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# Financing Housing Developers & Their Projects

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**Director of National Underwriting**

## AFFORDABLE HOUSING PROJECTS SINCE 1984

- **Capital Impact Partners**
  - Loans from \$1 million up to \$10 million for acquisition, predevelopment, construction and permanent financing for real estate projects
- **CDC Small Business Finance - Commercial Real Estate Loans**
  - SBA 504 and Owner Occupied Real Estate Lending to \$5 million
- **CDC Small Business Finance - Small Business Loans**
  - SBA and Microloans from \$10,000 to \$350,000





# Introduction to **Capital Impact Partners** **CDFI - Community Development Financial Institution**

## • **History**

- Founded under the National Cooperative Bank in 1982
- Target sector lending including Affordable Housing, Education, Healthcare, and community based Small Businesses

## • **Our Approach**

- Supports Community Based and Affordable Housing Developers through Financing and Technical Assistance

## • **Primary Geographic Regions**

- Texas (Austin, Dallas, Houston), California, DMV (DC, Maryland, Virginia), Detroit, Atlanta, and Tri-State area of NYC



**ACQUISITION LOANS**  
to purchase land and buildings



**CONSTRUCTION LOANS**  
to finance from-the-ground-up  
construction and renovation  
projects



**WORKING CAPITAL LOANS**  
to finance operating cash  
flow needs

## ● Loan Products for Housing Developers:

- Acquisition/Predevelopment
- Construction (Ground Up, Rehab, Critical Repairs)
- Permanent Financing: Owner Occupied and Non Owner-Occupied Projects
- Non-Revolving Lines of Credit
- Tax Credit Financing (LIHTC and NMTC)

## ● Parameters

- Real Estate LTV: 90% (NOOCRE from 80% to 85%)
- Term: Acquisition and Pre Development up to 24 months, Construction up to 36 months, Permanent Financing Up to 15-year term with 25-year amortization
- Understanding affordability mix, especially for takeout financing
- DSC: minimum 1.15x, NOOCRE: 1.25x to 1.35x depending on tenant occupancy
- Equity - 10% - 20% minimum





## Early-Stage Housing Financing - Predevelopment

- Funds early-stage project costs (design, surveys, environmental work)
- Interest only through the term of the loan - repaid through takeout financing (construction, etc.)
- Size interest reserves accordingly to cover DSC
- Usually structured as non revolving lines of credit and advances are based on project specific milestones based on Sources and Uses and supported by invoices

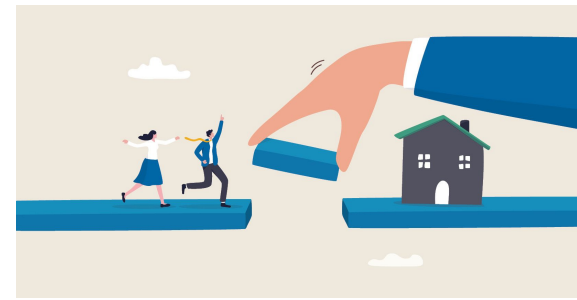




## Early-Stage Housing Financing – Predevelopment cont.

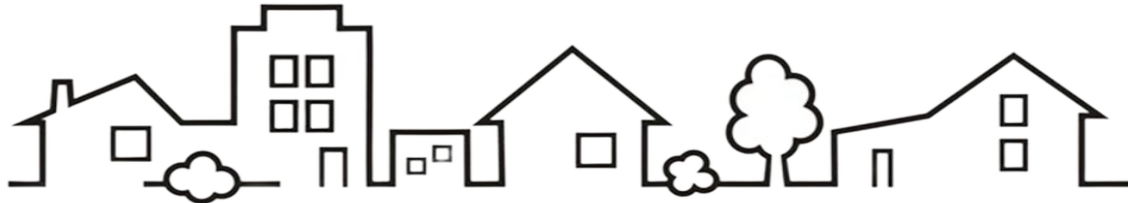
- Borrower/Sponsor must have site control and zoning permits
- Takeout assessment must include a Plan B if Plan A financing falls through
- Appraisal is usually based on ‘as-is’ value only, capped at 90% LTV
- This is the riskiest stage of financing usually reserved for CDFIs - important to underwrite to Sponsor’s ability to achieve takeout financing proposed (previous experience, etc.)





## Early-Stage Housing Finance - Acquisition

- Often combined with pre-development lending as capital is used to fund predevelopment activities and serve as a bridge to construction financing - interest only with balloon at maturity
- Structuring is also based on project timeline and takeout source
- Important to review zoning & entitlements, environmental assessments, permitting
- Understand terms of PSA and the ability to extend if needed for financing delays -loans will not close until all entitlements and environmental work has been completed





## Early-Stage Housing Finance – Acquisition cont.

- Ensure preliminary title report has no exceptions that will be transferred over and delay takeout financing (easements, etc.)
- Max term (with predevelopment) should be 36 months
- Structure and fund reserves accordingly to cover DSC - similar parameters to pre-development financing
- Vacant land considerations including project feasibility



## Construction Financing



- Used only to fund hard and soft costs related to the construction of a project, including reserves
- Success of construction projects rely on the experience and financial capacity of the Borrower to absorb cost overruns and project delays
- Rule of thumb: construction budgets should have a minimum contingency of 10% for hard costs and 5% for soft costs
- Underwrite the project development team (General Contractor, Architect)
- GC should have P&P Bond or alternatively, a Letter of Credit for a minimum of 15% of total hard costs



# Multifamily Housing

## Key Considerations for Rental Projects

### Project Definition

- Minimum 5 rental units
- Aligns with typical takeout sources (HUD, Fannie Mae)
- Minimum 20% units at 80% AMI



### Financial Metrics

- Vacancy factor: 10%
- Operating reserves: 3-6 months
- Stress test: DSC threshold of 1.15x



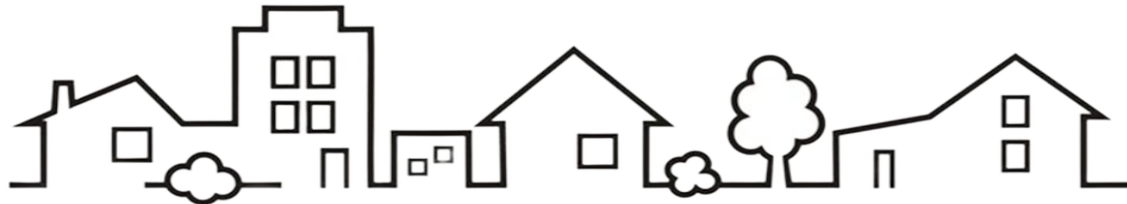
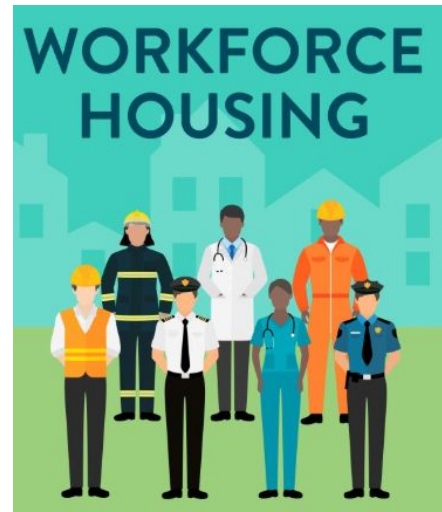
### Operations & Market

- Review Property Management company
- Appraisal assumptions for income, vacancy, and expenses
- Mixed income properties: Commercial space revenue analysis



## Housing Finance - Workforce

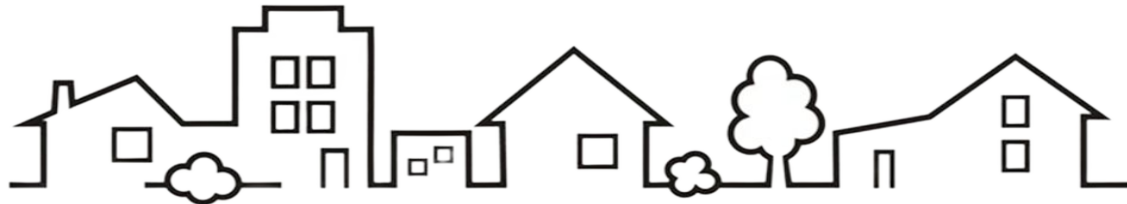
- Workforce is Naturally Occurring Affordable Housing
- Unlike standard affordable housing, which typically targets households earning less than 60–80% of the AMI, workforce housing serves the "missing middle" who earn too much for traditional subsidies but cannot afford market-rate rents. These households fall within the 80-120% AMI range.
- Since these projects target working populations, it is important to access the neighborhood and accessibility to employment centers, transportation options, and other amenities



## Housing Finance – Workforce cont.



- The following lender programs are specific to workforce housing, but conventional lenders are also active in this space:
  - Fannie Mae: Sponsor-Initiated Affordability (SIA) and Sponsor-Dedicated Workforce (SDW) programs apply to existing, stabilized multifamily properties.
  - Freddie Mac: Workforce Housing Preservation and Mezzanine Loan programs feature flexible underwriting for qualified properties.



## Housing Finance - Permanent Supportive Housing

- PSH combines affordable housing with supportive services to help people experiencing homelessness or those with special needs, including chronic illnesses, disabilities, or mental health challenges.



## Housing Finance - Permanent Supportive Housing cont.

- PSH projects are often financed via a combination of funding sources from local and federal sources, such as LIHTC, HUD grants, tax-exempt bonds or grants. Confirm the project's eligibility for usage and that assumptions meet the programs' minimum requirements.
  - PSH projects should have a sources & uses created for both the operating budget as well as the services budget. The development team should have a plan for service fund sources that are flexible and sustainable enough to meet tenant needs for the lifetime of the project.



## Housing Finance - Section 8 Vouchers

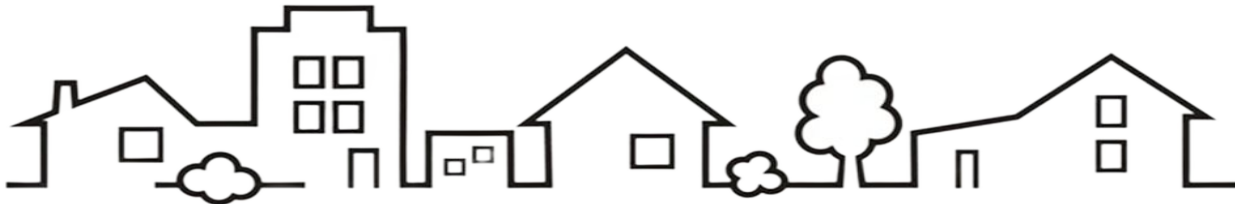
- Section 8 tenants pay a portion of rent based on income (typically 30%), while the Public Housing Authority (PHA) pays the remainder directly to the landlord.
- Verify the Voucher – payment standards can be found on the housing authority's website. Keep in mind the rental payment standards increase annually.





## Housing Finance - Section 8 Vouchers cont.

- Use the lesser of market rents in the appraisal or the amount received from the Voucher program per unit.
- Evaluate Rent Reasonableness
  - The PHA must agree that the rent being charged is reasonable compared to similar unassisted units.
  - Compare unit rents to comps in the area.
  - Ensure rent requests do not exceed the PHA's payment standard + utility allowance.





## Housing Finance - For Sale Housing

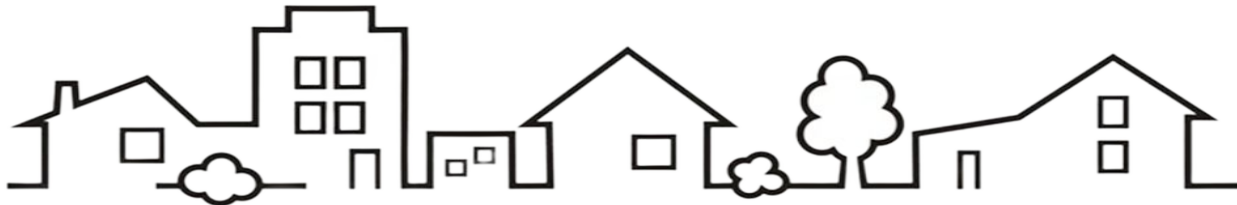
- Construction loans repaid by sales of homes to end-user residents
- Set minimum requirements for Aggregate Release Price and Minimum Projected Sales
- A third-party market study or demand study must be obtained for the project
- The developer(s) should be experienced, with a minimum of two for-sale projects of similar scope completed with a minimum of one project sold



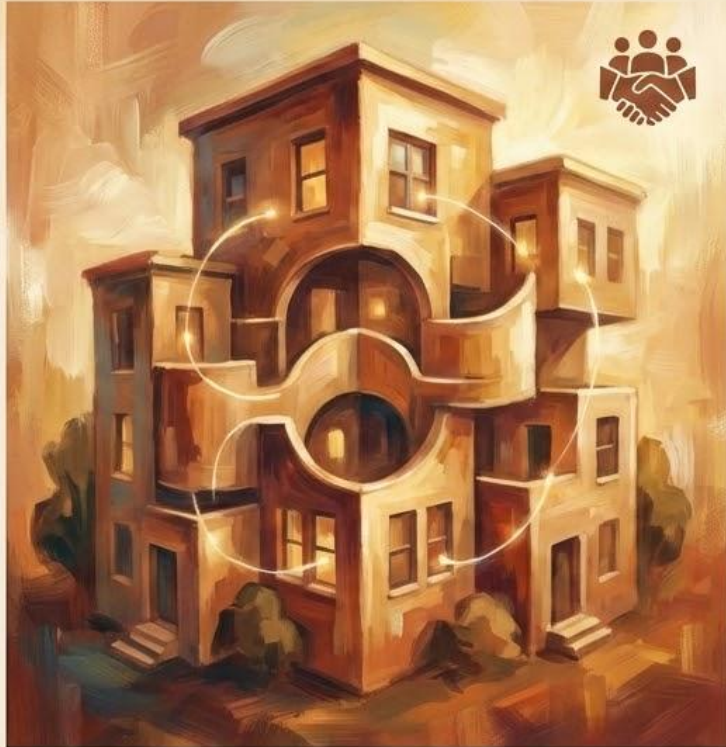


## Housing Finance - For Sale Housing cont.

- Homes must be built to be sold immediately with no other financing tranches or other development plans – stand alone projects only
- Phased construction projects shouldn't be considered due the potential of changing construction market conditions during the loan term.
- Absorption - number of homes sold/total number of homes available: the base case schedule for unit sales must never be more than 6 months and must include a minimum three-month cushion added to the greater of the appraisal/market study or Borrower's absorption schedule.



# Housing Finance - Cooperatives



Appraisals must focus on the value of the entire building.



If an individual shareholder defaults, the coop board must step in to ensure loan repayment.



Reporting should include audited financial statements and monthly rent rolls



Coop boards are voluntary so usually these properties are professionally managed - evaluate property management company



Rent receivable reports. Receivables over 30 days should constitute <5% of gross annual income of the coop.



10% of gross annual income should be set aside for operating and replacement reserves

# LIHTC Takeouts

Category	9%	4%
<b>Amount</b>	Provides a higher tax credit rate, which translates to more funding for the project; typically, ~70% of eligible costs.	Offers a lower tax credit rate, providing less funding than the 9% credits; typically, ~30% of eligible costs.
<b>Competitive Process</b>	Projects must compete for these credits through a rigorous application process managed by state housing agencies. They are generally in high demand due to the larger financial incentive.	4% credits are available more readily and are not allocated through a competitive application process. As long as the project meets the requirements, it can receive these credits.
<b>Considerations</b>	If seeking 9% credits, how competitive is the project to receive LIHTC?, i.e. location, affordability, alignment with QAP, scoring, ability to attract other funding sources, etc.?	If seeking 4% credits, does the project meet eligibility requirements? Is there risk the State will reach its bond cap?

# Overall Housing Financing Tips

- Evaluate Plan B if the HUD Program, LIHTC Credit, Bank Commitment, etc. financing falls through
- Secure Personal and Corporate Guarantees as needed (i.e. 20% ownership of the project or major decision-making authority)
- Review Borrowers assumptions vs the appraisers, and stress test interest rate on takeout financing, vacancy levels, lower income, and higher operating expenses
- Always include operating and replacement reserves
- If a developer does not have experience managing or constructing the building, they must collaborate with more established partners (contractors, property managers, etc.)
- Evaluate Borrower's REO and WIP reports to address management capability and capacity

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# Thank You!

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