Enterprise LISC BAY AREA

Lender "Ask Me Anything"

California Community Land Trust Network 2025 Conference

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Our Speakers Today

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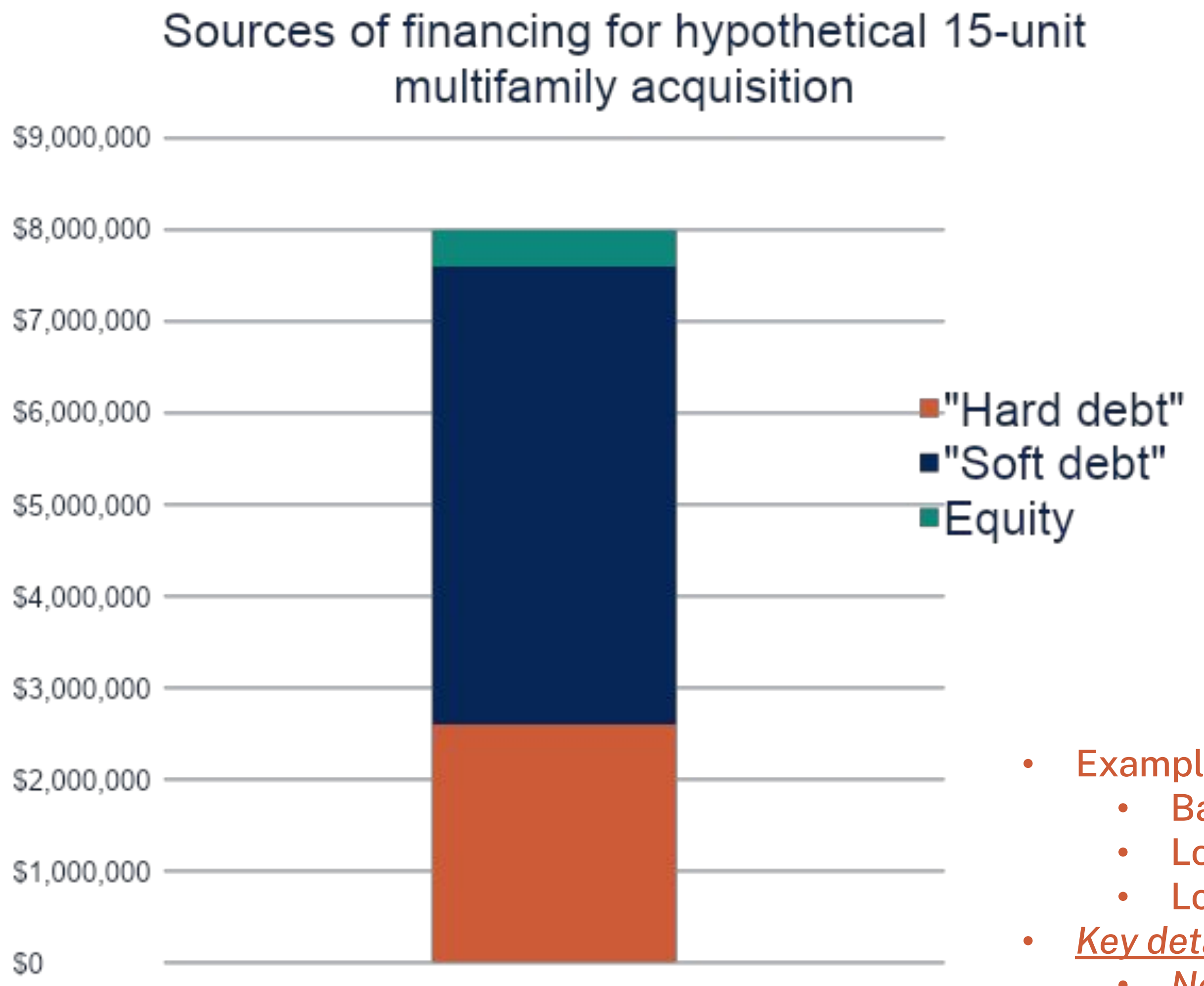
The Basics of Affordable Housing Finance: The Capital Stack



- Examples:
  - Contribution from a CLT's own cash
  - Grants to projects
  - In tax credit affordable housing development, tax credit equity
- *Key detail:*
  - *Repayment to this source generally only occurs after the project has paid off debt*

- Example: Loan from a city or county government
- *Key details:*
  - *Repayment terms are often flexible*
  - *Loans are sometimes considered forgivable*
  - *Interest rates are typically 3%*

- Examples:
  - Bank loan
  - Loan from a Community Development Financial Institution (CDFI)
  - Loan from a philanthropic "program related investment" (PRI)
- *Key details:*
  - *Needs to be paid back on fixed schedule*
  - *Interest rates track with the market.*

Development Phases

Acquisition

- Building is purchased from private seller

Project stabilization

- Rehab is completed, relocation may be necessary
- Vacancies are filled

Long-term operations

- Loans are paid back through income from rents
- Reserves (for the property to cover long-term rehab needs) are gradually filled with income from rents

Development budget (a.k.a. development pro forma) includes point-in-time information on the purchase price of the building and costs of needed rehabilitation, and on different financing sources

Operating pro forma includes 10-20 years of planning with assumptions on annual operating costs (e.g. insurance, utilities, regular maintenance, reserve contributions), property income, costs of debt repayment

What do different types of lenders want to see in a proposed project?

Banks

- Project can pay back loan
- Low risk of losing money on investment
- Project counts towards Community Reinvestment Act (CRA) obligations

CDFI staff

- Project can pay back loan, often through combo of public sector support & rents
- Project advances CDFI's mission

Public sector lenders (city/county staff)

- Project and organizational model both appear sustainable
- Public policy goals are being met
- Supporting projects that would be unlikely to move forward with private sources alone

Foundation staff

- Projects help achieve organizations' mission
- Projects will pay back loan

Reminder: CDFI = Community Development Financial Institution

How do you know how big of a loan your project can get?

Operation	Category	Value
	Effective gross rent (EGR)	**$243,583**
-	Operating expenses	$120,000
-	Reserve deposits	$10,800
=	**Net operating income (NOI)**	**$112,783**
	Debt service	
+	Loan 1	$67,234
+	Loan 2	$22,993
=	**Total debt service**	**$90,227**
= NOI - Debt Service	**Cash flow**	**$22,557**

Annual income from rents, after accounting for units that are not collecting due to vacancies

Includes property management, insurance, routine upkeep, etc.

After accounting for other expenses, properties make loan payments out of net operating income.

What's left over after making debt payments is called "cash flow."

In an operating pro forma, net operating income is the first metric that lenders ask about to determine whether they can provide a loan.

Zero or negative net operating income = NO LOAN. Very low NOI loan could be too small to justify.

If projected NOI is zero, negative, or positive but very low, seek ways to reduce costs or increase income, or explore grant funding / fundraising campaigns to close gaps.

What are other project-level metrics that lenders look at?

RATIO	MEANING	MATH	IN NUMBERS
Loan-to-value ratio (LTV)	If the bank/lender had to repossess the property, could they sell it elsewhere and recoup the value of the loan?	= Loan amount ÷ Appraised value (or purchase price) × 100	For traditional new-build affordable housing projects, 80% max LTV is standard. Some CDFIs have flexible alternative standards for acq/rehab projects.
Debt service coverage ratio (DSCR), a.k.a. Debt coverage ratio (DCR)	Ratio that compares the amount of debt the property is paying to the NOI to assess for how burdened the property will be by debt	Net operating income (NOI) ÷ Amount of money being paid annually towards debt ("Debt service")	Usually, lenders want to see DSCR of at least 1.15.

ASK US ANYTHING