United States
Department of
Agriculture

Rural Development

Strategies for Improving Your Rural Development Properties

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Strategies for Improving Your RD Properties

What we will be covering in this session:

- Preserving properties within the RD Portfolio
- Options for struggling RD Properties and preserving them
- Exit strategies for troubled properties

Strategies for Improving Your RD Properties

Preserving properties in the RD portfolio:

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Identify reason for property issues:

- Financial assistance needed for improvements/repairs
- Change in need for affordable housing – occupancy concerns

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Financial assistance needed for improvements/repairs

- Rural Development funding sources
  - Guaranteed Rural Rental Housing (GRRH)
  - Preservation Revolving Loan Fund (PRLF)
  - Multi-Family Housing Preservation Revitalization (MPR)
- External Funding Sources
  - WHEDA – Tax Credits
  - Third Party Lenders – conventional loans

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Guaranteed Rural Rental Housing Program (GRRH) (Section 538)

- New Construction
- Acquisition with Rehab of at least $6,500 per unit
- Rehab of at least $6,500 on an existing Rural Development Section 515 Project
- Take-out permanent financing and construction/permanent loans
- Housing with 5 or more units in Rural Areas (population of 20,000 or less)
- Compatible with other funding sources, including Tax Credits, HOME Funds, etc.

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Guaranteed Rural Rental Housing Program (GRRH) (Section 538)

- No restrictions of unit amenities
  - Eligible amenities could include garages, dishwashers, air conditioners, in-unit laundry, etc.
- No restrictions on unit sizes
- Provides flexibility in order to finance units at an affordable rate, which can compete with market units
- No Restrictions on Return to Owner
- 90% Protection in Case of a Loss
- Lenders Earn Community Reinvestment Act Credit
- Loans are Exempt from Lender’s Legal Lending Limits
- Allows Lender to Expand Portfolio

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Preservation Revolving Loan Fund (PRLF)

This program provided revolving loans to intermediaries for the preservation and revitalization of low-income Multi-Family Housing currently financed by Rural Development.

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Preservation Revolving Loan Fund (PRLF)

Eligible loan purposes:

- Rehabilitate existing buildings
- Install necessary systems – heating/cooling, electric, water/sewer
- Maybe used to install elevator when needed to address accessibility / occupancy issues
- Landscaping
- Equity

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Intermediaries

WHEDA

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Multi-Family Housing Preservation Revitalization (MPR)

To meet the financial and long term physical needs at these projects. Funding opportunities include:

- Debt Deferral:
  - 514 or 515 loans obligated prior to 10-1-91
- Revitalization Grant:
  - NP applicants only
  - Only for costs to correct health and safety violations
- Revitalization Loan:
  - 0% loan
  - 30-year amortization

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Multi-Family Housing Preservation Revitalization (MPR)

- Soft Second (Bullet) Loan:
  - 1% loan
  - Balloon of deferred P&I
- Traditional Section 515 Loan:
  - 1% Loan w/Interest Credit
  - Up to 50-year amortization
- Traditional Section 514 Loan (Farm Labor Housing):
  - 1% loan
  - Up to 33-year amortization
  - Grants limited to 90% of total costs

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Multi-Family Housing Preservation Revitalization (MPR)

Since 2004 Wisconsin has had 29 projects that have gone through the MPR process.

3 have been Limited Profit Entities and 26 were Non-Profits.

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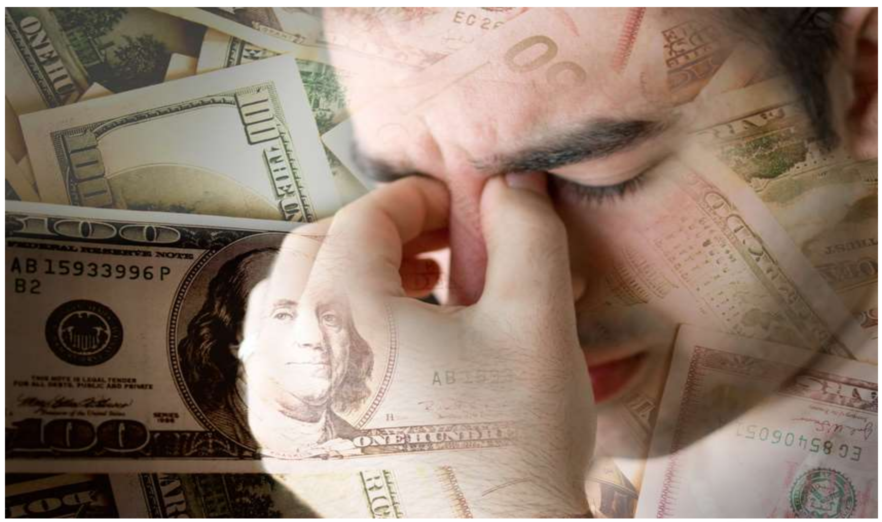
What happens when a project is not at full capacity, not cash flowing and requires more and greater maintenance?



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Preserving struggling RD Properties through a Servicing Workout Plan

- Financial Deficiencies
  - Inadequate cash-flow
  - Delinquent mortgage payment
  - Seriously underfunded reserve accounts
- Physical Deficiencies
- Fair Housing Deficiencies
- Occupancy Deficiencies

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Preserving struggling RD Properties through a Servicing Workout Plan

What can a Servicing Workout Plan do?

- **Allows for Changes in project operations**
- **Allows for Changes in Loan Account**

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Preserving struggling RD Properties through a Servicing Workout Plan

Changes in project operations

- Rent change
- Occupancy waiver
- Temporary incentives to improve occupancy
- Special Note Rents (SNRs)
- Change management agent or management plan
- Change project designation

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Preserving struggling RD Properties through a Servicing Workout Plan

Changes in Loan Account

- Loan re-amortizations
- Loan consolidation
- Deferral of payments – **last resort**

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Preserving struggling RD Properties through a Servicing Workout Plan

- Agency approval of workout plan is not guaranteed and non-approval is not an appealable action
- Maximum term of a Workout plan is 2-years
- Workout plans are to be evaluated annually to determine whether the plan is meeting its intended goals

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Exit strategies for troubled properties - Prepayment

- Borrowers may want to prepay their Agency loans and convert their properties to conventional use.
- All loans approved prior to December 15, 1989 may file a prepayment application to request payoff of their RD loan(s).
- Loans made on or after December 15, 1989, are prohibited from prepayment.

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Exit strategies for troubled properties - Prepayment

- Meet with the borrower
- Notifying tenants
- Receipt of prepayment request and conducting a completeness review
- Determining prepayment feasibility – property is needed – one to one vacancies
- National Office approval
- Projects that are approved for Prepayment the tenants will be offered to apply for RD Vouchers to assist with their rent after the project has left the RD program.

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Acceleration / Foreclosure

When all reasonable efforts have failed the agency may need to look at acceleration/foreclosure of the projects account.

Servicing Office will notify the borrower issuing three servicing letters of the corrective items that need immediate attention.

Then a Problem Case Report is submitted to the State Office for review and further processing through our attorney to issue the Acceleration Letter.

We have had much success with completing Short Sales of properties before they actually go to Foreclosure.

QUESTIONS ???

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