

Affordable Housing Finance Update

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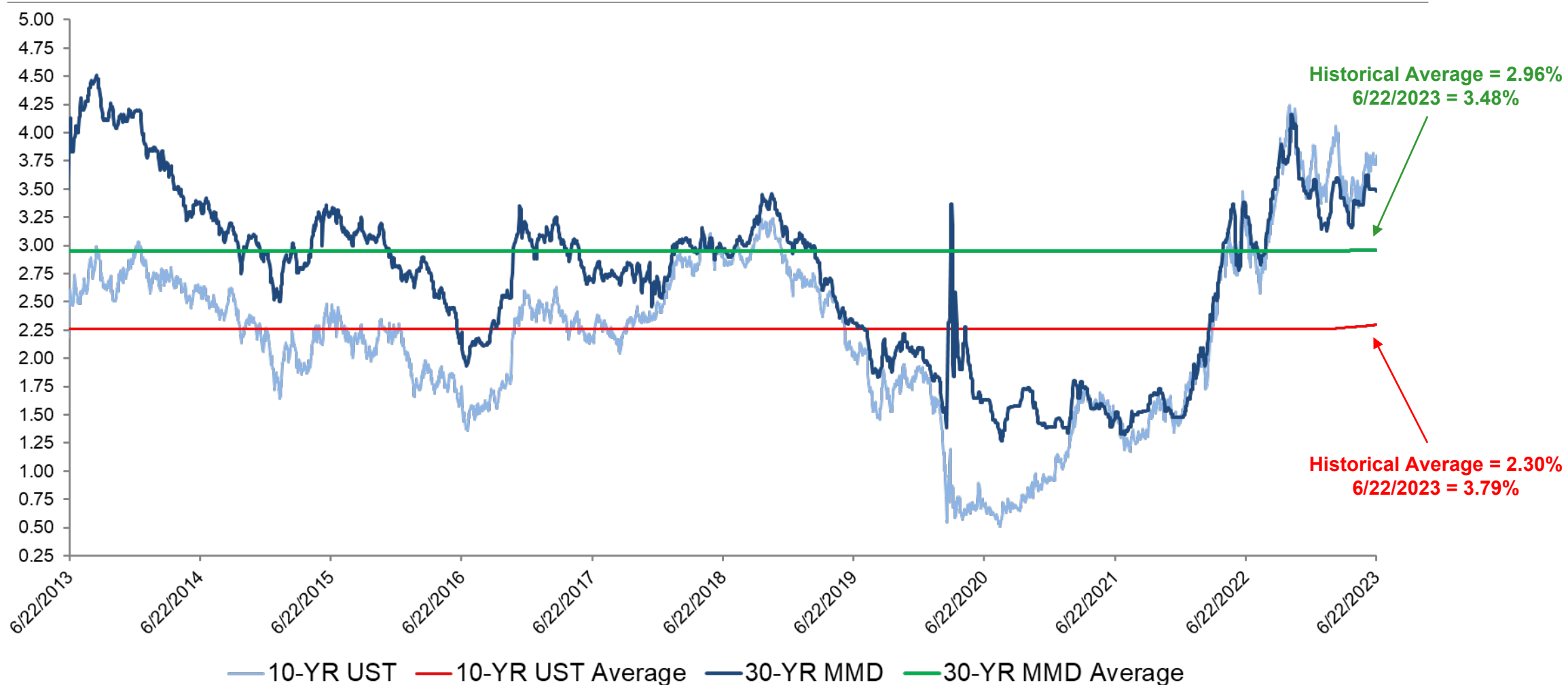
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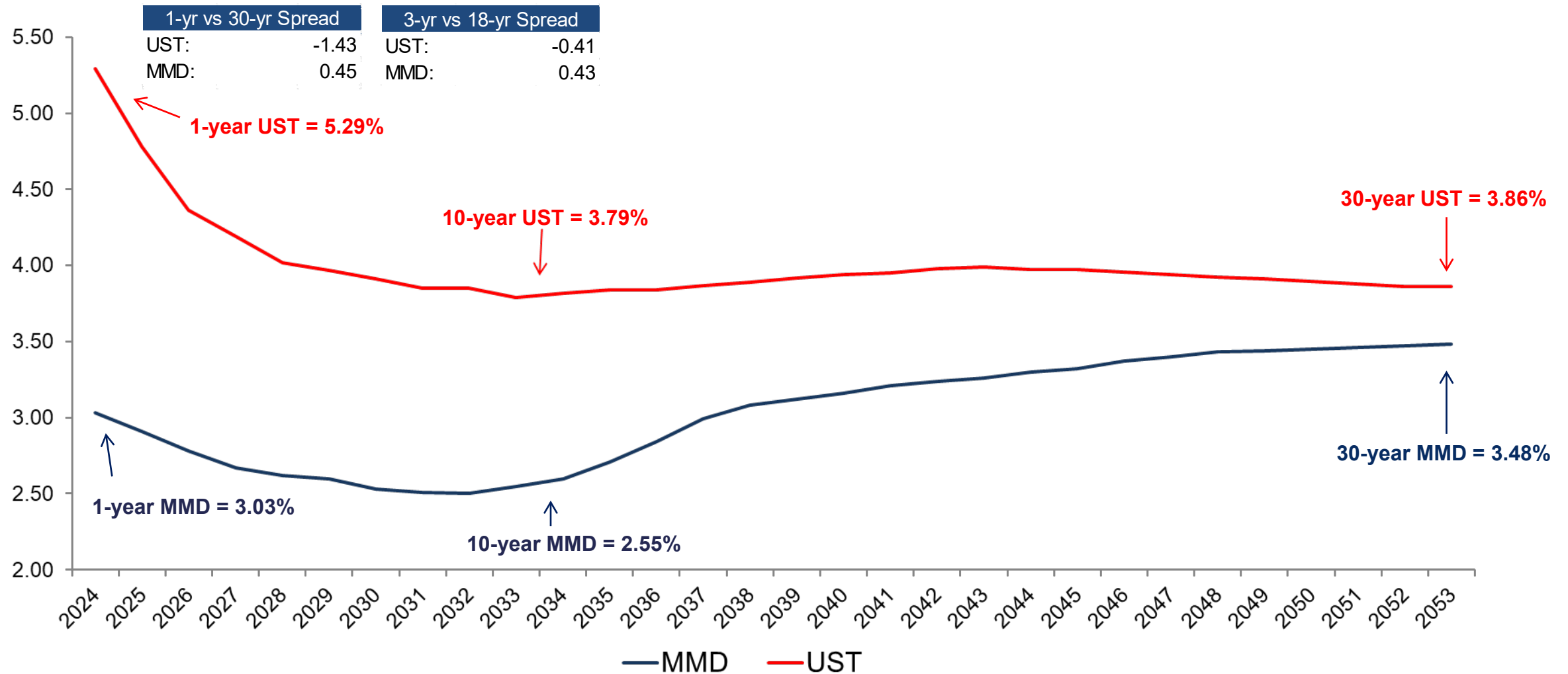
Important Market Indicators

Long-Term Rates – Past 10 Years



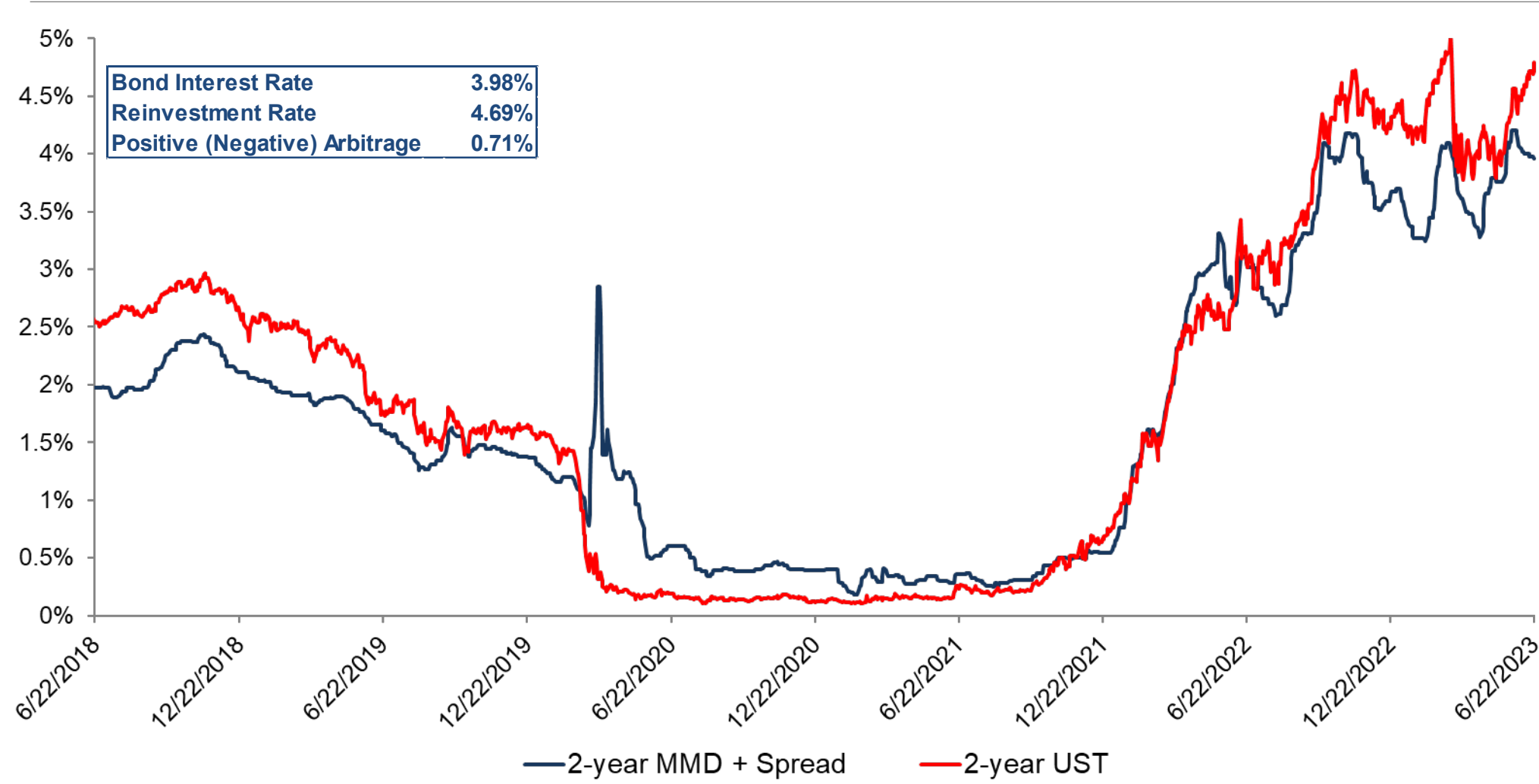
Source: Bloomberg, Thomson Reuters
Reflects market conditions as of June 22, 2023
Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Yield Curve: Taxable UST vs. Tax-Exempt MMD (as of 6/22/2023)



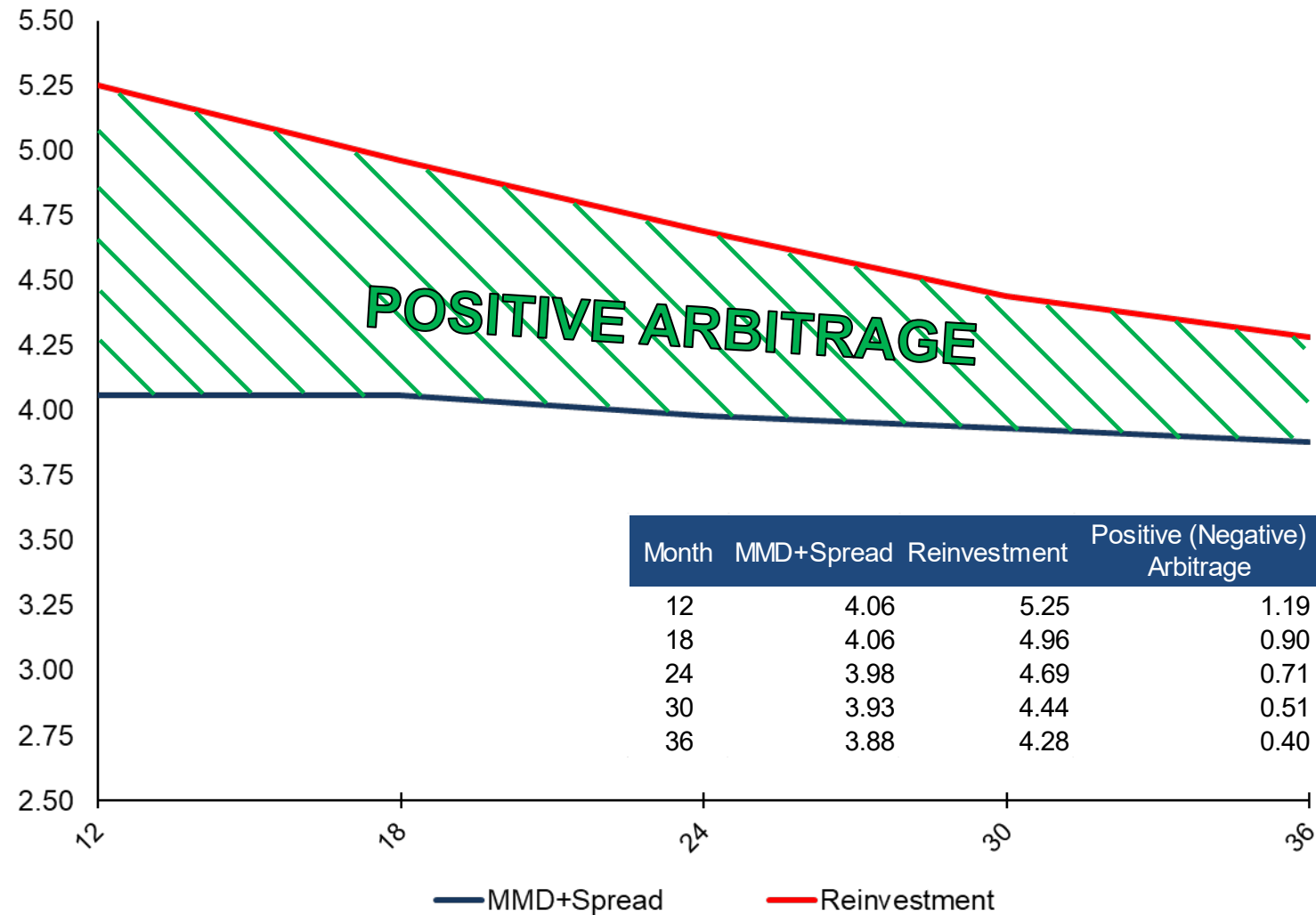
Source: Bloomberg, Thomson Reuters
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2-Year Short-Term Yield Curves (as of 6/22/2023)



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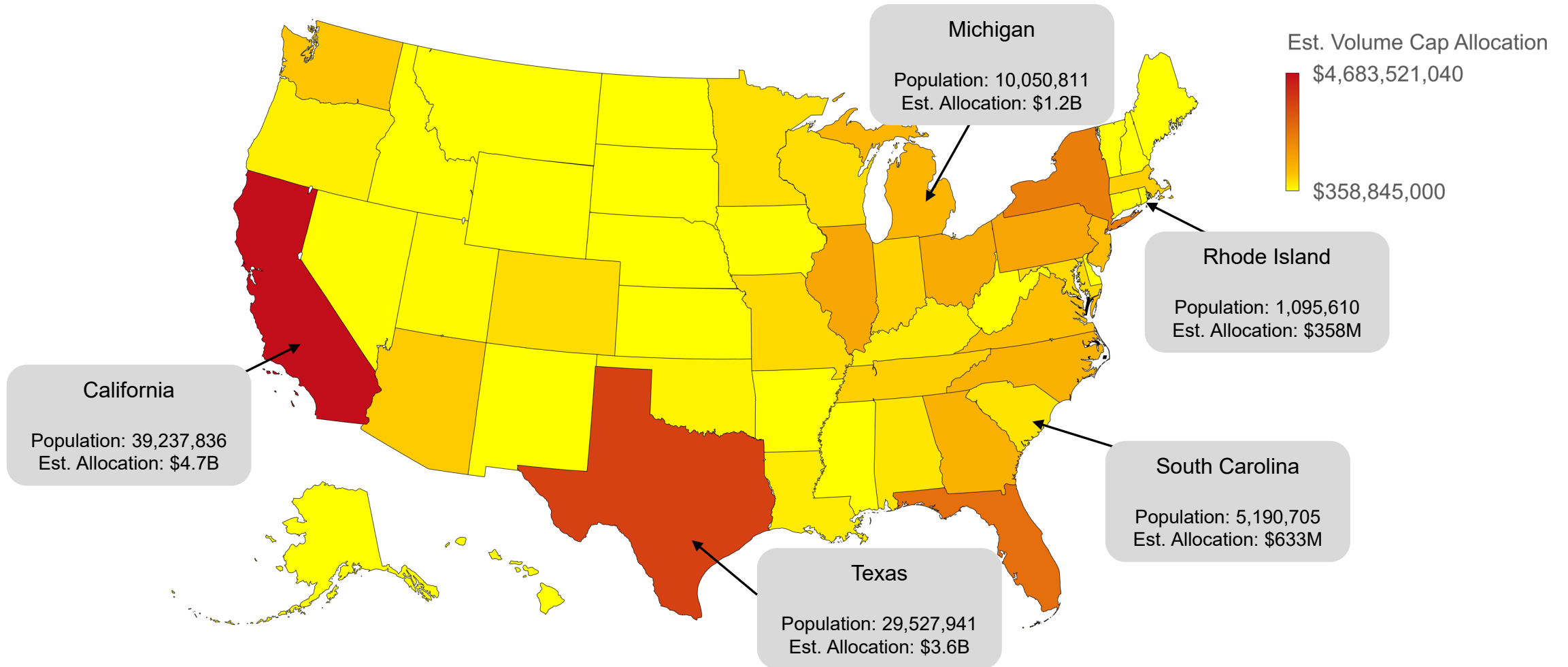
Short-Term Rates vs. Reinvestment Rates – 12 to 36 Months



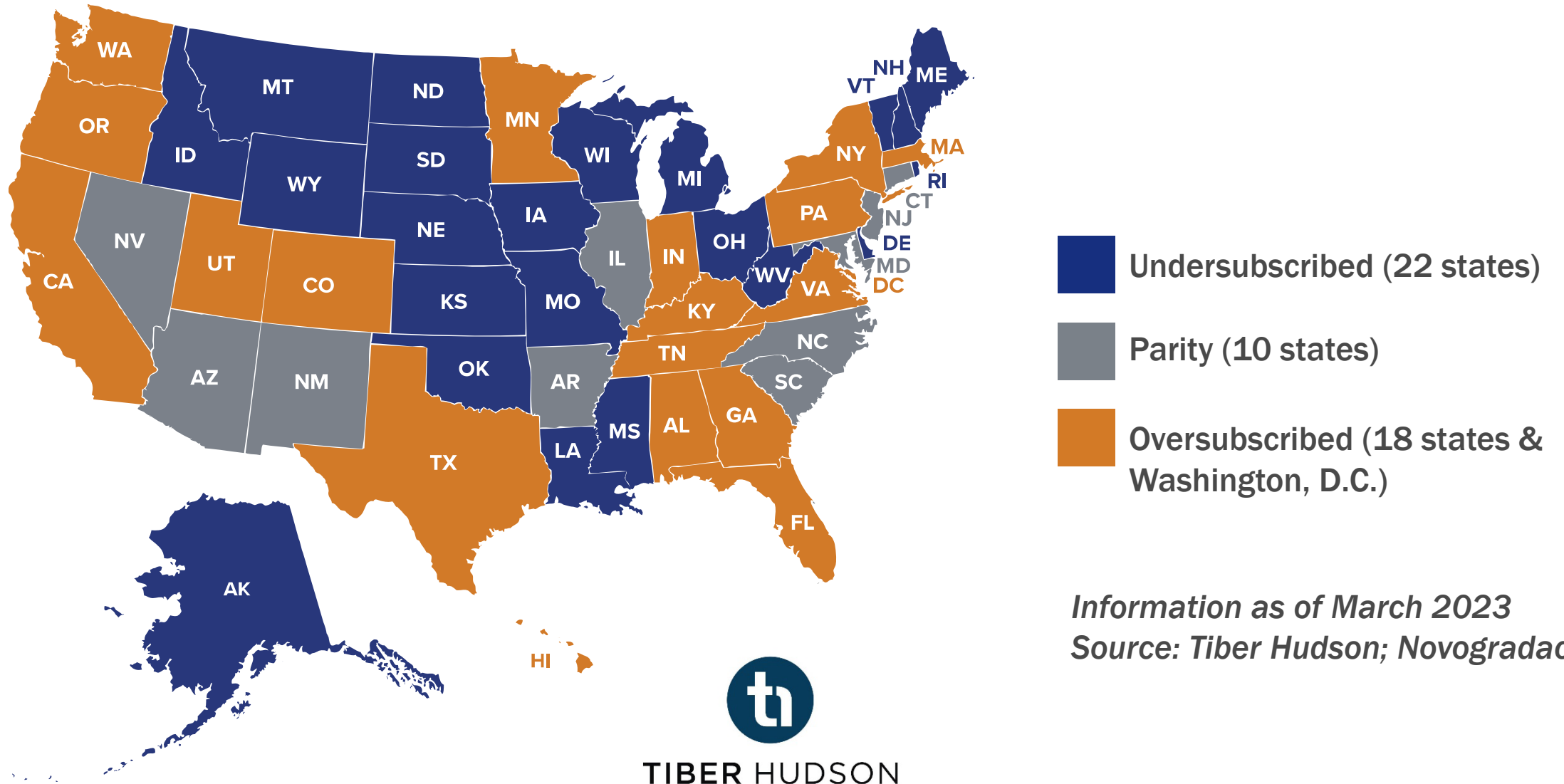
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Private Activity Volume Cap Allocation By State

*2023 Volume Cap: \$120 per capita or
\$358,845,000 minimum for small states.*



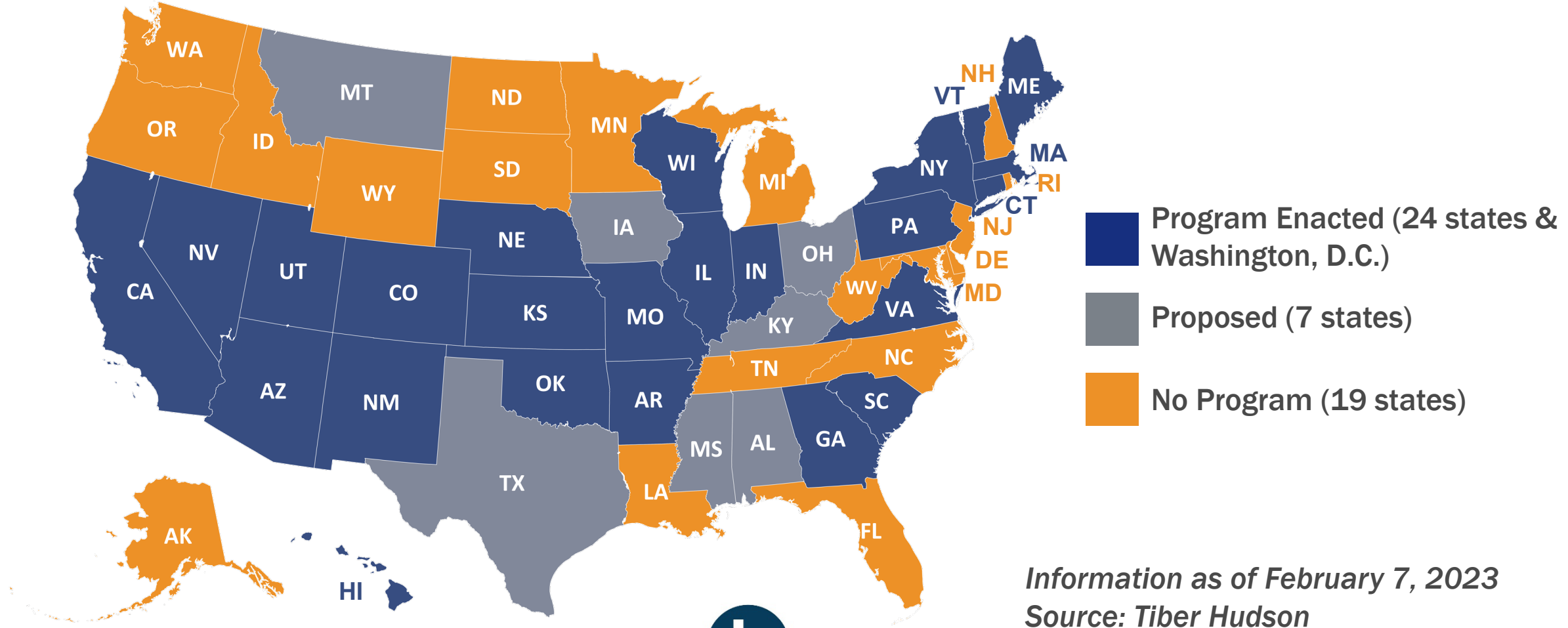
Multifamily Volume Cap Scarcity



Preserving Volume Cap

- Limit volume cap to 55-60% of aggregate basis
- Bifurcate transactions that are less than 100% affordable
- Obtain forward or multi-year volume cap allocation
- Twinning 4% and 9% deals
- Use recycled bonds for additional supportable debt above amount needed for 50% test

State Tax Credit Programs



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State Subsidy Programs

Real Estate Tax Abatement (varies by jurisdiction)

- Non-profit ownership
- Local urban renewal designation
- Certain forms of local debt

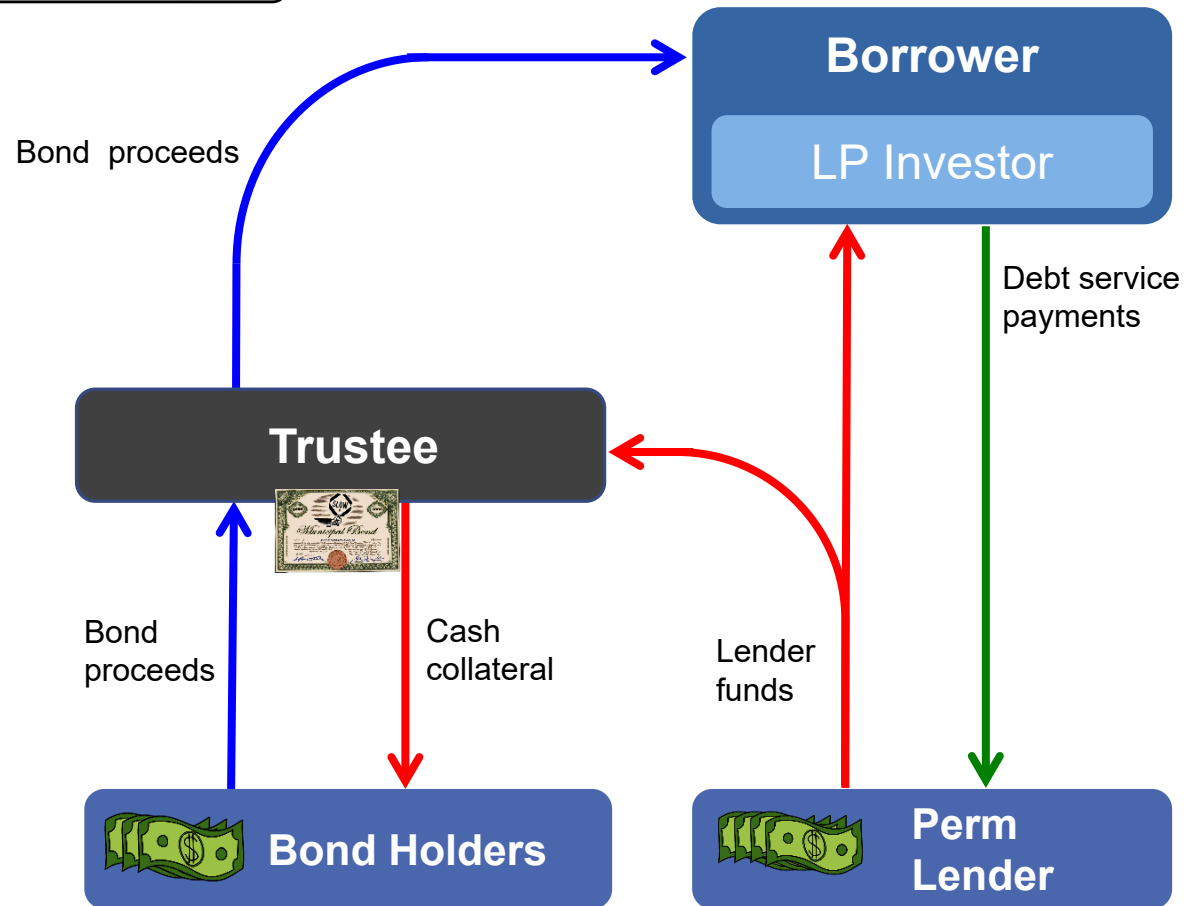
State and Local Subsidy Programs:

- Payment in Lieu of Taxes
- Soft funds

Structuring Considerations

Short Term Cash Backed Bonds – 221(d)4

Upon Placed In Service



Additional Considerations

- Subject to approval by the developer's accounting firm, bond interest can often be included in basis in addition to construction loan interest.
- Subject to bond counsel approval, a portion of tax-exempt debt can be recharacterized as a long-term tax-exempt seller note, which can often allow for the retention of excess earnings

Tax-Exempt Seller Note*

- If deal contemplates a long-term seller note or other subordinate loan as part of the capital stack, ability to potentially convert all or some to tax-exempt financing to meet 50% test by running through issuer
- Can allow blending of yields between short- and long-term bonds as fixed yield issuance
- This increases the tax-exempt bond yield above the investment yield for the term, creating excess earnings that can often be retained instead of being rebated to the IRS

**Subject to bond counsel approval*

Case Study: VA Park Shirlington

Project Overview

Project Type	Acq/Rehab
Mortgage Lender	National Bank
Issuer	IDA of Arlington County
Location	Arlington, Virginia
Tax-Exempt Allocation	\$75,800,000
Maturity Date	30 Months
Units	294



Case Study: VA Park Shirlington

Under the typical short-term bond structure, pricing would have been:

Tax-Exempt Proceeds:	\$75,800,000
Term Length:	30 Months
Short Term Bond Yield:	3.40%

Current market yields would generate roughly \$675,000 in positive arbitrage, which under the traditional short-term structure would need to be returned to the IRS:

Tax-Exempt Bond Yield	3.40%
Reinvestment Yield:	3.75%
Est. Excess Earnings:	\$675,000
Est. Retainable Earnings:	\$0

Case Study: VA Park Shirlington

Instead of keeping 100% of the bond allocation as tax-exempt short-term bonds, \$6mm was recategorized as a long-term tax-exempt seller note:

	Short Term Bonds	Tax-Exempt Seller Note
Tax-Exempt Amount:	\$69,800,000	\$6,000,000
Term Length:	30 Months	42 Years
Yield:	3.40%	5.00%

By recategorizing a portion of the tax-exempt debt, the blended bond yield increases to 4.00%. This now exceeds the investment yield, so excess earnings in the amount of \$650,000 can be retained.

	Original Structure	With Seller Note
Tax-Exempt Bond Yield	3.40%	4.00%
Reinvestment Yield:	3.75%	3.75%
Est. Excess Earnings:	\$675,000	\$650,000
Est. Retainable Earnings:	\$0	\$650,000

Secondary Financing Sources



Different Secondary Financing Options

Some of the most common options



HOME LOANS



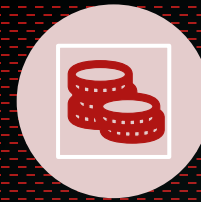
NATIONAL
HOUSING
TRUST FUNDS
(NHTF)



STATE/LOCAL
FUNDS-
LOANS



COMMUNITY
DEVELOPMENT
BLOCK GRANTS
(CDBG)



FHLB AHP
GRANTS



DEFERRED
DEVELOPER
FEE

Different Secondary Financing Options

Some of the other options to bridge the GAP



Other Tax Credits (State, Historic, Solar, etc.)



Seller Notes



Tax Abatement



HAP Contract



Increase to RD Rental Assistance



Other Ways????

Case #1 RD 515/538 Rehab

L.P. Equity (Tax Credits)		\$ 5,873,213
GP Contribution		\$
City Waived Fees		\$
State Historic Credits		\$
Total L.P. Equity:		\$ 5,873,213
First Mortgage USDA 538 Loan		\$ 1,000,000
USDA 515 2nd Mortgage		\$ 1,071,603
RDA 2nd Mortgage		\$ -
AHP Grant		\$ -
Seller Note		\$ 150,000
Deferred Developer fee		\$ 101,611
Total Sources:		\$ 8,196,427

Case #2 RD 515/538 Rehab

L.P. Equity (Tax Credits)		\$ 3,537,048
Solar Equity		\$
GP contribution		\$
Total L.P. Equity:		\$ 3,537,048
1st Mortgage USDA 538 Loan		\$ 4,000,000
USDA 515 2nd Mortgage		\$ 1,145,519
HOME Loan		\$ 460,000
Deferred Developer Fee		\$ 389,203
Reserves available for rehab		\$ 38,500
Total Sources:		\$ 9,570,270

Case #3 New Construction RD 538

L.P. Equity (Tax Credits)		\$ 8,019,182
GP Contribution		\$
City Waived Fees		\$
State Historic Credits		\$
Total L.P. Equity:		\$ 8,019,182
First Mortgage USDA 538 Loan		\$ 3,100,000
RD 514/516 Farm Labor		\$ 6,500,000
NHTF 2nd Mortgage		\$ 480,000
Local County Loan		\$ 857,000
Replacement Reserves		
Deferred Developer fee		\$ 672,697
Total Sources:		\$ 19,628,879

Case #4 New Construction RD 538

L.P. Equity (Tax Credits)	\$	10,220,828
GP Equity	\$	100
Total L.P. Equity:	\$	10,220,928
First Mortgage USDA 538 Loan	\$	2,400,000
State Development Fund 2nd Mortgage	\$	500,000
City RDA 2nd Mortgage	\$	298,000
Conversion Reserve	\$	280,605
Solar Credits		
Deferred Developer fee	\$	330,732
Total Sources:	\$	14,030,265

Case #5 New Construction RD 538

L.P. Equity (Tax Credits)		\$3,471,096
GP Equity		\$511
Other		
Total L.P. Equity:		\$3,471,607
First Mortgage USDA 538 Loan		\$590,000
CDBG Subordinate Loan		\$6,200,000
Subordinate Loan	\$	
Transfer of Reserves		
Deferred Developer Fee		\$20,414
Total Sources:		\$10,282,021

Attachment A

The items numbered below correspond to Attachment 7-B-1 Transfer Application Documents.
All items numbered below and all comments provided below must be addressed in their entirety.

Description	Comment
6. Current Preliminary Title Report. [7 CFR 3560.406.(d)(13)]. May be omitted for Deceased Borrower transfers (Paragraph 7.5 D.)	
12. Market Value Appraisal "Prospective Market Value, Subject to Restricted Rents within 7 CFR 3560.752 (b) (1) (i)". Rural Development staff will use this appraisal in order to determine security value. See HB-1-3560, Chapter 7 and Attachment 7-C for appraisal guidance.	Appraisal review in process.
13. Market Value Appraisal – "Market Value, within 7 CFR 3560.752 (b)(1)(ii) with any current restrictions or prohibitions currently existing on the property taken into consideration"; or "Market Value with 7 CFR 3560.752 (b)(1)(ii) Premised upon a Hypothetical Condition As-If Unsubsidized Conventional Housing." This appraisal establishes a value for used in analyzing the Rural Development's limitations on sale price and equity pay-out. See HB-1-3560, Chapter 7 and Attachment 7-C for appraisal guidance.	Appraisal review in process.
19. Application for Funding. Any application submitted by the purchaser to the proposed funder.	
21. Environmental Information. Any environmental reports or analyses submitted by the purchaser to the proposed funder.	Phase I report rec'd Review in process
22. Commitment Letter or Equivalent (if applicable). Commitment letters may be conditional at the time of application. For LIHTC/TCAP/TCEP funding, provide a copy of the following: the reservation letter, any subsequent correspondence from the state allocating agency, and any Letter of Intent or similar correspondence from the proposed equity investor describing terms and conditions of its proposed investment. Before the transaction may be closed, the following will be required:	
22A. Commitment Letter	
22B. Documentation that any conditions in the commitment letter have been satisfied.	
26. Purchaser's Resume. May be omitted for Deceased Borrower transfers (Paragraph 7.5 D.).	
26A. Proposed organizational structure.	
30. Purchaser's Financial Statements. May be omitted for Deceased Borrower transfers (Paragraph 7.5 D). Current financial statements for:	
30B. Each proposed principal.	
30D. Attachment 7-B-3, MFH Transfer & Assumption Certification for Financial Statements, must be included with all financial statements.	
31. Credit Report Fees. May be omitted for Deceased Borrower transfers (Paragraph 7.5 D). Purchaser's check, made out to USDA, for the required credit reports obtained initially as part of the transfer application and subsequently for any additional credit reports necessary prior to closing to verify the applicant's continued eligibility for participation in the transfer Contact your local Rural Development Office to verify what the current credit reports fees are.	
31A. The purchaser.	
31C. Each managing member of a purchaser that is an LLC, and spouse.	
31D. Each other partner/member who will have a 10 percent or greater interest.	
32. Attorney Certification of Eligible U.S. Citizenship/Qualified Alien Status. The purchaser's attorney must review all applicable evidence to verify U.S. citizenship and/or qualified alien status, must certify that the Agency's U.S. citizenship and/or qualified alien status eligibility requirements are met by each proposed principal applicant, and must submit the certification for Agency review.	
33. Management Plan. The purchaser may satisfy this requirement by accepting the existing Rural Development approved management plan and lease and occupancy rules of the seller. The management plan should include:	
35. Management Certification. Form RD 3560-13. Required for all transfers, each time a management agreement or management plan is executed.	
36. Affirmative Fair Housing Marketing Plan. Form HUD 935.2A. May be omitted for Deceased Borrower transfers (Paragraph 7.5 D).	
37. Purchaser's Organizational Documents. May be omitted for purchasers who are individuals. If the Transferee is an entity that has not yet been formed, draft documents may be submitted. The submission must include all amendments.	
37A. Purchaser is a corporation: provide the charter, articles of incorporation and bylaws, or equivalent.	Individual reviews will take place once overall review is complete by OGC
37E. The documents shall show that the corporation, partnership or trust is authorized to operate the property and to execute and be bound by the Regulatory Agreement.	Individual reviews will take place once overall review is complete by OGC
37F. The documents (or minutes of meetings, as applicable) should establish clearly the authority of the persons executing the Regulatory Agreement and other documents for the Transferee.	Individual reviews will take place once overall review is complete by OGC
38. Attorney Certification. Letter from the purchaser's attorney certifying the legal sufficiency of the organizational documents. The attorney must certify:	Individual reviews will take place once overall review is complete by OGC
39. Assurance Agreement. Form RD 400-4. Certifying civil rights compliance.	
40. Equal Opportunity Agreement. Form RD 400-1.	
Upfront Construction Documents	
UEI/Tax ID Number	

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