

BAHFA PROGRAM DESCRIPTION

PRODUCTION: MULTIFAMILY RENTAL PROGRAM

— DRAFT —

Program Objectives	<p>The objectives of BAHFA’s Multifamily Rental Production Program (the “Program”) are to:</p> <ul style="list-style-type: none">• Support BAHFA’s Legislated Production Goals. The majority of Regional Housing Revenue¹ (“RHR”) raised by BAHFA (minimum 52%) is required to be distributed, in the form of a grant, loan or other financing tool, for the production of rental housing that is restricted by recorded document to be affordable to lower income households up to 80% AMI for at least 55 years (“Production”). The Program would provide financing for housing meeting the Production criteria.• Achieve Transformative Scale. Across the Bay Area, the cost to produce affordable, new rental housing continues to climb. To make it possible for BAHFA to assist a greater number of units, it will need to leverage outside funding that can cover a large share of total development costs. Currently, the only major source of affordable housing funding in the U.S. is the Low Income Housing Tax Credit (“LIHTC” or “tax credit”) program, and BAHFA’s Production Program is intended to be compatible with LIHTCs, as well as state and local subsidy sources. Noting that LIHTCs and their companion funding source, private activity bonds (“PABs”), are currently highly competitive and often not directed to projects that BAHFA would otherwise seek to prioritize, BAHFA will seek to leverage alternate, new funding sources as they become available. It will also work collaboratively with state and local partners to ensure that LIHTCs and PABs, both necessary for projects’ financial feasibility, are distributed more equitably across a variety of communities.• Generate Revenue. Revenue BAHFA generates from its financing activities in support of the Program will be used to support BAHFA’s financial self-sufficiency and Protection programming. Revenue may also be revolved by BAHFA as additional financing to additional
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¹ Regional Housing Revenue refers to the revenue BAHFA collects from general obligation bond issuances, parcel taxes, special head taxes, and gross receipts taxes as defined in AB 1487.

	<p>projects and to invest in new BAHFA financing and technical capacities.</p> <ul style="list-style-type: none">• Coordinate and Streamline. Affordable multifamily rental projects are typically financed using a “layer cake” of hard debt and subsidy from multiple sources. By being a one-stop, coordinated source of both hard debt and significant subsidy, BAHFA will streamline project financing.• Advance Equity Goals. The Program will invest in projects that support achievement of the Equity Framework’s Production (P) and Cross-Cutting (CC) Objectives. The Program will seek to:<ul style="list-style-type: none">P1. Produce more affordable housing, especially for Extremely Low Income (ELI) households. Increase housing production, with different housing types, across the region, and provide special focus on the production of housing for ELI households and populations most disproportionately impacted by housing inequity.P2. Invest in historically disinvested areas. Address systemic racism by investing in developments identified by impacted communities as priorities and that transform historically disinvested neighborhoods (such as Equity Priority Communities) into areas of opportunity.P3. Create affordable housing opportunities in historically exclusionary areas. Address systemic racism by investing in developments that replace segregated living patterns with integrated and balanced living patterns in areas of concentrated affluence.P4. Create programs that address homelessness. More housing is critical to end homelessness, and BAHFA is committed to working with counties to increase housing types that directly serve the needs of unhoused residents, including permanent supportive housing, while developing strategies to ensure that operating and services subsidies are available and utilized to the greatest extent possible.P5. Achieve regional climate and environmental justice goals. Prioritize housing placement near high-quality transit and
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	<p>invest in housing that achieves high performance scores in recognized sustainable building systems.</p> <p>CC1. Support community-based, and community-controlled organizations and developers. Expand, diversify and strengthen the capacity of the region’s housing ecosystem by investing in community-based developers and organizations across all 3Ps.</p> <p>CC2. Support individual and community wealth building. Create opportunities for historically marginalized people and residents historically excluded from homeownership, to build wealth through housing, including traditional and shared homeownership opportunities.</p> <p>CC3. Serve as a regional leader on local equitable programs and practices. Advance local alignment with regional equity priorities across all 3Ps, encouraging counties and cities to incorporate and build off of the Equity Framework.</p> <p>CC4. Commit to ongoing, meaningful, and equitable engagement. Advance community participation among historically marginalized populations through ongoing engagement with and outreach to stakeholders equally distributed across the 3Ps, with an intentional focus on organizations who are accountable to and part of communities most impacted by housing unaffordability.</p> <p>CC5. Secure more flexible and unrestricted funding. Seek to expand and secure funding sources to achieve a broader range of equity needs across all 3Ps, including uses not contemplated in AB 1487 or would be difficult to fund with likely fund sources (e.g., general obligation bond).</p> <p>CC6. Target most flexible BAHFA funding to accelerate AFFH. Develop programs within BAHFA’s optional 10% Local Government Incentive Program that address any gaps in a comprehensive Affirmatively Furthering Fair Housing (“AFFH”) approach given AB 1487’s parameters. Target any non-housing investments (i.e., infrastructure, community or cultural spaces, and public services) in communities that have</p>
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	<p>faced historic disinvestment and/or are home to the region's most impacted residents.</p>
<p>Current Financing Overview</p>	<p>Currently, new affordable rental housing production relies on the following principal financing sources:</p> <ul style="list-style-type: none"> • Low Income Housing Tax Credits are the single largest source of subsidy for affordable rental housing. When awarded to a project, tax credit equity received from the sale of tax credits to investors typically funds from around 40% (in the case of the “4%” tax credit) to 60% (for the “9%” tax credit) of project development costs. Although tax credit equity can pay for a significant share of project costs, remaining project costs still need to be paid for from a combination of hard, “must-pay” debt and additional (non-LIHTC) subsidy. • Construction Loan. During the construction period, projects have a short-term construction financing need. Projects funded with 4% LIHTCs require that the majority of the project’s aggregate basis be financed with tax-exempt PABs (further described below), while projects funded with 9% LIHTCs have more flexibility to use a wider range of construction sources. Upon completion and lease-up of the rental units, a construction loan may convert to a permanent loan and/or be repaid from permanent financing proceeds. • Permanent Senior Loan. The amount of a permanent senior loan (or first mortgage loan) a project can support is a function of (i) project net operating income (rental revenue minus operating costs); and (ii) debt terms (interest rate, amortization schedule and term, minimum required debt service coverage ratio). Senior loans are also considered “hard debt” because the loan must be repaid on a fixed schedule. In general, the higher the rents, and the lower the operating costs, the larger first mortgage loan a project can support. The percentage of total development costs that can be paid for with this debt depends not only on the amount of debt that can be supported, but also the total development cost of the project, which varies across the region and from project to project. We estimate that on average, approximately 10-20% of a typical low-income affordable rental project’s capital stack can be supported by a first mortgage loan. For projects with insufficient rental revenue (or operating subsidy) to cover operating costs, little to no debt can be

	<p>supported. Examples of lower-revenue projects include permanent supportive housing, senior housing, and housing that prioritizes extremely low- and very low-income households (i.e., average affordability is 50% AMI or less).</p> <ul style="list-style-type: none">• Subsidy Loans. Low-cost subsidy loans comprise a substantial portion of a project’s capital stack, often 40% of a project’s sources in a 4% LIHTC project. These have historically been sourced competitively through multiple agencies at the federal, state, and local levels. In California, subsidies are typically structured as “residual receipts” loans payable from remaining project cash flow after other costs are paid. As an alternative to, or in addition to, residual receipts-type loans, subsidy loans can also take the form of a subordinate “must-pay” loan. <p>See Table 1 below for a sample capital stack of Bay Area projects receiving tax credits in 2021. The split between tax equity, debt, and subsidy is an approximation, and not based on each specific project.</p> <p>The typical process by which most multifamily affordable developments are financed and built includes the developer applying to the California Tax Credit Allocation Committee (“CTCAC”) for an award of 9% tax credits; or to the California Debt Limit Allocation Committee (“CDLAC”) for an allocation of tax-exempt private activity bonds, which come with 4% tax credits as-of-right.</p> <p>Private activity bonds awarded by CTCAC are a form of “project revenue bond” – bonds whose repayment is secured by the revenue from a specific project or pool of projects. For projects receiving PABs, a public agency (e.g., a city, county, housing authority, or other entity with the authority to issue project revenue bonds) issues the bonds on behalf of the project, typically on a conduit basis. In the Bay Area, affordable housing projects are often directed to use the city or county in which they are located, or a specific local agency, as their bond issuer; alternatively, other state financing agencies can issue bonds on behalf of a project. Typically, in what is known as a “private placement,” conduit bonds are purchased directly from the issuer by a bank, which lends the bond proceeds to the developer; less commonly, bonds can also be sold pursuant to a public offering.</p>
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Table 1: Financing Overview: Sample Capital Stack

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Sample Capital Stack: Year 2021	Total Project Costs	Tax Equity at \$0.90	Perm Debt at 15%	Subsidy Need
New Construction 9%	\$390,032,417	\$229,981,315	\$58,504,863	\$101,546,240
Rehabilitation 9%	\$161,032,626	\$76,052,889	\$24,154,894	\$60,824,843
Subtotal (9%)	\$551,065,043	\$306,034,204	\$82,659,756	\$162,371,083
Per Unit (937 Units)	\$588,116	\$326,611	\$88,217	\$173,288
% of Capital Stack	100%	56%	15%	29%
New Construction 4%	\$2,306,269,093	\$1,017,218,119	\$345,940,364	\$943,110,610
Rehabilitation 4%	\$219,737,228	\$83,169,810	\$32,960,584	\$103,606,834
Subtotal (4%)	\$2,526,006,321	\$1,100,387,929	\$378,900,948	\$1,046,717,444
Per Unit (4,229 Units)	\$597,306	\$260,201	\$89,596	\$247,509
% of Capital Stack	100%	44%	15%	41%
Total	\$3,077,071,364	\$1,406,422,132	\$461,560,705	\$1,209,088,527
Per Unit* (5,166 units)	\$595,639	\$272,246	\$89,346	\$234,047
% of Capital Stack	100%	46%	15%	39%

*Cost/Unit is average, not weighted

<p>Landscape Analysis</p>	<p>The number of affordable multifamily rental projects that can be built is driven by factors including project costs and the availability of LIHTCs, PABs, and subsidy loans to fill funding gaps. While critical constraints exist regarding access to tax credits (see below), as tax equity raised from the sale of tax credits typically funds over 40% of a project’s total development costs, the 4% and 9% tax credit programs remain, currently, the principal vehicles by which the Bay Area can meaningfully fund needed housing at the scale required.</p> <ul style="list-style-type: none"> <p>Scale of the Affordable Housing Need. In 2019, the California Housing Partnership Corporation set the shortage of affordable homes for Bay Area low-income households at 207,820. In 2022, the Bay Area’s Regional Housing Needs Assessment set the number of needed homes for households earning 80% of area median income and below at 253,046.</p> <p>Market Size. Both 9% tax credits and PABs (which generate the 4% tax credit) are constrained resources in California. Federal law sets annual limits for each state on the availability of 9% tax credits and PABs. In California, demand for 9% tax credits has consistently exceeded their availability; but until 2019, PABs were in abundant supply. In 2020, PABs became oversubscribed by more than five times the available amount and CTCAC and CDLAC established a</p>
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	<p>competitive allocation process for projects financed with 4% tax credits and PABs, respectively.</p> <p>Projects financed with LIHTCs (either 4% or 9%) created or preserved 5,116 units in the Bay Area in 2021 (43 new construction projects and 9 rehabilitation projects), with over \$3 billion in total development costs.² Assuming tax credits could be sold, on average, for \$0.90 to investors, tax credit equity funded an estimated 46% of these project costs.</p> <ul style="list-style-type: none">○ 4% Tax Credit Projects. In 2021, across the Bay Area, 37 projects totaling 4,229 units with \$2,526,006,320 in total development costs were awarded PABs with 4% tax credits. Federal tax credits awarded to these projects totaled \$1,104,488,250 (10-year total) and \$118,165,013 in total state credits. Assuming those tax credits could be sold, on average, at \$0.90 to investors, total tax credit equity raised for these projects works out to an estimated \$1,100,387,924 – 44% of project costs.○ 9% Tax Credit Projects. Also in 2021, 15 projects totaling 937 units with \$551,065,043 in total development costs were awarded 9% tax credits in the Bay Area. Federal tax credits awarded to these projects totaled \$332,181,310 (10-year total) and additional state credits totaled \$7,856,694. Assuming an average price per credit of \$0.90, tax credit equity raised for these projects is estimated at \$306,034,204 – 56% of project costs. See Table 2 below for an overview of projects awarded LIHTCs in the nine-county Bay Area in 2021.● CTCAC/CDLAC Alignment with Equity Objectives. Both CTCAC and CDLAC have “set asides,” or pools for awarding tax credits and PABs to projects based on categories. For example, of the \$2.23 billion of PABs allocated to 4% tax credit multifamily projects in 2022, CDLAC requires 88% of the PABs be for new construction projects, with specific pools focused on homeless, ELI and VLI households. Further, 3% of funds are available to developers with at least 51% BIPOC
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² In 2020, 62 new construction and 14 rehabilitation projects totaling 8,160 units with over \$4.67 billion in development costs received tax credit awards.

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	<p>ownership or leadership. 9% tax credit projects that do not use PABs have different set asides with goals set by CTCAC.</p> <p>Many of the current set asides and scoring criteria align well with BAHFA’s Equity Objectives including prioritization of lower income and special needs households and proximity to transit. However, some have created negative consequences for many Bay Area communities, including prioritizing investments in “high opportunity” census tracts, which disadvantage lower-income communities and communities of color. In addition, CTCAC and CDLAC assigned a “tie-breaker” advantage to projects with low development costs in the interest of creating more units overall. For high-cost Bay Area communities, this has resulted in a resource allocation drought. To achieve its equity goals, BAHFA must work collaboratively with state and local partners to create a more equitable funding system while also investing in efforts such as entitlement streamlining and factory-built housing that lowers project costs.</p> <ul style="list-style-type: none"> Constraints on Local Subsidy Availability. In addition to the constraints on LIHTC funding availability, projects currently need to go to multiple state and local resources to seek subsidy loans, which adds time and cost due to the need to apply to multiple agencies on their funding cycle and negotiate multiple loan documents, as well as annual reporting to multiple agencies.
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Table 2: Overview of Bay Area projects awarded LIHTCs in 2021

Year: 2021	# of Projects	# of Units	Total Project Costs	Cost/Unit	Federal Credits (10 Yr)	State Credits	Total Credits
New Const. 9%	10	631	\$390,032,417	\$618,118	\$247,678,100	\$7,856,694	\$255,534,794
New Const. 4%	33	3,946	\$2,306,269,093	\$584,457	\$1,012,077,350	\$118,165,004	\$1,130,242,354
Rehabilitation 9%*	5	306	\$161,032,626	\$526,250	\$84,503,210	\$0	\$84,503,210
Rehabilitation 4%*	4	283	\$219,737,228	\$776,457	\$92,410,900	\$0	\$92,410,900
Total/Average**	52	5,166	\$3,077,071,364	\$600,103	\$1,436,669,560	\$126,021,698	\$1,562,691,258

* Rehabilitation projects were primarily projects with expiring affordability restrictions. CDLAC/TCAC scoring currently prioritizes new construction.

**Cost/Unit is weighted average

Opportunities for BAHFA	If BAHFA can position itself competitively as a conduit issuer (subject to determination of its legal ability to do so), or play a role in permanent lending (described further in Funding Scenarios section), and also provide subsidy loans, it can provide competitive project-level benefits while
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	<p>enabling stabilized operations and the ability to reinvest interest and fees accrued.</p> <p>For the Program to be compelling and add value for projects, BAHFA will need to:</p> <ul style="list-style-type: none">• Package its hard debt products with subsidy, to reduce the overall cost of BAHFA’s financing package, simplify project-level financing, and increase the benefit to projects. The threshold for BAHFA to be the best available financing provider for projects in the region is when the cost of its hard debt plus subsidy loan (its “blended cost”) is less than the cost for the same total amount of funding from any other source.• Compete to provide a lower-cost debt product (lowest possible interest rate, minimum fees). Initially, this will be extremely difficult/infeasible for BAHFA to do unless BAHFA chooses to apply its Regional Housing Revenue to directly funding hard debt loans as discussed below in the Funding Scenarios. The best possible, lowest-cost capital markets debt executions are only available to entities that have a multi-year track record, a strong credit rating from ratings agencies, and/or credit enhancement from federal risk-sharing and guarantee programs (e.g., HUD/FHA Risk-Sharing). Until BAHFA can achieve better executions, it will need to compensate for the comparatively higher cost of its debt product by providing more subsidy than would be available from its competitors. In the meantime, BAHFA can mark the project costs it controls - principally, fees and interest rate spread - to the minimum level BAHFA can sustain, and/or provide additional subsidy to provide a <i>total</i> financing package that is competitive to other providers. For conduit bond issuances during the construction period, in which BAHFA is issuing the construction bonds (subject to its legal authority to do so) but a bank is providing the actual debt, BAHFA can charge a fee comparable to other issuers.• Reduce project costs and ease of execution through streamlined, standardized reporting, documentation, and other administrative requirements and simplification of each project’s capital stack.• Communicate, coordinate and collaborate with local jurisdictions, especially to the extent BAHFA cannot provide all the subsidy a
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	<p>project needs and additional subsidy from a local jurisdiction is needed.</p> <p>For BAHFA to achieve its equity objectives, it must structure funding opportunities in a way that prioritizes equitable investments, including:</p> <ul style="list-style-type: none"> • Developments that serve extremely low-income and homeless households; • Investments in low-income communities, where LIHTC funding has a demonstrated stabilizing and revitalizing effect; and • Developments that achieve climate change goals through their physical locations near transit and use of sustainable building materials. <p>Each investment strategy will need specific funding components to achieve feasibility, for example, developments with a large proportion of units for extremely low-income and homeless households will require large capitalized operating reserves or annual subsidies to help pay for operating expenses.</p>
<p>Proposed Funding Products</p>	<p>The universe of new affordable multifamily rental projects needing funding each year across the Bay Area is large. Based on Table 1 above, if 10-20% of annual regional tax credit project development costs can be financed with hard debt, that leaves a \$300-\$600 million annual permanent financing need and a remaining need for subsidy loans of \$1.0-\$1.36 billion. In addition, projects not receiving tax credits, but viable with additional debt and/or subsidy, could also be financed (to be described in BAHFA’s Innovation Program). These funding needs present opportunities for BAHFA to provide permanent and construction-period financing and improve on current financing approaches.</p> <p><i>Note: Some of these opportunities are contingent on establishing BAHFA’s powers to issue project revenue bonds and/or be a conduit bond issuer.</i></p> <p><u>Permanent Financing</u></p> <ul style="list-style-type: none"> • Subsidy Loans, which may be structured as residual receipts loans and/or subordinated, must-pay loans, while also accessing a permanent senior loan from BAHFA or from another source acceptable to BAHFA <ul style="list-style-type: none"> ○ BAHFA role: Lender

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	<ul style="list-style-type: none">○ Anticipated term: 55-57 years○ Anticipated interest rate:<ul style="list-style-type: none">▪ For Residual Receipts Loans: Concessionary; payable from surplus project cash flow with unpaid interest deferred and accruing; balance due at loan maturity/property sale/refinance▪ For Subordinate Loans: Below-market interest rate; must-pay, “hard” debt service serviceable from project cash flow. Required payments may also include principal amortization.○ Funding amount: Up to \$250,000 per unit○ Funding source: RHR● Taxable³ First Mortgage Loans<ul style="list-style-type: none">○ BAHFA role: Lender; or Lender and Issuer○ Anticipated terms: 17-35 year loan term; 30-35 year amortization schedule○ Anticipated interest rate: Market or below-market, depending on BAHFA funding source and project type. Loans funded from project revenue bond issuance proceeds will be subject to capital market requirements and at market taxable rates. Loans funded from RHR may be at below-market rates.○ Funding amount: Sized to minimum [1.15] debt service coverage ratio○ Funding source: RHR, and/or BAHFA taxable housing revenue bond issuance proceeds● Tax-Exempt First Mortgage Loans for projects receiving an allocation of PABs; that have a 501(c)3 exemption; that are providing an Essential Government Service; or are being funded from recycled bonds. May include: 4% tax credit projects (awarded PABs); 501(c)3 owned projects; publicly-owned workforce housing projects.<ul style="list-style-type: none">○ BAHFA role: Lender and Issuer
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³ Includes all first-mortgage loans funded by BAHFA from RHR, which are neither “taxable” nor “tax-exempt.”

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	<ul style="list-style-type: none">○ Anticipated terms: 17-40 year loan term; 30-40 year amortization schedule○ Anticipated interest rate: Market. Loans funded from project revenue bond issuance proceeds will be subject to capital market requirements and at market tax-exempt rates.○ Funding amount: Sized to minimum [1.15] debt service coverage ratio○ Funding source: BAHFA tax-exempt housing revenue bond issuance proceeds● Conduit Bond Issuer on a taxable or tax-exempt basis, for permanent-phase bonds privately placed or publicly sold<ul style="list-style-type: none">○ BAHFA role: Issuer○ Anticipated rates: N/A; Separate role from the lender. BAHFA receives issuance and ongoing monitoring fees. <p><u>Construction Financing</u></p> <ul style="list-style-type: none">● Subsidy Loans<ul style="list-style-type: none">○ Same as above under "Permanent"; for projects receiving a subsidy loan from BAHFA, the loan could be permanent-only or funded earlier (e.g. prior or during construction) and remain as a permanent loan.● Construction Loan for especially-innovative projects that are low-cost and rapid to complete, not receiving LIHTCs, are a priority for BAHFA, and for which BAHFA also expects to be the permanent lender⁴<ul style="list-style-type: none">○ BAHFA role: Lender○ Anticipated terms: Construction loan funds all eligible project costs from property acquisition through completion or construction, including predevelopment; converting to permanent loan at construction completion○ Anticipated interest rate: Below market○ Funding amount: Up to [100]% of eligible costs
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⁴ To be expanded on in BAHFA's Innovation Program Description.

	<ul style="list-style-type: none"> ○ Funding source: RHR ● Conduit Bond Issuer on a taxable or tax-exempt basis, for construction-only or construction-to-permanent phase bonds privately placed or publicly sold <ul style="list-style-type: none"> ○ BAHFA role: Issuer ○ Anticipated rates: N/A; Separate role from the lender. BAHFA receives issuance and ongoing monitoring fees.
<p>Funding Scenarios</p>	<p>If \$2 billion in RHR becomes available to BAHFA, a minimum of 52% or \$1.04 billion would be allocated to Production. Assuming \$1.04 billion is allocated to this Program and drawn via five bond issuances every three years, \$208 million would be drawn per issuance. This schedule could be accelerated if the region expends funds more quickly.</p> <p>As stated in the goals of the Program, and subject to the limitations of its authorizing legislation, BAHFA will seek to achieve greater scale by augmenting the RHR it has available to fund the Program with additional resources raised by accessing the capital markets.</p> <p>Several options for how BAHFA could seek to do so are outlined below, and are all subject to further development and evaluation by BAHFA and its consultant team. The Baseline scenario assumes BAHFA does not issue project revenue bonds and is unable to leverage <i>any</i> funding aside from RHR. The Subsidy Only scenario assumes BAHFA focuses on delivering only subsidy loans. The additional options are strategies that, by accessing the capital markets, would expand the total resources BAHFA has available for the Program and provide BAHFA with additional sources of revenue.</p> <ul style="list-style-type: none"> ● Baseline. BAHFA funds the Program entirely from RHR. <ul style="list-style-type: none"> ○ <u>Pros</u>: Simplest scenario to execute. BAHFA can set the interest rate and terms on all financing it provides, earn 100% of the interest rate charged and receive all repaid principal. ○ <u>Cons</u>: Least scaled scenario, with most limited selection of financing products and most limited project set. RHR is a scarce resource and if needed to fund both hard debt and subsidy loans, it would be able to fund fewer subsidy loans and support production of fewer units. BAHFA would be unable to provide many of the financing products identified as opportunities above, including any of the products that

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	<p>require issuance of project revenue bonds. In particular, BAHFA would not have the ability to fund any federally tax-exempt financing to projects, which means projects that ordinarily could benefit from this tax subsidy would have to forgo it to the extent they still choose to use BAHFA financing.</p> <ul style="list-style-type: none">• Subsidy Only: BAHFA dedicates its resources to providing subsidies, forgoing any role as a senior lender or issuer.<ul style="list-style-type: none">○ <u>Pros:</u> BAHFA could use all RHR for subsidy loans, and it would have fewer staffing needs. Borrowers could continue to receive competitively priced first mortgages from other providers under a structure they are used to.○ <u>Cons:</u> Especially in the short to mid-term, BAHFA would have extremely limited sources of internally generated revenue, which could result in continued dependency on recurring infusions of funding from voter-approved housing measures, or external donors, to continue providing financing products, pay for expenses, and deliver Protection programming. In the short to mid-term, BAHFA revenues would consist of interest paid on residual receipts loans from available cash flow. Payments on these loans depend on project-level excess cash flow being available and would be unreliable, especially before projects are fully leased-up and stabilized. However, longer-term, some projects may be refinanced, triggering repayment of BAHFA's subsidy loans and providing cash that could be re-loaned, subject to remaining restrictions on those funds.• Open Indenture. BAHFA establishes an open (or “pooled”) indenture pursuant to which it issues housing revenue bonds secured by a pool of projects.⁵ Bond proceeds are used by BAHFA to fund its permanent first mortgage lending program.<ul style="list-style-type: none">○ <u>Pros:</u> Makes it possible for BAHFA to provide all of the financing products identified above as opportunities. In addition to using RHR to provide subsidy loans, under the
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⁵ For an overview of the open indenture structure, see May 31, 2022 memo to BAHFA: “BAHFA – Financing Project Revenue Bonds via an Open Indenture”

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	<p>open indenture, BAHFA would access the capital markets to issue housing revenue bonds, proceeds of which would be used by BAHFA to make hard debt loans to projects. This structure 1) allows BAHFA to conserve the majority of its Production-related RHR for subsidy loans which commercial lenders are unable to provide; and 2) leverage the capital markets for external sources to fund its permanent first mortgages, all while BAHFA is able to earn revenue from interest rate spread and other fees.</p> <ul style="list-style-type: none">○ <u>Cons</u>: While the open indenture is a powerful structure for BAHFA to generate revenue over the long term, it would be contingent on establishing its powers under AB 1487 to issue project revenue bonds. Furthermore, BAHFA will need to identify cash with which to collateralize the indenture at its outset and under current law, general obligation bond proceeds cannot be used for this purpose. Further, the cost of capital BAHFA can raise through the open indenture will depend on the indenture's credit strength, which will take time and resources to build. Management and administration of the indenture will also add costs and complexity to BAHFA's operations.● Loan Participation: BAHFA funds <i>a share of</i> each permanent loan from RHR, while banks or other financing partners fund the balance of each loan.<ul style="list-style-type: none">○ <u>Pros</u>: BAHFA could offer an interest rate competitive with the market, and earn its proportional share of interest plus principal, while the bank earns its share. By utilizing banks to provide the majority of each permanent loan, BAHFA would be able to fund more subsidy loans from RHR than it could under the Baseline scenario while still earning some permanent loan revenue. It can also rely on the banks to lead by using their loan agreements and infrastructure to underwrite and service loans, reducing BAHFA's staffing needs.○ <u>Cons</u>: The complexity of merging multiple financing parties into a single transaction cuts against BAHFA streamlining goals, however this is a structure that banks are familiar with.
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	<p>BAHFA control and decision-making about any project will also be shared with the co-lender(s). By playing a smaller role in the first mortgage loan, BAHFA will earn less revenue.</p> <p>See Table 3 below for a breakdown of the various funding scenarios. All funding options will continue to be researched, evaluated for feasibility, and further developed over the next phase of the business planning process.</p>
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Table 3: Production Lending Scenarios

Production: Lending Options for BAHFA; Units Financed with Regional Housing Revenue	Baseline: BAHFA is Perm Lender via Regional Housing Revenue (GO Bonds)	Subsidy Only: BAHFA provides subsidy loans only; separate 3rd Party Lenders	Open Indenture: BAHFA is Perm Lender via Open Indenture	Loan Participation: BAHFA Co-Lends 20% of Perm Loan via Regional Housing Revenue (GO Bonds)
Sample Project¹:				
Project Cost	\$75,000,000	\$75,000,000	\$75,000,000	\$75,000,000
Units (2BRs)	100	100	100	100
Annual NOI/Project @50% AMI rents	\$1,362,080	\$1,362,080	\$1,362,080	\$1,362,080
First Mortgage @ 1.15 DSCR	\$21,918,000	\$18,594,000	\$17,058,000	\$19,194,000
First Mortgage Interest Rate ²	4.13%	5.41%	6.13%	5.15%
Interest Rate Spread to BAHFA	4.00%	0.00%	1.50%	0.80%
Term	35	35	35	35
Amortization	35	35	35	35
Subsidy Loan @250k/unit	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000
BAHFA RHR Funding/Project	\$46,918,000	\$25,000,000	\$25,000,000	\$28,838,800
Sample Portfolio:				
Total RHR Available for Production Program ³	\$1,040,000,000	\$1,040,000,000	\$1,040,000,000	\$1,040,000,000
External Bank Portion for Perm. Loans				553,747,313
RHR for Collateral (Open Ind.) or Perm Loans (Baseline, Loan Participation)	485,841,681	\$0	25,000,000	138,436,828
RHR For Subsidy Loans @ \$250k/unit	554,158,319	1,040,000,000	1,015,000,000	901,563,172
% of Permanent Loan funded by RHR	100%	0%	0%	20%
Units financed by BAHFA	2,217	4,160	4,060	3,606
Projects financed at 100 units	22	42	41	36
RHR Principal Repaid to BAHFA (First Mtgs)⁴	\$485,841,681	\$0	\$0	\$138,436,828
Interest Paid to BAHFA over term (First Mtgs)⁴	417,655,702	0	241,493,300	124,121,544
Interest Paid to BAHFA for 35 years (Subordinate Loans)⁵	191,805,208	359,754,137	350,996,564	311,897,849
Total Payments to BAHFA over 35 years	\$1,095,302,592	\$359,754,137	\$592,489,864	\$574,456,221
RHR Available Per Bond Issuance ⁶	\$208,000,000	\$208,000,000	\$208,000,000	\$208,000,000
Units financed per Bond Issuance	443	832	812	721
Projects financed per Bond Issuance	4.4	8.3	8.1	7.2
Principal Repaid to BAHFA in first 5 Years (First Mtgs)	\$2,670,857	N/A	N/A	\$616,039
Interest Repaid to BAHFA in first 5 Years (First Mtgs)	\$7,654,827	N/A	\$4,113,981	\$2,187,717
Interest Repaid in first 5 Years (Subordinate Loans)	\$1,870,282	\$3,481,924	\$3,383,606	\$3,022,627
Total Payments to BAHFA in first 5 Years⁷	\$12,195,966	\$3,481,924	\$7,497,586	\$5,826,383

Table 3 Assumptions:

1. Sample Project uses 2022 2BR 50% AMI rents and estimated development cost in Santa Clara County.
2. First Mortgage Interest Rates are based on comparable competitor term sheets as of July 2022
3. "RHR" is the total estimated Regional Housing Revenue that BAHFA would allocate to Program, estimating 5 equal bond issuances every 3 years (15 years).
4. Assumes Principal repaid to BAHFA is on permanent First Mortgages where it uses RHR and not external capital. Interest repaid is the spread paid to BAHFA during the loan term. Payments are over the term of the loan and do not account for time-value of money. For ex, some loans will be issued in Year 10 and be fully repaid in Year 45.
5. Assumes Subordinate Loans have enough surplus cash flow to repay 1% interest annually and no principal on each project. Calculates interest for 35 years. Loan expected to have term of 55 years.
6. Estimates 5 bond issuances every 3 years: beginning in 2025, with 5th issuance in 2037. Each Bond Issuance spent over 3 years. Assumes units financed per Bond Issuance are spread equally over 3 years.
7. The first 2 years of a project are assumed to be construction period, with no interest or principal payments. Revenue projection does not include any conduit bond issuer, loan origination, monitoring, or other fees.