

THE HFA INSTITUTE 2024

Tax-Exempt Bond Financing Seminar



National Council of
State Housing Agencies



**MRBs and
Other Federal
Homeownership
Programs**
JANUARY 10 – 12



Housing Credit
JANUARY 9 – 11



**Section 8 and
Other Federal
Multifamily
Programs**
JANUARY 10 – 12



**HOME and
Housing Trust
Fund**
JANUARY 7 – 9



DISCUSSION LEADER

CLAUDIA O'GRADY

Vice President, Multifamily Finance and Development | Utah Housing Corporation

SPEAKERS

JIM GILLESPIE

Executive Vice President | Bellwether Enterprise Real Estate Capital, LLC

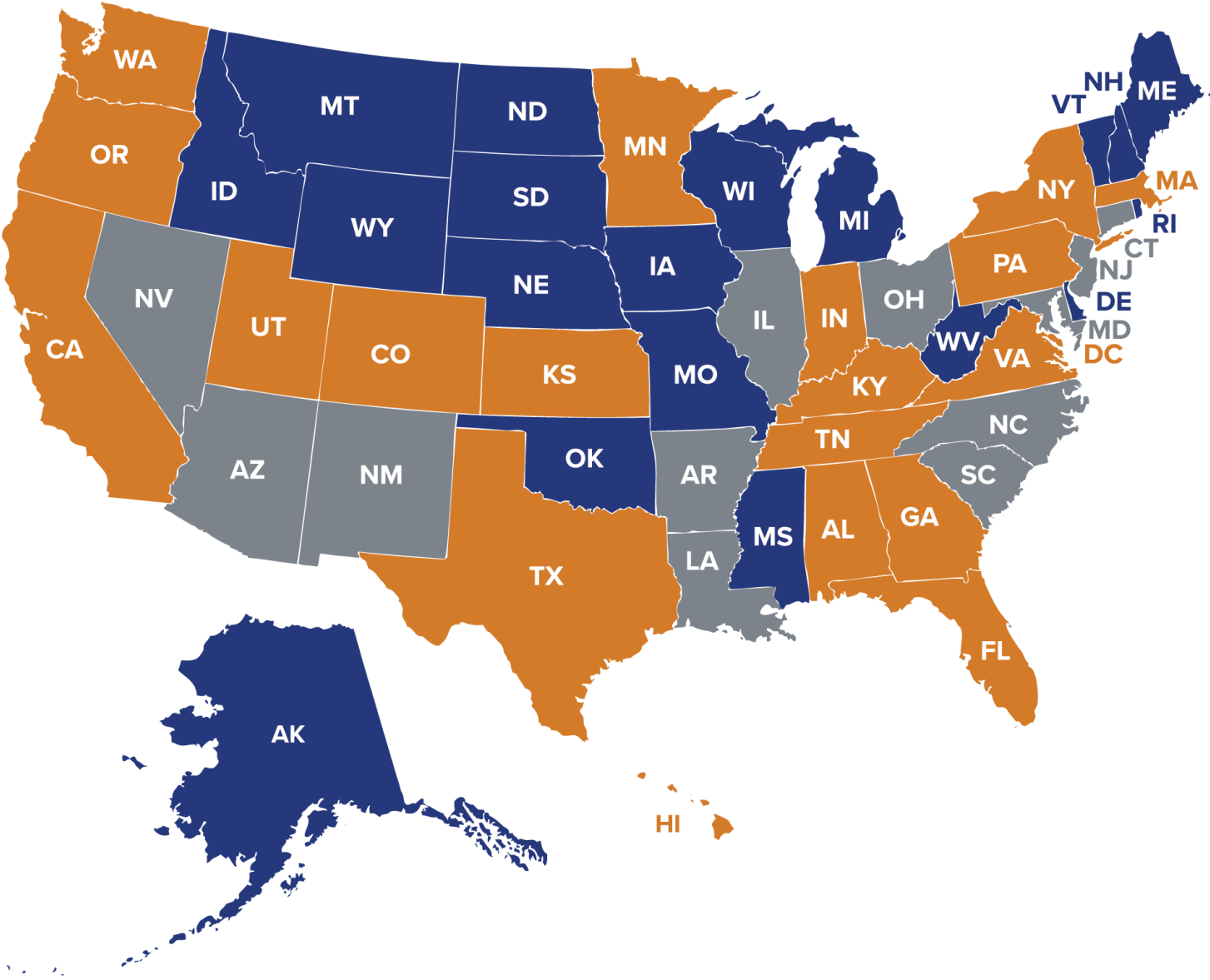
CHARLIE RHUDA




Partner | Novogradac & Company LLP

BEN TAYLOR

Vice President and Project Partner | Lincoln Avenue Communities

Volume Cap Scarcity



-  Undersubscribed (19 states)
-  Parity (12 states)
-  Oversubscribed (19 states & Washington, D.C.)

Information as of November 2023
Source: Tiber Hudson; Novogradac

How Are We Using PAB?

- Types of Developments
 - 4% New Construction & Preservation
 - 4% / 9% Combo New Construction
- Permanent Financing
 - Direct Placement
 - Freddie TEL
 - Fannie Mae MTEB
- Construction Financing
 - Cash-Backed Forwards
 - Construction/Bridge Financing
 - Short-Term Cash Collateralized

How are we getting 4% deals done?

- ~2 Years Ago...
 - QCT/DDA
 - Tax Exemptions
- Today...
 - Soft Funding (ARPA, HOME, SHTF, NHTF, etc.)
 - Deferring +90% of Developer Fee
 - QAP Increased Developer Fees
 - Example: ADOH allowed hardship bonus Developer Fee of 5% (to a total of 24%)
 - Cash-Backed Forwards
 - Construction Interest Rate Caps/Collars/Swaps
 - Construction Value-Engineering/Standardization
 - Maximizing Solar
 - Underwriting Future Rents

PAB Conservation

- Land Leases
 - Local Municipalities, REITs, Non-Profits, etc.
- Construction Cost Reductions
 - Standardization of plans and specifications
- Issuing ~52.5% of PAB
- Issuing PAB only when projects are shovel-ready
- Prioritizing recycled PAB for single family

PABs vs. Construction Costs

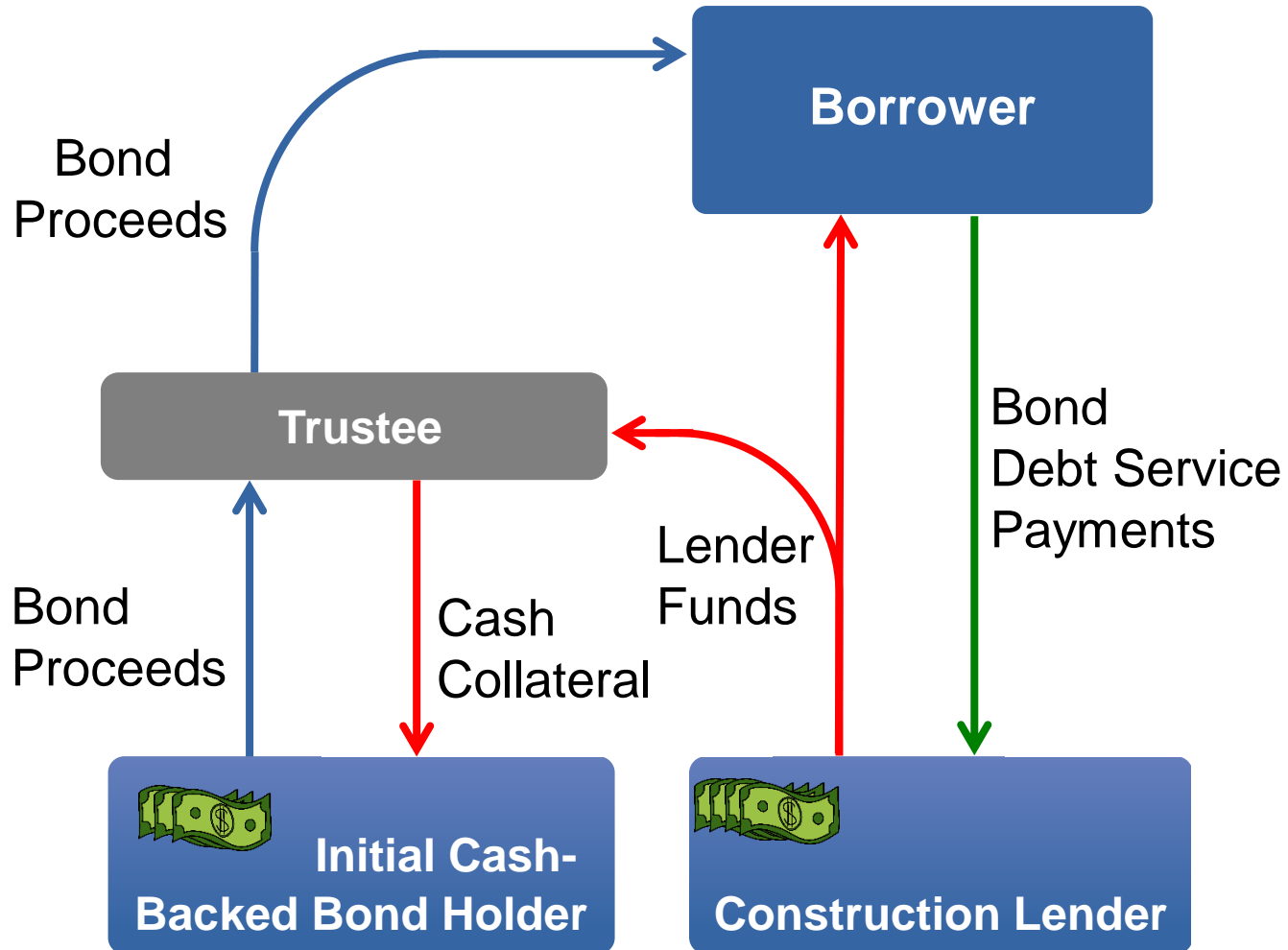
Year	PAB/Population	YoY Increase	Increase Since 2020
2024	\$125	4%	19%
2023	\$120	9%	14%
2022	\$110	0%	5%
2021	\$110	5%	5%
2020	\$105	-	-

**Per 26 USC §146(d)*
<https://www.cdfa.net/rc/volumecap.html>

Year	PPI: Multifamily Construction	YoY Increase	Increase Since 2020
2024	151.4	1%	38%
2023	149.9	11%	37%
2022	134.9	21%	23%
2021	111.3	1%	1%
2020	109.7	-	-

**St. Louis Fed: Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Multifamily Residential Construction, Goods*
<https://fred.stlouisfed.org/series/WPUIP2311201>

Cash-Backed Forward



Case Study: Cottonwood Ranch

Project Overview

Project Type	New Construction
Mortgage Lender	Bank of America
Issuer	Arizona Industrial Development Authority (AZIDA)
Location	Casa Grande, Arizona
Tax-Exempt Allocation	\$75,000,000
Maturity Date	November 1, 2041
Units	300



Case Study: Cottonwood Ranch

Benefits	
Positive Arbitrage	\$1,442,000
Add. Const. Interest Equity Generated	\$3,560,000
Add. Developer Fee Equity Generated	\$854,000
TOTAL	\$5,825,000
Costs	
Equity Investor Income Allocation	\$1,420,000
Add. Bond Costs	\$386,000
Add. Issuer Fees	\$36,000
Add. Const. Loan Interest (TE to Taxable)	\$0
TOTAL	\$1,842,000
NET BENEFIT	\$4,014,000

**3.72% bond rate / 4.36% re-investment rate (64 bps spread)*

**\$7.2m of construction period interest*

**ADOH 24% Developer Fee on \$7.2m of const. interest*

**\$6.8m income allocation at 21%*

**Bond UW, UW Counsel, Ratings / Placement Fees, etc.*

**\$6mm of additional PAB required at 0.60% Issuer Fee*

**Same rate for tax-exempt vs. taxable from lender*

Tax-Exempt Bond Financing Products

	Fannie Mae Bond M.TEB	Freddie Mac Tax-Exempt Loan	HUD 221(d)4	BWE Direct Bond Purchase
Loan-to-Value Ratio	Up to 90%	Up to 90%	87% - 90% (LTC)	80% LTC, up to 90% LTV
Debt Service Coverage	1.15	1.15	1.11 - 1.15 (1.17 market rate)	1.15
Interest Rate Benchmark	TE Bond Rate	10-year Treasury	10-year Treasury	18-year LIBOR Swap
Amortization Period	35 - 40 Years	35 - 40 Years	40 Years	40 Years
Loan Term	15 - 30 Years	15 - 30 Years	Construction Period + 40 Years	15 - 18 Years
Processing Time	90 -120 Days	90 -120 Days	5 -10 Months	60 - 90 Days
Things to consider	<ul style="list-style-type: none"> • M.TEB typically prices better than standard BCE • Higher cost of issuance than TEL or Direct Bond Purchase • Construction lender required for forward • Bond underwriter, rating agency fee, etc. required for transaction 	<ul style="list-style-type: none"> • Lower cost of issuance with no bond underwriter, rating agency fee, etc. • Ability to Index Lock • Final review and issuance required by Freddie Mac • Construction lender required for forward. 	<ul style="list-style-type: none"> • Non-recourse construction to permanent financing • Generally provides the most competitive rate • Davis Bacon wages • Longer processing time 	<ul style="list-style-type: none"> • Single source of capital for construction and permanent financing. • Bond Proceeds can be reinvested during the construction period. • Fixed and floating rate construction available. • Fully recourse during construction.

BWE Direct Bond Purchase Program

BWE's Direct Bond Purchase Program provides a single source of capital for both construction and permanent financing. BWE has a dedicated and experienced team focused on structuring, underwriting and servicing each investment.

- Maximum Loan Proceeds (90% LTV / 1.15 DSCR)
- New Construction or Acquisition / Rehab
- Competitive fixed rate construction and permanent
- 40 Year Amortization (extended amortization available)
- Flexible Underwriting & Credit Process
 - ✓ Underwrite to proforma rents, lower vacancy (where supported)
 - ✓ NOI trending/earnouts at conversion
- Fully funded or draw-down options



BWE Direct Bond Purchase

Representative Transaction



Project Overview	
Project Type	New Construction
Interest Rate	Fixed Construction to Perm
Issuer	Kentucky Housing Corp
Location	Louisville, KY
Tax-Exempt Allocation	\$21,500,000
Amortization	40 years (8 years Interest Only)
Units	192



Bridge-to-Bonds



Loan Amount	\$20,000,000 or greater
DSCR	1.20x amortizing
Going-In Debt Yield	Minimum 8.0%
Loan to value	Up to 70% LTV/LTC
Interest Rate	Competitive fixed rate pricing over the SOFR swap. Floating rate available upon request with sufficient caps in place.
Amortization	30 to 40 years (40 years on Section 8 HAP). Interest Only available.
Term	5 years
Prepayment	Prepayment penalties are <u>waived</u> if the project is financed through the BWE Direct Bond Purchase Program. The construction bond amount and construction interest rate on the Bond Purchase execution must be no less than that Bridge Loan Amount and Interest Rate. Otherwise, greater of yield maintenance or declining prepayment.
Origination fee	1.0% of the Loan Amount
Recourse	Non-Recourse except for standard “bad boy” carveouts
Closing Timeframe	45 – 60 days

Structures for More Complex PAB Transactions

- Condominiums
- Twinning
- Recycling

Condominium (Master Lease)

- Multi-year, Multi-building PIS
- Mixed income
- Mixed use (i.e. commercial)
- “Checkerboarding”

Twinning

- 4% and 9% credits in same development
- Twinning Credit types
 - Historic
 - Solar/Renewable
 - Brownfields

Recycling

- Re-using PAB without credits
- As a soft bridge
- 50% test issues
- “Liquidity Facility”