PR MORTGAGE & INVESTMENTS

IceMiller LEGAL COUNSEL

THE STURGES COMPANY EST. 1985

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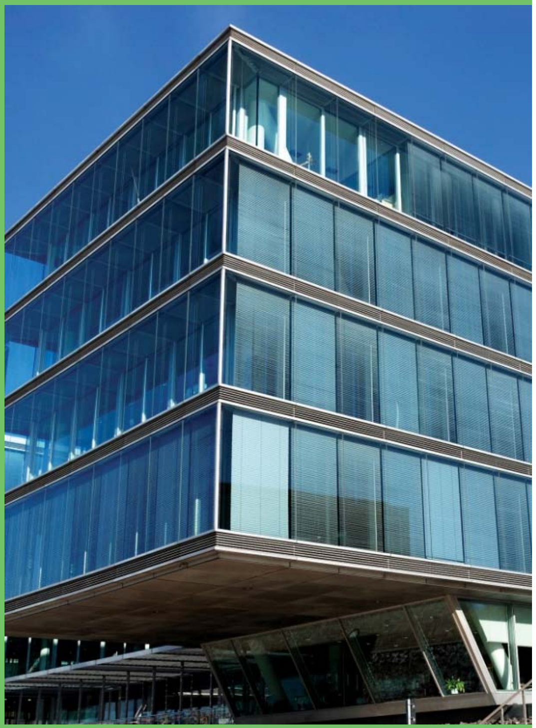
GETTING A BOND DEAL DONE TODAY

Overview

New Construction
or Substantial Rehabilitation Options

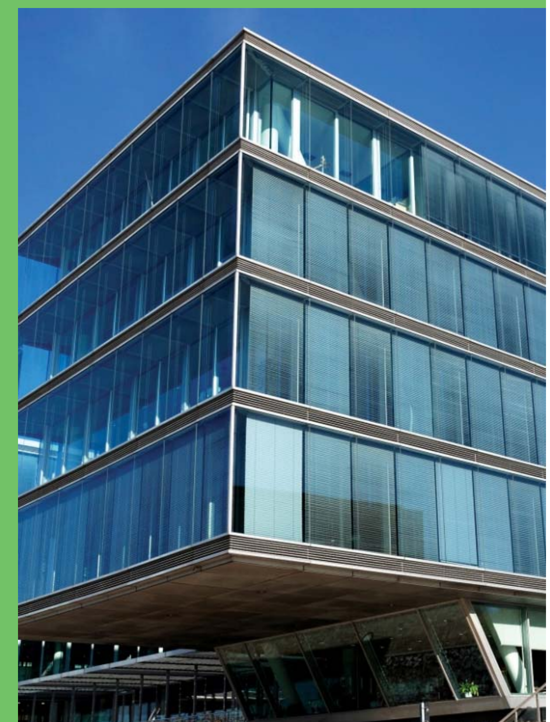
- Direct Placement
- Fannie M-TEB (least prevalent)
- Freddie TEL (more desired timing flexibility & ease of execution)
- HUD 221(d)4 (most desirable execution)



Fannie, Freddie, & HUD

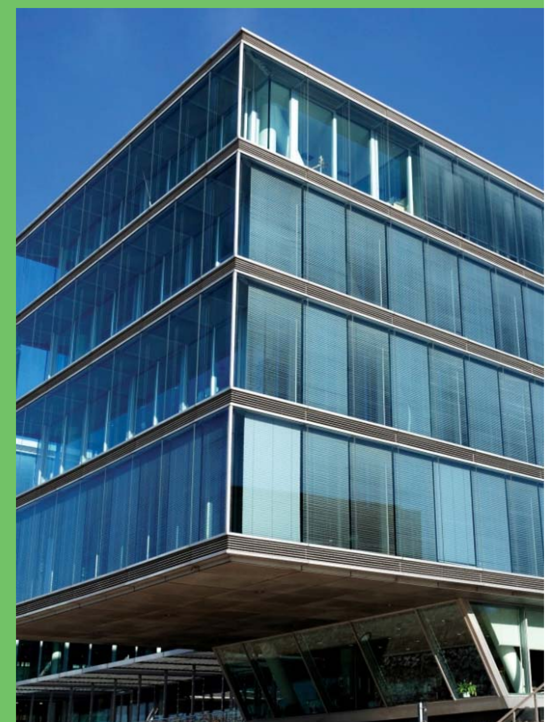
Direct Placement

- Prevalent in CRA focused Markets
- Pricing & Terms can vary depending on bank appetite
- Execution timing is similar to agencies
- Can be flexible on deal specifics if attractive CRA deal



Fannie M-TEB

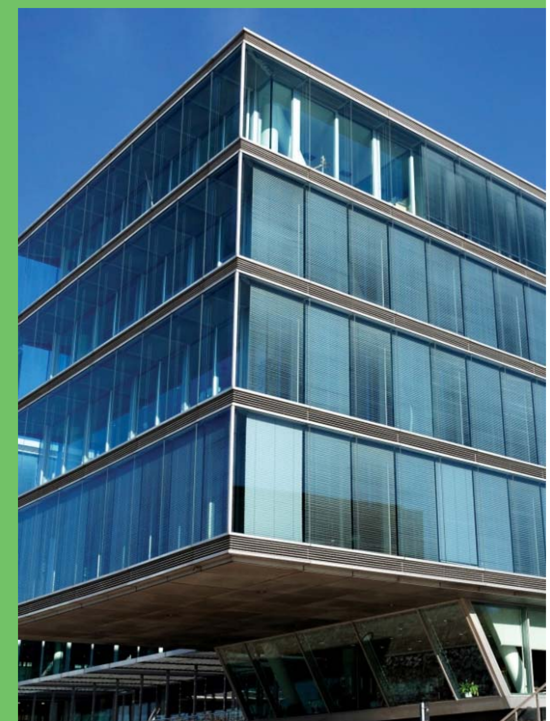
- Structured as a forward rate-lock for Bond deals
- Requires letter of credit to enhance the bonds through construction
- Typically closing within 90-120 days
- Less flexible waivers and structuring
- Loan Amount set by stabilized NOI (capped & valued)





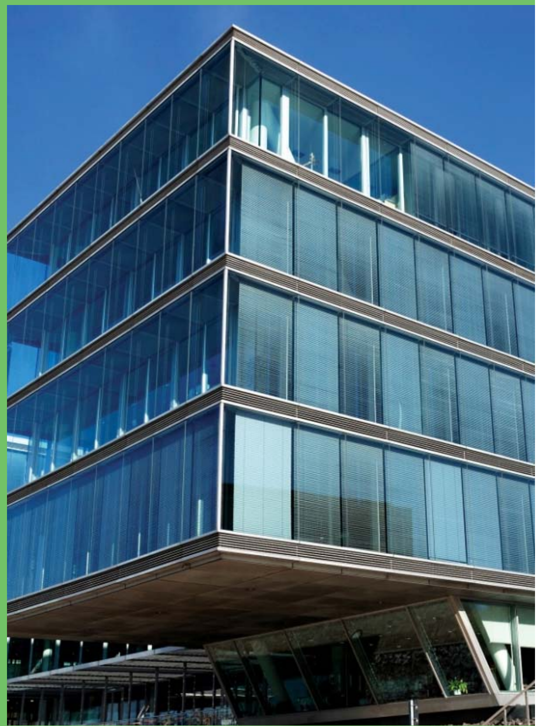
Freddie TEL

- Similar forward rate-lock process
- Flexibility in construction financing and subordinate debt
- Typically closing within 90-120 days
- Flexibility in waivers for creative mixed income/use projects
- Loan Amount set by stabilized NOI (capped & valued)



HUD 221(d) 4

- 6 Months Minimum Processing Time
- Davis Bacon Wages
- Highest Leverage Possible 87% to 90% of Cost (includes developer fee)
- Subordinate debt must be from public entity & subordinate HUD fully to qualify
- Bridge debt eligible and available through PRMIC
- HUD 223(f) has become moderate rehab program (example to follow)



Fannie, Freddie, & HUD

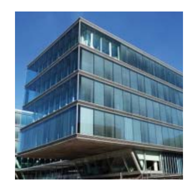


Typical Use: Unenhanced Affordable Housing Projects, Section 8

- Can result in rating of: A- to A+
- Criteria
  - Industry Risk – low for affordable housing
  - Economic Fundamentals – population growth and avg rent as a % of market rent; location; occupancy levels
  - Market Position – govt support + management
  - Loss Coverage – LTV; DSC; DSRF Financial Strength – DSC, HAP contract term, liquidity
  - S&P Rated Structure
  - Operating Performance – vacancy rate (>6% → notch adjustment)
  - Financial Policies/Practices – monitoring; default remedies; annual audit Asset Quality – age, attractiveness to target, environmental
- Cost – approximately 2 bps
- Interest rate 5 – 6%
- Maturity limited only by state/federal law and HAP contract







Short Term Rated vs. Draw Down

Comparison

Short Term vs
Draw Down

Long Term Rated vs. Short Term

Comparison

Long Term vs
Short Term

Fannie vs. Freddie vs. D4

Comparison

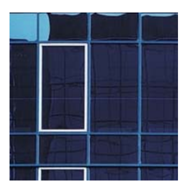
Fannie vs Freddie vs. D4



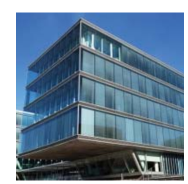
FHA 223(f) Bond Deal

Glick Fort Wayne Property

- Originally developed in 1973 as affordable housing that transitioned out of the affordability period in 2013. The project is still covered by a Section 8 HAP contract on 80 of the 200 units.
- The property was built and owned by a Glick affiliate since its original development.
- The property consists of 200 units spread out among 20 two-story apartment buildings and 1 community building situated on 18 acres.
- This is the first 4% tax credit rehab deal that Glick has embarked on.
- Scheduled to close in mid-September – fingers crossed
- Short term tax exempt bonds with a HUD 223f execution
- Glick has the financial capability to bridge the equity







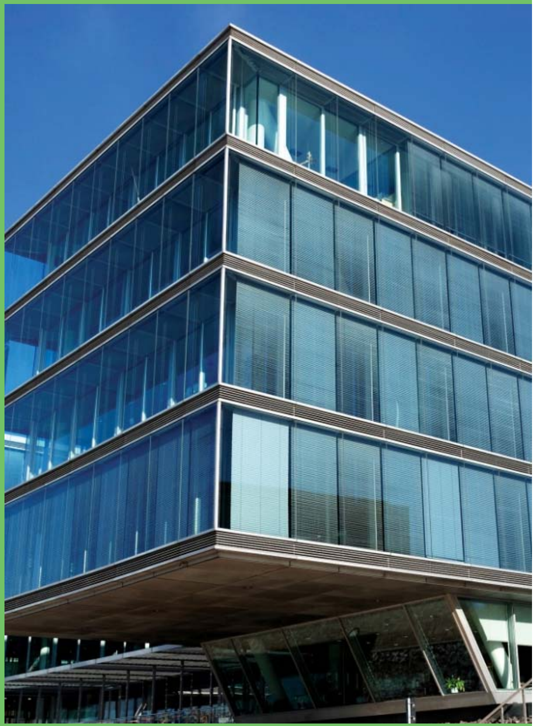
FHA 223(f) Bond Deal

Glick Fort Wayne Property

- Around $30,000 per unit in rehab
- Occupied/Resident-In-Place rehab completed in 9-10 months.
- PNC is the LP who had a CRA need so deal was not syndicated.
- I recommend not trying to do your first tax credit deal and buy 5 properties, sell 6 properties, and refinance 4 other properties all within 3 months of your projected tax credit closing.

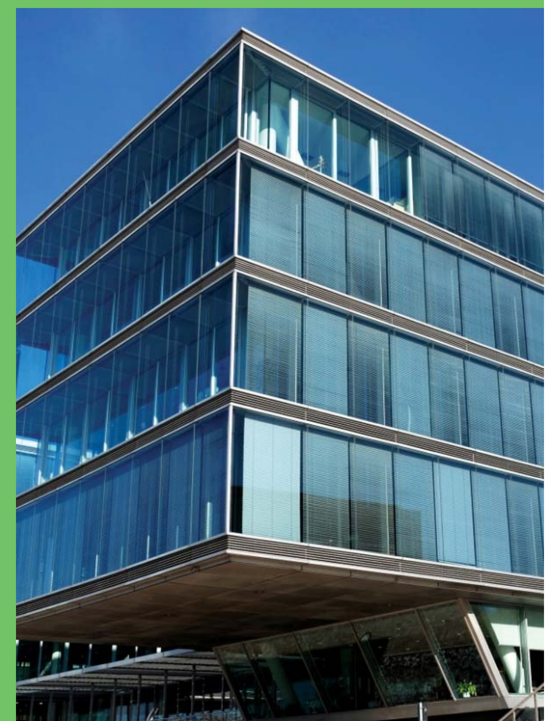
PROJECT #_: TOWNHOUSE POINTE

- Townhouse Pointe is an acquisition/rehab project in a small town, outside the nearest CRA footprint
- Developer is a 501(c)(3) wholly owned subsidiary
- Scattered Site Project; existing HAP Contract
- The project includes 550 duplexes, some of which are individually owned
- “Class C” property
- The developer has no history of successful development/financing through the state housing authority



Private Placement Example (Live Deal)

- “Large Tree Development”
- Located in a major coastal city
- Major Developer with National Footprint
- Top 5 National Syndicator is Credit Buyer
- “Too Big to Fail” Bank is Bond Investor
- Structure
  - Syndicator to Bridge Own Credits Via Construction Facility
  - LOC from same “Too Big to Fail” Bank to enhance Bonds
  - Bonds (Const & Perm) Locked at Close 120 – 150 bps wide of HUD D4



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COMPARISON OF DIRECT TAX-EXEMPT BOND PURCHASE
TO SHORT TERM PUBLICALLY MARKETED TAX-EXEMPT BONDS
ASSUMED $5,000,000 TAX-EXEMPT BONDS
August 1, 2017

		Short Term	
	Direct Purchase		**Publically Marketed**
Bond Counsel	$ W		$ W
Direct Purchaser/Underwriter	X		X
Purchaser's Counsel/Underwriter's Counsel	Y		Y
Issuer & Issuer's Counsel	Z		Z
Rating, Bond Trustee, Official Statements, other	-0-		15,000
Negative Arbitrage – fixed -18 months (1.3%)*	-0-		-0- ***
Interest Expense (assume 50% 1st draw, then level draws over 12 months – variable-3.32%**	124,500	FHA-fixed 3.0-3.55%	$112,500-$133,125
		Difference	
Total Costs	$W-Z + 124,500	$3,000-23,625	$W-Z +$127,500-$148,125

*Publically marketed mandatory tender in 18 months, and placed-in-service expected in 12 months.

**Generally this variable interest rate is a base of 2.50% + index such as SIFMA (currently .82%). The higher the earlier draws, the more construction interest and the larger savings for Publically Marketed Bonds.

*** Based on current structure with acquiescence of Bond Counsel.

Other Considerations:

Purchaser loan approval in addition to FHA long term	yes	n/a
Appraisal required to meet lending requirements in addition to FHA required appraisal	yes	n/a
Potentially additional borrower guaranty	yes	no
Monthly inspection in addition to FHA long term	yes	n/a
Potential additional interest cost after initial closing Since draw down rate isn't fixed at closing	yes	no

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COMPARISON OF DIRECT LONG TERM UNRATED TAX-EXEMPT BOND PURCHASE TO TAXABLE LONG TERM FHA/GNMA COUPLED WITH SHORT TERM PUBLICALLY MARKETED TAX-EXEMPT BONDS
ASSUMED $5,000,000 TAX-EXEMPT BONDS
August 1, 2017

	Unrated Direct Purchase	Rated- FHA Insured
Term/Amortization/All-In Mortgage Rate for conduit purchasers, banks can be ½-3/4% lower	17yr.tender/30-40yrs/5.25%	40 years/40years/3.80% (d)(4) 35years/35years/3.25% (f) Includes ¼ % MIP
Debt Service Constant (including MIP)	6.6264% - 5.9864%	4.935% (d)(4) / 4.868 (f)
Net Operating Income ("**NOI**") necessary to support $5M loan at 1.20* debt coverage	**$398,000-$359,000**	**$296,000 / $292,000**

Other Considerations:

Speed of loan processing	Generally faster than HUD	Generally slower .HUD office consolidation make processing faster
Term of loan	Mandatory Tender in 16th or 17th yr.	Fully Amortizing
Availability	Direct Purchasers & markets where large Banks have CRA needs	Generally available
Recourse Obligation	Yes, during construction/rehab Generally until 90 days @ 90% & for conduits, Minimum DSCR test	No
Other	Some require a 100% Letter of Credit, or separate construction lender on Non-Section 8 and/or lease up risk for conduit purchasers	No
Additional lending issues if not 90% occupied	Yes, potentially more reserves	No
Davis-Bacon Wages required	No	Yes (none as a 223(f))

*Most LIHTC purchasers want to see 1.20x debt service coverage, even though generally the loan programs allow 1.15x debt service coverage for underwriting purposes.

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Comparison of Freddie TEL, FNMA, & FHA 221(d)(4)
August 1, 2017

Construction Loan:	**FNMA**	**Freddie TEL**	**FHA**
Interest Rate/Term-36 months-Construction Lender-Bank 30 day LIBOR 1.23%* + 2.50%-3.0% - variable	3.98%	3.98%	3.55% Fixed

*When 10 year US Treasury was 4.5%-4.75% in 2007, 30 day LIBOR was 5-5.5%.

Freddie Mac/FNMA take no Construction or Rent up risk:
- Forward Commitment required from conventional construction lender
- Deposit on Forward commitment (Freddie-2%, FNMA-1%) returned when deliver Permanent loan.
- 90 days at 90% occupancy & debt service coverage

FHA: NA-construction loan rolls to permanent. No rental achievement requirement.

Permanent Loan:

Interest Rate/Term/Amortization:	FNMA	Freddie TEL	FHA	
10 yr. US Treasury (2.29%) +2.4%/2.88%/17yrs./35 yrs.	4.69%	5.17%	221(d)(4) 42yrs./40yrs.	3.55%
Annual Issuer Fees-typical	.10	.10	N/A short term	-0-
Credit Enhancement fee	-0-	-0-		.25
Bond Trustee-typical	.02	.02	NA Short term	-0-
Annual Mortgage Interest Rate with other fees	4.81%	5.34%		3.80%**
Debt Service Constant	5.912%	6.319%		4.935%

Prepayment Lock-out	FNMA / Freddie TEL	FHA
	10 year lockout, then yield maintenance Of greater of 1% or yield Maintenance to year 15; current rates yield 18% yield maintenance	Generally 2 year lockout, then 10% prepayment declining 1%/year to 100% in year 12.

** 223(f) current annual interest rate is 3.25% with a 35 year fully amortizing loan. Permitted $40,000/unit rehab under that program.

	FNMA	Freddie TEL	FHA
Minimum DSCR	1.15%	1.15%	1.15%
Max LTV	.90%	.90%	87% Replacement Cost (not value restricted)
Loan Amount with NOI of $567,525 (Assumes LTV not an issue)	$8,347,000	$7,810,000	$10,000,000

Additional Bond Costs (doesn't include common costs to both such as bond counsel, volume cap, & issuer upfront fees) for the FHA Short-Term Cash-Collateralized issuance:

Underwriter's fee ($10M TEB Issue): (net of FNMA/ Freddie Mac's -0-%/.10% app. fee)	$ 50,000
Legal fee savings of FHA Credit Enhancement over FNMA & Freddie	(30,000)
Standby Commitment fee (FNMA ¼%/yr & Freddie .15%/year x 18mo .($31,000-$17,500) –ave.	(24,250)
Rating Agency/printing	13,800
Negative arbitrage (depends on Bond Counsel's opinion)(1)	0 - 135,000
Total (See Note below)	$ 9,550 - $144,550

(1) Assuming 50% first draw, 24 month term. With the proper bond counsel, this number is zero in today's interest rate environment!

Note: The additional Bond costs from an FHA execution are more than offset by an almost $1.65M-2.19M larger borrowing.