Systima Capital Management

Housing Partnership Network Conduit

SYSTIMA Capital Management

HOUSING PARTNERSHIP NETWORK

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PRIVATE AND CONFIDENTIAL

HPN Conduit Loan Program

During the initial program development phase, HPN reached out to 21 members to gauge interest in the HPN Conduit Loan Program. Almost all the contacted members supported the idea of offering a conduit loan program.

- Of the 21 members solicited, 14 members provided information on 64 properties on more than 7,800 apartment units
- Participating members included:
  - ✓ Aeon, BRIDGE, CommonBond, Eden, Mercy, MidPen, Mission First, NationalCore, National Housing Trust, Southwest Minnesota, Tenderloin, The Community Builders, Volunteers of America and Wesley Housing Development

Based on high level information provided and utilizing the conduit's lending parameters, 54 properties were refinance candidates.

- Of these 54 properties, assuming the provided NOI and the conduit lending parameters, the conduit would have been able to generate **$446MM of new loan proceeds** and **returned over $300MM of cash/equity to the non-profit borrower**
- New loan sizes ranged from $2 million - $41 million
- Property geographies included:
  - ✓ California, Pennsylvania, Virginia, Minnesota, Illinois, Florida, Massachusetts, North Carolina, Ohio, Indiana and Wisconsin

HPN Conduit Program: Direct Access to the Capital Markets

An HPN and Systima partnership will provide access to the capital markets and financing benefits for HPN's Members to provide and preserve affordable housing.

How Does It Work?

- The HPN Conduit Program creates the framework to aggregate mortgages for a securitization execution, which provides members economies of scale.

What Are the Benefits?

- Financing for all affordable housing property types, including 4% tax-exempt bonds, 9% LIHTC taxable, 501(c)3 tax-exempt bonds, rent or income restricted properties, HUD Section 8 properties, NOAH properties and mixed income 80/20 properties
- Greater proceeds at competitive rates
- One stop shop with various product types to meet members individual goals
- Ability to underwrite real estate complexities specific to affordable housing
  - As a first loss risk holder, Systima has a higher tolerance for non-standard Sponsor, real estate and underwriting requirements/needs
- Faster, more efficient closings
  - No third-party loan approvals required
- Scale for HPN members to achieve economies on securitization cost
- Despite this being an HPN member program, there is no cross collateralization of member loans

HPN Conduit Loan Program Options

Based on member feedback, HPN and Systima partnered to create various loan offerings to meet the unique needs of HPN Members.

Permanent Financing

Tax-Exempt Loan

- Governmental entities issue first mortgage tax-exempt notes, which are funded by Systima
- "Cash out" proceeds to the borrower will need a supplemental taxable loan
- Flexible, cost-effective permanent debt
- **Term:** 5 – 20 years

Taxable Loan

- First mortgage debt originated by Systima
- Ease and speed of execution - no involvement from governmental entities
- Flexible, cost-effective permanent debt
- **Term:** 5 – 20 years

Tax-Exempt Construction to Perm (1)

- A single first mortgage tax-exempt loan that extends from construction through the 15-year compliance period for 4% LIHTC transactions
- Single source of debt financing for new construction and acq-rehab transactions
- **Term**: approx. 18 years

Short Term Financing

Bridge

- First mortgage debt originated by Systima used to:
  - Repay senior loan and purchase LP interests prior to re-syndication
  - Quickly acquire properties to provide time for permanent debt execution
- **Term:** 1+ years

Mezzanine Debt

- Additional loan proceeds secured by equity interests in the first mortgage borrower
- A way to access loan proceeds on properties and keep the existing first mortgage debt outstanding
- **Term:** 1-7 years

Preferred Equity

- Equity capital provided for the property
- A way to access capital at higher LTV/LTC amounts without an intercreditor agreement
- **Term:** 1-7 years

1) Not available until 2Q 2020

What Sets Us Apart: Product Comparison

	HPN Conduit	Freddie Mac K-Series	Freddie Mac ML-Series	Fannie Mae MTEBS	HUD (Section 223(f)) [1]
Property Type	+ Loans secured by occupied, stabilized and tenant in-place rehab affordable housing properties.	– Loans secured by occupied and stabilized conventional multifamily properties.	+ Loans secured by occupied and affordable housing properties.	+ Loans secured by occupied and stabilized affordable housing properties.	+ Loans secured by occupied, stabilized rehab affordable and conventional housing properties. Construction or any substantial rehabilitation must have been completed three years prior.
Affordable Housing Program Limitations	+ None. Will finance rent and income restricted properties, including: LIHTC, 501c3, Section 8, Mixed Income, Special Needs, Senior Housing, Public Housing, Workforce/NOAH.	– Limited amount of Section 8 HAP contracts permitted & no LIHTC.	– Must be financed with 4% LIHTCs and at least 7 years remaining in the compliance period.	– Existing and newly issued fixed-rate bond issued tied to fund 4% LIHTC.	+ Properties that have a recorded regulatory agreement with at least 15 years remaining in its compliance period and restricts 20% of units at 50% of AMI OR 40% of units at 60% of AMI, Section 8.
Loan Interest	Tax-Exempt or Taxable	Taxable	Tax-Exempt	Tax-Exempt	Typically Taxable Mortgage Insurance Premium (MIP) is 1% paid at closing and 0.25%-0.35% then annually thereafter
Loan/ Amortization Terms	+ Can customize any term between 5 and 20 years, generally with an amortization term of 35 years. Up to 40-year amortization on a case by case basis	– 5, 7, 10- and 15-year loan terms with a maximum amortization term of 30 years	– 7, 10, 15, 18- and 30-year loan terms with a maximum amortization term of 35 years	– 10-30-year loan terms with an amortization term of up to 35 years	+ Maximum term of 35 years, fully amortizing

1) The HUD programs typically charges 1.3% of additional Application and Inspection Fees.

What Sets Us Apart: Product Comparison Continued

	HPN Conduit	Freddie Mac K-Series	Freddie Mac ML-Series	Fannie Mae MTEBS	HUD (Section 223(f))
Underwritten Vacancy	+ 3%-5% depending on historical vacancy, subject to regulatory agreement rent restrictions.	– Minimum 5%	+ 3%-5% depending on historical vacancy, subject to regulatory agreement rent restrictions.	+ 3%-5% depending on historical vacancy, subject to regulatory agreement rent restrictions	– 5%
Minimum DSCR	+ Generally 1.15x, 1.10x on a case by case basis	– 1.25x	+ 1.15x	– 1.15x-1.20x	+ 1.11x (for Section 8) 1.18x (Non-LIHTC properties)
Maximum LTV	+ 90%	– 80%	+ 90%	– 80%-90%	+ 87%-90%
Underwriting Criteria	+ Generally, Freddie Mac Guide with flexibility	Freddie Mac Guide	Freddie Mac Guide	Fannie Mae Guide	MAP Guide
Underwriting Deviation Risk	+ There is greater flexibility in underwriting since the Sponsor/B-Piece Buyer is Systima and retaining the first credit risk.	– Non-uniform loans are subject to securitization execution risk. B-Piece Buyers are more likely to remove loans that have exceptions to guidelines.	– Similar to K-Series, loans are uniform and must meet Freddie Mac Guide underwriting requirements.	+ / – More flexible than Freddie given the delegated underwriting with risk based tiered pricing model. DUS lender losses shared on a pro rate basis (typically 1/3 to lender and 2/3 to Fannie Mae).	– Loans must meet HUD underwriting requirements. HUD underwrites
Subordinate Financing	+ Subordinate financing is permitted if the debt lender is a Government or non-profit entity. Hard debt will be considered on a case by case basis. All soft debt permitted subject to 75% cash flow cap.	– Generally, does not permit subordinate financing. Freddie will consider an exception if it meets certain conditions including a combined LTV no greater than 85% and DSCR no less than 1.20x.	+ / – Hard/soft subordinate financing permitted if subordinate debt lender is a Government or non-profit entity. Soft subordinate debt is subject to 75% cash flow cap.	+ / – Hard subordinate debt is permitted only if provided by a Government or not-for-profit entity. Soft subordinate debt is permitted subject to 75% cash flow cap.	– Generally only soft subordinate financing is permitted.
Closing Timeline	+ 60 days	– 90 days	– 90 days	– 90 days	– >180 days

What Sets Us Apart: Term Sheet Comparison

Systima received two taxable loan term sheets on Non-LIHTC Affordable Housing Preservation properties.

	HPN Conduit	Fannie DUS Preservation Loan (July 2018)	Regional Bank (October 2018)
Property Type	Non-LIHTC, Affordable Preservation	Non-LIHTC, Affordable Preservation	Non-LIHTC, Affordable Preservation
Term/ Amortization (years)	7/35	7/30	7/30
Commercial Income	Will include commercial income in NOI	N/A	No commercial income permitted to be underwritten
Yield Maintenance/ Prepayment Penalties	Flexible prepayment options, including yield maintenance and declining prepayment premium	5 year of Yield Maintenance followed by 1% prepay penalty, open the last 90 days	Term sheet was silent
Underwritten Loan Rate (for Sizing Purposes)	Loan proceeds sized using the loan rate	5.00%, but the loan rate was 4.52%	4.67%
Debt Service Coverage	1.15x	1.20x at the greater 5.0% underwritten rate	1.15x
Loan to Value	90% Maximum	70% Maximum	80% Maximum
Commitment Fee	0.50%-1.00%	1.00%	0.50%

Example 1: Greater Proceeds & Less Equity Needed

Underwriting Scenario: Borrower is purchasing a 325-unit portfolio of affordable housing properties for $73MM and seeking a 10-year loan term. The tax credit compliance period ended and the new Borrower will not re-syndicate tax credits. The portfolio is in a high cost market where the affordable rents are 30% below market rents. Based on unit mix and in-place rents, the GPR at the property is $6.225MM.

	HPN Conduit	Freddie Mac K-Series	Freddie Mac ML-Series/ Fannie Mae MTEBS	HUD Section 223(f) [3]
Acquisition Price	$73,000,000	$73,000,000	N/A	$73,000,000
Gross Potential Rent	$6,225,000	$6,225,000	N/A – These programs require LIHTCs	$6,225,000
Underwritten Vacancy	$186,750 (3% of GPR)	$311,250 (5% of GPR)	N/A	$311,250 (5% of GPR)
Effective Gross Income	$6,038,250	$5,913,750	N/A	$5,913,750
Expenses ($6,000/unit)	$1,950,000	$1,950,000	N/A	$1,950,000
Net Cash Flow	$4,088,250	$3,963,750	N/A	$3,963,750
Loan Rate	4.10%	4.00%[1]	N/A	3.70%[2]
Amortization (years)	35	30	N/A	35
Sizing DSCR	1.15x	1.25x	N/A	1.15x
LTV Sizing (on Purchase Price)	90%	80%	N/A	87%
DSCR/LTV Constrained Proceeds	$65,700,000 (LTV Constrained)	$55,350,133 (DSCR Constrained)	N/A	$67,589,240 (LTV Constrained)
Time to Close	60 days	90 days	N/A	~180 days
Borrower Equity/ Soft Debt Required	$7,300,000	$17,649,867	N/A	$9,490,000
Borrower Equity Needed as % of Purchase Price	10.0%	24.2%	N/A	13.0%

1) K-Series Loan rate is determined using a 10-year swap rate on December 2, 2019 of 1.76% and an average swap spread on all loans in the FREMF 2019-K102 transaction that was originated after Sept 1, 2019 and had an LTV greater than 75%. The average swap spread on these loans was 2.25%. 2) Reflects the current 10-year UST of 1.82%, the loan spread of non-senior housing 223(f) loans originated between July 2019-Nov 2019 from GNR 2019-147 securitization and includes 25bps of MIP 3) The HUD programs typically charges 1.3% of additional Application and Insurance Fees.

Example 2: Acquisition Rehab with 4% Credits

Underwriting Scenario: A Sponsor is re-syndicating tax credits for a tenant in-place rehab with a new long-term HAP contract. The rehabilitation will be done as a tenant in-place rehab and a project-based HAP contract covers all the units. The property has 100 units and the HAP rent is $2,500/unit. Assuming a 17-year loan term, the HPN conduit offers ~$4MM more in loan proceeds and a quicker close.

	HPN Conduit	Freddie Mac K-Series	Freddie Mac ML-Series/ Fannie Mae MTEBS	HUD Section 221(d)(4)[3]
Gross Potential Rent	$3,000,000	N/A – This program is for conventional taxable loans	$3,000,000	$3,000,000
Underwritten Vacancy	$90,000 (3% of GPR)	N/A	$90,000 (3% of GPR)	$90,000 (3% of GPR)
Effective Gross Income	$2,910,000	N/A	$2,910,000	$2,910,000
Expenses ($6,000/unit)	$600,000	N/A	$600,000	$600,000
Net Cash Flow	$2,310,000	N/A	$2,310,000	$2,310,000
Loan Rate	4.00%	N/A	3.95%[1]	4.30%[2]
Amortization (years)	35	N/A	35	40
Debt Service Sizing Hurdle	1.10x	N/A	1.15x	1.11
LTV Sizing Hurdle	90%	N/A	90%	90%
Time to Close	60 days	N/A	90 days	>180 days
DSCR Constrained Proceeds	$39,523,483	N/A	$35,274,641	$39,704,244

1) ML-Series Loan rate is determined using a 10-year swap rate on December 2, 2019 of 1.76% and an average swap spread on all loans in the FRETE 2019-ML06 transaction that had an LTV greater than 78%. The average swap spread on these loans was 2.19%. 2) Reflects the current UST 10 year rate of 1.82%, a spread of 221(d)(4) loans originated from June 2019-November 2019 from GNR 2019-147 securitization and 25bps of MIP 3) The HUD 221(d)(4) program typically charges approximately an additional 0.30% for the HUD Application Fee and 0.50% for the HUD Inspection Fee on all substantial rehab costs.

Appendix I. Systima Overview

Systima Firm Overview

Systima is an Alternative Investment Manager Focused on Affordable Housing Capital

About Systima

- S.E.C. Registered Investment Advisor since 2014
- Headquartered in Chicago, Illinois
- Seasoned investment team with extensive structured credit and multifamily underwriting experience from top firms such as **Goldman Sachs, Morgan Stanley and Freddie Mac**

Investment Management

- Investment clients include:
  - $23 billion Pension Plan
  - $20 billion Family Office
  - $10 billion Family Office
  - European Family Offices
  - Foundations
- Systima is one of Freddie Mac's largest credit risk transfer partners in the U.S. for affordable housing debt

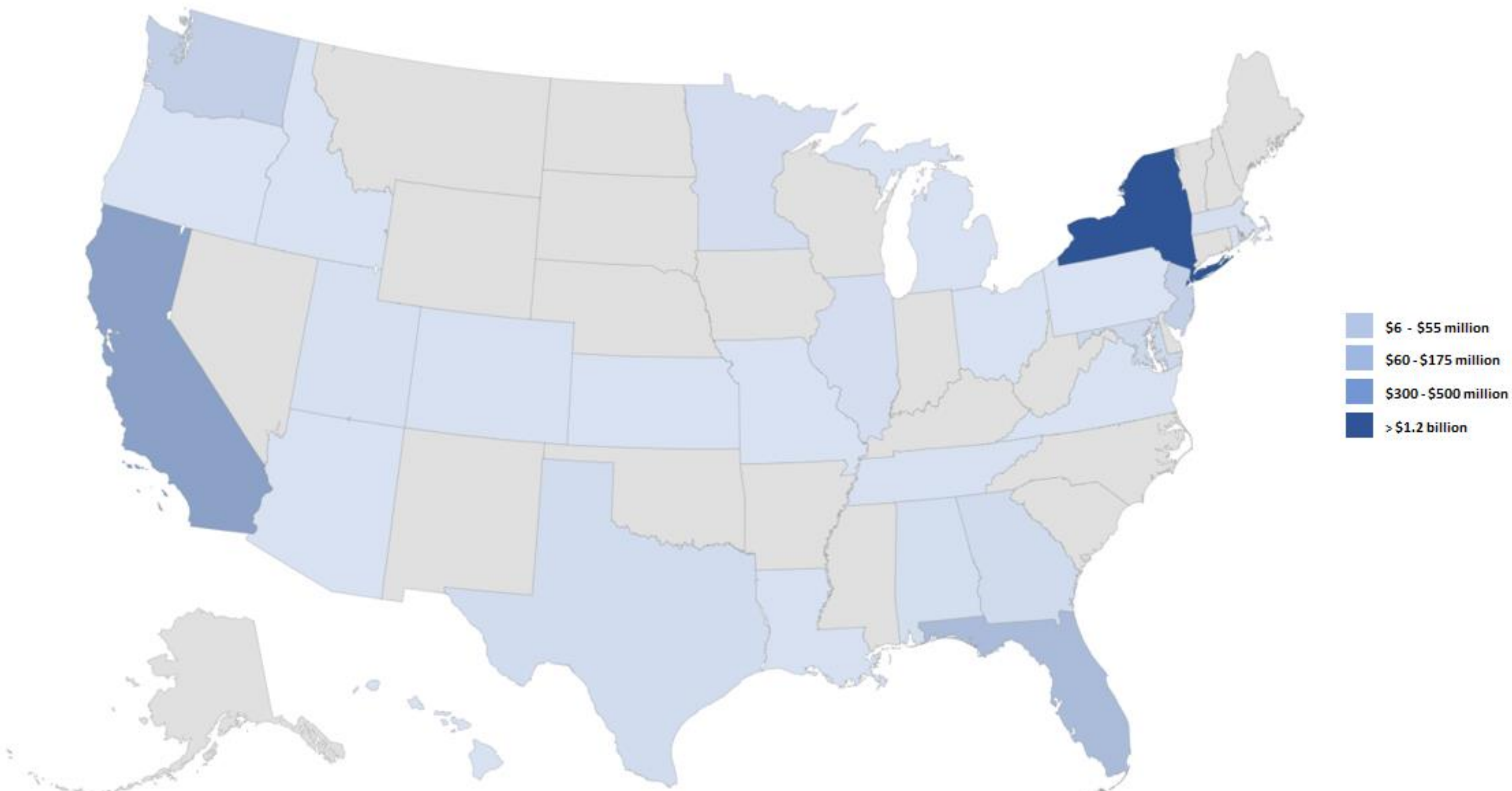
Financial Advisory

- $1.7 billion structured multifamily debt transactions for institutional sponsors, including:
  - Google Treasury/Capital Investments
  - Bridge Housing
  - Essex Property Trust
  - The Related Companies
  - Klein Financial/CalPERS
  - BMO Harris
  - CIBC
  - Greenland USA
  - AIMCO

Systima Firm Experience

- Since inception, Systima has invested in over $3.2 billon of mortgage pools secured by 275 affordable multifamily housing properties with 50,705 units.

- There have been no monthly delinquencies in any of the loans, demonstrating Systima's disciplined credit practices and the strong performance of affordable housing.



Appendix II. Case Studies

Case Study: Preferred Equity Financing for Affordable Chicago Portfolio

Overview

A prominent national for-profit affordable owner/operator purchased the GP and LP interests in a four-property stabilized Section-8 affordable housing projects covering approximately 675 units in Chicago and Peoria, Illinois. The property portfolio was after the end of the 10-year tax credit period, but prior to the end of the 15-year tax credit compliance period. The preferred equity financed the properties to the end of the compliance period when the for-profit borrower re-syndicated tax credits and preserved the affordability of the properties.

The preferred equity provided the borrower capital that kept the existing first mortgage outstanding and allowed flexibility in the repayment of the preferred equity as individual properties were re-syndicated.

Investment Summary

Type:	Preferred Equity
Preferred Equity:	$9.62 million
Location:	3 properties in Chicago, IL 1 property in Peoria, IL
Term:	2 years, with one 1-year extension
Yield Maintenance:	Prepaid at any time upon 30 days written notice, but subject to 18 months of return

Capital Stack

Type of Capital	Amount ($MM)	All-in Loan to Purchase Price
Senior Debt	$36.63	74.0%
Preferred Equity	**$9.62**	**93.5%**
Sponsor Equity	$3.21	100.0%
Total Purchase Price	$49.45	

Case Study: Preferred Equity Financing for Los Angeles Tax Credit Resyndication

Overview

A sponsor purchased garden-style multifamily community located in Los Angeles, CA to facilitate the refinancing and renovation of the property using Tax-Exempt Bonds and 4% LIHTCs.

Systima received a term sheet to fund $10MM of preferred equity, that along with the bridge senior debt, would be used to purchase the property in order to facilitate the refinancing and re-syndication of the property.

Investment Summary

Type: Preferred Equity

Preferred Equity: $10.0 million

Location: 1 property in Los Angeles, CA

Term: 12 months

Minimum Payment: Sponsor had the right to repay the preferred equity at anytime. However, the preferred equity received a minimum $1MM return

Capital Stack

Type of Capital	Amount ($MM)	Loan to Purchase Price
Bridge Loan	$52.00	80.0%
Preferred Equity	**$10.00**	**95.3%**
Sponsor Equity	$3.00	100.0%
Total Purchase Price	$65.00	

Case Study: Non-Profit Affordable Housing Portfolio Refinance

Investment Summary

Type:	Non-Profit Portfolio Refinance
Closing Date:	August 2019
Size:	$56.5 million
Loan Type:	Tax-exempt Loan and Taxable Supplemental Loan
Term:	10 years final maturity, open final 6 months

Systima financed first mortgage debt that provided a California non-profit sponsor to cash-out proceeds from properties to further pursue their mission.

- $56.5 million originated in tax-exempt and taxable loans used to refinance six properties throughout California
    - None of the properties had existing tax-credits.
- Systima worked with a local bond issuer to issue $46.9MM of tax-exempt loans that were used to pay off existing loans and fund closing cost and borrower capital improvements.
    - The tax-exempt loans allowed for slightly lower loan rates on “good” proceeds.
- Systima also originated $9.6MM of supplemental taxable loans where the proceeds were distributed to the non-profit borrower, which they could use at their discretion.
- As the loan originator and a long-term investor in the loans, Systima is able to work with borrowers to meet specific needs by providing flexible loan terms and work around “issues” other lenders may not.

Q&A

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