

Case Study: Park Place Senior Living

Property Type:

Assisted Living and Independent Living

Location:

Fort Wayne, Ind.

Project Objective:

New Construction

Financing Amount:

\$14.2 million

Source of Funding:

GNMA securities backed by FHA Sec. 232 mortgage insurance, with an escrow supported by a Federal Home Loan Bank standby letter of credit

“Lancaster Pollard’s extensive knowledge of FHA and Federal Home Loan Bank financing nuances helped us strengthen our loan application, secure a low interest rate and ultimately get the deal closed in a challenging new construction financing environment. The personal attention was exceptional. They kept us informed throughout the processing, and our banker even personally presented to FHA leadership to assure buy-in of our concept.”

*– Thomas Smith, Principal
Leo Brown Group*

Background and Challenges

Park Place Senior Living, a new Indiana community adjacent to a \$538 million medical center, was originally designed to be a combination of 48 independent living units and 116 assisted living units. Financing would be a combination of FHA-insured mortgages: Sec. 232 mortgage insurance for the assisted living portion, and a separate Sec. 221(d)(4) insured mortgage to finance the independent living cottages surrounding the AL building.

And then the housing market tumbled. The market study and appraisals indicated that a stand-alone independent living community could take longer than expected to lease up, increasing underwriting risk on the independent living loan. Yet waiting to construct the community would result in a lost opportunity, and Leo Brown Group wanted to respond quickly to existing AL demand and be prepared for an anticipated resurgence of IL demand.

Financial Solution

Lancaster Pollard suggested Park Place reduce the project scope, building 24 IL units instead of 48. Since the 24 IL units represented less than 25% of the total number of units being built, Park Place could finance both projects with one FHA-insured Sec. 232 transaction. Even if lease-up of the IL units took longer than expected, the assisted living operations would largely support the project’s debt service.

Lancaster Pollard also helped Park Place secure an acceptable form of funding for its working capital escrows. Specifically, the letter of credit funding some of the FHA-required escrows was provided by a non-rated local community bank. Lancaster Pollard coordinated the involvement of the Federal Home Loan Bank of Indianapolis to provide a AAA-rated standby letter of credit to ensure the escrow funding met GNMA requirements for securitization.

Outcome:

Using a single loan reduced closing costs and the amount of equity Park Place needed to commit to complete the project. Park Place is able to answer immediate AL demand while putting itself in a strong position for IL demand as the housing market normalizes. Further, the three-year, \$1.25 million standby letter of credit on the initial operating deficit escrow helps the developer retain liquidity until those funds are needed upon completion of construction.

Financing Progress

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