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HUD and Fannie Mae's new *Green Refinance Plus* program provides financing for the acquisition and refinance of affordable senior care communities that offers an additional 5% of loan proceeds to be used for green retrofit and other property improvements. What are the benefits, eligibility requirements, and conditions of participation in this new program?

In response to the short supply of high-quality and sustainable low-income housing, the Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA), and Fannie Mae have partnered to create the *Green Refinance Plus* loan program. This program is available for the acquisition and refinancing of senior care communities, assuming all other eligibility criteria are met. *Green*

Refinance Plus expands the existing Fannie Mae/FHA Risk Sharing loan program to meet the market demand for the financing of green retrofits. The program is expected to increase the availability of low-income housing, reduce operational and tenant utility costs, improve quality of life for residents, build sustainable communities, and protect the long-term value of the multifamily rental properties.

Program Benefits

The *Green Refinance Plus* program provides three principle benefits over a traditional Fannie Mae/FHA Risk Sharing Loan. First, standard loans have a maximum loan to value (LTV) ratio of 80%. For *Green Refinance Plus* loans, the maximum LTV is increased to 85%. Second, the debt service coverage ratio (DSCR)—the ratio of cash flow from the property to the payment due—is

decreased from 1.20 to 1.15. Third, *Green Refinance Plus* offers borrowers a 10-year term, in comparison to the minimum 15-year term for standard FHA Risk Sharing. These three modifications provide borrowers the flexibility to invest in properties while maintaining a financially viable asset. Despite the name, *Green Refinance Plus* is available for acquisition as well as refinance.

Eligibility Requirements

Green Refinance Plus is available nationwide for multifamily rental properties with at least five rental units that meet multifamily affordable housing (MAH) income and rent restrictions going forward. Properties must be at least ten years old to qualify.

Properties that meet the Low-Income Housing Tax Credit requirements qualify as "affordable" under the Fannie Mae/FHA Risk Sharing rules. The property must have both income and affordability restrictions that are recorded and valid for at least the term of the loan. For properties with a loan term of less than 18 years, the affordability restrictions must survive foreclosure on the loan.

The income restrictions follow the "20-50, 40-60 rule." Either 20% of the units must be restricted to households earning less than 50% of the Area Median

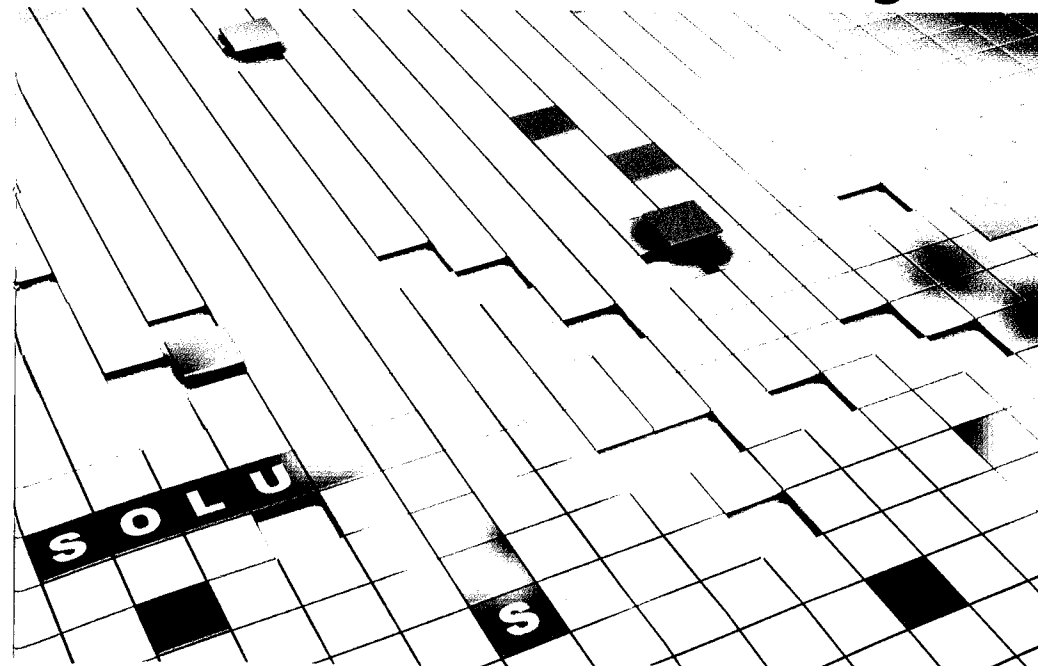
GREEN REFINANCE

By David C. Longinotti and
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PLUS: A New Option for Senior Care Refinancings and Acquisitions

Income (AMI) or 40% of the units must be restricted to households earning less than 60% of the Area Median Income. For example, the 2011-2012 AMI for a family of four living in Alameda County, California is \$95,300 (for Area Median Incomes for all California counties as well as information on family size adjustments, visit: <http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html>). A property in which 40% of the units are limited to residents with annual income under \$57,180 would qualify as "affordable."

In addition to the income restrictions, the program imposes rent affordability



restrictions. Rent must be limited to 30% of the household income limit described above. For the Alameda family of four, the rent on their unit may not exceed \$1,429 per month (30% of \$95,300).

Conditions of Participation

Green Refinance Plus imposes three key conditions on borrowers. First, borrowers must obtain a review of the property's condition and potential for energy and water saving retrofits, called a Green Physical Needs Assessment (Green PNA). The Green PNA consists of three parts. Like the traditional PNA required for all Fannie Mae Risk Sharing loans, the first part of a Green PNA reports on the short-term physical needs of the property, as well as anticipated maintenance over the life of the loan plus two years.

Unlike the traditional PNA, Part I of the Green PNA includes alternatives to traditional maintenance and repair that will reduce the property's energy or water usage. For example, the Green PNA might suggest replacing a leaking faucet with a low-flow fixture rather than merely repairing it. The second part of the Green PNA is an energy audit of the property. The energy audit identifies cost-effective opportunities to reduce energy and water use. Part III is an inspection of the property for pests and review of the pest management inspection plan. The Green PNA can be waived for properties of less than fifty units where renovations can be shown to exceed 5% of the loan balance. As with traditional Risk Sharing loans, borrowers must also obtain a property appraisal and Phase I Environmental Assessment,

which identifies environmental contamination risks. As the second condition of participating in the *Green Refinance Plus* program, 5% of the loan proceeds must be spent on qualifying retrofits and renovations no more than three months before loan closing and no more than twelve months after loan disbursement. Qualifying funds may be spent either on efficiency measures or other property improvements identified in the Green PNA.

Third, borrowers must track energy and water consumption over the term of the loan using ENERGY STAR Portfolio Manager. ENERGY STAR Portfolio Manager is a free, web-based service of the U.S. Environmental Protection Agency that allows property managers to track energy and water consumption, set investment priorities, and verify progress towards reduced utility consumption goals. Borrowers must submit an ENERGY STAR Statement of Energy Performance report annually.

Who to Contact

Green Refinance Plus loans are arranged through Fannie Mae's network of Delegated Underwriting and Servicing (DUS™) Affordable lenders. A list of DUS Affordable lenders is available on the Fannie Mae website: www.efanniemae.com/mf/refmaterials/lenderinfo/affordchanlen.jsp. Your lender can help you select a contractor to perform the Green PNA and assist you with the loan application. ■

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