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# 4% Bond Transactions: Market Update and Issuance Considerations



Indiana Housing Conference  
September 26, 2023



STIFEL



BIRGE & HELD



# Volume Cap Scarcity



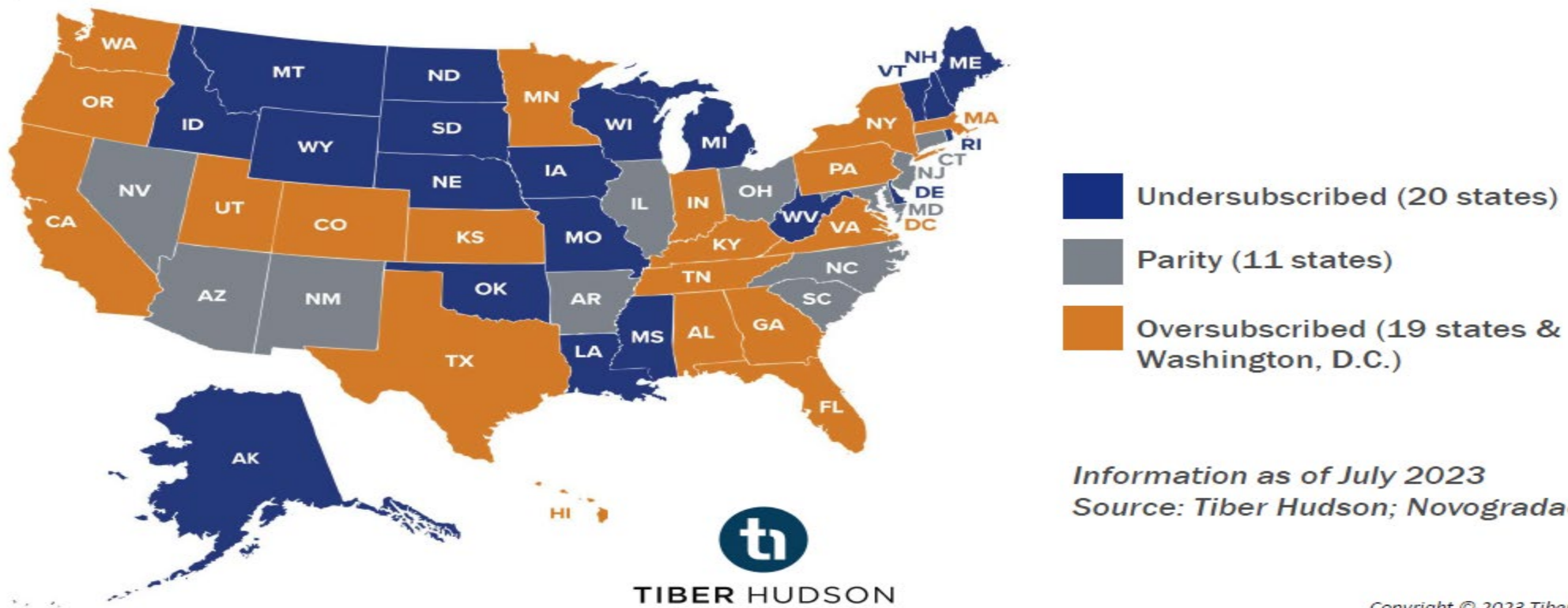
# Volume Cap – Federal Level

- Private Activity Bond must have volume cap allocation
  - Limitation by Congress and IRS on amount of certain types of bonds in each state
- Each state has a “ceiling” each calendar year
  - Greater of (a) \$120 x state population or (b) \$358,845,000
- Each state can determine its allocation formula
- Volume cap can be “carried forward”
  - Once carryforward category is elected, irrevocable
- Volume cap can be “recycled”
  - 4% credit implications



# National Volume Snapshot

## Multifamily Volume Cap Scarcity



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# Indiana Volume Cap Basics

- Indiana – all volume cap received by Indiana Finance Authority
  - \$819,964,440 received in 2023
- State statute then provides for annual allocation
  - Bonds issued by IHEDA (28%) – Single Family Category
  - Local Unit Issuers (20%) – Multifamily Category
  - Transportation/Agricultural/Manufacturing Facilities (42%)
  - IFA (9%)
  - Student Loans (1%)
- IFA works with issuing agencies to determine carryforward at year end



# Indiana State Tax Credit Update

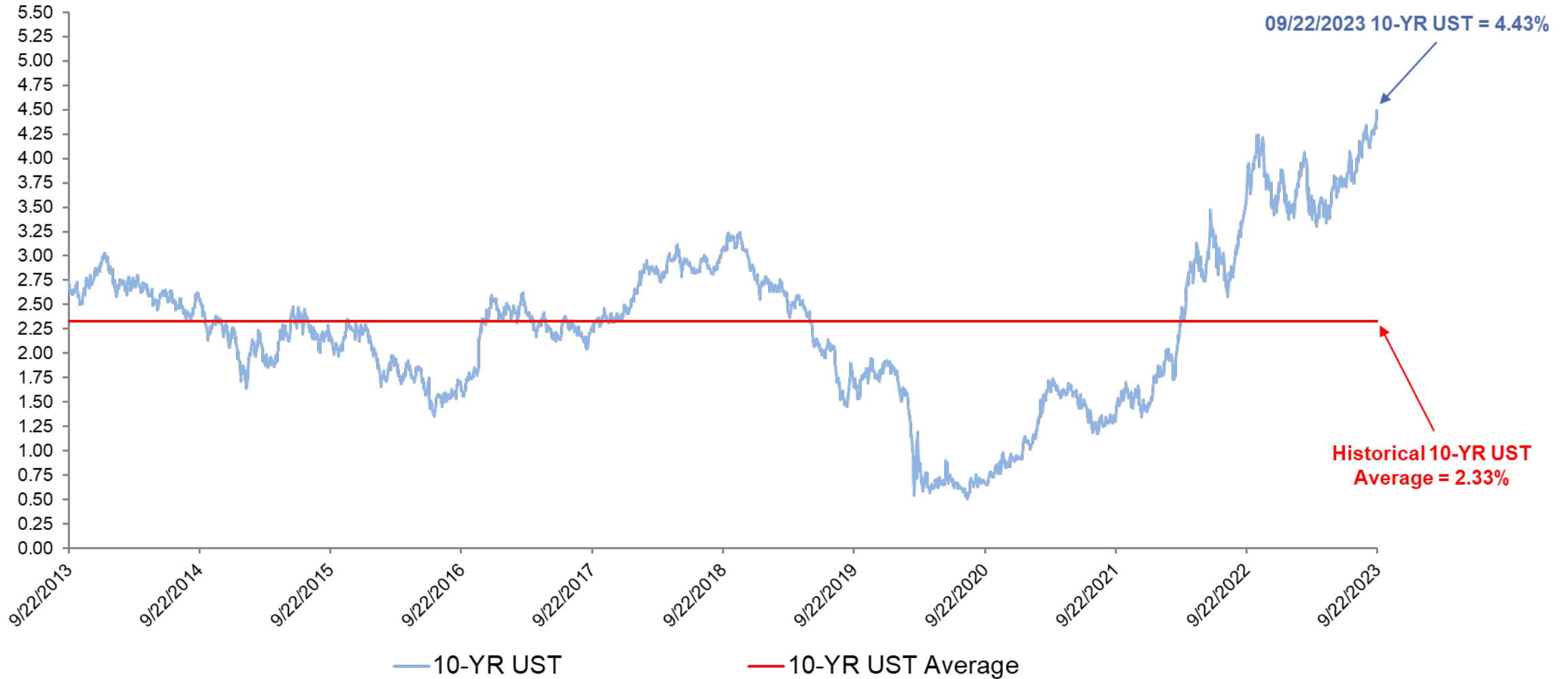
- Enacted with \$30M of authority
- Red Notice 23-04 provided the initial guidance with follow-ups with State Tax Credits FAQs and final 2023-2024 QAP
- Allocation vs. Certificated – Impacts to structure and pricing



# Market and Rate Update



# Long-Term Rates – Past 10 Years



Source: Bloomberg. Thomson Reuters

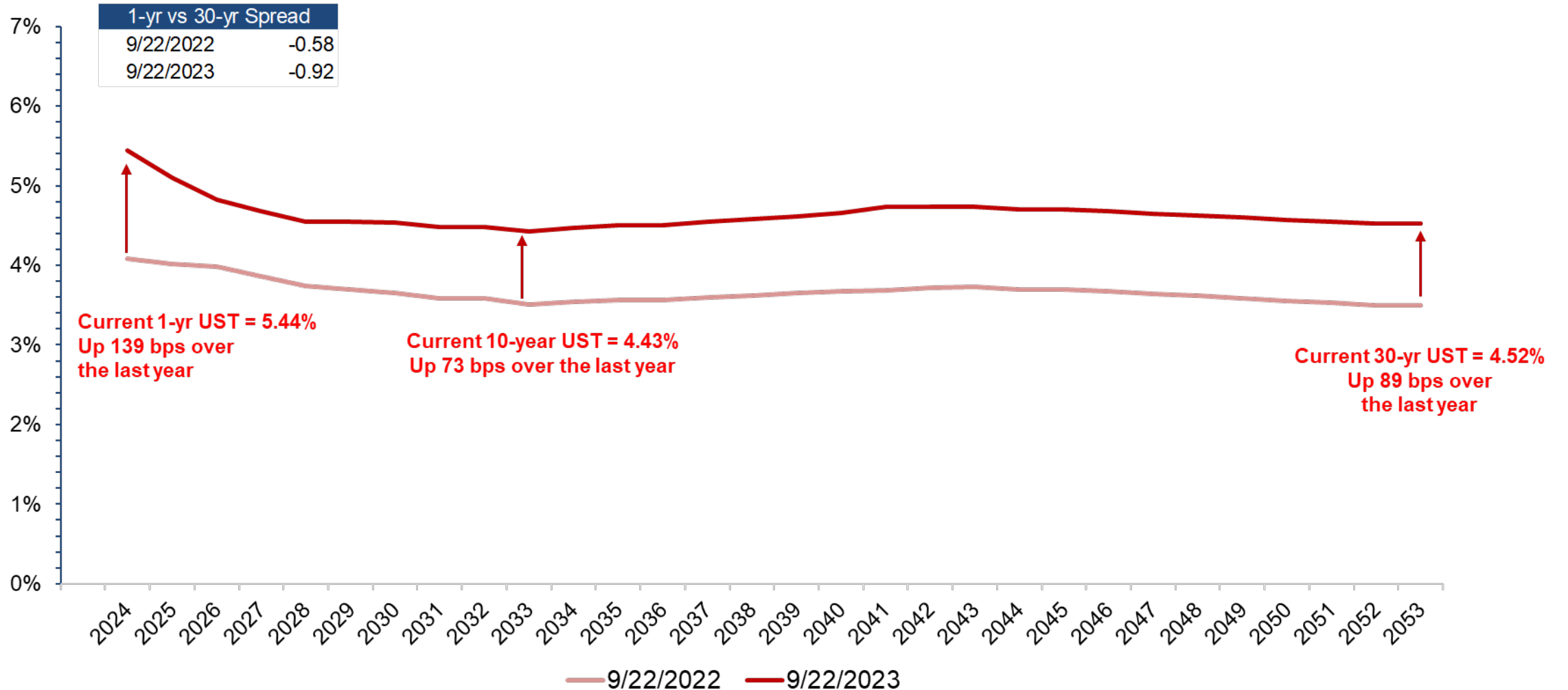
Reflects market conditions as of September 22, 2023

Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds





# UST Yield Curve: Year-Over-Year Comparison



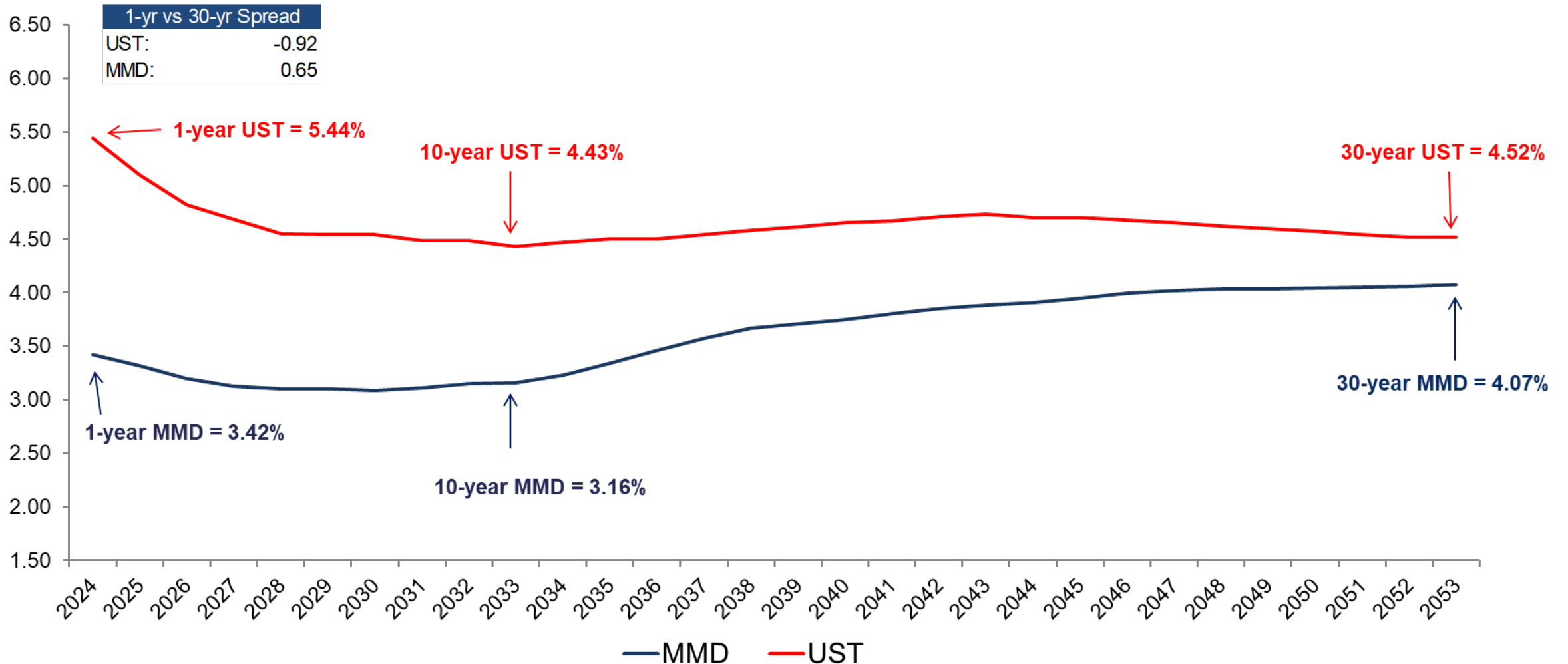
Source: Bloomberg. Thomson Reuters

Reflects market conditions as of September 22, 2023

Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds



# Yield Curve: Taxable UST vs. Tax-Exempt MMD (as of 9/22/2023)



Source: Bloomberg, Thomson Reuters  
 Reflects market conditions as of September 22, 2023  
 Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds



# Perm Loan Rate Comparison

	HUD 221(D)4	HUD 223(f)	FNMA MTEB	FREDDIE TEL	PRIVATE PLACEMENT
Term	40	35	15	15	15
Amortization	40	35	35-40	35-40	40-45
Debt Coverage Ratio	1.15	1.15	1.15	1.15	1.15
Loan to Value/Loan to Cost	87%-90%	87%-90%	90%	90%	90%
Interest Only Available	No	No	Yes	Yes	Yes
Prepayment Penalty	Declining 10 to 1 in first 10 years	Declining 10 to 1 in first 10 years	Yield Maintenance	Yield Maintenance	Yield Maintenance
Closing Costs	4%-5% of loan amount	4%-5% of loan amount	2%-3% of loan amount	2%-3% of loan amount	2%-3% of loan amount
Interest Rate Index	N/A	N/A	10 Year UST (4.45% 9/22)	10 Year UST (4.45% 9/22)	10 Year UST (4.45% 9/22)
Interest Rate Spread	N/A	N/A	175-190 bps	200-225 bps	200-210 bps
All In Rate	6.75% + 25 bps MIP	6.35% + 25 bps MIP	6.20%-6.35%	6.45%-6.70%	6.45%-6.55%
Timing	6-9 Months	6-9 Months	3-4 Months	3-4 Months	3-4 Months or Less



# Key Considerations/Decisions



## DEVELOPER KEY DECISIONS

- ➔ Good dirt? Local economy, demographic trends, growth potential
- ➔ QCT/DDA *Automatic Basis Boost*
- ➔ Assess Risks
- ➔ Establish Economics and Business Decision



# DEVELOPER TOOLKIT

- ➔ Property Tax Structuring
- ➔ Design for Efficiency
- ➔ Partnerships
- ➔ Section 48 of IRC and Inflation Reduction Act



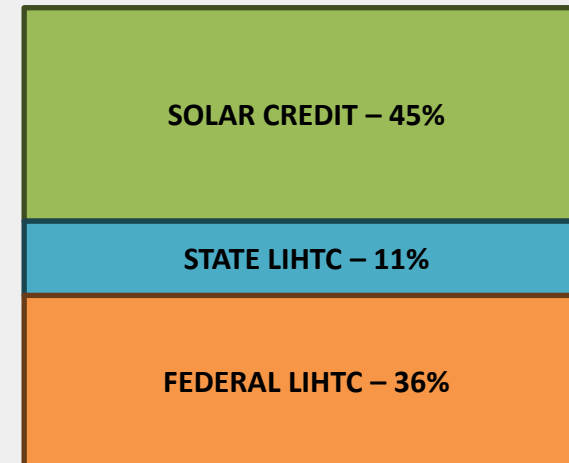
# SOLAR CREDITS PAIRED WITH LIHTC

→ The Inflation Reduction Act of 2022 provided game-changing benefits for LIHTC developments:

- Removal of eligible basis reduction
- Incentive bonus categories to increase the Section 48 Investment Tax Credit (Solar Credits)
- Credit transferability and monetization for not-for-profits.

→ Combined with state tax credits, the cost of solar installations can be often covered 100% with equity without accounting for increased debt proceeds from underwriting reduced utility allowances and utilities expenses.

## \$1 MILLION IN SOLAR EXPENDITURES



92% OF SOLAR COSTS PAID FOR BY EQUITY



# Positive Arbitrage



# Positive Arbitrage

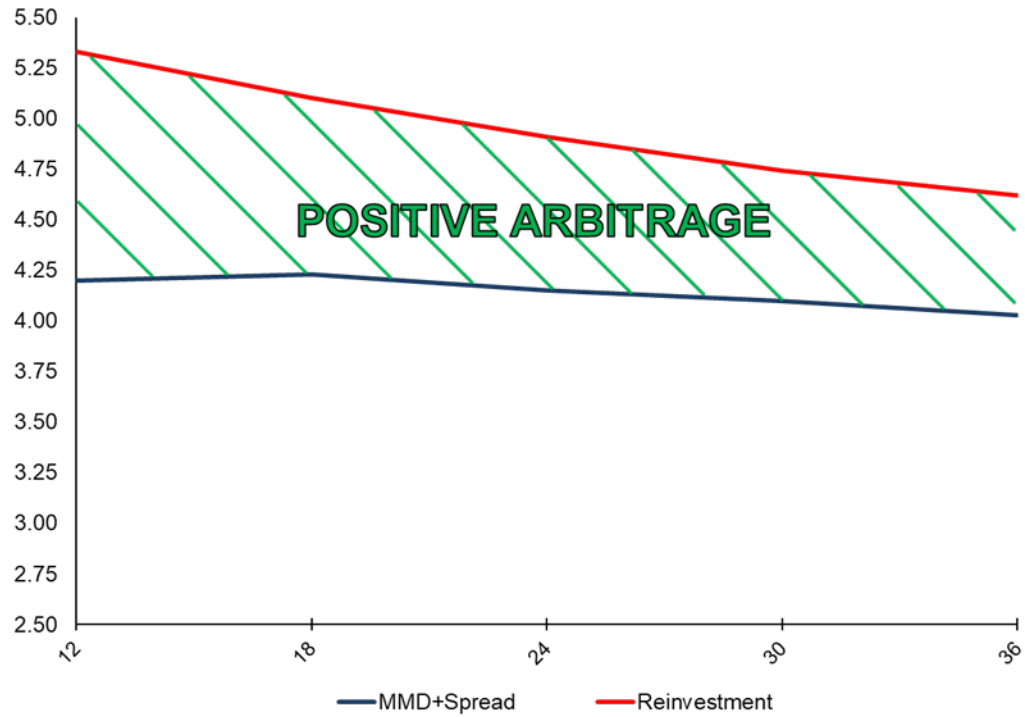
- General Concepts
  - What is it?
  - Purpose of rules and restrictions
- 2 questions
  - Can you earn it?
    - General Rule: Can't invest at a "materially higher" yield than bond yield
    - Exceptions – project fund, reserve funds, debt service funds
  - Can you keep it?
    - General Rule: must pay earnings back to IRS
    - Exceptions – spend downs



# Current Cash Collateral Structure Considerations



# Cash Backed Forward - Benefits



Structure:	Est. Bond Rate:	Est. Reinvestment Rate:	Est. Annual Excess Earnings	Est. Excess Earnings
Cash-Backed Forward*	4.30%	5.10%	0.80%	\$480,000
Standard Draw-Down	N/A	N/A	0.00%	\$0

\* Assumes \$30mm bond par amount and 2-year initial term

**Est. Savings: \$480,000**



## Cash Backed Forward

- Works with any Tax-Exempt financing that involves a forward commitment from a Permanent Lender to purchase the debt at conversion
- Takes advantage of inverted yield curve and provides other significant benefits
- Provides positive earnings during Cash-Backed mode, as well as additional equity to the project
- Allows Equity Investor to also serve as Construction Lender without certain tax implications
- In Texas, significantly reduces interest costs on construction loan due to draw down structure



# Cash Backed Forward – Net of Costs

	Standard Draw-Down Bond Structure	Cash-Backed Forward	Savings
Est. Positive Earnings	\$0	\$480,000	\$480,000
Est. Additional Equity	\$539,000	\$1,187,375	\$648,375
Est. Additional Costs of Issuance	\$0	(\$223,000)	(\$223,000)
Est. Construction Loan Interest	\$2,500,000	\$2,700,000	(\$200,000)

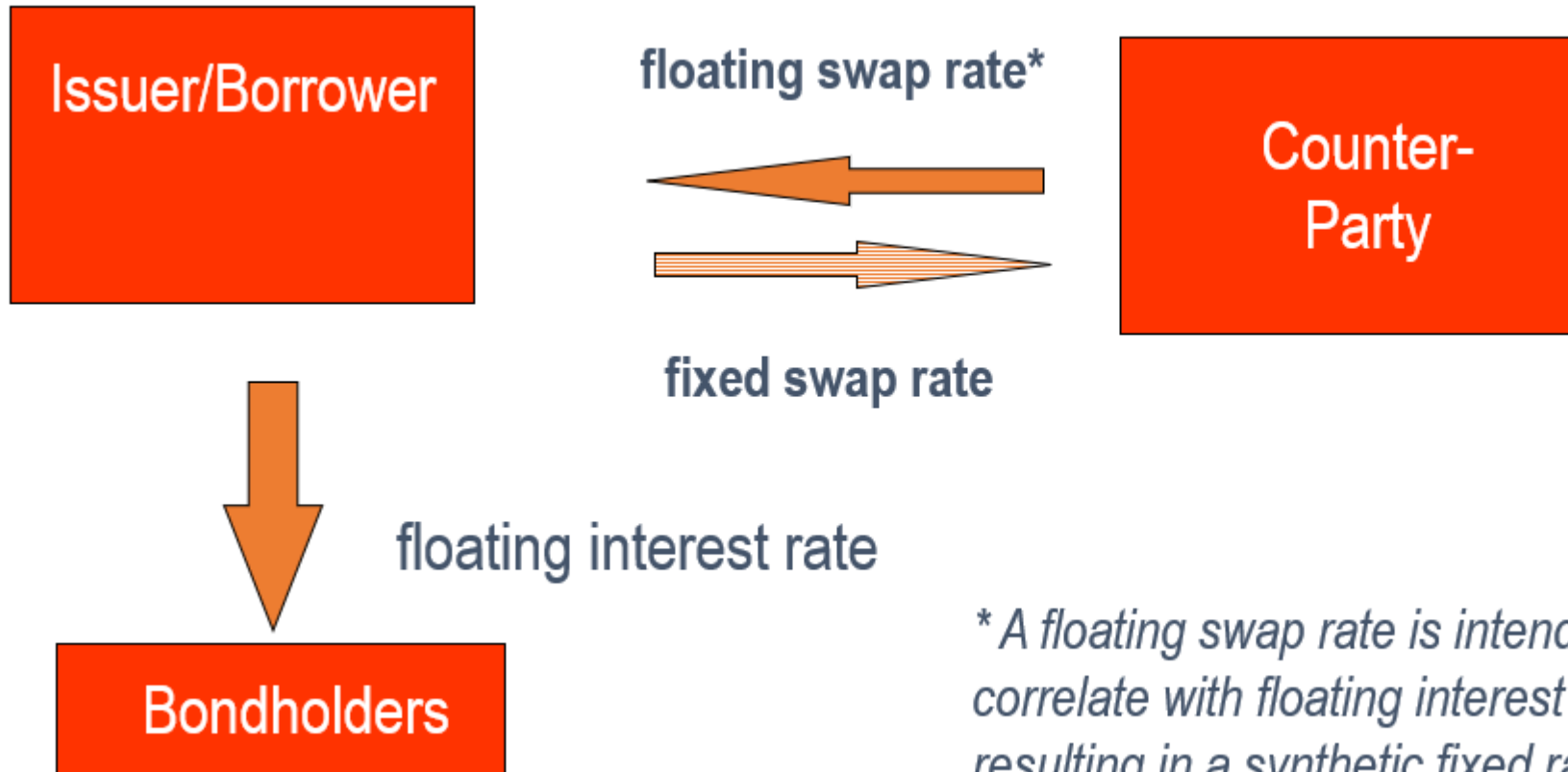
**Est. Savings: \$705,375**



# Interest Rate Swaps



# Interest Rate Swaps



*\* A floating swap rate is intended to mirror or closely correlate with floating interest rate on the bonds, resulting in a synthetic fixed rate issue.*

