

Request for Action
by
Board of Commissioners

Firm Approval of Financing for The Flynn (Providence)

A. PROJECT SUMMARY

This Request for Action (“RFA”) is for firm approval of Rhode Island Housing and Mortgage Finance Corporation (“RIHousing”) tax-exempt financing in an amount not to exceed \$38,000,000, of which \$19,105,000 will remain as permanent debt, as well as firm approval of (i) a Capital Magnet Fund loan in an amount not exceed \$999,000 (the “CMF Loan”); and (ii) an ERA2 Loan in an amount not to exceed \$10,470,000 for The Flynn (hereinafter referred to as the “Development”). Marathon Development, LLC is the developer (the “Developer”). The Development received preliminary approval from the Board of Commissioners on September 19, 2024 (“Preliminary Approval”).

B. DISCUSSION

The Development is the new construction of 178 units of affordable housing, as well as 10,000 square feet of ground-floor commercial space, in Providence. Collectively, there will be 36 units affordable to households at or below 30% of area median income (“AMI”), 102 units affordable to households at or below 60% of AMI, and 40 units affordable to households at or below 80% of AMI. All 178 dwelling units will be financed under the low-income housing tax credit (“LIHTC”) program. Seventy-one percent (71%) of the units will be two and three-bedroom units targeting families, and the balance will be one-bedroom units.

In May 2024, RIHousing provided acquisition financing to the Developer to facilitate its acquisition of the site, which was to be known as “Copley Centre.” The Developer intends to form a land condominium and will enter into a ground lease for the portion of the land dedicated to the Development. This will allow for future development of the portion of the parcel not included in the Development. The Developer aims to provide community-focused housing with services that ensure tenant success and neighborhood revitalization. Children’s Friend is an anchor tenant and will provide childcare and Head Start education to tenants and the broader community. This will be Children’s Friend's third partnership with LIHTC developers to expand Head Start opportunities. In addition to the Children’s Friend lease, the Developer will enter into parking lot leases to generate additional commercial revenue to support the net operating income of the Development. Furthermore, the Development will connect tenants with Providence Community Health Center’s full array of care utilizing their Community Health Workers.

This is a conduit transaction in which Citizens Bank, N.A. (“Citizens”) will provide the capital for RIHousing’s tax-exempt issuance. The proceeds will be loaned as a construction loan to the Borrower (the “Construction Loan”). In order to minimize the amount of tax-exempt funding, Citizens will provide a taxable tail in the amount of \$6,000,000 to support a total construction loan of \$44,000,000. The funding for the Construction Loan is non-recourse to RIHousing, and the only security to be provided by RIHousing will be an assignment of RIHousing’s rights under the Construction Loan. The Construction Loan will be a recourse loan to the Borrower and any guarantors. Berkeley Point Capital LLC d/b/a Newmark Capital (“Newmark”) will act as the DUS lender to provide the permanent loan in conjunction with Freddie Mac (the “Permanent Loan”). Upon completion, Freddie Mac will step in as the Permanent Loan lender. Newmark will service the Permanent Loan on behalf of Freddie Mac who will bear the

financial risk should the Borrower default on the Permanent Loan. RIHousing will charge a one-time issuer fee of 1% and an annual servicing fee of 25 basis points on the Construction and Permanent Loans.

Both Citizens and Newmark have provided term sheets and drafted the loan documents for the proposed loans. Once the rate is locked, the final size of the permanent loan will be determined. It will be limited to 80% LTV with debt service coverage of 1.15.

Since Preliminary Approval, the Developer has started construction in order to be out of the ground before winter starts. The foundations are in, and the first floor of steel is erected. The Developer closed on their two loans with the City of Providence and is using the City funds to cover the current construction disbursements.

At the time of Preliminary Approval, the capital stack included \$13,934,366 in state low income housing tax credit (SLIHTC) equity, but the SLIHTC awards have not yet been made. Since Preliminary Approval, ERA2 funding has become available for the production of affordable housing. ERA2 funds may only be used for (i) units affordable to households with incomes below 50% of AMI and (ii) projects that can meet the disbursement deadline of September 30, 2025. An RFP for ERA2 funding was recently issued by RIHousing, and the Developer submitted an application (the “ERA2 Application”) in order to replace the SLIHTC which has not yet been allocated. The ERA2 Application identifies 20% of the units as below 50% AMI and includes a construction cash flow illustrating how the ERA2 funds can be disbursed by the spending deadline. Accordingly, the current capital stack includes ERA2 funding and no SLIHTC. Since the amount of ERA2 funds is less than the original SLIHTC request, the Developer has increased their deferred fee to cover the remaining funding gap. In addition, the Developer has submitted an amended request for SLIHTC to reduce the deferred fee but is prepared to close with the higher fee.

The LIHTC syndicator will be CREA, LLC (“CREA”), which will purchase the 4% LIHTCs at \$0.890. CREA’s investors are Citizens and Aetna/CVS. This will be Aetna/CVS’s first LIHTC investment in Rhode Island.

This RFA requests firm approval of an amount not to exceed \$38,000,000 in tax-exempt financing, of which \$19,105,000 will remain as permanent debt, as well as firm approval of (i) a Capital Magnet Fund loan in an amount not exceed \$999,000; and (ii) an ERA2 Loan in an amount not to exceed \$10,470,000 for The Flynn, 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 – The Flynn

Preliminary _____

Firm X

Date: December 19, 2024

Project: New construction of 178 affordable apartments in Providence comprised of 36 units at 30% AMI, 102 units at 60% AMI and 40 units at 80% AMI, as well as 10,000 square feet of commercial space.

Development Team:

	Name	Location (city/state)	Risk Rating (low/med/high)
Sponsor/Developer	Marathon Development, LLC	Boston, MA	Low
Mortgagor (Permanent)	The Flynn I, LLC	Boston, MA	Low
Architect	Branch Architects LLC	East Providence, RI	Low
General Contractor	Marathon Construction Inc.	Boston, MA	Low
Legal	Chace Rutenberg & Freedman, LLP	Providence, RI	Low
Management Agent	Wingate Management Company, LLC	Newton, MA	Low
Consultant	N/A		
Syndicator	CREA, LLC	Boston, MA	Low

Executive Summary

	Address	City
Property Address	220 Blackstone Street, Providence, RI 02903	Providence

Proposed Loan Amount(s) and Terms		
	Amount	Interest rate/Term
Tax Exempt Loan with Citizens	\$38,000,000	6.81%*, Private Placement
Taxable Loan with Citizens	\$6,000,000	7.21%*, Private Placement
Permanent Loan with Newmark	\$19,105,000	6.240%** - 35 year amortization with a 15 year balloon
CMF Loan	\$999,000	1%, 35 years
ERA2 Loan	\$10,470,000	0%, 35 years

*The final rates will be locked at closing at the Tax-Exempt rate based on Daily Simple SOFR, plus 150 bps (with a Daily Simple SOFR floor of 75 bps).

**The final rate will be locked at closing based on 194 bps over the 10-year U.S. Treasury Securities as determined by Freddie Mac.

Sources and Uses

Sources	Preliminary		Delta	Firm -with ERA 2	
	Amount	Per Unit		Amount	Per Unit
Newmark	\$20,586,000	115,652	(\$1,481,000)	\$19,105,000	\$107,331
PRA - Bond	\$2,500,000	14,045	\$0	\$2,500,000	\$14,045
ERA2	\$0	0	\$10,470,000	\$10,470,000	\$58,820
LIHTC Proceeds	\$32,231,522	181,076	(\$213,586)	\$32,017,936	\$179,876
Other Equity	\$200	1	\$0	\$200	\$1
Deferred Development Fee	\$2,312,378	12,991	\$3,596,449	\$5,908,827	\$33,196
CMF	\$999,000	5,612	\$0	\$999,000	\$5,612
ARPA Predevelopment	\$250,000	1,404	\$0	\$250,000	\$1,404
PVD ARPA	\$5,500,000	30,899	\$0	\$5,500,000	\$30,899
Rate Lock Deposit	\$0	0	\$382,100	\$382,100	\$2,147
Total Sources	\$76,916,508	432,115	\$216,555	\$77,133,063	\$433,332

Uses	Preliminary		Delta	Firm -with ERA 2	
	Amount	Per Unit		Amount	Per Unit
Construction	\$53,620,334	\$301,238	\$0	\$53,620,334	\$301,238
Contingency	\$3,317,280	\$18,636	\$0	\$3,317,280	\$18,636
Acquisition	\$3,485,000	\$19,579	\$115,000	\$3,600,000	\$20,225
Soft Costs	\$2,720,727	\$15,285	\$18,864	\$2,739,591	\$15,391
Financing	\$5,483,177	\$30,804	(\$650,464)	\$4,832,713	\$27,150
Developer Fee	\$6,565,300	\$36,884	\$700,000	\$7,265,300	\$40,816
Operating Reserve	\$1,433,618	\$8,054	\$32,668	\$1,466,286	\$8,238
Replacement Reserve Year 1 Deposit	\$57,850	\$325	\$0	\$57,850	\$325
Other Reserves	\$233,221	\$1,310	\$487	\$233,708	\$1,313
Total Uses	\$76,916,507	\$432,115	\$216,556	\$77,133,063	\$433,332

Loan to Value Test:

	Appraisal	Per Unit	Variance	Current UW	Per Unit
NET OPERATING INCOME	\$1,528,797	8,589	\$17,626	\$1,546,423	\$8,688
Appraisal Cap Rate	5.85%			5.85%	
Valuation	\$26,133,282	146,816	\$301,294	\$26,434,576	\$148,509
Loan Principal	\$19,105,000	107,331		\$19,105,000	\$107,331
LTV	73.11%		-1%	72.27%	

Underwriting Metrics

Metric	Amount	Comment
Total Development Cost Per Unit	\$433,332	\$423,309 net of reserves
Residential Vacancy Rate	5.00%	
DCR Yr 1	1.15	
DCR Yr 15	1.36	
NOI	\$1,546,423	Includes Commercial Leases
Income Trending	2.00%	
Expense Trending	3.00%	
Loan to Value	72.27%	
Initial Installment (%) of syndication proceeds	15%	
Acquisition Price equal to or less than Appraised value	Yes	Land Appraisal as part of RIHousing acquisition financing
Operating Reserve	\$1,466,286	
Replacement Reserve	\$57,850	

Deviations from standard underwriting – None. The Construction Loan and Permanent Loan are each underwritten to the respective lender’s requirements, which are generally consistent with the requirements of RIHousing.

Unit Distribution and Revenue:

Unit	Rent Type	Number of Units	Gross Rent	LIHTC Max Rent	Gross Rent as a % of LIHTC Max Rent	Discount from Market Rent
1	30%	36	\$ 632.00	\$ 632.00	0%	76.0%
1	60%	15	\$ 1,265.00	\$ 1,265.00	0%	46.2%
2	60%	74	\$ 1,518.00	\$ 1,518.00	0%	48.4%
3	60%	13	\$ 1,753.00	\$ 1,753.00	0%	53.3%
2	80%	25	\$ 2,024.00	\$ 2,024.00	0%	29.3%
3	80%	15	\$ 2,338.00	\$ 2,338.00	0%	35.9%
Total		178				50.4%

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 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 or preserve 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 issue tax-exempt bonds for the purpose of financing qualified housing developments throughout the state;
- Whereas,** RIHousing is authorized to issue conduit tax-exempt financing at an economically acceptable rate to promote the acquisition, rehabilitation, or preservation of affordable housing;
- Whereas,** on September 19, 2024, the RIHousing Board of Commissioners granted preliminary approval of tax-exempt mortgage financing to Marathon Development, LLC (“Applicant”) to acquire and/or rehabilitate the affordable housing to be known as The Flynn (the “Development”);
- Whereas,** the Applicant is requesting firm approval of tax-exempt mortgage financing for the Development as set forth below:

<u>Development</u>	<u>Applicant</u>	<u>Tax-Exempt Bonds</u>	<u>CMF Loan</u>	<u>ERA2 Loan</u>
The Flynn	Marathon Development, LLC	\$38,000,000	\$999,000	\$10,470,000

- Whereas,** said bonds shall have a term not to exceed 35 years and shall be in the approximate amount sufficient to finance the mortgage, pay the costs of issuance, fund a capital reserve fund and to provide the capitalized interest if determined to be necessary; and
- Whereas,** the RIHousing Board of Commissioners and staff have reviewed the submission of the Applicant for mortgage financing and determined that the Development qualifies for financing under RIHousing’s enabling legislation, regulations, guidelines, and policies.

NOW, THEREFORE, IT IS HEREBY:

Resolved, that subject to the special conditions listed below, RIHousing hereby declares firm commitment for tax-exempt mortgage financing for Marathon Development, LLC or other affiliated entity of the Applicant (the “Borrower”) in an amount not to exceed \$38,000,000 for rental housing known as The Flynn located in Providence, Rhode Island to be financed in part with tax-exempt bonds.

Resolved, that RIHousing hereby declares that this firm commitment of financing for the Borrower constitutes the affirmative official act of RIHousing of its intention to issue bonds to finance, and to reimburse qualified expenditures incurred by the Borrower or RIHousing in advance of the issuance of the bonds, up to \$38,000,000 in mortgage funds, plus the required bond reserve funds, and the related costs of issuance for the bond issue for the above-referenced Development pursuant to the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder. The intent to reimburse the aforementioned bond-funded costs is intended to satisfy the requirements of Section 1.150-2 of the United States Treasury Regulations. This resolution shall take effect immediately upon adoption.

Resolved, that, in order to fund the loan to the Development, RIHousing may enter into a loan arrangement with Citizens Bank, N.A. (the “Citizens Loan”) and Berkeley Point Capital LLC d/b/a Newmark Capital (the “Newmark Loan” and together with the Citizens Loan, the “Loans”) substantially in accordance with the terms outlined in the Request for Action to which this resolution is attached.

Resolved, that the Executive Director, Deputy Executive Director, Director of Finance, General Counsel, and Manager of Treasury and Capital Planning (each, an “Authorized Officer”), acting singly, be and each hereby is authorized to enter into such documents with Citizens and Newmark as it may require to evidence the Loans, including, without limitation, a funding loan agreement, note, and pledge and security agreement, each containing such terms and conditions as the Authorized Officer shall approve, each such determination to be conclusively evidenced by his/her execution thereof and each such determination is hereby fully and completely approved and adopted as the valid action of and by RIHousing, approved in all respects by the Board of Commissioners of RIHousing.

Resolved, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed to take any and all action necessary to effectuate the purpose and intent of the foregoing resolutions, including, without limitation, (i) the execution and delivery on behalf of RIHousing of all such other agreements, documents, and instruments and the performance by RIHousing thereunder, as each of them shall determine, in his/her exclusive and reasonable judgment, to be necessary, appropriate, or advisable, and (ii) the

consummation of the transactions contemplated hereby and the performance by RIHousing as required hereunder, as each of them shall determine, in his/her exclusive and reasonable judgment, to be necessary, appropriate, or advisable, each such determination pursuant to the immediately preceding clauses to be conclusively evidenced by the taking of such action by any Authorized Officer and each such determination is hereby fully and completely approved and adopted as the valid action of and by RIHousing, approved in all respects by the Board of Commissioners.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants firm approval for a Capital Magnet Fund loan to the Borrower in an amount not to exceed \$999,000 for rental housing known as The Flynn located in Providence.

Resolved, that, subject to the special conditions listed below, RIHousing hereby grants firm approval for an ERA2 loan to the Borrower in an amount not to exceed \$10,470,000 for rental housing known as The Flynn located in Providence.

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

- Syndication proceeds from the sale of federal 4% LIHTCs in an amount sufficient to ensure development feasibility;
- Syndication or redemption proceeds from the sale of state 4% LIHTCs in an amount sufficient to ensure development feasibility;
- Availability of subordinate financing in amounts sufficient to achieve project feasibility or alternative equity satisfactory to RIHousing;
- Approval by RIHousing of construction plans and specifications and construction documentation;
- Acceptable final appraisal by an independent appraiser demonstrating that the loan does not exceed 90% of the as-stabilized value of the property; and a final market study demonstrating market feasibility in compliance with LIHTC requirements;
- Executed lease agreements for the Children's Friend, Out Parcel Ground Lease, and University GI Parking Lot for the proposed commercial uses;
- Approval by bond counsel that the proposed conduit loan will satisfy all required bond requirements;
- RIHousing approval of all Permanent Loan documents from Newmark;
- RIHousing approval of all Citizens loan documents;
- Approval by RIHousing of management documentation;
- Recordation of a RIHousing Declaration of Land Use Restrictive Covenants and Regulatory Agreement in form(s) acceptable to RIHousing;
- Satisfactory and timely performance in accordance with the schedule established by RIHousing staff; and
- Completion of all items required 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, each acting singly, are hereby empowered and directed to take any and all actions they deem necessary to carry out the foregoing resolutions.