MB Financial: A Preservation Case Study

by

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Over the past 10 years, The MB Financial Community Development Corporation, a subsidiary of MB Financial Bank, N.A., Chicago, has built a strong reputation in the fight to preserve affordable housing for low- and moderate-income (LMI) residents. Since 1998, MB Financial has pulled together $66 million in deals that rescued nearly 1,000 units of affordable multifamily housing for populations that face severe challenges in finding rentals: elderly residents, low- and moderate-income families, and tenants with mental or physical handicaps.

Established in 1995, MB Financial Bank is the $7.9 billion lead bank for MB Financial, Inc., a multi-bank holding company. MB Financial CDC manages high quality debt transactions that provide market-rate return to the bank, while maximizing opportunities to leverage conventional lending within MB Financial Bank's CRA assessment area.

The activities of MB Financial CDC, which shares common management and directors with the bank, are solely attributable to MB Financial Bank. Its work helped the bank achieve an outstanding overall CRA rating in 2006.

Bradford Court Apartments

MB Financial CDC's experience and reputation has led many organizations to seek the company's help. In 2003, four different sources each came to the bank hoping it could assist in preserving the Bradford Court Apartments in Addison, Illinois. The story behind the apartments was one common in many suburban neighborhoods.

Home prices are high in the Village of Addison, a Western suburb of Chicago with well respected schools and parks, a median income of nearly $54,000 and a population of about 36,000. The 200-unit Bradford Court Apartments were an oasis of affordability for its 140 low-income and 60 very-low income households.

Yet all was not well with Bradford Court. The project-based section 8 contract that generated most of the development's rental stream was nearing expiration. As this deadline grew closer, the out-of-state passive owner invested less effort in property management and deferred physical maintenance of the project. This contributed to the continuation of the development's long history of violence involving both gang members and drug dealers.

The time was right for new ownership. But in the hot housing market of DuPage County, IL, affordable housing advocates were concerned that the new owners might not maintain the property with the same levels of affordability as had been present under the section 8 contract. The new owners would need to make a substantial investment in both physically rehabilitating the property and providing more active management to address the effect of the previous years of neglect.

The Hampstead Companies of San Diego, California, a for-profit developer with extensive low-income housing preservation experience, was interested in taking over and rehabilitating the property. They drew upon MB Financial CDC's expertise in these multi-layered financing transactions, and ultimately put together a proposal that would maintain the development's long-term financial viability and housing affordability.

Complexity is Common

At purchase, the Hampstead Companies replaced the existing mortgage with a section 236(b) mortgage, through which HUD subsidizes its mortgage debt service in return for the owners' commitment to long-term affordability. They also renewed the development's section 8 contract with HUD, which subsidizes low-income tenants' rental payments. Together, the section 236 loan and section 8 contract help to lower the operating costs that must be covered by tenant rental payments. The project also benefited from using 9 percent low income housing tax credits (LIHTCs), taxable bonds issued by Illinois Housing Development Authority (IDHA), an IHDA State Trust Fund Loan, and the restructuring of an existing DuPage County CDBG loan.

MB Financial also received a $500,000 Chicago Federal Home Loan Bank Affordable Housing Program (AHP) grant with the Housing Opportunity Center, Inc, a Chicago affordable housing advocacy group serving as their nonprofit sponsor. A frequent participant in the AHP program, MB Financial has received $11.2 million in AHP funds since 2003, which funded 26 projects throughout the Chicago land market, including 1,145 units within the city of Chicago.

Lastly, the Hampstead Companies agreed to defer its fee until the project was complete. In addition, there were six sources of funds brought together to make this deal work.

As they moved toward closing the deal, the Hampstead Companies faced the challenge of allocating $5.5 million in 9 percent low income housing tax credits (LIHTCs) before the end of the 2003 or they would be lost. MB Financial entered the deal in September of 2003.

An additional complication involved the LIHTC equity investor, who not willing to advance any funds until the project was certified as compliant with the LIHTC programs tenancy requirements. This would not occur until after construction was complete and leased with tenants income-qualifying under the program. All parties to the transaction needed to be flexible and creative during the last 90 days to help the deal come together.

Although that combination of funds and deferred fees generated enough capital to fund the purchase of the property, Hampstead still needed an additional $2 million to fund rehabilitation costs. With the year-end tax credit deadline looming, MB Financial stepped in with a $1.9 million loan and a $100,000 letter of credit. This basically served as a bridge loan until the LIHTC equity contributions became available following project certification. "With so many layers of financing," said MB Financial CDC President Tommy FitzGibbon, "and with the political and legal work that went into this structure, it was like a big dance."

In the end, the partners managed to close the deal with no time to spare. “I had no New Year’s Eve celebration because we were here closing the loan,” FitzGibbon recalled. “We literally funded the initial disbursement at 5 p.m. on December 31st.”

Tenant Unknown

Hampstead assumed ownership changing the name of the complex to College Park Apartment Homes. Its first task was to identify the occupants of the buildings’ units. Despite an official 5 percent to 10 percent vacancy rate, people were living in all the apartments or using them for other purposes. After evicting the squatters, the developers created an accurate rent roll and began moving tenants into the units the squatters had occupied. That created enough real vacancies for Hampstead to start a building-by-building gut rehabilitation.

The grounds improvements included dedicated, refurbished play areas for children, and basketball and tennis courts. Parking areas were resurfaced.

“People want to be proud of where they live and people in the surrounding area want to be proud of the development that abuts them,” said FitzGibbon. “The developer paid attention to that immediately.” A new community center gave residents a place to gather, while new laundry facilities improved their everyday lives.

During the renovations, MB Financial continued to show its flexibility when it allowed the Illinois Housing Trust Fund to act as disbursement agent, for bond issuance proceeds, as well as the $2 million from MB Financial. MB Financial sent its own inspectors to check on the project periodically, as well.

Double Bottom Line

The complexity of the financing and the challenges inherent in turning around projects, such as College Park, tends to cloak the mission of MB Financial CDC to provide a market rate return to the bank, while maximizing opportunities to leverage conventional lending within the bank’s Community Reinvestment Act (CRA) assessment area.

College Park was a typical deal for the CDC in that it created a profit in the bank’s charitable grant fund and was short-term. The fund covers the CDC’s operating expenses and would also cover any losses. Only over a year after rehab started, 80 percent of the units were upgraded and occupied. Despite that quick pace, fewer than a half-dozen families were displaced during the rehabilitation.

MB Financial CDC focuses on double bottom line investments to develop an extensive grant program that has provided considerable dollar amounts to many local nonprofit community-based organizations. Often, these grants are enhanced by community development lending or active involvement by bank staff in the community group.

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College Park Apartments
(formerly Bradford Court Apartments)
Sources & Uses of Funds

Uses:

Hard Costs:	$ 10,852,112
Soft Costs:	$ 1,923,856
Developer Fee:	$ 1,486,030
Total	$ 14,261,998

Sources:

	Dollars ($)
Project NOI Bonds	$ 5,371,886
"IRP" Support Bonds	$ 2,045,602
State Trust Funds	$ 750,000
DuPage County	$ 903,830
LIHTC Equity	$ 4,690,680
FHLB AHP	$ 500,000
Total	$ 14,261,998