Community Development Lending

Aileen Pruitt

Florida Market Manager

PNC Community Development Banking (Florida Market)

Fall 2017

Lending – Affordable Housing

- Acquisition / Rehab Loans
- Capital Markets (Agency Loans)
- Construction Loans
- Lines of Credit
- Construction Mini Perm Loans
- Construction Permanent Loans
- Multi-Family Loans (acquisition or refinance)
- Secured and Unsecured Loans and Lines of Credit
- Tax Credit Projects

PNC

Types of Projects

- Community Land Trust Project Developments (for sale housing or rentals)
- Elderly (senior) Housing
- Section 8 Housing Projects
- Work Force Housing Projects (for sale housing or rentals)
- Gap funding for 4% or 9% Tax Credit Bond or Equity Projects
- Revitalization and Stabilization Projects

Types of Organizations

- Non-profit and for-profit developers
- Municipalities (CRA's or Community development project funding)
- Community Land Trusts
- Owner occupied buildings
- CDFI's
- Food Banks
- Health Services Agencies, Clinics

Ratios

- ***Operating Ratios*** **- Ability of the firm to earn an adequate return and control costs.**
- ***Liquidity Ratios*** **- Focuses on short term risk management.**
- ***Leverage Ratios*** **- Focuses on the capital structure and long-term risk management.**
- ***Loan to Value Ratio vs Loan to Cost*** **- Banks generally lend the lessor of Loan to Value or Loan to Cost.**

Operating Ratios

- *EBITDA* = Earnings Before Interest, Taxes, Depreciation and Amortization
- *Debt Service Coverage Ratio* = EBITDA / (Prior Period Current Portion of Long Term Debt + Interest Expense)
- *What banks look for* - Consistently positive EBITDA with a DEBT service Coverage Ratio > 1.20X for at least 3 years, diverse revenue sources.
- *What does not work for banks* - Inconsistent EBITDA, negative trends, Debt Service coverage < 1.0X, large changes without explanations and an over reliance on debt to maintain operations.

Liquidity Ratios

- *Current Ratio* = Current Assets/ Current Liabilities
- *Days Cash on Hand* = (Unrestricted and Temporarily Restricted Liquidity) * 365/ (Operating expenses – Depreciation – Amortization)
- *What banks look for* - Current ratio of at least 1.0X, strong cash balances and at least 30 days cash on hand.
- *What does not work for banks* - Low cash balances, negative trends and insufficient cash to cover operating expenses.

Leverage Ratios

- *Debt to Equity* **= Total Liabilities / Total Equity**
- *Debt to Assets* **= Total Liabilities / Total Assets**
- *What banks look for* **- Leverage that is < 3.0X and good balance of assets ex. cash, real estate and receivables.**
- *What does not work for banks* **- Overly leveraged entities, over reliance on fixed assets such as land and real estate without sufficient cash reserves to cover operations.**

Loan to Value Ratio vs Loan to Cost Ratio

- ***Loan to Value (LTV) Ratio*** **= Total Loan Amount / Appraised Value**
- ***Loan to Cost (LTC) Ratio*** **= Total Loan Amount / Total Project Costs**
- ***What banks look for*** **- The lesser of the loan to value or loan to costs when financing projects that involve real estate.**
- ***What does not work for banks*** **- An over reliance on collateral ex. Very low LTV or LTC, but inconsistent cash flow or inadequate liquidity reserves.**

Sources and Uses

- **When preparing a request for financing always have a sources and uses table prepared.**
- **A sources and uses table provides a summary of all the funding sources and uses in a project.**

Sources:		**Uses:**	
Loan	$600,000	Purchase	$950,000
Cash Equity	$100,000	Debt Refinance	
Grants	$250,000	Renovation/Construction	
Contracts	$50,000	Closing Costs	$50,000
Other		Other	
Total Sources	**$1,000,000**	**Total Uses**	**$1,000,000**

Loan Structure

- **The Client works with the Bank to identify the purpose and amount of the proposed loan, the expected source of repayment, the value of collateral and timeline to have financing in place.**

- **The loan amount, maturity, and repayment schedule are negotiated to coincide with the projected usage.**

- **Match credit terms with a borrower's specific needs.**
  - —Long term financing needs are financed with long term loans.
  - —Short term needs with short term loans.

Fundamentals of Credit & Risk Analysis

- **Credit analysis involves the employment of quantitative and qualitative methods to perform financial and non-financial analysis to determine borrower's creditworthiness.**
  - —A company's ability to repay

Fundamentals of Credit & Risk Analysis

- **Credit analysis is essentially default risk analysis.**
- **Three areas of commercial risk analysis:**
  1. What risks are in the operations of the business?
  2. What have managers done or failed to do in mitigating those risks?
  3. How can a lender structure and control its own risks in supplying funds to the Business?
  4. **<u>Does the project cash flow? Banks are NOT collateral lenders</u>.**

Questions ????

Monclaude Nestor

205 Datura Street, West Palm Beach, FL

561-803-9946

Monclaude.Nestor@pnc.com

Aileen Pruitt

500 Virginia Ave, Fort Pierce, FL

772-296-6113

Aileen.Pruitt@pnc.com