

Conduit Revenue Bond Program

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**Released By
Alaska Housing Finance Corporation
Finance Department**



OVERVIEW

This manual is a reference guide for the Conduit Revenue Bond Program (“Program”) offered by the Alaska Housing Finance Corporation (“AHFC”). This guide is to be used only as an informational resource regarding policies and standards of performance under this particular Program. This guide is not inclusive of all considerations and regulations for eligibility and federal compliance nor does it address requirements of other federal or AHFC programs.

AHFC is authorized by statute to issue bonds and bond anticipation notes in order to provide funds to carry out and effectuate its purpose. Under this Program, sponsors of affordable housing projects that meet federal requirements for tax-exempt financing may be eligible to use this alternate structure to increase economic flexibility and lower interest cost during the period of construction (“Eligible Projects”).

AHFC expects conduit revenue bonds (“Bonds”) issued through this Program to be used for the construction phase of affordable housing development and to be paid off when said development is substantially complete. Bonds must be privately placed with an Eligible Purchaser and shall not be issued for public sale. The amount of the Bond must finance at least 25% of the total aggregate basis of the Eligible Project in order to generate 4% low-income housing tax credits. Generally, requests will be a minimum of \$3,000,000, but all Program requests will be reviewed on an individual basis. AHFC reserves the right to waive some requirements or to reject requests at its sole discretion.

Bonds issued under this Program are not direct obligations of AHFC or the State of Alaska (“State”). Neither AHFC nor the State are obligated to repay the Eligible Purchaser or otherwise guarantee the Bonds if revenues from the Eligible Project are insufficient to pay debt service on the Bonds.

DEFINITIONS AND TERMS

42M Letter: The 42M letter is a document issued by AHFC’s Planning Department that confirms a prospective development’s compliance with Section 42(m) of the Internal Revenue Code, as amended, and thus its eligibility to receive 4% Low-Income Housing Tax Credits. The 42M letter is one of the key components in the Official Request, without which an application for tax-exempt bond financing may not be submitted.

Annual Compliance Monitoring: Depending on the scope and structure of an Eligible Project, AHFC may require annual compliance monitoring and reporting to be facilitated by an unaffiliated third party. The entity and level of reporting will be evaluated by AHFC counsel to ensure that the bonds and project maintain eligibility for tax-exempt status for the life of the qualified project period. AHFC further reserves the right to evaluate the ongoing compliance of the Eligible Project at any time during the qualified project period of the Eligible Project. Any fees associated with this monitoring are the responsibility of the borrower.

Board: AHFC Board of Directors

Bond Counsel: AHFC shall be represented by its appointed Bond Counsel during all stages of the Bond transaction, including pre-issuance, issuance, monitoring, maturity and post-maturity. Any fees associated with Bond Counsel are the responsibility of the borrower

Bond Denominations: Bonds may only be sold in minimum denominations of \$100,000 or integral multiples thereof. It is expected that Bonds will not be registered with DTC.

Bond Maturities: Bond terms are limited to no more than the greater of three years or the time period within which it takes to complete construction and achieve stabilization of the applicable Eligible Project and can include redemption provisions built in to accommodate the conversion to permanent financing. AHFC reserves the right to review and approve the proposed amortization schedule of the accompanying construction loan. (Note: AHFC offers both taxable and tax-exempt multifamily loan products for permanent financing; additional information is available upon request.)

Continuing Disclosure: Eligible Borrowers must covenant to comply with all continuing disclosure requirements relating to Bond issuance, including (if applicable) those of Securities and Exchange Commission Rule 15c2-12. Such requirements typically include ongoing disclosure of annual financial information, certain operating data and material events.

Declaration of Official Intent: A Declaration of Official Intent establishes AHFC's intent to issue Bonds for the Eligible Borrower and qualifies the Eligible Borrower to begin incurring costs prior to the issuance of tax-exempt Bonds that will be retroactively reimbursable from Bond proceeds. An Eligible Borrower may request a Declaration of Official Intent through the AHFC Finance Department only after approval of the Eligible Borrower's Official Request.

Default Avoidance: At the time of issuance of the Bonds, AHFC will assign to the Eligible Purchaser all of its interest in any deed of trust or other lien granted as part of the financing. In the event of payment default by the Eligible Borrower, the Eligible Purchaser will only have remedies against the Eligible Borrower under the deed of trust or other lien as provided in the applicable documents. The Bonds are not general obligations of AHFC or the State. In no event will the Eligible Purchaser have any right to payment from AHFC or the State, nor shall it have any claim against AHFC or State assets or revenues.

Eligible Borrower: An Eligible Borrower must be created as a single purpose entity, such as general or limited partnerships, trusts, corporations, or limited liability companies.

Eligible Project: Eligible Projects include multifamily residential rental housing properties which set aside at least 20% of their units for tenants earning less than 50% of area median income or 40% of their units for tenants earning less than 60% of area median income.

Eligible Purchaser: An Eligible Purchaser is a "qualified institutional buyer" that manages at least \$100 million in securities, thereby providing assurance that such Eligible Purchaser has substantial institutional experience and financial assets to purchase the Bonds. The original and any subsequent Eligible Purchasers of the Bonds must each execute an Investor Letter in conjunction with such purchase.

Failed Issuances: In the event that a transaction does not progress toward issuance as planned, or is terminated prior to issuance, the Eligible Borrower will be responsible for all AHFC bond counsel fees and other AFHC costs incurred to date and will be expected to remit payment upon receipt of invoice. Should the entity dissolve prior to receipt of payment, the burden of payment will revert to the principle parties that comprised the now defunct entity.

Investor Letter: Each original and any subsequent transferee of the Bonds will be required to

deliver to AHFC an Investor Letter certifying that the investor meets the criteria for being an Eligible Purchaser as described above. No Bonds may be conveyed, assigned or transferred to an entity that does not provide an Investor Letter. An AHFC-approved Investor Letter is attached as Exhibit A to this program guide.

Interest Rate Modes: Bonds may be issued in either fixed or variable rate modes. Variable rates must be based on a widely recognized index plus a fixed spread and must be approved by AHFC and its counsel.

Official Request: Prospective borrowers must submit an Official Request for Bond financing to the AHFC Finance Department at least 100 days in advance of the desired Bond issuance date. The Official Request must: a) include a 42M approval letter from the AHFC Planning Department confirming eligibility for tax credit financing ; b) clearly identify the Eligible Borrower, Eligible Project and Eligible Purchaser; and c) include an estimated schedule for the proposed issuance.

Priority of Payments: All payments under the Eligible Borrower's promissory note or loan agreement, whether regularly scheduled or resulting from exercise of a remedy, will immediately be credited in like amount against payment of penalties, interest and principal (in that order) under the Bonds. Payment in full of the note or loan constitutes payment in full of the Bonds.

ISSUANCE PROCESS

Generally, the issuance process will follow these steps:

1. Submit an Official Request (as defined above) to the AHFC Finance Department at least 100 days prior to the desired Bond closing date. Official Requests that do not contain the required information will be deemed incomplete and will not be considered for financing.
2. A Declaration of Official Intent may be requested after the Official Request is approved; however, the timing and execution of this document will depend on AHFC's assessment of the progress of the Bond issuance process and is further contingent upon AHFC's receipt of an Investor Letter (as defined above and further detailed in Exhibit A hereto) from the Eligible Purchaser.
3. Eligible Borrower assembles the working group, hosts conference calls, and updates the issuance schedule as needed.
4. Respective counsels prepare documents and send to the working group for review.
5. AHFC obtains Private Activity Bond ("PAB") volume cap from the State.
6. AHFC holds a public TEFRA hearing.
7. AHFC seeks Board approval to issue the Bonds. Documents must be submitted in substantially final form at least 10 business days prior to the scheduled Board meeting date for inclusion in the Board packet.
8. After Board approval and finalization of all documents, the Eligible Borrower coordinates Bond closing in conjunction with AHFC and other working group members.
9. AHFC and/or the Eligible Borrower conducts post-closing administration and monitoring until Bonds are no longer outstanding.

10. Bond Counsel verifies everything has been sufficiently completed to ensure Bond compliance and eligibility for tax-exempt status.

FEES *

Bond Issuance Fee: 0.75% of the maximum Bond issuance amount paid to AHFC at closing.

Bond Administrative Fee: 0.25% of the average outstanding amount of Bonds in the preceding year paid annually in arrears on each anniversary date of issuance while Bonds are outstanding. A final invoice will be sent once the Bonds are no longer outstanding. (Note: AHFC may reduce or altogether waive its annual administrative fee rate if an AHFC loan is utilized for long-term financing upon conversion.)

Bond Counsel Fee: Payment of Bond Counsel fees and expenses shall be the responsibility of the Eligible Borrower. The maximum amounts and payment terms of such fees and expenses shall be agreed upon by Bond Counsel and the Eligible Borrower prior to the conduit bond issuance. All bond counsel payments shall be made directly by the Eligible Borrower to Bond Counsel.

Other Expenses: Unless previously agreed upon, any atypical fees that arise related to the Bonds will be the responsibility of the Eligible Borrower.

*For issuances that are particularly complex, AHFC may negotiate a higher fee.

For questions regarding the Conduit Revenue Bond Program, please contact the AHFC Finance Department at (907) 330-8322 or finance@ahfc.us.

Exhibit A – Form of Investor Letter

[Date]

Alaska Housing Finance Corporation
4300 Boniface Parkway
Anchorage, Alaska

Re: \$[Par Amount] Alaska Housing Finance Corporation Revenue Bonds, [Issue Year] ([Project Name]) (“Bonds”)

Ladies and Gentlemen:

In connection with our purchase of all of the captioned Alaska Housing Finance Corporation (“Issuer”) Bonds at a purchase price equal to the principal amount thereof, [Purchaser Name] (“Purchaser”) hereby makes the following representations upon which you and your successors may rely:

1. The Purchaser has authority to purchase the Bonds and to execute this letter and any other instruments and documents required to be executed by the Purchaser in connection with the purchase of the Bonds.
2. The Purchaser is an Eligible Purchaser, as defined in the Alaska Housing Finance Corporation Conduit Revenue Bond Program (“Program”). The Purchaser is purchasing the Bonds with its own funds and solely for its own account; provided, however, that the Purchaser reserves the right to transfer the Bonds in accordance with applicable securities laws to a subsequent Eligible Purchaser upon confirmed receipt by the Issuer of an Investor Letter from said prospective Eligible Purchaser.
3. The Purchaser understands that the Bonds are not registered under the Securities Act, that such registration is not legally required as of the date hereof, and that the Bonds (a) are not being registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any state; (b) will not be listed in any stock or other securities exchange; (c) will not carry a rating from any rating service; and (d) will be delivered in a form that may not be readily marketable.
4. The Purchaser understands that (a) the Bonds are not secured by any pledge of any moneys received or to be received from taxation by the State of Alaska (“State”) or any political subdivision thereof and that the Issuer has no taxing power; (b) the Bonds do not and will not represent or constitute a general obligation or a pledge of the faith and credit of the Issuer or the State; and (c) the liability of the Issuer with respect to the Bonds is limited as set forth in the Loan Agreement, dated as of [date], between the Issuer and [Borrower Name] (“Eligible Borrower”), and the Agreement to Issue Bond and Assignment, dated as of [date], between the Issuer and Purchaser.

5. The Purchaser has either been supplied with or been given access to information, including financial statements and other financial information, to which a reasonable investor would attach significance in making investment decisions, and the Purchaser has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Eligible Borrower and the Bonds. The Purchaser has not relied upon the Issuer, its officers, members or other representatives for any information in connection with its purchase of the Bonds, other than the representations and statements of the Issuer set forth in the documents delivered in connection with the Bonds.

6. In connection with the purchase of the Bonds, the Purchaser has been advised that (i) the Issuer has not undertaken steps to ascertain the accuracy, completeness or truth of any statements made or omitted to be made to the undersigned concerning any of the facts relating to the business, operations, financial condition, or future prospects of the Eligible Borrower, and (ii) the Issuer has not made any representations concerning the accuracy or completeness of any information supplied to the undersigned by the Eligible Borrower.

7. The Purchaser has made its own inquiry and analysis with respect to the Bonds and the security therefor, and other material factors affecting the security and payment of the Bonds. The Purchaser is aware that the business of the Eligible Borrower involves certain economic variables and risks that could adversely affect the payment of the Bonds.

8. The Purchaser understands that, in connection with any proposed transfer of the Bonds, such transfer must be limited to an Eligible Purchaser, must adhere to all applicable securities laws, and may only be effected upon confirmed receipt by the Issuer of an Investor Letter from said prospective Eligible Purchaser.

9. All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture.

Respectfully,

[Purchaser Name]

By: _____

Name: [Name]

Title: [Title]