



RHarper Consulting Update

Affordable Senior Housing Communities (Part 2) Financing Affordable Senior Projects

In part 1 of this series we discussed the needs to be addressed by the more affordable model of senior living communities. This installment will discuss financing alternatives available for affordable senior housing projects. Today, the credit markets continue to feel the effects of the recession and credit freeze. Virtually all transactions have been affected to some degree. However, some financing alternatives have received favorable treatment in the Recovery Act and they are highlighted below.

In spite of today's challenging environment, there are a number of alternatives available to finance affordable senior housing. The most commonly used are USDA loan guarantee programs, bank qualified tax exempt debt, and HUD programs. In addition, The type of ownership entity, availability of equity, guarantee capacity, location and resident program are some of the critical factors that determine the selection



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are some of the critical factors that determine the selection of the most appropriate financing.

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Low Income Housing Tax Credits and Tax Increment Financing are also important components often utilized in financing affordable senior housing projects. Combining these equity sources with the debt sources above provide viable project financing packages.

We recently met Tom Viehman of BVFR & Associates, LLC and learned about the USDA Guarantee Loan program which addresses some of the challenges of these economic times. By guaranteeing loans up to \$25 million, this program is a “hand up” not a “hand out.” The Federal Stimulus Plan has allocated \$2 billion for loan guarantees of 60% to 90%. This safety factor allows lenders to reduce interest rates by up to 150 basis points.

Administered by the United States Department of Agriculture (USDA), these Guarantee Loan programs have a greater reach than the agency's name would indicate. These programs were originally funded to help the economic development of "rural areas" which are any city less than 50,000 and any township. This definition includes most of the geography of the USA. If you need to fund expansion, repositioning, construction, start a new facility or refinance debt, these Guarantee Loan Programs can help you.

Another option recently enhanced by the Economic Stimulus Program is bank qualified tax exempt debt. This product allows each tax exempt sponsor to obtain up to \$30 million in bank qualified tax exempt debt. Previously, this program limited each issuer to \$10 million annually. This provision is available for debt issued in 2009 and 2010 only.

HUD financing programs for senior apartment, assisted living, and skilled care facilities are available and active. The underwriting process has been improved recently and these programs are well suited for many projects.

Conventional bank financing and the tax exempt bond markets have been the products most dramatically impacted by the recession. Recovery in these sectors has clearly started, but most believe underwriting, equity requirements, and overall feasibility guidelines will be addressed much more conservatively for future projects. However, these will continue to be robust, viable alternatives for project financings.

Financing for affordable senior projects is available today. While the environment has significant challenges, the industry is actively evolving viable alternatives. The market factors that create demand for senior housing; aging population, underserved markets, health care needs, and security concerns are still present. Bringing knowledgeable, experienced

cerns are still present. Bringing knowledgeable, experienced project teams together to plan and implement projects is critical for successful results.

If you have questions, suggestions, or comments, please go to our website by [clicking here](#) and leave them on our **Questions and Comments** page. We will share them with our readers in future issues.

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RHarper Consulting Group provides development consulting, program management, and owner representation services focused on the senior living and mixed use sectors. In addition, Mr. Harper is a listed mediator and arbitrator and provides dispute resolution services for construction and real estate related disputes.

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