Naturally Occurring Affordable Housing (NOAH) Loan Program
For Acquisition and Light Rehabilitation of Mixed-Income Apartments

The intention of the NOAH program is to provide financing to housing developers pursuing the preservation of existing affordable housing with rents at 80% AMI or less. The RIHousing NOAH loan program will require at least 40% of the units be restricted to 80% AMI for 20 years.

The NOAH program is available to all applicants pursuing NOAH developments that would otherwise not qualify for conventional loans either due to conventional lending terms or borrower liquidity requirements.

Borrowers such as community development corporations (CDC) and novice for-profit developers would be the likely applicants pursuing this program because the NOAH terms align with a CDC's mission and offer a steppingstone with reduced equity and higher leverage for novice developers.

Existing housing currently occupied at affordable rates (for purposes of this program generally defined as approximately 60%-80% of AMI) generally costs less to acquire and rehabilitate than the development of new affordable housing units using tax credits and other state resources. For example, the least expensive 9% tax credit proposal in the recent round was $275,000 per unit while the most expensive was nearly $375,000 per unit. We expect NOAH deals to cost $150,000 to $200,000 per unit based on our preliminary survey of available properties and require less, if any soft debt.

The NOAH Program is envisioned to be primarily:

- Senior debt provided by RIHousing up to 90% Loan-To-Value ("LTV").
- Developer equity of at least 10% of Total Development Cost ("TDC"), in the form of cash, a grant and/or property value.

The loan size and deal terms may be adjusted based on an assessment of the borrower's financial capacity.

We do not envision using these loan terms to develop housing that requires other soft financing (i.e. HOME, HTF, BHRI, etc.)

Program Benefits:

Unit Production – Affordable housing production has historically been limited due to the need for and availability of scarce resources like 9% credits and HOME funds. Where existing market rental rates are between 60% and 80% AMI, (and perhaps as high as 100% AMI in certain areas), there is an opportunity to secure affordability restrictions on these units today to stem future market rent increases. Under the NOAH program, existing market rate apartments with [some] current rents at or below 80% AMI, could use the current in-place revenue to underwrite debt for up to 90% LTV to acquire and rehabilitate those units and secure an affordability restriction for 20 years.

- **Cost Reduction –** Acquiring existing occupied units is less expensive than new construction. New construction costs range from $275,000 to $375,000 per unit. The proposed NOAH Loan Program would allow developers to acquire, rehabilitate and restrict existing market rate properties for less than $200,000 per unit.

- **More Private Investment with Less RIHousing Resources –** By investing in NOAH properties, less of the already scarce affordable housing production resources are required to produce more affordable units and investment returns may be sufficient to attract private equity investment.
- **CDC Empowerment –** CDCs naturally encounter NOAH properties in the course of their business but lack the financial resources to acquire them. While the NOAH Program will not be restricted to non-profit developers, the program provides an opportunity to empower mission driven developers with aligned goals, like our CDCs, who seek to grow their financial capacity.
- **RIHousing Income Stream –** The NOAH loan program will provide additional revenue to RIHousing in the form of underwriting fees and interest margin which may be repurposed to accomplish RIHousing's mission.
- **Developer Upside -** With NOAH acquisitions, Developers can possibly position a portfolio of apartments for potential 4% tax credit finance at a later point in the future. The unrestricted units in the portfolio will also provide a growth opportunity for the developer to increase debt service coverage (DSC), offer their investors a return and benefit from economies of scale.

Competitive Advantage:

- **RIHousing can lend up to 90% LTV on multifamily properties where a minimum of 40% of the units are restricted to 80% AMI or less.** Conventional lenders will generally only lend up to 65% to 80% LTV, thus requiring developers to provide additional equity or source mezzanine financing, both of which typically have a cost of capital ranging from 8% to 15%. RIHousing can also compete with lower underwriting fees and personal assistance for developers with less NOAH experience.

Program Risks:

- **RIHousing Reputational Risk:** The condition of NOAH properties will likely be "fair to average" with light rehabilitation budgets and lower operating budgets. Newly constructed units are objectively safer for RIHousing's reputation, but they are also much more expensive on a per unit basis which contributes to the adverse opinion of publicly financed housing. Developers may increase rents to underwrite their investment which may be costly for existing residents.
- **Construction Risk:** Minimum property quality standards as defined by HUD would streamline the review process. As existing properties, the construction risk will be limited. Correction of access, and life-safety improvements will be the primary focus of the rehabilitation scope of work, which scope will be based on items identified by third party reports such as a Capital Needs Assessment and Fire Code Report. This will require a different lens by our D&C team, as these properties will not meet our standard D&C guidelines which are designed for new construction or substantial rehabilitation of deeply subsidized housing.
- **Financial Risk:** Underwriting metrics will need to be clear and straightforward. The developer and property manager's on-going capacity with successfully operating a portfolio of affordable housing units will be critical to ensuring this program is feasible and offers appropriate investment returns. These loans may not qualify for FHA Risk Share insurance. RIHousing needs to set minimum requirements for DSC and LTV.

- **Borrower Financial Capacity:** RIHousing has established a minimum liquidity requirement of $250,000 for borrowers under this product.
- **Developer Risk:** It is critical that RIHousing get to know the borrowers, particularly those new to RIHousing.

Eligible Assets: Limited to multifamily apartment projects with at least 10 residential units and a minimum first mortgage of $1,000,000. On a case-by-case basis, mixed-use assets will be considered.

NOAH LOAN TERMS

Maximum Loan-to-Value: Will be limited to the greater of 90% of the as-is value or up to 90% of the as-improved value, utilizing projected market and restricted rents as determined by a RIHousing commissioned appraisal and subject to market specific conditions. The amount of loan proceeds that exceed 90% of the as-is value will be subject to a Hold Back until the Subject Property has achieved rents sufficient to support the as-improved value. The Hold Back may be partially disbursed upon rental achievement.

Minimum Debt Service Coverage Ratio: Typically, 1.20 for a minimum of 15 years with negative trending assuming inflation of 3% for expenses and 2% for income. [RIHousing may consider reducing the debt coverage requirement to 1.15 depending on location, borrower financial strength, market conditions, and the percentage of income restricted units].

Affordability Restrictions:

- A minimum of 40% of the units will be restricted to a maximum of 80% AMI
- A minimum twenty-year deed restriction will be recorded.

Loan & Amortization Terms: Loan terms between 20 and 30 years with comparable amortization schedules. For credit worthy borrowers, an amortization schedule of 30 years with a 10-year balloon will be considered.

Interest Rate: Currently 4.5%, Fixed for the life of the loan, but subject to change until the closing date without prior notice.

Rehabilitation Scope: To be determined by a RIHousing commissioned Capital Needs Assessment. A fire code report should be considered for buildings with 4 or more stories.

Vacancy: A minimum of 5% vacancy on all units provided the historical vacancy is less than 4% for the past two years.

Additional terms: Non-recourse with standard prepayment options. Underwriting rents are subject to a RIHousing commissioned appraisal. (Potential performance guarantees that burn off over time if underwriting to higher rents than in place at closing).

Area Median Rents

The following chart illustrates current maximum rental rates for 60% to 120% AMI in the Providence-Fall River MSA to provide context for the NOAH Program.

2021 PROVIDENCE-FALL RIVER MSA RENTS					
	Gross Rents				
Beds	**60%**	**70%**	**80%**	**100%**	**120%**
0	$909	$1,061	$1,212	$1,515	$1,818
1	$973	$1,135	$1,297	$1,622	$1,946
2	$1,168	$1,363	$1,557	$1,947	$2,336
3	$1,350	$1,575	$1,800	$2,250	$2,700
4	$1,506	$1,757	$2,008	$2,510	$3,012
5	$1,661	$1,938	$2,215	$2,768	$3,322

Additional Questions:

- **Will Developers be able to be paid a developer fee?** Yes. Similar to a market rate transaction, the developer fee would be determined by the development partnership and subject to the availability of funds. If RIHousing provides subordinate financing, the developer fee will be subject to RIHousing approval.
- **Is the Management Fee capped?** No. It is up to the developer to determine the management fee paid to the management agent. The typical management fee for "market rate" housing is less than the management fee on deeply affordable housing.
- **How is Surplus Cash Flow divided?** The developer will be entitled to 100% of Surplus Cash.
- **Additional Questions?** Development staff will provide an online workshop, tutorial, and FAQ page to help with the application process and answer questions. The application will contain critical questions to consider and provide links to resources available for all borrowers.