

**Request for Action
by
Board of Commissioners**

Firm Approval of Financing for Fifty Washington Square

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$13,500,000, of which \$4,200,000 will remain as permanent debt; and a loan from the Capital Magnet Fund (“CMF”) program in the amount of \$750,000 for Fifty Washington Square (hereinafter referred to as the “Development”). Church Community Housing Corporation is the developer (“CCHC” or the “Developer”). The Development received preliminary approval for this financing from the Board of Commissioners on February 17, 2022 (“Preliminary Approval”).

B. DISCUSSION

Fifty Washington Square is on the National Register of Historic Places and is in the center of Newport’s historic and downtown commercial district. The structure was built in 1911 as the Army/Navy YMCA. In 1988, CCHC converted the structure into a mixed-use building using low-income housing tax credits (“LIHTC”) and other financing, which created LIHTC apartments, the 41 bed McKinney Cooperative Emergency Shelter, and commercial office space. Currently, the building has 93 apartments that are subsidized with project-based vouchers or Section 8 mod-rehab subsidies through the McKinney-Vento Program (“MVHAP Contract”). There are three different apartment types within the building: 55 small efficiencies, 15 large efficiencies, and 23 one-bedroom units. The Development was re-syndicated in 2004 and the 15-year compliance period has been completed.

Since preliminary approval, there have been several changes to the overall transaction to address budgetary issues. Most notably, CCHC has determined that it is more cost-effective to eliminate the RAD 2 conversion, which would have the effect of adding approximately \$5MM in additional labor cost based on the original scope of work. The impact of retaining the existing MVHAP contract for the short term is nominal, and CCHC may pursue the RAD 2 conversion at a later time if economically advantageous.

CCHC will undertake an extensive rehabilitation of the Development with both exterior and interior improvements. New sustainable features will be introduced such as solar panels and a new energy-efficient HVAC system with heating and cooling mini splits in each apartment and common areas. General interior and exterior improvements include replacing and repairing masonry and terracotta building elements and refurbishing all wood windows and doors. The domestic hot water storage and boilers will be replaced, and a new roof will be installed on the building. Since preliminary approval, the scope of work has been modified to keep the construction costs in line with the budget. The primary change is that the unit upgrades to some of the residential units will no longer be included in the scope of work. The upgrades will be completed over the next few years as units turn over.

The Developer will complete the acquisition and rehabilitation of the Development using proceeds from this tax-exempt financing and the sale of LIHTCs. The National Equity Fund, Inc. (“NEF”) will be the syndicator purchasing the 4% LIHTCs at \$0.91 per credit. The complete capital stack includes: (i) a RIHousing first mortgage loan, (ii) rollover of existing RIHousing debt, (iii) a Preservation Loan Program Fund Loan from the Affordable Housing Trust (“AHT”), (iv) two Building Homes Rhode Island loans, (v) a CMF loan, (vi) a Housing Production Fund (“HPF”) loan, (vii) proceeds from the sale of Federal Historic Tax Credits, (viii) two seller loans, (ix) a deferred developer fee, (x) a solar grant from Commerce RI, and (xi) a grant from the Federal Home Loan Bank of Boston’s Affordable Housing Program (“AHP”). All sources of funding have been secured.

Prior to closing for the refinance, CCHC intends to facilitate the transfer of the limited partnership interests in Fifty Square L.P., the current owner, from NEF Assignment Corporation and Fifty Square State Credit Investors, LLC to Church Community Housing Corporation. This transfer prior to closing will facilitate the acquisition and related seller loans to the new partnership.

There is approximately \$4,000,000 of existing RIHousing and AHT debt on the property, comprised of a RIHousing Targeted Loan, two AHT loans, a Threshold loan, a NOP loan, and accrued interest. As part of the approval process, staff has determined that the Development and sponsor meet the following RIHousing requirements for rollover of existing debt:

- Current on the 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 tax-exempt financing in an amount not to exceed \$13,500,000, of which \$4,200,000 will remain as permanent debt, and a CMF loan of \$750,000 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 – Fifty Washington Square

Preliminary _____

Firm X

Date: October 20, 2022

Project: Rehabilitation and refinance of 93 existing affordable units in Newport, RI. The building is comprised of 70 efficiency units (55 small units and 15 large units) and 23 one-bedroom units. The building also supports the 41 bed McKinney Cooperative Emergency Shelter and commercial office space.

Development Team

	Name	Location (city/state)	Risk Rating (low/med/high)
Sponsor/Developer	Church Community Housing Corporation	Newport, RI	Low
Mortgagor	Fifty Square L.P.	Newport, RI	Low
Architect	Newport Collaborative Architects, Inc.	Newport, RI	Low
General Contractor	Behan Bros., Inc	Middletown, RI	Low
Legal	Rierner & Braunstein LLP	Boston, MA	Low
Management Agent	Phoenix Property Management, Inc.	Warwick, RI	Low
Consultant	NA	NA	NA
Syndicator	National Equity Fund	New York, NY	Low

Executive Summary

	Address	City
Property Address	50 Washington Square	Newport
Proposed Loan Amount(s) and Terms		
	Amount	Interest rate/Term
Tax Exempt Loan		
• Construction	\$9,300,000	6.5% / 2 Years
• Permanent Loan	\$4,200,000	6.5% / 40 Years
CMF Loan	\$750,000	1%/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	\$2,550,000	\$27,419	\$1,650,000	\$4,200,000	\$45,161
Assumed Debt (Rollover)	\$3,994,016	\$42,946	(\$40,000)	\$3,954,016	\$42,516
Preservation Loan Fund Program	\$1,500,000	\$16,129	\$0	\$1,500,000	\$16,129
Building Homes Rhode Island	\$800,000	\$8,602	\$3,000,000	\$3,800,000	\$40,860
HPF	\$0	\$0	\$153,219	\$153,219	\$1,648
Capital Magnet Fund	\$750,000	\$8,065	\$0	\$750,000	\$8,065
FHLB Affordable Housing Program	\$650,000	\$6,989	\$0	\$650,000	\$6,989
LIHTC Proceeds	\$4,519,480	\$48,597	\$883,905	\$5,403,385	\$58,101
Fed. Historic Tax Credit Proceeds	\$2,520,294	\$27,100	\$563,678	\$3,083,972	\$33,161
General Partner Capital	\$698,631	\$7,512	(\$698,531)	\$100	\$1
State Historic TC Proceeds	\$0	\$0	\$0	\$0	\$0
HTF & HOME	\$1,900,000	\$20,430	\$1,900,000	\$0	\$0
Seller Acquisition Loan	\$1,618,984	\$17,408	\$109,000	\$1,727,984	\$18,580
Deferred Dev Fee	\$640,010	\$6,882	\$524,951	\$1,164,961	\$12,526
Commerce RI - Solar grant	\$16,600	\$178	\$0	\$16,600	\$178
Seller Reserves and Prepaid loan	\$0	\$0	(\$519,982)	\$519,982	\$5,591
Total Sources	\$22,239,015	\$239,129	\$4,685,205	\$26,924,220	\$289,508

Uses	Preliminary		Delta	Firm	
	Amount	Per Unit		Amount	Per Unit
Construction	\$10,064,391	\$108,219	\$2,517,587	\$12,581,978	\$135,290
Contingency	\$1,006,439	\$10,822	\$251,759	\$1,258,198	\$13,529
Acquisition	\$6,333,000	\$68,097	\$571,982	\$6,904,982	\$74,247
Soft Costs	\$1,391,668	\$14,964	\$264,995	\$1,656,663	\$17,814
Financing	\$1,062,379	\$11,423	\$604,308	\$1,666,687	\$17,921
Developer Fee	\$1,669,138	\$17,948	\$392,464	\$2,061,602	\$22,168
Operating Reserve	\$434,000	\$4,667	\$85,984	\$519,984	\$5,591
Replacement Reserve Year 1 Deposit	\$186,000	\$2,000	\$0	\$186,000	\$2,000
Other Reserves	\$92,000	\$989	(\$3,874)	\$88,126	\$948
Total Uses	\$22,239,015	\$239,129	\$4,685,204	\$26,924,219	\$289,508

\$594,373 LIHTC @ \$0.91/credit

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$369,981	\$3,978	\$53,792	\$423,773	\$4,557
Appraisal Cap Rate	5.75%			5.75%	
Valuation	\$6,434,452	\$69,188	\$935,520	\$7,369,972	\$79,247
Loan Principal	\$4,200,000	\$45,161		\$4,200,000	\$45,161
LTV	65.27%		-8%	56.99%	

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$289,508	
Residential Vacancy Rate	5%	Actual is less than 2%
DCR Yr 1	1.41	
DCR Yr 15	1.30	
NOI	\$423,773	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	56.99%	
Initial Installment (%) of syndication proceeds	18%	Based on Syndicator LOI
Acquisition Price equal to or less than Appraised value	Yes	Acquisition is equal to appraised value
Operating Reserve (Amt and confirm consistency with UW requirements)	\$519,984	\$5,591 per unit
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$186,000	\$2,000 per unit

Deviations from standard underwriting –Yes

In our analysis, only the first of the two bridge loan tests were passed. The developer will be signing a construction completion guarantee and the initial installment of syndication is 18%.

Unit Distribution and Revenue

Unit	Rent Type	Number of Units	Gross Rent	Gross Rent as a		Discount from Market Rent
				LIHTC Max Rent	% of LIHTC Max Rent	
EFF	50%	40	\$ 1,073.69	\$ 883.00	122%	27.7%
EFF	30%	15	\$ 1,073.69	\$ 530.00	203%	27.7%
EFF	50%	10	\$ 1,644.50	\$ 883.00	186%	-10.7%
EFF	30%	5	\$ 1,644.50	\$ 530.00	310%	-10.7%
1	50%	23	\$ 1,678.60	\$ 946.00	177%	8.5%
Total		93				16.8%

The underwritten rents are a forward projection of the project rents at stabilization. For the MVHAP units we are utilizing the current contract rent, escalated by 2% per year for two years. The PBV rents are set at the 2023 contract rents which are 110% of the published HUD Fair Market Rent.

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

Whereas, on February 17, 2022, the RIHousing Board of Commissioners granted preliminary approval of tax-exempt mortgage financing to Church Community Housing Corporation (“Applicant”) to rehabilitate the affordable housing to be known as Fifty Washington Square (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>Mortgage</u>	<u>Capital Magnet Fund</u>
Fifty Washington Square	Church Community Housing Corporation	\$13,500,000	\$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 Fifty Square L.P., or another affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$13,500,000 for rental housing known as Fifty Washington Square located in Newport, 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 \$13,500,000 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 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 the Borrower, in an amount not to exceed \$750,000 for rental housing known as Fifty Washington Square located in Newport, Rhode Island.

Resolved, that subject to the special conditions listed below, RIHousing hereby grants firm approval for the approval of transfer of the limited partnership interest in Fifty Square L.P. from NEF Assignment Corporation and Fifty Square State Credit Investors, LLC to Church Community Housing Corporation.

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

- Syndication proceeds from the sale of 4% LIHTCs and federal historic credits in amounts sufficient to ensure development feasibility;
- Availability of subordinate financing in amounts sufficient to achieve project feasibility or the availability of alternative equity satisfactory to RIHousing;
- Approval by RIHousing of construction plans and specifications and construction documentation including an acceptable reserve analysis for the rehabilitation item(s) not immediately undertaken following acquisition;
- Approval by RIHousing of all management related issues including the marketing and tenant selection plans;
- Execution and delivery by the Developer of a construction completion guaranty in form and substance satisfactory to RIHousing;
- 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
- FHA Risk Sharing approval from HUD for a minimum of 50% of the first mortgage under the Risk-Sharing Initiative; and
- Approval by the Affordable Housing Trust Fund of a Preservation Loan Program Loan.

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