



Affordable Housing
Preservation Initiative

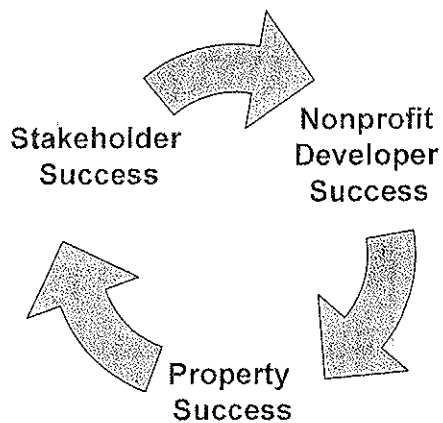
Preservation and Recapitalization of Affordable Housing

9th Annual CHAM Conference
April 2009

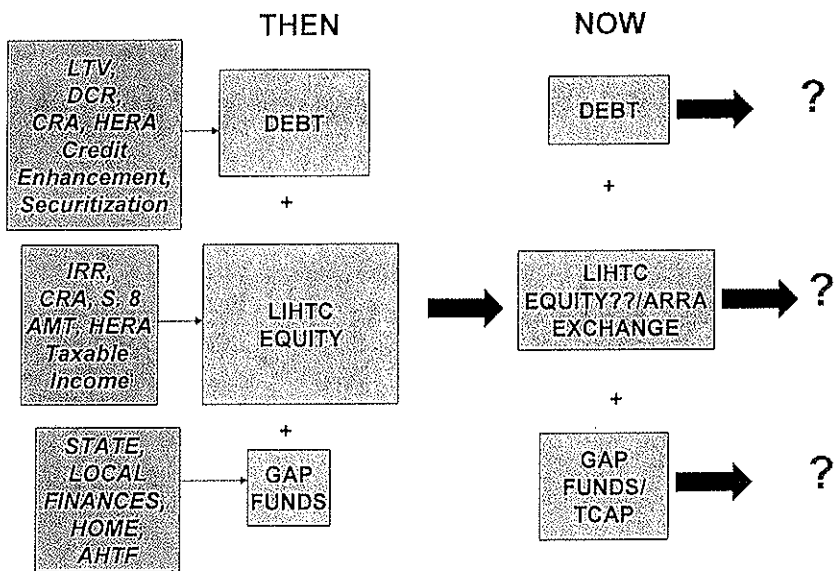
ASSET MANAGEMENT AND PRESERVATION IN 2009 AND BEYOND

- **LISC Intermediary Perspective**
- **Market, Environmental Challenges**
- **LISC's Response**
- **New Opportunities**

Common Interests



Changes in Permanent Sources



A Few Constants

- Safety & Soundness overrides CRA regulatory push
- HUD-FHA and GSEs are still in business.
- “Flight to Quality”
- What structural changes will accompany the return of the market?
- 2009 prognosis unclear: Commercial debt portfolio crisis may loom.

Market and Environmental Challenges

- LIHTC market
 - ARRA intervenes via exchange, gap funds, but does not restore market
 - “No Story Deals”
 - Developer Characteristics
 - Guarantees, Reserves
 - New: Investors unable to meet pay-in commitments after construction start

Market and Environmental Challenges

- **Preservation - Related:**
 - Section 8 uncertainties: on the mend
 - 4%-Bond deals
 - Continued HUD process challenges - asset management and new transaction phases
 - Delays in omnibus preservation legislation

LISC Response: Findings

- **Sponsor failure or severe weakness: a factor in every LISC loan loss in the last two years.**
- **Significant losses and near-losses as a construction lender in the last two years.**
 - Difficult-to-manage, ambitious, complex projects.
 - Inadequate outside assistance.
 - Costly mistakes on the ground by contractors
 - Inadequate construction progress monitoring

LISC Response: Findings

- Watch List loans: 25 (compared to 16 one year ago).
 - More loans need deeper intervention
 - Complicated long-term workouts
 - Staff time commitments must reflect this workload.
- Delinquency and late payment have nearly doubled in 12 months.

*re-indemnity of
debt -
ratio of
new debt /
amendments*

LISC Response: Findings

- 20 Largest LISC Borrowers Reviewed
 - Identify organizational weakness and capacity building needs
 - Little exposure to losses in idle funds investments
 - Sponsor cash flow impaired by developer fee and donation delays; more cash flow projections being done.
 - Bank LOCs not being renewed; bank consolidation affecting relationships.
 - More Sponsor expense management

[Faint handwritten notes]

LISC Response: Actions

- **Sponsor Financial Condition: Greater scrutiny**
 - Cash (current and projected)
 - Management letter
 - Projected Development Fee income
 - Contingent liabilities
 - Recent internal statements
 - Portfolio condition - completed and pipeline

LISC Response: Actions

- **Collateral**
 - LTV reduced from 100% to 90%
 - Appraisal: no more than 6 months old at closing
 - No debt subordination (Existing policy, but now even more reluctant to grant exceptions)

*where first
lender can
block,
not just
collateral
position*

LISC Response: Actions

- **LIHTC Project Considerations**
 - Accurate pricing estimates
 - Syndicator strength
 - Firm commitment of subsidies
 - Enforceable collateral on construction period bridge loans

LISC Response: Actions

- **Construction Loans**
 - Ensure active participation in monitoring and job meetings
 - Re-review of existing acquisition financing when de novo construction financing is underwritten.

LISC Response: Actions

- **General**
 - \$2 million loan cap
 - Commitment expiration reduced from 12 to 9 months
 - Increased management staff accountability for loan performance
 - Increased review by national program “special teams”
 - Increased staff training in underwriting

New Opportunities

- **Federal Policy**
 - Housing and Economic Recovery Act (HERA) & American Recovery and Reinvestment Act (ARRA)
 - Appropriations Levels and Administrative Provisions
 - Upcoming Legislation: Preservation Bill & SEVRA

New Opportunities

- Sustainability is key to Preservation - LISC Publications:
 - *Getting Started with Green Preservation: An Introduction to Issues and Resources for Greening Existing Affordable Housing [forthcoming]*
 - *Green Rehabilitation of Multifamily Rental Properties: A Resource Guide*
 - *Green Affordable Housing Operations & Maintenance Toolkit and Buyer's Guide*

Patience and Flexibility

- Which path?
 - Asset Management
 - Moderate Rehab
 - Substantial Rehab
- HUD, USDA Preservation toolkit:
 - potential for administrative and legislative improvements.

Additional Needs

- Capacity building re: Short-term stimulus measures, intervention with state & federal delivery systems.
- Increased demand for mini-perm subordinate debt
- Support for NP participation in joint ventures
- Anticipate further lending and development industry restructuring
- Anticipate new business models as a result.

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