NYC Housing Development Corporation (HDC) Term Sheet

50/30/20 Mixed-Income Program

(Tax-Exempt Bonds)

Program Description

HDC's 50/30/20 Mixed-Income 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 in accordance with the guidelines below, to finance multi-family rental housing affordable to low and middle-income families. More specifically, 20% of the units will be at rents affordable to households earning up to 50% of the Area Median Income (AMI), with at least 15% of these units affordable to households earning up to 40% of AMI. A minimum of 30% of the units must be affordable to middle-income households according to the guidelines below. A maximum of 50% of the units would be set at market rates for households without regard to incomes. Projects may have a range of affordability tiers.

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 but do not bring LIHTCs. HDC allocates private activity bonds to meet the 50% test on the low-income units only.

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 up to $65,000 to $85,000 per affordable unit, capped at $15 million per project. The HDC second mortgage will be subordinate to the credit-enhanced first mortgage. The second mortgage will be amortized with a minimum of a 2% constant, though preference will be given to projects that permit full amortization of HDC subordinate financing.

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

Low-Income Units – 20% of the units must be affordable to those earning at or below 50% AMI. Alternatively, 25% of the units must be affordable to those earning at or below 60% AMI.

2017 low-income rent levels are outlined below:

Unit Type	37% AMI*	47% AMI*	57% AMI*
Studio**	$475	$618	$761
1 BR	$605	$784	$963
2 BR	$736	$951	$1,166
3 BR	$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.

	<u>Moderate and Middle-Income Units</u> – a minimum of 30% of the units must be affordable to moderate and middle-income households earning up to 130% AMI. • 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. 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). 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) and 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: 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. HDC Financing and Servicing Fees: Commitment Fee: 1.00% of the HDC first loan amount. Costs of issuance: as determined by HDC. First year MIP: 50 basis points annually to HDC 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% Stand-by Bond Purchase Agreement Fee (variable rate transactions only): 1.00% of the HDC first loan amount. All of the above fees are capitalized in the development budget. Servicing fee: 20 basis points annually to HDC on the outstanding bond balance.
Second Mortgage	Loan Amount: A Second mortgage (subsidy) from HDC, not to exceed $15 million per project, of 1) Up to $65,000 per affordable dwelling unit without rental subsidy; this requires middle-income units to be underwritten at or below 130% AMI. Any units with Project Based Section 8 or other rental subsidy will receive $55,000 per unit. OR 2) Up to $75,000 per affordable dwelling unit without rental subsidy; this requires middle-income units to be underwritten at or below 100% AMI. Any units with Project Based Section 8 or other rental subsidy will receive $65,000 per unit. OR 3) Up to $85,000 per affordable dwelling unit without rental subsidy; this requires middle-income units to be underwritten at or below 80% AMI. Any units with Project Based Section 8 or other rental subsidy will receive $75,000 per unit. The amount available per unit is based on the middle-income rent levels 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.

	Interest Rate: A compounding interest rate set at the Applicable Federal Rate (AFR). Payment: A minimum of a 2% interest only payment 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. At permanent conversion, 35% of the additional revenue earned from any and all rent increases, including those on market-rate rents, will be used to accelerate amortization on the second mortgage (see Other: Rent/Loan Increases below). If the additional income is sufficient and funds are available, an increase in the first mortgage may be permitted as well. Term: 30-year permanent term or a coterminous term with the First Mortgage for new construction, rehabilitation and conversion projects.
Credit Enhancement and Mortgage Insurance	Open Resolution Transactions (variable rate or 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 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. 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. 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. 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. All variable rate transactions will also require the construction lender to enter into a bond purchase agreement to provide liquidity for the bonds. Permanent Period: A permanent credit enhancement is required during the permanent mortgage period. • 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 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 95% 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 times overall. 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 the 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 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 sf 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, 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. See Maintenance and Operating Expense Standards for underwriting expense. Rent/Loan Increases: Any rent increase in low and middle-income rents must be approved by HDC (and HPD if applicable) prior to the commencement of marketing. After project stabilization, low, moderate, middle and market-rate unit rents may be increased by the more restrictive of AMI increases or rent stabilization increases. 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. 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).

	Ongoing Trustee, Rating Agency and Remarketing Agent fees may apply on Stand Alone transactions. Real Estate Tax Benefits: Projects may qualify for §421-a tax exemption. See HPD Tax Incentive Program guidelines for more details on benefits and eligibility information. 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. 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.
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, 10^{th} 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 02/28/18