



Affordable Housing – The 221(d)(4) Pilot and Other Initiatives

- Panelist:** Terry Wellman, PNC Real Estate
- Panelist:** Chuck Ewing, JLL Capital Markets
- Panelist:** Tracy Peters, RED Capital Mortgage
- Panelist:** Elizabeth Arteaga, HUD Headquarters
- Moderator:** Adam Roberts, JLL Capital Markets

Affordable Housing – The 221(d)(4) Pilot and Other Initiatives



- Short Term Bond Structure with FHA Financing – Tracy
- Syndicators and the Market Place – Chuck
- 2018 Achievements/2019 Initiatives – Terry
- LIHTC Production/221(d)(4) Pilot – Liz
- 221(d)(4) Pilot Q&A – All





SHORT TERM BOND STRUCTURE WITH FHA FINANCING

March 11, 2019

red capital
group

Today's Benefits of Short Term Bond Structure

- 1 Qualify for 4% tax credits (due to the use of tax exempt bonds) which results in equity source of over 30% of development costs.
- 2 Lower FHA Mortgage Rate
- 3 Minimal to NO Negative Arbitrage. Saves hundreds of thousands of dollars in transaction costs.

Timing of the Bond Deal

- Bond Application/Volume Cap/Initial Approval
 - As soon as possible
- Document Preparations and Review
 - Around Submission of FHA Loan App
- Bond Pricing
 - ~2 weeks before Closing
- Pre-close/Close
 - Simultaneous with FHA Loan closing



The Many Paths to Closing

| Time Period | Property Path | TE Bond Path | FHA Path | Equity Path | Subordinate Debt/PILOT/Other |
|-----------------|---|--|---|---|------------------------------|
| 1-6 Months | Initial Due Diligence/Feasibility/PSA | Submit for Inducement Resolution <hr/> TEFRA Hearing <hr/> Receive Inducement Resolution | | | Letter of Intent |
| 3 Months | Property Due Diligence, Testing, Reports <hr/> Hire Architect, Plans & Specifications <hr/> Hire GC ,Contract Bidding | Submit Bond Application | Lender Letter for Bond Application <hr/> Lender Due Diligence/Underwriting <hr/> FHA Application Submitted | Equity Letter for Bond Application <hr/> Investor Due Diligence/Underwriting | Commitment Letter/Approval |
| 2 Months | | Begin Weekly All-Hands Calls <hr/> Bond Documents Drafted | Closing Kick-Off Call <hr/> HUD Commitment Received | Equity Approval Received | Documents Completed |
| 4 Weeks | | Bond Docs Substantially Complete | Special/Additional Conditions Cleared <hr/> All Participants' Approval <hr/> Rate Lock <hr/> Closing Package Submitted | LPA Substantially Complete | |
| 2 Weeks | | Bonds Marketed & Priced (~2 Weeks Preferred) | Review Comments Addressed <hr/> Closing Date Set | | |
| "Closing Day" 1 | Permits Pulled | Bond Pre-Closing/Document Sign | | | |
| "Closing Day" 2 | | | HUD Pre-Closing/Document Passing | | |
| "Closing Day" 3 | | | | | |

\$\$ - Endorsed FHA Note Received, All Sources of Funds Released from Escrow - \$\$

More Info re Bond Related Timing

- 1 Bond application submitted either separately or combined with tax credit application – process varies by state.
- 2 Issuer meetings for certain approvals (TEFRA, Resolutions, Document approval) are all crucial for closing and vary by state.
- 3 Some states may have more than one potential issuer of the Bonds – e.g., CA, TX. Some states have just one – e.g., DC.
- 4 Issuer costs and bond counsel options can vary depending on state. Important for developer to know their options.
- 5 Coordination with HUD closing schedule is crucial; typically coordinated by bond underwriter.
- 6 Need firm closing date from HUD in order to price (market and sell) the bonds.

Importance of Setting Closing Date

Bond transactions often have hard closing deadlines that could be set by:

- Bond volume cap award expiration date;
- Purchase and sale expiration date;
- Construction contract expiration date;
- Placed-in-service deadlines.

Missing these dates could result in:

- Loss of Bond allocation from the state;
- Renegotiation of purchase price or loss of property;
- Increase construction cost;
- Downward adjustments in the final amount of tax credit equity.

The Bond Underwriter needs a firm closing date from HUD at least 2 weeks prior to when the closing is to occur...

Ideal Closing Timing Sequence

Often best to work backwards from Closing Deadline:

| | |
|--|-----------------------|
| Bond Closing Deadline: | Friday, October 26 |
| Target Closing/Funding Date ¹ : | Thursday, October 25 |
| HUD "Passing of Papers" ² : | Wednesday, October 24 |
| Recording ³ : | Tuesday, October 23 |
| Bond Preclosing/Document Signing ⁴ : | Monday, October 22 |
| Bonds Priced: | Friday, October 19 |
| Print Preliminary Official Statement / Market Bonds: | Monday, October 15 |
| HUD Closing Date Confirmed: | Friday, October 12 |

Notes

1. Most Bond deals have a 1pm ET closing deadline so funding date should always be day after HUD "preclosing".
2. Often confused with funding date. Important to clarify funding is following day.
3. Varies by jurisdiction – can take 2+ days in some locations.
4. Often accomplished by "mail" with no in person meeting required.

Contact



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2019 Eastern Lenders Conference Affordable Panel

LIHTC Equity Update



General Market Conditions

ELA 2019 LIHTC Equity Market Update

1. Pricing

a) Impact of Tax Changes in 2017

b) Stabilized Levels

2. Investors Entering / Exiting the Market

3. Criteria Between the Funds – What Investors Look For

Underwriting Issues

ELA 2019 LIHTC Equity Market Update

- 1. Syndicator Underwriting of Loan Sizing**
- 2. 9% vs. 4% Deals – Limitations**
- 3. Guarantees**
- 4. Rent Discount to Market Rent**

HUD - Related Issues

ELA 2019 LIHTC Equity Market Update

- 1. Escrow Sizing and Coordination with HUD-Required Escrows**
- 2. Equity Pay – In**
- 3. Bridge Loans**
- 4. Timing**

Trending

ELA 2019 LIHTC Equity Market Update

- 1. Payment and Performance Bonds**
- 2. Opportunity Zones**
- 3. Income Averaging**
- 4. Volume of Syndications**

221(d)(4) PILOT

ELA 2019 LIHTC Equity Market Update

1. Timing

2. Deals Not Qualified

3. Steps in the Right Direction

MBA LIHTC Committee
Completed & Current Committee Initiatives

March 11, 2019

Eastern Lenders Association
2019 Conference
Baltimore, MD

Completed Initiatives, 2017 to 2019

1. Pledge of GP Interest for Equity Bridge Loan

Impact: Keeping equity bridge loans available as an option; provides additional security to EBL lender, which is already considered "thin."

Source: March 8, 2017 Bob Iber Memo; included in MAP Guide revisions

2. Waivers of 2.5% Latent Defect for LIHTC Heavy 223(f)s

Impact: Saves tens of thousands of dollars in transaction costs

Source: LIHTC conference call with HUD, regional offices provided guidance on March 2018; included in MAP Guide revisions

3. Waiver of Working Capital for Tenant-in-Place Rehab

Impact: Saves hundreds of thousands of dollars in transaction costs with minimal risk

Source: LIHTC conference call with HUD; included in industry MAP Guide revisions

4. LIHTC Wheelbarrow 2.0

Impact: Easier to use, saves time

Source: https://www.hud.gov/program_offices/housing/mfh/map/maphome/taxcredit

Completed Initiatives, 2017 to 2019

5. Deferred Developer Fee – No longer required by HUD to be evidenced as Surplus Cash Note

Impact: Ease, less documents, aligns with majority of industry

Source: November 5, 2018 Pat Burke Memo; included in MAP Guide revisions

6. MAP Guide Revisions of Ch. 14 and Affordable-Related Chapters

Impact: Clean up, capture recent changes, best practices, conform to industry standards

Update: Draft to be issued in May for comment; LIHTC Committee working group to be used to relay review comments

7. 221(d)(4) Pilot

Impact: Faster processing, saves time and money

Training: To be held on April 16th at the SMAC Conference in Atlanta

Source: HN 2019-03 released on February 21, 2019

8. DDF Memo Correction – When treated as equity, repayment of DDF is **NOT** limited to 75% of Surplus Cash

Impact: Allows faster repayment of DDF

Source: Confirmed, corrected memo forthcoming

Current Initiatives

1. Chapter 14.16.C – Remove Automatic Termination of Equity Bridge Loan upon Foreclosure/Deed in Lieu; Discharge v. Termination

Impact: Provides more security to bridge lender; keeps borrower on the hook for repayment; align with general industry practice.

Update: TBD; included in MAP Guide revisions

2. Term of DDF Note \leq 15 years – When DDF has to be evidence as a note (by other parties), allow the term of that note to be 15 years rather than co-terminus with HUD loan.

Impact: Allows Developer Fee to be included in eligible basis; comports with IRS requirement

Update: Expectation is that DDF will not be treated as debt; waiver can be requested if absolutely necessary; included in industry MAP Guide revisions

3. HAP MUTM Working Group

Impact: Seeking consistency in process and approval among all offices.

Update: Memo submitted to HUD in December 2018; HUD working group to be formed

Current Initiatives

5. Income Averaging Added to Definition of Affordable Housing

Impact: Align HUD definition of "affordable" with new IRS definition

Update: TBD; included in industry MAP Guide revisions

6. Extension of Term of Equity Bridge Loan beyond Final Endorsement for (d)(4)s & Construction Completion for 223(f)s

Impact: Potential increase in credit pricing => higher equity; no risk to HUD

Update: TBD; included in industry Map Guide revisions

7. 10% Equity & 10% EBL at Closing

Impact: Potential increase in credit pricing => higher equity; no risk to HUD; align with Fannie/Freddie.

Update: TBD; included in industry Map Guide revisions

8. MBA Affordable/LIHTC UW Training Course

Impact: Formalized training for aspects affordable housing finance in conjunction with insured financing; priceless

Update: LIHTC Committee to coordinate efforts in creation of course; potential roll out in Fall 2020

Current Initiatives

9. Section 811 Capital Advance Grant Notice

Impact: HUD received an allocation through the Fiscal Year 2018 and 2019 appropriations of approximately \$112.7 million for capital advance and project rental assistance. There has been no capital advance funding for the program since 2011. The allocations are specific for use in providing rental assistance and/or capital for the development of affordable rental housing units for persons with disabilities.

Update: Notice to be published on or late about Summer 2019.

10. (d)(4) Pilot Notice Q&A

Impact: Clarifications, questions, and comments

Update: Submitted to HQ on March 4th.

11. Up to you!

Impact: Clarifications needed, alignment with industry practice, make life easier

Update: Let the LIHTC Committee know.

MBA LIHTC Committee

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ELA Conference

March 11- 13, 2019

Elizabeth H. Arteaga

Housing Program Officer, HUD HQ



**THE LIHTC
PILOT
NOTICE HAS
BEEN
PUBLISHED!**

Background

- 1991-2013 7-8% of FHA Volume with LIHTC
- 2008-2012 HERA required Pilot program being considered.
- 2012 Section 223(f) Pilot Notice published.
- 2014-2015 Series of Memos issued. Pilot complete with 2016 MAP Guide.
- 2016 Reduced MIP for Affordable Deals published in CFR.

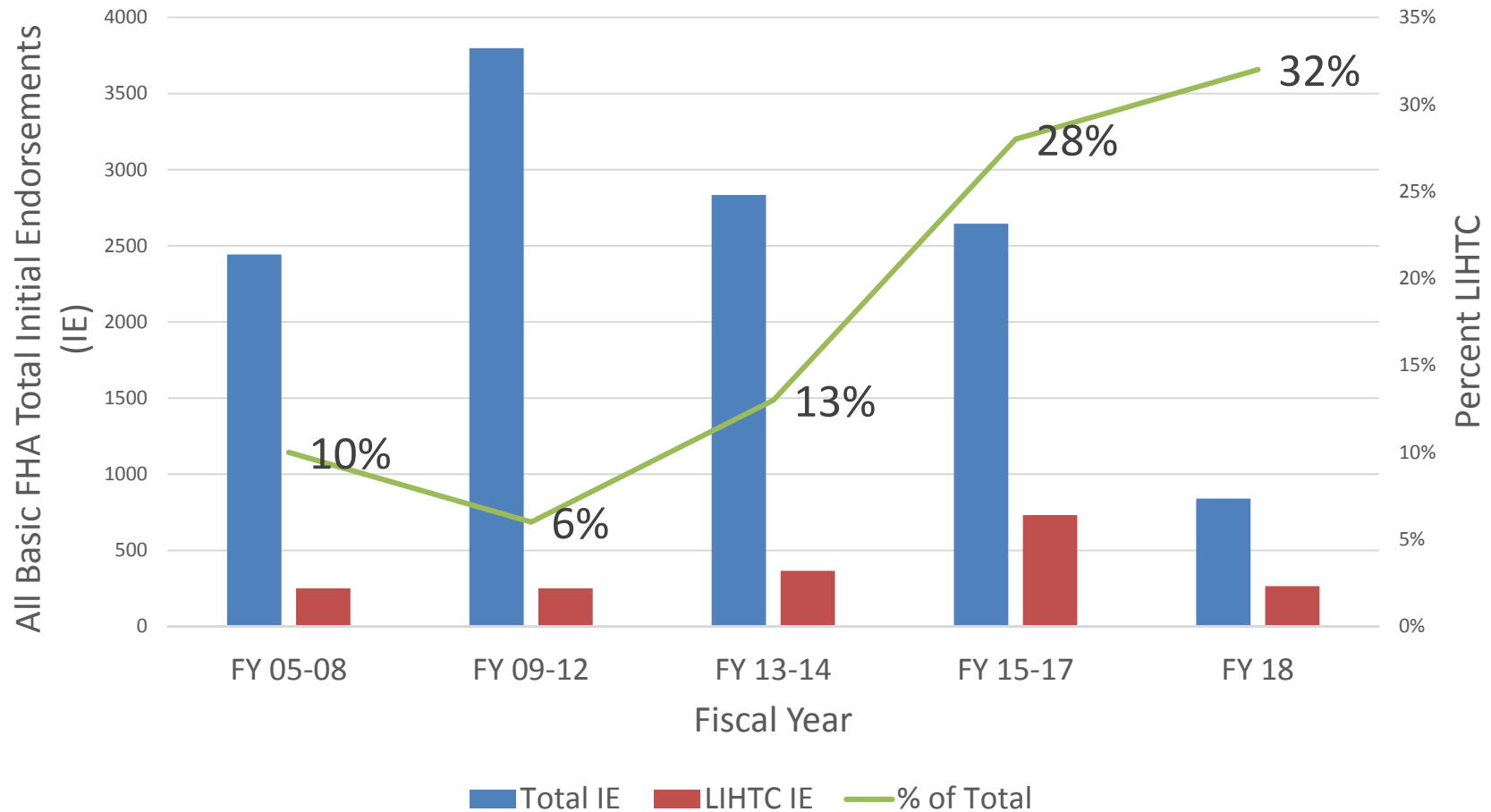
HUD's Commitment to Affordable Housing

- Lower MIP;
- Higher LTC/LTV Ratios;
- Lower Vacancy Rates;
- No Cost Certification if < 80% LTC/LTV;
- Mortgageable Developer Fees (see MG Appdx. 2);
- 20% Equity Pay-In Requirement;
- Equity Installments thru Const.
- No tax credit escrowing requirements;
- Straight-to-Firm;
- Streamlined A&E/Cost Review;
- No Subsidy Layering Review

HUD's Commitment to Affordable Housing

- 10% Assur. Of Compl.;
- Single Underwriter Model;
- EBLs for up to 80% of Equity Requ.;
- Lax RLC/NLC review requirements (> \$20 million);
- LLCI/Passive Investor Certification only, no credit review for Investor (typically 99.99% LP and 0.01%GP);
- Developer Fee + Builder/GC Profit is o.k. (Developer Fee + BSPRA NOT OK);
- Private debt up to 100% of Total Project Costs may be secured w/project;
- Concept Meeting optional
- Investor required reserves (IOD and Wkg. Cap) can be credited towards HUD's requ. Amounts.

LIHTC IE as % of All Basic FHA IE (excludes Risk Share)



New Pilot- PURPOSE

Streamline the application review process and better align our programs with the LIHTC program.

- This Notice does not change our underwriting terms. This Notice changes the way we process Section 221(d)(4)/220 w/ LIHTC applications.

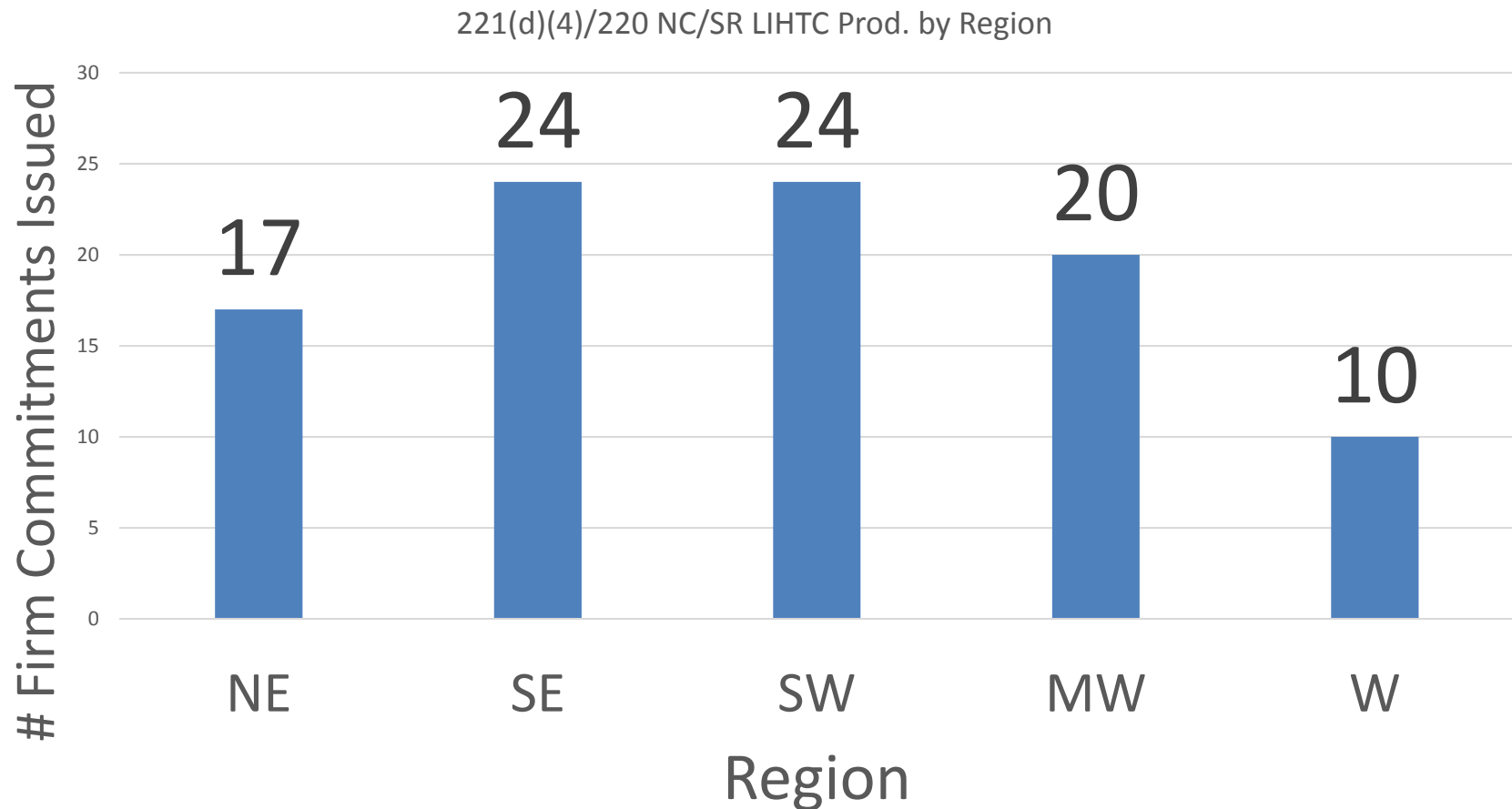
New Pilot- Benefits

- Allows staff to focus on more complex deals.
- Lets Lenders do what they do best- UW complex deals.
- Faster processing times.
- Increases possibility for better interest rates.
- Establishes Closing dates upfront.
- Better Communication.
- Allows additional lender oversight during construction phase (i.e. changes orders approved faster.)
- Encourages development in Opportunity Zones.
- Creates & preserves affordable housing.
- Teaches us what works and what doesn't.

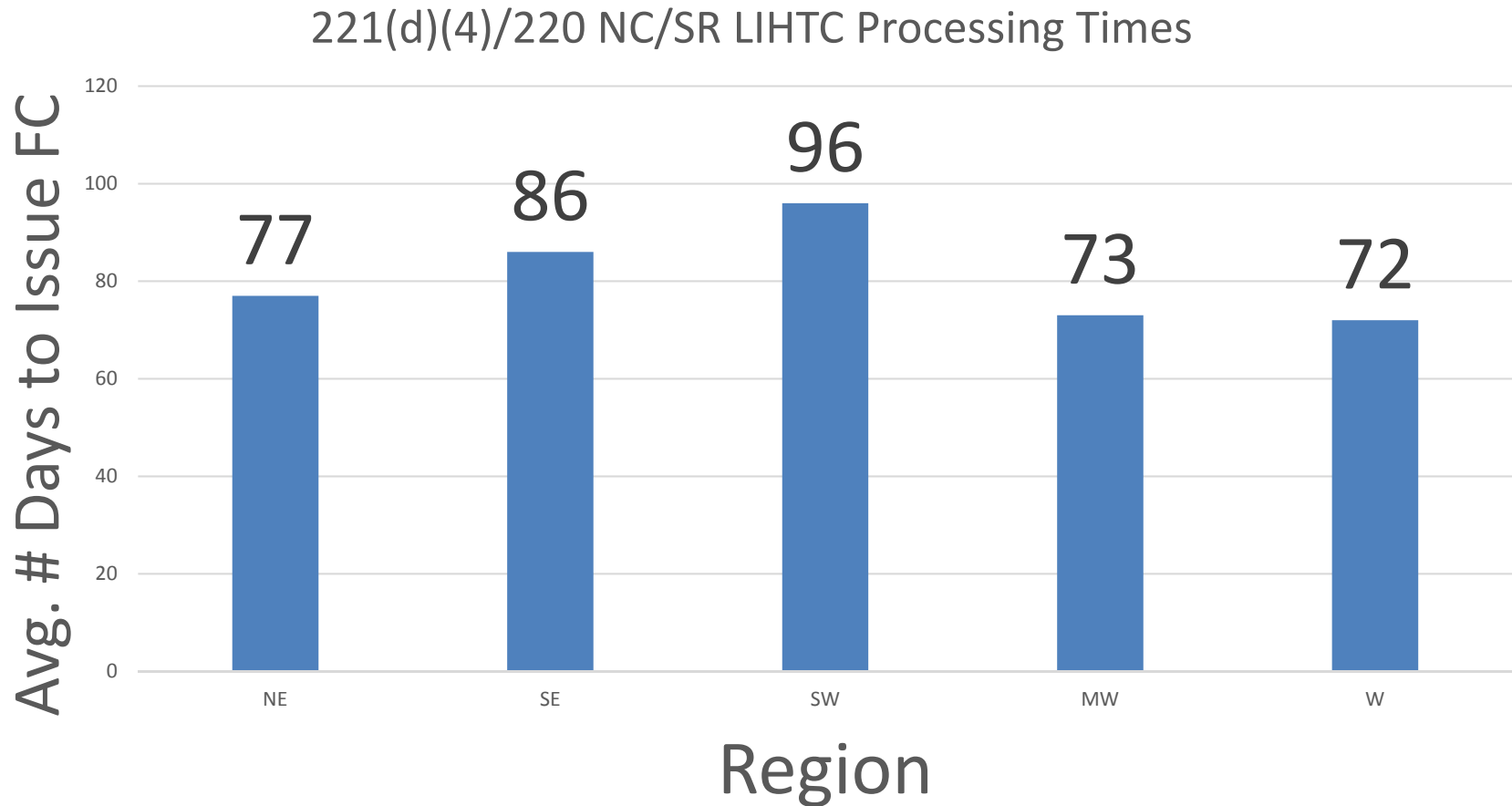
LIHTC Processing Times

- In the past 12 months, what is the shortest time a 221(d)(4)/220 w/ LIHTC deal took to get a Firm Commitment from the date of submission nation-wide?
- In the past 12 months, what is the longest time a 221(d)(4)/220 w/ LIHTC deal took to get a Firm Commitment from the date of submission nation-wide?

221(d)(4)/220 NC/SR LIHTC Prod. by Region- Feb. '17- Feb. '18)



221(d)(4)/220 NC/SR LIHTC Processing Times by Region- Feb. '17- Feb. '18



New Pilot- Goals

Expedited Approval Process track:

- **30** day Firm Appl. review + 60 days to Close

Standard Approval Process track:

- **60** day Firm Appl. review + 60 days to Close



How are we going to meet these timeframes?

Step 1- Remember What We Are Dealing With.



New Pilot- Eligible Deal Types

Expedited Approval Process

Eligible Deal Types

- 9% LIHTC, New Construction deals
- 4% or 9% LIHTC, Sub. Rehab. deals with Project-Based Section 8 HAP Contracts.

Standard Approval Process

Eligible Deal Types

- 4% or 9% LIHTC, Sub. Rehab. projects being re-syndicated with LIHTC/Tax Exempt Bonds w/o Section 8 rental assistance.

New Pilot- Expedited Approval Process

9% LIHTC, New Construction deals*

- New LIHTC allocation and new equity investment.
- 90%+ of units must be restricted for LIHTC occupancy.
- Achievable LIHTC unit rents will be at least 10% below market.
- LTC < 65%

4% or 9% LIHTC, Sub. Rehab. deals w/ Sec. 8*

- Sec. 8 Contract covering at least 90% of the residential units.
- Projects must have a 20-year HAP contract (or 15 years if PBVs.)
- LTC < 75%

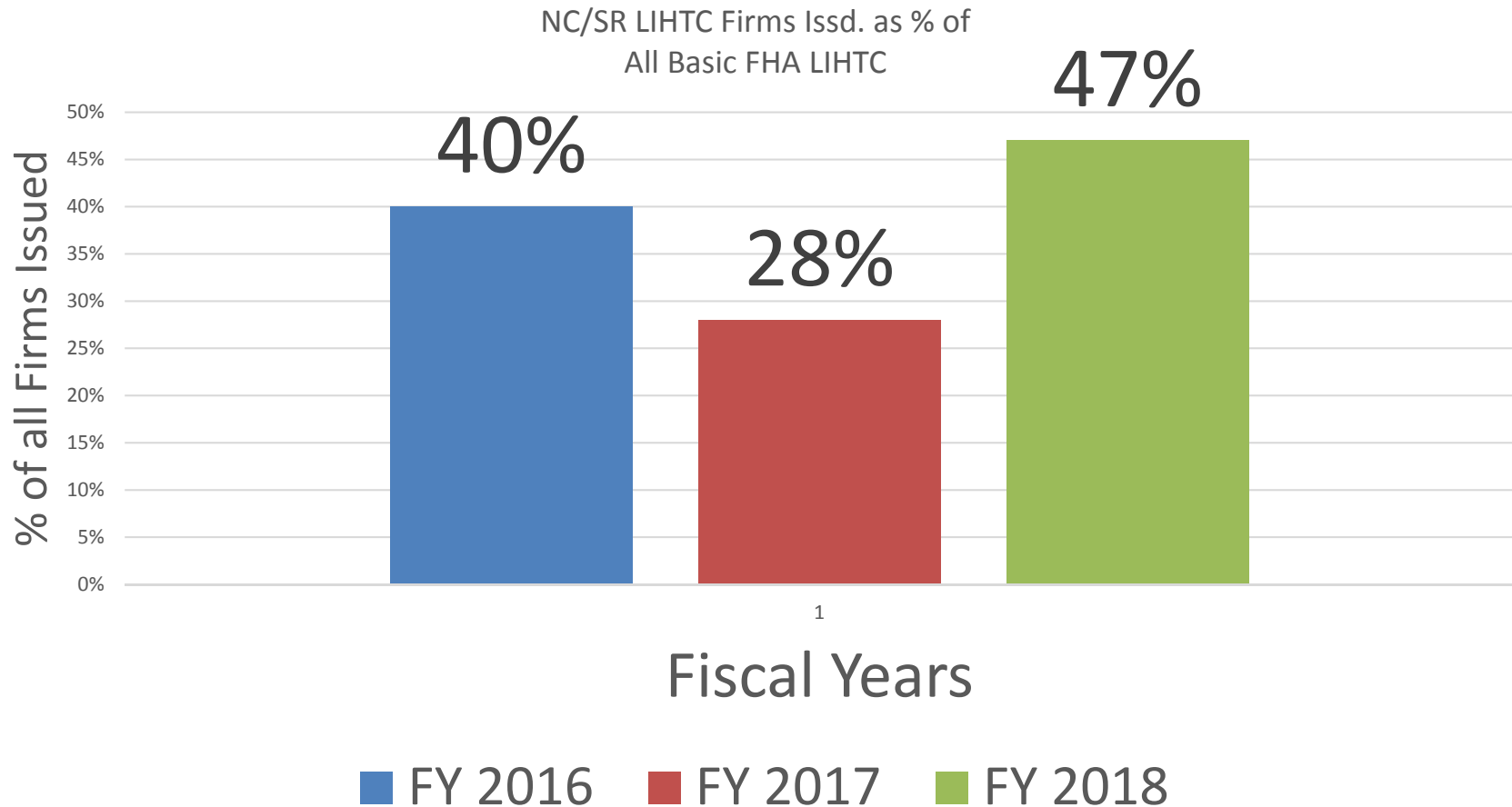
***Projects must have less than 200 units**

New Pilot- Standard Approval Process

4% or 9% LIHTC, Sub. Rehab. projects being re-syndicated with LIHTC/Tax Exempt Bonds w/o Section 8 rental assistance

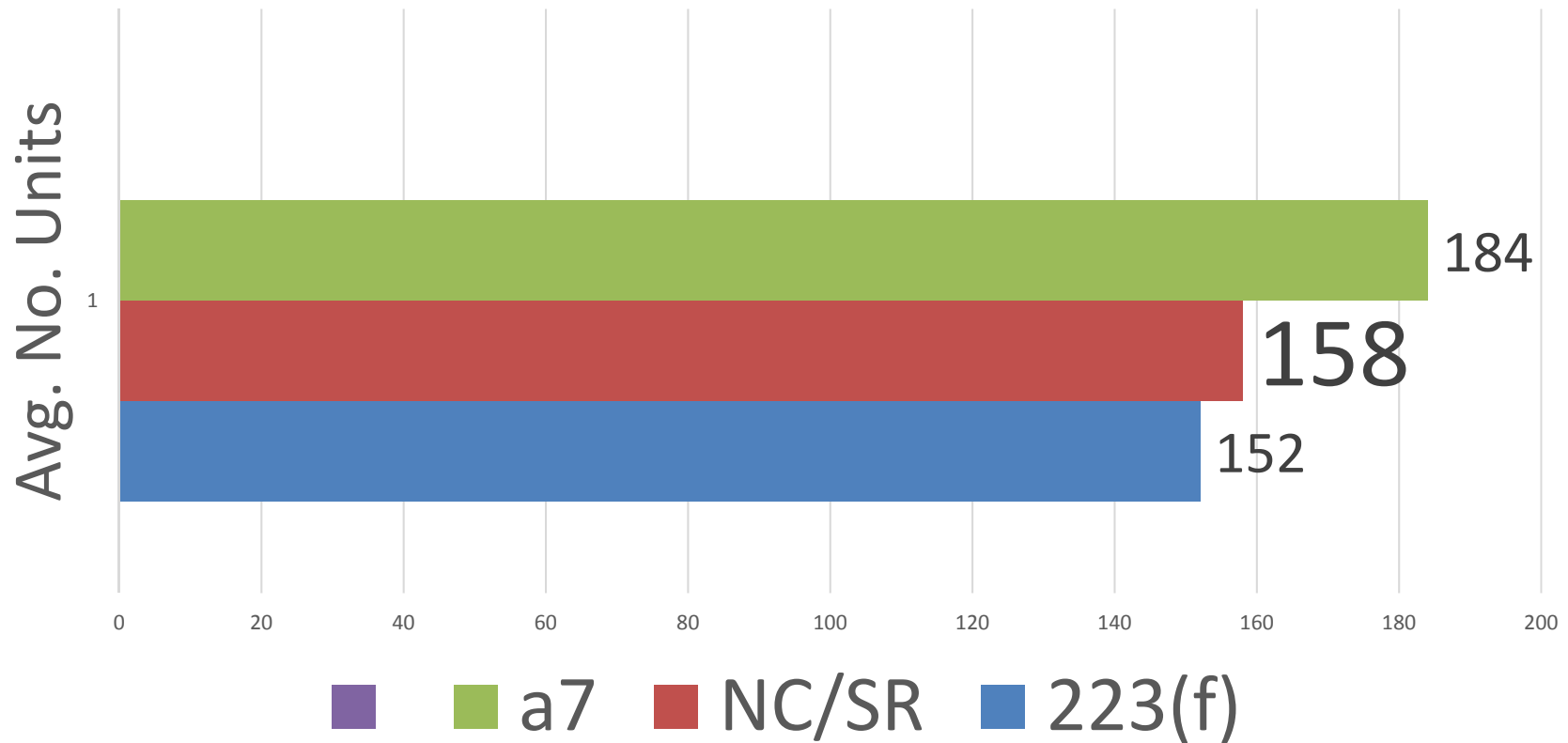
- Deals have reached the end of their initial compliance period.
- 90%+ of units must be restricted for LIHTC occupancy.
- The Market Analysis, Appraisal and Underwriting must conclude that the achievable LIHTC unit rents will be at least 10% below comparable market rents for each unit type.
- Must demonstrate sustained occupancy (DSC 1.0+ and 85% or greater occupancy for the previous 6 months).
- Projects must be underwritten with an Effective Gross Income no greater than 110% of that achieved in the last full calendar year before application, and with expenses no lower than 90% of the prior year's operating expenses.
- LTC < 75%
- **Projects with more than 200 units are acceptable.**

NC/SR LIHTC deals – FY' 16-FY'18



Avg. No. of Units by SOA for Basic FHA-FY '18

Avg. # of Units by Proj. Type, LIHTC



Step 2- Hold a Concept Meeting!

Essential time to:

- determine which Track your deal falls under,
- figure out if there are any impediments to meeting review timeframes,
- begin the application review process earlier, &
- discuss ALL waiver requests.

At the Concept Meeting:

- show us evidence of a final allocation of 9% TC, or acknowledgement of eligibility for 4% TC and/or for an allocation of private activity bond cap (Reservation Letter might be o.k. too),
- show us Letter of Intent from Equity Investor or Syndicator, &
- show us Firm Commitments for all subordinate debt.

Expedited Approval Process

Greater reliance on Lender's Due Diligence.

HUD's review limited to:

2530s Review

Market Review

Approving AFHMP

Conducting Environmental Review

Reviewing Plans and Specs

Asset Management Review

HAP Renewals

Expedited Approval Process- Technical Discipline Areas

- **Appraisal Report- USPAP and MAP Compliant. Report prepared for HFA may be submitted with the Firm Application.**
- **Market Study- Not required for projects with 90%+ PBRA. See other MAP Guide Requirements.**
- **‘Typical’ Environmental Risk Factors such as the following are acceptable:**
 - Radon mitigation
 - Asbestos remediation
 - LBP remediation
 - Removal of intact UST with no evidence of release and soil contamination
 - Previously contaminated sites with a No Further Remediation or No Further Action letter at residential standards.

Expedited Approval Process- Construction Monitoring

HUD will:

- Approve Initial & Final Draws,
- Approve PTOs, &
- Conduct Inspections

Change Orders- *Do Not* require HUD approval.

Const. Cost Inc. 5%+ - *Do Not* require HUD approval.

Escrow Releases- *Do Not* require HUD approval.

Standard Approval Process

Application Review similar to MAP Guide review
HOWEVER, review process can/should begin
prior to submission of Firm Application.

- ✓ Use of AIA forms G702/703 acceptable.
- ✓ Streamlined review of Plans, Specs, & Costs acceptable.

Standard Approval Process- Technical Discipline Areas

- Appraisal- Must be USPAP and MAP Compliant. See MAP Guide.
- Market Study- See MAP Guide
- Projects involving environmental risk factors that will require extensive analysis and consideration are acceptable.

Standard Approval Process- Construction Monitoring

HUD will:

- Approve Initial & Final Draws,
- Approve PTOs, &
- Conduct Inspections

Change Orders- *Might Not* require HUD approval.

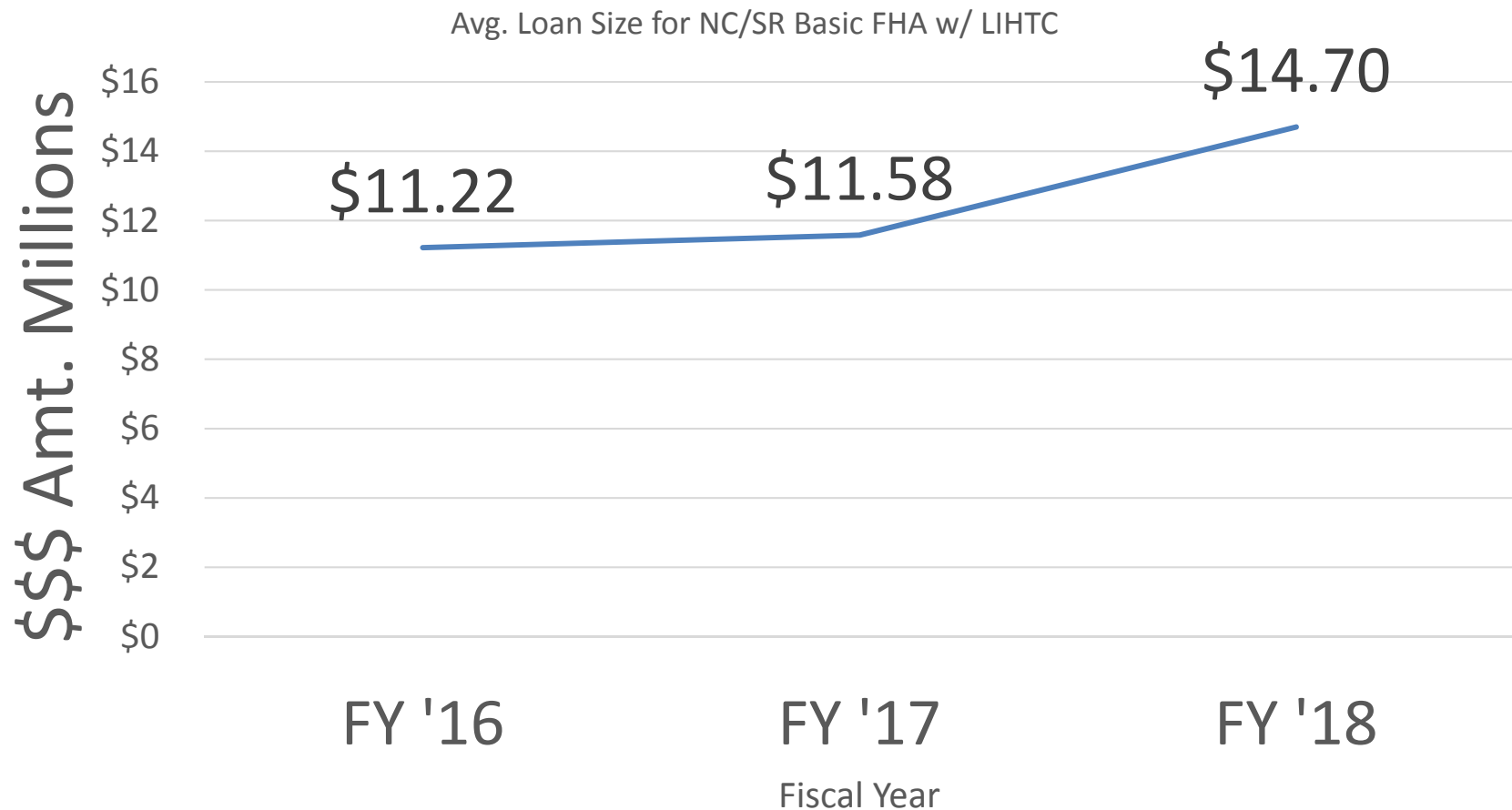
Const. Cost Inc. 5%+ - *Might Not* require HUD approval.

Escrow Releases- *Might Not* require HUD approval.

Eligibility Requirements Applicable to Both Tracks

- FHA Loan may not exceed \$25 million.
- Straight to Firm Application submission.
- Lender experience- UW & Closing MF loans with FHA MF mortgage insurance & LIHTC.
- Lender UW experience- UW & Closing MF loans with FHA MF mortgage insurance. **MUST attend HUD Training.**
- Development Team experience- MF Housing Development + FHA mortgage ins. + LIHTC experience
- Clear 2530s prior to submission of application.
- Deferred Developer Fee- At least 25%, but no more than 75% must be deferred.
- Tenant Relocation o.k., but cannot exceed 9 months.
- HQ Loan Committee Review required (Regional LC not required).

Avg. Loan Size NC/SR Basic FHA w/ LIHTC- FY '16 – FY '18



Ineligible Projects

- 4% LIHTC, NC
- RAD projects
- Historic Tax Credit/New Market Tax Credit deals
- Projects involving adaptive re-use of non residential structures
- Projects involving significant demolition
- Projects involving gut rehab.
- Projects with inexperienced Development Team Members

Step 3- Follow HUD Templates

- Eligibility Checklists
- LIHTC Pilot Concept Meeting Invitation
- LIHTC Pilot Encouragement Email
- LIHTC Pilot Discourage Email
- LIHTC Pilot Placed Into Processing Email
- LIHTC Pilot Kickoff Call Email
- LIHTC Pilot Pre-Closing Call Email

LIHTC Pilot Teams

| | Northeast Region | Midwest Region | Southeast Region | Southwest Region | West Region |
|-------------------------------|-----------------------------------|---|----------------------------------|-----------------------------------|--|
| Regional Director | Brett Wise 212-542-7888 | Daniel J. Burke 312-913-8152 | Ruben J. Brooks 678-732-2363 | Mary V. Walsh 817-978-5807 | Angela Corcoran (Acting) 415-489-6606 |
| MF Production Director | Stacey L. Ashmore 212-542-7840 | Stephen P. Ott 312-913-8164 | LaDonna B. Mills 678-732-2132 | Kenneth L. Cooper 817-978-5836 | Angela M. Corcoran 415-489-6606 |
| LIHTC Branch Chief | Joseph McNealy 617-994-8222 | Scott R. Greuel 312-913-8193 Or Lesley Johnson 312-913-8266 | Edward Wallace 678-732-2012 | Susan Meyers 817-978-5867 | Erica B. Kodiyan 415-489-6661 |
| Designated Pilot Underwriters | Jill Papoulias | Jesse Stewart | Faith Boock | Fawn Barrington | Danny Gallant |
| | Neal Lydon | Ken Doresky | Lisa Gibson | Natalia Marin-Ontiveros | Julie Carter |
| | George G. Keefe | Elizabeth Geer | Kathy Brewer | | Heather Shea |
| | | Andres Acosta | Bob Doran | | Laura Stutzman |
| | | Kevin Piggott | Donald Winston | | |
| | | Paul Vasilakos | Jonathan Mosley | | |
| | | Sara Bergen | | | |
| | | John Karlen | | | |
| DPU for deals in Ozs | Neal Lydon | Jesse Stewart | Lisa Gibson | TBD | Julie Carter |
| | | Ken Doresky | | | Laura Stutzman |
| | | Elizabeth Geer | | | |

Step 4- Attend HUD Training!

The HUD Office of Multifamily Housing Production invites
you to join us for
New Pilot Training
in Atlanta, GA on April 16, 2019
at the W Atlanta-Midtown Hotel
from 1:00 p.m. to 4:00 p.m.

Please register at:

<http://www.hud.gov/emarc/index.cfm?fuseaction=emar.registerEvent&eventId=3518&update=N>