

NEWPORT HOUSING AUTHORITY

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Addendum No. 01

Re: RFP for Debt & Equity Services

April 19, 2024

The Agency's attention is hereby directed to the following questions regarding the above-mentioned RFP. Acknowledge receipt of this addendum in the bidder's proposal is required. Failure to do so may subject the bidder to disqualification.

1. Can you detail the accrued interest sources/uses for the seller note & Capital Funds? What are the mechanics of the accrued interest source/use?
 - a. This is a typical accrued interest structure. There is interest on the loan that is due during the construction period. The loan amount increases to make a "payment" to interest. It continues this way through the construction period and until perm conversion. The new balance of the loan amount then will be paid through the available cash flow.
2. I see a 3% interest rate on the FHLB AHP source; 1) is it correct that the source will be loaned to the project by the Housing Authority; 2) is there any reason why the interest rate must be 3% (i.e., could it be lower, or 0%)?
 - a. 1) yes
 - 2) It can be lower. There is flexibility with this rate.
3. Could a portion of the seller note source be reallocated to a GP Capital Contribution in order to manage the LP capital account & residual analysis?
 - a. No.
4. Is there a minimum amount that must remain structured as a seller note?
 - a. Needs to match the amount of the acquisition total. Additionally, the GP capital contribution may need to be structured as a loan at the end of the day instead of equity. The amount in that line item is the \$100 requirement under the tax credit program and the amount of existing reserves the housing authority has that will transfer into the project.
5. Could you confirm that the pages in the Financial Statements exhibit labeled "Newport Low Rent" are representative of the subject property's operations in 2021? If so, can comparable documents be sent for 2020 & 2022?
 - a. No. The financial statements are for all of Newport Housing Authority's apartment units and not just the subject property. We will provide project-based level financial statements based on an allocation for the number of units involved in this project on April 24, 2024. Please know that these numbers will only represent a close approximation of the units involved.

We do business in accordance with the Federal Fair Housing Law which states: It is illegal to discriminate against any person because of race, color, religion, sex, disability, familial status or national origin.

6. What is the property's current occupancy %?
 - a. 82%. We held units open in anticipation of closing, but have enough units for the planned rehab phasing at this time so we do not anticipate holding more open.
7. Can you please detail the negative utility efficiency operating expense?
 - a. Please see the note in the RFP summary, copied here as well.
"The Arkansas Development Finance Authority (ADFA) requires a 7% vacancy rate however, 100% of units are covered by rental assistance and as such we are underwriting to a 5% vacancy. Please note this has been achieved by a reduction in operating expenses."
8. Does this source need to be equity or can it be structured as a soft loan?
 - a. \$100 needs to be equity, but the remaining amount can be structured as a soft loan. These are reserves coming into the deal.
9. It looks like your pro forma assumes a 7% management fee above the line and 3% below the line. Can you please confirm?
 - a. Yes, that is correct.
10. We noticed in the pro forma that there is an additional developer fee line item of \$689,833 paid at closing. Can you please provide additional information on this line item?
 - a. This is also a developer fee, but it is the consulting portion of the developer fee. The total fee eligible is the sum of \$2,917,433+\$689,833.

Questions for each of the soft loans.

Seller Note and Capital Fund Program/HA Equity:

11. AFR noted in the pro forma, is there any flexibility to increase this?
 - a. Yes
12. Will this loan be structured as unrelated party debt for tax purposes, such that it can be included in minimum gain, and accrued interest losses can be deducted?
 - a. No, it is related party debt.
13. What priority of payment will this soft loan have? (i.e. paid behind DDF)
 - a. Has not been fully determined or vetted with attorneys or the housing authority.

FHLB Dallas AHP Funds:

14. Interest Rate: 3.00% noted in the pro forma, is there any flexibility to increase this?
 - a. Potentially. We do not like increasing the AHP interest rate that high though.
15. Will this loan be structured as related party debt for tax purposes, such that it can be included in minimum gain, and the accrued interest losses can be deducted?
 - a. No. It is related party debt.
16. Does unpaid interest accrue?
 - a. We could look into that, or could also structure it as 0% interest during construction.
17. Will unpaid interest compound?
 - a. We have not discussed with attorneys.

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18. What priority of payment will this soft loan have? (i.e. paid behind DDF?)
 - a. This loan cannot be repaid by the AHP rules during the 15-year compliance period.
19. When will a syndicator/limited partner be chosen for the LIHTC portion of the deal? Does our construction financing bid deadline allow us to review their terms before the bid?
 - a. We are simultaneously bidding for the LIHTC syndicator. They will not be able to review their terms before the bid is due on May 3rd.

This addendum **ONLY** changes the above-mentioned items, this addendum does not change any other specifications, the scope of work, or requirements of the above-mentioned Request for Proposal.

END OF ADDENDUM