

VENTANA FUND



**Rehabilitating and Preserving Naturally-Occurring
Affordable Housing in New Mexico**

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www.ventanafund.org



Housing New Mexico



A HFA-CDFI Partnership to Preserve Naturally-Occurring Affordable Housing

Responding to an important state need through a strategic partnership

- As New Mexico's state housing agency, MFA has long recognized the need for innovative approaches to an important statewide need: The Rehabilitation and Preservation of naturally-occurring affordable housing (NOAH).
- NOAH refers to residential rental properties that maintain low rents without:
 - Federal subsidy
 - Mandated affordability periods
 - Income limits
- By definition, this type of affordable housing falls largely outside of the purview of Housing Finance Agencies (HFAs) like MFA, which require that properties charge affordable rents and lease to low-income tenants in exchange for access to government resources such as LIHTC, HOME and NHTF.

New Mexico's Rental Stock

- Despite the fact that HFAs typically do not finance NOAH, it is a large and significant part of the nation's affordable housing stock.
- In New Mexico, this type of housing is typically affordable because it is:
 - Older
 - Located in less desirable areas
 - Often in poor condition
- MFA estimates that approximately 40% of NM's rental housing stock is NOAH. This estimate is based on:
 - The large number of apartment stock that were built more than 40 years ago, many of which are smaller complexes (2-49 units)
 - These complexes are typically owned by “mom-and-pop” or smaller companies that are often unable to undertake the complexity and regulations that come with the traditional affordable housing products offered by MFA
 - The age, condition, outdated design and lack of energy efficiency, which makes this critical part of the affordable housing market especially vulnerable to deterioration and obsolescence

History of the Organization

- In March 2014, a group of community leaders incorporated as a New Mexico non-profit called Ventana Fund. “Ventana is the Spanish word for “window”, which denotes the opportunities that affordable rental housing provides.
- MFA provided \$3.2 million in grants to be used as match funding for the Certified Development Financial Institutions (CDFI) fund in the U.S. Department of the Treasury.
- In exchange, Ventana Fund agreed to:
 - Become a certified CDFI that serves all of New Mexico
 - Maintain its certification in good standing
 - Leverage the MFA grant funds by at least 50%
- Ventana Fund became certified as a CDFI in March 2015 and has since met, or exceeded, all of these goals.

Ventana Fund's Mission

- Ventana Fund provides low-interest loans and related services to affordable housing developers who serve New Mexico's low income residents and high-need communities.
- Strategic goal: To rehabilitate NOAH and preserve affordability.
 - 2015-2017: Focused on two-year construction loans for MFA projects
 - 2018: Achieved \$5 million in assets, which classified Ventana Fund as a "CORE" CDFI and made it eligible for higher amounts of grant funding

Ventana Fund

- The two-year structure allowed Ventana Fund to meet with and test its two-year construction loan product with owners of naturally-occurring affordable housing.
- This valuable experience prompted Ventana Fund to create a new product specifically designed for the unique needs of small rental property owners that includes:
 - Access to low-interest capital
 - A streamlined application and approval process
 - Simplified affordability requirements

Thresholds Program

- In late 2017, Ventana Fund launched “Thresholds,” its new loan product for naturally-occurring affordable housing.
- Thresholds provides five-year, mini-perm loans.
 - Up to a two-year construction period and 3 years P&I, based on 25-year amortization
 - Low interest rates of 3% to 5%
- Significant technical assistance from a veteran loan officer
 - Works with the borrower to apply for the Thresholds loan
 - Advises on the scope of work to ensure that it includes energy-efficient upgrades
 - Monitors rent levels and helps the owner develop basic protocols for income-qualifying new tenants
- Ventana Fund’s affordability requirements are straightforward so as not to deter potential borrowers.
 - Rents must be below 80% Area Median Income to qualify for the loan
 - Incomes must be at or below 120% of AMI
 - Impressively, all properties financed by Ventana Fund to date are charging rents below 60% AMI, *even after rehabilitation*

Thresholds Program

- A project that was rehabilitated through the Thresholds program



Sheldon Family LLC, Dallas SE
Albuquerque
Rehab (\$122,647)

Program Success

- Since Ventana Fund was certified as a CDFI in 2015 it has:
 - Received almost \$1.4 million in grant funding from the CDFI Fund from three rounds of funding in 2016, 2017 and 2018
 - Secured \$1.6 million in borrowed capital from two New Mexico banks. With the exception of \$100,000, all of these funds have been used for direct lending.
 - Made \$8.5 million in construction and mini-perm loans to 16 affordable rental projects. Of that amount, \$3.7 million has been repaid and re-lent to other projects.
- As of 2018, the majority of Ventana Fund's active loan portfolio is in five-year, mini-perm loans for rehabilitation of naturally-occurring affordable housing.
- To date, the MFA/Ventana Fund partnership has financed six Threshold loans for four different property owners in the Albuquerque area, resulting in the rehabilitation and preservation of 59 affordable housing units with rents at 60% AMI or less.
- Ventana Fund is working aggressively to expand the reach of the Thresholds product to rural areas.

Gateways

- MFA and Ventana Fund are taking their partnership a step further by using Ventana Fund as a vehicle for other affordable housing challenges that also fall outside the purview of MFA.
- One such challenge is the construction of new rental properties in very small communities that have workforce or affordable housing needs but cannot attract developers because of negative or flat population growth.
- Ventana Fund and MFA are developing a model that will aggregate the financing, design and construction of approximately 200-250 scattered site rental units, spread over numerous rural communities.
- This new project, called Gateways, is expected to launch sometime in 2020 as MFA and Ventana Fund secure partnerships with interested communities.
- Wells Fargo has provided Ventana Fund with a grant of \$25,000 to assist with the program's development.

MFA & Ventana Fund: Factors of Success

- MFA has drawn upon other HFA-CDFI partnerships to inform its relationship with Ventana Fund.
- The unique aspects of the MFA/Ventana Fund partnership have been the greatest factors of success.
- Substantial early funding:
 - MFA provided a large amount of initial seed funding (\$3.2 million) so that Ventana Fund could build its asset base quickly
- A professional services staffing agreement:
 - MFA personnel have provided fiscal agent, administration, loan underwriting and loan closing services, for which Ventana Fund pays MFA a monthly fee
 - Loan servicing is also provided for a fee of 35 basis points on the interest rate of each loan
 - The professional services agreement with MFA is scheduled to end on December 31, 2019
 - Ventana Fund plans to be fully self-sufficient by 2020

MFA & Ventana Fund: Factors of Success

- Benefits that outweigh costs:
 - To ensure that benefits outweigh the grant amount provided by MFA, MFA required the grant funding to be performance-based, with draws occurring over a four-year period once 50% leverage of the previous year's grant was reached
- Effective utilization of resources:
 - MFA's willingness to make the grant was predicated on the cost-efficiency of rehabbing naturally-occurring affordable housing, which does not require complex financing or carry a heavy regulatory burden
 - While the average cost of rehab in MFA's LIHTC program is \$152,502 per unit, the cost of rehab for a Thresholds loan has averaged \$38,535 per unit, to date
- Strategic partnership:
 - MFA worked with respected specialists in the rental housing industry, including a life-long multifamily broker, a seasoned affordable housing developer, a former USDA and Fannie Mae administrator, and a retired public housing authority director. Except for one, all of these professionals continue to serve on the Ventana Fund board of directors
 - Requirement that MFA have a position on the Ventana Fund board



MFA

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THANK YOU

George Maestas

Development Loan Manager, MFA

gmaestas@housingnm.org

505-767-2243