



The “Nuts and Bolts” of Financing Rental Housing with DHCD

***2008 Small Town Symposium and
Rural Roundtable
April 23, 2008***

Martin O'Malley *Governor*
Anthony G. Brown *Lt. Governor*



Overview



- **Who We Are and What We Do: DHCD's Multifamily Financing Group**
- **What We Look For: DHCD's Priorities**
- **How It Works: DHCD's Financing Process**
- **The End Result: Projects Financed by DHCD**
- **Lessons Learned: Advice for New (and Old) Borrowers**
- **What's New at DHCD**

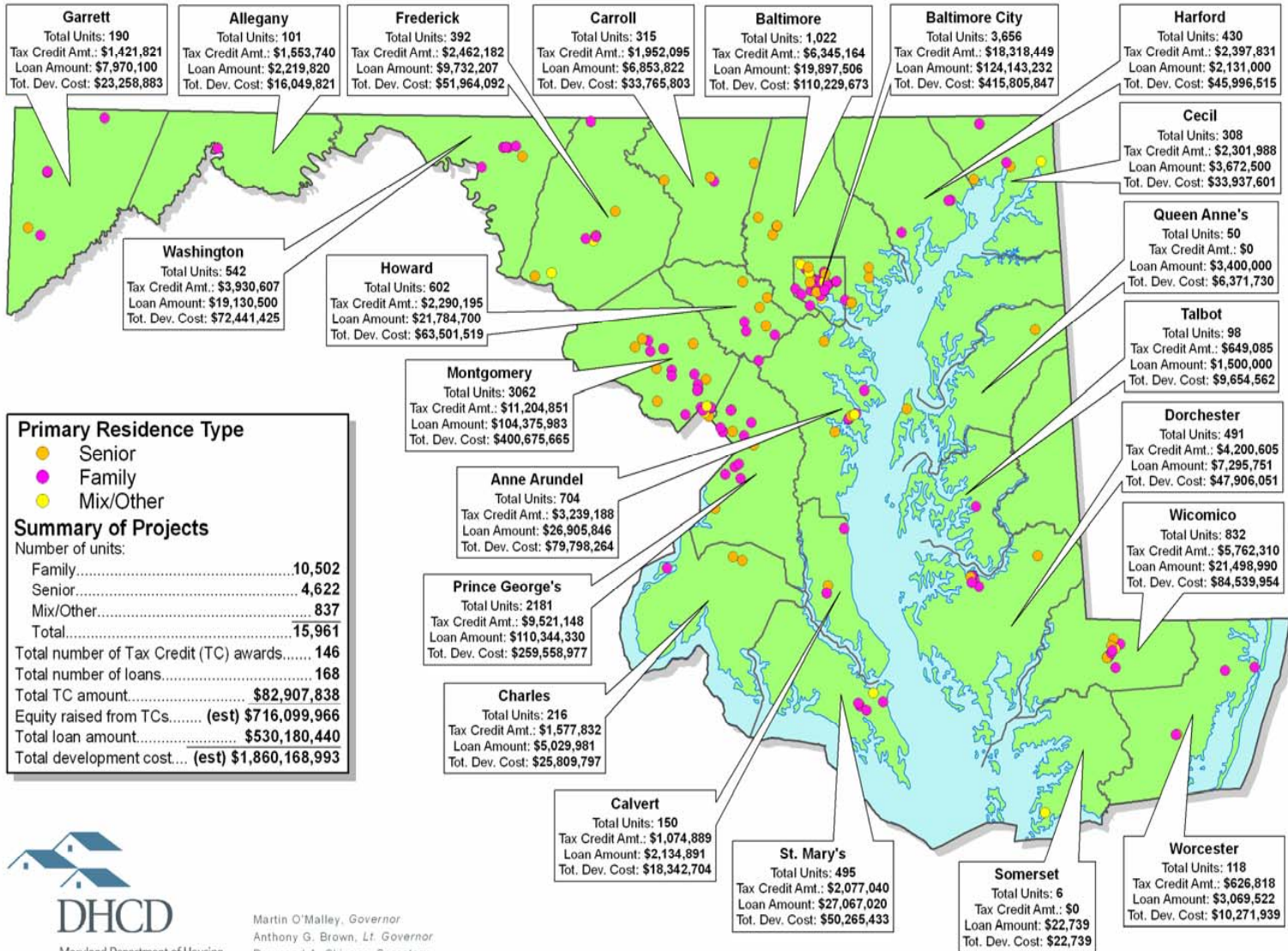
Who We Are and What We Do: DHCD's Multifamily Financing Group



- **DHCD is Maryland's State Housing Finance Agency**
- **7-year Average Production (2001-2007)**
 - **2,700 Units (*per year*)**
 - **Elderly and Family Housing**
 - **Statewide**
 - **Rehabilitation and New Construction**
- **Area Median Income (AMI) Served**
 - **43% of AMI (Federal Tax Credits, State appropriations)**
 - **60% of AMI (Tax Exempt Revenue Bonds)**

Community Development Administration: Multi-Family Projects

Reserved and Closed Projects: January 1, 2002 - April 13, 2007



Maryland Department of Housing and Community Development

Martin O'Malley, Governor
Anthony G. Brown, Lt. Governor
Raymond A. Skinner, Secretary
Clarence J. Snuggs, Deputy Secretary

pub. date: 04/24/2007

Martin O'Malley Governor

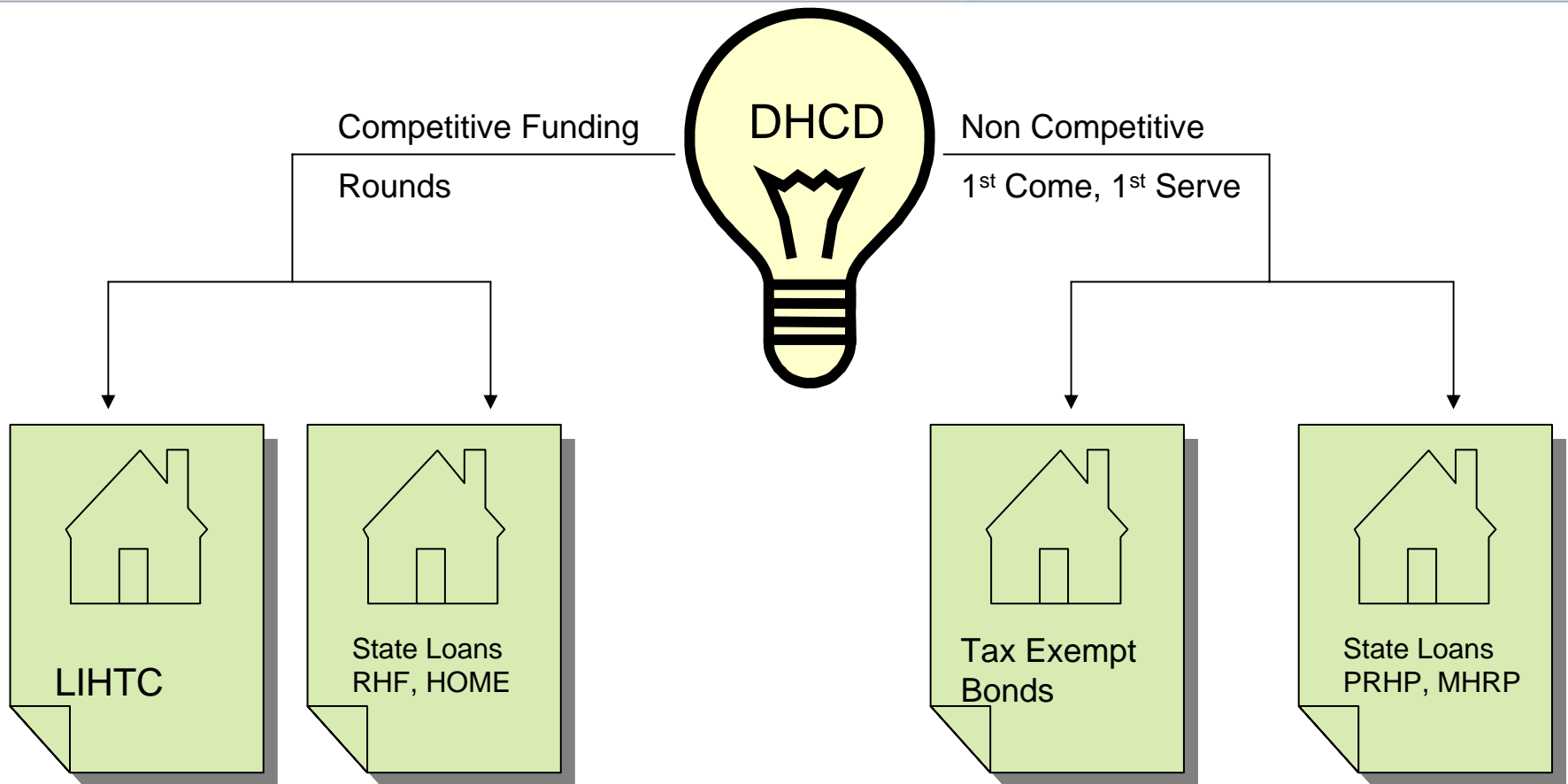
Anthony G. Brown Lt. Governor

Who We Are and What We Do: DHCD's Multifamily Financing Group (cont'd.)



- **Historically acted as a Community Bank**
- **Facilitates production of affordable rental housing opportunities through its lending products**
- **Works in partnership with the private sector to ensure financing gaps are met**
- **Major Funding Sources**
 - **Equity Raised from Federal Tax Credits**
 - **Tax Exempt Revenue Bonds**
 - **State Loan Funds (RHF, PRHP, MHRP)**

Who We Are and What We Do: DHCD's Multifamily Financing Group (cont'd.)



Martin O'Malley *Governor*

Anthony G. Brown *Lt. Governor*

Who We Are and What We Do: DHCD's Multifamily Financing Group (cont'd.)



Federal Low Income Housing Tax Credits (LIHTC)

- **Allocated on per capita basis**

Maryland gets about \$11 million for CY 2008

- **Awarded under Internal Revenue Code Section 42 and State's Qualified Allocation Plan (QAP)**
- **Tax Credits syndicated (sold) to raise equity (cash) for project.**
- **Tax Credit Equity reduces long term debt burden on housing**
- **In exchange for LIHTCs, property agrees to long term income and rent restrictions**

Who We Are and What We Do: DHCD's Multifamily Financing Group (cont'd.)



Tax Exempt Revenue Bonds

- **Provide funds for loans with “below market” interest rates**
- **Can qualify for “automatic” 4% Tax Credits**
- **“Non-competitive” funding**
- **Applications accepted on a first-come, first-serve basis**
- **Project must meet basic income targeting and public purpose requirements**

Who We Are and What We Do: DHCD's Multifamily Financing Group (cont'd.)



State Loan Funds

- **State loans offer flexible project financing**
 - Subordinate to first mortgage when required
 - Cash flow payments in some cases
- **Rental Housing Funds (RHF)**
 - Rental Housing Production Program (RHPP)
 - Elderly Rental Housing Program (ERHP)
 - Federal HOME Program (HOME)
- **Partnership Rental Housing Program (PRHP)**
 - Local government involvement required in most cases
 - Units must be targeted at 50% statewide median or lower
- **Maryland Housing Rehabilitation Program (MHRP)**

What We Look For: DHCD's Priorities



- **Fundamentally sound real estate deal**
- **Solid market for proposed units**
- **Experienced development team**
- **Public purpose priorities per “Multifamily Rental Financing Program Guide”**
- **Leveraging of non-State resources**
- **Key Resources: DHCD's “Qualified Allocation Plan” and “Multifamily Rental Financing Program Guide”**

How It Works: DHCD's Financing Process



- **Predevelopment**
 - Meet with DHCD to describe your project and receive staff input
 - Apply for financing that best suits project
 - Financing can be competitive (RHF, 9% Credits)
 - Financing can be non-competitive (Bonds, PRHP)

- **Development**
 - Receive a reservation of funds from DHCD
 - Submit additional documentation through Submission Kit Process
 - Close on your loan(s) and tax credits

- **Construction**
 - Work with the DHCD construction inspector and finance team

- **Occupancy and Operations**
 - Asset Management
 - Compliance monitoring
 - Loan servicing

The End Result: Projects Financed by DHCD



Mountain Village West
Garrett County
9% Credits / RHPP Loan

Gateway Crossing Townhomes
Hagerstown, Washington County
9% Credits / RHPP & PRHP Loans



Martin O'Malley *Governor*

Anthony G. Brown *Lt. Governor*

The End Result: Projects Financed by DHCD



**Seneca Heights Supportive Housing
Gaithersburg, Montgomery County
PRHP Loan**

**Rosemary Village / Barrington Apts.
Silver Spring, Montgomery County
4% Credits / Tax Exempt Bonds**



Lessons Learned: Advice for New (and Old) Borrowers



- **Anticipate, Anticipate, Anticipate**
- **Up-front Coordination: Meet/Talk with DHCD Staff Early (and Often)**
- **Income Eligibility of Existing Tenants in Preservation Deals**
- **New Borrowers: Think About Partnerships**
- **Reality Check: Readiness to Proceed**
- **Securing Local Support and Approvals**
- **Avoid “Deal Chasing” – Just Because a Deal Can Be Done, Doesn’t Mean it Should Be Done**

What's New at DHCD



➤ **Simplified/Streamlined Application Process**

Rolled out new Application Submission Package in June 2007. Received positive reviews. Open for comments for continued improvements and enhancements.

➤ **Maryland Housing Rehabilitation Program (MHRP)**

Re-opened MHRP for Multifamily Deals financed with Tax-Exempt Bonds. Two MHRP loans went to Initial Closing during 2007 on preservation projects in Baltimore City (Coleman Manor) and St. Mary's County (New Towne Village). Demand for the program remains strong.

➤ **Rural Housing Preservation in Partnership with USDA**

Met with National Staff of USDA to discuss financing programs and opportunity for partnership in preserving rural affordable housing projects. Closed one of the first Bond / 4% Credit / 515 rural preservation projects in the country (Brunswick House) in Frederick County. More deals in our pipeline, which make use of USDA 538 loans, 9% tax credits, bonds and 4% credits.

➤ **Partnership (PRHP) loans for non-government sponsors**

Revisions to the PRHP statute and regulations allowed DHCD to make loans to private and non-profit borrowers for units for Individuals with Disabilities and Special Needs. Loans made to 4 projects which also received Tax Credits and Rental Housing Funds to set-aside a total of 14 units for the disabled. Continuing use of PRHP funds in 2008 for additional IDSN units.

➤ **Sustainable Development and Green Building Standards**

Development Quality now incorporates enhanced priority for construction techniques that incorporate proven energy efficiency and sustainable development features such as LEED and Energy Star. More detail is provided in the Multifamily Rental Financing Program Guide.

Martin O'Malley *Governor*

Anthony G. Brown *Lt. Governor*



Questions?

Contact Information:

**John R. Maneval
Deputy Director
Multifamily Housing
410-514-7451
maneval@mdhousing.org**

www.mdhousing.org