PRIVATE ACTIVITY BOND VOLUME
GREATER TIGHTENING, RECYCLING AND OTHER POSSIBLE RELIEF

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Presented by:

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- The **demand** for multifamily volume **versus supply continues to grow**.
- States where **demand currently exceeds supply**:

Massachusetts	Minnesota
New York	California
Connecticut	Colorado
Tennessee	Texas
Georgia	Washington State

- Jurisdictions which **could become volume limited** this year:

Oregon	Hawaii
District of Columbia	Virginia
Other?	

- In **high growth states**, the **tightening is becoming more severe**.
  - **Washington State** – 1st round available $230 million, demand > $1.0 billion = **> 4:1**
  - California[1] – 1st round available $1.5 billion, apps totaled $3.3 billion = **> 2.2:1**
  - Texas[2] – **In 2020, Texas had 130** apps for all of that year's $3.1 billion of annual bond volume.
    - **This year – 100 in 1st round**, all but 5 or 6 for multifamily housing.
    - May well go over $2.0 billion for housing versus $1.5 billion last year.
    - **Will be** substantially **oversubscribed in 2021**.

[1] California has $4.3 billion annual volume; $3.5 billion (86%) is currently earmarked for multifamily.
[2] Texas has $3.1 billion annual volume; slightly over ½ goes to multifamily.

MULTIFAMILY RECYCLING

Important, but Marginal Impact on Volume

- **Effective programs** – New York, Massachusetts, Washington State, Colorado, coming soon to California – need state agency or other issuer which accounts for high percentage of multifamily volume.
- California – $3.5 billion multifamily volume per year. Target CMFA and other big issuers – perhaps $300 – 400 million/year.
  - **Only +10 – 15% of additional volume**, versus 2.2:1 oversubscribed.
  - **Does not trigger 4% LIHTC**.

MULTIFAMILY RECYCLING

How it Works

- Step 1 – Issuer borrows on credit line to pay off or pay down prior tax exempt debt, against transfer to it of mortgage loan prepayment monies from prior tax exempt issue.
- **Two major sources** of recycled tax exempt multifamily housing bond volume:
  - Many projects in high-cost urban areas require multiple permanent phase financing sources (HOME, CBDG, Housing Trust Fund monies and other subordinate loans), which result in a **pay down at “Conversion”** from the construction phase to the permanent phase of the loan.
  - A second major source may be the redemption or payment at maturity of **short-term cash-backed tax exempt bonds** which are issued in today’s market to satisfy the 50% Rule for projects using FHA-insured loans, rural development loans and other loan programs.
- Step 2 – Issuer applies carry forward volume within 6 months to fund new project against transfer to issuer of an equal amount of new tax exempt bond proceeds from the financing for the new project. Issuer uses those monies to pay down its warehouse borrowing line.

MULTIFAMILY RECYCLING

- Issues:
  - **Requires very careful coordination at Step 1** to capture volume.
  - **Issuer bears cost of warehouse credit line** to carry volume which may or may not expire before being used.
  - **Limited uses** – Like “80/20” deals, assisted living financings and other financings which need long term tax exempt leverage over 53 – 55% of adjusted basis.

The **Affordable Housing Credit Improvement Act** (the "**AHCIA**")
(Expected to be included in Infrastructure Bill)

Current Law	**Post AHCIA**
• Recycled volume **expires 6 months after a bond issue is paid down** if not reallocated and closed within 6 months of the pay down.	• Would expire **12 months** after pay down.
• Recycled volume also expires **4 years after** the **original bonds** were **issued**.	• Would expire **10 years** after original bonds issued.
• No recycling of issues which are a refunding of prior bonds.	• No **exclusion** of recycling volume of **issues which have been previously refunded**.
• The **new tax exempt bonds** issued to which the recycled proceeds are reallocated **must mature no later than 34 years after the original tax exempt bonds were issued.**	• **No change** from present law.

…AND THE MAJOR IMPORTANT POSITIVE CHANGE:

• The **purpose for which the volume will be used must remain the same**.	• The **AHCIA** would also **allow recycled multifamily rental housing bond volume under section 142(d) of the Code** to be **used to fund new loans** for first time homeowners and veterans (typical **single family mortgage** revenue bonds "SFMRB" loans).

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POSSIBLE SOURCES OF RELIEF

Positive Relief

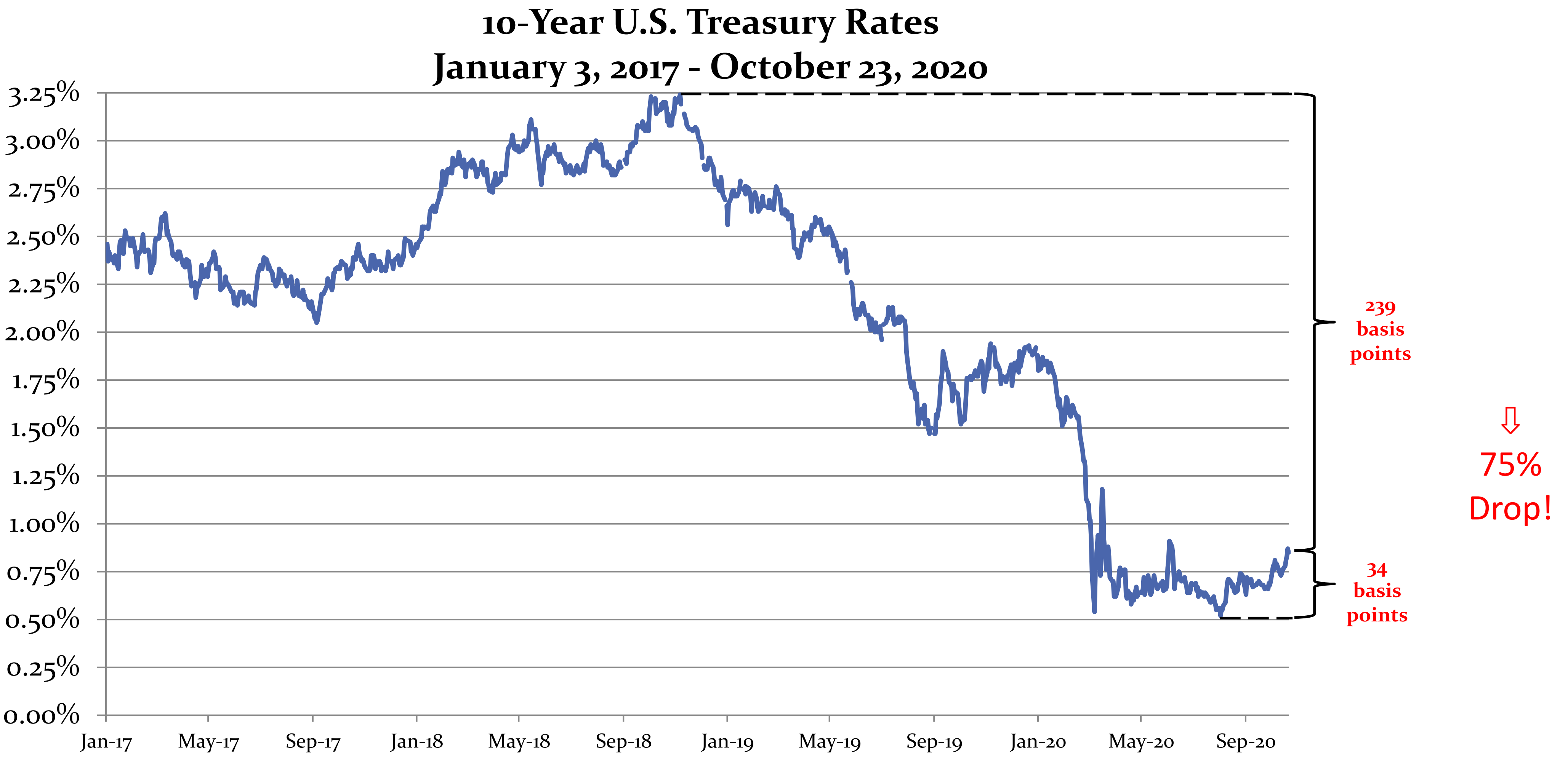
- **Best hope – Reduce 50% Test** for 4% LIHTC **to 25%**.
- **One of two top priorities of housing lobby** this year, according to **Dave Gasson** of new lobbying firm MG Housing Strategies. (The other is increasing 9% LIHTC by 50% over 2 years).
- Should be part of infrastructure bill to be introduced after passage of COVID relief package.
- Dave thinks **good prospects**, but probably not before **end of the year**.
- Could provide **major relief**.

Negative Relief

- Declining deal feasibility.
- **The drop in all-in long term borrowing rates** from 5.0% in **fall of 2018** to about 3.5% in fall of 2020 ⟹ **+25% loan proceeds**. Moving from 35 to **40-year loan amortization** ⟹ **+ another 5%**. This was a more than 1%/month gain in loan proceeds.

POSSIBLE SOURCES OF RELIEF

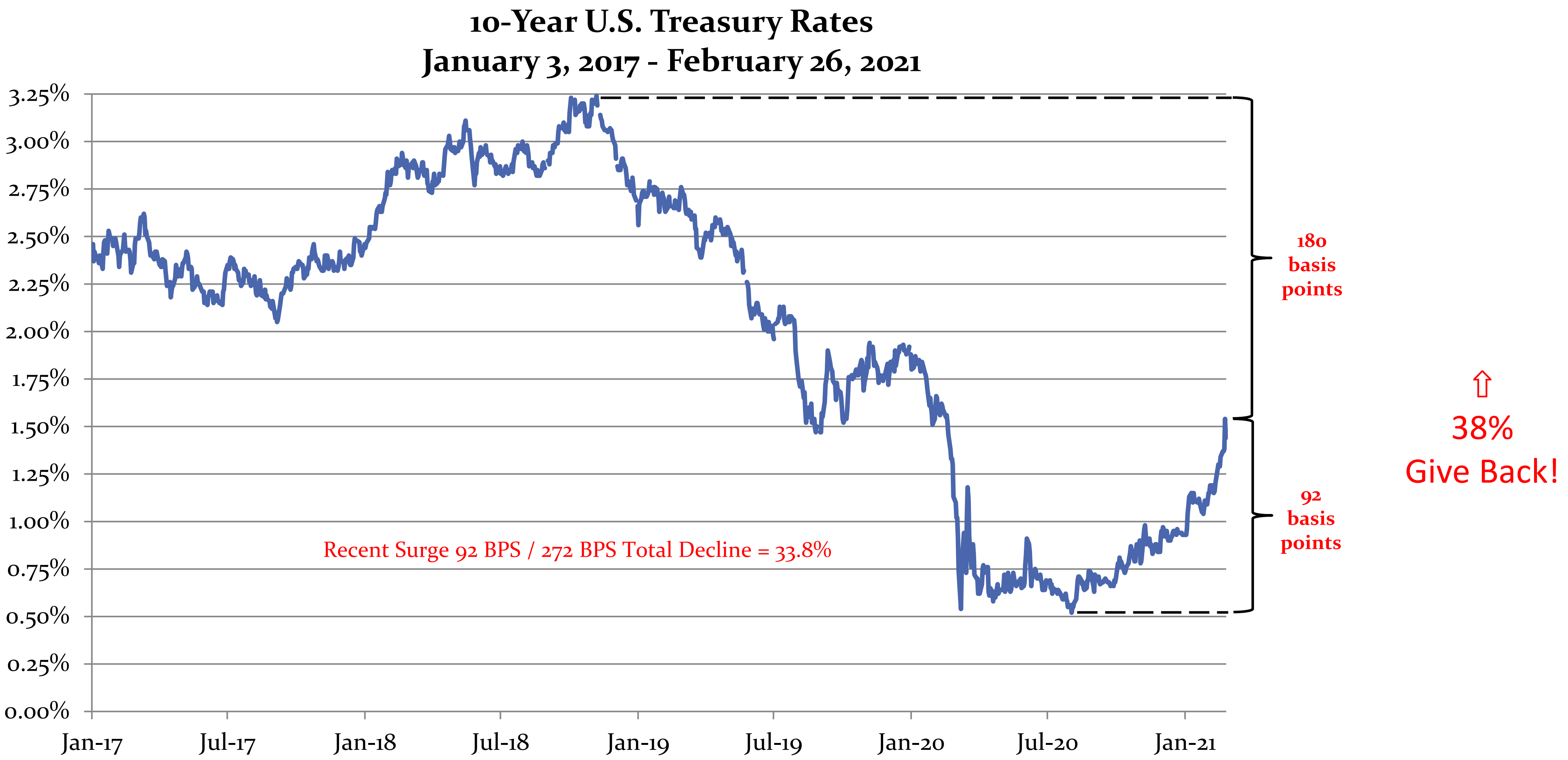
- Wonderful wind at our backs over past two years.



Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10, October 27, 2020

POSSIBLE SOURCES OF RELIEF

- But the **wind may now be blowing the other way**.
  - 10-Year Treasury has risen from ≈ 60 bps last summer/fall to 1.50% today. If this flows through to tax exempt borrowing rates we will have given back over 1/3 of those enhanced loan proceeds.



Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10, March 1, 2021.

POSSIBLE SOURCES OF RELIEF

- In addition, economic **recovery from the pandemic could dramatically increase** labor and material **costs**.

BUT

- **Job recovery supports affordable rental housing,** and the supply continues to fall short of the still rising demand.
- AND – we have a much **more favorable political climate** than over the past four years.
- POSSIBLE RESULT – **continuing strong foundation for affordable multifamily rental housing financings** even if we see a continuing gradual increase in rates.

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