



Capital Stack 101



Presenters



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Capital Stack 101 - Workshop Agenda

- Introductions
- Building Your Development Budget
- Understanding the Funding Gaps
- Resources and Approaches
- Discussion/Questions

Introductions

- Name
- Title
- Affiliate
- Annual Production
- Major Types of Funding Sources for Builds



Building Your Development Budget – Expenses

Exercise - what goes into the cost of a home?



Building Your Development Budget – Expenses

The basics:

- Land (acquisition, site preparation)
- Pre-construction Costs (drawings, permits, etc.)
- Skilled Labor
- Sticks & Bricks
- Construction Contingency

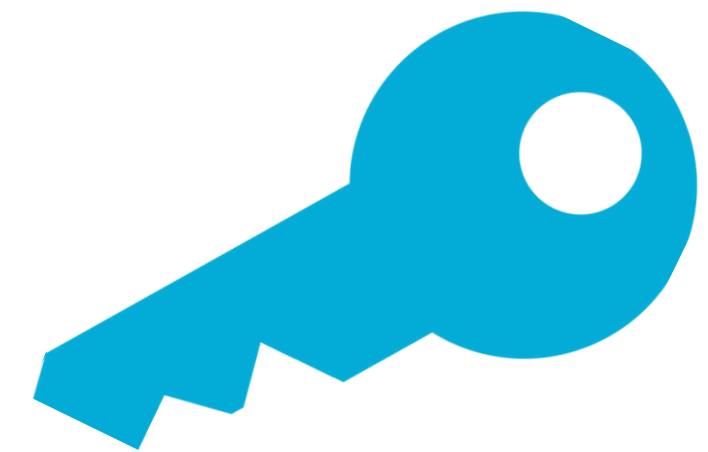
Building Your Development Budget – Expenses

Very real costs, but not always recognized by funders:

- Site Supervision
- Homeowner Services Overhead
- Affiliate Operations Overhead (Project Management, Office, Finance)
- Resource Development Overhead (Volunteers)
- Items Covered by Gifts in Kind (not just a cash budget)

Building Your Development Budget - Revenues

Traditional Habitat Model



Fundraise → Build → 30-year 0% Mortgage

Wash - Rinse - Repeat

Building Your Development Budget - Revenues

Traditional Habitat Development Resources:

- Cash Donations
- Gifts-in-Kind
- Volunteers
- Mortgage Repayments

Traditional Development Resources

Are these resources enough
to just keep pace,
let alone increase production?

**DOES IT SEEM LIKE THIS IS
ALL GETTING HARDER?**

You're Not Wrong - It IS Getting Harder Because...

In the last decade:

- Labor & Materials - Costs **up 56%***
- Land - Costs **up from 60% to 300%***

**Source: Habitat Capital*

Working Harder Just to Stay Even

Example:

	What Used to Cost	Now Costs
Land	\$50,000	\$80,000
Labor and Materials	\$150,000	\$234,000

You have to raise at least **57%** more funds
just to build the same house.

And How Many of You are Experiencing This?

Development (Value) Gap – Difference between what a home costs to build and the appraised value.

Example:

Appraised Value of Home = \$300,000

Cost to Build = \$350,000

Development Gap: $\$300,000 - \$350,000 = (\$50,000)$

Central Minnesota HFH Strategy

	Habitat Mortgage	Third-party Mortgage
Mortgage Terms*	30 yrs; 0% rate	30 yrs; 3.5% rate
First Mortgage Amount	\$279,000	\$214,344
Soft Second (Habitat)		\$64,656
Downpayment Grant (Gov't)	\$20,000	\$20,000
Borrower Downpayment	<u>\$1,000</u>	<u>\$1,000</u>
Appraised Value=Sale Price	\$300,000	\$300,000
Cash to Affiliate at Closing	\$21,000	\$235,344

*Household Income = \$62,300

With Third-party Originations

- Recycle big chunk of capital faster to build homes, BUT
- Still facing Development Gap, PLUS also dealing with...

Affordability Gap

Another Chasm to Fill

Affordability Gap – Difference between appraised value and first mortgage a family can afford.

Appraised Value of Home = \$300,000

Mortgage + Borrower DP = \$215,344

Affordability Gap: $\$300,000 - \$215,344 = (\$84,656)$

What Can We Layer In to Fill the Gaps?

- Federal Resources
- Regional/State Resources
- Local/Other Resources
- Mortgage Sales/Leveraging



Federal Resources – Current Status



Federal Resources – What Has Been Available

Resource	How to Access	What It Funds
HOME Investment Partnership (HOME)	HUD block grants to counties, cities, states (for rural areas)	Acquisition, rehab, construction, downpayment assistance
Community Development Block Grants (CDBG)	HUD block grant to counties, cities	Acquisition, infrastructure; local government sets priorities
Self-Help Homeownership Opportunity Program (SHOP)	HUD grant, HFHI applies & subgrants to affiliates via application process	Land acquisition & infrastructure development

Federal Resources – continued

Resource	How to Access	What It Funds
Congressionally Directed Spending	Through Congressional offices – short application window generally opens in spring	Have funded Habitat builds; currently, only Senate funds nonprofits
USDA 502 Direct Loan Program	US Dept of Agriculture, State Rural Development Offices	Below-market first mortgages for low-income home buyers in rural areas.
New Market Tax Credits (NMTCs)	US Treasury/CDFI Fund – complex program; probably need consultant (Habitat Capital has program)	New construction and acquisition/rehab in low-income communities (20% poverty and/or <80% AMI)

Federal Resources - continued

Resource	How to Access	What It Funds
Capital Magnet Fund	US Treasury/CDFI Fund – competitive application	Creation of financing tools for affordable housing; must leverage investments at least 10x award amount

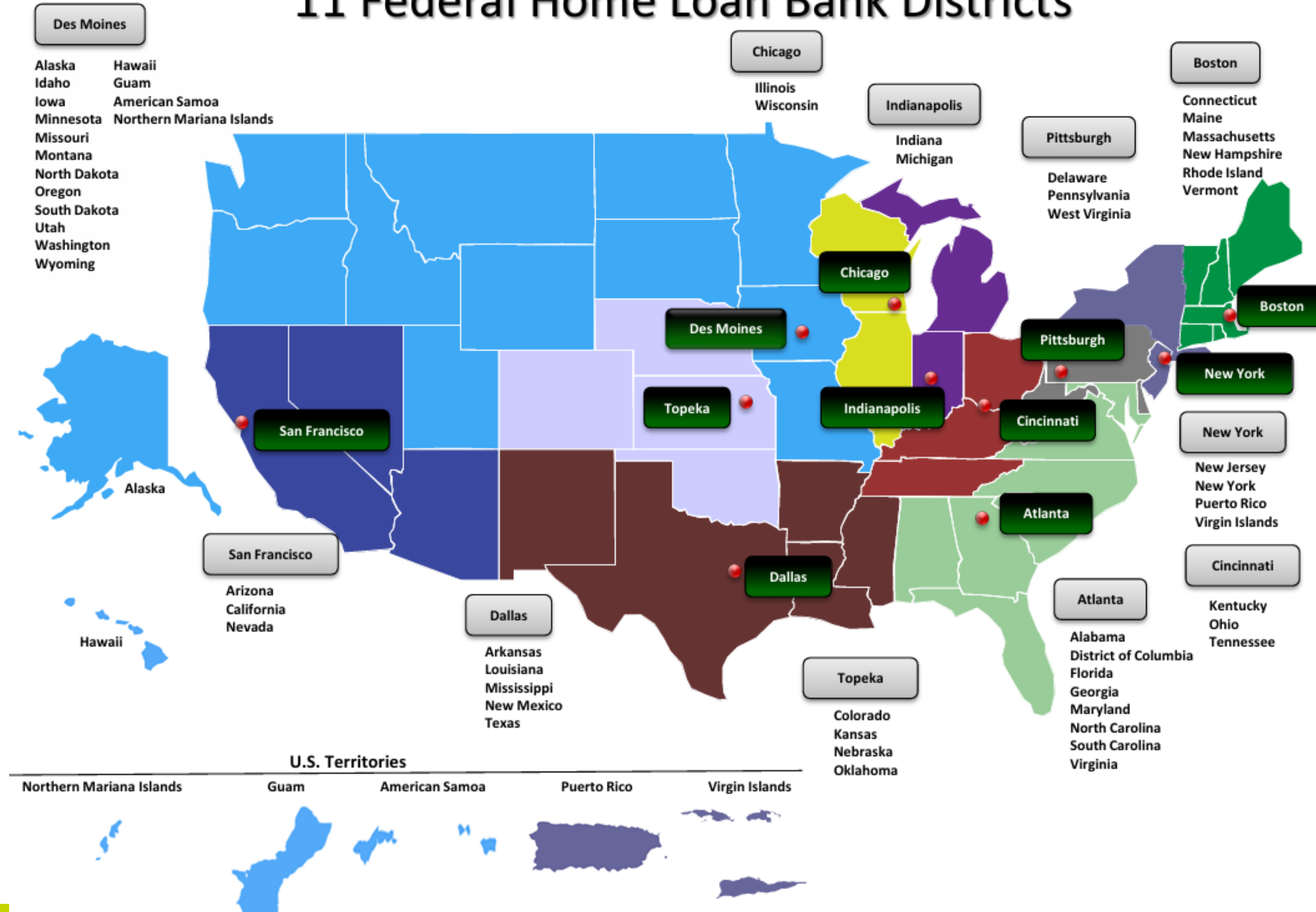
Regional/State Resources



Federal Home Loan Banks

- Affordable Housing Program (AHP) – for construction or downpayment assistance
- Downpayment grants through FHLB members
- Targeted Funds/Special Initiatives

11 Federal Home Loan Bank Districts



Regional/State Resources

State Housing Finance Agencies

- Mortgage Products
- Mortgage Purchases
- State Tax Credits
- Downpayment Assistance Programs
- Special Initiatives

Regional/State Resources - continued

Other Areas within State Government

- Dept. of Commerce & Economic Opportunity
- Dept. of Human Services
- Dept. of Energy
- Dept. of Revenue
- Grants directed by State Legislators
- Soil/Brownfield Remediation Funds

Local and Other Resources

- County- or city-specific initiatives
- Tax Increment Financing
- Block grants from state or federal sources
- Land banks
- Utility companies (energy efficiency)

Cultivate Connections

- Get to know your elected officials at all levels.
- Be visible, so you are top of mind when opportunities arise.
- Talk with funders about plans & projects before applying for funding.

Portfolio Mortgage Options

Mortgage Sales – affiliate sells portfolio loans to investor. Mortgages off balance sheet. May retain or release servicing.

Portfolio Leveraging – affiliate uses mortgages as collateral for secured borrowing. Affiliate retains servicing.

Mortgage Sales Example (source: Habitat Capital)

	Fundraise Only	Fundraise + Mortgage Sale
Total Mortgages	50	50
Mortgages Not Sold	50	40
Monthly Payments/Mortgage	\$300	\$300
Annual Cash Flow	\$180,000	\$144,000
Mortgages Sold	0	10
Face Value/Mortgage	\$100,000	\$100,000
Sale Proceeds (75% LTV)	\$0	\$750,000
Fundraising	\$250,000	\$250,000
Mortgage Payments	\$180,000	\$144,000
Mortgage Sales	\$0	\$750,000
Total Funding Available	\$430,000	\$1,144,000

Discussion

What's working in your area?



Questions/Wrap Up



Thank you!

