Housing Finance Agency

Multifamily Lending Program Guidelines

Office of Multifamily Housing | **Effective December 18, 2024**

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A. GUIDING PRINCIPLES

The following policy statements provide guidance for the administration of the Multifamily Lending Program (MLP) and are the basis for staff decisions regarding loan requests.

- The MLP is designed to provide long-term, permanent financing for multifamily rental housing developments that serve low- to moderate-income residents. MLP is not available to be used during construction.

- Loans will be structured to maintain the financial feasibility of the project while earning a reasonable return and minimizing risk for the Ohio Housing Finance Agency (OHFA).

- All principal and interest must be repaid. Any default on an MLP loan may result in the borrower (and related parties) being ineligible to participate in OHFA programs for a period determined by OHFA staff until the borrower and related parties have fully remedied all issues related to the loan.

- Rent and income restrictions that mirror the Low-Income Housing Tax Credit (LIHTC) program are required during the term of the loan. All other LIHTC compliance monitoring rules also apply. Exceptions may be permitted contingent on approval by the OHFA Board. If the property is not subject to rent or income restrictions from the LIHTC program, a Restrictive Covenant identifying the rent and income restrictions for the property must be entered into and recorded prior to closing on funding.

- Projects must meet stringent, conservative underwriting standards to ensure financial feasibility and the ability to repay the MLP loan during the loan term.

- The amount of loan funding available and number of loans per organization will be capped annually. Strong preference will be given to organizations with considerable and successful experience with OHFA programs and sufficient staff capacity, substantial financial resources, and an excellent credit history. For Choice MLP loans, developers/owners who are new to OHFA and wish to apply for the MLP may be required to partner with an organization that has an established and successful relationship with OHFA.

B. LOAN CATEGORIES

There are three loan categories in the MLP: New LIHTC MLP, Existing LIHTC MLP, and Choice MLP loans.

New LIHTC MLP loans work in conjunction with LIHTC by coupling the MLP with new allocations of noncompetitive 4% and competitive 9% credits for both new construction (including adaptive reuse) and the rehabilitation of existing units. New LIHTC loans cannot be paired with lease purchase developments.

Existing LIHTC MLP loans are targeted toward existing developments, previously funded under the LIHTC program, that are between Year 10 and Year 20 of their compliance or extended use period and have minimal capital needs and no compliance issues with OHFA. These loans are intended for developments that would benefit from refinancing/restructuring their existing debt/partnership obligations and remain affordable for the balance of their extended use periods. Any significant capital needs identified in the Capital Needs Assessment must be remedied to OHFA's satisfaction prior to closing.

Choice MLP loans are directed toward unique developments that help meet OHFA's goals in achieving its affordable housing policy objectives but are not coupled with the LIHTC program. Lease purchase and homeownership developments are ineligible for the program. For Choice MLP loans involving existing properties, any significant capital needs must be addressed to OHFA's satisfaction prior to closing. Developers and/or owners who are new to OHFA and wish to apply for the Choice MLP may be required to partner with an organization with whom OHFA has an established and satisfactory relationship. Funding for Choice MLP loans is limited, and projects will be considered on a case-by-case basis.

The MLP is ineligible to be coupled with the Housing Development Gap Financing (HDGF) program. If the MLP is used in conjunction with housing credits and the Housing Development Loan (HDL) program, the only acceptable source of collateral for the HDL after construction is Qualified Investor Notes.

C. FHA RISK-SHARE PROGRAM

OHFA is a participant in the Federal Housing Agency (FHA) Risk-Share program for multifamily lending. All New LIHTC and Existing LIHTC MLP loans will be part of the Risk-Share program, and borrowers are required to pay a mortgage insurance premium of 0.25% of the remaining loan balance assessed annually on the origination date of the loan. A Part 58 Environmental Review is required for all Risk-Share program MLP loans, and borrowers must ensure that a Responsible Entity conducting a Part 58 ER in connection with other federal funds include Section 542(c) FHA Risk Share as a source of funds. Each Borrower Party must also complete the HUD Form 2530 Previous Participation Certification. OHFA may waive the requirement to participate in the FHA Risk-Share Program for certain MLP loans at its discretion subject to Board Approval for each loan.

D. PROGRAM DETAILS

- MLP borrowers are limited to $12 million in total loan funding and three loans per fiscal year. Exceptions may be permitted contingent on approval by the OHFA Board.

- The maximum loan amount is $6 million. Exceptions may be permitted contingent on approval by the OHFA Board.

OHFA has established lending limits for organizations that are providing guarantees for MLP loans. For outstanding guaranteed debt, the limit will be 9% of the total possible MLP lending capital; the current amount can be provided upon request. This limit applies only to recourse debt, which involves a guarantee. OHFA may choose to limit an organization's access to guaranteed MLP loans as it deems appropriate.

INTEREST RATES, LOAN FEES, AND TERMS

New LIHTC MLP Loans

Interest rate: 3.75%- or 10-Year Treasury + 2.35%, whichever is higher. This interest rate will apply to New LIHTC MLP projects that request MLP financing during calendar year 2024 only.

Application fee: OHFA charges no fees for review of any initial MLP loan request. If the MLP Applicant's (Applicant's) development receives OHFA Board approval, a $7,000 final application review fee will be assessed to the Applicant. The Applicant is responsible for costs associated with any additionally required third party reports.

Closing fee: New LIHTC MLP: 1.5% of the loan amount is due at closing.

Good Faith Deposit: 1.5% of the MLP loan amount (in cash or Letter of Credit) is due and payable within 45 days of OHFA Board approval and refundable only at MLP closing. If the approved MLP loan is not closed, the good faith deposit will be forfeited.

Forward Rate Lock: Up to 30-month commitment from the date of OHFA Board approval with one six-month extension available

Term and Use Restriction Period: Up to 17 years (MLP loans must comply with the LIHTC 30-year restricted use period.)

Amortization Period: up to 40 years. Exceptions may be permitted contingent on approval by the OHFA Board.

Maximum Loan-to-Value (LTV): 85% based on OHFA's evaluation of risk and collateral. Exceptions may be permitted with additional collateral contingent on approval by the OHFA Board.

All New LIHTC MLP debt must be in first lien position for real estate, personal property, and rents. In almost all cases, these loans will be non- recourse. OHFA may consider a shared first participation loan/parity lien agreement with another government agency at up to 80% of OHFA's determination of LTV.

Existing LIHTC MLP Loans

Interest rate: 3.75%-, or 10-Year Treasury + 3%, whichever is higher, plus a soft repayment B Note at 1%, based on 50% of underwritten cash flow, providing the total loan amount does not violate hard debt coverage requirement (DCR) and LTV requirements. All Existing LIHTC MLP loan debt will be structured as a recourse loan and must be in first position. Any pre-existing soft debt holders must be subordinate to the MLP mortgage(s).

Interest rates are locked at the time when the principal underwriting is complete and are fixed for the term of the permanent loan.

Application fee: OHFA charges no fees for review of any initial MLP loan request. If the Applicant's development receives OHFA Board approval, a $7,000 final application review fee will be assessed to the Applicant. The Applicant is responsible for costs associated with any additionally required third party reports.

Closing fee: 1.5% of the loan amount is due at closing.

Good Faith Deposit: 1.5% of the MLP loan amount (in cash or Letter of Credit) is due and payable within 45 days of OHFA Board approval and refundable only at MLP closing. If the approved MLP loan is not closed, the Good Faith Deposit will be forfeited.

Term and Use Restriction Period: Although loan term lengths will be evaluated on a case-by-case basis, the terms of Existing LIHTC MLP loans cannot exceed the remaining length of their combined compliance/extended use periods. For example, if a development was in Year 14 of its Compliance Period, its MLP loan term could not exceed 16 years.

Amortization Period: to be negotiated on a case-by-case basis but not exceed 20 years.

Maximum Loan-to-Value (LTV): 85% based on OHFA's evaluation of risk and collateral. Exceptions may be permitted with additional collateral contingent on approval by the OHFA Board.

Choice MLP Loans

Interest rate: 4%- or 10-Year Treasury + 3%, whichever is higher. An additional risk premium may be added based on OHFA's evaluation of project risk and collateral. Choice MLP loans must be structured as recourse debt and must be in first position.

Interest rates are locked at the time when the principal underwriting is complete and fixed for the term of the permanent loan.

Application fee: OHFA charges no fees for review of any initial MLP loan request. If the Applicant's development receives OHFA Board approval, a $7,000 final application review fee will be assessed to the Applicant. The Applicant is responsible for costs associated with any additionally required third party reports.

Closing fee: 1.5% of the loan amount is due at closing.

Good Faith Deposit: 1.5% of the MLP loan amount (in cash or Letter of Credit) is due and payable within 45 days of OHFA Board approval and refundable only at MLP closing. If the approved MLP loan is not closed, the Good Faith Deposit will be forfeited.

Term and Use Restriction Period: The term is up to 15 Years. Exceptions may be permitted based on approval by the OHFA Board.

Amortization Period: up to 30 years.

Maximum Loan-to-Value (LTV): 85% based on OHFA's evaluation of risk and collateral. Exceptions may be permitted with additional collateral contingent on approval by the OHFA Board.

E. LOAN CONDITIONS FOR ALL MLP LOANS

Prepayment Penalty: MLP loans are ineligible for prepayment during the first three years following the date of closing. After that, MLP loans prepaid prior to the maturity date may be assessed a prepayment penalty of 2% of the remaining principal balance of the loan. MLP loans that are prepaid between 0-48 months prior to the maturity date will not be assessed a prepayment penalty.

Recourse Debt: All recourse loans will require a corporate or personal guarantee and possibly other collateral satisfactory to OHFA. OHFA's review of the guarantor's financial statements and federal tax returns must show evidence of ample capacity to support potential repayment of the debt.

Debt Coverage Ratio: The pro forma must support a minimum DCR of 1.20 for the first stabilized year of operations. The project must maintain an average DCR no lower than 1.10 during the entire term and remain above 1.05 in each of the first 15 years.

F. COMPLIANCE WITH OHFA PROGRAMS

Projects must comply with all OHFA guidelines, including the current OHFA Multifamily Lending Program Underwriting Guidelines, as well as all applicable OHFA Program Compliance and MLP Asset Management policies.

G. LOAN SERVICING/ASSET MANAGEMENT

Monthly principal and interest payments must be sent by check or electronically through the Automated Clearing House in the manner set forth in the MLP loan documents.

The property owner/manager will be responsible for the timely payment of real estate tax and insurance payments. OHFA's Division of Asset Management will periodically request supporting documentation to show evidence that all required payments are current.

The borrower must establish a replacement reserve escrow account, and OHFA must approve the manager of this account prior to closing. OHFA's asset management team reserves the right to approve any replacement reserve disbursement requests.

H. MLP UNDERWRITING GUIDANCE

OHFA will review the Applicant's prior experience with OHFA programs. OHFA will take into consideration its historical track record utilizing OHFA programs, ability to meet commitments and deadlines, professional integrity and dedication, and willingness to proactively communicate with OHFA to address issues in a timely manner.

OHFA will review the Applicant's audited/reviewed financial statements and federal tax returns to assess its financial capacity to provide additional support to the subject property. Additionally, OHFA will order commercial credit reports and conduct public record searches to identify any potential issues that may reflect on the character of the organization(s) involved.

OHFA will analyze the project's Capital Needs Assessment to ensure that the project's reserve accounts are appropriately capitalized to support the property during the loan term. All critical repairs identified must be remedied to OHFA's satisfaction prior to closing on the MLP loan.

OHFA may use several different methods to derive the underwritten operating expense estimate: historical expenses detailed in the property's financial statements, actual expenses from other similar properties in the Applicant's portfolio, OHFA Operating Survey data from similar properties in the same geographic area, energy modeling estimates, and others.

OHFA uses the appraisal as a benchmark to arrive at its own conservative estimate of the value of the property. For the purposes of establishing the LTV ratio, OHFA will underwrite to the achievable LIHTC/HDAP or as-restricted rents. If appropriate, OHFA may underwrite to a higher capitalization rate than shown in the appraisal to account for greater perceived market risk. The risk associated with a higher LTV ratio may be mitigated by reducing the loan to an appropriate amount that drives a higher DCR than required in the minimum program standards.

Terminal Analysis: To estimate the future value of the property, OHFA computes the property's net operating income (NOI) from the last year of the loan term divided by the terminal cap rate, which will be 50 basis points above the overall cap rate to account for the greater risk involved with the property at the time of refinancing due to unknown factors in the market and the condition of the building.

Breakeven Analysis: OHFA calculates a breakeven analysis to estimate the property's minimum occupancy percentage required to cover the costs of all operating expenses and hard debt service.

OHFA may revise its terminal value and LTV valuation methodologies as it deems appropriate at any time.

Underwriting Checklist: In order to underwrite the MLP loan, the following documents are required in addition to the documents submitted as part of each Applicant's LIHTC application package:

- As-completed appraisal;
- Most recent two years of the organization's audited financials; and
- If it is an Existing LIHTC MLP Loan, the two most recent years audited financials for the project.

Additional documentation may be requested at OHFA's discretion.

I. REQUIRED SUPPORTING DOCUMENTATION

OHFA will accept an appraisal (dated within six months) commissioned by the Applicant's construction lender. The appraisal must conform to the appraisal requirements as shown in the most current LIHTC Rental Underwriting Guidelines. In addition, the appraisals for all projects must include an as completed and stabilized valuation for restricted and unrestricted rents (using all three valuation approaches unless the appraiser can provide explanation as to why an omitted approach is not relevant). If using the discounted cash flow model under the income approach to valuation, the appraiser must assume a 2% income/3% expense escalation and a vacancy allowance of no less than 5%. Favorable financing and housing tax credits must not be considered in determining a cap rate.

Market studies must meet the market study standards identified in the most current LIHTC Rental Underwriting Guidelines.

Capital Needs Assessments (CNAs) for existing properties only must be completed in accordance with OHFA's most current LIHTC Rental Underwriting Guidelines. The CNA must include an Immediate Repairs and Replacement Reserves/Ongoing Physical Needs tables. It must identify all immediate repairs as occurring in Year 0 and project a minimum 15-year term. For MLP loan terms that exceed 10 years, OHFA will require a second CNA to be provided during Year 10.

Application Submission Disclaimer:

All Pre-Application, Proposal Application, and Final Application materials submitted become the property of OHFA and shall be public information unless a statutory exception exists which would thereby determine that such information cannot be released to the public. If you have information in your Pre-Application or Final Application that you believe has a good faith legal basis for an exemption to the public records laws, you must identify each and every occurrence of the information in the proposal on a separate page titled “Exemptions to the Public Records Law” and clearly label the material as such. OHFA may publicly post materials received.