Massachusetts
Housing
Partnership

Last updated: 9-10-13

5-YEAR FLEXIBLE FINANCING

Summary of Terms and Underwriting Guidelines

Eligible Borrowers:	For-profit and non-profit borrowers with strong financial capacity and demonstrated experience developing projects of similar size and complexity.
Property Types:	Multi-family rental properties with five (5) or more units.
Loan Type:	Permanent take-out financing provided by a first mortgage. Minor renovations may be funded through a holdback of a portion of the permanent loan at closing. For more significant renovations, construction financing is available through the OneSource Program, offered in affiliation with the Massachusetts Housing Investment Corporation and other construction lenders.
Loan Size:	MHP will take a maximum loan exposure of $15 million, but we can lead loans larger than $15 million through the sale of participations.
Affordability:	At least 20 percent of the units in the property must be affordable to households earning less than 50 percent of median area income, or at least 40 percent of the units must be affordable to households earning less than 60 percent of median area income, or at least 50 percent of the units must be affordable to households earning less than 80 percent of median area income, as such median income is defined by the U.S. Dept. of Housing and Urban Development (HUD). Alternatively, at least 25 percent of the units in each project must be rented to households earning less than 80 percent of the median area income, provided that the maximum allowable restricted rents are at least 10 percent below comparable market rents. Please call MHP for a list of the rent and income limitations for your community. Affordable housing agreements shall be recorded that ensure the maintenance of the affordability requirements for a term no less than 10 years (regardless of whether the loan is prepaid).

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Flexible Term Option:	The maximum term of the loan is ten (10) years. The initial interest rate will be set using a 5-year pricing index, amortizing over 30 years. At the end of the initial 5-year period, the borrower may select from one of the following options: 1. Repay the loan. 2. Reset the loan at prevailing interest rates for an additional 5-year term, amortizing over 30 years. If the project does not achieve a 1.25X DSC at the reset rate, the borrower will be required to pay down a portion of the loan. MHP's spread will be fixed throughout the life of the loan.
Loan-to-Value Ratio:	Maximum of 85 percent based on the lower of total development cost or as complete appraised value. If at least 30% of the units are to be rented at market rates rather than targeted for low- and moderate-income occupancy, the maximum LTV will be reduced to as low as 75%.
Debt Coverage Ratio:	The operating pro forma must demonstrate a minimum debt service coverage in year one of 125%. A minimum debt service coverage of 110% must be maintained over the life of the loan.
Interest Rate:	Current interest rates are available by visiting MHP's website www.mhp.net/rates. The interest rate may be fixed prior to permanent loan closing at the borrower's expense.
Subordinate Debt:	All other financing must be fully subordinated to the MHP first mortgage. Subordinate debt from other lenders is permitted within the constraints of MHP's minimum debt coverage requirements.
Environmental:	A "Phase One" limited site investigation and report is required.
Lead Paint:	Prior to closing borrowers must submit "letters of compliance" which certify that each unit in the property complies with the Massachusetts Lead Law (M.G.L. Chapter 111 and 105 CMR 460.00) and is suitable for occupancy by a child under the age of six. This may be waived by MHP under certain conditions.
Rehabilitation:	The scope of rehabilitation must be sufficient to maintain the long-term use of the property as affordable housing. The property will be inspected by MHP staff including a review of existing conditions of the building and may include a review of plans and specifications by MHP's consulting architect or engineer.

Commercial Space:	Total commercial space income cannot exceed 33 percent of the total effective rental income. If commercial income is required to achieve debt coverage requirements, this income will be discounted from actual or estimated market rents and commercial leases will be required.
Development Team:	The members of the development team must have substantial experience in their areas of expertise, as demonstrated by the successful track record with projects of similar size and complexity.
Management:	The management agent selected for the project must have a proven track record in managing properties of similar type and tenancy.
Financial Capacity:	The borrower and sponsor must demonstrate the financial capacity to successfully operate the project over the full term of the loan.
Recourse:	Recourse will be limited to that portion of the loan, if any, exposed to more than a 75% loan-to-value ratio.
Replacement Reserve:	The minimum requirement is $325 per unit per year.
Capitalized Operating Reserve:	No capitalized operating reserve will be required. If, at the time of rate reset, the project does not achieve a 1.25X DSC, a capitalized operating reserve will be required equal to the greater of 3 months debt service or the reserves necessary to maintain a breakeven debt service coverage over the remaining term of the loan. In lieu of a cash-funded reserve, the borrower may provide MHP with an acceptable letter of credit.
Prepayment:	No prepayment is to be allowed within the first five years after the loan is closed, and thereafter prepayment is only allowed provided that arrangements satisfactory to MHP for the continuation of the affordability restrictions at the property are made. Yield maintenance penalties may apply if prepayments occur at times other than interest rate reset dates.
Application Fee:	A non-refundable application fee is due at the time of application submission. The fee is equal to one-tenth of one percent (0.1%) of the loan amount.

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Commitment Fee: Upon approval and issuance of a loan commitment, a non-refundable commitment fee of up to one percent (1%) of the loan amount (1.5 percent for loans with construction holdbacks) is due in two installments: one-half at acceptance of commitment and one-half at the earlier of construction loan closing or permanent loan closing.

Third Party Costs: Borrower is responsible for all third party costs incurred during loan processing including but not limited to appraisal costs, legal review, and architectural/engineering reviews.

For further information, please call David Rockwell at MHP at (617) 330-9944 x222 or visit us at www.mhp.net