

**Request for Action  
by  
Board of Commissioners**

**Firm Approval of Financing for Factory and Main Street Apartments**

**A. PROJECT SUMMARY**

This Request for Action (“RFA”) is for the firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$4,000,000.00, and a taxable permanent loan not to exceed \$300,000.00 for Factory & Main Street Apartments (“FM” or the “Development”). Valley Affordable Housing Corp. is the developer (“VAH” or the “Developer”). The Development received preliminary approval for this financing from the Board of Commissioners on October 21, 2021 (“Preliminary Approval”).

**B. DISCUSSION**

This firm approval will support the acquisition and rehabilitation of three existing portfolios, combining them into a single low-income housing tax credit (“LIHTC”) project. The Development’s 75 units are in 18 buildings on scattered sites across a tight geographic area in Cumberland. The units and buildings are in average condition. Fifteen of the buildings were built in 1870 and three of the buildings were built in 2003.

VAH will undertake a moderate rehabilitation of the Development with both exterior and interior improvements. The scope of work for the renovation includes restoration of all deteriorated wood, metal, masonry, and concrete items. Thirty of the units will receive new kitchen cabinets, and all bathrooms will have subfloors replaced and tile flooring installed. Exterior site improvements are also budgeted.

The Developer will complete the acquisition and rehabilitation of the Development using the proceeds from this tax-exempt financing and the sale of LIHTCs, a taxable permanent loan, a preservation loan from the Affordable Housing Trust (“AHT”), and a seller loan. Michel Associates, LTD. (“Michel”) will be the syndicator purchasing the 4% LIHTCs at \$0.905 per credit resulting in total syndication proceeds of \$2,518,746.00.

There is approximately \$2,936,000.00 of existing debt on the properties comprised of first mortgages with both RIHousing and other lenders, RIHousing Targeted Loans, and State of Rhode Island Housing Resources Commission loans. The first mortgages will be paid off at closing but \$2,633,000.00 of subordinate debt will be assumed by the new borrower entity. As part of the approval process, staff has determined that the Development and sponsor meet RIHousing’s requirement for rollover of existing debt:

- Current on first mortgage or in compliance with forbearance agreement;
- No outstanding monitoring findings and no history of significant monitoring findings;
- Demonstrated, responsible long-term ownership and management of the property;

- An equity pay-in schedule satisfactory to RIHousing;
- Maximization of amortizing debt able to be supported by the property; and
- Borrower-provided guarantees to cover any deficit shortfalls.

This RFA requests firm approval of \$4,000,000.00 in tax-exempt financing, and a taxable permanent loan not to exceed \$300,000 for Factory and Main Street Apartments 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 – Factory and Main Street Apartments Preliminary \_\_\_\_\_

Firm  X

Date: February 9, 2022

**Project:** Rehabilitation of 75 existing affordable apartments in Cumberland comprised of 16 one-bedroom, 25 two-bedroom, 27 three-bedroom, and 7 four-bedroom units.

#### Development Team

	Name	Location (city/state)	Risk Rating (low/med/high)
<b>Sponsor/Developer</b>	Valley Affordable Housing Corp.	Cumberland, RI	Low
<b>Mortgagor</b>	Valley Affordable Housing Corp.	Cumberland, RI	Low
<b>Architect</b>	O’Hearne Associates Architects	Harrisville, RI	Low
<b>General Contractor</b>	Nationwide Construction	Woonsocket, RI	Low
<b>Legal (LIHTC)</b>	Chace Ruttenberg Freedman	Providence, RI	Low
<b>Management Agent</b>	Pinnacle Property Management	Cumberland, RI	Low
<b>Consultant</b>	Barbara Sokoloff Associates	Providence, RI	Low
<b>Syndicator</b>	Michel Associates, LTD	Quincy, MA	Medium

#### Executive Summary

	Address	City
<b>Property Address</b>	Scattered Sites	Cumberland, RI
<b>Proposed Loan Amount(s) and Terms</b>		
	Amount	Interest rate/Term
Tax Exempt Loan Construction Loan	\$4,000,000	3%, 24 Months
Permanent Loan	\$300,000	4.25%, 40 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
RIH First Mortgage	\$300,000	\$4,000	\$0	\$300,000	\$4,000
Assumed Debt (Rollover)	\$2,633,530	\$35,114	\$0	\$2,633,530	\$35,114
Preservation Revitalization Deferred Loan Pro	\$1,500,000	\$20,000	\$0	\$1,500,000	\$20,000
Sponsor Loan	\$506,590	\$6,755	\$0	\$506,590	\$6,755
Seller Loan	\$275,710	\$3,676	(\$275,710)	\$0	\$0
Seller Take Back Loan	\$415,989	\$5,547	\$500,710	\$916,699	\$12,223
LIHTC Proceeds	\$2,287,489	\$30,500	\$231,257	\$2,518,746	\$33,583
<b>Total Sources</b>	<b>\$7,919,308</b>	<b>\$105,591</b>	<b>\$456,257</b>	<b>\$8,375,565</b>	<b>\$111,674</b>
Uses	Amount	Per Unit	Delta	Amount	Per Unit
Construction	\$2,041,863	\$27,225	\$157,665	\$2,199,528	\$29,327
Contingency	\$204,186	\$2,722	\$15,767	\$219,953	\$2,933
Acquisition	\$3,825,000	\$51,000	\$225,000	\$4,050,000	\$54,000
Soft Costs	\$497,667	\$6,636	\$42,658	\$540,325	\$7,204
Financing	\$300,279	\$4,004	\$2,550	\$302,829	\$4,038
Developer Fee	\$494,615	\$6,595	\$12,545	\$507,160	\$6,762
Operating Reserve	\$312,060	\$4,161	\$45	\$312,105	\$4,161
Lease Up Reserve	\$0	\$0	\$0	\$0	\$0
Replacement Reserve Year 1 Deposit	\$192,000	\$2,560	\$0	\$192,000	\$2,560
Other Reserves	\$51,638	\$689	\$27	\$51,665	\$689
<b>Total Uses</b>	<b>\$7,919,308</b>	<b>\$105,591</b>	<b>\$456,257</b>	<b>\$8,375,565</b>	<b>\$111,674</b>

\$2,518,746 LIHTC @ \$.905/credit

NET OPERATING INCOME	\$243,204	\$3,243	(\$151,772)	\$91,432	\$1,219
Appraisal Cap Rate	6.00%			6.00%	
Valuation	\$4,053,400	\$54,045	(\$2,529,534)	\$1,523,866	\$20,318
Loan Principal	\$300,000	\$4,000		\$300,000	\$4,000
LTV	7.40%		12%	19.69%	

## Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$111,674	
Residential Vacancy Rate	7%	Actual vacancy less than 3%
DCR Yr 1	5.14	
DCR Yr 15	1.31	DCR goes negative in year 16
NOI – year 1	\$91,432	
Income Trending	2%	

Expense Trending	3%	
Loan to Value	7.4%	
Initial Installment (%) of syndication proceeds	15%	
Acquisition Price equal to or less than Appraised value	yes	\$4.05MM vs appraised value of \$4.05MM
Operating Reserve (Amt and confirm consistency with UW requirements)	\$312,105	Equal to six months OpEx & Debt Service
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$192,000	\$2,560 per unit

### Deviations from standard underwriting – Yes

Fails Part 2 of the Bridge Loan Test – This is a tax-exempt transaction. The Bridge Loan is sized at the minimum amount required to ensure that 50% of the aggregate basis of the project is funded with tax-exempt bond proceeds as required by the applicable tax code provisions.

### 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%	5	\$ 397.80	\$ 486.00	82%	0.0%
1	50%	1	\$ 671.00	\$ 811.00	83%	0.0%
1	60%	3	\$ 819.67	\$ 973.00	84%	0.0%
1	60%	7	\$ 902.50	\$ 973.00	93%	0.0%
2	30%	2	\$ 358.00	\$ 584.00	61%	0.0%
2	60%	10	\$ 1,021.22	\$ 1,168.00	87%	0.0%
2	60%	12	\$ 1,010.60	\$ 1,168.00	87%	0.0%
3	50%	1	\$ 1,026.00	\$ 1,125.00	91%	0.0%
3	60%	9	\$ 1,154.88	\$ 1,350.00	86%	0.0%
3	60%	18	\$ 1,228.06	\$ 1,350.00	91%	0.0%
4	60%	3	\$ 1,380.67	\$ 1,506.00	92%	0.0%
4	60%	4	\$ 1,251.00	\$ 1,506.00	83%	0.0%
<b>Total</b>		<b>75</b>				<b>0.0%</b>

Current rents are below the maximum allowed under existing restrictions. Borrower has recently implemented 2 rent increases. The borrower will continue to implement annual rent increases consistent with proposed trending.

## Location of Scattered Sites

Street	Town, State	# of Units
22-24 Main St	Cumberland, RI	4
26-28 Main St	Cumberland, RI	4
34-36 Main St	Cumberland, RI	4
25-27 Main St	Cumberland, RI	4
41-43 Main St	Cumberland, RI	4
45-47 Main St	Cumberland, RI	4
49-51 Main St	Cumberland, RI	4
53-55 Main St	Cumberland, RI	4
5-7 Main Street	Cumberland, RI	2
29-31 Main Street	Cumberland, RI	4
7 Factory Street	Cumberland, RI	6
9 Factory Street	Cumberland, RI	8
11-13 Factory Street	Cumberland, RI	8
15 Factory Street	Cumberland, RI	4
44 Main Street	Cumberland, RI	Vacant Land
14-16 Factory & 5 Factory	Cumberland, RI	3
30-32 Main Street	Cumberland, RI	4
33-35 Main Street	Cumberland, RI	4

**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,** on October 21, 2021, the RIHousing Board of Commissioners granted preliminary approval of tax-exempt mortgage financing to Valley Affordable Housing Corp. (“Applicant”) to acquire and/or rehabilitate the affordable housing to be known as Factory and Main Street Apartments (the “Development”);

**Whereas,** the Applicant is requesting firm approval of tax-exempt mortgage financing for the Development as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Tax- Exempt Bonds</u>	<u>Taxable Permanent Mortgage</u>
Factory and Main Street Apartments	Valley Affordable Housing Corp.	\$4,000,000.00	\$300,000.00

**Whereas,** said bonds shall have a term not to exceed 36 months 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 Valley Affordable Housing Corp. or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$4,000,000.00 for rental housing known as Factory and Main Street Apartments located in Cumberland, Rhode Island 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 tax-exempt bonds to finance up to \$4,000,000.00 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 the Executive Director, Deputy Executive Director, Director of Finance, General Counsel, and the Manager of Treasury and Capital Planning (each, an “Authorized Officer”), acting singly, 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 taxable loan to the Borrower, in an amount not to exceed \$300,000.00 for rental housing known as Factory and Main Street Apartments located in Cumberland.

**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;
- Approval of a Preservation Loan Program Fund loan from the Affordable Housing Trust;



- Final approval by RIHousing of construction plans, specifications, and supporting construction documentation;
- Execution and delivery by the Applicant of a construction completion guaranty in form and substance satisfactory to RIHousing;
- Approval by RIHousing of management documentation;
- Approval by bond underwriter and bond counsel that the loans will satisfy all required bond provisions for the bond issue;
- 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 Development each acting singly, are hereby authorized to take any and all actions they deem necessary to carry out the foregoing resolutions.