NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 15, 2016

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact awards@ncsha.org or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: Rapid Rental Loan Refinancing and Retention Program

HFA: VHDA - Virginia Housing Development Authority

Submission Contact: (Must be HFA Staff Member) Brian Matt **Email:** Brian.Matt@vhda.com

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

A creative financing program that ensures rental developments remain affordable for longer periods of time.

Use this header on the upper right corner of each page:

HFA: VHDA - Virginia Housing Development Authority

Entry Name: Rapid Rental Loan Refinancing and Retention Program

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
○ Annual Report	○ Empowering New Buyers	○ Federal Advocacy	◉ Financial
○ Creative Media	○ Encouraging New Production	○ State Advocacy	○ Human Resources
○ Promotional Materials and Newsletters	○ Home Improvement and Rehabilitation		○ Operations
			○ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	Are you providing visual aids?
○ Encouraging New Production	○ Combating Homelessness	○ Special Achievement	◉ Yes
○ Multifamily Management	○ Housing for Persons with Special Needs		○ No
○ Preservation and Rehabilitation			

2016 NCSHA
Award Submission

ENTRY NAME:

Rapid Rental Loan Refinancing and Retention Program

ENTRY CATEGORY:

Management Innovation
Financial

"VHDA's Multifamily Refinance Program has ensured that more than 15,000 affordable housing units have been refinanced and preserved, further strengthening our ability to provide affordable housing in Virginia. Programs like this one make VHDA a reliable and proactive business partner with developers and advocacy groups such as ours, and its multifamily financing programs have led the way in sustaining and expanding the stock of high quality affordable rental housing. With the demand for affordable rental housing on the rise, this is more critical than ever for our state."

Bob Adams, Executive Director of Housing Virginia

Brief Description

VHDA's multifamily mortgage loan portfolio is almost entirely self-insured. To be successful, the program requires VHDA to assess credit risk accurately, price it appropriately, and manage it effectively throughout the life of each loan. This model makes the multifamily loan program one of our most effective for achieving our mission because of the income profile of the tenants our program serves. In fact, the net revenue from this program can be re-deployed to support grant and other subsidy programs that reach the hardest to serve populations in need.

VHDA's multifamily loans are typically locked out from prepayment for either 10 or 15 years depending on whether the funding source is taxable or tax-exempt. This prepayment lock-out period gives VHDA some assurance that the development will remain affordable and subject to VHDA's mission-driven regulatory requirements for a predictable timeframe. Since VHDA's multifamily loans are largely financed through the issuance of bonds, the prepayment lock-out term also gives corresponding bond owners some comfort that their bonds will most likely not be redeemed prior to the first optional redemption date.

Upon expiration of the prepayment lock-out period, borrowers have the option to pay off their loan and seek financing elsewhere. Once the loan has been paid off, developments are technically under no obligation to remain subject to VHDA's regulatory requirements for maintaining affordable rental housing. Consequently, VHDA risks a diminishing footprint of affordable rental housing stock in the Commonwealth.

Because VHDA's multifamily loans serve a market that is so important to its lowest-income constituents and because the earnings from such loans provide subsidies which flow to even harder to reach populations, retention of such loans has always been a high priority. In order to mitigate the risk of prepayment, VHDA has developed a proactive, streamlined, multifamily loan refinancing and retention program (Refinance Program).

Our strategy is to take advantage of VHDA's ability to restructure its source and cost of funding before the mortgagor gains the right to refinance elsewhere. To be attractive to existing borrowers, the program is designed to offer three compelling benefits: (1) eliminating the interest rate risk the borrower would incur while waiting to gain the right to prepay, (2) minimizing the need to pay fees to VHDA or to other parties to effect the transaction, and (3) increasing property cash flow by lowering debt service costs.

Implementation of this strategy involves a joint effort of VHDA's Finance, Legal and Rental Housing divisions who collaborate through regular on-going reviews of the loan portfolio to identify eligible loans: loans with a prepayment lock-out period coming to a close and corresponding bonds that are optionally redeemable. Development Officers then contact mortgagors with proposals that typically include a rate reset at VHDA's current rate with some adjustment, plus an extension of the term and reset of the amortization period typically for 25 years, along with a waiver of any prepayment, origination or refinance fees, and a new prepayment lock-out period of at least 10 years. VHDA can customize the restructuring of the loan to meet the borrower's needs including terms shorter than 25 years that typically carry lower interest rates. Once the borrower and Development Officer reach agreement, only one week is needed for VHDA to produce the necessary amendments, set a new interest rate and obtain executed documents from the borrower. As most of VHDA's refinance transactions are structured and priced to avoid cash outlays by the mortgagor, the process can move very quickly to closure. This proactive approach to retaining loans in VHDA's multifamily portfolio – and therefore subject to its regulatory agreements and monitoring – facilitates longer-term benefits for Virginia residents and helps VHDA to fulfill its mission of providing affordable housing.

Why the Program is Meritorious and Meets NCSHA Award Judging Criteria

Innovative

VHDA has developed the Refinance Program in response to a desire (1) to keep developments subject to VHDA's regulatory agreements for a longer period of time, thereby ensuring such developments remain affordable to low and moderate income households, and (2) to keep multifamily loans from paying off prematurely, foregoing the associated income the Authority could otherwise generate for other grant or subsidy programs aimed at reaching underserved Virginians. Over 15,000 affordable housing units have been refinanced and preserved pursuant to the Refinance Program, to further strengthen our ability to provide affordable housing in the Commonwealth.

By being proactive in approaching multifamily mortgagors with an extremely simplified and virtually cost-free refinance process before their loan prepayment dates become available, VHDA creates a scenario whereby the mortgagor is given the option of accepting VHDA's proposal on the day offered, to lock in savings for the immediate future, or waiting until a future date to consider whatever borrowing options are available at that time and hope interest rates don't rise in the interim.

Replicable

Any similarly situated HFA can approach their multifamily mortgagors in a comparable fashion to VHDA's Refinance Program. VHDA is more than pleased to share its refinance templates and experience with any state HFA.

Responds to a management challenge or opportunity

VHDA's challenge in retaining multifamily borrowers has largely been timing. By the time a multifamily mortgagor requests a payoff quote, it is usually too late to entice them to refinance with us, and the risk of losing affordable rental housing stock heightens. Accordingly, the Refinance Program takes a proactive approach by reaching out to mortgagors well in advance of their loan prepayment dates. By extending a new offer with attractive financial terms, the mortgagor is able to accept our offer quickly, assuming their limited partners do not prohibit the transaction, by simply executing a few previously prepared documents. Consequently, the Authority is able to extend the duration of affordable rental housing stock for the foresee-able future as well as generate a consistent flow of income and guaranteed annual spread.

Achieves measurable improvements in agency operations

The Refinance Program offers are easily generated from various templates VHDA staff have developed and refined. An estimated 1.5 hours of staff time is usually all that is needed to generate and negotiate a successful offer, plus 1.5 hours to generate the appropriate documentation, and 1 hour to process any acceptance (excluding staff time required to actually sell the refunding bonds). For a total of 4 hours of staff time, as compared to approximately 75-100 hours needed to underwrite a new multifamily mortgage loan, VHDA is able to extend financing arrangements for an estimated 7.5 – 10 years into the future. At a $100 hourly rate, the process of generating and processing each offer and acceptance costs VHDA approximately $400. Assuming a mortgagor with a $3 million loan accepts a VHDA refinancing offer the additional 7.5 years of guaranteed annual spread of 1.25% can translate into approximately $281,000 of potential gross spread ($3,000,000 x 1.25% x 7.5). VHDA estimates 215 loans with aggregate outstanding principal balances of $700 million have been refinanced utilizing the Refinance Program, generating approximately $65.6 million of potential gross spread that will be earned over an average period of 7.5 years.

Provides benefits that outweigh the costs

The primary benefit of the Refinance Program is the ability to reduce the risk of losing affordable housing developments to market rate units or potentially other non-housing uses and to preserve the existing footprint of affordable rental housing stock for at least another 7.5 – 10 years by enticing multifamily property owners to extend the prepayment lock-out through an offer of attractive refinancing terms. A side benefit of the Refinance Program is that, in many instances, subsequent to the acceptance and implementation of a refinance offer, the mortgagor will apply for a loan increase, which, if approved, provides additional funding for updating or maintaining the condition of the affordable housing development as well as generate additional income to VHDA. Over $225 million of loan increases have been approved so far on developments refinanced under the Refinance Program. With an additional 10 years of guaranteed annual spread of 1.25% on such loan increases, approximately $28.1 million of potential gross spread ($225,000,000 x 1.25% x 10) can be generated for use in VHDA's other mission driven initiatives.

Demonstrates effective use of resources
As stated above, it is estimated that it takes 4.0 hours of staff time to generate a refinance offer under the Refinance Program and implement any acceptance. That compares very favorably to the estimated 75-100 hours necessary to process an application for a new multifamily mortgage loan. Because the development is currently operational and its performance is known, financial risk is substantially reduced when you retain an existing mortgage loan versus originating a new loan.

Achieves strategic objectives
The Refinance Program allows VHDA's existing footprint of affordable rental housing stock to remain affordable in the Commonwealth for an additional 7.5 to 10 years beyond the original loan prepayment dates triggered, thereby ensuring participating developments are subject to our regulatory agreements for longer periods of time and remain affordable to low and moderate income Virginians. Moreover, additional income is secured for an additional period of time. As shown below, the outstanding principal balance of VHDA's multifamily mortgage loan portfolio at the end of each fiscal year from 2002 through 2009 grew significantly. Since 2009, new originations and refinancings have largely offset the impact of scheduled principal amortizations and loan pre-payments, despite the fact the presence of severe competition from Fannie Mae, Freddie Mac and FHA to refinance existing VHDA financed developments.

Date	Outstanding Principal Balance	Date	Outstanding Principal Balance
June 30, 2002	$2,189,970,327	June 30, 2009	$3,244,340,287
June 30, 2003	2,365,995,013	June 30, 2010	3,316,196,540
June 30, 2004	2,550,383,671	June 30, 2011	3,358,740,077
June 30, 2005	2,719,110,070	June 30, 2012	3,347,855,246
June 30, 2006	2,850,428,310	June 30, 2013	3,342,926,590
June 30, 2007	2,919,140,289	June 30, 2014	3,335,436,781
June 30, 2008	3,106,629,041	June 30, 2015	3,302,302,199

Conclusion
The Refinance Program has been extremely successful over time and has the following benefits:

- it keeps the participating developments subject to VHDA's regulatory agreements for longer periods of time, thereby ensuring that such developments remain affordable to low and moderate income Virginians;
- over 15,000 affordable rental housing units from an estimated 215 loans with aggregate outstanding principal balances of $700 million have been refinanced and preserved pursuant to the Refinance Program;
- refinance documentation can be quickly generated utilizing the templates designed by VHDA;
- refinance offer generation, negotiation, and execution can be accomplished with four hours of staff time;
- it allows refinanced borrowers to seek loan increases based upon the development's increased cash flow;
- mortgagor acceptance can be accomplished swiftly without any material out-of-pocket expenses and with minimal interest rate risk;
- it involves less financial risk than originating a new mortgage loan because the development is currently operational and its performance is known; and
- it's profitable over time, in that it has translated into approximately $93.7 million ($65.6 million from refinances + $28.1 million from related loan increases) of additional gross spread, which can be re-deployed to support grant and other subsidy programs that reach the hardest to serve populations in need.

Attachment: Template – Refinance Offer Letter

DATE

[*Input Borrowing Entity]*

[Input Address]

Re: *[Input Property Name]* – Refinance and Loan Increase

VHDA # / Deal #

Dear Mortgagor:

Virginia Housing Development Authority (the "Authority") hereby offers to refinance the above-referenced loan (the "Mortgage Loan"). This offer expires at 2:00 p.m. on *[input the refinance offer expiration date]* (the "Refinance Offer Expiration Date and Time").

1. Proposed Changes. If you accept this offer to refinance the Mortgage Loan, the following would be the new terms (all other terms not listed below would remain unchanged). Except for the interest rate, the new terms are also shown on the attached Increase Amendment to Deed of Trust Note:

a. Interest Rate. The new interest rate would be determined at Rate Lock, pursuant to the explanation of Rate Lock in Section 3, below. The new interest rate will be equal to the interest rate established by the Authority for an Immediate Delivery, Permanent Loan under its Taxable Refinance Program plus 15 basis points *[for the standard program]*. The new interest rate would be effective *[input interest rate effective date]*, and you would see a change in your monthly payment due starting *[input date the new monthly principal and interest changes]*.

b. Prepayment Terms. Section F would be changed to the following:

"Prepayment. The Mortgagor covenants not to pay the debt evidenced by this Note or any part thereof prior to or in advance of the payment schedule described hereinabove until *[input Prepayment Date]* (the "Prepayment Date"). Subsequent to the Prepayment Date, the Mortgagor shall have the right to prepay, in whole but not in part, the debt evidenced hereby; provided, however, that the Mortgagor in connection with such prepayment shall pay, in addition to all amounts due under this Note, a prepayment fee equal to six percent (6%) of the then outstanding principal balance of the Mortgage Loan reduced by one percentage point for each twelve month period that has expired since the Prepayment Date, but in no event less than three percent ([*input prepayment floor %]* of the then outstanding principal balance. In the event that the Authority shall exercise its right under Section D hereinabove (regardless of whether the failure by the Mortgagor to perform or comply with any of the terms of this Note or the event of default under the Deed of Trust, all as described in Section D, is voluntary or involuntary on the part of the Mortgagor), a prepayment fee shall become at once due and payable in an amount equal to 6% of the then outstanding principal balance, which percentage shall be reduced after the Prepayment Date in accordance with the preceding sentence, for a prepayment in full of the then outstanding principal balance of the debt evidenced hereby. Any prepayment fee which shall become due and payable under this Section F shall be secured by the Deed of Trust described in Section G below." **[Check Note to make sure reference to paragraph F is correct]**

c. Special Conditions. The offer to refinance is conditioned upon payment of a yield maintenance fee (hereinafter, the "Yield Maintenance Fee") by Mortgagor in the approximate amount of $___________. The exact amount of the Yield Maintenance Fee shall be determined, calculated to and based upon the date of Rate Lock. *[if applicable]*

2. Acceptance. To accept this offer to refinance, you must do all of the following:

Sign the enclosed duplicate original of this letter, the enclosed Amendment to Deed of Trust Note and leaving the interest rate blank and return them all to me, *[Input Development Officer Name]*, Development Officer, Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, VA 23220-6504. By signing the enclosed duplicate original you are certifying to the Authority you have the authority to bind the Mortgagor to these new terms and that the signature block on this letter is correct.

3. Rate Lock Procedure.

a. After I receive the signed duplicate original of this letter and the signed Increase Amendment to Deed of Trust Note, prior to the Refinance Offer Expiration Date and Time, you should inform me by telephone or email that you want to Rate Lock.

b. I will then meet with the Authority's Finance Department and we will offer you an interest rate and calculate the Yield Maintenance Fee amount *[if applicable]*.

c. To accept the offered rate, you must do so in writing by signing the Rate Lock sheet I will prepare and send to you and returning it to me by both email and the original by regular mail along with a check for the Yield Maintenance Fee *[if applicable]*. I prepare the Rate Lock sheet when you tell me you are ready to accept the rate and you are ready to sign it.

4. Confirmation of New Terms.

Upon receipt of the original executed Rate Lock sheet, the Authority will send you via email and regular mail a copy of the Increase Amendment to Deed of Trust Note you executed with the signature of an Authorized Officer of the Authority and the new interest rate.

5. Title Insurance. [*Delete section if there is not loan increase associated with the restructure]*

a. Prior to disbursement of the Loan Increase funds, Mortgagor shall provide the Authority with a pro forma endorsement to title insurance policy increasing the amount insured to an amount equal to the sum of the Mortgage Loan Increase and the outstanding principal balance of the Mortgage Loan.

b. Within thirty (30) days after closing, you must forward to the Authority the original of a final endorsement, such endorsement shall show that title to the Property on the date of the Closing of the Mortgage Loan Increase remains vested in the Mortgagor free of encumbrances since the recordation of the Deed of Trust and the Regulatory Agreement and remains free from all objections to title, except such as specifically determined to be acceptable by the Authority.

c. If the pro forma endorsement shall show any matter which the Authority, in its discretion, shall require to be located on a survey, the Mortgagor shall provide an ALTA survey and Surveyor's Certificate addressed to the Authority, both certified as of a date within thirty (30) days of the date of the closing, showing such matter which shall be subject to the approval of the Authority.

d. The title insurance endorsement shall be issued by the title insurance company presently insuring the Authority's interest in the Mortgage Loan and shall contain such terms and conditions and shall provide such coverage as shall be satisfactory to the Authority.

6. <u>Offer Limitations</u>.

This offer terminates at the time and date shown in the first paragraph of this letter unless you have successfully rate locked prior that date and time. No assurances can be given that we will make refinance offers in the future. If you have any questions, please contact me at (804) 343-5643.

Sincerely,

[*Input Development Officer's Name & Title]*

<u>Acceptance</u>

The undersigned is the lawful representative of the Mortgagor, has read and understands the terms of this refinance offer, and desires to accept on behalf of the Mortgagor this refinance offer so that the Mortgagor has an opportunity to Rate Lock pursuant to the terms of this refinance offer.

[Input Borrowing Entity Name]

By:

Its:

By: ___________________________________

Name: ________________________________

Its: __________________________________

Enclosures