Wilmington Trust/M&T Bank

September 24, 2020

Jessica Bradford: Ladies and gentlemen, I'd like to welcome you to today's webinar, Sustained Affordable Housing Investments in our Communities: Managing Through Challenging Times. Before we get started, I would like to mention that today's webinar is being recorded and you are currently in listen-only mode. Now I'd like to acquaint you with some of the ways that you can participate during today's presentation. The ON24 webinar that you're logged into allows you to individually adjust and resize all available panels that appear on your screen.

We will have a question and answer session at the end of today's presentation and you may type into the Q&A panel that is available for you in the upper left portion of your screen. Type your questions into the text field and then click on the Submit button to get your questions into the queue. Please note there are several resources available to you today at the bottom of your screen on the resource icon. Click on the sheet of paper to open the resource window to access those items. Finally, if you experience any technical difficulties during today's webinar, please enter a question into the Q&A panel stating your technical issue, and we will be more than happy to assist you.

At this time, let's begin today's webinar, Sustained Affordable Housing Investment in our Communities: Managing Through Challenging Times. It is my pleasure to introduce your moderator, Michael Berman, President and CEO, M&T Realty Capital Corporation. Michael, the floor is yours.

Michael Berman: Thank you, Jessica, and good afternoon, everybody. Welcome. Thank you for joining us. Our audience today includes M&T customers, our developers, property managers, some of our attorneys and accountants who are providing important services to us specialized in this Affordable Housing arena, as well as our friends from Freddie Mac and many of our fellow M&T associates. And that includes our LIHTC, CRA Group, as well as our M&A Group. During this challenging time when so many of our families and are entire nation is experiencing the effects of the COVID pandemic, the Affordable Housing crisis is now more acute than ever. According to a recent report from a National Low-Income Housing Coalition, and many of you know this, no state has an adequate supply of Affordable Housing. Literally, a full-time worker earning a minimum wage can afford a 2-bedroom apartment in zero counties in the United States. That's nowhere in the United States. No counties. So -- and as we also know, this crisis disproportionately affects families of color as well as some of our most vulnerable people in our population. Folks with disabilities, the elderly, as well as some of our veterans.

Over the last six months at M&T Capital, we've created a new Affordable Housing program and a new platform to help address the challenge. We're bringing all the tools from Freddie Mac, Fannie Mae, FHA, and our goal is to synchronize those tools and work closely with the entire bank, bring all of the resources and power of M&T Bank throughout the footprint and then throughout the country, and to really take advantage of the great resources that M&T Bank can bring to the table. As many of you know, M&T Bank's foundational mission is to be community centric. Throughout the footprint in the last three years, we have invested over $3.5 billion dollars in debt and equity in our communities for Affordable Housing. And now we're going to take that through Fannie, Freddie, FHA platform that we have around the country.

So the capabilities that M&T has to bring multiple solutions in this very complex arena are really the key to our moving forward, whether it's our construction or bridge lending team, working closely with our LIHTC Equity Investments team, and hand in glove with our Fannie, Freddie, FHA specialty permanent financing team. And then our investment banking team and M&A Group is providing corporate finance advisory services in this arena. And many of you may have seen the announcement last week regarding cone of our most important Affordable Housing customers, Conifer Realty, a major player in this space. And this corporate transaction included an investment by Belveron which has about 30,000 units in 32 states, and it entails a new expansion plan for Conifer. M&T was the advisor and investment banker on that transaction. I'd also like to mention we're working with our middle market team and our nonprofit team providing corporate lines of credit as well as seed capital for our customers.

So today we would like to introduce a few of the key members of our M&T Affordable Housing team along with folks from our lending partner at Freddie Mac and our more important LIHTC and developer customer, Stratford Capital. We'll take a deep look at some of the challenges and opportunities that we face today, and we'll also look at a couple of really interesting examples of how we've all worked together.

So our panelists today include our M&T folks, Jeff Rodman, who is the head of our Affordable Housing program at M&T Realty Capital; Barb Simmons, who is the Head of the M&T Bank Commercial Real Estate Group, and Barb heads up both construction, bridge, balance sheet lending as well as the LIHTC equity investments out of Baltimore. And we have two special guest panelists today. Steve Wilson, President of Stratford Capital Group, an important LIHTC equity syndicator, as well as an important Affordable Housing developer customer of ours. And Steve Johnson, who many of you know. Steve is Vice President of Freddie Mac, he's the Head of the entire Targeted Affordable Housing Division at Freddie Mac, and we're very pleased to have Steve Wilson and Steve Johnson joining us today.

So we're going to have 3 topics that we're going to take you through. First is a state of the industry. Second, we're going to walk you through a transaction called the Ovation at Arrowbrook Centre. It's an example of 100% affordable deal in Herndon, Virginia, a pretty affluent suburb. And third, the Port Covington/Rye Street transaction which is an example of an urban renewal project where M&T is playing a prominent roll and financing a really interesting development.

As Jessica said, if you've got any questions please don't hesitate to type them in, and it's our goal to get to those by the end of the panel. With that, let me kick it over to Steve Johnson from Freddie Mac. Steve?

Steve Johnson: Great. Thank you, Michael. Excited to be here and I think it's probably worth noting that I'm incredibly excited to have M&T join as an Optigo, Targeted Affordable Optigo lender. As they mentioned on the Ghostbusters, that movie from so long ago, they have the tools, they have the talent. Excited to have them on board. So let's jump into it. We'll talk a little bit about the overall what we're seeing from the multifamily world as it relates to the book at Freddie Mac and then jump into the affordable business a little bit.

Incredible highs and lows and back again this year, but ultimately really pleased to announce or mention that we are on track to hit our 5-quarter $100 billion FHFA mandated cap that they set last year around this time. We're looking forward to hearing from them soon on the cap going forward, but really pleased that we are in very good shape as relates to that. Something we didn't think was possible in March. Let me talk about that a little bit. In January, February, business is rolling along, pandemic hits. And really, as you know, it really brought the business to a screeching halt. And tough to take in terms of just simply what a start to be dropped into that. But that was literally what we are around for, and we view it as a countercyclical situation.

We jumped into it, we made some changes, and really were able to see that the doors at Freddie were open, the capital was flowing, albeit slowly initially, so that we had time to watch, learn, figure out what was going to happen next. We moved or put things on hold like our index lock option, which is a big option out there you're probably aware of. Implemented things like debt service reserves. Things that we felt like were the right thing to do to keep capital flowing. Watched the market, and frankly listened to many of you. In the April/May timeframe we introduced our index lock, made some other tweaks to the execution, and to be honest, since that time business has really roared back. Back to normalized sort of historical levels, and frankly, exacerbated by CMBS, life cos and maybe some other banks out there taking a longer pause to figure out the impact of the pandemic on their business.

So we've seen this business come back, inflows in the $4 billion to $5 billion range, applications in the $2 billion to $3 billion range, really serious, significant demand and has challenged our team to certainly keep up with the business, make sure we're making right decisions. And I'm pleased that, so far, we've been able to do that very thing, placing us on track for $100 billion. So the business is certainly out there. Some of the specialty businesses, students, seniors housing, value add, things like that. Slower, we're looking for opportunities, we're cautious. The conventional or traditional conventional business, the small balance loan business and our affordable business, continue to move along at really a healthy clip.

At this time of the year we also, typically in the old days which some of you might remember, this would be the time we were looking at affordable goals. I'm really pleased to just mention that our affordable goals, the goal that we have to hit 37.5% of our overall funded volume, meet certain mission criteria, we are going to meet that number or exceed that number. Our very low income and low income 5 to 50 metrics that are regulatory requirements, we're in very good shape there. As well as our duty to serve goals, which are primarily served by our structured and equity businesses, all in very good shape.

Our credit risk transfer vehicles, obviously you go through the pandemic, tricky period of time, but we continue to clear deals, we continue to provide liquidity, and we're pleased with the health of our overall securitization business in terms of economics and overall execution.

One area that I would say overall that we're continuing to watch is collections. Many of you thought and we thought that there may be another sort of CARES package that came through. If it comes through, it's not happened so far, some of the stress we were thinking would happen in those initial few months as it related to collections, we're watching very closely now. So I can tell you that when we're working deals, we're trying to get the most recent collections, continue to be something that we keep an eye on as we move forward.

The overall affordable business, as opposed to SBL, Conventional and Specialty products, the affordable business, I was really excited by the fact that it rebounded really quickly. We found that the business was incredibly sticky. In fact, for many weeks, the affordable business was sort of leading the multifamily platform in inflows and applications. Sort of a dubious honor, and that was a tricky period of time, but something worth noting, and I have a little bit of pride about that, that that business continued to roll. Overall, very pleased with the execution, our balance across our products, process, risk and economics. In very good place overall with the affordable business.

Just to jump into the specific disciplines, retail, which is sort of our flagship product, forwards and immediate cash preservation, credit enhancements. Usually about a $5.5 billion dollar funded business a year, we are going to exceed that number. So you can tell that demand is extremely strong, looking at inflows of $300 million to $400 million with applications in the $150 million to $250 million. So really strong production there. I was really pleased that some of the solutions that we came up with during the pandemic, we were able to carve up some space so that we could effectively evaluate things like subsidies, reserves at the project, things like that that were specific to the affordable world that we felt were important to value in transactions, And that was an incredibly important thing to do. I think it's one of the reasons that the book itself remains I call it sticky, that fall out rate remaining incredibly low.

So we're in a very good spot as relates to our media business. Our structured business, this is sort of a smaller business, in the $2.5 billion dollar range, these are larger securitizations where we're working with it might be banks, might be small balance collateral tails where we are bringing together pools and securitizing those. And our NML, or in certain instances our Q-securitizations slowed a little bit, but honestly, the counterparties out there really saw a need to manage and balance their portfolios, their balance sheets. So that business, though slower during the pandemic period of time, has come along incredibly well. Again, the execution is there, the securitizations have looked very good. I'm pleased with the overall affordability. And again, we're looking at exceeding that $2.5 billion sort of annual historical rate.

Last thing to mention would be our equity business, which Steve will talk in a moment, he knows this business a whole heck of a lot better than I do. But this is a business where we can invest $500 million annually, and although we're seen a little bit of investors backing away, some signs of that, the good news is really that construction in the projects we've been involved in have not been delayed. They're been deemed critical, so they've continued to roll along. It will be interesting to watch how things go for the remainder of this quarter and fourth as relates to this, but we are once again on track to hit that. So overall, we're pleased with where we are, cautiously optimistic, and certainly very excited about what the future holds. With that, I will pass it over to Steve.

Steve Wilson: Great. Good afternoon, everyone. On behalf of Stratford Capital Group and SCG Development and my business partners, thank you for allowing us to participate in this webinar this afternoon. I was cautioned that we have about 3 minutes to describe our opportunities and challenges, and I've got this 4-page list of things to discuss. And so just so it doesn't sound like a never-ending tale of woe, I view every challenge that we have in this business as a corresponding opportunity to offset that. I'll pick it up where Steve left off on the investor demands and appetite kind of suppression.

I would say the industry has felt the impact of COVID, and probably also coupled with the preparation for the industry generally going into recession, we've noticed toward the end of last year the appetite for this type of credit on the investment side was still quite robust. But certainly, when COVID started to ripen and take hold, we saw a quick and drastic shift in the overall activity. Nothing like we saw in 2008/2009, nothing that drastic, but investors are being much more cautious. They are not looking at new deals as they were in the first quarter. They're taking care of existing business that they've got under letter of intent. Those deals are getting closed. I would say very cautious moving forward. I would say for the opportunity in all that is the possibility of widening the investor base in the LIHTC investing world. If you look back to the height of the market, it was probably dominated by 10 to a dozen investors, largest banks and insurance companies in the United States. And now that they're pressing the brakes a bit, some industrial companies are stepping back into the market. So I think to the extent that -- and I personally believe having a broad and diverse investor base is healthy for everybody, I think that's happening and it's helping the industry and I think it will be a good long-term development.

I will say this. During the 2008/2009 timeframe, M&T continued investing with us, in our deals, in our development deals, and they went unabated. Many of the other banks, I cannot say that. Looking back and having been in the commercial real estate business for 30 years, I can fully appreciate what that means to have a financial partner that has a sustainability and willingness to stick with your customers through the good and the bad. So that's kind of an out of the script plug for M&T. But I think it's a very important thing to note.

Some of the challenges we see in our business, they are persistent and, frankly, unabated. For every deal that we build, we are building into a loss. By that I mean for every unit that we construct, just for example, Arrowbrook, Ovation Arrowbrook is about $350,000 a unit, we are able to cobble together permanent must-pay debt sources of around $200,000 a unit. That means we've got to go scurry around and find $150,000 a unit of gap financing, which is usually comprised of subordinate financing provided by the local municipality and tax credits allocated through the state agencies often coupled with 9% and 4% tax credits. So we start the day in a significant deficit on every single deal that we get into. It's a business that we understand and we are prepared for it, but it's a challenge. I don't see that going away anytime soon.

Construction costs. Construction costs have continually gone up 5% year-over-year. Frankly, you never hope for a recession, but I'll be honest with you, sometimes a little slow down of the velocity is not bad. Construction pricing can tuck in. I haven't seen it yet, so we are going to GMP on 2 or 3 larger deals in the next 60 days, and I can't say that we've actually seen any compression on pricing. There's been a lot of supply chain disruption, wood pricing went crazy last month. And so all of those things, those kind of exogenous forces are at play here. But I would say if we are moving into a recession on a longer-term basis, there's likelihood that we're going to see some compression in construction costs. We haven't seen them yet.

We also are operating in an environment of finite financial resources. By that I mean the primary vehicle for funding our deals is through Section 42 of the Internal Revenue Code, the low-income housing tax credit, and that's allocated from the Treasury of each state and those are allocated by the state to developers on a competitive basis generally speaking. That's a finite resource, it's allocated per capita. The rounds are oversubscribed many-fold every year, and there's just not enough money to go around. What Steve was saying about the velocity of affordable deals coming into Freddie Mac, that's the good thing about our business, that's the silver lining for us. We are somewhat insulated from recession, because we've got such a significant job to do to create housing to house the people that need it, we're never going to catch up. So we're always going to be busy. It's just a matter of when we're busy. Are we busy during the boom? Are we busy during the recession and everywhere in between? I think as long as these methods and means for us to finance our deals are out there, we're going to be busy for a very, very long time.

Some of the tax and regulatory hurdles that we're running across too, that's an opportunity. Several years ago, when [HARA] was passed and the 9% credit was fixed, we have been hoping and wishing that the 4% tax credit would get fixed. Getting a little bit into the weeds, but if they would just fix the treasury, if they would just fix the 4% tax credit, that would drive about 30% more private equity to each deal, and all of a sudden you would see the amount of volume and production go up significantly. That conversation has been ongoing for several years. We remain hopeful that it will get passed in one of these tax packages, but it has not happened yet.

I would say lastly, there's an opportunity too, perhaps with our bonds, about roughly $10 billion in tax exempt bonds go unused every year in the country. There is a lot of carry forward mechanisms. I would like to see treasury figure out a way to take the unused bond volume cap and convert it into an exchangeable 9% credit at the state level. That's a little creative, but I think as long as treasury and the budget can handle it, I think that's also a great opportunity. With that, I will pass the baton to Barb. Thank you.

Barbara Simmons: Hi, everyone. Thanks, Steve. I'm Barb Simmons. I get the pleasure and privilege to manage the bank's real estate portfolio on the Baltimore Chesapeake region as well as co-manage our low-income housing tax credit investment platform. What Steve referenced in the '07/'08 timeframe about M&T, Steve, that's called through cycle lending for us. That is deliberate and proactive on our part on behalf of our loyal, long-term clients. And that actually, that comment, while it was incredibly gracious, dovetailed into kind of what I see as one of our largest challenges. So I'll start with what I believe our biggest challenge is.

I think our challenge is really accelerating the platform in a very uniquely stressed capital environment and socioeconomic environment. Right now, what the theme is and what we've all touched on, is the need is so great for Affordable Housing right now, that we have to be -- we have to continue to be deliberate in our approach. And we have to be really creative. You know, in particular from a balance sheet and a bank perspective, and most banks face this, given regulatory structures, you have to be deliberate in your approach to invest in your low-income housing tax credits and your balance sheet capital. We're trying to be very creative to multiply and spread the effect of a limited resource of low-income housing tax credit capital and balance sheet capital.

So we've got to continue to be investing in our communities. We want to be sustainable. We want to be aggressive. We want to be, again, continue through cycle in a very, very much needed sector of Affordable Housing. But we're going to continue to spend a lot of intellectual capital in finding creative ways on the balance sheet side to expand our resource of low-income housing tax credit equity as well as balance sheet capital.

So from the bank's side, that's our largest challenge. I too believe for every challenge there is an equal and opposite opportunity. So for us, the opportunity, the possibilities are endless in my opinion. So our biggest opportunity at M&T bank is to bring our M&T Community First culture into the sector. So if we can bring our M&T Community First culture in the Affordable Housing platform with our 3 prongs of low income housing tax credit equity, the bank's balance sheet and the bank's balance sheet not only in terms of the construction/funding lending, but also bridge lending to the MTRCC Freddie partnership, that is our biggest opportunity that lies within M&T as a family.

I have always thought of us we are the biggest small community bank in just about every community we lend in in our footprint. That is by design. We talk about it. We strive every day to be the biggest small community bank in every community that we lend in. Our objective, every day we try to immerse ourselves on a very, very, very local level with our clients and all of the community members and residents. If we can coordinate our platform of low income housing tax credit equity, balance sheet lending and the MTRCC/Freddie Partnership and are able to coordinate that in a way where we can bring this platform and the M&T Communication First way, that's what I mean by our possibilities are endless. Because I don't believe that while Affordable Housing platforms are out there, that M&T twist to it, between through cycle lending and our Community First approach, the possibilities are endless for us. So we're all super excited to be part of this journey and look for many, many more opportunities in the future.

Jeff, I'm going to turn it over to Jeff Rodman now who runs our platform for MTRCC.

Jeff Rodman: Thank you, Barb. Hello, everybody. I'm Jeff Rodman, the Affordable Housing program manager for M&T Realty Capital Corp. which is our Freddie, Fannie and FHA subsidiary. I've been with M&T for about 5 months, have a little more than 20 y ears of experience on Affordable Housing in different capacities, and my job here is to lead and build out our Affordable Housing platform. In addition to myself, our dedicated affordable team, some of who you are likely familiar with, Joanie Wilson, who is our Director of Ow for Affordable Housing. Lonnie Childs, who is a Senior Affordable Housing Loan Officer, and previous last year spent 10 years with Freddie's Targeted Affordable Group. Bob Kaplan who is a Group Vice President and originates quite a bit of Affordable Housing transactions for us. And most recently, Lewis Alania, who is our Affordable Housing Production Analyst. Based on our projected growth, we are also talking to other potential candidates for positions in underwriting, screening and originations.

Now, M&T has a robust set of financing tools for this space. From LIHTC equity to construction and bridge financing, predevelopment loans, lines of credit, letters of credit, access to AHP grants, and all of the Affordable Housing products that our investor partners offer. We have everything necessary to be a one-stop shop lender and our collective goal is just to provide consistent quality service to our customers. While M&T has done over $1 billion in Affordable Housing annually over the last few years, there are many people outside of our footprint that are not very familiar with us. Not only do we have the finance needed, but we also have the in Affordable expertise to provide the certainty of execution that you're looking for.

2020 has certainly been a year of challenges. I had decided to make the move to M&T in March with an agenda that had building brand awareness and name recognition at the top of the list. I had planned to attend every major Affordable Housing conference in the country, armed with conference banners and a boxful of business cards, only to have travel come to a grinding halt because of a virus. Talk about having to embrace the digital age quickly. Instead of setting up meetings to discuss our Affordable housing initiatives and one stop shop capabilities with prospective clients over coffee or dinner, we've had to come up with creative ways to use technology to get that message out. Like putting up our own conference banners in my home office. As a person who is technologically challenged and relies on his teenagers for help, it's been an interesting adjustment to a digital way of doing things. If I'm honest with everybody here, I've been on LinkedIn for over 15 years, but my very first post was this week about this webinar. And then there's the big question of whether we go back to our pre-COVID normal or is it a modified normal where we are less dependent on travel and have figured out how to use technology in a more meaningful way. I'm sure you're all trying to figure that out too. Michael, could you hit the next slide?

As for opportunities, we want you to know M&T is open for business. During these past few months, COVID has caused many lenders to become much more conservative. While M&T still wants to manage our credit appropriately, we are hungry for business. We are known as a communication-oriented bank and what better way to demonstrate our commitment to communities than to expand our financing in the Affordable Housing space nationwide. Michael, can I turn it back over to you?

Michael Berman: Sure. Thanks, Jeff. Appreciate it. So now let's dive into a couple of transactions. The first one which I mentioned is a case study, Ovation at Arrowbrook Centre. And to lead off that discussion is the developer of that transaction as well as the Tax Credit Syndicator that we partnered with, Steve Wilson from Stratford. Steve?

Steve Wilson: Thank you. So we have been working on Ovation at Arrowbrook Centre for almost 3 years at this stage. As everybody knows, these transactions take quite a long time to get lined up and settle all the necessary financing for. To give you a little overview of the Arrowbrook Centre, the property is 54 acres, it's located at the southwest intersection of Centerville Road and the Dulles Toll Road. Depending on which sides of the site you're on, you're within a half to a quarter mile of the East of the Innovation Metro Station that's going to be opening up this coming summer. They've got a mix of uses there, eventually there will be office, hotel. Right now, Pulte has been building out stacked towns and selling those in the upper $700,000 range. There's also been some condo buildings that have been delivered and those are selling I understand it in the $400,000 range.

Lastly, the property has quite a nice amenity in that their park that they developed for the benefit of the county and the community, they spent about $5 million on it, it's got an athletic field, fully lit athletic field, a pavilion for outdoor concerts and entertainment, basketball courts, a couple of tennis courts and a dog park. This will give you a little bit better idea of where it is. You can see right now it's just dirt, but this -- actually this aerial is probably 2 years old. There's a lot of -- most of the resi now is built out at this stage. We are going to be near the front side of the site. You can see the Innovation Metro Station up in the top left corner. Again, not on a metro, but very walk able to a metro.

A little architectural imagery of the site, you can see it's one level of concrete podium retail, over 5 stories of stick construction, we've got 274 units here. What we did here is the I would say classic, although it's not that old, the twinning structure where we paired the credits together. We first did this back in 2014 on our deal in Virginia called the Residence Government Center, where we actually paired the two tax credits together legally into one transaction. It made a lot of sense for a lot of reasons. Subsequent to that deal, BHDA, the allocating agency, changed the rules to really compel anybody doing a transaction of scale in northern Virginia to use this structure.

This gives you a little bit of an overview of the capital structure. You can kind of see on the left side no tax credits or capital subsidy. That's when I say we start off building into a loss. So we can only generate a mortgage loan of roughly $52 million on this property. The balance, $42 million, is assembled from other sources, including 9% tax credit equity, 4% tax credit equity and subordinate financing provided by the local jurisdiction, in this case Fairfax county. It's also worth noting that Fairfax County Redevelopment Housing Authority will issue be issuing the tax and bonds on the bond side of the transaction.

This is a different summary of the numbers. You can kind of see again, roughly costs about $350,000 a unit. Mortgage loan financing represents about $200,000 a unit of that. We are working with M&T Realty Capital and Freddie Mac to secure that financing. Our LIHTC investment is being originated through our syndication company. M&T bank is a participant in that activity. The supporting financing again is provided by Fairfax County. And that gives you an idea of the total sources and uses. That's a greatly compressed version of events to put the deal together.

And some of the challenges, again, that we've had in any affordable property in a good location, and anything in Metro D.C. by definition is a good location. I would say it's very difficult to secure an extended site control with land. So that's kind of problem number one. Again, we have the persistent challenges of funding shortages that we always need to secure to make these deals successful. We've always got to navigate the Virginia housing 9% credits and go through the application rounds every March. And all of these sources often have competing priorities. In other words, when you go to submit for tax credits into the state every March to win, they are actually encouraging you to set aside a certain number of units at lower income seta sides to skew affordability down. Of course, that's a direct hit to your NOI so it creates a problem on another side. But it's this kind of mosaic of financing that comes together with a lot of effort that eventually makes these deals work. And with that, I will turn it over to Barb Simmons.

Barbara Simmons: So as far as if we stay on Arrowbrook for just a brief moment, so Arrowbrook from the bank's perspective, our role in that transaction was providing, basically we are co-providing the $38 million of low-income housing tax credit equity for the Ovation at Arrowbrook project. We're also co-lending, entering into a co-lending arrangement with another institution where we are jointly providing roughly $74 million in construction/funding loan to get the project built. In addition to that, there is a piece of that, that is a bridge loan that's going to bridge the timing gap of when the low-income housing tax credits end and/or a combination of some of the subordinated community debt gets funded. So all told, it's about $74 million in debt that is bridged/construction funding lending. You know, they're all really unique and interesting. This one for me is particularly unique and interesting in that given that there is a combined 4% and 9% tax credits on the project, we actually have to be real creative and make sure that we don't do anything that would impair those tax credits. So we actually will end up having to do multiple loans, 2 or more loans on one project, on one building, so as not to impair the tax credit and violate and impair anything with respect to the tax credits. So that's kind of an interesting feature that typically lenders don't face every day, so it's just given us a lot more to work towards to get this structured properly and couldn't be more happy to be part of this capital stack on Arrowbrook. I'll turn it over to Steve Johnson.

Steve Johnson: Thank you very much. I think the way to look at this is certainly -- they've mentioned structure, capital structure, the various players. I won't get into that other than to say that when you're looking at our forward business and you're looking at a situation where we've got $100 billion 5-quarter cap, you have to really start to think about how you're going to apply that capital, right? And when you're looking at forwards, you're looking at years out. So you have to make very sort of thoughtful decisions around these things. So at the fundamental level, the tax credit buyer/provider, syndicator, developer, all these things we like, we like all that. That feels good. But we also have to have balance. We have to look at the overall mission that it delivers, what it's doing for an area, and certainly economics. So we're looking at across this sort of broad set of factors to figure out whether or not we want to be involved in the deal. And this kind of deal, if I could get on my tiptoes right now and squint really hard, I might be able to see it. I know this area personally, so for me it's a bit personal. And this is a transformative type of project. If you're going to take this limited capital that you have and apply it, you want to apply it in ways that has the greatest impact on affordability, on a market. Is it transformative? Can it turn things around for a certain area? I know this area and I feel really good about all those things. So from our perspective, certainly the baseline things have to be there. Risk, or yeah, risk. Our partners, economics. But it's that sort of X factor, which is transformation of a market, that really sort of brings it all together for us. We believe that's the case with this project. So I think I am passing it over to, is it Jeff?

Jeff Rodman: Jeff, yeah. Thanks, Steve. In terms of the permanent financing for this project, Bob Kaplan was instrumental on our team in bringing this transaction to MTRCC. We knew this was going to be a twinning deal, the borrower was likely to go with the same lender for both the 9% and the 4%. And that's how we approached our quotes on the deal. In the case of the tax-exempt bond transaction, we have three main options. It's Freddie Mac's TEL product, it's Fannie's MTEB product, warrants an FHA 221(d)4 and a cash collateralized bond structure. When you've got a moderate rehab with limited tenant displacement, there is a fourth option. You can use a taxable GSE. It's just an analysis that has to be completed.

We believe the best way to serve our customers, and this is the exercise we went through with this, is to evaluate more than just the loan size and the terms. We look at bond interest carry, negative arbitrage estimates during the forward period. We look at financing costs, and as many of you know out there, where the yield curve is at any given time can impact things greatly. So it's not always the highest loan amount that will generate the most economic benefit for the transaction. And in this particular case, negative arbitrage was a big factor. The 9% side of the house, things are a little bit more straightforward. They generally come down to loan size, terms, price and ease of process. Additionally, because of the condo structure previously mentioned, it was important to know upfront where the comfort level was from both Freddie and Fannie. In response to our inquiry, Freddie seemed to be more Freddie comfortable with the structure. In the end, borrowers more familiar with Freddie, and given the comments I mentioned above, decided to proceed with them. Michael, can I turn it back over to you for the next transaction?

Michael Berman: Sure. Thank you, Jeff. And so this last transaction that we want to talk about for a few minutes is the Port Covington Rye Street transaction. Same team of players, plus some, in a very interesting urban renewal project. With that, let me kick it over to Barb Simmons to give an overview of the project.

Barbara Simmons: Sure. So similar to Arrowbrook, we're super excited to be a part of Weller Developments, who is the developer of Rye Street Apartment project, which is located in Port Covington. Next.

So, just to give you a little context about Port Covington, first, if you take a step back, Port Covington is the largest PUD master plan urban revitalization project in the country right now. It's over 253 acres, and it's along all of Baltimore's waterfront and has direct access onto, to and from I-95. Next.

So here's also a little bit, here's a rendering also of the location of the project. It's also part of a very large opportunity zone which brings additional private capital into the deal, given the capitalization. And with the opportunity zone structure, there are many benefits with respect to that. As you'll see, Port Covington, it lies right within our opportunity zone. Next. Next.

As you can see, Port Covington is just an amazing project. It's far reaching in the community. It's Baltimore's, it's one of Baltimore's most transformational and it's just complete visionary project Baltimore. When all told, it's going to span over 18 million square feet with various types of products within the PUD. Next.

Here's a variety of ways that Port Covington is reaching the community. It's invested in community of over $100 million, and as you'll see, there's just a variety of benefits the community is benefiting from. Ranging from Youth Works, education initiatives, workforce development, etc.

Here are some additional renderings of the Rye Street, of the Port Covington district. The Port Covington district also has a lot of inclusionary housing commitments, which is what we as M&T Bank and Freddie Mac and MTRCC are part of. More particularly in the housing commitments, it's by integrating all rent levels in this transformational area. action. This particular transaction, Michael, you can flip over one more, you'll see its location on the Baltimore's waterfront. This particular transaction is the Rye Street Apartments. It's known fondly by us as the E6 building. It's 254 units. Next. Next.

It's a 254-unit project. It is what is known as an 80/20 deal. So out of the 254 units, 200 are roughly market rate, 54 are affordable. And there's also a small component of retail. This transaction is really interesting because it encompassed multiple layers of capital, both public, private, with respect to the PUD as well as the project in particular. From our balance sheet we are providing, we are lucky to be the equity investor of about $6 million for the low-income housing tax credit equity and we are 60% co-lender combined in the $74 million funding/construction debt to get the project built so we can smoothly transition into a Freddie forward. There are no bridge loan requirements on this particular deal, unlike Arrowbrook, so it's a little bit more straightforward without the bridge component. But nonetheless, its own interesting and complementary challenges on its own from a structuring perspective. I'm going to turn it over to Steve to get his perspective from the Freddie side.

Steve Wilson: Thank you. What I just mentioned, X factor, right? When we're looking at projects, opportunities, and this is an awfully exciting one. This has everything that we're looking for in a forward opportunity. To be part of this project has been a real I think feather in our cap. Great -- I couldn't be happier with it. I think Michael, if I remember correctly, this is one of the first things, when we were talking back and forth, that you brought up. It was honestly one of those things that proved to us you should be with us. I'm excited for that. It's a transformative project. There is so much public support for it. You can just look simply at the way the project is going to play out and what it's going to do for that area. I'm going to pass it over to Steve. There's not a lot more to say other than wow, and we're excited to be a part of it. So, Steve.

Steve Johnson: Thank you. Yeah, as Barb mentioned, we are the equity syndicator on the project. Our participation in the capital stack is meaningful but modest at about 6% as Barb mentioned. But as you can gather from any type of real estate transaction, 6% is a meaningful amount of money and it often makes the difference between go and no-go. I think the interesting thing about this one is an 80/20 deal. It's not an actively used structure done in mid Atlantic. Very active up in New York and other jurisdictions on account of the various incentives that go along with doing an 80/20 deal. This one has significant incentives provided by the city of Baltimore, It's also in an opportunity zone and so that's really why this one is different and it's actually getting done. This will be probably the first one of scale that's done in the state of Maryland in quite some time. I think again, being an 80/20 deal, things that we think about on the equity side are how are the affordable units going to work and how are they going to underwrite. The answer, you saw the architectural imagery and the location and the building quality, there's going to be a waiting list, a very long waiting list for those roughly 54 units that are affordable. And those are going to lease up probably within a weekend, I would think. Frankly when the building opens up. There's never really a concern about the lease-up with the affordable units and I think the market rate component will be successful as well. Because what they're doing here is truly transformative. If you go to the real estate site and meet with the people, you can kind of feel the entire city of Baltimore and community is rooting for this thing to get going and succeed. What you see there today is not what you're going to see there in 5 or 10 years. It's going to be radically different and it's going to be a fantastic mixed-use community. With that I will turn it back over to Michael.

Jeff Rodman: It's actually Jeff. Yeah, and I know we're cutting into the Q&A part of our session, so I'll keep this short. I think the biggest thing we saw on the perm side was, given the size of the impact that was previously mentioned, was Freddie Mac's graciousness to go on a site visit and actually look at the project ahead of time. I think that's what generated the interest and the connection to the whole deal team for the financing, was their involvement on looking at the deal firsthand upfront. So keeping this thing short, Michael, I'll turn it back over to you.

Michael Berman: Okay. Thank you, Jeff. Really appreciate what -- Steve Johnson's comment. This was one of the very, very early transactions when Steve had just taken over the platform at Freddie Mac and we asked him if he would come out, meet with the developers, spend some time on the site. Because as he's mentioned, this really was a transformational project. And just the beginning of an entire urban renewal mega project as Barb mentioned.

So we have a little bit of time for Q&A. I want to start off and I want to direct this to -- let me start with Steve Johnson. So in this pandemic, we've got lots of challenges, as we've mentioned. But, and in particular there is a challenge on low and moderate-income families and their ability to pay the rent to the extent that that rent is not otherwise subsidized. And Steve Johnson, you mentioned collections at the outset. How do you see this impacting the portfolio on the assumption that if you listen to the scientists, we're not out of the woods? We've got several months to go before an effective vaccine is widely distributed. Obviously, we're learning how to socially distance and protect ourselves, but a lot of folks have lost their jobs, there are a lot of businesses that have gone out, and that's having a big impact on the economy. Steve, how do you think this plays out for the portfolio?

Steve Johnson: Well, first of all, as you know, and you're talking about the portfolio, so the executed portfolio. Since that March-May timeframe, we've been implementing debt service reserves, even adjusting our thoughts around credit and things like that. So if you look across, the SBL business for instance has been probably the hardest hit by this. And the trend that we're seeing is, obviously those deals that have government subsidies, those collections are coming in, those are sizing to what's not being paid. That part of the business feels like it's hanging in there. Indeed, if you were to look at forbearance numbers over time, that looks like the case. I think what you're really talking about are maybe those market rate deals that are out there in some place like the northeast where is there going to be a move from folks downtown to moving out of town? How is that all going to play out in sort of a place like New York city and the burrows? And then also, the spot that we're looking at closely is those smaller deals, those affordable deals that don't have sort of a bigger percentage of a hap or perhaps going to burn off. So it's that fine space where you don't have subsidized units, where those are your workforce housing folks. Small Balance in New York is a big topic of conversation. I think we rolled our forbearance that has been used, that is continuing to be something that we're monitoring. We're just now, to your point, we're just now seeing I think what we thought we would have seen a few months ago. So we're cautiously optimistic about people's ability to pay. I think that behind the scenes, you know us Michael, you've known us for a long time, we're trying to think through what other options are going to be necessary. The thing that we have done is we moved very quickly when we're seeing a market or a product set stressed, and implementing, working with FHA, to implement whatever solutions we feel like are necessary.

We're not totally there yet. I don't know that I want to say we're out of it, because we're not. I think something like the debt service reserve will continue to be something that we'll use going forward until, as Steve Lansbury says, green shoots you see in the fields. I'm dancing a little bit, Michael, because we know that there's stress, but it feels like because there wasn't another sort of package coming out, maybe there will be, maybe there won't, that we're starting just now to start to see some of that stress in these nonsubsidized spots. So, a roundabout way of answering your question.

Michael Berman: Right. Thank you. The market rate portfolio, certainly our piece of that portfolio, has performed extremely well. You know, there's some obvious pockets of student housing, school-by-school, location-by-location. But the rest of the portfolio seems -- the collections are right up there at 95% plus. I think you guys are seeing the same thing.

Steve Johnson: Yeah, and I should mention -- yeah, Michael, I should mention that's in alignment with what we're seeing. But again, we're coming out of this now. We're coming out of this period of CARES Act and the ban on evictions. So we're watching it incredibly closely. Every month, we are all over collections and where that is, and certainly you guys as partners providing us intel on all that is critical for them.

Michael Berman: Right. Let me shift it over to Steve Wilson to talk about property operations. And certainly Barb, if you have any insights. But one of the questions we've had is whether and to what extent the people on the ground who are managing these units day-to-day and doing all the important work, whether COVID has had an impact on staffing and operations. Steve Wilson, do you have any insights there?

Steve Wilson: Sure. Yeah, I will say this, that everybody has been impacted without a doubt and without question. I think though, everybody has really managed through the situation very nicely. All the properties are staffed, all the community -- all the protections are in place for COVID, all the community spaces have been placed out of service until we can get a handle on what's going on. They have implemented extensive cleaning programs. Management staff continues to show up on site every day, as you would imagine. I tour our properties, at least locally here, frequently. Everybody's wearing masks, taking necessary precautions. I think the moods are pretty good. You know, I'd say everybody's mood is suffering a little bit around the country in this time, but I would say everybody is on the up and up. I think the tenants that are working remotely -- again, we all as a society are kind of dealing with this and accepting where we were. I would say the net result of all that is things are going fine. It could be better, but they're going fine and they will improve as we pull out of this.

Barbara Simmons: Michael, I agree with that. Everything, you know, just talking with clients, etc., everybody has adapted, everybody has improvised, and everybody has overcome. And that's the theme. Everybody is adapting, improvising and overcoming this really unique situation. That's sort of the theme of it. Everybody seems to be doing a good job. I have seen some level actually of capital investment where folks are now really paying, looking more closely at like their mail delivery areas, package capacity, etc. So again, with every challenge, folks are coming up very creatively and having -- coming up with some opportunities to do different things. So it's been the best I've seen given the situation that we're in, because it's all contextual.

Michael Berman: Thanks, Barb. We've got about one minute left. Steve, you mentioned, Steve Wilson, you mentioned briefly in your opening comments that the tax credit appetite of some of the major corporations and banks is being constrained as profitability gets constrained and you're broadening out the investor base. If we were having this conversation say 12 months from now, what's your prognosis? Do you think there will be enough LIHTC equity out there for the transactions?

Steve Wilson: I think there will be. Pricing though is going to be lower. So I think as the major banks and financial institutions really take stock of where their earnings are going to be and tax planning and trying to define what the impact of any CRA reform is going to do to their investment plans. It's still going to be there, but I think it's going to be more selective. I think we're going to see some impact on pricing, downward pressure unfortunately. But I think that's the reality. I'm hopeful. We've got a couple of industrial companies that are coming into the market again with us, so hopefully that will create an opportunity to widen out the investor base. I think it's always a precarious and somewhat dangerous situation where you have 10, 12 dominant players in a market and you have the consolidation of not power, but it is a consolidation, and limited number of players in that space. So I think any time you have that, that's kind of in and of itself a little bit of a problem. I would rather see a much broader and diverse investor base rather than the concentration that we've been having over the last several years.

Michael Berman: Thank you very much. I want to just thank the panel. Steve Wilson, Steve Johnson, Barb Simmons and Jeff Rodman. Really appreciate it. Really appreciate all the folks that were able to tune in. I'll hand it back to Jessica.

Jessica Bradford: Great. Thank you so much, Michael, and thank you all again for joining us for today's webinar. We do greatly appreciate your feedback on today's session on the survey that will pop up shortly on your browser. Thank you again and have a great rest of your day.