

**Request for Action
by
Board of Commissioners**

Preliminary Approval of Financing for Fifty Washington Square

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for preliminary approval of a Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt construction loan in an amount not to exceed \$10,500,000, of which \$2,550,000 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 in Newport, Rhode Island (“FWS” or the “Development”). The Development previously received preliminary approval of a Housing Trust Fund (“HTF”) loan and a HOME Investment Partnerships Program (“HOME Program”) loan from RIHousing. Church Community Housing Corporation (“CCHC” or the “Developer”) is the developer.

B. DISCUSSION

FWS is on the National Register of Historic Places and is located 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 financings. LIHTC apartments were created as well as 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”). As part of this proposed transaction, the Development will go through a RAD 2 Conversion which will shift the MVHAP Contract to a 20-year Project Based Rental Assistance (“PBRA”) contract with higher rents. There are three different apartment types within the building: 55 small efficiencies, 15 large efficiencies, and 23 one-bedroom units. FWS was re-syndicated in 2004 and the 15-year compliance period has been completed.

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. A new roof will be installed on the building. General interior and exterior improvements include replacing and repairing masonry and terracotta building elements and refurbishing all wood windows and doors. New storm windows will be installed, and the domestic hot water storage and boilers will be replaced. Other improvements include selective interior upgrades and renovation of the emergency shelter units in the McKinney Shelter. The two elevators will be rehabilitated, new wiring will be added for a temporary generator connection, and the existing intercom system will be replaced. All the kitchens and bathrooms will be rehabilitated in the one-bedroom apartments and in the large efficiency apartments.

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 \$0.89 per credit. Other

proposed sources include: (i) a RIHousing first mortgage loan, (ii) the rollover of existing RIHousing debt, (iii) a Preservation Loan Program Fund Loan from the Affordable Housing Trust (“AHT”), (iv) a HOME Program loan, (v) a BHRI loan, (vi) a CMF loan, (vii) an HTF loan, (viii) proceeds from the sale of Federal Historic Tax Credits, (ix) general partner capital in the form of existing reserves, (x) a seller loan, (xi) a deferred developer fee, (xii) a solar grant from Commerce RI, (xiii) cash flow during construction, (xiv) and a grant from the Federal Home Loan Bank of Boston’s Affordable Housing Program (“AHP”). The BHRI loan and AHP subsidy have been secured.

There is approximately \$4,000,000.00 of existing RIHousing and AHT debt plus accrued interest on the property comprised of a RIHousing Targeted Loan, two AHT loans, a Thresholds loan, and a NOP loan. 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.

By this RFA, staff recommends for preliminary approval the attached resolutions authorizing a \$10,500,000 tax-exempt loan, of which \$2,550,000 will remain as permanent debt, and a CMF loan for \$750,000 for Fifty Washington Square, subject to the conditions set forth therein.

C. ATTACHMENTS

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

Attachment A

Credit Summary

Approval Loan Recommendation Summary – Fifty Washington Square

Preliminary X

Firm _____

Date: February 9, 2022

Project: Acquisition and rehabilitation 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 LP	Newport, RI	Low
Architect	Newport Collaborative Architects	Newport, RI	Low
General Contractor	Behan Bros. Inc	Middletown, RI	Low
Legal	Holland & Knight LLP	Cranston, RI	Low
Management Agent	Phoenix Property Management	Warwick, RI	Low
Consultant	NA	NA	NA
Syndicator	National Equity Fund	New York, NY	Low

Executive Summary

Property Address (for scattered sites, add list at end of summary)	Address	City
	50 Washington Square	Newport, RI
Proposed Loan Amount(s) and Terms		
	Amount	Interest rate/Term
Tax Exempt Construction Loan	\$10,500,000 of which \$2,550,000 will be Permanent	4.75% / 2 Years 4.75% / 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	
	Amount	Per Unit
RIH First Mortgage	\$2,550,000	\$27,419
Assumed Debt (Rollover)	\$3,994,016	\$42,946
Preservation Revitalization Deferred L	\$1,500,000	\$16,129
RIH HOME Loan	\$950,000	\$10,215
Building Homes Rhode Island	\$800,000	\$8,602
Capital Magnet Fund	\$750,000	\$8,065
Housing Trust Fund	\$950,000	\$10,215
LIHTC Proceeds	\$4,519,480	\$48,597
Fed. Historic Tax Credit Proceeds	\$2,520,294	\$27,100
General Partner Capital	\$698,631	\$7,512
Seller loan	\$1,618,984	\$17,408
Deferred Dev Fee	\$640,010	\$6,882
Commerce RI - Solar grant	\$16,600	\$178
Cash Flow During Construction	\$81,000	\$871
FHLB - AHP	\$650,000	\$6,989
Total Sources	\$22,239,015	\$239,129

Uses	Preliminary	
	Amount	Per Unit
Construction	\$10,064,391	\$108,219
Contingency	\$1,006,439	\$10,822
Acquisition	\$6,333,000	\$68,097
Soft Costs	\$1,391,668	\$14,964
Financing	\$1,062,379	\$11,423
Developer Fee	\$1,669,138	\$17,948
Operating Reserve	\$434,000	\$4,667
Replacement Reserve Year 1 Deposit	\$186,000	\$2,000
Other Reserves	\$92,000	\$989
Total Uses	\$22,239,015	\$239,129

\$505,888 LIHTC @ \$0.89/credit

Underwriting Metrics:

Metric	Amount	Comment
Total Development Cost Per Unit	\$239,129.19	
Residential Vacancy Rate	5%	
DCR Yr 1	1.79	
DCR Yr 15	1.20	
NOI	\$260,268	
Income Trending	2%	
Expense Trending	3%	
Loan to Value	TBD	Waiting on final “as-complete” appraisal
Initial Installment (%) of syndication proceeds	17.96%	Based on Syndicator LOI
Acquisition Price equal to or less than Appraised value	TBD	Waiting on final “as-is” appraisal
Operating Reserve (Amt and confirm consistency with UW requirements)	\$434,250	Equal to 6 months of debt and OPEX minus deposit to the Replacement Reserve
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$186,000	\$2,000 per unit

Deviations from standard underwriting – None

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	50%	40	\$ 1,177.00	\$ 883.00	133%	0.0%
EFF	30%	15	\$ 1,177.00	\$ 530.00	222%	0.0%
EFF	50%	10	\$ 1,177.00	\$ 883.00	133%	0.0%
EFF	30%	5	\$ 1,177.00	\$ 530.00	222%	0.0%
1	50%	23	\$ 1,320.00	\$ 946.00	140%	0.0%
Total		93				0.0%

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,** said bonds shall have a term not to exceed 40 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,** RIHousing is also authorized to issue taxable loans at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;
- Whereas,** the applicant listed below (“Applicant”) has presented an application to RIHousing requesting mortgage financing to acquire and/or rehabilitate the development as set forth below (the “Development”):

<u>Development</u>	<u>Applicant</u>	<u>Mortgage</u>	<u>Capital Magnet Funds</u>
Fifty Washington Square	Church Community Housing Corporation	\$10,500,000	\$750,000

- 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 \$10,500,000 for rental housing known as Fifty Washington Square located in Newport, 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 \$10,500,000 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 subject to the special conditions listed below, RIHousing hereby declares preliminary commitment for a Capital Magnet Fund loan for the Applicant in the amount not to exceed \$750,000 for rental housing known as Fifty Washington Square located in Newport, Rhode Island.

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 including an acceptable reserve analysis for the rehabilitation item(s) not immediately undertaken following acquisition;

- A final appraisal acceptable to RIHousing prepared by an independent appraiser demonstrating that the purchase price is supported and market oriented and the first mortgage loan does not exceed 90% of the as-stabilized value of the property;
- Final approval by RIHousing of construction plans, specifications, and supporting construction documentation;
- Execution and delivery by the Developer 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 Regulator 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 the 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.

