Florida Housing Finance Corporation
227 N. Bronough Street, 6th Floor Seltzer Room
Tallahassee, Florida 32301

SAIL Program Pilot to Allow First Mortgage Refinancing for Recapitalization
October 24, 2018, 2:00 p.m. Eastern Time
Call-In: 1 (888) 339-2688, Passcode: 887 801 70

1. 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. The Florida Housing Finance Corporation Portfolio Preservation Action Plan (Action Plan) presented at the September 14, 2018 Board meeting can be found at: http://www.floridahousing.org/docs/default-source/data-docs-and-reports/boardpackages/2018/september-14/information-supplement---full-package-fhfc-portfolio-preservation-action-plan-sept-2018-amended.pdf?sfvrsn=3756057b_2 (also available by clicking here).

This workshop is intended to solicit feedback and to answer questions on the SAIL Program Pilot to Allow First Mortgage Refinancing for Recapitalization. This is the 1st strategy on page 9 of the Action Plan and is targeted to older SAIL properties which require some capital investment but do not require significant rehab funding to remain viable. This strategy would permit first mortgage refinancing that would include new funds to be used solely for capital improvements. Currently, for any increase in the balance of a first mortgage, the rule requires a proportionate amount to be paid first to accrued SAIL loan interest, and then to SAIL loan principal.

2. Discuss Term Sheet

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

<u>Terms include the following</u>:

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.

3. Questions and Answers

4. Process