

**Request for Action
by the Trustees of the
Affordable Housing Trust Fund**

**Firm Approval of Second Mortgage Financing
for Babcock Village Apartments**

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of Affordable Housing Trust (“AHT”) taxable second mortgage financing in an amount not to exceed \$5,000,000 for Babcock Village Apartments (hereinafter referred to as the “Development”). Cathedral Development Group, Inc. is the developer (the “Developer”).

B. DISCUSSION

Babcock Village Apartments, located in Westerly, contains 151 units in a single elevator-served building and is owned by New Babson Associates Limited Partnership (the “Owner” or the “Mortgagor”). The complex was initially built in 1980 and was most recently refinanced in 2021, at which time the Owner undertook a moderate rehabilitation of the property. The Developer has requested a second mortgage to withdraw equity resulting from recent rent increases. A capital needs assessment (“CNA”) has confirmed that no additional work is required as part of this transaction. The Developer plans to address future capital needs as they arise. A new CNA will be required at year 10 of the first mortgage 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 Section 8 Housing Assistance Payments contract (the “HAP contract”) for the Development encumbers 150 of the 151 units and was renewed on November 1, 2022 for 20 years. This project serves elderly and disabled households with a preference for elderly residents.

The property is currently carrying approximately \$17,328,000 in debt in the form of a RIHousing first mortgage. The proposed second mortgage will be coterminous with the existing first mortgage, which has a maturity date of October 1, 2037.

This RFA requests firm approval of an amount not to exceed \$5,000,000 in taxable second mortgage financing subject to certain conditions as set forth in the attached Resolution.

C. ATTACHMENTS

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

Attachment A

Credit Summary

Approval Loan Recommendation Summary – Babcock Village Apartments

Preliminary _____

Firm X

Date: April 10, 2023

Project: Second Mortgage financing for Babcock Village Apartments, 151 existing affordable elderly and disabled apartments, comprised of 135 one-bedroom and 16 two-bedroom units, located in Westerly.

Development Team

	Name	Location	Risk Rating
Sponsor/Developer	Cathedral Development Group, Inc.	Providence, RI	Low
Mortgagor	New Babson Associates Limited Partnership	Providence, RI	Low
Architect	N/A		
Legal	Law Office of Gina M. Illiano	Providence, RI	Low
Management Agent	Property Advisory Group, Inc.	Providence, RI	Low

Executive Summary

Property Address	122 Cross Street	Westerly, RI
Proposed Loan Amount(s) and Terms		
Taxable – 2 nd Mortgage	\$5,000,000	7.25%/40-year amort term

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

Proposed Sources & Uses:

Sources	Firm	
	Amount	Per Unit
RIH Second Mortgage	\$5,000,000	\$33,113
Total Sources	\$5,000,000	\$33,113

Uses	Firm	
	Amount	Per Unit
Soft Costs	\$25,000	\$166
Financing	\$100,000	\$662
Operating Reserve	\$98,470	\$652
Equity Takeout	\$4,776,530	\$31,633
Total Uses	\$5,000,000	\$33,113

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
Net Operating Income	\$1,814,686	\$12,018	(\$145,766)	\$1,668,920	\$11,052
Appraisal Cap Rate	6.00%			6.00%	
Valuation	\$30,245,000	\$200,298	(\$2,429,667)	\$27,815,333	\$184,208
Loan Principal	\$22,328,000	\$147,868		\$22,328,000	\$147,868
LTV	73.82%		6.4%	80.27%	

Note: We considered the combined balances of the existing first mortgage and the proposed 2nd mortgage in our LTV analysis.

- RIHousing used a 4.0% vacancy vs. appraiser's 3.0%; actual vacancy is around 1%
- RIHousing used more conservative operating expense overall
- Loan Amount will drop if the final interest rate is higher than the underwriting rate and if the project cannot maintain a Debt Service Coverage ratio in excess of 1.2 for the combined first and second mortgages

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 completed);
- 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:

Metric	Amount	Comment
Total Development Cost Per Unit	\$33,113	
Residential Vacancy Rate	4.0%	Appraisal uses 3.0%
DCR Yr 1 *	1.23	Proforma utilizes negative trending
DCR Yr 15	1.46	
NOI	\$1,324,761	Year 1
Income Trending	2.0%	
Expense Trending	3.0%	
Loan to Value	73.8%	
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)	\$98,470	This is an additional deposit to the existing Operating Reserve
Replacement Reserve (Amt and confirm consistency with UW requirements)	NA	No additional deposit is required.

* DCR is based on first and second mortgages

Deviations from standard underwriting – Yes

A 4% vacancy rate was utilized instead of 5%. The appraisal utilized 3.0%, while historic vacancy has remained at or near 1% for the past several years.

Unit	Number of Units	Contract Rent	Market Rent	Contract Rent as a % of Market Rent	Discount from Market Rent
1	135	\$ 1,700	\$ 1,925	88%	11.7%
2	15	\$ 2,050	\$ 2,215	93%	7.4%
2	1	\$ -	\$ 2,215	0%	0.0%
Total	151				11.6%

Unit Distribution and Revenue

Market rents were determined by a RIHousing-commissioned appraisal. Market rents were determined to be \$1,925 for the one-bedroom units and \$2,215 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 Trustees of the Affordable Housing Trust Fund

Whereas, the Affordable Housing Trust Fund (the “AHT”) was created by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) for the sole purpose of making homeownership to low- and moderate-income residents of the State of Rhode Island more affordable;

Whereas, one of the purposes of the AHT is to assist in the preservation of affordable housing throughout the State of Rhode Island; and

Whereas, the AHT has increased its investment portfolio over the last several years through its preservation related activities.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that subject to the special condition listed below, the AHT be and is hereby authorized to commit up to \$5,000,000 in funding to New Babson Associates Limited Partnership (the “Borrower”) for rental housing known as Babcock Village Apartments located in Westerly, Rhode Island.

Resolved, that the foregoing resolution is subject to the following condition:

- Completion of all items required by RIHousing for firm commitment and closing in accordance with normal underwriting and processing requirements.

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