

4% LIHTC



THE PANEL



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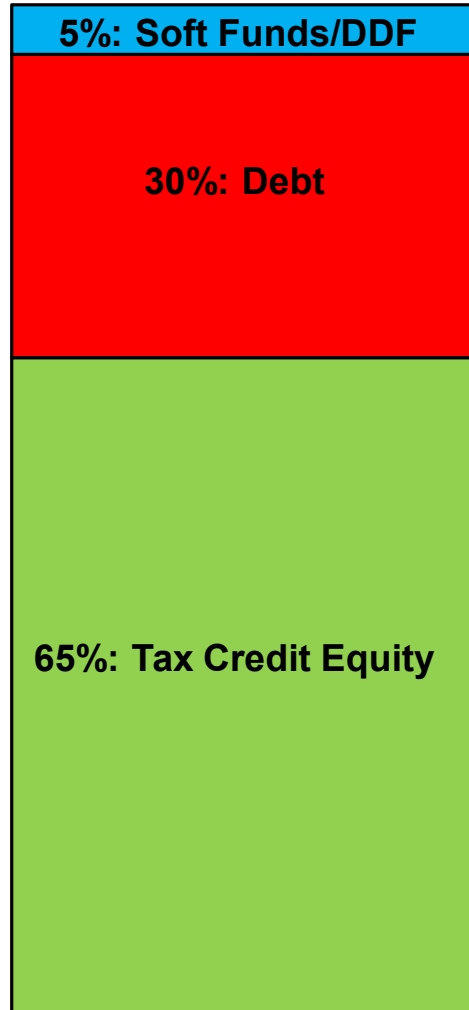
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Lument

What are Low Income Housing Tax Credits (LIHTCs)?

4% vs 9% Deals Comparison

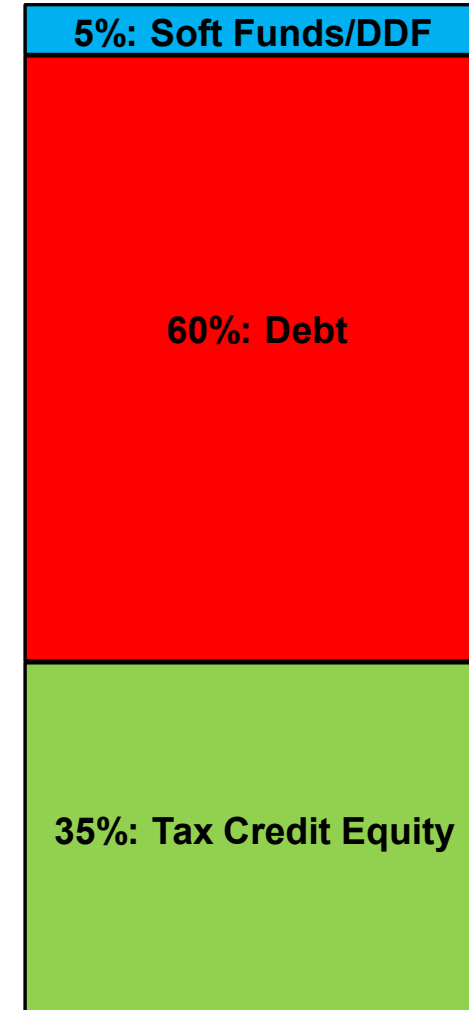
9% Deals



9% LIHTC Deals:

- Competitive
- Tax-Exempt Bonds are not permitted

4% Deals



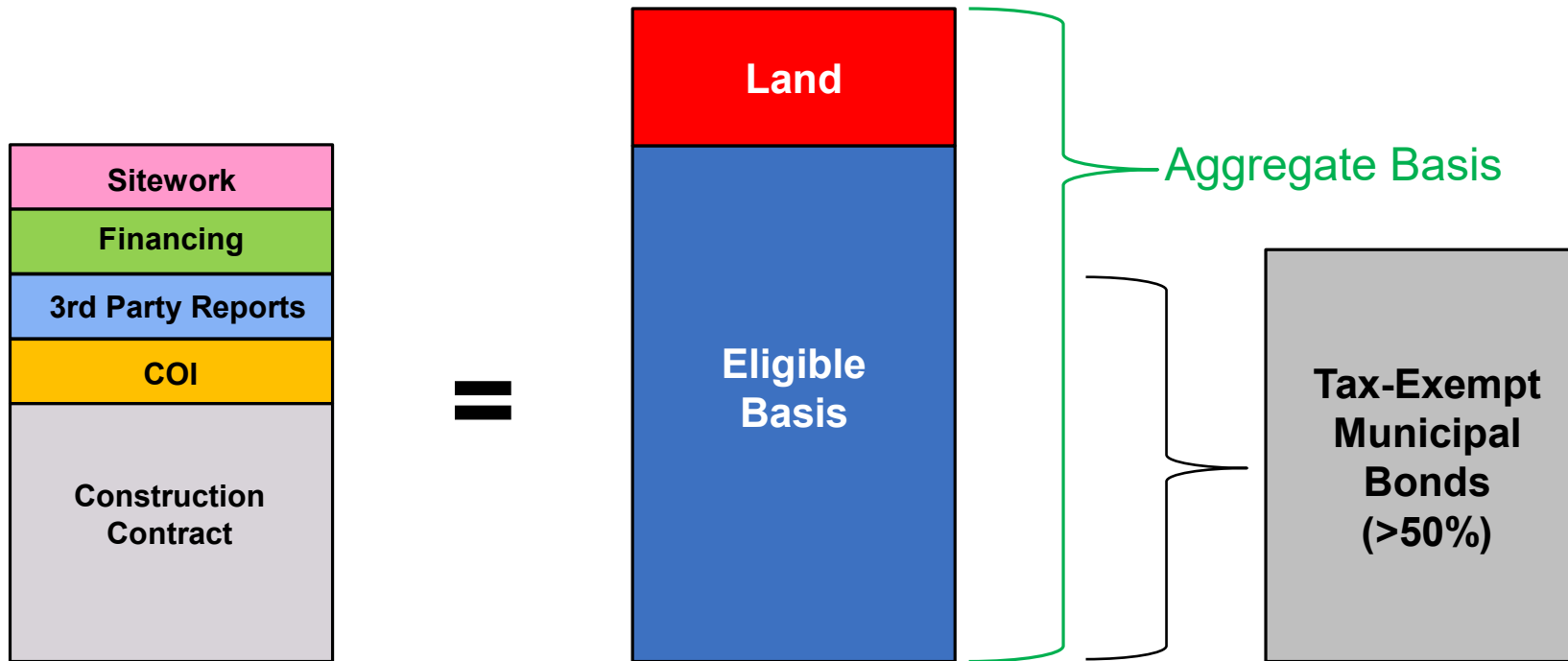
4% LIHTC Deals:

- Noncompetitive
- Tax-Exempt Bonds are required

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50% Test

To qualify for 4% Tax Credits, the Project must utilize Private Activity Bonds greater than 50% of **Aggregate Basis** (which equals **Eligible Basis** plus **Land**)



Ex: If a Project has \$20mm in **Aggregate Basis**, the Borrower should request greater than \$10mm in Tax-Exempt Municipal Bonds

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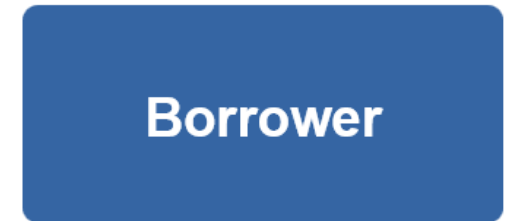
What are Tax-Exempt Municipal Bonds?



Bond Investor



Issuer

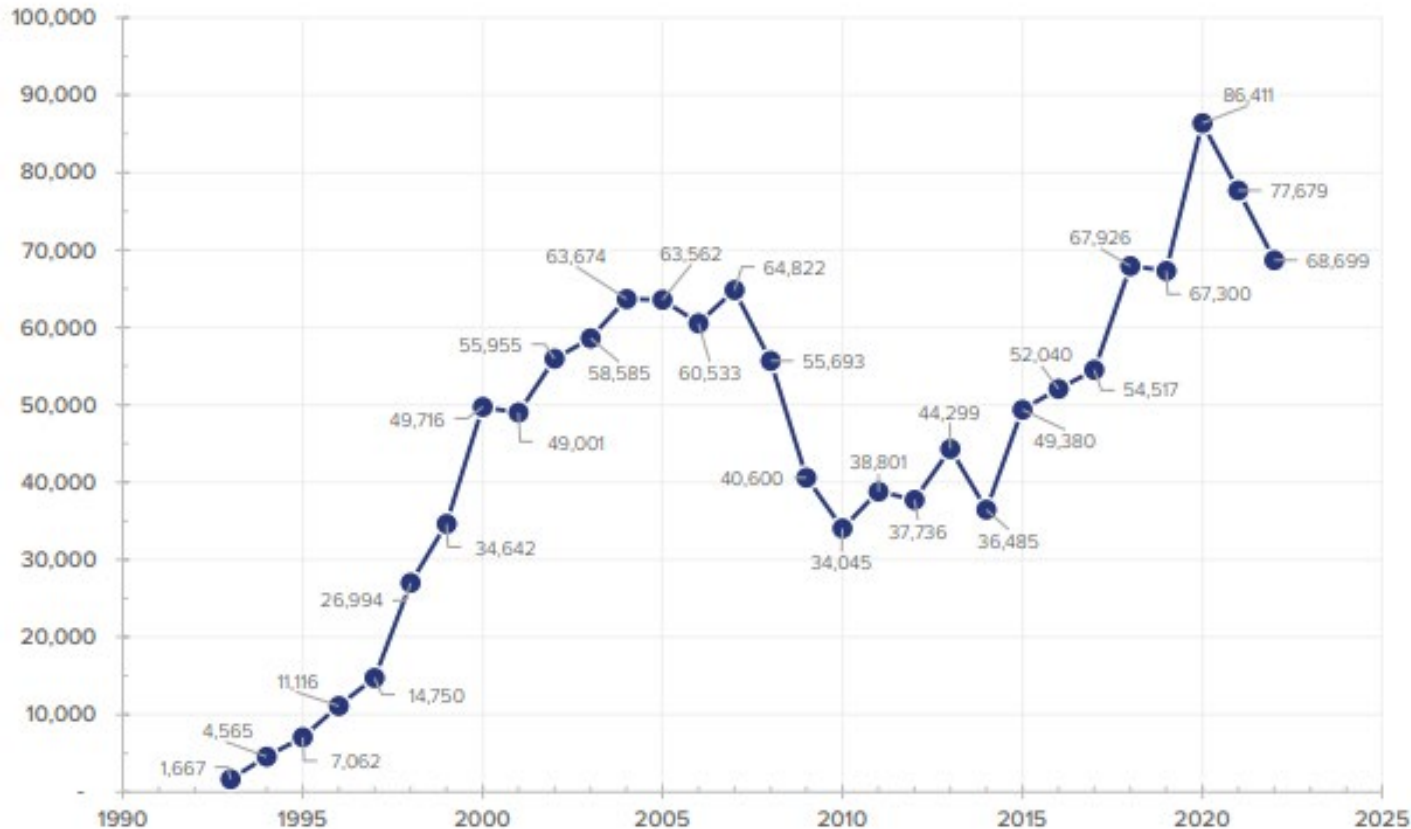


Project

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GROWING INTEREST IN 4%

Homes Financed With PABs
1993 – 2022



2-Step Process in Arizona

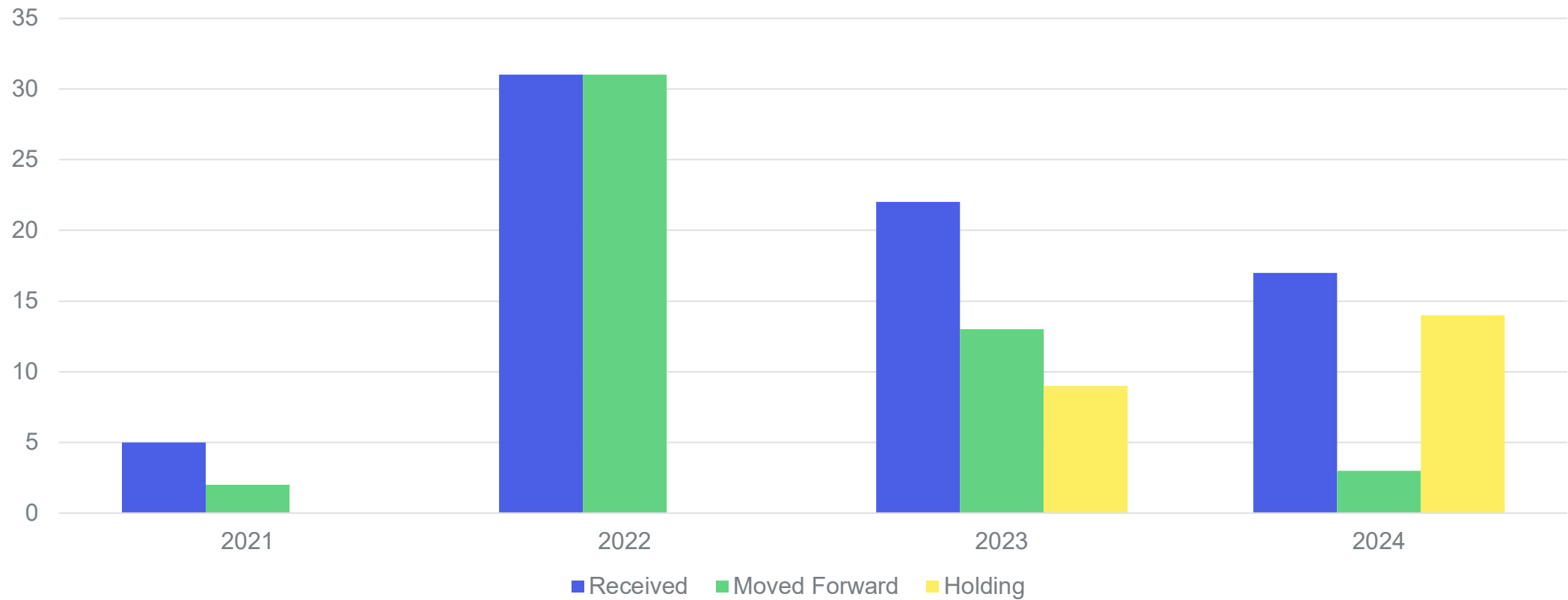
2024 Arizona PAB
Volume Cap = **\$928M**

- 2021 ADOH 4% = **2 projects**
- 2022 ADOH 4% = **31 projects**
- 2023 ADOH 4% = **22 projects**
- 2024 ADOH 4% = **17 projects**

Source: National Council of State Housing Agencies and Novogradac

ADOH OUTLOOK ON 4% APPS

4% Applications to ADOH



BOND PROCESSES

1. Project submits Application to their local IDA
2. IDA provides a preliminary inducement
- 3. IDA provides Delegation of Determination**
- 4. OPTIONAL: Preliminary ADOH 4% Application**
5. Publish TEFRA Notice/TEFRA Hearing
6. Indenture created to define responsibilities of issuer/trustee & rights of bondholder (*If Trustee used*)
- 7. Volume Cap letter received**
- 8. Project submits complete 4% LIHTC application to ADOH**
- 9. ADOH and Project address any deficiencies in 4% application**
- 10. ADOH issues 42(m) letter**
11. Final application submitted to the IDA
12. Bond Purchase Agreement prepared/drafted by Bond Counsel (Between Issuer & Lender/Investor)
13. Loan Agreement prepared/drafted by Bond Counsel (Between Issuer & Borrower/Project) – *typically Issuer assigns their rights to the Loan Agreement to the Bondholder if there is no Trustee involved*
14. Underwriter places the bonds (Private or Public)
- 15. IDA approves bond resolution and Issues Bonds**
16. Equity closing with all involved lenders
17. Bond proceeds delivered to trustee (if Trustee is used) per the Indenture & Loan Agreement
18. Disbursement of bond proceeds to the project as outlined in the Loan Agreement
19. Construction begins



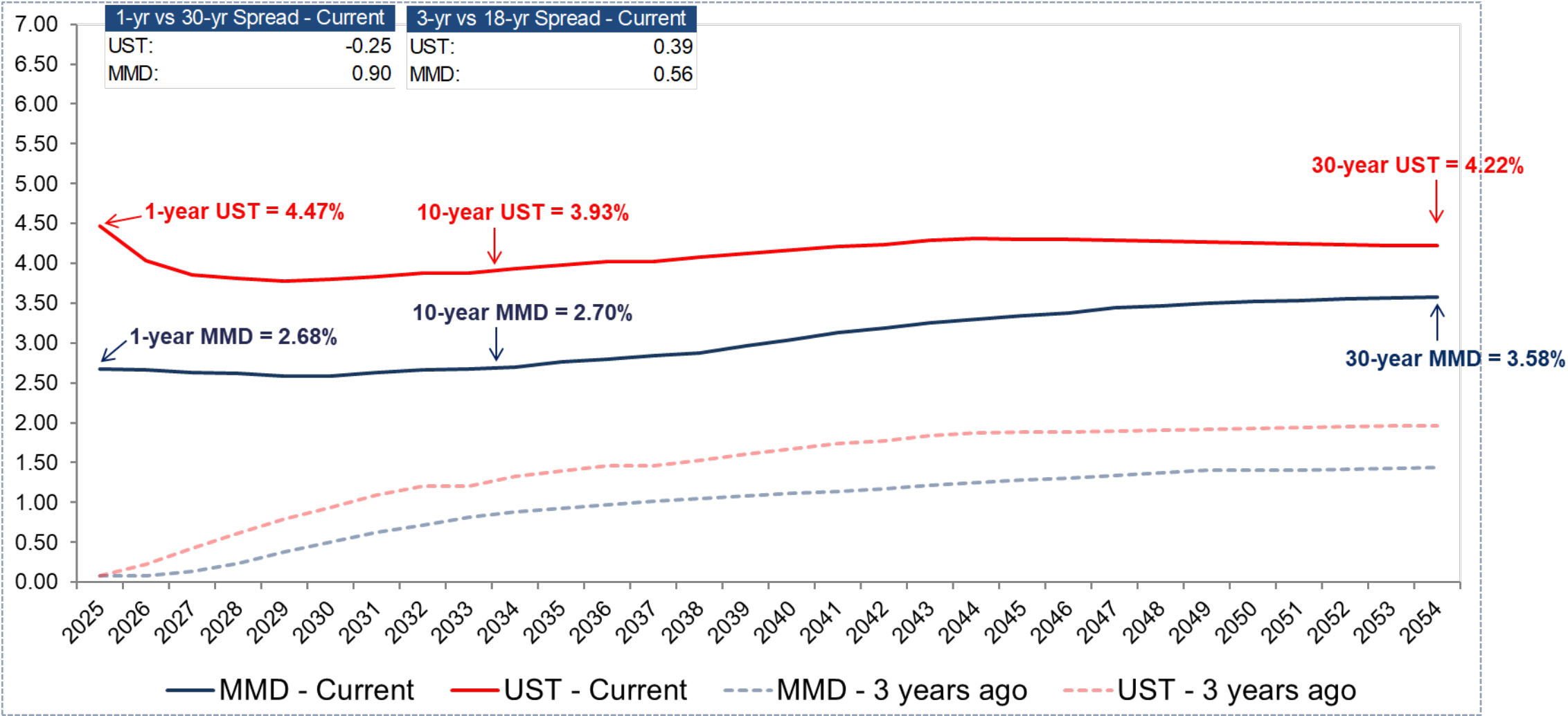
Important Market Indicators

Long-Term Rates – Past 5 Years



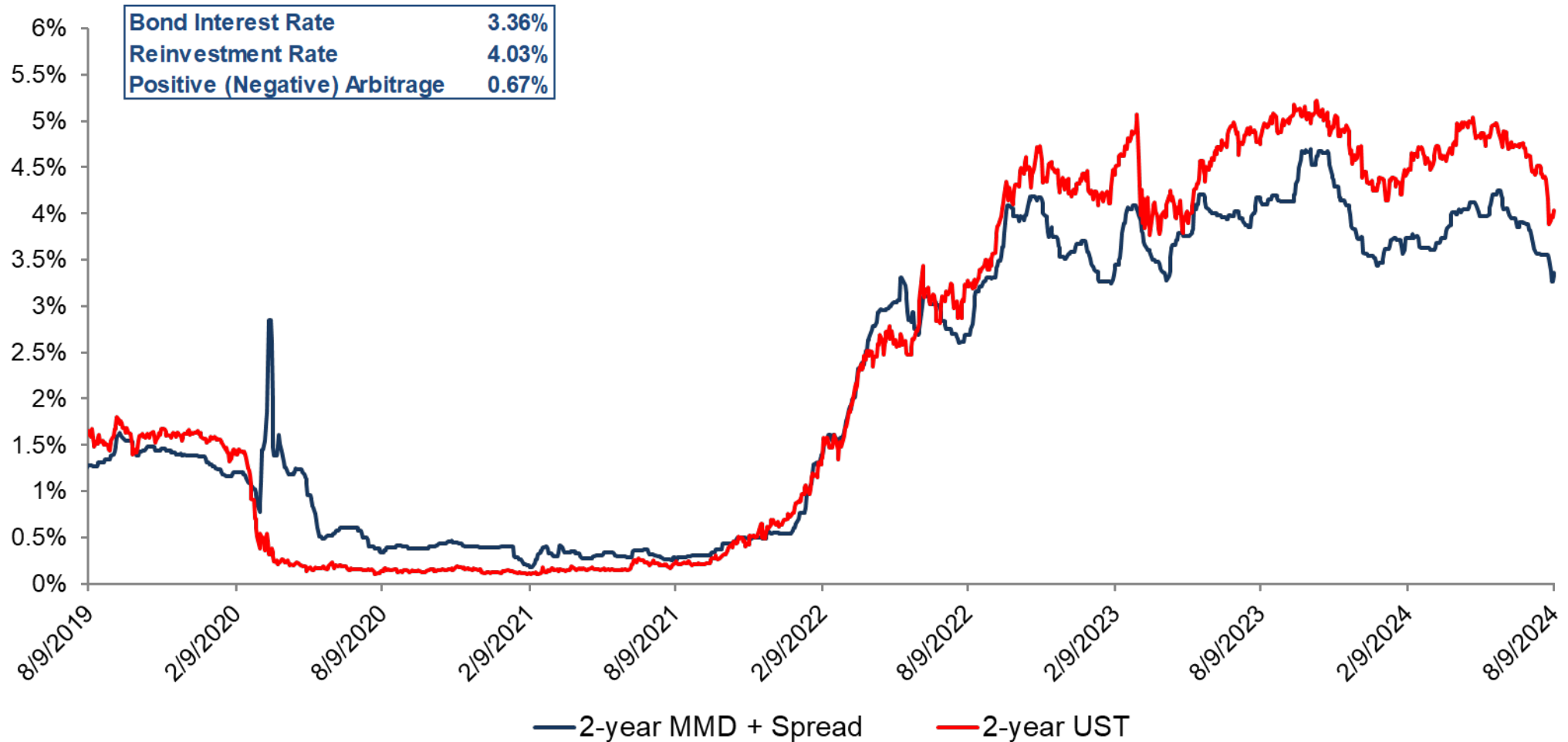
Source: Bloomberg, Thomson Reuters
Reflects market conditions as of August 9, 2024
Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Yield Curve: Taxable UST vs. Tax-Exempt MMD (as of 8/9/2024)



Source: Bloomberg, Thomson Reuters
 Reflects market conditions as of August 9, 2024
 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 Year-To-Date



Source: Bloomberg, Thomson Reuters
 Reflects market conditions as of August 9, 2024
 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

Taxable Debt Executions with Short Term Cash-Backed Bonds

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
- Soft funds (including CDBG, FEMA, etc.)

Short Term Cash-Backed Bonds with FHA Credit Enhancement

Favorable Underwriting Terms for FHA loans (223(f)/221(d)(4)) include:

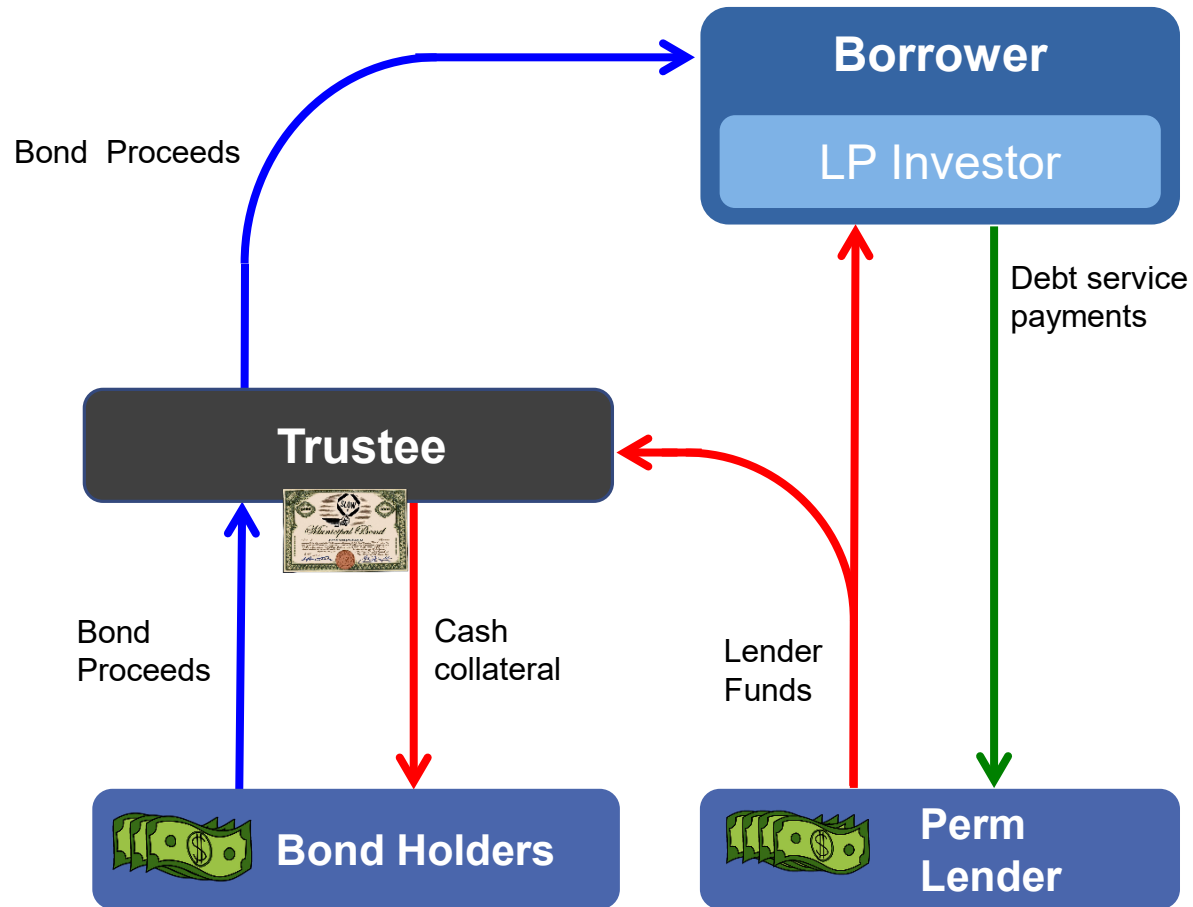
- 35/40-year full term / amortization
- No resizing at conversion
- Non-recourse & integrated construction and perm
- Taxable mortgage loan is funded as needed for sub rehab / new construction deals
- FHA debt qualifies for 10-year hold exemption (for acquisition credits)
- Competitive rates still available
- Davis Bacon wages triggered for sub rehab / new construction deals

Bond Executions with FHA Credit Enhancement

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
- Can be used independently or with other “longer term” bond structures to meet 50% test

Short Term Cash-Backed Bonds



Short Term Cash-Backed Bonds

Bond Amount to meet 50% test < Taxable Loan Amount

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 Bridge

Other Cost Saving Features/Options

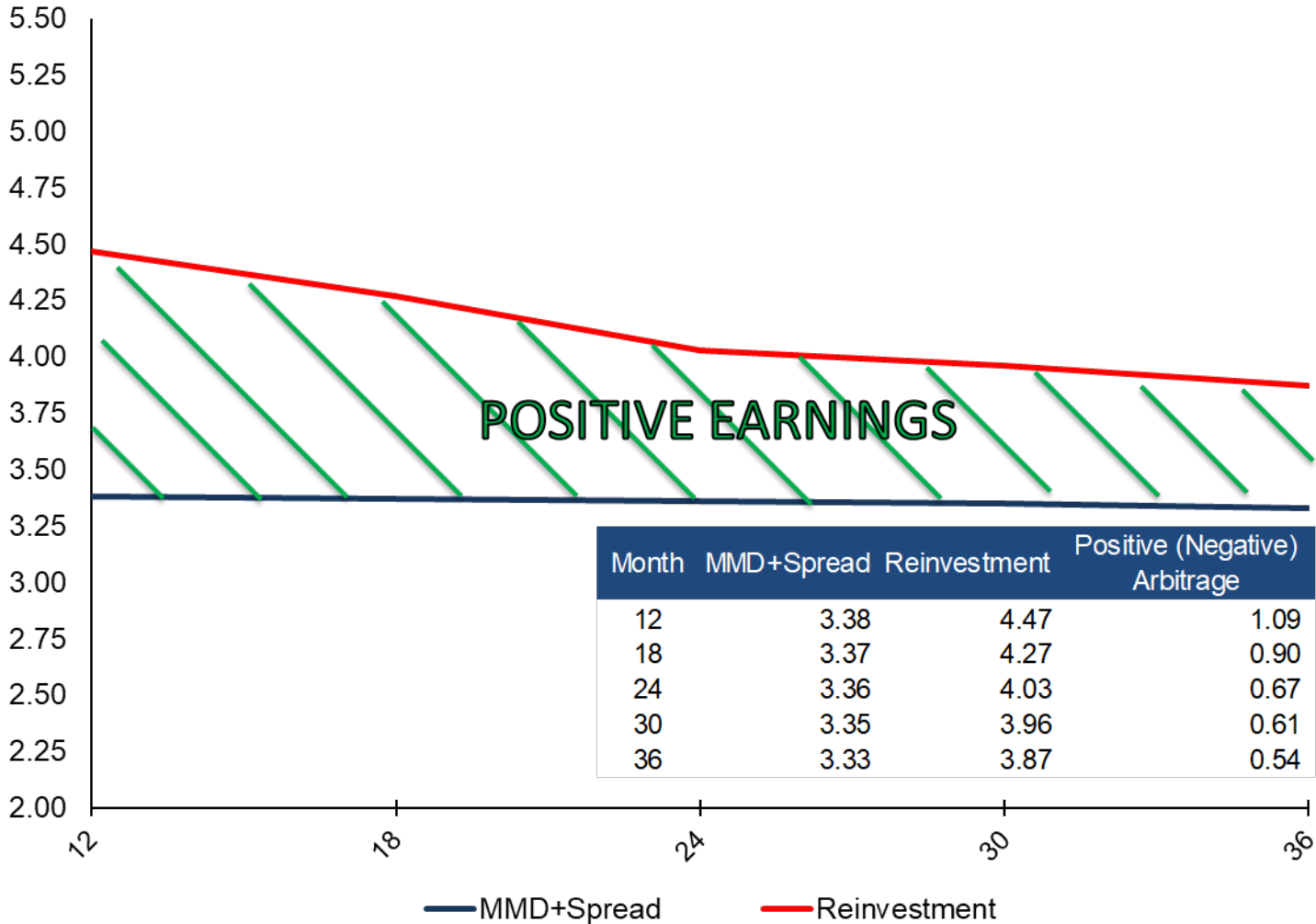
Methods to reduce transaction costs and generate more proceeds:

- Pooled financings – multiple projects w/ one aggregate bond issuance
- No long-term bond related fees
- Several investment strategies by Tiber Hudson have helped to mitigate negative arbitrage
- 266 Election can generate additional tax credit equity by including bond and construction loan interest through construction completion in eligible basis*

**Subject to approval from Developer's accounting firm. Requires factoring in investment earnings as income, which can impact equity pricing.*

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Short-Term Rates vs. Reinvestment Rates – 12 to 36 Months



Source: Bloomberg. Thomson Reuters
 Reflects market conditions as of August 9, 2024
 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

Case Study: Las Terrazas

Project Overview	
Issuer	Arizona Industrial Development Authority
Project Type	New Construction
Financing	Short-Term Cash-Collateralized Bonds
Loan	USDA 538 and USDA 515
Mortgage Lender	Bonneville Mortgage Company
Location	Nogales, AZ
Offering Price	101.221%
Est. Positive Arbitrage	\$1,307.81
Units	104

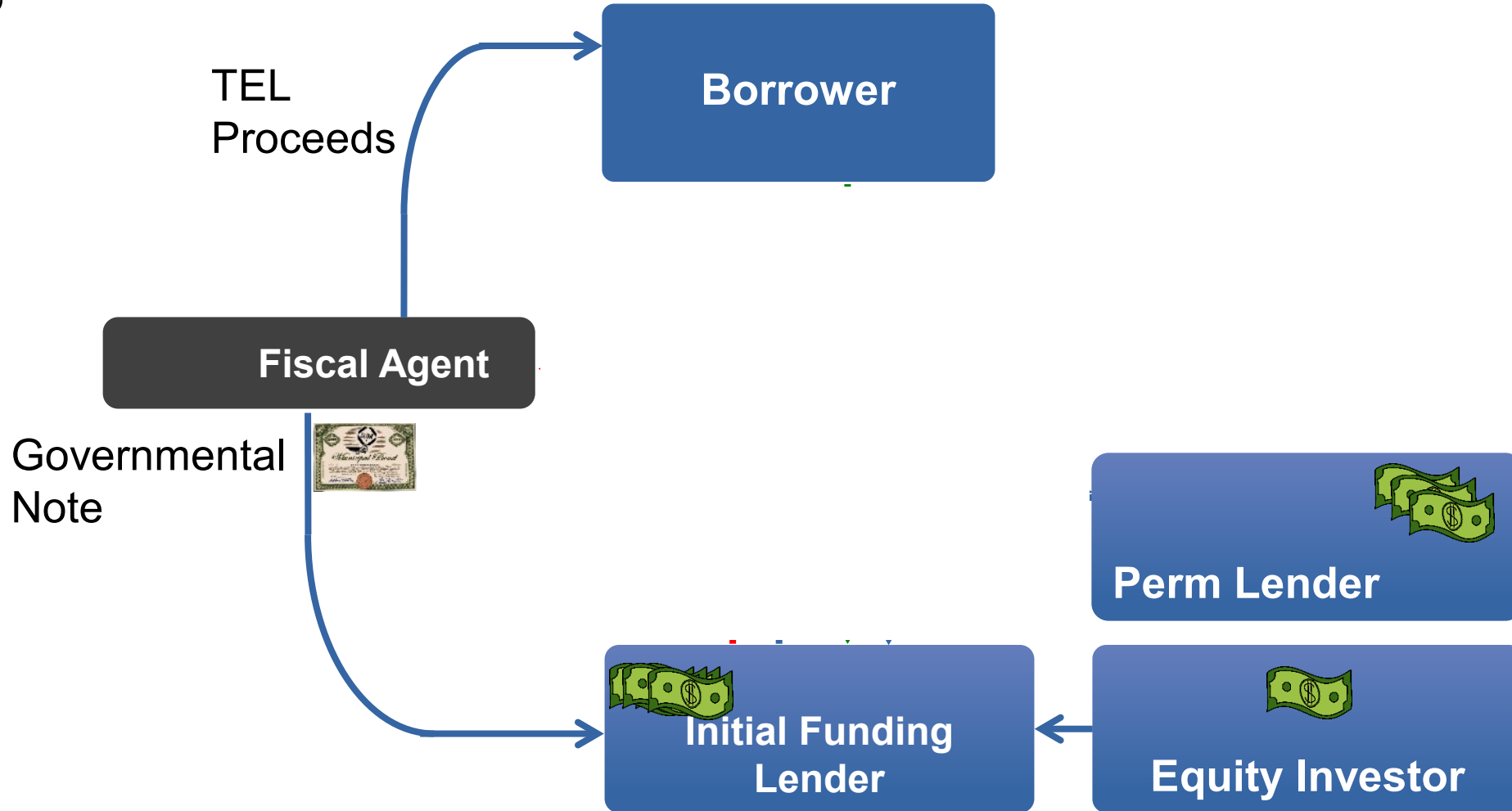
Private Placements

Forward Tax-Exempt Loan (TEL)

- 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 Credit Enhancement Provider 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

Forward TEL

At Closing



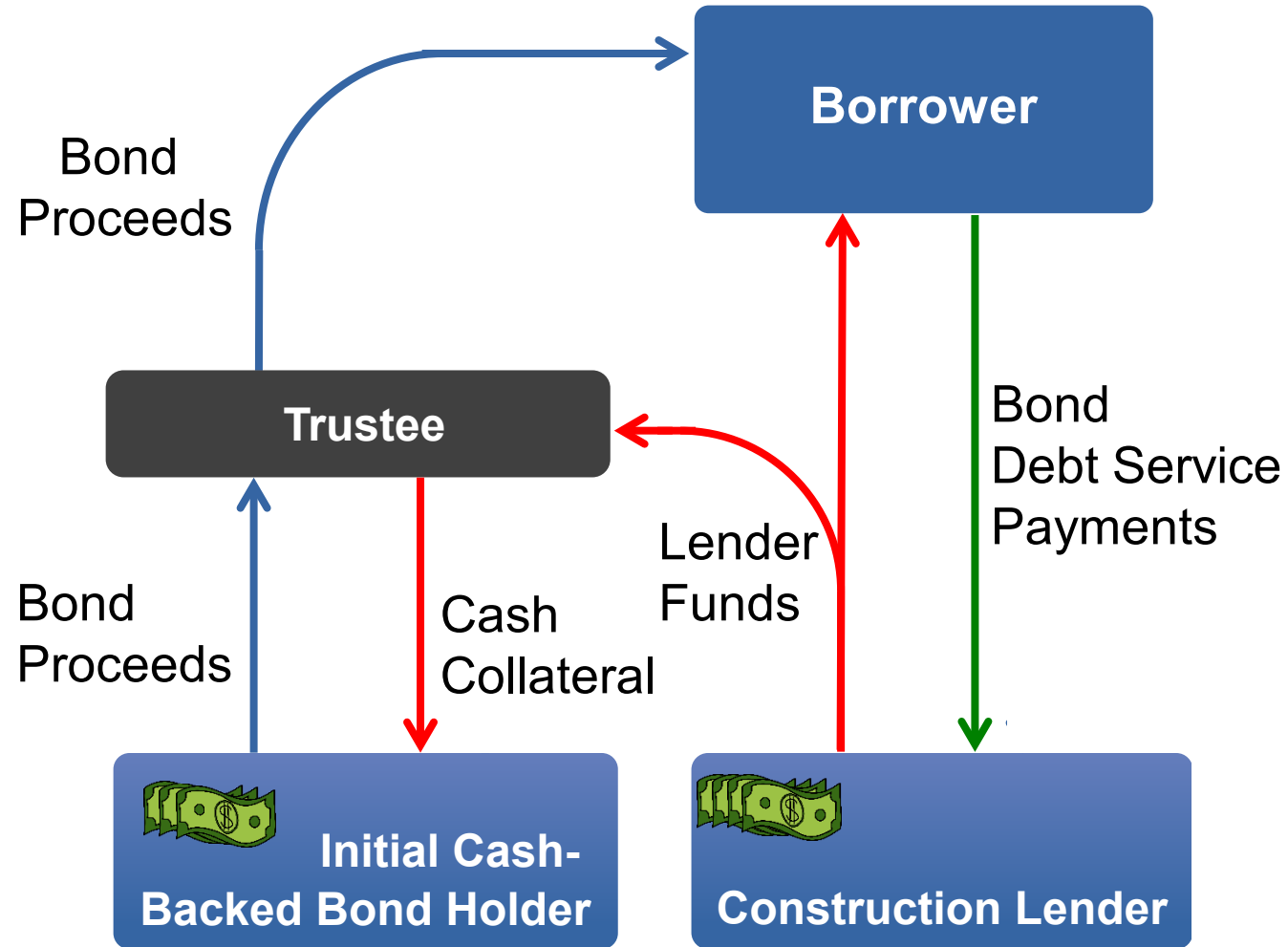
Cash-Backed Forward Structure

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

* *Subject to approval from Bond Counsel and Developer's accounting firm*

Cash Backed Forward



Cash-Backed Forward Benefits

Cash-Backed Forward Yield Blending

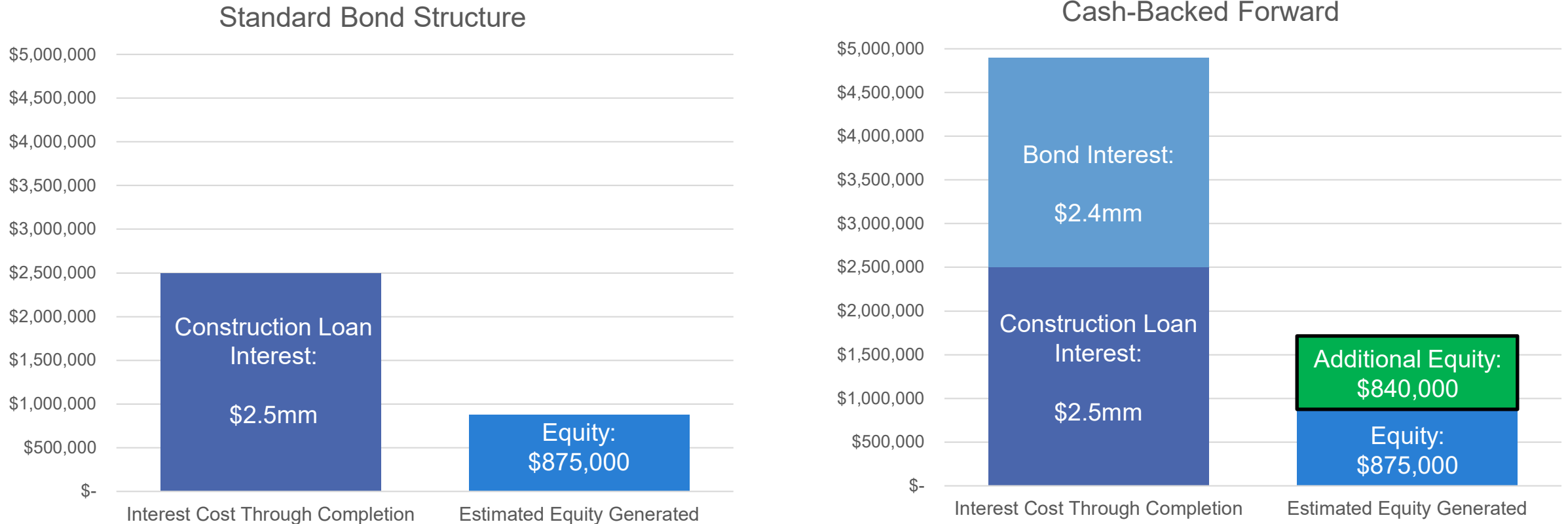
1. Positive Earnings During Cash-Backed Mode (subject to bond counsel approval to blend yields)

“**Yield Blending**” refers to the ability to blend the short-term bond yield with the long-term bond/note yield over the first 5 years for arbitrage rebate purposes.

The resulting blended bond yield often results in the ability to retain certain earnings at or below such rate (subject to bond counsel approval).

Cash-Backed Forward Benefits

2. Additional equity generated when counting bond interest through completion in eligible basis*



Est. Savings: \$840,000

* Inclusion of bond and construction loan interest subject to approval from Developer's accounting firm.
 ** Assumes \$30mm par amount and 3-year initial term to Conversion, 24-month construction period, with level draw schedule.
 *** Equity generated assumed to be 35% of interest cost through completion. Confirm impact of investment income with equity investor
 **** Additional equity generated from taxable construction loan interest in situations where equity investor and construction lender are not related parties

Possible Added Costs Of Cash-Backed Forward*

1. Additional Costs of Issuance for Publicly Offered bonds

Expense	Est. Cost
Underwriter's Fee	\$180,000
Underwriter's Counsel	\$60,000
Rating Agency	\$5,500
Verification Agent	\$2,500
Other Costs	\$2,000

Additional Equity Generated from COI	
Total Estimated COI	\$250,000
Est. Additional Basis**	\$166,666
Est. Additional Equity***	\$60,000

Est. Net Expense: \$190,000

* Possible added cost from taxable construction loan interest in situations where equity investor and construction lender are not related parties

** A portion of Costs of Issuance allocable to the cash-collateralized bond issue can count towards Eligible Basis, pro rated for the portion of the initial term prior to construction completion

*** Additional Equity is assumed to be 35% of Additional Basis

Cash-Backed Forward Comparison

Summary of Overall Structure			
	Standard Draw-Down Bond Structure	Cash-Backed Forward	Savings*
Est. Positive Earnings	\$0	\$675,000	\$675,000
Est. Additional Equity	\$875,000	\$1,715,000	\$840,000
Est. Additional Costs of Issuance	\$0	(\$190,000)	(\$190,000)

Est. Savings: \$1,325,000

*4.4% of Bond Amount***

* Lower savings in situations where equity investor and construction lender are not related parties

** Assumes \$30mm bond amount

Cash-Backed Forward Other Benefits

1. Earnings on bond proceeds count towards 50% test

Standard Bond Structure:

$$\frac{\text{Tax-Exempt Bonds}}{\text{Aggregate Basis}} = \frac{\$30,000,000}{\$60,000,000} = 50.0\%$$

Cash-Backed Structure:

$$\frac{\text{Tax-Exempt Bonds} + \text{Earnings on Bond Proceeds}}{\text{Aggregate Basis} + \text{Bond Interest Through Completion}} = \frac{\$30,000,000 + \$1,350,000}{\$60,000,000 + \$2,400,000} = 50.2\%$$

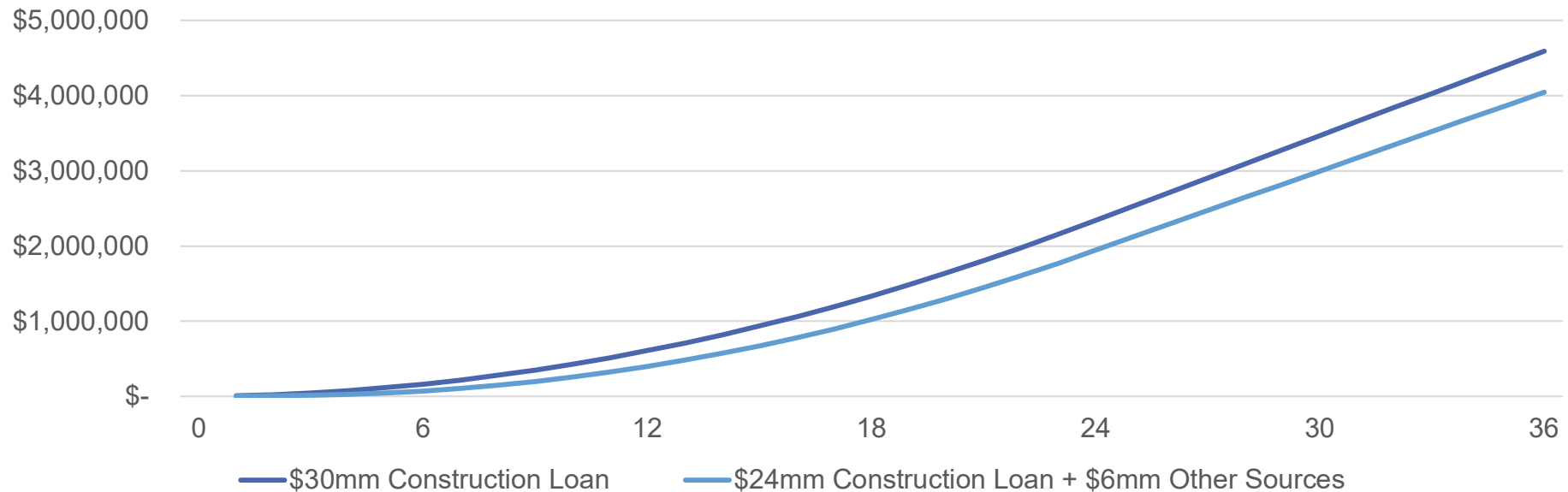
Without Bond Interest in Basis:

$$\frac{\text{Tax-Exempt Bonds} + \text{Earnings on Bond Proceeds}}{\text{Aggregate Basis}} = \frac{\$30,000,000 + \$1,350,000}{\$60,000,000} = 52.3\%$$

Cash-Backed Forward Other Benefits

2. If Bond Amount > Perm Loan, allows other funds to be used as collateral (reduced construction loan)

If instead of a \$30mm Construction Loan collateralizing the bonds, \$6mm of collateral came in the form of a cheaper source of funds, then the net interest cost could reduce by roughly \$500k.

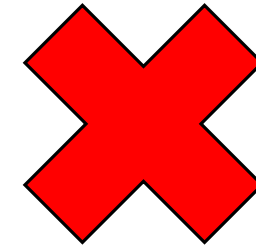


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Cash-Backed Forward Other Benefits

3. Allows Equity Investor to also serve as Construction Lender without triggering program investment test*, which is triggered when total issuer fees exceed 12.5 bps annually.

Standard Bond Structure	
Bondholder:	Equity Investor:
Construction Lender	Construction Lender



Cash-Backed Forward	
Bondholder:	Equity Investor:
Public Investors	Construction Lender



** Program Investment Test requires total issuer fee (including upfront and ongoing fees) to not exceed 0.125% of the bond amount per year for the full term of the bonds.*

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Case Study: The Ranches at Gunsmoke

Project Overview

Issuer	Arizona Industrial Development Authority
Project Type	New Construction
Financing	Cash Backed Forward to TEL
Est. Positive Earnings	\$1,342.11
Additional Basis	\$4,587,657.89
Location	Maricopa, AZ
Maturity Date	March 1, 2058
Units	271



Case Study: The Ranches at Gunsmoke

Benefits		
Positive Arbitrage	\$1,056,280	<i>*3.23% bond rate / 3.98% re-investment rate</i>
Add. Const. Interest Equity Generated	\$2,070,719	<i>*\$4.5m of construction period interest</i>
Add. Developer Fee Equity Generated	\$496,973	<i>*ADOH 24% Developer Fee on \$4.5m of const. interest</i>
TOTAL	\$2,567,692	
Costs		
Equity Investor Income Allocation	\$1,140,336	<i>*\$5.4m income allocation at 21%</i>
Add. Bond Costs	\$175,000	
Add. Issuer Fees	\$16,922	<i>*\$2.8m of additional PAB needed</i>
Add. Const. Loan Interest (TE to Taxable)	\$143,680	<i>*15 bps spread difference</i>
TOTAL	\$1,475,938	
NET BENEFIT	\$1,091,754	

Fannie Mae Structures

Combine MTEB with Additional Fannie Mae Products for Maximum Value



GREEN
REWARDS



HEALTHY
HOUSING
REWARDS



WORKFORCE
HOUSING



COST OF
ISSUANCE
REIMBURSEMENT

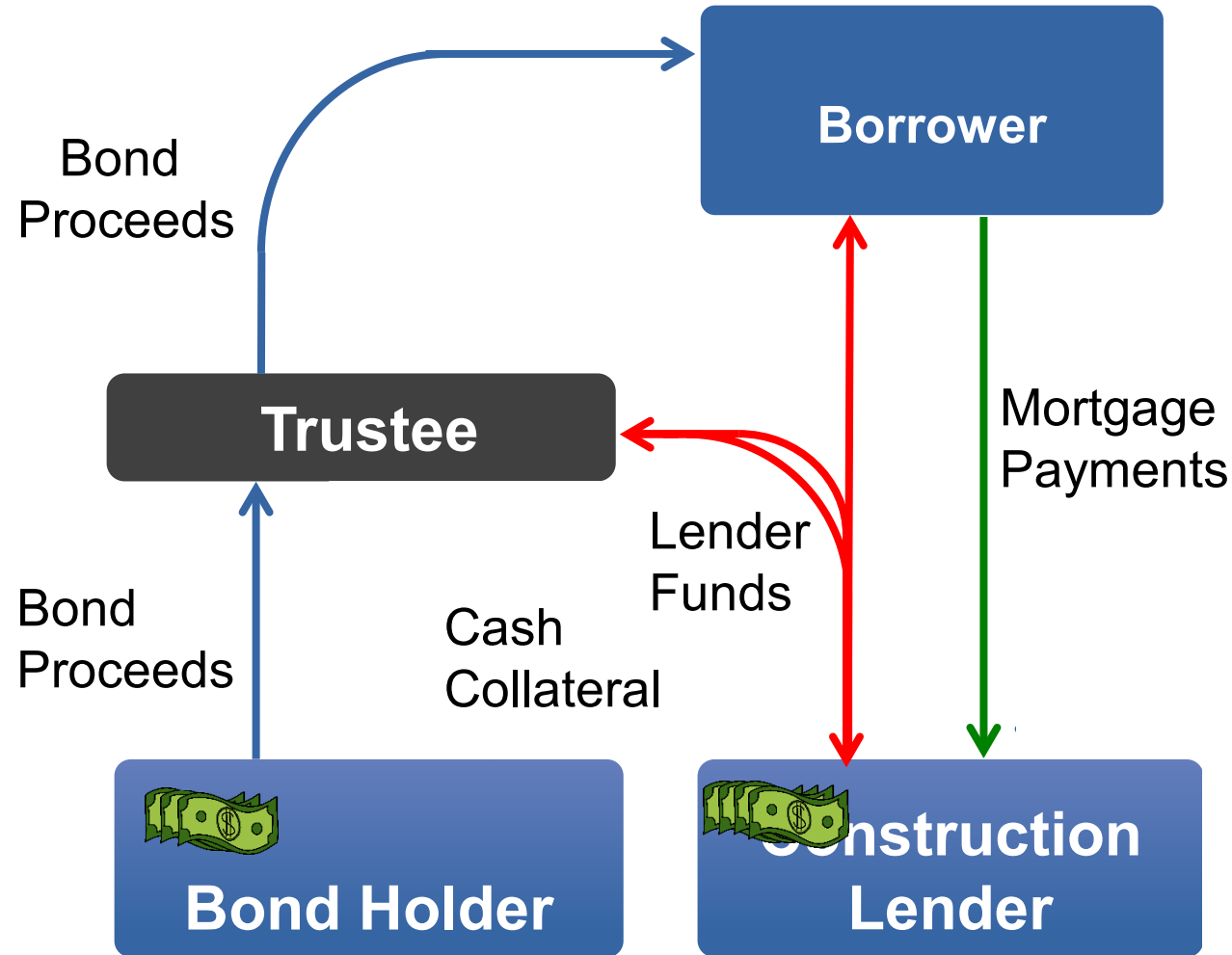


PREMIUM BONDS

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
 - Yields can often be blended to reduce or eliminate total negative arbitrage for the deal)
 - Fannie to credit 75 bps for Bond related costs
 - Paid upon conversion
- Competitive Rates Available: Often results in additional net loan proceeds despite some upfront costs

Fannie Mae Forward MTEB



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Forward MTEB Benefits

Forward M-TEB Yield Blending

Under the Forward M-TEB structure* **“Yield Blending”** refers to the ability to blend the short-term bond yield with the long-term bond/note yield over the initial computation period for arbitrage rebate purposes.

The resulting blended bond yield often results in the ability to offset a portion of the long-term bond interest cost with excess earnings on the short-term bonds.

** Also applicable for Risk-Share transactions with two series*

Forward M-TEB Yield Blending

	Series A: M-TEB	Series B: Short-Term
Bond Amount	\$20,000,000	\$10,000,000
Est. Bond Yield	4.85%	4.00%
Est. Investment Yield	4.75%	4.75%
Est. Interest Earnings	(\$60,000)	\$225,000

Without Yield Blending:

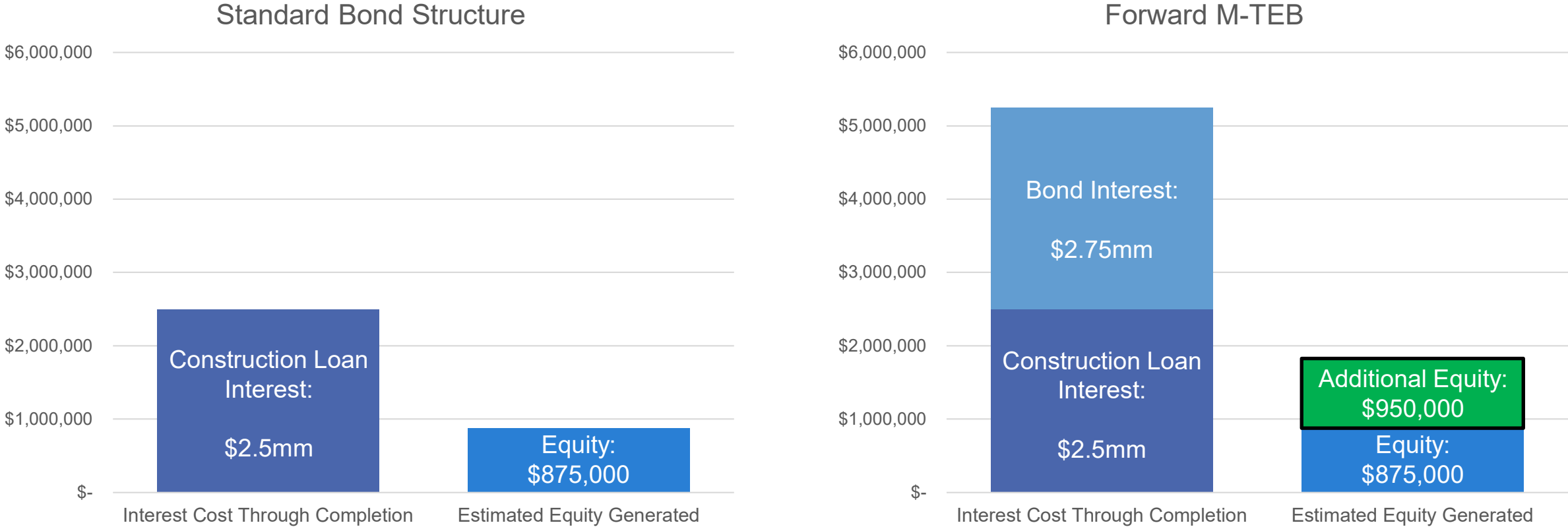
M-TEB Negative Arbitrage:	(\$60,000)
Short-Term Earnings:	\$225,000
<u>Rebate Due to IRS:</u>	<u>(\$225,000)</u>
Net Earnings:	(\$60,000)

With Yield Blending:

M-TEB Negative Arbitrage:	(\$60,000)
Short-Term Earnings:	\$225,000
<u>Rebate Due to IRS:</u>	<u>\$0</u>
Net Earnings:	\$165,000

Forward M-TEB Benefits

2. Additional equity generated when counting bond interest through completion in eligible basis*



Est. Savings: \$950,000

* Inclusion of bond and construction loan interest subject to approval from Developer’s accounting firm.
 ** Assumes \$20mm MTEB par, \$10mm STCB par, and 36-month initial term.
 *** Equity generated assumed to be 35% of interest cost through completion. Confirm impact of investment income with equity investor
 **** Additional equity generated from taxable construction loan interest in situations where equity investor and construction lender are not related parties

Forward M-TEB Benefits

3. Potential for greater permanent loan proceeds in debt service constrained transactions*

	Standard Bond Structure	Forward M-TEB
Est. Mortgage Rate	6.25%	5.85%
Est. Annual Payment	\$1,300,000	\$1,300,000
Est. Loan Proceeds	\$19,000,000	\$20,000,000

* Assumes 1.15x DSCR, 40-year amortization, \$1.4mm NOI

Possible Added Costs Of Forward M-TEB*

1. Additional Costs of Issuance for Publicly Offered bonds

Expense	Est. Cost
Underwriter's Fee	\$180,000
Underwriter's Counsel	\$60,000
Rating Agency	\$20,000
Verification Agent	\$2,500
Other Costs	\$2,500

Additional Equity Generated from COI	
Total Estimated COI	\$265,000
Est. Additional Basis**	\$175,000
Est. Additional Equity***	\$65,000

Est. Net Expense: \$200,000

* Possible added cost from taxable construction loan interest in situations where equity investor and construction lender are not related parties

Forward M-TEB Comparison

Summary of Overall Structure			
	Standard Draw-Down Bond Structure	Forward M-TEB	Savings*
Est. Permanent Loan Proceeds	\$19,000,000	\$20,000,000	\$1,000,000
Est. Positive Earnings	\$0	\$165,000	\$165,000
Est. Additional Equity	\$875,000	\$1,825,000	\$950,000
Est. Additional Costs of Issuance	\$0	(\$200,000)	(\$200,000)

Est. Savings: \$1,915,000
*6.4% of Bond Amount***

* Lower savings in situations where equity investor and construction lender are not related parties

** Assumes \$30mm bond amount required to meet 50% test

Forward M-TEB Other Benefits

1. Earnings on bond proceeds count towards 50% test

Standard Bond Structure:

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M-TEB Structure:

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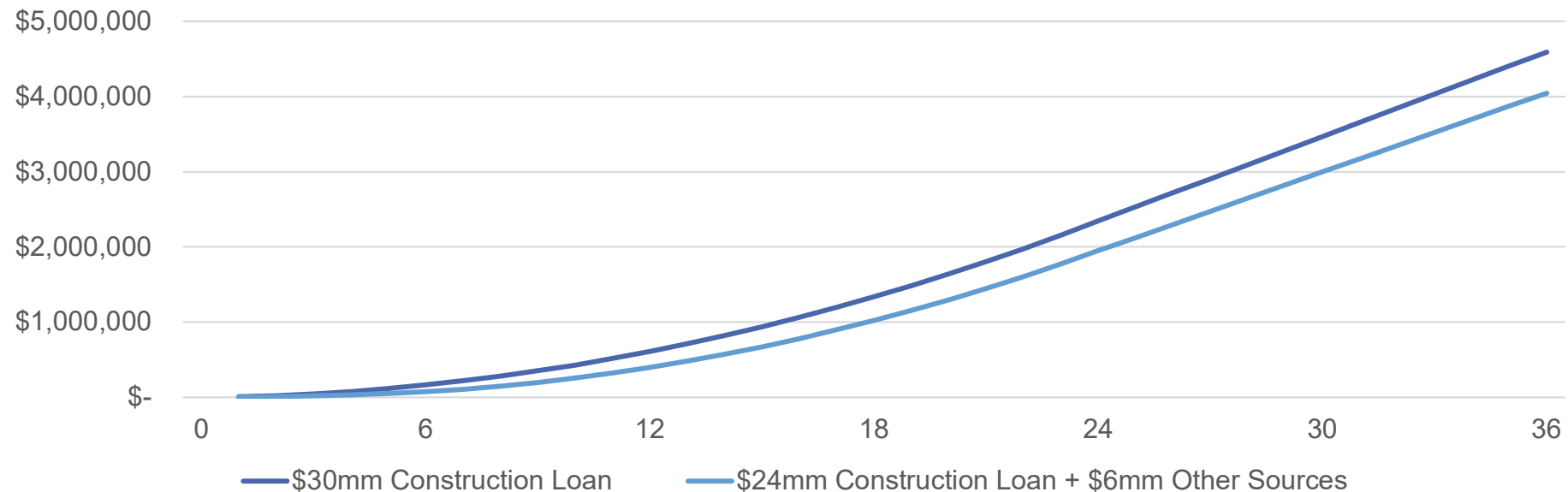
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Forward M-TEB Other Benefits

2. If Bond Amount > Perm Loan, allows other funds to be used as collateral (reduced construction loan)

In the prior example, if instead of a \$30mm Construction Loan collateralizing the bonds, \$6mm of collateral came in the form of a cheaper source of funds, then the Construction Loan interest cost could reduce by roughly \$500,000.

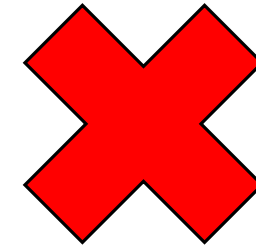


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Forward M-TEB Other Benefits

3. Allows Equity Investor to also serve as Construction Lender without triggering program investment test*, which is triggered when total issuer fees exceed 12.5 bps annually.

Standard Bond Structure	
Bondholder:	Equity Investor:
Construction Lender	Construction Lender



Cash-Backed Forward	
Bondholder:	Equity Investor:
Public Investors	Construction Lender



* Program Investment Test requires total issuer fee (including upfront and ongoing fees) to not exceed 0.125% of the bond amount per year for the full term of the bonds.

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Contact Information



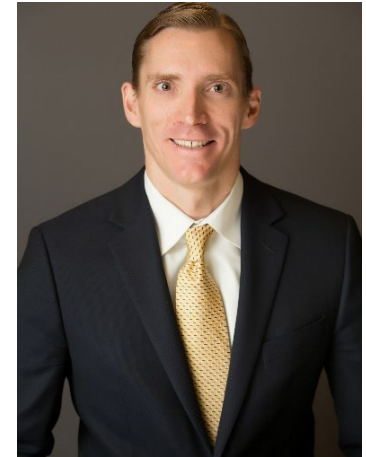
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THANK YOU

