

**2004 National Community Development Lending School**  
**Single-Family Housing Case Study**  
**Tommy FitzGibbon**

**CLASS OBJECTIVES:**

1. Learn the basic critical underwriting criteria for underwriting single family development finance
2. Understand the process for financing acquisition and development of single family housing
3. Understand the role of take-out financing for home buyers and the servicing of the loan
4. Understand the role of the non-profit lender in financing and servicing loans to home buyers

*National Community Development Lending School 2004*

*Home Ownership Development Finance*  
*Single Family Finance*



# *Single Family Finance Learning Objectives*

- Details of Construction “Revolver” Financing
- Credit Enhancement Offsets
- Risks and Risk Mitigation Strategies
- Underwriting Non-Profit Community-based Home Buyer Delivery Systems
- Project Analysis

# *Home Ownership Development*

## *Single Family Finance*

### *Agenda*



- Icebreaker
- Overview of the day
- Six “C” s of Lending
- Risks and Risk Mitigation Strategies
- Break
- Underwriting the Non-Profit Developer
- Evaluating the Home Buyer Delivery

# *Single Family Finance Agenda (continued)*



- Lunch
- Risk-Weighting Exercise
- Overview of the Team Exercise
  - Assignment of Roles
  - Team Objectives
  - Alternative Actions
- Break

# *Single Family Finance Agenda (continued)*

- Break Into Teams
- Evaluate Project Loan Recaps
- Prepare Oral Presentations
- Group Evaluation
  - What Was Accomplished?
  - Can I Apply This At Home?
  - What Changes Would We Make?
  - What Resources Did I Learn To Use?

## *The Six “C”s of Lending*

- Character
- Capacity
- Capability
- Credit
- Collateral
- Condition

# *Risks and Risk Mitigation Strategies*



- Risks
  - Credit
  - Collateral
  - Interest Rate
  - Performance
    - Construction timing
    - Cost
    - Market Acceptance

# *Risks and Risk Mitigation Strategies*



- Guarantor(s)
- Performance Bond
- Take-out Financing
- Presale Requirements
- Unsold Inventory Limitations
- Sales Support

# *Underwriting Developers*

## *The Financial Plan*



- Financial Plan
  - Capital Requirements
  - New Activity Financing
  - Costs and Cost Recovery
  - Financial Statements
    - Balance Sheet Impact
  - Key Ratios

# *Underwriting Developers*

## *The Marketing Plan*



- Definition
  - Market Drivers
  - Trends and Research
- Competition
  - Opportunities and Barriers
- Marketing Strategies
- Forecasts

# *Underwriting Developers*

## *The Development and Management Team*



- Key Employees
  - Backgrounds
  - Skills
  - Missing Elements
- Organizational Framework
  - Decision-makers
  - Approvals

# *Homeownership Development Finance*

## *Evaluating the Delivery Systems*



- Models
  - Lender-Led Consortia
    - Non-profit Intermediary Lender (CDFI)
  - Non-Profit Sponsor as Developer
    - Lender Participant
    - For-profit Developer
  - Roles and Responsibilities

# *Homeownership Development Finance*

## *Evaluating the Delivery Systems*

- Core Competencies of the Team
  - Lender
  - Developer
  - Sponsor
  - Intermediary
  - Non-Profit

# *Homeownership Development Finance*

## *Evaluating the Delivery Systems*



- Home Buyer Development
  - Outreach and Marketing
  - Recruiting
  - Training
  - Customer Service
  - Connecting to the Development

## *Resources for Buyers*

- Part of the Development Process
  - Reduces costs
  - Provides Buyer Incentives
  - Supports Financing
  - Expands the Market
  - Differentiates the Financing Options

## *Resources for Buyers*

- Mortgage Credit Certificates
- H.O.M.E. Down Payment Assistance
- Federal Home Loan Bank AHP
- Fannie Mae and Freddie Mac Programs
- CDBG
- TIF/NIF Programs
- Non-profit Secondary Financing

# *Resources for Developers*

- Enterprise Zone/Empowerment Zone
- Community Development Block Grants
- Tax Increment Financing
- State or Local Housing Finance Agency
  - Trust Fund
  - Interim Financing
- In-kind Investments from Municipalities

# *Audience Participation*

- Describe a resource that you have used to reduce credit of collateral risk for the development financing
- Describe a resource that you have used to reduce the cost of home ownership for a buyer
- Describe a partnership with a community-based organization that produced affordable home ownership properties

# *Evaluation*

- Did we learn any new techniques that will aid in the development of affordable home ownership opportunities?
- Can I use the resources that I experienced in my own environment?
- Are there resources that I need that we did not cover in the session?

# NEW Community Home Ownership Program

## 1. Family Homes Protection Initiative

- Stopping the practices of Predatory Lenders in our Neighborhood & Eliminating future foreclosures
  - Borrower Education and Counseling
  - Organizing for Strong Anti-Predatory Lending Regulation
  - Advancing Prosecution of Perpetrators
  - “Policing” vacant & foreclosed properties

## 2. Family Homes Restoration Initiative

- Restoring Dispossessed Homes for Quality Family Living
  - Acquisition & Rehabilitation
  - Marketing to Prospective Homeowners
  - Home Purchase Counseling & Qualification

# New Community Family Homes Protection & Restoration Initiatives

**Chicago Tribune**

## Headlines

### **ILLINOIS OKS PREDATORY LOAN CURBS STATE AIMS TO AVERT HOME FORECLOSURES**

*Chicago Tribune*; Chicago, Ill.; Apr 18, 2001; Ray Long and Melissa Allison, Tribune staff reporters Tribune staff reporter Douglas Holt contributed to this report;

### **PREDATORY LENDING MUST BE RESTRICTED**

Norman R Bobins, Chairman, president and CEO, LaSalle Bank; *Chicago Tribune*; Apr 17, 2001, OpEd

### **REDEVELOPMENT PROGRAM TARGETS FOUR NEIGHBORHOODS CITY OFFERS \$1.4 MILLION FOR PRESERVATION EFFORTS**

*Chicago Tribune*; Chicago, Ill.; Apr 8, 2001; Jeanette Almada Special to the Tribune;

## Program supporters to date:

- Fannie Mae Foundation ~ \$200k grant per year over 4 years
- Chicago Department of Housing ~ \$100k grant per year over 4 years
- Chicago Department of Housing ~ \$300k CDBG grant allocation
- Chicago Departments of Housing & Planning ~ CSX NIF \$250k grant
- Chicago Department of Housing ~ "Bungalow Initiative – model block"
- First Bank of the America's/U.S. Treasury ~ \$500k CDFI matching grant
- PMI ~ \$150k interest free interim financing
- Illinois Mortgage Brokers Association ~ \$65k grant



# New Community Family Homes Protection Initiative

## Property Inventory I.D. & Management

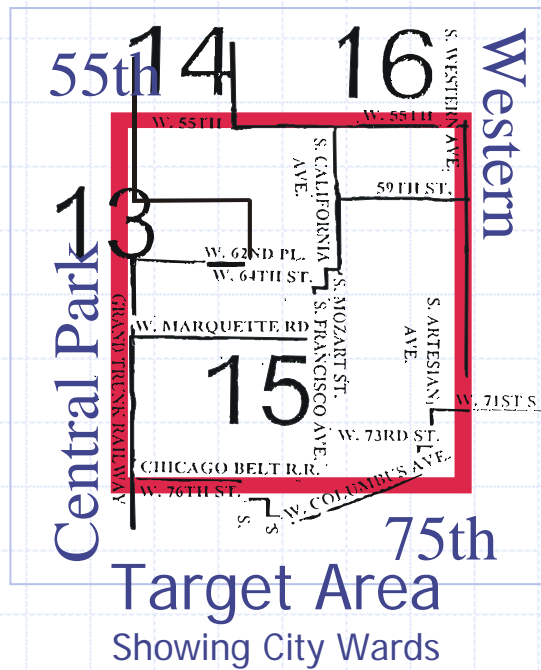
### Inventory Properties

#### Vacant:

- Owners Identified & notified of enforcement procedures
- Verify property secured

#### Occupied:

- Owners Identify/refer tech. asst.
- GSDC
- CDOH
- NHS
- LAF
- FNMA



### Property Research

#### Database:

- Tax Records
- Water Bill
- Court Info
- Sheriff's sale
- Scavenger sale
- Update list via CPD info
- Coordinate with CPD on written citations
- Hearings
- Follow circuit court appeals

Strong City Enforcement

Accelerated Acquisition @ reasonable prices

# New Community Family Homes Protection Initiative

## Enforcement:



### Police:

- ICAM statistics
- Strategic Housing Task Force
- Citing problem title-holders
  - night-watchman
  - vacant property registration
  - Insurance
- Administrative Notice Ordinance Violation Hearings (ANOV)
  - Organize citizen testimony

### Streets & Sanitation Dept.:

- Garage demolition
- Citations for cleanliness

### U.S. Justice Dept. & FBI

- Prosecute criminal offenders

### Building Department:

- Building inspections
- Housing Court
- follow-up on violations

### Corporation Counsel:

- Collaborate on prosecution of problem title-holders
- Pursue “cost-recovery”

### Illinois Office of Banks & Real Estate and Illinois Dept. of Financial Institutions:

- Prosecute state rules offenders

### Illinois Attorney General:

- Prosecute criminal offenders

New Community

# Family Homes Restoration Initiative



6400 South Fairfield

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CUNNINGHAM

Chicago Bungalow Initiative  
Model Block Design Concept

## Family Homes Restoration Initiative

A GSDC program to restore dispossessed single family homes. Working in collaboration with ABCRedevelopment Corp & SW Home Equity assurance program. It is anticipated that 70 homes will be restored in the target area over the next four years.

Three program approaches:

- Growing the homebuyer market
- Preparing/Qualifying purchasers
- Home Rehabilitation & Resale

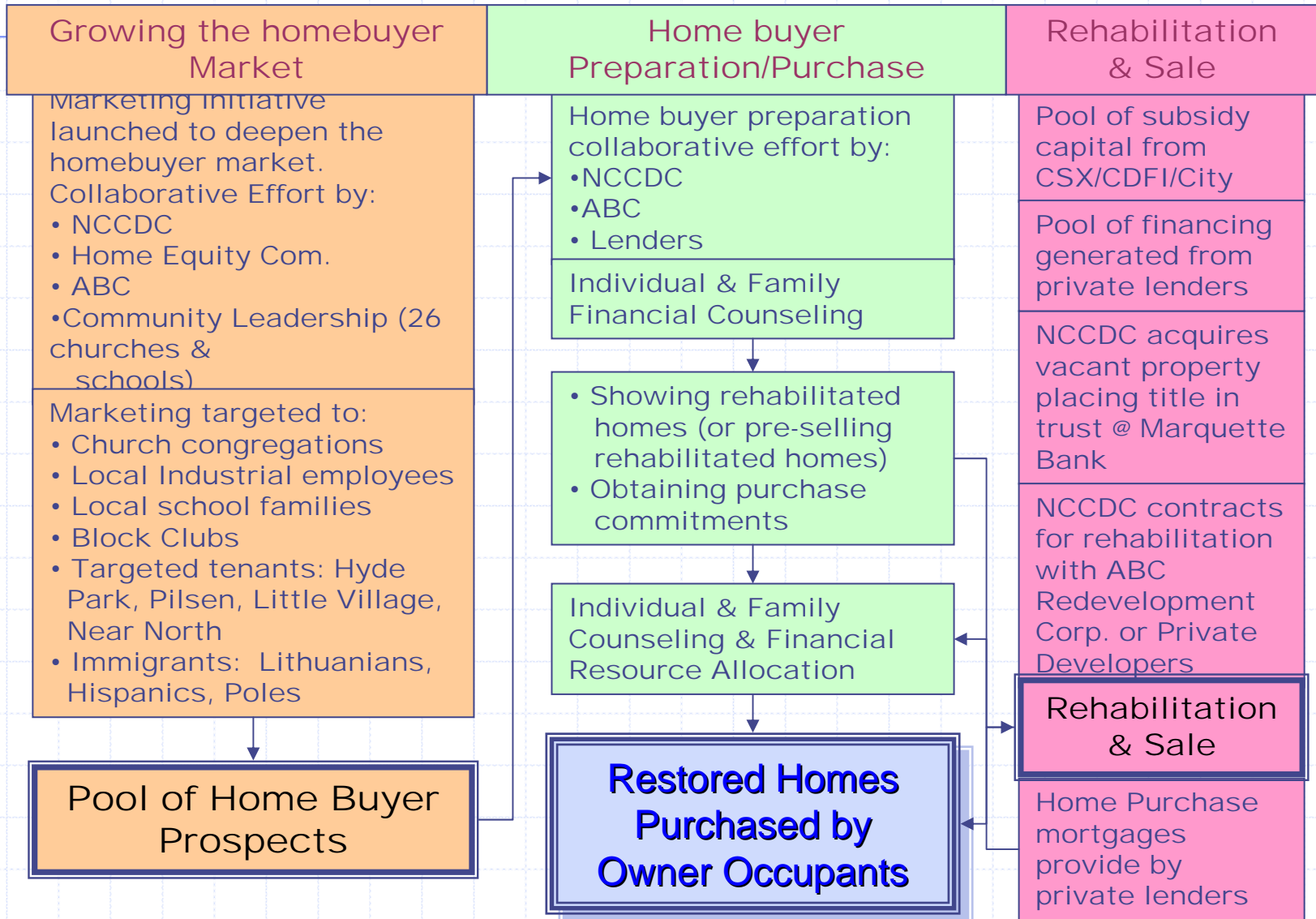
Operating support provided by:

- Fannie Mae Foundation
- Chicago DOH



# New Community Family Homes Restoration Initiative

How It Works



# New Community Family Homes Restoration Initiative

<b>Revolving Warehouse Line of Credit</b>					
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
Number of properties completed	15	17	18	20	70
Acquisition costs (Avg. \$30k)	450,000.00	495,000.00	544,500.00	598,950.00	2,088,450.00
Rehabilitation Cost (Avg. \$90k)	1,350,000.00	1,485,000.00	1,633,500.00	1,796,850.00	6,265,350.00
Sales Revenue (Avg. \$90k)	1,350,000.00	1,485,000.00	1,633,500.00	1,796,850.00	6,265,350.00
Gap	(450,000.00)	(495,000.00)	(544,500.00)	(598,950.00)	(2,088,450.00)
<b>Gap Sources</b>					
CSX N.I.F.	250,000.00	250,000.00			500,000.00
Greater Southwest	200,000.00				200,000.00
First Bank of the Americas CDFI	500,000.00	250,000.00			750,000.00
IMBA	65,000.00				65,000.00
CDBG	300,000.00	300,000.00			600,000.00
Fund Balance Carryover		865,000.00	1,170,000.00	625,500.00	
<b>Total Subsidy all sources</b>	<b>1,315,000.00</b>	<b>1,665,000.00</b>	<b>1,170,000.00</b>	<b>625,500.00</b>	<b>2,115,000.00</b>
Fund Balance	865,000.00	1,170,000.00	625,500.00	26,550.00	

Scenario 1: \$30k acquisition, \$90k sale price with no escalation

# New Community Family Homes Restoration Initiative

## Revolving Warehouse Line of Credit

	2004	2005	2006	2007	Total
Number of properties completed	15	17	18	20	70
Acquisition costs (Avg. \$30k)	450,000.00	495,000.00	544,500.00	598,950.00	2,088,450.00
Rehabilitation Cost (Avg. \$90k)	1,350,000.00	1,485,000.00	1,633,500.00	1,796,850.00	6,265,350.00
Sales Revenue (\$90k + 3% per yr.)	1,350,000.00	1,529,550.00	1,732,980.15	1,963,466.51	6,575,996.66
Gap	(450,000.00)	(450,450.00)	(445,019.85)	(432,333.49)	(1,777,803.34)
<b>Gap Sources</b>					
CSX N.I.F.	250,000.00	250,000.00			500,000.00
Greater Southwest	200,000.00				200,000.00
First Bank of the Americas CDFI	500,000.00	250,000.00			750,000.00
IMBA	65,000.00				65,000.00
CDBG	300,000.00	300,000.00			600,000.00
Fund Balance Carryover		865,000.00	1,214,550.00	769,530.15	
Total Subsidy all sources	1,315,000.00	1,665,000.00	1,214,550.00	769,530.15	2,115,000.00
Fund Balance	865,000.00	1,214,550.00	769,530.15	337,196.66	

Scenario 2: \$30k acquisition, \$90k sale price in year 1 followed by 3% escalation per year

# New Community Family Homes Restoration Initiative

Number of properties completed	10	10	10	10	40
Acquisition costs (Avg. \$60k)	600,000.00	600,000.00	600,000.00	600,000.00	2,400,000.00
Rehabilitation Cost (Avg. \$90k)	900,000.00	900,000.00	900,000.00	900,000.00	3,600,000.00
Sales Revenue (Avg. \$90k)	900,000.00	900,000.00	900,000.00	900,000.00	3,600,000.00
Gap	(600,000.00)	(600,000.00)	(600,000.00)	(600,000.00)	(2,400,000.00)
<b>Gap Sources</b>					
CSX N.I.F.	250,000.00	250,000.00			500,000.00
Greater Southwest	200,000.00				200,000.00
First Bank of the Americas CDFI	500,000.00	250,000.00			750,000.00
IMBA	65,000.00				65,000.00
CDBG	300,000.00	300,000.00	300,000.00		900,000.00
Fund Balance Carryover		715,000.00	915,000.00	615,000.00	
Total Subsidy all sources	1,315,000.00	1,515,000.00	1,215,000.00	615,000.00	2,415,000.00
Fund Balance	715,000.00	915,000.00	615,000.00	15,000.00	

Scenario 3: \$60k acquisition, \$90k sale price with no escalation

# New Community Family Homes Restoration Initiative

## Revolving Warehouse Line of Credit

	2004	2005	2006	2007	Total
Number of properties completed	10	10	10	10	40
Acquisition costs (Avg. \$60k)	600,000.00	600,000.00	600,000.00	600,000.00	2,400,000.00
Rehabilitation Cost (Avg. \$90k)	900,000.00	900,000.00	900,000.00	900,000.00	3,600,000.00
Sales Revenue (\$90k + 3% per yr)	900,000.00	927,000.00	954,810.00	983,454.30	3,765,264.30
Gap	(600,000.00)	(573,000.00)	(545,190.00)	(516,545.70)	(2,234,735.70)
<b>Gap Sources</b>					
CSX N.I.F.	250,000.00	250,000.00			500,000.00
Greater Southwest	200,000.00				200,000.00
First Bank of the Americas CDFI	500,000.00	250,000.00			750,000.00
IMBA	65,000.00				65,000.00
CDBG	300,000.00	300,000.00	300,000.00		900,000.00
Fund Balance Carryover		715,000.00	942,000.00	696,810.00	
Total Subsidy all sources	1,315,000.00	1,515,000.00	1,242,000.00	696,810.00	2,415,000.00
Fund Balance	715,000.00	942,000.00	696,810.00	180,264.30	

Scenario 4: \$60k acquisition, \$90k sale price in year 1 followed by 3% escalation per year