Housing New Mexico | MFA

Housing Development Programs and Funding

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Rental Housing Development

Housing New Mexico is the state's "one-stop shop" for affordable housing development financing.

- Underwriting
- Loan Closing
- Construction Monitoring
- Long-Term Assets Management

Funding Programs

- **Low Income Housing Tax Credit**
- **Gap Financing**
- New Mexico Housing Trust Fund
- HOME Investment Partnership
- National Housing Trust Fund

Housing New Mexico staff and partners at the groundbreaking for Plaza Luna Lofts, a 57-unit development for seniors in Los Lunas.

Low Income Housing Tax Credit Program

What is "LIHTC"?

- The Tax Reform Act of 1986 created the LIHTC program to incentivize public-private partnerships for the development of affordable housing.
- The Treasury Department administers the program via a designated Housing Credit Agency. For New Mexico, this agency is Housing New Mexico | MFA.
- The credit is a dollar-for-dollar federal tax reduction for 10 years.
- The credit amount is based on the cost of acquiring, constructing, or rehabilitating housing developments.
- Investors purchase credits at slightly less than the dollar value to offset federal tax liability.
- Equity from the sale of credits reduces debt, resulting in lower rents.

Low Income Housing Tax Credit Program

LIHTC developments must serve residents earning no more than 80% area median income (AMI), with a focus on those earning no more than 60% AMI.

LIHTC developments must continue to serve low-income residents for a minimum of 30 years.

Credits may be recaptured by the IRS if the project does not comply with the affordability restrictions.

East Paraje Apartments, a 20-unit development in Laguna Pueblo. Housing New Mexico provided $7.8 million in financing to the project.

9% and 4% LIHTC

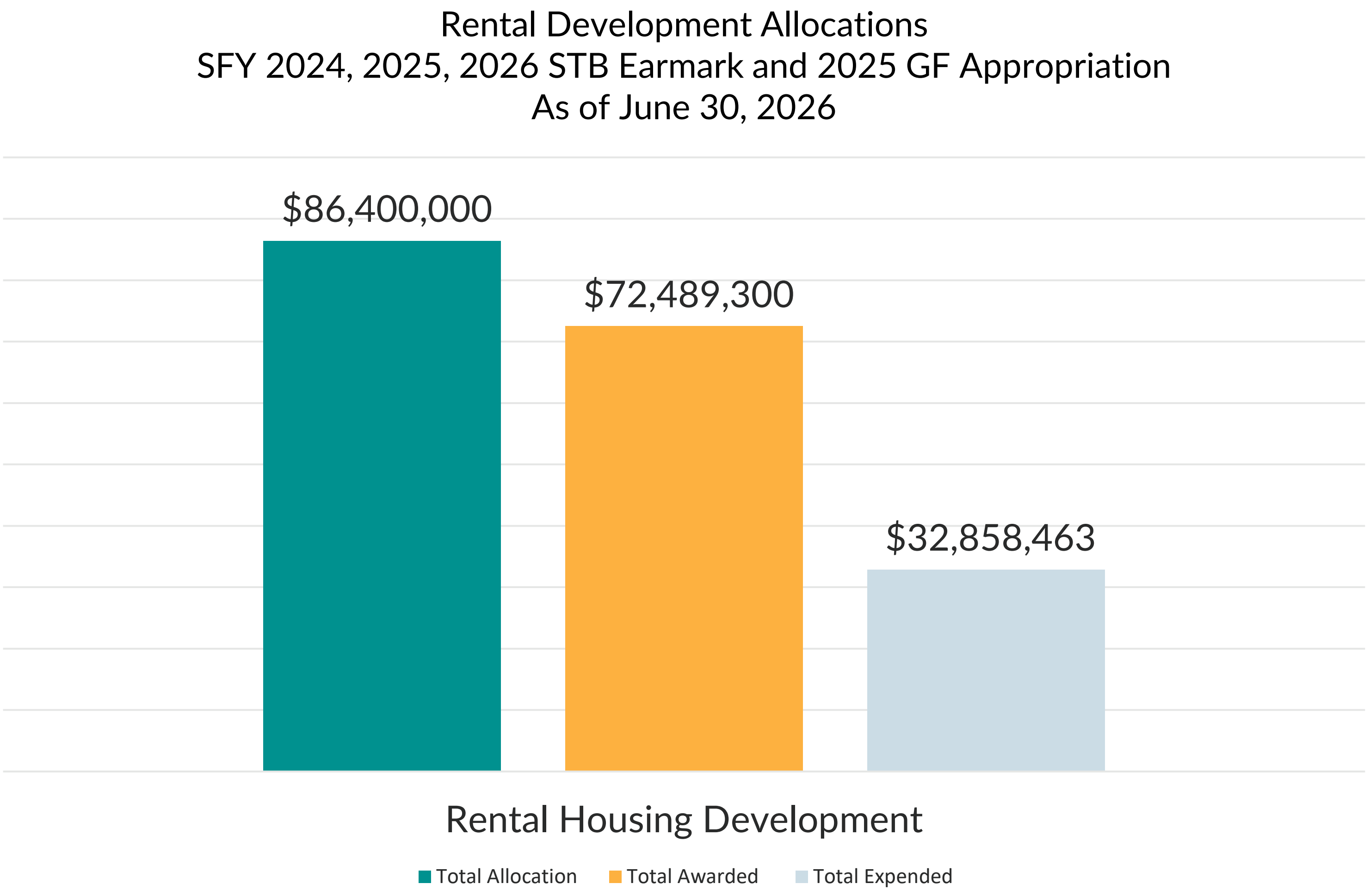
9%	4%
• Credits are awarded through a competitive process. • Credits are a finite allocation based on a state's population. New Mexico receives about $7.2 million annually. • Credits provide funding for about 70% of total development cost.	• Credits are allocated "as of right" with the award of private activity bonds by the State Board of Finance. • Credit amounts available for New Mexico are based on the amount of tax-exempt bonds dedicated to multifamily development. • Credits provide funding for ~30% of total development cost. • Changes implemented to require fewer bonds used in each project allow credits to go to more projects. It also requires much more debt and gap funding.

Gap Financing

Program	Annual Funding Allocation	Terms
New Mexico Housing Trust Fund *State*	$20 million Based on Severance Tax Bond Capacity and Special Appropriations	• 2-year construction term • 40-year permanent term • 40-year amortization • 1% to 5% interest rate • Fully amortized
HOME Investment Partnership *Federal*	$5 million	• 2-year construction term • 40-year permanent term • 40–80-year amortization • 0% interest rate • Principal only repayment
National Housing Trust Fund *Federal*	$3 million	• 2-year construction term • 30+ year permanent term • Non-amortizing • Fixed annual payment of $500 repayment

Peachtree Canyon I Apartments, Las Cruces

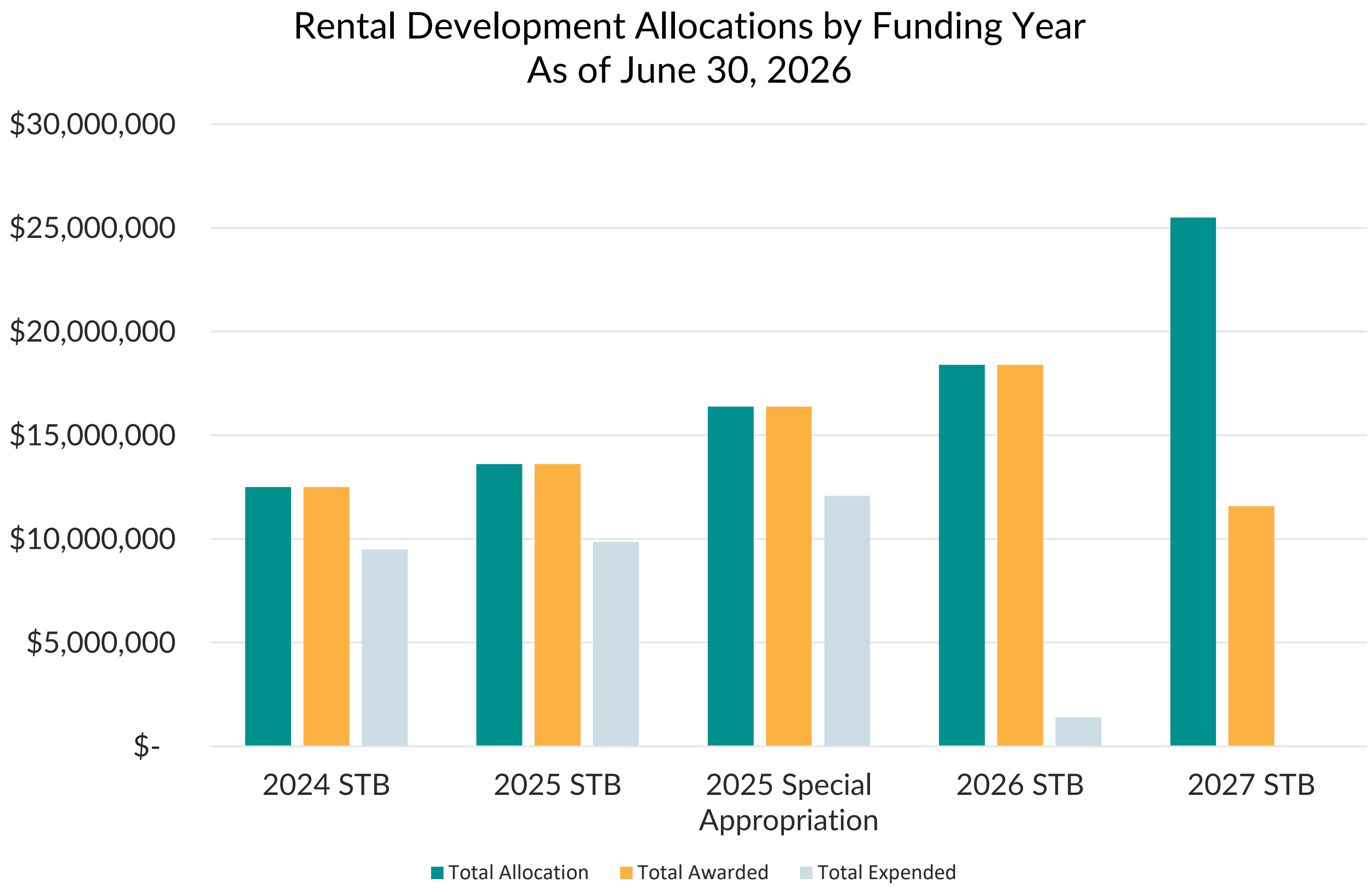
New Mexico Housing Trust Fund Gap Financing



Housing New Mexico has awarded $11.6 million of the $25.5 allocation for 2027.

The NMHTF STB Earmark has been vital in meeting the need for increased GAP financing. Further, the certainty of recurring funding is drawing developers to the New Mexico market.

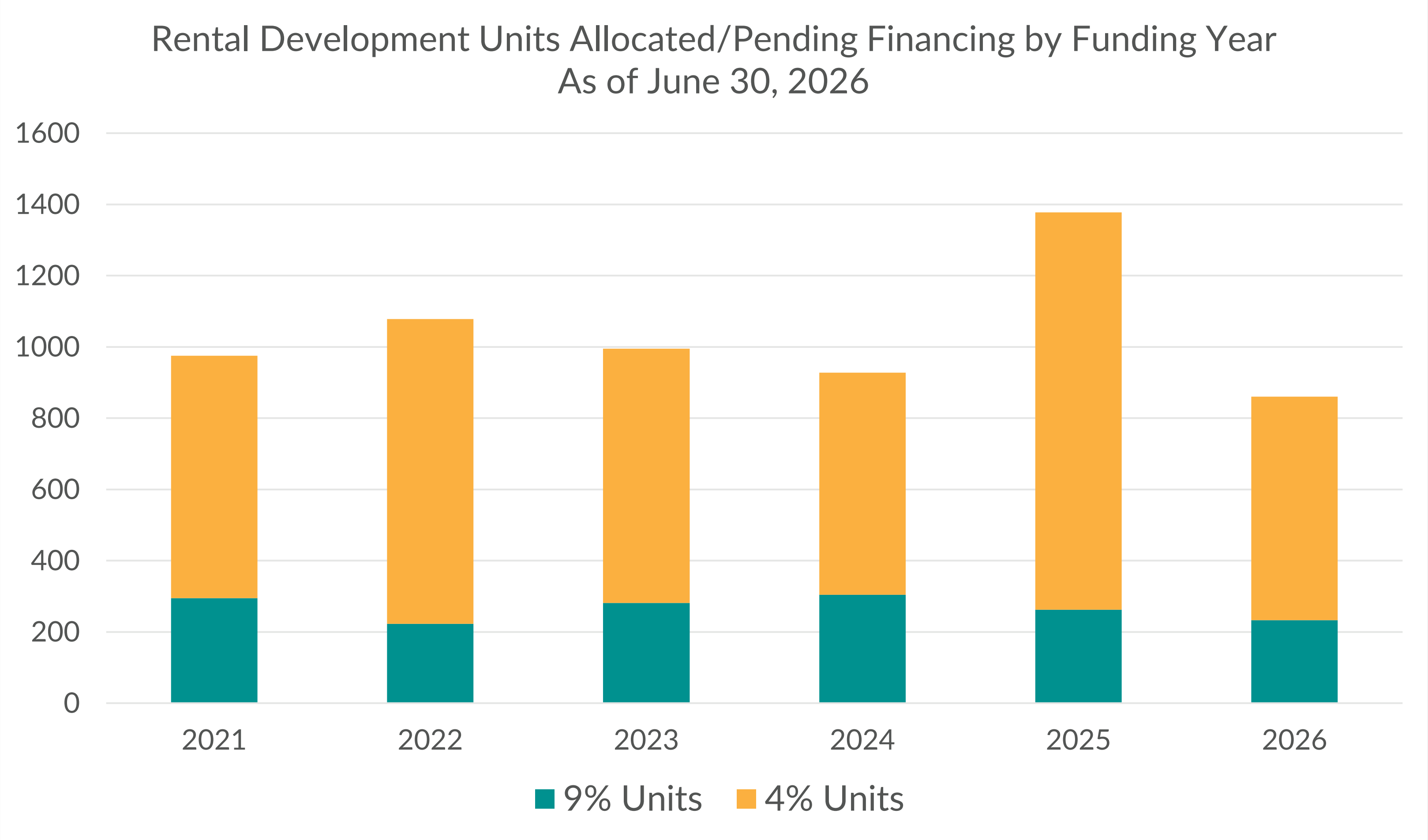
New Mexico Housing Trust Fund Gap Financing



Housing New Mexico has already awarded $11.6 million of the $25.5 allocation for 2027.

The NMHTF STB Earmark has been in meeting the need for increased GAP financing. Further, the certainly of recurring funding is drawing developers to the New Mexico market.

Multifamily Unit Production 2021 - 2026



Housing New Mexico has awarded over $7 million LIHTC worth $56.8 million in equity for 233 units of housing for 2026.

$14.1 million in tax-exempt bonds were allocated for 140 units so far in 2026. Housing New Mexico is currently processing applications for an additional 487 units.

Changes to LIHTC—Impact on NMHTF Demand

Changes expanding the LIHTC program became effective January 2026.

Each state's annual allocation of 9% LIHTC credits was permanently boosted by 12.5%, resulting in more tax credits, lower demand from investors, and lower pricing. This has increased the demand for NMHTF gap financing.

The 4% LIHTC is now more accessible for developers. This change increases the potential total number of projects, resulting in a significant increase in the demand for gap financing.

Annual Estimated Demand for NMHTF Gap Financing

9% = $7 million

4% = $14 million

To maximize the impact of changes to LIHTC, an **additional $20 million** will be required for NMHTF gap financing.

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Capital Stack Examples — New Construction

9% LIHTC Example Capital Stack: Desert Sun Phase III in Deming	Share of Capital Stack
$11.1 million LIHTC Equity	55% Equity
$500K HOME	**18% Gap Financing**
$2 million NMHTF	
$400K in federal HTF	
$813K land donation/deferred fee	
$4.9 million USDA 514 Loan $500K USDA 538 Guaranty	27% Bank Financing
$20.3 million Total Development Cost	
Creating 53 units	

4% LIHTC Example Capital Stack: West Mesa Ridge A in Albuquerque	Share of Capital Stack
$23.3 million LIHTC Equity	43% Equity
$3 million NMHTF	**43% Gap Financing**
$2 million HOME	
$8 million Albuquerque City Loan	
$3.8 million earned interest/deferred fee	
$12.8 million Bank Financing $1.2 million subordinate bonds	14% Bank Financing
$54.1 million Total Development Cost	
Creating 128 units	

Capital Stack Examples – Acquisition/Rehabilitation

9% LIHTC Example Capital Stack: Villa de Tularosa in Tularosa	Share of Capital Stack
$4.4 million LIHTC Equity	69% Equity
$1.9 million Primero Loan Fund (const)	**19% Gap Financing**
$600K NMHTF	
$400K in federal HTF	
$181K deferred fee	
$800K seller carryback note	12% Seller Financing
$6.4 million Total Development Cost	
Preserving 22 units	

4% LIHTC Example Capital Stack: Montana Meadows/Wildewood Scattered Site - Las Cruces/ Roswell	Share of Capital Stack
$10.4 million LIHTC Equity	36% Equity
$2 million NMHTF	**12% Gap Financing**
$1.4 million deferred fee	
$14.1 million tax-exempt bonds $744K taxable tail bonds	52% Private Bank Financing
$28.6 million Total Development Cost	
Preserving 128 units	

Development Timeline – 1. Due Diligence

1. Determine the population to be served
2. Determine a basic site criteria
3. Identify a suitable location
4. Review Title Search, Plat Map and Survey for Easements & Property Access
5. Consider Land Use & Zoning Requirements
6. Conduct Environmental Due Diligence

Development Timeline – 2. Design & Feasibility

Determine number of units and unit mix and size → Assess market need and demand for project concept

→ Cultivate community support → Select an architecture firm

→ Ensure compliance with Housing New Mexico's design standards

Farolito Senior Community in Albuquerque

Development Timeline – 3. Financing

Develop Total Development Cost Budget

- Establish relationship with general contractor for a preliminary cost estimate.
- Utilize historical data from previous projects.
- Calculate annual rents, vacancy, and operating budget to determine Net Operating Income (NOI).

Secure First Mortgage Loan

- Work with a first mortgage lender to get conventional first mortgage.
- Consider first mortgage loan options for both the construction and permanent financing.
- Lenders require project's NOI to cover annual debt service with cushion of income left over.

Apply for LIHTC and Gap Financing

- Seek 9% LIHTC credits through the Qualified Allocation Plan process.
- Or submit a request for 4% tax credits.
- Complete and submit Housing New Mexico's Universal Rental Application for gap financing.
- Seek other gap financing options such as local government contributions.

Housing NM Timeline – 4. Approval through Closeout

Intent to Submit
- 30 days prior to application submittal

Application Submittal and Review
- 30-90 days for review
- Application threshold
- Underwriting
- 9% Scoring

Approval Process
- 30-day process
- Policy Committee
- HNM Board Sub Committee
- HNM Board

Closing
- 6 month process
- Finalize loan documents including loan(s) LURA--Land Use Restriction Agreement

Construction
- 24-month term
- Site Inspections
- Draw Requests

Close Out
- 6-month process
- Review and approval
- Loan Closeout
- 8609
- LIHTC LURA recorded

Development Timeline – 5. Closing and Construction

Closing

- Lenders draft loan documents
- Developers, lenders, tax credit investors, and attorneys nego-tiate language to protect their interests.
- Loans are closed
- Land Use Restriction (LURA) Agreements for the loans are also executed to ensure long-term affordability.

Construction

- Housing New Mexico disburses initial draw.
- Construction typically occurs over two years.
- Housing New Mexico monitors construction progress on-site at 33%, 66%, and 100% completion, or more often depending upon loan program.

Close Out

- Permanent financing pays off construction financing.
- Monthly principal and interest payments begin.
- Project is leased up and placed-in-service
- LIHTC LURA recorded.
- Cost Certification provided to Housing New Mexico
- Housing New Mexico's Asset Management dept does long-term compliance monitoring.

Development Timeline - Summary

THE TYPICAL CONSTRUCTION TIMELINE FOR A MULTIFAMILY LIHTC PROJECT— FROM CONCEPTION TO COMPLETION— IS **FIVE YEARS**.

Challenges and Solutions

Challenges

Affordable housing takes time to build.

A typical project may require multiple funding sources, and each source may have different funding timelines and requirements. Managing multiple funding sources can increase the project's closing timeline, which may increase overall expenses, resulting in higher interest rates.

Solutions

Support efforts that reduce development timelines.

- Single source for gap financing
- Fund predevelopment
- Consistent reviews between agencies

Challenges and Solutions

Challenges

Gap financing need continues to grow.

Reduction of the federal 50% threshold for Private Activity Bonds and the 12.5% increase of tax credits have flooded the market, resulting in less demand and lower equity pricing.

Solutions

Increase State housing resources dedicated to gap financing.

- Additional New Mexico Housing Trust Fund
- Traditional State Housing Tax Credit program
- Flexible subordinate financing

Challenges and Solutions

Challenges

Permanent Supportive Housing Requires Operating Support.

Building supportive housing is only part of the solution. Permanent Supportive Housing Projects need:

- Behavioral Health Services
- Case Management Services
- Transportation Services
- Employment Assistance Services
- Medical Coordination Services

Solutions

Increase funding for operating subsidies and resident services.

- Medicaid
- Case Managers
- Traditional State Housing Tax Credit

Questions?

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