

## FLEXCAP

# Hampshire Village

### THE PROJECT

Victory Housing, Inc. (VHI), a nonprofit provider of affordable housing for seniors and families, is purchasing and upgrading a senior development in Silver Spring, Md., called Hampshire Village. The 111-unit project was originally financed with Low Income Housing Tax Credits and other affordable debt, as well as county funding. The compliance period for the tax credits ended in 2019, and the project has been operating under “extended use” provisions that protect its affordability.

When the owner sought to sell the property, VHI exercised its right of first refusal, which it obtained back in 2002, with a plan to do both short-term and long-term renovations to preserve quality and affordability for seniors with low incomes. The three-story development includes one and two-bedroom units—all income-restricted—with 80 percent of units priced for residents earning up to 50 percent of the area median income (AMI) and rents for the remaining units affordable for residents earning 30 percent of AMI.

### THE FINANCING CHALLENGE

VHI sought \$18.2 million in acquisition financing to purchase Hampshire Village and complete basic

renovations with residents in place to ensure compliance with the American with Disabilities Act.

VHI’s three-phase plan includes the acquisition and initial upgrades; a three-year holding period where it expects to operate the stabilized project for low-income seniors; and refinancing to take out the acquisition loan and capitalize more substantial systems upgrades. Refinancing is likely to be in the form of 4% LIHTC capital and tax-exempt bonds, as well as other county commitments.

For traditional lenders, a plan where a number of key issues are still to be determined, including take-out financing and the initial construction budget, raises concerns about risks—particularly related to fluctuating interest rates and project costs. Financing, if even available, would likely be unaffordable and VHI—despite successfully developing 37 projects, with significant expertise and experience—would lose the opportunity to preserve these homes. The deal needed alternative financing that could respond to the early stage of the project and recognize its value to the community.



*“Hampshire Village is more than a senior apartment. It is a home in a community.”*

**Sandra R.**  
Hampshire Village Resident

## MORE ABOUT FLEXCAP:

### SUB-PRODUCTS

NA

### LOAN AMOUNT

up to \$15 million\*

### USE/PURPOSE

Preservation of existing rental projects

### INTEREST RATE (SUBJECT TO CHANGE)

6.25-7.25%

### LOAN FEES

1%

### LOAN TERM

Up to 3 years

### REPAYMENT TERMS

Interest only with principal due at earlier of close of construction loan or stated maturity date

### COLLATERAL

Flexible LTV up to 95%, 1.15 DSC on first 80% of principal balance and 1.00 DSC on remaining 15%

### RECOURSE

Minimum of 50% recourse to sponsor

### THIRD PARTY LEGAL

Paid by borrower

### UNDERWRITING FOCUS

Planned take-out strategies & sponsor plan of repayment

### COVENANTS

Standard financial plus DSCR

### PREPAYMENT FEE

None after first year

## THE SOLUTION

Through Housing Partnership Fund's (HPF) FlexCap loan program, VHI was able to access \$7 million in affordable financing to pair with nearly \$11.2 million in subordinate loans from local, state and federal community development programs.

The FlexCap loan includes participation amounts of more than \$5 million from Woodforest National Bank and nearly \$1 million each from HPF and National Housing Trust-CDF. Public financing includes \$5 million from HUD's Community Development Block Grant (CDBG) and HOME programs, nearly \$4.2 million from the Montgomery County Affordable Housing Opportunity Fund, and more than \$2.1 million from the Maryland Department of Housing and Community Development.

FlexCap, which was developed in partnership with Woodforest, is specifically designed to offer a high-leverage bridge/acquisition product that would not otherwise be available—with affordable interest rates and

flexible underwriting criteria. The program is unique for the range of strategies it can support, from a "buy and hold" approach to a large-scale acquisition and redevelopment effort. It provides project sponsors time to reposition a property for long-term affordability and financial sustainability.

"Without this financing, the seller would have eventually turned senior, stabilized affordable housing into market-rate housing," said Ben Greenberg, vice president of lending with Housing Partnership Network (HPN). "Private-sector buyers can afford to buy and then sit and hold; nonprofits can't do that. The project doesn't really need that much work; this is mostly about keeping it affordable, so people aren't displaced."

With FlexCap financing, Victory can operate the project while its team figures out permanent financing, he continued. "Our job is to help create and preserve spaces for low-to-moderate income people. We support projects that help get that done." Greenberg said.

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