

Section 8 Preservation Loan Program

Illinois Housing Development Authority

Rental Housing: Preservation and Rehabilitation

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Section 8 Preservation Loan Program

The shortage of affordable housing remains a pressing issue in Illinois, with many individuals and families struggling to find safe, decent, and affordable housing options. Recognizing this challenge, the Illinois Housing Development Authority (IHDA) has implemented various initiatives to address the housing needs of low- and moderate-income households. The multifamily first mortgage programs are among IHDA's flagship initiatives aimed at expanding the supply of affordable rental housing.

The Section 8 Preservation Loan Program is designed to provide financing to property owners and developers for the preservation and rehabilitation of multifamily properties with existing Section 8 project-based rental assistance contracts. By offering flexible financing options, technical assistance, and support, IHDA aims to facilitate the preservation of these crucial affordable housing units, thereby preventing displacement and maintaining affordability for residents.

First Mortgage Programs

The primary objectives of IHDA's multifamily first mortgage programs are:

- Increase affordable housing stock: By providing financing options to developers and property owners, IHDA aims to increase the availability of affordable rental housing units across Illinois.
- Support community development: These programs seek to support community revitalization efforts by financing the development or rehabilitation of multifamily properties in underserved areas.
- Promote economic growth: By encouraging investment in affordable housing projects, IHDA contributes to job creation, stimulates economic activity, and enhances the overall quality of life in communities throughout the state.

Some key features of IHDA's multifamily first mortgage programs include:

- Competitive interest rates and flexible loan terms.
- Access to additional financial incentives, such as tax credits and grants.
- Technical assistance and support throughout the development process.
- Commitment to sustainable and energy-efficient building practices.
- Collaboration with local governments, nonprofit organizations, and other stakeholders.

Section 8 Preservation Loan Program Need

Section 8 preservation projects that were feasible with only 4% Low-Income Tax Credits (LIHTC) and first mortgage debt 12-24 months ago are struggling with increased construction costs and a higher interest rate environment.

These projects are core to IHDA's 4% LIHTC program and serve some of the lowest income individuals in the state.

Program Description

The goal when creating the Section 8 Preservation Loan Program was to provide a highly competitive fixed-rate, construction-to-permanent financing for the substantial rehabilitation of properties with 90-100% of units covered by a project-based Section 8 Housing Assistance Payments contract.

This would increase these property's long-term feasibility by providing capital for needed repairs, while generating assets for IHDA's multifamily bond indenture.

The developments will have a senior/junior loan structure:

- Senior loan will be funded through the issuance of tax-exempt bonds and Risk-Sharing insured. Loans will be underwritten using IHDA's normal lending standards.
- Junior loan will be funded by IHDA and sized to be no greater than 15% of the aggregate debt amount and will be a cash flow note carrying a 1% interest rate. Loan will be due upon maturity or repayment of the senior loan.

This structure will allow IHDA to achieve an attractive blended borrowing rate so that it can both fulfill its mission and secure loans on the safest affordable housing assets.

IHDA's goal is to deploy \$100 million in senior debt and \$15-\$20 million in junior debt over the next twelve months.

HUD Risk-Share

Section 542(c) provides credit enhancement for mortgages of multifamily housing projects whose loans are underwritten, processed, serviced, and disposed of by Housing Finance Agencies (HFAs). This allows for IHDA-approved lenders to originate loans for affordable multifamily housing projects, which are then submitted for mortgage insurance under the Risk-Share Program. These loans typically finance the acquisition, construction, or rehabilitation of affordable rental housing developments.

Through the Risk-Share Program, IHDA shares the risk associated with these loans with HUD. In the event of default, the U.S. Department of Housing and Urban Development (HUD) provides insurance coverage to the lender, reimbursing a portion of the outstanding loan balance. This risk-sharing arrangement encourages lenders to extend financing to affordable housing projects by mitigating their exposure to default risk.

IHDA conducts rigorous underwriting and due diligence processes to assess the financial feasibility and viability of multifamily housing projects seeking financing under the Risk-Share Program. This includes evaluating factors such as the borrower's creditworthiness, the project's financial performance projections, and compliance with program requirements.

Results

To date, IHDA has closed on \$31.3 million on Section 8 Preservation Loan Program funds that will create and/ or preserve 281 units for vulnerable renters. There is another \$31.5 million in funding requests

currently working its way through the IHDA pipeline that will create an additional 221 units of affordable housing.

One of these developments, Round Barn Manor in Champaign, IL, provides 156 units for seniors close to downtown. All the units receive project-based rental assistance from the local public housing authority. Originally built in 1978, the development was in desperate need of modernization and improvements to the interior and exterior of the building. The developer approached IHDA as they were having trouble making the deal financially feasible with just 4% credits. Through the Section 8 Preservation Loan Program, they were able to bridge the funding gap and move forward with the rehabilitation to ensure the senior residents live in safe, modern, and stable housing for decades to come.

In conclusion, the Section 8 Loan Preservation Program is the latest tool offered by IHDA to ensure continued access to affordable housing for some of Illinois' most vulnerable. We are proud to offer this program and see it is already making an impact for hundreds of voucher holders in Illinois.

IHDA SECTION 8 PRESERVATION LOAN PROGRAM

Financing the creation and preservation of affordable housing.

Description	Fixed-rate, construction-to-permanent financing for the substantial rehabilitation of properties with 90-100% of units covered by a project-based Section 8 Housing Assistance Payments contract.
Project Types	4% LIHTC
Senior Loan Overview	
Loan Amount	Minimum of \$10,000,000
Interest Only Period	Up to 3 years
Amortizing Loan Term	30 - 40 years
Amortization	30 - 40 years
Interest Rate	Indicative rates posted on IHDA's website and upon request
Maximum Loan to Value	90% (aggregate for Senior and Junior loan)
Minimum Debt Service Coverage	1.11 (in year 1 and stress tested in year 20)
Affordability Requirements	As limited by LIHTC program
Credit Enhancement	FHA Risk-Sharing 542(c)
Loan Security	First lien on land and any improvements, UCC filings, and any additional security reasonably required by IHDA's underwriting.
Recourse	Non-recourse with standard industry carve outs and environmental indemnity
Rate Lock	45-day rate lock (optional; private placement only)
Lockout	15-year no-call period, par prepayment thereafter
Guaranty/Mortgage Credit Review	Mandatory for the borrower(s), the sponsor(s), the guarantor(s), and each underlying entity/owner
Junior Loan Overview	
Loan Amount	Loan may not exceed the 15% of the combined Junior Loan and Senior Loan or \$5,000,000
Loan Term	Matches Senior Loan
Amortization	N/A
Interest Rate	1.00%
Payment	25% of cash flow; first priority of payment after deferred developer fee
Repayment	Repayment of Junior Loan due at first instance of either maturity, repayment of Senior Loan, refinancing of Senior Loan, or sale of property
Maximum Loan to Value	90% (aggregate for senior and junior loan)
Affordability Requirements	As limited by LIHTC program
Loan Security	Second lien on land and any improvements, UCC filings, and any additional security reasonably required by IHDA's underwriting.
Recourse	Non-recourse with standard industry carve outs and environmental indemnity
Lockout	No lockout
Guaranty/Mortgage Credit Review	Mandatory for the borrower(s), the sponsor(s), the guarantor(s), and each underlying entity/owner
Reserves and Escrow	
Operating Reserve	Six (6) months of operating expenses (not including debt service)
Debt Service Reserve	Six (6) months of debt service
Replacement Reserve	IHDA QAP standards
Taxes and Insurance	55% of the most recent annual real estate tax bill and 105% of the most recent annual insurance premium capitalized at final close
Minimum Affordability	LIHTC Standards

IHDA SECTION 8 PRESERVATION LOAN PROGRAM

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Loan Fees	
Application Fee	Non-refundable \$2,500; \$1,500 if not-for-profit (no additional application fee for tax credit projects)
Origination Fee	Greater of 0.50% of the Loan Amount or \$35,000
Good Faith Deposit	Minimum \$10,000 (credited at initial close)
Mortgage Insurance Premium (MIP)	Fourteen (14) Months of MIP at final close (approx. 0.29% of the Senior Loan Amount)
Legal Fee	\$35,000 (additional legal fees may apply depending on IHDA resources)
Plan & Cost Review	\$5,000
Conversion Fee	\$5,000
Prepayment Fee	\$5,000 (after lockout period has expired)
Other	
Wage Requirements	Davis Bacon labor standards apply.
3rd Party Studies	Sponsors are required to provide studies, reliance letters, and insurance certificates (when required) from vendors that follow IHDA's published standards. Studies include, but are not limited to: market study, environmental, appraisal, insurance, and PNA.
Bond Information	See IHDA's program bond guidelines.

Changes effective as of 09/01/2023.

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