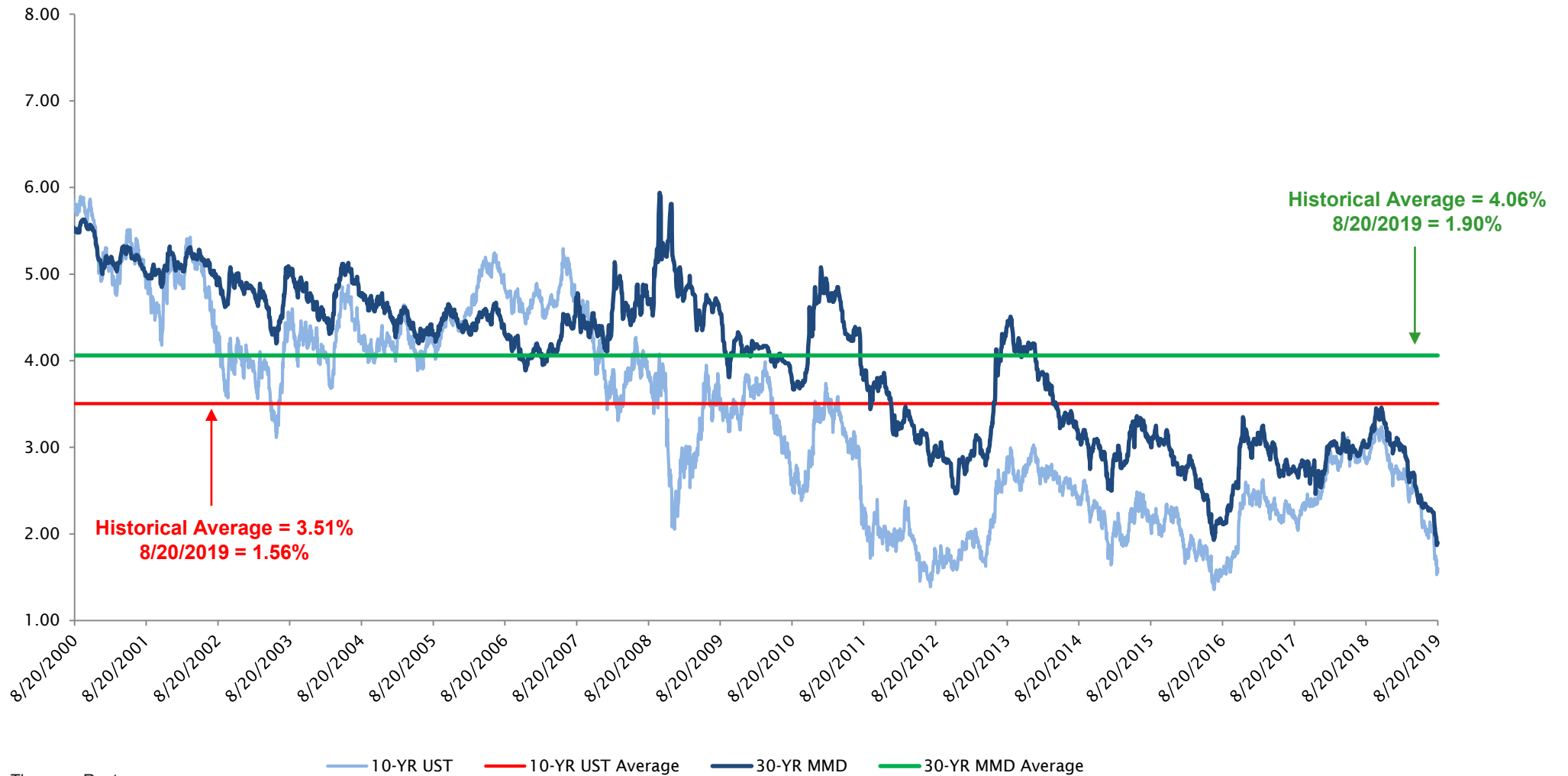


Financing Structures for 4% LIHTC Transactions with Taxable FHA Loans



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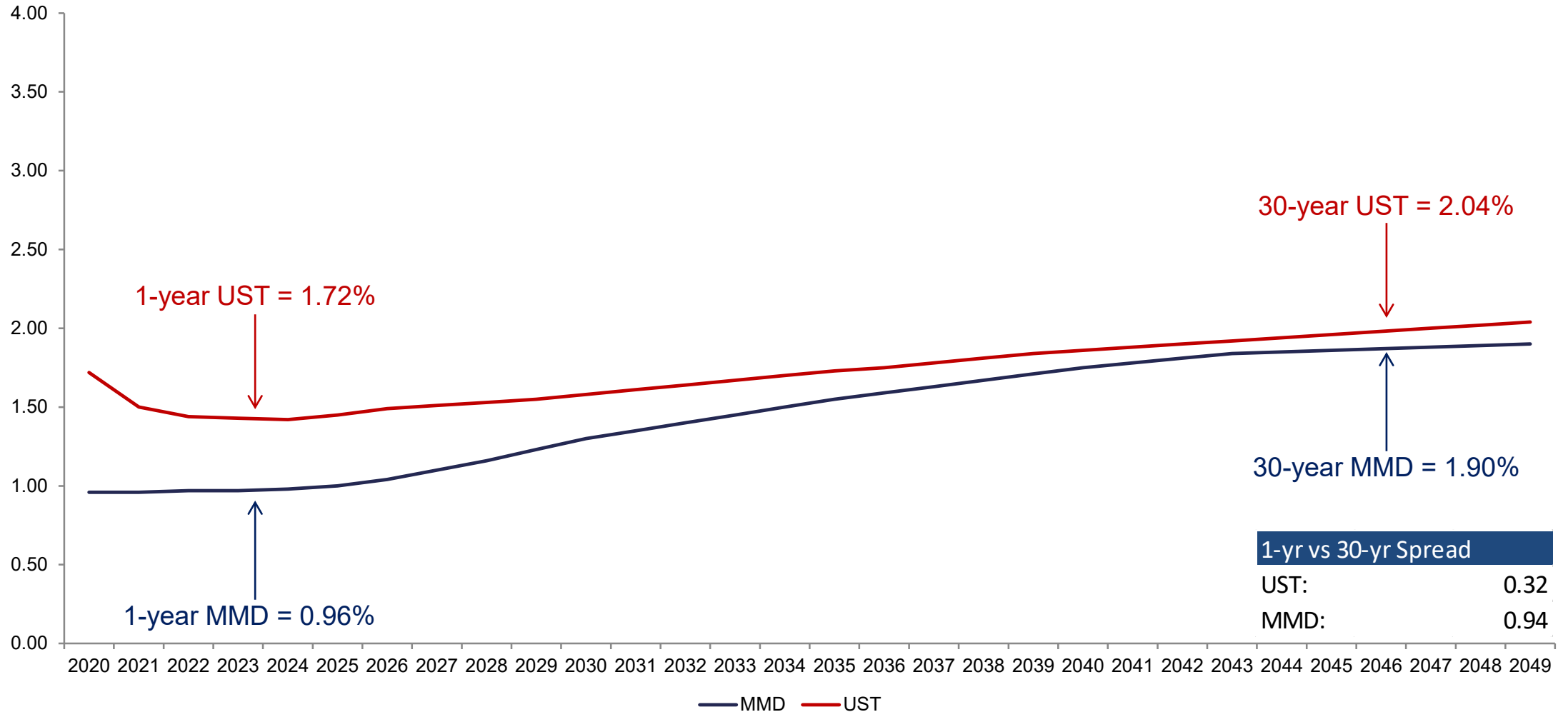
Long Term Yield Curves (as of 08/20/19)



Source: Bloomberg, Thomson Reuters
Reflects market conditions as of August 20, 2019

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

Historically Flat Yield Curve (as of 08/20/19)



Source: Bloomberg. Thomson Reuters
Reflects market conditions as of August 20, 2019

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

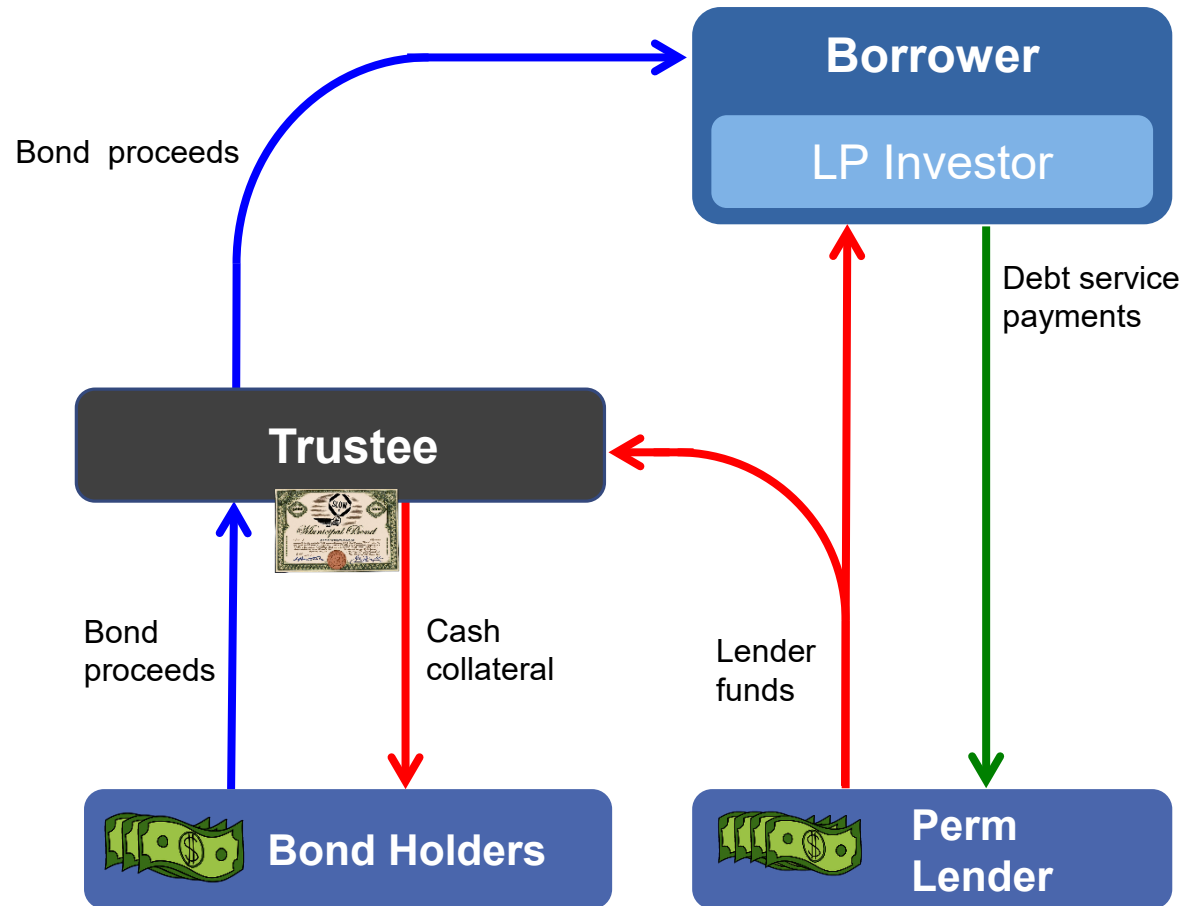
Short Term Cash-Backed Bonds with Taxable Perm Loan

- Favorable Underwriting Terms for FHA loans include:
 - 35/40-year full term / amortization
 - No resizing at conversion
 - Non-recourse & integrated construction and perm
 - Most are structured as draw-down loans to avoid neg arb
 - FHA debt qualifies for 10-year hold exemption (for acquisition credits)
 - Rates below 4% plus MIP
 - Davis Bacon wages triggered for sub rehab / new construction deals

4% Low Income Housing Tax Credits: The 50% Test

- Project still need tax exempt bonds to qualify for 4% Low Income Housing Tax Credits
- At least 50% of aggregate basis (including building and land) must be financed with tax exempt bond proceeds
- Provides a significant (~30% or higher) additional source of funds for affordable housing transactions

Short Term Cash Backed Bonds



Short Term Cash Backed Bonds

Bond Amount to meet 50% test < Taxable Loan Amount (see prior slide): No additional collateral needed!

Bond Amount to meet 50% test > Taxable Loan Amount: Need other collateral sources of funds including:

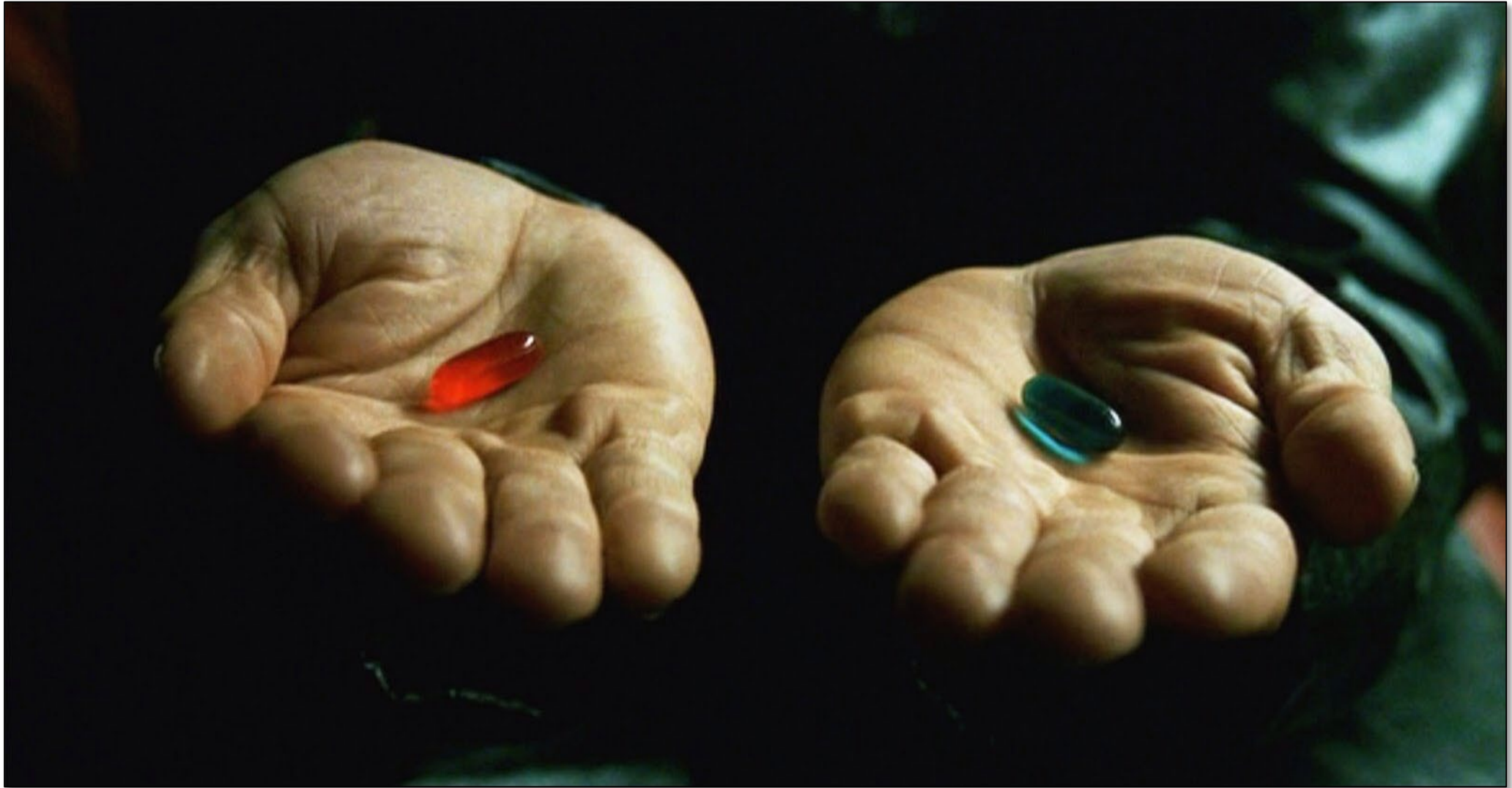
- Subordinate Loan Proceeds
- Seller Note
- Tax Credit Equity

Other Cost Saving Features/Options

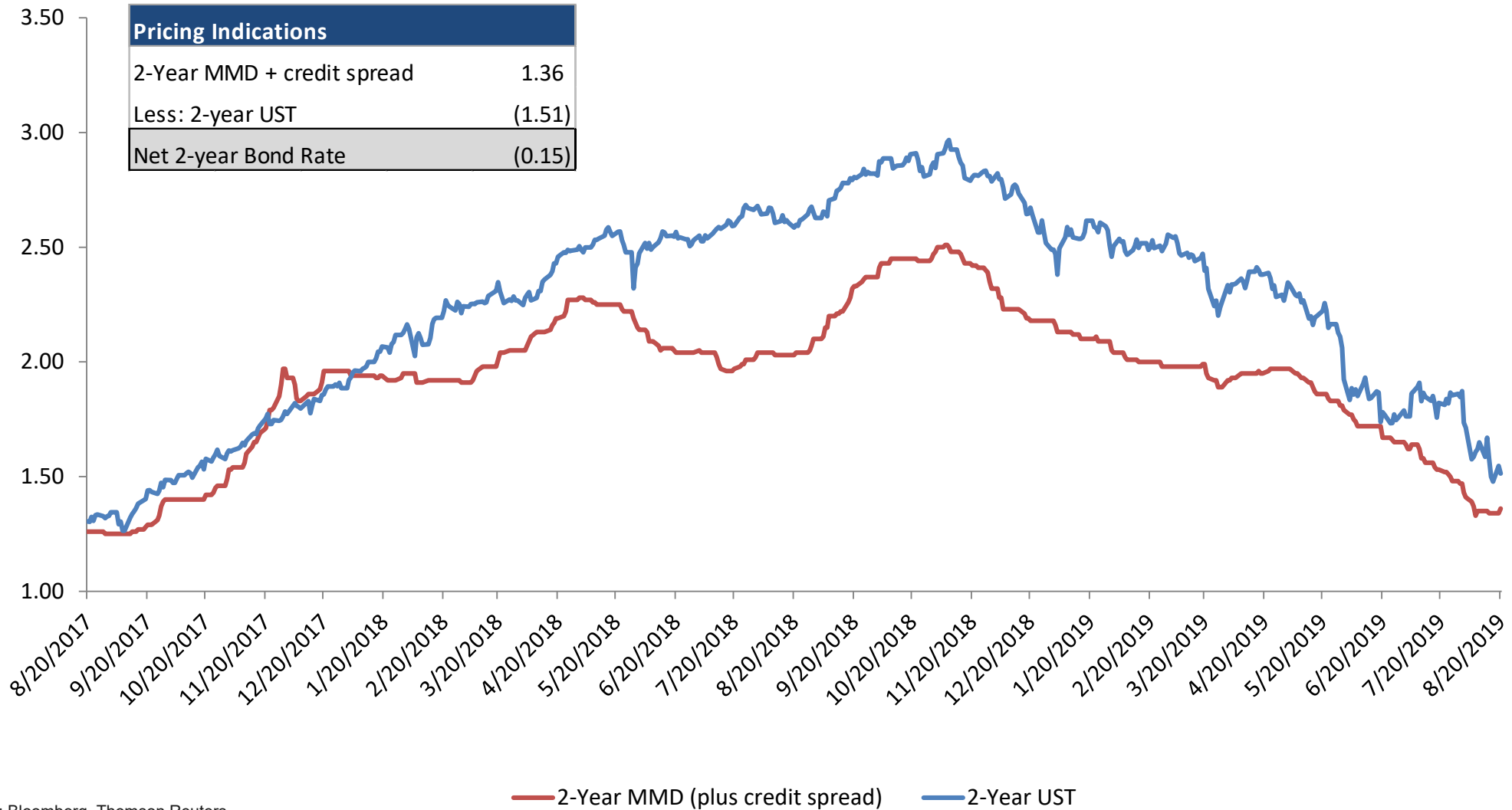
Methods to reduce transaction costs and generate more proceeds:

- Pooled financings – multiple projects w/ one aggregate bond issuance
- No long-term bond related fees
- Potential for additional tax credit equity due to increased basis
- No net interest cost on bonds in current market

Negative Arbitrage or Positive Arbitrage?



Short Term Yield Curve (as of 08/20/19)

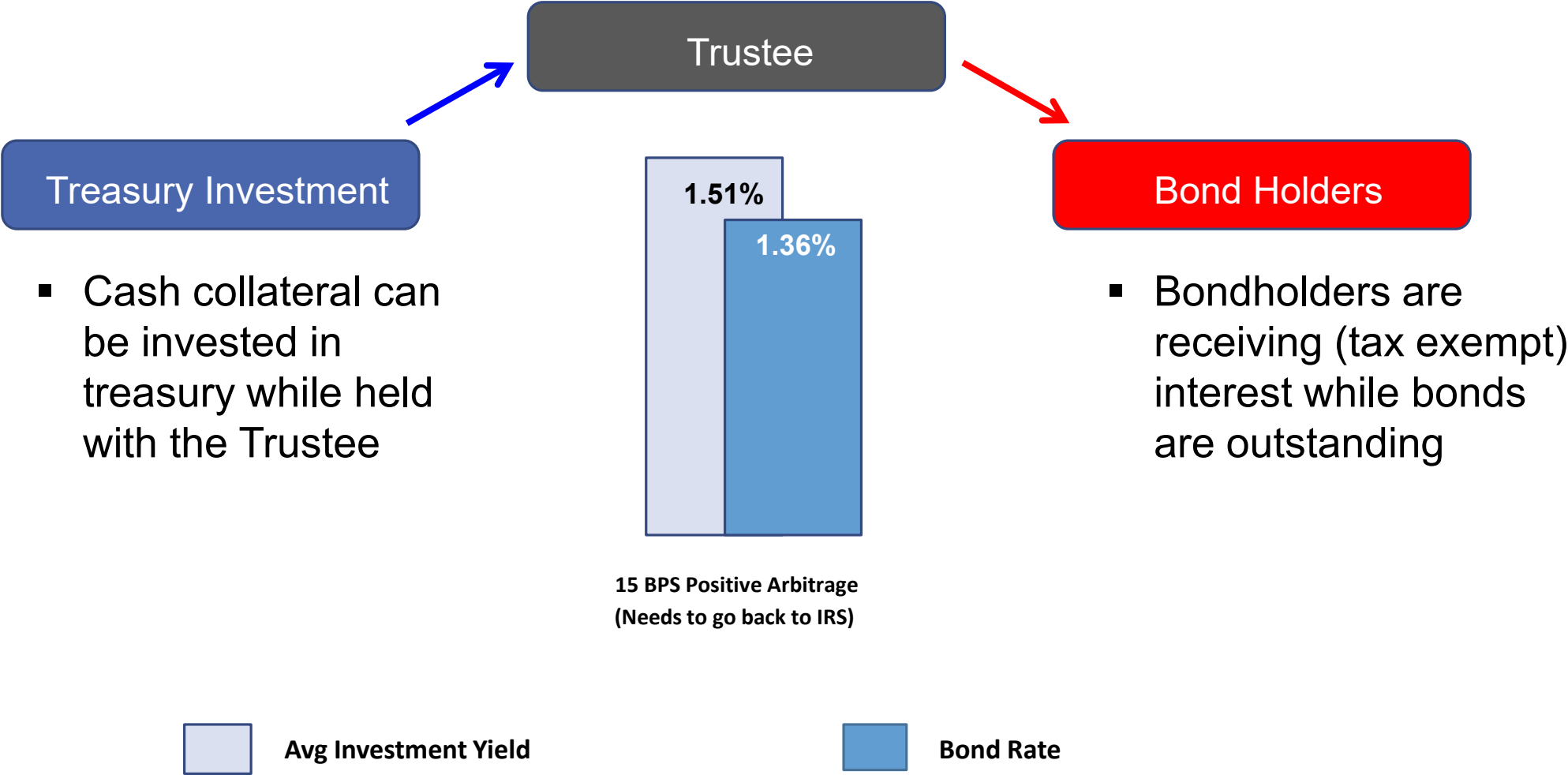


Source: Bloomberg, Thomson Reuters

Reflects market conditions as of August 20, 2019

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Negative/Positive Arbitrage



Costs of the Short Term Bond Deal

Issuer Fees*:	0.10% - 3.00%
Bond Counsel*:	\$35,000 - \$100,000
Underwriter's Fee:	0.50% - 1.00%
Underwriter's Counsel:	\$35,000 - \$50,000
Miscellaneous:	\$10,000 - \$20,000
Negative Arbitrage*:	ZERO

Timing of the Short Term Bond Deal

Bond Application/Volume Cap/Initial Approval

- As soon as possible

Document Preparations and Review

- Around Submission of Taxable Loan Application

Bond Pricing

- ~2 weeks before Closing

Pre-close/Close

- Simultaneous with Taxable Loan closing

Long Term Bonds Backed by GNMA's

- Long-term tax-exempt rates are starting to trend lower than taxable rates
- Newer “pass through” bond structure sold to certain buyers based on historic average life has recently priced well in the market while reducing certain traditional bond costs
- Negative arbitrage can still result in significant up-front deposit for new construction / sub rehab deals (we can help with this)
- Other factors for structure should be discussed well in advance of starting documents

Tax Exempt Seller “Take Back” Note & Bonds

- Many 4% preservation deals include seller financing in the form of a subordinate “take-back” note (common in RAD transactions)
- Due to the LIHTC 50% test, tax-exempt bonds in excess of the permanent financing are often required in these deals
- Several ways to address this issue with various bond structures

FHA Refinancing to Re-syndication (R2R)

GOALS:

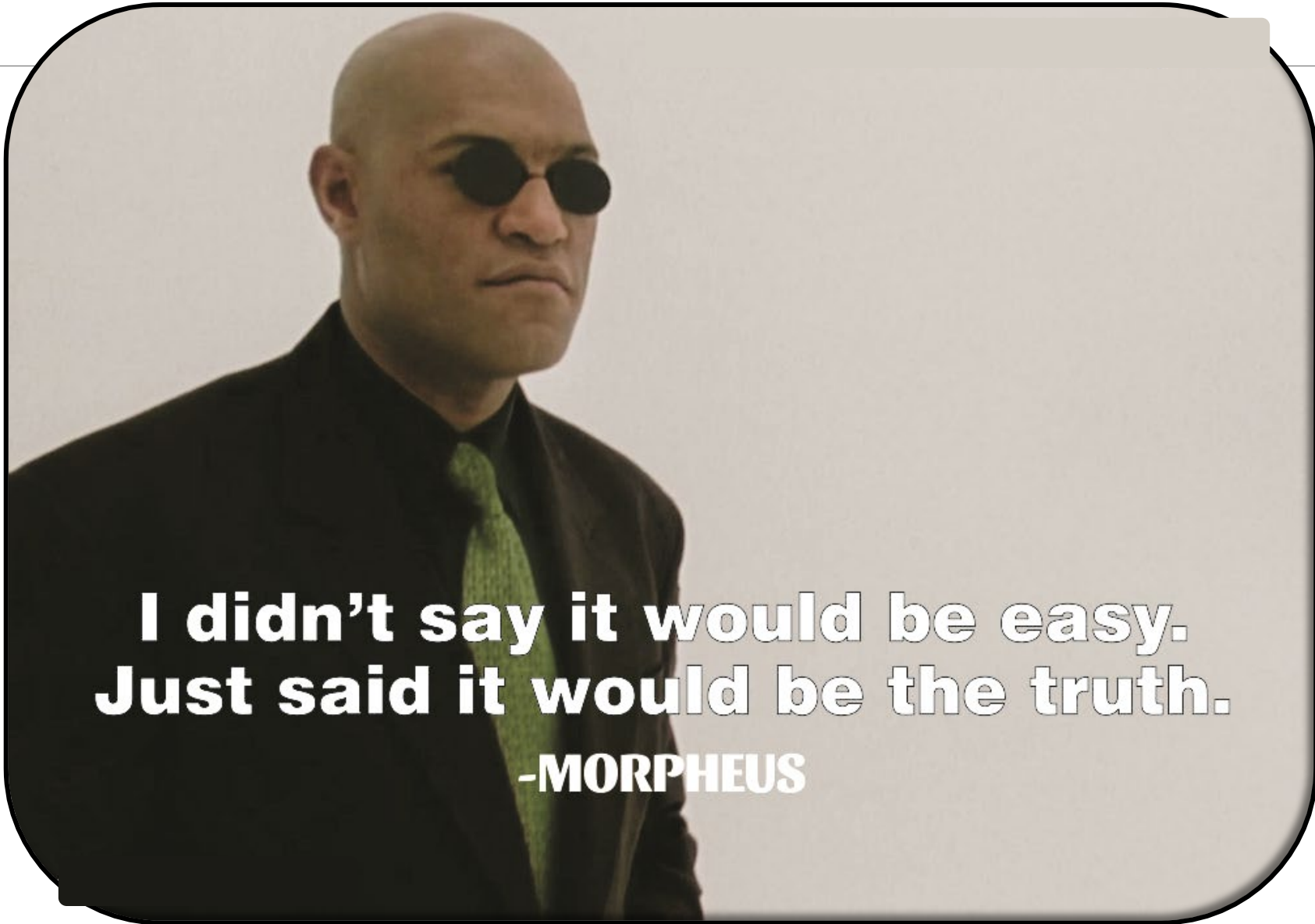
- (1) Lock in today's rates for future tax credit deals and/or
- (2) Qualify for exemption for 10-year hold rule (for acquisition credits)

FHA Refinancing to Re-syndication (R2R)

- **NEW LOAN:** FHA 223(f) loan to refinance existing debt or purchase project. Keep rehab to a minimum. (We can structure the note for future prepayment flexibility)

When ready for Bonds/4% Credits

- **Step 1: TPA** (transfer of physical asset) process
- **Step 2:** Supplemental **FHA 241(a)** loan
- **Step 3:** Use short term tax exempt bonds to qualify for 4% tax credits



**I didn't say it would be easy.
Just said it would be the truth.**

-MORPHEUS

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