Greystone Housing Impact Investors LP
Fourth Quarter Earnings
February 23, 2023

<u>Presenters</u>
Ken Rogozinski – Chief Executive Officer
Jesse Coury – Chief Financial Officer

<u>Q&A Participants</u>
Jason Stewart – JonesTrading
Stephen Laws – Raymond James
Jade Rahmani – KBW
Chris Muller – JMP Securities
Ron Lane – ValueForum

Operator
I would like to welcome everyone to the Greystone Housing Impact Investors LP, NYSE ticker symbol GHI, Fourth Quarter of 2022 Earnings Conference Call. During the presentation, all participants will be in a listen-only mode. After management presents its overview of Q4 2022, you will be invited to participate in a question-and-answer session. As a reminder, this conference call is being recorded.

During this conference call, comments made regarding GHI which are not historical facts are forward-looking statements and are subject to risks and uncertainties that could cause the actual future events or results to differ materially from these statements. Such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words like may, should, expect, plan, intend, focus and other similar terms. You are cautioned that these forward-looking statements speak only as of today's date. Changes in economic, business, competitive, regulatory and other factors could cause our actual results to differ materially from those expressed or implied by the projections or forward-looking statements made today.

For more detailed information about these factors and other risks that may impact our business, please review the periodic reports and other documents filed from time to time by us with the Securities and Exchange Commission. Internal projections and beliefs upon which we base our expectations may change, but if they do, you will not necessarily be informed. Today's discussion will include non-GAAP measures and will be explained during this call. We want to make you aware that GHI is operating under the SEC Regulation FD and encourage you take full advantage of the question-and-answer session. Thank you for your participation and interest in Greystone Housing Impact Investors LP.

I would now like to turn the call over to Ken Rogozinski, Chief Executive Officer.

Ken Rogozinski
Good afternoon, everyone. Welcome to Greystone Housing Impact Investors LP's fourth quarter 2022 investor call. Thank you for joining. I will start with an overview of the quarter on our portfolio. Jesse Coury, our Chief Financial Officer, will then present the partnership's financial results. I will wrap up with an overview of the market and our investment pipeline. Following that, we look forward to taking your questions.

For the fourth quarter of 2022, the partnership reported net income of $0.09 per unit and $0.15 of cash available for distribution per unit. For the calendar year 2022, we have reported net income of $2.62 per unit, which exceeds the 2021 fiscal year net income per unit of $1.53 by 71%. Similarly, our 2022 cash available for distribution of $2.37 per unit exceeds our reported $1.88 per unit for the 2021 fiscal year by 26%. We also reported a book value of $14.31 per unit on $1.57 billion of assets and a leverage ratio, as defined by the partnership, of 73%.

On December 19, we announced a quarterly distribution of $0.67 per unit, which consists of a regular quarterly cash distribution of $0.37 per BUC, a supplemental distribution payable in the form of additional BUCs equal in value to $0.20 per BUC and an additional supplemental distribution of $0.10 per BUC payable in cash. The supplemental BUC distribution was paid at a ratio of 0.0105 BUCs for each issued and outstanding BUC as of the record date. These supplemental distributions reflect the partnership's continuing intent to distribute the majority of the partnership's recent gains on the sale of its Vantage investments.

The payment of a portion of the supplemental distribution in the form of BUCs allows Greystone Housing Impact to retain additional capital to fund future investment opportunities at a low cost and is non-dilutive to current BUC holders. In terms of the partnership's investment portfolio, we currently hold $1.27 billion of affordable multifamily investments in the form of mortgage revenue bonds, governmental issuer loans and property loans, $116 million in joint venture equity investments and $37 million in direct real estate investments. As far as the performance of the investment portfolio is concerned, we have had no forbearance requests for multifamily mortgage revenue bonds, and all such borrowers are current on their principal and interest payments. Physical occupancy on the underlying projects was 94.5% for the mortgage revenue bond portfolio as of December 31, 2022.

Our joint venture partners sold three Vantage properties during 2022, generating a total of $659,000 in preferred return and $39.7 million in capital gains for the partnership upon sale. Additionally, two Vantage properties were sold in January 2023, and the partnership estimates that it will recognize $244,000 of preferred return and $15.2 million in capital gains in the first quarter of 2023.

Excluding the two Vantage properties sold in January 2023, our remaining Vantage joint venture equity investments consist of interest in eight properties, three where construction is

100% complete, and the remaining five are either under construction or in the planning stage. For the three properties where construction is 100% complete, we continue to see good leasing activity with one property having achieved at least 90% physical occupancy as of December 2022. We continue to see no material supply chain or labor disruptions on the Vantage projects under construction. As we have experienced in the past, the Vantage Group as the managing member of each project owning entity will position a property for sale upon stabilization.

In addition, we have executed two commitments with the Freestone development group, one for a project in Colorado and one for a project in Texas. Both properties are in the planning phase.

Finally, earlier this month, we executed an $8.2 million commitment to fund the construction of Valage Senior Living Carson Valley, a 102-bed seniors housing property located in Minden, Nevada. This is our first joint venture equity investment in the seniors housing market segment, and we are pleased to be working with Integral Senior Living, ISL Ventures and our partner on this transaction. Integral Senior Living currently manages over 12,000 units of independent living, assisted living and memory care across more than 100 communities nationwide.

In December 2022, we sold our 100% interest in the entity that owns the 50-50 student housing property in Lincoln, Nebraska to an unaffiliated nonprofit entity that specializes in student housing as their charitable purpose. As part of that transaction, the non-profit assumed all of the property's existing indebtedness and the partnership took back a subordinated note in the amount of $4.8 million. Our single remaining student housing property at San Diego State continues to have strong occupancy level, and pre-leasing for the 2023, 2024 academic year has begun.

In December of 2022 and January of 2023, we closed on approximately $208 million in new MRB investment commitments, more than half of which were immediate full fundings. In addition, we continue to advance funds for the construction of affordable multifamily properties, securing our existing mortgage revenue bond, taxable mortgage revenue bond, governmental issuer loan and property loan investments.

With that, I will turn things over to Jesse Coury, our CFO, to discuss the financial data for the fourth quarter of 2022.

Jesse Coury
Thank you, Ken. As Ken mentioned, we declared a supplemental distribution in December 2022, payable in additional units at a ratio of 0.0105 units for each outstanding unit as of the record date. All unit and per unit metrics that I will discuss have been adjusted to reflect this BUCs distribution on a retroactive basis.

Earlier today, we reported earnings for our fourth quarter ended December 31. We reported GAAP net income of $3.2 million or $0.09 per unit basic and diluted, and we reported cash available for distribution, or CAD, of $3.3 million and $0.15 per unit.

Our book value per unit as of December 31 was, on a diluted basis, $14.31 per unit, which is an increase of approximately $0.57 from September 30. This increase is largely a result of an increase in the fair value of our mortgage revenue bond portfolio caused by the modest stabilization of the municipal bond market during the fourth quarter. We mark our mortgage revenue bonds to market quarterly. However, such gains or losses do not impact our cash flows or reported net income, except in the case of impairments, if any.

As of market close yesterday, February 22, our closing unit price on the New York Stock Exchange was $18.77, which is a 31% premium over our net book value per unit as of December 31.

We regularly monitor our liquidity to both take advantage of accretive investment opportunities and to protect against potential debt deleveraging events if there are significant declines in asset values. As of December 31, we reported unrestricted cash and cash equivalents of $51.1 million, and we also had $34.5 million of additional availability on our secured lines of credit. At these levels, we believe that we are well positioned to fund our current financing commitment -- investment financing commitments.

We regularly monitor our overall exposure to potential increases in interest rates through an interest rate sensitivity analysis, which we report quarterly and is included on Page 74 of our Form 10-K. The interest rate sensitivity table shows the impact to our net interest income given various scenarios of changes in market interest rates and other various management assumptions. These scenarios assume that there is an immediate rise in interest rates and that we do nothing in response for 12 months. The analysis based on those assumptions shows that an immediate 200 basis point increase in rates as of December 31 that is sustained for a 12-month period will result in a decrease of approximately $1 million in our net interest income and cash available for distributions, which is approximately $4.03 per unit.

The projected decrease in net income and CAD from this analysis at a plus 200 basis point scenario is significantly improved from the $0.23 per unit result as of December 31, 2021, which is due primarily to our execution of interest rate swaps during 2022. We believe this level of exposure is very low in comparison to our year-to-date net income of $2.62 per unit.

I'd now like to share some current information on our debt investments portfolio, consisting of mortgage revenue bonds, governmental issuer loans and property loans. These assets totaled $1.27 billion, which is an increase of approximately 16% from September 30, and such investments represent 81% of our total reported assets. We currently own 77 mortgage revenue bonds that provide permanent financing for affordable multifamily properties across

13 states. Of these mortgage revenue bonds, 37% of our portfolio value relates to properties in Texas, 26% in California and 17% in South Carolina.

Fair value of our mortgage revenue bond portfolio increased by $104 million from September 30 to December 31 due to approximately $85 million of net principal advances during the quarter with the remaining increase due to increased unrealized gains. We currently own 13 governmental issuer loans that finance the construction or rehabilitation of affordable multifamily properties across six states. Alongside a governmental issuer loan, we will also commit to fund an additional property loan that shares the first mortgage lien. Our property loan is typically funded after the funding of the governmental issuer loan is completed.

During the fourth quarter, we advanced funds totaling $30.4 million for our governmental issuer loans, taxable governmental issuer loans and related property loan commitments. In total, our mortgage revenue bond, governmental issuer loan and related debt investments have outstanding future funding commitments of approximately $394 million as of December 31. As these commitments are funded over the next 30 months, they will add to our income-producing asset base.

On the accounting front, I would note for the audience that we will be adopting accounting standards update 2016-13 or the CECL standard effective January 1, 2023 for assets within the scope of the guidance. The CECL standard requires a transition from the current incurred loss model to an expected credit loss model, which will generally result in higher credit loss reserves than our current GAAP accounting. We are finalizing our assessment and implementation of CECL and will provide transitional disclosures in our first quarter 2023 Form 10-Q.

Turning to our joint venture equity portfolio, the portfolio consists of 12 investments as of December 31, one of which is reported on a consolidated basis. The carrying value of our joint venture equity investments totaled approximately $116 million as of December 31, exclusive of the one investment reported on a consolidated basis. We advanced additional equity under our current funding commitments totaling $10.9 million during the fourth quarter.

As Ken previously mentioned, two of the Vantage properties were sold in January 2023 at significant gains, which continues the trend of significant returns on joint venture equity property sales.

We used debt financing facilities to leverage our investment assets, and such debt financing facilities had an outstanding principal balance totaling $1.06 billion as of December 31. This is up from approximately $963 million as of September 30 as a result of leverage on funding of our existing investment commitments and new investment commitments during the fourth quarter.

We manage and report our debt financings in four main categories on Page 64 of our Form 10-K. First category is fixed rate debt associated with fixed rate assets and represents $263 million or 25% of our total debt financing. As both the asset and debt rates are fixed rate, our net return is not generally impacted by changes in either short-term or long-term market interest rates.

The second category is variable rate debt associated with variable rate assets and represents $403 million or 38% of our total debt financing. Variable rate indices and floors will vary, but we have effectively synthetically fixed our net interest spread against rising interest rates without the need for separate hedging instruments. Third category is variable rate debt associated with our fixed rate assets that have been hedged via SOFR denominated interest rate swaps. These interest rate swaps limit our exposure to increased funding costs resulting from rising short-term interest rates. This category accounts for $230 million or 22% of our total debt financing.

The fourth and final category is variable rate debt associated with our fixed rate assets with no designated hedging, which is where we are most exposed to interest rate risk in the near-term. This category represents only $166 million or 16% of our total debt financing, and we regularly monitor our interest rate risk exposure for this category and may implement hedges in the future.

We entered into three interest rate swap transactions with maximum notional amounts totaling $193 million in the fourth quarter. In addition, we entered into two additional swaps in January 2023 with notional amounts totaling $20 million. In both instances, our swaps were executed to take advantage of the inversion in the yield curve and to synthetically fix our interest costs for new debt investments.

On our capital side, we continue to pursue exchanges of our existing Series A Preferred Units for newly issued Series A-1 Preferred Units to maintain our access to non-dilutive fixed rate and low-cost institutional capital. We have successfully exchanged $37 million of our initial $94.5 million Series A Preferred Units held by financial institutions for new Series A-1 Preferred Units to date. This has extended the earliest optional redemption date on the exchange units to 2028 or 2029.

February 2023, we received our first redemption notice for $20 million of Series A Preferred Units to be redeemed in August 2023. We are pursuing exchanges for the remaining $37.5 million of Series A Preferred Units that are nearing their optional redemption dates. In February 2023, we also issued $8 million of additional Series A-1 Preferred Units to an existing investor under a separate offering, and we continue to pursue additional preferred unit issuances under our active offerings for both our Series A-1 and Series B Preferred Units.

I'll now turn the call back to Ken for his update on market conditions and our investment pipeline.

Ken Rogozinski

Thanks, Jesse. Last year was one of the most difficult years for fixed income assets in my memory, especially for municipals. The Bloomberg Municipal Index was down 8.5% in 2022, with the high-yield municipal index down 13.1%. This correlates with the $70 million decline in the unrealized gain of our mortgage revenue bonds during 2022 or approximately 9% of the value of the portfolio.

2022 saw a record $150 billion in muni mutual fund outflows according to Refinitiv Lipper data. The only silver lining was $30 billion in inflows into muni bond EPS. This year is off to a much better start. In January, the Bloomberg Municipal Index posted a total return of 2.9%. The high-yield municipal index generated a total return of 4.4% in January.

From a market technical perspective, while fund flows were still negative in January, negative $2.5 billion for the month, the pace has slowed significantly from 2022. January's issuance was a modest $22 billion. The past two weeks have seen over $3 billion in muni fund inflows.

As of yesterday's close, 10-year MMD is at 2.6% and 30-year MMD is at 3.58%, roughly 70 and 50 basis points lower in yield respectively than at the time of last quarter's call. With the inversion of the yield curve, 10-year MMD is actually the low part of the current muni yield curve. The 10-year muni-to-treasury ratio is approximately 66%, at the lower end of its historic range.

Continued volatility in rates, the magnitude of interest rate increases in the past 12 months, particularly in the short end of the curve, and cost inflation have presented challenges to our developer clients on new transactions. The interest cost of new construction financing at 30-day SOFR plus 350 basis points now exceeds 8% after the latest Fed rate hike announced earlier this month. Our affordable housing developer clients are needing to rely more and more on governmental subsidies and other sources of soft money to make their transactions financially feasible.

We will continue to work with our clients to deliver the most cost-effective capital possible, especially the use of Freddie Mac tax exempt loan forward commitments and associated with our -- in association with our construction lending.

Given the average 2.8 times multiple of invested capital return we realized on the three joint venture equity investments that were sold in 2022, the Vantage at Murfreesboro, Vantage at Westover Hills and Vantage at O'Connor properties, as well as the strong gains realized from the sale of the two Vantage assets in Omaha just announced in January 2023, we will continue to look for other opportunities to deploy capital in this strategy.

We are evaluating opportunities to expand beyond our traditional investment footprint in Texas through seeking other experienced JV partners, expanding into other markets, or exploring other asset classes in order to achieve more scale in the joint venture equity investment segment of our portfolio. The Valage Carson Valley JV equity investment that I mentioned earlier is a perfect example of us implementing that approach.

With that, Jesse and I are happy to take your questions.

Operator
Thank you. We'll now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment please while we poll for your questions.

Our first questions come from the line of Jason Stewart with JonesTrading. Please proceed with your question.

Jason Stewart
Thank you, everybody. I want, Ken, to start with how many opportunities you're seeing just given the volatility in rates on the MRB side?

Ken Rogozinski
I think, Jason, the easiest way to answer that question for you is sort of take a look at that press release we came out with earlier this month about the $118 million of MRB investments that we closed in December and January of this year for acquisition rehab projects in South Carolina. Those were all transactions where the non-profit borrowers had projects under contract with their sellers. In all four cases, they had hard money deposits up with those sellers.

The originally planned execution there was that they had retained an investment banking firm to make a best efforts offering on some unrated tax-exempt bonds to the market, and they were not able to close on those transactions as a result of the market opportunity -- or the market volatility. So that presented a great opportunity for us to be able to step into those situations, work collaboratively with those borrowers. We were fortunate in the fact that we had form documents from another transaction with the same South Carolina issuer already, and we were able to close those deals relatively quickly and allow those project sponsors to perform on their real estate purchase contracts with their sellers.

So a long-winded way of saying that I think that this continued level of uncertainty, particularly in the muni high-yield market and investor hesitation there, has really presented us good opportunities to deploy capital on deals that we think are well underwritten and are priced at levels that are showing strong accretion versus our dividend.

Jason Stewart

Okay. That's helpful. I'm assuming you don't want to give an ROE level on those kind of investments, do you?

Ken Rogozinski
That's typically been our practice, Jason, is not to give those kind of metrics on a trade-by-trade basis, but we did disclose in the press release that the debt structure that we acquired there was a seven-year term loan with a 6.5% tax-exempt interest coupon on that. So I think kind of, given where the taxable markets are at the seven-year point of the yield curve, at least from my perspective on its face, you can see the -- you can sort of see the level of spread that we are able to generate there on those deals.

Jason Stewart
Yeah, got it, okay. And then my second one is on multifamily, whether it's Vantage or pick your poison there, how are lease-up trends going into what is usually a very strong selling season, lease-up season?

Ken Rogozinski
I think if you look at the broader market -- and there's been a lot of data published about trends for the fourth quarter of last year and into the start of this year in terms of where certain markets are seeing rent increases versus what happened in 2021 and say in the first half of 2022 -- the velocity of rent increases in our market certainly has decreased. We're not having any longer the double-digit year-over-year rent increases that we had over the past couple of years in a lot of our, particularly our Texas markets like San Antonio and Houston. So I think the -- while none of us thought that that party was going to last forever, I think we certainly enjoyed the benefit of that while it did, and it got to rent levels that were far in excess of the original underwriting pro formas on those joint venture equity investments.

That from all the data that we're seeing has certainly cooled down to the point where some markets are starting to even report modest declines in month-over-month or quarter-over-quarter rent levels. We're continuing to monitor the portfolio with the Vantage team on that front. But particularly for the Texas assets where we're at 100% construction completion, we are coming into sort of that peak spring leasing season. We do have one asset that has already reached 90% physical occupancy.

So this is the time of the year when the Vantage guys do their thing and really work with their management team to optimize the new leasing and the rollovers of existing leases to try to optimize the rent roll and position the property well after the peak leasing season. So we expect to see the same process followed here this spring.

Jason Stewart
Got it. Okay. Thanks, guys. Appreciate it.

Ken Rogozinski

Thanks, Jason.

Operator
Thank you. Our next questions come from the line of Stephen Laws with Raymond James. Please proceed with your question.

Stephen Laws
Hi, good afternoon. Following up on Jason's question, I guess touching on Vantage, do you think after the two January deals looks like the sales this year, do you think that the Conroe that's over 90% is likely to be sold in this calendar year? And maybe it would help if you could do maybe bigger picture kind of what's the typical turnaround when you think about the new investments you made during the quarter and then the one senior housing subsequent to quarter end. What's the typical turnaround time from the announcement of the investment to an exit - three years, more or less? And is it different on the timeline or buildout with the senior housing that we've seen with multifamily?

Ken Rogozinski
Yeah. Thanks for the questions, Stephen. We're really not in a position to comment on the likelihood of the potential timing of any Vantage asset sales for the balance of the year. We are an investor member in those entities. The Vantage Group is the managing member, and that is done sort of at -- that discretion and based on their timeline. So we'll continue to keep in dialogue with them.

But I think looking at the occupancy level there and knowing where we are in the leasing cycle in Texas, I think that's something that they're going to be keeping a close eye on as the year goes on. In terms of the normal life cycle that we've seen on the multi-family Vantage assets, historically, that's ranged anywhere from 30 to 50 months from closing of our initial equity investment to closing. The average has been roughly 37 months on that front.

On the new senior housing investment in the Carson Valley, the real difference there between seniors housing and multifamily is typically the length of the lease-up period. The construction is very similar. The project is actually physically smaller. It's 102 beds versus sort of our normal 288-unit Vantage style garden apartment project, but the leasing velocity is much slower on those assets as opposed to the traditional multifamily. I can only speak to the pro forma that we've looked at in terms of kind of the additional life cycle there, and it's currently our expectation that we'd see roughly an additional 12 months on that project life cycle due in large part to the extended lease-up period.

Stephen Laws
Great. I appreciate the comments, Ken. Jesse, two questions for you - I guess first, kind of what -- how should we look at G&A? Apologies if I missed any comments in the prepared remarks as far as what is in that number. But can you talk to the G&A expenses, kind of $5.5 million, up

from really run rate first half this year, about 3.5% to 4%. How should we look at the G&A going forward?

Jesse Coury
Yeah, thanks for the question, Stephen. Three main items I would highlight that came through that Q4 G&A number that are causing a little bit of noise, the first being that we've made a conscious effort to build out our seniors housing and skilled nursing debt investment platform, primarily by hiring of a senior originator that started in October. And so we've got some upfront costs running through Q4 to get that part of the business started and ready to scale for 2023.

We also incurred costs related to the $200-plus million of investment commitments that we executed in December. So we took some charges related to the upfront costs related to those investment commitments that will yield benefit as those investments are deployed in 2023. And we also incurred some incremental costs related to the legal name change of the fund as well as the transition to the New York Stock Exchange. So I think you've seen a higher amount of G&A in Q4 than I expect we'll see going forward. However, our G&A will increase slightly off of historical levels as the fund grows and we just become a larger operation.

Stephen Laws
Understood. Great. And then finally, Jesse, CECL, sounds like there'll be a little increase in the general reserve when you adopt CECL. Can you talk about the impact of that? Is it going to run through the income statement, your day one provisioning? Or is that a mark on the balance sheet? And can you give us any idea of what pro forma GAAP book value was say at January 1, if you assumed adoption of CECL?

Jesse Coury
Yeah, we're still finalizing our assessment and initial calculations of that initial reserve, and we'll share that in the Q1 10-Q. But we've spent a lot of time building out that model. As far as implementation, it'll be a day one reserve that goes through the balance sheet or through equity, and then whatever incremental change based on our assessment of the changes in the market and the portfolio from January 1 to March 31 will run through as a provision in Q1. So not in a position to share any amounts now, but look forward to including those transitional disclosures and amounts in the Q1 10-Q.

Stephen Laws
Great. Appreciate the comments this morning, Ken and Jesse. Thank you.

Ken Rogozinski
Thanks, Stephen.

Operator
Thank you. Our next questions come from the line of Jade Rahmani with KBW. Please proceed with your questions.

Jade Rahmani
Thank you very much. Can you talk about the process of sourcing new investments? Just in terms of the network that's utilized to gain access to that deal flow, how much of it is proprietary repeat business, that sort of thing? And what does the competitive set look like?

Ken Rogozinski
Thanks for joining us today, Jade. What I can sort of relay to you about our origination process is there are really kind of multiple layers that we work through here. The first is the direct origination that's done by the three senior originators who are part of the Greystone Housing Impact team. They have direct client relationships. They are calling on those clients and are originating new debt investments for them, some of which are repeat clients, some of which are new clients.

Just as an example, those four transactions that we talked about closing in South Carolina in December and January, those were all for new clients, but some of the other debt investments that we closed in the fourth quarter, one was for a repeat customer in the Los Angeles area. So that's kind of our first primary focus are the direct originations off of our platform.

The next layer that we go to then is, given our affiliation with Greystone, is that all of the 100-plus Greystone originators on their platform have access to all of our lending products. There's a centralized site on an internal Greystone website that talks about our products as related term sheets. There's a daily pricing sheet that's sent out to every originator in the organization. So we see a fair amount of opportunities that come to us from the broader Greystone multifamily and seniors origination sales force.

The other thing to go even kind of a further layer down is then you think about some of the activities we have with our joint venture partners. Greystone has the joint venture with Cushman & Wakefield and also the joint venture with Monticello Asset Management. And so between those two networks, as well, we also do get referrals or inquiries from those platforms for debt opportunities for us. So I think when you kind of look at all those different layers and different touch points that we have across the broader developer community, it's really a lot more than just the three direct people on our team. We've got a pretty impressive sales force and a pretty impressive network of relationships that can bring product to us from a debt origination perspective.

Jade Rahmani
Thank you. And can you touch on the competitive set? What -- who are you up against, and what does that look like in the market? Is there a steep level of competition. given the unique asset class, or has that moderated with rates?

Ken Rogozinski

From my perspective, we really don't see it having moderated with rates. I would put our competitors into kind of three categories. The first is that you have other pools of private capital like us that are out there. I don't believe that any of them are publicly traded. I believe they're all private entities. But there are other investors out there who follow a similar strategy as us in terms of acquiring and levering debt associated with affordable housing projects.

The other competitor that we see in our markets are the commercial banks. Usually, they view affordable housing lending as a way for them to satisfy their community reinvestment obligations with their regulators. And so particularly on the new construction side, not so much on the permanent financing side, in certain markets, we will see active involvement from the commercial banks who are looking to satisfy their CRA requirement.

And then finally, even though they are a business partner, Freddie Mac is a competitor of ours, as well. I mean, with their tax exempt loan product, both forward commitment and immediate delivery, that whole network of Freddie Mac Optigo lenders that are out there have access to that product set, and there may be situations where we are competing against a different Freddie Mac lender for a particular opportunity. So I think there's a good competitive landscape out there, but I think with our products and the nimbleness and flexibility that we can bring to the table with our dedicated pool of capital, I think we can get our fair share of business.

Jade Rahmani
Thanks for that. In terms of the credit outlook across the mortgage REIT space and even with some of the banks, we're seeing some instances of increased loan nonperformance, whether it be a default or some other issues, and lenders are starting to go through the process of workout of modification forbearance. What do you feel about the outlook for affordable multifamily? And with respect to CECL, does the CECL methodology take into account the affordable subsector of multifamily and its unique performance versus overall multifamily?

Ken Rogozinski
I'll answer the first part of the question, Jade, and then I'll turn it over to Jesse to discuss the CECL details. I think from our perspective, historically, if you look at the performance of first mortgage debt associated with affordable housing projects, particularly those that have low income housing tax credits associated with them, there's a strong track record of very low levels of loss and loss given default on those assets.

I think the best case in point that we can present is that, since the COVID pandemic started in June, almost three years ago now at this point, we've had no request for forbearance at all on any of our mortgage revenue bond investments. And we've seen no issues with the construction loans that we have funded in terms of lease-up or performance there. So I think we've got a good track record there in terms of the performance of our assets that we've originated and feel comfortable about where we are with them.

Jesse, do you want to address the CECL question?

Jesse Coury

Certainly. So the affordable component is a consideration in our CECL model, although it's maybe not as big of a consideration. The -- given the scoping of what falls within the CECL standard, our mortgage revenue bonds or permanent financing actually don't fall under the CECL standard because they're available for sale debt securities that are mark-to-market on a quarterly basis. So our CECL exposure is primarily on the governmental issuer loan and property loan side, so our construction financing investments, where really construction risk is your main risk. So we do consider it, and we'll consider it as a component of that model, but just for that subset of our investment assets.

Jade Rahmani

Thank you very much for taking the questions.

Ken Rogozinski

Thank you, Jade.

Operator

Thank you. As a reminder, if you would like to ask a question, please press star, one on your telephone keypad.

Our next questions come from the line of Chris Muller with JMP Securities. Please proceed with your questions.

Chris Muller

Hey, Ken and Jesse, congrats on a strong year. So I wanted to start with the senior housing. So Fannie Mae increase their credit provisions against their senior housing portfolio pretty significantly this quarter. And they said there was not expectations of higher losses. So I know that this is a small part of your business right now with just your first investment in Nevada, but I wanted to ask if you guys have a similar outlook as Fannie does there, and does that caution from some of the bigger players provide an opportunity for someone like you guys to step in a more meaningful way? Thanks.

Ken Rogozinski

Thanks, Chris. We're aware of the -- of sort of the Fannie Mae actions on their senior housing portfolio. Some of the points that we took into consideration when we think about making joint venture equity investments in the seniors housing space is the fact that we have the benefit of having a new construction product that's coming in in a post COVID environment. So sort of all of the best practices and lessons that were learned by the ISL management team during the pandemic can be deployed in the design and the execution of this new product.

So, we sort of have the benefit of starting with that as opposed to, if you are a borrower on a Fannie Mae loan that's five or six years into your loan, and you were an older property, and you kind of had to really struggle to get through the pandemic and the challenges that COVID presented to that traditional seniors housing business. I think, we're starting at a much different and a much better place from those operators, which from what we're hearing from the Greystone servicing team is that that seems to be where the real issue is popping up from Fannie Mae on their portfolio.

I think the other thing that we're mindful of in the seniors housing category is kind of barriers to entry and choosing markets where we think that there are good natural barriers to entry. Unlike the skilled nursing market in a lot of states, there is no state licensing or certificate of need that is needed for the construction of a new independent living or assisted living or memory care facility. So if there's a market where there are good demographics, it's going draw competitors.

So, one of the things that we looked at in identifying the market and making the investment in the Minden Village facility was it was a very long process for entitlements on that asset. So we sort of saw the barriers of entry that were there from the local government in terms of what a competitor would have to go through in order to get entitled land ready to go. And so that was a big highlight for us in choosing that market and looking at that.

And so, again, circling back to the Fannie Mae portfolio, that's something that, if you're a Fannie Mae lender on a 20 to 30-year old property, and you've got some new project sponsor who comes in and builds a new facility, that can be really a real challenge to the borrower on that loan, whereas we sort of don't have a legacy portfolio the way that Fannie does where we have to worry about that side of -- that kind of market dynamic from a competition perspective. So it's certainly something we're going to be mindful of.

As we move into lending from our perspective in the seniors housing asset class, that's certainly something that we're going to be mindful of as we look at facilities, sort of looking at what our attachment point is from a loan-to-value perspective, seeing what we view as potential exit strategies for assets like that. So we've got -- between ourselves and the active Greystone healthcare lending platforms, both on the agency side but also with Monticello Asset Management on the bridge loan side, we've got people who are active in markets around the country on a lending basis pretty much 24/7.

And so we've got some really good data that we can draw on and a lot of experienced operators where we can pick their brain as we do credit decisioning for those new investments going forward. So I think we feel pretty comfortable about the sort of the robustness of our underwriting and our sponsor and market selection when we're going to make debt investments in the senior housing space.

Chris Muller
Got it. Very helpful. Thanks, Ken. And then maybe a quick one for you, Jesse - so interest expense is ramping up, but interest income was pretty flat quarter-over-quarter. Is that all just

a mismatch in floating rate debt and fixed rate assets, or is there something else there that I'm missing? Thanks.

Jesse Coury
Yeah, two things to mention - on the interest expense side, a lot of that variability is being driven by the mark-to-market on our interest rate swaps. So we saw a big pickup in interest -- in the swap valuations during Q1 through Q3 as rates were rising rapidly. And then as they've moderated somewhat in Q4 on the long end of the curve, you saw a little lower pickup on the rate of those swaps. And we don't -- we account for all the mark-to-market change in the swaps through interest expense. So I think if you strip that out, it'll be a little more even.

And then on the interest income side, if you're looking quarter-over-quarter, Q4 to Q3, we did have a fairly sizable pickup in Q3 of about $1.5 million for a discount accretion related to the Cross Creek mortgage revenue bond redemption and some additional interest income pickup from a property loan associated with that product. So if you kind of strip out those components, you're actually seeing a decent rise in interest income on that side of the income statement.

Ken Rogozinski
Chris, I think the only other comment that I'll make there with regard to our interest rate swaps is that, as we talked about earlier, we did layer in a number of swaps over the course of 2022. And it was really only late in the year that we've gotten to the point now where on a number of our swaps, we're actually a net receiver under those swaps as opposed to a net payer. So going forward, if we continue to see the SOFR index, which is the index on the large majority of our swaps, as we see SOFR continue to go up, we'll become an even larger net receiver on those, which will help offset that interest expense number, as well.

Chris Muller
Okay. That's very helpful. Thank you very much.

Operator
Thank you. Our next questions come from the line of Ron Lane with ValueForum. Please proceed with your questions.

Ron Lane
Hey, Jesse. First off, can you hear me, okay? I'm on a iPhone speaker.

Jesse Coury
Yes, we can hear you, Ron.

Ron Lane
Okay. Great. I've covered most of this in the past with you and Andy, but I want to just make sure I've got it right. As you already know, I'm with the group called ValueForum, which consists

of 600 members. I would say about two-thirds of them are either folks that are already retired or preparing for retirement. And they want -- they're trying to make sure that they're financially accept to do that. I have a fiduciary who focuses on growth. And my focus is on handling current income. Looking back at my records since we first started with you back in February 2014, it looks like been very consistent in paying the end of January, April, July and October of each year. And the January distributions, the dividends typically have record dates and (inaudible) dates of the previous December. So am I right so far?

Jesse Coury
Yes, you are correct.

Ron Lane
Okay. Question - I should know this, but I don't spend a lot of time looking at K-1s. We have a talented CP that does that. The distribution that's received in January that went ex-dividend on record date December, will that go in the previous -- that goes into the K-1 when it went record date, correct, not when we get the payment, or is it when we received the payment?

Jesse Coury
I'd have to check my records to confirm, but I believe it's based on the payment date for K-1 purposes.

Ron Lane
Okay. That's -- I should know that, but I don't spend –--I spend my time with K-1 just in making sure of some other things, mainly the number of BUCs or units are correct, and then I just pass them off because we have too many different MLPs and everything to get bogged down in that. Are you sure in that -- the distribution we received in January 21st -- 31st which consisted on specials and everything else, that should be -- you're thinking right now in the K-1s for 2023?

Jesse Coury
It should be -- in your capital roll forward in 2023. However, I will note that, on the K-1, it's just part of the capital roll forward. From a taxable income expense perspective, the tax implications to our unit holders are based on the income and expenses allocated during the year and not necessarily based on distributions received.

Ron Lane
I don't want you to repeat that, but could you make that – KISS, keep it simple and stupid for me. I'm not sure I understand what you just said.

Jesse Coury
So if we earn income in the fourth quarter, so income October through December, and then we somewhat tie that to our distribution that we pay in January, the income related in October through December will still be reported in the current year on your K-1, and that is what you will use to prepare your personal tax return.

Ron Lane
So again, are you saying that the January distribution that we receive is going to be in the K-1 from the previous year in December when it went record date or it's going to go into January?

Jesse Coury
It would only impact your capital roll forward. So, Ron, why don't I confirm that for you, and I will give you a call.

Ron Lane
Okay. Do you mind? I appreciate that. I'm trying to get this straight because a lot of folks are very concerned. They don't look at the K-1s. And – okay. So typically, the next distribution is going to be the end of April, and don't you normally announce end of February? Or is it early March, typically?

Jesse Coury
Our typical time line would be a mid-March announcement for (crosstalk) the end of April.

Ron Lane
Okay, my friend. Keep doing what you're doing. We appreciate it, Jesse.

Jesse Coury
Thank you, Ron.

Operator
Thank you. There are no further questions at this time. I would now like to turn the call back over to Ken Rogozinski for closing remarks.

Ken Rogozinski
Thank you very much. We appreciate everyone joining us today for our fourth quarter 2022 call. We look forward to speaking with everyone again in May. Thank you for your participation.

Operator
Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.