

# Revitalizing Rural Development's Multi-Family Housing (MFH) Portfolio “Saving decent, safe, and sanitary affordable homes for rural renters”



Committed to the future of rural communities.

# Typical Section 515 Multifamily Property



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# Critical to Rural Infrastructure

## Multi Family Housing Property Locations



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# Basic Facts: 515/514 Portfolio (1-1-08)

- 16,500 Properties with 458,090 Units (28 units avg. size)
- \$11.6 Billion Outstanding Principal (2.4% delinquent)
- The tenants who we serve:
  - \$10.2K Annual Average Income (\$8.3K for RA)
  - 62 % receive RA
  - 15 % receive HUD project or tenant based subsidy or other
  - 23% receive no deep tenant subsidy
- Tenant Households headed by:
  - 59% Elderly
  - 72% Female
  - 30% Minority
  - 24% Handicapped or disabled
  - 30% Tenant turnover
- 30% Properties in Counties with Declining Income



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# Key Revitalization challenges:

- **Nature of the portfolio**
  - Aging – earliest projects from the 60's
  - Small properties
  - Rural Markets
  - Not enough RA
  - Aging of physical structure is project specific
- **Nature of ownership entities**
  - Aging owners and entities
  - Conflicting interests within ownership
  - Tax consequences for selling or not selling
- **Limited pool of purchasers and funding resources**
- **Tightening Federal budget for traditional subsidized housing**



# Where the MFH program is headed

- Build new units using cost effective Section 538 guarantees.
- VT/NH very successful as small state—515 program—1% loan/50 yr amort/\$1M/ RA
- VT has done 6-515 deals over last 4 years involving exiting Sect 8 owners
- 515 is an annual NOFA—60 day window—VT 2-3 projects/yr
- Protect existing tenants by renewing all expiring rental assistance.
- Revitalize the existing portfolio – Use the MPR and all other available resources to preserve needed housing.



# Why is preservation better than building new?

- Cheaper
- Greener
- Reverse NIMBY



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# The Working Revitalization 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
  - Seller payments are market focused
    - Market value for equity loan
    - CRCU limit for equity payment
    - CRCU test before any MPR tools
  - Consider impact on tenants
- **Long Term Deal**
  - USDA's funding commitment—20 year RUP
  - Owners operational commitment



# Access to revitalization resources

- **MPR (Revitalization Demonstration program)**
  - Access point to Agency rehab loan funds
  - Simple (stay in owners)
  - Complex (transfers)
  - Portfolio Sales (transfers for now)
- **Transfer**
  - With Agency funding
  - With third party funding
- **Prepayment process**
  - Incentives (stay in owners—equity loan, higher return, or transfers)
  - Sales to Non-profits (transfers)
  - Agency can offer grants up to \$50K to a non profit for direct costs other than purchase price (\$ at closing of the deal not front end)
  - Limitations imposed based on CRCU



# Restructuring “Tools”

- 1) Partial or full 515 Deferral
- 2) “Soft-second” 1% 30 year deferred
- 3) Regular 515 funds at 1%
- 4) Grants—life safety--non-profit only-up to \$5K per unit
- 5) 515 Loan @ zero percent interest
- 6) Re-amortization of existing 515 Debt
- 7) Subordination of 515 Debt
- 8) Consolidation of 515 projects
- 9) Other RD funds (Section 538/515)
- 10) Third party funds



## Transfer advice from the school of hard knocks: Reach an “up front” understanding!

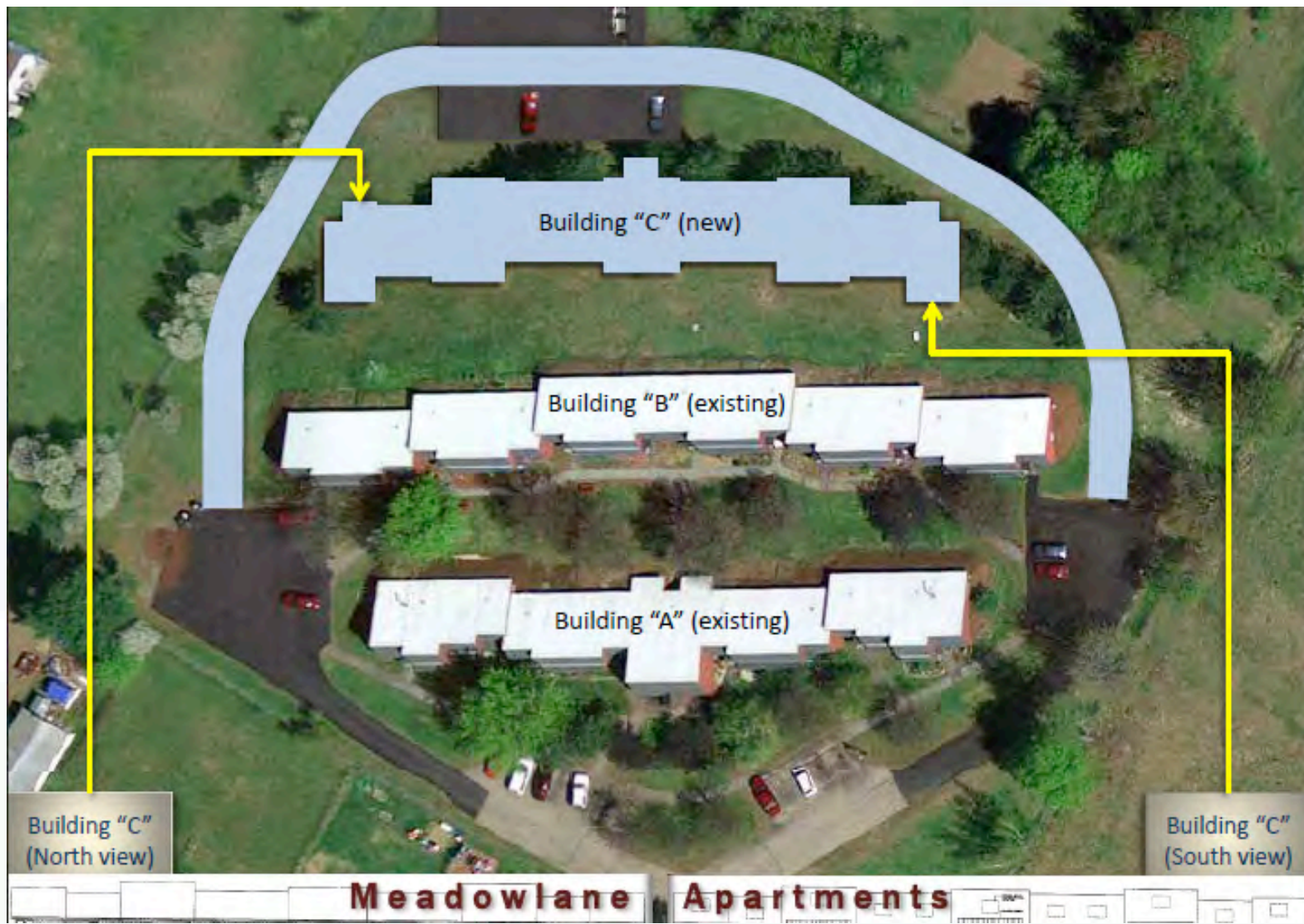
- What’s the plan?
- Negotiate P&S and address key accounts—Reserves and payables
- Who are the key players?
  - Developer, seller, buyer, construction lender, LIHTC (VHFA) Agency, other financing VHCB/CDBG, Equity lender, HUD section 8 contract, etc.
- Key deadlines?
- Key goal – one CNA and one appraisal
- How will capital needs be met/determined? - CNA and CNA review—will needs be met up-front or spread out?
- When and what appraised values? Pre and post Op budget/ rents?
- 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?



# Let's work together to create a sustainable revitalization of our irreplaceable MFH portfolio!



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