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Robert F. Mujica Jr.  
**Executive Director**

**BY ELECTRONIC MAIL**

January 29, 2026

Mr. Francisco J. Domenech Fernández, Esq.  
Executive Director  
Fiscal Agency and Financial Advisory Authority

Dear Mr. Domenech Fernández:

The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”) is in receipt of a letter and supporting documentation (the “Supporting Materials”) from the Fiscal Agency and Financial Advisory Authority (“AAAF”, for its Spanish acronym), dated September 22, 2025, which requests the Oversight Board’s review and approval for the proposed debt transaction described herein (the “Proposed Debt Transaction”).

We appreciate your submission of the request for approval and the representations made by AAAF and the Puerto Rico Housing Finance Authority (the “HFA”) prior to the execution of the Proposed Debt Transaction to partially finance construction for an affordable housing project and your collaboration throughout this process via responses to Requests for Information and participation in meetings. The Oversight Board **approves** the Proposed Debt Transaction on the terms described in the Supporting Materials pursuant to Section 207 of PROMESA, **with observations, as outlined in this letter.**

The Proposed Debt Transaction, as described and represented in the Supporting Materials, consists of a request for authorization for the HFA to enter into a credit agreement with Banco Popular de Puerto Rico (“Banco Popular”) in an amount up to \$45,000,000 to assist in financing the construction of an affordable rental housing project in the Municipality of Bayamón. The Proposed Debt Transaction contemplates that the proceeds will be lent to Puerto Rico Apolonia Apartments, LLC as the HFA borrower to finance the new construction of 138 2–3-bedroom units, to fund operating reserves, and to cover the financing and legal costs of the Proposed Debt Transaction.

As represented in the Supporting Materials, the Proposed Debt Transaction is a non-recourse obligation to HFA issued to access tax-exempt financing pursuant to the United States Department of Housing and Urban Development (“HUD”) and HFA 2020 Qualified Affordable Housing Program and will not be guaranteed by HFA, the Government of Puerto Rico, or any of its agencies, public corporations, and instrumentalities. Proceeds of the transaction are to be repaid through disbursements of Federal Funds, specifically Community Disaster Block Grant–Disaster Relief (“CDBG-DR”) funds and Low-Income Housing Tax Credit (“LIHTC”) funds. Repayment is not contingent on cash flows from the project and will be repaid by the end of construction. All fees of the transaction, including any fees imposed by AAFAF, will be funded by the HFA borrower.

This proposal is the nineteenth affordable housing project using this type of financing structure submitted for review under Section 207 of PROMESA and approved by the Oversight Board. We appreciate the parties’ efforts in providing access to financing programs for the development of affordable housing across Puerto Rico.

The observations below present opportunities to enhance the affordable housing process in Puerto Rico, and we look forward to continuing to work together with each of the agencies involved to maximize the benefits delivered to Puerto Rico and its residents.

### **Observations**

On December 10, 2025, the Oversight Board conveyed concerns regarding project costs and program oversight with a key action item to meet with AAFAF, HFA, and the Puerto Rico Department of Housing (the “DOH”) to further discuss both the specific proposed transaction and the broader strategy for affordable housing across the Commonwealth.

As the Commonwealth of Puerto Rico continues to evaluate individual transactions into the future, the Oversight Board reiterates the need for these projects to align directly within the objectives of a long-term housing strategy. It is apparent that the HFA, DOH, and AAFAF have meaningful opportunities to strengthen program design, interagency coordination, financial thresholds, and oversight practices to better maximize scarce federal resources.

While specific projects may present limitations, as reflected in our letter dated December 10, 2025, the Oversight Board requests the financial authority evaluate the Oversight Board’s observations and recommended best practices to shape and refine the long-term program processes, framework, and strategic policy, which will ultimately define future affordable housing transactions. These proven methods used by other housing authorities in U.S. jurisdictions (including Florida, Kentucky, New York, and Ohio) will only enhance Puerto Rico’s coordinated strategy and ensure future federal funding is maximized to the fullest extent possible.

While CDBG-DR and LIHTC are financing mechanisms provided by the federal government, these funds are limited. Because of this, the Oversight Board looks forward to continuing to work collaboratively in supporting the government agencies and public entities to enhance program effectiveness and to maximize the use of federal funds for affordable housing on the island, delivering the greatest possible benefit to Puerto Rico and its residents.

**Long-Term Strategy:** The government must articulate to the public a cohesive strategic plan for the development of affordable housing. Despite documents such as Qualified Allocation Plans (QAPs) and the DOH's July 2025 Housing Plan, neither the HFA nor the DOH appear to have a robust, multi-year, tactical plan and have noted limited investor participation on island. A clear long-term strategy will bring the best proponents into the bidding process, ensuring healthy competition for cost while maximizing the number of units developed under the program. This will ensure that the needs of the Commonwealth's citizens are met, and program execution can be measured against government priorities and goals.

1. **Interagency Collaboration:** The government must harmonize strategies and long-term plans to enhance interagency coordination and due diligence. Interagency collaboration entails consistent communication, coordinated diligence and oversight, and clear financial thresholds. This collaboration could extend to jointly developing future QAPs, consolidating underwriting protocols, and integrating applications and portals for sponsors and investors. By increasing cooperation and streamlining processes, the agencies will achieve efficiencies that maximize housing units and maximize federal funds to assist the greatest number of citizens.
2. **Financial Thresholds:** The government must establish clear policies and procedures that address the process of cost benchmarking and verification across any project. The agencies should consider establishing clear metrics and caps for unit economics (e.g., unit cost, cost/sq. ft., soft-cost % cap, etc.), publishing program requirements on transparent investor portals, formalizing consistent reserve policies aligned with IRS and HUD guidelines, and establishing procedures to assess and monitor program compliance, change orders and the use of reserves.
3. **Compliance, Monitoring, and Transparency:** The government must develop a centralized fiscal and program oversight of the LIHTC and CDBG program. The agencies are required to perform risk, compliance, and reporting assessments, including the research of ownership of all interested parties and the existence of any conflicts. It is imperative to flag and closely monitor any projects identified as high-risk. The agencies should also consider establishing mandatory annual subrecipient and developer training to limit compliance risk, preventing the fraudulent misuse of CDBG funds while ensuring transparency. Interagency collaboration can be leveraged to achieve economies of scale for these tasks, and a *de minimis* fee can be implemented to sustain long-term oversight of projects.

The Oversight Board recognizes that the HFA, the DOH, and AAFAF have a deep understanding of the hurdles that exist in the Commonwealth, ranging from topics such as permitting, legal frameworks, mortgage lending practices, title and registry practices, and processes and timelines. Because of this, each agency is uniquely positioned to provide the Commonwealth with insights and suggestions. Through collaborative participation and alignment, the government could pursue legislative reforms that enhance the ease of doing business in Puerto Rico, reduce costs and risk premiums, and bolster investor confidence.

Again, the Oversight Board strongly supports leveraging federal funds to expand affordable housing on the island. To that end, the Oversight Board respectfully presents these observations with the hope that the government strengthens its strategy to ensure the utilization of Federal Funds

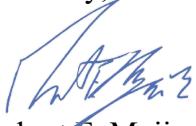
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is maximized to increase the availability of affordable housing in Puerto Rico. This will support residents with the greatest need and deliver a lasting impact for Puerto Rico.

Sincerely,



Robert F. Mujica, Jr.  
Executive Director

CC: The Honorable Ramón L. Rivera Cruz, Mayor of Bayamón  
Vicky K. González-Vega, Chief of Staff, AAFAF  
Ricardo A. Barreto, Executive Director, HFA  
Omar Figueroa, Esq., Undersecretary, DOH  
United States Department of Housing and Urban Development (HUD)