



UNLOCKING HIDDEN GEMS INSIDER SECRETS FOR AFFORDABLE DEALS

May 8, 2025, 10:45 – 12:00

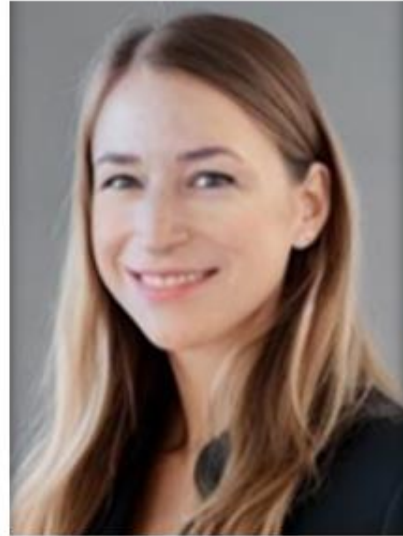
Moderator: Carolyn Whatley, Managing Director, Berkadia

**Panelists: Lauren Lyon, Esq., Tiber Hudson LLC
Kara Hall, Underwriter, Berkadia**

PANELISTS



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OVERVIEW OF PANEL

Why share our secrets to transaction success?

- **Carolyn – Mortgage Banker Role**
- **Kara – HUD Process; Best Practices; Avoiding Pitfalls**
- **Lauren – Bond Process & Structures**

Affordable deals do not fit nicely in a box with a pretty bow. *They are complex, but fun!*

MORTGAGE BANKER PRE-SCREEN

- **Preliminary Loan Sizing**
- **Review Experience For Relevance**
- **Understand All Components & Structure**
- **Identify Potential Issues & Mitigants**
- **Understand Timing Deadlines**
- **Discuss Selection of Equity & Bridge Partners Early**
 - **Tie Approval w/FC Issuance. Critical!**
- **Create Schedule & Update Often**

MORTGAGE BANKER CONCEPT

- **Anticipate Questions & Address in Concept Package.**
- **Discuss Timing With HUD – Mandatory Closing Date If Known.**
 - Timing of FC critical to closing schedule.
- **Goals**
 - Give HUD what they need to get to YES fast.
 - Submit loan app that will close and stay closed.

LENDER UNDERWRITER

Pre-Screen & Underwriting:

- **Thorough analysis from beginning – eliminate unfortunate surprises on back end.**

Presenting a thorough analysis:

- **Do our jobs as Lender to present a compelling analysis so HUD can review, not redo**
- **Understand overall structure and nuances**
- **Show your work - demonstrate the “why”**
- **Do the diligence needed to present HUD a well analyzed recommendation**

New to HUD:

- **Understand challenge of reviewing a complex affordable transaction in limited time - Lenders have the benefit of knowing a transaction intimately**
- **Manage the knowns and unknowns - to the extent possible**

Eliminate the Fluff - Keep the presentation relevant!

LENDER UNDERWRITER

- **Affordable Nuances/Complexities**
 - Tax Exemptions - Understand the structure
 - B-Piece Tranches - Opportunity to take advantage of tax abatements/PILOTS, overhangs, and other sources of short-term income
- **Equity Bridge Loans - For LIHTC transactions, almost always necessary**
- **Ground Lease - Screen for HUD compliance early**
- **LURAs and LURCs - Can be required for ground lease, subordinate debt, LIHTC equity, Bonds, and more!**

LENDER UNDERWRITER

Affordable Nuances/Complexities

- **Complex Capital Stacks**
 - **Becoming more common**
 - **Lenders must be prudent about details**
- **Understand your sources**
 - **Funding restrictions**
 - **Availability of funds**
 - **Term**
 - **Subordination Agreements**
 - **Affordability restrictions**

LENDER UNDERWRITER

Sources & Uses and Fund Flows

- Project the best you can in the beginning
- Prioritize cheapest debt first
- Know the Impacts
 - Costs change often
 - LIHTC transactions are especially prone to change, to the very end of closing.
 - Construction costs will change throughout, organizational costs, bond financing costs.
- At rate lock, the loan will look different from when you started
- Syndicator determines final loan, most of the time

LENDER UNDERWRITER

Sources & Uses and Fund Flows

- **Budget is static total of overall development sources and uses**
 - **Draw Schedule/Flow of Funds is the flow of funds over time, from closing to Final Endorsement**
- **Delays - the usual suspects!**
 - **Final approvals (equity, bridge, bond hearings)**
 - **SLRs/Evidentiary Approval**
 - **Numbers- why can't we put these pencils down?!**
 - **Costs are fluid**

LENDER UNDERWRITER

Committing to the Transaction

- The burden is on the MAP UW/Lender to look beyond on the firm submission/commitment
 - Prepare HUD for what is to come
 - Understand and communicate what will come during closing
 - Getting ahead of things that can and will impact numbers
 - Insurance
 - Investor UW'ing
 - Final pricing
 - Anything deferred under Streamlined Processing
 - HAP rents
- UW should never really leave an affordable deal; needs to remain involved through closing given complexities

INVITE OUR FRIENDS TO THE PARTY

Let the calls begin!

PARTIES TO TRANSACTION CALLS

Bond Issuer

Bond & Issuer's Counsel

Borrower/Developer

Development Partners

Borrower / Developer Counsel

Bond Underwriter

Bond Underwriter Counsel

Permanent Lender

Permanent Lender Counsel

Bridge Lender

Bridge Lender Counsel

Federal LIHTC Equity

Federal LIHTC Equity Counsel

State LIHTC Equity

State LIHTC Equity Counsel

TAD

Grants

Partners for HOME

Trustee

Trustee Counsel

Title Agent

NEXT STEPS AFTER APPLICATION FILED

- **Notify Borrower of FA Submission & Request Coordination of “Large Group” Calls**
- **Organize Calls & Share Schedule w/Reinforcement Weekly**
 - Review HUD Process & Schedule
 - Confirm DD & approval timing of all parties
 - Confirm date near final #'s & docs required for bond resolution meeting
 - Understanding final details of all sub debt, ground lease, and exemption/abatement terms
 - Get ahead of anything that may expire prior to closing - request extensions early!

TYING IT ALL TOGETHER

- **KNOW the deal. SUPPORT the deal. EXPLAIN the deal.**
- **Communicate timing of process with borrower upfront.**
- **Review schedule with development team upfront.**
- **Review schedule with “large group” consistently.**
- **Regular communication by all parties.**

BOND DISCUSSION

- **Bond Rates**
- **50% Test and Good Costs / Bad Costs**
 - Why important
 - Impact
 - When to review
- **Types of Bond Structures & Determining Best Option**
 - Case Study
 - Seller Note
- **Timing Considerations – Posting, Pricing, Closing**

Unlocking Hidden Gems: Insider Secrets for Affordable Deals

Southeast Mortgagee Advisory Council (SMAC)

May 8, 2025

Panelists



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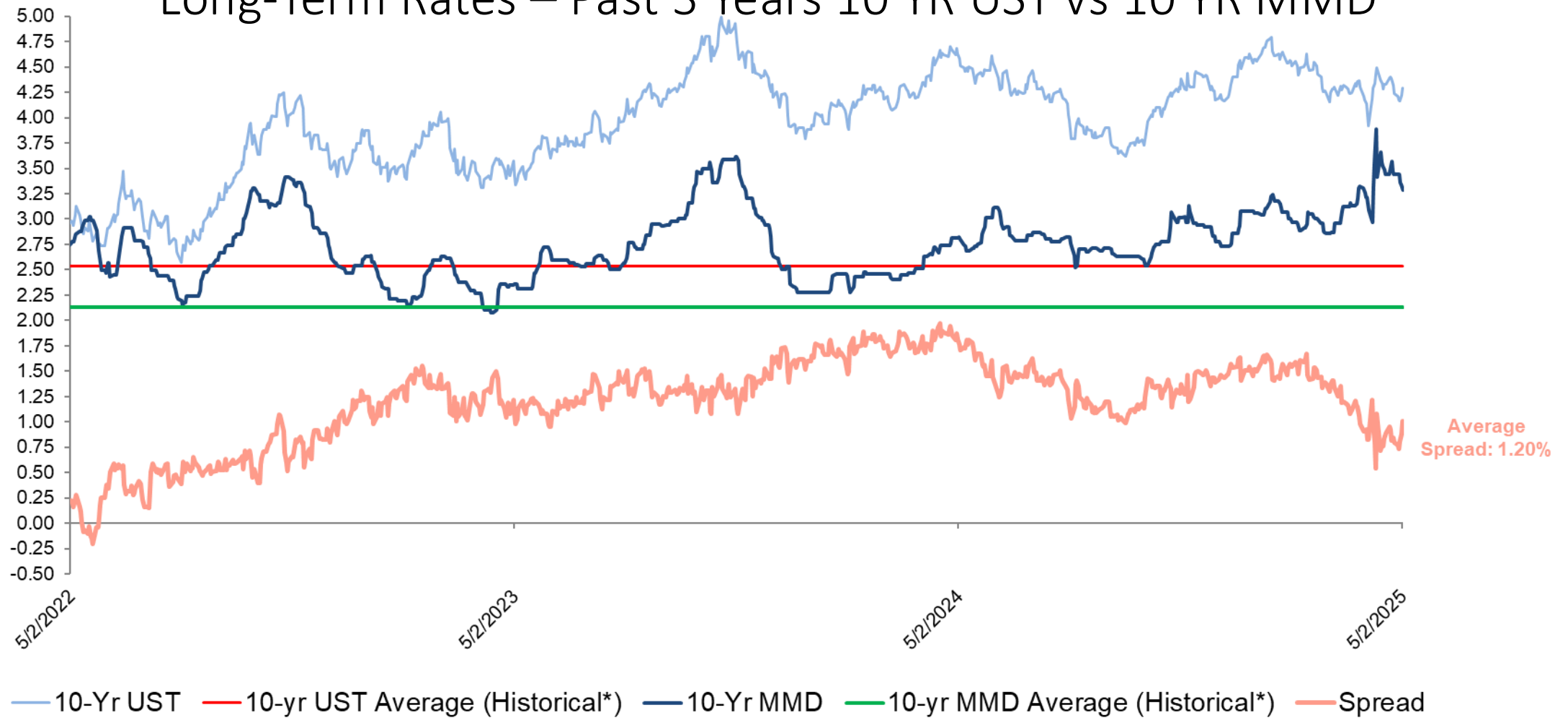
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Important Market Indicators

Long-Term Rates – Past 3 Years 10 YR UST vs 10 YR MMD



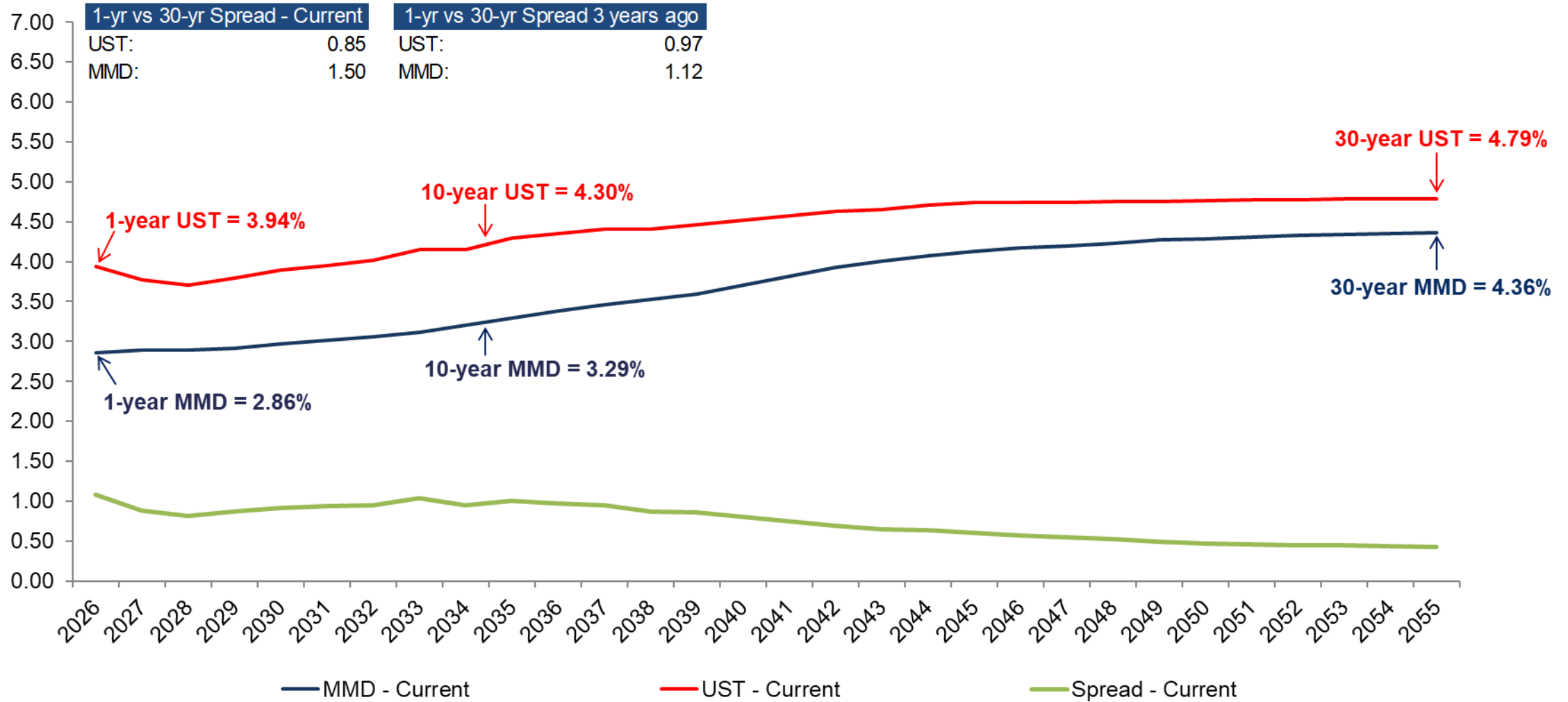
Source: Bloomberg, Thomson Reuters

Reflects market conditions as of May 2, 2025

Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

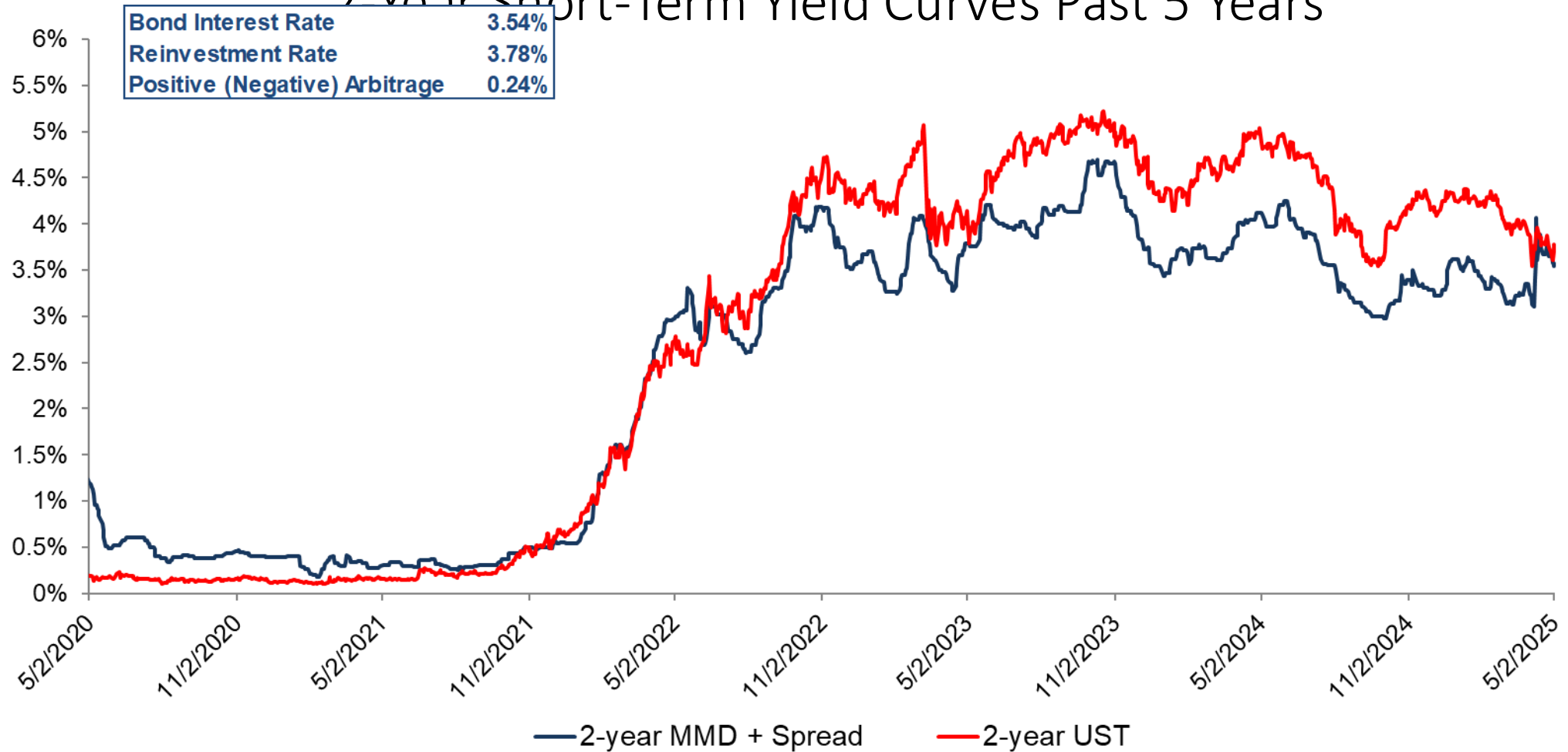
*From January 1, 2010 to Current

Yield Curve: Taxable UST vs. Tax-Exempt MMD (as of 5/2/2025)



Source: Bloomberg, Thomson Reuters
Reflects market conditions as of May 2, 2025
Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

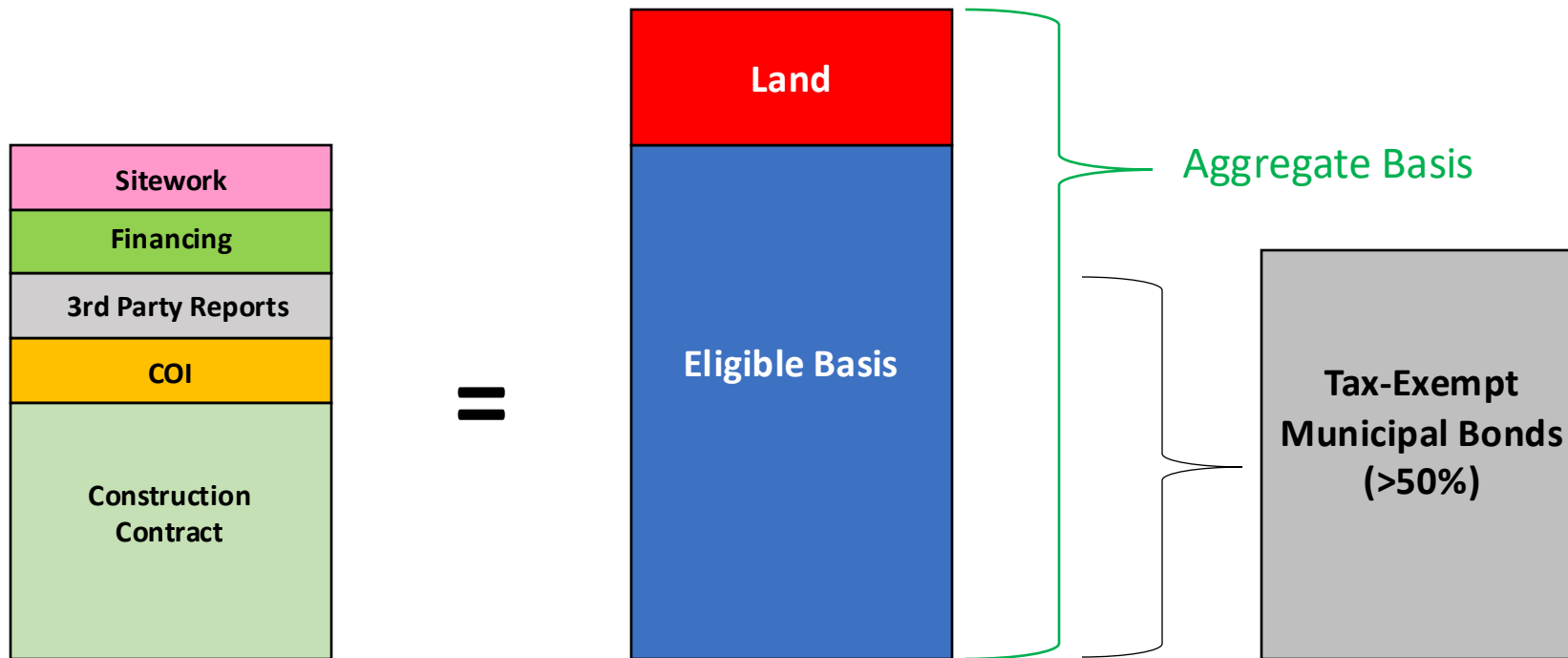
2 Year Short-Term Yield Curves Past 5 Years



Source: Bloomberg, Thomson Reuters
Reflects market conditions as of May 2, 2025
Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Bond Rule Tests

50% Test
To qualify for 4% tax credits, the project must utilize
Private Activity Bonds greater than 50% of **Aggregate Basis**
(which equals **Eligible Basis** plus **Land**)





Ex: If a project has \$20mm in **Aggregate Basis**, the borrower should request greater than \$10mm in tax-exempt municipal bonds

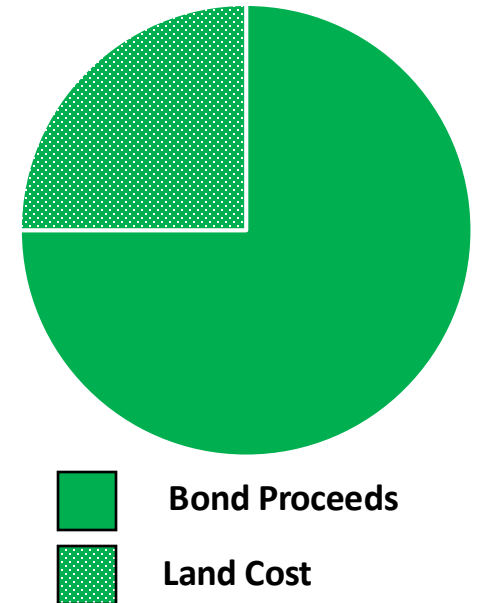
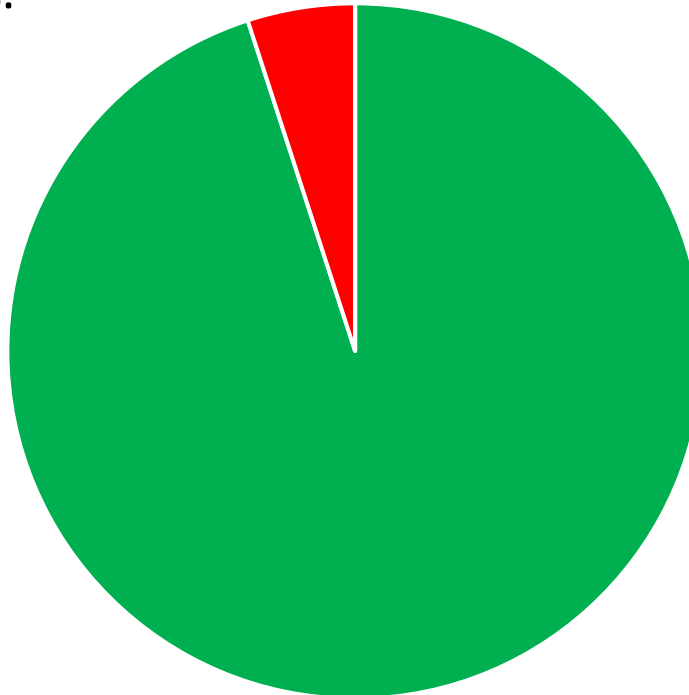
95/5 Test Rules Regarding Use of Bond Proceeds 2% Issuance Costs 25% Acquisition of Land

Bonds will be exempt from federal taxation if at least 95% of the proceeds of the bonds is used to pay or reimburse Good Costs.

No more than 2% of the bond proceeds may be used to pay the costs of issuing the bonds.

The amount of bonds used to acquire the land must be less than 25% of the proceeds of bonds.

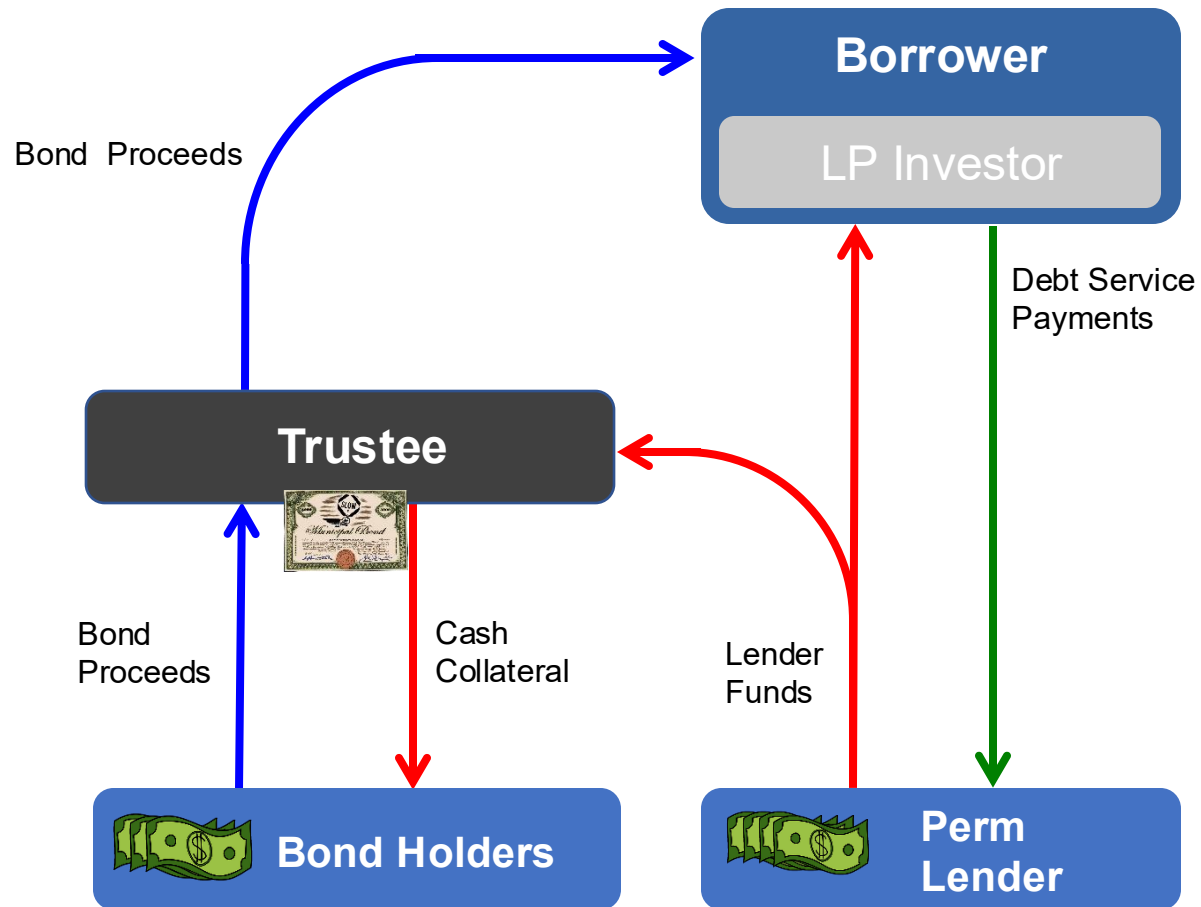
Good Costs 
Bad Costs (Including COI) 



Example: With \$10mm in tax-exempt bonds, no more than \$500,000 can be spent on Bad Costs, with no more than \$200,000 spent on COI, and a maximum land acquisition price of \$2.5mm

Taxable Debt Executions with Short Term Cash-Backed Bonds

Short Term Cash-Backed Bonds



Short Term Cash-Backed Bonds

Bond amount to meet 50% test < Taxable loan amount

No additional collateral needed!

Bond amount to meet 50% test > Taxable loan amount

Need other collateral sources of funds including:

- Subordinate loan proceeds
- Seller note
- Tax credit equity bridge

Georgia FHA Transaction: Case Study

| Project Overview | |
|---------------------------|-------------------|
| Project Type | Acquisition-Rehab |
| Agency Lender | FHA |
| Mortgage Lender | National Bank |
| Issuer | Decatur HA |
| Location | Atlanta, Georgia |
| Construction Period | 18 months |
| Total Units | 236 |
| Initial Mandatory Tender: | 30 Months |



Georgia FHA Transaction: Case Study

266 Election can generate additional tax credit equity by including bond and construction loan interest through construction completion in eligible basis*

| | |
|--|------------------|
| Bond Par Amount: | \$33,705,000 |
| Bond Interest Rate: | 3.30% |
| Est. Term to Completion | 18 months |
| Est. Bond Interest Through Completion: | \$1,675,000 |
| Est. Additional Equity (35%): | \$580,000 |

* Subject to approval from developer's accounting firm

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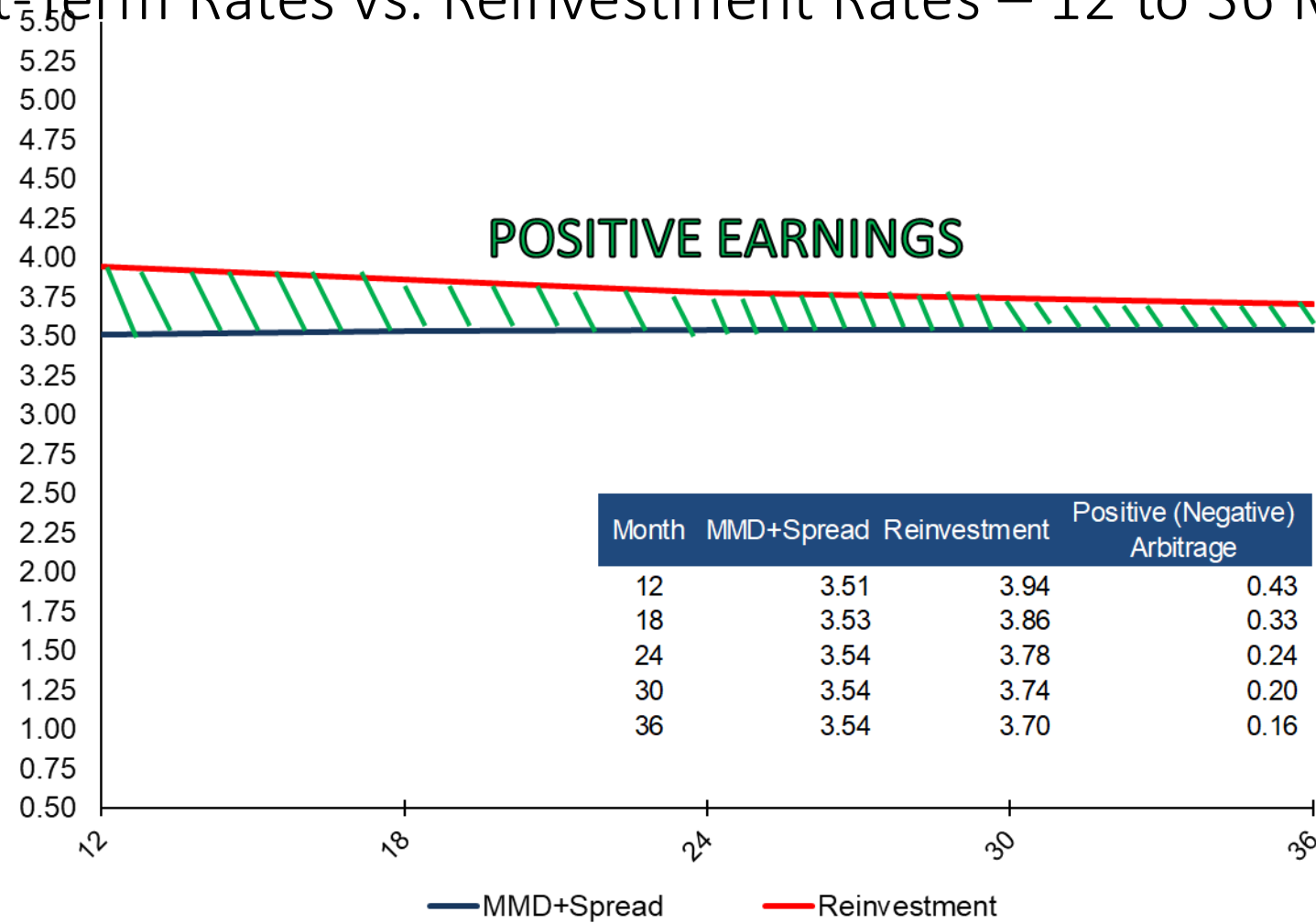
Tax-Exempt Seller Note*

- If deal contemplates a long-term seller note or other subordinate loan as part of the capital stack, ability to potentially convert all or some to tax-exempt financing to meet 50% test by using it to create a second long-term series of bonds
- Can allow blending of yields between short- and long-term bonds as fixed yield issuance
- This increases the tax-exempt bond yield above the investment yield for the term, creating excess earnings that can often be retained instead of being rebated to the IRS

**Subject to bond counsel approval*

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Short-Term Rates vs. Reinvestment Rates – 12 to 36 Months



Source: Bloomberg, Thomson Reuters
Reflects market conditions as of May 2, 2025
Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Tax-Exempt Seller Note Example

...if the same transaction uses \$2.2mm of its tax-exempt allocation as a Seller Note, instead of Short-Term Bonds, a significant portion of the excess earnings may be retained to the Project.

| | Short Term Bonds | Tax-Exempt Seller Note |
|--------------------|------------------|------------------------|
| Tax-Exempt Amount: | \$31,505,000 | \$2,200,000 |
| Term Length: | 30 Months | 15 Years |
| Yield: | 3.60% | 6.50% |

By recategorizing a portion of the tax-exempt debt, the blended bond yield for this transaction increases to 4.32%. This now exceeds the investment yield, so excess earnings in the amount of roughly \$575,000 can often be retained.

| | Original Structure | With Seller Note |
|---------------------------|--------------------|------------------|
| Tax-Exempt Bond Yield | 3.600% | 4.322% |
| Reinvestment Yield: | 4.320% | 4.320% |
| Est. Excess Earnings: | \$615,000 | \$575,000 |
| Est. Retainable Earnings: | \$0 | \$575,000 |

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Interested in more information?

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LAUREN LYON
LLYON

Q & A



If time permits, we will have Q&A at end.

Coming together is a beginning, keeping together is progress, working together is success. – Henry Ford