

Maine Affordable Housing Conference

Understanding the Rural Development 515 Multifamily Housing Transfer Process

The logo for Genesis Community Loan Fund is located in the bottom right corner. It consists of a solid blue square containing the word "Genesis" in a large, white, serif font. Below "Genesis", the words "COMMUNITY LOAN FUND" are written in a smaller, white, sans-serif font.

Genesis
COMMUNITY LOAN FUND

RD Transfers

Bill Floyd

Genesis Fund, Executive Director

Laurie Miller

Housing Authority of the City of Old Town, Executive Director

Mary Anne Schneider

Genesis Fund, Program Officer

RD Transfers –Objectives

RD, Rural Development, recognizes the need to address the long-term viability of their rural properties – Financially & Structurally, and all the while remaining Affordable.

We are looking for ways to assist in the process and to save the existing Rental Assistance provided for qualifying tenants.

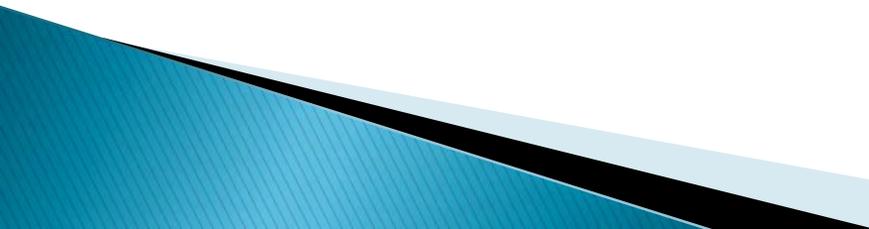


RD Transfer

- ▶ Four Areas to touch on:
 1. The transfer process – What should you prepare for in time and money.
 2. Underwriting – What RD thresholds need to be met.
 3. What works, what doesn't – Transfer, Member Change or Prepayment.
 4. What to consider when thinking about a transfer.
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RD Transfers

Process

- It is not uncommon for transfers to take more than 12 months to accomplish.
 - Costs will be incurred for appraisals and capital need assessments.
 - Appraisals need to be “RD-Approved” and will likely be done with multiple values, Market, As-Is, Restricted-Rent, Proscriptive, and Favorable Financing.
 - It’s important to have an idea of what you hope to accomplish in advance of the appraisal, to model it, and communicate it to RD and the Appraiser effectively.
 - A CNA report will be required and should be reviewed by individuals familiar with the property before sending to RD for acceptance.
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RD Transfers

Underwriting

- ▶ PAT, Preliminary Assessment Tool, used for building the transfer application model.
- ▶ Allows for upload of CNA report, Cash / Balance Sheet accounts, and Property Income, Expenses and Vacancy for analysis.
- ▶ RD requires:
 - Positive cash flow for a 15-year proforma
 - Positive Replacement Reserve balances for 20 years
 - Historic, (3 years), vacancy plus 2%
 - Cash sufficiency
 - Rent at or below CRCU, Conventional Rents for Comparable Units
 - Secured debt

MFH_PAT_Template1 - Microsoft Excel

File Home Insert Page Layout Formulas Data Review View Developer QuickBooks

Clipboard Font Alignment Number Styles Cells Editing

--- PATv6.2.xlsm



United States Department of Agriculture
Rural Development

Print to a PDF File

Property Address: _____

Property State: _____

Property Town: _____

Current Ownership Entity: _____

Portfolio Name If Applicable: _____

PROPERTY NAME: _____

Applicant (Legal Name): _____

Address: _____

Principal(s): _____

Contact Person: _____

Telephone Number: _____

Identify of interests Buyer & Seller: _____

Current Case Number: _____ Project Number: _____

Project Type: Family

Email Address: _____

Cell Number: _____

Management Agent: _____

Click to Add Details for MPR Application

Check if Yes to IOI for Buyer & Seller

State & County Per MFIS

Non-Profit (Check Box)

Will 3/1/2017 Pilot Program Apply to This Transaction (Check Box)

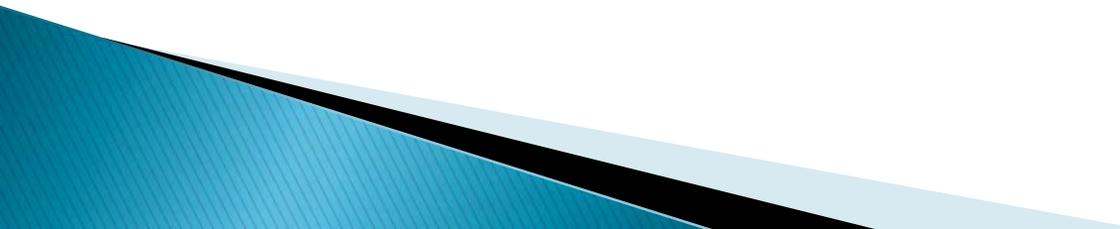
Click to Add Consolidated Property Information

Select The State and County / Town from List to Display LIHTC Limits	State County Town	If Tax Credits Used w/Transfer, Enter Type:		Enter Maturity Date of Last RD Loan Closed (Read Details about 2017 Pilot Program)	
HUD CBSA (Core Based Statistical Area) for AMI - Typically County	CountyTownState	Enter Date the Restricted Use Provisions (RUP) Have or Will Expire. Any Active Rent Restrictions Apply. If No restrictions you can leave blank			
Property County		Market Value As if Conventional Housing (RUP Expired)			
Compliance Status (A, B, C) Per MFIS		Prospective Market Value Subject to Restricted Rents + Value of Favorable Financing			\$0.00
Date Placed In Service or Year Built		Date of Appraisal			
Prospective Market Value Subject To Restricted Rents		Value of Favorable Financing & RD Interest Credit			
Existing Reserve Balance	\$0	Bal As of Date:	1/0/1900	Date Current Approved Rents	
RD Required Reserve Balance		Enter Units By Type:		# Units	Current Rent
Number Non Revenue Units		Studio			Current Utility
Est. Beginning General Fund	\$0	Bal As of Date:	1/0/1900	1 BR	
Date Agency Accepted Capital Needs Assessment				2 BR	
CNA Prepared As Improved?	<input type="checkbox"/> Yes <input type="checkbox"/> No			3 BR	

Ready | GeneralInfo | CashAnalysis | MPRApplicant | Sources & Uses | Reserve Sizing | Rents & Operations | Dashboard Report | Documentation | 100%

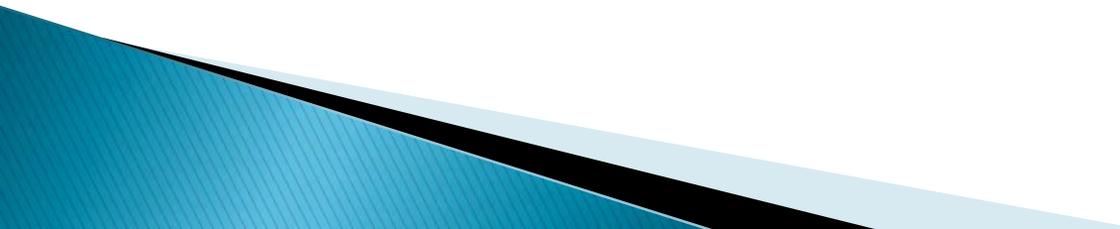
RD Transfers – Thresholds

Escalators

- Income escalated at 2%
 - Operating Expenses escalated at 3%
 - Vacancy prior 3-year average + 2%
 - Debt Service Coverage must be a minimum of 1 to 1.15 in Years 1 through 3, 1 to 1.10 in years 4 and 5 and 1 to 1.0 in year 6 and beyond.
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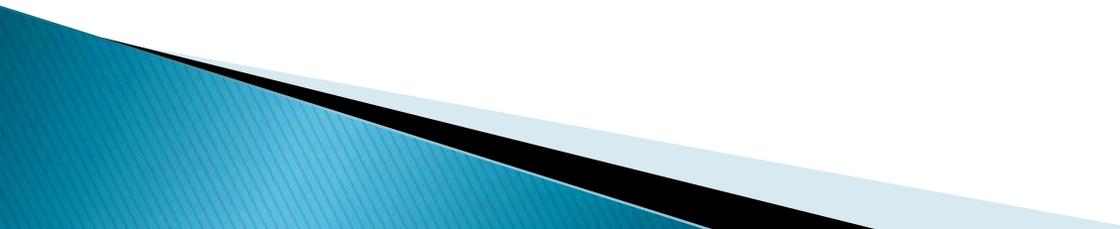
RD Transfers – Thresholds

Cash

- ▶ At the time of transfer, the General Operating Account (GOA) must be equal to or greater than 20% of the total underwritten Operating Expenses
 - ▶ There can be no Accounts Payable outstanding that are greater than 30 days
 - ▶ Tax & Insurance Escrows are tested for annual sufficiency
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RD Transfers – Thresholds

Tenant Protection

- ▶ Current tenants cannot be displaced because of a transfer as long as the tenant is eligible under RD regulations and the RD lease terms.
 - ▶ For non-RA assisted tenants the buyer will need to fund a tenant protection escrow at closing, for a two-year minimum period. Non-RD funding must be made available for future protection, (beyond two years), but it needn't be escrowed at closing.
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RD Transfers – Thresholds

Rents

- ▶ Should not exceed CRCU or other restriction, LIHTC, HOME or Project-Based Section 8 contract
 - ▶ No increase will be authorized prior to project completion
 - ▶ Must be sufficient for all projected expenses
 - ▶ Must allow for Cash Flow while meeting RD conditions regarding Operating Expenses, Vacancy Allowance and Debt Coverage
- 

RD Transfers – Thresholds

CNA Funding and Reserves

- ▶ A recent CNA is required.
 - ▶ Reserve account ending balances must be positive for all 20 years of the CNA.
 - ▶ Minimum reserve requirements, greater than RD's "positive" ending balances, are determined by any other program's restriction or a lender requirement.
- 

RD Transfers – Thresholds

New Loans

- ▶ Additional debt must be for eligible uses – construction, purchase and rehabilitation or purchase and improvements.
 - ▶ Debt in excess of what is required to make housing affordable, decent, safe and sanitary will not be permitted.
 - ▶ Maximum debt levels permitted are 97% of security value, higher for non-profits; maximum debt levels permitted with LIHTCs are 95% of value.
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RD Transfers – Thresholds

Loans

- ▶ Loan-to-Value of not more than 100%
 - Upon completion all hard debt must be secured within the As-Improved Value determined by the appraisal.
- ▶ Third-party loan terms
 - Third-party loans cannot balloon prior to the expiration of the minimum RD Loan Term without written agreement between the lender and RD.
- ▶ Sources and Uses must balance

RD Transfers – Options

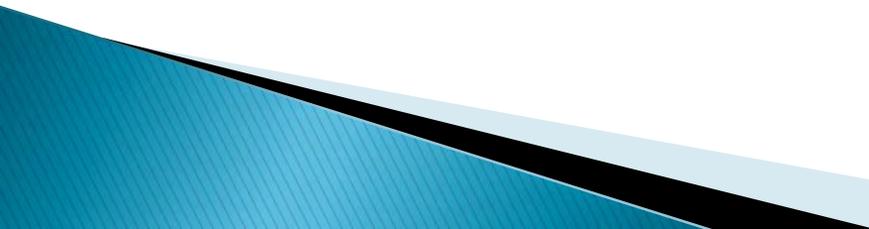
- ▶ Property Sale – Transfer
 - ▶ Membership Change
 - ▶ Prepayment – with or without restrictions
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RD Transfers – Sales Price

Sales Price Limitations

- There is NO limit on the sales price when it is paid solely from the assumption of existing debt plus NON-RD funds that do not affect Basic Rents.
- Otherwise, the sales price should not exceed the lower of
 - The appraised, present market-value of the real estate added to the balance of the Reserve for Replacements account, or,
 - The amount of sales price that can be supported within CRCU rents.
- It is not uncommon that Sellers receive only enough to cover exit taxes – and that isn't guaranteed.

RD Transfer – Membership Change

- ▶ Another transfer option when the property is owned by a partnership, not an individual, is to buy a partnership share and *eventually* buy-out the other partners.
 - ▶ The membership change involves an approval from USDA but less paperwork and is, as these things go, easily accomplished. You are acquiring an entity, not the real estate.
 - ▶ Working with RD to determine what rent they will support, should borrowing be necessary, will be an important part of this type transfer.
 - ▶ There can never be a change of 100% of ownership in any 12-month period – if there is one needs to follow the transfer rules.
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RD Prepayment Process

▶ Eligibility

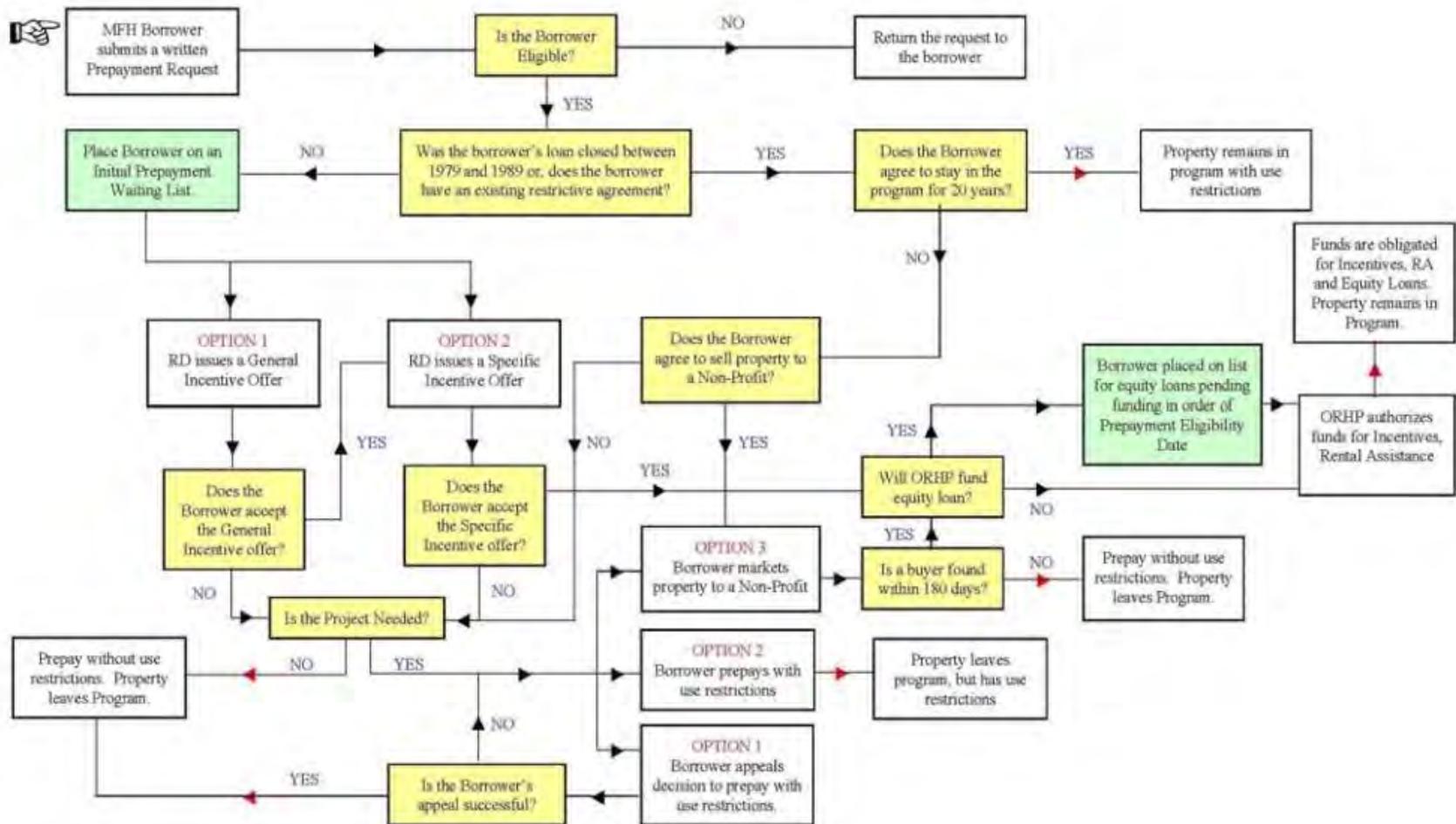
Borrowers with loans approved prior to December 21, 1979 with no subsequent loans or servicing actions may prepay at any time following the RD Process.

Borrowers with loans approved prior to December 15, 1989 must confirm they are eligible to prepay, their RUP has expired and no subsequent loans or servicing actions, by following the RD Process.

All loans made on or after December 15, 1989 to build or acquire new MF units are prohibited from prepayment.

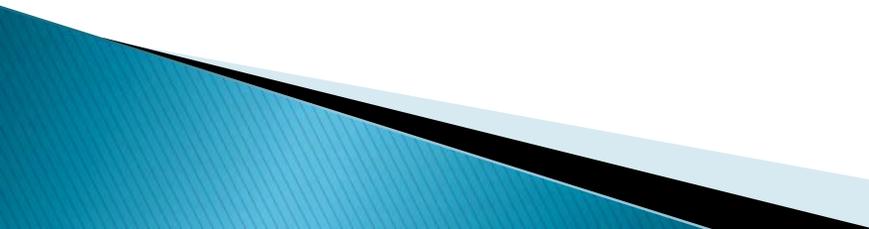
RD Prepayment Process

Flow Chart of Prepayment Requests & Incentives



RD Transfers

What Works?

- ▶ RD Properties work for the residents and the local community by providing affordable, year-round rental housing.
 - ▶ RD Properties have historically worked as small businesses – owner/managers built housing and a business for themselves.
 - ▶ Existing, affordable rentals cost less to rehab than the cost of building NEW units.
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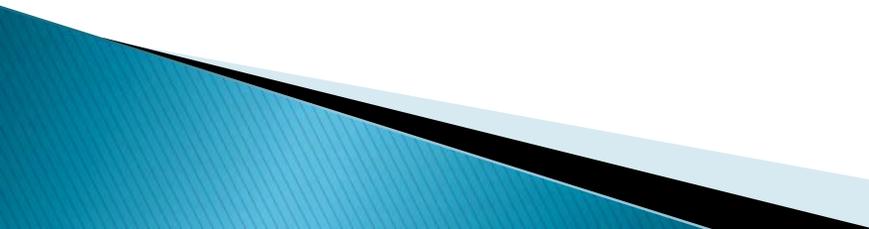
RD Transfers

What Doesn't Work?

- ▶ RD Properties do not work well as wealth builders or investment properties; returns are low.
 - ▶ The program is regulated and comes with its own set of rules that may be different than LIHTC or HAP-supported units.
 - ▶ Sellers may only receive enough money to cover exit taxes and that is not guaranteed.
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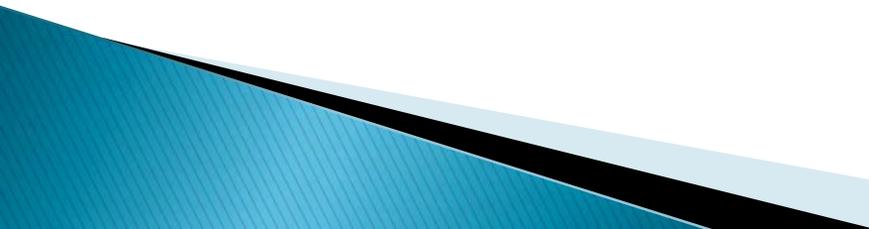
RD Transfer Considerations

What to look for

- ▶ Headroom for rents – if rents can increase within CRCU levels there is greater prospective value
 - ▶ Rental Assistance – the more units of RA the better the occupancy potential, and likely a better AHP candidate, (lower income households, and if prepayment eligible, preservation points)
 - ▶ Amount of Rehabilitation required – consider what has to be done and how much can be done up-front
 - ▶ For Owner/Developers – if you have other market-rate properties to sell, consider whether you could take less and use a tax loss?
- 

RD Transfer Considerations

What to look out for

- In Maine, these deals won't work well with 9% LIHTC as the per-unit rehab requirement is generally too high for the limited security value.
 - Due to the size of the projects, (in Maine the average size is 24 units), a 4% credit deal is likely too small to be of interest to investors.
 - Foreclosure sales will cause a loss of Rental Assistance – and prevent a tax-credit preservation deal.
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Understanding the RD 515 Transfer Process

- ▶ Questions?

Understanding the RD 515 Transfer Process

▶ Thank you!



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