

501c3 Bonds (conduit revenue bonds)

Program Factsheet

Program Summary

Why 501c3 Bonds? In many states, including Oregon, demand for private activity bonds and 4% LIHTC is increasing, leading to oversubscription of Oregon's federally allocated volume cap. Qualified 501c3 bonds do not require volume cap and thus are not resource constrained. It is important to note, however, that 501c3 bonds do not generate 4% LIHTCs.

As with other tax-exempt bonds, 501c3 bond borrowers benefit because they pay less interest on these bonds than they would for a taxable bond or bank loan. This lower cost of funds typically enables the borrower to leverage more project debt.

While spreads between tax-exempt and taxable interest rates and terms can vary widely based on market conditions, the credit strength of the project and borrower and other factors, the following is an example of what the differences between a taxable and tax-exempt bond **could** be:

TAX-EXEMPT: 1.15 DSCR, 40 years amortization, 5.6% interest

TAXABLE: 1.12 DSCR, 35 years amortization, 6.6% interest

The longer-term financing and more flexible terms allow borrowers to retain endowments, reserves and other accumulated funds and allows the project to be completed now and repaid from future revenues.

What projects (owned by 501c3 sponsors) might be suitable for 501c3 bonds?

- Projects that are eligible to receive LIFT or PSH funding
- Preservation, acquisition and market-to-affordable conversion projects
- Mixed-income projects
- Workforce or middle-housing projects, especially in rural areas

Eligibility Requirements

- Eligible applicants are limited to qualified non-profit (501c3) organizations, based on the charitable purpose of the organization.
- The proposed project **must primarily serve individuals and families earning at or below 120% of Area Median Income (AMI)** – which is the maximum limit of OHCS' statutory authority. The affordability term is 60 years.
- Additionally, to satisfy federal tax requirements, the proposed project must meet one of the following:

	<p>a) be new construction b) meet income set asides c) be substantially rehabilitated within 2 years</p> <p>Additional requirements may be imposed based on the charitable purpose of the organization.</p> <ul style="list-style-type: none"> • A 501c3 bond-financed project must be 100% owned by the nonprofit 501c3 borrower or a state/local governmental unit at all times the bonds remain outstanding. • The development team must have adequate financial strength and creditworthiness to support the application.
<p>Program Requirements - (same requirements as PAB paired with 4% LIHTC)</p>	<ul style="list-style-type: none"> • Bond Counsel, Trustee, Bond Purchaser and others project participants must be acceptable to the Department. • Applications select a complete development team (lender, bond purchaser or underwriter, property management, general contractor, architect, and other professionals) experienced in developing similar affordable housing properties. • The experienced development team must be complete, and the lender must issue firm written commitments without material conditions not less than 10 days prior to the Housing Stability Council meeting for final bond approval. • The Department relies primarily upon the lender's underwriting criteria. Therefore, it is necessary for the lender to be prepared to provide their underwriting criteria, analysis and conclusions to Department staff.
<p>Loan Terms and Interest Rate</p>	<p>To ensure the economic benefit of tax-exempt financing, bond allocation requests of less than \$5M for permanent long-term project financing will be approved on a case-by-case basis.</p> <p>The permanent financing term is generally 30-40 years, but the combined construction and permanent terms may not exceed 45 years.</p> <p>Financing may allow for prepayment, but affordability commitments and compliance monitoring will continue for the affordability period established by the Department.</p> <p>The interest rate is estimated during bond allocation and underwriting process but is required to be fixed for the permanent period at the bond sale closing.</p>
<p>Loan Charges</p>	<p><i>Same as PAB Conduit bonds</i></p>

ORCA Process and Fund Availability	501c3 conduit bond requests are non-competitive, and the application is open year-round via the ORCA application portal. If you are only applying for 501c3 bonds (plus OAHTC, if applicable), the two projects per phase limit does not apply. If you are applying for 501c3 bonds plus another funding resource (ex. LIFT), the two projects per phase limit does apply.
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