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**Affordable Housing**

**Preservation for the Next Generation: Sec. 202 Successes**

*As demand for affordable housing increases, so, too, do the expectations of current and future residents. Reinvestments and adaptations facilitated by refinancing are helping to meet the needs of a new generation, a generation expected to live longer than any before it. The next evolution of affordable housing is often called on to fill more than the basic necessity of shelter.*

*Across the country, hundreds of affordable senior housing apartments built under the Department of Housing and Urban Development's Section 202 program have refinanced to infuse new capital into their properties and evolve to meet new expectations. Refinancing can be done in many different ways, depending on the needs of the property and the iteration of the program under which it was originally constructed. Beyond providing financial stability, these refinances have provided for upgrades and amenities that this new generation has come to expect, including new kitchens, common garden spaces, activity coordinators, adaptations to facilitate aging in place, and enhanced landscaping and exterior work that help make an austere complex into a home.*

**Trinity Manor: FHA Section 223(f) combined with 4 percent LIHTCs and Tax-Exempt Bonds**

**Sources of Funding:**

- \$3.49 million tax-exempt bonds insured by the FHA Section 223(f) program
- \$1,173,024 in 4 percent LIHTC equity

**Key Benefits:**

- Initial Deposit to Replacement Reserve: \$376,199
- Repairs: \$959,334
- Annual Debt Service Savings: \$45,000

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Trinity Manor had benefited greatly over the years from National Church Residences' keen oversight and favorable reputation. But the aging 90-unit facility had begun depleting its replacement reserves faster than new funds could be deposited. It needed to be able to provide for significant near-term capital improvements and adjust its annual replacement reserve deposit to have sufficient funds to meet future needs.

did not require HUD's permission to prepay their loans, and it could have considered non-HUD financial structures. But because the property's Section 8 rents were significantly higher than comparable market rents, there was no incentive to go outside of HUD since HUD is the only creditor that will recognize the higher Section 8 rents for underwriting purposes.

The property's small units, lack of amenities and other attributes would not have made it highly competitive

# The Capital Issue: Affordable Housing

for 9% tax credits. The development team looked to a combination of 4% LIHTCs and tax-exempt bonds backed by FHA insurance under the Section 223(f) program.

The new loan is two percentage points lower than the original loan, reducing annual debt service by over \$45,000. Tax credit equity of over \$1 million was generated to cover additional work. The resulting repairs and improvements (nearly \$15,000 per unit) include new plumbing fixtures and kitchen

appliances, replacement air conditioning units, new windows and doors, and other energy, safety and comfort upgrades. These will help reduce overall maintenance and utility expenses, mitigating future rent increases.

The LIHTC equity combined with significant debt service reduction allowed Trinity Manor to make a hefty initial deposit of more than \$376,000 to its replacement reserve. This financing structure also paves the way for increased annual reserve deposits.

## Meadowview Village: FHA Section 221(d)(4) program combined with 9 percent LIHTCs

### Sources of Funding

- FHA/GNMA Mortgage of \$1.59 million
- Limited Partner Equity of \$2.19 million
- HDAP Loan of \$550,000
- Existing replacement reserve totaling \$160,941

### Key Benefits

- Initial Deposit to Replacement Reserve: \$60,000
- Repairs: \$1,071,742
- Annual Debt Service Savings: \$40,000

Meadowview Village had been paying a high interest rate of 9.25% for over 20 years. The weighty debt service commitment limited the replacement reserves available for funding modest, let alone substantial, improvements, yet the property wanted to convert efficiency units into more marketable one-bedrooms.

Like other Midwestern projects, the Section 8 rents had far surpassed the market rents in the area, limiting funding options outside of HUD. Because of the substantial nature of the intended improvements, and the high rent levels, the optimum financing structure was achieved through a combination of FHA Mortgage Insurance under Section 221(d)(4) and 9 percent Low-Income Housing Tax Credits (LIHTC). This structure provided long-term, non-recourse debt, along with a significant amount of equity. A Housing Development Assistance Program (HDAP) loan and existing reserves completed the funding structure.

Key among Meadowview Village's aims was to convert its 10 unpopular studio efficiency units into standard one-bedrooms. With over \$28,000 per unit in repair funds generated by the refinance, Meadowview was also able to update all kitchens. Common area improvements, new windows and many energy efficiency, safety and comfort upgrades are some of the benefits to current and future residents. Property upgrades include new parking, repairs to exterior siding, a reconfigured entry that offers



Meadowview's exterior, before and after

residents better shelter and landscaping improvements.

The financing made available \$1.9 million for rehabilitation, and Meadowview Village's new lower interest rate and reduced debt service allowed for approximately \$40,000 in annual savings.