

**REQUEST FOR ACTION
BY
BOARD OF COMMISSIONERS**

*Authorization to Issue Tax-Exempt Loan to Support
Construction of The Flynn
\$38,000,000*

1. Summary of Issues

As part of the process of financing the construction of The Flynn in Providence, staff has requested the Board of Commissioners to approve the issuance by Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) of a tax-exempt note not to exceed \$38,000,000. The Flynn will provide 178 units of housing, of which 100% will be affordable to households with incomes at or below 80% of area median income. The developer, Marathon Development, LLC (“Marathon”), has formed a limited liability company, The Flynn I LLC (the “Borrower”), which will be the owner of the project and the recipient of the loan.

This Request for Action is for authorization to enter into a tax-exempt private placement back-to-back loan structure with Citizens Bank, N.A. (“Citizens”) to fund the loan for The Flynn.

Citizens will make a direct loan to RIHousing and RIHousing will issue a tax-exempt note to Citizens evidencing the loan. RIHousing, in turn, will advance the loan proceeds to the Borrower under the agency’s tax-exempt bond volume cap that will otherwise go unused. The back-to-back loan proceeds will be deemed tax-exempt. RIHousing and the Borrower will undertake all of the standard obligations related to a tax-exempt facility. Upon construction completion, Freddie Mac will step in as the Permanent Loan funder. Because the loan is considered to be a tax-exempt financing, the Development will be eligible to receive 4% low-income housing tax credits and generate approximately \$32 million in equity to fund development costs.

The loan will be non-recourse to RIHousing. RIHousing will only need to provide an assignment of its rights under the loan to Citizens. The Borrower note and mortgage will also be assigned to Citizens and, subsequently, Freddie Mac. Berkeley Point Capital LLC d/b/a Newmark Capital (“Newmark”) will act as the DUS lender and will service the permanent loan for Freddie Mac. During construction and prior to conversion to the permanent loan, Citizens will bear the financial risk. Freddie Mac will bear the financial risk on the permanent loan.

This structure provides a number of advantages to the participants. The Borrower receives a better interest rate, reduced transaction fees and more expedited closing process. Citizens is able to record this transaction as a loan for purposes of its evaluation under the Community Reinvestment Act. RIHousing will receive a one-time origination fee of 1.0% of the principal amount of the loan, plus an annual issuer fee equal to 25 basis points of the outstanding loan, without having to service the loan to the Borrower or bearing any financial risk from the Borrower’s default. Marathon will pay all costs associated with the transaction.

Attachment B sets forth the terms of the loan agreement between RIHousing and Citizens and Attachment C sets forth the terms of the loan agreement between RIHousing and the Borrower.

2. Recommendation

RIHousing staff recommends approval of the attached resolutions authorizing a loan from Citizens in an amount up to \$38,000,000 to finance a tax-exempt loan to the Borrower for the acquisition and rehabilitation of The Flynn, and the execution of the loan agreements in substantially the form set forth in Attachments B and C.

3. Attachments

- A. Authorizing Resolution
- B. Form of Funding Loan Agreement with Citizens
- C. Form of Borrower Loan Agreement