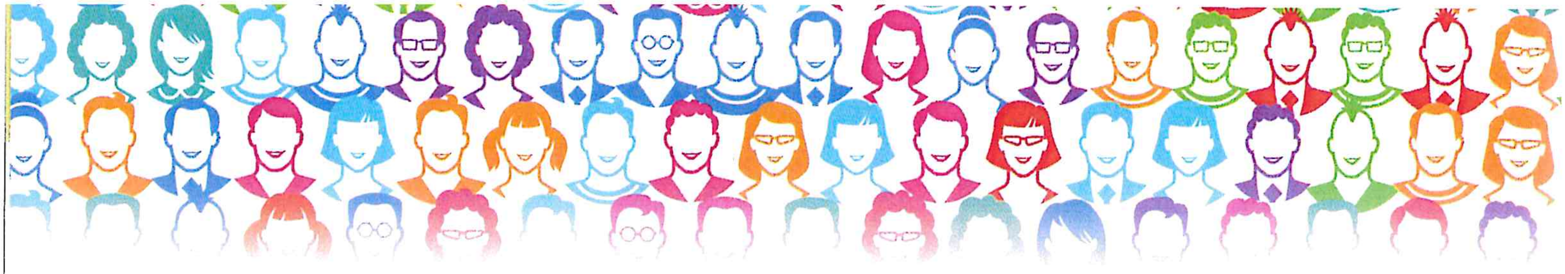

Talking Heads

Bob Fein

Principal and Chief Operating Officer, Red Stone Equity Partners

By Darryl Hicks

Only a few months after Red Stone Equity Partners was founded in 2007, America suffered its worst economic recession in 80 years. While many companies in the affordable housing business closed, RSEP persevered, and over the next decade, became a leading national equity syndication platform.

Chief Operating Officer Bob Fein has been an integral part of the management team since he joined the company in January 2008.

In 2019, RSEP raised $1.03 billion in Low Income Housing Tax Credit equity and $70 million in Renewable Energy Tax Credit equity and invested in 68 underlying transactions.

Last year, RSEP expanded its footprint into Arkansas, New Hampshire and South Carolina and increased the breadth of its investment portfolio to span 42 states, the District of Columbia and Puerto Rico.

As COO, Fein assists in the company's day-to-day operations, works closely with outside counsel in overseeing the acquisition of LIHTCs, is directly involved in investor closings and actively participates in various facets of portfolio management.

He has over 30 years of real estate experience, including 20 years of involvement in LIHTC syndication and has participated in the acquisition and syndication of approximately $7 billion of tax credit equity. Prior to joining RSEP, Fein served as executive vice president and general counsel of a national tax-credit syndication firm and prior to that, he practiced law for over 12 years and was a partner with Kahn Kleinman.

Tax Credit Advisor sat down with Fein to discuss the past year, including his recent tenure as chairman of the National Housing & Rehabilitation Association, and major issues to watch out for, including the presidential election.

Tax Credit Advisor: *How would you sum up 2019?*

Bob Fein: 2019 was a strong year for the affordable housing industry and for RSEP. We had our best year ever having syndicated nearly $1.1 billion in Low Income Housing and Renewable Tax Credit equity. On a personal level, my oldest daughter got married, so it was a year of positive transition for me. I also thoroughly enjoyed my role serving as chairman of National Housing & Rehabilitation Association.

Bob Fein

TCA: *California and Nevada are among a growing list of states that have created their own housing tax credit programs. How are they being received by the investor community?*

BF: We are seeing more states adopting tax credit programs. For the most part, they have been well received. There is some ease of execution if you can find an investor that has an appetite for both the federal and state credits. When you have a different state investor, the deal becomes a little more complicated in terms of dealing with consent rights and the timing of the capital flowing into the project. State investors want to be a little more backend in the payment of capital contributions. At RSEP we have considerable experience in working with state credit investors and can work through these types of issues.

TCA: *Can you elaborate a little more on the differences you're seeing between federal and state tax credit investors?*

BF: The tax credit investment community primarily consists of banks and insurance companies. They may not all necessarily have the same need for state tax credits depending on where their income is derived from. With that, it may put pressure on the transaction to work with a state tax credit syndicator or find a different investor to take the state credits.

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TCA: Are you seeing more community banks showing an interest in State LIHTCs since they may derive more of their income from local sources?

BF: In some instances, yes, and we're finding insurance companies that derive income in various states. So, state tax credit investors are a combination of national banks, community banks and insurance companies.

TCA: A proposed rule to amend the Community Reinvestment Act was just released. Do you foresee this having a potential impact on future LIHTC investments?

BF: I think it is too early to tell as the regulations were just released in mid-December, although there is some concern in the industry. The notice of proposed rulemaking is a very lengthy document. Although the proposed regulations appear to help increase investment in areas where needed, there are a number of other questions with respect to the proposed changes. On a positive note, the proposal appears to expand assessment areas for financial institutions that receive a majority of their deposits outside their physical branch footprint. That is, it would add as an assessment area any area in which it received at least five percent of its deposits. On the negative side, the new rules could allow financial institutions to meet their CRA requirements by focusing strictly on lending. Again, it is very early in the process and considerable uncertainty remains.

TCA: What noteworthy questions, issues or trends are you seeing from developers when negotiating Limited Partnership Agreements?

BF: People are focused on backend provisions. What happens at exit? We have a number of developers who are looking to see if they can buy out the limited partner at the end of the credit period versus the compliance period. People seem to be very attuned to what's involved with the backend, including rights of first refusal, purchase options and the like. There have been stories in the industry about some investors being more aggressive on the backend. It's something that developers had not been anticipating, but they are definitely more focused on of late. We are also seeing developers trying to tighten up provisions regarding capital contributions to ensure that they have the capital necessary to convert to a permanent loan and are not waiting for the capital to come in.

TCA: RSEP will soon be celebrating its 13-year anniversary. What lessons have you learned? How has your corporate culture evolved over time?

BF: We have always had a culture where the management team is accessible to all members of the organization. In the beginning, we were all in one location, Cleveland, and now we're very decentralized. We tend to overly communicate internally to make sure everyone is on the same page. Mondays are not necessarily fun days at RSEP with all of our staff and committee meetings, but it's a necessary evil when you have people spread across the entire country. We now have offices in Cleveland, Chicago, Charlotte (NC), New York, Boston and Carlsbad, CA, as well as other remote locations. Communication has been a key element of our culture since inception. We also have a very strong executive leadership team that has worked together for a long time, both at RSEP and at previous employers. I've enjoyed working with some of these people for close to 20 years.

TCA: What would you like to be remembered for most during your tenure as chairman of NH&RA?

BF: Being active and present not only at all of the meetings but also working closely throughout the year with the executive staff at NH&RA. I had biweekly calls with (NH&RA President) Thom Amdur to discuss operational matters going on at NH&RA and strategic initiatives. Those calls have been helpful in keeping us accountable and moving projects ahead, such as the bond toolkit and the 8609 benchmarking project.

TCA: Later this year, we'll be holding a presidential election. Are your investors at all worried about the potential outcome?

BF: Tax reform is still fresh in people's minds. Depending on what happens this year, we are either going to have status quo, or potentially an environment that could be more favorable towards affordable housing. If so, perhaps the provisions of the Affordable Housing Credit Improvement Act of 2019 could be revisited, including fixing the four percent credit rate. There's obviously concern with change, but I think the industry is well-positioned. We adapted to the changes that came out of tax reform. I think we can deal with the changes, if any, coming out of the election in the fall.

***TCA:* You were an active member of NH&RA prior to joining RSEP. What is the most important thing you've gotten out of your membership?**

BF: I've been active in NH&RA since 2001. At my prior syndication firm, one of the principals suggested I get involved. It has been a great part of my career getting to network with smart people in the affordable housing industry and keeping apprised of current issues and trends at NH&RA events. This year, RSEP closed several deals with companies that are represented on NH&RA's Board of Directors. While we may have closed those deals anyway, it certainly helped to grow and foster our relationships with these companies through our mutual support of NH&RA.

***TCA:* You gave us your thoughts on 2019 to begin this interview. What are your goals and ambitions for 2020 as a leading executive and also for the affordable housing business?**

BF: RSEP is going through a period of transition as we speak. Although [company founder] Eric [McClelland] will stay on as company chairman and chief executive officer, Ryan Sfreddo has just been named the new president of RSEP. Although we may not meet the equity syndication numbers we had in 2019, we are still anticipating a strong year and look forward to working with all of our developer and investor clients. As I said before, the industry has absorbed tax reform and is in a somewhat stable place at the moment notwithstanding the fact that deals are getting more complicated. We are seeing more Rental Assistance Demonstration (RAD) transactions, more four percent and nine percent hybrid transactions. Deal costs are rising. Everybody needs to monitor those. I want to make sure that as construction costs rise that our deals can absorb these expenses. Those are some of the challenges that the industry faces. Hopefully, the industry stays strong and is not affected too much by the election. TCA