

2018 CAHEC Partners Conference



PGIM REAL ESTATE FINANCE

Pete TenEyck

Direct: (704) 501-5043

Cell: (704) 607-9793

Peter.F.TenEyck@pgim.com

STIFEL

John Rucker

Direct: (334) 834-5100

Cell: (334) 538-1077

ruckerj@stifel.com



George Baker

Direct: (919) 348-8695

Cell: (919) 348-8695

gbaker@CAHEC.com



TIBER HUDSON

Kent Neumann, Esq.

Direct: (202) 973-0107

Cell: (703) 568-0190

kent@tiberhudson.com

Impact of Tax Reform (The Tax Cuts and Jobs Act)

Interest rates (short and long) are going up

Corporate tax rates reduced 35% to 21%

Value of tax-exemption is lower

**9% and 4% percent LIHTC retained (Yippy!) but
pricing is lower**

LIHTC deals are getting squeezed on all sides

TAX EXEMPT DEBT EXECUTIONS

- Freddie Mac
- FHA/GNMA/RD
- Fannie Mae
- Tax-Exempt Seller Note/Bonds
- Refinancing options before year 15

FREDDIE MAC TAX EXEMPT LOAN

- **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 loan is sold to the Freddie Mac Seller/Servicer, who then sells it to Freddie Mac several weeks thereafter.
- Freddie Mac, typically will securitizes pools of such loans in an “M Class” securitization.
- Allows Borrower to work with Bank during the Pre-Conversion phase.
- Slightly higher costs than bank private placements due to multiple Lenders/counsels.
- Important to have an experienced tax-exempt attorney and/or participant due to complex tax exempt rules.



Est. Construction/Perm Interest Rate Stack

Bond Rate – Construction (VR): LIBOR + 2.50	4.50%
Bond Rate – Permanent (FR): 10-year Treasury + 3.00	5.30%

Transaction Costs – 4% LIHTC Loans



Project: Sterling Mill Lofts

Freddie Mac 4% TEL Sub Rehab

Loan Amount: \$4,750,000

State: North Carolina

Developer/Sponsor: S.L. Nusbaum

<u>Sources</u>	<u>Amount (\$)</u>	<u>\$ / Unit</u>
Loan Proceeds	\$4,750,000	\$49,479
Deferred Developer Fee	\$698,760	\$7,279
Total Tax Credits	\$12,179,503	\$126,870
Grants/Secondary Loans	\$0	\$0
Total Sources	\$17,628,263	\$183,628
<u>Uses</u>	<u>Amount (\$)</u>	<u>\$ / Unit</u>
Bond Costs		
Bond Counsel Fee	\$75,300	\$784
Town Issuance Fee	\$87,500	\$911
Local Government Commission Fee	\$12,500	\$130
Local Counsel	\$8,500	\$89
Total Bond Costs	\$183,800	\$1,915
LIHTC fees	\$ 290,960	\$3,031
Freddie Mac Costs		
Agency Application Fee	\$4,750	\$49
Agency Standby Fee	\$17,813	\$186
Total Freddie Mac Costs	\$22,563	\$235
Construction Lender Costs	\$112,813	\$1,175
All Other Costs		
Construction Costs	\$13,468,573	\$140,298
Soft Costs	\$3,549,555	\$36,975
Total Costs	\$17,628,263	\$183,628

FHA/GNMA & RD TAXABLE LOANS w/ SHORT TERM CASH BACKED BONDS

- 35/40-year amortization and term.
- 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

FHA GNMA Loans with Tax Exempt Bonds and 4% LIHTC for Affordable Transactions

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

vs.

Long-Term Tax Exempt Bonds Backed by GNMA's 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.**

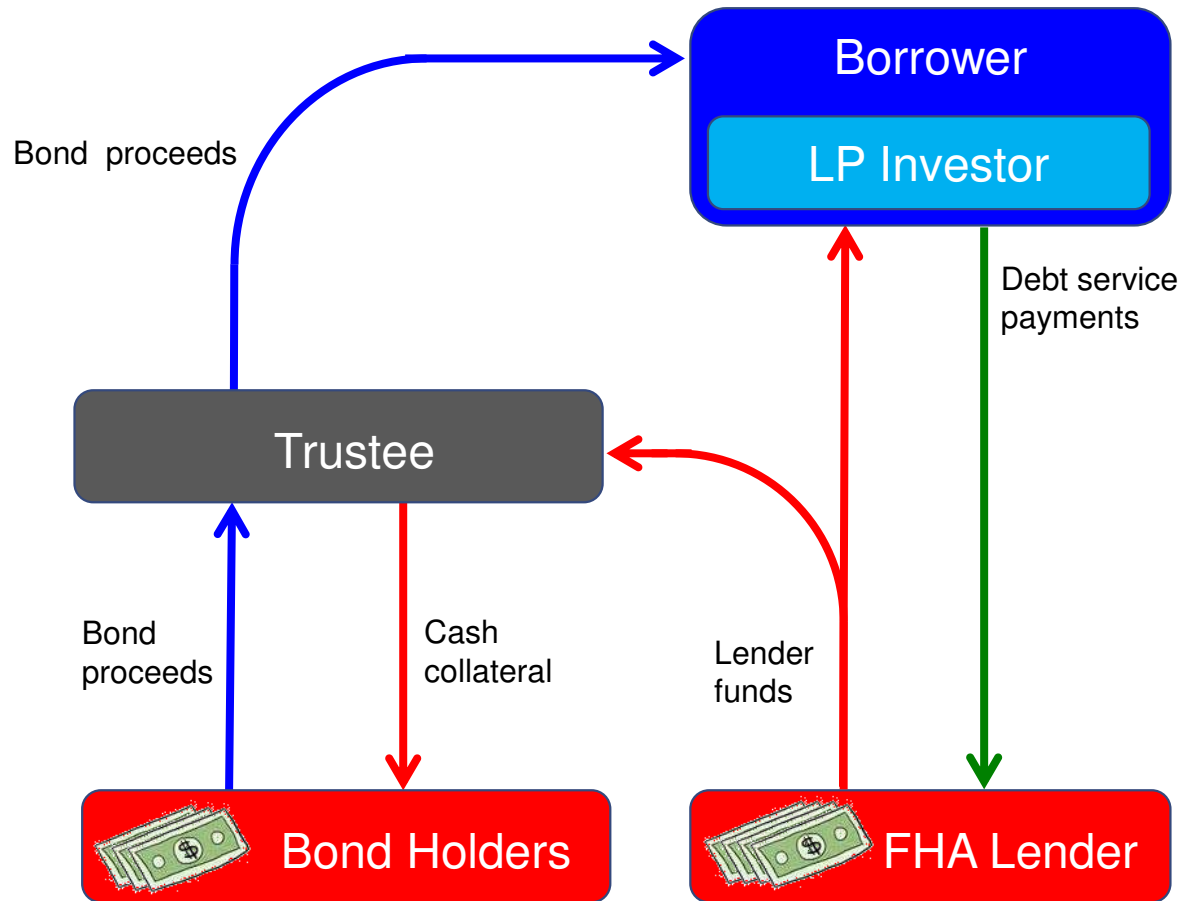
4% Low Income Housing Tax Credits: The 50% Test

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



FHA Loan >
50% Bonds

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	<u>0.5 M</u>
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	<u>1.0 M</u>
Total Uses	20.0 M

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

Transaction Costs – 4% LIHTC Loans



Project: The Assembly

FHA 221(d)(4) New Construction

Loan Amount: \$14,243,200

State: South Carolina

Developer/Sponsor: Flatiron Partners

<u>Sources</u>	<u>Amount (\$)</u>	<u>\$/ Unit</u>
Loan Proceeds	\$14,243,200	\$59,347
Deferred Developer Fee	\$1,599,132	\$6,663
Total Tax Credits	\$11,065,128	\$46,105
Grants/Secondary Loans	\$1,700,000	\$7,083
Total Sources	\$28,607,460	\$119,198
<u>Uses</u>	<u>Amount (\$)</u>	<u>\$/ Unit</u>
Bond Costs		
Issuer Fee	\$105,000	\$438
Bond Counsel Fee	\$70,000	\$292
Underwriter's Fee	\$112,000	\$467
Underwriter's Counsel	\$45,000	\$188
Trustee Acceptance and first year annual	\$8,500	\$35
Trustee Counsel	\$6,000	\$25
CUSIP, DTC, SDF, Misc.	\$5,000	\$21
Negative Arbitrage	\$249,000	\$1,038
Total Bond Costs	\$600,500	\$2,502
LIHTC fees	\$126,480	\$527
HUD Costs		
HUD Mortgage Insurance Premium	\$71,216	\$297
HUD Application Fee	\$42,730	\$178
HUD Inspection Fee	\$71,216	\$297
Total HUD Costs	\$185,162	\$772
All Other Costs		
Construction Costs	\$21,448,661	\$89,369
Soft Costs	\$6,246,657	\$26,028
Total Costs	\$28,607,460	\$119,198

Transaction Costs — 4% LIHTC Loans

RD Section 515 Acquisition/Rehab

Subordinate Loan Amount:
\$8,705,132

Loan Amount: \$9,767,144

State: North Carolina

<u>Sources</u>	<u>Amount (\$)</u>	<u>\$/Unit</u>
Subordinate 515 Loan Proceeds	\$8,705,132	\$19,007
RD 515 Loan Proceeds	\$9,767,144	\$21,326
Tax Credit Equity	\$8,523,719	\$18,611
Deferred Developer Fee	\$454,729	\$993
General Partner Loan	\$90,000	\$197
Existing Reserves	\$852,910	\$1,862
Total Sources	\$28,393,634	\$61,995
<u>Uses</u>		
Bond Costs		
Issuer Fee	\$55,000	\$120
Bond Counsel Fee	\$83,696	\$183
Underwriter's Fee	\$88,800	\$194
Underwriter's Counsel	\$65,000	\$142
Trustee Acceptance and First Annual	\$10,500	\$23
Trustee Counsel	\$5,000	\$11
CUSIP, DTC, SDF, Misc.	\$5,000	\$11
Negative Arbitrage	\$324,000	\$707
Total Bond Costs	\$636,996	\$1,391
LIHTC Fees	\$197,241	\$431
RD Costs	-	-
Other		
Acquisition	\$10,182,103	\$22,232
Rehab	\$13,426,129	\$29,315
Developer Fees	\$2,731,464	\$5,964
Soft Costs	\$1,219,701	\$2,663
Total Uses	\$28,393,634	\$61,995

**Combined Taxable GNMA Sale
with Short Term, Tax Exempt Bonds and 4% LIHTC –
FAQ/Issues**

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

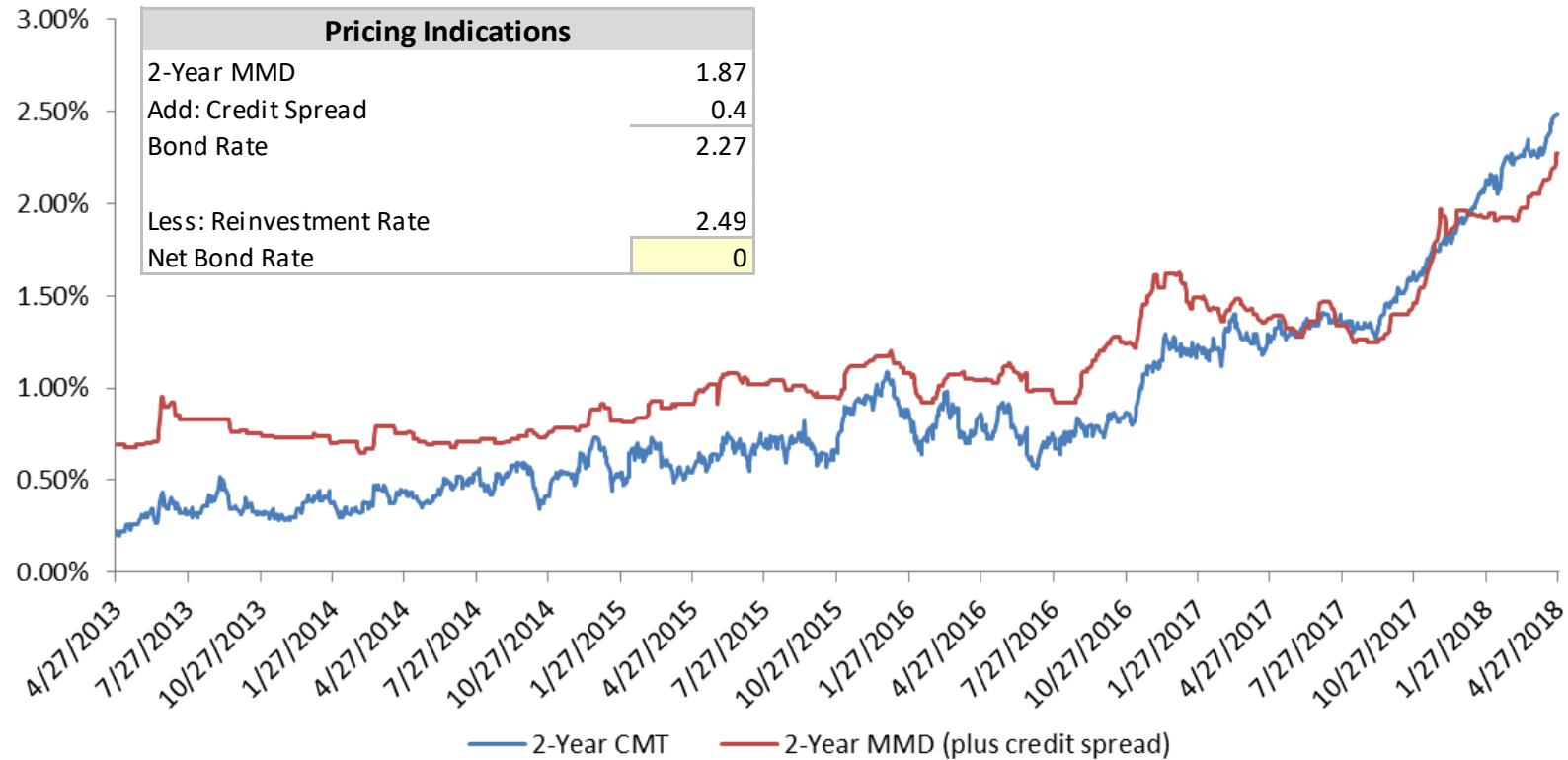
**Bond Amount to meet 50% test < Taxable FHA Loan
Amount:** No additional collateral needed!

FHA/GNMA & RD TAXABLE LOANS w/ SHORT TERM CASH BACKED BONDS

Methods to reduce transaction costs:

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

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

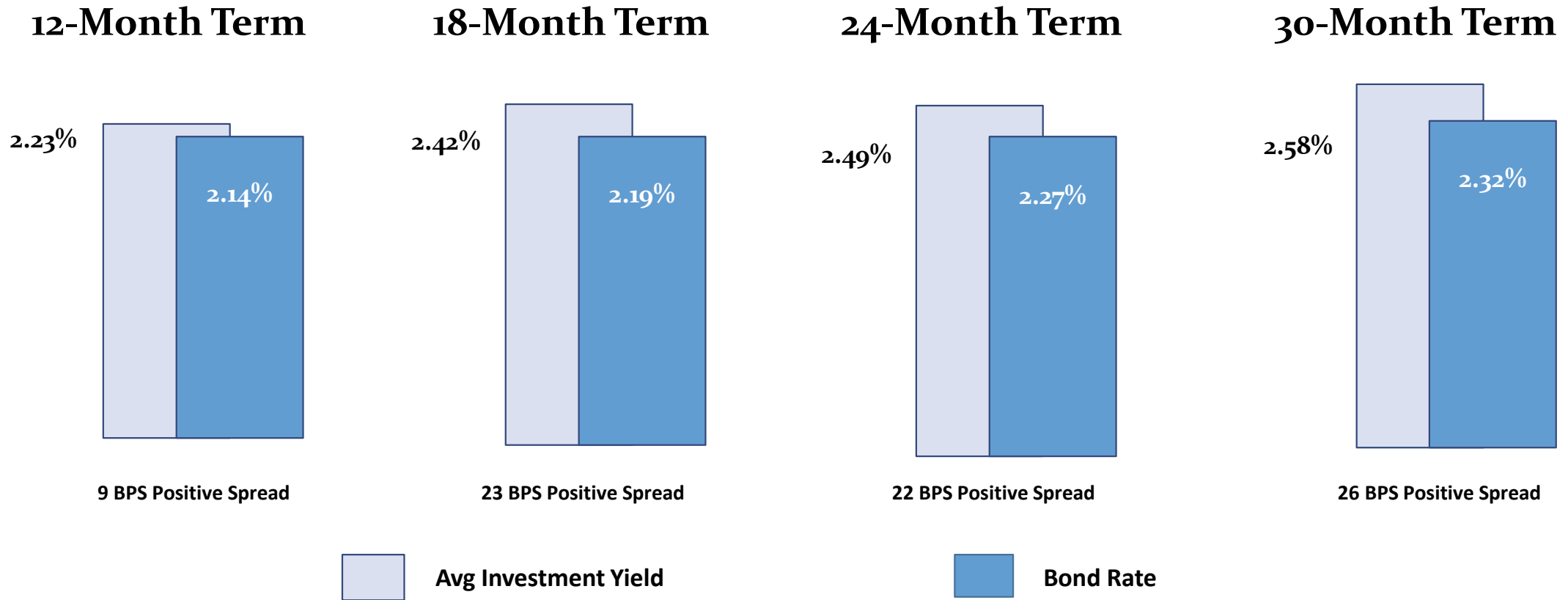


Source: Bloomberg. Thomson Reuters

Reflects market conditions as of April 27, 2018

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

Bond Yields and Investment Rates on Recent Cash-Backed Bond Transactions with Treasury Investments



2-year bond rate is +22 BPS since 4/1/18 and +31 BPS since 1/1/18

2-year U.S. Treasuries rate is +24 BPS since 4/1/18 and +60 BPS since 1/1/18



Costs of the 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 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

FANNIE MAE MTEB – IMMEDIATE MBS DELIVERY

- Bond secured by MBS and structured to mirror MBS. “Aaa” or “AA+” Rated
- Single-term and monthly pay structure
- 1.15 DSCR/90% LTV
- Pricing is driven by FNMA taxable MBS market vs. MMD (Tax-Exempt Index)
- 35 to 50 basis point savings over traditional Tax-Exempt Structure
- Supplemental taxable or tax exempt loan available post rehab at initial closing
DSCR, LTV, and G/S Fees
- Up to 3 years of Interest Only available

Deal Profile – Watts Arms

ISSUER	■ California Statewide Communities Development Authority
UNDERWRITER	■ Stifel, Nicolaus & Company
LOCATION	■ Los Angeles, California
LOAN PURPOSE	■ Acquisition/Rehab
TAX EXEMPTION	■ Federal and State
RATING	■ No Rating
CREDIT ENHANCEMENT	■ Fannie Mae MBS Pass Through
PAR AMOUNT	■ \$17,080,000
BOND MATURITY	■ 03/01/2034
BOND INTEREST RATE	■ 4.10% (including S&G fee)
REFERENCE RATE INDEX	■ 10-Year LIBOR Swap

Project Details

- 104 Units
- Constructed in 1972
- Family designation
- 97% Occupancy
- 100% Section 8
- Fannie MTEB; LIHTC; seller note

FANNIE MAE MTEB – 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
- “Aaa” or “AA+” Rated
- Negative Arbitrage prior to conversion (~1.25% per year with investments)
- Additional loan proceeds generated can result in 2-3 X upfront costs due to low all in mortgage rate

Deal Profile – Southside Village

Issuer	<ul style="list-style-type: none">● The Health, Educational and Housing Facility Board of the County of Knox
Project Location	<ul style="list-style-type: none">● Knoxville, TN
Bond Underwriter	<ul style="list-style-type: none">● Stifel, Nicolaus & Company
Par Amount	<ul style="list-style-type: none">● \$14,000,000
Rating	<ul style="list-style-type: none">● S&P Global: “AA+”
Security	<ul style="list-style-type: none">● Cash/Fannie Mae MBS
MBS Delivery	<ul style="list-style-type: none">● 30 Month Forward
Pricing Date	<ul style="list-style-type: none">● 4/18/2018
Final Maturity	<ul style="list-style-type: none">● 4/1/2036
Term	<ul style="list-style-type: none">● 18 years
Amortization	<ul style="list-style-type: none">● 35 years
Interest Rate	<ul style="list-style-type: none">● 4.35% (including S&G fee)
Spread: 10-Yr LIBOR Swap	<ul style="list-style-type: none">● +48 bps
Spread: 10-Yr UST	<ul style="list-style-type: none">● +52 bps

Tax-Exempt Seller “Take Back” Note & Bonds

- Many 4% preservation deals include seller financing in the form of a subordinate “take-back” note (common in RAD transactions)
- Due to the LIHTC 50% test, tax-exempt bonds in excess of the permanent financing are often required in these deals
- Several ways to address this issue with various bond structures

FHA Refinancing to Re-syndication (R2R)

GOAL: Lock in today's rates for future tax credit deals.....

FHA Refinancing to Re-syndication (R2R)

- **NEW LOAN:** FHA 223(f) loan to refinance existing debt or purchase project. Keep rehab to a minimum

Highlights of 223(f) loan

- Exempt from LIHTC 10-year rule (Section 42(d)(6))
- 35+ year full amortization and term
- 80-90% LTV / 1.11 DSCR
- ~**4.25%** all-in rate including 25bps MIP for affordable deals
- Exemption from Davis-Bacon wages; Non-recourse

FHA Refinancing to Re-syndication (R2R)

WHEN READY TO INTEGRATE TAX CREDITS (Upon Year 15 or otherwise): Owner would simultaneously take 3 steps

FHA Refinancing to Re-syndication (R2R)

Step 1: TPA (transfer of physical asset) process.

Highlights of TPA

- Take 90-120 days
- Remaining term of FHA loan would be 30+ years
- No prepayment fees or substantial transfer fees
- Cost is 5bp to HUD and any charge the lender wants to impose for any help they give

FHA Refinancing to Re-syndication (R2R)

Step 2: Supplemental FHA 241(a) loan.

Highlights of 241(a)

- Second position fha loan sized to the lower of (a) 90% of rehabilitation and related construction costs or (b) 1.11 DSCR for total FHA debt
- 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

FHA Refinancing to Re-syndication (R2R)

Step 3: Use tax exempt bonds to qualify for 4% tax credits.

Highlights of Bonds/4% Credits

- Need to pass 50% test to qualify for 4% low income housing tax credits
- 95% Bonds need to be spent on “good” costs of project
- Flexibility structured into original 223(f) loan to account for potential sizing issues



Pete TenEyck
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