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Housing Reserve Assurance Program

The Housing Reserve Assurance Program (“Housing RAP”) provides a funding mechanism to help community developers to meet the operating reserve requirements of projects syndicated with low-income housing tax credits. The program is a joint venture of the Massachusetts Housing Partnership and The Boston Foundation.

Summary of Terms

Purpose:	Housing RAP is designed to reduce the need for cash-funded operating reserves in tax credit projects that have MHP first mortgage financing. The program substitutes a liquidity facility provided by MHP for a portion of the required reserve amount. As the first mortgage lender, MHP can provide significant assurance to tax credit investors that operating deficits (up to the full amount of the facility) will not cause a default under MHP’s loan.
Eligible Projects:	Projects syndicated with low-income housing tax credits that have MHP first mortgage financing. 60% of the projects under this program must be located in greater Boston.
Eligible Sponsors:	Non-profit sponsors of tax credit projects with sufficient financial strength to replenish any funds advanced under the facility. For-profit sponsors may be approved by MHP and TBF on an exception basis where there is a joint venture with a non-profit organization or other demonstrated community development benefit, provided that the benefit of Housing RAP shall accrue to the project and shall not result in excessive profit to the sponsor.
Maximum Facility Per Project:	\$500,000
Term of Facility:	Maximum of 18 years.
Program Funding Limit:	\$6,000,000

Recourse/Security:	All funds advanced under the facility plus fees and interest shall be full recourse to the sponsor. Sponsors shall provide a pledge of their cash distributions from the project as security.
Fees and Interest on Draws:	\$500 fee for each draw under the facility. Interest on draws at Prime + 4% until repaid. All fees and interest are the responsibility of the project sponsor.
Cash-Funded Reserve Requirement:	At least 20% of the total project operating reserve shall be funded in cash. All cash-funded reserves shall be held by MHP.
Up-front Premium:	MHP will charge a one-time, up-front premium to be determined based on a percentage of the facility amount. The percentage of the premium shall be based upon the risk characteristics of the project, the financial strength of the project sponsor, the level of cash funding of the operating reserve, and the term of the facility.
Paid developer fee:	Since the goal of program is to improve the liquidity of the non-profit sponsor, the amount of the paid developer fee must equal or exceed the amount of the facility and should equal at least 75% of the maximum fee permitted under DHCD's Qualified Allocation Plan for low-income housing tax credits.
Covenants:	<p>Whenever a draw is outstanding, the borrowers' covenants shall generally include, but not be limited to, the following:</p> <p>Reporting requirements: The borrower shall submit annual audited financial statements within 120 days after the end of the borrower's fiscal year, quarterly operating statements certified by the chief financial officer or other person with knowledge and authority within 30 days of the end of each fiscal quarter; a quarterly statement signed by the CEO that the borrower is in compliance with all loan covenants, and such other reports as MHP deems necessary.</p> <p>Financial covenants: The borrower will be required to maintain a current ratio (current assets/current liabilities) of at least 1.0x, a total debt to total net worth (TD/TNW) ratio of no more than 3.5x (excluding soft debt), and a minimum liquidity level as determined by MHP. The minimum liquidity will be set at not less than one average month of the organization's operating expenses with liquidity calculated as the total of unrestricted cash and available credit lines(s).</p>