

**Request for Action
by
Board of Commissioners**

**Firm Approval of First Mortgage Financing
for Cathedral Square Apartments II (Providence)**

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) first mortgage taxable financing in an amount not to exceed \$20,750,000 for Cathedral Square Apartments II (hereinafter referred to as the “Development” or “CSAII”). Cathedral Development Group, Inc. is the developer (the “Developer”).

CSAII is a five story 93-unit building originally constructed in 1976 which is not currently financed by RIHousing. The Development has 82 one-bedroom and 11 two-bedroom apartments for elderly and disabled households. There is a 5,700 square foot commercial space on the first floor, the majority of which is currently vacant. Amenities for residents include a community room with a kitchen, common laundry room, and management office. The Section 8 Housing Assistance Payments contract (the “HAP Contract”) for the Development, which covers all 93 units, was recently renewed for 20 years with rents marked up to market.

The Development was most recently refinanced in 2013, and the current lender is Red Mortgage Capital, LLC. A moderate rehabilitation was completed that same year utilizing tax-exempt bonds and Low-Income Housing Tax Credits. The Developer has continued to make investments in the property over the past 10 years using excess cashflow.

According to the RIHousing-commissioned capital needs assessment (“CNA”), no immediate work is required at this time. The Developer plans to address future capital needs as they arise. Per the CNA, the replacement reserve balance will remain positive through the first 15 years of the new loan, with the Mortgagor depositing \$7,591 per unit in the replacement reserve at closing and an additional \$325 per unit per annum. A new CNA will be required at year 10 to ensure that the replacement reserve will stay positive for the next 15 years. If required, the annual deposits to the replacement reserve will be increased at that time. The Developer is also planning to complete an equity take-out.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$20,750,000, which will be funded through the Federal Financing Bank Risk-Sharing Initiative, subject to certain conditions as set forth in the attached Resolutions.

B. ATTACHMENTS

- A. Credit Summary
- B. Resolution

Attachment A

Approval Loan Recommendation Summary: CATHEDRAL SQUARE APARTMENTS II

Preliminary: _____

Firm: X

Date: April 18, 2024

Project: Preservation of 93 existing affordable apartments for elderly and disabled households, consisting of 82 one-bedroom and 11 two-bedroom units, located in Providence.

Development Team:

	Name	Location	Risk Rating
Sponsor/Developer	Cathedral Development Group, Inc.	Providence, RI	Low
Mortgagor	Greene Street Associates II Limited Partnership	Providence, RI	Low
Architect	N/A		
Legal	Gina M. Illiano, Esq.	Providence, RI	Low
Management Agent	Property Advisory Group, Inc.	Providence, RI	Low

Executive Summary:

Property Address	491 Westminster Street	Providence, RI
Proposed Loan Amount(s) and Terms		
Taxable First Mortgage	\$20,750,000	6.00%/40-year term

Note: Interest rates are subject to change based on market conditions.

The current interest rate is approximately 6.4%, however, the Developer requested that we underwrite to a lower interest rate to account for changes in interest rates prior to rate lock.

Loan Amount will be reduced if (i) the final interest rate is higher than underwritten rate and/or (ii) the project cannot maintain a Debt Service Coverage Ratio in excess of 1.15:1 for the combined principal and interest payments for the first mortgage.

Proposed Sources & Uses:

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$20,750,000	\$223,118
Operating Reserve	\$201,215	\$2,164
Replacement Reserve	\$757,321	\$8,143
Tax & Insurance Reserve	\$113,000	\$1,215
Total Sources	\$21,821,536	\$234,640

Uses	Firm	
	Amount	Per Unit
Equity Pay-out	\$12,902,977	\$138,742
Existing Loan Payoff	\$6,602,680	\$70,997
Soft Costs	\$217,000	\$2,333
Financing	\$614,563	\$6,608
Operating Reserve	\$424,955	\$4,569
Replacement Reserve Year 1 Deposit	\$706,000	\$7,591
Other Reserves	\$353,361	\$3,800
Total Uses	\$21,821,536	\$234,640

“Other Reserves” includes the required FFB Reserve and Tax and Insurance Escrow.

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,651,427	17,757	(\$75,493)	\$1,575,934	\$16,946
Appraisal Cap Rate	6.25%			6.25%	
Valuation	\$26,422,832	284,116	(\$1,207,889)	\$25,214,943	\$271,128
Loan Principal	\$20,750,000	223,118		\$20,750,000	\$223,118
LTV	78.53%		4%	82.29%	

As part of the approval process, staff has determined that the Development and owner meet RIHousing’s requirements for participating in the refinance/equity take-out program. Broadly, this review includes:

- Compliance with HUD’s requirements;
- Demonstrated responsible long-term ownership and management of the property;

- A long-term HAP contract (20-year renewal completed in 2024);
- Well-funded reserves;
- Low vacancy rates;
- Consistency with RIHousing’s standard underwriting requirements;
- Financial benefit to RIHousing; and
- Execution of a new 40-year affordability agreement.

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$234,640	
Residential Vacancy Rate	4%	
DCR Year 1	1.15	Proforma utilizes negative trending.
DCR Year 15	1.40	
NOI	\$1,575,934	Year 1
Income Trending	2%	
Expense Trending	3%	
Loan to Value	78.53%	
Initial Installment (%) of syndication proceeds	NA	
Acquisition Price equal to or less than Appraised value	NA	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$658,316	Equals 3 months debt and OPEX minus deposit to Replacement Reserve; plus FFB reserve of 2 months P&I.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$706,000	\$7,591/unit

Deviations from standard underwriting – Yes

A 4% vacancy rate was utilized instead of 5%. The appraisal utilized a 3.4% vacancy rate while actual historical vacancy has remained at or near 1%.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	Net Rent	Market Rent
1	60%	82	\$ 2,325.00	\$ 2,325.00	\$ 2,325.00
2	60%	11	\$ 3,075.00	\$ 3,075.00	\$ 3,075.00
Total		93			

Market rents were determined by a RI Housing-commissioned appraisal. Market rents were determined to be \$2,325 for the one-bedroom units and \$3,075 for the two-bedroom units. The project is underwritten to the lower of HAP or market rents, which, in this case, are the same.

Attachment B

**Resolution of the Board of Commissioners
of Rhode Island Housing and Mortgage Finance Corporation**

Whereas, Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) is authorized to make loans to mortgagors or sponsors for such developments as in the judgment of RIHousing have promise of supplying well-planned, well-designed apartment units, which will provide or preserve housing for low- and moderate-income persons or families, or the elderly, or others in locations where there is a need for such housing;

Whereas, RIHousing intends to provide taxable loan funds for the purpose of financing qualified housing developments throughout the state;

Whereas, said loan shall be financed utilizing the Federal Financing Bank Risk-Sharing Initiative, a partnership between the U.S Department of Housing and Urban Development (“HUD”) and the U.S. Department of the Treasury Federal Financing Bank (“FFB”), under which FFB provides capital for multifamily loans insured under the Federal Housing Administration's Risk-Sharing program (the “Risk-Sharing Initiative”);

Whereas, Greene Street Associates II Limited Partnership (the “Applicant”) is requesting firm approval of taxable first mortgage financing for the Development as set forth below:

Applicant	Development	Taxable Mortgage
Greene Street Associates II Limited Partnership	Cathedral Square Apartments II	\$20,750,000

Whereas, the RIHousing Board of Commissioners and staff have reviewed the submission of Greene Street Associates II Limited Partnership for mortgage financing and determined that the Development qualifies for financing under RIHousing’s enabling legislation, regulations, guidelines and policies; and

Whereas, RIHousing finds that:

(1) there exists a shortage of decent, safe, and sanitary housing at rents or prices which persons and families of low- or moderate-income can afford within the general housing market area to be served by the proposed housing development;

(2) private enterprise and investment have been unable, without assistance, to provide an adequate supply of decent, safe, and sanitary housing in the general housing market area at prices which persons or families of low- and moderate-

income can afford or to provide sufficient mortgage financing for residential housing for occupancy by those persons or families;

(3) the housing sponsor or sponsors undertaking the proposed housing development in this state will supply well-planned, well-designed housing for persons or families of low- and moderate-income and that those sponsors are financially responsible;

(4) the proposed housing development to be assisted will be of public use and will provide a public benefit; and

(5) the proposed housing development will be undertaken, and the housing sponsor or sponsors regulated pursuant to the authority and within the restrictions provided for by the RIHousing enabling act, namely Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that subject to the special conditions listed below, RIHousing hereby declares firm commitment for first mortgage financing for Greene Street Associates II Limited Partnership, or other affiliated entity of the Applicant (the “Borrower”), in an amount not to exceed \$20,750,000 for rental housing known as Cathedral Square Apartments II located in Providence, Rhode Island.

Resolved, that the foregoing resolutions are subject to the following special conditions:

- FHA Risk-Sharing approval from HUD for a minimum of 50% of the first mortgage under the Risk-Sharing Initiative.
- Final confirmation of the HAP Contract rents consistent with underwriting.
- Approval by RIHousing of completion of outstanding work prior to closing.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

Resolved, that the Executive Director, Deputy Executive Director, and Director of Real Estate Development, each acting singly, be and hereby are empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.