Alliance Fund Management, LLC

Affordable Housing Impact Bond Program

Alliance Fund Management, LLC ("AFM"), an Atlanta, Georgia based intermediary of socially responsible funding, is currently seeing assets to finance under its Affordable Housing Impact Bond Program ("IBP"). AFM provides competitive **financing** for qualified §501(c)(3) organizations whose mission involves owning and operating affordable multifamily housing. AFM's program is specifically designed for non-profit owners (and government agencies) to be used as a tool in the preservation of affordable housing.

AFFORDABLE HOUSING IMPACT BOND PROGRAM ("IBP")

The IBP is a financing vehicle that may be used by qualified §501(c)(3)'s to acquire existing, stabilized affordable multifamily housing. AFM structures and facilitates the purchase of the tax-exempt debt, unenhanced or enhanced, of non-profit single-asset entities that are acquiring such assets. Proceeds from the §501(c)(3) housing bonds are used to acquire the real estate, with appropriate mortgage and debt security instruments. IBP debt is intended to be **long term with flexibility relative to early repayment.** AFM's intention is to work with non-profits who wish to begin a refinance and rehab of a property in 18 to 36 months after closing on the initial acquisition.

It is important to clarify: ***IBP is not part of a low income housing tax credit program***. It is a debt-financing product – pure and simple. Most transactions can be completed within 120 days (subject to timing of third party reports and normal and customary bond procedures, such as inducement, TEFRA, and bond and other counsel documentation).

UNDERWRITING AND THRESHOLD INVESTMENT METHODOLOGY

To be eligible for the IBP a property must be affordable and have either a Housing Assistance Payments Contract ("HAP") covering a high percentage of units at the property OR the property must be "affordable" pursuant to the IRS "safe harbor" rule. In addition, AFM focuses on assets that meet the following methodology:

- Good physical condition (as reflected in a HUD REAC or other Inspection);
- Demonstrated track record of strong and consistent economic performance (as evidenced by multiple years of audited financial statements);
- Expired LIHTC properties in an extended LURA and evidence of LURA in place;
- A definitive plan for repayment, such as a HUD 221(d)(4) or 223(f) loan, a 4% or 9% Low-Income Housing Tax Credit ("LIHTC") execution; HOME Funds, grants in place, or similar funding sources. In some cases a letter from a HUD or FNMA lender confirming the viability of eventual permanent debt will be required;
- A definitive exit/preservation plan, including addressing all deferred maintenance, accessibility, energy conservation, rehab, and building code needs – which must tie back to the anticipated plan of repayment outlined above;
- HAP contract flexibility to extend up to 20 years (if applicable);
- Evidence that the 10 year rule has not been broken or will not be broken at closing;
- Located in markets with stability and positive dynamics for comparable market units;
- In-place financing that allows for a fee-simple sale and new first mortgage position;
- If existing mortgage requires a defeasance payment, evidence that purchaser has the ability to pay it or that the deal can incorporate it;
- Seller has clear title to sell the property (limited partner or regulatory approvals have been secured);
- Evidence that the §501(c)(3) borrower is active and in good standing with the IRS, HUD, USDA, HFA's and or any other funding partner;
- Evidence that the borrower or developer (guarantor) has a demonstrated track record in the affordable housing industry.

UNDERWRITING METHODOLOGY (GENERAL)

- Debt Service Coverage Ratio minimum of 1.20x for HAP deals or 1.40x for non-HAP;
- 100% non-recourse financing, in most cases;
- Interest rates ranging between 300-400 bps over the 10 year treasury (depending on the deal and borrower);
- Five year interest-only, thereafter 35 year amortization;
- $250 per unit, per year replacement reserve (with three to six months funded at closing);
- Six months debt service reserve funded at closing for HAP deals, one year funded for non HAP deals;
- Underwriting model (expense and income) must be based on 12-24 months of **actual financials** (not broker projections);
- Increase income at 2% per year, increase expenses at 3% per year;
- Consideration will be given to requirements of state's QAP, such as borrower's ability to pay application fees, etc., and in some cases reserves to be established for those costs;
- 1.5% origination fee paid at closing;
- Scalable prepayment penalty ranging from 3% to 5%;
- Minimum total deal size of $3mm, but smaller transactions may be combined (depending on issuer);
- Application fee due at application of $5,000 (credited toward origination fee at closing);
- Legal and Due diligence deposit of $20,000 due at application;
- AFM requires the following 3rd party reports (which we order):
  - Market Study
  - Appraisal
  - Physical Needs Assessment of property
  - Environmental Phase I (and follow up if required)

(NOTE – BECAUSE THE DEVELOPMENT, THIRD PARTY COSTS AND FINANCING APPLICATION FEES REQUIRE A SUBSTANTIAL "AT-RISK" INVESTMENT, AND ALSO BECAUSE NOT-FOR-PROFITS ARE INVOLVED AS BORROWERS - AFM ALLOWS FOR-PROFIT DEVELOPERS TO "SUPPORT" AND/OR GUARANTEE ACIT FINANCED DEALS. ACIT MAY ALLOW A SMALL "DEVELOPER" FEE TO-BE-PAID WHEN APPROPRIATE.)

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