BAHFA Strategic Planning

Module 3 Update

Mixed-Income Financing Program: Attachment B

- Potential Subordinate Debt Terms
- Potential Program Underwriting Standards & Affordability
- Program Development Criteria Analysis

BAHFA Oversight & ABAG Housing Committees

October 8, 2025

Bay Area Housing Finance Authority

ASSOCIATION OF BAY AREA GOVERNMENTS
METROPOLITAN TRANSPORTATION COMMISSION

Work To Date: Program Concept Testing

- To date, focus has been high level testing to determine whether a program could achieve BAHFA's goals under current market conditions
- Review by BAHFA Advisory Committee, Technical Advisory Group, and MTC's CFO office
- Draft program elements, terms, and projections are preliminary and subject to change
- Going forward, staff will pivot from concept testing to more detailed program design
- Final program structure and terms are subject to Board approval

Subordinate Debt Component: Potential Terms

Category	Potential Terms
LOAN SIZE	Maximum of: ▪ Amount of sponsor-contributed funds; ▪ 10% of total project costs, ▪ $2.5 million (amount subject to change, based on available funds)
SPONSOR CONTRIBUTION	▪ Minimum to match BAHFA Subordinate Debt Amount ▪ May be contributed as subordinate debt, equity, or grants (but not deferred developer fee)
RECOURSE	▪ Recourse/Guaranty for substantial rehab and new construction ▪ Otherwise, non-recourse, with carve outs for fraud, etc.
INTEREST RATE	▪ 200 bps above rate on senior debt, ▪ Cap of 8.00%, Floor of 6.00%
TERM/AMORTIZATION	▪ Term negotiable based on senior debt structure ▪ May be fully amortizing or interest only

Draft Underwriting Standards: Subordinate Debt/BAHFA Ownership

Underwriting Category	Potential Standards
AMORTIZATION	▪ Preferred Structure Fully Amortizing ▪ Will Consider Interest-Only for some period under certain circumstances
LONG TERM FINANCING PLAN	▪ Underwriting must demonstrate ability to refinance or sell asset to repay all outstanding debt and equity ▪ Turbo redemption assumptions allowed, with 25% - 50% of available cash budgeted to address near-term issues
LOAN SIZING	▪ LTV and LTC: 100% maximum ▪ DCR: 1.15x to 1.20x for senior debt ▪ DCR: 1.05x for all debt with current payments due
CONTINGENCIES	▪ Construction Contingency: 5% - 10% for light rehab, 10% - 15% for new construction or substantial rehab ▪ Soft Cost Contingency: 3%
RESERVES	▪ 3 Months Debt Service ▪ 3 Months Operating Reserves
DEVELOPER FEE PAYMENTS	Paid out in stages at key milestones

Potential Program Terms: Affordability

	501(c)3* Bonds	Essential Purpose Bonds	Exempt Facility Bonds**	Subordinate Debt	Welfare Exemption
20% at 50% AMI	✓	✓	✓	✓	Restricted Units at 80% AMI or Below
40% @ 60% AMI	✓	✓	✓	✓	
50% @ 80% AMI	✓	✓	✓	✓	
70% @ 120% AMI	✓	✓		✓	

**Per tax law on 501(c)(3) bonds, only new-construction projects where the owner's charitable purpose is "lessening the burdens of government" may restrict rents at these 80% and 120% AMI levels.*

*** Exempt Facility Bonds can have units restricted up to 80% AMI through income averaging (avg 60% AMI)*

**** All restricted rents must demonstrate at least a 10% discount to market rents*

Program Development Criteria

Criteria	Pass?	Comment
Pass a Benefit-Cost Test	Yes	▪ Case study analysis confirms net public benefit on long term NPV basis ▪ Additional benefits anticipated
Emphasize Revenue Generation To Support Operational Sustainability	Yes	▪ Initial modelling indicates the program could be self sufficient in Year 4 ▪ Over time can contribute up to $1 million toward other BAHFA programs ▪ Increased revenue if additional resources identified
Leverage Existing Strengths	Yes	▪ Program includes expansion of existing programs, as well as ▪ Launching new programs that are within BAHFA's authority
Promote Cost Efficiency	Yes	▪ Program most impactful when project costs are low/moderate ▪ Subordinate debt program incentivizes sponsors to minimize cost/required contributions
Be Scalable	Yes	▪ Many elements of the plan do not require significant capital infusions ▪ Program fees to assist toward sustainability/scalability ▪ Infrastructure to be in place as additional resources become available
Add Long-Term Affordability to the Bay Area	Yes	Multiple Executions Deemed feasible/Attractive: ▪ Acquisition ▪ New Construction
Fill an Unmet Need	Yes	▪ BAHFA program substantially reduces funding shortfalls, ▪ Program addresses income levels that are not otherwise served by more traditional housing programs