Ventana Fund: A HFA-CDFI Partnership to Preserve Naturally-Occurring Affordable Housing

New Mexico Mortgage Finance Authority

Rental Housing: Preservation and Rehabilitation

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Responding to an Important State Need through a Strategic Partnership

MFA has long recognized the need for innovative approaches to an important statewide need: **rehabilitation and preservation of naturally-occurring affordable housing**. Naturally-occurring affordable housing refers to residential rental properties that maintain low rents without federal subsidy, mandated affordability periods or income limits. By definition, this type of affordable housing falls largely outside 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.

Despite the fact that HFAs typically do not finance naturally-occurring affordable housing, 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 and sometimes in poor condition. MFA estimates that approximately 40 percent of New Mexico's rental housing stock is naturally-occurring affordable housing. This is the percentage of apartment stock built at least 40 years ago that also consists of smaller properties (duplexes through 49 units). These smaller apartment communities are typically owned by mom-and-pop owners or small companies that are unable to shoulder the complexity and regulations of traditional affordable housing products offered by MFA. Yet age, condition, outdated design and lack of energy-efficiency features make this critical part of the affordable housing market especially vulnerable to deterioration and obsolescence.

In 2012 and 2013, MFA initiated discussions with a group of well-respected community leaders who work in rental housing to strategize about preserving naturally-occurring affordable housing. It was determined that the innovative solutions most likely to succeed required an entity separate and apart from MFA. The concept of a statewide Community Development Financial Institution (CDFI) for rental housing was born. At the time, there were no CDFIs in New Mexico that specialized in rental housing, so a new entity was formed.

In March 2014, the group of community leaders incorporated as a New Mexico non-profit corporation called Ventana Fund, using the Spanish word for "window" to denote the opportunities that rental housing provides. MFA provided a performance-based $3.2 million grant to the new organization to be used as matching funds for the Community Development Financial Institutions (CDFI) Fund in the U.S. Department of Treasury. Ventana Fund agreed to become certified as a CDFI that serves all of New Mexico, maintain its certification in good standing, and leverage the MFA grant funds by at least 50 percent. Ventana Fund has met or exceeded all of those goals, as described below.

An Innovative Approach to Achieve Strategic Objectives

The strategic objective of MFA and Ventana Fund was always to rehabilitate naturally-occurring affordable housing and preserve its affordability. However, in Ventana Fund's first three years of operations, it focused on making two-year construction loans for MFA-financed projects. This intentional diversion enabled Ventana Fund to churn its financial resources and build up its asset base more quickly. As a result, Ventana Fund reached a critical threshold of $5 million in total assets by 2018. This threshold is required to be classified as "CORE" CDFI that is eligible for higher amounts of CDFI grant funding. The two-year period also enabled Ventana Fund to meet with and test its two-year construction loan product with owners of naturally-occurring affordable housing. The experience was invaluable and prompted Ventana Fund to create a new product specifically designed for the unique needs of small rental property owners. These needs include access to low-interest capital, a streamlined application and approval process and simplified affordability requirements.

In late 2017, Ventana Fund launched "Thresholds," its new loan product for naturally-occurring affordable housing. Instead of a two-year construction loan, Thresholds is a five-year, mini-perm loan that offers low interest rates of 3 to 5 percent and comes with significant technical assistance from a veteran loan officer that Ventana Fund hired out of retirement. The 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 percent Area Median Income (AMI), as verified by an annual rent roll. Incomes must be below 120 percent AMI, as verified through supporting documentation and tenant rental applications. Impressively, all properties financed by Ventana Fund to date are charging rents below 60 percent AMI *even after rehabilitation*.

Proven Track Record of Success in the Marketplace

Ventana Fund was certified as a CDFI in 2015 and has received nearly $1.4 million in grant funding from the CDFI Fund from three rounds of funding (2016, 2017, 2018). It also 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. During its five years in operation, Ventana Fund has made $8.5 million in construction and mini-perm loans to 17 affordable rental projects. Of the $8.5 million, $3.7 million repaid and was 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. This will result in the rehabilitation and preservation of 59 affordable housing units with rents at 60 percent AMI or less. Ventana Fund is working aggressively to expand the reach of the Thresholds product to rural areas and is currently in discussions with a developer in Taos and a property owner in Portales.

In addition, 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 200-250 scattered site rental units, spread over numerous rural communities. This new project, called Gateways, is expected to launch in late 2019 as MFA and Ventana Fund secure partnerships with interested communities.

Replicability and the Unique Nature of the MFA/Ventana Fund Partnership

MFA is aware that other HFAs have helped to start up CDFIs and that some HFAs administer specific programs for CDFIs. What most of these partnerships have in common is an understanding that, while HFAs have a responsibility to support all facets of affordable housing, other partners may be better-suited to lead certain initiatives. This is true in the case of naturally-occurring affordable housing, where the highly-regulated nature of HFA funding would be an obstacle for small property owners.

To some extent, MFA has drawn upon other HFA-CDFI partnerships to inform its relationship with Ventana Fund. However, we believe that the more unique aspects of the MFA/Ventana Fund partnership have been the greatest factors of success. These include:

1. **A Bold and Comprehensive Partnership Approach.** If not for the combination of substantial early funding and professional support from MFA, Ventana Fund would have taken at least twice the amount of time to reach $5 million in assets and to achieve self-sufficiency. Instead, it will achieve both goals well before the end of its five-year start-up period. MFA's approach has been as follows:
   - MFA provided a large amount of initial seed funding ($3.2 million) so that Ventana Fund could build its asset base quickly. This enabled Ventana Fund to apply for larger amounts of CDFI funding and to more easily access capital from other lenders. As a result, Ventana Fund was able to post "big wins" right out of the gate.
   - In addition to grant funding, MFA provided Ventana Fund with staffing under a professional services 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 the summer of 2019 and has hired a new executive director and accounting firm to complete the transition.

2. **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 percent leverage of the previous year's grant was reached. Ventana Fund has far exceeded this leverage requirement. To date, it has leveraged two times the amount of the MFA grant with one year remaining in the five-year leverage period.

3. **Effective utilization of resources:** MFA's 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 rehabilitation in MFA's LIHTC program is $152,502 per unit, the cost of rehabilitation for a Thresholds loan has averaged $38,535 per unit to date.

4. **Strategic partnership:** MFA's relationship with Ventana Fund's founders is an essential factor in the partnership's success. MFA worked with respected specialists in rental housing, 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. Furthermore, MFA required that MFA have a position on the Ventana Fund board, which is filled by MFA's director of Housing Development. Through the years, the Ventana Fund board has continued to solidify and grow a trusting partnership with MFA.

Ventana Fund
1324 6th Street NW
Albuquerque, NM 87102
www.ventanafund.org

Threshold Loans

Preserving Naturally-Occurring Affordable Housing One Property at a Time

Desert Sage Apartments
2210 Central Ave. SW
Albuquerque, NM 87104
Loan Amount: $400,000
15 units

Unit Types	No.	Projected Rents	60% LIHTC Rent Limit
Studios (218 sf)	10	$630	$682
1 bed/1 bath (430 sf)	5	$750	$731

Originally a motor court hotel on historic Route 66 in Albuquerque's Old Town neighborhood, this property was converted to apartments decades ago and has fallen into disrepair. Its new owners, Greg and Deborah Gowen, took out a Thresholds loan to acquire the property and bring it back to livable condition. Using his contractor's license, Gowen is overseeing full rehabilitation of each unit including roof repair, energy-efficient appliances, mini-split heating/cooling units, electrical upgrades, new windows, doors and exterior stucco at a cost of $9,880 per unit. Construction is expected to be completed in August 2020 or earlier.

Villa Encantada
300-310 La Veta NE
Albuquerque, NM 87108
Loan Amount: $420,000
12 units

Unit Types	No.	Projected Rents	60% LIHTC Rent Limit
1 bed/1 bath (504 sf)	12	$504	$731

A Thresholds loan enabled two Albuquerque natives to purchase and improve the Villa Encantada apartment complex, built in 1973 and located in the International District of Albuquerque. The property is currently undergoing minor rehabilitation, including new exterior stucco, carpet, cabinets and tile. Several units have already been completed and are leased-up. The new owners are keeping the rents very affordable, well below average rents of $668 in the neighborhood for similarly-priced 1 bedroom/1 bath units.

Wells Park Apartments
1420-1422 Fourth Street NW
Albuquerque, NM 87102
Loan Amount: $423,008
12 units

Unit Types	No.	Projected Rents	60% LIHTC Rent Limit
1 bed/1 bath (350 sf)	6	$710	$731
2 bed/1 bath (550 sf)	6	$748	$877

This property was originally built in the 1940s as a motor court in the Wells Park neighborhood north of downtown Albuquerque. Joseph Barr, a California resident with multifamily development experience, took out a Thresholds loan to acquire and rehabilitate the property. Barr is overseeing unit-by-unit work based on a full property inspection, with plumbing, kitchen improvements, roof and wall repairs being the most common items.

Sheldon Family Apartments
1204-1208 Chelwood Park NE
Albuquerque, NM 87112
Loan Amount: $680,050
12 units

Using a Thresholds loan, Sheldon Family, LLC recently purchased two six-plexes in Albuquerque's northeast heights, a high opportunity area with some older housing stock. The property is 30 years old and is in fair to poor condition. Chuck Sheldon is undertaking complete renovation of the property, including new furnaces; roofs; stucco; doors; bathrooms; kitchen cabinets; energy-efficient windows, lighting and heating/cooling units at a cost of $16,130 per unit.

Sheldon Family, LLC is one of the largest owner/managers of naturally-occurring affordable rental properties in the Albuquerque market. The company has used Ventana Fund's Thresholds products on two other occasions, with one active loan and another repaid.

Unit Types	No.	Projected Rents	60% LIHTC Rent Limit
Studios (330 sf)	3	$550	$682
2 bed/1.5 bath (945 sf)	8	$825	$877
3 bed/1.5 bath (1,450 sf)	2	$1,000	$1,014