NYC Housing Development Corporation (HDC) Term Sheet

Extremely Low & Low-Income Affordability (ELLA)

(Tax-Exempt Bonds)

Program Description	HDC's ELLA Program combines a first mortgage loan, funded with proceeds from the sale of variable or fixed rate tax-exempt "private activity" bonds, with a second mortgage loan funded with HDC's corporate reserves, as-of-right "4%" Federal Low Income Housing Tax Credits (LIHTCs), and other subsidies, to produce housing affordable primarily to those earning less than 60% of New York City's Area Median Income (AMI). The Corporation's second mortgage is a subordinate loan of up to $65,000/unit, capped at $15 million per project. This HDC subsidy may be used in conjunction with subsidies provided by other agencies, including loans provided by the New York City Department of Housing Preservation and Development (HPD) through its ELLA Program, and applicable programs offered by New York State Homes & Community Renewal (HCR).
Eligible Borrowers and Sponsors	The development team for the project must have a demonstrated track record in successfully developing, marketing and managing the type of facility proposed or must form a joint venture with an entity which has such expertise. Borrowers must demonstrate sufficient financial stability and liquidity to construct and operate the project.
Eligible Uses	New construction, substantial rehabilitation and conversions of non-residential buildings on an as-of-right basis for developments containing a minimum of 100 residential units. Smaller developments with no fewer than 50 units may be considered on a case-by-case basis.
Maximum Income Limits and Monthly Rents	LIHTC eligible units must be affordable to those earning 60% AMI or below. Projects must include: Option 1 • 10% of the units serving formerly homeless households; • 10% of units affordable to those earning up to 30% AMI underwritten at 27% AMI rents or below; and • 10% of units affordable to those earning up to 40% AMI underwritten at 37% AMI rents or below; and • 10% of units affordable to those earning up to 50% AMI underwritten at 47% AMI rents or below; • (Optional): up to 30% of the units with rents affordable to households earning 70%-100% of AMI; • The remaining units must be affordable to those earning up to 60% AMI underwritten at 57% AMI rents or below. OR Option 2 • 30% of the units set aside for formerly homeless households with a rental subsidy; • 5% of the units serving households up to 40% of AMI; • 5% of the units serving households up to 50% of AMI; • (Optional): up to 30% of the units with rents affordable to households earning 70%-100% of AMI;

- The remaining units must be affordable to those earning up to 60% AMI underwritten at 57% AMI rents or below.

Other

- Projects may include up to 30% of units above tax credit rents affordable to households up to 100% AMI. However, no additional HDC subsidy over the per-unit amounts stated herein will be available. The inclusion of non-tax credit eligible units may trigger annual income certifications for all households and subject the project to the "Next Available Unit Rule" whereby a vacated non-tax credit unit may be required to meet the low-income occupancy requirements should an occupied low-income household exceed the maximum low-income limit.

- 2017 extremely low, very low and low income rent levels are outlined below:

Unit Type	27% AMI*	37% AMI*	47% AMI*	57% AMI*
Studio**	$331	$475	$618	$761
1 BR	$426	$605	$784	$963
2 BR	$521	$736	$951	$1,166
3 BR	$594	$843	$1,091	$1,339

*Rent levels are calculated as 2017 HUD FMR derived gross rents less an electricity allowance.
**Note that Studios are calculated with a Household Factor of 0.60.

Tenants may pay up to 35% of their income toward net rents. Incomes will be adjusted for family size.

Incomes must be connected to the options above or more restrictive income limits may apply as per other financing sources.

First Mortgage

Loan Amount:

During construction, tax-exempt bonds subject to new private activity bond volume cap must fund at least 50% of the aggregate basis of the project.

Permanent first mortgage loan amount will be set based on HDC underwriting criteria as set forth below.

Debt Service Coverage Ratio:
Open Resolution: 1.25 on the first and 1.15 overall.
Stand Alone: 1.20 on the first and 1.15 overall.

Loan to Value (LTV) max 80%. Value will be determined using a capitalization rate that does not consider the tax-exempt financing. Value based on an independent MAI appraisal acceptable to HDC.

Interest Rate:

Permanent Fixed Rate or Weekly Tax-Exempt Variable Rate may be available. Interest rates on long-term first mortgages established at bond sale based on market conditions. If variable rate debt is used, an appropriate hedge is required.

Underwriting Rate:

Fixed Rate: Usually based on bond rate plus 20 basis points for HDC servicing and 50 basis points for mortgage insurance premium (MIP).

	Variable Rate: Includes a base rate and cushion recommended by credit enhancer and approved by HDC, all on-going fees (e.g. credit enhancement and servicing, HDC servicing, liquidity, issuer and trustee, remarketing agent, cap escrow) as well as an amortization component. Term: 30-year permanent term with a 30-year amortization schedule. Longer permanent and/or amortization term may be available at HDC's sole discretion and as permissible by the permanent enhancement provider. Amortization: First mortgage will be fully amortizing. HDC Financing and Servicing Fees: Commitment Fee: 0.75% of first mortgage amount. Costs of Issuance: as determined by HDC. First year MIP: 50 basis points on the outstanding permanent loan balance. New York State Bond Issuance Charge: HDC will collect an additional bond issuance charge that is payable on a sliding scale and is based on the amount of bonds issued. • Less than $1,000,001 = 0.168% • $1,000,001 to $5,000,000 = 0.336% • $5,000,001 to $10,000,000 = 0.504% • $10,000,001 to $20,000,000 = 0.672% • Greater than $20,000,000 = 0.84% All of the above fees are capitalized in the development budget. Servicing fee: 20 basis points annually to HDC on the outstanding bond balance; the servicing fee is included in the all-in underwriting rate.
Second Mortgage	Loan Amount: Second Mortgage (subsidy), not to exceed $15 million per project, of 1) Up to $55,000 per Project Based Section 8 Unit or other rental subsidy unit; OR 2) Up to $65,000 per unit without rental subsidy, based on the requirements herein and on need as determined by HDC. Interest Rate: A compounding interest rate set at the Applicable Federal Rate (AFR). Payment: A minimum of 1.00% interest only payment is required, although preference will be given to projects that permit a higher constant or full amortization of the HDC subordinate financing. The difference between Payment and Interest Rate may defer and accrue with balloon due at maturity. Term: 30-year permanent term or a coterminous term with the First Mortgage for new construction, rehabilitation and conversion projects.
Credit Enhancement and Mortgage	Open Resolution Transactions (fixed rate pooled financing): Construction Period: Credit enhancement for the bonds is required during construction and stabilization periods. A stand-by letter of credit (LOC) for the full amount of

Insurance	the bonds may be provided by either the permanent credit enhancer or by a construction lender. The stand-by LOC provider must be a highly rated financial institution acceptable to HDC. Permanent Period: Mortgage insurance is required during the permanent mortgage period and may be provided by REMIC, SONYMA, or HUD, as determined by HDC. On deals with first mortgages of less than $20,000,000, mortgage insurance requirements may be satisfied with REMIC mortgage insurance. Stand Alone Transactions (variable rate or fixed rate): Construction Period: Credit enhancement for the bonds is required during construction and stabilization periods. A direct-pay LOC for the full amount of the bonds may be provided by either the permanent credit enhancer or by a construction lender. The direct-pay LOC provider must be a highly rated financial institution acceptable to HDC. Permanent Period: Mortgage insurance or permanent credit enhancement is required during the permanent mortgage period. • Mortgage insurance may be provided by REMIC, SONYMA or HUD for fixed rate transactions. • Permanent credit enhancement must be in the form of a direct-pay LOC or alternate credit facility for variable rate transactions. The direct-pay LOC provider must be a highly rated financial institution acceptable to HDC. Any alternate credit facility must be approved by HDC. A payment guarantee may be required by the credit enhancer. Typical fees to the credit enhancer include an origination fee, an annual LOC fee, an LOC servicing fee, and a liquidity fee.
Overall Terms	Loan to Value: Combined first and second mortgage not to exceed 90% LTV as established by an independent MAI appraisal acceptable to HDC. HDC publishes annual Maintenance and Operating Expense Standards for underwriting. Loan to Cost: May not exceed 90% overall. Debt Service Coverage Ratio: 1.15 or greater on all financing. Income to Expense Ratio: 1.05 to 1 or greater on all financing. Variable Interest Rate Protection: At the time of conversion to the permanent credit enhancement, an interest rate cap or swap will be required. HDC-HPD Regulatory Agreement requires a minimum 30-year occupancy restriction period. Permanent affordability may be required per the program terms for projects subject to the Mandatory or Voluntary Inclusionary Program.

Construction Closing	Conditions precedent to construction loan closing include (but are not limited to): • Completed and satisfactory disclosure documents for principals, board members, guarantors and investors in the project, as required by HDC. • Completed and satisfactory State Environmental Quality Review Act (SEQRA) review. • Completed and satisfactory third party reports with reliance letters to HDC. • Completed and satisfactory developer's tax certification (95-5 Form). • Financial statements and credit reports. • Final architectural plans reviewed and approved by HPD BLDS. • Construction lender loan offering package. • Commitment letter from construction lender and other subordinate lenders. • Evidence of all other required funding, including tax credit equity. • Note, mortgage, assignment of leases and rents, and UCC's. • Certifications and attorney opinion letters. • Satisfactory organizational documents for the borrower and related entities. • Property and liability insurance in form and substance acceptable to HDC. • Good and marketable title, free and clear of encumbrances except as permitted by HDC. • Title insurance and survey in form and substance acceptable to HDC. Documentation will require that HDC be named a beneficiary on a number of documents, including but not limited to insurance certificates and completion guarantees.
Conversion	Conditions precedent to permanent loan conversion include (but are not limited to): • 95% residential rental achievement evidenced by certified rent roll. • Executed commercial leases evidencing income sufficient to satisfy the debt service coverage requirement. • Evidence of funds available for any required partial redemption of bonds. • Evidence of real estate tax benefits. • Evidence of compliance with zoning and all applicable codes. • Certification of "no change" in borrower's financial status. • Certificate of completion from construction lender's construction monitor. • Completed and satisfactory final developer's tax certification (Final 95/5). • Certificate of completion from HPD on City-owned sites. • All other conditions as required by the permanent credit enhancer.
Other	Design Guidelines: Projects must meet HPD's Design Guidelines for New Construction and Substantial Rehabilitation. The minimum and maximum square footage (sf) by unit type are as follows: Studio: 350-400 sf 1 BR: 500-550 sf 2 BR: 650-725sf 3 BR: 850-950 sf 4 BR: 950–1,075 HDC will approve unit distribution based on HPD's Design Guidelines referenced above. Projects are encouraged to have a minimum of 15% one-bedroom, a minimum of 30% two-bedroom or larger, and a maximum of 25% studio units.

Projects that include supportive housing units for singles may be allowed to exceed the 25% studio threshold. Homeless set aside units must be proportionally distributed among unit types and approved by HPD.

Building Green:

HDC requires all projects to meet Enterprise Green Communities standards. All projects will be required to retain an HDC pre-qualified benchmarking service provider to track utility usage for heating, electric and water. See Maintenance and Operating Expense Standards for underwriting expense.

Reserves/Ongoing Fees:

Capitalized HDC Operating Reserve: $1,000 per unit minimum required.

Replacement Reserve: minimum of $300/unit/year increased with CPI. Smaller projects may require higher replacement reserves.

Rent-up Reserves of up to $1,500 per homeless unit may fund rental income during the Section 8 enrollment period. Any funds not used towards the rent-up will be transferred to the Operating Reserve.

Social Service Reserve and Homeless Reserve, including reserves per HPD's Our Space Initiative may be required. See HPD ELLA term sheets for more details. Any unused reserve funds will be transferred to the Operating Reserve.

Tax credit monitoring fee: 0.75% of the max annual Tax Credit Rent capped at $12,500 for buildings of 150 units or less, and $17,500 for buildings over 151 units. An additional $100 per building will also be due on an annual basis.

Taxes, insurance and water/sewer escrows will be required at conversion.

Real Estate Tax Benefits:

Projects in which a not-for-profit corporation has at least a 50% interest in the managing partner or member may be eligible for §420-c benefits.

An Article XI exemption may be available for projects owned by an HDFC, subject to City Council approval. Developers must provide proof of any such tax exemption prior to construction loan closing.

See HPD Tax Incentive Program guidelines for more details on benefits/eligibility.

Maximum Developer Fee:

A developer's fee is only allowed when tax credits are used or funds are combined with other public subsidy programs allowing such fees. As described in the HPD Qualified Action Plan (QAP), total developer fee is not to exceed 15% of improvement costs (excluding developer fee, reserves, and syndication and partnership expenses) and 10% of acquisition costs for tax credit projects. Consultant fees should be paid from the developer fee. A portion of the developer fee, deemed "paid fee", is allowed to be paid at the time of closing, with the balance at or after conversion; HDC allows up to 10% of the paid fee to be released at closing. Any remaining unpaid developer fee should be deferred during construction and paid from cash flow, as allowable by IRS rules and the governing QAP.

Marketing:

	Marketing plan to be approved by HDC and HPD on jointly funded projects. Marketing process and income certification overseen by HDC. Must comply with HDC marketing guidelines. Guidelines are available online, or by contacting HDC's Asset Management Department. E-mail: hdcmarketing@nychdc.com or Phone: 212-227-5500. Social Service Plan: A social services plan will be required for Our Space, senior, and homeless units. At a minimum the plan should include tenant referrals to the appropriate services in an effort to ensure the stability of this population. Recourse: HDC permanent loans are generally non-recourse to Borrower, except for environmental indemnity and standard non-recourse "carve out" guaranty for fraud and related misrepresentation. HDC requires non-profit developers to provide guarantees from both Borrower and the non-profit developer and/or parent entities. For-profit developers are required to provide guarantees from both Borrower and one or more individual guarantors. All guarantors must complete satisfactory disclosure documents. HDC reserves the right to accept and approve all proposed individual and/or corporate guarantors and guarantee terms. Collateral: First and/or second mortgage on land and improvements. Other subordinate liens permitted with HDC approval of terms.
Items Required for Project Review	For consideration, submit project information, including: • Location and description of site and proposed development (including address, borough, block and lots). • Preliminary pro-forma including hard and soft costs, unit distribution, expected rents and other financing sources. • Development team (borrower, contractor, management company) and listing of experience and principals.
Contact Information	Development Group Phone: (212) 227-9373 Fax: (212) 227-6845 E-Mail: hdcdevelopment@nychdc.com 110 William Street, 10th Floor New York, NY 10038 www.nychdc.com *HDC, in its sole discretion, may, at any time and without prior notice, terminate the program, amend or waive compliance with any of its terms, or reject any or all proposals for funding.* Updated 02/28/2018