

# Unreinforced Masonry Seismic Retrofit Project Policy Committee

*Meeting #4*  
*Financial Assistance*  
*April 7, 2016*

# Presentation

- *Survey of Portland Lenders – Approach to financing unreinforced masonry buildings*
- *Ureinforced Masonry Building Project Support Committee Findings/ Recommendations*

# Unreinforced Masonry (URM) Seismic Retrofit Project Policy Committee – Financial Assistance

## Financing Unreinforced Masonry Buildings

### Contact with multiple lenders for their views:

- Wells Fargo
- Pacific Continental
- Columbia Bank
- Albina Bank
- Republic Bank
- MBank
- Melvin Mark Capital (mortgage broker knowledgeable about all lenders, specializes in institutional/conduit programs)

# Unreinforced Masonry (URM) Seismic Retrofit Project Policy Committee – Financial Assistance

## Financing Unreinforced Masonry Buildings

### Categories of buildings requiring financing:

- Non-retrofitted
- Buildings triggering retrofit
- Buildings retrofitted **to code**

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## Categories of Commercial & Multi-family Lenders

### Categories of Lenders

- Institutional, Conduit and Federal Programs
  - Non-recourse, favorable terms, not flexible
  - Federal programs only for multi-family
- Banks (National, Regional, Local)
  - Larger – Best borrowers, more aware/capacity
  - Local – relationship-based, greater risk, less aware
- Finance Companies & Private Lenders
  - Greatest risk, greatest cost

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## Who will finance what?

- Institutional lenders and Federal programs won't lend on buildings that have not been retrofitted.
- Most ***national and regional banks*** will only lend on retrofitted buildings (to code) and finance retrofits with strongest borrowers.
- ***Local banks*** will still finance a building that hasn't been retrofitted with just earthquake insurance.
- There is a bank in this market that won't finance URMs, period
  - Code does not require building preservation, doesn't trust insurance to pay

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## Underwriting Trends

Lenders underwrite URM retrofits with more care:

- Increased knowledge about impending earthquake
- More requiring probable maximum loss (PML) reports
- Require earth quake insurance
- Some lenders won't allow subordinate debt, often required for retrofits

Lender will finance retrofits if:

- *Strong relationship/URM-competent building owners*
- *Require higher construction contingencies (up to 10% more)*

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## Financing Retrofits

The more a project is out of market/larger buildings, the more complex the “capital stack”:

- Bank, Borrower Equity
- Bank, Tax Credit Equity, Borrower Equity
- Bank, Tax Credit Equity, Local Gov’t Program, Borrower Equity

The more complex the capital stack, the more front-end coordination:

- Obtaining tax credits takes time/sophistication and up-front investment
- Government programs add additional requirements

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## Conclusions

Financing of URMs seem to fall into three categories:

1. Buildings with owners who have additional equity to invest in their buildings, have strong local competencies (about the problem and the from who to seek solutions) and strong lending relationships.
2. Buildings with owners who obtain myriad resources (historic and new market tax credits, loans from PDC in urban renewal areas
3. Buildings with owners who are able to slip under current regulations by not making improvements over current triggers, and get by either owning the buildings outright, or obtaining financing from un-regulated lenders

# SEISMIC RETROFIT SUPPORT COMMITTEE

## Financial Assistance Recommendations

### **Retro-fit loan program:**

- Accessible to area lenders
- Determine SBA /CRA applicability
- Potential with Senate Bill 85 property assessment security structure (clean energy pilot underway)

### *Actions Required to Implement:*

- *Political will*
- *Eligible public capital source*
- *Partner with lender community*
- *Create value > cash flow > debt service*

# SEISMIC RETROFIT SUPPORT COMMITTEE

## Financial Assistance Recommendations

### **Credit Enhancement:**

- Capitalize fund that reduces risk for private lenders

### *Actions Required to Implement:*

- *Political will*
- *Eligible public capital source*

# SEISMIC RETROFIT SUPPORT COMMITTEE

## Financial Assistance Recommendations

### Interest Rate Buy Down:

- Capitalize fund that “buy down” interest rates for 3-5 years so buildings can stabilize at increased debt levels

### *Actions Required to Implement:*

- *Political will*
- *Eligible public capital source*

# **Unreinforced Masonry (URM) Seismic Retrofit Project Policy Committee – Financial Assistance**

## **DISCUSSION**