OHIO HOUSING FINANCE AGENCY

2017 MULTIFAMILY LENDING PROGRAM GUIDELINES

Approved by the OHFA Board January 18, 2017

Guiding Principles

The following policy statements provide guidance for the administration of the Multifamily Lending Program (MLP) and are the basis for staff decisions regarding loan requests:

1. MLP is designed to provide permanent financing, otherwise unavailable in the private market, for 20 affordable rental housing projects a year consisting of approximately 1,000 total units over state fiscal years 2015 through 2017. At the discretion of OHFA, the program may be expanded to accommodate other financing options.

2. Loans will be structured to earn a fair return and minimize risk for OHFA while maintaining the financial feasibility of the project.

3. All principal and interest must be repaid. A borrower (and related parties) that default(s) on a loan will be ineligible to participate in OHFA programs for a period determined by OHFA staff and until they have fully remedied all issues related to the loan.

4. Rent and income restrictions that mirror the Housing Credit program are required during the term of the loan. All other Housing Credit compliance monitoring rules also apply. Exceptions may be permitted, contingent on approval by the OHFA Board.

5. Loans are available for both new and existing projects. The annual loan funding will be targeted as follows:

    - **70 percent** of annual available funding for New Low Income Housing Tax Credit (LIHTC) MLP loans and Choice MLP loans (new construction or acquisition/rehabilitation) that have not yet been placed in service;
    - **30 percent** of annual available funding for preservation of existing projects that previously received funding through the Housing Credit program, are between Year 10 and Year 20 of the compliance period, and have minimal capital needs and no uncorrected non-compliance.

6. Projects must meet stringent, conservative underwriting standards to ensure financial feasibility and the ability to repay the OHFA loan during the designated loan term.

7. The amount of loan funding available and number of loans per organization will be capped annually. Preference will be given to organizations with considerable and successful experience with OHFA programs and have sufficient staff capacity, substantial financial resources and an excellent credit history.

8. OHFA will make an effort to assist projects in all regions of the state and finance a variety of project types. Preference will be given to projects located in strong rental markets or revitalized areas or projects that address the highest priority housing needs identified in OHFA's Annual Plan. Lease purchase, single family homes and projects are ineligible for the program.

9. OHFA may adjust any of the funding limits and/or targets in the fourth quarter of each fiscal year based on funding availability or there is not sufficient demand for the funds.

Loan Categories

There are three loan categories under the MLP: New LIHTC MLP Loans, Preservation MLP Loans and Choice MLP Loans.

New LIHTC MLP Loans work in conjunction with the tax credit program by coupling the MLP with new allocations of 4% and 9% credits, for both new construction/adaptive reuse and the rehabilitation of existing units.

Preservation MLP Loans are targeted toward existing developments, previously funded under the LIHTC program, that are between Year 10 and Year 20 of their compliance period, have minimum capital needs and no uncorrected non-compliance issues. These loans are intended for developments that would benefit from refinancing/restructuring their existing debt/partnership obligations and would remain affordable for the balance of their Extended Use periods.

Choice MLP Loans are directed toward unique developments that help to meet OHFA's goals in achieving its affordable housing policy objectives, but are not coupled with the Housing Credit program.

The MLP is ineligible to be coupled with the Housing Development Gap Financing program. If the MLP is used in conjunction with housing credits and the Housing Development Loan (HDL) Program, the only acceptable source of collateral for the HDL after construction is Qualified Investor Notes.

Funding Availability

OHFA estimates the total funding available for the program will be **$60 million**. The sources of funds are OHFA General Funds and Recycled TCAP. The estimated funding amounts by fiscal year are as follows:

FY 2015 (Reserved/Closed)	$6.250 million (OHFA) + $7.025 million (R-TCAP) =	$13.275 million
FY 2015 (In Underwriting)	$5.210 million (OHFA) + $1.515 million (R-TCAP) =	$6.725 million
FY 2016 (Remaining)	*$10 million (OHFA - estimated)* + $8.54 million (R-TCAP) =	*$18.54 million*
FY 2017	*$5 million (OHFA - estimated)* + $15 million (R-TCAP) =	*$20 million*

OHFA commits to providing $10 million of OHFA resources in FY 2015 and $35 million of Recycled Tax Credit Assistance Program (R-TCAP) funds in FY 2015 through FY 2017. The OHFA Board will consider the commitment of OHFA resources in FY 2016 and FY 2017 during the annual budget process for each year. The provision of OHFA resources is contingent on the availability of funds and operational needs of the agency.

Program Details

- Organizations are limited to **$3.5 million** in total loan funding and **three loans** per fiscal year. Exceptions may be permitted based on available funding capacity and are contingent on approval by the OHFA Board.
- Maximum Loan Amount: **$1.75 million**. Exceptions may be permitted, contingent on approval by the OHFA Board.
- Interest Rate: New LIHTC MLP: Maximum of four to 4.5 percent, based on the needs and risk factors for each loan. This rate will apply to New LIHTC projects that apply for MLP during calendar year 2017 only. Preservation MLP: 10 Year Treasury + three percent. Choice MLP: 10 Year Treasury + three percent. An additional risk premium may be added based on OHFA's evaluation of project risk and collateral.

- MLP loans are rate-locked at the time their principal underwriting is complete, which may occur long before the loan is ready to close. If market conditions depress the 10-Year Treasury Rate prior to closing, the Borrower may request that the rate be reset in accordance with the current rate (plus three percent) by submitting to OHFA a $10,000 **Rate Lock Reset Fee**.

- Term and Use Restriction Period: Up to 17 years (R-TCAP funded loans require a 15-year use restriction period).

- Amortization Period: Up to 30 years.

- Maximum loan to value: Between 75 percent to 85 percent Loan-to-Value (LTV) for New LIHTC and Preservation MLP loans, based on OHFA's evaluation of risk and collateral. Exceptions may be permitted with additional collateral, contingent on approval by the OHFA Board.

- All New LIHTC MLP debt must be in first position. In most cases, these loans will be non-recourse. OHFA may consider a shared first, participation loan/parity lien agreement with another government agency, at up to 80 percent of OHFA's determination of LTV. All Preservation debt will be structured as a recourse loan and must be in first position. Choice MLP loans will be structured as recourse loans, and except in unusual circumstances, must be in first position. All recourse loans will require a corporate guarantee and possibly other collateral satisfactory to OHFA. OHFA's review of the Guarantor's financial statements and federal tax returns must evidence ample capacity to support potential repayment of the debt.

- The pro forma must support a minimum Debt Service Coverage Ratio (DCR) of 1.25 percent for the first stabilized year of operations. The project must maintain an average DCR no lower than 1.15 percent during the entire term and remain above 1.0 in each year.

- MLP loans are ineligible for repayment during the first three years following the Date of Closing. After that, MLP loans prepaid prior to the Maturity Date will be assessed a Prepayment Penalty of two percent of the remaining principal balance of the loan. MLP loans that are prepaid between 0-18 months prior to the Maturity Date will not be assessed a Prepayment Penalty.

Loan Fees

- Application fee: $500 for the initial application and $5,000 for the final application plus the cost of any additional required third party reports.

- Closing fee: New LIHTC MLP (non-recourse debt): 1.25 percent of the loan amount due at closing, which is fully inclusive of OHFA legal counsel review, document preparation, site inspections, etc. New LIHTC MLP (w/recourse debt), Preservation MLP and Choice MLP: 1.5 percent of the loan amount due at closing.

- Projects that are not utilizing the Housing Credit program must also pay a compliance monitoring fee equal to $900 per unit due at closing.

Supporting Documentation

- Appraisals and Capital Needs Assessments must be provided by firms certified by OHFA to participate in the Multifamily Lending Program. Exceptions may be permitted by the Multifamily Lending Manager.

- Capital Needs Assessments must be completed in accordance with OHFA's and ASTM E2018–08 PCA standards. The CNA must include an Immediate Repairs Table and Replacement Reserves/Ongoing Physical Needs tables. It must identify all Immediate Repairs as occurring in year zero and project a minimum 15 year term. For MLP loan terms that exceed 10 years, OHFA will require a second CNA to be provided during Year 10.

- The appraisal must conform to the OHFA Appraisal Requirements as shown in the 2016-2017 Multifamily Underwriting Guidelines. In addition, the appraisals for all projects must include an as-complete and stabilized valuation for restricted and unrestricted rents (using all three valuation approaches unless the appraiser can provide explanation as to why the approach is not relevant). If using the Discounted Cash Flow model under the income approach to valuation, the appraiser must assume a two percent income/three percent expense escalation and a vacancy allowance of no less than five percent. Favorable financing and Housing Tax Credits must not be considered in determining a cap rate. The appraiser must provide an explanation for the selected cap rate in the context of historical cap rates in the local market relative to the project type.

- For Preservation MLP and Choice MLP loans, in circumstances where another financing source, such as a construction lender, directly orders certain third party documents, OHFA will accept a copy of that document in lieu of requiring the applicant to provide a new one.

Compliance with OHFA Programs

- Projects must comply with current OHFA Multifamily Lending Program Underwriting Standards as well as all applicable OHFA Program Compliance and MLP asset management requirements.

Loan Servicing/Asset Management

- Monthly principal and interest payments will be electronically collected automatically through ACH.

- The property owner/manager will be responsible for the timely payment of real estate tax and insurance payments. OHFA will periodically request supporting documentation to evidence that all required payments are current.

- A Replacement Reserve escrow account must be established with OHFA. With OHFA approval, exceptions may be permitted on a case-by-case basis. OHFA's Asset Management team in the office of Program Compliance will be responsible for the evaluation, processing and approval of all Replacement Reserve disbursement requests.