



BAHFA STRATEGIC PLANNING MODULE 3 MIXED INCOME FINANCING PROGRAM SUMMARY OF ROUND 1 STAKEHOLDER FEEDBACK

During June and July 2025, the BAHFA team conducted a series of group and one-on-one sessions to review the potential new Mixed Income Finance Program contemplated as part of Module 3 of BAHFA's Strategic Planning process. Feedback was received from an array of organizations active in the housing industry who have a focus on affordability, including developers/operators, lenders/investors, governmental agencies, legal and financial advisors, tenant-focused agencies, funders and potential partners.

A. Income Targets/Eligible Incomes

Overall, there was support for a program that would be focused on the "middle income", as these households could be at risk of experiencing outsized housing costs, but are not eligible for many of the current affordable housing programs, due to limitations up to 80% AMI but mostly focused on 30% - 60% AMI. Specific feedback:

- Encourage a program that can be flexible as to level and amount of affordability, including products that allow for a mixed-income execution.
- For the Government Purpose Bond Program in particular, consider income restricted units to be restricted up to 120% AMI, assuming true need and public benefit could be established.
- Several stakeholders noted that other programs have successfully used a "lessening the burdens of government" standard to support affordability up to 120% AMI.
- Program should be set up so that units restricted at levels above 80% AMI can truly demonstrate a need for that level of restriction.
- Some agencies across the country with housing finance programs have concluded that restricted units today that are close to market will become more affordable and create increased public benefit over time as market rents continue to rise.
- Some stakeholders cautioned against labeling 61-80% AMI as "middle-income," as this range is often understood to be "low-income." Instead "middle-income" is more commonly associated with 100-150% AMI. Consider using "mixed-income" terminology to better reflect the full spectrum served.

B. Tenant Protections/Displacement Risk

Stakeholders highlighted the need for a new program to consider potential impacts to existing residents. Specifically, some stakeholders sought to ensure safeguards that will protect existing tenants from displacement or increased rent burdens, and potentially include features that can further alleviate rent burdened households. Note that BAHFA currently has tenant protection requirements in its Welfare Tax Exemption Program, which can serve as a starting point for discussion/further evaluation.

C. Underwriting/Project Feasibility

BAHFA received substantial feedback and lessons learned from those who have executed on “naturally occurring affordable housing” (“NOAH”) or preservation deals in the past.

- For deed restricted units, establishing a true discount to market rate rents is critically important for underwriting/project viability. Stakeholders urged that BAHFA should not depend on general market data, but look specifically at submarkets/neighborhood level information when underwriting a specific opportunity. The importance of securing rents at least 10%—and ideally 15%—below market was emphasized to ensure competitiveness, marketability and support property tax exemption eligibility. A flat 10% discount may not be sufficient in all markets.
- Pay attention to exit strategy, and be realistic about how to recapitalize at the term of the loan while maintaining affordability. Consider multiple exit strategies to test overall financial feasibility. Similarly, stakeholders stressed that refinancing assumptions must be carefully vetted. In many cases, project feasibility hinges on access to low-cost, short-term senior debt, which introduces material refinance risk at maturity for subordinate debt holders.
- Physical condition of properties will vary significantly, so it will be important to ensure thorough physical assessment, adequate capital budget, and a responsible plan for replacement reserves over time.
- Scale Matters. While the program should not preclude smaller properties, they will lack economies of scale, which should be considered in underwriting. Several stakeholders recommended raising or tiering the currently proposed \$2.5M subordinate debt cap.
- Build in adequate time in underwriting to undertake income verification of existing households as needed. Specific to the Welfare Tax Exemption Program, stakeholders expressed concern about the ability to verify tenant incomes within the required 18-month window post-acquisition to secure the Welfare Tax Exemption. Multiple stakeholders cited challenges in coordinating with tenants and recommended that BAHFA develop clear processes and explore methods to de-risk this element, including potential pre-approval agreements with County Assessors.
- Marketing higher AMI units can be difficult using current tools. Several stakeholders recommended leveraging or improving platforms like Doorway to reach potential renters in the 80–120% AMI range.

D. Defining Public Benefit

One of the underlying tenets of the proposed program is that any “cost” to the public, or investment of public resources, stemming from the proposed program should yield a net positive public benefit.

Suggestions on how cost should be defined included lost property tax revenue to the public agencies, but also potentially consider the discounted cost of subordinate debt to market rates, or the actual cost of capital being invested.

Suggestions on how to measure the public benefit being provided included:

- Financial considerations, including the cash flow over time, surplus cash received at exit, any property tax generated that is not exempted.
- Secondary benefits suggested included acknowledging the direct and indirect economic impact of any investments made in the properties, plus increased “buying power” for residents created by virtue of lowered/below market rents.

It was suggested that the definition of “public benefit” will likely differ between jurisdictions, and is something to further research and evaluate as the program continues to be developed.

E. Feedback on Specific Program Elements

While the generalized comments summarized above apply in different ways to the different elements of the initial program proposal, comments on specific parts of the program were also received:

- Confirmation that a conduit bond issuer program is needed. While there are other issuers in the market, the idea of having that functionality paired with BAHFA’s other offerings is very attractive. Other agencies that offered certain programs that overlapped with BAHFA but did not have a conduit bond program/authority expressed value in such a partnership.
- Top Tier Loss Program: While some potential borrowers saw value in having BAHFA provide a credit enhancement program to lower senior debt rates, others expressed concern over the actual benefit achieved when compared to the elevated risk of such a program and cost.
- Cost of Subordinate Debt: While generally supported, the proposed pricing at 200bp above senior debt rates received mixed feedback. Some participants believed the proposed rate to still be beneficial to a transaction though others felt this element of the program would not be useful, given current high interest rates and preferred capital structures currently in the marketplace. For low leverage executions, some stakeholders noted that this subordinate debt element would not be useful.
- Subordinate Debt Refinancing Assumptions: Some stakeholders advocated for interest-only, non-amortizing subordinate debt to align with short-term senior structures. Some stakeholders suggested that BAHFA should define clear refinancing expectations and

size its risk accordingly, evaluating viability of refi/exit and what returns looks like under different scenarios.

- Welfare Tax Exemption Program: Local assessor interpretations of possessory interest or eligibility above 80% AMI could significantly affect feasibility and should be monitored closely.

F. Other Feedback

Other general feedback received and to consider when designing the program:

- Speed to Close Important: Stakeholders appreciated the one-stop-shop concept when thinking about how to compete in the market when bidding on unrestricted properties. One suggestion was to set up a financing structure that does not require income qualifying residents prior to acquisition. Consider developing earnest money support or short-term bridge funds to mitigate risks associated with standard due diligence and public funding timeliness.
- Include New Construction as an Eligible Project Type: While not all program elements would initially be useful to new construction, other elements, such as welfare exemption and a bond issuance programs, would definitely add value.
- RHNA Credit Considerations: There was mixed feedback about jurisdictions receiving RHNA credit for acquisitions/conversions to income restricted. Some urged careful balancing of pros/cons and inclusion of sufficient guardrails to mitigate concern that such a benefit could act as a disincentive regarding new construction. Note that MTC-ABAG is currently sponsoring a bill (AB 670) in the current legislative session.
- Be sure to test the program across different models and jurisdictions to confirm applicability and value across the region. (See Program Revisions for follow up conclusions on this point)
- Research BAHFA's legal authority to incorporate certain elements into the program.
- Some expressed concern that standardized underwriting could be difficult to apply given the unique nature of each building or submarket.
- There was interest in including land acquisition financing, possibly as a bridge to later permanent mixed-income financing.
- Stakeholders noted that smaller land trusts and CDFIs may struggle with capacity or access. Program design should include guidance or technical assistance where possible.
- Multiple developers supported BAHFA becoming the default 501c3 issuer, particularly for nonprofits that face barriers with JPA structures or seek alignment with a public mission.