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Credit and Bond Financing for Affordable Housing Conference

Managing Your Interest Rates

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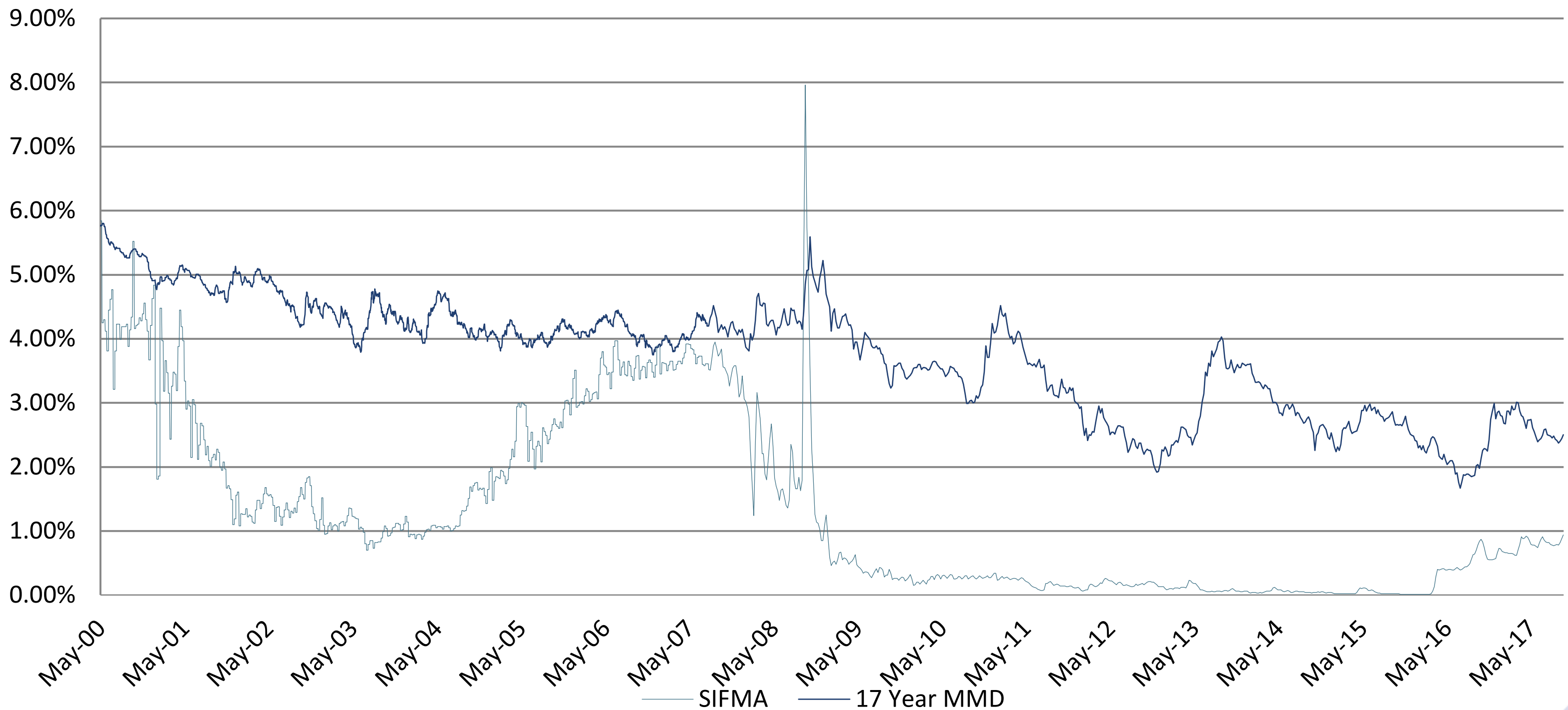
2017 Interest Rate Update

Week of:	SIFMA	1mo LIBOR	10yr UST
• 9/28/2017:	.94%	1.22%	2.31%
• 9/28/2016:	.84%	.524%	1.57%
• 9/28/2015:	.02%	.193%	2.10%
• 9/28/2014:	.04%	.152%	2.50%
• 9/28/2006:	3.74%	5.32%	4.63%

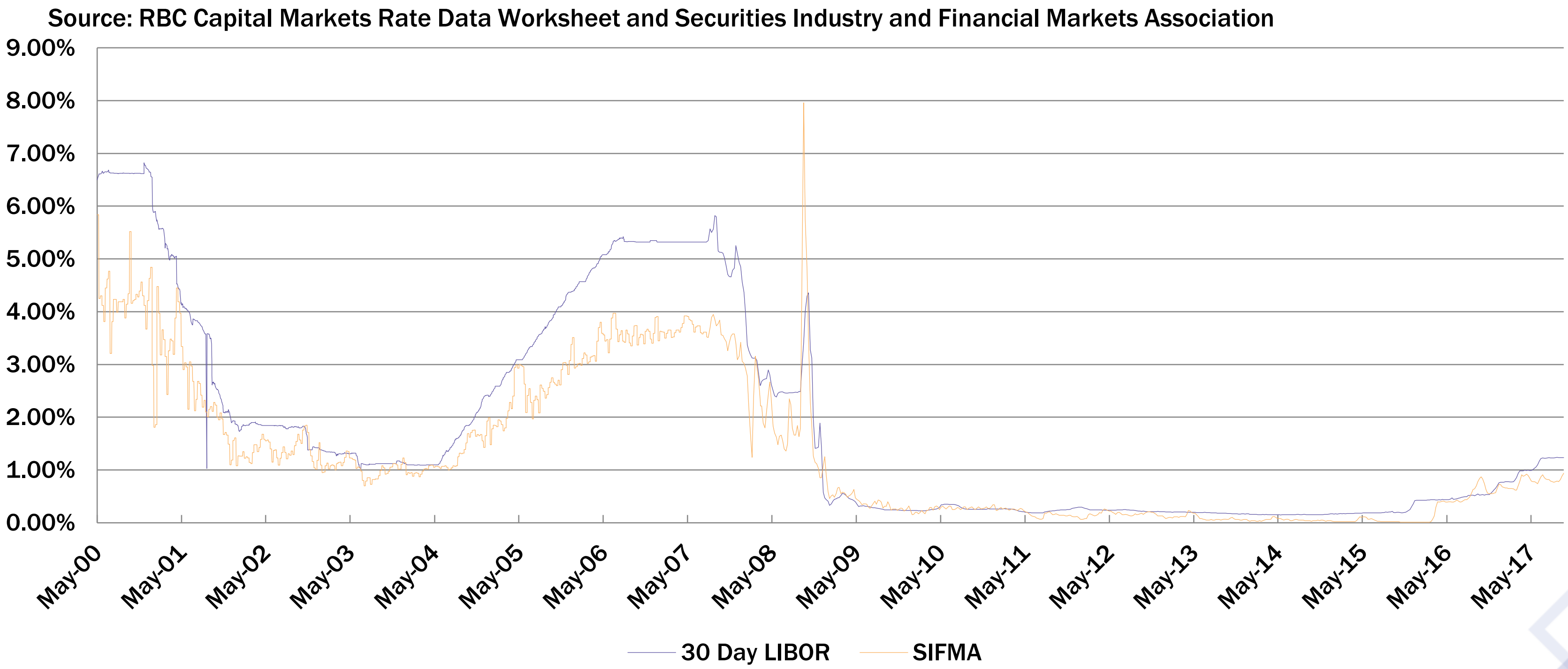
Sources: Bloomberg, SIFMA, treasury.gov; st louis fed (some #s are monthly averages)

SIFMA Variable Rate vs MMD 17 Year Fixed Rate

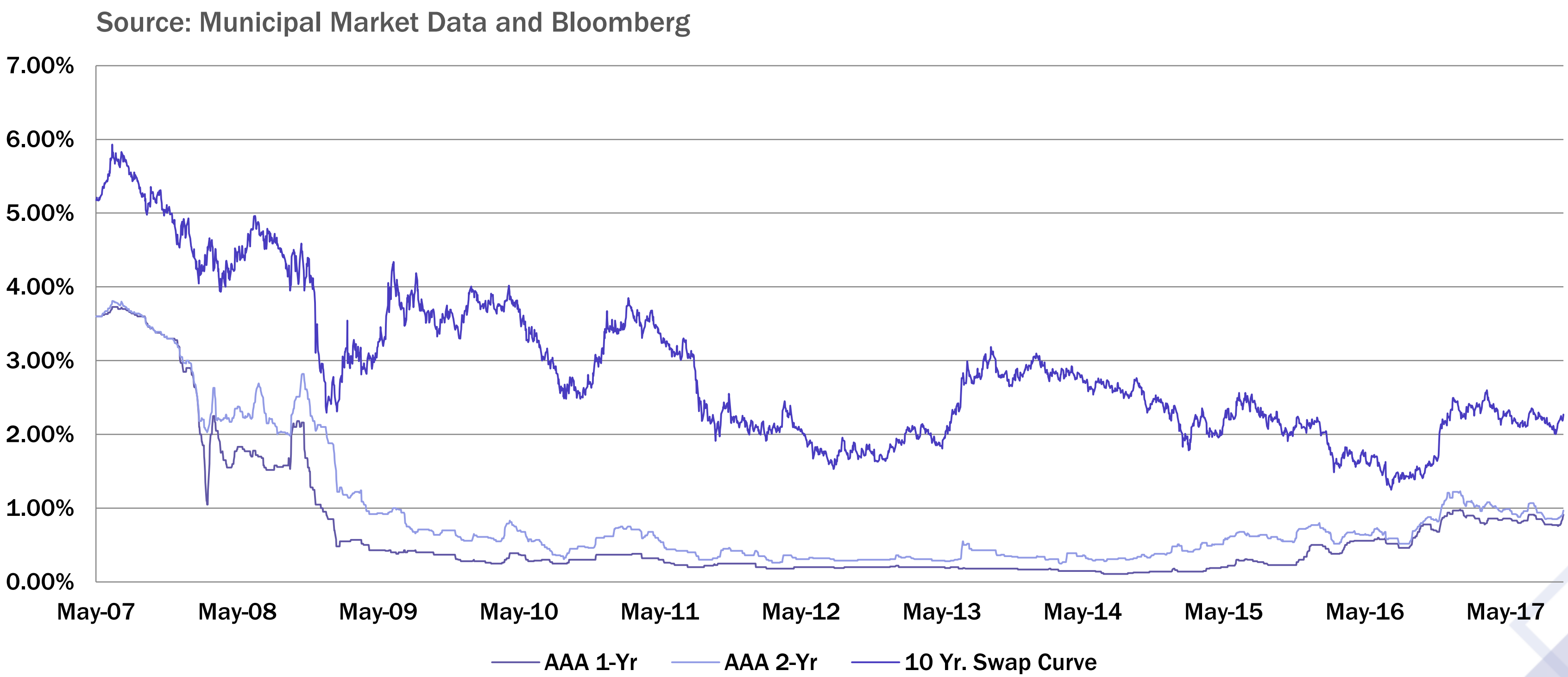
Source: Municipal Market Data ("MMD") and Security Industry and Financial Markets Association ("SIFMA")



30 Day LIBOR vs. SIFMA Variable Rate



10 Yr. US Swap Curve vs. 1 Yr. MMD vs. 2 Yr. MMD



Kent Neumann

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COMBINED TAXABLE DEBT WITH SHORT TERM TAX EXEMPT BONDS AND 4% LIHTC

Many long-term taxable debt options are still lower than long term tax exempt executions:

- FHA/GNMA: 221(d)(4) New Construction/Sub Rehab; 223(f) Light Rehab
- FHA 542(c) w/ Federal Financing Bank Purchase (limited availability)
- USDA: 538 Rural Development Mod Rehab
- Fannie/Freddie: Under some situations with high ongoing 3rd party fees

COMBINED TAXABLE DEBT WITH SHORT TERM TAX EXEMPT BONDS AND 4% LIHTC – FAQ/ISSUES

Bond Amount to meet 50% test > Taxable Loan Amount:

- Other (bankruptcy remote) sources of funds (i.e. bridge equity, subordinate loan proceeds, etc.) are needed to cover the differential. Timing of funding is critical. Seller Take-Back loan can often be used to collateralize bonds (see applicable slides)

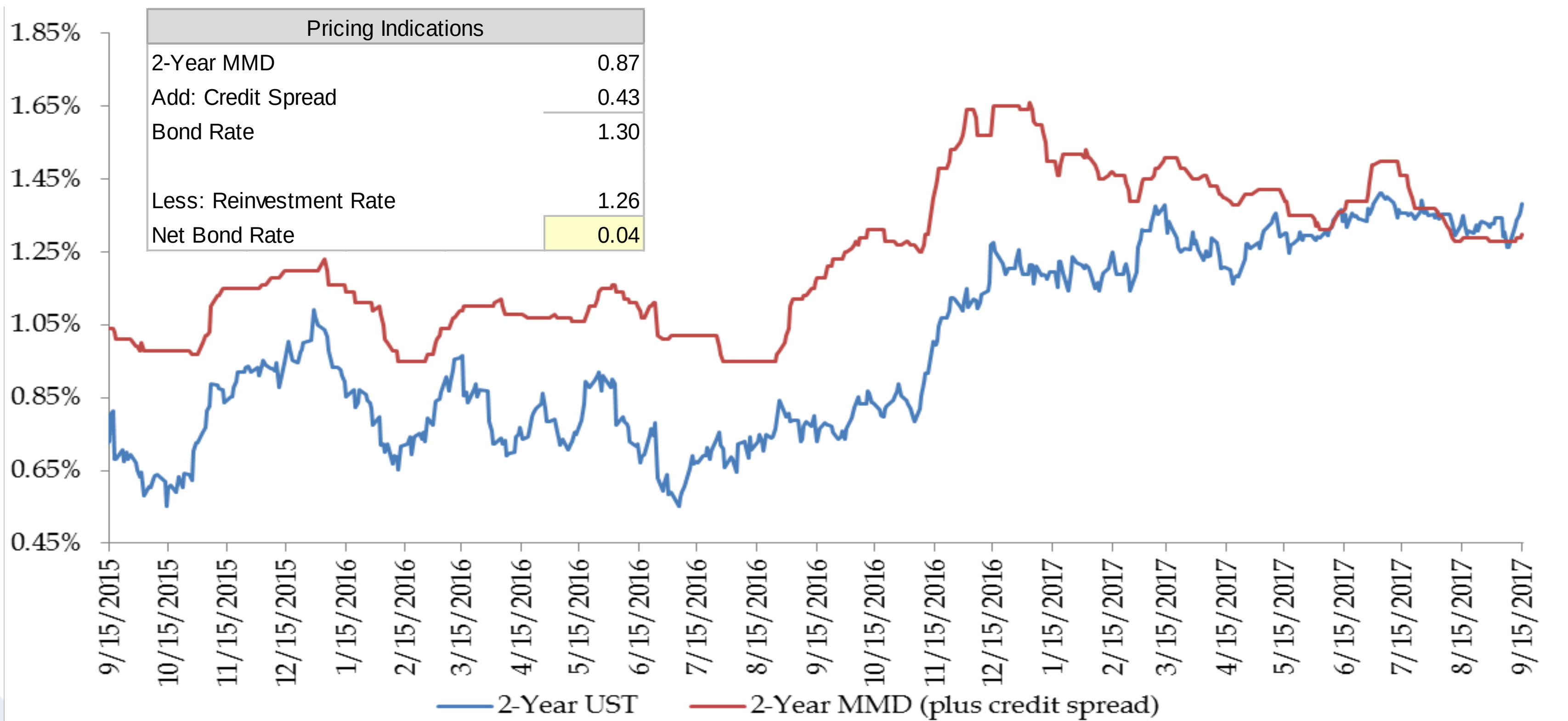
Investment and other options to reduce cost:

- Although short term rates have gone up, taxable investment options have gone up also: Ex.1.25% bond rate **less** 1.25% investment rate = **<u>0.00% net interest cost per year on bonds.</u>**
- Seller Take-Back Bonds can sometimes be used to help reduce costs further (see applicable slides)
- Multiple loans/projects can be **<u>pooled</u>** into a single bond issuance to spread out fixed closing costs – all deals need to be in a position to close within the same timeframe.

Despite the recent increase in short-term, tax-exempt rates, the negative arbitrage deposit can still be significantly reduced.

Historical Performance for 2-Year MMD (plus credit spread) and 2-Year UST

Pricing Indications	
2-Year MMD	0.87
Add: Credit Spread	0.43
Bond Rate	1.30
Less: Reinvestment Rate	1.26
Net Bond Rate	0.04



Source: Bloomberg. Thomson Reuters
Reflects market conditions as of September 26, 2017
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

COMBINED TAXABLE DEBT WITH SHORT TERM TAX EXEMPT BONDS AND 4% LIHTC – FAQ/ISSUES

Publically Offered vs. Privately Placed:

- Potential tax implications if Bond Purchaser is "related" to the Borrower (see §1.148 program investment regulations)
- Costs of issuance are very close. Interest and investment options can vary.

Issuer considerations:

- Possible limitation on Issuer Fees due to short maturity and Loan Yield limitations
- Some states have very limited private activity volume cap – although this structure does use the minimum amount of bonds to meet the 50% test
- A few Issuers do not allow the structure due to limitations on fees.

Tax-Exempt Seller “take back” Note & Bonds

- Many 4% preservation deals and affordable transaction located in high cost areas require subordinate gap and/or “soft” funds to get the financing to work. This can often include seller financing in the form of a subordinate “take-back” note for deals with a “friendly” seller. This is very common in RAD transactions.
- These deals will have higher eligible basis for tax credits (generating more tax credit proceeds) but no significant impact the size of the permanent loan.
- Due to the LIHTC 50% test, tax-exempt bonds in excess of the permanent financing are often required in these deals.

Tax-Exempt Seller "take back" Note & Bonds

- Option 1: Instead of allocating the seller note to a reduction of the purchase price of the Project, Bond proceeds can often be "allocated" for the full purchase price of the Project and the seller can "allocate" the note as new funds to the deal – which can be used to collateralize that portion of bonds.
- Makes it much easier to meet the 50% test (equity or other soft funds are no longer needed for collateral.
- Often results in saving from additional investment opportunities and eliminating the need for bridging of other collateral funds.

Tax-Exempt Seller "take back" Note & Bonds

- Option 2: Instead of issuing additional short-term tax-exempt bonds that will be sold to 3rd party, it is often possible to convert some of the subordinate debt to tax-exempt through the project's "placed-in-service" and then convert it to taxable debt thereafter.
- By running the surplus cash note from the Borrower to the municipal bond issuer, creating a corresponding note from the Issuer to the Seller and allocating the corresponding amount of tax exempt bond volume cap to the acquisition of the project, the note would apply towards meeting the 50% test – even though no cash is actually moving.
- Results in significant interest saving from the reduction of debt service on the "take back" Bonds.
- Note that tax-exempt private activity volume cap and any upfront/ongoing issuer fees would still be applicable.

FHA Refinancing to Resyndication (R2R) Program for Affordable Projects

- GOAL: Lock in todays low financing rates for future tax credit deals.
- Applicable for existing affordable housing projects still in 15-year tax credit compliance period (target: years 9-14) or otherwise not yet ready for tax credit syndication.

NEW FHA Refinancing to Resyndication (R2R) Program for Affordable Projects

- NEW LOAN: Current owner (or new purchaser) can use a taxable fha loan (223f or 223(a)(7)) to refinance existing debt or purchase an affordable project.
- Goal is to keep rehab to a minimum (preserve as much as possible for future tax credit deal).
- Highlights of 223f loan:
- Exempt from LIHTC 10-year rule (Section 42(d)(6))
- 35+ year full amortization and term
- 80-90% LTV / 1.11 DSCR
- ~3.50% all in mortgage rate including 25bps MIP for affordable deals
- Possible exemption from Davis Bacon wages; Non-recourse

FHA Refinancing to Resyndication (R2R)

- WHEN READY TO INTEGRATE TAX CREDITS (Upon Year 15 or otherwise): Owner would simultaneously take 3 steps…
- Step 1: Sell project to new tax credit borrower at full appraised value - with ~3.50% fha debt in place (not prepaid) pursuant to HUD’s TPA (transfer of physical asset) process.
- TPA can take 90-120 days
- Remaining term of fha loan would be 30+ years
- No prepayment fees or substantial transfer fees are applicable for TPA

FHA Refinancing to Resyndication (R2R)

- Step 2: Close on a new supplemental FHA 241(a) loan equal to the lower of (a) 90% of rehabilitation and related construction costs or (b) 1.11 dscr for total fha debt.
- 241(a) loan highlights:
  - Designed as a supplemental loan in second position behind a senior fha loan.
  - Is a construction loan program (clc/plc) and not limited to 223(f) pilot rehab limits.
  - Loan term/amortization can be up to 40 years although default is for it to match the remaining term on the senior fha loan.
  - Possible exemption of Davis Bacon wage requirements (depends on senior fha loan in place).

FHA Refinancing to Resyndication (R2R)

- Step 3. Use tax exempt bonds in an amount necessary to meet the 50% test to qualify for 4% tax credits (generating ~35% of additional sources of funds).
  - Need to issue bonds in excess of 50% of aggregate basis to qualify for 4% low income housing tax credits
  - 95% Bonds need to be spent on "good" costs of project – excluding existing assumed fha debt in senior position
  - If not enough "good" costs to spend all bonds, a portion of the existing fha loan may need to be repaid just enough to free up additional "good" costs. Original 223(f) loan can be structured to allow for this flexibility. Could also allow for increased 241(a) sizing depending on constraint.

Refinancing to Resyndication (R2R) with FHA

- **Results:**
  - <u>Locks in today's low rates</u> for ~70% or more of the total debt
  - Avoids prepayment fees/costs on fha loan (~5-9% of loan balance)
- **Compare:**

Loan	Amount	Rate	Annual Pmt	Tax Credit Year
223(f)	$7,000,000	3.25%	$335,100	10
241(a)	$3,000,000	5.25%	$187,464	15
Total:	$10,000,000	3.825%	**$522,564**	

vs.

Loan	Amount	Rate	Annual Pmt	Tax Credit Year
223(f)	$10,000,000	5.25%	**$624,888**	15

→ **Over $100,000 in annual debt service savings and eliminates ~$500,000 in potential prepayment fees.**

Refinancing to Resyndication (R2R) with FHA

- Although this is a very streamlined/ state-of-the-art execution, it does have a lot of moving and inter-related parts. Many assumptions are required in order to demine future sizing of the transaction. As such, it is very important to work closely with the borrower as well as Bond and 4% tax credit experts to model deals with conservative assumptions. These include:
- Purchase price (subject to appraisal)
- Scope of rehab and related costs
- Tax credit equity pricing
- Aggregate basis calculation (for bond sizing)
- Mortgage rate/term on 241 loan

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Agency Loan Product Comparison

Affordable Housing – 4% LIHTC

Standby Forward– Substantial Rehabilitation or New Construction

	Fannie Mae	Freddie Mac
Minimum Loan Term	15 years (up to 30 years)	15 years (up to 30 years)
Maximum Amortization	35 years	35 years
Forward Period	up to 36 months plus one free 6-month extension	up to 36 months plus one free 6-month extension
Minimum DCR	1.15	1.15
Maximum LTV	90%	90%
Prepayment Type	Fee Maint. or Yield Maint.	Yield Maint. after lock out period
Standby Fee	0.15%/yr of Forward (paid upfront)	0.15%/yr of Forward (paid upfront)
Forward Commitment Fee	2 to 3% (1% Fannie & balance to MBS Buyer)	2%
Other	Conversion Requirements Bond Buyer identified upfront	Conversion Requirements
Benefits	Removes rate risk No Equity Pay-in Requirement at Forward Closing No Davis Bacon Wage requirement Bond Buyer base has widened	Removes rate risk No Equity Pay-in Requirement at Forward Closing No Davis Bacon Wage requirement Lower transaction costs

Sample Forward Transaction

Fannie Mae vs. Freddie Mac 24 month Forward Period		
Interest Rates	**Fannie Mae M.TEB**	**Freddie Mac TEL**
Sample Net Operating Income	$1,000,000	$1,000,000
Loan to Value/ DCR	90%	90%
Debt Service Coverage Ratio	1.15x	1.15x
Amortization	35 years	35 years
Approximate Rate	**4.350%**	**4.850%**
Max Loan Amount	**$15,616,848**	**$14,634,363**
Cost Description	**Transactions Cost Variances**	
Lender Fees	$156,168.48	$146,344
Underwriter Fees	$125,000	-
Lender/ Underwriter Counsels	$150,000	$65,000
Issuer Application Fee	$15,000	-
Agency Application fee	-	$14,634
Rating Agency Fees	$15,000	-
Trustee Fees/ Counsel	$6,000	$6,000
Negative Arbitrage	**$468,505**	**-**
Accounting- Verification Report	$2,500	-
Total	$938,174	$231,978
Transaction Cost Difference	**$706,196**	
Loan Proceeds Difference	$982,485	
Net Difference	**$276,289**	

Agency Loan Product Comparison

Affordable Housing – 4% LIHTC

Immediate Funding – Tenants-in-Place Moderate Rehabilitation

	Fannie Mae M.TEB	Freddie Mac TEL
Minimum Loan Term	15 years (up to 30 years)	15 years (up to 30 years)
Maximum Amortization	35 years	35 years
Minimum DCR	1.15	1.15
Maximum LTV	90%	90%
Prepayment Type	Fee Maintenance or Yield Maintenance available	Yield Maintenance after lock out period
Other	IO available during the Rehab 20% Equity Pay in at Closing (10% equity plus 10% Bridge permitted)	IO available during the Rehab Period 15% Equity Pay in at Closing (5% Bridge permitted)
Benefits	Rehab > $60k/unit permitted w/prior approval Bond buyer base has widened resulting in very competitive pricing Fannie Mae guaranteed direct pass through of principal and interest is attractive to bond buyers	Rehab > $60k/unit permitted w/prior approval Lower transaction costs (no rating agency, bond uw, or bond uw's counsel and one Agency attorney) Floating Rate and Float-to-Fixed options now available

Sample Immediate Transaction

Fannie Mae vs. Freddie Mac		
Interest Rates	**Fannie Mae M.TEB**	**Freddie Mac TEL**
Sample Net Operating Income	$1,000,000	$1,000,000
Loan to Value/ DCR	90%	90%
Debt Service Coverage Ratio	1.15x	1.15x
Amortization	35 years	35 years
Approximate Rate	**4.350%**	**4.400%**
Max Loan Amount	**$15,616,848**	**$15,514,116**
Cost Description	**Transactions Cost Variances**	
Lender Fees	$156,168.48	$155,141
Underwriter Fees	$125,000	-
Lender/ Underwriter Counsels	$150,000	$65,000
Issuer Application Fee	$15,000	-
Agency Application fee	-	$15,514
Rating Agency Fees	$15,000	-
Trustee Fees/ Counsel	$6,000	$6,000
Accounting- Verification Report	$2,500	-
Total	$469,668	$241,655
Transaction Cost Difference	**$228,013**	
Loan Proceeds Difference	$102,732	
Net Difference	**-$125,281**	

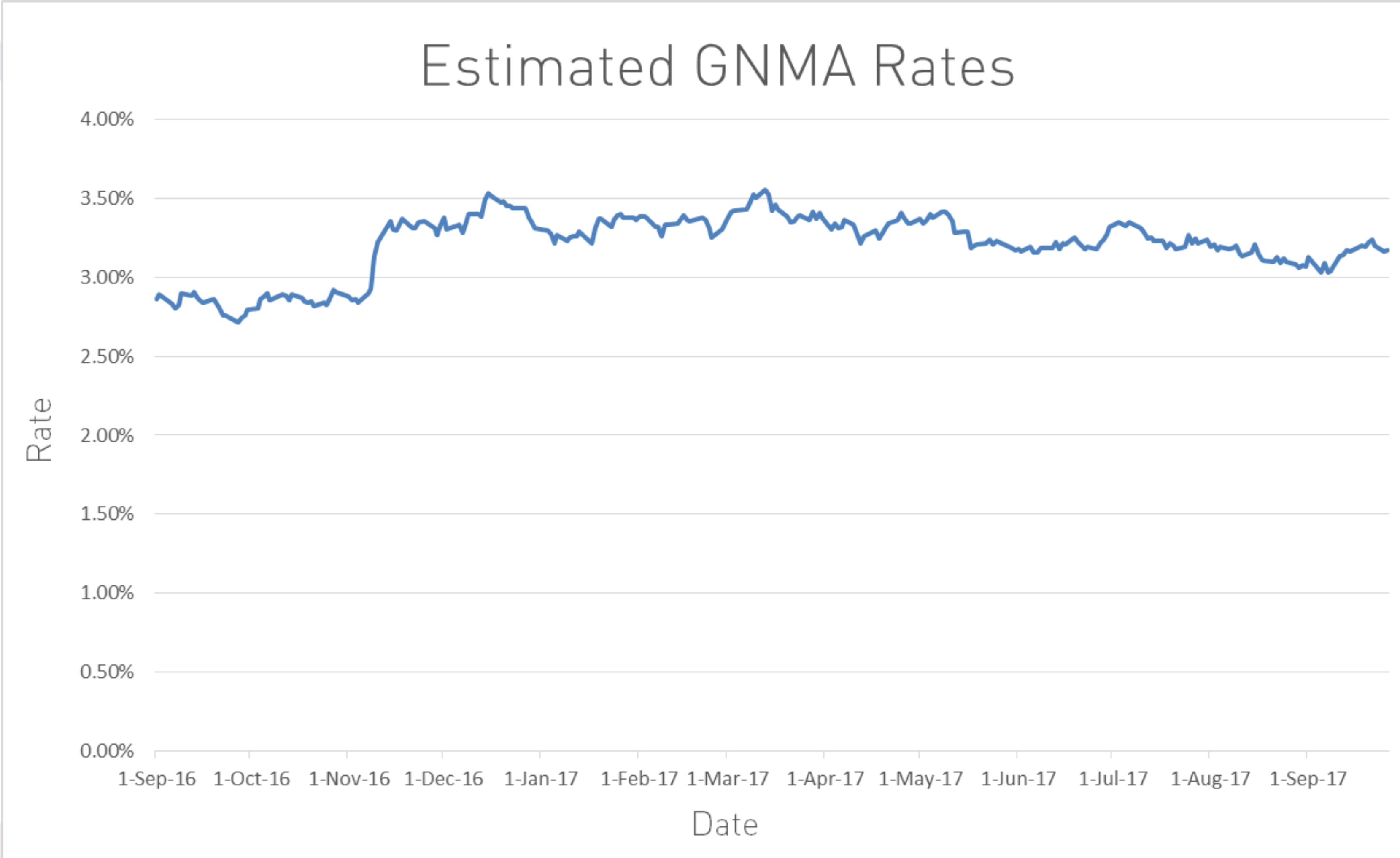
Agency Loan Product Comparison

Affordable Housing - Preservation (ARM Loan)

Immediate Funding - Refinance or Acquisition

	Fannie Mae	Freddie Mac
Minimum Loan Term	7 years (10 year SARM available)	5, 7 and 10 years available
Maximum Amortization	30 years	30 years
Minimum DCR	1.00 at Var UW Rate	1.00 at Max Note Rate
Maximum LTV	80%	80%
Prepayment Type	1-yr lockout, then 1% (6-month lockout available w/approval)	Typically 1-year lockout, then 1%. Other options available
Other	Interest Only available Fixed Rate Test	Interest Only available Fixed Rate Test CME Borrower Requirements
Benefits	Third Party Rate Cap on SARM Embedded Rate Cap on the ARM 7-6 and& 7-4 (pay as you go) Speed of Execution Re-syndication Solution Convertible to Fixed Rate	Third Party Rate Cap with flexible rate cap term options Typically higher proceeds Re-syndication Solution

Estimated GNMA Pricing Summary



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