



Mortgage Leveraging Strategies

The Opportunity

“If I were donating money to a not-for-profit and saw them piling up assets, I'd be wondering why they weren't using it for programs to feed the poor or educate students.”

- Frank Kurre, Managing Partner of Grant Thornton's nonprofit practice

The Habitat Mortgage

- Cash generating asset
- Losing considerable value over time
- Mortgage leveraging presents opportunity to realize more value and serve more families

Why Leverage?

Stewardship of the 'Fund for Humanity'

Realize the Value of Mortgages

Grow Mortgage Portfolio

Fund Growth Related Initiatives

Capital for Bridge Financing

Mortgage Leveraging Strategies

- **Flexible Capital Access Program (FlexCAP)**
- **Mortgage Sales**
- **Zero Equivalent Mortgage (ZEM)**
- **Other Mortgaged-Backed Loans (*Local Deals*)**

Overview of the FlexCAP Program

- **The Flexible Capital Access Program (FlexCAP) is a loan program administered by HFHI**
 - New and improved version of the AAR loan program
 - Issues investor notes and loans the proceeds to HFHI affiliates
 - Loaned more than \$100 million to over 240 affiliates
- **FlexCAP loans are secured by partner family mortgages**
 - Affiliates must pledge mortgages, over a 7 or 10 year period, to secure a FlexCAP loan
 - The size of a FlexCAP loan is determined by the value and number of mortgages that an affiliate chooses to pledge

Sample Loan Size

	Pledge 4 Mortgages	Pledge 25 Mortgages
7-year Loan	\$80,700	\$504,000
10-year Loan	\$104,900	\$655,900

Overview of the FlexCAP Program (cont'd)

- **Monthly Payments and Collateral**

- Monthly payments on the FlexCAP loan will not exceed monthly payments of the mortgages pledged to the loan
- The pledged mortgages are held in trust managed by Wells Fargo. If an individual mortgage needs to be replaced, the affiliate can substitute another mortgage with the same or greater monthly payment
- The affiliate makes monthly installment repayments via automatic withdrawal to HFHI

Overview of the FlexCAP Program (cont'd)

FlexCAP Program Terms	
Rates*	4.95% for 7 years 5.5% for 10 years
Terms	7 or 10 years
Amortization	Amortizing quarterly
Reserve	One quarter payment
Timing	3 months closing
Offerings	2 offerings a year
Prepayments	Allowed after 1 year
Process	Electronic application process/UCC Filing
Fees***	\$1,000-8,000 processing fee

*Note: *Final rates subject to investor approval. **Value of the mortgage cash flow recovered through a FlexCAP Loan during the loan term. ***Loans under \$100,000 = \$1,000 fee; loans from \$100,000-\$400,000 = \$3,000 fee; loans from \$400,000-\$750,000 = \$5,000 fee; loans above \$750,000 = \$8,000 fee*

Advice on Best Ways to Use a FlexCAP Loan

Using a FlexCAP loan many affiliates have used the mortgages they've pledge to build more houses and expand the impact of their ministry. Successful affiliates have used the following strategies:

- **Accelerate Home Building**
- **Acquire Land and Foreclosed Properties**
- **Infrastructure and Development Costs**
- **Bridge Financing for Reimbursable Funds**
- **Refinance/Restructure Existing Debt**
- **Fund ReStore Development/Expansion**

FlexCAP Eligibility Criteria

Net Assets more than \$250,000

***At least 10 performing mortgages in portfolio
(performing mortgages are less than 60 days delinquent)***

Two years of annual audited financial statements

***Cannot sell or pledge more than 60% of performing
mortgages in portfolio to HFHI or other investors***

Must be in good standing with HFHI

Timeline – CY 2011 and 2012

Flex Cap	Application Date	Closing Date
2011-1	February 2011	June 2011
2011-2	July 2011	November 2011
2012-1	February 2012	June 2012
2012-2	July 2012	November 2012

Key Considerations

- **Most mortgage leveraging strategies are debt**

- *Balance Sheet Items*

FlexCAP	Mortgage Sale/ZEM	Other Local Deals
-Note/Loan Payable	-Other Liability -Note/Loan Payable -Contingent Liability	- Note/Loan Payable

- **Continue to serve homeowners by maintaining right to intervene**

- **Think carefully about substitution and buyback provisions**

Key Considerations (cont'd)

- **Maintain sufficient collateral and cash reserves**
- **Chose the RIGHT partners**
- **Don't over-leverage the affiliate**

Benefits

	<i>Short Term Loan</i>	<i>Ability to Re-leverage</i>	<i>Trusted Partner</i>	<i>Substitute Delinquent Mortgages</i>	<i>Affiliate Support</i>	<i>Large Upfront Cash</i>	<i>Build Local Relationships</i>
FlexCAP	●	●	●	●	●		
Mortgage Sales				?		●	●
Zero Equivalent						●	
Other/Local Deals	●	●		?			

Drawbacks and Risks

	<i>Smaller Upfront Cash</i>	<i>Limited Availability</i>	<i>Unattractive Buyback Provisions</i>	<i>Reporting Requirements</i>	<i>Inconsistent Funding Opportunities</i>	<i>Labor Intensive</i>	<i>Risk of Unattractive Terms</i>	<i>Credit Score Limitations</i>
FlexCAP	●	●		●				
Mortgage Sales			●		●	●	●	
Zero Equivalent			●		●	●	●	●
Other/Local Deals	●	●	?			●	●	

Worst Case Scenarios

Using mortgage leveraging . . .	can lead to. . .
✓ for operational expenses	✓ cash and asset depletion
✓ to replace fundraising	✓ a strain on donor/lender relationships
✓ when your affiliate has high delinquencies	✓ a lack of eligible collateral, which can lead to forced buy backs
✓ when your affiliate is not ready with a strategic plan	✓ too much ready cash and unsustainable growth

Best Case Scenarios

Using Mortgage Leveraging . . .	can lead to. . .
✓ to build more houses	✓ growing the mortgage portfolio at a faster pace
✓ as bridge financing	✓ the flexibility to take advantage of reimbursable grants without depleting cash flow for operations
✓ to fund growth related initiatives	✓ large scale developments, major land acquisitions and other projects that have large upfront costs

Mortgage Leveraging Resources from HFHI

1. **Mortgage Leveraging Guidelines Document**
2. **FlexCAP Team**
 - FlexCAP@habitat.org
3. **Joe Honeycutt - ODC-Finance, US Operations**
 - jhoneycutt@habitat.org
4. **My.Habitat**
 - [\(knowledge center>>housing finance>>FlexCAP\)](#)

Contact

Email us at:

flexcap@habitat.org

Jason DeHaven

*Lending Resources
Manager*

(229) 410 7988

jdehaven@habitat.org

Donna Golden

*Director of Government
Grants and Lending Resources*

(229) 410-7514

dgolden@habitat.org

Sue Henderson

Associate General Counsel

(404) 420-6796

shenderson@habitat.org

Cindy Song

*Director of Capital Expansion
and Financial Services*

(404) 420-6722

csong@habitat.org

Janee Wilson-Key

Financial Services Manager

(404) 733-3078

jwilsonkey@habitat.org

Questions?