Rhode Island Housing and Mortgage Finance Corporation
Minutes of the Meeting of the Credit Committee
September 14, 2016

The Credit Committee of Rhode Island Housing convened at the offices of the Corporation, 44 Washington Street, Providence, RI, on September 14, 2016 at 3:00 p.m.

Committee members present were Committee Chairman Kevin Orth, Chairman Retsinas and Maria Barry. Commissioner DiBiase was absent.

The following Rhode Island Housing staff was also present: Barbara Fields, Executive Director; Carol Ventura, Deputy Director; Eric Shorter, Director of Development; Anne Berman, Assistant Director of Development; Eric Alexander, Assistant Director, Development; Tim Caplice, Development Officer; Nicole Clement, General Counsel; and Cori Myers, Deputy General Counsel.

A quorum being present, Committee Chairman Orth called the meeting to order at approximately 3:00 p.m.

The following matters were considered by the Committee.

1. Recommendation of Approval of Preliminary Commitment for Financing for Barbara Jordan I (Providence)

Mr. Shorter, Director of Development, made the presentation outlining the material changes crafted to the request for preliminary financing for Barbara Jordan I since the discussion on August 10. He announced that the Borrower has been responsive and closed the gap in financing by taking the following measures:

- Borrower negotiated a reduction in the acquisition price from $19.8MM to $18.5MM.
- The proposed loan meets the LTV requirements based on the appraisal which has been received from Bonz & Company with the following values:
  - As-is: $18.35MM
  - As complete: $28.5MM
- Borrower has filled the financing gap with deferred developer fee that has been approved by the syndicator.
- Borrower will capitalize a replacement reserve equal to $6,736 per unit which is 3x our required amount.
- Borrower is contributing additional cash from operations.

Mr. Shorter also provided a spreadsheet summarizing the net changes since the borrower submitted their proposal and a summary of the proposed transaction.

Anne Berman, Assistant Director and Tim Capilce, Development Office then detailed the modifications for the Committee.

They underlined that there is a moderate risk as the redevelopment effort consists of rehabilitation of existing units in fair to poor condition and RIH has no prior experience with the contractor. Renewal Construction Services is a full service construction management and general contractor owned by the principals of OmniNY. Willie Hirsh is the President of Renewal Construction Services, LLC ("Renewal"). Renewal was created in 2005 to serve as the general contractor on rehabilitation projects undertaken by OmniNY. To date, Renewal has completed over $381 million in rehabilitation work for 7,491 units. In addition, Renewal is currently rehabbing 923 units at 3 properties—$43.4 million in contracts. RIH will take assignments of all construction and architectural contracts during construction.

The current scope of work has been increased $25,000 per unit from the initial proposal based upon on-going discussions with Rhode Island Housing Design and Construction staff and a thorough review of architectural plans of three representative buildings.

Given the amount of review and comment on the scope of work and limited additional resources available to the project, staff feels the scope of work budgeted is adequate to sufficiently improve and stabilize the properties to be consistent with Rhode Island Housing standards. Rhode Island Housing will request an updated Capital Needs Assessment to adequately size and forecast future capital improvements funded with replacement reserves.

The transaction is underwritten to RIH standard guidelines with negative trending. The development DCR increases consistently from 1.15 in year 1 to 1.33 in year 15. The balloon payment requires refinancing in year 17. RIH Loan Servicing has thoroughly reviewed the operating projections.

Mr. Shorter remarked that OmniNY's sound business practices were also taken into consideration when evaluating the deal. OmniNY and its affiliates are a privately-held real estate development, construction and property management firm. OmniNY is operated by three managing directors, Eugene Schneur, Rob Bennett and Maurice Vaughn and the company consists of 63 properties with 12,000 housing units with an aggregate transaction value of approximately $1.5 billion.

Committee Chairman Orth stressed that the appraisal is a key element in underwriting and stated that when Development underwrites on a different number, then the underwriting should be at the lower spectrum not higher. Ms. Berman replied that the numbers are based on operating expenses comparing those figures with the appraisal.

Committee Chairman Orth then asked whether Loan Servicing and Asset Management participates in the overall discussions of these transactions. Mr. Shorter and Ms. Berman assured the Committee that Loan Servicing and Asset Management is an integral part of these discussions on all levels and that staff compares the numbers with similar deals in the portfolio; calculating operating costs per unit; maintenance fees; while placing higher replacement reserves standards for the development.

The Committee then questioned vacancy rates and how those figures measure in the industry. Chairman Retsinas asked what the average vacancy rate is for Section 8 developments. Ms. Berman informed the Committee that an average of 5% is construed as high in the industry but the number is usually between 2-3%. Rhode Island Housing staff is extremely cautious and conservative when structuring loans and uses the 5% vacancy rate. That is the difference seen in Barbara Jordan's proposal where Rhode Island Housing used the 5% rate versus where the appraiser assumed a 2.5% vacancy rate. Ms. Fields also noted that there is a very small vacancy rate at this development and that she is comfortable with the project.

Another concern for the Committee was the balloon repayment condition of the loan. The Committee suggested that a sensitivity analysis be prepared showing that the project will be able to pay the loan in the final year. Committee Chairman Orth felt that the underwriting was so tight for this loan and that there is no wiggle room in the financing. Staff responded that conditions of interest rates in the market would have to be excessive for the Developer to default on the loan.

Ms. Fields remarked that this is a preliminary approval only and that the transaction would return to the Board for final approval. Ms. Fields also indicated that real estate values are rising and this project is a huge asset to the community.

Committee Chairman Orth and Chairman Retsinas both stressed that a clear policy needs to be produced on issuing approval beyond the scope of analysis when appraisal values differ; emphasizing that the model should maintain that the capitalization rate is constant. Committee Chairman Orth continued by saying that he would also like to see income growth incorporated into the deals.

Ms. Berman said that Rhode Island Housing follows the industry guideline standards established by the National Council of State Housing Agencies (NCSHA). However, staff will review all criteria and work on structuring a tighter policy for these deals.

Ms. Fields commended the Development team and stated that she believes staff has done a superb job on scrubbing the numbers, data and taken a second look at how they could streamline the financing. Ms. Fields acknowledged that moving forward crafting a more detailed policy for these transactions will be addressed.

Following the dialogue regarding the changes, and upon a motion made by Chairman Retsinas and seconded by Committee Chairman Orth, the Committee unanimously voted

to recommend to the Board of Commissioners the approval of Preliminary Commitment for Financing for Barbara Jordan I.

2. Recommendation for Approval Transfer of Physical Assets for Oxford Gardens Apartments (Providence)

Eric Shorter, Director of Development, provided background information on this transfer of physical assets.

This request is for approval of the sale of Oxford Gardens Apartments (the "Development"), an affordable family housing development located at 475 Prairie Avenue and 197 Gordan Avenue in Providence. The Development was originally constructed in 1989 under the Low Income Housing Tax Credit ("LIHTC") program and utilized financing from Rhode Island Housing. The Development consists of two land parcels containing nine two-story apartment buildings. One parcel contains eight of the nine buildings with 50 apartments. The other parcel consists of one building, asphalt parking, concrete sidewalks, and landscaping.

The initial 15 year compliance period for the Development expired at the end of 2004. The current owner of the Development is PRC Associates, Limited Partnership ("Gardens Partnership") in which Peoples Redevelopment Corporation ("PRC") is the managing general partner, Century Pacific Partners I ("Century Pacific LP") is a limited partner and Century Pacific Realty Corporation ("Century Pacific Supervising GP", and together with Century Pacific LP), "Century Pacific" is a supervising general partner. With PRC's acknowledgement and consent, Preservation of Affordable Housing, LLC ("POAH LLC") will purchase Century Pacific's ownership interests in the Gardens Partnership. Under Rhode Island Housing's Regulations Governing Proposed Prepayments or Transfers ("TPA"), Rhode Island Housing must approve the purchase of partnership interest.

POAH is a not-for-profit corporation with a core mission of preserving at-risk affordable housing. Based in Boston, POAH was original formed by the National Equity Fund. POAH now owns and operates more than 9,000 affordable homes in 75 properties in 9 states and Washington DC. One of POAH's core principles is that the real estate portfolio must be sustainable and that the organization should be sustained primarily by the portfolio. As such, POAH has unrestricted net assets of $25 million.

Oxford Gardens is currently encumbered with affordability use restrictions. The restrictions require (i) that for the remaining term of the original 30 year mortgage period which expires in 2024, 75% of the units must remain affordable to families with household incomes less than 60% of the area median income ("AMI"), and (ii) in perpetuity, 25% of the units must remain affordable to families with household incomes

less than 50% of AMI. These restrictions run with the property and will ensure that the Development remains affordable for the long term.

One of the regulatory documents, the Affordable Housing Restriction Agreement ("AHRA"), provides PRC with a Right of First Refusal ("ROFR") to purchase the property should Gardens Partnership receive a bona fide offer to purchase the Development. After careful review of the Development, its operating history, current physical condition and the long term restrictions that will remain after the sale of the Limited Partner interest in Oxford Gardens, with PRC's acknowledgement and consent Century Pacific and Preservation of Affordable Housing, LLC have entered into an agreement for the purchase and sale of partnership interest, subject to Gardens Partnership's satisfaction of our TPA Regulations.

As set forth in the P&S Agreement dated as of August 23, 2016, POAH LLC will purchase Century Pacific's ownership interests in Oxford Gardens, for a purchase price of $450,000. PRC will remain as the managing general partner of the Gardens Partnership, and POAH LLC will assume the roles of limited partner and supervising general partner. The transaction is strictly a transfer of ownership interest and does not include any rehabilitation work. It is important to note that this transaction is a prelude to a larger refinancing and rehabilitation transaction anticipated for later in 2016, for which an additional Rhode Island Housing consent will be required. Staff review of recent financials for POAH LLC and its subsidiaries suggest that it is financially stable and qualified to take on this investment.

When originally financed, Oxford Gardens was awarded a twenty-year State Rental Assistance Program ("RAP") contract that provides rental assistance for all 50 apartments. Rhode Island Housing assumed financial responsibility for the RAP subsidies in year 3 of the original contract and has been paying the subsidies since 1993. The original RAP contract expired several years ago. Rhode Island Housing has been working with owners and residents to eliminate the RAP subsidies. Currently 34 of the apartments are still receiving RAP subsidy. However, as apartments turn over, apartments are being rented without RAP subsidy. A key component of the redevelopment of the site is the successful transition from RAP to non-RAP apartments in a manner that ensures a financially successful transaction for the developer, residents and Rhode Island Housing while simultaneously lifting the financial burden of the RAP subsidy from Rhode Island Housing.

Staff has reviewed the request under the Rules and Regulations Governing Proposed Prepayments or Transfers and has determined that the proposed transfer of the partnership interest complies with these requirements. The Loan Servicing and Asset Management and Development divisions have reviewed this application. The

Development does have some outstanding capital improvement needs and has struggled financially. While the management agent, First Realty has been managing the property prudently given the financial constraints and has been able to address the most significant issues, the transfer of Limited Partner interest in Oxford Gardens will provide an injection of capital for deferred repairs. It will also bring in a new management company that may be able introduce operating efficiencies at the site. PRC Limited Partnership will assume all of the obligations under the existing regulatory agreements.

A brief discussion followed the proposal with Committee Chairman Orth inquiring why the request is for limited partnership interest and not a general partnership interest. Ms. Berman responded that the developer is requesting a tax credit deal therefore, the local partner wants to stay in the field and this structure will allow them to keep the development affordable for residents. POAH is a respected entity and one that is a perfect match for PRC.

Upon a motion made by Chairman Retsinas and seconded by Commissioner Barry, the Committee voted to recommend approval of the Transfer of Physical Assets for Oxford Gardens Apartments to the Board of Commissioners.

3. Discussion regarding:

    a. Policy for Bridge Loan Financing

Mr. Shorter provided a synopsis of the bridge loan process for the Committee. Mr. Shorter addressed the Committee's concerns that bridge loans were larger than the amount of syndication equity and required other soft funds to allow repayment. Mr. Shorter acknowledged that a procedure needs to be developed to mitigate the risks and remarked that staff has had conversations with other HFAs on their methods of handling bridge loans. The present bridge loan policy allows staff the flexibility to structure deals as best to negotiate terms and guarantees.

A discussion followed with the Committee contemplating that staff consider a policy outlining parameters for bridge loan sizing. Committee Chairman Orth felt that establishing those parameters would provide a greater security interest for Rhode Island Housing. Ms. Berman informed the Committee that Rhode Island Housing requires a minimum of 10% at closing and there is a built in pledge agreement of the tax credits for security purposes.

Mr. Shorter underscored that there has never been an occasion where the bridge loan was not repaid. Mr. Shorter continued by announcing that even when the market crashed, Rhode Island Housing's loans did not default.

Chairman Retsinas speculated that a hard cap on the loans might be an asset for the Rhode Island Housing. Committee Chairman Orth did not believe that pushing out equity payments resulted in higher equity pricing and may require additional soft funds to cover the additional interest.

Overall, the Committee felt that a policy with defined parameters was necessary. Staff did agree with that in general principal, however, they underwrite numerous deals that may not make economic sense if the mission component is removed. Staff believes that retaining flexibility ensures that Rhode Island Housing is able to continue developing affordable housing in challenging neighborhoods with partners willing to take on the demanding projects.

There were no votes taken regarding this item.

b. Affordable Housing Finance Resource Summary

Ms. Ventura, Deputy Director, distributed a spreadsheet summarizing the affordable housing programs controlled by Rhode Island Housing. Ms. Ventura informed the Committee that the report is for the benefit of the Board and staff. Information for developers is posted on Rhode Island Housing's website.

Ms. Ventura then broke down the programs by State and Rhode Island Housing properties; i.e. NOP; CoC Threshold, Lead and HOME. Ms. Fields noted for the Committee that the HPP program is no longer in existence.

Chairman Retsinas was impressed with the chart saying that it contained a lot of information and was a fabulous start to commencing the strategizing process.

Committee Chairman Orth agreed that the chart provided detailed and useful information; however, he felt that a second report should be designed. That report would be for the development community and would contain fewer fields, approximately five (5) areas of details. The data to include should incorporate the type of project, number of projects per year; target use of funds; and annual amount of funds disbursed. In essence the chart would be a snapshot of the resources.

Ms. Ventura and Ms. Fields informed the Committee that staff will simplify the report and distribute it to the Board for review.

There were no votes taken regarding this item.

c. Modifications to the Land Bank Program

Briefly, Ms. Ventura provided a historical summary of the Program. Ms. Ventura stated that the Rhode Island Housing Land Bank program provides financing for eligible applicants to acquire undeveloped real estate, vacant lots, developed properties, or a

combination thereof which are intended for the production of affordable housing. Ms. Ventura summarized the following modifications to the Land Bank Program.

- The Land Bank Program has traditionally offered two methods for acquisition: the first involving Rhode Island Housing's acquisition and ownership of a subject property for up to twelve (12) months ("Land Bank acquisition"), and the second involving the applicant agency taking title to a subject property by means of bridge loan financing, with Rhode Island Housing holding the Note and Mortgage ("Bridge Loan financing"). Bridge Loan financing will be the primary method available to applicants for acquisition. Land Bank acquisition may be made available on a case-by-case basis at Rhode Island Housing's sole discretion.
- The decision to provide Bridge Loan financing will primarily be determined by value. When evaluating property for acquisition, the following characteristics will be considered: appraised value, purchase price and location. At application, an appraisal will be required and must be conducted by a Rhode Island Housing approved appraiser. Appraisals older than 6 months will not be accepted.
- Land Bank Loans will be limited to 97% of appraised value or purchase price, whichever is lower.
- The interest rate for all Land Bank program loans will be set at closing in the amount of 3 month U.S. LIBOR plus 3%, but in no event shall the rate be less than 4% or greater than 7%. Interest shall be calculated on the basis of a year of 365 days (or 366 days in a leap year) and shall be paid for the actual number of days elapsed (including the first day but excluding the last day of any applicable period) during the period commencing on the date of such Loan and ending on the date on which the unpaid principal amount of such Loan is irrevocably paid in full. Interest will be paid monthly with no accrual and no waiver of interest.
- Rhode Island Housing resources cannot be used to pay the difference between the loan amount and purchase price or monthly interest payments.
- Loans will be for a 12 month term. Information on planned redevelopment will be required and reviewed, with benchmarks related to the redevelopment plan established in the loan documents. The term of Bridge Loan financing may be extended at Rhode Island Housing's sole discretion based upon progress against benchmarks.
- Rhode Island Housing will not consider contaminated sites without an approved EPA remediation plan in place.
- Area Median Income ("AMI") targeting will not be a requirement of financing.
- Applicants will be required to pay all necessary and reasonable closing costs incurred by Rhode Island Housing at the time of closing.

Mr. Shorter, Director of Development then informed the Committee that applications for the Land Bank program are available on the Rhode Island Housing website and are accepted on a rolling basis. Rhode Island Housing will review completed applications within 90 days of receipt of all required documentation.

Chairman Retsinas raised the question of rate of default experienced by Rhode Island Housing on the Land Bank properties. Mr. Alexander, Assistant Director of Development, responded that out of a total of 147 properties, all but one was unprofitable. Chairman Retsinas then asked if staff has ever rejected a proposal. Ms. Ventura responded that there has been occasion to decline a proposal. The decision is based on the value of the property and on the level of confidence staff had in the developer. Each proposal is careful examined on appraisal, market value along with the financial capacity and assets of the developer.

Committee Chairman Orth asked if there is a significant need for these resources. Ms. Fields replied that as alternative funding is limited there is indeed a need for these funds and noted that the acquisition of these properties adds value to the industry.

There were no votes taken regarding this item.

4. Adjournment

There being no further business to discuss, a motion was duly made by Chairman Retsinas and seconded by Committee Chairman Orth to adjourn the meeting at approximately 4:34 p.m.

Respectfully submitted

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Barbara G. Fields, Secretary