

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for Copley Chambers II & III

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for preliminary approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$20,700,000 for Copley Chambers II & III (the “Development”). Marathon Development, LLC (the “Developer”) is the developer.

B. DISCUSSION

The Development is the new construction of 124 units of affordable housing and 6,800 square feet of ground floor commercial space in Providence, Rhode Island. The Development will consist of 2 five-story podium constructed buildings on adjacent lots. Collectively, there will be 12 efficiency units, 87 one-bedroom units, and 25 two-bedroom units. All the dwelling units will be restricted to individuals or households earning at or below 60% of area median income.

These buildings are the second and third phase of the Copley Chambers project. Copley Chambers I is under construction and will be completed in the first quarter of 2023.

Marathon Development, LLC has partnered with Adoption Rhode Island (“Adoption RI”) and House of Hope (“HOH”) to provide supportive services to residents. The Developer plans to work with both organizations to house individuals aging out of the foster care system as well individuals and families experiencing homelessness. MOUs between the Developer and the service providers have been executed. Adoption RI will provide educational advocacy, career readiness services, and life skills development while HOH will screen and assist in the placement of individuals and families experiencing homelessness to units within the Development.

This is a conduit transaction in which Citizens Bank, N.A. will provide the capital for RIHousing’s tax-exempt issuance. The proceeds will be loaned as a construction loan to the Borrower (the “Construction Loan”). The funding for the Construction Loan is non-recourse to RIHousing and the only security to be provided by RIHousing will be an assignment of RIHousing’s rights under the Construction Loan. The Construction Loan will be a recourse loan as to the Borrower and any guarantors. Berkeley Point Capital LLC, d/b/a Newmark Capital (“Newmark”) will act as the DUS lender to provide the permanent loan in conjunction with Freddie Mac (the “Permanent Loan”). Upon completion, Freddie Mac will step in as the Permanent Loan funder. Newmark will service the Permanent Loan on behalf of Freddie Mac who will bear the financial risk should the Borrower default on the Permanent Loan. RIHousing will charge a one-time issuer fee of 1% and an annual servicing fee of 25 basis points on the Construction and Permanent Loan.

Other funding sources for the Development include the sale of low-income housing tax

credits (“LIHTCs”), a loan from the Providence Redevelopment Agency, a sponsor loan, and a deferred developer fee. Massachusetts Housing Investment Corporation (“MHIC”) will be the syndicator purchasing the 4% LIHTCs at \$1.19 per credit.

By this RFA, staff recommends for approval the attached resolutions providing preliminary approval of \$20,700,000 in tax-exempt financing for Copley Chambers II & III, subject to certain conditions as set forth therein.

C. ATTACHMENTS

- A.** Credit Summary
- B.** Resolutions

Attachment A

Credit Summary

Approval Loan Recommendation Summary – Copley Chambers II & III

Preliminary X

Firm _____

Date: November 18, 2022

Project: New construction of 124 affordable apartments in Providence comprised of 12 efficiency units, 87 one-bedroom units, and 25 two-bedroom units, and 6,800 square feet of commercial space.

Development Team

	Name	Location (city/state)	Risk Rating (low/med/high)
Sponsor/Developer	Marathon Development, LLC	Boston, MA	Low
Mortgagor (Permanent)	Berkeley Point Capital LLC, d/b/a Newmark Capital	Boston, MA	Low
Architect	Branch Architects LLC	Providence, RI	Low
General Contractor	Marathon Construction Inc.	Boston, MA	Low
Legal	Chace Ruttenberg & Freedman, LLP	Providence, RI	Low
Management Agent	Phoenix Property Management, Inc.	Warwick, RI	Low
Consultant	N/A		
Syndicator	Massachusetts Housing Investment Corporation	Boston, MA	Low

Executive Summary

	Address	City
Property Address	83 Summer Street, 220, 222, 228, and 234 Broad Street	Providence
Proposed Loan Amount(s) and Terms		
	Amount	Interest rate/Term
Tax Exempt Loan with Citizens	\$20,700,000	4.66%* Private Placement

Permanent Loan with Newmark	\$12,599,894	5.94%** - 35 year amortization with a 15 year balloon
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*Interest rate as of October 2022. Actual rate will be locked at closing at the Tax-Exempt rate based on Daily Simple SOFR, plus 158 bps (with a Daily Simple SOFR floor of 75 bps).

**Interest rate as of September 2022. Actual rate will be locked at closing based on 242 bps over the 10-year treasury.

Proposed Sources & Uses:

Sources	Preliminary	
	Amount	Per Unit
Newmark First Mortgage	\$12,599,894	\$101,612
LIHTC Proceeds	\$24,811,869	\$200,096
Deferred Developer Fee	\$1,858,427	\$14,987
PRA	\$2,500,000	\$20,161
Sponsor Loan	\$3,500,000	\$28,226
Total Sources	\$45,270,190	\$365,082

Uses	Preliminary	
	Amount	Per Unit
Construction	\$31,742,939	\$255,991
Contingency	\$3,174,294	\$25,599
Acquisition	\$900,000	\$7,258
Soft Costs	\$1,330,908	\$10,733
Financing	\$1,514,189	\$12,211
Developer Fee	\$5,647,440	\$45,544
Operating Reserve	\$861,711	\$6,949
Replacement Reserve Year 1 Deposit	\$40,300	\$325
Other Reserves	\$58,410	\$471
Total Uses	\$45,270,190	\$365,082

\$2,085,240 LIHTC @ \$1.19/credit

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$365,082	
Residential Vacancy Rate	5%	
DCR Yr 1	1.10	
DCR Yr 15	1.28	
NOI	\$938,808	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	N/A	Waiting on Appraisal
Initial Installment (%) of syndication proceeds	20%	Per Citizens LOI
Acquisition Price equal to or less than Appraised value	N/A	Waiting on Appraisal
Operating Reserve (Amt and confirm consistency with UW requirements)	\$861,711	
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$40,300	

Deviations from standard underwriting – None. The Construction Loan and Permanent Loan are each underwritten to the respective lender’s requirements, which are generally consistent with the requirements of RIHousing.

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent	Discount from Market Rent
EFF	60%	12	\$ 1,034.28	\$ 909.00	114%	36.0%
1	60%	87	\$ 1,109.76	\$ 973.00	114%	36.2%
2	60%	25	\$ 1,332.12	\$ 1,168.00	114%	36.5%
Total		124				36.3%

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 issue tax-exempt bonds for financing qualified housing developments throughout the state;

Whereas, RIHousing is authorized to issue conduit tax-exempt financing at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;

Whereas, Marathon Development, LLC (“Applicant”) has presented an application to RIHousing requesting conduit tax-exempt financing to construct the development known as Copley Chambers II & III (the “Development”), as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Tax-Exempt Bonds</u>
Copley Chambers II & III	Marathon Development, LLC	\$20,700,000

Whereas, said bonds shall have a term not to exceed 35 years and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance, fund a capital reserve fund and to provide the capitalized interest if determined to be necessary;

Whereas, staff has reviewed the submission and determined that the Development may qualify for financing under RIHousing’s enabling legislation, regulations, guidelines, and policies; and

Whereas, RIHousing finds that:

(1) That there exists a shortage of decent, safe, and sanitary housing at rentals 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) That 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) That 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) That the proposed housing development to be assisted will be of public use and will provide a public benefit; and

(5) That 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, 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 preliminary commitment for tax-exempt mortgage financing for the Applicant or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$20,700,000 for rental housing known as Copley Chambers II & III located in Providence, Rhode Island to be financed, in part, by tax-exempt bonds;

Resolved, that RIHousing hereby declares that this preliminary commitment of financing for the Applicant constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance up to \$20,700,000 in mortgage funds, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. This resolution shall take effect immediately upon adoption;

Resolved, that, in order to fund the loan for the Development, RIHousing may enter into a loan arrangement with Citizens Bank, N.A. (the “Citizens Loan”) substantially in accordance with the terms outlined in the Request for Action to which this resolution is attached;

Resolved, that the Executive Director, Deputy Executive Director or the Director of Finance (each, an “Authorized Officer”), acting singly, be and each hereby is authorized to enter into such documents with Citizens Bank, N.A. as it may require to evidence the Citizens Loan, including, without limitation, a funding loan agreement, note, and pledge and security agreement, each

containing such terms and conditions as the Authorized Officer shall approve, each such determination to be conclusively evidenced by his/her execution thereof and each such determination is hereby fully and completely approved and adopted as the valid action of and by RIHousing, approved in all respects by the Board of Commissioners of RIHousing;

Resolved, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed to take any and all action necessary to effectuate the purpose and intent of the foregoing resolutions, including, without limitation, (i) the execution and delivery on behalf of RIHousing of all such other agreements, documents and instruments and the performance by RIHousing thereunder, as each of them shall determine, in his/her exclusive and reasonable judgment, to be necessary, appropriate or advisable, and (ii) the consummation of the transactions contemplated hereby and the performance by RIHousing as required hereunder, as each of them shall determine, in his/her exclusive and reasonable judgment, to be necessary, appropriate or advisable, each such determination pursuant to the immediately preceding clauses (i) and (ii) to be conclusively evidenced by the taking of any such action by any Authorized Officer and each such determination is hereby fully and completely approved and adopted as the valid action of and by RIHousing, approved in all respects by the Board of Commissioners;

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

- Syndication proceeds from the sale of 4% LIHTCs in an amount sufficient to ensure development feasibility;
- Final approval of gap financing in amounts sufficient to achieve project feasibility or alternative equity satisfactory to RIHousing;
- Approval by RIHousing of construction plans and specifications and construction documentation;
- Acceptable final appraisal by an independent appraiser demonstrating that the loan does not exceed 90% of the as-stabilized value of the property;
- Executed lease agreement from Providence Community Health Center for the proposed commercial space;
- Approval by bond counsel that the proposed conduit loan will satisfy all required bond requirements;
- RIHousing approval of all Permanent Loan documents from Newmark;
- RIHousing approval of all Citizens loan documents;
- Approval by RIHousing of management documentation;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing; and
- 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, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.