## KEY LOAN TERMS

| **Interest Rate** | 3% simple. |
| **Repayment Requirements** | Repaid through subsidy lenders’ proportional share of Residual Receipts. |
| **Term** | Typically, 55 years in connection with TCAC requirements. Minimum 30 years for non-LIHTC projects. |
| **Debt Coverage Ratio** | 1.15 across all hard debt. |
| **DOH Loan Origination Fee** | 1.5% of the DOH loan amount. |
| **DOH Loan Servicing & Monitoring Fee** | $250 per Restricted Unit, per year, beginning at permanent conversion. Capped at $5,000 per year. |
| **DOH Loan Amendment Fee** | $1,000 per modification, amendment, or subordination request after permanent conversion. May be paid from eligible reserves. |
| **Affordability Covenant** | Affordability covenant must be executed and recorded by the borrower and shall extend for at least the same period as the permanent loan, typically 55 years. |
| **Contingency** | **Hard Costs**
- New construction: Minimum 5% and maximum 10% of hard costs.
- Rehab: Minimum 10%, maximum 15% of hard costs.

**Soft Costs**: Minimum 3% and maximum 10% of soft costs for early stage projects, with expectation that the contingency will steadily decrease while approaching construction close.

**Excess Contingency**: Any contingency remaining at 8609/permanent conversion must be split on the same pro-rata basis as Excess Construction Proceeds. |
| **Developer Fees** | 9% LIHTC Projects:
DOH will use [CTCAC’s Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws (published 06/17/2020)](https://www.ctcac.com) regarding the allowable Developer fee for 9% competitive tax credits. Section 10327 (C)(2)(A) and (C) regarding maximum allowable developer fee, developer fee calculation, and projects with multiple simultaneous phases using the same credit type will apply to projects using DOH funding.

4% LIHTC Projects (new construction and resyndication):
- “Up-Front” Fee paid to developer (not deferred and paid from Residual Receipts) capped at $2,500,000 for projects up to 100 units. Larger projects may add $10,000 per unit up to total of $3,000,000. |
- Deferred Fee beyond the above cap may be maximized, subject to TCAC limits, repaid through the Borrower’s 50% share of Residual Receipts.
- Contributed Fee beyond “Up-Front” Fee and Deferred Fee should be maximized and contributed to the project as GP equity.

Non-LIHTC Projects: Case-by-case.

<table>
<thead>
<tr>
<th>Income Requirements</th>
<th>Eligible household income capped at 80% AMI.</th>
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<tbody>
<tr>
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<td>10% of rental units must be rented to households earning up to 30% AMI.</td>
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<tr>
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<td>5% of units must be rented to homeless households referred by County agencies.</td>
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</table>

| Lien Position | DOH may subordinate AHF loans to leverage private financing. Priority among subsidy lenders is typically established based upon size of the loans. |

| Loan to Value | Loan proceeds for site acquisition shall not exceed 100% of current appraised value. |

| Security | Secured by a Deed of Trust interest in real property. DOH loans are non-recourse to the borrower. |
UNDERWRITING GUIDELINES, LOAN POLICIES, AND PROCEDURES

Developer Fees

9% Projects:
DOH will use CTCAC's Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws (published 06/17/2020) regarding the allowable Developer fee for 9 percent competitive tax credits. Section 10327 (C)(2)(A) and (C) regarding maximum allowable developer fee, developer fee calculation, and projects with multiple simultaneous phases using the same credit type will apply to projects using DOH funding.

4% Projects (New Construction and Resyndication):
- “Up-Front” Fee to paid directly to the developer (not deferred and paid from Residual Receipts) is capped at $2,500,000 for projects up to 100 units. Larger projects may add $10,000 per unit up to total of $3,000,000.
- Deferred Fee beyond the above cap may be maximized, subject to TCAC limits and repayment requirements, and repaid through the Borrower’s 50 percent share of Residual Receipts.
- Contributed Fee beyond “Up-Front” Fee and Deferred Fee should be maximized and contributed to the project as GP equity.

Non-LIHTC Projects:
Negotiated on a case-by-case basis, considering the risk, guarantees, and work involved in the project versus a LIHTC project, and the amount of County subsidy requested versus borrower efforts to leverage other sources. Note that unless a non-LIHTC project involves extraordinary risk or guarantees on the part of the borrower, DOH expects that fees on these projects will be significantly lower than those permitted on LIHTC projects.

Homeownership Projects
DOH will consider funding requests for affordable homeownership projects subject to the following qualifications.
- Eligible developers must have experience creating affordable homeownership opportunities.
- Eligible homebuyers must be first-time homeowners with household income up to 80 percent AMI.
- DOH subsidy assumptions must be in line with that of DOH-funded affordable rental projects.
- DOH will record an Affordability Covenant with minimum 30-year compliance term.
- Project goals may include some level of equity building for homebuyers, but the primary goal of DOH participation will be for the funding to remain with the housing units as subsidy for the initial low/moderate-income first-time homebuyers as well as successive homebuyers to allow for continued affordability upon resale.
- Projects must incorporate a homeownership training program for participants, acceptable to DOH.
• DOH requirements for 10 percent ELI and 5 percent homeless referral units will not be applied, but preference must be given to qualified Section 8 Homeownership Program participants, if any are available and deemed eligible by HACSM and the borrower.
• Draft homebuyer documents must be approved by DOH before any DOH loan contract is signed.
• The County subsidy will carry interest but will not require ongoing payments as long as the project remains in compliance with DOH requirements.

Inclusionary Components of Market-Rate Projects

DOH will not subsidize affordable housing projects developed to meet the inclusionary housing requirements of a market rate project. DOH will consider funding affordable housing projects financed using in-lieu fees paid to fulfill inclusionary housing requirements of market-rate projects, or affordable projects developed on land contributed by a developer of a market rate project in lieu of providing inclusionary units, provided the appraised value of the land is equivalent to, or greater than, the in-lieu fee required by the applicable jurisdiction.

Kick-Off Meetings

Prior to submitting a request for funding under any DOH NOFA, potential applicants must meet with DOH staff to introduce the project and discuss possible challenges, any projected need for County funding, how the project matches DOH program requirements, and next steps. To schedule a project kick-off meeting, please contact Simone Wood, Office Specialist, at swoods@smchousing.org.

Predevelopment

Eligible predevelopment costs may include, but are not limited to, costs of local, state and federally-mandated tenant and business relocation, site plan and other site design studies, architecture and engineering fees, soils testing and other environmental review costs, legal fees, costs of other eligible consultants, planning fees, and other project management expenses.

DOH funds are available to reimburse predevelopment costs once the Project receives entitlement approval.

DOH funds are not available to pay for the Project’s staffing, overhead and general costs of operation or site search costs.

Eligible costs initially paid with the Project’s own or borrowed funds may be reimbursed with DOH loan proceeds within a reasonable period-of-time at the Department’s discretion.

Residual Receipts

Half of net cash flow remaining after payment of annual operating expenses, required reserve deposits, and debt service payments will be used to repay the DOH loan(s). With Department approval, other carve-outs may be taken ahead of Residual Receipts payments to DOH (partnership fees, asset
management fees, etc.), so long as the subsidy lenders’ share of Residual Receipts is equivalent in cash flow distribution priority with the 50 percent borrower’s share used to pay deferred fee.

All deferred developer fees must be repaid from the borrower’s 50 percent share of residual receipts. All incentive fees must also be paid from the borrower’s 50 percent share of residual receipts. After deferred fees are repaid in full, borrowers may continue to collect the borrower’s 50 percent share of residual receipts as incentive fees.

In cases where DOH is not the sole subsidy lender requiring residual receipt payments, DOH expects the subsidy lenders will share their 50 percent portion of Residual Receipts in proportion to the size of each lenders’ total contribution.

While DOH only requires its Residual Receipts payments be calculated as a pro-rata portion of the subsidy lenders’ 50 percent share, in cases where another subsidy lender requires payment based upon the subsidy lenders sharing a larger percentage of the residual receipts (67 percent, 75 percent, etc.), DOH’s share of residual receipts must also be calculated based upon that higher percentage.

The annual project audits supplied to DOH must clearly present the Residual Receipts calculation and the amounts owed and paid to each lender.

**Tenant-Based Rental Assistance Overhang Reserve**

All homeless tenants referred to Rental Projects by HACSM come with tenant-based rental assistance. In cases where a portion of the income generated by the voucher is not underwritten to leverage private financing, DOH recommends that the excess income “overhang” generated by the voucher be used to provide additional services for residents or to cover rent losses suffered by the owner caused by a tenant who had a time-limited voucher and is unable to continue paying the underwritten rent in full upon expiration of the voucher.