West Virginia Housing Development Fund

Debt Management Policy

Approved January 27, 2021

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WEST VIRGINIA HOUSING DEVELOPMENT FUND

DEBT MANAGEMENT POLICY

I. PREAMBLE

The West Virginia Housing Development Fund (the "Fund") is committed to meeting West Virginia's need for decent, safe, affordable housing.

In furtherance of its mission, this policy is adopted to preserve and strengthen the Fund's financial capacity by expanding and diversifying sources of capital and leveraging available capital**.**

II. WVHDF POLICY

The Fund's goal is to raise capital for its programs at the lowest overall cost while ensuring that associated risks are within reasonable and sustainable bounds. The Fund will take into consideration desired mortgage rates and the need to maintain asset and debt management flexibility while carefully managing risk.

To achieve this, the Fund will:

(1) Establish long-range financial objectives as set forth in Section III. These objectives may change in response to economic and other factors.

(2) Periodically establish a plan in the form of a Plan of Finance that sets forth specific financing objectives for a maximum of a one year period. This plan may be adjusted due to economic and other factors.

(3) Maintain a debt management policy that provides for optimum access to capital markets and broad distribution capabilities.

The Debt Management Policy will be reviewed by staff annually or as necessary based on current market conditions.

III. LONG RANGE FINANCIAL OBJECTIVES

The long-range financial objectives are as follows:

- Maximize the spread between loan rates and cost of capital, where possible, in order to maximize future capital available for the Fund’s programs.
- Maintain program flexibility.
- Effectively manage risk so as to minimize the potential of calling upon the Fund's general obligation debt pledge or the moral obligation pledge.
- Maintain the Fund's Aaa/AAA general obligation credit ratings.
- Maintain the current level of credit ratings for each bond resolution.

IV. FINANCE TEAM

The Fund will maintain a team of finance professionals consisting of internal and external experts for the purpose of managing its borrowing activities. The team will include investment bankers (when appropriate), bond counsel, underwriter’s counsel (when appropriate), general counsel, a financial advisor, and finance staff. Staff may recommend to the Board the addition of finance team members based on needs of specific financings.

V. PLANNING AND STRUCTURING BOND ISSUES

When capital is needed for program funding or for debt management purposes, the finance team will review the financing alternatives in accordance with this policy and determine whether bonds or some other form of debt should be issued. Any proposed financing will be reviewed to determine the best method of accessing the financial markets to achieve the goal of issuing debt at the lowest overall interest rates and costs with reasonable risks.

VI. ANNUAL CAPITAL NEEDS PLANNING

The finance team will annually review proposed capital needs and timing for the next calendar year. The timing of bond sales or other types of debt issuance will be based primarily upon housing program needs, but market and tax compliance factors will also be taken into consideration. Staff will communicate the results of the planning process to the Board through a Plan of Finance.

VII. PROCEDURES FOR EACH BOND ISSUE

The finance team will determine a financing approach best suited to the current set of circumstances and consistent with the Fund's desire to issue debt at the lowest overall interest rates and costs while managing risks and maintaining the maximum flexibility for asset and debt management. Staff will proceed pursuant to the currently approved Plan of Finance. Where variable rate debt or interest rate swaps are considered for inclusion in a financing, the finance team will be guided by the policies and procedures set forth in the Variable Rate Debt and Swap Management Plan, included herein.

Before each financing, the finance team will review the immediate capital and/or refunding needs, market conditions, proposed bond structure(s), merits of a negotiated, competitive or privately placed bond issue and expense guidelines. In the event of a negotiated bond issue, underwriter's compensation will be finalized prior to the commencement of the order period.

Before pricing a debt offering, the financial advisor will provide the Fund with summary information and its recommendations with regard to all pertinent aspects of the financing. For negotiated issues, the pricing will generally be handled by a conference call including Fund staff, bond counsel, general counsel, the financial advisor and the underwriters. The Executive Director and Deputy Director will have primary responsibility for making pricing determinations within the parameters of the Board approved Plan of Finance.

A formal post-sale analysis will be prepared by the financial advisor and reviewed with the Board within approximately 45 days of the issue. The post-sale analysis should include sufficient information to permit the Board to judge the performance of the investment bankers or the competitive bid process.

VIII. DEBT ISSUANCE REVIEW

The results of the Fund debt issuance and the performance of the investment bankers or the competitive bid process will be reviewed by the staff in connection with the annual capital needs planning and the development of the Plan of Finance. The Fund's financial advisor will prepare the report in cooperation with Fund staff.

IX. POLICY ON REQUEST FOR PROPOSALS

A request for proposal will be issued as needed for the Fund's financial advisor and investment bankers.

X. REPORTING

Quarterly, a debt report will be prepared and reviewed with the Board. The report will contain information relating to debt outstanding, debt issued or redeemed during the quarter, the amounts and percentages of variable rate debt and average variable debt rates, if any

XI. GOVERNOR'S APPROVAL

Prior to the sale of bonds by the Fund, the Fund's staff will request the Direction and Certification of the Governor, which provides the direction of the Governor to the Fund for the issuance of the bonds and certifies by the Governor that the Fund is an authorized issuer of bonds for the State of West Virginia, the bonds are refunding bonds under the Internal Revenue Service Code, if applicable, new money bonds are under the volume limitation applicable to the State of West Virginia and proper notice and public hearing was held according to the Code.

The review time period for the Governor's office may be as much as 21 days before execution by the Governor.

WEST VIRGINIA HOUSING DEVELOPMENT FUND

Variable Rate Debt and Interest Rate Swap Management Plan

Background. The West Virginia Housing Development Fund (the "Fund") may elect to issue variable-rate debt when issuing fixed-rate debt results in a cost of capital that would result in mortgage interest rates which could not be effectively lent to borrowers of low and moderate incomes or to developers of rental properties for low and moderate-income renters. The Fund generally lends at fixed rates, which creates the potential for a mismatch between its cost of capital and its revenues. In order to manage the mismatch, interest rate swaps may be utilized. An interest rate swap is a financial agreement in which two parties agree over a fixed period of time on a stated notional principal amount to exchange interest payments, one based on a variable interest rate and the other a fixed rate. Interest rate swaps will be structured to synthetically achieve a fixed-rate cost of capital that is less than can be achieved by issuing traditional fixed-rate debt. This Variable Rate Debt and Interest Rate Swap Management Plan (the "Plan") is part of the Fund's Board-approved Debt Management Policy.

Authorization. For purposes of authorization, all variable rate debt issuance and swap transactions shall go through the same process as bond financings including review by the Fund's finance team, which includes at a minimum bond counsel and appropriate external financial advisors. Additionally, formal approval by the Fund's Board is required prior to each issuance of variable rate debt. When and if alterations to the variable rate bond structure or mode or replacement swaps are needed, they will be approved by a resolution of the Board.

Goals for Variable Rate Bond and Swap Transactions. Variable rate bond and swap transactions will be used as part of a strategy to reduce the Fund's overall cost of funds. Variable rate bond issuance and swap transactions will not be used for speculative purposes. The Fund acknowledges that the use of variable rate bonds and/or swaps may introduce certain risks not present with standard fixed rate bond issuance. Major potential risk factors are summarized below.

Relationship to Assets. Variable rate bond and/or swap transactions will be entered into based on analysis that staff determines is adequate to indicate an expected positive impact on the Fund's ability to manage its underlying assets and liabilities. The term and structure of any variable rate bond issuance or swap agreement should bear a logical relationship both to a specific pool of assets and the underlying liabilities financing those assets as well as to the overall financial profile of the Fund.

Risk Analysis. Before making a final decision to proceed with variable rate bonds and/or a swap transaction, the Fund shall analyze the risks, costs, and benefits associated with variable rate bonds and interest rate swaps to ensure that a proper and well-informed decision is being made. Specific risks that should be analyzed and understood are:

a. **Interest Rate Risk.** Interest rate risk refers to the extent to which the Fund, a specific resolution or a specific transaction is exposed to adverse consequences resulting from the movement of short or long term interest rates up or down. Some amount of interest rate risk is inherent in almost every transaction entered into by the Fund. The Fund's staff and finance team will review the interest rate risk, if any, associated with each contemplated variable rate bond issuance or swap transaction to ensure that it is within reasonable and sustainable bounds.

b. **Amortization.** Amortization risk represents the cost to the Fund of paying interest on debt or making swap payments due to a mismatch between the amounts outstanding of variable rate liabilities and the notional amount of an associated swap. Swap transactions should be structured to match the notional amount of the swap to the expected amortization of the bonds. The possibility of early bond redemptions will be considered.

c. **Basis.** Basis risk represents the potential difference between the interest rate paid by the Fund on its variable rate liabilities and the rate received from an associated swap contract. The finance team will review the historical differentials between the variable rate bonds and the swap payment index and the significant economic conditions that affect either position.

d. **Tax.** Tax risk represents a risk that may arise due to a change in the tax code which creates or exacerbates a difference between the interest rate paid by the Fund on its variable rate liabilities and the rate received from an associated swap contract. The finance team will review the likelihood of material tax changes over the term of the swap.

e. **Counterparty.** Counterparty risk is the risk that a swap transaction provider will not fulfill its obligations as specified in the swap contract. The finance team will review counterparty ratings and collateralization as well as the Fund's exposure to a particular counterparty. Potential swap counterparties must have a demonstrated record of swap performance.

f. **Termination.** Termination risk represents the risk that a swap contract could be terminated by the counterparty due to various events including downgrade, covenant defaults, payment defaults or other default events specified by the contract or resolution. The finance team will review the termination events included in the swap contract.

g. **Rollover.** Rollover risk is the risk that a swap contract is not coterminous with associated variable rate liabilities creating the possibility that a replacement contract will be either unavailable or at terms disadvantageous to the Fund. The finance team will review the Fund's ability to meet debt service on the variable rate bonds or accelerate redemption of the bonds if the terms of a rollover swap are not advantageous.

h. **Liquidity.** Liquidity risk is the risk that the back-up liquidity facilities required by certain types of variable rate debt will not be available or financially viable in the future resulting in the need to call the debt or refund it into fixed rate debt thus creating an un-hedged swap position in the case that the variable rate debt affected was associated with a swap. Liquidity risk exists with the form of variable rate debt known as Variable Rate Demand Obligations (VRDOs). VRDOs are remarketed regularly and the risk exists that there may be an insufficient market to purchase all or some of the bonds on any given remarketing date. To mitigate this risk, a liquidity provider is engaged to purchase unremarketed bonds at a higher rate than could be achieved under a remarketing and with the expectation that the bonds will be repaid on an accelerated timetable. Additional risk exists in that the term of the VRDOs is generally longer than the term of any related liquidity facility agreement, which requires that the issuer periodically engage replacement liquidity providers during the term of the debt. Potential exists for there being available no entity willing to provide the service at an acceptable cost. The finance team will review the Fund's ability to meet debt service on the variable rate bonds or accelerate redemption of the bonds.

i. **Rating Agency Criteria Risk.** This risk exists because the credit rating agencies may periodically change their criteria for maintaining credit ratings over the term of a variable rate debt issue, which may impact the cost of the variable rate debt or impose additional duties or restrictions on the Fund to maintain ratings. Fund staff and the finance team will continue close communication with the rating agencies to review potential rating issues.

Risk Mitigation. In addition to utilizing variable rate debt and interest rate swaps to mitigate the interest rate risk associated with issuing variable-rate debt, the Fund will seek to employ other risk mitigation techniques, either from the outset of a variable rate bond issue or at any stress point during the life of the issue, and will seek to incorporate relevant optionality in any agreements entered into in connection with the debt.

Examples of such techniques include but are not limited to: the option to modify the interest rate mode among variable rate alternatives or from variable to fixed; options to terminate the swap at par and at market under certain scenarios acceptable to the Fund; selection of the type of variable rate debt issued and its ability to be called at par; maintaining appropriate levels of liquidity to exercise available options; appropriate managerial oversight of the performance of the variable-rate bond issues and their related swaps; diversification among counterparties and liquidity providers.

Credit Quality. Any swap transaction entered into by the Fund shall be with a swap provider whose long term debt obligations, or whose obligations under a swap are fully covered by a swap facility whose long term debt obligations are sufficient to maintain any existing rating of the Fund's long term debt and/or secured by a pledge of investment obligations with the ratings and in amounts sufficient to achieve the ratings sufficient to maintain the Fund's long term debt ratings.

Procurement Procedures. Any services related to an issuance of variable rate bonds and/or an associated swap transaction including counterparty and banking services may be procured through a request for proposal process.

Appropriate Review. Variable rate bond and swap transactions will be submitted to the rating agencies for their review along with all appropriate supporting documents prior to the Fund entering into any agreements. There will be procedures established for the ongoing review and management of variable rate bond and swap transactions including regular reporting to the Board. In addition to this general Plan, rating agencies will be provided with a summary of each variable rate bond and swap transaction in accord with their respective policies.

Variable Rate Debt Issuance Parameters

- Cashflow projections will be reviewed no less than annually to determine the Fund's ability to meet future debt service on all bonds, including variable rate debt, in accordance with rating agency stress scenarios.

- The maximum permitted rate on variable rate debt, if unhedged, and associated liquidity facilities will be established pursuant to the annual Plan of Finance in accordance with the current rates customary to the variable rate bond market.

- The Fund will limit the amount of variable rate bonds to no more than 33% of any given bond issue.

- All variable rate debt issues will be callable at any time at par allowing the Fund to redeem or refund the debt as needed.

- The Fund will limit the total amount of variable rate debt outstanding to no more than $50 million.

- Unhedged variable rate debt will be in proportion to the average short-term investment balance to provide for a natural hedge against interest rate fluctuations. The Fund's maximum target limit for its unhedged variable rate debt balance will be approximately 35% of its average short-term investment balance.

The above parameters will be reviewed annually in connection with the capital planning needs or as necessary based on market conditions. Based upon the current market environment, rating agency input, cashflow projections and input from the financing team, needed adjustments to the above parameters will be recommended to the Board. In no event will variable rate debt be issued without Board approval on an issue by issue basis.

WEST VIRGINIA HOUSING DEVELOPMENT FUND

Conduit Bond Financing Criteria

From time to time, the Fund has been asked to act as a conduit bond issuer on behalf of multifamily developers to provide access to the tax-exempt bond market. The conduit bonds are not a general or moral obligation debt of the Fund nor does the Fund have any obligation to repay the debt in the event of a project default. The project is fully responsible for repayment of the debt as well as other ongoing bond responsibilities, i.e. secondary market disclosures and rebate calculations.

Conduit bond issues may require the use of bond volume cap. **Conduit bond issues requiring bond volume cap will only be considered if volume cap is available after giving consideration to the direct financing needs of the Fund.**

Each proposed conduit financing is subject to approval by the Board of Directors. Applicants should not assume that these criteria or a project's ability to meet the criteria in any way guarantees the approval of the proposed conduit financing.

The following criteria will be used to evaluate the soundness of possible conduit issues.

- Projects must substantiate a need for conduit financing.
- Developer's fee should be reasonable and consistent with the Low Income Housing Tax Credit Program structure for fees per Exhibit A.
- The Housing Development Fund reserves the right to pre-approve the bond financing team.
- Management companies/project owners must have strong proven track record of successful project management.
- To be an eligible applicant, principals involved in the ownership entity must meet the requirements of the Housing Development Fund's Multifamily and Commercial Lending Policy.
- Applicants will apply using the Application for the Tax-Exempt Bond Program (Exhibit B) and will submit a nonrefundable application fee of $1,500 as well as an Issuance Security Deposit of 12.5 basis points of the proposed issuance amount. The Issuance Security Deposit will be applied toward the Issuance Fee (below) if the proposed conduit bonds are issued within 120 days of the date of bond allocation. Otherwise, the allocation

may be rescinded and the Issuance Security Deposit will be retained by the Fund.

- An Issuance Fee of 25 basis points, or a $17,500 minimum, is due at closing. The Issuance Security Deposit will be applied to this amount.

- The Fund will be reimbursed for all actual, direct conduit issuance costs including legal fees and other related costs regardless of whether or not the bonds are issued. Applicants will be required to deposit into an escrow account an estimated amount for cost of issuance fees after approval of a bond inducement resolution by the Fund's Board.

- The Fund may charge a refunding/refinancing fee of $2,500 plus legal fees and other expenses if the bonds are refunded prior to maturity.

Depending on the specifics of any given conduit transaction, the Fund reserves the right to charge special fees in addition to the above including annual administrative charges.

EXHIBIT A

DEVELOPER'S FEES FOR PROPERTIES THAT HAVE NOT BEEN OCCUPIED AS RESIDENTIAL RENTAL HOUSING AT ANY TIME DURING THE YEAR PRECEDING THE DATE OF THE OPTION, PURCHASE CONTRACT, OR DEED FOR THE SUBJECT PROPERTY, WHICH IS FURNISHED WITH THE INITIAL RESERVATION REQUEST WITH RESPECT TO SITE CONTROL

Identity of Interest Does Not Exist	Identity of Interest Does Exist
The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to: 18% of Adjusted Basis*	*The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to the lesser of:* 18% of Adjusted Basis*; and (22% of Adjusted Basis*) minus Builder's Profit

DEVELOPER'S FEES FOR PROPERTIES THAT HAVE BEEN OCCUPIED AS RESIDENTIAL RENTAL HOUSING AT ANY TIME DURING THE YEAR PRECEDING THE DATE OF THE OPTION, PURCHASE CONTRACT, OR DEED FOR THE SUBJECT PROPERTY, WHICH IS FURNISHED WITH THE INITIAL RESERVATION REQUEST WITH RESPECT TO SITE CONTROL

Identity of Interest Does Not Exist	Identity of Interest Does Exist
Acquisition	**Acquisition**
The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to: 10% of Acquisition Adjusted Basis*	*The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to:* 10% of Acquisition Adjusted Basis*
Substantial Rehabilitation	**Substantial Rehabilitation**
The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to: 15% of Substantial Rehabilitation Adjusted Basis*	*The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to the lesser of:* 15% of Substantial Rehabilitation Adjusted Basis*; and (18% of Substantial Rehabilitation Adjusted Basis*) minus Builder's Profit)

* Adjusted Basis, which by definition excludes land and any other costs which are not capitalized and depreciated, and which, for the purposes of the Developer's Fee formulas provided above also excludes property costs in excess of the Fund property cost limits, and the Developer's Fee itself.

The maximum Developer's Fee is further limited to the amount of Developer's Fee that is actually paid, or otherwise earned or recognized as income, from one unrelated individual, entity, or both to another individual, entity, or both as compensation for the work, costs and risks associated with the development of a property.

EXHIBIT B

WEST VIRGINIA HOUSING DEVELOPMENT FUND
TAX-EXEMPT BOND PROGRAM
APPLICATION FORM

Property Name: ______________________________

Property Location: ______________________________

Street Address	City	County

Property Description: ______________________________

Property Developer:

Entity Name	Contact Name	Phone Number

Email Address: ______________________________

Proposed Financing Structure and Other Funding Sources:
(Please provide source and estimated funding amounts)

Estimated Bond Issuance Amount: ______________

Estimated Requested Closing Date: ______________

Bond Allocation Letter Requested By: ______________

The Fund will be reimbursed for all actual, direct conduit issuance costs including legal fees and other related costs regardless of whether or not the bonds are issued.