



KAPPA ALPHA PSI FRATERNITY, INC
Upper Marlboro-Waldorf (MD) Alumni Chapter

Housing Initiative

Feasibility Study

March 28, 2014

Submitted by

Housing Committee: Robert Bennefield (Co-Chairman), Paul Jones (Co-Chairman), Solomon Brockington, Gilbert Crook, Jeff Flournoy, David Felton, Rudy Tull, Earl Mitchell, Gregory Clark, Russell Sanders

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UPPER MARLBORO/WALDORF (MD) ALUMNI CHAPTER

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I. INTRODUCTION

Between October 2013 and March 2014, the Housing Committee of the Upper Marlboro/Waldorf Chapter of Kappa Alpha Psi Fraternity conducted a feasibility study to determine if the Chapter could acquire a housing facility. The Committee members are Robert Bennefield (Co-Chairman), Paul Jones (Co-Chairman), Gilbert Crook, Solomon Brockington, Jeff Flournoy, David Felton, Rudy Tull, Earl Mitchell, Gregory Clark, and Russell Sanders.

II. OBJECTIVE

The objective of this study is to determine if the Upper Marlboro/Waldorf Chapter of Kappa Alpha Psi Fraternity and Kappa Youth Development (KYD) through a joint venture can (1) qualify for a mortgage loan to acquire a housing facility, (2) secure adequate funds for a down payment and settlement-closing costs on a mortgage loan, and (3) produce the cash flow needed to financially maintain a housing facility. To capitalize on its tax advantages, the housing facility would be acquired through the 501©3 non-profit Kappa Youth Development with financial backing from the Upper Marlboro/Waldorf Chapter.

III. SCOPE OF STUDY

The primary sources of information and data used in this study were obtained from Kappa Youth Development and Upper Marlboro/Waldorf Chapter records; information provided by the Baltimore Alumni Chapter, from their recent housing facility acquisition; and advice, consultation, and data from three financial institutions.

IV. FINDINGS

A. Financial Documentation Requirements

To apply for a mortgage loan, financial institutions require, at a minimal, the following documents:

1. Organizational

- a. Contact information (name, phone, fax, email) of primary contact for loan request
- b. General business information (for example, brochures, capability statement, marketing materials)
- c. Organizational documents (for example, 501©3 determination statement, federal tax ID number, business licenses, certification)
- d. Organizational chart or listing of board members (with brief resumes or background on manager/director)
- e. Current business , marketing or operating plan (including current/planned major fund-raising/capital campaigns)
- f. Listing of major donors

2. Financial

- a. Minimum of three years of annual financial statements (including a balance sheet and an income statement)
- b. Current interim financial statement, dated within the past 90 days
- c. Business pro-forma financial statements, cash flow projections, and assumptions for next three years
- d. Current approved annual budget for the organization
- e. Sources and uses of funds requested
- f. Purchase agreement and executive summary on the property being acquired

B. Human Resource Requirements

1. Legal consultant
2. Real estate agent

C. Financial Resource Requirements

1. Down payment
2. Settlement-closing costs
3. Monthly mortgage payments (principal, interest, taxes, insurance)
4. Funds for utilities, maintenance, and renovations

V. ANALYSIS

Documentation requirements: Some of these documents are available and the others could be produced.

Human resource requirements: There are legal and real estate professionals that the Chapter could attain.

Financial resource requirements:

1. **Down payment** – In general, financial institutions will finance 70% to 80% of a property purchase price, which would require KYD to pay the remaining 20% to 30% for the down payment on the property being acquired. For example, on a \$200,000 property KYD would need cash of approximately \$50,000 (using the mid range of 25% down). As another example, the down payment required on a property valued at \$500,000 would be approximately \$125,000.
2. **Settlement-closing costs** – At closing or before going to settlement, KYD would also need cash to pay settlement fees or closing costs such as recording, appraisal, environmental study, financial institution legal fees, KYD legal fees, and loan fees. These costs generally represent about 5% of the property value, \$10,000 for a property valued at \$200,000 and \$25,000 for a property valued at \$500,000.
3. **Monthly mortgage payment** – Financial institutions generally will finance property for 30 years. In some cases, financial institutions will also finance a property for 5 to 10 years and amortize for 30 years which would require a balloon payment at the end of the finance period. Using the examples above, the monthly mortgage payment on a \$200,000 property would be approximately \$1,000 at 6%. On a property value of \$500,000, the monthly mortgage payment would be

approximately \$2,300. Additionally, financial institutions like to see that borrowers have at least 1.2% more than the monthly mortgage payment for debt service.

4. **Funds for utilities, maintenance, and renovations** – While these costs are difficult to estimate, at least \$1,000 per month should be included for these expenses and contingencies.

In summary, to purchase a property valued at approximately—

- **\$200,000**, KYD would need cash on hand of approximately \$60,000 to go to settlement and net cash flow of approximately \$2,000 monthly to cover the mortgage and expenses.
- **\$500,000**, KYD would need cash on hand of approximately \$150,000 to go to settlement and net cash flow of approximately \$3,300 monthly to cover the mortgage and expenses.

Currently, KYD has a small savings of \$1,100 and no cash flow; and the Chapter currently has \$29,000 in savings and an annual net cash flow of approximately \$3,000.

Source of funds analysis –

Table 1 shows the amount that each Brother would need to be assessed to cover the down payment and settlement-closing costs on a mortgage loan, and the assessment with a \$30,000 contribution by KYD/Chapter. For example a property valued at—

- **\$200,000:** If KYD/Chapter contributes \$30,000 from its savings (\$1,000 from KYD plus \$29,000 from the Chapter); KYD would need an additional \$30,000 to go to settlement to cover the down payment plus settlement-closing costs. The latest Chapter financial report shows 61 fully financial Brothers of the 70 Brothers on the roster. Based on 61 financial Brothers, an assessment of \$492 per Brother would be needed to raise the balance of cash needed to go to settlement. If KYD/Chapter does not contribute savings, KYD/Chapter would need to raise \$60,000 to go to settlement. Based on the roster of 61 financial Brothers, an assessment of \$984 per Brother would be needed to go to settlement.
- **\$500,000:** If KYD/Chapter contributes \$30,000 of savings; KYD would need an additional \$120,000 to go to settlement. Based on 61 financial Brothers, an assessment of \$1,967 per Brother would be needed to go to settlement. If

KYD/Chapter does not contribute its savings, \$150,000 would be needed to go to settlement. Based on 61 financial Brothers, an assessment of \$2,459 per Brother would be needed to go to settlement.

Table 1.

Property value	Down payment and settlement /closing costs	Assessment per Brother for down payment and settlement/ closing costs	Down payment and settlement/ closing costs, less KYD/Chapter contribution of \$30,000	Assessment per Brother for down payment and settlement/ closing costs with KYD/Chapter contribution of \$30,000
\$200,000	\$60,000	\$984	\$30,000	\$492
\$500,000	\$150,000	\$2,459	\$120,000	\$1,967

In addition, as shown in table 2, Brothers would need to commit to additional monthly assessments to cover the monthly mortgage and expenses of a housing facility. For example a property valued at—

- **\$200,000:** Based on 61 financial Brothers, in addition to annual dues, each Brother would need to pay \$33 monthly to cover the monthly mortgage and housing expenses of \$2,000.
- **\$500,000:** Based on 61 financial Brothers, in addition to annual dues, each Brother would need to pay \$60 monthly to cover the monthly mortgage and housing expenses of \$3,623.

Table 2.

Property value	Monthly payment	Monthly assessment per Brother	Annual assessment per Brother
\$200,000	\$2,000	\$33	\$396
\$500,000	\$3,623	\$60	\$720

VI. CONCLUSION

To answer the three critical questions stated in the objective: (1) Can KYD/Chapter qualify for a mortgage loan to acquire a housing facility? The answer to this question is NO. While KYD/Chapter could produce the documentation needed to apply for a mortgage loan, its financial performance history is very weak, and therefore would not convince a financial institution that it has the solvency to support a mortgage loan. (2) Can KYD/Chapter secure adequate funds for a down payment and settlement-closing costs on a mortgage loan? The answer to this question is YES. Currently, KYD/Chapter does not have adequate funds to cover the required costs for down payment and settlement-closing costs. While it would be difficult, KYD/Chapter could raise the necessary funds through membership assessments or a combination of assessments and contribution from KYD/Chapter savings. (3) Can KYD/Chapter produce the cash flow needed to financially maintain a housing facility? As table 2 shows, this could be accomplished through monthly or annual housing assessments to the Brothers.

As the analysis indicates, there is a strong need for assessments to the Brothers to acquire a housing facility and to financially maintain the facility. Based on the history of the Chapter, not all Brothers would probably adhere to and comply with assessments. As a result, the financial impact on contributing Brothers would increase substantially. On the other hand, the current financial status of the 70 Brothers on the roster is encouraging, showing about 85% fully financial. Hopefully, these financial Brothers are willing to also pay housing assessments, knowing that they are tax deductible donations to our KYD foundation.

VII. RECOMMENDATIONS

After analyzing the data and careful consideration, the Housing Committee recommends that KYD/Chapter should acquire a housing facility. We think that KYD/Chapter should start out small with an affordable property, valued at approximately \$200,000. Because the current real estate market is a buyers market, we think that it's possible to find a facility to fit our basic needs at \$200,000, particularly among foreclosure properties. While the facility may not serve all of our needs, it would represent an investment for KYD/Chapter and a

potential source of revenue. Hopefully, as the property value increases overtime it could be sold to finance the purchase of a larger facility.

This Committee recommends that this acquisition take place over a one year time period by doing the following:

1. **Documentation requirements** – Enhance and prepare KYD/Chapter financial and organizational documents to meet mortgage loan application requirements.
2. **Human resource requirements** – Attain legal and real estate professionals from within the fraternity to help with the purchase process.
3. **Housing Fund** – Set up a KYD Housing Fund where money would be deposited and used only to purchase and finance the housing facility.
4. **Financial resources**
 - a. **Down payment and settlement-closing costs** –
 - i. The Chapter would contribute \$29,000 from its savings and KYD would contribute \$1,000, for a total of \$30,000 to the housing fund to help cover the \$60,000 down payment and settlement-closing costs needed to purchase the housing facility.
 - ii. Assess each Brother a \$492 housing assessment fee to be paid over a 1 year period to cover the additional \$30,000 needed to finance the purchase. (See Table 1) These assessments would be tax deductible donations to KYD because of its 501© 3 non-profit status.

\$30,000 – KYD/Chapter contribution
+ \$30,012 – assessments (\$492 x 61 Brothers)
\$60,012

- b. **Monthly mortgage payment and housing expenses** – Each Brother would be assessed a monthly housing fee of \$33 to cover the monthly mortgage payment and housing expenses. (See Table 2) To meet the bank’s cash flow requirement to ensure mortgage payment, each Brother would sign a pledge to make a \$33 monthly donation to KYD.

- c. **State bond** – Immediately following the purchase, identify and request Maryland State representatives to sponsor a bond bill of \$100,000 for the KYD facility to help finance the facility. The Baltimore Chapter has provided a template from their successful state bond that we could use to request a state bond.
 - d. **Other sources of funds** – As this Chapter continues to grow and with more financial participation from current Brothers on the roster, the lower the assessment on all Brothers. For example, if all 70 Brothers on the Chapter roster paid the assessments, the initial assessment of \$492 would drop to \$429 for each Brother, and the monthly assessment would drop from \$33 to \$29 for each Brother. Fundraisers, grants, rental fees, and reclamation are also potential sources of funds to help finance the facility.
5. **Housing requirements** – Before searching for a housing facility, KYD/Chapter must identify the type of facility needed and how it would be used. Basic housing requirements should include adequate space for chapter meetings and KYD activities (Kappa League/DITR, Kappa Kare, and storage), bathroom, kitchen facilities, and parking availability.
 6. **Housing fund bylaws section** – Add a section to the bylaws stating that the housing funds can only be used to purchase or finance the KYD/Chapter housing facility.
 7. **Housing czar** – Create a housing czar position with the responsibility to ensure that the housing initiative stays on track from one administration to another.

VIII. CLOSING

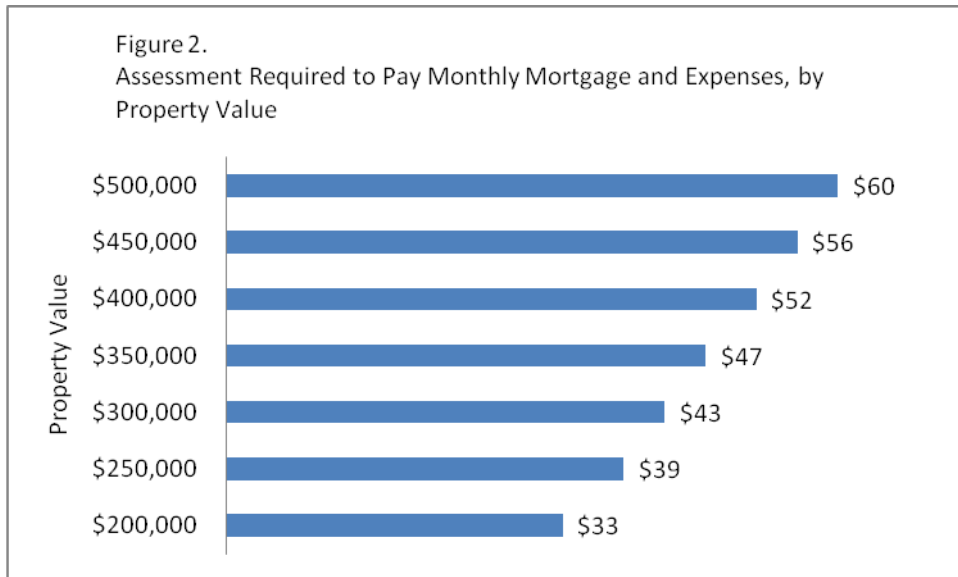
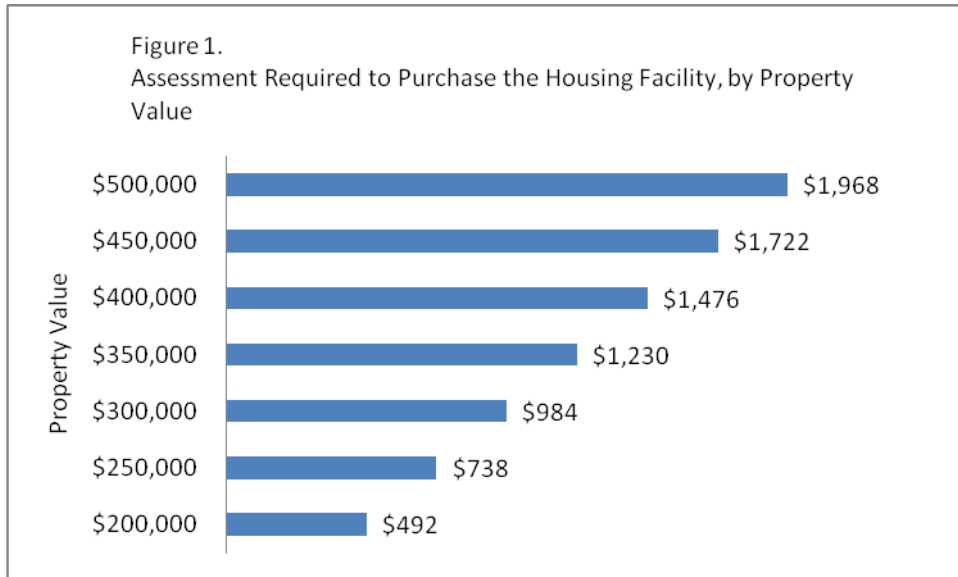
Finally Brothers, this feasibility study was conducted to help the Upper Marlboro/Waldorf Chapter and Kappa Youth Development make a decision on whether or not this joint venture of purchasing a housing facility is a good idea. We know that purchasing and financially maintaining a housing facility is a serious undertaking. However, we believe that this can be achieved by following the Committee's recommendations and most of all with the commitment of the Brothers.

These recommendations provide this chapter with an opportunity to move to the next level by owning a housing facility. This multi-purpose facility would serve as a home for the Chapter and KYD. It would be a place where the chapter could conduct its monthly meetings and other activities, and a place where KYD could conduct its many activities such as Kappa League/DITR and Kappa Kare. Owning a facility would improve KYD's financial status and its ability to attract funding such as grants, donations, and foundation money. A housing facility would also facilitate and help strengthen the bond in the Chapter. Ownership of a housing facility could possibly promote membership, retention, and reclamation.

Even if the Chapter is unable to raise the funds needed through assessments over a one year period to purchase a facility, fundraising could continue until enough money is raised to finance a purchase. It took the large Baltimore Chapter several years to raise the funds needed to purchase their facility. In other words, start now and keep your eyes on the prize, ownership of a facility that you can call home.

After all, it's about ACHIEVEMENT.

Appendix A. Graphs



Appendix B. Examples of Available Properties



6701 Central Avenue, Capitol Heights, MD
List Price: \$199,500



7191 Old Alexandria Ferry Rd. #A
Clinton, MD
List Price: \$200,000



3575 Leonardtown Rd, Waldorf, MD
List Price: \$199,000

Appendix C. Table

Transaction	Property Value						
	\$200,000	\$250,000	\$300,000	\$350,000	\$400,000	\$450,000	\$500,000
Down payment (25% of property value)	50,000	62,500	75,000	87,500	100,000	112,500	125,000
Mortgage loan	150,000	187,500	225,000	262,500	300,000	337,500	375,000
Settlement-closing costs (5% of property value)	10,000	12,500	15,000	17,500	20,000	22,500	25,000
Down payment and settlement- closing costs	60,000	75,000	90,000	105,000	120,000	135,000	150,000
Number of current financial Brothers	61	61	61	61	61	61	61
Assessment required for down payment and settlement-closing costs	984	1,230	1,475	1,721	1,967	2,213	2,459
Contribution from KYD/Chapter	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Down payment and settlement- closing costs less contribution from KYD/Chapter	30,000	45,000	60,000	75,000	90,000	105,000	120,000
Assessment required for down payment and settlement-closing costs, with contribution from KYD/Chapter	492	738	984	1,230	1,475	1,721	1,967
Monthly mortgage payment	1,000	1,374	1,599	1,865	2,132	2,395	2,623
Monthly housing expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Monthly mortgage + expenses	2,000	2,374	2,599	2,865	3,132	3,395	3,623
Assessment required to pay monthly mortgage and expenses	33	39	43	47	51	56	60
Assessment required for annual mortgage and expenses	396	468	516	564	612	672	708

Note: The mortgage loan calculations are based on a 30-year loan at a 6% fixed interest rate.