PACIFIC WESTERN BANK

2022 NH&RA Pre-Conference Symposium – Deal Structures Part 1

Tax-Exempt Bank Loans – Simple & Efficient Debt Executions for Affordable Housing Projects

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Basics of Tax-Exempt Financing:

Core of the tax-exempt financing structure...only three parties involved:

1. **Borrower**:
   - A special purpose entity.
   - Developing a qualified affordable housing project.
   - Received allocations of 4.00% LITHCs & tax-exempt volume-cap.
2. **Conduit Issuer**:
   - Conducts TEFRA hearing & approves financing documents.
3. **Tax-Payer/Lender**:
   - Pays Federal & State income taxes.
   - Willing to receive income that’s exempt from taxation.

No requirement for “Bonds” or the elements associated with bond financing.

Tax-Exempt Bank Loan Structure:

"Back-to-Back Loan" Structure:

- **"Bank Loan" – Bank makes a loan to the Issuer**. Documentation: loan agreement, note, continuing covenant agreement, construction disbursement agreement, etc.
- **"Borrower Loan" – Issuer make a loan to the Borrower that generally mirrors the Bank Loan**. Documentation: Loan agreement, note, etc.
- **Regulatory Agreement** – Between the Issuer and Borrower lays out the requirements of the Tax Code.
- **Assignment Agreements** – Issuer assigns many of its rights, material agreements, and the real estate and personal collateral to the Bank.
- **Flow of Funds**:
  - Project Costs – Paid from the Bank to the Borrower/Contractors.
  - Interest & Principal – Payments from the Borrower to the Bank.

Tax-Exempt Bank Loans – Advantages:

More intuitive structure. Avoid the complication of other debt executions.

Fewer parties involved. No rating, trustee, underwriter, disclosure, investment agreements and counsels for these parties.

Documentation cut in half, or more.

Lower and predictable financing costs. Makes smaller transactions cost effective.

Leverage existing banking relationship.

CRA credit for loans, instead of investments.

Taxable Tail runs through the structure, adding little or no cost.

Tax-Exempt Bank Loans - Disadvantages

Subject to a sometimes vague/unpredictable bank credit culture.

Banks might not be unfamiliar with the rapidly evolving affordable housing sector. Try to fit developers and projects into a market-rate box.

Don’t fully understand the structuring elements that have created a high-quality credit sector.

Certain terms and conditions aren’t typical for bank lending:

- High Loan-to-Cost, Loan-to-Value during construction.
- Don’t offer permanent financing, but might be able to combine a tax-exempt bank construction loan with a GSE forward, perm execution.
- Long-term permanent financing – 15+ year term, 30 to 40 year amortization.

Pacific Western Bank:

Headquartered in California.

Assets of $40 Billion.

Branch Offices in California (69), Colorado (1), & North Carolina (1).

Loan production offices in 10+ states.

Wide variety of business activities, including: commercial/community banking, venture banking, and asset-based, equipment, and real estate lending.

Pacific Western Bank & Tax-Exempt Lending:

$500 Million = Average annual affordable housing debt originations, including tax-exempt & taxable loans.

Balance-sheet lender, loans funded with our money.

Construction to permanent financing in an integrated execution. Construction-only financings.

Fixed interest rates for construction and permanent phases.

High degree of flexibility, including right-sizing of construction loans, earn-outs, taxable tails, and long-term amortization.

CRA focused, but not driven.

Urban, rural, low-income, homeless, supportive, senior, and farmworker projects.

Disclaimer

Pacific Western Bank is an equal opportunity lender. This is not a commitment to lend. All offers of credit are subject to credit approval.