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Leveraging Tax Exempt Bonds for New Construction

NH&RA Annual Meeting

FEBRUARY 27, 2019

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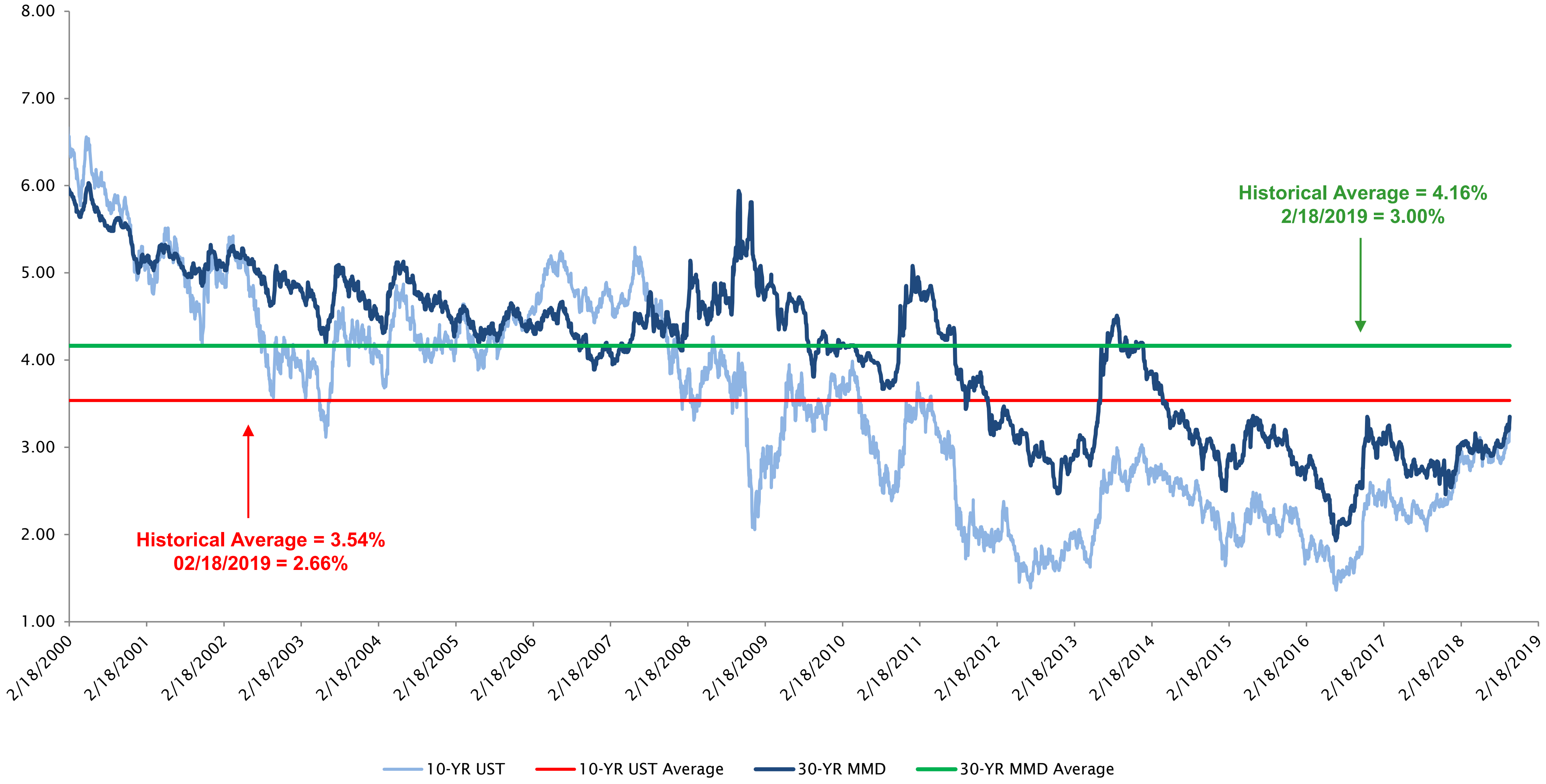
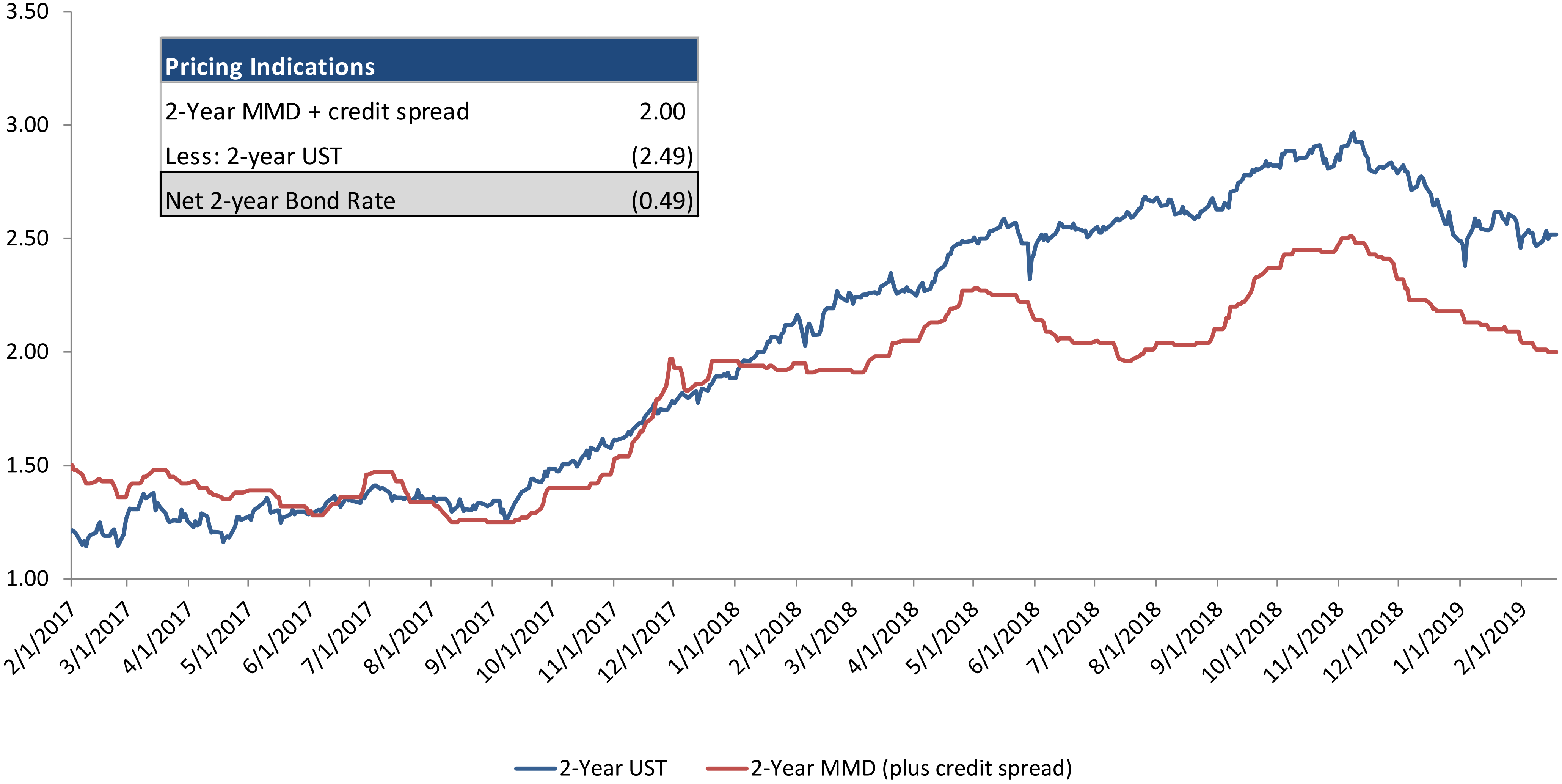
Long Term Yield Curves (as of 02/18/19)



Source: Bloomberg. Thomson Reuters
Reflects market conditions as of February 18, 2019
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

Short Term Yield Curve (as of 02/18/19)



Pricing Indications	
2-Year MMD + credit spread	2.00
Less: 2-year UST	(2.49)
Net 2-year Bond Rate	(0.49)

Source: Bloomberg. Thomson Reuters
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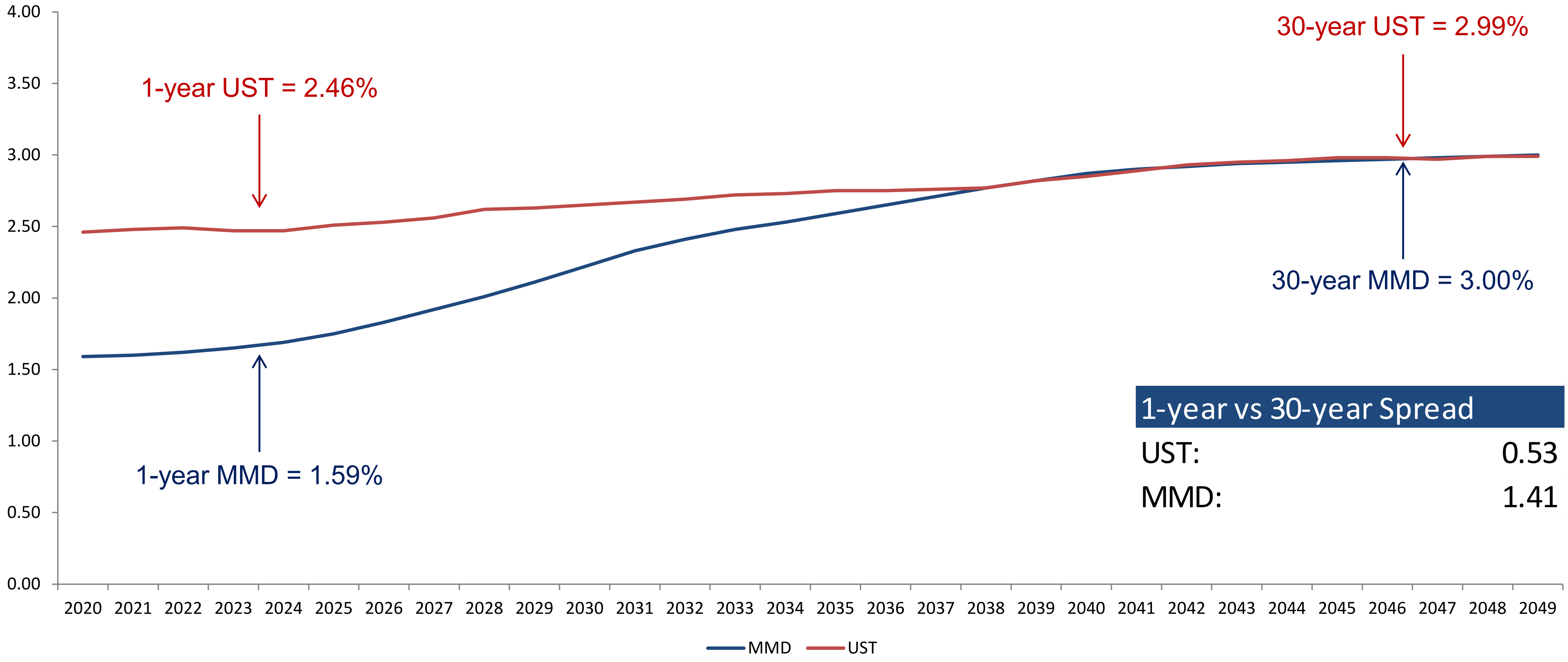
Historically Flat Yield Curve (as of 02/18/19)



1-year vs 30-year Spread	
UST:	0.53
MMD:	1.41

Source: Bloomberg. Thomson Reuters
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TAX EXEMPT MULTIFAMILY HOUSING FINANCINGS FOR NEW CONSTRUCTION

- Short Term Cash Backed Bonds with FHA/GNMA
- Freddie Mac TEL/New Cash Backed Forward
- Fannie Mae – M-TEM / M-TEB
- FHA Risk Share - 542(c)

FHA/GNMA MAP LOANS

- 40-year amortization and term (plus construction period)
- Integrated construction & permanent financing
- Non-recourse
- No new underwriting at “conversion” to permanent.
- New construction/sub rehab requires Davis Bacon wages.
- 6-9+ Months for closing
- 4.50%-4.75% mortgage rates (plus 0.25% MIP for affordable deals)
- Combined with short term bonds to qualify for 4% tax credits

Taxable FHA Loans vs Long Term Tax Exempt Bonds

Taxable FHA/GNMA Market continues to deliver favorable all in mortgage rates.

vs.

Tax-Exempt Long-Term Bonds Backed by GNMAs are still a more costly execution.

Advantages of Taxable Execution:

- **Lower mortgage rate: resulting in additional loan proceeds and/or increased ongoing project cashflow.**
- **Reduced Costs: Lower negative arbitrage cost.**

4% Low Income Housing Tax Credits: The 50% Test

With today's low taxable loan rates, why not just borrow funds in the taxable market?

Reason: Need Bonds to qualify for 4% Low Income Housing Tax Credits (at least 50% of aggregate basis of the building and land must be financed with tax exempt bond proceeds).

Benefits of 4% Tax Credits: Provides a significant (~30% or higher) additional source of funds for affordable housing transactions.

SHORT TERM CASH BACKED BONDS

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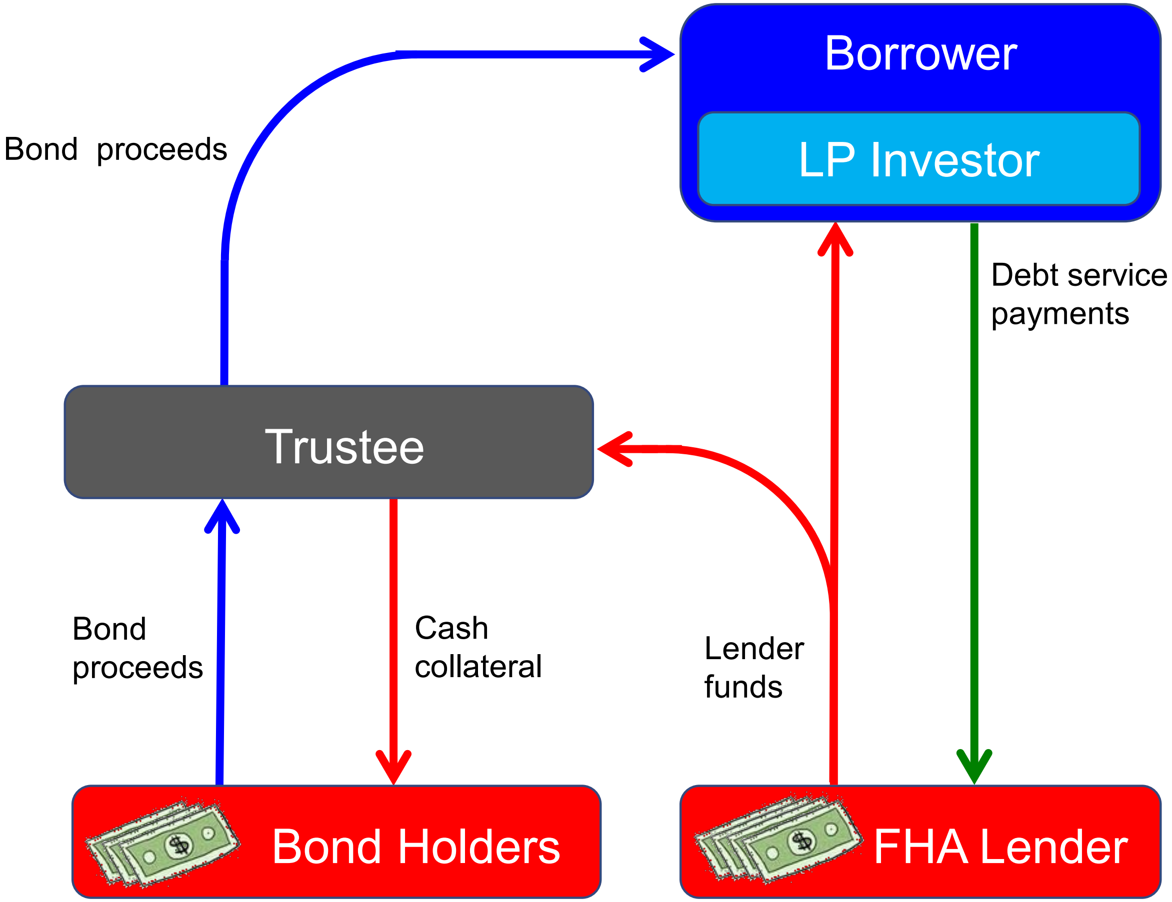


FHA Loan >
50% Bonds

SHORT TERM CASH BACKED BONDS

Bond Amount to meet 50% test < Taxable FHA Loan Amount (see prior slide): No additional collateral needed!

Bond Amount to meet 50% test > Taxable FHA Loan Amount: Need other collateral sources of funds

Example Sources and Uses

Short-Term Cash-Collateralized Bonds with Taxable GNMA Sale	
Sources	
FHA Loan Funds	$9.0 M
Bond Proceeds[1]	7.0 M
4% Tax Credit Equity	3.5 M
Deferred Developer Fee	0.0 M
Subordinate Financing	0.5 M
Total Sources	**20.0 M**

Uses	
Redemption of Bonds	$7.0 M
Acquisition	8.0 M
Rehabilitation	3.0 M
Developer Fee	1.0 M
Financing Costs + Soft Costs + Reserves	1.0 M
Total Uses	**20.0 M**

(1) $7 million sized on 50% test ($13 million total costs)

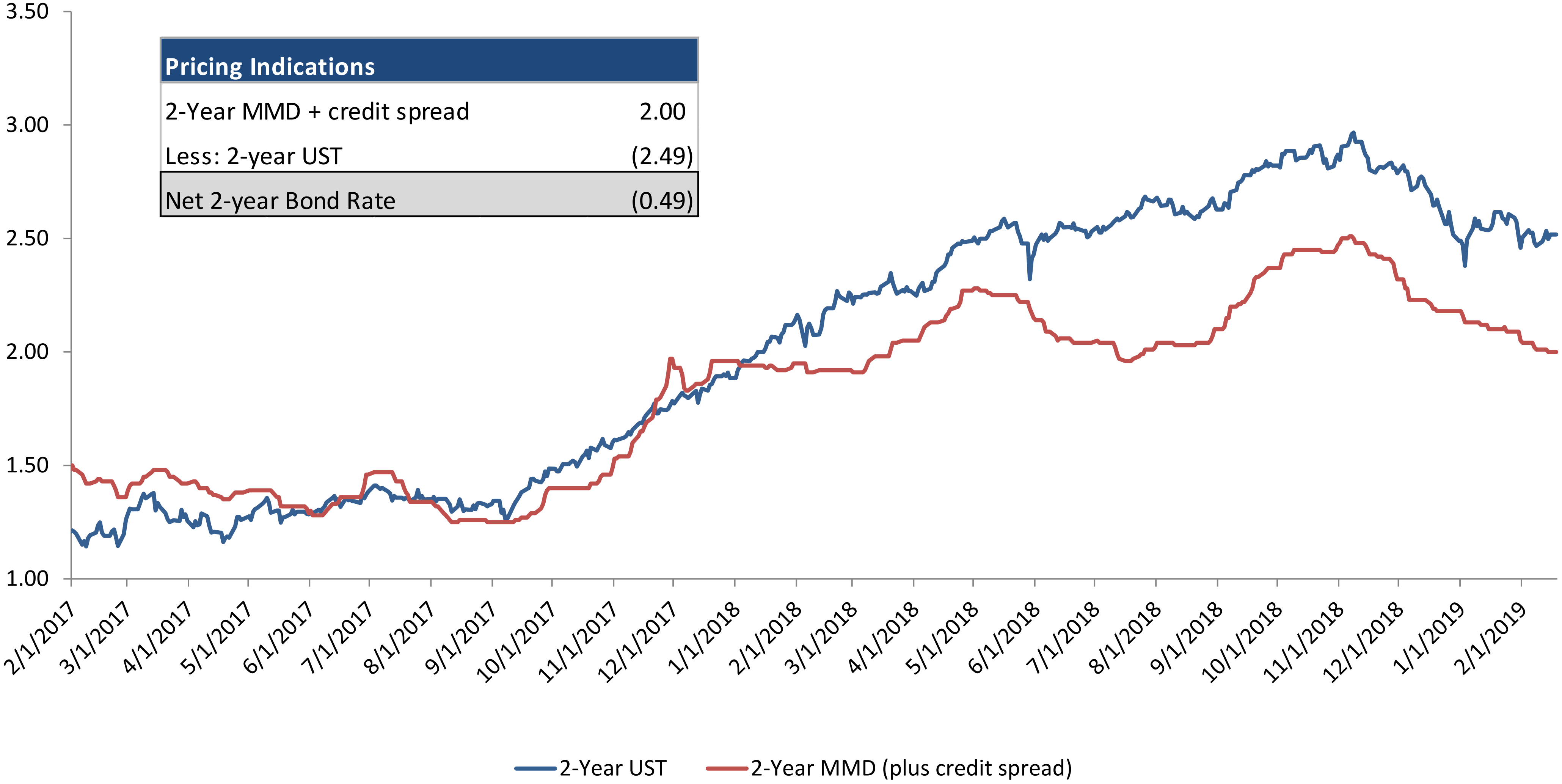
OTHER COST SAVING FEATURES/OPTIONS

Methods to reduce transaction costs:

- Pooled financings
- No long term bond related fees
- Reduced or <u>no</u> net interest cost on bonds

Short Term Yield Curve (as of 02/18/19)

Pricing Indications	
2-Year MMD + credit spread	2.00
Less: 2-year UST	(2.49)
Net 2-year Bond Rate	(0.49)



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NEGATIVE/POSITIVE ARBITRAGE

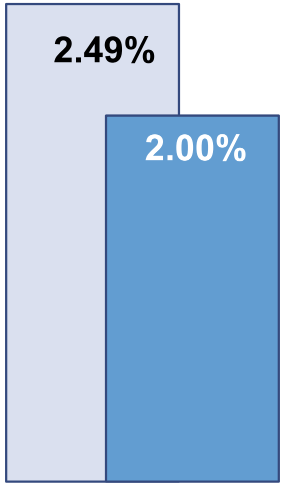
Trustee

Treasury Investment

- Cash collateral can be invested in treasury while held with the Trustee

Bond Holders

- Bondholders are receiving (tax exempt) interest while bonds are outstanding



49 BPS Positive Arbitrage
(Needs to go back to IRS)

Avg Investment Yield

Bond Rate

Costs of the Short Term Bond Deal

Issuer Fees*:	0.10% - 3.00%
Bond Counsel*:	$35,000 - $100,000
Underwriter's Fee:	0.50% - 1.00%
Underwriter's Counsel:	$30,000 - $50,000
Miscellaneous:	$10,000 - $20,000
Negative Arbitrage*:	ZERO

Timing of the Short Term Bond Deal

Bond Application/Volume Cap/Initial Approval

- As soon as possible

Document Preparations and Review

- Around Submission of FHA Loan App

Bond Pricing

- ~2 weeks before Closing

Pre-close/Close

- Simultaneous with FHA Loan closing

Case Study: Ainger Place — Washington, DC

Case Study: Ainger Place — Washington, DC

- 100% affordable housing project in Ward 8
- 34 one-BR, 30 two-BR and 8 three-BR units (72 total)
- Targeting at or below 50% AMI. Also incorporates 8 permanent supportive housing units for women at risk of homelessness
- $29.3M development
- $13.75M bond allocation from DCHFA, $10.1M in 4% LIHTC equity, $5.95M HUD 221d4 loan, $10.69M DHCD Housing Production Trust Fund loan and $400K seller note
- Interest on both FHA loan and Bonds includable in basis through PIS
- ~$550K in earnings on short term investment (bond proceeds)

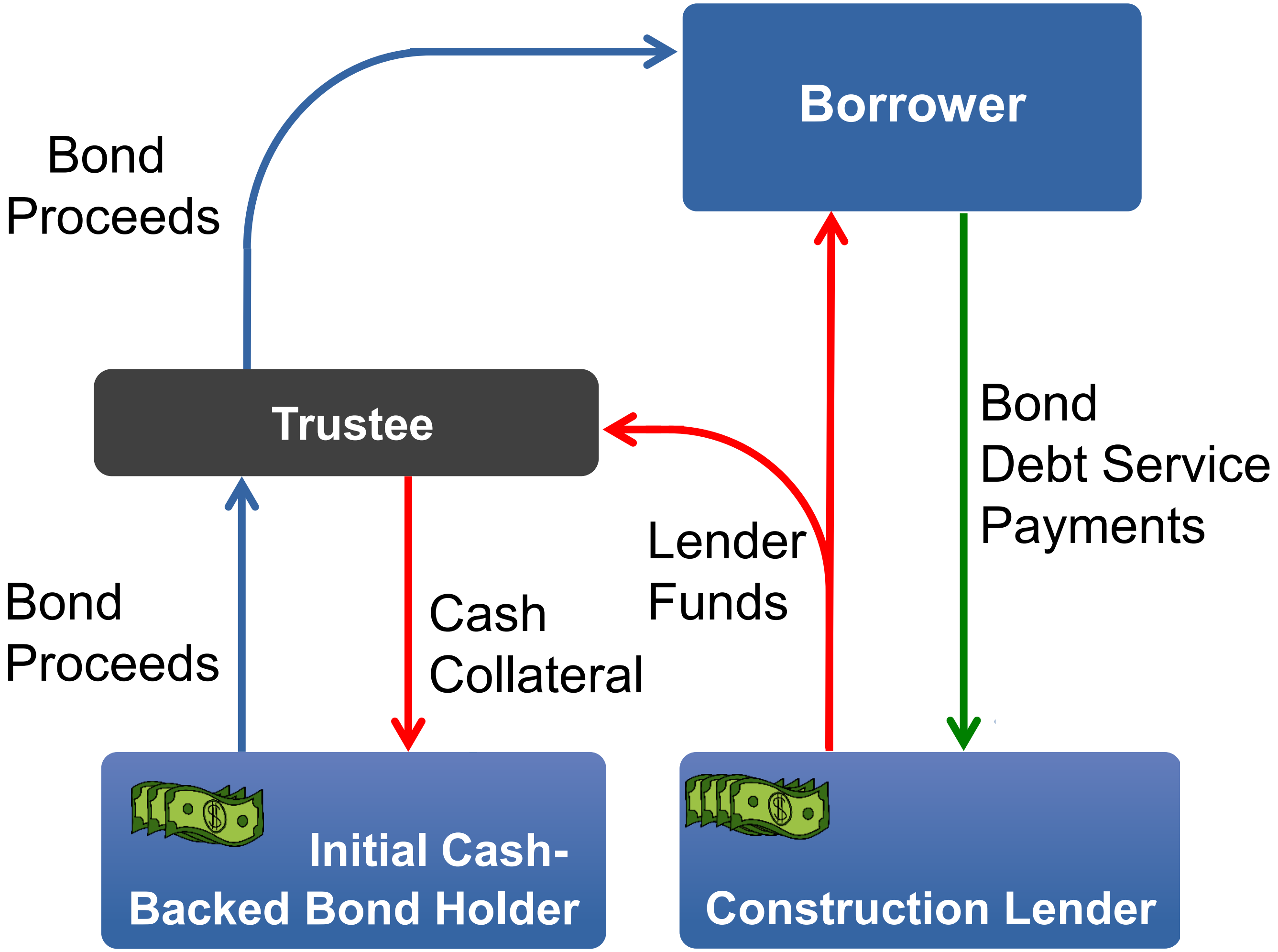
FREDDIE MAC FORWARD TAX EXEMPT LOAN – Traditional Structure

- **Construction Bank** (the "Initial" Funding Lender), funds the loan on a drawn down basis and takes the real estate risk Pre-Conversion.
- At Conversion, the tax exempt loan is sold to the Freddie Mac Seller/Servicer, who then sells it to Freddie Mac several weeks thereafter.
- New structure developed by **Tiber Hudson** is now available to further increase sources and reduce certain costs (see next slide)

Est. Construction/Perm Interest Rate Stack

Bond Rate – Construction (VR): LIBOR + 2.50	**4.75%**
Bond Rate – Permanent (FR): 10-year Treasury + 3.00	**5.00%**

CASH BACKED FORWARD



CASH BACKED FORWARD

Advantages:	**Est. $20 Million Bond Deal**
▪ Positive Earnings During Cash Backed Mode*:	$200,000 (24 mo.)
▪ Additional Equity:	$210,000 (18 mo.)
▪ Allows Equity Investor to also serve as Construction Lender without certain tax implications	
▪ If Bonds > Perm Loan, allows other funds to be used as collateral (reduced construction loan)	
▪ In Texas, significantly reduces interest costs on construction loan due to draw down structure	
Disadvantages:	
▪ Additional Costs of Issuance for Cash Backed Bonds:	$130,000 (est)
▪ Construction Loan is Taxable (if not already due to relationship of parties)	

Case Study: Mission Trail — San Marcos, TX

Case Study: Mission Trail — San Marcos, TX

- 352-unit project, 80% LIHTC (@ 60% AMI); 90% of the units are restricted at 140% of AMI due to bond restrictions
- 80 one-BR, 128 two-BR, 112 three-BR, and 32 four-BR
- Located in rapidly growing market, with expanding manufacturing / logistic employment base and one of the largest colleges in Texas. There had not been a new LIHTC project in nearly 7 years
- Unrestricted & 140% AMI units will expanded pool of in an area where a most other residences are geared heavily toward college students.

Case Study: Mission Trail — San Marcos, TX

- Creative bond structure (first in the country) allowed for the project to be financing entirely with tax credits, TEB/hard debt, and deferred developer fee – which was reduced by over **$1 million** with new structure
- $44.2M construction loan; bonds issued by CAHFC; $15.5M in LIHTC equity; $36.6M perm take out by Freddie Mac. No soft debt.
- Closed in 145 days from bond approval

Case Study: Cooper Plaza — Camden, NJ

- Acquisition/rehabilitation
- Approximately $3.5M in rehab
- 64 total units, 32 two-BR, 32 three-BR
- 50, 60 and 70% AMI units
- Creative financing structure and supportive Issuer / partners allowed transaction to move forward with a cost effective solution
- $6.9M taxable construction loan which converts to a TE loan from NJHMFA at PIS; $3.09M perm (Freddie Mac); $4.12M LIHTC equity; $1.6M assumed 2nd mortgage; $300K Camden County Homeless Prevention loan, $3.03M seller note; $970K AHP (FHLB NY)

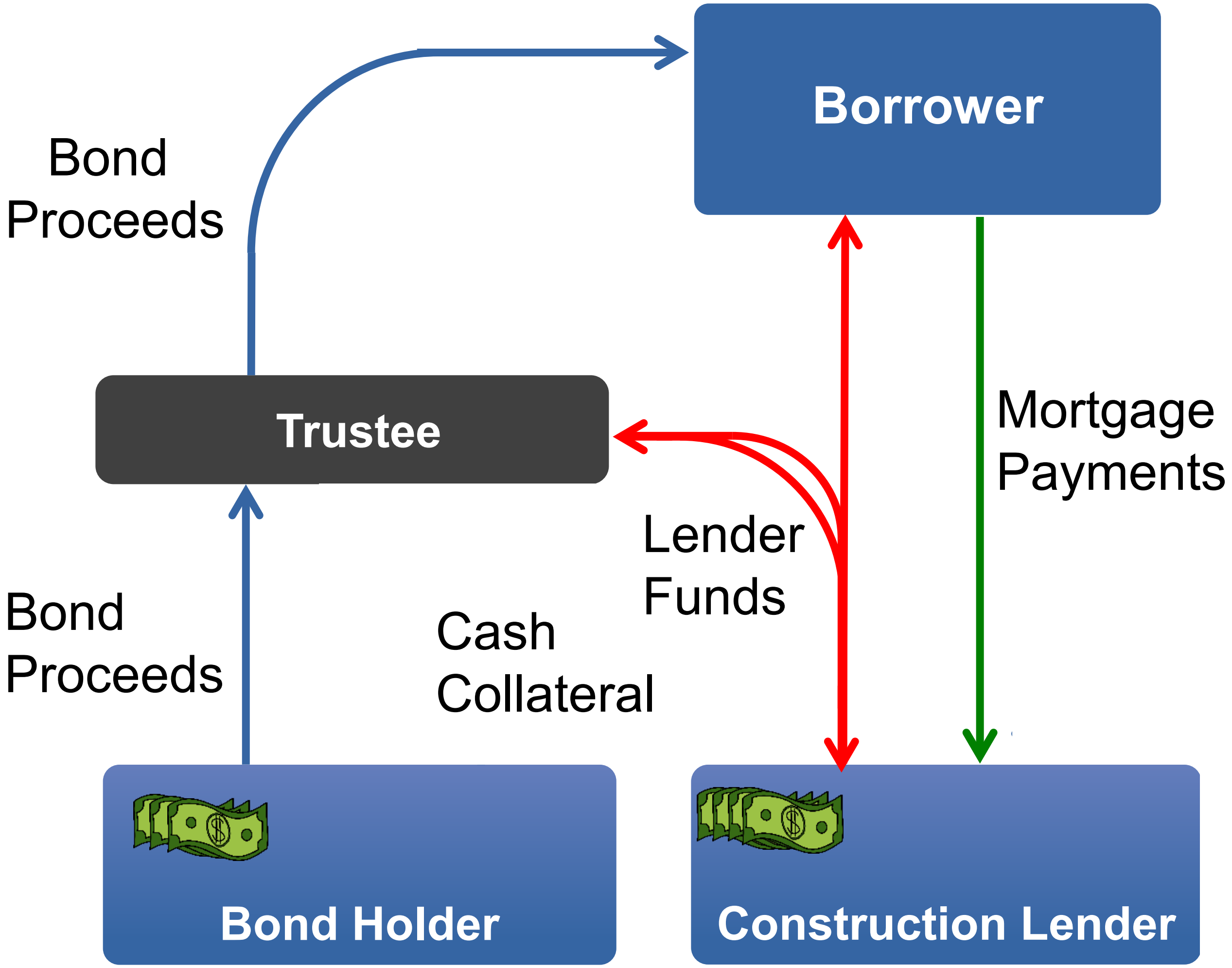
FANNIE MAE MTEB/MTEM – FORWARD MBS DELIVERY

- Fannie Mae Lender provides forward commitment
- Construction Lender needed before conversion
- Bond initially secured by cash collateral and construction loan funds and replaced at conversion with MBS (see future slide)
- Interest on Construction Loan and Gross Bond Interest includable in Eligible Basis
- Bonds rated “Aaa” or “AA+”
- Fannie to credit 75 bps for Bond related costs (paid upon conversion)
- Negative Arbitrage prior to conversion (~0.75% - 1.00% per year with investments)
- 4.40-4.60% Mortgage Rate: Often results in additional loan proceeds 3-4 X upfront costs due to low all in mortgage rate

FANNIE MAE MTEB/MTEM – FORWARD MBS DELIVERY

- Flexible interest only period; 35 year amort (40 for some deals)
- Hybrid structure (immediate/forward) available for some mod/sub rehab deals
- Can be structured with Taxable Supplemental or Tax Exempt Earn-out debt
- Total Bonds issued in the amount equal to the greater of:
  - Permanent Loan – (no other series of tax exempt bonds needed)
  - 55% of aggregate basis – (second cash backed or other series of tax exempt bonds needed).
    - Seller note, equity or other soft funds can be used to securitize cash backed bonds
    - Yields can often be blended to reduce or eliminate total negative arbitrage for the deal
    - Fully integrated bond and underwriting documents developed by **Tiber Hudson** can be utilized

FANNIE MAE FORWARD MTEB/MTEM



4% LIHTC Fannie Mae MTEB

Project: Killian Terrace

Execution: Fannie Mae 4% MTEB

Loan Amount: $23,398,000

State: South Carolina

Developer/Sponsor: Flatiron Partners

Sources	Amount ($)	$/Unit
Loan Proceeds	$ 23,398,000	$ 81,243
Deferred Developer Fee	$ 2,344,533	$ 8,141
Total Tax Credits	$ 15,030,019	$ 52,188
Total Sources	$ 40,772,552	$ 141,571
Plus: 5 Years Interest-only Savings	*$ 1,244,000*	*$ 4,319*
Total Sources incl. I/O	$ 42,016,552	$ 145,891

Uses	Amount ($)	$/Unit
Bond Costs		
Issuer Fee	$ 156,750	$ 544
Bond Counsel Fee	$ 75,000	$ 260
Underwriter's Fee	$ 209,000	$ 726
Underwriter's Counsel & Expense	$ 55,000	$ 191
Trustee Acceptance and 1st Year Annual Fee	$ 8,000	$ 28
Trustee Counsel	$ 6,000	$ 21
DAC Fee	$ 500	$ 2
Closing Administrative Expenses	$ 5,000	$ 17
Bond Rating Fee	$ 12,500	$ 43
Negative Arbitrage, net upon earnings	$ 444,125	$ 1,542
Total Bond Costs	$ 971,875	$ 3,375
LIHTC Fees	$ 19,200	$ 67
Fannie Mae Costs		
Standby Fee (0.15%/year of forward period)	$ 70,194	$ 244
Construction Lender Costs	$ 225,485	$ 783
All Other Costs		
Construction Costs	$ 31,425,365	$ 109,116
Soft Costs	$ 9,304,433	$ 32,307
Total Costs	$ 42,016,552	$ 145,891

Case Study: Jordan Downs — Los Angeles, CA

Case Study: Jordan Downs — Los Angeles, CA

- 135 units (Watts section of L.A.): 38 RAD PVBs, 95 PVBs
- 15 one-BR, 64 two-BR, 44 three-BR, 7 four-BR and 5 five-BR units
- 30, 40 and 50% AMI units (1 80%)
- $25.4M LIHTC equity; $11M taxable construction loan; $32.65M in total bonds ($16.45M MTEB + $16.2M Short Term); $16.45M Fannie Mae MTEBS at conversion; $5.4M HACLA RHF; $9.9M Cap & Trade; $2M AHSC Grant; $1.3M TCC Grant; $4.2M HACLA financing
- Mortgage Rate below 4.5%; Blended bond yield to reduce neg arb.

NEGATIVE/POSITIVE ARBITRAGE FOR FANNIE FORWARD MTEB/MTEM

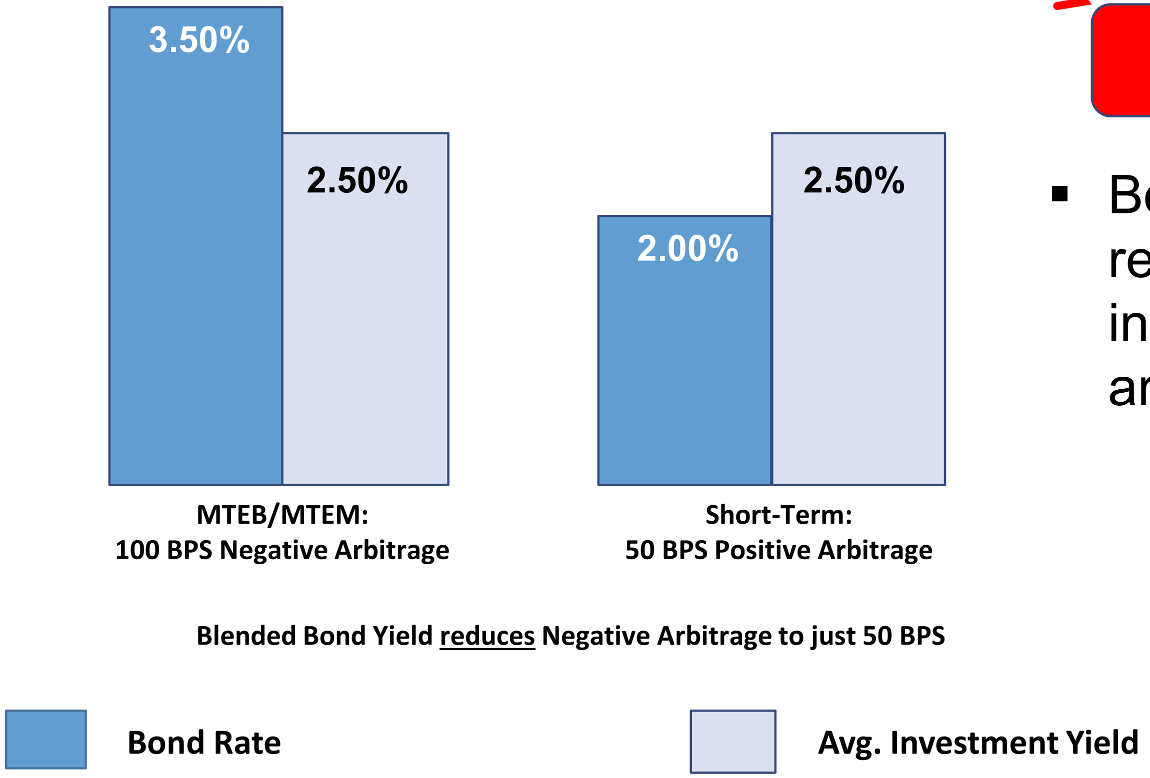
Trustee

Treasury Investment

- Cash collateral can be invested in treasury while held with the Trustee

Bondholders

- Bondholders are receiving (tax-exempt) interest while bonds are outstanding



FHA Risk Share Loan Program

- FHA insurance program under **Section 542(c)** of the Housing and Community Development Act of 1992 allows state and local HFAs to share the risk and mortgage insurance premium on multifamily housing transactions.
- Unlike FHA MAP loans (i.e. 221(d) & 223(f)) these loans are currently <u>not eligible to be "wrapped" with GNMA Securities</u>. However, p**ossible balloon after 15 years could reduce** perm loan rates by **<u>50+ basis points</u>**.
- **Construction and Permanent Financing & Reduced Costs of Issuance**: No separate construction lender is required. The HFA acts as Issuer and Lender.
- **Fast Execution Time**: 90 – 120 days. Unlike MAP loans, the HFA provides full underwriting.
- **Underwriting Terms:** Up to 90% LtV; 1.15 DSCR; 35/40 year amortization / term (balloon feature expected to be available soon); DSRF typically required.
- **Non-Recourse, Davis Bacon (depending on structure), Some Negative Arbitrage**

<u>New Const/Sub Rehab - Perm Interest Rate Stack (est.)</u>

Bond Rate:	**3.75%**
Mortgage Insurance Premium (MIP):	**0.25%***
Mortgage Spread (varies based on issuer):	**<u>0.75%</u>**
Total:	**4.75%**

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