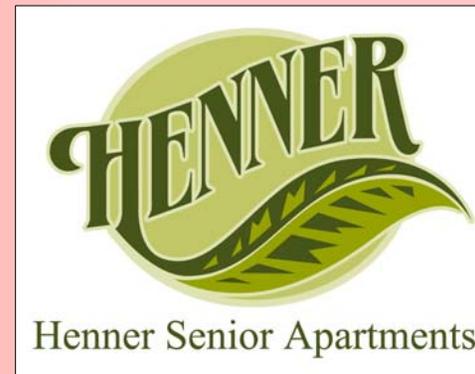


# Financing Community Development *in Rural Pennsylvania*

Presented by :  
Federal Reserve Banks of Philadelphia & Cleveland  
and Rural LISC

October 26  
Harrisburg, PA



Henner Senior Apartments  
Womelsdorf, Berks County



# Housing Development Corporation

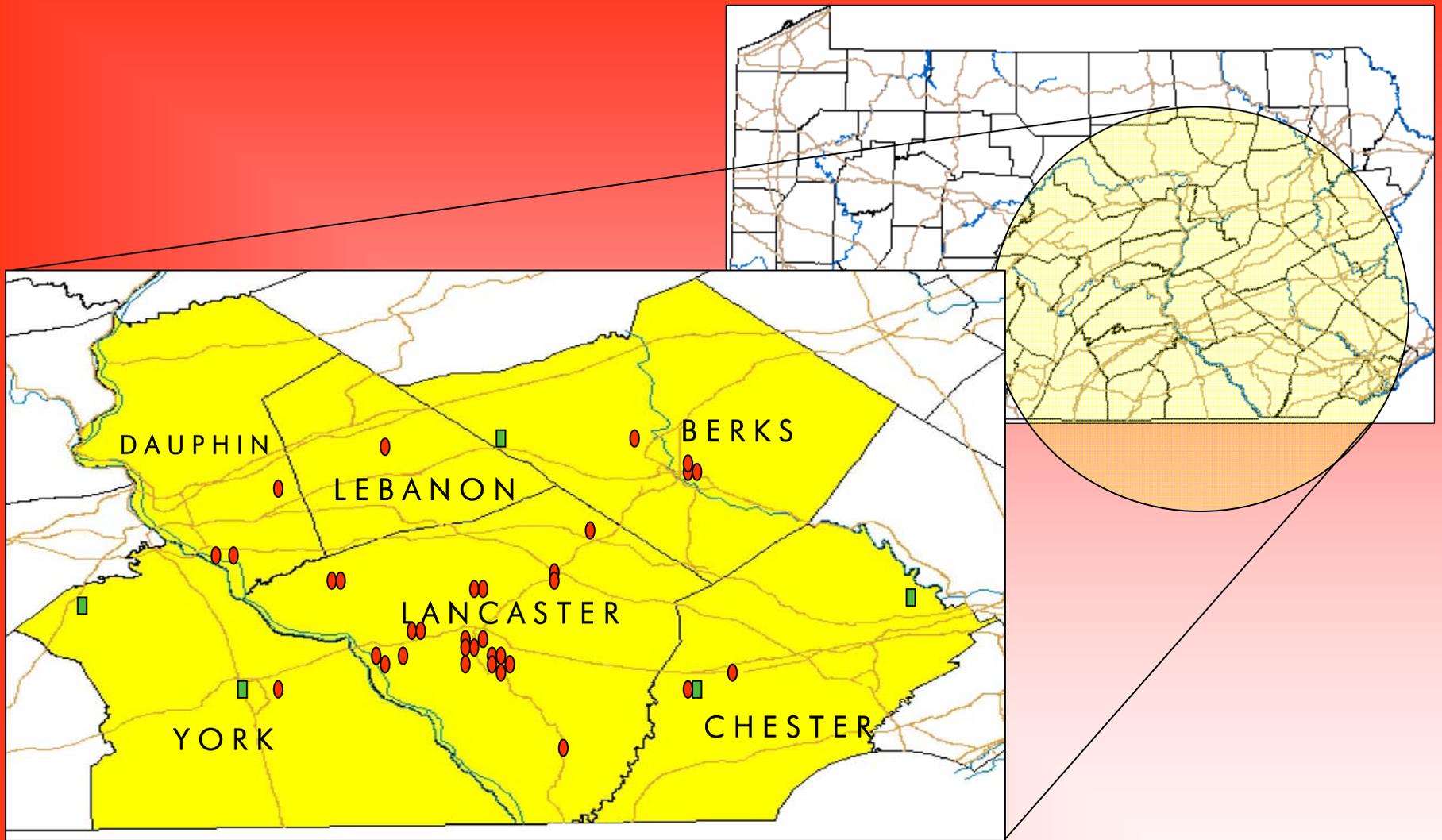
- Who we are
  - A private, non-profit organization operating since 1971
- What we do
  - Develop, manage, and own affordable rental housing
  - Serve working families, seniors and people with disabilities who have low or moderate incomes
- Where we do it
  - Lancaster, Chester, Berks, Lebanon, Dauphin, & York counties and beyond!



# Our Mission

- To provide high-quality, affordable homes
- To expand residential opportunities for households with modest incomes
- To assist in community revitalization efforts





○ = Current HDC Properties, 2028 units in 38 properties  
■ = Prospective New Properties, over 300 units in 5 sites



# The Need for Henner Senior Apartments

- Rising costs in the area for the elderly to age in place
- Deteriorating industrial building in a historic district distracting from economic revitalization efforts
- Market study showed high number of lower-income residents living in the area, making for good capture rates



# Who the Project Serves

- Low-income senior citizens, age 62 and older



- The Borough of Womelsdorf and its downtown revitalization efforts





# Players in the Transaction

- Housing Development Corporation – Developer, Borrower
- Enterprise Community Investment – Equity Provider, Syndicator
- USDA Rural Housing Service – Primary Mortgage Lender, Subsidies
- Pennsylvania Housing Finance Agency – Tax Credits, PennHOMES
- Berks County – HOME Funds Soft Loan
- Senator David Brightbill - Supporter
- Rural LISC – Predevelopment Funds
- Federal Home Loan Bank of New York – Soft Loan
- Armstrong Foundation – Predevelopment Funds
- Borough of Womelsdorf – Land Planning, Support, DCED Funds



# Financing the Project

## Predevelopment

- \$25,000 Recoverable Grant from Rural LISC
  - Paid back in full at closing
- \$10,000 Grant from the Armstrong Foundation



# Financing the Project

## Permanent Financing

- \$2,748,000 in equity from Enterprise Community Investment
  - Purchased tax credits awarded by Pennsylvania Housing Finance Agency
- \$783,552 from PHFA's PennHOMES program
  - Soft debt, 30 years
- \$600,000 in HOME funds from Berks County
  - Soft debt, 30 years
- \$195,000 from USDA Rural Housing Service
  - Hard debt, 30-year mortgage
- \$112,696 from the Federal Home Loan Bank of New York
  - Soft debt, 30-years
- \$100,000 from the Borough of Womelsdorf
  - DCED funds



# Enterprise Community Partners

- Enterprise Community Partners (formerly the Enterprise Foundation) was founded in 1982 by developer James Rouse to provide safe, affordable housing for poor communities throughout the country
- Enterprise's mission is to see that all low-income people in the United States have the opportunity for fit and affordable housing and to move up and out of poverty into the mainstream of American life



# Enterprise Community Investment

- Enterprise Community Investment was founded in 1984 as a for-profit subsidiary of the Enterprise Foundation that arranges financing principally through the low-income housing tax credit
- \$5.5 billion from investors under management
- Financed more than 1,300 projects since 1986
- Approximately 170 projects closed annually, totaling \$700 million in equity
- 85% repeat business
- Partners with non-profit developers (70%) and for-profit developers (30%)



# Enterprise Investment Summary

- Tax Credit Pricing
  - The price we can pay is based on the benefits a deal provides to an investor, meeting target returns
  - In the Henner deal, we were able to pay \$.93 for each \$1 of tax credits
  - So, for the \$2,953,920 in tax credits that Henner receives, the project will receive \$2,748,000 in equity.



# Syndicator's Perspective

- Key things we found in Henner
  - A strong sponsor
    - Financially strong
    - Proven track record/committed to the housing they are building
    - A community-based organization
  - Underwriting
    - There was a market and need for the housing being built
    - The rents and expenses are appropriate
    - There is adequate cash flow to pay any debt coverage
    - The design is suitable for the population that it's serving



# USDA Rural Housing Service - Lender



*Rural Development*  
*[www.rurdev.usda.gov](http://www.rurdev.usda.gov)*

## *Mission Statement*

“Enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources in areas of greatest need through activities of greatest potential.”



# USDA Rural Housing Service

Rural Development work is focused in three agencies, plus the Office of Community Development, that report to the Under Secretary for Rural Development.

The three agencies are:

- Rural Utilities Service
- Rural Housing Service
- Rural Business - Cooperative Service



# USDA Rural Housing Service

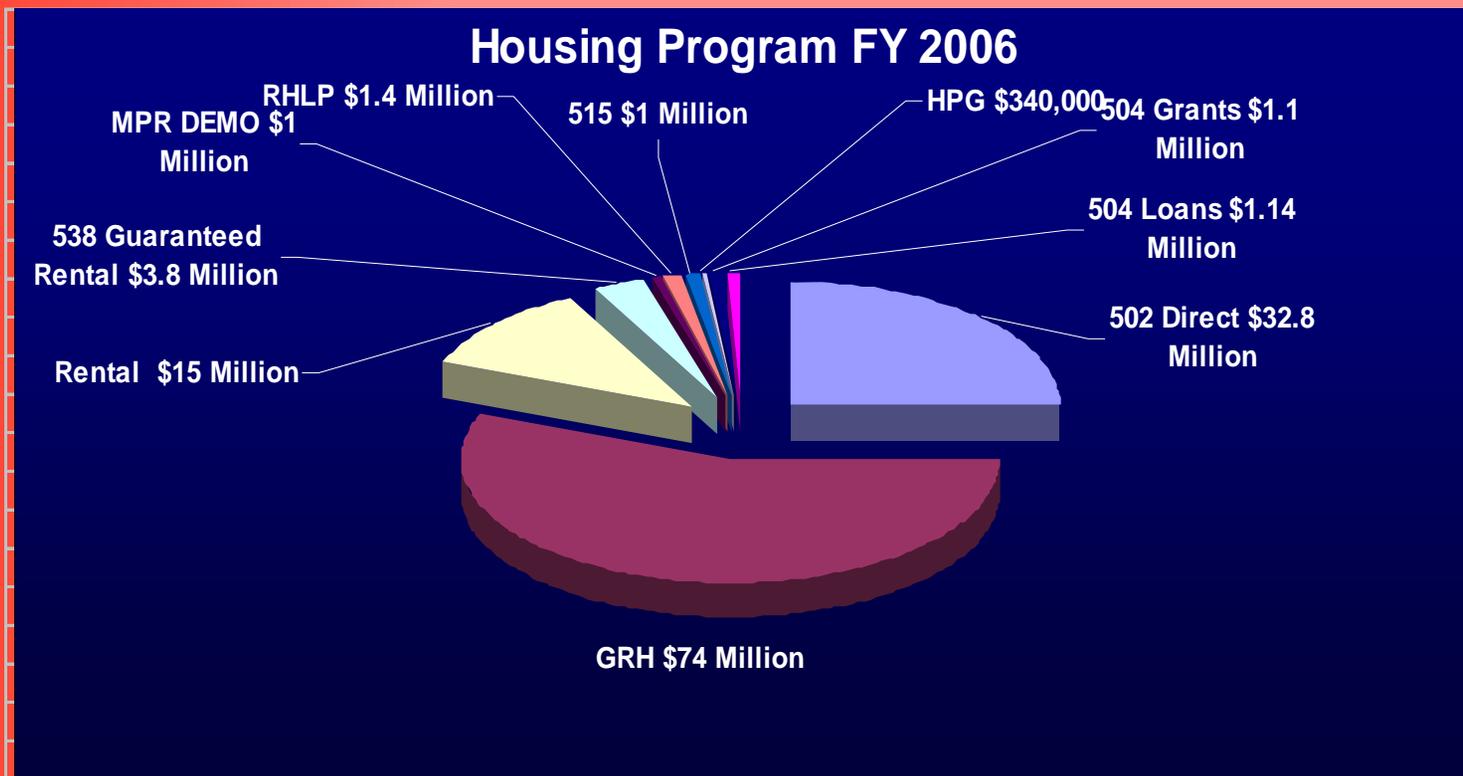
## Rural Development Improves the Quality of Life for Rural Americans

- Rural Utilities Service offers water and sewer programs along with telephone and electric programs
- Rural Housing Service finances decent, affordable housing as well as rural community loan programs
- Rural Business-Cooperative Service includes cooperative development and technical assistance, plus other business development programs
- Office of Community Development operates special initiatives to demonstrate effective community development techniques & address unique and pressing economic development issues



# USDA Rural Housing Service

\$126 Million invested in  
Pennsylvania Housing, FY 2006



# Programs: It's all about helping people



# Lender's Perspective

- Section 515 Direct Loan- \$195,000
- 27 units of elderly housing
- Interest Rate: 6%
- Interest Credit Subsidy: Reduces rate to 1%
- Term: 30 years, with 50 year amortization
- Rental Assistance provides subsidy to tenants
- RD-Low LTV due to Multiple Funding sources: LIHTC, Penn Homes (PHFA), Berks County (HOME funds), Rural LISC & HDC.



# USDA Rural Housing Service

## 538 Program



- Gary H. Groves, State Director signing the first Section 538 Conditional Commitment, 7/19/06 for Hickory Meadow
- 50 Unit Family Rental, White Twp., Indiana PA.



# USDA Rural Housing Service

## 538 Program Features

- 90% loan guarantee; fee 1% of guaranteed amount)
- New Construction or rehab (> \$6500/unit)
- Up to 40 year amortization (min 25 years)
- Interest rate buy-down to AFR-Max. 250 basis points
- Interest rate negotiated between lender / borrower
- Works well with LIHTC
- Published in NOFA
- [www.rurdev.usda.gov/regs](http://www.rurdev.usda.gov/regs) (Handbooks, 3565)



# Obstacles

- Construction costs escalated
  - Needed to redesign building at lower costs while maintaining unit mix
  - Part of solution: Building an addition on a slab rather than basement
- Change in Borough Council members
- Zoning officer, borough engineer made many demands
- High park and rec fee, discovered after budget was set
- Expensive sewer tap-in fees
- Contractor quit soon after tax credits were awarded
- Syndicator's requirements differed from those of the local banks that HDC was accustomed to
- Multiple and conflicting levels of compliance



# Lessons Learned

- Funding is competitive!
- Government & municipal support is a huge benefit
  - Strong & influential support on the state level
- A good working relationship with a flexible seller helps
  - Held mortgage
  - Lobbied on behalf of the project



# Recommendations

- Get an ALTA survey up front to identify all issues
- Prepare land plans early to identify all costs for applications
- Don't assume anything – Research thoroughly
- Make sure that you secure local, county, and state support
- Keep a positive attitude – “We will close!”
- PLAN, PLAN, PLAN!



# Questions?



Thank you for your commitment to supporting affordable housing in the communities you serve.

