

# **Bond Case Briefs**

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## **U.S. Urges Memphis Ministry to Sell Three Bond-Funded Complexes.**

The U.S. Department of Housing and Urban Development has “lost confidence” in a Memphis-area ministry’s ability to manage its portfolio of low-income housing and urged it to sell three of its municipal bond-financed apartment complexes in Florida.

In a March 24 letter to the Global Ministries Foundation president, Rev. Richard Hamlet, HUD said recent inspections of the non-profit’s complexes in Jacksonville and Orlando found exposed wiring, decades-old cabinets and “band-aid” fixes such as using painted duct tape to cover holes or painting over untreated mildew.

“HUD is extremely concerned by GMF’s quick fix approach to maintenance at its properties,” wrote Priya Jayachandran, HUD Deputy Assistant Secretary for Multifamily Housing. “While HUD will continue to closely monitor the conditions at all of the GMF properties in Florida to ensure that GMF addresses these problems with long-term sustainable and permanent repairs, HUD has lost confidence in GMF’s ability to manage its large portfolio.”

GMF, a Cordova, Tennessee, non-profit founded in 2003, has raised \$400 million to finance the acquisition and operation of 60 multifamily complexes in eight states. The non-profit issued municipal bonds through “conduits,” — local agencies with few, if any, employees and that exist only to sell tax-exempt debt for a fee.

### **Ministry’s Response**

“The leadership of Global Ministries’ affordable housing program takes the allegations raised by HUD’s deputy assistant secretary very seriously,” Hamlet said in e-mailed statement to Bloomberg News. “We are working closely with HUD and impacted stakeholders to continue the work underway to improve our properties.”

GMF is working with government housing officials to ensure the properties comply with all federal and state laws, regulations and local codes, said Hamlet.

“GMF remains unwavering in its commitment to restoring safe, comfortable, and affordable housing for families in need,” he said.

HUD visited GMF’s Eureka Gardens Apartments and Washington Heights apartments in Jacksonville and the Windsor Cove Apartments in Orlando on March 17 and 18. The three complexes have 852 units.

### **Municipal Bonds**

GMF issued \$34 million of tax-exempt debt through the Capital Trust Agency, to purchase the Jacksonville properties and four others in the city in 2012. Capital Trust is a conduit located in Gulf Breeze, Florida, 360 miles (579 kilometers) away. Capital Trust also issued \$11.3 million in 2012 to finance GMF’s acquisition of Windsor Cove in Orlando.

The primary source of revenue backing the bonds are rent subsidies from HUD. Last month HUD cut off subsidies to two GMF properties in Memphis because GMF failed to maintain the properties in a “safe and sanitary manner.” The loss of the federal funds caused the securities to default, pushing the price to as little as 21 cents on the dollar.

Bondholders of the GMF properties in Jacksonville and Orlando would lose money if the non-profit sold the apartments for less than they purchased them.

On March 30, GMF’s Jacksonville bonds with a 4.25 percent coupon maturing in 2035 traded at average price of 98.4 cents on the dollar. The same day, an investor bought \$115,000 of GMF’s Orlando bonds with a 5 percent coupon maturing in 2047 for 99 cents on the dollar. The bonds carry an A rating from Standard & Poor’s.

Following on-site visits to some buildings, S&P put 25 GMF-backed bond issues on review for a downgrade last month, saying a decision to withhold funding from other complexes could jeopardize the money used to repay investors.

## **Bloomberg Business**

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