Bay Area Housing Finance Authority

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Call for Lender Partners: Questions and Answers

1. **The program materials reference both first position and subordinate-position loans, while the draft term sheets appear to contemplate only subordinate financing. Can BAHFA clarify the intended loan structures and lien positions for each product?**
   BAHFA anticipates the small first mortgage product would be a first-position loan, and the others would be subordinate-position loans.

2. **Can you describe BAHFA's internal underwriting and approval process? How frequently will BAHFA loan approvals occur? For time-sensitive acquisition financing opportunities, what is the anticipated turnaround time for approval? Can BAHFA approval authority be delegated to staff or committees?**
   General high-level loan terms are expected to be approved upfront by the BAHFA Board, along with delegated authority for staff to process individual applications. If projects fall within the bounds of those Board-approved terms, all other loan underwriting and approvals processes are expected to be managed at the staff level. Assuming such delegated authority from the Board, BAHFA staff can work at the speed of the market. For example, BAHFA's Welfare Tax Exemption Program (WTEP) program and the Housing Preservation Loan Pilot Program are existing programs focused on acquisition and preservation opportunities. When sponsor developers come to us, they are already in contract to buy and are competing with market buyers. We have been able to meet those sponsor-driven timelines.

3. **What does it mean to support BAHFA staff during underwriting?**
   Since these products differ from what BAHFA has offered in the past, we are seeking expertise to co-underwrite applications for these newer products and recommend best practices in the underwriting process to incorporate into BAHFA's own systems.

4. **Is there a market study or other market research that can be shared?**
   No. This solicitation has been developed in consultation with the BAHFA Technical Advisory Group and meetings with local jurisdictions, their housing departments, and other key stakeholders. We are open to shaping products based on the experience of the selected partner and further outreach to stakeholders.

5. **Have you tested the market to see what interest rates are viable?**
   We have shared general terms with the Technical Advisory Group and will check in again during an upcoming follow-up session, and we will continue to research other options. We have received generally positive feedback but anticipate the selected Lender Partner will work with BAHFA to finalize interest rates and other terms.

6. **What compensation does BAHFA envision for the lender's advisory and fund management, particularly those related to underwriting and portfolio management?**
   BAHFA expects compensation will come out of borrower proceeds or other borrower resources, and we expect Lender Partner compensation to be comparable to other loan products available on the market.

7. **What size of project does BAHFA imagine this will catalyze, and what total lending volume does BAHFA anticipate this generating (assuming $30 million from BAHFA plus Lender Partner co-lending/participation)? Is this intended to support a few large developments or many small, scattered sites? Is BAHFA looking for a specific leverage range from the Lender Partner?**
   BAHFA does not have a specific project size in mind. During the program development phase, BAHFA identified 6 case study subjects and found its suite of tools to be effective in 5 out of the 6 cases. Case studies included projects with total development costs ranging between $6 million and $70 million and unit counts ranging between 32 and 206. Loan limits are likely to limit the size of projects, but to the extent there is lender capital that can supplement, we will be able to serve larger projects. The more funding the Lender Partner is willing to designate to support this program, the more impact BAHFA's other tools will have.

8. **What is the timing on the tranches referenced in the RFP (the first $11 million, then the additional $13 million)?**
   BAHFA's updated projections anticipate nearly $14m to be available for the first phase of lending. An additional $10-16 million is expected to be available between the end of 2027 and mid year 2028.

9. **What is BAHFA's fundraising strategy for the remainder of the estimated $30 million?**
   All but $3-$6 million of the $30 million total has been identified. The remaining $3-$6 million may come from one or more of several sources that have provided funding in the past: philanthropic fundraising, state budget allocation, and/or Agency contributions.

10. **What are the restrictions and priorities on BAHFA's sources of capital?**
    There are no known restrictions that would preclude the uses anticipated under this Mixed Finance Program.

11. **What staffing does BAHFA currently have for this program, how much time will staff be able to devote to it, and does BAHFA anticipate any staffing changes over the next year?**
    BAHFA currently has two staff (the Assistant Director and Program Coordinator) working on the program and is hiring a Principal Loan Manager who will lead the program. These three full-time staff will run all of BAHFA's programs; the Regional Mixed-Finance Program will be a major focus for the team in the coming year. BAHFA staff will be available to co-underwrite with the Lender Partner.

    BAHFA also has CSG Advisors on contract. They will be available to collaborate with the partners to finalize the program and provide support as needed after program launch.

12. **Does BAHFA have staff capacity for marketing, origination, and pipeline capacity sufficient to ensure capital isn't over-committed? Or, are they looking to the Lender Partner for this?**
    BAHFA would like to co-brand and co-market the program with the Lender Partner. BAHFA does have an internal communications function that can help with messaging and dissemination, but we expect both BAHFA staff and its Lender Partner to take on pro-active outreach to make sure the program is widely known. BAHFA is expecting this program to be over-the-counter, first-come first-served and will work with the Lender Partner to track accordingly.

13. **The RFP states the Lender Partner will lead on underwriting duties. The RFP also states that underwriting will be coordinated through a BAHFA-led process. How should a proposer reconcile these two statements? Is the intent that the Lender Partner underwrites and presents loan proposals to BAHFA for loan approval? Or do you anticipate BAHFA staff will prepare loan proposals and present to BAHFA's approving body?**
    The intent is that the Lender Partner and BAHFA develop an approval process together. Pending BAHFA Board approval, the expectation is that there will be no further project-level approval required from BAHFA's oversight bodies. However, BAHFA will have an internal staff-level approval process, which will be applied to any loans originated utilizing BAHFA funds, once applications are fully underwritten and ready for final commitment. This response reflects BAHFA staff's current plan but is subject to program-level approval by the BAHFA Board.

14. **What does BAHFA's internal approval process for loans look like: what are the levels of review, approving bodies, and estimated timeline?**
    Please see question #13 above.

15. **Would BAHFA consider purchasing loan participations after closing? For example, if BAHFA's approval timeline creates an execution challenge, could the Lender Partner close a loan and sell back a participation to BAHFA afterward?**
    BAHFA is open to discussing this option further once a Lender Partner has been selected.

16. **What flexibility does BAHFA have on the draft terms? What can be adjusted at the staff level versus what must go before a reviewing body? If a reviewing body is required, which one(s)?**
    BAHFA will work with the Lender Partner to refine Board-approved terms prior to seeking approval of those terms from the BAHFA Board. Once a Lender Partner has been selected, the expectation is that BAHFA and the Partner will finalize such terms quickly to keep the Board approval process on track. It is anticipated that the Board-approved terms will be high level, outlining the key elements that define program intent and address major risk elements. If there is a need to change the Board-approved terms, such changes would need to be approved by the BAHFA Board. It is expected that more detailed program requirements in the form of program guidelines will be shaped by the BAHFA staff and Lender Partner and can be adjusted over time to reflect the needs of the market so long as such changes stay within the bounds of the Board-approved terms.

17. **How is the 10% discount to market rent calculated, and does it apply across all units or only those meeting the minimum affordability set-asides?**
    For any deed restricted unit, BAHFA would determine the discount by comparing proposed restricted rent levels with market-value rent conclusions from a valid market study or appraisal.

18. **How is the regulatory agreement imposed, and how will compliance be monitored?**
    BAHFA anticipates imposing a 55-year regulatory agreement but is open to different structures once a Lender Partner is selected. The regulatory agreement will be recorded in the most senior position possible, and BAHFA staff will monitor affordability on at least an annual basis. Depending on the program, the cost of this monitoring will be covered by ongoing fees or interest income.

19. **What is BAHFA's risk tolerance? Could BAHFA's loans be structured as top-loss capital when offered in parallel with a Lender Partner loan?**
    A top-loss structure was not anticipated, but BAHFA is open to discussing this option further once a Lender Partner has been selected if the risk level is commensurate with potential returns and overall risk of the $30 million portfolio is balanced.

20. **For the Subordinate/Mezzanine Debt product, what level of sponsor match is required, and what levels of replacement and operating reserves are expected, or are these still TBD?**
    Current program requirements would require a 1-to-1 match for the Subordinate/Mezzanine Debt; reserve requirements have not yet been determined. We anticipate the match requirement could be met by philanthropic funds for certain borrowers.

21. **For the Predevelopment Loan, are there "Other Considerations" beyond what's listed that make this product attractive to the likely borrower profile (noted in the RFP as Smaller, Emerging Developers)?**
    BAHFA is open to discussing additional features once a Lender Partner has been selected.

22. **Does BAHFA have specific relocation requirements when a project is also pursuing a welfare property tax exemption?**
    Yes, temporary relocation shall not exceed 180 days unless approved by BAHFA. Sponsors are to provide temporary housing that is decent, safe, sanitary, and of comparable size to the relocated tenant's dwelling unit. Tenants are to pay the rent for the original unit but are not to bear costs related to moving and packing and any costs associated with relocation that exceed their typical housing expenses (rent, utilities, other charges).

23. **Based on BAHFA's own market research, which product does BAHFA believe will be most attractive to borrowers?**
    Please see question #4 above.

24. **Can rates be fixed, floating, or both?**
    BAHFA is open to discussing this option further once a Lender Partner has been selected.

25. **What drives BAHFA's pricing standards: an internal revenue target relative to cost of capital and operating revenue needs, or benchmarking to market-rate financing?**
Benchmarking to market. It is our intent to provide a suite of loan products that are either competitive or more competitive than the private sector, to add value and catalyze the completion of more projects. This may consist of lower than market pricing and/or more aggressive underwriting standards,

26. **How does BAHFA envision the Lender Partner being compensated for work tied to loans funded entirely by BAHFA (in cases where there is no co-lending by the Lender Partner)? Is fee-for-service funding available for origination, servicing, or asset management?**
Please see question #6 above.

27. **Does BAHFA have loan servicing systems in place for its own originations? Or is BAHFA expecting the Lender Partner to use its existing infrastructure, and if so, how does BAHFA plan to mirror that data internally?**
BAHFA is developing a system for loan servicing and compliance review but is open to discussing lessons learned once the Lender Partner has been selected.

28. **Does BAHFA hold a California lender's license, or does BAHFA plan to rely on the Lender Partner's license for both the Lender Partner's own originations and BAHFA's?**
BAHFA does not hold a California lender's license. As a public entity it is exempt from the requirement to hold a lender's license pursuant to California Financial Code section 22050(f). Therefore, BAHFA does not intend to rely on the Lender Partner's license for BAHFA's originations.

29. **For proposers selected for an interview, how much advance notice should we expect?**
BAHFA anticipates reaching out to proposers the week of September 14 to schedule interviews the week of September 28.

30. **What is the source of funds and terms for the $11M that is in hand?**
Please see questions #8 and #9 above.

31. **What is the anticipated timing, source and terms for the committed $13M?**
Please see questions #8 and #9 above.

32. **Who will primarily be responsible for pipeline generation?**
BAHFA would like to co-market with the Lending Partner.

33. **How developed are the funds application process and underwriting materials? Will the lending partner be supporting or generating these materials if not fully developed?**
BAHFA has collaborated with a consultant to develop the framework but would work to develop the detailed process and application materials with the selected Lending Partner.

34. **How set is the product suite? RFP outlines several products and asks responders to show how the proposal fills gaps in the market and to recommend additional financial products.**
The proposed products come out of BAHFA's market research and stakeholder conversations to date and are intended to meet potential borrower needs. To the extent there is an argument to add to or trim the product suite, BAHFA is open to that conversation.

35. **What are BAHFA's overall return on capital expectations for the Mixed-Income Financing Program? How final are the proposed rate structures and spreads for the four products?**
BAHFA is underwriting between a 6 and 7% return on capital, and there are no specific allocations among the products. BAHFA is open to discussing rates with the Lender Partner once selected. BAHFA's return targets are not dictated by the underlying cost of its capital.

36. **How long will BAHFA's credit approval and closing process take for the Mixed-Income Financing Program? Are there any timing constraints or barriers to closing that the Lender partners should be aware of?**
Please see question #2 above. BAHFA will collaborate with the Lending Partner to develop an underwriting process that supports timely approval and closing, consistent with market standards. We do not anticipate that loans will need to be approved by the BAHFA Board.

37. **Will the Mixed-Income Financing Program have any restrictions on the terms that the Lender partner may offer on their own leveraged capital, particularly with regards to loan pricing?**
BAHFA is open to discussing more once the Lender Partner is selected. In general, when combined with BAHFA's required returns, the Partner's pricing should not impair the overall competitiveness of the product.

38. **For the Subordinate/Mezzanine Debt and Subordinate Bridge Debt products, can you confirm that BAHFA's intention is to have the Lender partner provide the Senior debt (rather than the equivalent lien position stated on pg.2 under Scope section)?**
BAHFA does not expect the Lender Partner to provide the senior debt on all projects. The Lender Partner is not precluded from providing senior debt alongside Subordinate/Mezzanine Debt or Subordinate Bridge Debt products for any specific project. When BAHFA and the Lender Partner co-lend with similar loan product on the same project, the expectation is that BAHFA and the Lender Partner's funds will hold the same lien position.

39. **If 120% of AMI is not below market, would a project that sets 70% of units at 120% of AMI not be eligible?**
While the tenant AMI for the units are set at a max of 120% AMI, the rents collected need to be 10% below market. Where a particular AMI level (e.g., 120% AMI) does not provide the required 10% discount to market, the regulatory agreement would need to reflect a lower starting rent level that does meet the requirement.

40. **How will market rent be determined in the context above?**
See question #17 above.

41. **Would BAHFA be okay with the BAHFA product supporting unsecured predevelopment? If so, up to what size?**
If a property is under sponsor ownership, BAHFA will put a deed of trust on the site. If a property is not identified, then we anticipate a guarantee would be required.

42. **Is BAHFA paying interest on its capital, or should we assume all funds raised are grant funds for purposes of the financial model?**
The initial lending capital described in the solicitation does not have an underlying cost BAHFA must cover with its fees and rates. Instead, BAHFA's fees and rates are designed to recover costs of program administration and grow the pool of funds available to support BAHFA's programs.

43. **Would BAHFA be okay with BAHFA and the lender partner charging different rates, with BAHFA charging the lower rate?**
BAHFA is open to discussing this further with the Lending Partner once selected.

44. **Can BAHFA quantify the size of the developer pool that is focused on mixed-income housing? Is BAHFA primarily targeting preservation or new construction?**
    BAHFA does not have information on the precise size of the addressable developer market. The focus is primarily on preservation projects due to such projects being generally less expensive on a per-unit basis than new construction (allowing for greater impact with limited lendable funds). However, BAHFA is amenable to supporting new construction projects where financially feasible.

45. **Will BAHFA prioritize nonprofit developers? Does BAHFA have any other priorities regarding developer partners?**
    BAHFA does not anticipate prioritizing nonprofit developers for the Regional Mixed Finance program. The Regional Mixed Finance program is planned to be an over-the-counter, first-come, first-served program, so developer partners will only be expected to meet threshold experience and capacity criteria.

46. **If new construction, what are BAHFA's expectations about financing sources beyond this debt?**
    BAHFA does not expect its lending products and those of its Lender Partners to provide 100% of the financing sources on most projects. BAHFA's products are designed to stack with other commercially available financing sources.

47. **If preservation, are the market rents high enough for it to be built without soft debt?**
    See question #17.

48. **Are any counties offering property tax exemption for 120% AMI housing, or is it all limited to 80%?**
    For units owned by private and non-profit entities to receive a property tax exemption (i.e., the Welfare Tax Exemption) rents typically must be restricted at or below 80% of AMI. However, units in projects owned by a governmental entity (e.g., a public housing authority) could serve households at higher AMI levels while still maintaining a property tax exemption, though possessory interest taxes may then apply to units above 80% AMI.