

**Request for Action
By
Board of Commissioners**

**Authorization of Naturally Occurring Affordable Housing (“NOAH”) Loan
Demonstration Program**

I. SUMMARY OF ISSUES

This Request for Action is for authorization to administer the Naturally Occurring Affordable Housing (“NOAH”) Loan Demonstration Program (the “Program” or “NOAH Loan”). The Program was created to provide mortgage financing for non-restricted naturally affordable multifamily properties that do not need subordinate debt.

II. DISCUSSION

The intention of the Program is to provide financing to housing developers pursuing the acquisition and preservation of existing non-restricted housing with rents at 80% of area median income (“AMI”) or less. In exchange for lending requirements that are less restrictive than the conventional capital markets can provide, the NOAH Loan will require at least 40% of the units in a development to be restricted to households earning no more than 80% AMI for a period of 20 years. In addition, the Program aims to minimize the size of potential rent increases on existing tenants while still balancing the needs of the developer to ensure adequate operating income to consummate a transaction.

The terms of the Program are outlined in Attachment A. Most notably, the loan amount will be limited to the lower of 85% of the as-is value based on an RIHousing-commissioned appraisal or 1.2 debt service coverage. As a demonstration program, staff plans to start with smaller projects to test the market and determine whether further demand for the Program exists.

With the approval of the Program, RIHousing will add the Term Sheet at Attachment A to the Developer’s Handbook with further guidance regarding eligibility and selection criteria. It is anticipated that the basic terms of the Program will be as follows:

- Minimum of 5 units in the proposed development;
- Maximum loan amount of \$3,000,000;
- Only single sites are eligible (no scattered site developments); and
- Non-profit and for-profit developers are eligible to participate in the program.

III. RECOMMENDATION

Staff recommends approval of the attached resolution authorizing the administration and award of taxable loans under the Naturally Occurring Affordable Housing (“NOAH”) Loan Demonstration Program in accordance with the Term Sheet at Attachment A.

IV. ATTACHMENTS

- A. Term Sheet

B. Resolution

Attachment A

STATE OF RHODE ISLAND

**NATURALLY OCCURRING AFFORDABLE HOUSING (“NOAH”) LOAN
PROGRAM DESCRIPTION**

Applicant:	[XXXX and to-be-determined co-applicants]. (the “Applicant”)
Borrower:	A to-be-determined single asset entity acceptable to RIHousing in all respects.
Subject Property:	A XX-unit multifamily property located at [Sample Street in XXXX], RI. (the “Property”)
Loan Type:	A first mortgage loan to be referred to as the “Loan”.
Purpose:	The proceeds of the Loan will be used for acquisition and rehabilitation of the Property.
Loan Amount:	A to-be-determined amount, currently estimated to be [\$XXXX], subject to RIHousing’s underwriting standards.
Amortization:	Up to thirty (30) year amortization. [An amortization term with a balloon payment before full maturity is allowable in certain situations]
Interest Rate:	To Be Determined but fixed for term of loan. The interest rate is based on current market conditions and is subject to change.
Loan-to-Value & Appraisal:	The Loan amount will be limited to the lower of 85% of the as-is value based on an RIHousing-commissioned appraisal or 1.20 debt service coverage.
Debt Service Coverage:	A minimum of 1.20 on the Loan tested annually.
Vacancy Rate:	Minimum vacancy rate of 5% is applied for initial underwriting.
Tax and Insurance:	Three (3) months will be held in escrow by the property management agent and verified annually with Lender.
Operating Reserve:	Three months debt and operating expenses funded at closing. The operating reserve will be released in 2 consecutive annual installments starting after the second full year of stabilization if debt service is equal to or greater than 1.2, and the borrower is in compliance with all loan documents.

Replacement

Reserve: \$300 per unit [or higher/lower if required by Capital Needs Assessment]

Construction**Contingency:**

If required, the budget for Development, including all budget line items, is subject to RIHousing approval. The budget shall include a hard cost contingency no less than 5% of budgeted hard costs.

Affordability**Restriction:**

A minimum of 40% of the units will be restricted to 80% of Area Median Income (“AMI”) until the later of twenty (20) years or Loan maturity.

Prepayment**and Refinance:**

Prepayment of the Loan is restricted until the 5th year following the closing date. A prepayment penalty of 5% of the outstanding principal balance will be applicable in the 5th year, reducing by 1% per year until the 10th year.

Borrower Financial:

The Borrower’s financial condition(s) must be acceptable to RIHousing in all respects. Borrower will be required to demonstrate a minimum of \$250,000 in liquid assets to qualify for the Loan. Annual submission of a corporate or personal financial statement of the borrower(s) as well as yearly submission of personal and business income tax returns. Two years of tax returns are to be submitted with this request.

Loan**Guarantees:**

The Loan will be non-recourse, except for certain carve-outs related to rental achievement, debt service coverage and environmental liability.

Subordinate Debt:

Any subordinate debt, and their respective loan documents must be acceptable to RIHousing in all respects.

Loan Security:

First priority mortgage on the Development; a first priority collateral assignment of rents and leases covering the premises; pledges of reserve accounts; a first priority security interest in Borrower's personal property, fixtures and equipment pertinent to the operation and maintenance of the Premises as RIHousing shall designate at any time or from time to time; and any parking rights appurtenant to all commercial and residential leases that may be in effect.

Disbursement**Schedule:**

Loan proceeds will be advanced to the borrower at closing.

Fees and Expenses:

Origination Fee: 1% of the Loan amount

Transaction Costs: The Borrower shall pay RIHousing's costs and expenses of due diligence, underwriting and closing this transaction including the fees and disbursements of our independent counsel.

Property Condition: Borrower will maintain the property condition consistent with RIHousing's minimum standards for non-subsidized apartments. RIHousing reserves the right to inspect the Property annually.

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 developers for projects that in the judgment of RIHousing will provide decent and safe affordable housing for low and moderate income persons or families;

Whereas, RIHousing has established the Naturally Occurring Affordable Housing (“NOAH”) Loan Demonstration Program to provide mortgage financing for non-restricted naturally affordable multifamily properties that do not need subordinate debt; and

Whereas, RIHousing finds that:

(1) There exists a shortage of decent, safe, and sanitary housing at rental levels or sales prices which persons and families of low or moderate income can afford within the state;

(2) The proposed activities to be undertaken under the Program will provide a public benefit;

(3) That the activities that will be undertaken under the Program will be under the authority of and consistent with the provisions of the Rhode Island Housing enabling act, Chapter 55 of Title 42 of the Rhode Island General Laws.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that RIHousing be and hereby is authorized to establish and administer the Naturally Occurring Affordable Housing (“NOAH”) Loan Demonstration Program, structured generally in accordance with the description contained in the Term Sheet attached hereto, with such changes as the Executive Director, Deputy Executive Director, and Director of Real Estate Development may, in their sole discretion, determine to be necessary or advisable;

Resolved, that any such previous actions and approvals by the Executive Director, Deputy Executive Director, or Director of Real Estate Development consistent with the terms of the Term Sheet are hereby ratified and confirmed; and

Resolved, that the Executive Director, Deputy Executive Director, and Director of Real Estate Development, each acting singly, be and hereby are authorized, empowered and directed to take any and all actions as each, in his/her sole

discretion, shall deem necessary or advisable to carry out the foregoing resolutions.