

# **ACQUISITION/DEVELOPMENT FINANCING**

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## **Maryland Building Industry Association**

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## **Background and Current State of the Market for A&D Financing** – *George Decker*

## **The Application Process** – *John DeZinno*

## **Case Study** – *George Decker*



# **Overview of Current LAD Financing Sources**

## **1. Introduction**

- Financing Sources within the Baltimore metro marketplace: Anne Arundel, Howard, Baltimore, Harford, Carroll, Prince Georges and Montgomery Counties and Baltimore City.
- Financing information based on recent conversations with lenders from several banks and perceived financing terms from lenders.



## **2. Current Availability of LAD Subdivision Financing.**

- General impression there is LAD financing available.
- Loan sources include a variety of commercial banks, community banks, regional and large banks offer LAD loans.
- Types of projects financed for single family detached, townhomes and maybe condo projects.
- ★ • Loan terms vary between banks but appear to be similar; terms conservative, projects require experienced borrowers/sponsors, loan and letters of credit repayment guaranty, defined loan repayment requirements and not large projects.



### 3. General Bank Loan Terms

- Loan size varies as to bank size, loans-to-one-borrower, and loan-to-one-project limits.
- LAD project size financed limited to subdivisions that repay the loan within 36 months from settlement date. Larger projects will require phasing of development and loan repayment requirements.
- Loan-to-Value ratios range from 65%-75% based on current, discounted appraised value of fully developed project.



- Public works letters of credit can be issued by the bank and require loan funds available to complete site development work associated with Public works.
- To secure Bank loan and letters of credit, Bank obtains first lien deed of trust on land and improvements, and assignment of homebuilder contract.
- Loan, letters of credit, interest and cost to complete project will require loan repayment guarantors.
- Equity required from borrower/sponsor to be funded prior to or at loan settlement. Amount of equity varies per LAD project and per lender terms.





- Loan settlement requires collateral land to achieve recorded subdivision with all county approvals in place to commence site development.
- Loan settlement requires executed homebuilder contract of sale and deposit funded, to purchase all lots within the project. Contract of sale is typically an option to purchase developed lots for a specific number of lots on a defined time period.
- Banks require lots to be under contract of sale to homebuilder throughout the life of loan.
- Loan is repaid as lots acquired by homebuilder with repayment amount per lot on an accelerated basis of loan/lot. Acceleration amount varies per LAD project and lenders required repayment time period.



## **APPLICATION**

- **Resume/Experience**
- **Land Contract**
- **Cost Budget**
- **Site Plan/Location Map/Record Plat/Status of Project**
- **Proforma Cash Flow**
- **Financial Statements/Tax Returns**
  - **Borrower**
  - **Guarantor**
- **Phase I**
- **Soils Tests**
- **Market Study**
- **Sales Contract to Builder**





- **Discounted Cash Flow**
- **Project Cash Flow**
- **Market Absorption**
- **Comp Set**
- **Appraisal**
- **Sponsor Cash Flow**
- **Credit Reports**

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## COST BUDGET

	Cost	\$/Lot	Total Loan	\$/Lot	Equity
Land	\$ 6,382,125	\$ 79,777	\$ -	\$ -	\$ 6,382,125
Closing Costs	\$ 219,598	\$ 2,745	\$ -	\$ -	\$ 219,598
PreDevelopment Costs	\$ 2,764,206	\$ 34,553	\$ 946,636	\$ 11,833	\$ 1,817,570
Water EDU's*	\$ 2,500,000	\$ 31,250	\$ -	\$ -	\$ 2,500,000
<b>SUBTOTAL LAND COST</b>	<b>\$ 11,865,929</b>	<b>\$ 148,324</b>	<b>\$ 946,636</b>	<b>\$ 11,833</b>	<b>\$ 10,919,293</b>
<b>Soft Costs</b>					
G&A Overhead	\$ 372,000	\$ 1,550	\$ 372,000	\$ 4,650	\$ -
Development Fee	\$ 372,000	\$ 4,650	\$ 372,000	\$ 4,650	\$ -
Engineering	\$ 60,000	\$ 750	\$ 60,000	\$ 750	\$ -
Legal	\$ 17,500	\$ 250	\$ 17,500	\$ 219	\$ -
Market St Ext Engineering	\$ 97,500	\$ 1,250	\$ 97,500	\$ 1,219	\$ -
Insurance	\$ 7,000	\$ 131	\$ 7,000	\$ 88	\$ -
RE Taxes	\$ 23,872	\$ 298	\$ 23,872	\$ 298	\$ -
HOA Maintenance	\$ 8,000	\$ 100	\$ 8,000	\$ 100	\$ -
<b>SUBTOTAL SOFT COSTS</b>	<b>\$ 957,872</b>	<b>\$ 8,980</b>	<b>\$ 957,872</b>	<b>\$ 11,973</b>	<b>\$ -</b>
<b>Hard Costs</b>					
Offsite Roads	\$ 840,400	\$ 10,255	\$ 840,400	\$ 10,505	\$ -
Offsite Other	\$ 161,800	\$ 2,263	\$ 161,800	\$ 2,023	\$ -
Onsite	\$ 6,678,712	\$ 83,484	\$ 6,678,712	\$ 83,484	\$ -
Other Costs	\$ 738,887	\$ 9,365	\$ 738,887	\$ 9,236	\$ -
Contingency @ 5%	\$ 420,990	\$ 5,268	\$ 420,990	\$ 5,262	\$ -
<b>SUBTOTAL HARD COSTS</b>	<b>\$ 8,840,789</b>	<b>\$ 110,634</b>	<b>\$ 8,840,789</b>	<b>\$ 110,510</b>	<b>\$ -</b>
<b>Financing Costs</b>					
Interest Reserve	\$ 450,000	\$ 5,268	\$ 450,000	\$ 5,625	\$ -
<b>SUBTOTAL FINANCING COSTS</b>	<b>\$ 450,000</b>	<b>\$ 5,268</b>	<b>\$ 450,000</b>	<b>\$ 5,625</b>	<b>\$ -</b>
<b>TOTAL COSTS</b>	<b>\$ 22,114,590</b>	<b>\$ 273,206</b>	<b>\$ 11,195,297</b>	<b>\$ 139,941</b>	<b>\$ 10,919,293</b>



## LOAN STRUCTURE

- **Equity**
- **Subordination**
- **Release Provisions**
- **Principal Curtailments**
- **Term/Extensions**
- **Letters of Credit/Bonding**
- **Guaranty**
- **Pricing**
- **Collateral**
- **Cross Default/Cross Collateralization**



## **CLOSING**

- **Closing Checklist**
- **Commitment**
- **Title Company/Attorney**
- **Title Policy**
- **Loan Documents**
- **Survey**
- **Flood Certificate**
- **Cost Review**
- **Organizational Documents**
- **Insurance**
- **Evidence of Utilities**
- **Evidence of Zoning Compliance**
- **Patriot Act Forms/Drivers Licenses**
- **Settlement Statement**



## **LOAN ADMINISTRATION**

- **Draws**
  - **AIA G702**
- **Inspections**
- **Permits**
- **Bank Account**
- **Payoffs/Releases**
  - **Acceleration**





## CASE STUDY

The following is an example case study of a land owner/developer's request to a bank, to finance the LAD for a single family subdivision, and the lender's underwriting evaluation. The data does not represent an actual project, costs, lot prices or bank terms.

### 1. Project and Loan Request-

- Borrower under contract to purchase land to develop into 40 single family lots.
- Land is approved by county government as a recorded subdivision with public utilities and roads.
- Borrower entered into a contract of sale with homebuilder, to purchase all 40 lots at the initial price of \$210,000. Lots acquired by builder at 4 lots/quarter starting after base paving installed.



- **Builder base home price \$600,000.**
- **Borrower seeking LAD loan and public works letters of credit to benefit county government.**

### 2. Project costs, equity and loan funds-

Cost category	Total cost	Equity	Loan funds
• Land	\$2,775,000	\$1,775,000(1)	\$1,000,000
• Loan closing	50,000		50,000
• Indirect project costs	300,000		300,000
• Site development	2,975,000		2,975,000
• Contingency	150,000		150,000
• Loan interest	250,000		250,000
• Total	\$6,500,000	\$1,775,000	\$4,725,000

(1) Equity funded at loan closing. Equity is 27% of total project costs.

### 3. Calculation of loan amount-

- 40 lots x \$210,000 retail lot price= \$8,400,000
- Adjusted for estimated appraisal discounted value=  $\$8,400,000 \times .25 = \$6,300,000$
- 75% loan to value=  $\$6,300,000 \times .75 = \$4,725,000$  aggregate loan funds



#### 4. Loan Exposure-

- Loan amount per lot= \$118,125 par
- Loan repayment per lot= \$159,500 135% of par
- Number lots to repay loan= 30 lots

#### 5. Possible Loan Terms-

- **Loan Purpose-** to provide LAD loan funds to finance a 40 lot subdivision.
- **Borrower-** single purpose entity to be determined.
- **Bank Collateral-** for the loan and any letters of credit, the bank shall obtain a first lien deed of trust on the land and assignment of the builder contract of sale.
- **Loan Amount-** the lesser of 1) \$4,725,000 or 2) 75% of the discounted appraised value of a completed project.



- **Borrower Equity-** the equity amount based on the difference of the total project costs less the loan amount.
- **Loan Term-** 24 months with 1, 6 month loan extension. Loan extension subject to no loan defaults and the loan amount outstanding balance to be paid down by \$3,190,00; which is 20 lots acquired by builder.
- **Pricing-**
  - Initial loan term -floating Prime + .50 to 1.00 range.
  - Loan extension term- .25 to .50 of the outstanding loan balance at extension.
  - Letters of credit- 1.00% of the issued letters of credit amount, for each 12 month period.
- **Loan Repayment Guaranty-** 100% of loan amount and letters of credit amount.





- **Loan Repayment Amount-** as lots acquired by builder, lot repayment \$159,500. Loan repaid by 30 lots.
- **Loan Covenants-**
  - Homebuilder fully executed contract of sale in place at all times to purchase 40 lots.
  - Loan to value shall not exceed 75% during loan term.
- **Conditions to Loan Closing-**
  - Recorded subdivision approved by county government for 40 lots.
  - Fully executed county government public works agreement.
  - Acceptable to bank, phase 1 environmental site report, current appraisal and bank inspector review of all county approved site development plans, project costs and permits.
  - All county permits to develop project.
  - Evidence of public or private utilities to service the 40 lots.
  - Acceptable to bank, builder fully executed contract of sale and issuance of builder deposit for 40 lots.



# NO SURPRISES!

