



Contacts

Timothy E. Nelson

Managing Director

2700 Via Fortuna, Suite 410

Austin, TX 78746

Phone: 512.481.2022

tim.nelson@hilltopsecurities.com

Claire Merritt

Associate

2700 Via Fortuna, Suite 410

Austin, TX 78746

Phone: 512.481.2044

claire.merritt@hilltopsecurities.com

November 8, 2019

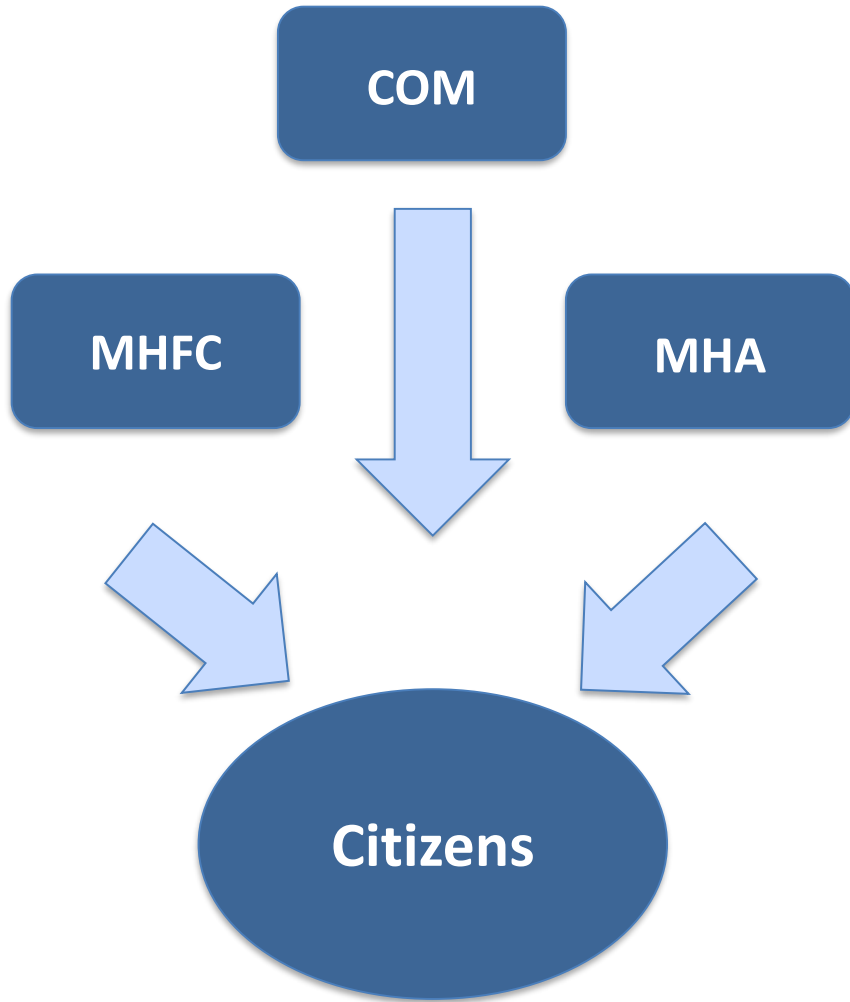
New Board Orientation

McKinney Housing Finance Corporation

Introduction

- History
- Eligible Activities
- Mortgage Credit Certificates
- Single Family Bonds
- Multifamily Bonds
- Current Project

McKinney Housing Programs



City of McKinney

McKinney Housing Finance Corporation

McKinney Housing Authority

History

- Incorporated December 1981
- Organized by the City and operates under Chapter 394, Local Government Code
- Purpose is to provide a means to finance the cost of residential ownership and developments that will provide decent, safe and sanitary housing at affordable prices for residents of the City
- Housing finance corporations (HFC's) are limited by only two things:
 - Whether the activity is related to the provision of affordable housing
 - Their own creativity

Eligible Activities

Issuance of single family mortgage revenue bonds for the purpose of providing low and moderate income homebuyers with low cost mortgages and/or down payment and closing cost assistance

Direct loans to homebuyers for down payment or closing cost assistance

Mortgage credit certificate (MCC) programs to assist first time homebuyers with purchasing power

Issuance of multifamily revenue bonds to provide low and moderate income housing to be built or rehabilitated

Funding to neighborhood associations in low to moderate income neighborhoods for neighborhood improvements

Any activity with a nexus to affordable housing

Mortgage Credit Certificate Program

- Authorized by Congress in 1984 to provide financial assistance to purchasers of single family homes
- The MCC reduces the federal tax liability of the homeowner by up to \$2,000 annually, increasing their purchasing power
- The tax credit is a percentage of the annual interest paid on their mortgage loan
- Limited to first time homebuyers with incomes under the IRS's maximum
- Homes must be within the City of McKinney and purchase price cannot exceed maximum limit
- Actual dollars are not provided; authority to issue MCC is a function of conversion of bond authority

How Does an MCC Work?

Example: \$150,000 loan at 5% interest rate

- Annual interest paid is approximately \$7,500
- An MCC tax credit of 30% of the interest paid would equal \$2,250.
 - $(30\% \times \$7,200 = \$2,250)$
- The maximum annual credit allowable is \$2,000
- The credit reduces the homebuyers federal income taxes

MCC Process

- Issuer (MHFC) authorizes the program
- Issuer publishes 90-day public notice
- Issuer applies for private activity bond (PAB) cap from the Texas Bond Review Board (BRB)
- PAB cap is awarded by the BRB
- Issuer board approves program documents and participants
- Program launch

2019 MCC Program Example

- Income Limits

- Non-Targeted Areas:

- 1-2 person household: \$83,609

- 3+ person household: \$96,151

- Maximum Purchase Price

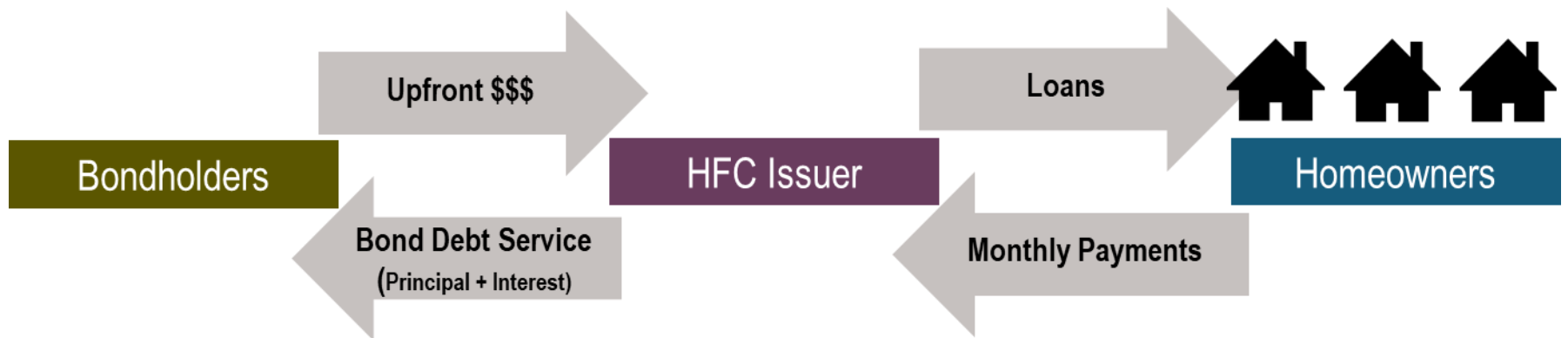
- \$356,046

MCC Historical Programs

Series	Non-Issued Bond Amount	Maximum Mortgage Loans Assisted	Loan Volume	Loans	End Date
2016	\$ 6,622,340	\$ 4,138,963	\$ 694,773	5	12/31/2018
2013	\$ 7,680,000	\$ 480,000	\$ 998,266	6	12/31/2015

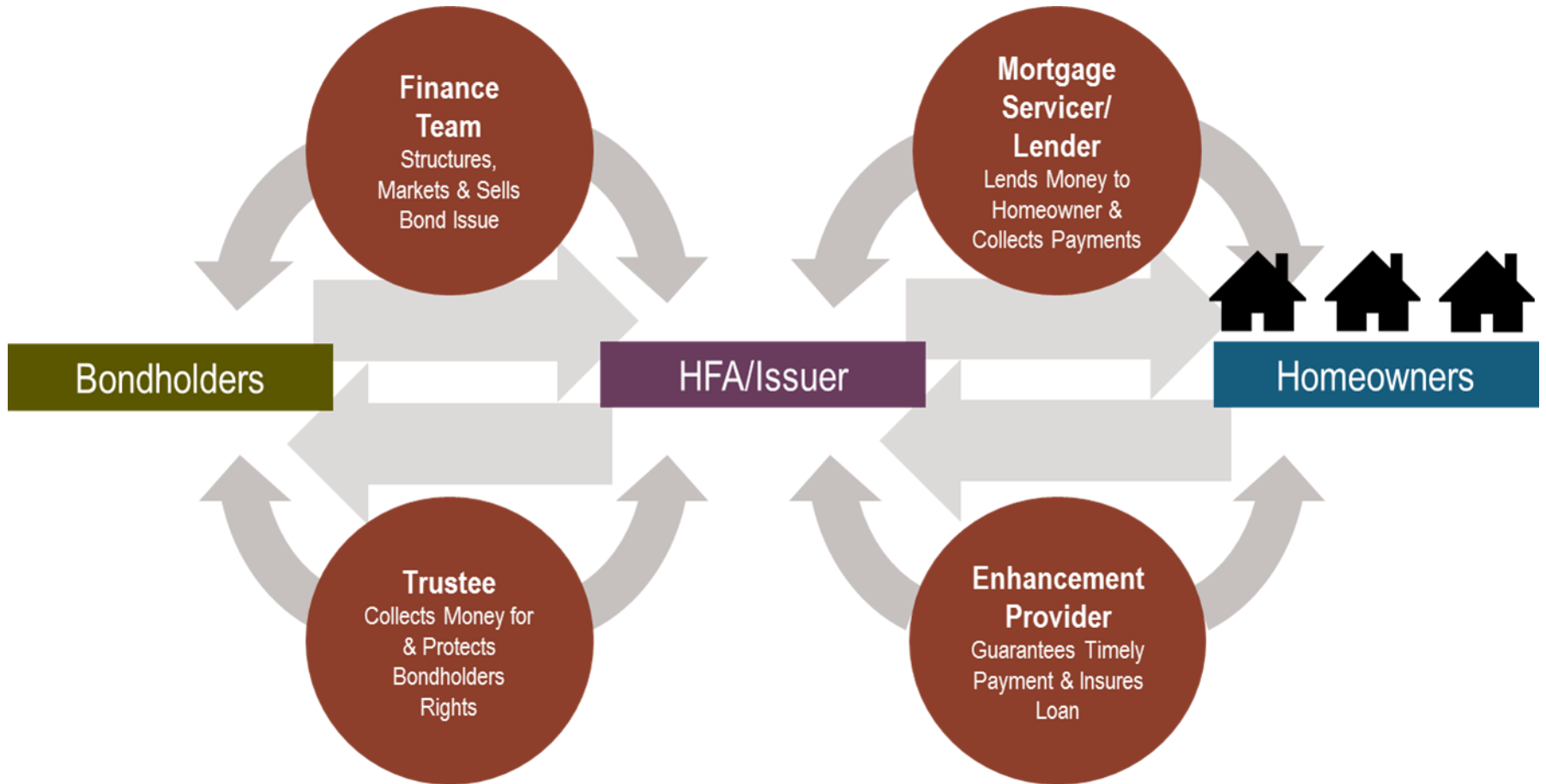
Single Family Housing Bonds

- What are Single Family Housing Bonds?
 - Bonds issued through state and local HFCs to fund below-market interest rate mortgages for first time homebuyers
 - An HFC Issuer sells a single family housing bond issue to the market (bondholders) to fund mortgage loans...



Single Family Housing Bonds

...The HFC Issuer doesn't do this alone...



Multifamily Bond Basics

What is a tax-exempt multifamily housing bond?

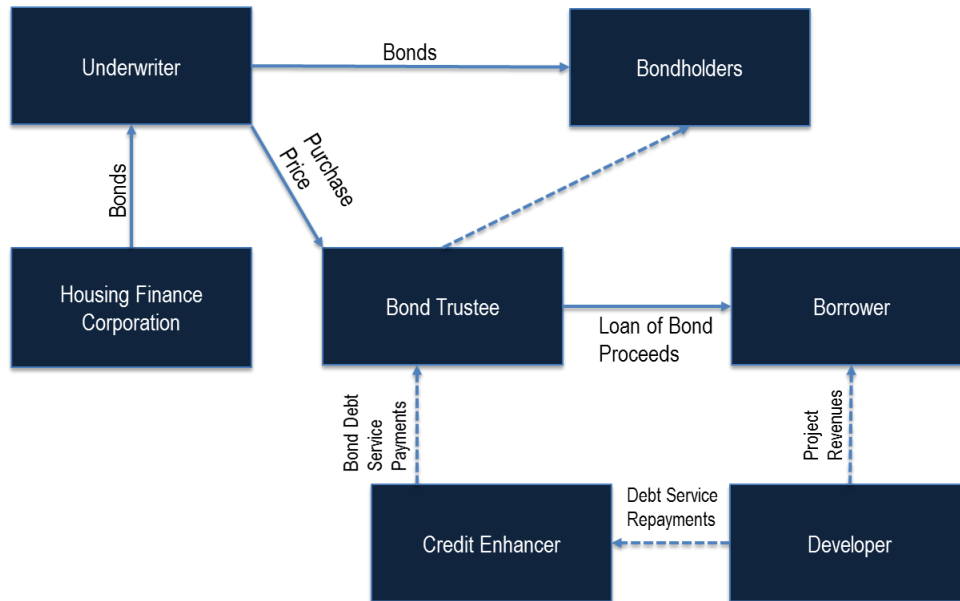
- Bonds issued to finance the construction or rehabilitation of rental housing at rents affordable to low and moderate income individuals and families.
- Tax-exempt financing permits the HFC to assist developers in obtaining a lower cost of financing.
- Lower interest rates on tax-exempt bonds can reduce a developer's all-in borrowing rate as compared to conventional, taxable financing rates.
- Allows a developer to access 4% low income housing tax credits, which can finance as much as 30% of the total project costs.

Multifamily Bond Basics

Multifamily Federal Tax Law Requirements

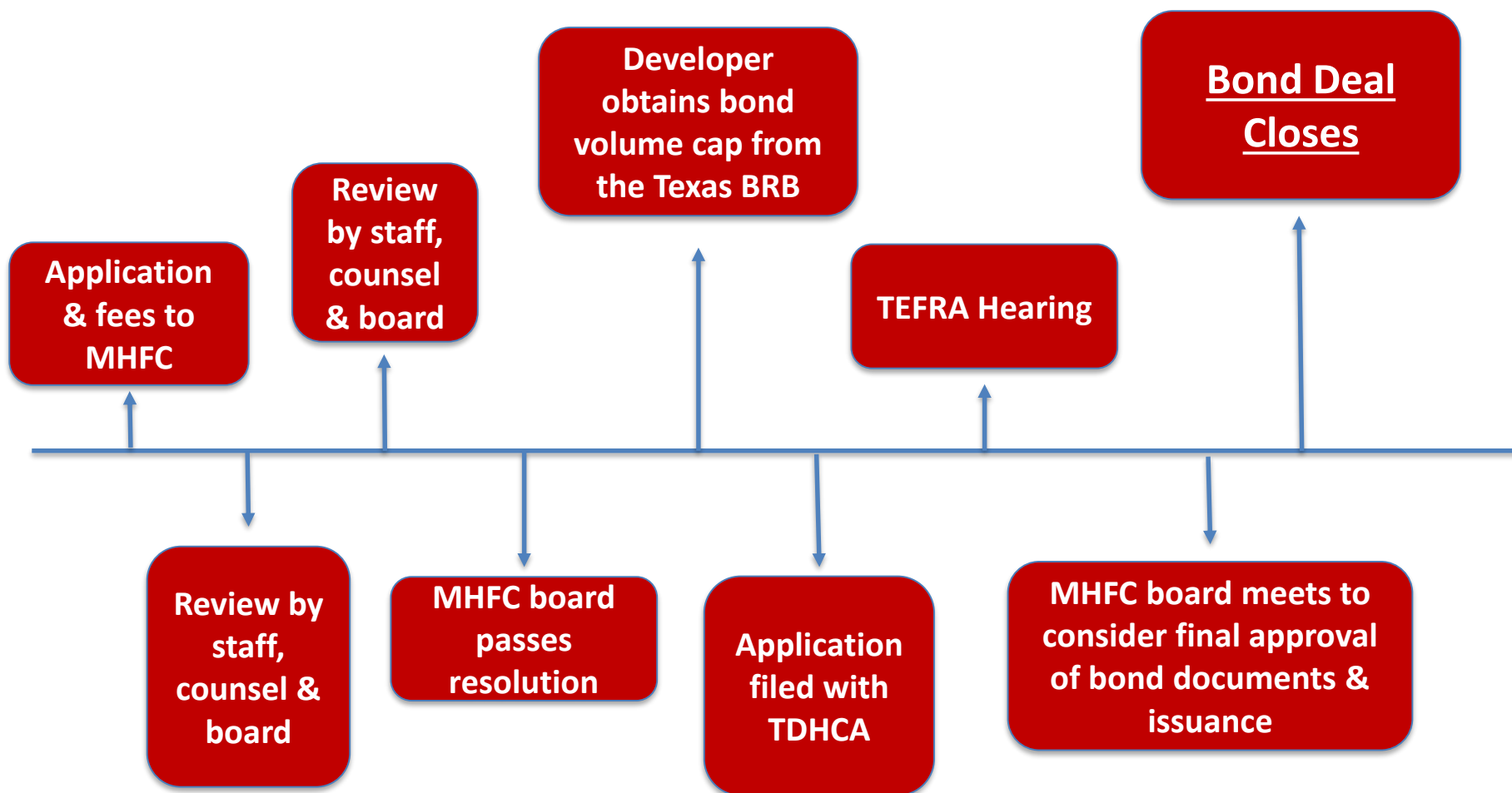
- Multifamily housing developments with bond financing must set aside at least:
 - 40% of their apartments for families with income of 60% of area median income (AMI) or less, or
 - 20% of their apartments for families with income of 50% of AMI or less
- The income restricted apartments financed by those bonds must remain affordable for at least 15 years.
- Must be a residential rental housing facility (i.e. no condos, hotels, dormitories, etc.).

Multifamily Flow of Funds



- Bonds are sold by the Issuer to the Underwriter pursuant to the bond purchase agreement.
- The Underwriter immediately resells the bonds to investors using the Issuer's official statement.
- The proceeds from the bond sale are immediately deposited by the Issuer with the Trustee.
- Until the bond proceeds are disbursed for their specified purpose, the Trustee invests the bond proceeds in permitted investments as directed by the Issuer.
- The Trustee disburses bond proceeds, at the direction of the Issuer.
- The Trustee receives mortgage/loan payments, invests them in short-term investments until needed to pay bond debt service, and collects investment earnings.
- The Trustee pays principal and interest to bondholders from pledged mortgage payments and investment earnings.

Multifamily Bond Transaction Timeline



Private Activity Bond Volume Cap

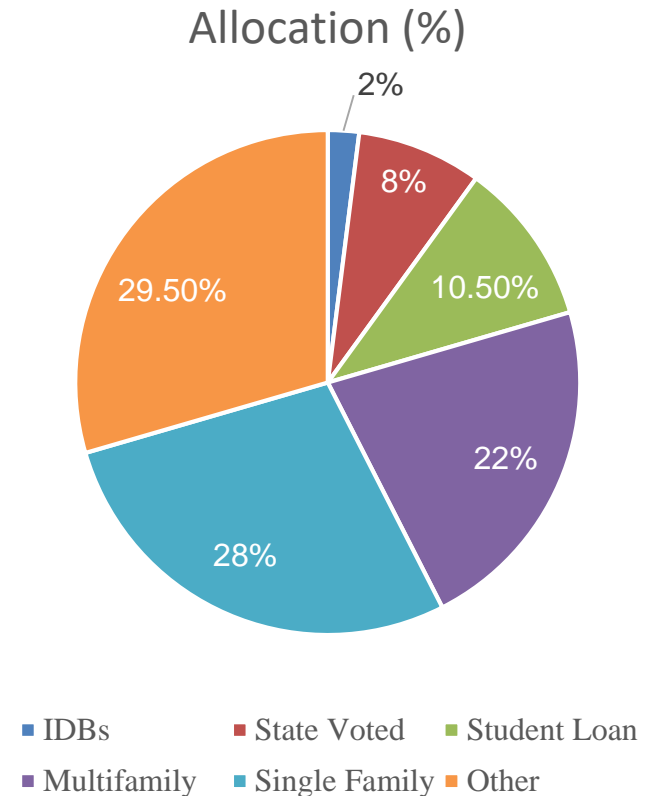
- Tax-exempt multifamily bonds must receive an allocation of private activity volume cap. Using volume cap allows PAB issuers to issue tax-exempt bonds to fund projects.
- The IRS sets the volume cap limits annually and each state receives an allocation of volume cap from the federal government based on the state's population (i.e. \$105 per capita with a minimum of \$316,745,000 for 2019).
- The State of Texas received \$3,013,693,726 in PAB allocation in 2019.
- Volume cap in the State of Texas is administered by the Texas Bond Review Board.
- Once a multifamily deal receives its volume cap, the bonds must close within 150 days from receipt.

Texas Private Activity Bond Allocation

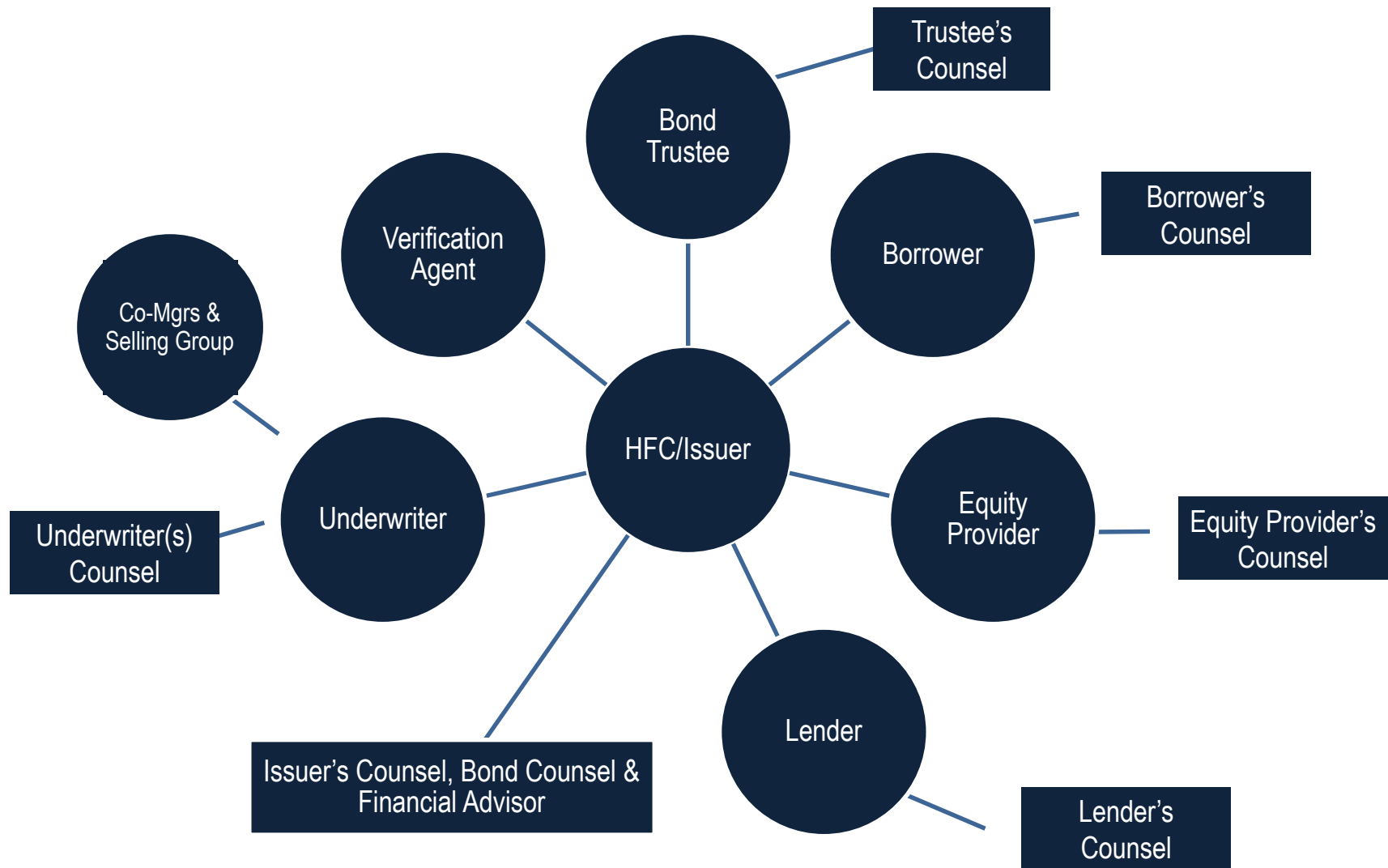
The State of Texas received \$3,013,693,726 in PAB allocation in 2019

- IDBs 2% - \$60,273,875
- State Voted 8% - \$241,095,498
- Student Loan 10.5% - \$316,437,841
- **Multifamily 22% - \$663,012,620**
- Single Family 28% - \$843,834,244
- Other 29.5% - 889,039,648

2019 Private Activity Bond Allocation - Texas



Negotiated Sale Financing Team



Overview of Partnership Structure

- Typically, the “borrower” in a multifamily housing financing consists of entities formed by the developer and the tax credit investor.
- Developers often seek to take advantage of the “partnership structure” by including a wholly owned affiliate of the HFC as the general partner of the borrower.
- Using this structure generally permits the borrower to take advantage of exemptions from ad valorem property taxes and sales taxes on hard construction costs.
- The “partnership structure” generally involves participation of the HFC in one or more of the following roles:
 - **General Partner.** GP in a limited partnership with the affordable housing developer and tax credit investor.
 - **Ground Lessor.** Formed to own the land on which the development is located. Leases land back to borrower pursuant to long-term lease.
 - **Co-Developer.** Formed to enter development agreement with affordable housing developer.
 - **General Contractor.** Enters into a construction contract (and subcontract) with respect to construction of the affordable housing development

Overview of Partnership Structure (continued)

- Housing finance corporations typically share in the following fees:
 - Developer Fee (typically 20-30% split) (when HFC is **Co-Dev**)
 - Excess cash flows, including cash generated by a sale of the project (typically 30-50% split) (when HFC is **GP**)
 - Sales tax savings (typically 25%) (when HFC is **GC**)
- Typically are granted purchase option and right of first refusal (ROFR) if developer seeks to sell the project
 - ROFR is often granted at a substantially below market price

Multifamily Historical Programs

Series	Multifamily Project
2015	Newsome Homes Project
2014	Lakes of El Dorado Apartments
2007	Cedar Creek Village Series
1997	Park on the Creek Project

Current Project Underway: McKinney Flats

- Developer: NRP
- Project Description:
 - \$32,000,000 bond allocation for a new construction project
 - 206 garden style units
 - A majority of the units will serve households with incomes at 60% of the area median income
 - 4 person AMI 60% - \$49,860
 - Obtaining 4% Tax Credits
- Location: Collin McKinney Parkway McKinney, Collin County, TX 75070

Type	1 BR			2 BR			3 BR			4 BR		
AMI	50%	60%	70%	50%	60%	70%	50%	60%	70%	50%	60%	70%
# of Units:	1	4	1	14	70	4	15	80	5	1	10	1
Size:	~660 SF			~910-1000 SF			~1050-1160 SF			~1420 SF		

Current Project Underway: McKinney Flats

■ Economics to the MHFC for McKinney Flats Partnership & Issuance based on \$32,000,000 Par Amount

➤ MHFC Bond Issuer Fees

- Closing Fee .125% = **\$40,000**
- On-going Admin Fee .15% = **\$48,000**

➤ MHFC Partnership Fees

○ Ground Lessor

- PILOT \$25,000/yr (TBD)
- Over the course of 17 years totaling appx. **\$425,000**

○ General Partner

- \$10,000/yr management fee
- 50% of net cashflow
- Over the course of 17 years totaling appx. \$170,000 + \$710,000 = **\$880,000**

○ Co-Developer

- 30% of the Developer Fee
- At closing will receive \$45,000 and then over the period of 10 years you will accumulate appx. **\$1.6M**