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Neighborhood Rental Initiative Program – Term Sheet

The Neighborhood Rental Initiative promotes affordable rental housing in communities that offer high economic and educational opportunities. MHP has committed \$5 million in zero percent deferred payment loan funds to support this initiative, and will make its awards in advance of DHCD’s competitive funding rounds.

This program will rely on an award of both MHP and DHCD rental financing sources, as may be awarded in or out of a competitive round. This program provides a unique opportunity for MHP and DHCD to offer streamlined financing for developments that are of an appropriate scale for the project’s neighborhood.

Summary of Terms

Eligible Communities: In an effort to connect quality affordable family housing to high opportunity communities¹ these program funds will be targeted to approximately two-thirds of Massachusetts communities. A list of eligible communities is attached, and may also be found at:

http://www.mhp.net/uploads/resources/nri_elig_communities_list_map.pdf

Eligible Borrowers: Loans are available for both for-profit and non-profit borrowers with demonstrated capacity. MHP may request borrowers to engage the services of a development consultant.

Property Types: Multifamily rental properties with five or more units, where at least half of the units are two-bedroom units. Preference will be for newly built family housing projects. Properties must be of an appropriate scale for the neighborhood.

Financing Available: Permanent first mortgage financing, plus a deferred payment loan of up to \$175,000 per affordable family-sized unit (two or more bedrooms) in a combination of MHP and DHCD funds to

¹High Opportunity Communities were determined through a research study by the Kirwan Institute for the Study of Race and Ethnicity at The Ohio State University titled *The Geography of Opportunity, Building Communities of Opportunity in Massachusetts*.

provide for long-term affordability and to offset eligible construction or renovation costs. The maximum MHP portion of the deferred payment loan is \$750,000 per project. The deferred payment loan will be secured by a second mortgage and will be due and payable at maturity. On an exception basis, properties may also receive subsidy funding for one-bedroom units if the applicant can provide strong evidence of a demonstrated need for affordable non-family sized units in the local market area.

DHCD has set aside up to 100 project-based Section 8 vouchers to be used in conjunction with these developments up to a maximum of 15 project-based vouchers per development. The DHCD project-based Section 8 vouchers are available only to family sized units of two-bedrooms or larger. If the application relies on project-based Section 8 subsidy for any one-bedroom or smaller units, the applicant must provide MHP with evidence that these project-based subsidies can be obtained locally.

For projects sponsored by public housing authorities and creating units that will be affordable to households at 50 percent of median area income, other funding sources may be available from DHCD; special consideration may be given for extraordinary site costs that must be incurred in order to make the site ready for new construction.

Timing: Upon receiving a reservation of NRI funds from MHP, applicants should be prepared to enter the next DHCD competitive rental funding round for any additional funding sources that are required. Alternatively, applicants may apply for DHCD resources that are awarded out of round.

Additional Funding Sources: Additional local subsidy sources are encouraged. Projects requiring tax credits are not eligible for subsidy under this program. Applications on behalf of projects with previous state funding commitments are discouraged. Local sources are encouraged to participate in MassDocs to reduce closing costs and complexity. No more than one set of additional closing documents and attorneys shall be permitted.

Affordability: At least 20 percent of the units must be affordable to households earning less than 50 percent of the median area income, or 40 percent of the units must be affordable to households earning less than 60 percent of the median area income. The project must have a minimum of five (5) affordable units. If feasible, at least 10 percent of the units must be affordable to households earning 30 percent of median area income. Affordability must be maintained for a minimum period of 30 years (regardless of whether the loans are prepaid); if DHCD Housing Stabilization Funds are used there is a 50-year affordability requirement.

Readiness to Proceed: In order for MHP to commit the subsidy funds for a project, the applicant must demonstrate that the project will be ready to commence construction within six months of the date of the DHCD subsidy award. Specifically, MHP and DHCD will require that the applicant have site control through direct ownership or a purchase-and-sale agreement; have obtained all local funding commitments upon which the project relies; have obtained or filed for all the necessary permitting from the local jurisdiction, except for the building permit, and have obtained reliable project cost estimates, provided by a contractor or architect based on drawings sufficiently complete to provide reliable cost estimates.

Commitment: MHP will commit the subsidy funds to the project for a period of up to six months and reserves the right to withdraw the commitment upon the end of the six-month period if we determine that the Project has not made adequate progress during the six month reservation period toward construction closing.

Terms of First Mortgage Financing:

Loan Size: Minimum loan of \$250,000.

Term/Amortization: Maximum term of 20 years, fully amortizing over a maximum of 30 years.

Loan-to-Value Ratio: The first mortgage loan must be no higher than 85 percent of the lower of total development cost or appraised value. The deferred payment loan will be used to fund the gap between the first mortgage and the required borrower cash equity. For-profit developers must provide a minimum of 10 percent in cash equity or deferred fees.

Debt Coverage Ratio: Minimum debt coverage ratio of 1.10x; 1.15x for projects with fewer than 20 units.

Recourse: All first mortgage loans will be recourse to the borrower; guarantees may also be required. The subsidy loan will be recourse to the borrower during construction only (if it is funded during construction), and non-recourse upon closing of the first mortgage permanent loan.

Prepayment: No prepayment is allowed within the first 10 years after the loan is closed, and thereafter prepayment is allowed provided that arrangements satisfactory to MHP for the continuation of the affordability restrictions at the property are made. Payment of a yield maintenance premium will also be required.

Fees: An initial MHP Application Review Fee of \$250 will be due upon submission of proposal to MHP. The application fees for DHCD's competitive funding round are \$400 for a non-profit developer and \$1000 for a for-profit developer.

There will be a \$1,000 loan application fee due to MHP at the time of loan approval request. After initial underwriting, an inspection fee will be payable before proceeding with a site inspection and final underwriting. The commitment fee is 1.5 percent of the combined first and second mortgage loan amount. One-third (1/3) of the commitment fee will be at acceptance of borrower's acceptance of MHP's Commitment Letter, and two-thirds (2/3) due at the earlier of rate lock or construction loan closing.

For further information, please call MHP at (617) 330-9955 or visit us at www.mhp.net.