



# 2021 MULTIFAMILY LENDING PROGRAM GUIDELINES

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## 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. The MLP is designed to provide long-term, permanent financing for multifamily rental housing developments that serve low- to moderate-income residents. It is not available to be used during construction.
2. Loans will be structured to maintain the financial feasibility of the project, while earning a reasonable return and minimizing risk for OHFA.
3. All principal and interest must be repaid. Any default on an MLP loan may result in the borrower (and related parties) being 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. Projects must meet stringent, conservative underwriting standards to ensure financial feasibility and the ability to repay the MLP loan during the loan term.
6. 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 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 that has an established and successful relationship with OHFA.
7. OHFA may adjust any of the funding limits and/or targets in the fourth quarter in each fiscal year based on funding availability or demand. Any applicable changes will be announced in OHFA's Office of Multifamily Housing newsletter.

## LOAN CATEGORIES

There are three loan categories in the 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 noncompetitive 4% and competitive 9% credits, for both new construction (including 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 with OHFA. 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 remedied 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 LIHTC 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. Funding for Choice MLP loans is limited and projects will be considered on a case-by-case basis.

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.

## FHA RISK SHARE

OHFA is now a participant in the FHA Risk-Share program for multifamily lending. All New LIHTC and Existing LIHTC MLP loans will be part of the Risk-Share program, and required to pay a Mortgage Insurance Premium of .25% of the remaining loan balance, assessed annually on the origination date of the loan. A Part 58 environmental review will also be conducted for all Risk-Share MLP loans.

## PROGRAM DETAILS

- MLP Borrowers are limited to \$12 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: \$6 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; the current amount of which can be provided upon request. 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

Interest Rate: 3.75%, or 10 Year Treasury + 2.35%, whichever is higher. This interest rate will apply to New LIHTC MLP projects that request MLP financing during calendar year 2021 only.

Application fee: OHFA charges no fees for review of any initial MLP loan request. If the MLP Applicant's development receives OHFA Board approval, a \$7,000 final application review fee will be assessed to the MLP Applicant ("Applicant"). The Applicant is responsible for costs associated with any additionally required third party reports.

Closing fee: New LIHTC MLP: 1.5% of the loan amount due at closing.

Good Faith Deposit: 1.5% of the MLP 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 Rate Lock: up to 30 month commitment from the date of OHFA Board approval, with one six-month extension available.

Applicants may elect to lock the rate at the date of receipt of the initial proposal application or at the final AHFA application submission date.

Term and Use Restriction Period: Up to 17 years (MLP loans must comply with the LIHTC 30-year restricted use restriction period).

Amortization Period: Up to 30 years. Exceptions may be permitted, contingent on approval by the OHFA Board.

Maximum Loan to Value: 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 lien position for real estate, personal property, and rents. 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

Interest Rate: 3.75%, or 10 Year Treasury + 3% (A Note), whichever is higher, 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 review of any initial MLP loan request. If the Applicant's development receives OHFA Board approval, a \$7,000 final application review fee will be assessed to the Applicant. The Applicant is responsible for costs associated with any additionally required third party reports.

Closing fee: 1.5% of the loan amount due at closing.

Good Faith Deposit: 1.5% of the MLP 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.

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: 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

**Interest Rate:** 3.75%, or 10 Year Treasury + 3%, whichever is higher. 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 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 review of any initial MLP loan request. If the Applicant's development receives OHFA Board approval, a \$7,000 final application review fee will be assessed to the Applicant. The Applicant is responsible for costs associated with any additionally required third party reports.

**Closing fee:** 1.5% of the loan amount due at closing.

**Good Faith Deposit:** 1.5% of the MLP 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.

**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:** 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 FOR ALL MLP LOANS

**Prepayment Penalty:** MLP loans are ineligible for prepayment 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 1.20 for the first stabilized year of operations. The project must maintain an average DCR no lower than 1.10 during the entire term and remain above 1.05 in each year.

## COMPLIANCE WITH OHFA PROGRAMS

Projects must comply with current OHFA Multifamily Lending Program Underwriting Guidelines 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.

The Borrower must establish a Replacement Reserve escrow account and the manager of this account must be approved by OHFA prior to closing. OHFA's Asset Management team reserves the right to approve any Replacement Reserve disbursement requests.

## MLP UNDERWRITING GUIDANCE

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

OHFA will review the 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 remedied 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 in 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.

**Underwriting Checklist:** In order to do a complete underwrite of the MLP Loan, the following documents are required in addition to the documents submitted as part of your LIHTC application package:

- As-complete appraisal;
- Most recent two years of the organization's audited financials; and
- If it is an Existing LIHTC MLP Loan, the most recent year's audited financials for the project.

## REQUIRED SUPPORTING DOCUMENTATION

OHFA will accept an appraisal (dated within six months) commissioned by the Applicant's construction lender. The appraisal must conform to the OHFA Appraisal Requirements as shown in the 2021 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 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 2021 Multifamily Underwriting Guidelines.

Capital Needs Assessments ("CNA") (for existing properties only) must be completed in accordance with OHFA's 2021 Multifamily Underwriting Guidelines. 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.