income</td>
<td>$570,000</td>
</tr>
<tr>
<td>Expenses ($5,000/pupa)</td>
<td>($250,000)</td>
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<tr>
<td>Taxes &amp; assessments</td>
<td>($20,000)</td>
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<tr>
<td>Net operating income (NOI)</td>
<td>$300,000</td>
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<tr>
<td>Divide by cap rate</td>
<td>5.50</td>
</tr>
<tr>
<td>Capitalized value</td>
<td>$6,000,000</td>
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Financial Feasibility: Purchase Price

- Valuation tricks:
  - If have ops subsidy, assume contract renewals
  - Use maximum potential subsidy rents
    - If pathway exists to achieve them
    - Examples:
      - Mark up to Market for PBRA Section 8 contracts
  - Maximum restricted rents vs current tenant-paid rent
    - What if have restrictions on annual increases & catch-up?
    - Examples include:
      - HCD loan programs
      - LA / CRA loans

Financial Feasibility: Purchase Price

- Valuation tricks:
  - Vacancy rate
    - Argue for historic vacancy rate rather than higher market comp
  - Expenses
    - Assume welfare exemption
    - Watch for over-reliance on historic property data vs exp. comps
      - Property may have unusual or 1-time expenses
  - Capitalization rate
    - Carefully screen comps
  - Can we attribute value to existing soft financing?
Financial Feasibility: Purchase Price

- Valuation tricks:
  - Land
    - Land valuation concept = “as-if vacant”
    - Appraisers use sales comps to establish
    - For affordable properties, restrictions run with land
    - Land value needs to adjust sales comps to account for restricted condition

<table>
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<tr>
<th>VALUE TYPE</th>
<th>INTEREST APPRAISED</th>
<th>DATE OF VALUE</th>
<th>VALUE</th>
<th>AS OF SEPTEMBER 17, 2014</th>
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<td>As-Is Market Value</td>
<td>Leased Fee</td>
<td>September 17, 2014</td>
<td>$4,430,000</td>
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<td>OTHER CONCLUSIONS</td>
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<td>AS OF SEPTEMBER 17, 2014</td>
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<td>Land Value (As Encumbered)</td>
<td></td>
<td></td>
<td>$540,000</td>
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Financial Feasibility: Purchase Price

Example: Land Valuation

**CALCULATION OF FEE SIMPLE LAND VALUE**

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<thead>
<tr>
<th>COMP</th>
<th>ANALYSIS PRICE</th>
<th>TRANSACTIONAL*</th>
<th>ADJUSTMENT</th>
<th>ADJUSTED PROPERTY*</th>
<th>NET</th>
<th>GROSS</th>
<th>FINAL</th>
<th>ADJ %</th>
<th>ADJ % COMPARISON</th>
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<td>1</td>
<td>$77,273</td>
<td>0%</td>
<td>$77,273</td>
<td>-15%</td>
<td>$65,682</td>
<td>-15%</td>
<td>15%</td>
<td>PRIMARY</td>
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<tr>
<td>2</td>
<td>$150,000</td>
<td>0%</td>
<td>$150,000</td>
<td>-35%</td>
<td>$97,500</td>
<td>-35%</td>
<td>40%</td>
<td>SECONDARY</td>
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<td>3</td>
<td>$54,167</td>
<td>0%</td>
<td>$54,167</td>
<td>0%</td>
<td>$54,167</td>
<td>0%</td>
<td>10%</td>
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<tr>
<td>4</td>
<td>$50,289</td>
<td>0%</td>
<td>$50,289</td>
<td>0%</td>
<td>$50,289</td>
<td>0%</td>
<td>5%</td>
<td>PRIMARY</td>
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</tr>
<tr>
<td>5</td>
<td>$46,939</td>
<td>0%</td>
<td>$46,939</td>
<td>-30%</td>
<td>$32,977</td>
<td>-30%</td>
<td>70%</td>
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<td>LOW</td>
<td>$32,977</td>
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<td></td>
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<td></td>
<td></td>
<td>AVERAGE</td>
<td></td>
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<tr>
<td>HGH</td>
<td>$97,500</td>
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<td></td>
<td></td>
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<td></td>
<td>MEDIAN</td>
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**COMPONENT**

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<tr>
<th>SUBJECT UNITS</th>
<th>$/SF Conclusion</th>
<th>VALUE</th>
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<tr>
<td>TOTAL PROPERTY</td>
<td>49.00</td>
<td>$45,000</td>
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*Cumulative *Additive  
( Rounded to nearest $10,000)

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Financial Feasibility: Purchase Price

Example: Restricted Land Valuation

**LAND VALUE AS ENCUMBERED**

- Land Value - Fee Simple Value: $2,210,000
- Inflation Factor - 20 years at 2.5% annually (1+.025)^20: 1.63862
- Future Value - 2034: $3,621,342
- Discount Factor (20 years at 10% annually (1/(1+.10)^20): 0.14864
- Present Value of Subject Land as Encumbered: $538,289
- Rounded: $540,000
Financial Feasibility: Purchase Price

- Valuation tricks:
  - Review appraisal carefully
  - How to discuss with appraiser
- Establishing purchase price: what do you pay?
- Example:

  Sale price / FMV: $6,000,000

  Outstanding debt:
  1st Mortgage: $1,000,000
  City loan (P&I): $2,000,000
  State loan (P&I): $2,000,000

Financial Feasibility: Purchase Price

- Example:

  Sale price / FMV: $6,000,000

  Consideration paid (assumes no net sale proceeds)
  Cash to seller: $1,000,000
  Assumed loans
    City loan (P&I): $2,000,000
    State loan (P&I): $2,000,000
  Seller financing: $1,000,000
  Total Consideration: $6,000,000
Financial Feasibility: Purchase Price

- Takeaways:
  1) Pay for an appraisal early
  2) Vet appraiser re: favorable approaches to value
  3) Do not use appraisal (or appraiser) from LP exit
  4) Read appraisal carefully (income approach)
     - Discuss modifications with appraiser if you find issues

Financial Feasibility: Rent/Income Setting

- Lowest restrictions apply
  - Overlapping restrictions from new TCAC (& CDLAC) covenants

- Must use current AMI levels as maximum
  - Reset placed in service date
  - Hold harmless HERA rents vs current max rents

- For underwriting, **actual** rents vs. max rents
  - If rents not at maximum levels, can they be raised?
  - Do you want to do that as an owner?
  - If operating subsidy, is there a path to raise contract rents?
Financial Feasibility: Rent/Income Setting

- Hold harmless vs. current LIHTC rents

- Grandfathering allowed for over-income tenants if:
  - Existing TCAC reg agreement in place
  - Tenant Income Certification that shows tenant income qualified at some point under existing Reg Agreement
  - Also applies to new CDLAC restrictions (bond covenants)

Financial Feasibility: Operating Costs

- Lower operating expenses due to increased efficiency
  - Need to convince lender and investor
  - Demonstrate how costs will decrease; be able to quantify
  - Most obvious cost centers:
    - Repairs
    - Utilities (if making green improvements)
    - Savings due to scattered sites?
Financial Feasibility: Operating Costs

- Some operating costs may increase
  - Possibly increased replacement reserve requirements
  - Possibly add monitoring fee to HCD or local govt.
    existing loans

Financial Feasibility: Existing Debt

- Debt needs to be
  - Paid off (fully or partially)
  - Forgiven (fully or partially)
  - Assumed by buyer
- Hard debt
  - Be aware of prepayment penalties
Financial Feasibility: Existing Debt

- Typical soft debt modification options
  - Resubordinate to new financing
  - Extend term to match new reg agreements
  - Modify interest rate
  - Combine multiple loans into single note
  - Forgive interest & / or principal
- Make requests early; discretionary approval needed
- AHP
  - May already have been forgiven by FHLB
  - Loan agmt with member bank will still be in place

Financial Feasibility: Typical Financing Structures

- Most often 4% LIHTC + new TE bonds
- Can use 9% credits but options limited
- New capital typ. limited to bonds & credits
Financial Feasibility: Typical Financing Structures

<table>
<thead>
<tr>
<th>SOURCES OF FUNDS</th>
<th>AMOUNT</th>
<th>TOTAL INT COST</th>
<th>OID INT RATE</th>
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<tbody>
<tr>
<td>Permanent</td>
<td></td>
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<tr>
<td>Tax-Exempt Permanent Loan</td>
<td>1,377,000</td>
<td>4.31%</td>
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<tr>
<td>HCIDLA (Fo)</td>
<td>970,796</td>
<td>2.76%</td>
<td>2.75%</td>
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<td>Acquired/Deferred Interest (during rehab)</td>
<td>29,100</td>
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<tr>
<td>HCIDLA (Fo) Accrued Interest (assumed)</td>
<td>1,316,284</td>
<td></td>
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<tr>
<td>Century Freeway Housing Program (Fe)</td>
<td>762,478</td>
<td>2.76%</td>
<td>2.76%</td>
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<td>Acquired/Deferred Interest (during rehab)</td>
<td>21,000</td>
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<tr>
<td>CFHP (Fo) Acquired Interest (assumed)</td>
<td>38,117</td>
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<tr>
<td>Acquired/Deferred Interest -</td>
<td>0</td>
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<tr>
<td>NSP funds</td>
<td>1,709,736</td>
<td>3.00%</td>
<td>1.79%</td>
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<tr>
<td>Acquired/Deferred Interest (during rehab)</td>
<td>52,300</td>
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<td>0.00%</td>
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<tr>
<td>GP Loan - LMID</td>
<td>331,716</td>
<td>6.00%</td>
<td>6.00%</td>
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<td>Seller Note (Const. to Perm)</td>
<td>1,844,150</td>
<td>2.75%</td>
<td>2.75%</td>
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<tr>
<td>GP Loan</td>
<td>3,065,250</td>
<td>0.00%</td>
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<td>Deferred Developer Fees</td>
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<td>Capital Contributions</td>
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<tr>
<td>General Partner</td>
<td>100</td>
<td>0.00%</td>
<td>0.00%</td>
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<td>Limited Partners (BETC)</td>
<td>70,194</td>
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<td>Limited Partners</td>
<td>5,319,850</td>
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<tr>
<td>TOTAL SOURCES</td>
<td>19,003,162</td>
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<td>Surplus/Shortfall</td>
<td>0</td>
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Financial Feasibility: Funding Sources

TCAC

- Existing public debt (principal only) = public funds for leverage and tiebreaker
- Current TCAC Regulatory Agreement remains in place,
  - Plan to incorporate certain provisions from old reg into new reg agreement (services requirements)
- Transfer event rules
Financial Feasibility: Funding Sources

TCAC

- Minimum rehab requirements:
  - $20,000 / unit (hard costs)
  - Higher if using 9% credits
  - 20% of building basis (applies to all rehab basis-elig. costs)
- Hold harmless rents
- Matching deeper affordability to current tenant mix

Financial Feasibility: Funding Sources

Tax-Exempt Bonds

- Same Issuer
  - Issuer terminates existing regulatory agreement and adds new one
    - Must have at least same level of restrictions or greater
    - If not, new reg agreement would include previous greater restrictions, too.
- New Issuer
  - Could subordinate old reg agreement to new one
    - Must have at least same level of restrictions or greater
    - Could be given 3rd party beneficiary rights
  - May be charged two annual monitoring fees
Financial Feasibility: Funding Sources

Dept of Housing & Community Development (HCD)

• Loan Portfolio Restructuring (LPR) Program
  • Extends loan term of existing HCD loans (ex: RHCP, CHRP, FHDP)
  • Subordinate to new senior loans
  • Allows for re-syndication
  • Subject to AB 1699 Guidelines
    • Mainly using Uniform Multifamily Regulations (UMRs)
    • Expect to use $600 PUPA for replacement reserves
    • Per unit monitoring fee begins after expiration of original loan term
  • Submit LPR application
    • Allow up to 6 months to close
  • Allows scattered sites projects but will record documents against all properties (even non-HCD funded)


Financial Feasibility: Funding Sources

AB 523 – allows the following for HCD existing loans:
  • reduction in interest rate to as low as 0.42%
  • Eligible Projects:
    • tax credit project
    • 35% of units @ 30% AMI
    • no senior hard debt
  • Allows using AFR interest rate for any tax credit project seeking loan restructuring
Financial Feasibility: Funding Sources

HOME
• Prohibition against “double dipping”
  • No new HOME funding if there is an existing HOME Loan
  • Exception: Project is no longer financially viable and at risk of foreclosure
    • Troubled HOME-Assisted Rental Housing Projects (§ 92.210)

Energy Upgrade Resources
• e.g. LIWP

Financial Feasibility: Technical Issues

• Credit timing
  • Early credit delivery
  • In service entire rehab or out of service
    • 30-day standard
• 50% test
  • Meet individually
• Good costs test (bonds)
  • Analyze by site
  • May be tight if no sales proceeds, limited debt repayment at closing
• What about reserves?
Financial Feasibility: PSH Issues

- Status of ops subsidy contract
  - Continuum of Care
  - Section 8 SRO Mod Rehab
  - Other non-standard ops subsidies
- TCAC requirement to continue service provision
- Valuation may be very low due to restrictions
- Debt stack (no hard debt) may be challenging
- Target population definition conflicts

Financial Feasibility: Trends & Themes

- SoCal NP portfolio = small properties w/ deep targeting
  - Challenges for valuation and stand-alone resynd. viability
- Can be difficult to meet 50% test
  - Esp. if property is entirely assumption of debt
  - Workarounds:
    - TE seller financing
    - Seller receives
- Tax issues (related parties, debt modification) require early examination
OLD Loan Modifications

• Example 1: FMV Exceeds Debt

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Mortgage</td>
<td>$1,000,000 balance projected to closing</td>
</tr>
<tr>
<td>City Loan - principal</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>City Loan - accrued interest</td>
<td>$1,000,000 approx 15 years' interest</td>
</tr>
<tr>
<td>State HCD Loan - principal</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>State HCD Loan - accrued interest</td>
<td>$1,000,000 approx 15 years' interest</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,000,000</strong></td>
</tr>
</tbody>
</table>

**Fair Market Value**

| As-is appraised value | $10,000,000 |

**Conclusions:**

- FMV exceeds debt by $2M
- Soft loans can be extended at AFR (if real debt test works)
OLD Loan Modifications

• **Example 2:** Debt Exceeds FMV
  • Sale price = debt

**Existing Debt**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Mortgage</td>
<td>1,000,000 balance projected to closing</td>
</tr>
<tr>
<td>City Loan - principal</td>
<td>2,500,000</td>
</tr>
<tr>
<td>City Loan - accrued interest</td>
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<td>State HCD Loan - accrued interest</td>
<td>1,000,000 approx 15 years’ interest</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,000,000</td>
</tr>
</tbody>
</table>

**Fair Market Value**

As-is appraised value  
7,000,000

**Conclusions:**

Debt exceeds FMV by $1M
Need to bring tax basis of loans in line with FMV w/ simple interest loan extension(s)

**OID Loan Modifications**

• **Example 2:** Debt Exceeds FMV

**OID Write-Down: City Loan**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Loan - principal</td>
<td>2,500,000</td>
</tr>
<tr>
<td>City Loan - accrued interest</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

**Note Rate (simple)**  
3.00%

**Current AFR (long-term, annual)**  
2.75%

**Term (years)**  
55

**Payments**  
0 assume zero since residual receipts

**Accrued Interest (through maturity)**  
4,125,000

**Future Value (P & I)**  
7,625,000

**OID Loan Balance (Tax Balance)**  
1,714,901

**Book Loan Balance**  
3,500,000
OID Loan Modifications

• Example 2: Debt Exceeds FMV

OID Loan Calculation

\[ PV(\text{rate [AFR, long term]}, \text{term [new loan term]}, \text{pmt [zero since RR]}, \text{FV [includes accrued interest]}) \]
OLD Loan Modifications

- **Example 2:** Debt Exceeds FMV

**Sale Price**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Mortgage</td>
<td>1,000,000</td>
</tr>
<tr>
<td>City Loan - principal</td>
<td>2,500,000</td>
</tr>
<tr>
<td>City Loan - accrued interest</td>
<td>1,000,000</td>
</tr>
<tr>
<td>State HCD Loan - principal</td>
<td>2,500,000</td>
</tr>
<tr>
<td>State HCD Loan - accrued interest</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Seller Note</strong></td>
<td><strong>785,099</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,785,099</strong></td>
</tr>
</tbody>
</table>

**Government Lender Loan Modifications**

Pretty Please?
HCD Loan Portfolio Restructuring Program

- Affects nine older loan programs
  - AB 1699 authority does not include MHP
- Sets conditions for loan extensions, subordination to new loans, and LIHTC for rehab
- Rent restrictions
  - Repeated from original loan program
  - Convert to UMR/MHP model with Special Rent Increase

HCD Loan Portfolio Restructuring Program

- Establishes protections for Existing Households/Tenants.
- Requires fiscal integrity
- Allows Special Rent Increases and Early Rent Increases
- HCD Monitoring Fee after original loan maturity date.
  - Can be cash-flow contingent (select cases)
HCD Loan Portfolio Restructuring Program

- Restructuring allowable if original loan maturity date is past due, provided no other breach, violation or default.
- May combine multiple projects into one development
  - Must have common ownership, financing, management and reporting
- Requirements established for financing, subordinations, rent levels, underwriting, PNAs and Remaining Useful Life, and rehabilitation.

HCD Loan Portfolio Restructuring Program

- Rent restrictions of original loan program survive if no special rent increase is approved
- Special Rent Increase calculations differ by original loan program
- RHCP-O Annuity payments may continue until new tenants occupy apartments or Annuity fund is exhausted
- Audited Annual Report required for all projects converted to LPR Loan.
HCD Loan Portfolio Restructuring Program

- Application uses Excel workbook & LPR checklist
- New LPR loan documents issued
- Transaction fee due at Application and escrow closing
- AFR interest rate allowable.
- UMR and MHP Regs included by reference.

Local Government Loan Modifications

- Boutique negotiation vs. policy
  - HCIDLA Recapitalization Policy
- Any request needs elected body approval
- Allow sufficient time for proposal, negotiation, and approval
- Early tax analysis important to frame request to gov’t agency lenders
- Developer’s transactional perspective vs gov’t creditor perspective
Local Government Loan Modifications

- Local government wish list:
  - Rehab aging property & extend public benefit
  - Repay loan for program income
  - Preserve current cash flow payments or increase
  - Make the right asks from the beginning
  - Don’t look greedy in front of council
  - Only go to council once
  - How about we issue those new bonds?

Local Government Loan Modifications

- Developer wish list:
  - Rehab aging property & extend public benefit
  - Address operating issues
  - Earn reasonable developer fee
  - Pay off old GP advances
  - Increase partnership mgmt fee