BAHFA Program Description

Preservation: Anti-Displacement and Preservation Program

— DRAFT —

Program Objectives	The objectives of BAHFA's Anti-Displacement and Preservation Program (the "Program") are to: • **Support BAHFA's Legislated Preservation Goals.** A minimum of 15% of Regional Housing Revenue[1] ("RHR") raised by BAHFA is required to be distributed, in the form of a grant, loan or other financing tool, for the preservation of housing that is restricted by recorded document to be affordable to low- or moderate-income households (up to 120% AMI) for 55 years ("Preservation"). BAHFA's Preservation funding may be used to acquire, rehabilitate, and preserve existing housing units, including housing already restricted for affordability and housing from the private market, including residential hotels, to prevent the loss of affordability. The Program would provide financing for housing meeting the Preservation criteria. • **Prevent Displacement.** Across the Bay Area, existing affordable homes are being lost, leading to the displacement of residents. Preservation has been embraced as an effective strategy to prevent greater displacement from occurring, which can help to stabilize communities and the residents that contribute to them. The Program will prevent displacement by activating preservation strategies at greater scale across the region. These strategies include the acquisition and stabilization of: ○ **Currently Unregulated Properties.** Much of the region's rental housing stock is comprised of buildings that are not currently deed-restricted as affordable, but have rents affordable to lower-income tenants due to age, location, condition, or other factors. These types of properties are also commonly referred to as "naturally-occurring affordable housing," or "NOAH," but for purposes of this document, are described as "Unregulated Properties[2]." As these properties come up for sale, they are often targeted for acquisition by

[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.

[2] The Equity Framework refers to currently Unregulated Properties as existing unsubsidized housing.

market-rate buyers, leading to rent increases and the displacement of lower-income residents. The Program is intended to provide financing for Unregulated Properties.

- **Expiring Use Properties.** Further, there are existing, older affordable housing properties that were previously financed with federal, state, and/or local subsidies, and due to their expiring affordability or regulatory restrictions, are at risk of being sold and converted to market rate properties, potentially displacing lower-income residents. Continued affordability is especially tenuous when the property owner is not a stable, mission-aligned (typically non-profit) entity but is instead profit-motivated. The Program is also intended to provide financing for these "Expiring Use Properties."

Together, "Unregulated Properties" and "Expiring Use Properties" are referred to in this document as "Preservation Properties."

- **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 projects and to invest in new BAHFA financing and technical capacities.
- **Coordinate and Streamline.** The Preservation Properties that are the focus of the Program present unique financing challenges that have to be addressed in concert. The Program will seek to coordinate: fast-acting acquisition financing, available to mission-driven organizations at the speed of the market; rehabilitation financing, to restore building habitability, including seismic safety repairs, and where possible, to implement energy efficiency and climate resiliency measures; and permanent financing, including both hard debt and subsidy. By providing, directly or through financing partners, all of the above, BAHFA will streamline project financing.
- **Advance Equity Goals.** The Program will invest in projects that support achievement of the Equity Framework's Preservation (P) and Cross-Cutting (CC) Objectives. The Program will seek to:

P1. **Preserve expiring use affordable housing to prevent displacement:** Fund the acquisition and rehabilitation of existing affordable housing with expiring restrictions that

	without intervention could be converted to market-rate housing and result in displacement of lower-income residents. P2. **Preserve existing unsubsidized housing and convert to permanently affordable housing:** Convert existing unsubsidized housing to permanent affordable housing for the purpose of preventing displacement and achieving stabilized, healthy living conditions for existing residents, especially low-income households and residents of Equity Priority Communities ("EPCs") and other marginalized communities. P3. **Target preservation investments for most-impacted residents:** Tailor financing products to enable occupancy by Extremely Low-Income ("ELI") households and households at risk of homelessness. P4. **Create opportunities for community-controlled housing:** Invest in developments that enable community control and/or equity growth, especially in EPCs and for households facing discriminatory and/or structural barriers to homeownership. CC1. **Support community-based, and community-owned 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. 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. 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. 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. 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). 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 faced historic disinvestment and/or are home to the region's most impacted residents.
Current Financing Overview	Project-by-project, specific financing needs will vary. In general, however, sources commonly used for Preservation Properties include: • **Acquisition and Rehabilitation/Stabilization Loans,** often provided by Community Development Financial Institutions ("CDFIs") to mission-driven organizations. This early-stage, short-term financing pays for acquisition of privately-owned, Unregulated or Expiring Use housing that is home to existing low-income residents, and for the rehabilitation of these units as needed to improve and stabilize habitability. This financing is typically in the form of a "bridge" loan—meaning, the financing "bridges" to and is expected to be fully repaid from permanent financing sources, including permanent senior loans and subsidy loans. • **Permanent Senior Loan** (or first mortgage loan) proceeds of which can be used to repay the bridge financing and capitalize the building for a longer term. The amount of a permanent senior loan the project can support is a function of 1) its net operating income (driven by rents and operating expenses), and 2) the terms offered by the lender (e.g., interest rate and amortization, term, required

	debt service coverage ratio, etc.). Maximizing the amount of the permanent senior loan (which has required monthly payments) on a building can reduce the subsidy needed per unit. Maximizing this debt can also, however: a) reduce affordability, by increasing the baseline rents tenants need to pay to support building operating expenses plus increased debt service; and b) reduce residual cash flows, after payment of operating expenses and debt service, that are available for distribution to mission-based building owner/operators and that are needed to support their organizational sustainability. • **Subsidy Loans** are needed to pay for the difference between total project costs and proceeds from all other permanent sources. 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. The subsidy required per unit varies widely across building types, geographies, and tenant income and rent levels. Subsidy loans are usually sourced from local and state government agencies, and to date have been in very limited supply for non-LIHTC preservation programs. The City and County of San Francisco is currently the only Bay Area municipality that has a dedicated and coordinated senior permanent loan and subsidy loan program for the preservation of non-LIHTC, Unregulated Properties, including “Small Sites” (buildings with 5 to 40 units), and “Big Sites” (greater than 40 units). • **Grants**, from the community, philanthropy, miscellaneous public programs, and other sources, are necessary to complete the financing stack for preservation when the combination of senior loans and subsidy loans available is less than the total costs of a project. Some community-based, mission-driven organizations focused on preservation work also depend on grant fundraising to pay for organizational overhead and support their operations, particularly if they focus on smaller properties with modest cash flows. • **Low Income Housing Tax Credits** (“LIHTCs” or “tax credits”) which are available, on a competitive basis from a special (though limited) set-aside, for Expiring Use Properties. These properties fall under a “Preservation” pool when using 4% tax credits and bonds, and an “At

	Risk" set aside when applying for 9% tax credits. When awarded to a project, tax credits are sold to investors and generate tax credit equity that pays for around 40% (4% tax credit) to 60% (9% tax credit) of project development costs. Each time tax credits are used to finance a property, they require placement of a new, 55-year affordability restriction on the property; thus, refinancing Expiring Use Properties with tax credits extends the term of restrictions. Unregulated Properties that do not have an expiring regulatory restriction and/or have fewer units are not likely to use tax credits due to the scarcity of tax credits, their competitiveness, and the prioritization at the State level of expiring use properties and lower-cost, larger-scale projects for funding. • **Operating subsidies**, which provide ongoing funding to subsidize the operation of a building by either supplementing rents paid by tenants or paying a share of operating costs. Operating subsidies are needed when the rent tenants can afford to pay is less than the minimum income a landlord needs to sustainably operate a building. The most common source of operating subsidy is the Section 8 rental assistance program administered by the U.S. Department of Housing and Urban Development ("HUD"); rental assistance made available from this program pays the difference between 30% of a tenant's income and the actual rent owed to a landlord, and may be either project- or tenant-based. Affordability in the properties that are a focus of the Program can be at-risk when the term of a rental assistance contract with HUD or another operating subsidy provider expires; HUD's project-based rental assistance contracts generally have an initial term of up to 20 years.
Landscape Analysis	Every lost affordable unit exacerbates the Bay Area's regional housing affordability crisis, and the number of affordable units that are potentially at-risk is large. In February 2022, California Housing Partnership Corporation ("CHPC") released a report, "Affordable Homes at Risk," with the following findings: • Across the nine Bay Area counties, 7,509 unregulated five-plus unit properties provide an estimated 257,555 units affordable to households earning 80% AMI or below. These properties are susceptible to acquisition by for-profit developers at any time, putting in-place tenants at-risk of unaffordable rent increases and/or displacement.

	• From 1997 to 2021, affordability restrictions on 3,790 previously subsidized units in the Bay Area were lost. There are currently 134,298 subsidized, affordable units in the region; CHPC assesses that 6,814 (over 5%) of these are at-risk of losing their affordability in the next decade. The region has sought to respond to these challenges by intervening assertively to protect Expiring Use Properties, and by designing, funding, and experimenting with new programs that can preserve affordability and prevent displacement in Unregulated Properties as well. **Unregulated Properties** To date, the financing approach for preserving affordability in Unregulated Properties has been mostly ad hoc across the region, except for in San Francisco which started by providing funding to acquire and preserve small rental properties between 5 to 25 units, and has since expanded to funding larger properties as well. Other municipalities have tried to implement replicable programs with limited success. • Universally across the region, a major impediment to anti-displacement and preservation efforts focused on Unregulated Properties has been the lack of a reliable, private source for long-term, low-cost first mortgage debt, which has forced municipalities interested in launching new programs to grapple with the complexities of needing to provide not only traditional subsidy loans, but also first mortgage loans. These programs have generally focused on preserving smaller properties, and unlike larger multifamily rental properties which are well-understood by lenders, and generally can choose from multiple, competitively-priced options from banks and CDFIs for their senior permanent debt financing, smaller properties often are able to obtain only higher-cost, shorter-term (7-10 year) mini-permanent loans from these sources. This burdens smaller properties and the mission-driven organizations that own and operate them with refinancing risk that can endanger long-term property affordability and habitability. • In San Francisco: ○ The Mayor's Office of Housing and Community Development ("MOHCD") has used proceeds from the $260.7 million, voter-approved 2018 Preservation and Seismic Safety ("PASS") general obligation bond measure to provide

	nonprofit developers with low-cost, long-term first mortgage loans for preservation of existing affordable units whose tenants are at risk of displacement. Known as the “Small Sites” program, loans can be used to preserve affordable units at up to 120% AMI, with a program-wide average AMI target of 80%. The favorable loan terms available from PASS mortgage loans include a 40-year loan term and interest rates based on the City’s borrowing cost. When combined with MOHCD subsidy, these loans have significantly helped to expand the range of market opportunities that can be pursued by mission-driven organizations. As of 2021, 53 buildings consisting of 655 residential units including newly built accessory dwelling units (“ADUs”), along with additional commercial units, had been acquired, rehabilitated, and preserved. 47 of these buildings consist of 25 units or less, while 6 are larger buildings between 27 and 86 units. ○ In tandem with PASS mortgage loans, MOHCD offers subsidy loans at 3% interest. The latest program guidelines, revised in 2022, provide for maximum subsidy ranging from $275,000 per single room occupancy (“SRO”) unit to $500,000 for larger 3 bedroom units. Previously, maximum subsidy was capped at $375,000 per unit for buildings with 3-9 units and $300,000 per unit for buildings with 10-25 units, with higher subsidies available on a case-by-case basis to prevent displacement of extremely vulnerable tenants. In practice, the average subsidy per unit provided or committed between 2016 – 2021 has been $325,000 per unit for Small Sites (< 25 units), and $230,000 per unit for larger properties (>25 units) and SROs. See **Table 1** below. ○ The San Francisco Housing Accelerator Fund (“HAF”), a nonprofit CDFI that lends in support of the City and County of San Francisco’s housing objectives, provides short-term acquisition and rehabilitation financing to developers participating in the Small Sites program. This financing is designed to bridge to MOHCD’s permanent financing programs. As a fast-acting, nimble source, HAF financing makes it possible for developers to move at the speed of the market to acquire properties more quickly than would be

possible if MOHCD funding were required to be in place at closing.

- Elsewhere across the Bay Area, similar programs have been explored; however, these efforts have seen only limited traction. For example:
    - In San Jose, the upfront acquisition costs and rehabilitation required are slightly lower than those in San Francisco (based on data from CoStar, less than $400,000 per unit). However, the City of San Jose has only limited subsidy available and does not have a funding partner that could provide low-cost, long-term first mortgages.
    - Similarly, acquisition and rehabilitation costs in Mountain View are slightly lower than in San Francisco, and program feasibility would depend on identifying reliable subsidy funding; a source for long-term, low-cost mortgage loans; and mission-based organizations with the capacity and interest to acquire, rehabilitate, own, and operate smaller multifamily rental buildings.
    - In Oakland, 2016's Measure KK funding provided $100 million for affordable housing projects. These funds have since been depleted, with $25.6 million applied to housing rehabilitation and preservation and the remainder used for other purposes.
    - The City of Berkeley also recently launched a program for smaller buildings, and other jurisdictions have funded small preservation projects when resources are available, e.g., the City of Concord, with the express desire to do more.
- At a state-wide level:
    - California recently considered creating a new program specifically designed for anti-displacement and preservation. While it ultimately did not make the FY 2023 State Budget, the Community Anti-Displacement & Preservation Program ("CAPP") would have provided revolving short-term acquisition capital and long-term public subsidy, as well as technical assistance when needed, to community development corporations.

	- In the FY 2023 Budget, a $500 million allocation to create the Foreclosure Intervention Housing Preservation Program ("FIHPP") was included. By providing grants and loans, FIHPP will allow community land trusts and other nonprofits to acquire and rehabilitate 1-25 unit buildings that are at the risk of foreclosure, currently in the foreclosure process, or at foreclosure auction. • For emerging developers, community-based organizations building a real estate development practice, community land trusts and other organizations implementing shared-equity and other innovative models for community ownership, smaller buildings—which are often Unregulated Properties—can be a more accessible entry point into the development space than larger buildings. These properties may be a part of the fabric of the community that the entity is dedicated to serving, and thus fit well with organizational goals and mission. Financially and organizationally, the upfront resources needed to staff and implement a smaller property-focused program are less than needed for larger properties, making it possible for organizations to start development activities sooner. However, organizational sustainability of smaller property-oriented development activities can become an issue, since upfront fees and ongoing revenues earned on such properties are smaller than on larger buildings. The challenge of "scaling" an Unregulated Properties-portfolio within an organization to a point where it is self-sustaining without need for ongoing, additional subsidy will need to be embraced by BAHFA and other jurisdictions across the region, which can structure their financing to provide developers with opportunities to earn fees and share in ongoing residual project cash flow. • For tenants, involuntary displacement from and/or rent increases in all Preservation Properties is wealth-destructing and destabilizing, often resulting in forced relocation further from a job, community, and services. Thus, removing the threat of displacement and maintaining rents at affordable levels is beneficial for household stability and wealth creation. Furthermore, although the minimum 55-year deed restriction BAHFA is legislatively required to impose on Preservation Properties makes homeownership opportunities challenging to implement, there may be some Unregulated Properties where moderate wealth-creating homeownership

opportunities can be provided for residents as long as a deed restriction is maintained.

Expiring Use Properties

Across the region, preservation of affordability in Expiring Use Properties is generally an extremely high priority, since the loss of these buildings from the regulated affordable housing stock and the resulting displacement of tenants can be so devastating for existing residents and their communities. Jurisdictions will seek to rapidly bring the at-risk property under control of a mission-aligned (typically non-profit) buyer that will seek to prevent displacement of existing tenants and preserve affordability. In addition to establishing site control, buyers will need to assemble financing to complete property acquisition, implement any needed repairs, recapitalize the building, and preserve affordability for the long-term. As a part of that financing, buyers may seek to extend or renew, as applicable, any available federal project-based rental assistance, apply for new bond allocations and/or tax credits from the California Debt Limit Allocation Committee ("CDLAC") and/or the California Tax Credit Allocation Committee ("CTCAC"), and use any available local capital or operating subsidy sources.

An important component of jurisdictional and community ability to anticipate and prepare to seek to acquire Expiring Use Properties is California's State Preservation Notice Law, which supplements federal law to provide advance notice to tenants and local governments before affordability restrictions expire, and pursuant to which qualified buyers can submit non-binding offers to purchase Expiring Use Properties.

The region's ability to protect more Expiring Use Properties is limited, in the immediate term, by the total funding available to rapidly acquire these properties when they become available; and, in the longer term, by the total funding available from local, state, and federal sources to preserve affordability.

Table 1: San Francisco MOHCD Small Sites and Big Sites Preservation Program (2016-21)

Unit Type	# of Projects	# of Units*	Total Subsidy	Total Cost/Unit	Acquisition Cost/Unit	Subsidy/Unit	1st Mtg/Unit
Small Sites (<25 units)	47	374	$121,546,005	$500,457	$326,961	$324,989	$175,468
Big Sites (>25 units)	6	314	$72,342,000	$314,729	$170,462	$230,389	$84,341
Total	**53**	**688**	**$193,888,005**	**$415,692**	**$255,535**	**$281,814**	**$133,878**

*Includes 33 commercial units

Opportunities for BAHFA	BAHFA has a region-wide opportunity to provide both permanent senior loans and subsidy loans for Preservation Properties.[3] BAHFA also has an opportunity to provide fast-acting, early-stage acquisition, rehabilitation/stabilization, and predevelopment funding to these projects, or to partner with existing CDFIs to deliver this product.

Proposed Funding Products	BAHFA's proposed funding products for the Program are intended to be responsive to the regional financing needs and opportunities identified for Preservation Properties, including both Unregulated Properties and Expiring Use Properties.
	
	All units receiving BAHFA financing will have recorded long-term affordability restrictions for a minimum 55 year term.
	
	<u>Permanent Financing</u>
	
	• **Subsidy Loans**, which may be structured as **residual receipts loans** and/or **subordinated, must-pay loans** for Preservation Properties, while also accessing a permanent senior loan from BAHFA or from another source acceptable to BAHFA
	  ○ BAHFA role: Lender
	  ○ Anticipated term: 55-57 years
	  ○ Anticipated interest rate:
	    ▪ 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

[3] In contrast with BAHFA's Multifamily Rental Production Program, for which BAHFA may seek to establish a bond indenture or participate in loans with capital providers to provides senior debt financing, the Regional Anti-Displacement and Preservation Program may include smaller properties with as little as 5 units, preserved by emerging, less well-established developers. The Program's target asset class, and the developers that may participate in the Program, are not currently well-understood by capital markets. Furthermore, as a majority of BAHFA's RHR will be allocated to Production per the legislation, the initial volume of projects and debt funding needed across the Preservation Program is anticipated to be modest, and not enough to support a large-scale capital markets execution. Consequently, establishing a bond indenture for funding Program debt is unlikely to be viable in the near- to mid-term, but may become an option at a later date (see Funding Scenarios: Re-Capitalization).

project cash flow. Required payments may also include principal amortization.

- Funding amount: Remaining amount of project funding need after permanent senior loan is sized, up to $[300,000] per unit for projects determined to be a high priority based on their meeting criteria to be established by BAHFA. Alternatively, remaining amount of project funding need, up to $[200,000] per unit, for projects receiving matching subsidy funding from the local jurisdiction.
- Funding source: RHR

- **First Mortgage Loans**
    - BAHFA role: Lender (also, Seller-Servicer and/or Issuer; see “Recapitalization” under Funding Scenarios, below)
    - Anticipated terms: Up to [40] year loan term; fully self-amortizing over the term
    - Anticipated interest rate: Below-market or market
    - Funding amount: Sized to minimum [1.15] debt service coverage ratio (DSCR) from property stabilization; BAHFA may underwrite to higher minimum DSCR on project-by-project basis
    - Funding source: RHR

<u>Acquisition and Rehabilitation/Stabilization Financing</u>

- **Subsidy Loans**
    - 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 rehabilitation) and remain as a permanent loan.
- **Acquisition/Rehabilitation Loans** for Unregulated Properties and, for Expiring Use Properties, **Acquisition/Stabilization-to-Permanent Loans**.
    - BAHFA role: Lender; or, partner with a CDFI that provides acquisition/rehabilitation financing, repaid when BAHFA funds the permanent financing.

	○ Anticipated terms: Acquisition/Rehabilitation loan funds all eligible project costs for [2-3] years from property acquisition through completion of construction, including predevelopment; converting to First Mortgage and Subsidy Loan after construction completion. For Expiring Use Properties, properties may close directly into a single Acquisition/Stabilization-to-Permanent loan with an up to [40] year term, proceeds from which can be used to fund eligible costs including acquisition and rehabilitation and can remain as a permanent loan once rehabilitation is complete; alternatively, for projects expected to be refinanced after acquisition with other permanent funding sources, e.g. LIHTCs or HUD rental assistance, BAHFA may provide a shorter-term loan up to [5] years if needed to provide for building stabilization while accommodating applications to and refinancing with those other funding sources. ○ Anticipated interest rate: Below-market, if provided by BAHFA; CDFI-established lending rates, if provided by CDFI. Interest-only during rehabilitation/stabilization period, and may be capitalized into loan amount. ○ Funding amount: Up to [100]% of eligible costs ○ Funding source: RHR
Funding Scenarios	If $2 billion in RHR becomes available to BAHFA, a minimum of 15% or $300 million would be allocated to Preservation. Assuming $300 million is allocated to this Program and drawn via five bond issuances at three-year intervals, $60 million would be drawn per issuance and the entire $300 million within 12 years of initial issuance. This schedule could be accelerated if the region expends funds more quickly. BAHFA may 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. 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 is unable to leverage *any* funding aside from RHR. The **Permanent Lender** scenario utilizes CDFIs to fund *and* staff projects through completion of rehabilitation, while the **Re-capitalization** scenario would allow BAHFA to

	access the capital markets to sell stabilized loans and generate a new source of revenue to provide additional loans.
	• **Baseline.** BAHFA funds the Program entirely from RHR.
	    ○ Pros: BAHFA controls all aspects of the Program. BAHFA can set the interest rate and terms on all financing it provides, earns 100% of the construction and permanent period interest rate charged, and receives all repaid principal.
	    ○ Cons: Least accelerated, least leveraged, and most operationally-intensive scenario. RHR is a scarce resource and it would need to use funds for early-stage acquisition and rehabilitation financing in addition to providing permanent financing. Requires BAHFA to have the staffing and capacity to move very quickly to underwrite and provide acquisition financing when needed at closing. Requires BAHFA to have construction-loan administration capacity for rehabilitation component of financing.
	• **Permanent Lender.** BAHFA provides permanent financing, funded entirely from RHR, and partners with CDFIs to deliver acquisition and rehabilitation financing.[4]
	    ○ Pros: BAHFA can focus its capacity and available RHR on providing permanent financing, on which it can set the interest rate and other terms, and earns 100% of the permanent period interest rate charged and receives all repaid principal. Leverages existing, regional CDFI capacity to underwrite projects and provide early-stage, short-term bridge financing for acquisition on an expedited basis and to monitor rehabilitation. Accelerates anti-displacement and preservation activity by making it possible for CDFIs to begin originating early-stage financing to priority projects as soon as a source of RHR (such as a general obligation bond) is approved, perhaps 12 months in advance of BAHFA having the RHR needed for permanent financing in hand.

[4] Expiring Use Projects allocated private activity bonds as a part of their re-capitalization will need to be refinanced through the issuance of bonds. If BAHFA does not issue these bonds, or cannot do so due to limitations on its bond issuance powers, an authorized issuer will need to do so and BAHFA's permanent financing for that project will need to be coordinated with that issuer.

	◦ Cons: Depends on CDFI partners to implement early-stage financing program in accordance with BAHFA policy and priorities. CDFIs earn construction period interest instead of BAHFA. Possibility of over-subscribed permanent financing programs and/or additional project carry costs if CDFIs originate more early-stage financing than can be repaid from BAHFA's RHR available for permanent financing; or if RHR availability for bridge loan takeout is delayed. • **Re-Capitalization.** Same as above, either "Baseline" or "Permanent Lender"; in addition, BAHFA warehouses whole, senior mortgage loans it has funded from RHR until they have seasoned and the corresponding projects have completed their rehabilitation, are fully leased-up, and stabilized. At that time, BAHFA packages and re-sells all or a portion of its permanent Program loan portfolio to third parties, for example to Fannie Mae or Freddie Mac pursuant to a multifamily seller-servicer program, subject to meeting program project, loan, and seller-servicer eligibility criteria; to another purchaser(s); or issues bonds secured by Program loan revenues. All projects will have minimum 55 year recorded affordability restrictions which will remain with the project upon sale of the loans. ◦ Pros: BAHFA can re-capitalize the Program, using any proceeds from the sale of loans or from bond issuance to make additional Program loans. Subject to the mechanics of the specific execution and the terms available from loan and/or bond purchasers, BAHFA may also be able to continue to collect fees, spread, and other revenues from the loan portfolio. ◦ Cons: At time of loan sale/bond issuance, the Program loan portfolio will need to conform to all purchaser requirements—including minimum debt service coverage ratio, maximum loan to value, maximum term and amortization provisions, timely reporting, and more. To the extent BAHFA has loans, projects and/or borrowers that do not, or cannot reliably, meet these requirements, they may need to be excluded from the re-capitalization. Total proceeds to BAHFA from a re-capitalization will depend on BAHFA loan terms, restrictions, performance, and market conditions; for example, if required market yield is greater than the interest rate on BAHFA's loan portfolio, then

	purchasers will require a discount to par; other jurisdictions have reported that some of their loans are structured with terms that would result in only “pennies on the dollar” in proceeds if sold or securitized. For BAHFA it would only make sense to pursue a recapitalization for buildings that have healthy cash flow due to strong rental revenue from likely relatively higher-income tenants, and not for lower-revenue buildings with vulnerable residents for whom BAHFA could not guarantee continued stabilized occupancy in a well-maintained building notwithstanding its deed restriction. In addition, any sale of a loan would need to be done in cooperation with the building owner, which likely would be a community-based organization. If BAHFA is acting as a seller-servicer, it will need to meet all operational, staffing, financial, and other criteria to qualify for, be accepted into, and be eligible to continue to participate in the seller-servicer program. BAHFA’s ability to pursue a Program re-capitalization via a bond issuance is subject to BAHFA’s establishing its power to issue project revenue bonds. See **Table 2** below for a comparison of the Baseline and Permanent Lender scenarios. Scenarios assume the acquisition and rehabilitation of an Unregulated unit (which would be multiplied by the number of units in the building), financed with a Subsidy Loan and First Mortgage Loan provided by BAHFA at a below-market interest rate.

Table 2: Preservation Lending Scenarios

Preservation: Lending Options for BAHFA; Units Financed with Regional Housing Revenue	**Baseline:** BAHFA provides First Mortgage and Subsidy Loan from GO Bonds during construction and permanent.	**Permanent Lender:** BAHFA provides First Mortgage and Subsidy Loan from GO Bonds for permanent period only. Construction funded by CDFI.
Sample Unit[1]:		
Unit Cost	$500,000	$500,000
1-BR Unit Monthly Rent (Santa Clara Cty)	$1,896	$1,896
Monthly Operating Expenses/Unit	($625)	($625)
Monthly NOI/Unit at 60% AMI	$1,271	$1,271
Available for Debt Service	$1,059	$1,059
First Mortgage @ 1.20 DSCR	$221,000	$221,000
DSCR	1.20	1.20
Interest Rate	4.0%	4.0%
Term	30	30
Amortization	30	30
Subsidy Loan	$279,000	$279,000
BAHFA RHR Funding/Unit	**$500,000**	**$500,000**
Sample Portfolio:		
Total RHR Available for Preservation Program[2]	$300,000,000	$300,000,000
Units financed by BAHFA	**600**	**600**
RHR Principal Repaid to BAHFA (First Mtgs)[3]	**$132,600,000**	**$132,600,000**
Interest Paid to BAHFA (First Mtgs)[3]	**$100,602,965**	**$95,298,965**
RHR Available Per Bond Issuance[4]	$60,000,000	$60,000,000
Units financed per Bond Issuance	**120**	**120**
Principal Repaid in first 5 Years	**$1,621,483**	**$1,621,483**
Interest Repaid in first 5 Years[5]	**$5,210,938**	**$3,442,938**

Table 2 Assumptions:

1. Sample Unit uses 2022 60% AMI rents and estimated acquisition/rehabilitation cost in Mountain View/Santa Clara County.
2. "RHR" is the total estimated Regional Housing Revenue that BAHFA would allocate to Program, estimating 5 equal bond issuances every 3 years (15 years).
3. Assumes only First Mortgage Loans are repaid (and not Subsidy Loans) over the term of each loan. Amount is the sum, does not account for time-value of money. For example, some loans will be issued in Year 10 and be fully repaid in Year 40.
4. Estimates 5 GO bond issuances, one every 3 years: beginning in 2025, with 5th issuance in 2037. Proceeds of each GO bond issuance assumed to be spent over 3 years. Assumes units financed per GO bond issuance are spread equally over 3 years. (For example, in the above scenarios, 40 units financed in each 2025, 2026, and 2027.)
5. The first 12-18 months of project is assumed to be construction period, with capitalized interest and no principal payments. Baseline scenario incorporates interest received during construction period. Revenue projection does not include any loan origination, monitoring, or other fees.