**NYCHDC Term Sheet**
**PACT Preservation Program**

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| Program Description | The New York City Housing Development Corporation's ("HDC") and New York City Housing Authority's ("NYCHA") Permanent Affordability Commitment Together ("PACT") Preservation Program provides a combination of HDC corporate reserves and taxable and/or tax-exempt bond financing to rehabilitate, recapitalize, and preserve NYCHA properties that are part of NYCHA's public housing ("Section 9") Annual Contributions Contract ("ACC") with U.S. Department of Housing and Urban Development ("HUD").<br><br>Upon conversion, these properties convert to HUD Section 8 voucher funding from HUD Section 9 funding. The subsidy conversions will occur through a variety of mechanisms, including but not limited to the Rental Assistance Demonstration ("RAD"), and the disposition process outlined in Section 18 of the Housing Act of 1937 ("Section 18").<br><br>The rehabilitation financed by the PACT project must, at minimum, address the 20-year capital needs of the properties as determined by the NYCHA Physical Needs Assessment ("PNA") on a component basis, and by the RAD Capital Needs Assessment ("RCNA") approved by HUD, HDC, and NYCHA, through a combination of: 1) upfront rehabilitation; 2) an initial deposit to replacement reserves; and 3) ongoing deposits to replacement reserves.<br><br>NYCHA will continue to own the land and improvements and will enter into a lease with the development team for a period of 99 years.<br><br>Financing will include conventional loans that may be combined with subsidy loans funded by City Capital. |
| Procurement Process | At least once per year, NYCHA will re-release the PACT Request for Qualifications ("RFQ") to solicit prospective rehabilitation partners. The PACT RFQ will create pre-qualified lists of developers, property managers, general contractors, and social service providers to partner with HDC and NYCHA on forthcoming PACT conversions.<br><br>Periodically throughout the year, NYCHA will release Requests for Expressions of Interest ("RFEIs") for specific PACT sites. Pre-qualified PACT partners will be eligible to respond to these RFEIs.<br><br>Visit https://www1.nyc.gov/site/nycha/about/pact/procurement.page for a current list of prequalified partners and current outstanding RFEIs. |
| Eligible Borrowers | Limited partnerships, corporations, joint ventures, limited liability companies, 501(c)(3) corporations, and sole purpose housing development fund corporations. The development team for the PACT project must have a demonstrated track record of successfully developing and managing comparable projects, or must form a joint venture with an entity that has such expertise, all as further specified in the latest PACT RFQ and RFEI.<br><br>As stated in the RFEI, Project Teams are required to include at least one developer member (either as a standalone developer or as a managing member in a joint venture with another developer) that (i) is a Minority and/or Women-Owned Business Enterprise developer, or a non-profit developer, and (ii) has a Meaningful Role, defined below.<br><br>"Meaningful Role" within the Project Team is defined to include, but is not limited to, one or more of the following: (i) at least 30% overall equity ownership in the relevant project ownership entity(ies), (ii) material decision making authority and/or managing member status in the applicable joint venture, (iii) control and authorship of material |

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| | development work components, (iv) fair participation (in NYCHA's and HDC's reasonable judgment) in the waterfall distribution returns to equity, and (v) serving as lead developer on a minimum of 200 units of the PACT project. These units should be comparable to the whole of the relevant development in size, level of needed repairs, and potential income. |
| Eligible Uses | Rehabilitation of existing public housing multifamily developments. |
| Maximum Income Limits and Monthly Rents | Rents will be established according to HUD guidelines for the various disposition methods.<br><br>All current households at the properties will remain in their existing units post-conversion. Section 8 project-based voucher ("PBV") right-sizing requirements will apply.<br><br>Upon turnover, units will be rented to individuals and families from the NYCHA PACT site-based Section 8 PBV wait list, earning at or below 50% of AMI.<br><br>Tenants will pay no more than 30% of their adjusted gross income ("AGI") towards rent, consistent with HUD program policies. |
| Section 8 HAP Contract | The Section 8 Housing Assistance Payment ("HAP") contract must be extended to the maximum term. The Section 8 HAP contract must be renewed during the term of the Ground Lease. |
| SUN Loan | Straight-to-permanent loans may be supplemented with a Senior Unenhanced Non-Accelerating ("SUN") Loan, a mortgage loan that utilizes a PILOT-like mortgage structure comprised of separate annual loan notes that cannot be accelerated ahead of the conventional mortgage.<br><br>SUN Loans represent no more than 25% of total debt, are in first lien position, and do not require third party credit enhancement. |
| Mortgage | Loan Amount:<br><br>Debt Service Coverage Ratio ("DSCR"): 1.15x. DSCR requirement could increase or decrease subject to approval of mortgage insurance provider or credit enhancement partner.<br><br>Loan to Value ("LTV") max 85%. Value based on an independent MAI appraisal acceptable to HDC.<br><br>Loan to Cost: max 90% of total development costs.<br><br>Loan Type<br><br>Construction loan that converts to a permanent loan or straight-to-permanent loan, as determined by HDC<br><br>Interest Rate:<br><br>Construction Period (if applicable): Variable rate determined by the construction lender.<br><br>Permanent Period: Fixed rate locked in at construction loan closing. Spread on the permanent interest rate, if available, will accrue to HDC's Housing Impact Bonds Resolution (the "Impact Resolution") and will be used to support NYCHA, including providing future capital improvements for public housing<br><br>Term: 30-40 years<br><br>Amortization: 35-40 years<br><br>HDC Financing and Servicing Fees: |

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| | Commitment Fee: up to 0.75% of the first mortgage amount<br>Costs of Issuance: 1.25% - 1.50% of the first mortgage amount<br>Mortgage insurance / credit enhancement (if applicable): 0.35% annually to HDC<br>Servicing fee: 0.20% annually to HDC<br>Bond deposit: a bond deposit equal to approximately two months of debt service may be required<br>Third Party Financing, Credit Enhancement, and Servicing Fees: to be determined<br>Underwriting Vacancy Rate: 5% for residential; 10% for commercial/community space<br>Underwriting Trending: 2% for Income; 3% for Expenses<br>Development Budget Contingencies: 5% for Soft Costs, 10% for Hard Costs |
| Subordinate Mortgage (City Capital subsidy) | <u>Loan Amount:</u> City subsidy may be available on a case by case basis. Subsidy amounts will be based on project type and need, as determined by HDC and NYCHA, and adjusted accordingly for projects that utilize additional funding sources. Preferences will be given to projects that minimize the use of City subsidy.<br><u>Term</u>: Coterminous with First Mortgage<br><u>Interest Rate</u>: Fully deferred and accrued. Equal to the long-term, monthly compounding Applicable Federal Rate ("AFR"), or an agreed-upon higher rate, with a minimum floor of 2.5% (compounding monthly). |
| Credit Enhancement and Mortgage Insurance | <u>Construction Period</u>: Credit enhancement for the bonds (if applicable) is required during construction and stabilization periods. A stand-by letter of credit ("LOC") for the full amount of the bonds (if applicable) may be provided by the permanent credit enhancer or by a construction lender. The stand-by LOC provider must be a highly rated financial institution (mid-single A or higher from either Moody's or S&P), acceptable to HDC.<br><u>Permanent Period</u>: Mortgage insurance or other credit enhancement is required during the permanent mortgage period and may be provided by HUD, Fannie Mae, Freddie Mac, or another acceptable entity, as determined by HDC.<br>*Applicable fees for credit enhancement shall apply*. |
| Regulatory Agreement | The HDC Regulatory Agreement requires a minimum 30-year occupancy restriction period. Affordability restrictions required for the duration of the Ground Lease.<br>Any requirement to lease certain units solely to residents who are referred by the New York City Department of Homeless Services, HPD or an alternate referral source acceptable to HDC ("Homeless Units"), shall be implemented pursuant to the HUD-approved NYCHA Housing Choice Voucher Program Administrative Plan, also known as the Section 8 Administrative Plan. |
| Ground Lease Term | Minimum 99 years |
| Opportunity Zones | All projects proposed to be located in an Opportunity Zone should consider Opportunity Funds as a potential source of equity. Projects that use Opportunity Fund investments must clearly identify the amount of all such investments, the name and location of the Opportunity Fund, and the tax payment implications and benefits for the Opportunity Zone investment. Any additional federal funding beyond the tax must also be disclosed and will be included in the evaluation of the project. Maps of the designated tracts can be found at this link https://esd.ny.gov/opportunity-zones. |

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| Equity Requirements | If no City subsidy is required to finance the Project: developer and/or third-party "Preservation" Equity is required, equal to at least 5% of the total development cost, less existing debt, developer fee, and reserves.<br><br>If City subsidy is required to finance the Project: developer and/or third-party Preservation Equity is required, equal to 10% of total development costs, less existing debt, developer fee, and reserves.<br><br>If developer is a for-profit entity, proposals will be reviewed favorably in which their equity contribution is maximized.<br><br>Third party Preservation Equity may include Federal and State Historic Tax Credit Equity for properties that qualify. |
| Equity Terms | In all cases where third party Preservation Equity is not generated through a federal, state, or local tax credit program, the investment period should be maximized.<br><br>In cases where third party Preservation Equity is generated through a federal, state, or local tax credit program, it must have a minimum investment period that complies with the applicable tax credit program requirements. |
| Developer Fee | Applicants should assume that NYCHA receives 50% of the Developer Fee.<br><br>If no City subsidy is required to finance the Project: per RAD requirements, developer fee will be limited to 10% of project costs, excluding acquisition, developer fee, and reserves. Other costs related to tasks the developer is providing, such as construction management, financial consultants and other services, shall not exceed an additional 2% of project costs, excluding acquisition, developer fee, and reserves, for total maximum fees of 12%. The structure and timing of release of the developer fee will be subject to lender approval. Developer fee may be deferred and paid from cash flow.<br><br>If City subsidy is required to finance the Project: developer fee will be paid in increments based on Project milestones. Up to 50% of the developer fee, stated below, may be paid upon construction completion with the balance payable upon permanent loan conversion.<br>• <u>For-profit developers</u>: up to 5% of total development cost less existing debt, developer fee, and reserves.<br>• <u>Non-profit developers</u>: up to 8% of total development costs less existing debt, developer fee, and reserves plus 5% of acquisition. The net developer fee cap is $10,000 per dwelling unit. |
| Reserves | <u>Replacement Reserve</u>: A replacement reserve sized at a minimum of $300 per unit per year paid from cash flow is required. RAD conversion will require that the 20-year RCNA is addressed through a combination of: 1) upfront rehabilitation; 2) initial deposit to replacement reserve; and 3) ongoing deposits to replacement reserve; and therefore, annual deposits may need to exceed the minimum amount. The initial deposit to the replacement reserve shall be determined by HDC and credit enhancement partners.<br><br><u>Operating Reserves</u>: HDC requires a capitalized operating reserve, typically equal to $1,000 per unit. Credit enhancement partners may also require additional capitalized operating reserves, typically equal to 1-3 months of debt service and expenses.<br><br><u>Social Services Reserves</u>: A capitalized social services reserve is required |
| Recourse / Guarantees | <u>Construction Period</u>: fully recourse to borrower. Completion guaranty required.<br><br><u>Permanent Period</u>: non-recourse to borrower, except for environmental indemnity and standard non-recourse "carve out" guaranty for fraud and misrepresentation. |

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| Real Estate Tax Benefits | Projects must benefit from a City Payment in Lieu of Taxes (“PILOT”) agreement that mimics the waiver of residential real estate taxes given to NYCHA public housing properties. The PILOT agreement must be executed prior to closing on the construction loan.<br><br>Applicable real estate taxes for commercial spaces may be determined by the City. |
| Permanent Loan Prepayment | No prepayment for the first 10 years of the loan term. |
| General Contractor Requirements | 100% Payment and Performance bonds or 10% letter of credit |
| Closing Conditions | Conditions precedent to closing include (but are not limited to):<br><br>• Completed and satisfactory disclosure documents for principals, board members, guarantors, and investors in the project, as required by HDC.<br>• Completed and satisfactory RCNA.<br>• Completed and satisfactory environmental review.<br>• Completed and satisfactory Plan and Cost review.<br>• Completed and satisfactory third party reports with reliance letters to HDC and NYCHA.<br>• Financial statements and credit reports.<br>• Historic building operating statements.<br>• Final architectural plans reviewed and approved by HDC (or its agent) and NYCHA.<br>• Construction lender loan offering package, if applicable.<br>• Commitment letter from construction lender and other subordinate lenders, if applicable.<br>• Commitment letter from credit enhancement partners, if applicable.<br>• Evidence of all other required funding.<br>• General Contractor agreement acceptable to HDC and NYCHA and credit enhancement partners.<br>• General Contractor bonding acceptable to HDC and NYCHA.<br>• Note, mortgage, assignment of leases and rents, and UCC’s.<br>• Certifications and attorney opinion letters.<br>• Satisfactory organizational documents for the borrower and related entities.<br>• Property and liability insurance in form and substance acceptable to HDC and NYCHA.<br>• Good and marketable title, free and clear of encumbrances except as permitted by HDC.<br>• Title insurance and survey in form and substance acceptable to HDC and NYCHA.<br>• Evidence of NYCHA PILOT.<br>• All necessary HUD approvals (RAD Conversion Commitment (“RCC”), Section 18 disposition approval letter, etc.)<br>• Evidence of Davis-Bacon and Section 3 compliance monitors.<br>• A number of units on the HAP contract that represents revenue to support the minimum debt service coverage ratio.<br>• Evidence of compliance with zoning and all applicable codes, including evidence of Mayoral Zoning Override, if applicable.<br>• All other conditions as required by the third-party lender, servicers, or credit enhancer. |

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| | Documentation will require that HDC and NYCHA be named a beneficiary on a number of documents, including but not limited to insurance certificates and completion guarantees. |
| Other | M&O: Minimum of $9,600 per unit per year, before factoring in additional operating costs related to Broadband, Social Services, and other NYCHA-specific operating requirements communicated in the RFEI or otherwise. HDC will determine if adjustments for elevator, union labor, building size, and special services related to supportive housing are appropriate and will apply the adjustment to the final underwriting. Green efficiency measures should be reflected in M&O.<br><br>Collateral: Ground lease mortgage on land and improvements.<br><br>Social Services: Borrowers must develop a Social Services plan in line with NYCHA's requirements that incorporates existing providers, if applicable. They must commit to funding both a reserve and ongoing annual operations, in line with NYCHA guidance on funding requirements.<br><br>Broadband: Borrowers must provide residents with access to internet that is fast, reliable, and affordable, and the quality should improve over time as uses of the internet continue to evolve. A baseline level of service should be subsidized. The service provided must align with the City's Principles for Internet Service and Infrastructure, as outlined in the New York City Internet Masterplan: equity, performance, affordability, privacy, and choice<br><br>Other Subordinate Liens: Permitted with HDC approval of terms.<br><br>For projects with City Subsidy, additional requirements will apply. |
| Contact Information | Development Group<br>Phone: (212) 227-9373<br>Email: hdcdevelopment@nychdc.com<br>110 William Street, 10th Floor<br>New York, NY 10038<br>www.nychdc.com<br><br>*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.*<br><br>Updated 5/26/21 |