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# Freddie Mac Tax Exempt Loan & Short Term Cash Backed Bonds





# Freddie Mac TEL

- Provides Immediate and Forward Tax Exempt Financing via Private Placement
- With New Construction or Substantial Rehab Forwards, a Bank provides Construction Financing, either:
  - Initially purchasing the Tax Exempt Loan, or
  - Providing a separately secured Taxable Construction Loan

Source: Freddie Mac



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# Forward Freddie Mac TEL – Paired with Short Term Cash Backed Bonds

- Forward Freddie Mac TEL may be paired with Short Term Cash Backed Bonds to provide an efficient means of qualifying for 4% LIHTC:
  - Tax Exempt Loan is initially secured by U.S. Treasuries with little to no negative arbitrage;
  - Construction Loan is Structured on a Taxable Basis with 1<sup>st</sup> Mortgage
  - Once Property is completed, leased and meets Freddie Mac Conversion requirements – Construction Loan is repaid with Proceeds from Freddie Mac TEL and Short Term Bonds are repaid with maturing Treasuries in Collateral Fund

Source: Freddie Mac



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# Forward Freddie Mac TEL – Paired with Short Term Cash Backed Bond

- Structure ideally suited when:
  - Transactions with identity of interest in Tax Credit Investor and Construction Lender
    - Many Tax Credit Investors want to provide Construction Financing
    - Issuer Fee is limited under Tax Law if Construction Loan is Tax Exempt
  - Construction Lender has a preference for a Taxable loan
  - State law prevents tax exempt bonds from being structured on a draw down basis (i.e. Texas)

Source: Freddie Mac



# Estates at Shiloh – Short Term Cash Backed Bond Convertible to Freddie TEL

- Developer – Generation Housing Development
- 264 Unit Affordable Senior Multifamily Property located in Dallas, TX
- 239 Affordable Units & 25 Market Rate Units
- Tax Exempt Loan and other sources financed almost \$28MM in Rehab
- Scope of rehab included renovation of 7,500 Square Foot Community Event Center with Commercial Kitchen

*Source: EMMA- Official Statement*



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# Estates at Shiloh – Short Term Cash Backed Bond Convertible to Freddie TEL

- \$25,000,000 – Short Term Cash Backed Bond –Public Offering by RBC Capital Markets
- Variable Rate Tax Exempt Loan – Minimum 1.25% - 1.75% adjusts semiannually (initial Rate 1.51%)
- 42 Month Construction/ Lease Up Period
- Window to Convert to Freddie Perm: 4/1/22 – 7/1/23 (15 Months)
- Tax Exempt Loan repaid and replaced with Freddie Mac TEL at Conversion

*Source: EMMA- Official Statement*



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# Estates at Shiloh – Short Term Cash Backed Bond Convertible to Freddie TEL

- Bank OZK – Provided \$30MM Taxable Construction Loan and invested in Tax Credits
- Bellwether Enterprise RE Capital/Freddie Mac provided \$25MM Forward Freddie TEL at 3.96%
  - Structure provided enhanced equity pricing by Bank serving in multiple roles
  - Structure minimized negative arbitrage - Variable rate financing met tax requirements while providing opportunity to reduce interest cost when rates are low while capping exposure when rates are high
  - Tax credits earned on Tax Exempt and Taxable Loan Interest paid during Construction







# Estates at Shiloh – Short Term Cash Backed Bond Convertible to Freddie TEL

## **City of Dallas Provided Multiple Financing Resources:**

- Dallas Housing Finance Corporation served as Bond Issuer
- Dallas HFC Served as Co-General Partner which eliminated ad valorem taxes
- City of Dallas Provided \$4,000,000 in HOME and CDBG Subsidy Funds – 40 Year Term and 1% Rate





# Publicly Offered Short Term Cash Backed Bonds – Still Popular

- Short Term Tax Exempt Bonds secured by U.S. Treasury Obligations issued to qualify a development for 4% LIHTC and meet the “50% Test”
- Estimated National Volume of Short Term Cash Backed & Short Term Bridge Bonds for 2019: over \$3.1 Billion in an estimated 162 Transactions
- Paired with Various forms of Permanent Financing
  - Tax Exempt Financing such as Fannie Mae M.TEB to help meet 50% test
  - Taxable Financing
    - FHA 223(f) and FHA 221(d-4)
    - Fannie Mae Conventional Loan
    - Freddie Mac Conventional Loan
    - RD – Rural Development Loan

Source: RBC Capital Markets Database



# Avoiding 10-Year Prior Hold Rule with “Federally-Assisted or “State-Assisted Building” Exceptions

- Housing and Economic Recovery Act of 2008 (“HERA”) provided that a multifamily acq/rehab development that is “**substantially**” **federally financed** would not be subject to a 10 year prior hold.
- “Federally” financed includes Section 8, any HUD or RHS program, among others.
- **Short Term Cash Backed Bonds** have been used for years to “**substantially finance**” the construction or acquisition/rehab of tax exempt bond developments by funding at least 50% of Qualified Project Cost.
- Similarly, Federal Funding of at least 50% – via **FHA Risk Sharing** (including with Freddie TEL /Fannie Mae M.TEB) or **Section 8** – arguably should constitute “Substantially Federally” financed.