

## Florida Housing Finance Corporation Portfolio Preservation Action Plan

### *Information Supplement*

#### **Background**

At the July 2018 Board meeting, the staff presented a portfolio recapitalization report to the Board that covered several issues, including: how old properties in Florida Housing's portfolio are; whether properties that exit the affordable portfolio continue to provide affordable rents, both nationally and in Florida; the pros and cons of shorter/longer affordability periods when considering preservation; and a preliminary approach for Florida Housing to preserve properties in its portfolio and a timeline for development of a strategy. The Board asked for additional information, as well as further development of an action plan for portfolio preservation to be presented to the Board later this fall.

#### **Present Situation**

Since the July meeting, the staff has continued discussions with property owners, servicers, other stakeholders as strategies are further fleshed out. To respond to Board requests to get more detailed data about aging properties in the portfolio, tables were created and are attached. They show:

- **Exhibit A: Number of Properties Over 20 Years Old by Age in the Portfolio:** A very summarized table excluding properties in the portfolio that have already been preserved (to the best of our knowledge).
- **Exhibit B: Properties by Age, County and County Size:** A summarized table dividing properties over 20 years old into small, medium and large counties by age, with counties that have higher numbers of aging properties split out from the county groups to provide more detail.
- **Exhibit C: Property Detail for Developments 25+ years old,** with more detailed information about each property.

The draft Action Plan has been updated and is provided as Exhibit D, with projected dates (**highlighted**) by when each strategy will be completed. Note that some strategies are not intended to be completed by the end of this year – the plan is a multi-year effort.

For the September 2018 meeting, the staff has completed a draft term sheet, attached as Exhibit E, to allow SAIL properties that are at least 20 years old, but do not require significant rehab funding to remain viable, to use the entire amount of proceeds from a non-acquisition refinancing to be used solely for capital improvements. Staff will notice a workshop soon to discuss this pilot approach and seek feedback from stakeholders.



## Number of Properties/Units Over 20 Years Old by Age in Florida Housing's Portfolio

Most of the properties included below were financed by Florida Housing as new construction, and the date of financing is within 1-2 years of the estimated year built. However a few properties on this list were built many years before they were brought into Florida Housing for refinancing and rehabilitation. Thus "Age of Property" is an accurate reflection of the property's age in most instances, but in a few cases, the year is related to when the property came to Florida Housing as a rehab. These older properties are now likely in need of updating. Older properties in the portfolio that have more recently received funds for recapitalization/preservation are not included in this table. See the full list of properties for more perspective.

Property Age	Total Properties	Total Units	Total of 0 - 60% AMI Units
<b>Over 30 Years</b>	<b>1</b>	<b>221</b>	<b>0</b>
32 Years Old	1	221	0
<b>26 - 30 Years</b>	<b>46</b>	<b>2,913</b>	<b>2,168</b>
30 Years Old	1	526	0
29 Years Old	4	188	153
28 Years Old	10	812	633
27 Years Old	11	544	543
26 Years Old	20	843	839
<b>21 - 25 Years</b>	<b>173</b>	<b>21,210</b>	<b>20,549</b>
25 Years Old	25	2,132	2,128
24 Years Old	44	4,782	4,710
23 Years Old	39	5,228	4,956
22 Years Old	33	4,845	4,783
21 Years Old	32	4,223	3,972
<b>Grand Total</b>	<b>220</b>	<b>24,344</b>	<b>22,717</b>

Source: Florida Housing Finance Corporation, September 2018

## Property Age by County and County Size of Florida Housing's Portfolio, Properties Over Year 20

EXHIBIT B

Most of the properties included below were financed by Florida Housing as new construction, and the date of financing is within 1-2 years of the estimated year built. However a few properties on this list were built many years before they were brought into Florida Housing for refinancing and rehabilitation. Thus "Age of Property" is an accurate reflection of the property's age in most instances, but in a few cases, the year is related to when the property came to Florida Housing as a rehab. These older properties are now likely in need of updating. Older properties in the portfolio that have more recently received funds for recapitalization/preservation are not included in this table. See the full list of properties for more perspective.

Property Age	County	Total Properties	Total Units	Total of 0 - 60% AMI Units
<b>Over 30 Years</b>		1	221	0
Large	Broward	1 *	221	0
<b>26 - 30 Years</b>		46	2,913	2,168
Large	Duval	3	343	343
	Hillsborough	5	18	15
	Miami-Dade	8	667	487
	Orange	4 *	854	328
	Palm Beach	1	152	152
	Pinellas	1	4	4
Medium		11	450	449
Small		13	425	390
<b>21 - 25 Years</b>		173	21,210	20,549
Large	Broward	5	1,020	848
	Duval	9	1,551	1,551
	Hillsborough	9	1,990	1,938
	Miami-Dade	31	3,942	3,941
	Orange	18	3,427	3,418
	Palm Beach	11	1,364	1,246
	Pinellas	1	7	5
Medium **		62	6,947	6,764
Small **		27	962	838
<b>Grand Total</b>		<b>220</b>	<b>24,344</b>	<b>22,717</b>

Source: Florida Housing Finance Corporation, September 2018

\* In the "Over 30 Years" category, the asterisked property in Broward and another one in the "26-30 Years" category located in Orange were financed with bonds only and have no rent restrictions. Twenty to thirty percent of the units are affordable to those at or below 80% of AMI. The remainder of the units serve households at 150% AMI.

\*\* Across Medium and Small counties, properties 21 years and older are distributed in ones and twos across many of the counties.

Property Detail for Rental Developments 25 years and Older in Florida Housing's Portfolio

Age of Property <sup>1</sup>	Est. Year Built	Development Name	Demographic Target	Owner	Total Units	All Housing Programs <sup>3,4</sup>	Year of Subsidy Expiration <sup>5</sup>
<b>32 Years Old</b>					<b>221</b>		
Broward	1986	Cameron Cove <sup>2</sup>	Family	Henderson Global Investors (North America) Inc.	221	MMRB	2025
<b>30 Years Old</b>					<b>526</b>		
Orange	1988	Woodlands <sup>2</sup>	Family	Henderson Global Investors (North America) Inc.	526	MMRB	2017
<b>29 Years Old</b>					<b>188</b>		
Gadsden	1989	Dogwood Manor	Family	Major Development Ltd.	38	HC9%;RA/RD 515	2039
Hillsborough	1989	Hassinger Properties D	Family	Powell Properties	2	HC9%	2041
Monroe	1991	Douglass Square	Family	NB Holdings Management LLC	52	SAIL	2017
Orange	1989	Ashley Place	Family	Leland Enterprises Inc.	96	SAIL	2029
<b>28 Years Old</b>					<b>812</b>		
Clay	1978	Clay Springs	Family	Royal American Development Inc.	51	HC9%;RA/RD 515	2038
Escambia	1990	Devilliers Gardens	Family	Community Equity Investments, Inc. (CEII)	16	SAIL	2021
Hillsborough	1990	Jeflis	Family	Rodriguez	8	HC9%	2020
Levy	1990	Suwannee River Villas	Family	Flynn Development Corporation	24	HC9%;RA/RD 515	2041
Madison	1990	Gardenia Square	Family	Hallmark Companies, Inc.	12	HC9%;RA/RD 515	2041
Miami-Dade	1949	St. John Island	Family	St. John Community Development Corp, Inc.	48	HC9%	2002
	1990	Residential Plaza at Blue Lagoon	Family	Assistance to the Elderly, Inc. (ATTE)	448	HC9%	2019
Palm Beach	1990	Auburn Trace	Family		152	SAIL	2061
Pasco	1985	Countryside Villas II	Family	General Home Development Corporation	16	HC9%;RA/RD 515	2039
Taylor	1990	Stonegate Manor	Family	Hallmark Companies, Inc.	37	HC9%;RA/RD 515	2040
<b>27 Years Old</b>					<b>544</b>		
Brevard	1991	Sabal Palms	Family	Southport Financial Services, Inc	72	HC9%	2020
Citrus	1991	River Reach - Crystal River	Family	Hallmark Companies, Inc.	42	HC9%;RA/RD 515	2041
Duval	1948	Liberty Center I	Family	Harris Group, Inc.	109	HC9%;SAIL	2039
	1991	Hillwood Pointe	Family	Southport Financial Services, Inc	100	HC9%	2020
Flagler	1991	Bella Vista	Family	Dudley Development, LLC	45	HC9%;RA/RD 515	2041
Hernando	1991	Norbourne Estates	Family	Affordable Realty and Housing Corp.	44	HC9%;RA/RD 515	2041
Hillsborough	1981	Hassinger Properties C	Family	Powell Properties	2	HC9%	2040
Holmes	1978	Indiana Villas	Family	BRL Properties Inc.	20	HC9%;RA/RD 515	2042
Manatee	1991	Rosewood Manor	Family	T. Manausa and Company	43	HC9%;RA/RD 515	2041
Marion	1991	Woodside - Belleview	Family	Hallmark Companies, Inc.	42	HC9%;RA/RD 515	2041
Miami-Dade	1930	London Arms	Family	Jamestown LP	25	SAIL	2022

Age of Property <sup>1</sup>	Est. Year Built	Development Name	Demographic Target	Owner	Total Units	All Housing Programs <sup>3,4</sup>	Year of Subsidy Expiration <sup>5</sup>
<b>26 Years Old</b>					<b>843</b>		
DeSoto	1992	Wood Park Pointe	Family	T. Mannausa and Company	37	HC9%;RA/RD 515	2041
Duval	1948	Liberty Center II	Homeless	Harris Group, Inc.	134	HC9%;SAIL	2043
Franklin	1992	Carrabelle Cove	Family	Hallmark Companies, Inc.	32	HC9%;RA/RD 515	2042
Hardee	1992	River Chase	Family	Hallmark Companies, Inc.	48	HC9%;RA/RD 515	2042
Hendry	1992	La Belle Commons	Family	Hallmark Companies, Inc.	32	HC9%;RA/RD 515	2042
Highlands	1992	Heron's Landing	Family	Hallmark Companies, Inc.	37	HC9%;RA/RD 515	2042
Hillsborough	1972	Hassinger Properties E	Family	Hassinger Properties	2	HC9%	2041
	1982	VOA Hillsborough 3 - East Miller	Family	Volunteers of America of Florida Inc.	4	FDIC;HOME	2010
Madison	1992	Greenville Pointe	Family	Royal American Development Inc.	32	HC9%;RA/RD 515	2043
Miami-Dade	1940	Swezy	Family	RS Development Corporation	10	HC9%	2022
	1946	Cielo	Family	RS Development Corporation	18	HC9%	2022
	1951	Rio Towers	Elderly	East Little Havana Community Dev. Corp.	82	HC9%;SAIL	2041
	1953	Janoski Property	Family	Janoski	1	HC9%	2019
	1992	Saint John I	Family	St. John Community Development Corp, Inc.	35	HC9%;SAIL	2042
Nassau	1984	Cantebury of Hilliard	Elderly	Hallmark Companies, Inc.	36	HC4%;HC9%;LB;RA/RD 5	2048
Orange	1992	Country Garden	Family	CED Companies	184	HC9%	2021
		Forest Edge	Family	Orlando Neighborhood Improvement Corp.	48	HC9%;SAIL	2022
Pinellas	1992	Family Fresh Start I	Family	Akerson	4	HC9%	2022
Sumter	1987	Misty Woods	Family	Flynn Management Corporation	42	HC9%;RA/RD 515	2041
Walton	1992	Hazelwood	Family	BRL Properties Inc.	25	HC9%;RA/RD 515	2042
<b>25 Years Old</b>					<b>2,132</b>		
Collier	1993	Oakhaven	Family	580 Oakhaven Circle LLC	160	HC9%	2022
		Summer Glen	Family	Dimension One Realty, Inc.	45	HC9%;RA/RD 515	2044
		Windsong Club	Family	Read Property Group LLC	120	HC9%;SAIL	2043
Duval	1993	Senior Citizen Village	Family	Michaels Development Company, Inc.	101	HC9%;Sec 221(d)(4) MK	2042
Escambia	1974	Peachtree Commons	Family	JPC Charities	218	HC9%	2042
Flagler	1993	Pinecreek Place	Family	Sanchez Planning Development Inc.	43	HC9%;RA/RD 515	2042
Franklin	1993	Eastpoint	Family	Royal American Development Inc.	30	HC9%;RA/RD 515	2043
		Heritage Villas - Apalachicola	Family	Royal American Development Inc.	23	HC9%;RA/RD 515	2042
Hernando	1993	Norbourne Estates II	Family	Affordable Realty and Housing Corp.	15	HC9%;RA/RD 515	2043
Highlands	1993	Briarwood of Sebring	Family	Dimension One Realty, Inc.	41	HC9%;RA/RD 515	2043
Jackson	1993	Graceville Estates	Family	Huff Investment Company	31	HC9%;RA/RD 515	2043
Jefferson	1993	Heritage Manor	Family	Flynn Development Corporation	36	HC9%;RA/RD 515	2043
Leon	1993	Sienna Square	Family	Nepesa Property Investors Inc.	184	HC9%	2043

Age of Property <sup>1</sup>	Est. Year Built	Development Name	Demographic Target	Owner	Total Units	All Housing Programs <sup>3,4</sup>	Year of Subsidy Expiration <sup>5</sup>
Manatee	1987	Mira Lagos	Family	Pacifica Companies LLC	226	FDIC;HC9%	2042
Marion	1993	Rainbow Gardens	Family	Hallmark Companies, Inc.	37	HC9%;RA/RD 515	2043
Miami-Dade	1926	Riviera Plaza	Elderly	R.F. Holding Corporation	56	HC9%;SAIL	2023
	1956	Arena Garden	Family	Overtown Development Group, Inc.	65	HC9%	2043
	1971	Keys I & II	Family	Brannon Group, L.C. and Co.	80	HC9%;SAIL	2065
Nassau	1980	Buccaneer Villas	Family	Olsen Securities Corporation	48	HC9%;RA/RD 515	2043
Orange	1993	Golden Oaks	Family	Orlando Neighborhood Improvement Corp.	96	HC9%;SAIL	2043
		Watauga Woods	Family	Southport Financial Services, Inc	216	HC9%	2042
Osceola	1975	Outrigger Village	Family	Outrigger Inc.	192	HC9%	2022
Pinellas	1993	Family Fresh Start II	Family	Baker	7	HC9%	2023
Putnam	1993	Cherry Tree II	Family	Flynn Development Corporation	36	HC9%;RA/RD 515	2043
Walton	1993	Sun Bay Village	Family	Dudley Development, LLC	26	HC9%;RA/RD 515	2042
<b>Total</b>					<b>5,266</b>		

Source: Florida Housing Finance Corporation, and the Florida Housing Data Clearinghouse Assisted Housing Inventory, September 2018.

**Notes:**

1. Most of the properties listed here were financed by Florida Housing as new construction, and the date of financing is within 1-2 years of the estimated year built. However a few properties on this list were built many years before they were brought into Florida Housing for refinancing and rehabilitation. Thus "Age of Property" is an accurate reflection of the property's age in most instances, but where the "Estimated Year Built" is different than this column, this means the property came to Florida Housing as a rehab, and these are now likely in need of updating. Older properties in the portfolio that have more recently received funds for recapitalization/preservation are not included in this table.
2. These properties were financed with bonds only and have no rent restrictions. Twenty to thirty percent of the units are affordable to those at or below 80% of AMI. The remainder of the units serve households at 150% AMI.
3. Includes all major housing programs that have financed the property, including those outside of Florida Housing.
4. HC 9% = competitive Low Income Housing Tax Credits; HC 4% = noncompetitive Low Income Housing Tax Credits; MMRB = Multifamily Mortgage Revenue Bonds; HOME = HOME Investment Partnerships Program; RA/RD 515 = USDA Rural Rental Housing Loan (Section 515) with rental assistance; FDIC = Federal Deposit Insurance Corporation; LB = Local Bonds; Sec 221(d)(4) MKT = HUD Mortgage Insurance.
5. The year specified may be based on a program outside of Florida Housing.





## Florida Housing Finance Corporation's Portfolio Preservation Action Plan

This action plan is in the process of being developed before it is brought to the Board for approval. The highlighted items are those which the staff has worked on

### 1. SAIL Program Changes to Allow First Mortgage Refinancing for Recapitalization

**Concept:** Targeted to older SAIL properties which require some capital investment (i.e., \$5,000-\$10,000/unit), but do not require significant rehab funding to remain viable. The proceeds from refinancing the first mortgage could be used for this rehab, but the SAIL rule creates a barrier to this approach by only allowing an increase in the amount of the first mortgage if a proportionate amount of the increase is used to reduce the outstanding SAIL loan balance, rather than using the entire amount of the proceeds for rehab. The rule could be revised to allow such a refinance to include new funds up to a certain amount per unit to be used solely for capital improvements &/or reserves per an approved credit underwriting report and CNA, with no cash out or developer fee to the owner, before the SAIL outstanding loan balance is paid down (if at all). This would include specified debt service coverage ratios and other terms as appropriate to ensure that properties are not too highly leveraged.

**Timeline:** (Proposal completed for September Board meeting)

- A "term sheet" concept has been developed and discussed internally and with servicers to implement this approach.
- Present (not for action) at September Board meeting.
- In September, announce workshop to discuss pilot approach and seek feedback.
- Immediately implement pilot if appropriate.
- Based on pilot, make plans to revise the rule.

### 2. Use of 4% Housing Credits/Bonds to Recapitalize Properties at or after 15 Years

**Concept:** Targeted to properties over 15 years old, some owners and developers will find it useful to use these noncompetitive programs to rehabilitate and recapitalize their own properties or buy older properties and rehabilitate them. Currently there are some barriers in the way of using these programs for this purpose, barriers that Florida Housing can work through to ensure these programs are available for this purpose.

**Timeline:** (Proposal to be completed for October Board meeting)

- Staff has held internal discussions to articulate barriers and what might be done.
- As needed, hold discussions with appropriate servicer(s)/stakeholders to discuss issues and begin to develop solutions.
- Develop and refine approach to minimize barriers to use of these programs for this purpose.
- Discuss this approach with stakeholders.

### 3. Changes to Allow a Portion of Units at a Property to Serve Higher Income Residents to Provide Recapitalization/Rehabilitation Financing

**Concept:** To provide additional income to, after a property reaches 30 years old, allow properties to the income restrictions on a portion of their units up to 80 percent AMI. This approach will not be useful in lower income census tracts where getting maximum rents at 60 percent AMI may be difficult.

**Timeline:** (Proposal to be completed for October Board meeting)

- Approach will likely include three options (either programmatically or across the board) for properties post-Year 30:
  - Option 1: Allow properties to use income averaging, now available for new developments through the Housing Credit program, which would allow a range of incomes up to 80% AMI to be served as long as the average income served does not exceed 60% AMI. While providing additional operating income, this approach would allow the property to come back in for Housing Credits for recapitalization.
  - Option 2: An automatic increase in set-aside restrictions from 60% AMI to 80% AMI for a portion of units in a property (as long as owner requests and pays for changes to LURAs/EUAs, etc).
  - Option 3: A viability analysis which could be requested by the property owner or initiated by Florida Housing starting at Year 28 – basically a re-underwriting of the operating pro forma, incorporating a Capital Needs Assessment, market study/review and other information requirements by FHFC that would require rehabilitation/ recapitalization. Unit AMIs could be increased above that allowed in Option 1 above to address financial viability over the remaining affordability period as needed up to a maximum to-be-determined percentage.
- Determine whether rule revisions are needed in the regular rule update in 2019.

### 4. Limited Rehabilitation or Full Recapitalization Using SAIL (with or without bonds and 4% LIHTC)

**Concept: Option 1** – Provide \$5,000-\$10,000/unit in rehab targeted to older SAIL properties which require some capital investment based on a CNA, with no or very limited developer fee.

**Option 2** – Provide SAIL with 4% LIHTC/bonds for full recapitalization for much older properties (~25 years and older).

**Timeline:** (Not to be developed until 2019)

- Develop priority matrix to determine which types of properties have priority for these options, based in part on which properties need these options.
- Once priority matrix is completed, then develop this strategy.
- Evaluate the type of properties that will be targeted for full recapitalization and the timing necessary to assist properties based on their age; based on this, develop timeline.

- Begin development of limited rehabilitation approach, and complete necessary rule revisions with a goal to implement possibly starting September 2019.

## 5. Full Recapitalization Using 9% LIHTC

**Concept:** Provide financing for specifically identified properties aged 30+ years old based on a priority matrix, and based on which properties need 9% LIHTC for recapitalization.

**Timeline:** (Not to be developed at this time)

- Develop approach only after priority matrix is developed, other program options above are in place, and most of the infrastructure strategies below are completed. Timing 2020 or after. The initial focus should be to get the other strategies moving first.
- Recommend that the preservation plan approved by the Board acknowledge this strategy, but that any development of this strategy be put off.
- Competitive Housing Credits should be used rarely for portfolio preservation.

## 6. Allow Certain Properties to Exit the Portfolio Earlier than Specified Affordability Period

**Concept:** Maintain longer affordability periods as a requirement of initial funding, but at a determined time in the property's lifecycle, negotiate shorter periods (~ 30+ years old) on a case-by-case basis based on parameters to be developed. This strategy would be best for properties in lower income areas that are deemed to remain naturally affordable. An assessment tool should be developed for this purpose.

**Timeline:** (Not to be developed at this time)

- Develop approach only after priority matrix is developed, other program options above are in place, and most of the infrastructure strategies below are completed. Timing TBD.

## FHFC Infrastructure Needed to Implement Recapitalization Programs

### A. Develop a more robust portfolio management structure. FHFC currently oversees a property's financial performance, physical condition and compliance with applicable regulations.

**Concept:** Enhance the asset management structure to incorporate additional physical, operational and financial performance measures of both individual properties and portfolios owned by principals for a more focused understanding of a property's past, current and potential performance as well as to identify strategies to improve operations and inform future RFA

methodologies. Develop indicators of performance as they relate to locations/markets throughout the state for comparisons among developments.

**Timeline:** (In progress)

- Dashboard, benchmarks and reporting requirements for ProLink software have been identified and will include critical asset management financial indicators such as three – five-year trends for economic vacancy rates, Debt Service Coverage Ratios, Net cash Flow Per Unit Per Year (PUPY), Total Operating Expenses PUPY, Expense Ratio, Net Cash Flow as a % of Revenues and Net Cash Flow as a % of Expenses.
- The FHFC Project Manager is developing a plan for implementation, including database and staffing resources needed for this structure.
- A staff position has been requested for the 2019 FHFC operational budget.
- Begin and complete first phase of this iterative structure in 2019.

**B. Implement and fine tune the new CNA system to ensure that only those Florida Housing resources necessary are used to improve properties.**

**Timeline:** (In progress)

**C. Develop and implement a “Development Management Scoring” system to monitor the performance of principals during both the development and management phases of their developments and score applications for new funding based on that performance.**

**Concept:** This was first proposed and discussed publicly in 2016, but implementation was put off until Florida Housing brings on its new software system to manage data throughout the application-to-asset management lifecycle of properties (in contract negotiations with software provider currently). This approach will complement priorities to be set for preservation based in part on owner/principal actions and practices resulting in good development and management.

**Timeline:** (Begin development in 2020)

- On hold waiting for new software to be installed and working at full capacity to support existing development and asset management functions.

**D. Develop parameters for prioritizing developments for recapitalization within each program strategy.**

**Concept:** Matrix to include such parameters as:

- Market where property is located; access to jobs, schools, grocery stores, etc.
- Demographic served by the property.
- Owner decisions related to use of replacement reserves and owner out-of-pocket or other funds to maintain properties; compliance and past due issues.

- Become more knowledgeable about other public/private financing options that can be used with 4% LIHTC/bonds and other programs to ensure that Florida Housing's finite resources are used only where necessary.
- End of affordability period nearing.

**Timeline:** (Begin immediate development, with completion of preliminary matrix in 2019)

**E. Carry out replacement reserve study to learn how and when reserves are being used.**

**Concept:** Evaluate what is required for reserves, how they are being used and best practices across the country. This will assist Florida Housing in developing criteria and requirements for rehabilitation and preservation transactions.

**Timeline:**

- Develop study parameters and budget.
- A budget request has been submitted for 2019 as part of operational budget proposed to the Board.
- Request budget funding and carry out study in 2019.

**F. Review recapitalization proposals and/or property financial statements to ensure qualifying rental developments are receiving the statutory 50% reduction in ad valorem property taxes.**

**Concept:** Multifamily rental development with more than 70 units subject to a recorded land use restriction agreement (LURA) with Florida Housing may apply for a 50% discount from ad valorem taxes beginning in the 16<sup>th</sup> year of the LURA. Developments that qualify for this discount would generate additional net operating income and qualify for a higher loan amount when refinancing.

**Timeline:** (In progress)

- Instruct staff and servicers to review property tax for discount.
- Provide instructions for development owners to apply for reduction with their local property tax appraiser's office.

## **SAIL Program Changes to Allow First Mortgage Refinancing for Recapitalization**

Concept: Targeted to older SAIL properties which require some capital investment (i.e., \$5,000-\$10,000/unit), but do not require significant rehab funding to remain viable. The proceeds from refinancing the first mortgage could be used for this rehab, but the SAIL rule creates a barrier to this approach by only allowing an increase in the amount of the first mortgage if a proportionate amount of the increase is used to reduce the outstanding SAIL loan balance, rather than using the entire amount of the proceeds for rehab. The rule could be revised to allow such a refinance to include new funds up to a certain amount per unit to be used solely for capital improvements &/or reserves, as reasonably required, per an approved credit underwriting report and CNA, with no cash out or developer fee to the owner, before the SAIL outstanding loan balance is paid down (if at all). This would include specified debt service coverage ratios and other terms as appropriate to ensure that properties are not too highly leveraged.

### **Strategy**

The Corporation will consider recommending the Board approve a petition for rule waiver to provide for the refinancing of non-acquisition first mortgages without a SAIL paydown with moderate rehabilitation (i.e., \$5,000 - \$10,000/unit) of stabilized affordable multifamily developments, that are at least 20 years old, with tenants in place.

Florida Housing and their credit underwriter will require certain information to evaluate each request:

- Audited Financial Statements for the past three years
- Operating statements and rent rolls – 2 years plus year to date
- Organizational Chart
- Initial and current loan balance
- Borrower's Source and Use of Funds Schedule
- Refinancing term sheet from new first mortgage lender
- Appraisal
- Occupancy Reports
- The most recent Annual Management Review and Physical Inspection
- A Capital Needs Assessment, ordered by the credit underwriter, will be utilized to determine the scope of the rehabilitation for SAIL purposes (The intent here is that amenities that aren't required by the LURA, such as the addition of balconies, will not be included in the scope of rehab)
- Environmental report, if requested by first lender
- Market Study, if requested by first lender
- 15-year NOI pro forma including annual debt service and debt service coverage ratios
- Review of the development's use of funds and replacement reserves since original loan closing

**Terms** include the following:

Eligible properties: Garden, mid-rise or high-rise multifamily properties undergoing moderate rehabilitation with tenants in place that have waived their right to seek a qualified contract, if applicable.

New first mortgage financing must be from a regulated mortgage lender in the business of making loans or a governmental entity. *See* Lending institution as defined in section 420.503, F.S.

SAIL Loan & LURA Term: The longer of the remaining affordability period, coterminous with new first mortgage or 10 years. Rehabilitation/stabilization period (max 24 months) will be included in the loan term.

Any increase in the current balance of the superior mortgage must fund rehabilitation without any developer fee or cash out to the borrower.

In the event any construction cost savings are realized during the rehab, the remaining loan proceeds will be applied first to accrued SAIL loan interest and then to SAIL loan principal.

Borrower agrees to waive any and all rights to the Qualified Contract Option under the current ELIHA.

Prepayment of any required compliance monitoring fees and servicing fees, if applicable.

New permanent loan servicing and compliance fees on the extended SAIL and LURA terms, respectively.

Transfer of existing tax, insurance, replacement reserve and debt service reserve escrow accounts or establishment of new accounts in like or greater amounts satisfactory to FHFC prior to closing.

Minimum Debt Service Coverage: 1.10:1

Replacement Reserve Requirement: The greater of \$300 per unit per annum or the amount identified in the capital needs assessment will be used. An up-front deposit to the replacement reserve may also be required.

Operating Deficit Reserve: An operating deficit reserve (ODR) may be required subject to terms and conditions as determined by the credit underwriter. If an ODR is established, at its expiration, the balance in the reserve will be used to pay down FHFC administered loan debt, if any. If there is no FHFC administered loan debt at that time, then the balance of the reserve shall be deposited into a replacement reserve account for the development.

Fees: In addition to any related professional fees and additional construction inspection fees, the Corporation shall charge a non-refundable renegotiation fee equal to one-half of one percent of the SAIL loan balance. The applicable fee will be determined by the rule in effect at the time of the waiver request.

Related and third party financing costs, closing costs and prepaids are limited to the lesser of 10% of the amount of the new first mortgage or \$150,000.

## **SAIL Program Changes to Allow First Mortgage Refinancing for Recapitalization**

Concept: Targeted to older SAIL properties which require some capital investment (i.e., \$5,000-\$10,000/unit), but do not require significant rehab funding to remain viable. The proceeds from refinancing the first mortgage could be used for this rehab, but the SAIL rule creates a barrier to this approach by only allowing an increase in the amount of the first mortgage if a proportionate amount of the increase is used to reduce the outstanding SAIL loan balance, rather than using the entire amount of the proceeds for rehab. The rule could be revised to allow such a refinance to include new funds up to a certain amount per unit to be used solely for capital improvements &/or reserves, as reasonably required, per an approved credit underwriting report and CNA, with no cash out or developer fee to the owner, before the SAIL outstanding loan balance is paid down (if at all). This would include specified debt service coverage ratios and other terms as appropriate to ensure that properties are not too highly leveraged.

### **Strategy**

The Corporation will consider recommending the Board approve a petition for rule waiver to provide for the refinancing of non-acquisition first mortgages without a SAIL paydown with moderate rehabilitation (i.e., \$5,000 - \$10,000/unit) of stabilized affordable multifamily developments, that are at least 20 years old, with tenants in place.

Florida Housing and their credit underwriter will require certain information to evaluate each request:

- Audited Financial Statements for the past three years
- Operating statements and rent rolls – 2 years plus year to date
- Organizational Chart
- Initial and current loan balance
- Borrower's Source and Use of Funds Schedule
- Refinancing term sheet from new first mortgage lender
- Appraisal
- Occupancy Reports
- The most recent Annual Management Review and Physical Inspection
- A Capital Needs Assessment, ordered by the credit underwriter, will be utilized to determine the scope of the rehabilitation for SAIL purposes (The intent here is that amenities that aren't required by the LURA, such as the addition of balconies, will not be included in the scope of rehab)
- Environmental report, if requested by first lender
- Market Study, if requested by first lender
- 15-year NOI pro forma including annual debt service and debt service coverage ratios
- Review of the development's use of funds and replacement reserves since original loan closing



**Terms** include the following:

Eligible properties: Garden, mid-rise or high-rise multifamily properties undergoing moderate rehabilitation with tenants in place that have waived their right to seek a qualified contract, if applicable.

New first mortgage financing must be from a regulated mortgage lender in the business of making loans or a governmental entity. *See* Lending institution as defined in section 420.503, F.S.

SAIL Loan & LURA Term: The longer of the remaining affordability period, coterminous with new first mortgage or 10 years. Rehabilitation/stabilization period (max 24 months) will be included in the loan term.

Any increase in the current balance of the superior mortgage must fund rehabilitation without any developer fee or cash out to the borrower.

In the event any construction cost savings are realized during the rehab, the remaining loan proceeds will be applied first to accrued SAIL loan interest and then to SAIL loan principal.

Borrower agrees to waive any and all rights to the Qualified Contract Option under the current ELIHA.

Prepayment of any required compliance monitoring fees and servicing fees, if applicable.

New permanent loan servicing and compliance fees on the extended SAIL and LURA terms, respectively.

Transfer of existing tax, insurance, replacement reserve and debt service reserve escrow accounts or establishment of new accounts in like or greater amounts satisfactory to FHFC prior to closing.

Minimum Debt Service Coverage: 1.10:1

Replacement Reserve Requirement: The greater of \$300 per unit per annum or the amount identified in the capital needs assessment will be used. An up-front deposit to the replacement reserve may also be required.

Operating Deficit Reserve: An operating deficit reserve (ODR) may be required subject to terms and conditions as determined by the credit underwriter. If an ODR is established, at its expiration, the balance in the reserve will be used to pay down FHFC administered loan debt, if any. If there is no FHFC administered loan debt at that time, then the balance of the reserve shall be deposited into a replacement reserve account for the development.

Fees: In addition to any related professional fees and additional construction inspection fees, the Corporation shall charge a non-refundable renegotiation fee equal to one-half of one percent of the SAIL loan balance. The applicable fee will be determined by the rule in effect at the time of the waiver request.

Related and third party financing costs, closing costs and prepaids are limited to the lesser of 10% of the amount of the new first mortgage or \$150,000.