

# **Housing Enterprise of Central Alabama Overview for Builders and Developers: One Real Estate Banker's Perspective**

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As a long time real estate banker, I find my self constantly reviewing all kinds of numbers. But two stand out as among the most important: employment figures and housing starts.

Bankers are always looking at this kind of data, paying particular attention to the kinds of industries that are driving employment growth. Those of us involved in financing housing are always studying housing data: what kinds of houses are being built, where, cost data, length of time on the market, etc. The housing industry is extremely important to the Central Alabama region, and its continued health is important to bankers as well as homebuilders.

Birmingham is most fortunate to have a home building community that is the envy of much larger cities. The home building and remodeling industry is, without a doubt, one of the major employers in Central Alabama. Both new housing starts, and the ever growing remodeling business, contribute greatly to the economic well being of the region.

Both the commercial banking and the mortgage banking industries are also major employers in Central Alabama. The commercial and mortgage banking community and the home building community have long enjoyed a mutually beneficial, and mutually profitable, relationship.

With this overall commitment to the housing industry in mind, and realizing our ongoing obligations to support economic development at every level in our communities, several large banks headquartered in Birmingham came together in 2003 and, in conjunction with several area foundations, formed the Housing Enterprise of Central Alabama (HECA) and its non-profit affiliate, The Housing Fund of Central Alabama (The Fund).

HECA, a for-profit lending company, and The Fund, a non-profit company, are owned by AmSouth Bank, Regions Bank, Compass Bank, and New South Federal Savings Bank. The Fund is further supported by The Community Foundation of Greater Birmingham, The Community Foundation of Calhoun County, and The Walker Area Community Foundation.

HECA's primary mission is to support the development of affordable housing in our primary 12-county market by offering attractive financing terms to land developers, home builders, home remodelers, and multi-family developers or remodelers. The Fund, being a non-profit company, also makes grants to various non-profit organizations that support the affordable housing community in our 12-county area of operation.

HECA is not in competition with its owner banks, or any banks for that matter. To understand the difference between HECA financing and customary bank financing, we need to briefly review what banks normally like to finance.

Banks are usually interested in builders and developers who operate in all levels of single and multi-family housing. This would include “starter homes”, all the way up to million dollar homes. Additionally, in the multi-family arena, many banks will finance small and simple multi-family projects of perhaps 10-50 units, all the way up to high-end luxury apartment communities of 300 to even 500 or more units. Additionally, many banks do finance land development projects, which may run from a simple 15 or 20 lot subdivision, all the way up to extremely complex and large planned communities of as much as 2,000-3,000 lots, normally developed in phases. At the low end, such developments may have lots selling for as little as \$25,000 to \$30,000. Larger and more luxurious, and more complex, planned development may have lots that sell from perhaps \$30,000 to \$40,000, all the way up to \$150,000 and even \$200,000. All levels of housing development, multi-family development, and land development, can be found in our 12-county Central Alabama region.

HECA is interested only in “affordable” housing. We are interested in providing aggressive loans and gap financing to qualified private- and not-for-profit developers who will build and/or renovate safe, decent, affordable single and multi-family housing in our 12-county area. “Affordable” housing probably can be most commonly understood as something similar to “starter homes”. Depending on the specific market, affordable housing would range in price from as low as perhaps \$75,000-\$85,000, up to as much as \$150,000 to maybe \$165,000, or even a little more, in some markets. Multi-family projects financed by HECA would probably tend to be smaller in number of units, perhaps simpler in design, but nevertheless would provide clean, safe, and modern rental accommodations for families of moderate means.

Owners of affordable single family housing, or renters in affordable multi-family communities, would tend to be individuals or families whose incomes range from as low as 50% of the median income for the area, up to a high of 80%. HECA has ongoing relationships with the mortgage banking community, and through these relationships, has access to many different financing programs that will accommodate the needs of potential home purchasers of moderate means. Additionally, there are numerous programs available to help families of moderate means who would desire to rent within affordable multi-family communities.

HECA is well aware that in order to attract more quality home building professionals to the affordable housing market, both in the area of land development, single-family development, and multi-family, it must offer attractive and aggressive financing terms. Whereas the commercial banking community very often requires some cash equity in development projects, and almost always requires full personal guarantees on loans, HECA is prepared to offer much more flexibility in its financing of affordable housing. For qualified developers, including land development, single family development, multi-family development, or the acquisition of existing housing stock that needs significant redevelopment, HECA will consider up to 100% financing, with very limited personal recourse. Typically, the personal recourse would consist of only a guarantee to complete any project started utilizing HECA funds. Basically, the developer would be obligated to support his or her budget, which has been reviewed and approved by both HECA and the developer/builder customer. The developer/builder is basically responsible for any cost overruns, and is obligated personally to complete the project, and to market the project according to his or her plan. In the unlikely event that a project was not to go according to plan, and an

actual cash loss is incurred in concluding the development of a “project,” the developer will not have to cover that loss; the loss would be borne by HECA.

Providing 100% financing for qualified developers and builders, and offering financing terms with limited, “completion only” guarantees, is the fundamental difference between HECA’s financing program and that typically offered by commercial banks, including HECA’s owner banks.

By providing these aggressive programs, HECA desires to interest established and experienced home builders, land developers, home remodelers, and multi-family developers, in the affordable housing market, and to make that market a part of their regular business activities. Thus, HECA will fulfill its mission to promote the development of moderately priced housing in its 12-county market area.

Remembering that HECA is a for-profit company, HECA will normally charge standard rates and fees related to its financing programs. However, because HECA is providing 100% financing in almost every case, with very limited, completion only, recourse, HECA will normally negotiate a reasonable share of any profits coming from the successful development and marketing of individual projects. HECA will not be a joint venture “partner”, and HECA will not have any ownership in its customers’ projects. HECA will not endeavor to engage in “project management”, as the builder/developer is the owner and manager of his or her project. HECA will simply negotiate a “participating share” of the project’s profits, and that would be up for negotiation in every case, depending on the project.

It is our sincere hope that HECA will become a major player in the affordable housing industry in our 12-county market area, and we look forward to establishing an ongoing working relationship that is mutually beneficial and mutually profitable with a significant number of builders and developers in this area.

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