

**Virginia**  
**Housing Alliance**  
Expanding Housing Opportunity and Ending Homelessness

## Cash Secured Short-Term Tax-exempt Bonds September 21, 2016

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## FHA Insured Long-term Taxable Mortgages

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- Underwriting Criteria for Affordable Projects
- HUD defines affordable as 20% of units at 50% of AMI or 40% of units at 60% of AMI
- 221d4 – new construction or substantial rehab
  - 40 Year Term plus construction period
  - Today's rate on **221d4**: **3.40% + .25% MIP**
- 223f – refinance of existing properties
  - 35 year fully amortizing loan
  - Today's rate on **223f**: **2.85% + .25% MIP**
  - **1.11 DSC** if 90%+ Section 8; **1.15 DSC** if not
  - **95% - 97% Occupancy**
  - **AGM has closed 15 RAD deals, 14 of them used 4% LIHTC, 221d4, and short-term bonds**
  - **Syndicators are often the limiting factor on loan, will only go to 1.15 or 1.20 DSC**

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## FHA Insured Long-term Taxable Mortgages

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- New Mortgage Insurance Premium
  - 0.25% if Broadly Affordable: 90%+ Section 8 or LIHTC rents 10% below Market
  - 0.25% during Construction, reduces Uses, 25 bps per year but will be recalculated based on drawn amounts for a 221(d)(4)
- New Minimum Equity Pay-in
  - 20% of total equity in cash at closing (no bridge)
  - 37.5% of net equity at 65% complete
  - 62.5% of net equity at 100% complete or final endorsement

“Net Equity” is Total Equity less 1) Deferred Developer Fees that are documented in a note and paid from project surplus cash, not equity, 2) “Delayed” Developer Fees for amounts due after the completion of repairs or construction, but not included in the Deferred Developer Fee Note and 3) predetermined reserve amounts to be held by the investor for project uses after the time of the final pay in noted in the schedule above (Operating reserves, etc.)

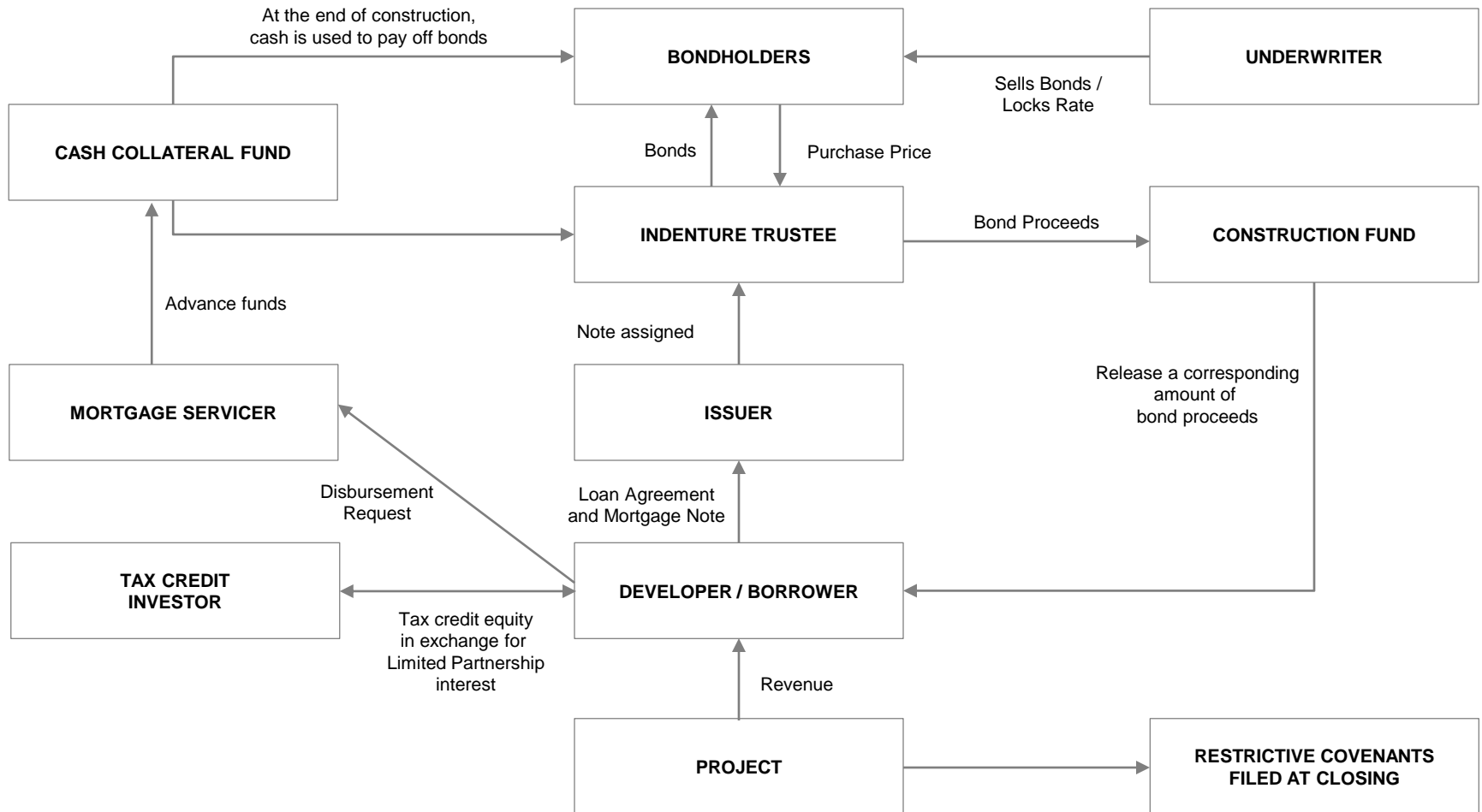
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## Why issue short-term cash secured bonds?

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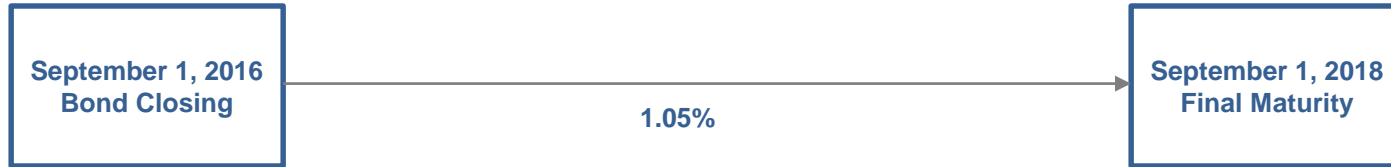
- Under Section 42 of the Tax Code, in order to qualify for the full value of the 4% Low Income Housing Tax Credits, at least 50% of aggregate basis of the building and land must be financed with tax exempt bond proceeds.
- Benefits include:
  - Lower cost of capital
    - Permanent borrowing costs are reduced by over 150 bps
  - Eliminates on-going issuer fees and other administrative fees after 1-3 years
    - This is a huge benefit where issuers charge large (25-50 bps) ongoing fees as long as the bonds are outstanding
  - Negative arbitrage greatly reduced
  - Full syndication value of 4% LIHTC
  - No underwriting on the short-term cash secured bonds
    - Other executions (i.e., private placements) will most likely involve underwriting

## Basic structure and flow of funds



The bonds can be structured under various terms.

**Option 1: The bonds can be priced with a two-year maturity**



**Option 1 allows investment of bond proceeds in eligible investments which may help mitigate the negative arbitrage deposit**

**Option 2: The bonds can be priced with a two-year maturity with a one-year mandatory tender**



**Most equity syndicators reject Option 2 due to interest rate risk and remarketing risk**

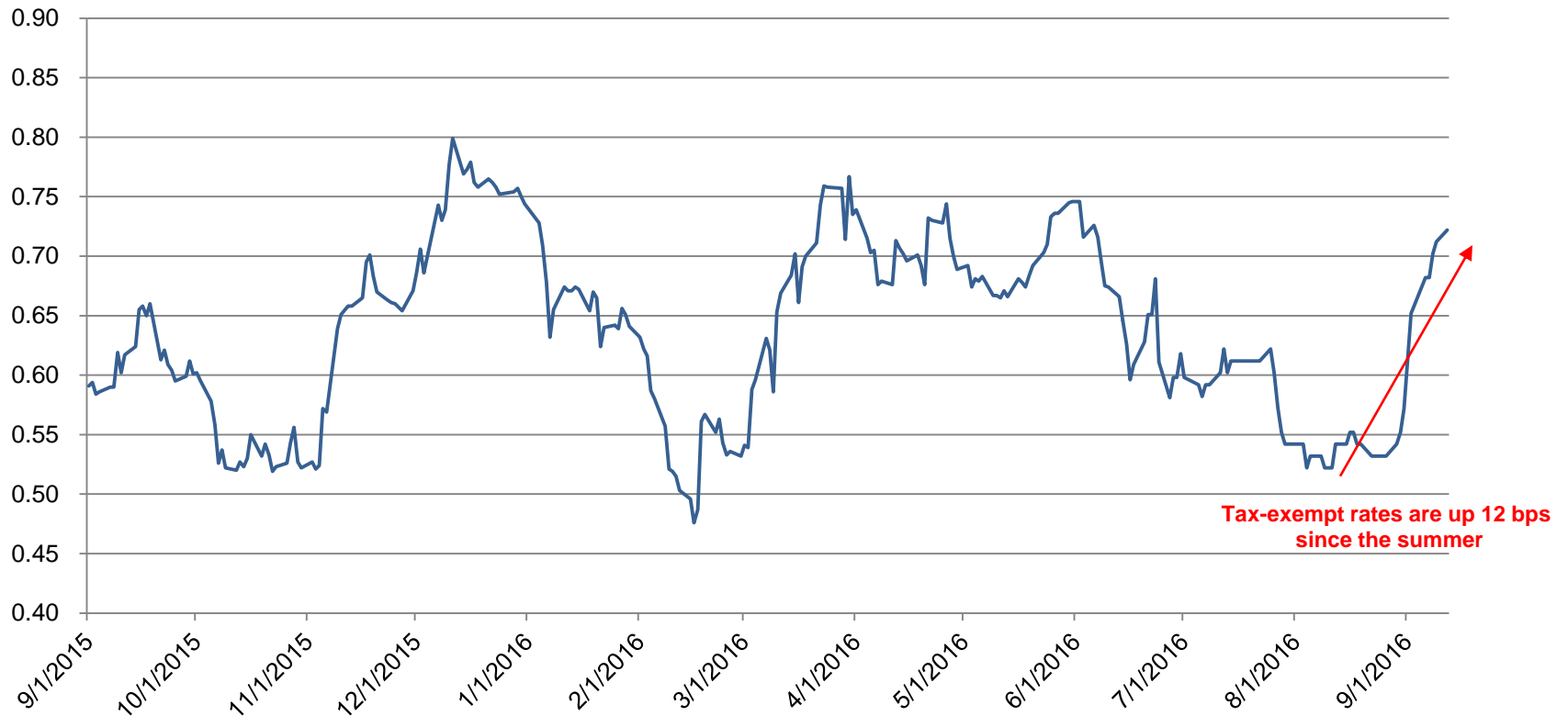
Notes:  
For discussion purposes only. Subject to change based on current market conditions.  
Assumes 2-year placed in service date  
Option 2: On or before the mandatory tender date, the remarketing agent will remarket the bonds with a new interest rate and a new final maturity. The interest rate will not be known until the mandatory tender date.

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Short term rates have trended higher over the past year.

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### Historical Performance of 2-Year Tax-exempt Note

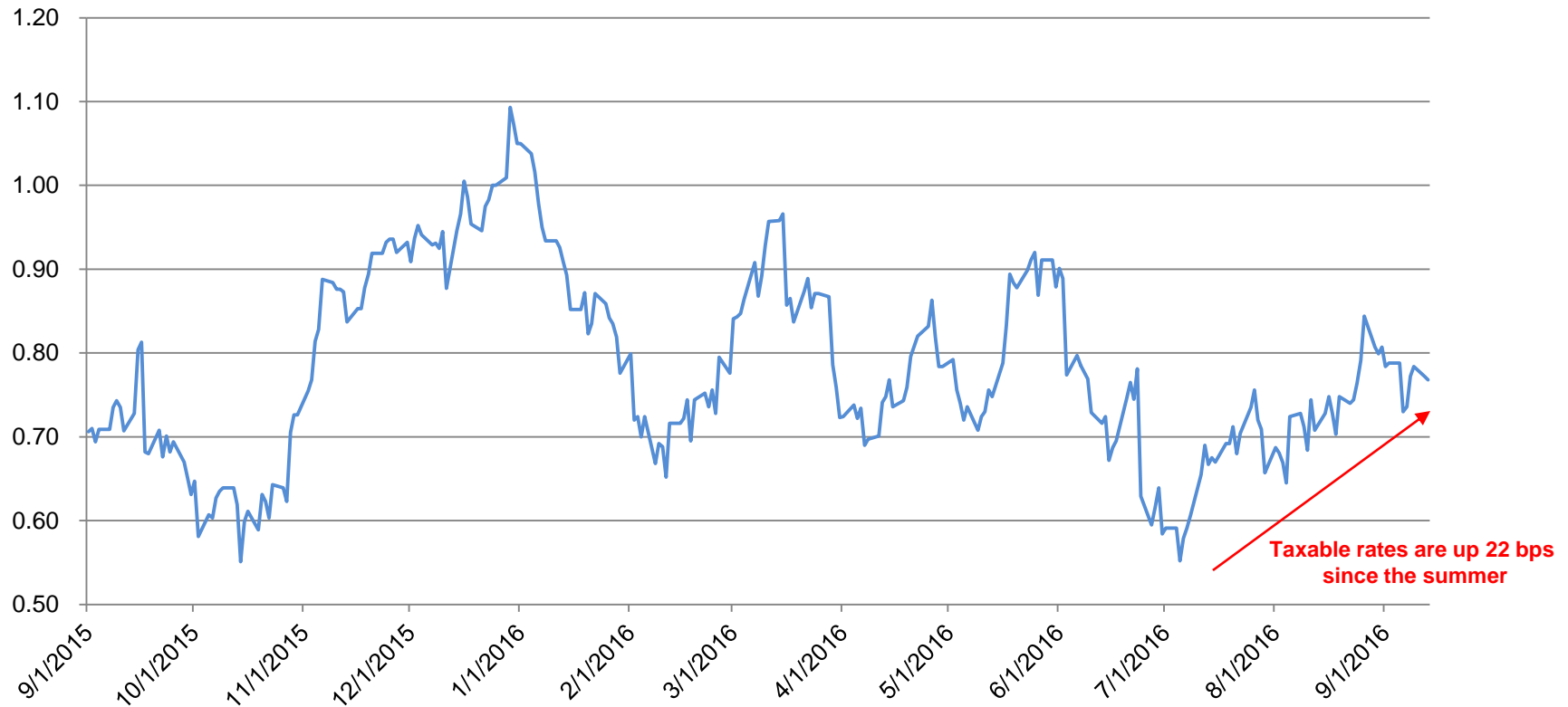


Source: Bloomberg  
Reflects market conditions as of September 12, 2016



.....so have taxable rates, enabling borrowers to invest bond proceeds to minimize the negative arbitrage deposit.

### Historical Performance of 2-Year US Treasury



Source: Bloomberg  
Reflects market conditions as of September 12, 2016