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Best Practices and Strategies for Housing Finance



BNY MELLON

Best Practices and Strategies for Housing Finance



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September 19, 2023

CDFA | BNY Mellon

Development Finance Webcast Series

Best Practices & Strategies for Housing Finance



Community Development Financial Institutions (CDFIs) An Important, Fast-Growing Capital Source to Consider

Institutions with CDFI certification are eligible for competitive federal awards to finance activities including mortgages for first-time homebuyers, flexible underwriting for community facilities, and commercial loans for businesses in low-income areas.

Sizing the CDFI Market: Understanding Industry Growth (August 2023): [sizing-the-cdfi-market-understanding-industry-growth \(newyorkfed.org\)](https://www.newyorkfed.org/outreach/sizing-the-cdfi-market-understanding-industry-growth)

- As of May 2023, there were 1,487 certified CDFIs in the United States.
- Since 2018, industry assets have tripled to over \$450 billion. During the same period, the number of CDFI-certified entities has risen by 40%.
- Many depository institutions, such as credit unions and banks, became certified as CDFIs during the five years ending in May 2023. During that period, the number of CDFI credit unions almost doubled, growing from 290 in 2019 to 529 in 2023.
- CDFI banks and credit unions appear to be the largest individual CDFIs by assets. Specifically, the largest CDFI by assets is a credit union with about \$17 billion. These findings are relevant since they may impact the momentum in further developing a secondary market in loans originated by CDFIs.

Raza Development Fund

A Leading Community Development Financial Institution

The Raza Development Fund (“RDF”) is one of the strongest and best-run, private, mission-driven, community development financial institutions CDFI in the country.

Established in 1999, RDF is a high-performing, investment grade rated, non-profit, minority-led, CDFI that provides specialty financing solutions that actively prioritize improving key social determinants of health for the betterment of society as a whole.

Our team of impact investment professionals provides direct funding and extensive technical support in partnership with local, community-based organizations to affect long-term, transformational change and create real opportunity in disadvantaged communities across the country.



Our investment strategy is predicated on an ultra-high touch and value-added approach to supporting minority-owned and controlled organizations that prioritize tangible outcomes benefiting low-income communities. Operating as a non-regulated, specialty finance company, our due diligence process is decidedly values-based, fundamental, but forward looking, and we actively embrace complexity to capitalize on differentiated, impact investment opportunities.

Community Development Financial Institutions Capital Toolbox for Community Development

We provide tailored capacity building advice, leverage strategic partnerships, and solve complex challenges by always putting the unique needs of local communities first and remaining loyal to our mission.



Revolving Loan Fund

- Predevelopment Loans
- Land Acquisition Loans
- Interim / Bridge Loans
- Construction Loans
- Mini-Permanent Loans
- Mezzanine Loans
- NMTC Source Loans



CDFI Fund Programs

- Capital Magnet Fund
- New Markets Tax Credits
- Bond Guaranty
- Rapid Response
- Equitable Recovery



FHLB Programs

- AHP
- MIDA
- WISH
- AHEAD

Community Development Financial Institutions (CDFIs) Forming Collaborative Community Capital Partnerships

CDFIs are oftentimes uniquely positioned to take the lead in forming community coalitions to advance national and regional funding partners' programmatic initiatives.



Arizona Workforce Housing Impact Fund, LLC

International Boulevard, Oakland, CA

An RDF Case Study

Existing Commercial Building Acquired in March 2020 with \$4.5MM in Acquisition & Predevelopment Financing from Enterprise Community Loan Fund.

4% LIHTC Project
75-units (30-60% AMI)
\$80MM Total Development Cost



International Boulevard, Oakland, CA

An RDF Case Study

Because of the high cost of construction, a significant operating subsidy was needed to make this project feasible.

Unit Mix

22-units averaging \$791 per month for tenants at 30% AMI

8-units averaging \$1,190 per month for tenants at 40% AMI

30-units averaging \$1,528 per month for tenants at 50% AMI

14-units averaging \$1,916 per month for tenants at 60% AMI

1-unit for staff

75-units Total

22-units will be set aside for formerly homeless veterans and 19 will be subsidized under the HUD-VASH Program, with the funds used to pay for social services for the veterans for 15-years with Project Based Vouchers issued by Housing Authority of the City of Oakland.

International Boulevard, Oakland, CA

An RDF Case Study

Excellent Example of the Public and Private Sector Working Together to Bring an Important Community Development to Fruition.

- JPMC is providing Tax-Exempt & Taxable Construction Financing AND Tax-Exempt Permanent Bond Financing
- City of Oakland and Oakland Housing Authority are providing over \$9MM substantial subordinated residual receipt, plus over \$1.1MM in impact fee waivers from the City of Oakland
- The Project received a \$1MM AHP Award through the Federal Home Loan Bank of SF
- Apple Affordable Housing Loan Fund – (pending \$3.3MM request)
- Veteran’s Housing & Homeless Prevention Program (“VHHP”) Program – (pending \$9.5MM request)
- RDF provided \$1MM in CMF funding for predevelopment expenses ahead of LIHTC application and we’ll allow that capital to stay in at 4.00% fixed during the compliance period to the reduce overall cost of hard-pay debt service.



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Best Practices and Strategies for Housing Finance



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CDFA / BNY Mellon: Best Practices and Strategies for Housing Finance

Jason Chamlee, VP of Mixed-Use Development

September 19, 2023



Company Overview

- Positive Community Transformation
- Integrated Real Estate Company
- Ohio, Kentucky, Indiana
- High Impact Affordable Housing
- Neighborhood Revitalization
- Partnerships
- Complex Financing Structures



Housing Finance Tools

New Markets Tax Credits

- Investment in Low-Income Communities
 - Eligibility based on census tract data
 - Commercial / Mixed-Use Development
 - Policy Objectives and Set Asides
- CDEs are awarded allocation
 - \$1 Allocation = \$0.39 Credits = \$0.22 Net Equity
 - CDEs select projects
- Structured Financing
 - All sources fund upfront
 - High Transaction Costs
 - 7 Year Compliance Period

Historic Tax Credits

- Historic Preservation
 - SHPO / National Park Service Standards
 - Community Revitalization
- Eligibility
 - Historic Landmarks or Community Districts
 - \$1 of QREs = \$0.20 Credit = \$0.85 Equity
 - Up to 25% State of Ohio
 - Part 1, Part 2, Part 3 Approvals
- Tax Credit Structure
 - Direct Investment or Master Lease
 - Equity comes in installments
 - 5 Year Compliance from Placed in Service

Additional Tools

- Local Programs

- Tax Increment Financing
- Affordable Housing Trust Fund

- Non-Traditional Debt Providers

- CDFI Lenders

- Non-Traditional Equity providers

- Impact/Mission Investors
- CRA-driven investors

- Opportunity Zone

- Reduces Cost of Capital
- State Credits

- Opportunity Zone

- Reduces Cost of Capital
- State Credits

- Tax Abatements

- Property Tax
- Sales Tax

- Economic Development Bonds

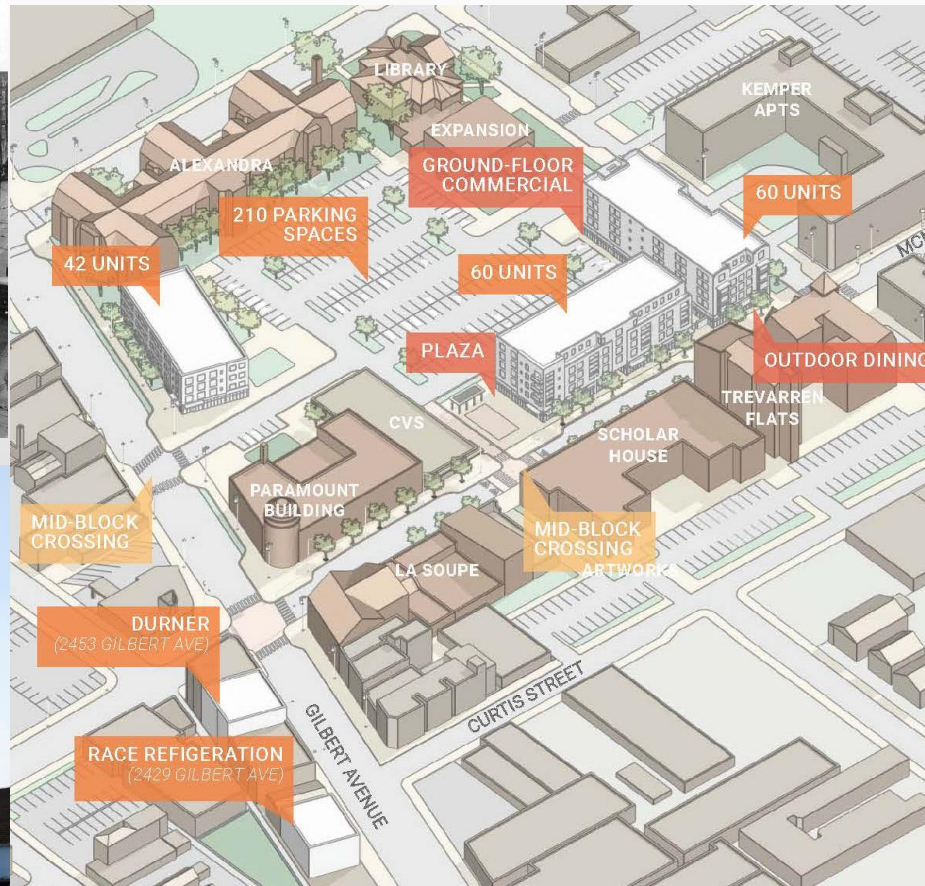
- Tax Exempt

- Federal Programs

- CDBG
- HOME
- ARPA



Walnut Hills Case Study



Phased neighborhood revitalization: 5 separate projects encompassing 2 city blocks. 12 historic buildings, 4 new construction/infill; 117 residential units completed/ 350 residential units planned, Mixed Income; 64,688 sq. ft commercial completed, 32,100 sq. ft planned

TDC	\$44MM completed to date, \$70MM planned
Sources of Funding	<ul style="list-style-type: none"> New Markets Tax Credits Low-income Housing Tax Credits State and Federal Historic Tax Credits Federal Home Loan Bank of Cincinnati AHP Funds City of Cincinnati HOME and CDBG funds HUD 202 funds
Project Start/ End Dates	12/23/2014 thru 12/31/2023

Paramount Launch

- Financing - \$29.7M*^
 - Senior Debt (Enterprise) \$6,250,000
 - Affordable Housing Trust Fund (City) \$ 900,000
 - County ARPA \$ 350,000
 - City Capital Grant \$ 500,000
 - City Contributed Property \$ 500,000
 - Owner/Investor Equity \$4,700,000
 - Philanthropic Contributions \$4,320,000
 - New Markets (CDF) \$9,000,000
 - Federal Historic Equity \$1,650,000
 - State Historic Equity \$1,600,000

**67% Net Tax Abatement*

^Savings of \$375,000 via Sales Tax Exemption on Construction Materials

- Mixed-Income Housing
 - 56 Total Units targeting 60-120% AMI
 - 22 Units Affordable @ 80% AMI
 - 7 Units Affordable at 60% AMI

- Neighborhood Services
 - Boutique Grocery
 - Arts/Culture Center
 - Minority Business Incubator



Points for Consideration

- Complexity
 - Need for Expertise
 - Scale for efficiency
 - Ongoing Compliance
- Combining Sources
 - Overlapping structures
 - Some fit together better than others
 - Soft subsidies, need leverage
- Very Competitive
 - NMTC
 - State HTC
- Partnerships
 - Community/City
 - Design/Construction
 - Financing
 - Leasing and Management



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Best Practices and Strategies for Housing Finance



Cory Phelps

Vice President
Idaho Housing and Finance Association
Boise, ID



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

501(c)3 Tax-Exempt Bond for Workforce Housing

- Skyview Residences Apartments in Hailey, Idaho
- Three building each with four units
- Targeted for workforce housing at 80 – 140% AMI
- Rents are set at 30% of the household's income

Income Limits for 2023 (Based on 2023 AMI Income Limits)

Income Limits for 2023
(Based on 2023 AMI Income Limits)

	60.00%	80.00%	90.00%	100.00%	120.00%	140.00%
1 Person	37,380	49,840	56,070	62,300	74,760	87,220
2 Person	42,720	56,960	64,080	71,200	85,440	99,680
3 Person	48,060	64,080	72,090	80,100	96,120	112,140
4 Person	53,400	71,200	80,100	89,000	106,800	124,600
5 Person	57,660	76,880	86,490	96,100	115,320	134,540
6 Person	61,920	82,560	92,880	103,200	123,840	144,480
7 Person	66,240	88,320	99,360	110,400	132,480	154,560
8 Person	70,500	94,000	105,750	117,500	141,000	164,500
9 Person	74,760	99,680	112,140	124,600	149,520	174,440
10 Person	79,020	105,360	118,530	131,700	158,040	184,380
11 Person	83,280	111,040	124,920	138,800	166,560	194,320
12 Person	87,600	116,800	131,400	146,000	175,200	204,400

Rent Limits for 2023
(Based on 2023 AMI Income Limits)

Bedrooms (People)	60.00%	80.00%	90.00%	100.00%	120.00%	140.00%	FMR
Efficiency (1.0)	934	1,246	1,401	1,557	1,869	2,180	807
1 Bedroom (2.0)	1,068	1,424	1,602	1,780	2,136	2,492	917
2 Bedrooms (3.0)	1,201	1,602	1,802	2,002	2,403	2,803	1,207
3 Bedrooms (4.0)	1,335	1,780	2,002	2,225	2,670	3,115	1,615
4 Bedrooms (5.0)	1,441	1,922	2,162	2,402	2,883	3,363	1,621
5 Bedrooms (6.0)	1,548	2,064	2,322	2,580	3,096	3,612	

Skyview Residences Apartments

- Financed through tax-exempt bonds and equity contributions
- Three private placements totaling \$4,375,000
- Equity contributions totaling \$1,600,000
- Effective rate on the bonds is below market, between 3 – 3.5%

State Gap Financing – Idaho Workforce Housing Fund

- Funded through state ARPA dollars
- \$50,000,000 allocation for gap financing for workforce housing
- Eligible projects had to comply with Treasury's final rule
- Generally projects have to target 80% AMI and below

IHFA named Administrator of the Loan Program

- Develop an Administrative Plan
- Award the loans through a competitive process
- Comply with all of the requirements of the Treasury's final rule
- Disburse the loan proceeds in accordance with Program guidance
- Complete all state and federal reporting requirements
- Meet program deadlines for expenditures of the loan proceeds

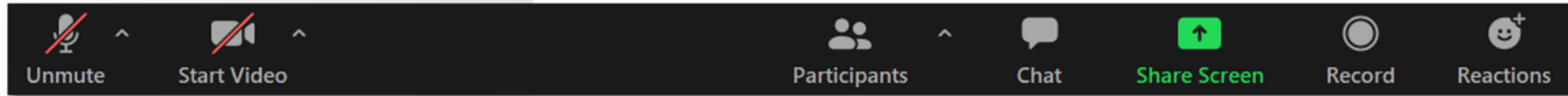
IWHF Loan Commitments from two Competitive Rounds

- 15 multifamily projects
- 8 paired with a 4% LIHTC and tax-exempt bond
- 7 with IWHF loans only
- Supporting 1,134 units
- 2 single family projects
- Supporting 22 homes
- Achieved statewide coverage for the projects awarded loan commitments
- Met the rural set aside commitment of 20%

Total Development Cost: \$36,117,375

Source of Funds:	
Permanent Debt at Conversion	\$21,206,744
Tax Credit Equity	\$6,505,522
Subordinate – Idaho Workforce Housing Loan	\$4,000,000
Subordinate Loan	\$1,900,000
Deferred Developer Fee	\$2,505,109

Audience Questions



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1:00 PM - 4:00 PM Eastern

Intro Tax Credit Finance Course

September 27-28, 2023

Daily: 12:00 PM - 5:00 PM Eastern

CDFA // BNY Mellon Development Finance Webcast Series: Financing Water Infrastructure Projects

October 17, 2023

2:00 PM - 3:00 PM Eastern

CDFA National Development Finance Summit

November 8-10, 2023

Philadelphia, PA



NATIONAL DEVELOPMENT FINANCE SUMMIT

NOVEMBER 8-10, 2023



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