

# AHFC Multifamily Loan Financing

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Eric A. Havelock

Mortgage Operations

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## Multi-Family Options

- Assistance Provider Loan Program
  - Multi-Family Special Needs Program & Congregate
  - Multi-Family Loan Purchase Program
  - Homeowner's Association Loan Program
  - Loans to Sponsors
  - GOAL (Greater Opportunities for Affordable Living)
  - Alaska Energy Efficiency Revolving Loan Fund
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## Multifamily Background

- Created in early 90's due to Lender request and lack of multifamily financing
- Started as participation loans, now we do 100% purchases; direct loans were tied to bond deals
- Added balloon feature 2011 to lender loans
- Portfolio of \$492.6M in 442 loans
  - Largest deal is military housing at \$159.4M
  - Smallest is \$25k HOA loan
- HOA loans another \$6 million in 57 loans

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## Defining Multi-Family

- Five or more independent living units.
  - May be attached, detached, or separate parcels.
  - Combining program resources requires compliance with the most restrictive definition.
  - Cash flow after operating expenses must support debt service.
  - Term financing, no construction loans.
    - Maximum 80% LTV on Lender loans
  - 30-year or 15-year fixed rates, or 7- & 10-year balloon
  - Loans are assumable
  - No owner occupancy or residency requirement
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## HOA Loan Program

- 15 year, fixed rate financing for improvements to HOA common areas
- Term loan, no construction loans
- Forward commit 12 months
- HOA does not have to be on approved list
- Application forms on our web site
- Apply directly to AHFC

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## Assistance Provider Loan Program

- Up to 100% financing for small assisted living homes
  - Based on appraised value of real estate
  - No business value considered
- Limited to 1-4 family modest improvements
- No mortgage insurance required
- Annual certifications on the number of residents
- Must be licensed by the state for assisted living
- Apply directly to AHFC

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# Greater Opportunities for Affordable Living

- Development grants
  - LIHTC
  - HOME
  - SCHDF
  - Teacher, Health Care & Public Safety Professional Housing
- Managed by Planning Department in a competitive allocation process
- Contact Planning for more detail
- Sign up for list-serve notices of funding availability

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# Making Sense of GOAL...

35 unit property, Juneau, 2016

## Terraces at Lawson Creek Phase II

- Uses:
- Land acquisition \$ 0 (leased land)
- Construction Costs \$ 7,811,646
- Construction Financing \$ 352,383
- Term loan financing \$ 136,101
- Soft costs \$ 915,000
- Syndication costs \$ 45,000
- Developer's Fee \$ 1,315,000 (12.4%)
- Total \$ 10,575,130

Leased land should have lease payment reflected in project operating projections (pro-forma)

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# Making Sense of GOAL...

35 unit property, Juneau, 2016

Terraces at Lawson Creek Phase II

- Sources:

• Tax Credits (Cash)	\$ 8,017,486	
• Energy credit	\$ 30,073	
• Rasmuson Grant	\$ 350,000	
• AHFC's First DOT	\$ 2,117,600	(73% LTV)
• Servicer Coordinator donation	\$ 60,000	
• Deferred Developer's Fee	<u>\$ 0</u>	
• Total	\$ 10,575,130	

\*Multiple sources of financing are needed as the cost of construction will exceed the value

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# Multifamily Loan Purchase Program

- Financing for market rate rental housing
- Up to 80% LTV
  - Based on as-repaired value and market rents
  - 100% of outstanding debt on a refi if less than 80% LTV
- 1.25 DSCR
  - DSCR is net operating income divided by debt service
- Recourse Note
- Replacement Reserves
- Home inspection required
- Apply with the approved lender of your choice

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## New Construction

- Building Energy Efficiency Standard (PUR-101)
- ICC Construction Standards (PUR-102) or an unconditional certificate of occupancy
- Residential Endorsement
- 1.25 DSCR or a rent-up reserve
- Final certification of value by appraiser
- DEC approval on the well and septic
- Cost Certification

## Rural Interest Rate

- First \$250,000 is 1.0% below rate
- 6,500 population or less
  - Not on the road system
- 1,600 population or less
  - On the road system
- Greater than 50 air miles from Anch
- Greater than 25 air miles from Fbx
- Loans over \$250,000 require blended rate

# MF Participation Loans

- One Note, One Deed of Trust
- Promissory Note
  - MF-LND-1
- Request for Commitment
  - MF-UND-8
- Shared Lien

# Getting in the Door

- The Application Process
  - Forms
  - Documentation
- The Property
  - Characteristics
  - Reports
- Property Management
  - Address in write up
- Replacement Reserves

# The Loan Summary = MFUND-5

- Prepared by approved Seller
- Who is the borrowing entity?
- Purpose of the loan
- Proposal Overview
- Borrower Information
  - Organization
  - Financial Information
  - Credit worthiness
- Project Characteristics
- Analysis
- Seller's recommendation

# The Property

- Appraisal
  - licensed appraiser
  - complete MFUND-10
- Health and Safety Report
  - Completed by an Inspector or Engineer
  - Signed MFUND-9
- Environmental Report
  - <\$1,500,000 = records research
  - >\$1,500,000 = Phase I
  - address events within 1/8th of a mile



# The Appraisal

- Pro-Forma Operating Statement
  - Income and Expenses
- Comparable Properties
  - Apples to apples
  - Market comparables from geographic area
- Value must be reasonable when compared to comps
- Income Approach, Market Approach, Cost Approach, Reconciliation
- Capitalization Rate
  - $\text{NOI} / \text{Cap Rate} = \text{Value}$

# Property Condition

- All Health and Safety Items must be completed before closing
- Valuation conditions identified in the appraisal must be addressed
- Cosmetic repairs noted on MFUND-10
- Repair items identified in the Health and Safety Inspection Report
  - escrow accounts
  - initial replacement reserve deposits
- MFLND-5 to be signed at closing

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## Sizing the Loan

- Net Income (NOI)
  - Capitalization Rate
    - Can't be below interest rate
  - Estimate of Value
  - 80% of value
  - P&I must be covered with a 1.25 ratio to NOI
  - Or
  - Net Income divided by 1.25 ratio
    - Maximum annual debt service (P&I)
  - Doesn't cash flow?
    - More down payment, or interest rate buydown
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# Maximum Total Principal

- The lesser of 80% of appraised value
  - 80% of the acquisition price, no re-hab
  - 80% + allowable re-hab costs
  - refi existing debt + re-hab costs
    - subordinate debt only if incurred for re-hab of improvements within last 12 months
  - 100% construction costs
    - no cash back to borrower\*
- In no case can the loan amount exceed 80% of the appraised value
- no subordinate financing

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## Calculating Rehab Amount

- \$500,000 appraised value
- Maximum Loan Amount
  - $\$500,000 \times 80\% = \$400,000$
- \$450,000 Purchase Price
- Maximum Loan Amount limited
  - $80\% \times \$450,000 = \$360,000$
- Potential Rehab to be financed
  - $\$400,000 - \$360,000 = \$40,000$
- Financed repairs cannot be cash back to the borrower

# The Application Process

- The Loan Application
  - MFUND-6
  - Must be signed and dated by all borrowers
  - Must be completely filled out
  - Incomplete applications will delay approval
    - lender must diligently compare the application against the credit report
    - address any deviations in the loan summary write up

# Project Characteristics

- Site description and location
- Improvements
- Parking
- Soil conditions
- Environmental Assessment
- Health & Safety Inspection results
- Date of Lender's PIR
- Property zoning

# Analysis

- Property Management
- Property Income and Expense
  - Pro-Forma operating statement
- Credit
- Underwriting
- Safe, Quality, Affordable Housing



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# Pro-Forma Operating Statement

- Gross Potential Rents
    - Less Vacancy & Credit Loss
    - + Other Income
  - Gross Effective Income
  - Expenses
    - Management
    - Administrative
    - Insurance
    - Taxes
    - Utilities
    - Maintenance & Repairs
    - Replacement Reserves
  - Net Operating Income
    - Percent of Gross Effective Income
  - $DSCR = NOI / P\&I$
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# Replacement Reserves

- Appraiser estimates reserves
  - Economic life of components
- AHFC may require initial deposit
- 5-year cap
- Deposits can be increased to recover draw for unanticipated expenses
  - Early septic repair
  - Early roof repair

## What is a reserve item?

- Economic life less than the loan term
- Appraiser must address items
- Appliances
- Roof Coverings
- Floor Coverings
- HVAC/boiler
- Exterior or common area paint
- NOT office furniture or new equipment
  - not attached to property
- NOT routine maintenance items

## AHFC Approval

- Loan amount under \$1,500,000
  - Executive loan committee
- Loan amount at or above \$1,500,000
  - AHFC Board approval
  - public information
  - board meetings
    - scheduling

# Closing and Shipping

- Disclosure
- Read Commitment Contract
- Use a checklist
- Appropriate execution of loan docs
  - LLC
  - Partnership/Corporation
- Include purchase voucher
- Note endorsed to AHFC
  - Name and title of authorized signer

## Other conditions:

- Commercial space allowed
  - Property must be primarily for residential
- Property must be zoning compliant
- Individual borrower cannot be delinquent on child support obligations
- Taxes must be current
- First lien position only
- No subordinate financing
- Tax returns must be signed

## In a nutshell

- Lender prepares complete file
- Loan package submitted to AHFC
  - Follow the checklist
- AHFC issues a commitment
- Lender closes loan
- Lender ships loan to AHFC for purchase
- AHFC wires net funds
- Servicer services the loan
- Lender disclosure

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## Multifamily Staff

- Eric A. Havelock – Lending Officer II
  - 330-8245
  - ehavelock@ahfc.us
- Melanie Smith – MF Underwriter II
  - 330-8469
  - msmith@ahfc.us
- Rich McKinstry – MF Underwriter II
  - 330-8438
  - rmckinstry@ahfc.us
- Use email for a written response!



# Questions?