

Request for Action
by
Board of Commissioners

Firm Approval of Financing for Maple Gardens II

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of taxable refinancing in an amount not to exceed \$10,360,000 for Maple Gardens II (“Maple Gardens II” or the “Development”), an existing affordable housing development currently financed by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”). Ferland Corporation is the developer (“Ferland” or “Developer”).

Maple Gardens II is an existing elderly affordable housing development located in North Providence, RI. The Development consists of 90 units in 3 three-story buildings and a community building. The Development was built in 1983 and fully renovated in 2000. There are 84 one-bedroom and 6 two-bedroom units. The Development is subsidized by the U.S. Department of Housing and Urban Development (“HUD”) through a Section 8 Housing Assistance Payment (“HAP”) contract that is effective through May 2040.

The Development is owned by Maple Housing Group, LP (the “Borrower”). Ferland and MG Management LLC (“MGM”) are co-general partners of the Borrower with each holding a 1% interest. The limited partners of the Borrower are Ferland (24.5%), MGM (49%), and A. Austin Ferland (24.5%). No change in either the general partner or a limited partner with greater than 25% ownership interest will occur as a result of this proposed transaction.

The Borrower will use the proceeds of the new financing to pay off the existing mortgage, undertake elevator, accessibility, and life safety upgrades to the Development, and recapitalize the replacement and operating reserves. The scope of the rehabilitation to be undertaken is moderate and Ferland will act as the self-performing general contractor. While architectural plans are not expected to be required, in the event that limited architectural drawings are required, The Robinson Green Beretta Corporation will provide the limited architectural services.

RIHousing’s design and construction staff has reviewed and approved the proposed scope of work. The Borrower will capitalize a new replacement reserve account with \$315,000 or \$3,500 per unit. In addition, the Borrower will make annual deposits of \$29,500, or \$325 per unit, into the replacement reserve, which is sufficient to address potential capital needs over the next 15 years. RIHousing will require that a capital needs assessment (“CNA”) be performed every 5 years and the Borrower may be required to recapitalize the replacement reserve to meet the capital needs of the property as determined by the CNA.

RIHousing currently holds the first mortgage and is familiar with the property and operations. In addition to the rehabilitation, the Borrower will withdraw a portion of accrued equity in the Development. The proposed refinancing is consistent with RIHousing’s taxable loan program that has replaced the Treasury-HUD Federal Financing Bank (“FFB”) HFA Multifamily Risk Sharing Loan Financing Initiative, which was suspended by HUD in 2018. As part of the underwriting process, staff has determined that the Development meets RIHousing’s requirements. Broadly, this review included:

- Compliance with HUD’s requirements
- Demonstrated responsible long-term ownership and management of the property
- A 20-year HAP Contract
- Adequately funded replacement and operating reserves
- Low vacancy rates
- Consistency with RIHousing’s standard underwriting requirements
- Financially beneficial to RIHousing
- Execution of a new 40-year affordability agreement

The refinancing of the Development will extend the affordability for another 40 years. As part of this refinancing, RIHousing will receive an origination fee of \$153,600 and the Borrower will cover the fees associated with the financing.

RIHousing commissioned an appraisal seeking the as-is value assuming the lower of market rents or the current HAP rents. The proposed loan is underwritten to the lower of market or HAP rents.

This RFA is for firm approval of taxable refinancing in an amount of up to \$10,360,000 for the Development.

B. RECOMMENDATION

The attached resolution is recommended for approval subject to the following:

- Approval by RIHousing of the final scope of the rehabilitation work.
- Approval by RIHousing of construction specifications and supporting construction documentation for the scope of rehabilitation work.
- FHA Risk Sharing approval from HUD for a minimum of 50% of the first mortgage.
- Completion of all items required for firm commitment and closing in accordance with normal underwriting and processing requirements.

C. ATTACHMENTS

- A. Development Summary
- B. Term Sheet
- C. Resolution
- D. Site Location Map

ATTACHMENT A
Development Summary

A. Development Team

- 1. Developer:** Ferland Corporation
558 Smithfield Avenue
East Providence, RI 02860-1633
- 2. Architect:** The Robinson Green Beretta Corporation
50 Holden Street
Providence, RI 02908
- 3. Contractor:** Ferland Corporation
558 Smithfield Avenue
East Providence, RI 02860-1633
- 4. Legal:** Cameron & Mittleman LLP
301 Promenade Street
East Providence, RI 02908
- 5. Management Agent:** Ferland Property Management
558 Smithfield Avenue
East Providence, RI 02860-1633

Development Team Qualifications

Developer/General Contractor /Management Agent

Ferland Corporation (“Ferland Corp”) is a Rhode Island-based real estate developer and general partner in several Section 8 developments financed by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”). Ferland Corp has proactively preserved most of its portfolio with RIHousing through RIHousing’s preservation programs. Their identity of interest management agent is Ferland Property Management (“FPM”). FPM is an experienced management agent providing services to its developments financed by RIHousing. Ferland Corp and FPM own and operate other developments throughout Rhode Island.

Architect:

The Robinson Green Beretta Corporation (“RGB”) is a diversified architectural, planning, and interior design firm. RGB has provided professional services to businesses and communities of southern New England since 1970. The firm operates in all market sectors, serving a range of clients. RGB has a long history of service to major corporations and critical government agencies in southern New England. The firm has also served many area cities and towns in designing and maintaining municipal buildings and corresponding school districts.

Legal:

Cameron & Mittleman LLP will serve as the borrower’s legal counsel for the transaction. The firm’s finance clients include national, regional and local banks and trust companies, finance companies,

economic development agencies, secondary mortgage lenders, and loan brokers for commercial secured and unsecured lending. Business transactions for those clients include the negotiation, documentation, and closure of transactions involving financing for working capital, funding of mergers and acquisitions and leveraged buyouts, commercial real estate mortgage, development and construction loans, syndicated and participated loans and letters of credit.

B. Unit Distribution and Revenue

Bedroom Size	NRSF per Unit	Gross HAP Rent	Gross Market	Gross UW Rent
1	550	\$1350	\$1350	\$1350
2	660	\$1510	\$1515	\$1510

C. Financing Summary

Sources	Firm	
	Amount	Per Unit
RIH First Mortgage	\$10,360,000	\$115,111
Existing Reserves	\$591,182	\$6,569
Total Sources	\$10,951,182	\$121,680

Uses	Firm	
	Amount	Per Unit
Construction	\$515,370	\$5,726
Contingency	\$51,537	\$573
Acquisition	\$3,721,630	\$41,351
Soft Costs	\$189,826	\$2,109
Financing Costs	\$324,450	\$3,605
Operating Reserve	\$21,892	\$243
Replacement Reserve Year 1 Deposit	\$315,000	\$3,500
Equity Takeout	\$5,811,478	\$64,572
Total Uses	\$10,951,182	\$121,680

Attachment B
Term Sheet – Maple Gardens II

Borrower:	Maple Housing Group, LP
Rents:	Underwriting rents are the lower of the U.S. Department of Housing and Urban Development (“HUD”) housing assistance payment (“HAP”) rents or market rents as determined by a certified appraiser commissioned by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”).
Mortgage Term:	The loan term will be for 40 years with a balloon payment of the outstanding principal balance after 17 years.
Excess Cash Flow:	Equity will be determined at the final advance of loan and will be based on the difference between the loan and the appraised value. As per RIHousing statutory regulations, the return on equity (“ROE”) shall be the average per annum yield on the 30-year US Treasury Bond plus 5%.
Permanent Loan Rate:	The final loan rate will be determined at the time of the loan closing based on market conditions. The current underwriting rate is 4.50%
Mortgage Insurance:	Credit enhancement provided through the HUD/HFA Risk Sharing Program; Mortgage Insurance Premium (“MIP”) is .125% of the outstanding loan amount annually. The first year of MIP is due at closing.
Collateral:	The Borrower will furnish as security for the loan, a first mortgage covering the premises and a collateral assignment of the rents and leases.
Loan to Value Ratio:	The RIHousing first mortgage may not exceed 90% of the as-stabilized value, subject to the lower of HAP rents or market rents as determined by a certified appraiser commissioned by RIHousing.
Debt Service Coverage:	The required debt service coverage ratio for sizing the supportable first mortgage is a minimum of 1.15
Loan Fee:	At or before loan closing, Borrower shall remit to RIHousing a first mortgage origination fee equal to 2% of the first \$5 million of the loan and 1% on the balance of the loan amount.
Third Party Fees:	The Borrower shall be responsible for paying any and all of RIHousing’s third-party fees required to complete RIHousing’s due diligence review and close the transaction. Costs may be capitalized in the development budget; costs exceeding those budgeted at closing

will be the responsibility of the Borrower.

Replacement Reserves: The Borrower shall capitalize a new replacement reserve account in the amount of \$315,000. The Borrower shall make monthly deposits to a replacement reserve, held by lender, in an amount equal to \$325 per unit per year. The lender reserves the right to modify the annual reserve contribution over the term of the loan due to inflation or the physical needs of the development.

**Capital Needs
Assessment:**

A capital needs assessment (“CNA”) will be commissioned by RIHousing on every 5th anniversary following the amortization date. Borrower shall reimburse RIHousing for all costs related to the CNA. Upon completion of the CNA, Borrower shall deposit to the replacement reserve account an amount equal to the amount determined by the CNA required to provide sufficient capital reserves until the prepayment date.

Operating Reserve: The Borrower shall capitalize an operating reserve at loan closing in a total amount of \$16,859.

**Insurance and Tax
Escrows:**

The Borrower will capitalize new insurance and tax escrows, and the Borrower will continue to make monthly deposits equal to 1/12th of the annual billing.

Regulatory Agreement: Borrower is required to execute an affordability agreement restricting the units for 40 years from closing.

**Attachment C
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 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 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 provide the capitalized interest if determined to be necessary;

Whereas: the applicant (“Applicant”) listed below has presented an application to RIHousing requesting mortgage refinancing to rehabilitate the development (the “Development”) as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Mortgage</u>
Maple Gardens II	Maple Housing Group, LP	\$10,360,000

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:

- (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 Rhode Island Housing and Mortgage Finance Corporation 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 authorizes firm approval of taxable refinancing to the Applicant in an amount not to exceed \$10,360,000 for rental housing known as Maple Gardens II located in North Providence, Rhode Island;

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

- Approval by RIHousing of the final scope of the rehabilitation work.
- Approval by RIHousing of construction specifications and supporting construction documentation for the scope of rehabilitation work.
- FHA Risk Sharing approval from the U.S. Department of Housing and Urban Development (“HUD”) for a minimum of 50% of the first mortgage.
- 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, or the Director of Development each acting singly, shall take any and all actions they deem necessary to carry out the foregoing resolutions.

ATTACHMENT D Site Location Map

