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Mind the Gaps: Solutions for Multifamily Financing
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TIM WRANOVIX
Vice President
National Housing Group

RAYMOND JAMES

T 727.567.5671
C 615.497.4592

880 Carillon Parkway
St. Petersburg, FL 33716
Tim.Wranovix@RaymondJames.com
www.raymondjames.com

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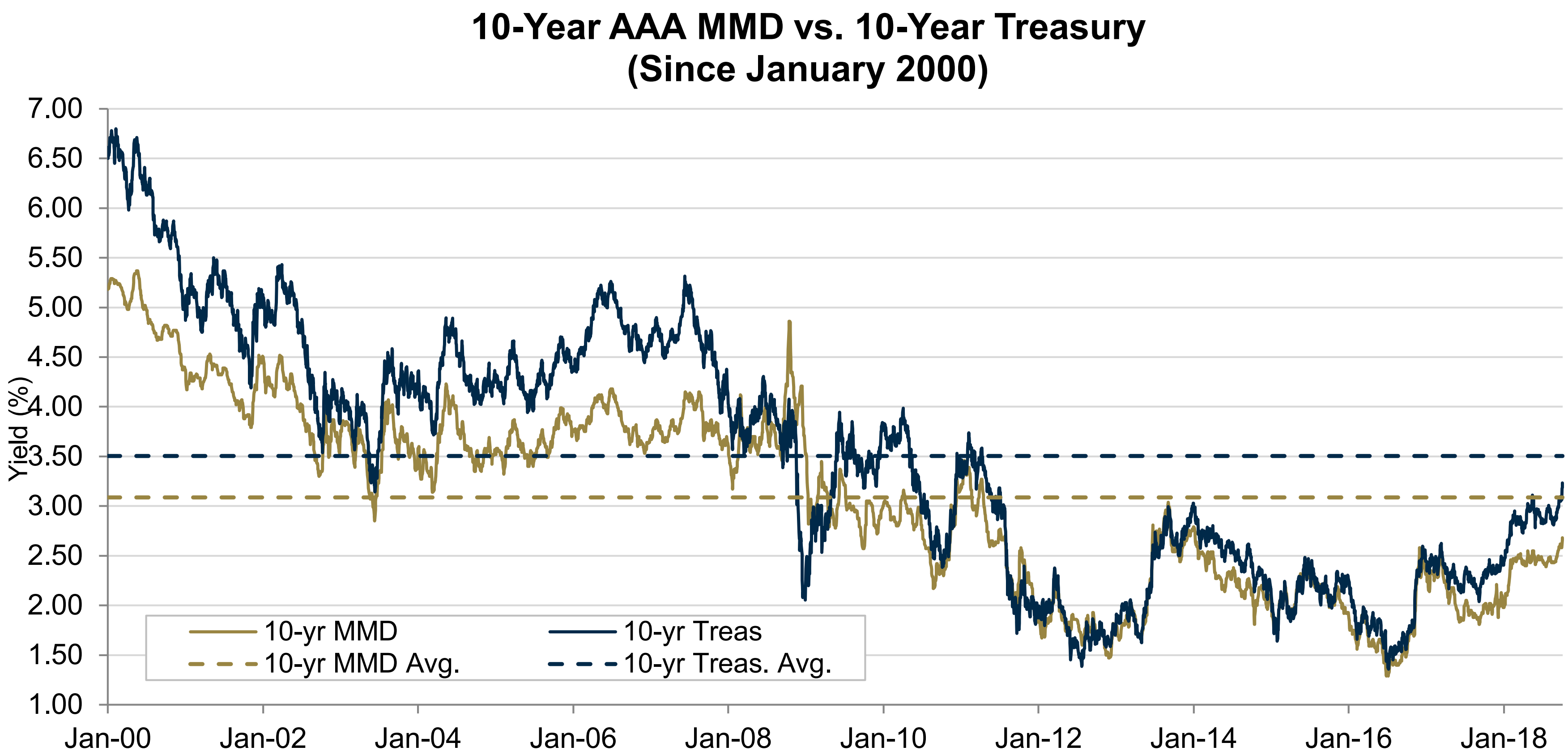
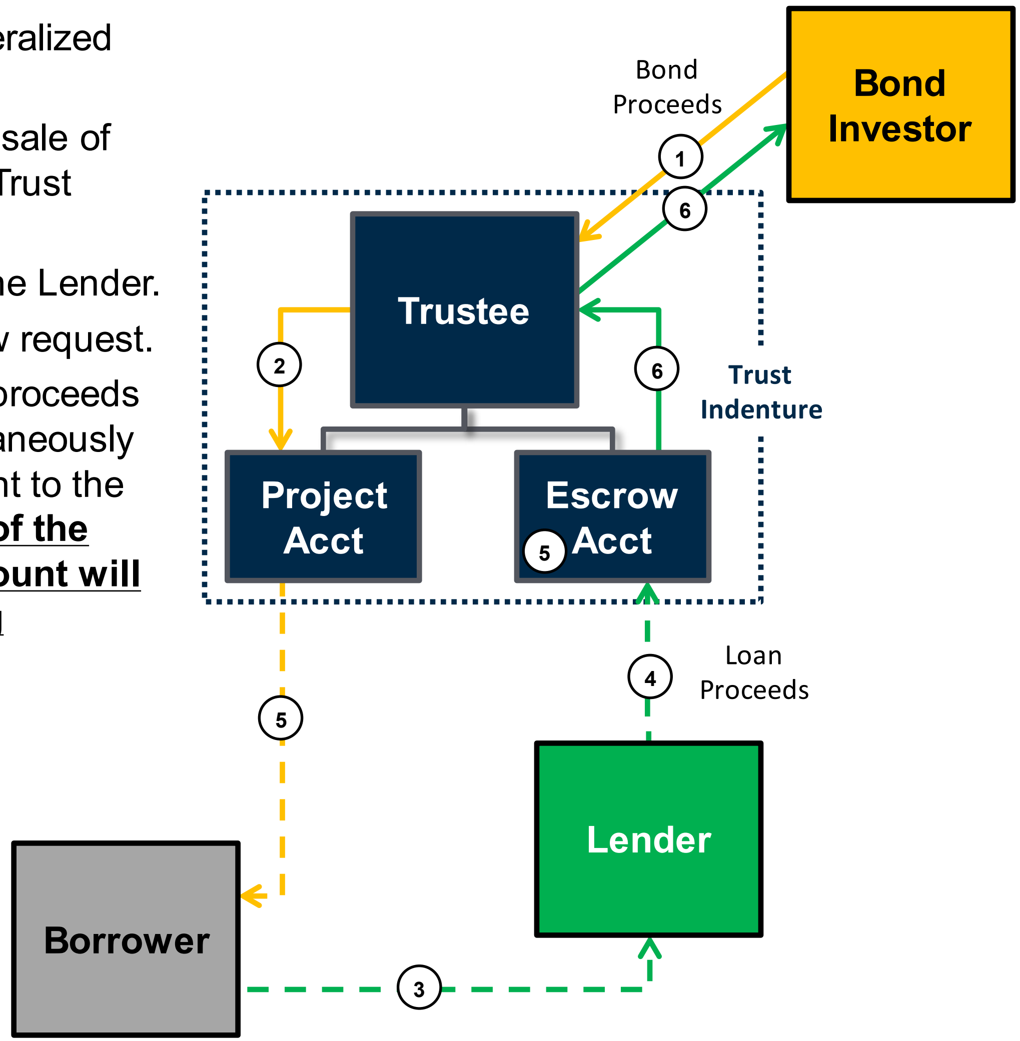

10-Year AAA MMD vs. 10-Year Treasury
(Since January 2000)
Yield (%)
7.00
6.50
6.00
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10
Jan-12
Jan-14
Jan-16
Jan-18
10-yr MMD
10-yr Treas
10-yr MMD Avg.
10-yr Treas. Avg.

COLLATERALIZED MULTIFAMILY HOUSING BONDS (“ESCROW BONDS”)

- Escrow Bonds can be used with more attractive conventional/FHA/USDA loan products to significantly reduce borrowing costs associated with multifamily projects - financed with 4% low income housing tax credits (“LIHTC”).
  - Particularly attractive for FHA/USDA loans or heavily subsidized projects with multiple layers of subsidy being contributed throughout the construction phase.
- Escrow Bonds can be used to satisfy the “50% Test” with respect to LIHTC projects using 4% credits.
- Issuance of short-term tax-exempt bonds collateralized with “AA” - “AAA” securities can assist with:
  - Increasing cash flow;
  - Reducing negative arbitrage;
  - Reducing/eliminating upfront cash needed at closing; and
  - Securing 4% Tax Credits.
- Bonds are anticipated to be rated “AA+” or higher (based on collateral) and are repaid when the Project is placed in service.
- Tax Analysis:
  - Bond proceeds used to pay qualified costs (e.g. construction).
  - Loan or another source (e.g. subsidies, tax credit bridge loan) provides fund to immediately replenish Trust Indenture, so bonds are at all times “cash collateralized”.
  - Bonds are repaid from “cash” collateral.

IS THE ADDITIONAL TIME, EFFORT AND EXPENSE (BOND COSTS OF ISSUANCE) FOR MULTIFAMILY ESCROW BONDS WORTH THE VALUE OF THE EQUITY RECEIVED THROUGH THE 4% LIHTC?

1. Bond Investor purchases the Collateralized Revenue Bonds ("CRBs").
2. Trustee deposits proceeds from the sale of CRBs in the Project Account of the Trust Indenture.
3. Borrower makes draw requests to the Lender.
4. Lender releases funds equal to draw request.
5. Trustee deposits the Lender's loan proceeds into the Escrow Account and simultaneously releases funds in the Project Account to the Borrower. **The combined balance of the Project Account and Escrow Account will never drop below the outstanding principal amount of CRBs**.
6. After the 'placed-in-service' date, the Trustee retires the CRBs with amounts held on deposit in the Escrow Account.



- Rural Housing Service (RHS) is a part of Rural Development (RD) in the U.S. Department of Agriculture (USDA).
  - Provides direct loans (serviced by USDA staff); and
  - Guarantees loans for mortgages made and serviced by commercial lenders.

- Given small size of each project financed, not uncommon for projects to be aggregated for tax-exempt bond issue.

- Primary Multifamily Programs
  - Section 515: Direct Loan Program
  - Section 538: Guarantee Program

- Direct, competitive mortgage loans to provide affordable multifamily rental housing for very low-, low-, and moderate-income families, elderly persons, and persons with disabilities.
  - Very low = below 50% AMI
  - Low = between 50% - 80% AMI
  - Moderate = capped at $5,500 above the low-income limit
- Obtaining new 515 loan is possible but harder to come by.

Loan Terms

- Up to 30 years; amortized over 50 years.
- Effective 1 percent interest rate (loans made at market rates but subsidized).

Tenants

- Tenants pays up to 30 percent of adjusted income.

Process

- Rural Development State Directors use needs criteria to establish a list of targeted communities for which applicants may request loan funds.
  - List of communities published in Notice of Funding Availability (NOFA).
  - Applications rated competitively in order to select recipients.

- Commercial lenders provide financing to developers of low-moderate income multifamily and senior developments in rural communities. Financing usually combined with LIHTC.
- Usually populations of 35,000 or less.
- Federal guarantee up to 90% LTV (up to 97% for non-profits).
- Fixed rate loan can be used for new construction or rehabilitation (min rehab of $6,500/unit).
- Primarily used for refinancing deals that already have existing 515 loans.

Loan Terms

- Min term / amortization 25 years; max term / amortization 40 years.
- Minimum 1.15 all-in debt service coverage.
- Property must contain at least 5 units.
- No Davis-Bacon wage requirements.
- Rents plus tenant paid utilities may not exceed 30% of 115% AMI, and average rent for project including utilities may not exceed 30% of 100% AMI.
- Tenant income cannot exceed 115% AMI.

Application Process

- No-cost, pre-application package (Notice of Solicitation Applications (NOSA)). USDA reviews and issues an invitation letter to submit an application for loan guarantee to lender and borrower.
- Assemble/submit application.
- If approved, USDA issues a Conditional Commitment. Timing: between 90 and 120 days.

KHC Kentucky Housing Corporation

$8,500,000
KENTUCKY HOUSING CORPORATION
MULTIFAMILY RENTAL HOUSING REVENUE BONDS
(VOLUNTEER MANAGEMENT & DEVELOPMENT PORTFOLIO)

Sources of Funds	
Subordinate Loans (USDA)	4,508,265.00
Mortgage Loans	4,627,000.00
Tax Credit Equity	4,849,264.00
Subordinate Loans (KHC)	552,000.00
Deferred Developer Fee	783,658.00
Transfer from Reserves	270,401.00
Total	15,590,588.00

Uses of Funds	
Development Costs	9,741,043.00
Acquisition – Land & Building	5,156,745.00
Costs of Issuance	313,500.00
Required Reserves	379,300.00
Total	15,590,588.00

Bond Terms	
Bond Coupon	1.20%
Initial Mandatory Tender Date	2 years
Maturity	3 years
Rating	AA+

Purpose

Finance the acquisition, rehabilitation, and equipping of 7 housing facilities (scattered site) totaling 172-units.

Unit Mix

12-56 unit projects

1-3 bedroom mix

Set Asides

100% of units at 60% AMI

- Existing Section 515 loans on each of the Projects under the Multifamily Preservation and Revitalization Demonstration Program (the “Subordinate Loans (USDA)”).
- The Borrower obtained mortgage loans from the Lender under the Rural Housing Service (“RHS”) department of the USDA Section 538 Guaranteed Rural Rental Housing Program and Section 515 Multifamily Preservation and Revitalization Demonstration Program.
  - 5 Projects received new Section 538 mortgage loans (the “Section 538 Mortgage Loans”), to which the Subordinate Loans (USDA) will be subordinated.
  - 2 Projects received new Section 515 mortgage loans (the “Section 515 Mortgage Loans”).

<u>Additional Sources of Financing</u>

- KHC’s HOME Investment Partnership Program
  - The 3 Subordinate Loans (KHC) will be funded to the Borrower on a draw by draw basis; expected to bear interest at the rate of 0%, mature on October 1, 2048, and defer repayment until maturity.
- KHC’s Equity Bridge Loans
  - Bears interest at 3.75% per annum and will be due upon the earlier of payment of the fourth Tax Credit Equity installment (anticipated to occur on October 15, 2019) or February 1, 2020. The Bridge Loan will be secured by a mortgage on the property and will be payable out of Tax Credit Equity.

Loan Details

- 4 of the existing Subordinate Loans (USDA) were assumed by the Borrower at closing, and repayment was deferred for 20 years.
- 3 of the existing Subordinate Loans (USDA) were assumed by the Borrower at closing with repayment to commence at closing on a 50-year amortization schedule at 1% interest per year.
- A Section 515 Mortgage Loan relating to one project was a new subordinate loan that bears interest at 1%, have its interest and principal deferred at closing for the first 20 years to a balloon payment, a term of 30 years, and repayment will commence at closing on a 50-year amortization schedule.
- A Section 515 Mortgage Loan relating to one project was a new subordinate loan that has a 0% interest rate, a term of 30 years, and repayment will commence at closing on a 50-year amortization schedule.
- The Section 538 Mortgage Loans relating to 5 projects bear interest at the rate of 4.30% per annum and amortize over 40 years.

Additional Details

- Tax Credit Equity of approx. $4,849,264; initial contribution at closing of $1,212,316.
- The Borrower will receive the benefit of three separate Housing Assistance Payment Contracts covering 3 of the projects, each under HUD's Rental Assistance Demonstrative ("RAD") Program. The HAP Contracts will be renewed for 20 years at closing.
- Over time, as each disbursement of loan proceeds is deposited by the Lender/Issuer into the Collateral Fund (the "Collateral Payments") as security for the Bonds, the Trustee will disburse a like amount of Bond proceeds from the Project Fund to or at the direction of the Lender or the Issuer for purposes of paying costs of the Projects, in accordance with the Loan Agreement and the Indenture.

PROJECT SUMMARY

	Subordinate Loan (USDA)	Mortgage Loan	Subordinate Loan (KHC)	Tax Credit Equity	Bridge Loan
Windhaven	$1,349,573	$1,590,000[2]	$200,000	$1,576,569	$701,170
Windhaven III	327,676	305,000[1]		304,347	154,990
Arlington Heights	295,974	273,000[2]	92,000	344,121	165,025
Garland Manor	584,264	800,000[1]		697,449	324,579
Clinton Hills	583,809	840,000[1]		572,923	188,068
Bardwell Manor	582,688	389,000[1]		590,903	251,975
Mayfield Manor	784,281	430,000[1]	260,000	762,952	339,193
Total	**$4,508,265**	**$4,627,000**	**$552,000**	**$4,849,264**	**$2,125,000**

[1]Section 538 loan
[2]Section 515 loan

OHFA
OKLAHOMA HOUSING FINANCE AGENCY

$4,000,000 OKLAHOMA HOUSING FINANCE AGENCY COLLATERALIZED REVENUE BONDS (PROGRESSIVE RURAL HOUSING APARTMENTS)

Sources of Funds	
Senior 538 Loan	2,950,000.00
Subordinate 515 Loan	2,168,841.00
Tax Credit Equity	1,744,670.00
RD Approved Reserve	750,605.00
Permanent Loan Good Faith Deposit	70,000.00
Negative Arbitrage Advance	7,213.50
Deferred Developer Fee	138,782.00
Total	7,830,111.50

Uses of Funds	
Acquisition of the Projects	3,268,841.00
Hard Rehabilitation Costs	2,750,000.00
Other Project Costs	778,226.00
Permanent Loan Good Faith Deposit	70,000.00
Deposit to Initial Deposit Account	7,213.50
Developer Fee	826,392.00
Reserves[1]	129,439.00
Total	7,830,111.50

[1] An additional $180,561 in reserves will be assigned from the current seller, for a total of $310,000 in reserves at permanent loan conversion.

Bond Terms	
Bond Coupon	0.85%
Initial Mandatory Tender Date	2 years
Maturity	2.5 years
Rating	AA+

Purpose

Finance a portion of the costs of acquiring, rehabilitating, and equipping 107 units that are spread across twenty-five buildings.

Unit Mix

8-40 unit projects

1-2 bedroom mix

Set Asides

100% of units at 60% AMI

Purpose

- Financing a portion of the costs of acquiring, rehabilitating improving and equipping of a total of 107 units that are spread across twenty-five buildings consisting of:
  - the 40-unit, 22-unit, and 9-unit multifamily apartment complexes presently known as Progressive Apartments, Villa Apartments, and The Village Apartments, respectively, located in Perry, Oklahoma (the “Perry Project”),
  - the 12-unit multifamily apartment complex presently known as Progressive Apartments, located in Morrison, Oklahoma (the “Morrison Project”),
  - the 8-unit multifamily apartment complex presently known as Progressive Apartments, located in Glencoe, Oklahoma (the “Glencoe Project”), and
  - the 16-unit multifamily apartment complex presently known as Progressive Apartments, located in Perkins, Oklahoma (the “Perkins Project”).

Subordinate Loans

- All of the Projects were encumbered by a subordinate loan made under the RHS department of the USDA Section 515 program (each, a “Subordinate Loan”).
- At closing, the Subordinate Loans were modified to provide for a 30-year term (with a 50-year amortization) and an effective interest cost of 1% per annum, after payment of an interest subsidy from the RHS.

Loans

- Construction Lender will fund a construction loan (the "Construction Loan") to the Borrower in the aggregate amount of $4,000,000*, which amounts will be paid to the Trustee, from time to time, for deposit in the Collateral Fund of the Indenture.
- The Trustee will release a like amount of proceeds of the Bonds for the payment of Project Costs.
- The Permanent Lender committed to make a permanent mortgage loan under the Rural Housing Service ("RHS") department of the USDA Section 538 Guaranteed Rural Rental Housing Loan Program (the "538 Loan") upon construction completion. The proceeds of the 538 Loan will be used to pay the Construction Loan in full.
- The obligation to repay the 538 Loan will be set forth in multiple promissory notes related to each Project, respectively (each, a "538 Note"), from the Borrower in favor of the RHS.
- Each 538 Note will be secured by a senior deed of trust against the related Project in favor of the RHS.
- The 538 Notes will have a term equal to that of the 538 Loan and will bear interest at the rate of 5.45% per annum, with annual principal and interest, not otherwise paid, due at maturity.

Additional Details

- Pursuant to the Operating Agreement of the Borrower, the funding of the LIHTCs from all members will total approximately $1,744,670*.
- The Borrower is expected to enter into a Rental Assistance Agreement with the RHS that will provide for rental subsidies to qualifying tenants in each Project.

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