BAHFA PROGRAM DESCRIPTION
PRODUCTION: MULTIFAMILY RENTAL PRODUCTION PROGRAM

Equity Objectives	The Multifamily Rental Production Program (the "Program") will invest in projects that support achievement of the Equity Framework's Production (P) and Cross-Cutting (CC) Objectives. The Program, in combination with other funding programs and initiatives implemented by BAHFA, will seek to: P1. **Produce more affordable housing**, **especially for extremely low-income (ELI) households.** Increase production of housing with long-term affordability restrictions across the region, and provide special focus on the production of housing types that meet the needs of 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 create stability for residents while transforming historically disinvested neighborhoods (such as Equity Priority Communities) into areas of opportunity. P3. **Create affordable housing opportunities for lower income households in historically exclusionary areas**. Address systemic racism by investing in developments that replace segregated living patterns with integrated, diverse, and balanced living patterns in areas of concentrated affluence. P4. **Create programs that address homelessness.** Increase housing types, in coordination with counties, 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. This Objective recognizes that more housing of appropriate types is a key solution to homelessness. P5. **Achieve regional climate and environmental justice goals.** Prioritize housing placement near high-quality transit and invest in housing that achieves high performance scores in recognized sustainable building systems. 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 that 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.
Additional Objectives	Additional objectives of the Program are to: • **Support BAHFA's Legislated Production Goals.** The majority of Regional Housing Revenue[1] ("RHR") raised by BAHFA (minimum

[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.

	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.** 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 principal major source of subsidy for affordable housing is the federal Low Income Housing Tax Credit ("LIHTC" or "tax credit") program. Funding provided by the Program is intended to be compatible with LIHTCs, as well as state and local subsidy sources. Noting that LIHTCs and their companion funding source, tax-exempt 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 projects and to invest in new BAHFA financing and technical capacities. • **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 coordinated source of both hard debt and significant subsidy, and providing pathways for local jurisdictions and other funding sources to efficiently contribute additional financing to the same projects, BAHFA will help streamline project financing.
Funding Products	The initial funding products BAHFA will provide pursuant to the Program are intended to support achievement of the Equity Objectives and the Additional Objectives set forth above, and to be responsive to the regional financing needs and opportunities identified for Production properties.[2]

[2] For additional analysis of regional financing needs and opportunities, please refer to the Appendix.

	As the region's affordable housing production needs evolve, and as BAHFA identifies additional sources of funding and develops additional capacities, the funding products are expected to change. All Program terms will be periodically reviewed and are subject to revision at any time. Exceptions to general Program terms may be available on a project-by-project basis.
	
	Initial Program funding products include:[3]
	
	<u>Permanent Financing</u>
	
	• **Subsidy Loans,** which may be structured as **residual receipts loans** and/or **subordinated, must-pay loans**. Subsidy loans are available to projects that are also accessing a permanent senior loan from BAHFA, or from another source acceptable to BAHFA.
	    o BAHFA role: Lender
	    o Anticipated term: 55-57 years
	    o Anticipated interest rate and repayment requirements:
	        ▪ For Residual Receipts Loans: Concessionary interest rate. "Soft" debt service serviceable from surplus project cash flow with any unpaid interest deferred and accruing. Outstanding loan balance is due upon loan maturity, property sale, or 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. Outstanding loan balance is due upon loan maturity, property sale, or refinance.
	    o Amount: Up to $200,000 per unit, with additional amounts available for projects determined to be a high priority based on their meeting criteria to be established by BAHFA. Local jurisdiction funding will also be encouraged.
	    o Funding source: RHR
	
	• **First Mortgage Loans**
	    o BAHFA role: Lender, Participant, and/or Issuer
	    o Anticipated terms: 17-40 year loan term; up to 40 year amortization schedule

[3] Several of these funding products are contingent on establishing BAHFA's powers to issue project revenue bonds and/or be a conduit bond issuer.

	◦ Collateral/security: First-position lien on the property ◦ Anticipated interest rate: Market or below-market, depending on loan structure, funding source and project type. ▪ Loans funded from project revenue bond issuance proceeds will be subject to capital market requirements and at market rates. ▪ Loans participated in by BAHFA will be at rates established by the lead lender. ▪ Loans funded from RHR may be at below-market or market rates. ◦ Taxable or Tax-Exempt: Financing may be available on a tax-exempt basis for qualifying projects, for example: 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. ◦ Funding amount: Generally, sized to minimum 1.15 debt service coverage ratio; lower minimum debt service coverage ratio available when supported by the transaction structure. ◦ Funding source: Housing revenue bond issuance proceeds (taxable or tax-exempt), or RHR • **Conduit Bond Issuance** on a taxable or tax-exempt basis, for bonds privately placed or publicly sold ◦ BAHFA role: Issuer ◦ Anticipated fees: BAHFA receives issuance and ongoing monitoring fees. **Construction Financing** • **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 to or during construction) and remain as a permanent loan. • **Construction Loans**[4]

[4] In the near term, due to the size of construction loans needed per project, and the readily available capital from commercial banks for multifamily rental projects receiving tax credits, it is expected that BAHFA will play a smaller

	○ BAHFA role: Lender, Participant, and/or Issuer ○ Anticipated terms: May fund eligible project costs from predevelopment through completion of construction. If needed, a portion may convert to a permanent subsidy loan and/or a first mortgage loan after construction completion and project stabilization. ○ Collateral/security: First-position liens on the property and project under construction ○ Anticipated interest rate: Same as above, under "Permanent – First Mortgage Loans." ○ Funding amount: Generally, maximum 85% loan-to-cost; higher maximum loan-to-cost available when supported by the transaction structure. ○ Funding source: Housing revenue bond issuance proceeds (taxable or tax-exempt), or RHR • **Conduit Bond Issuance** on a taxable or tax-exempt basis, for construction-only or construction-to-permanent phase bonds privately placed or publicly sold ○ BAHFA role: Issuer ○ Anticipated fees: BAHFA receives issuance and ongoing monitoring fees.

Included in **Appendix**:

- Current Financing Overview
- Landscape Analysis
- Opportunities for BAHFA
- Funding Scenarios

role in construction lending for the Program than in other funding programs (see, e.g.: Innovation Program, Anti-Displacement and Preservation Program). Over time, BAHFA may generate additional resources that may make it possible to expand its construction lending activity in furtherance of the Program.

APPENDIX TO BAHFA PROGRAM DESCRIPTION

PRODUCTION: MULTIFAMILY RENTAL PRODUCTION PROGRAM

*This **Appendix** includes additional analysis of the regional financing needs and opportunities to which BAHFA's Multifamily Rental Production Program is intended to be responsive.*

Current Financing Overview	Currently, new affordable rental housing production relies on the following principal financing sources: • **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 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).

- **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.

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.

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.

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.

Table 1: Financing Overview: Sample Capital Stack

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

Landscape Analysis	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. • **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. • **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 competitive allocation process for projects financed with 4% tax credits and PABs, respectively. Due to this oversubscription, in the fall of 2021 the CA Department of Housing and Community Development launched the Housing Accelerator program to provide

funding for projects that were shovel ready and unable to move forward due to gaps that resulted from their inability to access tax credit and bond allocations.

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.[5] Assuming tax credits could be sold, on average, for $0.90 to investors, tax credit equity funded an estimated 46% of these project costs.

- **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 required 88% of the PABs be for new construction projects, with specific pools focused on homeless, ELI and VLI households. Further, 3% of funds were available to developers with at least 51% BIPOC ownership or leadership. 9% tax credit projects that do not use PABs have different set asides with goals set by CTCAC.

  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,

[5] 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.

	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. Additionally, as BAHFA gets closer to launching its funding programs, CTCAC/CDLAC priorities may change, and BAHFA will continue to monitor, collaborate, and evolve as needed to provide funding to projects that will successfully receive tax credits and bonds, or to those that meet newer "subsidy in lieu of credits" programs such as the state's Housing Accelerator program while also meeting Equity Objectives. • **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.

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	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. In addition to providing subsidy loans, if BAHFA can play a role in the construction or permanent lending, it can provide competitive project-level benefits while enabling stabilized operations and the ability to generate revenue from interest and fees which can support BAHFA's financial self-sufficiency and Protection programming. For the Program to be compelling and add additional value for projects, BAHFA also can: • **Package its "must pay" hard debt products with subsidy,** to 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)**. There are various way for BAHFA to provide a lower cost debt product than its peers. Initially, BAHFA may apply its RHR to funding hard debt loans directly or via a loan participation. Over time, as BAHFA generates revenue and has financial strength, a multi-year lending track record, and a strong credit rating, it may be able to gain deeper access the capital markets and leverage a wider range of external sources to provide low-cost debt to borrowers, such as through an open bond indenture. In any structure, 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 *total* financing package that is competitive to other providers. • **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 project needs and additional subsidy from a local jurisdiction is needed.
Funding Scenarios	If $2 billion in RHR becomes available to BAHFA, a minimum of 52% would be allocated to Production programs. Production also includes the Innovation Program (under separate cover). It is assumed BAHFA would draw all $2B of its general obligation bonds via five bond issuances at three-

	year intervals. This schedule could be accelerated if the region expends funds more quickly.
	
	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.
	
	Several options for how BAHFA could seek to do so are outlined below. The **Baseline** scenario assumes BAHFA does not issue project revenue bonds and is unable to leverage *any* funding aside from RHR. The **Subsidy Only** scenario assumes BAHFA focuses on delivering only subsidy loans. The **additional** options are strategies that, by partnering with banks or accessing the capital markets, would expand the total resources BAHFA has available for the Program and provide BAHFA with additional sources of revenue.
	
	• **Baseline.** BAHFA funds the Program entirely from RHR.
	  o Pros: 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.
	  o Cons: 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 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.
	
	• **Subsidy Only**: BAHFA dedicates its resources to providing subsidies, forgoing any role as a senior lender or issuer.
	  o Pros: 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.
	  o Cons: 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 subsidy 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.

- **Loan Participation**: BAHFA funds *a share of* each construction and/or permanent loan from RHR, while banks or other financing partners fund the balance of each loan. This is a strategy BAHFA may employ in the near term as soon as it has RHR available.
    - Pros: 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.
    - Cons: 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. 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.
- **Open Indenture**. BAHFA establishes an open (or "pooled") indenture pursuant to which it issues housing revenue bonds secured by a pool of projects. Bond proceeds are used by BAHFA to fund its permanent first mortgage lending program. This is a strategy BAHFA may employ in the longer term once it generates revenue from other programs and has a strong balance sheet.
    - Pros: 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 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. ○ Cons: 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.