

2023 Spring Developers Forum

Closing Bond Deals in Today's Interest Rate Environment

May 4, 2023



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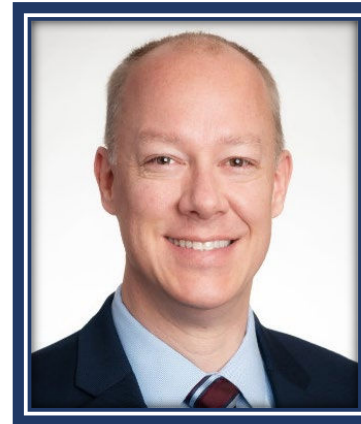
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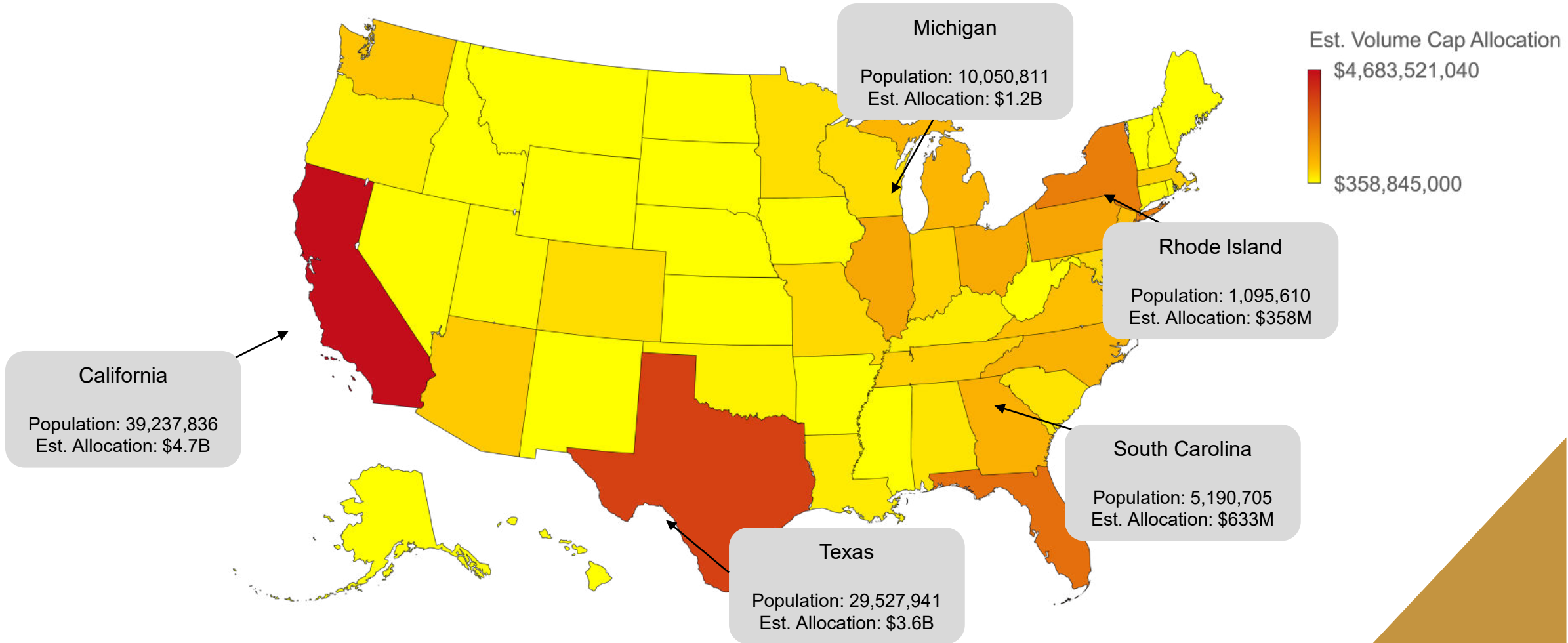


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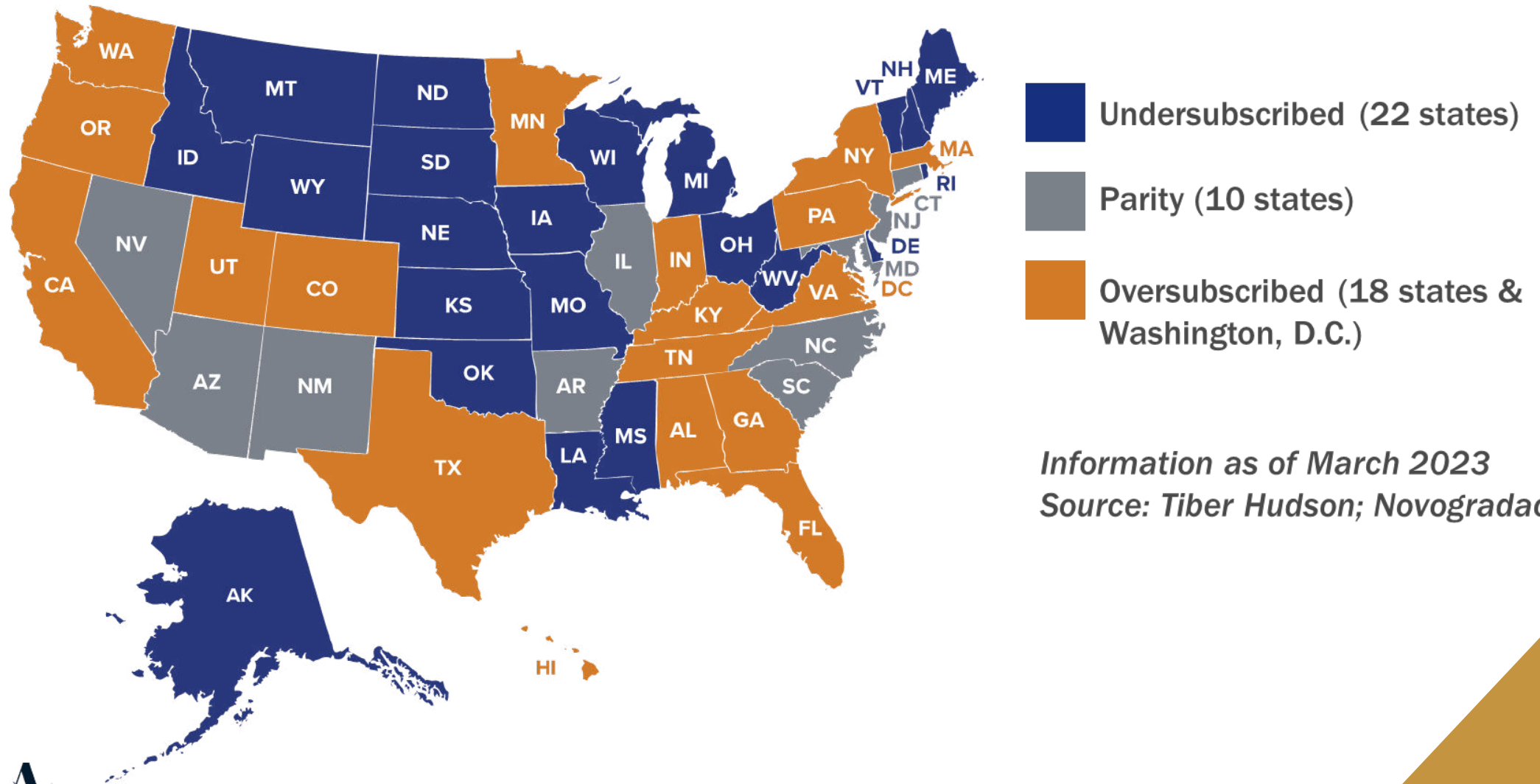
Volume Cap & State Programs

Private Activity Volume Cap Allocation By State

2023 Volume Cap: \$120 per capita or \$358,845,000 minimum for small states.



Multifamily Volume Cap Scarcity

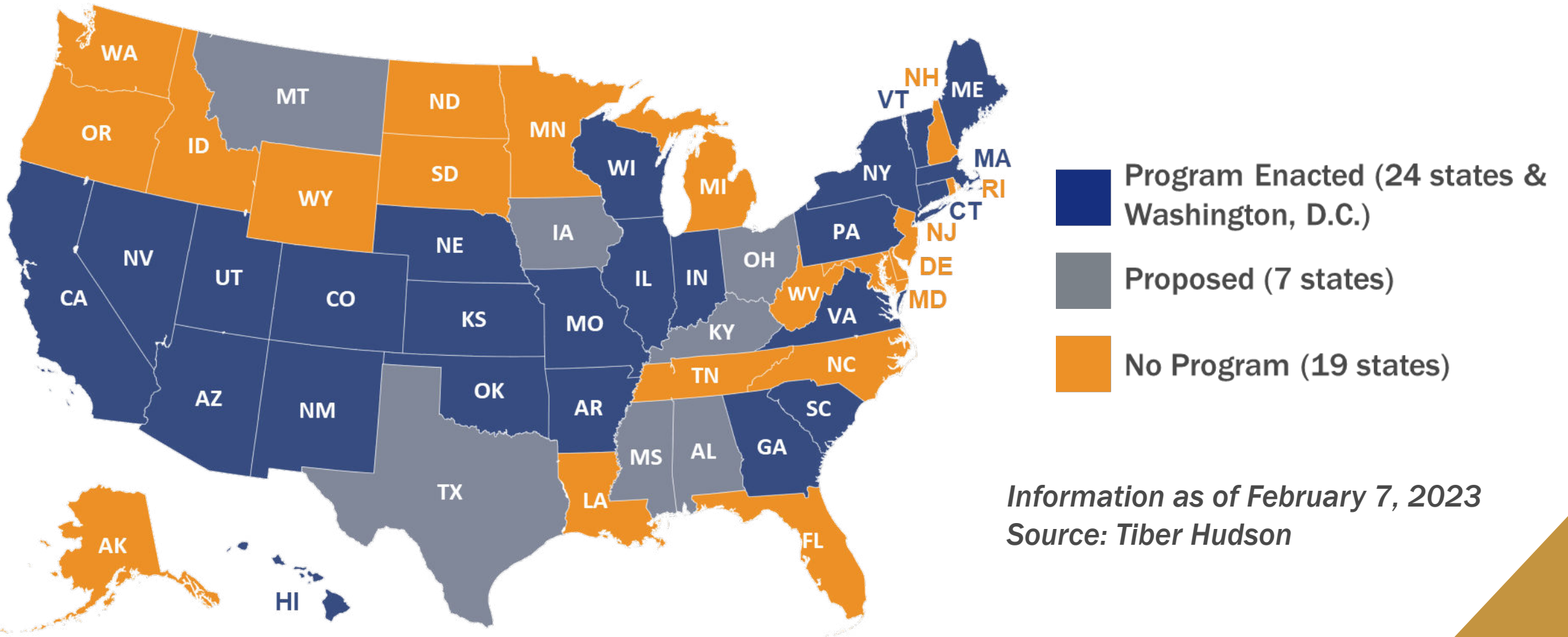


Information as of March 2023
Source: Tiber Hudson; Novogradac

Preserving Volume Cap

- **Limit volume cap to 55-60% of aggregate basis**
- **Bifurcate transactions that are less than 100% affordable**
- **Obtain forward or multi-year volume cap allocation**
- **Twinning 4% and 9% deals**
- **Use recycled bonds for additional supportable debt above amount needed for 50% test**

State Tax Credit Programs



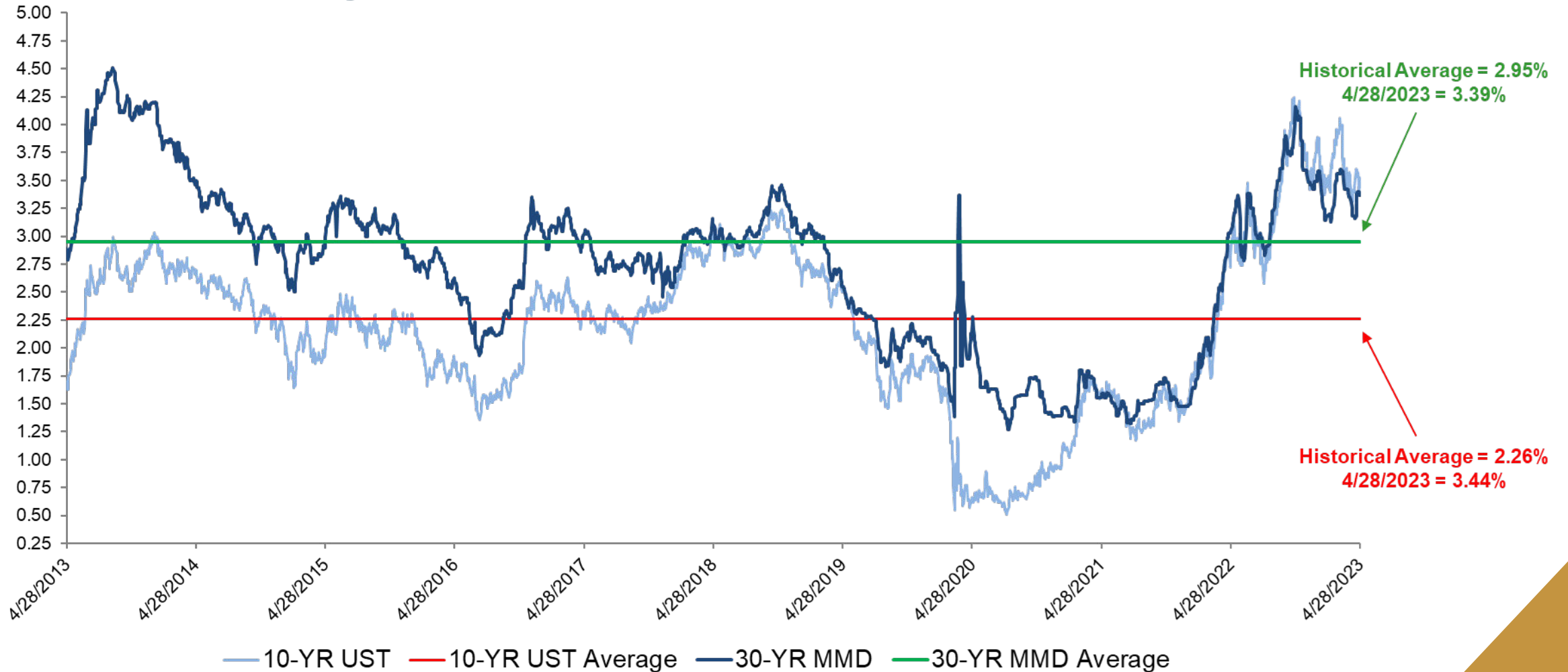
State Subsidy Programs

- **Real Estate Tax Abatement (varies by jurisdiction)**
 - **Non-profit ownership**
 - **Local urban renewal designation**
 - **Certain forms of local debt**

- **State and Local Subsidy Programs:**
 - **Payment in Lieu of Taxes**
 - **Soft funds**

Current Market Indicators

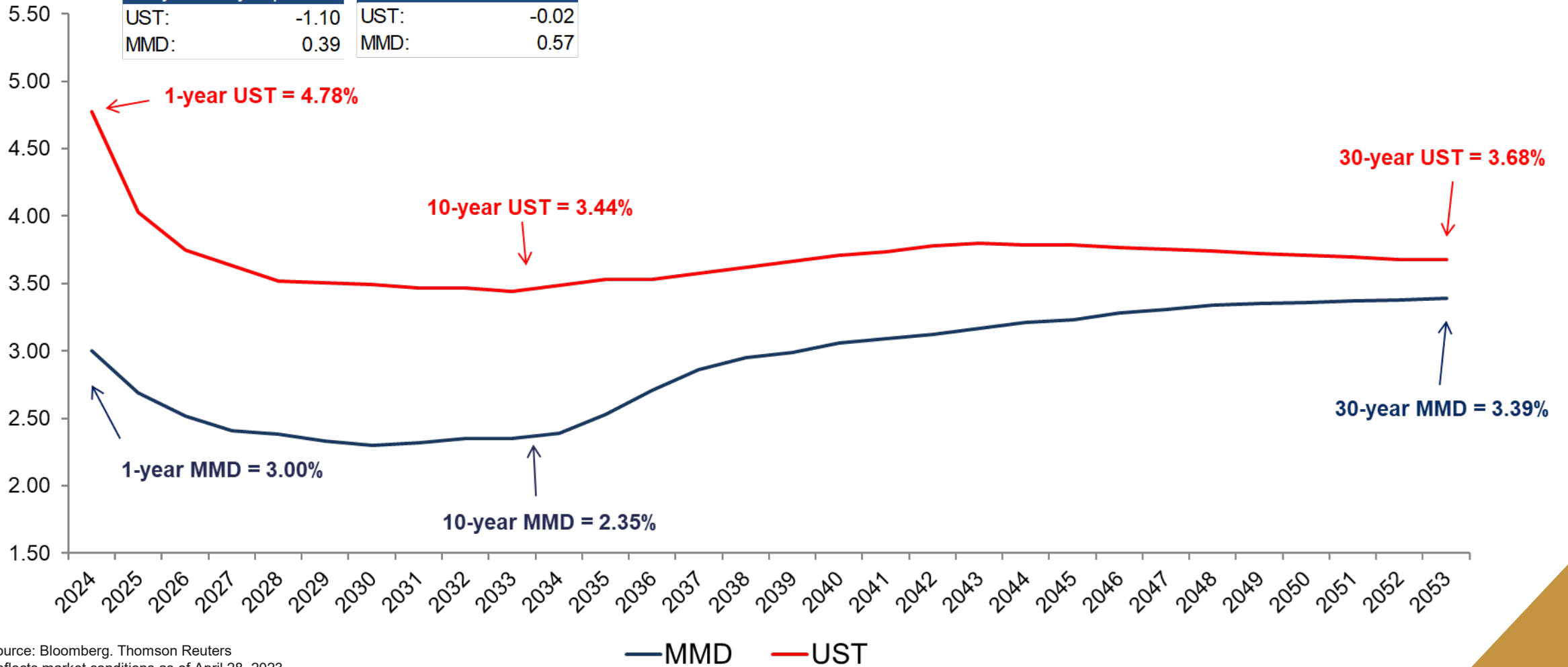
Long-Term Rates: Past 10 Years



Source: Bloomberg, Thomson Reuters
Reflects market conditions as of April 28, 2023
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

Yield Curve: Taxable UST vs. Tax-Exempt MMD

1-yr vs 30-yr Spread		3-yr vs 18-yr Spread	
UST:	-1.10	UST:	-0.02
MMD:	0.39	MMD:	0.57



Source: Bloomberg. Thomson Reuters
 Reflects market conditions as of April 28, 2023
 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

2 Year Short-Term Yield Curves (as of 4/8/2023)



Source: Bloomberg, Thomson Reuters

Reflects market conditions as of April 28, 2023

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

FHA Programs & Short-Term Cash Backed Executions

Short-Term Cash Backed Bonds with Taxable Perm Loan

- **Taxable construction and/or perm loans still available in the current market at competitive rates including:**
 - **FHA/GNMA (221(d)(4) / 223(f))**
 - **Rural Development (538 / 515)**
 - **Fannie loans (mod/light in-place rehab)**
 - **Other (taxable) State and/or Local loan programs**

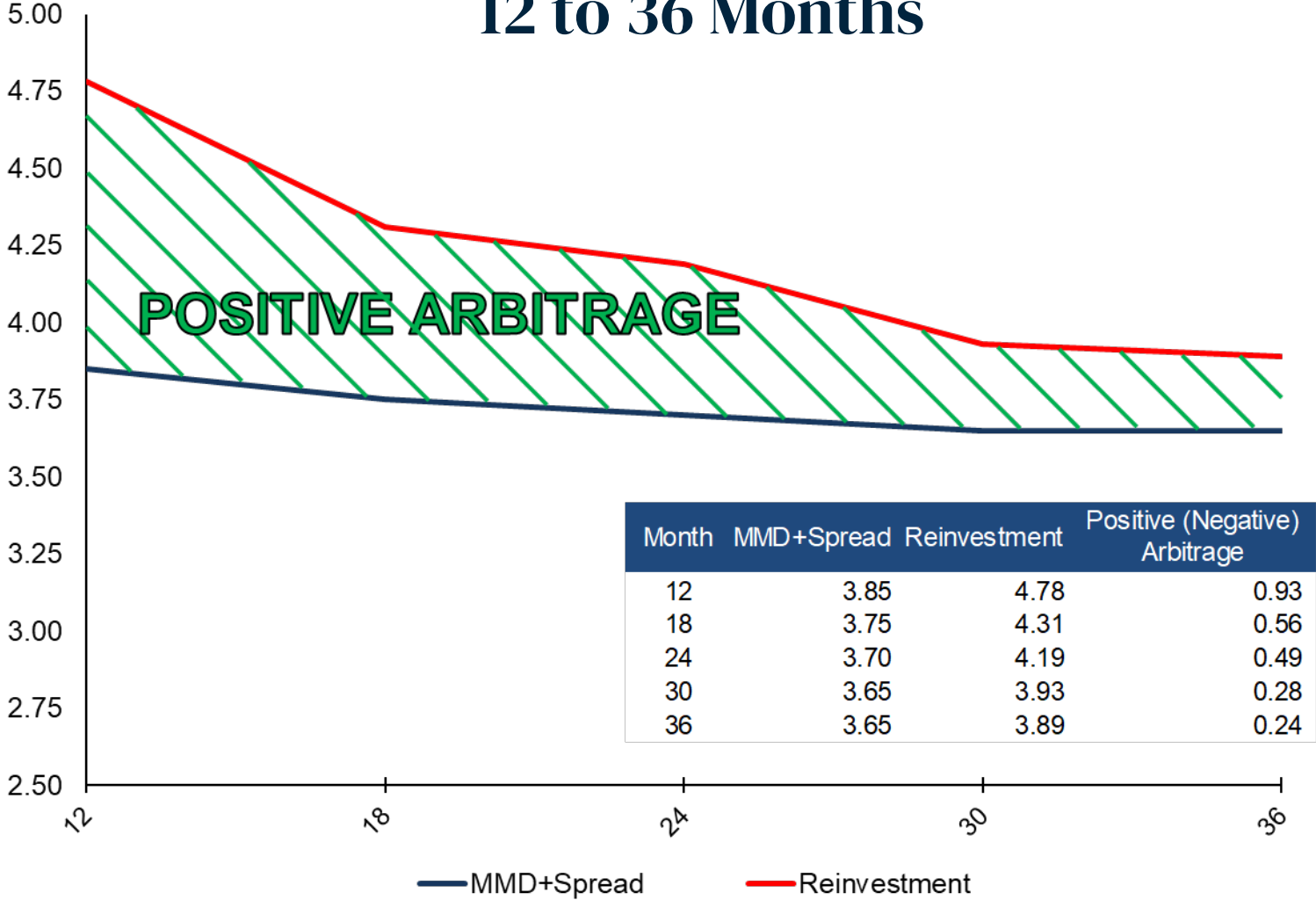
Short-Term Cash Backed Bonds with FHA Credit Enhancement

Favorable Underwriting Terms for FHA loans (223f/221d4) include:

- **35/40-year full term / amortization**
- **Non-recourse & integrated construction and perm**
- **Taxable mortgage loan is funded as needed for sub rehab / new construction deals**
- **FHA debt qualifies for 10-year hold exemption (for acquisition credits)**
- **Competitive rates still available**
- **Davis Bacon wages triggered for sub rehab / new construction deals**

Short-Term Rates vs. Reinvestment Rates

12 to 36 Months



Source: Bloomberg. Thomson Reuters
 Reflects market conditions as of April 21, 2023
 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



Tax-Exempt Seller Note

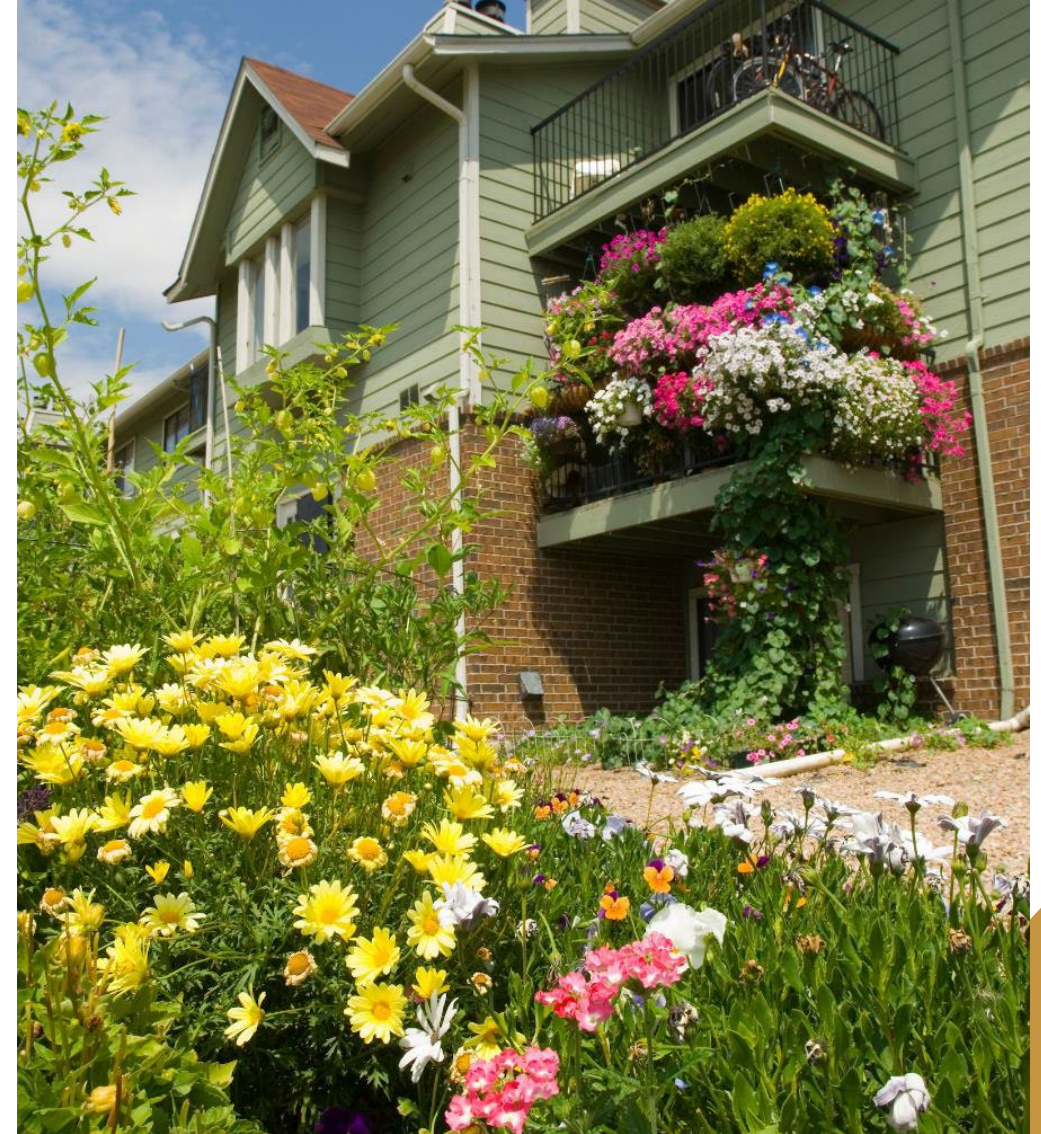
- **If deal contemplates a long-term seller note or other subordinate loan as part of the capital stack, ability to potentially convert all or some to tax-exempt financing to meet 50% test by running through issuer**
- **Can allow blending of yields between short- and long-term bonds as fixed yield issuance**
- **This increases the tax-exempt bond yield above the investment yield for the term, creating excess earnings that can often be retained instead of being rebated to the IRS**

FHA Risk Share Loan Program

- **Construction to Perm – Insured advances returned in 2021**
 - **Requires Davis Bacon**
 - **Great to pair with other Federal Dollars**
- **Able to use with Cash Collateral Structure**
- **Benefit from the inverted yield curve/arbitrage play**
- **Market Execution – most competitive rates**

Risk Share Underwriting

Risk Share Underwriting	
Debt Service Coverage Ratio	1.15
Loan to Value	90%
Amortization	35 Years (up to 42 from close)
Term	35 Years (up to 42 from close)



Risk Share – Arvada House

Arvada House	
Project Type	Acquisition/Rehab
Perm Loan	Risk share
Construction Loan	Insured Advances Risk Share
Issuer	CHFA
Location	Arvada, Colorado
Par Amount	16,100,000
Construction Term	24 Months
Units	89



Other Structures

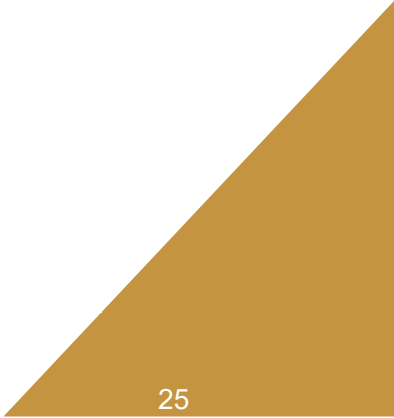
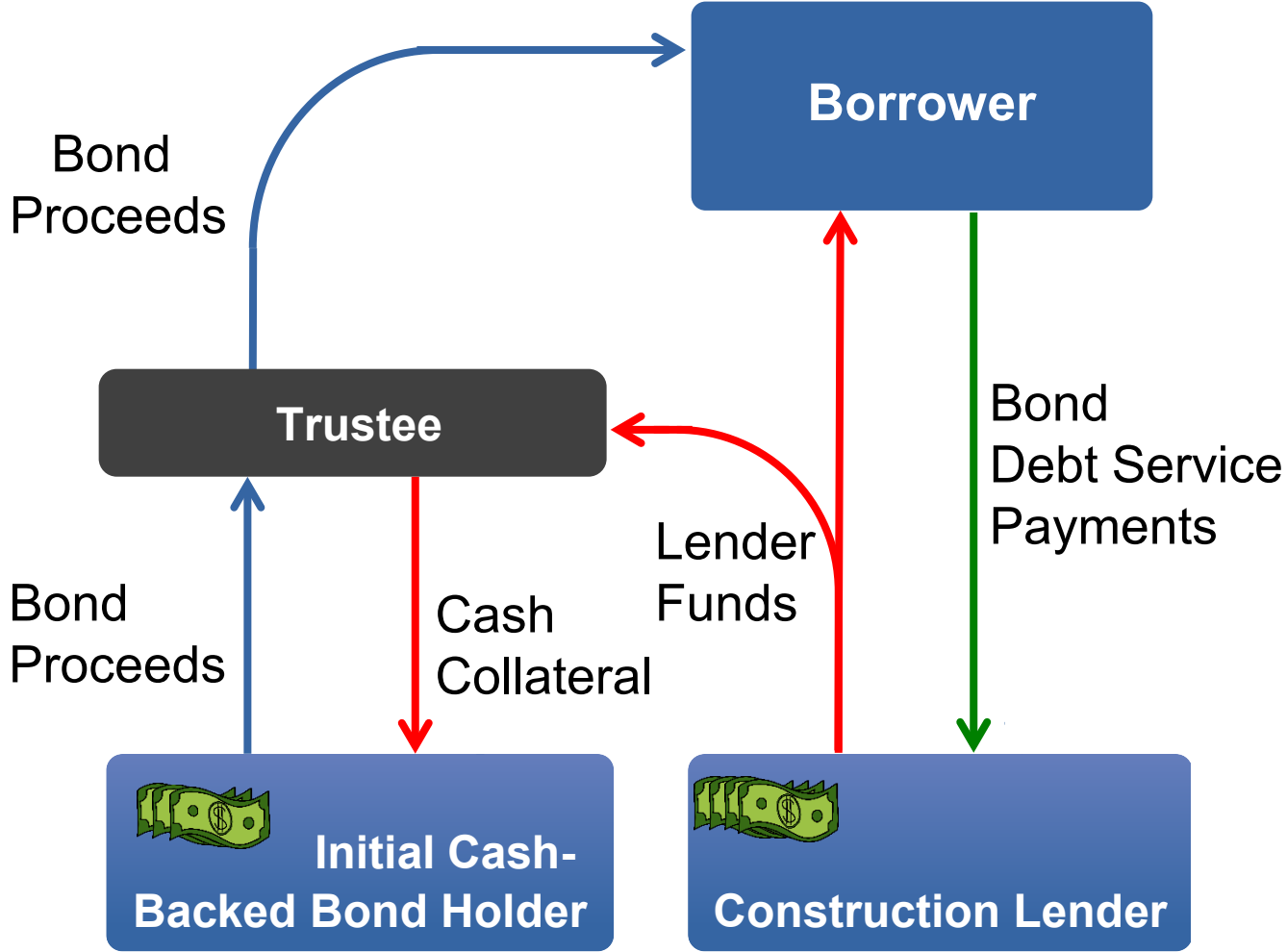
Forward Tax-Exempt Loan (TEL)

- **Freddie Mac / Lender provides forward commitment**
- **The Initial Funding Lender provides a Funding Loan to the Governmental Lender in installments throughout the construction phase**
- **Upon Conversion, the Permanent Lender will purchase the Funding Loan from the Initial Funding Lender, and then subsequently sell to Freddie Mac shortly thereafter**
- **15-18 year loan term**
- **Eliminates complexities of credit-enhanced, publicly offered bond deals**
- **Competitive loan terms for projects which meet the structure parameters**

Cash-Backed Forward

- **Works with any Tax-Exempt financing that involves a forward commitment from a Permanent Lender to purchase the debt at conversion**
- **Takes advantage of inverted yield curve and provides other significant benefits**
- **Provides positive earnings during Cash-Backed mode, as well as additional equity to the project**
- **Allows Equity Investor to also serve as Construction Lender without certain tax implications**
- **In Texas, significantly reduces interest costs on construction loan due to draw down structure**

Cash-Backed Forward



Case Study: Wintergreen Ridge Cash-Backed Forward to TEL

Project Overview	
Project Type	New Construction
Permanent Lender	National Bank
Construction Lender	National Bank
Issuer	Colorado Housing Finance Authority
Location	Keystone, CO
Par Amount	\$12,646,000
Initial Term	24 months
Maturity / Amortization	18 / 40 Years
Units	47



Case Study: Wintergreen Ridge

	Proposed Standard Structure	Cash-Backed Forward Structure
Construction Loan Rate*:	SOFR + 195 Bps (Taxable)	SOFR + 195 Bps (Taxable)
Bond Par Amount:	\$12,646,000	\$12,646,000
Bond Yield:	N/A	3.42%
Reinvestment Rate**:	N/A	4.60%
Equity Generated From Bond Interest**:	\$0	\$250,000
Retainable Earnings***:	\$0	\$335,000
Additional Costs of Issuance:	\$0	(\$145,000)
Projected Savings:		<u>\$440,000</u>

* Construction Lender and Equity Investor were related, so Construction Loan is taxable under both structures

** Reinvestment Income can create additional tax liability to partnership. Confirm with Developer's accounting firm

*** Equity generated is estimated to be 35% of interest through the completion date. Subject to approval by Developer's accounting firm

**** Subject to bond counsel approval

Fannie Mae Structures

Combine MTEB with Additional Fannie Mae Products for Maximum Value



GREEN
REWARDS



HEALTHY HOUSING
REWARDS



WORKFORCE
HOUSING



COST OF ISSUANCE
REIMBURSEMENT

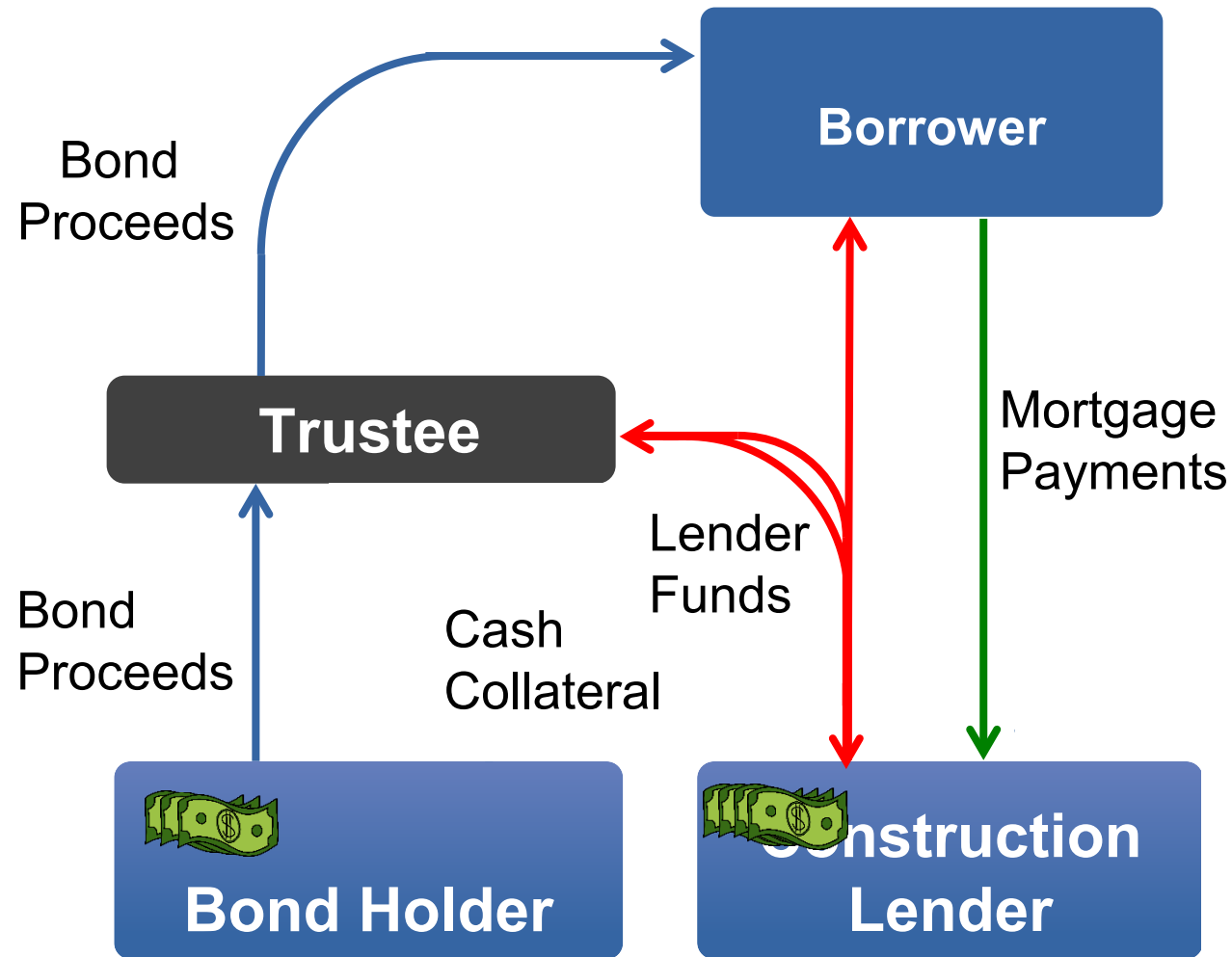


PREMIUM BONDS

Fannie Mae MTEB/MTEM Overview

- **Flexible Interest-Only Period; 35-year amortization (40 years for some deals)**
- **Total Bonds issued in the amount equal to the greater of:**
 - **Permanent Loan – no other series of Tax-Exempt Bonds needed**
 - **55% of Aggregate Basis – second cash-backed or other series of Tax-Exempt Bonds needed**
- **Seller note, equity, or other soft funds can be used to securitize cash-backed bonds**
- **Taxable Supplemental or Tax-Exempt Earn-Out available**
- **Fully integrated bond and underwriting documents developed by Tiber Hudson can be utilized**
- **Fannie Mae / Lender provides forward commitment**
 - **Hybrid structure (Immediate/Forward) available for some mod/sub rehab deals**
 - **For new construction or sub-rehab deals – Construction Lender needed prior to conversion**
 - **Bonds initially secured by cash collateral and construction loan funds, then replaced at conversion with MBS**
 - **Negative Arbitrage on Perm amount prior to conversion**
 - **Fannie to credit 75 bps for Bond related costs**
- **Competitive Rates Available: Often results in additional net loan proceeds despite some upfront costs**

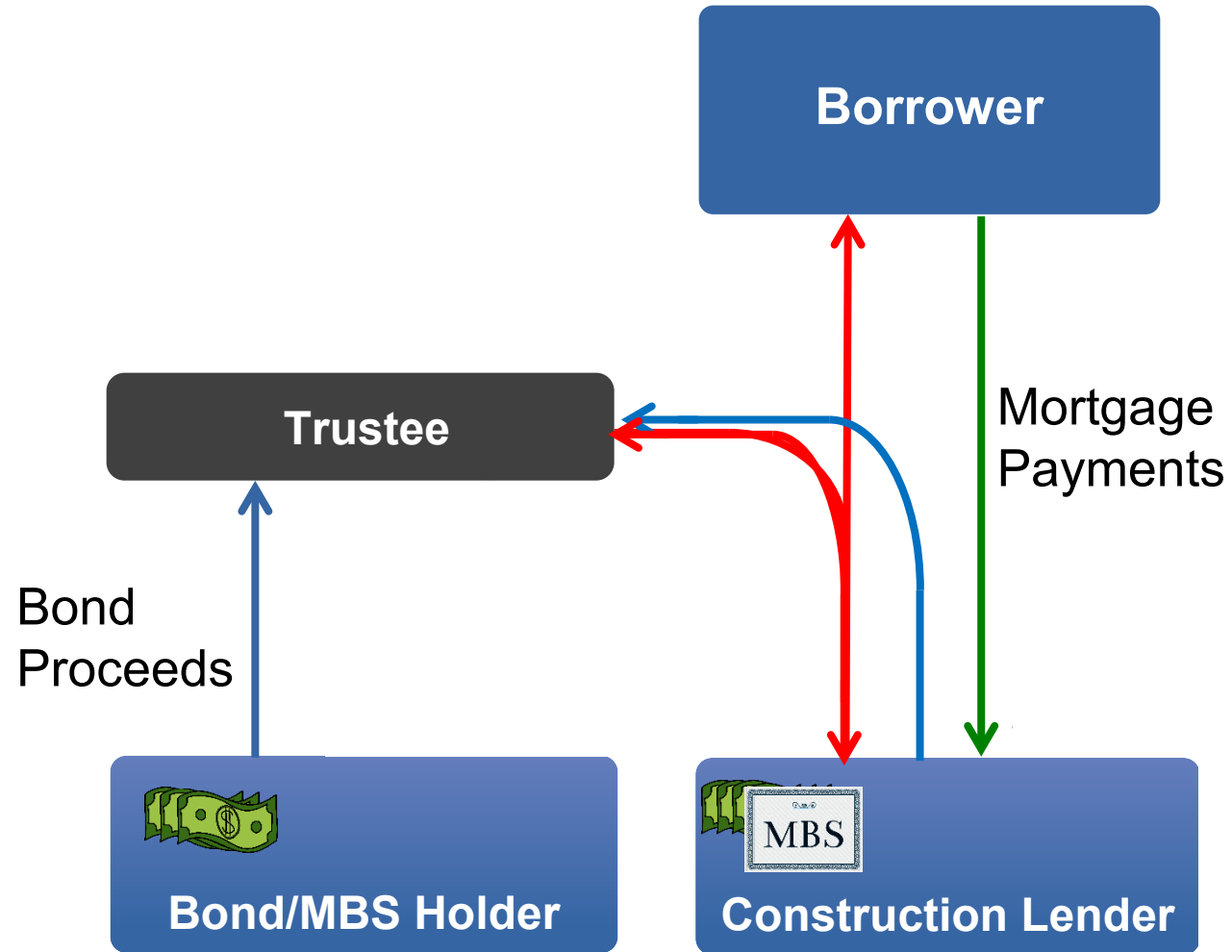
Fannie Mae Forward MTEB




Fannie Mae MTEB/MTEM Variations

- **Healthy Housing Rewards/Green Pricing Discount**
 - Can include preferential pricing and increased loan proceeds
- **Earn Outs**
 - Based on increased value created through the renovation of the project
- **Taxable Second Series or Fully Taxable (MTMBS)**
- **Premium Structure**
 - Tiber Hudson closed the first taxable **premium** MTMBS and first tax-exempt **premium** MTEB in the U.S.

Fannie Mae Taxable Forward MTEB



MTEB / TEL Comparison

		
Tim Hoppin timothy.hoppin@lument.com		
	Fannie Mae 4% LIHTC Forward MTEM	Freddie Mac 4% LIHTC Forward TEL
Lument Proforma NCF	\$2,076,832	\$2,076,832
Loan Term (Months)	180	180
Amortization Schedule (Months)	480	480
Forward Term (Months)	30	30
Interest Rate	5.46%	5.65%
LTV	90%	80%
DSCR	1.15	1.15
Total Loan Amount	\$29,333,000	\$28,610,000
Total Perm Loan Application Fee	\$33,800	\$33,800
Total Perm Legal Fees	\$75,000	\$70,000
Total Perm Loan Closing Costs	\$673,993	\$672,573
Total Forward Conversion Costs	\$20,800	\$20,800
Negative Arbitrage	\$610,678	-\$80,164
TOTAL Costs of Issuance	\$957,838	\$187,836
Estimated Total Transaction Costs (Application, Legal, Closing, Conversion, COI)	\$1,756,431	\$980,009
Estimated LIHTC Proceeds - Capitalized Bond Interest	\$1,589,061	\$1,347,705
Estimated Net Loan Proceeds, Plus Refunded Good Faith Deposit, Plus Add'l LIHTC Equity	\$29,458,960	\$29,263,797

Workforce Housing Case Study – Alta Verde



**Town of Breckenridge Housing Authority
Multifamily Taxable Sustainable Mortgage-backed
Bonds
(M-TMBS)
(Alta Verde Workforce Housing), Series 2022 (FN)**

\$47,500,000



Location	<ul style="list-style-type: none">• Breckenridge, Colorado a popular ski resort and vacation destination located in the central Colorado Rocky Mountains.
Development	<ul style="list-style-type: none">• Alta Verde Apartments is a new construction, 172 residential unit Workforce Housing property consisting of 14 studio units, 38 one bedroom units, 78 two bedroom units, and 42 three bedroom units.• 86 of the units (50%) will be rent and income restricted at 80% AMI;• 69 units will have no income restrictions but will have rents restricted at 120% of AMI;• The remaining 17 units shall have no restrictions.• All residents must work at least 1,800 hours per year in Summit County.
Developer	<ul style="list-style-type: none">• Gorman & Company, an industry leader in the creation and preservation of affordable housing, workforce housing, and the adaptive reuse of significant historic buildings.




**Town of Breckenridge Housing Authority
Multifamily Taxable Sustainable Mortgage-backed
Bonds
(M-TMBS)
(Alta Verde Workforce Housing), Series 2022 (FN)
\$47,500,000**


Finance Team Participants

- Issuer - Town of Breckenridge Housing Authority
- Bond Counsel – Butler Snow LLP
- Perm Lender – LUMENT
- Construction Lender – Vectra Bank
- Subordinate Lender – Colorado Housing and Finance Authority (CHFA)
- Bond Underwriter – Stifel
- Underwriter’s Counsel – Tiber Hudson LLC

Workforce Housing Case Study – Alta Verde

 <p>TOWN OF BRECKENRIDGE</p>	<p>Town of Breckenridge Housing Authority Multifamily Taxable Sustainable Mortgage-backed Bonds (M-TMBS) (Alta Verde Workforce Housing), Series 2022 (FN)</p> <p>\$47,500,000</p>
<p>Loan Underwriting Terms</p>	<p>Forward Period: 30 months + two 6 month extensions</p> <p>Permanent Period: 120 months from the Conversion Date</p> <p>Note Rate: 4.99% (Bond Pass Through Rate + Guarantee & Servicing Fee)</p> <p>Amortization: 420 months</p> <p>Max Loan-to-Value: 80%</p> <p>DSC: 1.25x</p>
<p>Taxable Bond Information</p>	<p>Maturity Date: 13.5 years</p> <p>Bond Pass Through Rate: 3.86%</p> <p>Offering Price: 100.00%</p> <p>Interest Only Period: 42 months</p>

Workforce Housing Case Study – Alta Verde



Town of Breckenridge Housing Authority
Multifamily Taxable Sustainable Mortgage-backed
Bonds
(M-TMBS)
(Alta Verde Workforce Housing), Series 2022 (FN)
\$47,500,000

Project Sources	Bonds	\$47,500,000
	CHFA Subordinate Loan	5,000,000
	Private Equity	10,400,000
	Developer Fee as Equity	4,000,000
	<u>Breckenridge Loan</u>	<u>9,227,056</u>
	Total Sources	\$76,127,056
Project Uses	Hard Construction Costs	\$56,689,693
	Developer Overhead Reimbursement	1,000,000
	Developer Fee Earned as Equity Contribution	4,000,000
	Soft Costs	14,362,363
	<u>Reserves</u>	<u>75,000</u>
	Total Sources	\$76,127,056



Town of Breckenridge Housing Authority
Multifamily Taxable Sustainable Mortgage-backed Bonds
(M-TMBS)
(Alta Verde Workforce Housing), Series 2022 (FN)
\$47,500,000

Noteworthy

- Provided the Developer with a forward rate lock and take-out for a non-LIHTC transaction.
- Bonds priced in a challenging interest rate environment, with pricing occurring one day prior the July Fed FOMC meeting with the announcement of a 0.75% increase in its target fed funds rate.
- There was strong demand for the taxable bonds, priced at an investor spreads of +1.00% over 10 Year LIBOR swaps. Comparable tax- exempt Fannie Mae MTEMS would price at an investor spread of roughly 0.80%.
- Based on the project's income and rent restrictions, the bonds were attractive to CRA investors. CRA benefits may have caused the bonds to price approximately 0.15% tighter than non-CRA eligible taxable bonds.

Workforce Housing Case Study – Alta Verde



Case Study – Alta Verde 9% LIHTC



**Town of Breckenridge Housing Authority
Multifamily Taxable Mortgage-backed Bonds
(M-TMBS)
(Alta Verde Apartments), Series 2021 (FN)**

\$11,392,000



Location	<ul style="list-style-type: none">• Breckenridge, Colorado a popular ski resort and vacation destination located in the central Colorado Rocky Mountains.
Development	<ul style="list-style-type: none">• Alta Verde Apartments is a newly constructed 80 residential unit property consisting of 36 one bedroom units, 36 two bedroom units, and 8 three bedroom units.• 64 rent and income restricted units consisting of 40 units restricted at 60% of AMI, 20 units restricted at 50% of AMI, and 4 units restricted at 30% of AMI.• The remaining 16 units are rent restricted at 60% AMI but income restricted at 100% AMI.
Developer	<ul style="list-style-type: none">• Gorman & Company, an industry leader in the creation and preservation of affordable housing, workforce housing, and the adaptive reuse of significant historic buildings.

Case Study – Alta Verde 9% LIHTC




Town of Breckenridge Housing Authority Multifamily Taxable Mortgage-backed Bonds (M-TMBS) (Alta Verde Apartments), Series 2021 (FN)

\$11,392,000


Finance Team Participants

- Issuer - Town of Breckenridge Housing Authority
- Bond Counsel – Butler Snow LLP
- Tax Credit Investor – National Equity Fund, Inc. (NEF)
- Perm Lender – LUMENT
- Construction Lender – Vectra Bank
- Subordinate Lender – Town of Breckenridge
- Bond Underwriter – Stifel
- Underwriter’s Counsel – Tiber Hudson LLC

Case Study – Alta Verde 9% LIHTC

		<p style="text-align: center;">Town of Breckenridge Housing Authority Multifamily Taxable Mortgage-backed Bonds (M-TMBS) (Alta Verde Apartments), Series 2021 (FN) \$11,392,000</p>	
Loan Underwriting Terms	Forward Period:	42 months	
	Permanent Period:	180 months from the Conversion Date	
	Note Rate:	3.73% (Bond Pass Through Rate + Guarantee & Servicing Fee)	
	Amortization:	420 months	
	Max Loan-to-Value:	90%	
	DSC:	1.15x	
Taxable Bond Information	Maturity Date:	20.8 years	
	Bond Pass Through Rate:	2.37%	
	Offering Price:	100.00%	
	Interest Only Period:	24 months	

Case Study – Alta Verde 9% LIHTC

		Town of Breckenridge Housing Authority Multifamily Taxable Mortgage-backed Bonds (M-TMBS) (Alta Verde Apartments), Series 2021 (FN)	
		\$11,392,000	
Project Sources	Bonds		\$11,392,000
	Column Financial Loan		500,000
	Tax Credit Equity		12,282,543
	Deferred Developer Fee		1,748,507
	Town of Breckenridge Loan via DevManAgree		4,000,000
	Town of Breckenridge Loan of CDBG from DOH		960,000
	Town of Breckenridge Pass through of DOLA Net Zero Grant		1,300,000
	Energy Tax Credit Equity		153,850
	GP Equity		<u>100</u>
	Total Sources		\$32,337,000

Case Study – Alta Verde 9% LIHTC

Town of Breckenridge Housing Authority Multifamily Taxable Mortgage-backed Bonds (M-TMBS) (Alta Verde Apartments), Series 2021 (FN)		
\$11,392,000		
Project Uses	Hard Construction Costs	\$22,113,262
	Developer Fee	2,875,500
	Soft Costs	6,720,148
	Reserves	<u>\$628,090</u>
	Total Uses	\$32,337,000



**Town of Breckenridge Housing Authority
Multifamily Taxable Mortgage-backed Bonds
(M-TMBS)
(Alta Verde Apartments), Series 2021 (FN)
\$11,392,000**

Noteworthy

- First Fannie Mae M-TMBS financing for a 9% LIHTC project.
- Capital markets execution delivered more permanent loan proceeds than other financing sources.
- Solar photovoltaics are being utilized to provide a Net-Zero energy designation.
- Construction is complete, the property has reached stabilized occupancy above 95% and the loan is expected to convert to the permanent phase in fall 2023 at which time the bonds will be redeemed and exchanged for a MBS.

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