

NYC Housing Development Corporation (HDC) Term Sheet

Mixed Income Program: Mix and Match

(Tax-Exempt Bonds)

Program Description	<p>HDC’s Mixed Income Program: Mix & Match combines a first mortgage, funded with proceeds from the sale of variable or fixed rate tax-exempt bonds, with a second mortgage, funded with HDC corporate reserves and a third mortgage subsidy loan from NYC Housing Preservation and Development (HPD), in accordance with HPD’s Mix and Match Program, to finance multi-family rental housing affordable to low, moderate and middle-income families.</p> <p>Under this initiative 50% of the units are at rents affordable to households earning up to 60% of Area Median Income (AMI) and the other 50% of units are at rents affordable to households earning up to 130% AMI. Projects may have a range of affordability tiers.</p> <p>The tax-exempt first mortgage may be financed with a combination of “private activity” bonds, which may qualify the low-income units for as-of-right “4%” Federal Low Income Housing Tax Credits (LIHTCs), and/or “recycled” bonds, which provide a tax-exempt rate for the moderate and middle-income units but do not bring LIHTCs. It is HDC’s preference that projects will receive private activity bonds to meet the 50% test on the low-income units only and the balance of the loan may be financed with recycled bonds.</p> <p>In addition to providing the tax-exempt financing (credit enhanced by a long-term credit enhancer) to fund the first mortgage of developments financed under the initiative, both HDC and HPD will each provide up to \$40,000 to \$105,000 per affordable unit as a HDC second and HPD third mortgage. The mortgages will be subordinate to the credit-enhanced HDC first mortgage. Please refer to the HPD Mix & Match Term Sheet for details on the maximum monthly rents and income limits.</p>
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.
Eligible Borrowers	The development team for the project must have demonstrated a track record in successfully developing, marketing, and managing the type of facility proposed or must form a joint venture with an entity with such expertise. Borrowers must demonstrate sufficient financial stability and liquidity to construct and operate the project.
First Mortgage	<p>Loan Amount:</p> <p>During construction, tax-exempt bonds subject to “Volume Cap” may be available for up to 50% of the aggregate basis of the low-income portion of the project.</p> <p>Permanent first mortgage loan amount will be set based on HDC underwriting criteria as set forth below:</p> <p>Debt Coverage:</p> <p>Open Resolution: 1.25 on the first and 1.15 overall. Stand Alone: 1.20 on the first and 1.15 overall.</p> <p>Loan to Value (LTV) max 85%. 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.</p> <p>Interest Rate:</p> <p>Perm 30-Year 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.</p> <p>Underwriting Rate:</p> <p>Fixed Rate: Usually based on bond rate plus 20 basis points for HDC servicing and 50 basis points for mortgage insurance premium.</p> <p>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.</p>

	<p>Term: 30-year permanent term with a 30-year amortization schedule.</p> <p>Amortization: First mortgage will be fully amortizing with the ability to build up principal reserve funds up to 20% of the bond balance of the first mortgage loan prior to actual redemption of bonds.</p> <p>HDC Financing and Servicing Fees: Commitment Fee: 1.00% of the HDC first loan amount plus costs of issuance as determined by HDC. Servicing fee: 20 basis points annually to HDC on the outstanding bond balance.</p> <p>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.</p> <ul style="list-style-type: none"> • 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%
<p>Second Mortgage</p>	<p>Loan Amount: A second mortgage (subsidy) from HDC is calculated per affordable dwelling unit with rents affordable to households at or below 130% AMI according to the HPD Mix & Match Term Sheet and on need as determined by HDC and HPD. Per-Unit subsidies may be reduced for projects utilizing other sources, including the Inclusionary Housing Program, absent broader/deeper affordability or project benefits. Preference will be given to projects that permit full amortization of the HDC subordinate financing. The HDC second mortgage will be capped at \$15 million dollars per project.</p> <p>Interest Rate: A simple interest rate set at the Applicable Federal Rate (AFR) may defer and accrue, with balloon due at maturity.</p> <p>Term: Up to 30 years permanent term for new construction, rehabilitation and conversion projects.</p> <p>Amortization: A minimum of a 1% constant is required on the second mortgage, although preference will be given to projects that permit full amortization of the HDC subordinate financing.</p>
<p>Credit Enhancement and Mortgage Insurance</p>	<p>Open Resolution Transactions (variable rate or fixed rate pooled financing):</p> <p>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 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.</p> <p>All variable rate transactions will also require the construction lender to enter into a stand-by bond purchase agreement to provide liquidity for the bonds.</p> <p>Permanent Period: Mortgage insurance is required during the permanent mortgage period.</p> <ul style="list-style-type: none"> • Mortgage insurance may be provided by REMIC, SONYMA, or HUD. On deals with first mortgages of less than \$20,000,000, mortgage insurance requirements may be satisfied with partial REMIC mortgage insurance. <p>Stand Alone Transactions (variable rate or fixed rate):</p> <p>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.</p> <p>All variable rate transactions will also require the construction lender to enter into a bond purchase agreement to provide liquidity for the bonds.</p>

	<p>Permanent Period: A permanent credit enhancement is required during the permanent mortgage period.</p> <ul style="list-style-type: none"> • 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	<p>Loan to Value: Combined first, second and third mortgage not to exceed 95% LTV as established by an independent MAI appraisal acceptable to HDC.</p> <p>HDC publishes annual Maintenance and Operating Expense Standards for underwriting.</p> <p>Loan to Cost: May not exceed 90% overall.</p> <p>Debt Coverage: 1.15 times overall.</p> <p>Income to Expense Ratio: 1.05 to 1.00 or greater on all financing.</p> <p>Variable Interest Rate Protection: At the time of conversion to the permanent credit enhancement, an interest rate cap or swap will be required.</p> <p>HDC-HPD Regulatory Agreement requires a minimum 30-year occupancy restriction period. Additional permanent affordability may be required for projects required to comply with the Mandatory Inclusionary Program.</p>
Construction Closing	<p>Conditions precedent to construction loan closing include (but are not limited to):</p> <ul style="list-style-type: none"> • Completed and satisfactory disclosure documents for principals, board members 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. <p>Documentation will require that HDC be named a beneficiary on a number of documents, including but not limited to insurance certificates and completion guarantees.</p>
Conversion	<p>Conditions precedent to permanent loan conversion include (but are not limited to):</p> <ul style="list-style-type: none"> • 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. • Certificate of completion from HPD on City-owned sites. • All other conditions as required by the credit enhancer. • Completed and satisfactory final developer's tax certification (Final 95/5).

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 sf

HDC will approve unit distribution. Projects must have a minimum of 15% one-bedroom, 15% two-bedroom, and 15% three or more bedroom units and a maximum of 25% studio units, unless it is demonstrated that the project is located in an atypical market.

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. Benchmarking expense may vary by project.

Rent/Loan Increases:
Any rent increase in low, moderate, or middle-income rents must be approved by HDC (and HPD if applicable) prior to the commencement of marketing.

After project stabilization, low, moderate, and middle-income unit rents may be increased by the more restrictive of AMI increases or rent stabilization increases.

Reserves/Ongoing Fees:
Capitalized operating reserves may be required.

Replacement reserve: minimum of \$250/unit/year increased with CPI. Smaller projects may require higher replacement reserves.

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 required at conversion.

Subsequent interest rate cap reserves (as required by credit enhancer).

Real Estate Tax 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.

Minimum Equity:
At least 10% of the total development cost, excluding LIHTC eligible basis. This equity requirement is exclusive of the deferred developer's fee. Preference will be given to proposals with greater equity contributions.

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. The balance 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).

	<p>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.</p> <p>Collateral: First and/or second mortgage on land and improvements.</p> <p>Other subordinate liens permitted with HDC approval of terms.</p>
<p>Items Required for Project Review</p>	<p>For consideration, submit project information, including:</p> <ul style="list-style-type: none"> • 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.
<p>Contact Information</p>	<p>Development Group Phone: (212) 227-9373 Fax: (212) 227-6845 E-Mail: hdcdevelopment@nychdc.com</p> <p>110 William Street, 10th Floor New York, NY 10038 www.nychdc.com</p> <p><i>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.</i></p> <p style="text-align: right;">Updated 08/18/2016</p>