

Rental Assistance Demonstration Lessons Learned

NH&RA Symposium

February 24, 2016

2016 Public Housing Joint Venture Symposium

February 24, 2016, The Breakers, Palm Beach, FL

Thank You Sponsors:



RAD and HUD Mortgage Insurance

- Why does RAD work with Mortgage Insurance?
 - OCAF for 40 years: Two 20-year contracts
 - Seller take-back mortgages; or single up-front payment on the ground lease
 - Tax credits: short-term bonds and 4% credits
 - \$35,000-\$100,000 of work per unit
 - Interim Income



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RAD and HUD Mortgage Insurance

- Why does RAD work with Mortgage Insurance?
 - 97% occupancy; 1.11 DSC if 90%+ Section 8
 - Today's rate on 221d4: 3.85% + .25% MIP
 - Today's rate on 223f: 3.30% + .25% MIP
 - Syndicators are often the limiting factor on loan, will only go to 1.15 or 1.20 DSC
 - Dedicated HUD staff in Ft. Worth, Chicago, and Atlanta (no longer Seattle). Still some work sharing, find out who all the HUD team members are early



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RAD and HUD Mortgage Insurance

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Uses	\$/Unit	Total
Hard Costs	95,652	33,478,205
Architect		891,315
Other Fees		252,965
Construction Period Interest		1,390,538
Contingency (Rehab Only)		3,712,467
Taxes, Insurance, Financing		3,420,203
Legal, Organization & Audit		287,129
Acquisition	<u>72,273</u>	<u>25,295,628</u>
Total HUD Costs	196,367	68,728,450
Developer's Fee		2,500,000
Non-mortgageable Costs		6,246,128
Working Capital (LOC or Cash)		<u>498,200</u>
Total Project Costs	222,779	77,972,778

Sources	\$/Unit	Total
FHA Mortgage	71,171	24,910,000
LIHTC Proceeds	73,409	25,693,128
Grants & Loans	7,143	2,500,000
Seller Note	68,857	24,100,100
Deferred Dev Fee	<u>2,199</u>	<u>769,550</u>
Total Sources	222,779	77,972,778



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RAD and HUD Mortgage Insurance

- Section 8 contract signed at closing:
Interim Income
 - CHAP rents start on the next January 1
 - Underwrite CHAP rents regardless of “market”
 - Rehab rents start when a unit is undergoing rehab
 - HA will pass through all income received from ACC contract/ capital contribution + tenant rent if closed in Dec until Jan 1, 13 months later



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RAD and HUD Mortgage Insurance

- New Mortgage Insurance Premium
 - .25% if Broadly Affordable: 90%+ Section 8
 - 25% if Energy efficient: score 75 on EnergyStar
 - .25% during Construction , reduces Uses, 25 bps per year but will be recalculated based on drawn amounts for a d4
- New Equity Pay-in
 - 20% of total equity in cash at closing
 - 37.5% of net equity at 65% complete
 - 62.5% of net equity at 100% complete or final endorsement



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RAD and HUD Mortgage Insurance

- HUD Hot Buttons
 - Functional Obsolescence: built in the 1950's
 - Scattered Sites: each parcel has 5 units
 - Fair Housing: accessibility and MPS for elderly
 - Occupancy Regime: Elderly and NEDs
 - Environmental Issues: UST, flood plain, lead, asbestos, terra cotta sewer lines
 - All RAD deals pay Davis-Bacon wages (223f and 221d4)



RAD and HUD Mortgage Insurance

- HUD Hot Buttons
 - Elderly: Section 231 vs Section 8
 - Ground and Building Leases: Waive Paragraph B; limited indemnifications
 - “As is Value” at market rents and expenses used for Replacement Cost Mortgage
 - Purchase Price (could be greater than as is value) used for Seller take-back and LIHTC basis
 - Seller take-back at compound interest to be in LIHTC basis; OK for public debt



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RAD and HUD Mortgage Insurance

- HUD Hot Buttons

- Any project receiving RAD units is a RAD project; must meet site and neighborhood standards
- AHP loans acceptable if same term as HUD mortgage and sign subordination agreement; can close after HUD closing
- PILOT; runs with HA is OK but need legal opinion
- Release of the DOT, timing issues

