
Memorandum



To: Eligible Applicants for ARRA Funding
From: Sean Thomas
Date: July 24, 2009
Re: Availability of New Private Capital for 2007-2008 Projects

I am writing to inform you of a positive development in OHFA's efforts to facilitate the development of 2007 and 2008 Housing Tax Credit projects.

As you know, projects that have not closed and are in need of gap financing resources allocated to OHFA under the American Recovery and Reinvestment Act (ARRA) have been advised to submit an application for those resources no later than October 14, 2009. In the application, the developer is required to identify a private investor, or, in the case that an investor cannot be secured, to request assistance as a "Tax Credit Exchange (TCE) only" transaction.

OHFA's policy goal is to support and enhance public-private investment partnerships. In addition, the TCE rules require that recipients demonstrate a good faith effort to obtain an investment commitment. I am pleased to say that the Ohio Capital Corporation for Housing (OCCH) has created a structure to draw significant private capital to projects that do not currently have a solid investment commitment. This structure will help OHFA achieve its policy goal and compliance with TCE rules.

The essence of the structure is the establishment of a \$75 million proprietary fund with a single investor identified by OCCH, Nationwide Insurance. OHFA will be providing TCAP bridge financing to certain projects receiving an investment through this fund, driving the return to a level to induce the investor to invest in projects in Ohio. The projects selected to receive a TCAP bridge loan will be those that received a HDAP-HOME award. Additional TCE funds will be available as gap financing to those projects unable to use the bridge loan. All final amounts will be determined through the ARRA underwriting process.

OHFA believes this is a win-win scenario in the sense that TCAP resources will be recycled for use in the future, and that private sector capital and oversight will be available on the majority of projects that have not yet started construction. Developers can take advantage of this new source of capital to meet the statutory requirement of demonstrating a good faith effort to find private investment. OHFA will likely only have to fund a small number of "TCE-only" projects. Also, given the fact that OCCH has established procedures for closing transactions, participation in this Fund may represent the quickest way to get projects under construction and provide immediate economic stimulus.

Attached are Questions and Answers about this Fund. The key next step is for developers needing ARRA resources to submit their complete applications for underwriting by OHFA staff as soon as possible. We hope several deals can close into this new fund in the next 45 days, but the first step is to get the critical ARRA underwriting complete.

Feel free to contact me at OHFA, or Hal Keller, Jack Kukura, Joe Pimmel or any of the acquisitions staff at OCCH with any questions about how to proceed.

OHIO ARRA FUND – QUESTIONS AND ANSWERS

Q. Please describe how the Fund works.

A. Ohio Capital Corporation for Housing (OCCH) has created a financial vehicle that will raise \$75 million in private capital for 2007 and 2008 Housing Tax Credit (HTC) projects that have indicated they could not find an investor.

OCCH approached Ohio Housing Finance Agency (OHFA) with a proposal to use TCAP funds to bridge investor payments. This will increase the return to the investor and induce a large corporation to invest an unprecedented amount of capital in a specific state.

The Fund will have a single investor and OCCH will serve as the syndicator closing deals and performing asset management during the compliance period.

Q. Who is the investor?

A. Nationwide Insurance. Please note that Nationwide Insurance, a great corporate citizen in Ohio and other communities around the nation, is not subject to the Community Reinvestment Act as are most of the active HTC investors in today's market. Nationwide invests primarily for economic reasons.

Q. Will every project get a bridge loan?

A. No. Due to federal environmental review and prevailing wage requirements, only projects that had been allocated federal HOME dollars will receive a bridge loan. Those projects will have greater percentage of project costs funded through equity. Projects that had been allocated Ohio Housing Trust Fund dollars will receive less private capital and a higher level of gap financing from Tax Credit Exchange (TCE).

Q. What will be the pricing on the tax credit equity?

A. Equity pricing will vary greatly from project to project depending on the bridge financing, attributes of the project and the overall structure of the entire fund. This is a portfolio structure rather than deal –by-deal pricing.

Q. Will the pricing and mix of investor equity and other gap financing affect the developer?

A. No. ARRA underwriting by OHFA staff and communication with the developer will determine the development budget including the amount of paid developer fees, construction profit, reserves and other items. The pricing and amount of gap financing will be adjusted to meet ARRA Category 1 underwriting.

Q. Are developers required to use this Fund?

A. No. Developers are not required to use this fund and are free to identify another investor. If another investor is not found, OHFA may recapture credits, HDL, and HDAP in order to meet its policy goal to support and enhance the public-private investment partnerships and to ensure that developers demonstrate that they have made good faith efforts to obtain an equity commitment.

Q. What are the guarantees the Fund will require?

A. The guarantees will be negotiated on a case-by-case basis by OCCH. The guarantee requirements will be based on industry standards. While OHFA has not yet established guarantee requirements for TCE-only transactions, those guarantees will also be based on standard industry practices and most likely mirror what OCCH and other syndicators negotiate.

Q. Will all projects without an investor be able to participate in this Fund?

A. No. There is not enough capital available for all potential projects. Final decisions regarding participation in the Fund will be made by OCCH and Nationwide Insurance.

Q. Why use TCAP as bridge financing?

A. By using TCAP as bridge financing, OHFA will be able to recycle this valuable resource while leveraging private capital. OHFA also has 20 years of experience in bridge financing: OHFA currently administers a program that utilizes Ohio Department of Commerce unclaimed funds for investor note financing.

Q. What will be the collateral for OHFA's loan?

A. As in the current program, unconditional investor promissory notes from a credit-worthy corporation.

Q. Why is OHFA committed to this Fund?

A. Four primary reasons:

- OHFA can catalyze private investment across the state, including rural areas
- OHFA can rely on established private sector project oversight and asset management
- OHFA can recycle valuable ARRA resources for use in future affordable housing activities of the agency
- ARRA resources have pressing and strict time guidelines for commitment and expenditure of dollars: this Fund will be able to close all projects by the end of November with the cooperation of the developer

Q. Why work only with OCCH?

A. OHFA works with many syndicators. In this difficult equity market, as many syndicators withdrew from Ohio, OCCH continued to raise capital and invest. There are several reasons for working with OCCH:

- OCCH came up with the idea
- OCCH secured the investor
- Most of the developers for deals without investors are current partners of OCCH
- OCCH had previous involvement with most of the projects to go into this Fund in terms of packaging or providing the initial equity commitment letter
- OHFA has confidence in OCCH's ability to execute and quickly close deals
- OHFA has confidence on OCCH's understanding of Ohio markets and asset management and reporting systems

Q. What is the next step for developers?

A. Consistent with OHFA guidelines, developers need to submit their application for ARRA resources as soon as possible. Ask OCCH for any technical assistance you may need in completing the application. OHFA will work with OCCH to expedite the review and coordinate the closing process for deals participating in the Ohio ARRA Fund.