



BAHFA STRATEGIC PLANNING MODULE 3 MIXED INCOME FINANCING PROGRAM SUMMARY OF ROUND 2 STAKEHOLDER FEEDBACK

On August 14 and 15, 2025, the BAHFA team conducted follow up group sessions with the Module 3 Technical Advisory Committee to review the next iteration of the proposed Mixed Income Financing Program, and received some additional post-session feedback via email. This memo summarizes the key feedback from the second round of stakeholder feedback.

A. Trends, Anticipated Needs and Challenges

During the two sessions, stakeholders mentioned anticipated trends and current challenges that BAHFA may be able to address:

- **Private Activity Bond/4% Tax Credit Pipeline:** With the recent lowering of the threshold of private activity bonds triggering 4% tax credits from 50% to 25%, the industry is anticipating a significant increase in the availability of this historically scarce resource and more acquisition/preservation type projects being funded. BAHFA's programs might be a way to bridge the timing from acquisition of a project to the time it would be eligible for a CDLAC allocation. Given this is a very new change, it is unclear how the significant increase in tax credits in the market will impact demand and pricing by investors, which may impact general project underwriting.
- **Welfare Tax Exemption Approval Process:** Concern was universally expressed around the process and timing involved in having local tax assessors process welfare tax exemption applications.
- **Expiring Use Projects/Aging Portfolios:** While the proposed program focuses on the addition of affordable units to the housing stock (either through conversions or new construction), many stakeholders identified a growing need to recapitalize their current portfolios as these projects age over time and tax credit restrictions expire. One stakeholder emphasized that the subordinate debt program would indeed be helpful as sponsors seek solutions to paying for capital improvements of their aging portfolios.
- **Rent Control Restrictions:** Some localities are applying rent control restrictions to affordable housing, with limitations on rent increases that could render projects infeasible over time if operating cost increases surpass allowable rent increases. Projects subject to strict local rent control restrictions should be approached cautiously in underwriting. Additionally, in localities with particularly strong rent control there may be a concern about a program

potential undermining the local regulatory regime, which augers in favor of caution from a different perspective.

B. Income Targets/Eligible Incomes

- In response to the prior round of comments, BAHFA staff introduced a proposal to increase affordability by adding an additional income restriction band of 70% of a project to be affordable at up to 120% AMI. Stakeholders provided general support for the concept but underscored that the higher levels of income restrictions were applicable in very specific pockets of the region. BAHFA should therefore be very transparent and clear ahead of time as to when income restrictions above 80% AMI would be allowed. Leaving this option wide open without parameters could lead to the program being taken advantage of at the expense of public benefit. There will be a need for careful calibration of expanded income targeting in the 80-120% AMI range to ensure appropriate balance of benefits to the project and broader public benefit.
- Some stakeholders help to clarify that for exempt-facility bonds, income averaging would allow some units to be restricted up to 80% AMI.
- Some stakeholders urged BAHFA to consider the increased public benefit over time for income restricted units (as opposed to only measuring by current 10% discount to market), as market rents are expected to outpace restricted rents.

C. Feedback on Specific Program Elements

Comments on specific parts of the program were also received:

- Cost of Subordinate Debt: With the cost of the subordinate debt proposed to be 200 basis points above the senior debt rate, stakeholders commented that this rate could be very high when paired with taxable debt in today's higher interest environment. It was suggested that a cap/maximum interest rate be considered.
- Some stakeholders emphasized the importance of coordination with local jurisdiction regarding definition and applicability of government purpose bonds.
- Term of Income Restrictions: The proposed 55-year term was generally supported, though stakeholders advised for some flexibility in specific circumstances where a shorter term would still result in net positive public benefit, or in the case of a work-out/distressed situation.
- Consider program elements that may exclude participation by smaller or non-traditional sponsors (e.g. housing authorities, CLT's, MBE/SBE), and look for ways to incorporate inclusive measures to support this category of sponsors.
- Consider allowing senior debt to be interest only for projects that are in transition to a more permanent solution, if there is a compelling and reliable permanent financing plan.
- Some participants urged a broader "menu" of public benefits (e.g., capital improvements, hazard mitigation) beyond rent discounts (this feedback was also shared during the initial round of stakeholder engagement in June).

- Consider more flexible construction reserves, depending on the condition of the project.
- Consider adjusting the \$2.5 million cap on the subordinate debt, using a tiered cap approach, or per-unit sizing.

D. Other Comments

- One stakeholder flagged SB 750 (California Housing Finance and Credit Act), which would authorize CalHFA to use the State's credit to guarantee housing financing. This could complement BAHFA's proposed top loss program and should be monitored for potential alignment.
- Certainty and speed to close were reiterated as being important for the program's success. Pursuing a pre-approval process with jurisdictions was suggested as a way to mitigate one of the most uncertain components of the current affordable landscape in California.