

Predevelopment Loan Program Overview and Portfolio Report

Overview

Florida Housing's Predevelopment Loan Program (PLP) was established in 1992 and was initially funded through documentary stamp tax proceeds distributed to the State Housing Trust Fund. Since 2004, PLP has operated as a self-sustaining, revolving fund without additional allocations from the trust funds.¹ Despite this, no applicants have been placed on a waiting list due to many PLP borrowers being successful in securing funding through FHFC construction financing programs and other sources and repaying the PLP funds.

The program was conceived and set up to help new and emerging not-for-profit housing organizations get started with up-front costs. Since many of the applicants have limited experience or capital necessary to begin the process of developing affordable housing, the program provides two key elements: financing of predevelopment activities and the technical expertise to build the organizational capacity to develop housing or assist organizations to find experienced development partners. The program is designed to accommodate the development of affordable rental and homeownership units to serve households, and many of the units are also set aside for special needs populations.

As a result of the program's mission to help start-ups, the PLP carries higher risks than other Florida Housing programs that require developer experience in order to get funding. The risk is warranted as the program allow non-profits that may lack experience or resources to enter into the competitive process of obtaining construction financing through FHFC and other programs. In addition, many of the developments that access PLP loans are designed to serve harder to serve special needs populations. Some non-profits that have used the program have gone on to become more experienced developers producing affordable housing.

There are several important ways that Florida Housing mitigates this risk: initial application assessment, individualized technical assistance, security on loans, credit underwriting (when funds are requested for acquisition) and inclusion of development consultants and/or experienced developer partners into the PLP applicant's development plan. In addition, although the program is often accessed by new and emerging non-profits, some experienced non-profits apply for PLP loans for multiple different developments over a number of years. This allows the organizations to access up front capital to which they may not otherwise have access.

there is currently \$13,688,217 committed to outstanding loan commitments (approved and closed loans) and loan requests (pending Board approval). A list of current active developments is attached as Exhibit A.

¹ The program is governed by sections 420.521-529, Florida Statutes, and Chapter 67-38, Florida Administrative Code.

Loan Guidelines

- Applicants may apply for a loan of up to \$500,000 without property acquisition costs, or \$750,000 with property acquisition costs.
- The loan carries a non-amortizing one percent interest rate, with principal and interest deferred until maturity.
- The loan matures either upon the closing of construction/permanent financing or three years after the original PLP loan closed, whichever occurs first.

PLP funds can be used for soft costs and acquisition. Examples of typical soft costs are rezoning, soil tests, engineering, appraisals, feasibility analysis, legal fees, and market study expenses.

Funding may not be used for construction, overhead, operating funds, or developer fees.

For rental developments: at least 20 percent of the units for households earning 50 percent or below of area median income (AMI). The set-asides are superseded by the most restrictive set-asides of the construction financing sources awarded to build the development. For homeownership units, at least 50 percent of the units must be sold to households earning at or below 80 percent of AMI and the other 50 percent to households with incomes at or below 120 percent of AMI.

Application Process

- Once an application is submitted, it is evaluated for threshold requirements by program staff. This occurs in 1-5 days.
- If it meets the basic criteria for threshold, provides a proposed budget for realistic, eligible costs, and has a general approach for pursuing construction financing, the applicant is invited into the program and assigned to a Technical Assistance Provider (TAP). This occurs in 1-3 days from the time the applicant submits the \$600 fee.
- The TAP carries out further evaluation and assists the applicant in creating a development plan. This can take up to six months (unless extended) depending on the readiness of the applicant to provide all necessary information to the TAP to allow for a positive recommendation to the Board.
- Once a plan is developed that is fully supported by the TAP, it is evaluated and, if deemed to be within our risk tolerance² by Florida Housing staff, it is presented to the Board as part of a loan approval package.
- After the Board has considered and approved the loan, it is assigned to the Legal department for closing and then funds can be drawn for eligible activities. When PLP funds are requested by the applicant for acquisition of the development property, the application also undergoes credit underwriting.

² Taking into account the lien position that will be assumed by PLP, and the value of the property or other collateral to be mortgaged.

On Active loans approved since 2014, the average number of days to complete the process from Application to Loan closing is: 237 days (9 months).

Some applicants that are invited into technical assistance do not proceed beyond that point due to factors such as adverse market conditions, lack of potential construction financing, and zoning issues. In some cases, the applicant is able to determine through the technical assistance process that the organization is not prepared at the time to go through the development process for a variety of reasons including how the time and resource commitment to the development may affect their main business line such as supportive services and programs.

Technical Assistance

Florida Housing mitigates PLP's inherent risk by requiring technical assistance be provided to every applicant. This assistance begins as soon as the applicant is sent an invitation to participate. The TAP meets with the applicant to begin the process of completing a development plan. The development plan process enables the TAP to get a thorough understanding of the funding sources being proposed, development costs, target market and the applicant's experience with development in general and similar developments in particular. These development plans are submitted to the Board with every request to approve a PLP loan.

Helping applicants understand the market in which they are operating is a critical part of technical assistance. The TAP staff also train PLP applicants on how to develop and understand an operating proforma for their proposed rental developments . This helps the applicant understand the level of subsidy needed in order for a rental development to be affordable to the target market.

Evaluation Process

Due to the risk inherent in lending funds for the development of affordable housing, combined with the added risk of developers that are building capacity, some losses are to be expected in a program such as PLP. However, due to these losses, many caused by fluctuations in market conditions over the last decade, Florida Housing staff has incorporated stricter application assessment parameters and TAP evaluations of applications. This has led to some applications that may have been approved in the past not making it through the process to loan approval. Current key areas of evaluation include:

- Market need for the proposed housing;
- Availability of public and private construction financing programs and products;
- Experience of the applicant in accessing PLP and developing the type of housing being proposed or applicants' access to an experienced development partner; and
- Potential value of the property or collateral that will be used to secure the loan in case of a failure of the development to move forward.

PLP Portfolio Summary

- **65 PLP loans have been fully repaid totaling \$18,079,017. These loans have resulted in the creation of more than 3,500 affordable units. Many of these units are for special needs populations and are in smaller developments or scattered units.**

- **16 loans are currently active and eligible to draw funds. The total amount committed to these loans is \$6,950,281.**
- **7 loans have been approved by the Board and are in the closing process. The total amount committed to these loans is \$3,339,293.**
- **7 applicants are in the process of working with technical assistance. The total amount requested for these loans is \$3,510,238.**
- **Since 2000, \$2,283,582 has been charged off on loans that were unable to be repaid due to the poor housing market in the mid-2000s and the inability of those applicants to secure funding through the competitive Universal Cycle process.**
- **\$881,075 in funds is currently past due.**