Rental Development

542© FHA-Insured Multifamily Risk Sharing

Purpose: construction and permanent loans for affordable rental developments. Risk Share loans (no size limit) may be used as credit enhancement for bond transactions, which provide the funding. Loans up to $2,000,000 (i.e. ACCESS loans) may be funded by MFA and are designed to minimize transaction/due diligence costs and expedite processing for small projects.

Eligible Projects: New construction, substantial rehabilitation, refinancing or acquisition of projects having no less than five units per site. Detached, semi-detached, row houses or multifamily structures.

Loan Terms: Amortization periods of up to 35 years for existing properties and 40 years for new construction projects plus up to 24 months for construction.

Maximum loan amount will be the lesser of:

1. Seventy-four percent loan-to-value (LTV) based on MFA approved appraisal at market rents. This results in a 90/10 risk sharing between FHA/MFA. Higher LTVs, up to 90 percent (new construction) or 85 percent (existing properties) may be considered on an exception basis. However, these higher LTVs result in MFA taking a higher risk percentage and have generally not been preferred,
2. Eighty-seven percent loan to MFA approved cost (new construction) or 85 percent loan to MFA approved cost (existing properties), or
3. The loan amount that allows for a total debt service coverage ratio of no less than 120 percent on all must-pay debt.

Affordability Requirements: Owners must meet one of two minimum set-aside requirements which include both income and rent restrictions. Rents are set at 30 percent of the applicable income limit, adjusted for family size and utility costs.

- *Option A:*

  Forty percent of the units must be rented to households whose annual income does not exceed 60 percent of area median income. An additional 20 percent of the units must be rented to households whose income does not exceed 120 percent of area median income, adjusted for family size as determined by HUD.

- *Option B:*

  Twenty percent of the units must be rented to households whose annual income does not exceed 50 percent of area median income. An additional 5 percent of the units must be rented to households whose income does not exceed 80 percent of area median income; and an additional 35 percent of the units must be rented to households whose income does not exceed 120 percent of area median income, adjusted for family size as determined by HUD.

Bond Financing

Tax Exempt Bond Financing for Affordable Rental Housing

General: MFA will provide bond financing for multifamily housing developments through the following mechanisms:

- Using Private Activity Bond Volume Cap (PABVC) multifamily project allocations from the State Board of Finance ("SBOF") for new tax exempt bond issues;
- Refunding outstanding bond issues; or
- Issuing new 501(c)(3) bonds.

MFA may issue the bonds with or without providing the credit enhancement. As a "conduit" issuer, MFA issues the bonds that fund the developers' loans, but does not provide loans or take the credit risk. Consequently, the interim and permanent financing as well as the credit enhancement for the bonds must be provided through other sources as proposed by the developer of the project. Alternatively, MFA can provide the credit enhancement with the use of its 542(c) FHA Mortgage Insurance Program. Processing and approvals are different in each case, with credit enhancement requiring considerable more due diligence on MFA's part.

This program summary is intended as a general guide to developers to assist in determining if tax exempt bond financing is an appropriate vehicle for a proposed project. Because all projects are unique, additional issues will arise during the course of any transaction. Such changes in conditions may produce new or revised requirements from those contained in this summary.

Loan Rates and Terms: Loan rates, credit enhancement costs, maturity dates and other loan and bond financing terms are based on current bond market conditions and negotiated among underwriters, lenders and credit enhancement providers. Bond cap must not exceed 75 percent of the project's total development cost and costs of issuance are limited as stated in the QAP.

Home Investment Partnership Program

MFA's HOME rental programs are designed to provide gap financing for a variety of affordable and special needs housing projects throughout the state of New Mexico. As gap financing, HOME funds are typically the last dollars committed to a project and are used in combination with other housing resources such as MFA's Low Income Housing Tax Credit (LIHTC) and 542(c) loan programs.

The HOME rental programs described below provide assistance in the form of junior mortgages with below-market interest rates, extended maturity dates and other advantageous loan terms tailored to the particular needs of individual projects. Loan amounts and specific terms are determined on the basis of the projects' cash flow and affordability, among other considerations. HOME funds are structured as loans, which may be forgivable if extremely low income individuals or families are served. Use restrictions are established and monitored by MFA for all HOME rental projects, and various other federal requirements must be met in order to use HOME funding. These include, among others, completion of HUD's environmental review process and use of Davis Bacon wage rates in some cases. Preference will be given to projects having an MFA designated Community Housing Development Organization (CHDO) as developer, owner or sponsor. To obtain an award under the below CHDO limits the CHDO must agree to conform to HUD’s CHDO set-aside regulations, otherwise a CHDO would only qualify for a non-CHDO award.

National Housing Trust Fund

Purpose: Provide a housing production program that will complement existing federal, state, and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for households whose incomes do not exceed the greater of 30% Area Median Income (AMI) or the federal poverty line (collectively defined as Extremely Low Income or "ELI" households). One hundred percent of rental units funded by NHTF will be occupied by ELI households.

Loan Terms & Conditions: Loans will be secured by mortgages and/or other appropriate liens. The affordability period will be 30 years of the status of the loan or change in ownership, unless equal or more restrictive restrictions are in place from other funding sources or are imposed through permanent affordability mechanisms such as deed restrictions or land trusts.

NHTF financing that will be used as a financing resource in a property also allocating Low Income Housing Tax Credits (LIHTC) will be in the form of non-interest bearing cash flow (applicants seeking credits will need to ensure that the proposed loan meets IRS requirements to be included in eligible basis). NHTF financing that will be used as a financing resource in a property that will **not** use LIHTC will be in the form of a non-interest bearing "compliance loan." If all of the regulatory and contractual requirements are complete, the loan will be forgiven at the end of the NHTF Period of Affordability, and MFA's secured interest released. MFA would have the right to foreclose on the security deed in the event of a determination of nonperformance or substantial noncompliance with the NHTF program requirements. Awards of NHTF funds are contingent on sufficient appropriations and authorization being made by HUD and the state of New Mexico and are further subject to applicable law. If these are not available, any loan or other agreement between MFA and any sucessful, eligible applicant shall terminate upon written notice being given by MFA to the applicant. MFA's decision as to whether sufficient appropriations are available or whether NHTF assistance may be awarded subject to applicable law shall be accepted by any applicant and shall be final.

Awards of NHTF funds to projects that receive 9% low-income housing tax credits are limited to $400,000 per project. Awards of NHTF funds to all other projects are limited only by the maximum per-unit subsidy limits in the Notice of Funding Availability (NOFA) and by MFA's underwriting guidelines.

Preservation Revolving Loan Fund

Purpose: USDA Rural Development has approved MFA as an intermediary of the Section 515 Multifamily Housing Preservation Revolving Loan Fund. MFA has established a program for the purpose of providing loans to rehabilitate housing currently financed by Rural Development through its multifamily housing loan program under Sections 514, 515 and 516 of the Housing Act of 1949. This initiative is supported by funds provided by USDA Rural Development in the amount of $2 million. MFA is providing matching funds equal to $375,000 to $550,000.

Interest Rates: Approximately 3 percent per annum.

Loan Term: Construction: up to two years, interest only optional;
Long term amortizing: up to 25 years. (Current maximum: $500,000.)

Ventana Fund

Ventana Fund is a Certified Development Financial Institution (CDFI) established in 2014 to meet the critical need for an increased supply of early stage financing for affordable housing construction and rehabilitation projects in New Mexico. It is a 501(c)(3) nonprofit corporation organized by private citizens and housing professionals who are dedicated to increasing the number of decent affordable homes available to New Mexico’s lower-income residents.

About a dozen accomplished housing developers in New Mexico, both for-profit and nonprofit, work hard to produce high-quality, affordable rental housing. These developers add hundreds of housing units to New Mexico’s affordable housing inventory each year. Collectively, they want to do more and can do more. But housing at below-market rents can only be built with below-market rate financing. The availability of that low-cost capital is the limiting factor that Ventana Fund works to overcome. We focus on early-stage financing for land acquisition, pre-development and construction, because financing for those costs are typically the hardest to obtain. Our interest rates are typically 2 to 3 percent.

Section 811 Project Rental Assistance

In 2015, MFA received a $2.3 million award to participate in HUD’s Section 811 Project Rental Assistance (PRA) program, which provides project-based rental assistance for extremely low-income persons with disabilities who are linked with long-term services. The rental assistance covers the difference between the tenant payment and the property’s contract rent.

New Mexico's Section 811 PRA Program

- Serves extremely low-income, non-elderly persons with Serious Mental Illness (SMI), with a focus on persons who are homeless, at risk of institutionalization or are young adults transitioning from foster care or the juvenile justice system.
- Targeted counties include Bernalillo, Santa Fe and Doña Ana. Other areas may be eligible if supportive services are available.
- An estimated 95 households will receive rental assistance under the grant, with the first units leasing up in 2016.
- Partners include MFA and state agencies that coordinate services for persons with SMI: New Mexico Human Services Department (HSD), New Mexico Department of Health (DOH) and Children, Youth and Families Department (CYFD).

Homeownership Development

Primero Investment Fund Loan Program

MFA's Primero Loan Program is a flexible, low cost loan program created in 1993 to finance the development of affordable rental or special needs residential facilities that would be considered "high risk" by traditional lenders. The purpose of the program is to leverage other public and private funds and to expand the housing development capacity of New Mexico's nonprofit, tribal and public agency housing providers. The Primero Investment Fund has been broadened over the years to include the financing of all types of projects that cannot be accommodated by existing sources -- particularly the secondary market -- and to develop new delivery systems through nonprofit organizations and other institutions to increase affordable housing production.

Application Process

There are four different application packages for Primero Loan Program financing. Applicants should select the application most appropriate for the activity they are proposing.

1. **Pre-development Loan:** - Funding for pre-development expenses such as environmental assessments, appraisals, title searches/insurance, architectural and engineering fees, market studies, etc., for which third party reports are generated.

2. **Development Loan:** - Funding for the acquisition, construction, conversion or rehabilitation of multifamily rental projects.

3. **Forgivable Loans and Grants:** - **(NO FUNDS CURRENTLY AVAILABLE.)** Available to qualified developers to finance pre-development and development costs associated with permanent supportive housing development. The maximum Pre-development

Grant award is $75,000 ($50,000 maximum for projects expecting to apply for LIHTC) and the maximum Development Grant award is $125,000. Funding for this initiative is provided by the state through the Behavioral Health Collaborative of New Mexico and Optum Health to provide supportive housing rental units and support services. Fifteen percent of the total number of units in the project must be permanent rental housing specifically designated for special needs households in which an individual or household member has an eligible long term disability. Tenants in supportive housing units must sign a standard residential lease with no imposed time limits to tenancy. Successful project applications will include a supportive service plan with a dedicated funding source and/or enter into a Memorandum of Understanding with a local lead agency. To utilize funds under this program, permanent supportive housing is further defined to exclude the following: transitional housing, group homes, residential treatment or any housing that has an imposed time limit to tenancy [example: housing that has an 18 month maximum stay to prepare an individual for independent living and/or another subsequent housing unit]. Please contact the Primero Investment Fund program manager to check the availability of grant funds prior to completing an application.

4. **Land Banking Loan:** - A line of credit for the acquisition of property for the development of affordable housing projects. This opportunity is only available to qualifying nonprofit, public, and tribal housing development entities. Applicants must demonstrate a proven ability to process a piece of land through the development process, the ability to move quickly on development and a history of completed housing developments. They must also provide a business plan that supports housing development activities.

Applicants should provide all items listed on the appropriate application checklist. If all items cannot be provided at the time of application, applicants must indicate why and state when the requested information will be available.

Loan Terms**:** Development loans will be underwritten and structured according to sound lending practices. However, interest rates, which are typically below market rates, are at MFA's discretion. Primero loans are repaid through subsequent financing source, or, in some cases, through cash flow. Terms cannot exceed five years, but loans do not have to be amortized during their term. Loans are secured whenever possible, but they may be subordinated to other debt. The maximum loan amount is $1 million; availability of funds varies.

Land Title Trust Fund

Purpose: The Land Title Trust Fund Act provides that certain title company escrow funds may be placed in interest-earning accounts, with the interest earned to be remitted to the Trust Fund. The Trust Fund will be used to finance loans or grants that will provide housing for low-income persons (household income not more than 80 percent of area median income) and other uses as shown below. (Note - real estate brokers and escrow closing agents subject to the

Low Income Housing Trust Act may also place escrow funds in interest-earning accounts as described below.)

New Mexico Housing Trust Fund

Purpose: Provide flexible funding for housing initiatives that will provide affordable housing primarily for persons or households of low or moderate income.

Eligible Projects: Costs of infrastructure, construction, acquisition and rehabilitation necessary to support affordable single family or rental housing as outlined in the NOFA**.**

Loan Term & Amount: Construction: up to three years (current maximum $1,500,000);
Long term amortizing: up to 30 years (current maximum: $500,000)

Exceptions in the amounts may be considered at staff discretion if applicant can demonstrate need and for projects serving the lowest income levels.

Affordability Requirements

Rental: Households earning 60 percent or less of area median income (AMI.)

Tax Credit Programs

Low Income Housing Tax Credits (LIHTC)

The Program*:* Tax credits provide direct federal income tax savings to individuals or corporations that invest funds in rental housing developments with apartments set aside for low-income households. To use this tax incentive, developers typically form limited partnerships with investors who contribute equity capital in exchange for tax savings. Once an allocation is made and construction is completed, Tax credits can be claimed annually for a ten-year period.

Low-Income Use Restriction*:* Project owners must agree to set aside a certain percentage of the apartments, at least:

- Twenty percent of the units for households earning no more than 50 percent of the area median income adjusted for family size; or
- Forty percent of the units for households earning no more than 60 percent of the area median income adjusted for family size; or
- The Project can serve households up to 80 percent AMI as long as at lease 40 percent of the total units are rent and income restricted **and** the average income limit for all tax credit units in

the project is at or below 60 percent AMI (for more on this option of "Income Averaging," please refer to the most recent QAP, found below).

The set aside units must also be “rent restricted,” meaning that rents for various apartment sizes (including allowances for tenant-paid utilities) may not exceed 30 percent of the qualifying income levels. The development must be maintained as low-income housing for at least 30 years.

New Mexico Affordable Housing Tax Credits

A state tax credit for up to 50 percent of the value of donations (cash, land, buildings or services) for affordable housing projects approved by the MFA or for donations made directly to the NM Affordable Housing Charitable Trust.

The Program: The New Mexico Affordable Housing Tax Credit program encourages private investment in affordable housing by providing donors to qualified housing developments with a credit on their state taxes. State tax credits provide a direct savings on income taxes, gross receipts taxes and compensating taxes (excluding local option gross receipts tax imposed by a municipality or county or the government gross receipts tax) to any eligible individual, business, and local or tribal government that makes a donation to an affordable housing development. To use this tax incentive the donation must be made to an affordable housing development that has been approved by the MFA. Once a project is approved and donations secured, investment vouchers are issued to the donors.