

**Request for Action
by
Board of Commissioners**

Firm Approval of Financing for Copley Chambers II & III

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$23,000,000 as well as firm approval of (i) a Capital Magnet Fund (“CMF”) Loan in an amount not to exceed \$750,000; (ii) an Acquisition Revitalization Program (“ARP”) Loan in an amount not to exceed \$2,000,000; (iii) Community Revitalization Program (“CRP”) funds in an amount not to exceed \$2,000,000; and (iv) a Development of Affordable Housing 2 (“DAH-2” also known as ARPA Production Fund) Loan in an amount not to exceed \$1,500,000 for Copley Chambers II & III (hereinafter referred to as the “Development”). Marathon Development, LLC is the developer (the “Developer”). The Development received preliminary approval from the Board of Commissioners on November 18, 2022 (“Preliminary Approval”).

The Development will be comprised of 124 newly constructed units of affordable housing and 6,800 square feet of ground floor commercial space in Providence. 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 80% of area median income (“AMI”).

These buildings are the second and third phase of the Copley Chambers project. Copley Chambers I completed construction in Q1 of 2023 and is 100% leased.

Marathon Development, LLC has partnered with Adoption Rhode Island (“Adoption RI”), House of Hope (“HOH”) and Providence Community Health Center (“PCHC”) to provide supportive services to residents of the Development. MOUs between the Developer and the aforementioned 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. PCHC and the Developer have negotiated a lease for the ground floor commercial space in which PCHC will provide healthcare services to tenants as well as the surrounding community.

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.

Since preliminary approval, the Developer has executed an MOU with PCHC, secured eight project-based vouchers from the Providence Housing Authority, and secured financing from Citizens Bank, Newmark/Freddie Mac, and the Providence Redevelopment Agency.

It is of note that the original syndicator withdrew from the transaction, which created a gap in the capital stack. National Equity Fund (“NEF”) has stepped in as the new syndicator; however, pricing has dropped from \$1.19 per credit to NEF’s \$0.95 per credit. In addition, the Developer’s request for tax abatement was limited to the standard 8% of gross potential income, which is higher than originally underwritten. To fill this gap, the Developer anticipates receipt of an additional \$3,818,000 from the City of Providence and is seeking a total of \$6,250,000 in gap funds through the Request for Proposal issued by RIHousing in November 2022. In addition, the Developer will defer additional developer fee.

This RFA requests firm approval of an amount not to exceed \$23,000,000 in tax-exempt financing as well as firm approval of (i) a CMF Loan in an amount not to exceed \$750,000; (ii) an ARP Loan in an amount not to exceed \$2,000,000; (iii) CRP funds in an amount not to exceed \$2,000,000; and (iv) a DAH-2 Loan in an amount not to exceed \$1,500,000 for Copley Chambers II & III, subject to certain conditions as set forth in the attached Resolution.

B. ATTACHMENTS

- A.** Credit Summary
- B.** Resolution

**Attachment A
Credit Summary**

Approval Loan Recommendation Summary – COPLEY CHAMBERS II & III

Preliminary _____

Firm X

Date: May 18, 2023

Project: New construction of 124 affordable apartments in Providence comprised of 12 efficiency, 87 one-bedroom and 25 two-bedroom units

Development Team

	Name	Location (city/state)	Risk Rating (low/med/high)
Sponsor/Developer	Marathon Development, LLC	Boston, MA	Medium
Mortgagor	Copley Chambers II & III LLC	Providence, RI	Low
Architect	Branch Architects LLC	Providence, RI	Low
General Contractor	Marathon Construction, Inc.	Boston, MA	Low
Legal	Chace Rutenberg & Freedman, LLP	Providence, RI	Low
Management Agent	Housing Opportunities Corporation	Providence, RI	Low
Syndicator	National Equity Fund, Inc.	New York, NY	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 Conduit Financing	\$23,000,000	
Construction Loan	\$11,280,384	5.89%/ 2 years
Permanent Loan	\$11,719,616	5.94%/35 years
CMF Loan	\$750,000	3%
DAH-2 Loan	\$1,500,000	0%/35 years
ARP Loan	\$2,000,000	0%/35 years
CRP funds	\$2,000,000	0%/35 years

Note: Interest rates are subject to change based on market conditions and deal specifics

Proposed Sources & Uses:

Sources	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
First Mortgage	\$12,599,894	\$101,612	(\$880,278)	\$11,719,616	\$94,513
Capital Magnet Fund	\$0	\$0	\$750,000	\$750,000	\$6,048
Community Revitalization	\$0	\$0	\$2,000,000	\$2,000,000	\$16,129
ARP	\$0	\$0	\$2,000,000	\$2,000,000	\$16,129
DAH-2	\$0	\$0	\$1,500,000	\$1,500,000	\$12,097
LIHTC Proceeds	\$24,811,869	\$200,096	(\$4,527,837)	\$20,284,032	\$163,581
PRA LOAN	\$2,500,000	\$20,161	\$0	\$2,500,000	\$20,161
Proposed PRA Loan	\$0	\$0	\$3,818,000	\$3,818,000	\$30,790
Deferred Fee	\$1,858,427	\$14,987	(\$123,594)	\$1,734,833	\$13,991
Sponsor Loan	\$3,500,000	\$28,226	(\$3,500,000)	\$0	\$0
Total Sources	\$45,270,190	\$365,082	\$1,036,290	\$46,306,480	\$373,439

Uses	Amount		Delta	Per Unit	
	Amount	Per Unit		Amount	Per Unit
Construction	\$31,742,939	\$255,991	\$224,510	\$31,967,449	\$257,802
Contingency	\$3,174,294	\$25,599	\$22,451	\$3,196,745	\$25,780
Acquisition	\$900,000	\$7,258	\$0	\$900,000	\$7,258
Soft Costs	\$1,330,908	\$10,733	\$351,130	\$1,682,038	\$13,565
Financing	\$1,514,189	\$12,211	\$403,786	\$1,917,975	\$15,468
Developer Fee	\$5,647,440	\$45,544	\$39,824	\$5,687,264	\$45,865
Operating Reserve	\$861,711	\$6,949	(\$41,379)	\$820,332	\$6,616
Replacement Reserve Year 1 Deposit	\$40,300	\$325	\$0	\$40,300	\$325
Other Reserves	\$58,410	\$471	\$35,968	\$94,378	\$761
Total Uses	\$45,270,191	\$365,082	\$1,036,290	\$46,306,481	\$373,439

\$2,124,195 LIHTC @ \$0.95/credit

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$981,164	\$7,913	(\$68,857)	\$912,307	\$7,357
Appraisal Cap Rate	6.09%			6.09%	
Valuation	\$16,111,067	\$129,928	(\$1,130,654)	\$14,980,413	\$120,810
Loan Principal	\$11,719,616	\$94,513		\$11,719,616	\$94,513
LTV	72.74%		5%	78.23%	

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$373,439	
Residential Vacancy Rate	6%	
DCR Yr 1	1.15	
DCR Yr 15	1.36	
NOI	\$912,307	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	73%*	
Initial Installment (%) of syndication proceeds	15% - \$3,031,834	Per NEF LOI
Acquisition Price equal to or less than Appraised value	Less than appraised value	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$820,332	Exceeds guideline of 6 months operating and debt service
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$40,300	Equal to \$325 per dwelling unit

*LTV is based on the combined values determined by the commercial direct capitalization and the restricted residential direct capitalization analyses in the Newmark commissioned appraisal.

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
1	30%	4	\$ 1,340.00	\$ 544.00	246%	21.2%
2	30%	4	\$ 1,613.00	\$ 653.00	247%	21.1%
EFF	40%	10	\$ 703.00	\$ 677.00	104%	59.0%
EFF	50%	2	\$ 879.00	\$ 846.00	104%	46.8%
1	60%	78	\$ 1,132.00	\$ 1,088.00	104%	34.8%
2	60%	15	\$ 1,359.00	\$ 1,306.00	104%	35.0%
1	80% LIHTC	5	\$ 1,510.00	\$ 1,451.00	104%	10.1%
2	80% LIHTC	6	\$ 1,811.00	\$ 1,742.00	104%	10.3%
Total		124				33.9%

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 the purpose of financing qualified housing developments throughout the state;
- Whereas,** RIHousing is authorized to issue tax exempt financing at an economically acceptable rate to promote the acquisition, rehabilitation or preservation of affordable housing;
- Whereas,** in November 2022, the RIHousing Board of Commissioners granted preliminary approval of tax-exempt mortgage financing to Marathon Development, LLC (“Applicant”) listed below to acquire and/or rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Tax- Exempt Bonds</u>	<u>DAH-2</u>	<u>ARP</u>	<u>CRP</u>	<u>CMF</u>
Copley Chambers II & III	Marathon Development, LLC	\$23,000,000	\$1,500,000	\$2,000,000	\$2,000,000	\$750,000

- 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; and
- Whereas,** the RIHousing Board of Commissioners and staff have reviewed the submission of the Applicant for mortgage financing and determined that the Development qualifies for financing under RIHousing’s enabling legislation, regulations, guidelines and policies.

NOW, THEREFORE, IT IS HEREBY:

- Resolved,** that subject to the special conditions listed below, RIHousing hereby declares firm commitment for tax-exempt mortgage financing for Copley Chambers II

& III LLC or an affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$23,000,000 for rental housing known as Copley Chambers II & III located in Providence to be financed in part with tax-exempt bonds.

Resolved, that RIHousing hereby declares that this firm commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$23,000,000 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. The intent to reimburse the aforementioned bond-funded costs is intended to satisfy the requirements of Section 1.150-2 of the United States Treasury Regulations. This resolution shall take effect immediately upon adoption.

Resolved, that, in order to fund the loan to the Development, RIHousing may enter into a loan arrangement with Citizens Bank, N.A. (“Citizens” and the aforementioned loan arrangement, the “Citizens Loan”) and Berkeley Point Capital LLC d/b/a Newmark Capital (“Newmark” and the aforementioned loan arrangement, the “Newmark 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 Director of Finance (each, an “Authorized Officer”), acting singly, be and each hereby is authorized to enter into such documents with Citizens and Newmark as they may require to evidence the Citizens Loan and Newmark 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 to be conclusively evidenced by the taking of 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, subject to the special conditions listed below, RIHousing hereby grants firm approval for a Capital Magnet Fund Loan to Borrower in an amount not to exceed \$750,000 for rental housing known as Copley Chambers II & III located in Providence, Rhode Island.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants firm approval for an Acquisition Revitalization Program Loan to Borrower in an amount not to exceed \$2,000,000 for rental housing known as Copley Chambers II & III located in Providence, Rhode Island.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants firm approval for Community Revitalization Program funds to Borrower in an amount not to exceed \$2,000,000 for rental housing known as Copley Chambers II & III located in Providence, Rhode Island.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants firm approval for a Development of Affordable Housing 2 Loan to Borrower in an amount not to exceed \$1,500,000 for rental housing known as Copley Chambers II & III located in Providence, Rhode Island.

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

- Syndication proceeds from the sale of 4% LIHTCs in an amount sufficient to ensure development feasibility;
- Final approval of funding from the Providence Redevelopment Agency in amounts sufficient to achieve project feasibility or alternative equity satisfactory to RIHousing;
- Final approval of subordinate financing from RIHousing in an amount sufficient to achieve project feasibility or alternative equity satisfactory to RIHousing;
- Approval by RIHousing of construction plans and specifications and construction documentation;
- 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 Newmark loan documents;
- RIHousing approval of all Citizens Bank loan documents;
- The Mortgagor shall be in good standing with the State of Rhode Island and Notice of Revocation shall be resolved;
- Approval by RIHousing of management related documentation including marketing and tenant selection plans;

- 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, the 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.