



## Agenda



- 1. Introduction
- 2. What is Stress Testing
- 3. CFO View
- 4. Asset Manager View
- 5. Investor View
- 6. Federal Policy
- 7. Next Steps

Thank you to the LISC Institute for hosting the webinar!

- Q&A Write your questions into the Q&A feature. We won't have time to answer most questions but will use these to plan future webinars and guidance.
- Webinar evaluation will be emailed to vou.
- Webinar slides, recording and handouts will be posted on LISC Institute site.

https://www.lisc.org/our-initiatives/community-leadership/lisc-institute/



### Presenters



- Tony DiBlasi, Ohio Capital Corporation for Housing
- Katherine Fleming, BRIDGE Housing
- Peter Lawrence, Novogradac
- Valorie Schwarzmann, Homeport
- Dena Xifaras, Preservation of Affordable Housing

Moderator: Harold Nassau, CHAM, NeighborWorks America



### **Stress Testing**



#### What is it?

- Scenario plan to look at range of outcomes
- Predict more and less likely outcomes
- Quantify exposure and liability
- Develop tool to look iteratively as new realities unfold





## Stress Testing - Why?



#### Manage

- Set clear priorities
- Allocate resources
- Demonstrate possible future scenarios
- Prepare for radical changes

#### • Communicate

- Exposures to owners and Investors
- Provide a data platform to frame and negotiate survival





6 Tips for

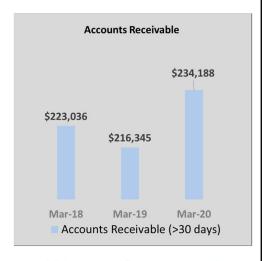
Call Volumes During the

### Three views



- Organizational The CFO View
- Portfolio The Asset Manager View
- Stakeholder The Investor View

What are the variables? What are the time frames? What are the mitigators?





### **CFO View**



#### **CFO Stress-Tested Revenue Risks**

	2020 Budget		Reliable at 4.5.2020		mount at Risk	Possible Solutions to Address Risks
Contributions	\$ 80,000	\$	25,000	\$	55,000	
Annual Event Contributions	\$ 550,000	\$	200,000	\$	350,000	
Private Grants	\$ 558,012	\$	450,000	\$	108,012	
Public Grants	\$ \$ 636,500		550,000	\$	86,500	
Real Estate Development Fees	\$ 1,394,417	\$	1,200,000	\$	194,417	
Asset Management Income	\$ 1,179,050	\$	650,000	\$	529,050	See Previous Slide
Service Coordination Fees	\$ 271,547	\$	150,000	\$	121,547	See Frevious Silue
Other Revenue	\$ \$ 334,324 \$		200,000	\$	134,324	
	\$ 5,003,850	\$	3,425,000	\$	1,578,850	

2021 "Budget" Risk of Reduced Waterfall Cash Flow

Asset Management Income	\$ 1,300,000	\$ 1,300,000	See Previous Slide
Service Coordination Fees	\$ 300,000	\$ 300,000	See Previous Silue



### **CFO View**



#### **Variables**

- Loss of cash flow to parent
- Loss of asset management fees
- Loss or delay in developer fees
- Reduction in property management fees (if self managed)

#### **Mitigators**

- Operating deficit guarantees
- Loan covenants
- Investor relationships



### **CFO View**



#### **Explore and Implement Possible Solutions to Identified Risks**

- Expense Side
  - Lower interest rates...any properties to refinance? Possible debt service payment deferrals?
  - SBA loan...application to cover property manager and maintenance personnel salaries?
  - Business interruption insurance...check your policy; talk to your broker; follow cases being brought to court
  - Waterfall distributions...analyze best use of funds: property versus parent
  - · Operating reserves...available? Replacement reserves...use strategically. Talk with investor
  - Maintenance personnel use to replace times when would have used outside contractors

#### Rent Revenue Replacement Side

- Service coordinator role...assistance with unemployment applications; finding 3<sup>rd</sup> party rent assistance, etc.
- Tenant Rent Relief Fund...internal, community matches, investor funds, other



## Asset Manager View



- Owner needs
- Investor needs
- Resident needs
  - Staff needs



## COVID-19 Stressors & Mitigators



### **Stressors of Greatest Concern**

- Tenant Receivables/Delinquency
- Prolonged Vacancy
- Professional Cleaning Cost if Residents and/or Staff get COVID-19

### **Mitigators Easy to Model**

- Postponement of 2020 Capital Projects
- · Suspension of RR Deposits
- · Utilization of Operating Reserves
- Utilization of Replacement Reserves
- Mortgage Forbearance
- Guarantee Relief



### **COVID-19 Stressors & Mitigators**



#### Additional concerning impacts:

- Cleaning supplies & personal protective equipment
- Maintenance staff overtime
- Reduced management fees
- Suspension of rent increases on unsubsidized units
- · Bad debt & legal
- · Deferred maintenance
- Certification challenges
- Tenant holdover
- Inability to evict
- Market instability (interest rates, tax credit rates, construction pricing, vendor viability/availability, etc)

#### Additional mitigators to consider:

- Suspending 2019 surplus cash disbursement to subordinate lenders
- Fundraising
- Increasing RR withdrawal/reliance
- Moving around subsidy at property
- Creative leasing (homeless placements, COVID-19)
- Defer utility, real estate tax or other payables
- · Other property level or upper tier reserves, relief funds, hiring freezes / cost saving measures, etc
- Federal mitigation efforts...



## Mitigators: Federal Policy



- Resident recovery rebate checks
- Resident unemployment insurance benefits
- SBA disaster loans commercial tenants
- SBA nonprofit loans
- HUD
- Mortgage forbearance
- Complete summary at:

https://www.novoco.com/notes-from-novogradac/senateleadership-agrees-nearly-2-trillion-phase-3-covid-19-response-bill





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https://www.novoco.com/covid-19

## Modeling Decreases in Rent Collection



- What % decrease to model?
- Family versus senior
- · Subsidized versus unsubsidized
- Geographic considerations
- Moratorium on evictions

Tenant rent from all units irrespective of subsidy

Net Tenant Rent Billed	Collection Discount	April Potential Loss	9 months (April-Dec) Potential Loss
213,498	20%	42,700	384,296

		% D	ecrease in Re	ent (	Family Uns	ubsi	dized Only)	
	10%		20%		30%	40%		50%
3 months	\$ (35,850)	\$	(71,699)	\$	(107,549)	\$	(143,399)	\$ (179,249)
6 months	\$ (71,699)	\$	(143,399)	\$	(215,098)	\$	(286,798)	\$ (358,497)
9 months	\$ (107,549)	\$	(215,098)	\$	(322,647)	\$	(430,197)	\$ (537,746)

Building Excel tables particularly useful in scenario analysis as change % decrease or duration, see impact



## **Modeling Prolonged Vacancy**



- What % increase should we model?
- What should we apply it to?
  - Vacancy YTD annualized OR
  - · Budgeted vacancy for rest of year
- For what duration?

		% Increase in Vacancy Expense (Family & Senior Properties)													
# of Months	5	10%		20%		30%		40%		50%					
3 (Apr-Jun)	\$	(53,983)	\$	(107,966)	\$	(161,949)	\$	(215,932)	\$	(269,915)					
6 (Apr-Sep)	\$	(107,966)	\$	(215,932)	\$	(323,898)	\$	(431,864)	\$	(539,830)					
9 (Apr-Dec)	\$	(161,949)	\$	(323,898)	\$	(485,847)	\$	(647,796)	\$	(809,745)					

Building Excel tables particularly useful in scenario analysis as can change % decrease or duration to see impact



Portfolio Description		2020	Budget		209	20% Reduction in Nonsubsidized Receipt				30%	Reduction in	n Nonsubs	idized Rec	eipts	40%	Reduction in	n Nonsubsic	dized Rece	ipts
	Total Revenue	Managem ent Fees	Net Cash Flow before Operating Reserves	Available Operating Reserves	Total Revenue	Change in Total Revenue from Budget	Manageme nt Fees	Net Cash Flow before Operating Reserves	Available Operating Reserves	Total Revenue	Change in Total Revenue from Budget	Managem ent Fees	Flow before Operating Reserves	Available Operating Reserves	Total Revenue	Total Revenue from Budget	Manageme nt Fees	Flow before Operating Reserves	Available Operating Reserves
Property # Supportive	Revenue	elit i ees	Keserves	Kesei ves	Revenue	Duuget	III Fees	Reserves	Reserves	Revenue	Iroin Dauger	elit i ees	Reserves	Reserves	Revenue	Duuger	III Fees	Keserves	Reserves
077-01	959.995	92.547	60.818	-	871.959	(88.036)	84,609	(14.027)		844.356	(115,639)	81.935	(38.957)		816.754	(143.242)	79.262	(63.886)	
077-01	400.970	22.820	4.762		442.257	41.287	22,450	105		438.621	37.651	22,129	(3,209)	- :	434.986	34.016	21.808	(6.524)	-
090-01	499.626	39,140	6,599	441,315	441.954	(57,672)	37,665	(86,340)	441,315	431,850	(67,776)	36,710	(95,489)	441,315	421,746	(77,880)	35,754	(104,638)	441,315
Supportive subtotal	4,303,166	307,639	389,344	1,261,806	4,092,805	(210,361)	293,381	111,896	1,261,806	4,012,651	(290,515)	287,209	37,914	1,261,806	3,932,497	(370,669)		(36,068)	1,261,806
Senior														_				-	
135-01	1.572.283	103.912	310.698	577.803	1.449.437	(122.845)	96.406	186.077	577.803	1.391.962	(180.321)	92.604	132,404	577.803	1.334.487	(237.796)	88.802	78.730	577.803
136-01	411.681	48,436	1.038	114.657	377.606	(34,075)	42.097	(17,944)	114.657	359,985	(51,695)	40,185	(33,653)	114.657	342,365	(69,315)	38,273	(49,361)	114.657
138-01	1,256,107	65,922	132,106	538,969	1,105,370	(150.737)	59,422	19,573	538,969	1,048,106	(208,002)	56,346	(34,615)	538,969	990,841	(265,267)	53,270	(88.804)	538,969
Senior subtotal	3,240,071	218,270	443,842	1,231,429	2,932,414	(307,657)	197,925	187,706	1,231,429	2,800,053	(440,018)	189,135	64,136	1,231,429	2,667,693	(572,378)		(59,435)	1,231,429
Section 8/202														_			<u> </u>		
112-01	786,494	46.023	62.964	_	740.695	(45,799)	43,674	48.099	_	718,919	(67,575)	42.389	27.609		697.144	(89.350)	41.105	7.118	-
140-01	591.598	43,558	16.662	280.000	557.702	(33,896)	41,084	(11,031)	280.000	541.185	(50,413)	39.858	(26.322)	280.000	524.668	(66,930)	38.632	(41,612)	280.000
Section 8/202 subtotal	1,378,092	89,580	79,627	280,000	1,298,397	(79,695)	84,759	37,069	280,000	1,260,104	(117,988)	82,248	1,287	280,000	1,221,812	(156,280)		(34,495)	280,000
NOAH																	$\vdash$		
GSSP	1.567.033	59.759	221.534	165.915	1.346.943	(220.090)	52.283	14.759	165.915	1.254.726	(312.306)	48.678	(73.853)	165.915	1.162.510	(404.523)	45.073	(162.464)	165.915
143-01	5.241.377	207.590	384.491	-	4,300,843	(940,534)	172,729	(376.547)	-	3.941.735	(1,299,642)	158.365	(721,290)	-	3.582.627	(1.658.750)	144,000	*********	-
144-01	1,457,607	72,880	250,795	-	1,238,223	(219,384)	61,077	69,532	-	1,180,657	(276,950)	58,199	14,845	-	1,123,092	(334,515)	55,321	(39,842)	-
NOAH subtotal	22,077,287	890,569	2,833,277	1,769,358	18,575,602	(3,501,684)	768,651	(340,558)	1,769,358	17,173,650	(4,903,636)	710,654	(1,684,513)	1,769,358	15,771,699	(6,305,587)	652,657	(3,028,467)	1,769,358
Mixed income														1				-	$\overline{}$
107-01	684.025	30,490	91.948	97.132	624.341	(59,684)	27.047	36.289	97.132	596.815	(87.211)	25.863	9,946	97.132	569.288	(114,737)	24.679	(16.397)	97.132
113-01	807.984	36.550	24.835	51,273	747,990	(59,994)	33,306	(31,110)	51,273	719,681	(88.304)	31,667	(57,780)	51,273	691,372	(116,613)	30.027	(84,449)	51,273
Mixed Income subtotal	14,152,367	881,574	1,279,491	2,438,800	12,501,136	(1,651,232)	803,431	(297,810)	2,438,800	11,799,708	(2,352,660)	762,975	(958,783)	2,438,800	11,098,279	(3,054,088)	722,520	(1,619,756)	2,438,800
Affordable SRO																		-	$\overline{}$
103-01	592,587	49,252	41,192	72,957	504,881	(87,707)	48,962	(100,278)	72,957	472,547	(120,040)	48,962	(132,611)	72,957	440,214	(152,373)	48,962	(164,944)	72,957
Affordable SRO subtotal	721,076 1.313.664	49,697	84,866	346,942	614,554	(106,523)	49,213 98.175	7,551	346,942	577,172	(143,905)	49,213	(29,831)	346,942	539,790	(181,287)	49,213	(67,213)	346,942
Affordable SKO Subtotal	1,313,664	98,950	126,058	419,899	1,119,434	(194,230)	98,175	(92,727)	419,899	1,049,719	(263,945)	98,175	(162,442)	419,899	980,004	(333,660)	98,175	(232,157)	419,899
Affordable Family																			
118-01	1,176,229	91,286	251,199	414,303	1,084,515	(91,714)	83,277	167,519	414,303	1,034,549	(141,680)	79,437	121,393	414,303	984,583	(191,646)	75,597	75,267	414,303
118-02	736,291	38,560	137,835	178,827	657,263	(79,027)	34,575	58,159	178,827	625,428	(110,862)	32,588	28,310	178,827	593,593	(142,697)	30,601	(1,538)	178,827
Affordable Family subto	6,018,383	390,313	832,624	1,480,328	5,464,252	(554,132)	361.357	348,109	1.480.328	5,192,162	(826,221)	345,911	91,465	1.480.328	4.920.072	(1,098,311)	330,465	(165,179)	1.48

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# Mitigation Strategy: Capital Expense Deferral



- What projects can be deferred to later this year or next year?
- What % of capital spending can we hold off on?





### Mitigation Strategy: Suspense of RR Deposit



- How much relief would suspending RR deposits bring across your portfolio?
- Is it worth isolating by lender? Loan type? Deficit properties only?
- Will you be required to catch back up later?
- Whose approval is required?

Impact of Suspension in RR Deposits								
# of Months		\$ Savings						
1	\$	50,840						
3	\$	152,520						
6	\$	305,040						
9	\$	457,560						



## Mitigation Strategy: Operating Reserves



- What assumptions to make about utilizing operating reserves?
  - Only to cover deficits?
  - Replenishment required?
  - Approvals required?
  - Interaction with waterfall considerations?
- How many months of operating deficit (under different scenarios)
  will operating reserves carry?
- Will partners let you use replacement or other reserves too?



### Mitigation Strategy: Mortgage Forbearance



- What would mortgage forbearance look like?
- Who is allowing it? (Fannie, Freddie, FHA, Others?)
- Is there a requirement to prove hardship?
- How long permitting 30, 60, 90 or more days? Interest only or all debt service?
- Required to restore payments retroactively?
- Suspension of debt service covenants or default provisions needed?

Impact of Suspension in Debt Payments									
# of Months	•	\$ Savings							
1	\$	316,663							
3	\$	949,989							
6	\$	1,899,978							
9	Ś	2,849,967							



# Bringing it all together - What do you predict for your properties and portfolio?



				Impacts			Mitigators			Net I	mpacts	
								Suspension		Net Impact to	Net Impact to	
Tenancy Resi	Total	2020	Reduced	Increased	Impact to	Capital	Suspension Debt		Operating	Cash Flow	Cash Flow (After	
	Residential	Budgeted Collection		Vacancy	Revenue	Savings	RR Deposits		Reserves	(After		
	Units Operating Impact on Impact		•	•	Cash Flow Cash Flow		Impact on	Utilized	Operating	Mitigators & Operating		
		Cash Flow Cash Flow & vacano		& vacancy)			Cash Flow	0	Reserve			
								cusiiiiow		Only)	Reserves)	
Senior	754	\$ 1,462,696	\$ (31,319)	\$ (15,987)	\$ (47,306)	\$ 29,721	\$ 65,594	\$ -	\$ -	\$ (47,306)	\$ 48,009	
Family	634	\$ 403,366	\$ (142,668)	\$ (26,310)	\$ (168,978)	\$ 7,828	\$ 68,667	\$ -	\$ 50,000	\$ (118,978)	\$ (42,484)	
Senior/Family	225	\$ 281,686	\$ (1,096)	\$ (91,215)	\$ (92,311)	\$ -	\$ 18,260	\$ -	\$ -	\$ (92,311)	\$ (74,051)	
Total	1,613	2,147,747	\$ (175,083)	\$ (133,512)	\$ (308,595)	\$ 37,549	\$ 152,520	\$ -	\$ 50,000	\$ (258,595)	\$ (68,526)	

#### Example above assumes:

- 20% (Family) & 10% (Senior) reduced collection for 6 months
- 20% increase in vacancy expense for unsubsidized units through year end
- \$38k in capital project savings
- \$50k in operating reserve withdrawal
- 3 month suspension of replacement reserve deposits



### Owner to Stakeholder



To our Valued Stakeholders:

As you are a significant stakeholder in this property, BRIDGE Housing may need your approval to augment or replace income loss due to the incapacity of our residents to pay full and timely rent. At this time, BRIDGE will continue to request rent payments according to each tenant's lease, fully expecting many tenants may experience difficulty paying rent. During this interim, no tenant shall be evicted due to inability to pay rent because of illness, job or income losses.

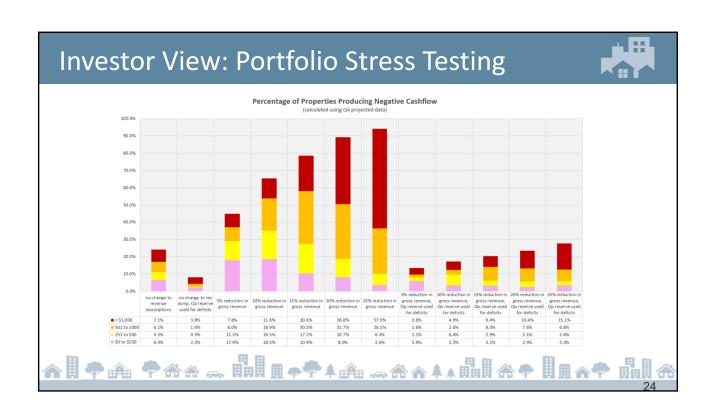
BRIDGE Housing will need your speedy approval to implement the following measures based on specific property needs as we evaluate the economic impact of reduced rent collection:

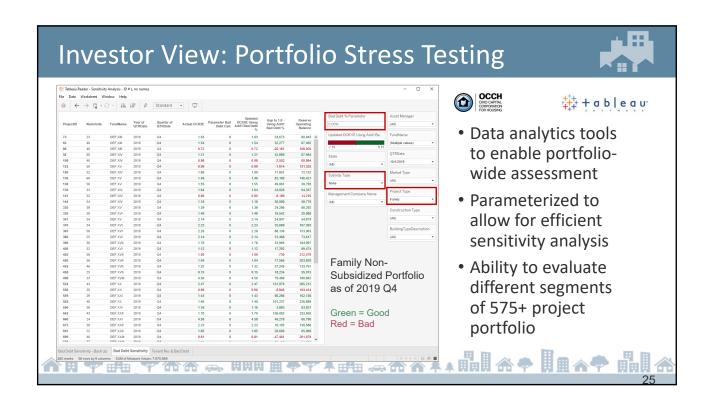
- 1. Suspend Replacement Reserve Funding and Defer Reserve Replenishment Requirements
- 2. Suspend Operating Reserve Funding, Minimum Balance Requirements and Defer Reserve Replenishment Requirements
- 3. Eliminate Any Requirement to Defer Property Management Fees To Cover Deficits.

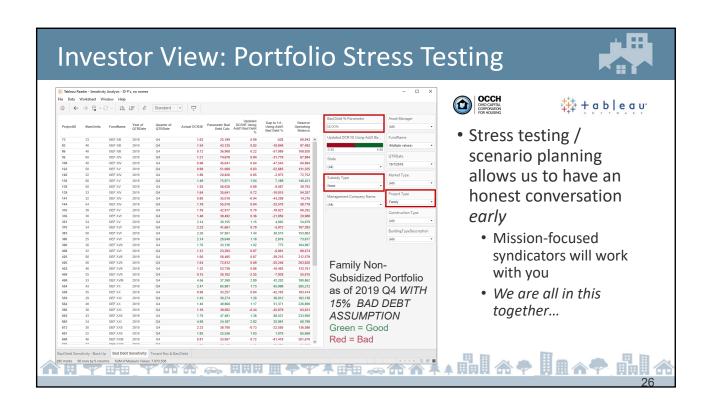
We are not asking for forbearance of mortgage payments at this moment, but want to highlight that this may be a possibility over the next couple of months. One form we expect that can take is as follows:

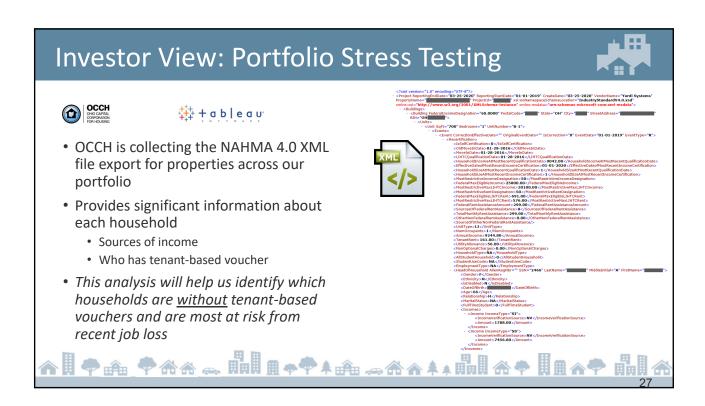
- Suspend required mortgage interest and/or principal payments for 3 months, beginning May 1, 2020.
- Adjustments in amortization schedules or lengthening loan terms to temporarily reduce payments of interest and principal.
- c. Suspension of debt service coverage covenants until rental income is stable.











### Investor View: Flood of Inquiries!



#### Week 1 (March 16)

- Operational adjustments?
- GP / management response?
- Are we communicating?

#### Week 2 (March 23)

- Impact of job loss?
- Stress testing of portfolio
- Calls for federal stimulus

#### Week 3 (March 30)

- Stress testing of *partners*
- Impact of CARES legislation?
- Increased focus / impact on construction and lease-up?

#### Week 4 (April 6)

- Rents DUE! Real data!
- Revisiting stress testing!
- Strategies to bridge shortfalls



### **Investor View: Key Themes**



- Investors only have limited information about your company and your portfolio
- Investors are 'triaging' on their investments, attempting to identify the most significant risks
  - Delays with construction / leasing
  - · Highly impacted properties
  - Vulnerable GPs and agents

A few thoughts to instill confidence with your Investor / lender partners:

- Communicate regularly
- Build confidence with the quality of your analysis data matters!
- Pursue mitigants that are commensurate with the size of the problem



### Federal Stimulus Phase 4



What the Affordable Housing Community is asking from Congress:

- Appropriated resources for tenants and properties without rental assistance
- Extension of readiness deadlines in Section 42:
  - 10 Percent Test
  - Placed-In Service
  - Rehab Expenditures
- Minimum 4 percent rate for buildings placed in service as of January
- Lowering Financed by Test from 50 to 25 Percent on bond financed properties



### **Next Steps**



- Engage investors, lenders and syndicators
- Monitor April & May collections
- Iterate sensitivity analysis to account for new stressors, mitigators and realities as they unfold
- Prioritize portfolio and property specific strategies



### Q&A



Your questions and comments will inform our future webinars and guidance for asset managers.







CHAM is the national asset management association for professionals engaged in the affordable housing industry

CHAM advances the financial sustainability of affordable housing and the achievement of mission goals for residents and the community

Contact us at assetmgtcham@gmail.com

Learn more at www.cham.us



#### **Online Class Starts Thursday!**

#### **Building a Property Deal Book as a Component of Your Asset** Management Plan (AM210vc)

Online sessions on 4/9, 4/16, 4/23, 4/30 at 3:00pm EDT

NeighborWorks America is offering this faculty-led online class to assist participants in developing a basic property deal book for one of their own properties.

More information at assetmgtcham@gmail.com



### Thank You!





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Vice President, Asset Management 612-746-0520 | aeon.org | donate now





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