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Combining Tax-Exempt, Short-Term Bonds with Taxable GNMA Sale for Affordable Apartment Financings*

Presented by:

R. WADE NORRIS, ESQ.
wnorris@ngomunis.com
(202) 973-0110 (office)
(202) 744-1888 (cell)

ETHAN OSTROW, ESQ.
eostrow@ngomunis.com
(202) 973-0111 (office)
(224) 216-2490 (cell)

Norris George & Ostrow PLLC
The Army Navy Office Building
1627 Eye Street, N.W., Suite 1220
Washington, D.C. 20006
www.ngomunis.com

San Francisco Skyline

I. Quick Review: **Basics** of Affordable Multifamily Rental Housing Financings and **Recent Huge Near Miss**

II. General **Interest Rate Trends** – Yield Curve **Moving Up and Flattening**

III. Recent Developments on Tax Exempt Short-Term Cash Backed Bonds – **No Negative Arbitrage!**

IV. **Three Other Debt Structuring Techniques** to Meet the Competition

I. Quick Review: Basics of Affordable Multifamily Rental Housing Financings and Recent Huge Near Miss!

- The Borrower agrees to rent 100% of units to tenants whose income is ≤ **60% of AMI** (family of 4) – and – to **cap rents at 30%** of that amount.
- Obviously depresses revenues versus market rate apartments.
- **BUT,** eligible to **sell 4% LIHTC (and maybe state tax credits)**, which finance **25% to 45% of total development cost** with little give up by general partner on cash flow or residual.
- **50% Test.** To be eligible for full 4% LIHTC, the Borrower **must finance at least 50% of basis in land and buildings** with volume limited **tax-exempt private activity bonds** under Section 142(d) and **keep these outstanding until** the project's **placed-in-service date** (receipt of certificate of occupancy for new construction or completion of rehab for acq/rehab financings.

Satisfying 50% Test – Since 2008 – Combine Taxable FHA Loan Sales with Short-Term Cash Backed Tax-Exempt Bonds and 4% LIHTC

- Post-2008 Solution: No longer pledge GNMAs to secure long-term municipal bonds. Instead; **flow FHA Lender Funds through Indenture on Tax Exempt Short-Term Cash Backed Bonds**.
- **“Magically” converts FHA Lender Funds into tax exempt bond proceeds,** which are used to cover project costs.
- **Satisfies 50% Test** with, in most cases, **no negative arbitrage** and **50-100 basis points lower** all-in borrowing **rates**.

A HUGE NEAR MISS!!!

- **HR1**, the **House version of tax reform**, was a huge meteor which, if adopted, **would have wiped out** tax exempt bonds and 4% LIHTC and **two thirds of the affordable housing** (about 75,000 units per year) **in the United States**.

- **Thanks to the U.S. Senate**, both private activity **bond financing and 4% LIHTC survived** in the Tax Cut and Jobs Act last December.
- So while tax credit equity pricing is down 10-12% due primarily to lower corporate tax rates, the above **financing model is still fundamentally intact**.

- **Major Advantages of Tax Exempt Short-Term Cash Backed Bonds:**
    1. **Qualifies the Project for 4% LIHTC.**
    2. **Still lowers Mortgage Rate by 50 to 100 basis points.**
    3. **Avoids huge (4-8%) negative arbitrage deposit** on new construction/sub rehab (§221(d)(4)) deals.
    4. **Eliminates on-going issuer/administrative fees after 1-3 years; huge benefit** where issuers charge major (25-50 basis points) ongoing fees as long as bonds are outstanding.
    5. **Flexible Financing Alternatives:** Can sell bonds in public offering or private placement and can finance multiple loans in one tax exempt bond issue as long as loans close at the same time.
- Major Disadvantages:

    0. **None** (ok, in a very small percentage of cases, a small negative arbitrage deposit).

R. Wade Norris, Esq. wnorris@ngomunis.com (202) 973-0110 **Ethan Ostrow, Esq.** eostrow@ngomunis.com (202) 973-0111

II. General Interest Rate Trends – Yield Curve Moving Up and Flattening

How Does This Affect….

A. The FHA Mortgage Loan Execution?

B. The Tax Exempt Short Term Cash Backed Bonds?

A 35-Year Down Cycle in Interest Rates may be Ending

10-Year U.S. Treasury

1964 - 2018

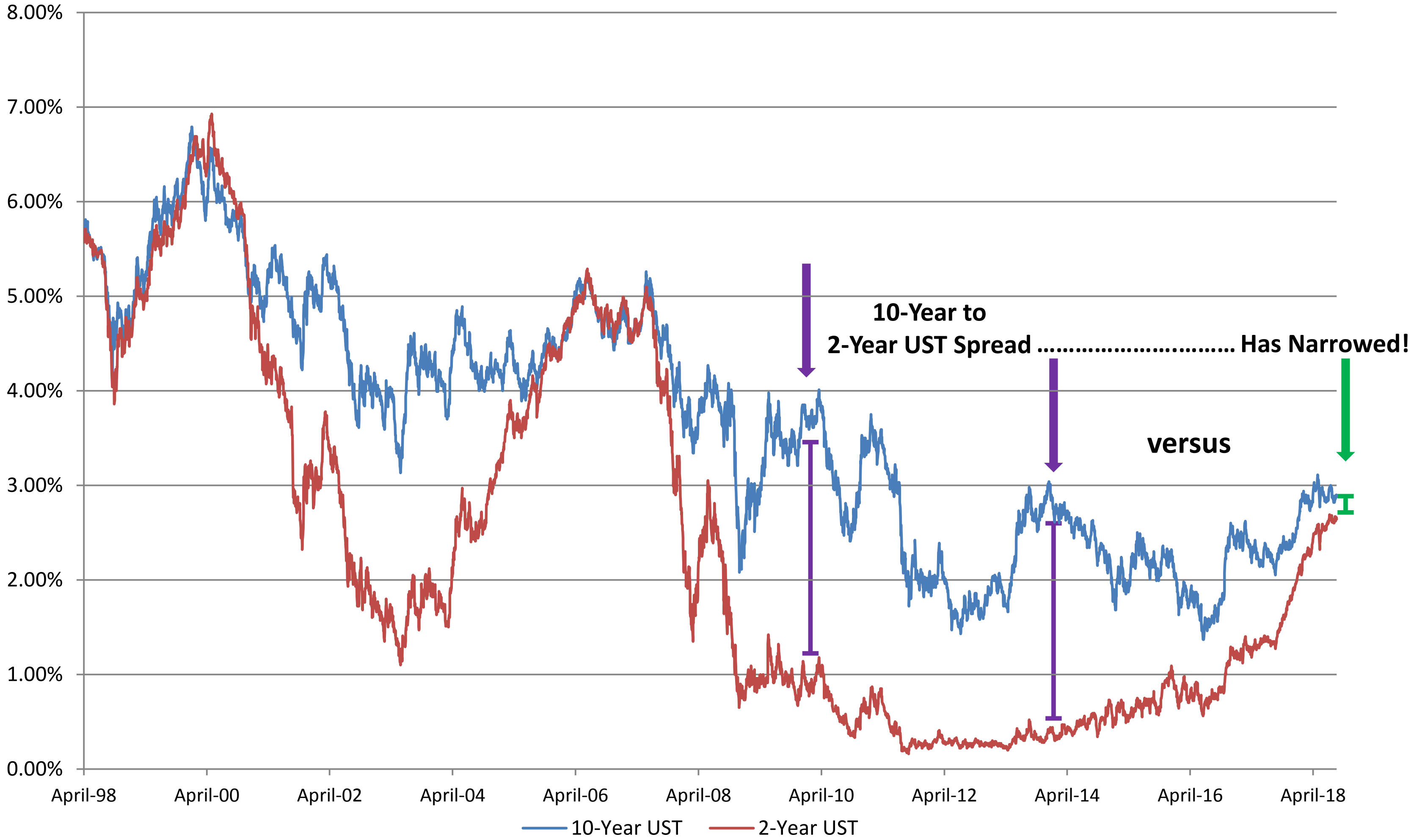
Source: http://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart

- The preceding chart above shows that the **10-year Treasury yield peaked at a rate just under 15.0% in September of 1981 and then declined over three decades to a low of around 1.65% in late June of 2012. We are now 125 basis points above that level**.

	§223(f) (Mod Rehab)		§221(d)(4) (Sub Rehab/New Construction)	
	October 2017	Early September 2018	October 2017	Early September 2018
10-Year Treasury	2.30%	2.90%	2.30%	2.90%
GNMA to 10-Yr TSY Spread	.75	.75	1.20	1.20
Taxable GNMA Pass-Through Rate	3.05%	3.65%	3.50%	4.10%
Servicing/GNMA Guaranty Fee	.25	.25	.25	.25
Stated Mortgage Loan Rate	3.30%	3.90%	3.75%	4.35%
Mortgage Insurance Premium (Affordable)	.25	.25	.25	.25
All-In Borrowing Rate	3.55%	**4.15% (up about 60 basis points)**	4.00%	**4.60% (up about 60 basis points)**

General Interest Rate Trends
As Rates Increase the Yield Curve is Flattening – i.e., Short-Term Yields have Moved Up Faster (More) than Longer Term Yields

10-Year U.S. Treasury v. 2-Year U.S. Treasury
April 1998 - September 2018



General Interest Rate Trends

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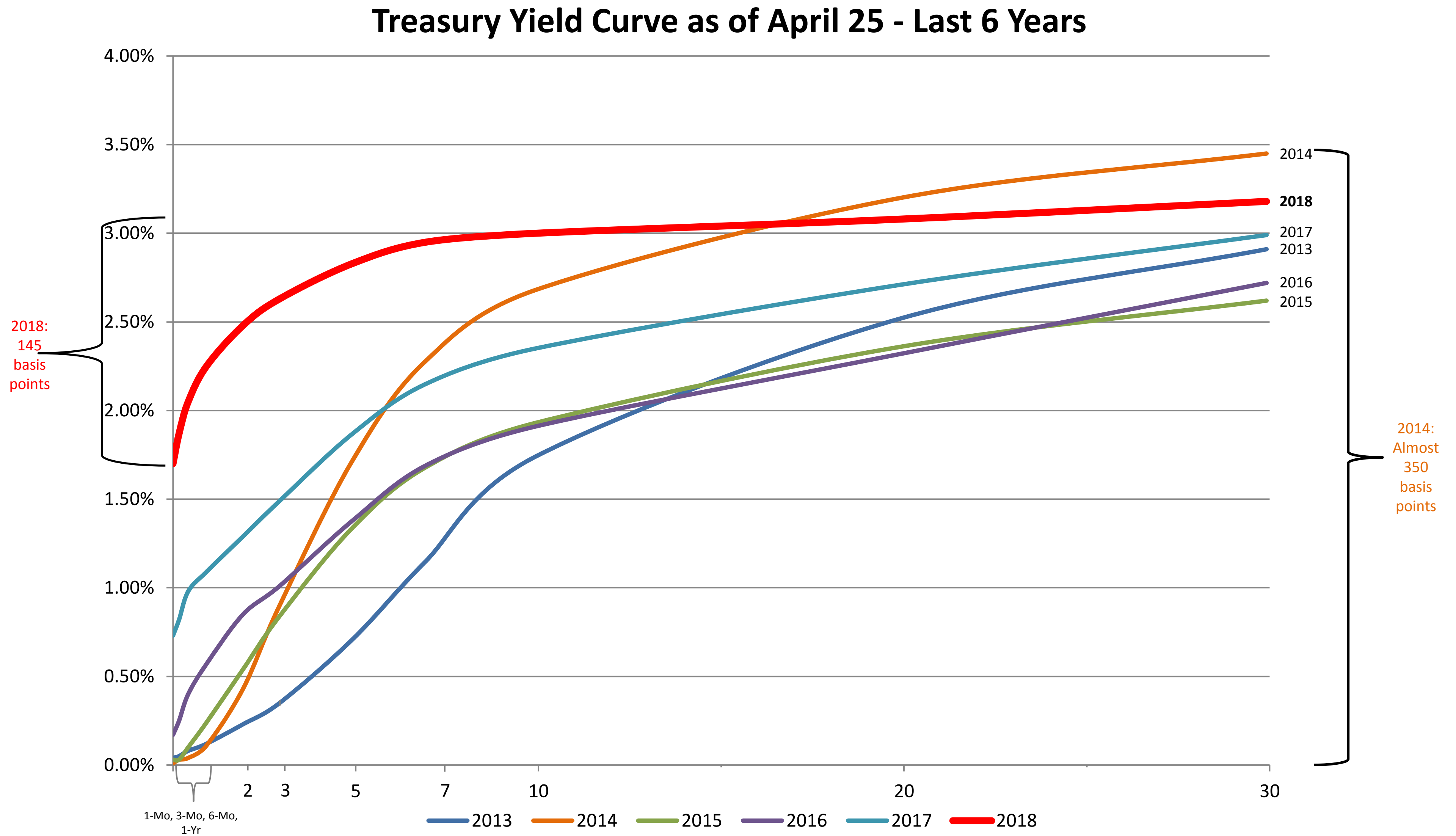

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Where are Long-Term Rates Headed?

1. No one really knows.

2. Our bet? Somewhat higher – see separate Article.

   a. **"Real" rates still low.** A "normal" 10-year U.S. Treasury yield is 200 basis points above inflation, which recently has been 2.0%. This implies that the 10-year Treasury yield should be 4.0%, 110 basis points above today's 2.9 level.

   b. **$3.0 TRILLION Fed Balance Sheet Deleveraging.** The Federal Reserve is just starting $300 billion of MBS and Government Agency securities sales/year (≈ 10% of annual volume) to shrink its balance sheet from the 2008 financial crisis over the next 10 years.

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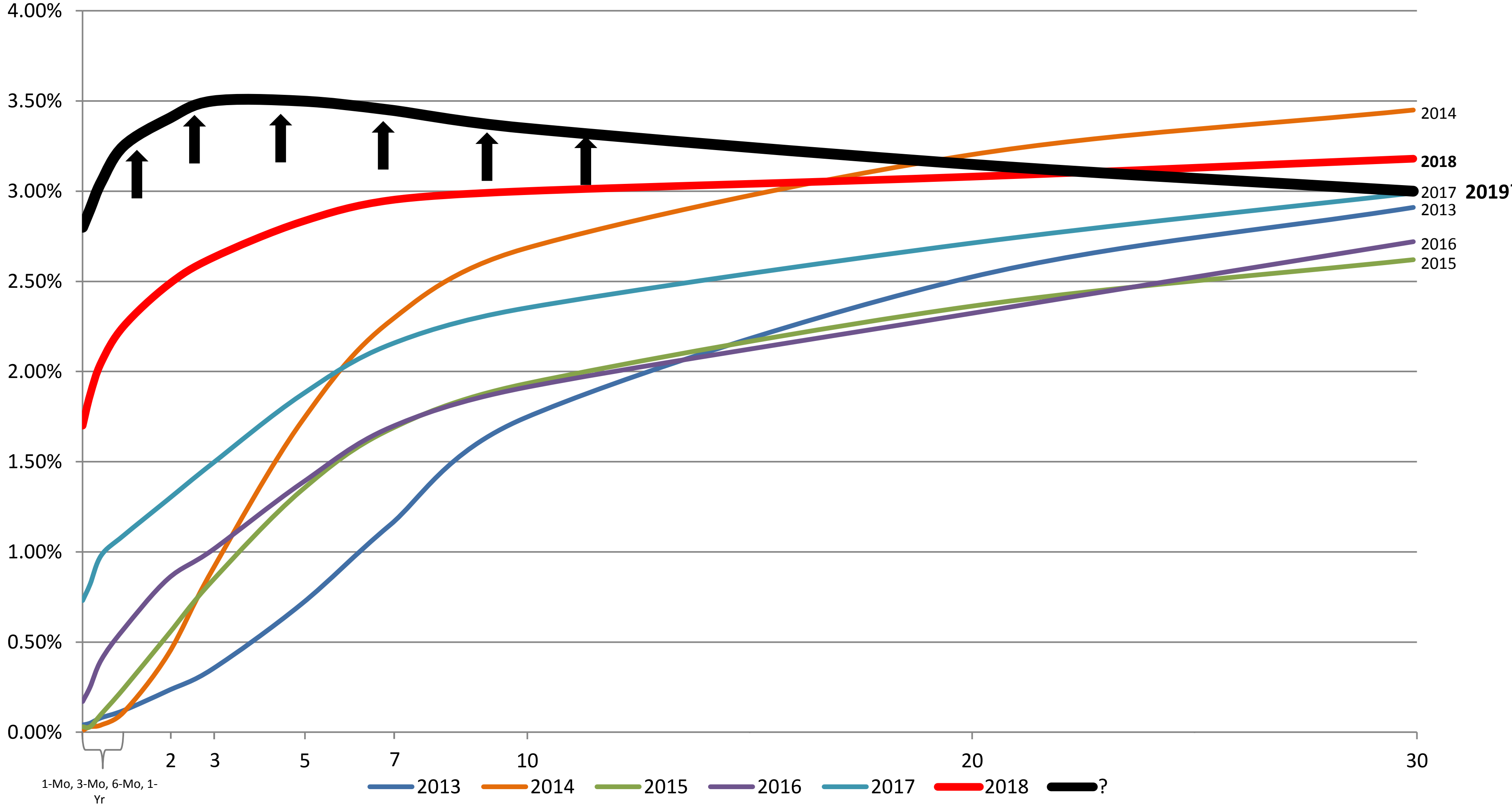
Where are Long-Term Rates Headed?

c. **Recent Increases in the Federal Deficit.** Tax Cuts & Jobs Act added $1.5 trillion plus Congress has added well over another $500 billion in the last 4 months alone. **Borrowings by the U.S. Treasury are expected to triple** from about $500 billion in the fiscal year ended 9/30/17 to $1.5 trillion in the fiscal year ending 9/30/19.

d. **Borrowers with Poor Credit Pay More.** U.S. Debt to GDP ratio is 72% today; projected to be 100% in 2027.

- And now, New York Fed **Inflation Gauge** (advanced 18 months) has **moved from just under 2.0%** in January to **over 3.0% this spring! This is a major new development.**

Will the Treasury Yield Curve Invert?



- As the yield curve moves up, it sometimes inverts, meaning short term yields exceed long term yields.
- When this happens a recession often follows within 1 to 1.5 years.
- Something for developers and lenders to watch.

Developments Which Could Lower Rates

- In a May 24, 2018 Market Outlook, Moody's suggested that **higher interest rates may be the source of their own demise**.
- According to Moody's: In response to higher rates the pace of **investment grade and high-yield bond issuance is off** 31% and 46% from the pace in 2015. Since 1988, in 11 of the 15 years **following such a decline in issuance the 10-year U.S. Treasury has declined by an average of 29 basis points**.
- Moody's states that the NAR home affordability index is off 7% year-to-date and stands 23% below its recent high in 2013. **New and existing home sales are off** 1% year to date versus 2017. In 9 of 10 years since 1988, the **10-year U.S. Treasury yield fell by an average of 41 basis points following a decline in single family loan sales**.
- A June 10, 2018 article in the Wall Street Journal reports that **U.S. corporate debt has almost doubled from $2.8 trillion in 2008 to $5.3 trillion.** An August 20, 2018 Wall Street Journal article puts this level of corporate debt at **$7.2 trillion**. This may well put a drag on corporate earnings and the stock market in the months and years ahead, and could deepen a recession and **lower rates even further if a recession were to occur**.
- **Net Result? We are still betting on a continued long term – hopefully gradual – increase in interest rates but, of course, no one knows.**

What Can An Affordable Housing Developer Do?

- For a P**reservation Project** which has not yet reached Year 15, the following strategy may now be one a borrower should consider.
  - Existing owner can **refinance now at today's rates** – **e.g.,** an **FHA 223(f)** loan at all-in **4.15%** rate, 35-year level amortization.
  - **At year 15**, existing owner does a transfer of physical assets (TPA) with HUD or other lender at no premium or fee and **transfers the project and today's "low rate" refi loan to a new borrower** affiliate it has established to recapitalize the project.
  - The new borrower has **short-term cash-backed and or other tax-exempt bonds issued in Year 15** to prime 50% Test and **syndicates 4% LIHTC**.
  - **Several approaches** can be used to avoid tax issues **if the amount of the assumed loan is too large**.
  - This immediate refinance followed by loan assignment **can lock in today's rates** for most of the debt **two or three or more years in advance**.
  - This is, however, a work in progress – stay tuned.

What Can An Affordable Housing Developer Do?

- **For all Projects:**
  - Perhaps the **best general takeaway** is this: If we are entering an era of continued rising interest rates, **time is now your enemy, not your friend**.
  - For the immediate future, **certainty and timeliness of execution may become the most important hallmarks of a successful project financing**.
- A **Note of Caution**:
  - All of us in the industry work continuously to develop **new financing structures and programs**, which in some cases, become mainstream, effective, debt executions.

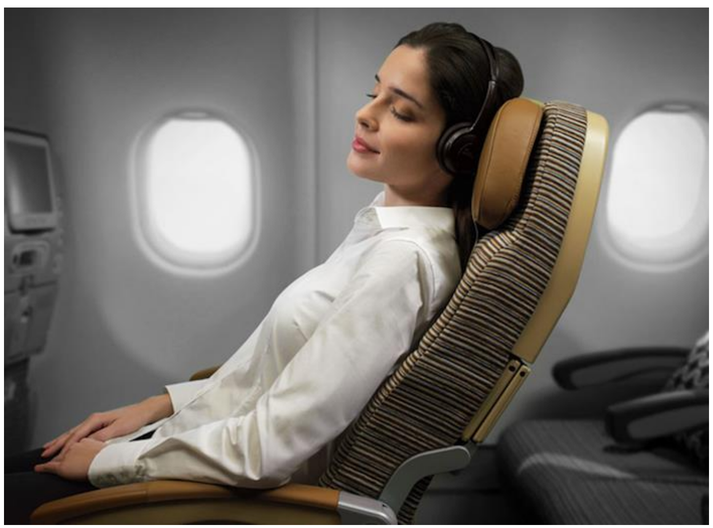
What Can An Affordable Housing Developer Do?

- But remember…
  - **This can take time.** Our lawyers worked for **3-5** years to move **short-term cash backed tax exempt bonds** into the mainstream. We worked for the better part of **3 years** before closing the first **Fannie Mae M.TEBs** financing, and the **Freddie Mac TEL program,** in which our lawyers were heavily involved, also **evolved over several years**.
  - **Tax law uncertainties. New structures often trigger tax questions** with respect to which **different bond counsel firms** – who have to render unqualified opinions – **may disagree.** This may trigger issues which have not been identified until a number of deals have closed.
  - New structures may trigger **other issues** – bankruptcy, real estate, rating agency, securities law, local law, HUD or GNMA policies or other issues **which can side track a deal and which may not surface until a product has become mainstream**.
  - Potential cost **savings can be overemphasized** and new structures can entail **unexpected costs and fees.**

What Can An Affordable Housing Developer Do?

- All of this suggests…**if your deal has to close, you may not want to bet your upcoming cross country trip on a brand new model.**
- It's great to expand the envelope, but **if you are a test pilot or a guinea pig you need to know that on the front end and agree to that role!** ☺

Are you…

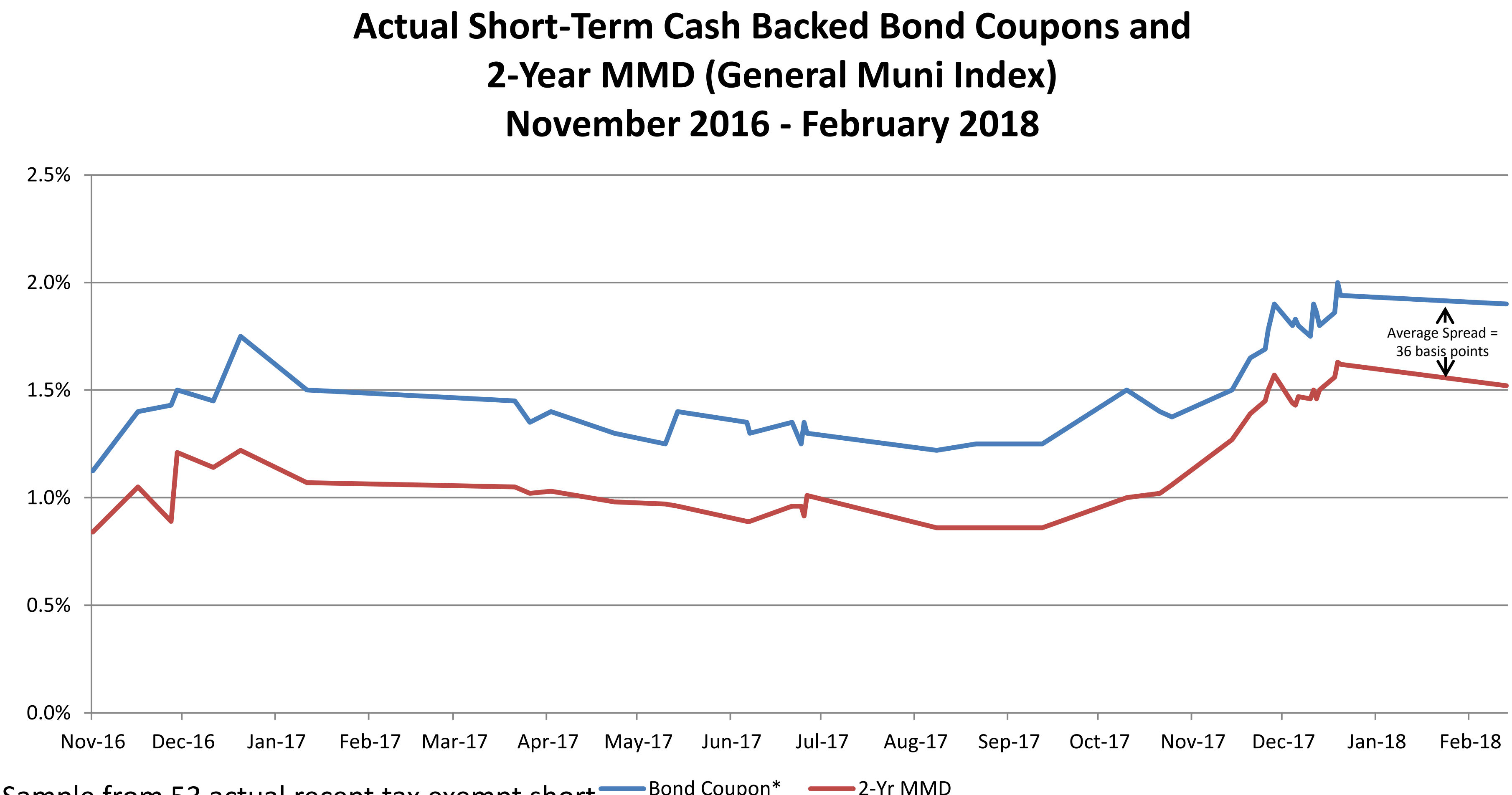


– or –

- Both are great, but **on your project, if it has to close in a world of rising interest rates, who do you want to be?**
- Think about it! ☺

III. Recent Developments on Tax Exempt Short-Term Cash Backed Bonds – No Negative Arbitrage!

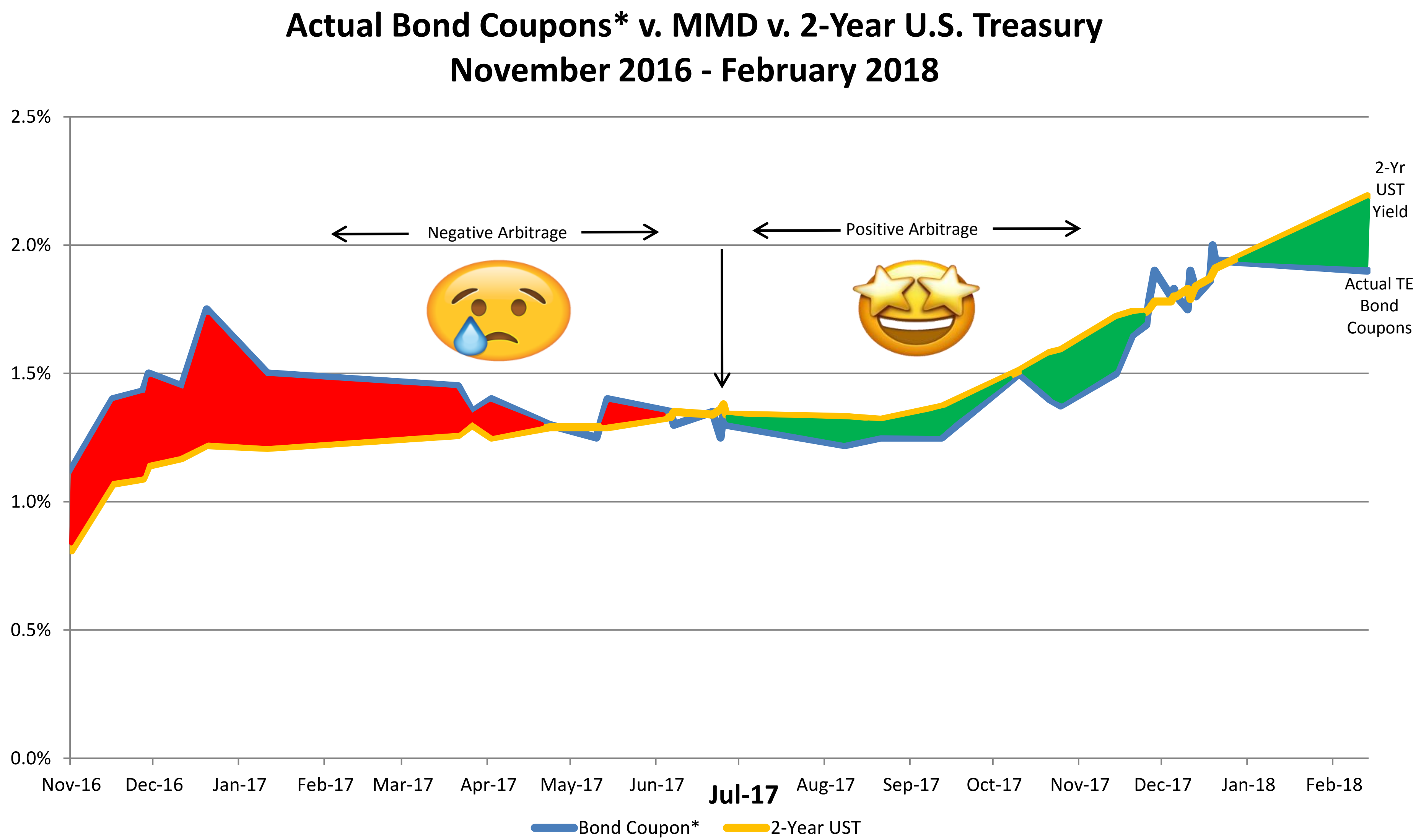
Short-Term **Tax Exempt** Interest Rates **Have Also Begun to Move Up**



*Sample from 53 actual recent tax exempt short term cash backed bond issues in past 18 months.

But…

…GOOD NEWS!!!… SHORT-TERM TAXABLE RATES HAVE RISEN EVEN MORE!!! → POSITIVE, NOT NEGATIVE, ARBITRAGE



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R. Wade Norris, Esq. wnorris@ngomunis.com (202) 973-0110 Ethan Ostrow, Esq. eostrow@ngomunis.com (202) 973-0111

This means… **NO NEGATIVE ARBITRAGE!!!**
ON DEALS INVOLVING §223(f) AND **MOST §221(d)(4) LOANS**

	§223(f)	**§221(d)(4)**
Expected Placed in Service Date	12 Months	18 Months
Recommended Tax Exempt Bond Maturity	18 Months	36 Months
Mandatory Tender Date*	N/A	24 Months
Invest Collateral Fund in 18/24-Month U.S. Treasury	2.65%	2.70%
Tax Exempt Bond Coupon (18/24-Months)	2.15%	2.25%
POSITIVE!!! (Not Negative) **Arbitrage**	**+0.50%**	**+0.45%**

* Bonds will be priced to the mandatory tender date and redeemed on that date if the project has been placed in service; otherwise, will be remarketed on that date for 6-12 months, as needed.

No Negative Arbitrage

- **Net Defeasance:** Moreover, if the Borrower makes arrangements for the U.S. Treasuries to be bid and purchased for delivery to the Trustee at closing, **NO DEPOSIT to cover capitalized interest is required** since the investment earnings are locked in at closing!*
- The Trustee, on behalf of the Borrower, simply makes a small yield reduction payment to the U.S. Treasury from the locked-in positive arbitrage (Sorry! Since 1986, you can't keep the positive arbitrage ☹) and you are done!**
- **Only cost on Bond side is** 2-3 points of **costs of issuance**.
- **The best conditions we have had since we helped pioneer the structure in 2008!!!**

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*Or invest in SLGS issued by the U.S. Treasury equal to the bond yield.

**Not needed with SLGS investment.

The Key to No Negative Arbitrage on Bond Issues with **§221(d)(4) Loans**: A Clean **Bond Counsel "Reallocation Opinion"**

- **Almost all Bond Counsel firms (well over 20-30) will allow us to invest moneys in** Project Fund and Collateral Fund – i.e., an amount equal to the Bond issue – **in a fixed portfolio of 24-month U.S. Treasuries.***

- **As the FHA Lender presents monthly FHA Lender advances to Trustee** for deposit to Collateral Fund against disbursement of an equal amount of tax exempt Bond proceeds from the Project Fund to the Borrower/FHA Lender to cover project costs, we **reallocate** ownership of this **fixed portfolio** of Treasuries* **from the Project Fund to the Collateral Fund without liquidating the investments**.

*Or invest in SLGS issued by the U.S. Treasury equal to the bond yield, which has the same effect.

Where a Reallocation Opinion is available…
NO NEGATIVE ARBITRAGE

- We call this a **“Reallocation with No Liquidation” opinion,** or, for short, a **“Reallocation Opinion.”****
- Bond Counsel’s willingness to give a **Reallocation Opinion** allows us to lock our reinvestment rate and thus is **critical to eliminating negative arbitrage on issues involving §221(d)(4) loans**, **especially** for **new construction**.
- In the last 18 months, we have worked to get over a dozen major bond counsel firms to give a clean Reallocation Opinion. The **savings on five bond financings** totaling $115 million in late 2017 and early 2018 **were $5.1 million**.

*Or invest in SLGS issued by the U.S. Treasury equal to the bond yield, which has the same effect.

**This relates to the “approving opinion” of bond counsel – that the bonds are legal valid and binding obligations of the issuer and that interest on the Bonds is tax exempt, not the opinion which bond counsel gives to HUD regarding consistency with HUD requirements.

POTENTIAL NEGATIVE ARBITRAGE ON **A VERY SMALL NUMBER OF DEALS** INVOLVING **§221(d)(4) LOANS**

- There are now only a handful of bond counsel firms who have no gotten comfortable rendering a clean Reallocation Opinion.
- This can **force** the **investment** of a substantial portion of the cash securing the bonds **into liquid taxable government backed money market funds** which currently **yield only** about **30-40 basis points versus 250 basis points above.**
- Moreover, **this yield cannot be locked in at closing**.
- **Gross Funding of Capitalized Interest:** As a result, instead of making no upfront deposit and making **no** negative arbitrage deposit at closing, on these transactions a substantial portion of the full capitalized interest – **as much as 2.0 or 3.0 points or more** – **must be deposited in bankruptcy remote funds at closing** (i.e., the capitalized interest must be "gross funded," assuming 0% investment earnings).

SUBSTANTIAL NEGATIVE ARBITRAGE ON **A SMALL NUMBER OF DEALS** INVOLVING **§221(d)(4) LOANS**

- **On a $20.0 million bond issue, this is a $500,000 or $600,000 or greater negative arbitrage deposit at closing!**
- On a **substantial rehab loan with a large first draw** to cover project purchase price and other upfront costs, the amount of this negative arbitrage and the size of the upfront deposit **can be dramatically reduced**.
- Even on a new construction loan, **with creative steps**, we can structure the issue so that much of this deposit can be reduced.
- But the **expected negative arbitrage may still be in the hundreds of thousands under this scenario versus $0 above with a clean reallocation opinion**.

Conclusion:

On a §221(d)(4) financing, at the very outset (i.e., before selecting the issuer and applying for bond volume), the borrower must determine:

Will bond counsel render a clean Reallocation Opinion?

<u>If Yes;</u>

No problem… Party on, Dude!”

<u>If No,</u>

Shop Around!!! (Early!)

Can you work with a **different bond counsel firm** that will render a clean Reallocation Opinion?

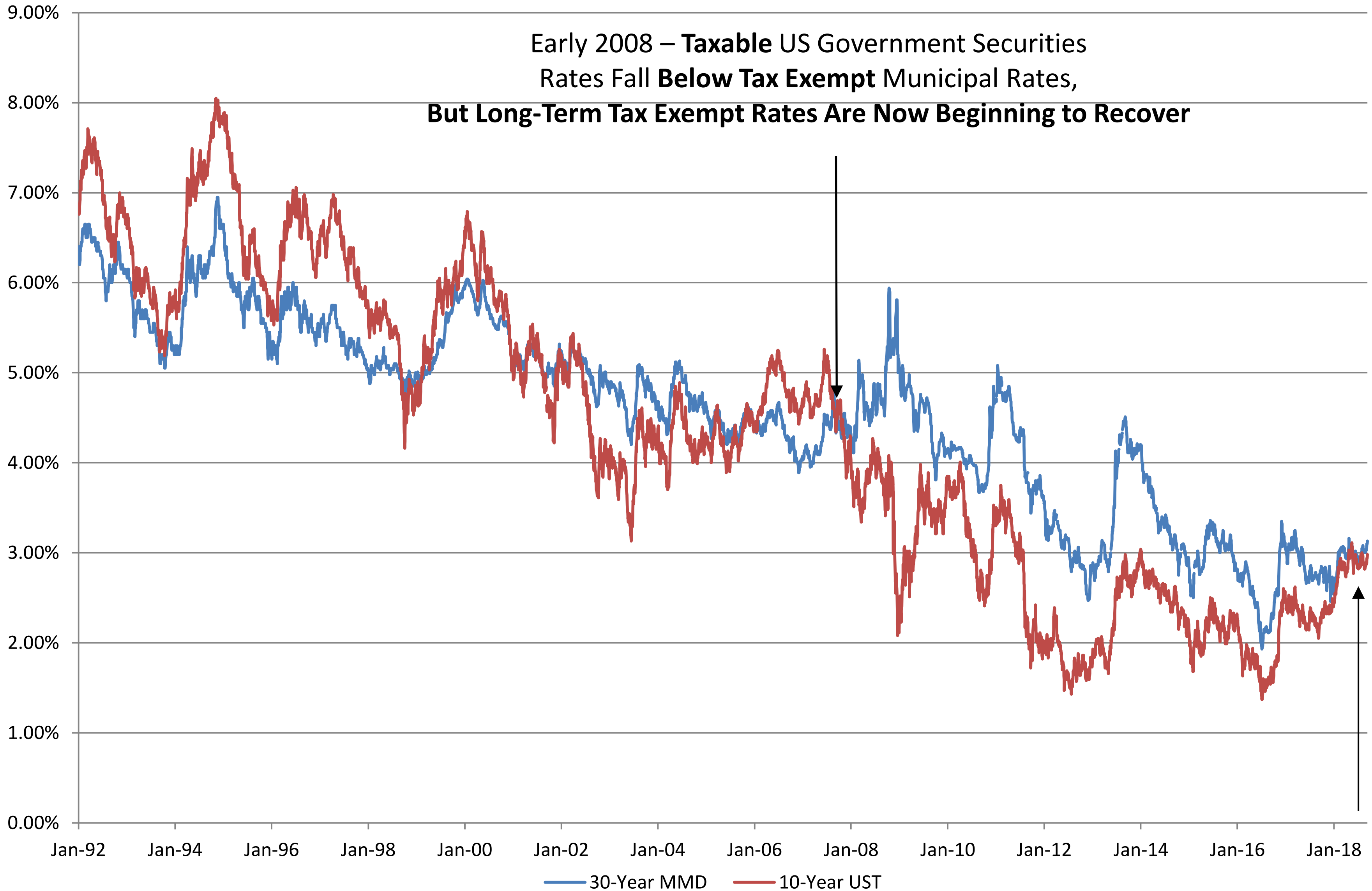
- Some issuers allow the borrower to choose among several bond counsel firms – shop around!
- If not, can you obtain your bond volume and have the tax-exempt bonds issued by another issuer, whose bond counsel will give a clean Reallocation Opinion? In many cases there may be multiple issuer choices (1 or 2 local, regional, and/or state issuers).

Again, **the savings from this shopping, in the very few cases where you need to, can be hundreds of thousands of dollars.**

Again, find out early if you need to shop, and if so, shop early!

R. Wade Norris, Esq. wnorris@ngomunis.com (202) 973-0110 **Ethan Ostrow, Esq.** eostrow@ngomunis.com (202) 973-0111

ARE LONG-TERM TAX EXEMPT RATES FINALLY GOING "RIGHT SIDE UP" VERSUS TAXABLES?



R. Wade Norris
(202) 973-0110

Ryan George
(502) 614-6853

Ethan Ostrow
(202) 973-0111

BACK TO LONG TERM MUNI BONDS?

- It has taken 10 years, but **long-term tax exempt rates may finally be dropping to levels roughly equal to those on long term GNMA's.**
- Does this mean we will **go back to financing the debt side with long-term tax exempt muni bonds** backed by GNMA's? **Answer: Probably not quite yet.**
- **Long term muni bonds** are **fully funded** at closing → **huge (up to 6% – 8%) potential negative arbitrage** on **§221(d)(4) new construction / sub rehab deals** – v – $0 on short-term cash backed tax exempt bonds.
- **On going issuer / trustee / rebate fees** (often **15 to 30 basis points** or more) are eliminated on short-term cash backed bonds after 2-3 years.
- **Costs are lower on short-term cash backed tax exempt bonds.**
  - **Underwriting fees are lower** on short-term municipal bonds (0.50% to 0.70% on many deals v 1.0% to 1.25% for long-term)
  - **Other fees are lower too:** rating agency ($5,000 v $16,000 or more), etc.
- **We only issue tax exempt bonds in an amount up to the 50% test** → this further lowers underwriting fees and other costs of issuance.

IV. THREE OTHER DEBT STRUCTURING TECHNIQUES TO MEET THE COMPETITION

- Especially in high cost markets, **many projects require a construction loan** that is **much larger than** the supportable **permanent debt**. As noted above, **bank private placements and Freddie Mac's Tax Exempt Loan or "TEL" program** provide 70-80% of the tax exempt debt side executions in many of these markets. A portion of the larger **construction loan often provides critical "bridge" financing** which enables the borrower to pay project costs incurred during the construction/rehab phase which are ultimately reimbursed later from tax credit equity installment pay-ins and later subordinate loan pay-ins.
- **These debt program sponsors will readily provide such a larger construction loan,** since the entire construction loan is secured by a first deed of trust; **with FHA**, on the other hand, **no lien on real estate is permitted to secure a tax credit backed or other bridge loan**.

R. Wade Norris, Esq. wnorris@ngomunis.com (202) 973-0110 **Ethan Ostrow, Esq.** eostrow@ngomunis.com (202) 973-0111

IV. THREE OTHER DEBT STRUCTURING TECHNIQUES TO MEET THE COMPETITION

- **Three debt structuring techniques** can make FHA loans more competitive with these competitive executions:

  1. Taxable and Tax Exempt **Tax Credit Equity Backed Bridge Loans**
  2. Taxable and Tax Exempt **Seller Take Back Debt**
  3. Tax Exempt **Cash Surplus Backed Bonds**

R. Wade Norris, Esq. wnorris@ngomunis.com (202) 973-0110 **Ethan Ostrow, Esq.** eostrow@ngomunis.com (202) 973-0111

1. TAXABLE AND TAX EXEMPT **TAX CREDIT EQUITY BACKED BRIDGE LOANS AND BONDS**

- **On** financings involving an **FHA loan, any bridge loan** must be **secured by a pledge of tax credit equity installments, deep pocket general partner guarantees of completion and payment and/or possibly a pledge of general and/or limited partnership interests**. Such debt can have no claim on the Project and is subordinate to the FHA Loan and payable only from the sources described above.
- Such tax credit equity bridge loans may take one of **two forms**:

A.Taxable Bridge Loan

- A taxable bridge loan is sometimes provided by the **tax credit syndicator,** backed by the collateral described above.

1. TAXABLE AND TAX EXEMPT TAX CREDIT EQUITY BACKED BRIDGE LOANS AND BONDS

B.Tax Exempt Tax Credit Equity Backed Subordinate Bonds

- **A Tax Exempt** Tax Credit Equity Backed Subordinate Bond issue, secured by the collateral described above can also be used.
  - If meeting the 50% test is a challenge, Tax Exempt Tax Credit Equity Backed Subordinate Bonds can sometimes be **delivered to the syndicator** to help meet that test*.
  - A number of our underwriter clients can also structure a **Publically Offered** Tax Exempt Tax Credit Equity Backed Subordinate Bond issue to provide this type of bridge financing on relatively attractive terms.
  - Such a separate series of tax exempt bonds can involve **additional documentation costs** and, if publically offered, will not reduce selling costs, but in the **few cases** where a short-term cash backed tax exempt issue involves **negative arbitrage**, **such an issue can substantially lower the amount of tax exempt cash backed bonds needed and thus substantially lower the negative arbitrage**.

*These bonds may be taxable to the syndicator, but they will nonetheless count for purposes of meeting meet the 50% test.

2. TAXABLE AND TAX EXEMPT **SELLER TAKE BACK DEBT**

The **need for** taxable or tax exempt **bridge loan** financing can often be **eliminated or reduced,** and other financing gaps can be closed, through the use of **"Seller Take-Back Debt."**

A.Taxable Seller Take Back Note

- Under this approach, a simple "**Taxable Seller Take Back Note**" is executed by the Borrower and **delivered to the Seller** in lieu of cash, in payment of a portion of the project purchase price. This is often used to **maximize the purchase price** on **RAD transactions and other preservation deals,** where the **new borrower** has been set up by or **has a close relationship with the housing authority or profit-motivated project seller**.
- A **robust purchase price** also **increases the** federal and state **tax credits** available to the purchaser.
- A **simple Taxable Seller Take Back Note** can **dramatically reduce the need for cash at closing.**
- The **proceeds** of a simple taxable Seller Note **may sometimes be escrowed and delivered to the Bond trustee at closing to immediately collateralize part of a short-term cash backed tax exempt bond issue and reduce both selling costs and, in the small number of cases where negative arbitrage is an issue, negative arbitrage**.

2. TAXABLE AND TAX EXEMPT **SELLER TAKE BACK DEBT**

B.Tax Exempt Subordinate Seller Take-Back Bonds

- As an **alternative**, the seller take-back note or a portion thereof can also be effectively **converted to tax exempt debt by having** the **issuer** of the other tax exempt bonds issued to meet the 50% test also **issue Tax Exempt Subordinate Seller Take-Back Bonds,** backed by a surplus cash note from the Borrower. **Disadvantage: 2 sets of tax-exempt bond documents. Advantage: No underwriting or origination fee on these tax-exempt bonds** since they are acquired by the seller.
- Especially **if the Seller is a for-profit entity**, this also **makes the seller take-back terms more attractive** to the Seller (interest is tax exempt), and these Bonds count as tax exempt debt for **satisfying the 50% Test**, if needed. This **can reduce the size of a Series A Tax Exempt Cash Backed Bonds**, lowering the associated costs and reducing negative arbitrage on those bonds if that is an issue.
- Moreover, the subordinate tax exempt bonds can be **delivered to the Seller** as partial consideration of the transfer of the project **without cash changing hands,** reducing or eliminating the need for bridge financing and putting the FHA execution on a more even footing with private placements and other competitive executions.

3. TAX EXEMPT **CASH SURPLUS BACKED BONDS**

- With both construction costs and interest rates rising in 2018, and tax credit equity pricing being impaired by lower corporate tax rates adopted in the recent Tax Cuts and Jobs Act, a number of **affordable housing developers are seeking additional funding sources** to plug the gaps left in their financing plans.
- To address these gaps it is possible to structure and sell **tax exempt subordinate bonds secured by a pledge of surplus cash from the Project** as defined in the FHA Regulatory Agreement. Such bonds typically also entail a debt service reserve fund typically sized to cover the maximum annual debt service on the bonds and/or a guaranty of the bonds by a deep pocket general partner of the Borrower.
- **Such bonds are generally structured as term bonds** set to mature, depending on the availability of moneys available from surplus cash term bonds, after the FHA insured loan has been fully amortized. In today's market, they might be expected to bear interest at tax exempt rates of 6.0 to 10.0%. While these rates are higher than most tax exempt bond rates, they are much lower than the yields which would be required to fill these gaps from equity funding sources.

REMEMBER AND SELL!!!
UNIQUE ADVANTAGES OF FHA LOANS

- **FHA** insured loan is the **only available credit enhancement which is non-recourse during pre-Conversion phase** – all others (Private Placement, Fannie Mae, Freddie Mac) require deep pocket General Partner guarantees during this phase.*
- On an **FHA 221(d)(4)** sub rehab/new construction loan, there is a cost certification at final endorsement, but **no post closing new loan underwriting**; differs from sub rehab/new construction private placement deals and sub rehab/new construction Fannie/Freddie deals where there is a **new loan underwriting and possible loan downsizing** based on DSC or LTV **at "Conversion." This feature put many borrowers into default in the 2007-2009 downturn.**
- **FHA loans offer a 35 year (§223(f) or a 40 year (§221(d)(4) level payment loan amortization with no balloon; versus a 16 to 18 year balloon** on a private placement, Fannie or Freddie deal.
- **FHA offers greater prepayment flexibility** – e.g., closed for 2 years to 108% decreasing 1% per year thereafter to par versus a 16-18 year lock out (e.g., private placements) or yield maintenance of 12% or higher declining over a longer period (e.g., 15 years) for others (Fannie Mae, Freddie Mac).

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*Note: One cannot avoid guarantees altogether; some guaranties will be required in connection with the 4% LIHTC on these financings.

R. WADE NORRIS, ESQ.
wnorris@ngomunis.com
(202) 973-0110 (office)
(202) 744-1888 (cell)

ETHAN OSTROW, ESQ.
eostrow@ngomunis.com
(202) 973-0111 (office)
(224) 216-2490 (cell)

Norris George & Ostrow PLLC
The Army Navy Office Building
1627 Eye Street, N.W., Suite 1220
Washington, D.C. 20006
www.ngomunis.com