



# Financing in Community Development

Community Law Center, Inc.

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# Who is Baltimore Community Lending, Inc.

- ▶ Our Mission is to support the revitalization and strengthening of Baltimore Neighborhoods through innovative and flexible financial assistance.
- ▶ Twenty- nine years since inception as a “Quasi-Public” Agency of Baltimore City Government
- ▶ Over \$200 million in financing providing 4200 units of affordable housing, over 4,000 square feet of commercial and community space
- ▶ 2004 received our certification from the U.S. Treasury as a Community Development Finance Institution and officially separated from Baltimore City Government
- ▶ 60% of our lending has gone to companies owned by people of color, 22% to women owned businesses and non profits.
- ▶ In Fiscal Year 2019 approved \$11.5 million in real estate financing
- ▶ Recently created a new loan product for new and emerging small business entrepreneurs

# Sample Transaction

- ▶ Acquisition and rehab of 10 properties for sale
- ▶ Properties are being sold to the CDC by V2V or private investor
- ▶ City and State support through some grants
- ▶ Anticipated sales price based on comparable sales is \$150,000

# Identifying Costs

## ▶ Securing reasonable estimate of costs

- ▶ Property Acquisition
- ▶ Architect
  - ▶ Civil Engineer ?
- ▶ Contractor
- ▶ Development Expense
- ▶ Organization Staffing
- ▶ Interest Expense

## ▶ Identifying potential Sales Price

- ▶ Zillow
- ▶ Realtor CMA
- ▶ Appraisal (\$)
- ▶ Market Study (\$)

# Creating Preliminary Sources and Uses.

- ▶ There are two budgets that need to be developed:
  - ▶ Construction- *what is it going to cost*
  - ▶ Sales/long term -*how are costs paid and how are you and the lender/s getting paid back*
- ▶ Work towards the estimated of costs for Construction
  - ▶ Construction @ \$125 a square Foot
  - ▶ 1200 square foot unit = \$150,000 Construction per unit
  - ▶ Development Costs
    - ▶ Architect      \$      1,500
    - ▶ Engineer       \$      500
    - ▶ Legal           \$      500
    - ▶ Permits/bond \$      2,000
    - ▶ Staff costs     Based on a period of time.
- ▶ Total Development Expense

# Total Estimated Costs Per Unit (REHAB) Estimate

▶ Acquisition	\$ 10,000
▶ Construction	\$ 150,000
▶ Development Expenses	\$ 2,500
▶ Carrying Costs	\$ 1,200
▶ (Taxes, Maintenance, water,)	
▶ Interest Expense	\$ 7,000
▶ Contingency	\$ 16,250
▶ Total per unit	\$ 186,950
▶ Number of Units (10)	<b>\$1,869,500</b>
▶ Staff Expenses (2 years)	
▶ Project Director	\$ 120,000
▶ Overhead	\$ 30,000
▶ Total	<b>\$2,019,500</b>

# Sources and Uses

## Uses

▶ Acquisition	\$ 100,000
▶ Construction	\$1,500,000
▶ Development Expenses	\$ 25,000
▶ Contingency	\$ 162,500
▶ Carrying Costs (Fees)	\$ 12,000
▶ Interest Reserve	\$ 70,000
▶ Staff Expense	\$ 150,000
▶ Total	\$2,019,500
▶ Total Cost per Unit	\$ 201,950

## Financing Source

▶ Loan (75%)	\$ 75,000
▶ Loan (Less than 80%)	\$ 882,900
▶ Predevelopment	
▶ 10% Contingency Loan(100%)	\$ 162,500 <sup>1</sup>
▶ Fees Loan (80%)	\$ 9,600
▶ Interest Reserve (100%)	\$ 70,000 <sup>2</sup>
▶ Staff Expense	
▶ Total (80% Loan to Value)	\$1,200,000
▶ Total Loan per Unit	\$ 120,000

n.b. 1 and 2 non-use results in decrease of note amount

# Sources

▶ Total Costs	\$ 2,019,500
▶ Developer Fee? (10%)	<u>\$ 201,950</u>
▶ Total	\$ 2,221,450
▶ Sales	\$ 1,500,000
▶ Realtor/Closing Costs, (10%)	\$ 150,000
▶ Gap	\$ 871,450
▶ Subsidy by unit	\$ 87,145



# Sample Cost Estimate Sheet

## Hard Costs & Related Expenses

Site Development/utilites/Alley Construction Cost

Construction (Inc. Landscaping & P&P Bond )

Construction Contingency (5%)

Local permits/bonds

Storm-Water/Waste Water/Sewer

Water Service-Main Line& New Meter/ Sub-drainage

Electrical Site Sub Structure

Environmental Remediation

Demolition

Developers Agreement Cost - Baltimore City

General Requirements/ Builder Overhead/Profits

SUBTOTAL

## Soft Costs & Professional Fees

Architectural Fees (construction adm)

Appraisal/Market Study

Engineer (Civil & Structural)

Reimbursables/Reproductions

Engineering Stakeout

Environmental - special analysis ( full report completed)

Legal - Borrower

City Legal

Street and Alley Closings

Accounting/Adminstrative/Audits

Insurance ( Liability & Builder's Risk)

Inspection Fees

Soft Cost Contingency (5%)

SUBTOTAL

# Sample Cost Estimate Sheet

## **Financing & Related Expenses**

Origination Fee

Construction Interest 7.00% - Total 24 months

Accrued Interest - Equity 1

Accrued Interest - Equity 2

Closing Cost 8%

Financing Contingency

**SUBTOTAL**

## **Marketing & Promotions**

Model

Other - Marketing Packages/Signage

**SUBTOTAL**

## **Development Mgmt.**

Developer's fee .15% of project costs

Other

**SUBTOTAL**

**FUNDED PROJECT COSTS**

# Challenges

- ▶ Staffing and Experience
- ▶ Existing financial resources and financial stability
  - ▶ Predevelopment
  - ▶ Staffing resources
- ▶ Lure of rental versus sales
- ▶ Willingness of competent builders and potential development partners to work with non-profits.
- ▶ Timing of grants and subsidies
- ▶ Timing of Acquisition
- ▶ Pressure to take on too much at once
- ▶ Inability to take on enough units to be “transformative” and attract new residents

# Baltimore Community Lending, Inc.

## Real Estate Loan Products

### Guidance Line of Credit

- ❑ Revolver for construction
- ❑ One year term with extension for a second year
- ❑ Up to 90 % of after rehab value; 75% “as is” for acquisition
- ❑ \$1 million loan limit

### Commercial/Multifamily Loan Program

- ❑ Construction to Perm, Refinance, Mini-Perm product
- ❑ 5 to 7 year term; 20 year amortization
- ❑ Up to 90 % of after rehab value; 80% “as is” for acquisition
- ❑ \$1 million loan limit

# Baltimore Community Lending Real Estate Loan Products

## Pre-development Loan Program

- ❑ Acquisition and soft costs related to pre-construction community development
- ❑ Up to Thirty-six month terms
- ❑ Requires a 40% guarantee from a third party
- ❑ 80% of “as is” or unimproved value, will consider up to 100% LTC
- ❑ \$1 million loan limit

## Subordinate Financing Loan Program

- ❑ Twelve month and acquisition and construction
- ❑ Mini-Perm up to sixty months term with a 20 year amortization
- ❑ Combined loan to value up to 90%
- ❑ \$500,000 loan limit

# Small Business Baltimore Business Lending

- ▶ Otherwise Credit Worthy Borrower who lacks equity
  - ▶ Business Plan
  - ▶ Successful completion of T/A training
- ▶ Baltimore City only
- ▶ Between \$10,000 up to \$50,000
- ▶ Interest rate 7.25% for woman owned and 9.25% for male owned business
- ▶ Three to five year terms.
- ▶ Some restrictions on types of business.
- ▶ Can apply to BBL or through participating micro-lenders
- ▶ [www.baltimorebusinesslending.org](http://www.baltimorebusinesslending.org)



## Contacts

Bill Ariano	President and CEO	410-319-0726
Frank Coakley	Chief Lending Officer	410-319-0735
Sean Russell	Vice-President, Senior Loan officer	410-319-0725
Dierdre Pressley	Assistant Vice-President, Loan Officer	410-319-0723
Pat Clements	Operations Administrator	410-319-0720
Bonnie Crockett	Director Baltimore Business Lending	443-326-8315
Don Cutwright	Loan Officer Baltimore Business Lending	443-450-1384

875 Hollins Street  
Suite 301  
Baltimore Md. 21201