



MORTGAGE BANKERS ASSOCIATION

Comparison of Bank Risk-Based Capital Requirements for ADC Lending under HVCRE, H.R. 2148 and HVADC

Key *comparisons* in *red*.

	HVCRE rule (current)	H.R. 2148 (proposed)	HVADC rule (proposed)
RISK WEIGHT	150%	150%	130%
DEFINITION	A credit facility that – <ul style="list-style-type: none"> Finances or has financed the <ul style="list-style-type: none"> Acquisition, Development, or Construction (ADC) of real property. 	A credit facility <i>secured by land or improved real property</i> that – <ul style="list-style-type: none"> <i>Primarily</i> finances, has financed <i>or refinances</i> the <ul style="list-style-type: none"> Acquisition, Development, or Construction of real property; <i>Has the purpose of providing financing to acquire, develop, or improve such real property into income-producing real property; and</i> <i>Is dependent upon future income or sales proceeds from, or refinancing of, such real property for the repayment of such credit facility.</i> 	A credit facility that – <ul style="list-style-type: none"> <i>Primarily</i> finances <i>or refinances</i> the: <ul style="list-style-type: none"> Acquisition <i>of vacant or developed land</i>; Development <i>of land to prepare to erect new structures including, but not limited to, the laying of sewers or water pipes and demolishing existing structures</i>; or Construction <i>of buildings, dwellings, or other improvements including additions or alterations to existing structures.</i>
EXEMPTIONS:			
<ul style="list-style-type: none"> Property type exemptions 	Exempt from HVCRE if financing: <ul style="list-style-type: none"> One-to-four family residential properties Community development Agricultural land 	Exempt from HVCRE if financing: <ul style="list-style-type: none"> One-to-four family residential properties Community development Agricultural land 	Exempt from HVADC if financing: <ul style="list-style-type: none"> One-to-four family residential properties Community development Agricultural land
<ul style="list-style-type: none"> Permanent financing exemption 	Exempt from HVCRE: <i>when loan is “converted to permanent financing.”</i>	Exempt from HVCRE: <i>if or when project completed and cash flows sufficient to cover debt service and expenses under bank underwriting standards for permanent financings.</i>	Exempt from HVADC: <i>if or when loan meets definition of “permanent loan” (“a prudently underwritten loan that has a clearly identified ongoing source of repayment sufficient to service amortizing principal and interest payments aside from the sale of the property”).</i>
<ul style="list-style-type: none"> Capital contribution exemption 	Exempt from HVCRE if project meets three standards: <ul style="list-style-type: none"> LTV at or below supervisory maximum; Borrower contributes at least 15% capital in form of cash, unencumbered marketable assets, out-of-pocket expenses paid or <i>cash paid for contributed land</i>; and Mandatory restriction on borrower withdrawal of <i>any contributed capital, or internally generated capital, until loan is converted to permanent financing.</i> 	Exempt from HVCRE if project meets three standards: <ul style="list-style-type: none"> LTV at or below supervisory maximum; Borrower contributes at least 15% capital in form of cash, unencumbered marketable assets, out-of-pocket expenses paid or <i>the appraised value of contributed land</i>; and Mandatory restriction on borrower withdrawal of <i>minimum 15% contributed capital until loan meets permanent financing exemption, above</i> 	<i>HVADC would eliminate capital contribution exemption.</i>
EFFECTIVE DATE IMPACTS	<i>January 1, 2015: HVCRE rule applied to both new and outstanding ADC loans.</i>	<i>HVCRE rule as revised by H.R. 2148 would apply to both new and existing ADC loans, except that loans originated before January 1, 2015 would be exempt.</i>	<i>HVADC rule would apply to new ADC originations only. Current HVCRE rule would apply to existing ADC loans under Standardized Approach and would apply to both new and existing ADC loans under Advanced Approach.</i>