

**Request for Action  
by  
Board of Commissioners**

**Firm Approval of Financing for Marvin Gardens Apartments**

**A. PROJECT SUMMARY**

This Request for Action (“RFA”) is for the firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) taxable permanent financing in an amount not to exceed \$18,025,000 for Marvin Gardens Apartments in Providence (hereinafter referred to as the “Development”). Cathedral Development Group, Inc. is the developer (the “Developer”).

Marvin Gardens Apartments consists of four three-story garden-style buildings originally constructed in 1979. The Development has 109 one-bedroom and 12 two-bedroom apartments for elderly and disabled households. Amenities include an outdoor communal patio, community room with a kitchen, common laundry room, and management office. The Section 8 Housing Assistance Payments contract (the “HAP Contract”), which covers all 121 units, is in the process of being renewed for 20 years with rents marked up to market.

MG Apartments, LP (the “Owner” or the “Mortgagor”), an affiliate of the Developer, acquired the Development in 2011 through an arm’s length transaction. Moderate rehabilitation was completed that same year utilizing tax-exempt bonds and Low-Income Housing Tax Credits. Exterior upgrades, including new windows, doors, and siding, as well as some environmental remediation, were completed. Additional interior work consisted of elevator and fire alarm upgrades, unit upgrades, improvements to community spaces, as well as boilers and HVAC work. The Developer has continued to make investments in the property over the past 10 years using excess cashflow.

According to the RIHousing-commissioned capital needs assessment (“CNA”), no immediate work is required at this time. The Developer plans to address future capital needs as they arise. Per the CNA, the replacement reserve balance will remain positive through the first 15 years of the new loan; with the Mortgagor depositing \$2,000 per unit in the replacement reserve at closing and \$300 per unit per annum. A new CNA will be required at year 10 to ensure that the replacement reserve will stay positive for the next 15 years. If required, the annual deposits to the replacement reserve will be increased at that time. The Developer is also planning to complete an equity take-out.

This RFA seeks firm approval of a taxable permanent loan in an amount not to exceed \$18,025,000, which will be funded through the Federal Financing Bank Risk-Sharing Initiative, subject to certain conditions as set forth in the attached Resolutions.

**B. ATTACHMENTS**

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

## Attachment A

### Approval Loan Recommendation Summary – MARVIN GARDENS APARTMENTS

Preliminary \_\_\_\_\_

Firm  \_\_\_\_\_

Date: April 20, 2023

**Project:** Preservation of 121 existing affordable elderly and disabled apartments, consisting of 109 one-bedroom and 12 two-bedroom units, located in Providence.

#### Development Team

	Name	Location	Risk Rating
<b>Sponsor/Developer</b>	Cathedral Development Group, Inc.	Providence, RI	Low
<b>Mortgagor</b>	MG Apartments, LP	Providence, RI	Low
<b>Architect</b>	N/A		
<b>Legal</b>	Law Office of Gina M. Illiano	Providence, RI	Low
<b>Management Agent</b>	Property Advisory Group, Inc.	Providence, RI	Low

#### Executive Summary

<b>Property Address</b>	21 Marvin Street	Providence, RI
<b>Proposed Loan Amount(s) and Terms</b>		
Taxable Loan (FFB)	\$18,025,000.00	5.75%/40-year term

Note: Interest rates are subject to change based on market conditions.

**Proposed Sources & Uses:**

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$18,025,000	\$148,967
Operating Reserve	\$397,000	\$3,281
Replacement Reserve	\$579,000	\$4,785
Tax/Insurance Escrow	\$239,000	\$1,975
Misc. Escrow	\$130	\$1
<b>Total Sources</b>	<b>\$19,240,130</b>	<b>\$159,009</b>

Uses	Firm	
	Amount	Per Unit
Existing Debt - Payoff	\$5,060,000	\$41,818
Soft Costs	\$161,155	\$1,332
Financing	\$531,656	\$4,394
Operating Reserve	\$372,022	\$3,075
Other Reserves	\$303,406	\$2,507
Equity Takeout	\$12,569,891	\$103,883
<b>Total Uses</b>	<b>\$19,240,130</b>	<b>\$159,009</b>

**Loan to Value Test:**

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,335,730	\$11,039	(\$10,969)	\$1,324,761	\$10,948
Appraisal Cap Rate	6.00%			6.00%	
Valuation	\$22,260,000	\$183,967	(\$180,655)	\$22,079,345	\$182,474
Loan Principal	\$18,025,000	\$148,967		\$18,025,000	\$148,967
LTV	80.97%		1%	81.64%	

- RIHousing used a 4.0% vacancy vs. appraiser's 2.5%; actual vacancy is below 1%
- Loan Amount will drop if the final interest rate is higher than the underwriting rate

As part of the approval process, staff has determined that the Development and Owner meet RIHousing's requirements for participating in the refinance/equity take-out program. Broadly, this review includes:

- Compliance with HUD's requirements;
- Demonstrated responsible long-term ownership and management of the property;
- A long-term HAP contract (20-year renewal in process);
- Well-funded reserves;
- Low vacancy rates;
- Consistency with RIHousing's standard underwriting requirements;
- Financial benefit to RIHousing; and
- Execution of a new 40-year affordability agreement.

**Underwriting Metrics:**

<b>Metric</b>	<b>Amount</b>	<b>Comment</b>
Total Development Cost Per Unit	\$159,009	
Residential Vacancy Rate	4.0%	Appraisal uses 2.5%
DCR Yr 1	1.15	Proforma utilizes negative trending
DCR Yr 15	1.74	
NOI	\$1,324,761	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	81.0%	
Initial Installment (%) of syndication proceeds	NA	
Acquisition Price equal to or less than Appraised value	NA	
Operating Reserve (Amt and confirm consistency with UW requirements)	\$564,128	Equals 3 months debt and OPEX minus deposit to Replacement Reserve; plus FFB reserve of 2 months P&I.
Replacement Reserve (Amt and confirm consistency with UW requirements)	\$242,000	2,000/unit; consistent with UW requirement

### **Deviations from standard underwriting – Yes**

A 4% vacancy rate was utilized instead of 5%. The appraisal utilized 2.5% while historic vacancy has remained at or near 1% for the past several years.

<b>Unit</b>	<b>Number of Units</b>	<b>Contract Rent</b>	<b>Market Rent</b>	<b>Contract Rent as a % of Market Rent</b>	<b>Discount from Market Rent</b>
1	109	\$ 1,800.00	\$ 1,850.00	97%	2.7%
2	12	\$ 2,350.00	\$ 2,350.00	100%	0.0%
<b>Total</b>	<b>121</b>				<b>2.4%</b>

### **Unit Distribution and Revenue**

Market rents were determined by a RIHousing-commissioned appraisal. Market rents were determined to be \$1,850 for the one-bedroom units and \$2,350 for the two-bedroom units. The project is underwritten to the lower of HAP or market rents; in this case, HAP rents.

**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 provide taxable loan funds for the purpose of financing qualified housing developments throughout the state;

**Whereas,** said loan shall be financed utilizing the Federal Financing Bank Risk-Sharing Initiative, a partnership between the U.S Department of Housing and Urban Development (“HUD”) and the U.S. Department of the Treasury Federal Financing Bank (“FFB”), under which FFB provides capital for multifamily loans insured under the Federal Housing Administration's Risk-Sharing program (the “Risk-Sharing Initiative”);

**Whereas,** said loan 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,** the Applicant listed below has presented an application to RIHousing requesting mortgage financing to rehabilitate the Development as set forth below:

<b>Applicant</b>	<b>Development</b>	<b>RIHousing 1<sup>st</sup> Mortgage</b>
Cathedral Development Group, Inc.	Marvin Gardens Apartments	\$18,025,000

**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 the Risk-Sharing Initiative and RIHousing’s enabling legislation, regulations, guidelines, and policies; and

**Whereas,** RIHousing finds that:

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

(5) 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, namely 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 firm commitment for taxable financing for MG Apartments, LP (the “Borrower”) in an amount not to exceed \$18,025,000, funded through the Risk-Sharing Initiative, for rental housing known as Marvin Gardens Apartments located in Providence, Rhode Island.

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

- A final appraisal acceptable to RIHousing prepared by an independent appraiser demonstrating that the first mortgage loan does not exceed 90% of the as-stabilized value of the property.
- Approval by RIHousing of the final scope of the rehabilitation work and completion of work that may be required prior to closing.
- Approval by RIHousing of construction plans and specifications, as well as related construction contract documentation.
- Execution and delivery by the Applicant of a construction completion guaranty in form and substance satisfactory to RIHousing.
- FHA Risk-Sharing approval from HUD for a minimum of 50% of the first mortgage under the Risk-Sharing Initiative.
- Receipt of the final Fire Code Report and Phase I report and, if required, a scope of work required to address deficiencies.
- 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.