The east wind: Bridge loans fill nonprofit sails

By William C. Kelly Jr.

Sellers of affordable apartments look to optimize a combination of sales price, reliability of closing and timeliness of closing. New bridge loan products for the first time are enabling preservation-minded nonprofits and the partnerships and limited liability companies they control to commit to timely closings and thus to be competitive in the marketplace.

In a typical sale, owners retain a broker or investment banker to market a portfolio of properties after setting targets for price and other key terms. Commonly, those terms include a due diligence period after contract execution of 90 to 120 days and a closing date 60 to 90 days after the end of the due diligence period. Buyers who would convert the properties to market-rate housing can meet these timetables by using accumulated capital or arranging for debt financing based on market rents.

Nonprofit preservation buyers face a major timing challenge. Typically, they can pay market value in strong markets only by cobbling together some combination of tax-exempt bonds, low-income housing tax credit (LIHTC) equity, soft loans from local government and payment-in-lieu-of-tax agreements. Securing any of these subsidies requires several months or even years, and many subsidies, such as LIHTC allocations, can be obtained through competitive processes that occur only once or twice a year. In other situations, the timing challenge may arise from an impending Department of Housing and Urban Development foreclosure and consequent loss of Sec. 8 funding, or from the incapacity of the current owner to maintain a property.

Spurred by leading nonprofits, lenders have developed bridge loan products designed to enable nonprofits to pay market value up front and repay the bridge loans over time as subsidies are awarded. Several of those lenders and their loan products are outlined in the table on the next page.

Examples of the power of these bridge loans

Cleveland Housing Network acquired Erie Square Apartments in November 2003, while the 89-unit federally assisted property was undergoing a Mark-to-Market restructuring. A $605,000 Housing Partnership Fund loan provided cash for payments to the seller and an escrow of rehabilitation costs. Cleveland Housing Network will perform a substantial rehabilitation of the occupied property, using equity from the sale of LIHTCs and other public funds. The loan will be repaid from the initial equity contribution within 12 months.

Downtown Action to Save Housing (DASH) required a quick closing on the $17.6 million purchase of Summerwood Apartments, a 190-unit garden-style apartment complex in Redmond, Wash. DASH needed to bridge the time period leading up to a Federal Housing Administration financing, which was being provided by Prudential Mortgage Capital Co. (PMCC). PMCC's Affordable Housing Group was able to structure a bridge financing package that included a $4.3 million short-term loan subordinate to a $14 million PMCC first-mortgage interim loan.

National Affordable Housing Trust (NAHT) and its affiliate, NAHT Lending Corp., used the Fannie Mae Bridge Loan Program to provide a $4.5 million bridge loan to National Church Residences (NCR), which enabled NCR to acquire Battery Park Apartments, a 122-unit Sec. 8 seniors project in Asheville, N.C. A $4.65 million bridge loan allowed NCR to buy White Birch I, a 151-unit Sec. 8 family project in Milwaukee, Wis. Both loans have variable interest rates of the 90-day London InterBank Offered Rate plus 400 basis points. Future transactions will also involve funds provided by the John D. and Catherine T. MacArthur Foundation.

National Housing Trust Community Development Fund and Neighborhood Capital Corp. collaborated to provide a $250,000 bridge loan to Alamo Area Mutual Housing Association (AAMHA) to support the purchase and renovation of Kings Point and Thompson Place Apartments, two affordable properties in San Antonio, Texas, that were in the process of foreclosure. Built in the 1980s, Kings Point and Thompson Place are good-quality affordable housing located in desirable neighborhoods where other affordable housing is not only limited but significantly older or in much worse condition. AAMHA will refinance the properties with new Sec. 501(c)(3) bonds and ensure their long-term affordability. The total project cost is $8.7 million.

The Chinese saying "everything is ready except the east wind" recalls an ingenious naval battle plan in the third century that failed for lack of a favoring wind. In the effort to preserve affordable housing, bridge loans are beginning to fill the sails of nonprofit buyers. ■

Bill Kelly is the president of Stewards of Affordable Housing for the Future (SAHF), an umbrella group of national nonprofits dedicated to preserving the affordability of low-income housing. For 25 years, he was a partner at Latham & Watkins, LLP, in Washington, D.C.

Bridge financing for nonprofit-controlled acquisitions

Lender	Eligible Borrowers	Minimum and Maximum Loan Amounts/Loan Term	Interest Rate	Fees	Other Key Elements	Sample Borrowers/ Locations	Contact Information
Housing Partnership Fund	Members of the Housing Partnership Network, their subsidiaries and controlled affiliates.	$50,000 to $300,000 for predevelopment loan. Up to 1 year. ——— $200,000 to $2,000,000 for interim loan. Up to 2 years.	7% for predevelopment loan. ——— 30-day LIBOR plus 400 basis points (bps), with a floor of 7% for interim loan.	2% origination fee for predevelopment loan, plus legal expenses. ——— 1% origination fee for interim loan, plus legal expenses.	Predevelopment loan, unsecured ——— Bridge loan usually subordinated, sometimes unsecured.	Greater Miami Neighborhoods (FL) LINC Housing, Long Beach, CA Greater Metropolitan Housing Corp., Minneapolis, MN	W. Matthew Perrenod Perrenod@housing partnership.net (617) 720-1999, ext. 208
Local Initiatives Support Corp.	Community development corporations. Affordable housing developers. Partnerships and limited liability companies (LLCs) sponsored by nonprofits.	Up to $1,000,000 with an opportunity for more under special circumstances. Up to 3 years.	As of August 2004 – 6%.	50 to 150 bps, plus legal expenses.	Recourse to borrowers. Lien on property. Subordination only to 2nd lien position behind private lender.	Victory Housing, Washington, DC Resources for Community Development, San Francisco, CA Famicos Foundation, Cleveland, OH	Greg Maher gmaher@liscnet.org (212) 455-9800
Mercy Loan Fund	Nonprofits and controlled partnerships and LLCs. Consumer cooperatives. Public housing authorities.	Up to $1,500,000. Up to 5 years.	Fixed rate	1.5% origination fee, plus third-party costs	Affordability for 40 years or more.	Request a copy of annual report	Bonnie Kindred bkindred@mercy housing.org (303) 830-3386
NAHT Lending Corp. using Fannie Mae and MacArthur Foundation funds	Nonprofits (initially NAHT members) and controlled partnerships and LLCs.	Programmatically up to $10,000,000, higher on case-by-case basis. Up to 3 years.	90 day LIBOR plus 375-425 bps	1.25%-1.75%, plus legal expenses.	5% lender cash in the deal. Sponsor guarantees of about 18% of first mortgage.	National Church Residences, for projects in Asheville, NC, and Milwaukee, WI	Jim Bowman jbowman@naht.org Steve Mushrush smushrush@naht.org (614) 451-9929
National Housing Trust Community Development Fund	Nonprofits and controlled partnerships and LLCs.	$5,000 to $475,000 for predevelopment loan. Up to 30 months. Partners with other loan funds to make larger loans. ——— $10,000 to $475,000 for bridge loan. Up to 5 years. Partners with other loan funds to make larger loans.	Set by loan committee; typically 4%-6% for predevelopment loan. ——— Set by loan committee; typically 7% for bridge loan.	1% origination fee. ——— 1% origination fee.	Priority to preservation projects, but other projects also. ——— Generally full recourse for both loan types, but unsecured.	East LA CDC, Los Angeles, CA AHC, Inc., Arlington, VA Alamo Area Mutual Housing Association, San Antonio, TX	Eric Hermann ehermann@nhtinc.org (202) 333-8931, ext. 26 John Morland jmorland@nhtinc.org (202) 333-8931, ext. 17
Neighborhood Capital Corp.	Nonprofit NeighborWorks® organizations that participate in Neighborhood Reinvestment's Multifamily Initiative. Partnerships and LLCs majority-owned and controlled by same.	$15,000 to $500,000 for predevelopment loan. Up to 3 years. ——— $50,000 to $820,000 for interim development loans Up to 3 years/renewal for up to 2 years	4% fixed for predevelopment loan. ——— 10-year Treasuries plus 300-500 bps for interim loan.	1%, plus legal and other third-party expenses. ——— 1%, plus legal and other third-party expenses.	Predevelopment loans unsecured, recourse. ——— Interim development loans collateralized, recourse.	DHIC, Inc., Raleigh, NC Madison Park Development Corp., Roxbury, MA Gwinnett Housing Resource Partnership, Duluth, GA	Kathryn (Kim) Kimlin kkimlin@neighbor hoodcapital.org (216) 432-9209
Prudential Mortgage Capital Co. Affordable Finance Group Preservation Loan Fund Interim Loan	Nonprofits and controlled partnerships and LLCs.	$500,000 to $5,000,000 for interim loan. Up to 2 years. ——— $500,000 to $5,000,000 for permanent loan. Up to 10 years.	Fixed, set at 10-year Treasuries plus 425 bps. Interest can be accrued. ——— 200 bps of interest can be accrued.	2% origination fee for interim loan. ——— 1% origination fee for permanent loan.	Up to 75% of cash flow after first mortgage used for debt service. Up to 97% loan-to-value ratio. Must meet preservation criteria, negotiable.	Downtown Action to Save Housing (DASH), Redmond, WA	Paige Warren paige.warren@ prudential.com (703) 610-1340 Rahul Patel rahul.patel@ prudential.com (703) 610-1372