Association of Bay Area Governments	Bay Area Housing Finance Authority
Housing Committee	**Oversight Committee**

August 12, 2026 Agenda Item 8a-26-0970

BAHFA Mixed-Income Finance Program

Subject:

Provide update on progress of implementing elements of the Mixed-Income Finance Program and consider expanding program to include additional loan products to meet the needs of the affordable housing finance community.

Background

In February 2026, BAHFA concluded its strategic planning process and started to work toward program implementation. Part of the strategic plan was Module 3, the Mixed-Income Finance Program. This program is intended to achieve a number of objectives:

- Improve affordability by filling unmet needs or outperforming existing products in the marketplace
- Generate revenue to promote BAHFA's financial self-sufficiency
- Serve as a proof of concept for the BAHFA model
- Build long-term organizational capacity

The result was a plan to launch the program incrementally, rolling out a "kit-of-parts" that would allow project sponsors to mix and match program elements that helped them achieve financial feasibility and increase/preserve the stock of affordable housing across the region. Program elements include:

- Welfare Tax Exemption Program: Expand the program to include new construction;
- Conduit Bond Issuer Program: Provide means for project sponsors to access tax exempt financing for eligible projects;
- Subordinate/Mezzanine Debt Program: Long term subordinate debt that is priced to help achieve financial feasibility;
- Ownership structures, including Essential Purpose/501c3 Bond Programs: Build ownership models that would allow for access to low-cost financing and property tax abatements to achieve financial feasibility;
- Preferred Equity: An alternative to Subordinate/Mezzanine Debt, when an equity position is more impactful;
- Promote Doorway to be integrated into all BAHFA supported projects.

In general, this program would make the kit-of-parts available for projects that meet minimum affordability levels:

- 20% of units at 50% Area Median Income
- 40% of units at 60% Area Median Income
- 50% of units at 80% Area Median Income
- 70% of units at 120% Area Median Income

Additionally, project sponsors must demonstrate a net public benefit as measured by the affordable rents being at least 10% below market.

In May of this year, the BAHFA Board approved changes to the Welfare Tax Exemption Program, expanding the program to include new construction projects as eligible for the program, as well as adoption of a fee schedule.

This item is informational and is intended to provide an update to the Oversight Committee as to the status of the remaining components of the Mixed-Income Finance Program, and receive feedback from the Committee regarding proposed changes to the Debt/Loan component of the Program.

Program Update:

Since the WTEP program was revised in May, staff has been focused mostly on advancing the Subordinate Debt component of the program, but other elements have been moved forward as well:

- <u>Conduit Bond Issuer Program</u>: General parameters of how the program would be structured are in active discussion with internal and outside counsel. Additionally, staff is working to identify ways in which the required TEFRA hearing can be incorporated as part of BAHFA's approval process;
- <u>Public Benefit Rubric</u>: A basic tenet of this program is that a project must demonstrate a net public benefit will be derived from the project execution. In order to track impact of BAHFA's investments, staff has been working on a rubric that will allow standardized documentation across its portfolio. This will be an important tool to evaluate BAHFA's impact as its programs grow over time;
- <u>Essential Purpose and 501c3 Bonds/Ownership Model</u>: Limited progress has been made on this element of the Program, including beginning to document the risks associated with ownership and possible mitigations. Staff anticipates this to be the last element of the program that will be launched. Essential Purpose Bonds, specifically, will require state legislation addressing and issue regarding applicability of possessory interest to tenants in order to render this program viable;
- <u>Preferred Equity</u>: Like the Essential Purpose/501c3 Bonds described above, a Preferred Equity program has risk elements associated with ownership. Initial discussions with

project sponsors indicate there may be a need for preferred equity as some commercial lenders are not approving capital structures with a subordinate debt component. Additional research is underway;

- Subordinate/Mezzanine Debt Program: Further refinement of the Subordinate/ Mezzanine Debt program has been made, including:
    - Additional detail to loan terms, including setting loan limits to the lesser of $40,000 per affordable unit or $4 million.
    - Prepared and issued a Call for Lender Partners, with the goal of finding an experienced lender partner that will bring additional capital to co-lend alongside BAHFA, thereby expanding the program's reach. Additionally, a Lender Partner can assist with program roll out, underwriting, asset management, with the goal of augmenting BAHFA's current underwriting capacity as the BAHFA team continues to grow and institute its own internal systems. The BAHFA team has had positive preliminary discussions with several potential partners. Responses to the Call for Lender Partners are anticipated in September.

Proposal to Expand Loan Product Menu:

During this implementation phase, BAHFA has continued to engage with stakeholders and has identified additional gaps in the affordable finance space, which are either (a) not being met by the commercial market or (b) there are limited resources to fill an identified need. In short, the affordable housing finance space is changing:

- The threshold needed to trigger low-income housing tax credits utilizing tax exempt private activity bonds has dropped from 50% to 25%. As a result, this is creating a taxable debt need;
- Commercial banks are no longer offering smaller permanent loans (up to $7 - $10 million), stating economic infeasibility;
- Deep subsidies are drying up, causing project sponsors to look for new solutions to keep production/preservation of affordable housing moving;
- There is growing interest in middle income/workforce housing and financing innovations that reduce the need for deep subsidies. These Innovations in financing strategies are still evolving, and flexible capital will be best suited to respond.

Additionally, the Bay Area rental market is shifting rapidly, with market rents increasing quickly, likely leading to increasing property values, and in some geographies these price increases may render the Subordinate Debt/Mezzanine Loan product as conceptualized to be less impactful.

Because one of the objectives of this program is to generate revenue as a path toward BAHFA's financial sustainability, it is important that BAHFA offers loan products that are reflective of current market need. Having a single product as previously contemplated may limit BAHFA's ability to deploy its loan funds quickly.

As a result of both the changing market and the changing landscape of affordable housing finance, staff is recommending that in addition to the Subordinate/Mezzanine Debt product, BAHFA consider offering 3 additional loan products to meet the needs of affordable housing sponsors as they continue to evolve.

These include the following loan types:

- Small Senior Lien First Mortgage
- Predevelopment Loan
- Short Term Subordinate Bridge Loan

The initially proposed Subordinate Debt product was intended to serve larger projects that would be Mixed-Income and/or affordable at higher levels of the affordability range. The three new proposed loan products would likely be attractive to developers of smaller, 100% affordable projects, which would allow the program to better meet BAHFA's Equity Framework goals. Having a set of loan products that can be applicable across the affordability spectrum will improve BAHFA's ability to be responsive to needs of the affordable housing community. With respect to all loan products, the objective of supporting projects that are "ready" with BAHFA being last funds needed would still apply.

While staff recommends expanding the types of loans offered, the target loan pool remains at $30 million. Therefore, consideration should be made as to whether a target allocation among loan types is desired, or if an agnostic "over-the-counter" approach is preferred. Considerations when contemplating this question include:

- Is there interest in having loan funds roll quickly (aka predevelopment and short-term bridge loan) in order to support more projects/units?
- How should BAHFA think about balancing support of smaller, emerging developers and 100% affordable projects versus catalyzing larger projects?
- Senior debt will come at a lower interest rate than the originally conceived subordinate debt – should BAHFA consider impact on income to BAHFA when thinking about allocations?

Staff will provide a more thorough overview of the additional loan products under consideration and looks forward to the Committee's feedback.

Issues:

None

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Recommended Action:

Information

Attachments:

A. Presentation

B. Proposed Program Elements Detailed Addendum

Reviewed:

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