

Case Study: The Village at Morse Farm

Property Type:

Supportive Living Facility

Location:

Carlinville, Ill.

Project Objective:

Refinance

Financing Amount:

\$5.2 million

Source of Funding:

GNMA securities enhanced by FHA Sec. 232/223(f) mortgage insurance

“Lancaster Pollard provided us a low-cost, permanent financing option that we may not have been able to secure without their FHA finance experience. They helped the FHA underwriting team get comfortable with both our supportive living community and with waiving several repair requirements that may have prevented us from closing the transaction.”

*Peg Barkley, CEO
Macoupin County
Housing Authority*

Background and Challenges

Macoupin County Housing Authority is a nonprofit with 19 affordable multifamily housing properties. In 2006, it used bank and developer financing to build The Village at Morse Farm, its first supportive living facility (licensed assisted living with Medicaid waivers). With the construction debt near maturity, Macoupin County sought permanent financing. As a licensed assisted living facility, the project qualified for FHA mortgage insurance via the FHA 232/223(f) program. But because it was not constructed using agency financing, the existing ownership structure did not completely mesh with FHA’s requirements.

Financial Solution

After funding Macoupin County’s replacement hospital through FHA’s 242 program in late 2008, Lancaster Pollard was sought out to evaluate permanent financing options for The Village. The firm determined The Village could qualify for FHA credit enhancement and its accompanying low interest rate and long term with matching amortization. Lancaster Pollard helped The Village meet FHA funding requirements by putting in place an acceptable ground lease, securing professional liability insurance compliant with FHA’s Notice 04-15, and working with FHA to waive several repairs originally required by the Project Capital Needs Assessment that would have disrupted residents.

While FHA technically allows nonprofit borrowers to refinance debt up to 90% of the project’s value (as opposed to 80%-85% for for-profit borrowers), recent economic concerns have limited such high loan-to-values. Further, processing the loan as a nonprofit would limit the property’s ability to distribute excess operational cash flow back to the housing authority and result in the creation of a residual receipts fund governed by FHA. To ensure excess cash flow could benefit the housing authority and avoid the residual receipts issue, Lancaster Pollard processed the transaction under for-profit underwriting parameters, which allow a maximum of 85% loan to value if the project meets FHA’s strict scrutiny. The Village achieved this 85% level.

Outcome

The Village obtained a very low interest rate of 5.37% (including FHA’s annual 50 basis point MIP) fixed for a 35-year term and amortization, allowing it to pay off its bank and developer financing. The debt is non-recourse and so does not require the Housing Authority’s guarantee. Finally, the processing method allows the Housing Authority to retain control of any excess cash flow and redirect it to other affordable housing endeavors.

Financing Progress

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