CHOIF Q&A

Version 1 – 5/13/2019

1. Do project level underwriting guidelines specified for CHOIF apply to the interest free source as well where applicable?
   No, the interest free LISC loan should be underwritten like HTF monies – subordinate and cash flow contingent/accruing.

2. CHOIF underwriting guidelines state that when a project utilizes bond financing/4% LIHTC, the transaction is papered as a mezz loan. Where does this loan fit within the waterfall? What percent of cash flow does this take?
   When papered as a mezzanine loan, the CHOIF funds will stand outside the Project's capital stack and will be paid with available surplus cash as secured by an executed and pledged surplus cash note. It is imperative that the CHOIF funds are shown as able to be repaid via a refinance event at or prior to Year 15 to be considered viable.

3. Debt structure requirements for CHOIF state that a developer is required to contribute 5% of required equity. Is the intention to draw these funds from the Development Fee? If not, where?
   On 4% projects, this requirement will not apply and QAP and LIHTC standards will apply. On CHOIF projects, developer contribution can come from cash, in kind (prefunded predevelopment, already own land, etc.) contributions, or with other committed grant funds/municipal soft debt.

4. Development Fee is capped at 7% of "eligible costs", are these costs defined as Total Development Cost? If not, can you provide guidance on what's included in this scope?
   Eligible costs would be the total development costs less any capitalized reserves.

5. We're aware that LISC also acts as a tax credit equity investor. If we utilize LISC financing as part of our capital stack, are we required to use LISC as our investor or are we free to make our own selection?
   LISC/NEF is not required to be the investor on tax credit transactions.

6. CHOIF's AMI Targeting guidelines conflict with NCHFA requirements on income averaging, projects that income average are not allowed to include market rate units. If our projects comply with the 20% @30% requirement and round out the unit mix with 60% and 80% units does this meet the spirit of CHOIF's intent here?
   Yes. However, this 100% affordable project would still have to demonstrate that it could pay the CHOIF equity rate of ~2% and pencil out at refinance with enough value to return all principal back to the Fund. A plan that converts regulated low income units to market rate units in order to facilitate refinancing will not be deemed feasible for a CHOIF investment.

7. Do you have any additional guidance as to what situations and contexts would be appropriate for the interest free source compared to CHOIF?

The interest free funds are intended to be used in conjunction with the below market debt being offered by financial institutions on 4% tax exempt bond executions. These funds are intended to increase the amount of HTF and HTF-like capital available for these transactions.

CHOIF is largely intended for mixed income, non-LIHTC projects that can support must pay equity.

8. Can the term/amortization of the CHOIF be set to match the permanent debt, such as a 40-year HUD 221(d)4 loan?
   If papered as a mezzanine loan in a Tax-Exempt Bond (TEB) transaction, yes. Otherwise it is papered as equity.

9. Over what term does the CHOIF have to demonstrate repayment out of cash flow?
   Until the proposed refinancing event, at which point the Project must also show that there is enough value to repay the permanent debt along with the CHOIF. This is projected to happen between Years 12-15, but an early exit is not precluded. CHOIF will not fund prepayment fees on any underlying debt.

10. What return does CHOIF require on its investment (it was mentioned as 2.0% at the first meeting)?
    It will be approximately 2% annually, with an additional small allowance for Fund expenses. The cash flow sweep will be negotiated on a deal by deal basis in order to return this to the Fund.

11. Do developer fees follow NCHFA's formula or do CHOIF funds lower the amount of developer fee to 7%, and if it is a lower formula what does LISC consider as "eligible development costs"? The normal LIHTC formula is 15% of eligible costs.
    CHOIF projects not utilizing NCHFA funds are limited to 7%. 4% Tax-Exempt Bond (TEB) transactions will be limited by NCHFA policy and the QAP (currently a per unit cap).

12. Does the tax credit equity count toward LISC's required 5% equity investment from the developer? I am not sure what that equity amount is referring to on a LIHTC deal as it seems like a market rate underwriting reference.
    This is not applicable to a LIHTC deal. Mixed income and non-LIHTC projects will be required to include 5% equity as described in Question 3.

13. Will LISC allow the proportion of some AMI rent/income levels to exceed 1/3 of the total? Meeting the HTF requirement for 20% of the units at 30% AMI ends up pushing some other AMI levels above 30% AMI.
    Yes, these AMI bands are targets and are not hard, per project requirements.

14. What is the interest rate assumption for CHOIF financing and what are the specific requirements for the LISC interest-free financing to be used with local institution financing?
    CHOIF is an equity product and not a loan. As such, there is no interest rate associated with the CHOIF funds, but a negotiated cash flow split (after debt service) and a refinance event that will return CHOIF capital to the Fund.

15. Should we assume any gap is 100% filled by the LISC subordinate capital, with $0 HTF?

This is at your option. The products have the same terms and may be funded at levels decided by the Committee.