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Credit Enhancement of Municipal Bonds for Housing

Public Development Community of Practice

KeyBanc
Capital Markets

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What is and why use Credit Enhancement?

01 **Credit Enhancement Strategy**
This pledge is generally used to help make standard multifamily revenue projects pencil with sharply lower borrowing rates

02 **Lower Borrowing Costs**
Rated governmental debt usually has ~100bps lower rates than conventional non-recourse permanent debt and ~200bps lower rates than traditional construction financing

03 **Fewer Transaction Parties and Costs**
One financing structure for all sorts of debt reduces need to retool legal documents.

04 **Greater Structure and Flexibility**
Strong liquidity of bonds allows providers to borrow for projects as they occur and tailor spreads to their borrowing cost, reducing need to warehouse loans / interim financing facilities. Immediately securitized to capital markets

05 **Reduces Subsidy**
Governments can save **cash** by pledging their credit as opposed to using cash for subsidy / soft loans on a project by project basis

Governmental or Other Pledge: Some Examples

General Obligation

- Strongest pledge where the municipality directly pledges tax revenues towards payment of debt service in addition to Project Revenues
- Can be structured as a contingent liability, but oftentimes debt subject to statutory limitations

Appropriation

- Municipality commits to annually appropriating funds equal to debt service on its obligations alongside Project Revenues
- No votes generally needed
- Usually a 1-2 notch downgrade on rating based on weaker pledge than directly securitizing tax revenues (5-15bps)

Moral Obligation

- Entity pledges Project Revenues and also commits that it will cover any shortfall, but only on a moral basis
- Investors have no recourse if moral obligation fails to materialize
- Ways to strengthen this pledge (contingent loan to project owner, etc.)
- Still very possible to get strong investment grade ratings depending on exact nature of pledge

Bond Financing Summary

	Section 142(d) Bonds	501(c)(3) Bonds	501(c)(3) Bonds	Essential Function Bonds
Type of Bond	Private Activity Bond	Qualified Private Activity Bond	Qualified Private Activity Bond	Government Bond
Charitable Purpose	N/A	Provide housing to low and moderate-income families	Lessening the burden of government. ***Very Case-by-Case Basis***	NA
Volume Cap	✓	✗	✗	✗
TEFRA	✓	✓	✓	✗
15% Rehab Test	✓	✗	✗	✗
85% Test	✓	✓	✓	✗
2% COI test	✓	✓	✓	✗
Target Tenant base	Below 60% of the AMI	Below 80% of the AMI	Between 60% and 140% of the AM	Between 60% and 140% of the AMI
Income Restrictions	20% at 50% or 40% at 60%	20% at 50% or 40% at 60% and 75% at 80%	Self-imposed	Self-imposed
Rent Restrictions	30% of the AMI	None	Self-imposed	Self-imposed
Borrower	LP	Nonprofit	Nonprofit	Government
Developer fees	Based on QAP	Negotiated	Negotiated	Negotiated

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Moral Obligation: Case Study

Highlighted Experience: King County Housing Authority (Ballinger Commons Apartments)

- On April 18 2018, in conjunction with KeyBanc Capital Markets Inc. (“KBCM”) as Sole Managing Underwriter, the Housing Authority of the County of King (“KCHA”) priced its $90 million - Revenue Bonds 2018 (Ballinger Commons Apartments).
- The proceeds from the issuance of the Series 2018 Bonds were used for the primary purpose of refinancing the original costs of acquiring the Ballinger Commons Apartments, which sit on 72 acres of land in Shoreline, Washington.
- The Series 2018 Bonds are revenue obligations of KCHA, and are secured by the general revenues KCHA ***along with a credit enhancement program from King County.*** In effect, credit, and resources of King County have also been pledged to the issuance under a credit enhancement agreement signed by both the County and KCHA. This helped the Bonds achieve AAA ratings from S&P



Ballinger Commons Apartments

Contingent Loan Agreement

- KCHA was able to get a AAA rating on the bonds via a contingent loan agreement from King County.
- King County agreed, in the loan agreement, that should KCHA General Revenues not cover debt service, it would fund the difference
  - Charged a loan spread for ongoing costs, not for return
- Technically not a general obligation of King County – all King County covenanted was that it would cover debt service shortfall
  - Highly documented and public moral obligation

Appropriation: Case Study

Highlighted Experience: Urban Resource Institute (478 W 130th Project)

- On August 7, 2025, KeyBanc Capital Markets ("KBCM") successfully closed the $74.35 million Revenue Bonds (Urban Resource Institute Project), Series 2025, on behalf of the Urban Resource Institute (URI).
- The proceeds of the bonds financed the development and construction of a 91-unit transitional housing facility for homeless families with children at 478 West 130th Street in New York City.
- URI is the largest provider of domestic violence shelter services in the U.S., and this facility will expand its capacity to serve vulnerable families in Harlem.
- The facility is expected to complete construction by August 2028



Artist rendering of 478 W 130th Project

Transaction Highlights

- The Series 2025A Bonds were issued with a 31-year final maturity and a weighted average coupon of 5.36%, while the Series 2025B Bonds mature in 2029 with a coupon of 4.75% and yield of 4.83%.
  - The bonds are secured solely by lease payments made under a contract with NYC Department of Homeless Services (DHS), which are the only source of revenue for debt service.
  - The issuance refinanced $17.05 million in acquisition and predevelopment loans and funded construction costs, capitalized interest, reserves, and issuance expenses.
  - The transaction achieved a TIC of 5.41% and was rated A+ by S&P based on the strength of the DHS contract and URI's operating history.

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Sam Adams is a Managing Director in KeyBanc Capital Markets' Public Finance Group. He joined Key in 2016 and is based in Columbus, Ohio. Mr. Adams has experience structuring debt solutions for Public Housing Authorities, Affordable Housing Developers, and Commercial Real Estate Developers. Sam has led bond transactions with the Housing Authorities of Los Angeles, El Paso, County of King (WA), Seattle, Vancouver (WA), Dekalb County (GA), Snohomish County (WA), Cuyahoga (OH), Columbus (OH), Housing Catalyst (CO), Dallas, Ft. Worth, San Antonio and Denver. His partnership with PHAs around the country has included the issuance of bonds of over $4.8 billion ($9.5 billion in total affordable housing bonds senior/sole managed).

Sam was named a *Rising Star for 2021* by the Bond Buyer.

Sam has an undergraduate degree from Northwestern University, where he majored in Economics. Additionally, he studied law at Ohio State University and in 2008 passed the bar examination in the State of Ohio (inactive). He also earned his M.B.A. at Ohio State's Fisher College of Business in 2013. He holds Series 63, 79, 50 and Series 7 licenses.



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