

Affordable Housing Grant Tools & Tips



Refinancing an AHP Rental Project Selling an AHP Rental Project (Or any interest thereof)

Interest rates are currently very favorable and many rental properties are supporting long term debt that is costly. The current rate environment provides opportunity for rental projects to restructure some or all of this debt; however, certain measures must be taken as part of the refinancing transaction to ensure compliance with the AHP Regulation and AHP Agreement signed by the Member, Sponsor/Owner and FHLBI when the direct subsidy was awarded. Reviewing the AHP Agreement and the Real Estate Retention Agreement, as steps are taken to refinance long term debt, will ensure compliance through the transaction. Noting the following may prevent unexpected delay in closing the transaction or potential full repayment of the AHP subsidy at the closing:

Paragraph ii of the Real Estate Retention Agreement requires, "immediate written notice of any sale or refinancing of this property occurring prior to the end of the Retention Period."

Paragraph iii of the Real Estate Retention Agreement states: "In the case of a sale or refinancing of the Project prior to the end of the Retention Period, an amount equal to the full amount of the direct Subsidy shall be repaid to the Member, for reimbursement to the FHLBI, unless the Project continues to be subject to a deed restriction..."

When contacting the FHLBI about a refinance or sales transaction, the FHLBI and Member approval will move more quickly if the following due diligence information is provided with the notification:

- 1) A narrative detailing the physical and financial condition of the project and description of the circumstance that is compelling the refinance or sale of the property including if full interest or a partial interest is being sold, a narrative which details the experience of the buyer to own and operate affordable rental housing, and whether the purchase of the property, or interest therein, is subject to the assumption and assignment of the AHP obligation.
- 2) Signed lender commitment letter or letter of intent AND a copy of the pay off statement for the loan being refinanced or paid in full.
- 3) Most recent audited financial statement for the project/partnership.
- 4) YTD Profit and Loss and Cash flow statement(s) for the project/partnership.
- 5) Current Rental Income Calculation Worksheet reflecting current rent rates and gross income.
- 6) A current Rental Income Targeting Worksheet (rent roll) and income documentation sampling pursuant to the sampling plan in place in the current year's implementation plan. Sampling of income is to be selected by the FHLBI AHP compliance personnel.
- 7) Revised Proforma reflecting current income, expenses and new debt service (and real estate tax reduction, if applicable) for a term of the greater of five years or at least two years past the end of the 15 year retention period.
- 8) A preliminary settlement statement immediately prior to the scheduled closing date to be followed by the final settlement statement executed at closing. If there are equity proceeds from the refinancing, per Regulation, an amount at least equal to the AHP subsidy must be used toward the improvement of project. In this event, a detailed scope of work is required.

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- 9) If refinancing with a different financial institution other than the current member, a subordination agreement may be indicated.
 - a. Member may want to add an indemnification agreement if subordinating to a different member to protect their obligation.
 - b. Member may not want to be responsible for the AHP and require the obligation transferred to the new lender if a FHLBI member is willing to assume the remainder of the obligation. If the new lender is not a member of the FHLBI, transfer of the AHP obligation is not permitted.
 - c. Copies of these documents should be provided to the FHLBI.
- 10) Transferring of AHP: If the existing Member chooses not to retain the AHP obligation, a letter from the existing member stating a desire to relinquish their obligation to the new member is required. Further, a letter from the new member indicating acceptance of the project after having read fully the AHP application and demonstrates an understanding of the member role and responsibility must be received.

Other Tips & Information:

- An Assumption & Assignment Agreement for the AHP may be indicated if there is a change in the member or sponsor(s) entities since the AHP Agreement was executed.
- A refinance does not require a new Real Estate Retention Agreement as long there is no change in the parties and if subordinated to the new mortgage, a copy of the subordination agreement is provided.
- A sale or refinance does not change or cause a break in the term of the retention period as long as the housing continues to be fully operational and subject to the retention obligations.
- A modification to the targeted population or other scoring initiatives such as non -profit sponsorship may be indicated. If the modified score results in a score below the last project funded in the funding cycle the project was awarded, full repayment of the AHP subsidy may be indicated.
- The AHP Agreement requires notification to the Member and FHLBI of material changes in the financial structure of the project. Further, Regulation requires the need for the AHP subsidy awarded and funded is demonstrated. The rate and term of a new loan may result in excess cash flow indicating the need for the AHP subsidy is no longer demonstrated and may result in repayment of the AHP subsidy.
- The FHLBI and Members who support AHP funded projects want to ensure safe, decent and affordable housing is sustainable for the 15 year retention period and beyond if possible. Integral to the success of the housing is the strength and success of the owner. The FHLBI's Community Investment Program (CIP) is a Member loan product that funds loans for community and economic development initiatives with housing as a small piece of this initiative. The benefit of this product is the FHLBI can offer the Member long term, fixed rate financing that can be passed on to the Sponsor/Owner. These terms often benefit the owners of AHP assisted projects, in that, they offer fixed, low-cost terms. Be sure to discuss the options using CIP with the Member partner in making a refinance decision.
- Allow 30 – 60 days for FHLBI and Member review and clarification of the materials needed to approve the sale or refinance transaction.