OHIO HOUSING FINANCE AGENCY

2019 MULTIFAMILY LENDING PROGRAM GUIDELINES

GUIDING PRINCIPLES

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

1. The Multifamily Lending Program ("MLP") is designed to provide long-term, permanent financing for multifamily rental housing developments that serve low- to moderate-income residents. It is ineligible to be used during construction.

2. Loans will be structured to earn a reasonable 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 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 developments and existing projects. The annual loan funding will be targeted as follows:

   - 80% of annual available funding for New LIHTC MLP loans and Choice MLP loans (new construction or acquisition/rehabilitation) that have not yet been placed in service;
   - 20% of annual available funding for Existing LIHTC projects that previously received funding through the Housing Credit program, are between Year 10 and Year 20 of the compliance or extended use 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 MLP loan during the loan term.

7. The amount of loan funding available and number of loans per organization will be capped annually. Strong preference will be given to organizations with considerable and successful experience with OHFA programs and that have sufficient staff capacity, substantial financial resources, and an excellent credit history. For Choice MLP loans, developers/owners that are new to OHFA and wish to apply for the MLP must partner with an organization with whom OHFA has an established and satisfactory relationship.

8. OHFA may adjust any of the funding limits and/or targets in the fourth quarter in each fiscal year based on funding availability or if there is not sufficient demand for the funds. Any such changes would be announced in PP&D Constant Contact newsletter.

LOAN CATEGORIES

There are three loan categories under the Multifamily Lending Program (MLP): New LIHTC MLP Loans, Existing LIHTC 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. New LIHTC loans cannot be paired with lease purchase developments.

Existing LIHTC MLP Loans are targeted toward existing developments, previously funded under the LIHTC program, that are between Year 10 and Year 20 of their compliance or extended use period, have minimal 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. Any significant capital needs identified in the Capital Needs Assessment must be addressed to OHFA's satisfaction prior to closing.

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. Lease purchase and homeownership developments are ineligible for the program. For Choice MLP loans involving existing properties, any significant capital needs must be addressed to OHFA's satisfaction prior to closing. Developers and/or owners that are new to OHFA and wish to apply for the Choice MLP must partner with an organization with whom OHFA has an established and satisfactory relationship.

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

The total funding available for the program was established at **$60 million when the program was approved in fall 2014**. The sources of funds are OHFA General Funds and Recycled TCAP funds.

As of December 2018, $36.5 million in MLP funding has been closed or approved by the Board. $18.6 million is currently in underwriting and planned for Board approval in calendar year 2019. For the program's continued operation, it is anticipated that additional OHFA financing will need to be committed to the program by Fiscal Year 2020. This issue is planned to be addressed in calendar year 2019. The availability of OHFA resources is contingent on the operational needs of the agency.

PROGRAM DETAILS

- Organizations are limited to **$6 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: **$3.25 million**. Exceptions may be permitted, contingent on approval by the OHFA Board.
- OHFA has established lending limits for organizations that are providing guarantees for MLP loans. For outstanding guaranteed debt, the limit will be 9% of the Total Possible MLP Lending Capital, as shown below:

Total Possible MLP Lending Capital	=	TCAP Loans – CFEHI funds + OHFA Reserves Committed to MLP
$102,484,547	=	$83,484,547 – $6,000,000 + $25,000,000
9% of $102,484, 547	=	**~$9,220,000**

This limit applies only to recourse debt which involves a guarantee. OHFA may choose to limit an organization's access to guaranteed MLP loans as it deems appropriate.

INTEREST RATES, LOAN FEES AND TERMS

New LIHTC MLP

10 Year Treasury + 2.35%. This rate will apply to New LIHTC projects that request MLP financing during calendar year 2019 only.

Application Fee
OHFA charges no fees for any initial review. If the development receives OHFA Board approval, a $5,500 final application review fee will be assessed to the Borrower. The Borrower is responsible for costs associated with any additionally required third party reports.

Closing Fee
New LIHTC MLP (non-recourse debt): 1.25% 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): 1.5% of the loan amount due at closing.

Good Faith Deposit
1.5% of the loan amount (in cash or Letter of Credit), due and payable within 45 days of OHFA Board approval, and refundable only at MLP closing. If the approved MLP loan is not closed, the Good Faith Deposit will be forfeited.

Forward Commitment Fee
$2,500, due and payable within 45 days of OHFA board approval.

Forward Rate Lock
Up to 30 month commitment from the date of OHFA Board approval, with one six-month extension available.

Borrowers may elect to lock the rate at the time of proposal application underwriting or at final application underwriting.

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% to 85%, 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 almost all 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% of OHFA's determination of Loan-to-Value.

Existing LIHTC MLP

10 Year Treasury + 3% (A Note) plus a soft repayment B Note at 1%, based on 50% of underwritten cash flow, providing the total loan amount does not violate Hard DCR and LTV requirements. All Existing LIHTC MLP debt will be structured as a recourse loan and must be in first position. Any pre-existing soft debt holders must subordinate to the MLP mortgage(s).

Interest rates are locked at the time when the principal underwriting is complete, and are fixed for the term of the permanent loan.

Application Fee
OHFA charges no fees for any initial review. If the development receives OHFA Board approval, a $5,500 final application review fee will be assessed to the Borrower. The Borrower is responsible for costs associated with any additionally required third party reports.

Closing Fee
1.5% of the loan amount due at closing.

Term and Use Restriction Period
Although loan term lengths will be evaluated on a case-by-case basis, the terms of Existing LIHTC MLP loans cannot exceed the remaining length of their combined Compliance/Extended Use Periods. For example, if a development was in year 14 of its Compliance Period, its MLP loan term could not exceed 16 years.

Amortization Period
To be negotiated on a case-by-case basis, but not to exceed 20 years.

Maximum Loan to Value
Between 75% to 85%, based on OHFA's evaluation of risk and collateral. Exceptions may be permitted with additional collateral, contingent on approval by the OHFA Board.

Choice MLP

10 Year Treasury + 3%. An additional risk premium may be added based on OHFA's evaluation of project risk and collateral. Choice MLP loans must be structured as recourse debt, and except in unusual circumstances, must be in first position.

Interest rates are locked at the time when the principal underwriting is complete, and are fixed for the term of the permanent loan.

Application Fee
OHFA charges no fees for any initial review. If the development receives OHFA Board approval, a $5,500 final application review fee will be assessed to the Borrower. The Borrower is responsible for costs associated with any additionally required third party reports.

Closing Fee
1.5% of the loan amount due at closing.

Term and Use Restriction Period
Up to 10 Years. Exceptions may be permitted based on approval by the OHFA Board.

Amortization Period
Up to 30 years.

Maximum Loan to Value
Between 75% to 85%, based on OHFA's evaluation of risk and collateral. Exceptions may be permitted with additional collateral, contingent on approval by the OHFA Board.

Additional Loan Conditions

Prepayment Penalty
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 2% 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.

Recourse Debt
All recourse loans will require a corporate or personal 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.

Debt Coverage Ratio
The pro forma must support a minimum Debt Service Coverage Ratio (DCR) of 1.25 for the first stabilized year of operations. The project must maintain an average DCR no lower than 1.15 during the entire term and remain above 1.05 in each year.

Additional Loan Fees

Projects that OHFA deems to require ongoing physical monitoring and are not utilizing the Housing Credit program must also pay a compliance monitoring fee equal to $900 per unit due at closing.

REQUIRED SUPPORTING DOCUMENTATION

- Capital Needs Assessments (for existing properties only) 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.
- OHFA will accept an appraisal (dated within six months) commissioned by a project's construction lender. The appraisal must conform to the OHFA Appraisal Requirements as shown in the 2018-19 Multifamily Underwriting and Implementation 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 2% income/3% expense escalation and a vacancy allowance of no less than 5%. Favorable financing and Housing Tax Credits must not be considered in determining a cap rate.
- Market Studies must meet the Market Study Standards identified in the 2018-19 Multifamily Underwriting and Implementation Guidelines.

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 policies.

LOAN SERVICING/ASSET MANAGEMENT

- Monthly principal and interest payments must be sent electronically through ACH or by check.
- The property owner/manager will be responsible for the timely payment of real estate tax and insurance payments. OHFA Asset Management will periodically request supporting documentation to evidence that all required payments are current.
- A Replacement Reserve escrow account must be established and the manager of this account must be approved by OHFA prior to closing. OHFA's Asset Management team must approve any Replacement Reserve disbursement requests.

MLP UNDERWRITING GUIDANCE

OHFA will review the Borrower/Applicant's experience with the Agency, taking into consideration their historical track record of success utilizing Agency programs, ability to meet commitments and deadlines, their professional integrity and dedication to proactively communicate with OHFA to address issues as they have arisen in the past.

OHFA will review the Borrower and/or Applicant's audited/reviewed financial statements and federal tax returns to assess the organizations' financial capacity to provide additional support to the subject property. Additionally, OHFA will order commercial credit reports and conduct public record searches to identify any potential issues that may reflect on the character of the organizations involved.

OHFA will analyze the project's Capital Needs Assessment to ensure that the project's reserve accounts are appropriately capitalized to support the property during the loan term. All critical repairs identified must be addressed to OHFA's satisfaction prior to closing of the MLP loan.

OHFA may use several different methods to derive the underwritten operating expense estimate: historical expenses detailed in the property's financial statements; actual expenses from other similar properties in the applicant's portfolio; OHFA Operating Survey data from similar properties in the same geographic area; energy modeling estimates, and others.

OHFA uses the appraisal as a benchmark to arrive at its own conservative estimate of the value of the property. For the purposes of establishing the Loan-to-Value ratio, OHFA will underwrite to the achievable LIHTC/HDAP or as-restricted rents. If appropriate, OHFA may underwrite to a higher capitalization rate than shown in the appraisal to account for greater perceived market risk. The risk associated with a higher LTV ratio may be mitigated by reducing the loan to an appropriate amount that drives a higher DCR than required the minimum program standards.

Terminal Analysis

To estimate the future value of the property, OHFA computes the property's NOI from the last year of the loan term divided by the Terminal Cap Rate, which will be 50 Basis Points above the overall cap rate to account for the greater risk involved with the property at the time of refinancing due to unknown factors in the market and the condition of the building at that time.

Breakeven Analysis

OHFA calculates a breakeven analysis to estimate the property's minimum occupancy percentage required to cover the costs of all operating expenses and hard debt service.

OHFA may revise its terminal value and LTV valuation methodologies as it deems appropriate at any time.