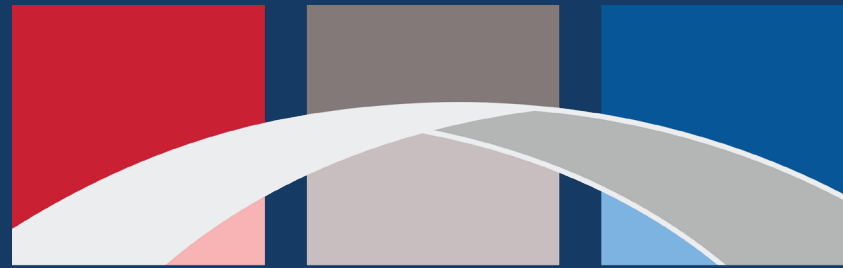




**U.S. Department
of Transportation**



BUILD AMERICA BUREAU

**Credit Considerations for Transit-Oriented
Development Multifamily Loans**

Sarah Williams, Eriq Alexander, Borjan Panovski

Housekeeping

Session Details

Today's session is being recorded

All participants automatically join on mute, with cameras off

Questions for Presenters

Type questions in the Q&A box

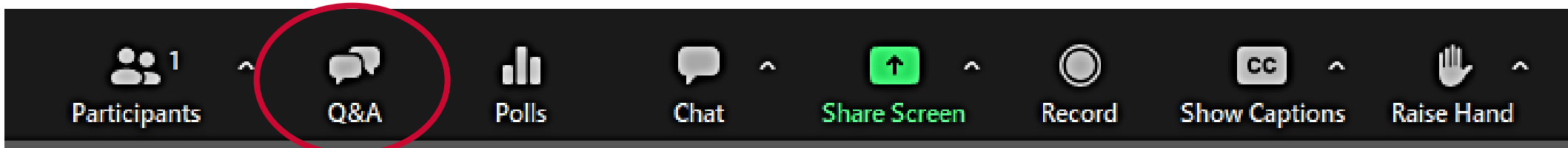
Technical Support

Email: Webconferencing@dot.gov

More Information

The presentation and recording will be posted to the Bureau's TOD resources page

<https://www.transportation.gov/buildamerica/TOD>



Submit questions for panelists using the Q&A tool. Questions will be answered in Q&A tool or during Q&A time after the presentation

Disclaimer

This document and presentation do not have the force and effect of law and are not meant to bind the public in any way. This document and presentation are intended only to provide clarity to the public regarding existing requirements under law and agency policies. Sponsors should refer to Build America Bureau statutes and regulations for applicable requirements.

Agenda

Objective: Provide a summary of the Build America Bureau's creditworthiness review process and indicative lending criteria for transit-oriented development (TOD) market-rate and affordable multifamily projects

- Introductions
- Poll Question 1
- Build America Bureau
 - Financing Programs and TOD Eligibility
 - Working with the Bureau
- TOD Lending Criteria
 - Indicative Terms for Market-Rate and Affordable Multifamily Projects
 - Examples
- Poll Question 2
- Questions and Answers

Poll Question 1

Which best describes your affiliation?

- Bank or lending institution
- Federal government
- Financial consultant
- Legal consultant
- Local or state government
- Non-bank financial investor
- Policy/advocacy organization
- Private or non-profit developer

Build America Bureau

Advancing Investment in America's Transportation Infrastructure

Point of contact and coordination for federal credit programs, transportation expertise, and strategies to access private capital

Financial Assistance

Credit assistance for a wide range of eligible projects, \$100 billion available

Tax-exempt bonds for public-private partnerships, \$5 billion available

Technical Assistance

Grants for project planning and development, and community solutions

Education on innovative project planning, financing tools, and delivery models

Financing Programs

Key Features

- Loans, loan guarantees, and lines of credit
- Negotiable terms and conditions to meet borrower needs and preferences
- Tailored repayment period
 - Up to 35 years (some up to 75 years)
 - Optional 5-year deferral after project completion
- No pre-payment penalty

TIFIA

Transportation Infrastructure Finance and Innovation Act

- Surface transportation and public infrastructure
- Finance up to 33-49% of eligible project costs

RRIF

Railroad Rehabilitation and Improvement Financing

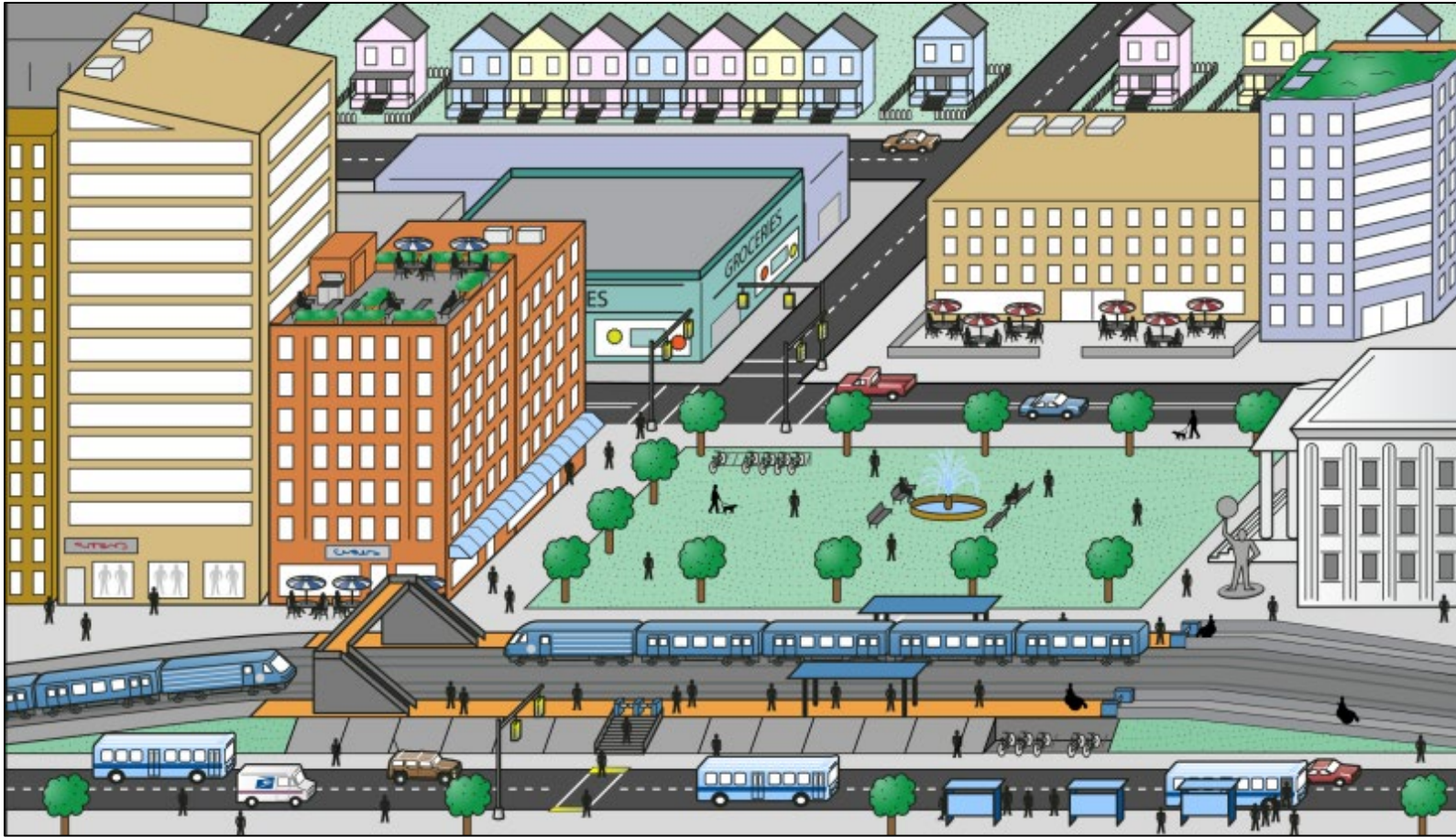
- Passenger, freight, commuter rail and transit-oriented development
- Finance up to 75-100% of eligible project costs

Low, Fixed Interest Rates

4.11%

35-year loan, as of August 21, 2024

Transit-Oriented Development (TOD) Project Types Eligible for Bureau Financing



Transit (TIFIA)

Railroad (RRIF)

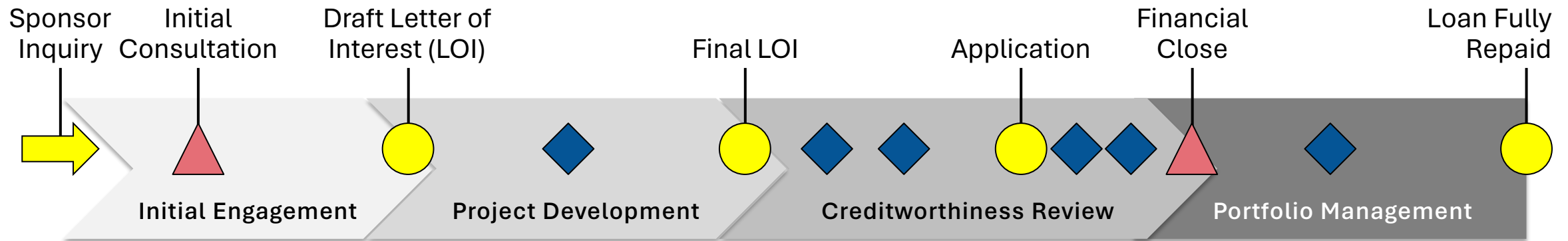
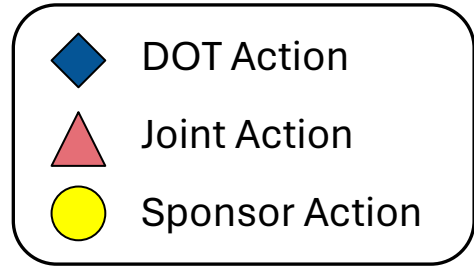
**Joint Development
(TIFIA)**

**Public Infrastructure
(TIFIA)**

**Economic
Development (RRIF)**

Working with the Build America Bureau

Simplified Loan Process Illustration



- Bureau provides information about financing programs
- Sponsor describes project and addresses gating questions

- **Submit Draft LOI**
- Bureau assigns project development lead
- **Submit Final LOI**
- Bureau assigns lead underwriter

- Underwriting
- **Submit Final Application**
- Loan approval
- Financial close
- Bureau assigns lead portfolio manager

- Financial oversight
- Disbursements
- Field visits
- **Repayment**
- **Reporting**
- **Project completion and operation**

Financing Requirements

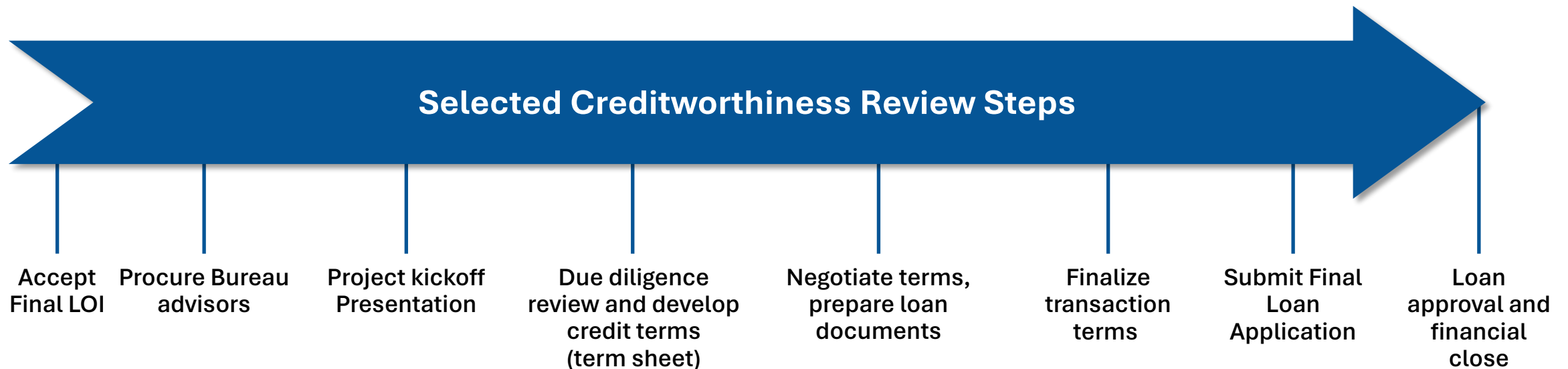
- Fulfill program requirements, such as eligibility
- Demonstrate borrower and project creditworthiness
- Comply with federal requirements, such as
 - NEPA
 - Davis-Bacon
 - Buy America

Key Submittals

- Letter of Interest, Application
- Working Financial Model
- Investment Grade Rating(s) – TIFIA
- Market Study

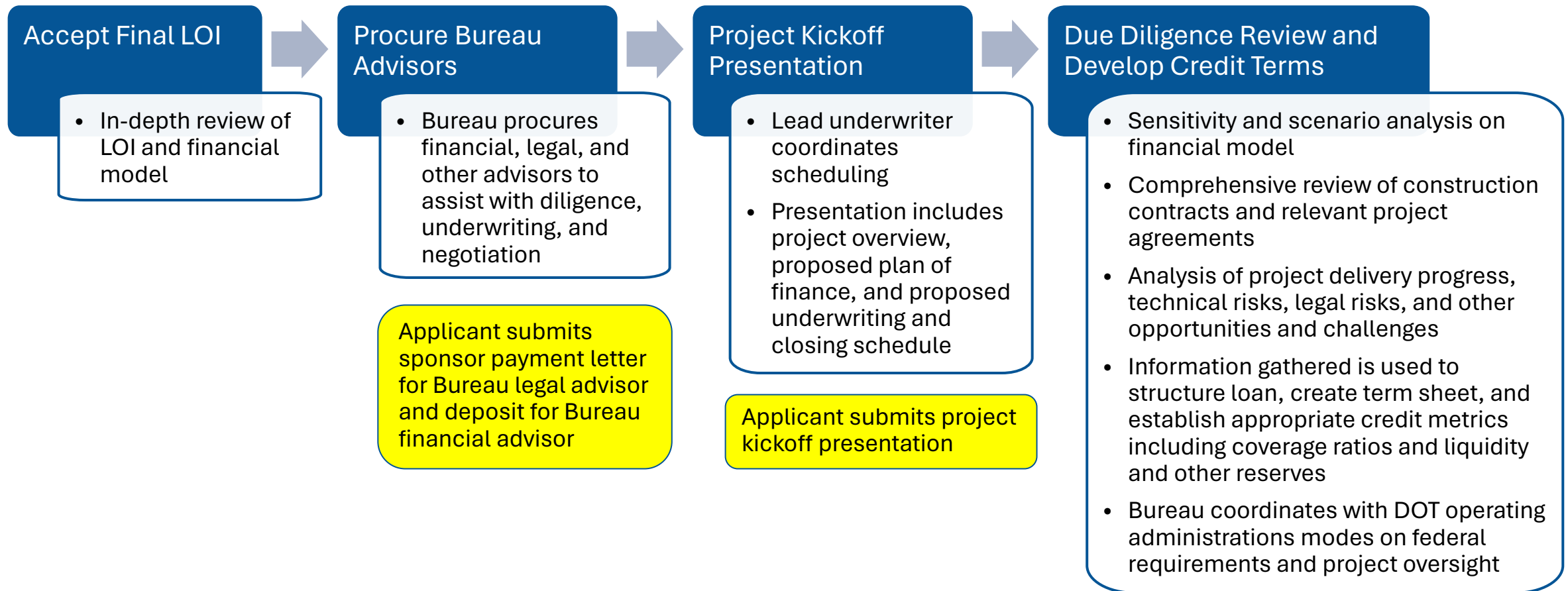
Creditworthiness Review

- Lead underwriter assumes responsibility for day-to-day customer interactions; USDOT attorney supports lead underwriter
- Duration varies with transaction complexity and is typically 6 to 9 months, subject to borrower's timely provision of requested materials and fulfillment of federal requirements



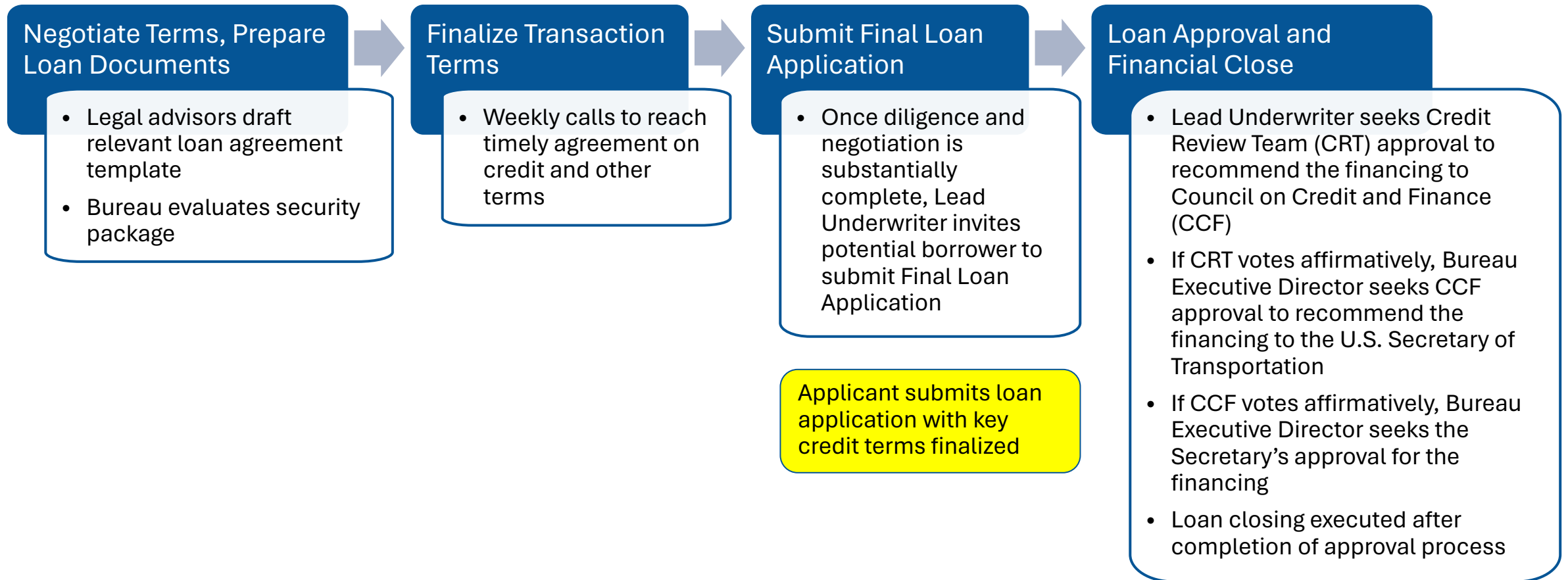
Creditworthiness Review (continued)

Review Final LOI to Due Diligence



Creditworthiness Review (continued)

Terms and Documents to Closing



Multifamily Lending Criteria: Eligibility

Project Location	Within 0.5-mile walking distance of transit (see details on-line/prior webinar)
Developer and Sponsor	Successful track record of developing and owning deed-restricted properties with at least five previously developed/owned and/or LIHTC or Non-LIHTC financed properties
Property Manager	<ul style="list-style-type: none">• Managed at least five LIHTC or Non-LIHTC properties like (or larger than) the proposed project• Asset management system in place
Guarantor	<ul style="list-style-type: none">• Typically, guarantor has a minimum liquidity of 5% of project development costs• Typically, guarantors of stabilization obligations have a minimum net worth of 25% of project development costs
Contractor	General contractor has successfully completed at least five multifamily apartment projects, including at least one in the same state as the project for which financing is sought
Affordability	<ul style="list-style-type: none">• Affordable housing projects where occupants pay no more than a percentage of a defined income threshold, such as Area Median Income (AMI), for the duration of the loan• Regulatory agreement with local government• Project is to be financed with LIHTC equity with LIHTC units representing no less than 50% of the project• If project is non-LIHTC, it must be subject to a regulatory agreement with local government that constrains rents to a certain level of AMI

AMI: Area Median Income

LIHTC: Low-Income Housing Tax Credit

Multifamily Lending Criteria: Key Metrics

Loan Size

Subject to change based on due diligence

Maximum loan amount including Bureau plus third-party parity debt cannot exceed the lesser of loan-to-cost (LTC), loan-to-value (LTV), and debt service coverage ratio (DSCR) as follows:

Housing Type	Maximum LTC	Maximum LTV ¹	Minimum DSCR
Market Rate	85%	80%	1.20
Affordable ²	87%	80%	1.10

Notes

1. Inclusive of the value of low-income housing tax credits; market value at project stabilization
2. See previous page, Multifamily Lending Criteria: Eligibility, for affordability requirements

- RRIF: 75% LTC (total project costs)
- TIFIA: 49% LTC (eligible project costs), however the sum of project federal financial assistance (grants and loans) cannot exceed 80% of total project costs
- Bureau has 1st lien mortgage

Maximum Term

- Typically, up to 35 years after substantial project completion, not to exceed the underlying asset's useful life
- Typically, up to 36 months for construction (including all extensions)

Interest Rate

- Fixed for the term of the loan (construction and repayment)
- Set at financial close equal to U.S. Treasury securities of a comparable maturity to the Bureau loan and if applicable, adjusted for tenors greater than 35 years after substantial project completion and to reduce the Credit Risk Premium calculation to zero for RRIF loans
- Interest accrues on the outstanding balance; no commitment fees for undrawn loan amounts

Multifamily Lending Criteria: Structural Features

Amortization

Typical

- Interest capitalized during construction (semiannually, quarterly, monthly subject to due diligence)
- Debt service begins after the date of expected substantial completion date (e.g., receipt of certificate of occupancy)
- Bureau loan is fully amortized over the term of the loan (mortgage style – level debt)

Potential flexibility, subject to due diligence

- Interest-only payments for up to 5 years after substantial completion date
- Deferral of debt service (i.e., no principal or interest payments) for up to 5 years after substantial completion date
- Flexible repayment structure (e.g. mandatory/schedule, sculpted debt service to better match revenue) subject to review during underwriting of projected leasing revenue

Prepayment

- Full or partial repayment without penalty with 10 days advance notice to the Bureau
- Prepayments applied in inverse order of maturity

Cash Flow Assumptions

Vacancy rates and revenue/expense allocations determined by the market study/appraisal; typical rates should assume:

- Market rate vacancy rate minimum: 7%
- Affordable vacancy rate minimum: 5%
- Revenue escalation: 2% per year
- Expense escalation: 3% per year

Commercial Space

Typically, commercial space is allowable up to 20% of net rentable area and 15% of gross income

Equity Pay-in Requirements

- For market rate multifamily projects, equity must be paid in before draws on loan proceeds
- For tax credit financing projects, equity pay-in permitted after loan draws and alongside loan draws
- Bureau will evaluate on a case-by-case basis alternative forms of liquidity, such as letters of credit and similar instruments

Multifamily Lending Criteria: Other Key Requirements

Reserves Vary by project size, market position, and type of credit enhancements (if any). Typically, the following reserves are required

- Replacement reserve sized during underwriting
- Capitalized interest reserve for non-Bureau financings
- Operating and lease-up reserve, if applicable and subject to proposed structure
- Insurance and taxes (can be sized in operating reserve)
- Debt service reserve, if applicable

Sponsor Guarantees

- Operating deficit guarantee
- Tax credit and recapture guarantee for LIHTC projects
- Repurchase obligation for LIHTC projects
- Standards carve-outs

Subordinate Financing Permitted behind Build America Bureau as senior lender

Ratings RRIF: one rating no later than 14 days prior to financial close date; investment grade not required
TIFIA:

- One indicative rating with Final Letter of Interest prerequisite for entering Creditworthiness Review
- Investment grade rating(s) no later than 14 days before financial close date
 - One rating when senior and TIFIA loans total less than \$150 million
 - Two ratings when senior and TIFIA loans total more than \$150 million

All Loans: after Financial Close until full repayment, one rating annually by June 30

Other Considerations

Fees and Expenses	<p>Statutory costs</p> <ul style="list-style-type: none">• Bureau financial, legal, and technical advisor costs• Annual loan servicing due in November; fiscal year 2024 amount was \$16,500 per tranche; adjusted annually for inflation• Cost structure for construction monitoring and oversight under development <p>Non-Bureau fees and expenses</p> <ul style="list-style-type: none">• Third-party reports procured by borrower• Other lender financing fees• Real estate transactional costs (e.g., title, survey, legal)• HUD / FHA fees, if applicable• Developer fees permitted for affordable housing projects only
Construction Contracts	<ul style="list-style-type: none">• American Institute of Architects (AIA) formats, indicate lump-sum or cost-plus approach, and guaranteed maximum price• Cost-plus contracts must provide independent certification of contractor's actual costs and provide method for allocating savings• 100% payment and performance bonds provided by general contractor, subject to review if letters of credit can be presented in lieu of bonds• Sufficient contingency; typically, 7% to 15%• Contractor retainage / liquidating damages, as applicable• Construction completion/development deficiency guaranty
Change of Control	Loans are assumable to the extent change of control does not materially impact project's risk profile
C-PACE	The Bureau is evaluating Freddie Mac guidelines as a standard to adopt

Deliverables

Third Party Reports

- Builder's risk policy
- Zoning compliance and zoning opinion
- Title reports
- Market study
- Appraisal report
- Architectural and engineering cost review
- Physical needs assessment (if applicable)
- Marketing plan (if applicable)

Information on Key Parties

To evaluate financial capacity and experience level of key parties, the Bureau might request the following and other information on the developer, general partner, general contractor, and property manager

- Audited financial statements
- Legal entities organizational charts
- Description of the ownership entity
- Credit reports
- Prior experience on similar projects (developing/constructing/managing, respectively)

Links to Build America Bureau TOD Resources

TOD Landing Page

<https://www.transportation.gov/BuildAmerica/TOD>

Resources

[TOD FAQs](#)

[Project Federal Requirements Guidance](#)

[TOD Eligibility Interactive Map](#)

[TIFIA/RRIF TOD Introductory Webinar](#)

[NEPA for TOD Projects Information and Webinar](#)

Transit-Oriented Development



Interested in Financing for a Transit-oriented Development (TOD) Project?
Get Started Here!

Transit-oriented Development (TOD) creates dense, walkable, and mixed-use spaces near transit that support vibrant, sustainable, and equitable communities. TOD projects include a mix of commercial, residential, office, and entertainment land uses. The Bureau can now provide TIFIA and RRIF loans for eligible TOD projects. Please use the following information to begin exploring financing for your TOD projects. For more information, please read the [policy statement](#).

Poll Question 2

Did today's presentation improve your understanding of the topic?

Please rate on a scale of 1 to 5 (1 low and 5 high)

1. No improvement
2. Slight improvement
3. Satisfactory improvement
4. Significant improvement
5. Outstanding improvement

Questions? Contact us!



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