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Financing Approaches to Meet Affordable Housing Needs



BNY MELLON

Financing Approaches to Meet Affordable Housing Needs



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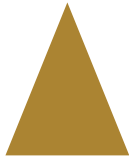
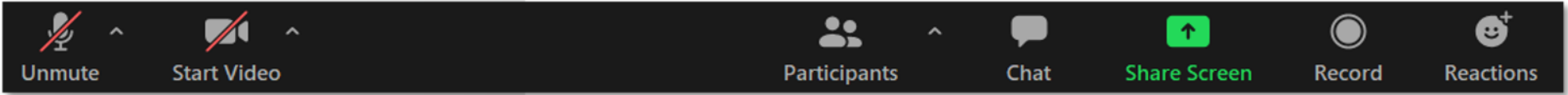
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Financing Approaches to Meet Affordable Housing Needs



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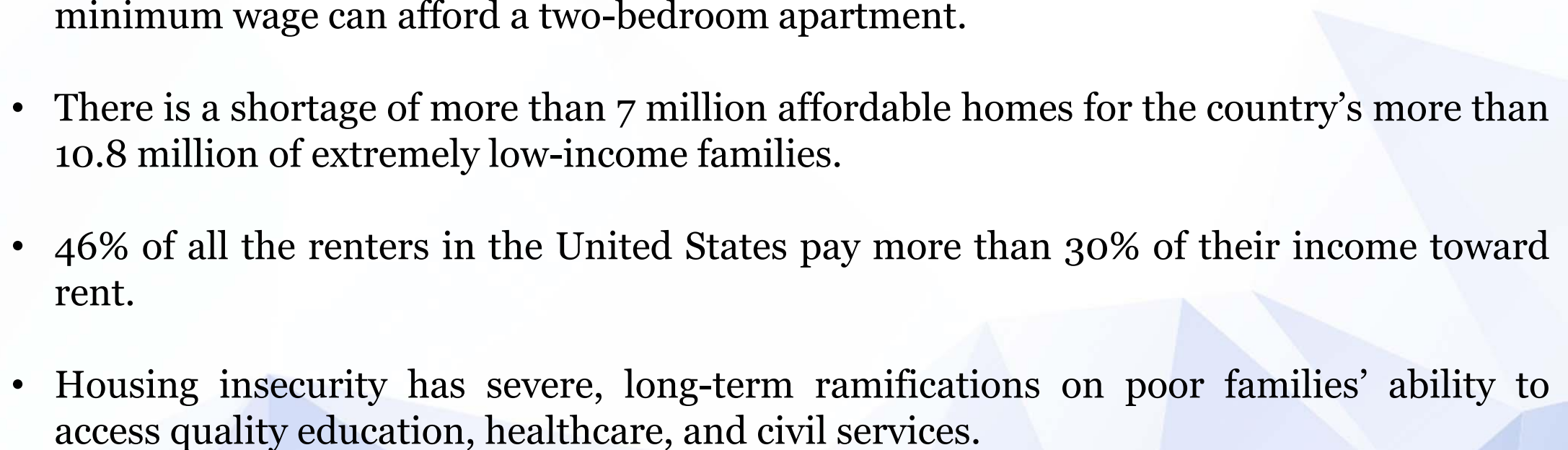
December 20, 2022

CDFA | BNY Mellon
Development Finance Webcast Series
Funding Approaches to Meet Affordable Housing Need



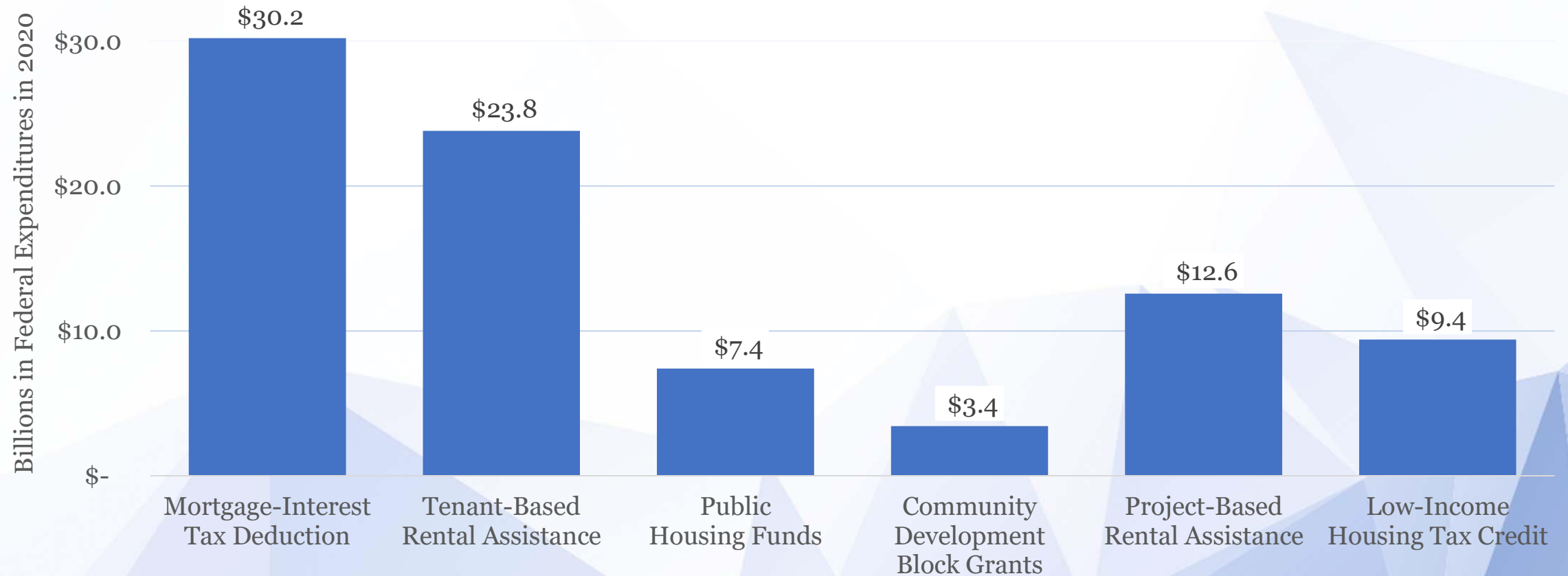
National Housing Crisis – Fast Facts

Conditions are worsening and there is simply not enough affordable housing in the United States

- There is no state or county in the United States, where a renter working full-time at minimum wage can afford a two-bedroom apartment.
 - There is a shortage of more than 7 million affordable homes for the country's more than 10.8 million of extremely low-income families.
 - 46% of all the renters in the United States pay more than 30% of their income toward rent.
 - Housing insecurity has severe, long-term ramifications on poor families' ability to access quality education, healthcare, and civil services.
- 

Affordable Housing Financial Tools

Federal programs just aren't keeping pace with current demand





Community Development Financial Institutions

Non-traditional, mission-driven capital partners

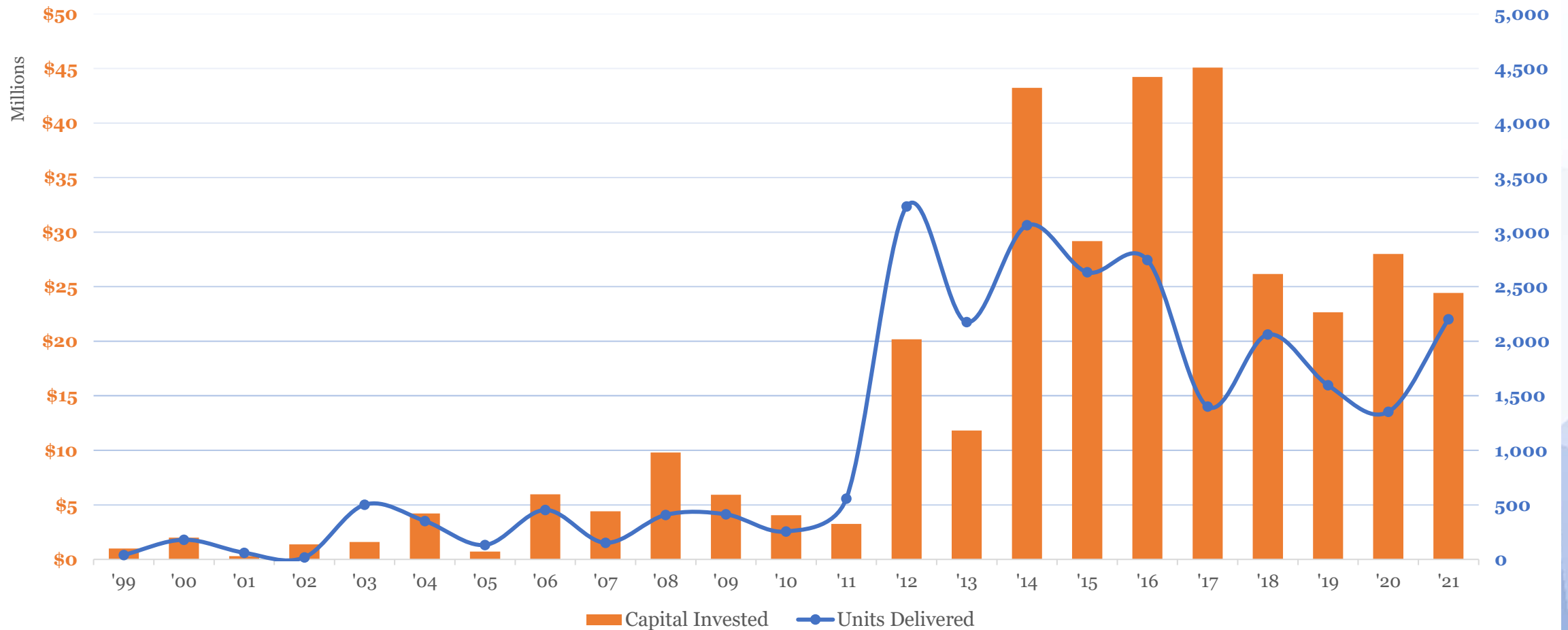
The Raza Development Fund (“RDF”) is a high-performing, 501(c)(3), non-profit, Community Development Financial Institution (“CDFI”) that provides financing solutions benefiting low-income, Latino families and children throughout the United States.

Established in 1999 as an independent, support corporation to the National Council of La Raza (“NCLR”) – now UnidosUS, RDF makes community development, impact investments to advance its **Affordable Housing**, **Education**, **Healthcare**, **Climate**, **Social Services**, and **Social Entrepreneurship** initiatives.

Loyal to our core principles of **Business**, **Charity**, and **Stewardship**, RDF’s impact investment professionals provide direct funding and technical support to help break the cycle of poverty, while maintaining the dignity of the human person. RDF supports non-profit and select for-profit Latino serving organizations by leveraging public and private partnerships and engaging proven and next generation, transformational community leaders who can affect lasting change and create opportunity in low-income communities.

Affordable Housing Investment Activity

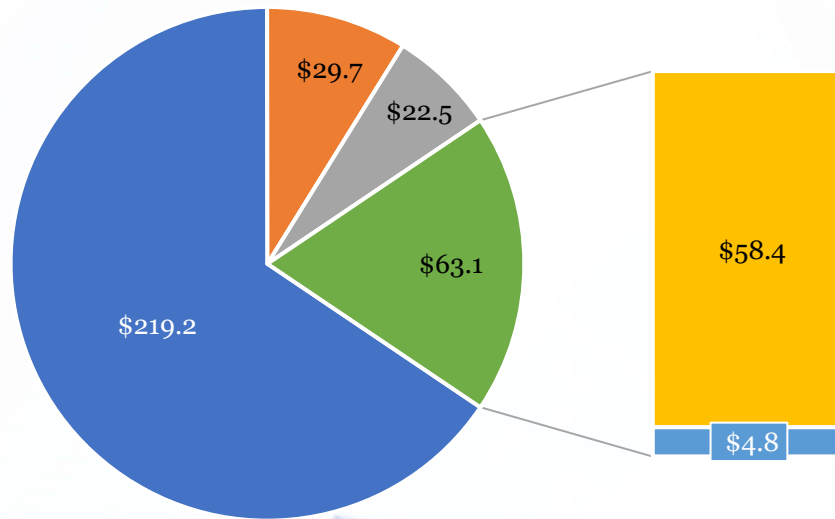
Since inception, RDF has invested approximately \$350 million to create and preserve nearly 27,000-units of affordable housing.



Credit Products

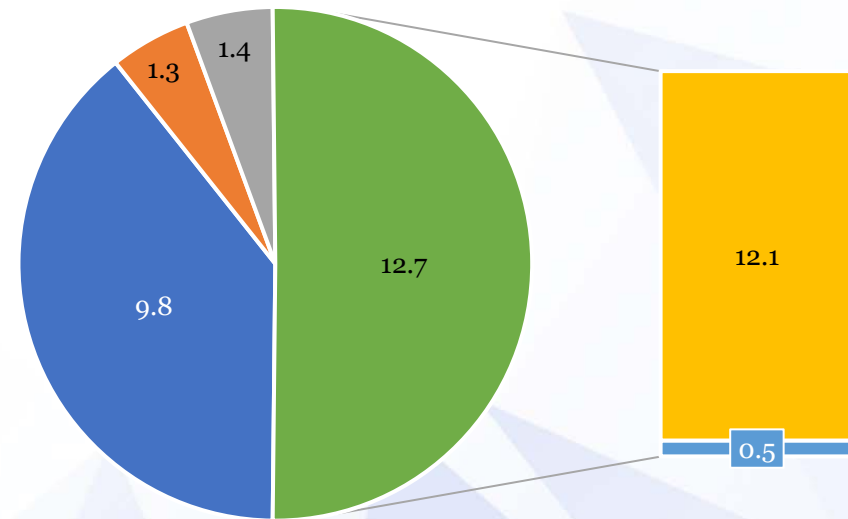
Our existing set of debt products enable us to invest early-on and throughout the development cycle of affordable housing projects.

Capital Invested by Product (millions)



- Acquisition
- Construction
- Term Loan
- Predevelopment
- AHP

Units Delivered by Product (thousands)




- Acquisition
- Construction
- Term Loan
- Predevelopment
- AHP



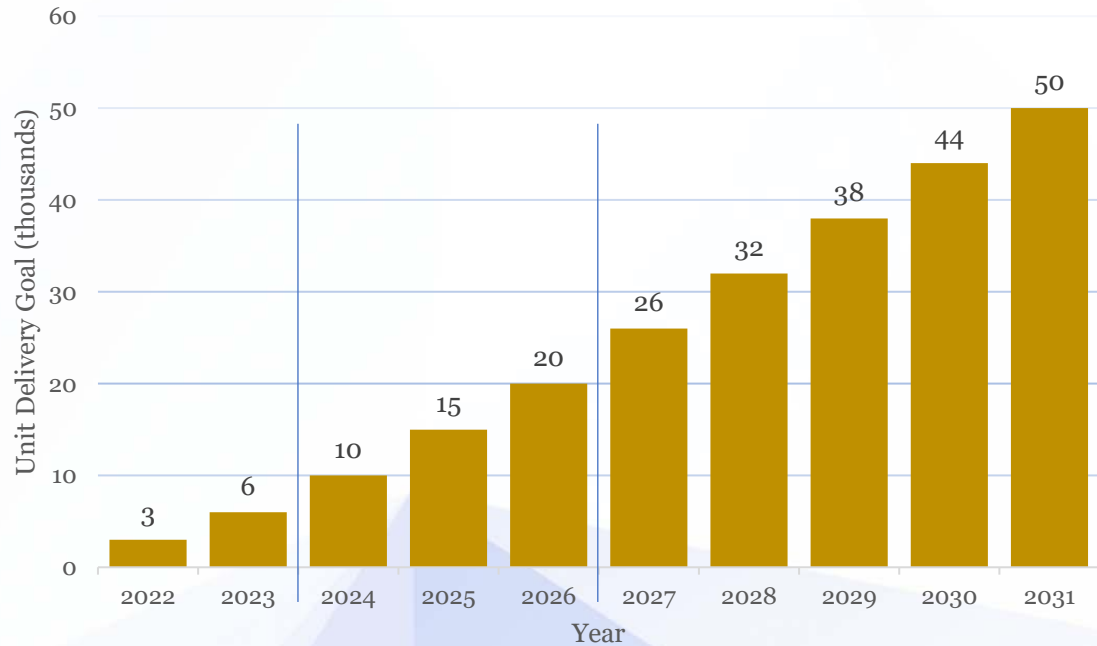
Thinking Differently

We're approaching the affordable housing crisis in new ways and in unique partnership with a wide range of stakeholders

- Intentional Prioritization on Financing Affordable Housing Projects Across the Country
 - Increasing Capacity of Diverse Affordable Housing Developers of Color
 - Developing Flexible Credit Products
 - Creating Off-Balance Sheet Managed Funds
- 

Our new 10-Year Goal

Deliver 50,000-units of affordable housing over the next 10-years. This translates into an estimated \$1 billion capital investment.



■ Cumulative Unit Goal



■ Cumulative Capital Investment Goal



Want More Information?

We'll connect you to one of our investment professionals who can provide expert advice on how to structure a solution.



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Financing Approaches to Meet Affordable Housing Needs



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Partner
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Multifamily Presentation

By Josh Meyer



KUTAKROCK

kutakrock.com

Tax Exempt Obligations

- **Issued by a State or Political Subdivision—Governmental Lender or Issuer**
- **Public Hearing (TEFRA)**
- **Allocation of Private Activity Volume Cap**
 - › Low Income Housing Tax Credits (4%) maximized where at least 50% of construction (or acquisition/rehab) costs are paid with tax exempt debt.
- **Proceeds used to make Loan to Borrower**
- **Tax Regulatory Agreement (LURA)**
 - › Borrower covenants to restrict Project by income for the Qualified Project Period (min-15 yrs)
 - » 20% tenants at 50% AMI, or
 - » 40% tenants at 60% AMI
 - › Tax Credit Regulatory Agreement (and agreements relating to certain sub-debt) may impose additional income and/or rent restrictions

Tax Matters Continued



- **95/5 Test**

- The 95% test requires that, upon completion of construction, the qualified project costs exceed 95% of the bond proceeds.
- Allocation of the uses of bond proceeds can be performed at the end of construction.
- In that way, bond proceeds can be comingled with other monies and spent on project expenditures without worrying which dollar bills are applied to which expenditures.

Types of Conduit Financings

- Back-to-Back Bank Loan Deals
- Bond Private Placements
- Publicly Offered Bonds



Examples of each Deal Type

Back-to-Back Bank Loan Deal

- Banks actively involved in affordable housing
- Bank makes Funding Loan to Governmental Lender; Governmental Lender issues Bank a tax-exempt note evidencing its promise to repay Funding Loan
- Governmental Lender makes corresponding Project Loan or Borrower Loan to Borrower; Borrower delivers promissory note to Governmental Lender promising to repay the Project Loan or Borrower Loan
- Governmental Lender assigns Borrower's Note to Fiscal Agent or Funding Lender as security for repayment of Governmental Note; Funding Lender is appointed Governmental Lender agent to advance funds/service the Borrower's Note
- Limitations on transfer of Governmental Lender Note
- Often Notes have a draw down feature—only pay interest on advances of Funding Loan
- No bond offering document
- Single holder of tax-exempt obligation



Examples of each Deal Type

Bond Private Placements

- Entities facilitating bond private placements—Redstone, R4, Preston Hollow
- Transfer rights—typically Issuer requires an Investor Letter to limit transfer of the bond
- Often the bonds will be book-entry through DTC even though not publicly sold
- No bond offering document
- Bond Purchaser is acting as lead lender with underwriting criteria
- Usually, bond purchaser provides form documents



Examples of each Deal Type-Publicly Sold Bonds

- **Short-Term cash collateralized Bonds**

- Issuer issues Bonds and deposits proceeds into Escrow Account; simultaneously Lender agrees to make HUD/RD Loan to borrower
- Bond proceeds advanced through Lender to borrower when needed, and Lender simultaneously uses its own funds to make HUD/RD loan advances which moneys are deposited in the Bond Collateral Account
- At all times the Bonds are fully secured/collateralized by a combination of Bond Collateral Account and unspent Escrow Account moneys.
- At a set time (typically conversion), tax-exempt Bonds redeemed with moneys in Bond Collateral Account (and Escrow Account if any Bond proceeds are left)
- Project must still adhere to Bond Regulatory Agreement set aside requirements for full 15 years of qualified project period



Financing Approaches to Meet Affordable Housing Needs

Cory Phelps

Vice President
Idaho Housing and Finance Association





Financing Affordable Housing in Idaho

Idaho Housing and Finance Association

The Association is a unique financial institution and administrator of affordable housing resources. In its simplest form, Idaho Housing's mission is to provide funding for affordable housing opportunities in Idaho communities where they are most needed and when it is economically feasible.

Idaho Housing is a self-supporting organization that sustains its business operations through earned fees and revenues similar to any private financial institution. It does not receive financial support from the state of Idaho.

IHFA's Statewide Housing Priorities

- Increase the supply of affordable rental housing in urban and rural communities;
- Reduce homelessness for Idaho's youth, veterans and chronically homeless;
- Prevent homelessness through emergency housing assistance;
- Expand homeownership by providing reasonable education and financial support;
- Financially and organizationally support community and local government investment in housing opportunities that are affordable and;
- Preserve older, existing housing stock to maintain affordability.

Project & Business Finance Department

Multifamily Financing:

- Federal Low-Income Housing Tax Credits
- Idaho Workforce Housing Fund

Federal Programs:

- HOME
- HTF

Tax-exempt and Taxable Bonds:

- Affordable Housing/4% LIHTC Financing
- Nonprofit Facilities Bonds
- Infrastructure Bonds

Economic Development Financing and Credit Enhancement Program

IHFA Resources for Financing Affordable Housing

- Low-Income Housing Tax Credits – 9% (competitive)
- Low-Income Housing Tax Credits – 4% (non-competitive)
- Affordable Housing Tax-Exempt Bonds
- Federal HOME Funds (gap funding resource)
- Federal HTF Funds (gap funding resource)
- Idaho Workforce Housing Fund (gap funding resource)
- Nonprofit Facilities Tax-Exempt Bonds
- Construction Financing

Current Challenges in Financing Affordable Housing

- Pricing for the credit has remained relatively constant
- Land costs have skyrocketed over the past 3 – 5 years
- Labor costs have increased dramatically
- Labor shortage within the construction industry
- Material costs have escalated
- Interest rates on permanent debt are up by more than 60%



4% Tax-Exempt Bond

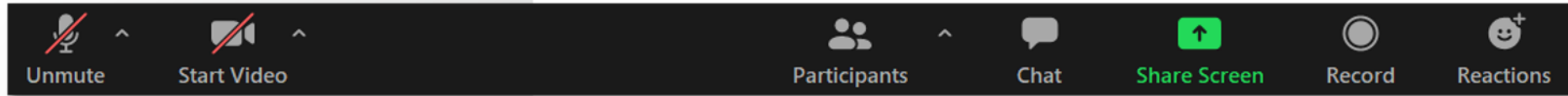
Total Development Cost: \$47,713,000

Source of Funds:	
Permanent Debt at Conversion	\$21,200,000
Tax Credit Equity	\$15,856,600
Subordinate – Idaho Workforce Housing Loan	\$4,000,000
Soft Gap Funding	\$750,000
Grants, Donations, Soft Funds	\$1,200,000
Deferred Developer Fee	\$4,706,400

Project Characteristics

- 192 apartments that will be 100% affordable
- Rent and Income Limits at 60% AMI
- Community center
- Exercise facility
- Community pool, playground and large outdoor area
- Surface parking

Audience Questions



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using the chat function!**



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Fundamentals of Economic Development Finance Course

January 25-26, 2023 // 12:00 - 5:00 PM Eastern

SSBCI Learning Series - Compliance: Program Reporting Requirements

Thursday, February 16, 2023 // 2:00 - 4:00 PM Eastern

Intro Bond Finance Course

March 13-14, 2023 // 12:00 - 5:00 PM Eastern

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