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FHA Programs for Senior Housing

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FHA Programs for Senior Housing

- Market Rate Senior Housing is defined as Head of Household 62 and older, but cannot discriminate against non-elderly family members, including children.
- Affordable Senior Housing now has greater flexibility (effective late fall 2013). FHA will grandfather affordable properties with current age restrictions, and allow age-restriction regimes that may not be conforming to otherwise FHA policy. Properties can continue to operate under its in-place age restrictions policies after the closing of the HUD loan
- Section 231 program (new construction and substantial rehabilitation) requires all residents to be 62 or older.

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Affordable Senior Housing

- Whether the age restrictions are imposed by HUD, LIHTC, state, local, zoning, or affordable programs, as long as these properties meet both the relevant elderly use restrictions imposed by the applicable program, and comply with Fair Housing, they are now eligible for FHA financing.
- Properties may conform with the Fair Housing Act by not discriminating based on any protected class, or if they exclude families with children under 18, by meeting a housing for older persons exemption to the Fair Housing Act – such as the 55+ exemption.

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Definition

- Affordable properties are defined as projects with Project-Based Section 8, LIHTC (new or existing with at least 15 years remaining on the affordability use agreement), Section 202 refinances, or older FHA programs such as Section 236 or Section 221(d)(3)BMIR.

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What's next…

- HUD is writing a Mortgagee Letter and a Housing Notice, and the policies will be incorporated in the next version of the MAP Guide and into the new Asset Management Handbook.
- In the meantime, lenders will request a waiver to HUD HDQ for approval for affordable age-restricted projects that serve elderly below 62 years old but above 55 years old, or projects that serve the elderly and disabled.

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Elderly & Disabled

- Assisted, age-restricted properties that serve a mix of elderly and non-elderly disabled residents pursuant to a HUD regulatory agreement or other HUD requirement will be permitted to continue to serve their targeted populations, regardless of the type of mortgage insurance or directly loan 0r grant financing previously used.

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FHA Programs for Senior Housing

- Services such as housekeeping, laundry and meals brought in are allowed as long as they are <u>not</u> mandatory, and
- They are offered by a third party vendor (can be a related party), and
- The income cannot be used to calculate cash flow for the mortgage.

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- A “gray” area concerns projects with commercial kitchens. HUD does not allow meals to be prepared on-site but does allow them to be prepared off-site and “warmed” in the kitchen. So the question is what is considered a commercial kitchen and what is considered a “warming” kitchen. Dining room space is treated as community space since it is multi-functional.

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Section 223(f) for Acquisitions and Refinances

- Up to 35 year term depending on property age and condition
- 80% LTV with cash out (refinances)
- 83.3% LTV on acquisitions or cost limited fpr market rate
- 87% LTV on acquisitions or cost limited for affordable/90% LTV for Section 202 loans
- Fully amortizing fixed rate – current rates are under 4%

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Section 221(d)(4) - New construction and substantial rehabilitation

- 40 year term
- Not a “value” program
- Market-rate: loan based on 83.3% of replacement cost
- Affordable: loan based on 87% of replacement cost
- Replacement cost = hard and soft mortgageable costs plus land value or as-is value (SR)
- Current rates below 5%

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Section 231

- New construction and substantial rehabilitation only
- Entire project restricted to 62 and older
- Until last fall there was no program available to refinance these projects but now fits under new policy described earlier.

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MIP

- Market-rate = 60 bps
- Affordable projects = 45 bps

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Benefits to FHA Financing

- Lowest interest rates
- Longest term and fully amortizing
- Highest loan dollars
- And because we are Love Funding, we'll give you a big hug at closing!!!

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Case Study I – Age-restricted 55+

- Refinance
- Located in Orange County, New York
- 87 units @ 30%, 40% and 60% of AMI
- PILOT for 32 years
- Underwrote with 3.9% interest rate for 35 years
- Loan: $2,764,000

  $1,443,000 (85% of NOI)

  $1,321,000 (100% of PILOT)

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Use:

Existing Debt	$2,292,687
Repairs	55,075
Replacement Reserve (transfer)	134,035
Application & Closing Costs	176,836
Total	$2,661,663
Cash Out	$ 102,337

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Case Study II – Age Restricted & Disabled

- Section 223(f) Pilot Program
- Located in Boone County, IL
- 118 1 BD units – 100% Section 8
- No PILOT
- Underwrote with 4.7% interest rate for 40 years
- Loan: $8,353,200
- Seller Note: $3,600,000
- LIHTC Equity: $4,792,211
- Deferred Dev. Fee: $1,675,813

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Mortgageable Uses:

Purchase Price:	$11,200,000
Repairs in Mortgage:	2,070,900
Application & Closing Costs:	515,491
Bond costs in Mortgage:	317,711
Construction Contingency:	300,232
Architect:	120,000
Tenant Relocation:	75,000
Total	$14,599,334

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Non-Mortgageable Uses:

Repairs:	$ 934,418
Developer Fee:	1,876,356
Soft Cost Contingency:	10,000
Equity Bridge Loan Interest:	84,816
Balance of Bond Costs:	381,357
Total	$3,283,947

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Uses required by LIHTC Investor:

D/S & Operating Expense Reserve:	$490,743
Replacement Reserve Deposit:	47,200
Total:	$537,943

Total Uses: $18,421,224

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