AFFORDABLE HOUSING FINANCE

ELECTRONICALLY REPRINTED FROM
MARCH 2016
HOUSINGFINANCE.COM
VOL. 24, NO. 2

LEADING LADIES

Jane Graf and other talented women are making their mark in the affordable housing industry

SETTING THE TABLE

Top 25 Leaders

Top 25 Lenders

Setting the Table

Tax-exempt bond deals, low interest rates, Freddie Mac and Fannie Mae bring more capital to affordable housing

BY BENDIX ANDERSON

Affordable housing lenders had a very busy year in 2015.

The top 25 affordable housing lenders in the U.S. lent a total of $22.9 billion to affordable housing properties with formal income restrictions, including both permanent and construction loans. That's a big increase from $18.7 billion in 2014.

A long list of factors is helping affordable housing developers borrow more money in 2016, as well. For one, last year Freddie Mac and Fannie Mae gained new freedom from their federal regulator to lend to affordable housing properties. New programs, low interest rates, and high prices for low-income housing tax credits (LIHTCs) are also helping developers complete more deals. Investors too are eager to put their money into affordable housing because the properties are likely to fill quickly with residents who need an affordable place to live.

"There's still a tremendous need for affordable housing," says Richard Gerwitz, co-head of Citi Community Capital, last year's No. 1 affordable housing lender by volume. "Market rents have increased dramatically, and wage growth hasn't kept up."

Citi leads lenders

Affordable housing is a relatively safe investment, especially when rents are high.

"When the cost differential between affordable and market rents widens, lenders and investors get a lot more comfortable from a credit perspective," says Gerwitz.

Among AHF's top 10 affordable housing lenders of 2015, seven were big, national banks, like Citi, which are required under the Community Reinvestment Act to put money into the communities where

BANK OF AMERICA MERRILL LYNCH provided a $7.5 million construction loan, an $11.3 million direct tax credit investment, and a $1 million subordinate loan to 65th Infantry Regiment Veterans Housing, creating 49 units of supportive housing in Chicago.

COURTESY BANK OF AMERICA MERRILL LYNCH

they have bank branches.

Citi lent a total of $4.83 billion to affordable housing properties in 2015. That's over $1.5 billion more than its closest competition and also more than $1.5 billion more than it lent in 2014.

Lenders had lots of affordable housing properties to choose from, including a large number of older properties.

"There are a lot of projects being offered," says Gerwitz. "The number of offerings I see in my e-mail on a daily basis is really astounding."

Public housing is also attracting private investment from lenders like Citi, thanks to the federal Rental Assistance Demonstration (RAD) program, which uses public housing rental subsidies to underwrite new loans.

"Public housing really became a significant part of the market in 2015," says Gerwitz. "We expect the RAD program to continue to be a growth area in 2016."

Wells Fargo offers many options

Big banks like Wells Fargo also offer a wide range of financing options to affordable housing borrowers. Wells Fargo lent $3.0 billion to affordable housing properties in 2015, up from $2.8 billion in 2014. That makes the bank the country's second-largest affordable housing lender.

"We bring variety and options," says John Epstein, executive vice president and leader of the debt team for affordable housing for Wells Fargo.

Wells Fargo often negotiates to provide debt to the affordable housing projects where it invests in LIHTCs. "Wells Fargo is a very strong equity buyer—that helps out our debt business, which has been very steady," says Epstein.

For example, in December 2015, Wells Fargo provided a $54 million financing package to Essex Crossing Site 6 in New York City, including construction financing, LIHTC equity, a $4.7 million permanent loan, and equity from the project's New Markets Tax Credits.

Bank of America leads with RAD

The largest banks continue to extend their dominance in affordable housing lending by offering a variety of other financing options.

"The more comprehensive the solution, the better it is for our clients," says Maria Barry, national executive for Bank of America Merrill Lynch Community Development Banking. "There are intrinsic efficiencies by combining the underwriting."

Bank of America lent a total of $2.6 billion to affordable housing properties in 2015, up from the $1.8 billion the bank lent in 2014. That makes it the third-largest U.S. affordable housing lender.

The bank provided loans to many projects where the bank also invested in LIHTCs. For example, it bought $350 million in LIHTCs from more than a dozen public housing properties in the San Francisco RAD portfolio, in addition to providing construction and permanent financing.

Building with bonds

Lenders are also helping developers pair tax-exempt loans with equity from 4% LIHTCs.

"High equity prices are making it more possible to do tax-exempt bond deals," says Ed Sigler, managing director and head of community development real estate for Chase. "Construction- and permanent-loan

TOP 25 LENDERS OF 2015

COMPANY	2015 (IN MILLIONS)	2014 (IN MILLIONS)
1. Citi Community Capital	$4,829.2	$3,222.4
2. Wells Fargo	$3,020.8	$2,788.4
3. Bank of America Merrill Lynch	$2,573.0	$1,750.0
4. JPMorgan Chase Bank	$1,406.0	$1,287.0
5. JLL Capital Markets	$1,052.0	$748.5
6. Capital One	$864.0	$1,315.0
7. Berkadia	$760.0	N/A
8. PNC Real Estate	$740.1	$908.9
9. U.S. Bank	$725.0	$690.0
10. Pillar	$604.4	$349.4
11. Greystone Servicing Corp.	$582.4	$505.0
12. Prudential Mortgage Capital Co.	$565.6	$518.8
13. Walker & Dunlop	$557.0	$588.1
14. KeyBank Real Estate Capital	$555.0	$364.0
15. Red Capital Group	$553.8	$375.1
16. Red Stone Tax Exempt Funding	$538.0	$475.0
17. Stifel, Nicolaus & Co.	$525.0	$415.0
18. Rockport Mortgage Co.	$514.4	$340.1
19. RBC Capital Markets	$490.0	$416.3
20. SunTrust Community Capital	$450.0	$437.0
21. CBRE Capital Markets	$338.8	$146.5
22. Gershman Mortgage	$224.0	$219.0
23. Local Initiatives Support Corp.	$218.9	$208.4
24. Century Housing Corp.	$196.4	$118.9
25. Love Funding	$119.1	$139.2

interest rates are low, and that also helps."

Chase lent $1.4 billion to affordable housing properties in 2015, up from $1.3 billion the year before.

"Tax-exempt bond deals went from being 17% of our affordable housing business to 35%," says Sigler. "Many of these are private placement bond deals."

Chase also closed three tax-exempt bond financings in 2015 where the permanent debt will use Freddie Mac's new Tax-Exempt Loan (TEL) program.

"The TEL program is the rage right now," says Dan Smith, senior vice president of the Community Lending Division for U.S. Bank, which closed two of these loans at the end of 2015 and expects to close many more in 2016.

Under the TEL program, Freddie commits to lend, making a forward commitment of the interest rate it will charge for the permanent loan.

Thanks to high tax credit prices and new loan programs, developers are once again using tax-exempt bond financing as an alternative to joining the competition to win 9% LIHTCs.

"They now typically don't want to go through the beauty contest for 9% LIHTCs," says Frank Baldasare, senior vice president for Walker & Dunlop.

U.S. BANK provided a $25 million construction loan to help Dominium create 167 apartments for low-income seniors at River North Apartments in Coon Rapids, Minn.

COURTESY U.S. BANK

New programs for preservation

Agency lenders also offer new programs to help preserve older affordable housing properties. "Fannie Mae and Freddie Mac continue to aggressively innovate to create and preserve affordable housing," says Tim Leonhard, international director for JLL Capital Markets, which acquired lender Oak Grove Capital in 2015.

JLL lent $1.1 billion to affordable housing properties in 2015, up from $749 million in 2014. That makes JLL the fifth-largest affordable housing lender and the only lender in the top five that isn't a national bank.

Fannie Mae also now offers substantial-rehabilitation loans from its balance sheets that include an interest-only period that allows borrowers to empty out a certain number of apartments while a building is being rehabilitated.

Both Freddie and Fannie are eager to provide capital to affordable housing properties through their network of lenders. And with their lending limits having been loosened in 2015, the two government-sponsored enterprises (GSEs) can now put an unlimited amount of capital into loans to affordable housing properties. The GSEs responded to the regulatory change with new programs like TEL and billions of dollars in new lending.

The Bridge-to-Resyndication program provides flexible financing from Freddie's balance sheet. Older affordable housing properties can use the money while they arrange for long-term financing or apply for LIHTCs.

"It's probably the most unique program I've seen the GSEs develop in quite some time," says Leonhard.

Costs rise for construction

Low interest rates and high LIHTC prices are helping developers compensate for the rising cost of building affordable housing.

"A number of projects were delayed in their closing because their construction prices were above what the developers expected," says Chase's Sigler.

Lenders recommend developers contact potential contractors early in the process to find out how high prices have risen in the markets where they want to build.

Low interest rates get lower—for now

Rising interest rates, also, threaten affordable housing deals, though so far this year, rates have stayed low or even fallen.

The Fed raised its interest-rate target 25 basis points at the end of 2015. But interest rates offered by lenders moved in the opposite direction, as investors around the world worried about the low price of oil and instability in the Chinese economy.

"Interest rates have come down dramatically," says Leonhard. "The more unstable the global capital markets are, the better for interest rates."

But it can't last forever. The Fed has signaled that it intends to inch its rates higher as the economy continues to improve. Experts expect long-term rates to rise by as much as 55 basis points by the end of 2016.

Interest rates can make a large difference for a property in transition. If they rise, the property may not be able to take out a large-enough permanent loan to pay off its short-term financing.

"What makes us nervous? An increasing number of short-term acquisition loans out in a low–interest-rate environment," says Citi's Gerwitz. "We always try to build in enough cushion in our exit analysis, but, obviously, one never really knows what the future holds." **AHF**