Non-LIHTC Forwards

2018 Targeted Affordable Housing Seller Workshop

June 7, 2018

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Session Agenda

- Product description
- Underwriting considerations
- Case studies

Non-LIHTC Forwards Highlights

- Provides unfunded forward commitments for
  - Rent- or income-restricted affordable housing with a workforce housing component developed by for-profits
  - Affordable and workforce housing developed by 501(c)(3) nonprofits as part of their mission
- The Forward Commitments will take out new construction and rehabilitation loans up to $100M
  - Rehabilitation must be no less than $35,000 per unit
- Conversion requirements same as for LIHTC Forwards

For-Profit Borrower Requirements

- Properties must exhibit
  - » Public/mission-driven financial investment
  - » Affordability requirements

Public/Mission-Driven Financial Investment – For-Profit Borrowers

- From a public or mission-driven nonprofit source
  - Must be quantified as at least 10% of the first mortgage UPB
  - At minimum, must be in place for the term of the mortgage
- Examples could include
  - Subordinate debt from a governmental lender – soft or hard debt
  - Tax abatements or PILOT (payment in lieu of taxes) programs
  - Below market long-term ground lease agreements
  - HAP Contracts or Project Based Vouchers (PBV)
  - Mission-driven nonprofit entity(ies) providing equity

Affordability Requirements – For-Profit Borrowers

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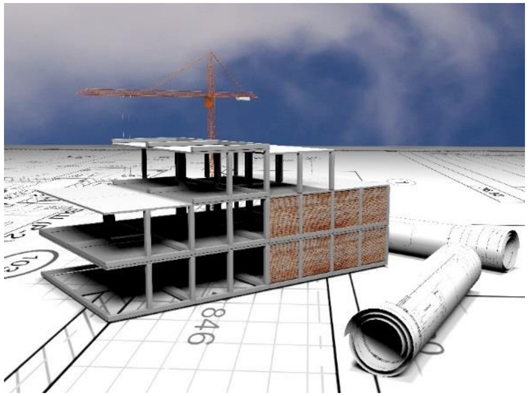
- Rent or Income Restrictions
  - 10% of the units at the property must have rent or income restrictions that meet FHFA rules for uncapped volume
  - 80% of the units at the property must be rented to tenants with incomes at the following AMI thresholds or have rents at these levels (at the time of loan conversion)
    - Standard markets – at or below 100% of AMI
    - High-Cost markets – at or below 125% of AMI
    - Very High-Cost or Extremely High-Cost markets – 150% of AMI
  - 10% of the units at the property may be at market rents based on location
  - If 50% of the units at the property have rent and income restrictions that meet FHFA rules for uncapped volume, then the above rent/income restrictions are not applicable
    - Must be subject to a regulatory agreement (cannot be self-imposed)

Nonprofit Borrower Requirements

- Nonprofit Borrower must be a 501(c)(3) whose mission is owning, developing and operating affordable multifamily housing
- The general partner or managing member of the Borrower must be a nonprofit
  - Being the co-general partner for the purposes of qualifying for a real estate tax abatement (e.g., CA Welfare TA) is not sufficient
- We expect rents to be at FHFA uncapped levels and Freddie Mac workforce levels



Non-LIHTC Forwards – Conditions

- Credit Parameters
  - » 1.25x DCR and 80% LTV based on “as-stabilized” value
- Borrower Equity
  - » Minimum 15% cash or policy-compliant subordinate debt from a governmental or nonprofit lender
- Prepayment
  - » Subject to standard cash loan provisions
- Net Worth and Liquidity
  - » Developer/owner minimum liquidity requirement at construction loan closing as well as permanent conversion equal to 12 months of debt service on the permanent loan
- 30-year amortization
- Maximum LTC of 90%

Application of the Program

- Workforce housing in higher-cost markets
- LIHTC-like transactions
- For-profit / nonprofit partnerships

Case Study 1
Workforce Housing in Higher Cost Market

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- ~$47M loan in New Rochelle, NY (Westchester County)
- Affordability
  - » 10% of units restricted at 80% or less of AMI

  *≥ 10% of units meet FHFA affordability threshold for Uncapped business in a **Very High-Cost** market (100% AMI) – **meets 1 of 2 affordability requirements***

  - » 90% of units rented to tenants with incomes at or below 130% of AMI or have rents at levels affordable at 130% AMI at the time of conversion

  *≥ 80% of units meet affordability requirement in a **Very High-Cost** market (150% AMI) – **meets 2 of 2 affordability requirements****
- Financial Investment
  - » 20-year tax abatement granted by city development authority *(exceeds 7-year loan term)*
  - » Present Value of savings from full assessed taxes estimated to exceed $4.7M *(≥ 10% of UPB)*
  - » $21M cash equity *(≥ 15% of cash equity)*

**** Alternatively, 10% of these units could have been above 150% AMI if proved to be at market-levels by appraisal***

Case Study 2
LIHTC-like Transaction without Tax Credits

- ~$52M loan in Brooklyn, NY
- Affordability
  - 20% of units restricted at 60% or less of AMI (subject to a recorded regulatory agreement)
  - 30% of units restricted at 90% or less of AMI (subject to a recorded regulatory agreement)

  *50% of units meet FHFA affordability threshold for Uncapped business – **no further affordability requirements***

- Financial Investment
  - $70M subordinate debt from state/local housing agency = / ~50% of TDC

  Meets both the following subsidy/public consideration requirements

  1) ≥ 10% of UPB and

  2) ≥ 15% government/nonprofit compliant subordinate debt or cash equity

Case Study 3
For-Profit/Nonprofit Partnership

- ~$14M in Rochester, MN
- Affordability
  - 40% of units restricted at 60% or less of AMI

  *≥ 10% of units meet FHFA affordability threshold for Uncapped business in a **Standard** market (60% AMI) – **meets 1 of 2 affordability requirements***

  - 60% of units rented to tenants with incomes at or below 80% of AMI or have rents at levels affordable at 80% AMI at the time of conversion

  *≥ 80% of units meet affordability requirement in a **Standard** market (100% AMI) – **meets 2 of 2 affordability requirements****

- Financial Investment
  - Nonprofit affordable housing fund providing $3.5M in cash equity = ~20% of TDC

  Meets both the following subsidy/public consideration requirements:

  1) ≥ 10% of UPB and

  2) ≥ 15% government/nonprofit compliant subordinate debt or cash equity

**** Alternatively, 10% of these units could have been above 100% AMI if proved to be at market-levels by appraisal.***

Summary

- Variation from LIHTC forward
  - Min. DCR: 1.25x vs. 1.15x
  - Max. LTV: 80% vs. 90%
  - Amortization: 30-year vs. 35-year
- Emphasis on public / mission-driven financial support and affordability requirements
  - Conventional, for-profit equity does not qualify
  - Rent or income restrictions required
- Support for both affordable and workforce rental housing