

NYC Housing Development Corporation (HDC) Term Sheet

Mixed Income Program: M² (Mixed-Middle)

(Tax-Exempt Bonds)

Program Description	<p>HDC's M² Program 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 other City/State subsidies to finance multi-family rental housing affordable to low, moderate and middle-income families.</p> <p>More specifically, 20% of the units will be at rents affordable to households earning up to 50% of Area Median Income (AMI); alternatively, 25% of the units must be affordable to those earning up to 60% AMI. A minimum of 30% of the units must be affordable to moderate-income households earning between 80% and 100% of AMI with the remaining units affordable to middle-income households earning between 130% and 165% of AMI. Projects may have a range of affordability tiers.</p> <p>The tax-exempt first mortgage may be financed with a combination of new "private activity" bonds, which may qualify the low-income units for as-of-right "4%" Federal Low Income Housing Tax Credits (LIHTCs), and "recycled" bonds, which provide a tax-exempt rate for the moderate and middle-income units but do not bring LIHTCs. HDC allocates new private activity bonds to meet the 50% test on the low-income units only while 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, HDC will provide a subordinate loan of \$85,000 to \$95,000 per affordable 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 M² (Mixed-Middle-Income) Program, as well as applicable programs offered by New York State Homes & Community Renewal (HCR). The mortgages will be subordinate to the credit-enhanced HDC first mortgage. Please refer to the M² Program 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.									
Maximum Income Limits and Monthly Rents	<p><u>Low-Income Units</u> – 20% of the units must be affordable to low-income households earning at or below 50% AMI. Alternatively, 25% of the units must be affordable to those earning at or below 60% AMI.</p> <p>2017 low-income rent levels are outlined below:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Unit Type</u></th> <th style="text-align: left;"><u>47% AMI*</u></th> <th style="text-align: left;"><u>57% AMI*</u></th> </tr> </thead> <tbody> <tr> <td>Studio**</td> <td>\$618</td> <td>\$761</td> </tr> <tr> <td>1 BR</td> <td>\$784</td> <td>\$963</td> </tr> </tbody> </table>	<u>Unit Type</u>	<u>47% AMI*</u>	<u>57% AMI*</u>	Studio**	\$618	\$761	1 BR	\$784	\$963
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Studio**	\$618	\$761								
1 BR	\$784	\$963								

2 BR	\$951	\$1,166
3 BR	\$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.

Moderate and Middle-Income Units* – a minimum of 30% of the units must be affordable to moderate-income households earning between 80%-130% AMI. A maximum of 50% of the units could be affordable to middle-income households earning up to 165% AMI. Units with rents above 130% AMI may be considered but will not receive subsidy.

- Units with rents set at or below 80% AMI can be rented to those with incomes up to 100% of AMI.
- Units with rents set at or below 100% AMI can be rented to those with incomes up to 130% of AMI.
- Units with rents set at or below 130% AMI can be rented to those with incomes up to 165% of AMI.

More restrictive income limits of other financing sources may apply. The maximum income of any middle-income unit will be 165% of AMI.

Additional requirements for mixed-income tax-exempt bond projects may include:

- Deep-rent skewing – 15% or more of the low-income units have rents set at or below 40% AMI and are occupied by those with incomes at or below 40% AMI.
- 2:1 test – by unit size, average rents for the moderate and middle-income units must be a minimum of 2 times the rent for the low-income units.

First Mortgage

Loan Amount:

During construction, tax-exempt bonds subject to new private activity volume cap may be available for up to 50% of the aggregate basis of the low-income portion 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 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.

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).

	<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 loan 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.</p> <p>Amortization: Open Resolution: First mortgage will be fully amortizing. Stand Alone: 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.</p> <p>Costs of issuance: as determined by HDC.</p> <p>First year MIP: 50 basis points annually to HDC on the outstanding permanent loan 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>Stand-by Bond Purchase Agreement Fee (variable rate transactions only): 1.00% of the HDC first loan amount.</p> <p>All of the above fees are capitalized in the development budget.</p> <p>Servicing fee: 20 basis points annually to HDC on the outstanding bond balance.</p>
<p>Second Mortgage</p>	<p>Loan Amount: A second mortgage (subsidy) from HDC, not to exceed \$15 million per project, of</p> <ol style="list-style-type: none"> 1) Up to \$85,000 per affordable dwelling unit without rental subsidy; this requires moderate-income units to be underwritten at or below 100% AMI. Any units with Project Based Section 8 or other rental subsidy will receive \$75,000 per unit. <p>OR</p> <ol style="list-style-type: none"> 2) Up to \$95,000 per affordable dwelling unit without rental subsidy; this requires moderate-income units to be underwritten at or below 80% AMI. Any units with Project Based Section 8 or other rental subsidy will receive \$85,000 per unit. <p>The amount available per unit is based on the moderate-income rent levels</p>

	<p>outlined above and on need as determined by HDC. 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 HDC subordinate financing.</p> <p>Interest Rate: A simple interest rate set at the Applicable Federal Rate (AFR).</p> <p>Payment: A minimum of a 1% 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.</p> <p>Term: 30-year permanent term or a coterminous term with the First Mortgage for new construction, rehabilitation and conversion projects.</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. Mortgage insurance 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.</p> <p><u>Stand Alone Transactions (variable rate or fixed rate):</u></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, as determined by HDC, 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

	<p>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.</p>
Overall Terms	<p>Loan to Value: Combined first and second 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 Service Coverage Ratio: 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. Permanent affordability may be required per the program terms for projects subject to the Mandatory or Voluntary 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, 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. <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.

	<ul style="list-style-type: none"> • 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 credit enhancer.
Other	<p>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:</p> <p>Studio: 350-400 sf 1 BR: 500-550 sf 2 BR: 650-725sf 3 BR: 850-950 sf 4 BR: 950–1,075 sf</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>After project stabilization, low, moderate, and middle-income unit rents may be increased by the more restrictive of AMI increases or rent stabilization increases.</p> <p>Reserves/Ongoing Fees: Capitalized HDC Operating Reserve: \$1,000 per unit minimum required.</p> <p>Replacement reserve: minimum of \$300/unit/year increased with CPI. Smaller projects may require higher replacement reserves.</p> <p>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.</p> <p>Taxes, insurance, and water/sewer escrows required at conversion.</p> <p>Subsequent interest rate cap reserves (as required by credit enhancer).</p>

Ongoing Trustee, Rating Agency and Remarketing Agent fees may apply on Stand Alone transactions.

Real Estate Tax Benefits:

Projects may qualify for §421-a or the Article XI tax exemption. See [HPD Tax Incentive Programs](#) guidelines for more details on benefits and eligibility information. Projects may be subject to a PILOT depending on the availability of project cash flow. Developers must provide proof of any such tax exemption prior to construction loan closing.

Minimum Equity:

At least 10% of total allowable development cost, excluding LIHTC eligible basis. An acquisition price below appraised market value may be used to satisfy a portion of the equity requirement, subject to HDC's approval; however deferred developer's fee may not be applied towards the equity requirement. 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. 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.

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.

<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 02/28/18</p>