

Mixed-Income Program (Tax-exempt Bonds)

Program Description	<p>HDC's Mixed-Income Program combines a first mortgage, funded through proceeds from the sale of variable or fixed rate tax-exempt private activity bonds, with a second mortgage, provided through HDC corporate reserves in accordance with its New Housing Opportunities Program (New HOP) guidelines, to finance multi-family rental housing affordable to low and middle income families.</p> <p>Under this initiative, at least 20% of the units in a new or rehabilitated development must be reserved for low-income households earning less than 50% of the New York City median income (with at least 15% of these low-income units set aside for very low-income families earning less than 40% of median income). A minimum of 30% of the units would be set aside for middle-income households according to HDC's New HOP guidelines. A maximum of 50% of the units would be set at market rates for households without regard to incomes.</p> <p>In addition to providing the tax-exempt financing (credit enhanced by a long-term credit enhancer) to fund the first mortgages of developments financed under the initiative, HDC will provide, through New HOP, up to \$85,000/unit as a second mortgage at 1% for the low and middle-income units in the development. The HDC second mortgage would be subordinate to the credit-enhanced first mortgage. The second mortgage is amortized with a minimum of a 2% constant, though preference will be given to projects that permit full amortization of HDC subordinate financing.</p>																																			
Eligible Uses	New construction, substantial rehabilitation and conversions of non-residential buildings on an as-of-right-basis for developments containing a minimum of twenty (20) residential units.																																			
Maximum Monthly Rents	<p><u>Low Income Units</u> – a minimum of 20% of the units must be affordable to those earning at or below 50% AMI.</p> <p>2006 Low income¹ rent levels² are outlined below:</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-decoration: underline;">Unit Type</th> <th style="text-decoration: underline;">40% AMI</th> <th style="text-decoration: underline;">50% AMI</th> </tr> </thead> <tbody> <tr> <td>Studio</td> <td>\$427</td> <td>\$551</td> </tr> <tr> <td>1 BR</td> <td>\$457</td> <td>\$590</td> </tr> <tr> <td>2 BR</td> <td>\$552</td> <td>\$711</td> </tr> <tr> <td>3 BR</td> <td>\$638</td> <td>\$822</td> </tr> </tbody> </table> <p><u>Middle Income Units</u> – a minimum of 30% of the units must be must be affordable to those earning at or below 130% AMI. Subsidy levels (see <i>Second Mortgage</i> section) differ based on the rent levels of the Middle Income units.</p> <p>2006 New HOP maximum rent levels² are outlined below:</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-decoration: underline;">Unit Type</th> <th style="text-decoration: underline;">80% AMI</th> <th style="text-decoration: underline;">100% AMI</th> <th style="text-decoration: underline;">130% AMI</th> </tr> </thead> <tbody> <tr> <td>Studio</td> <td>\$806</td> <td>\$1,019</td> <td>\$1,338</td> </tr> <tr> <td>1 BR</td> <td>\$1,015</td> <td>\$1,281</td> <td>\$1,680</td> </tr> <tr> <td>2 BR</td> <td>\$1,222</td> <td>\$1,541</td> <td>\$2,019</td> </tr> <tr> <td>3 BR</td> <td>\$1,412</td> <td>\$1,781</td> <td>\$2,334</td> </tr> </tbody> </table> <p>Additional requirements for tax-exempt bond projects include:</p> <ul style="list-style-type: none"> ○ Deep-rent skewing – 15% or more of the <i>low income units</i> have rents set at or below 40% AMI and are occupied by those with incomes at or below 40% AMI. ○ 2:1 test – by unit size, average rents for the Middle Income and Market rate rents must be a minimum of 2 times the average rents for the Low Income units. <p>¹Low-income rents are calculated at 38% and 48% AMI ²Rent levels are calculated as gross rents less an electricity allowance</p>	Unit Type	40% AMI	50% AMI	Studio	\$427	\$551	1 BR	\$457	\$590	2 BR	\$552	\$711	3 BR	\$638	\$822	Unit Type	80% AMI	100% AMI	130% AMI	Studio	\$806	\$1,019	\$1,338	1 BR	\$1,015	\$1,281	\$1,680	2 BR	\$1,222	\$1,541	\$2,019	3 BR	\$1,412	\$1,781	\$2,334
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Maximum Income Limits	<p><u>Low Income Units</u> - Tenants may pay up to 35% of their income toward net rents. Incomes will be adjusted for family size.</p> <ul style="list-style-type: none"> • Units with rents set at or below 40% AMI can be rented to those with incomes up to 40% of AMI. • Units with rents set at or below 50% AMI can be rented to those with incomes up to 50% of AMI. 																																			

	<p><u>Middle Income Units</u> - Tenants may pay up to 35% of their income toward net rents. Incomes will be adjusted for family size.</p> <ul style="list-style-type: none"> • Units with rents set at or below 80% AMI can be rented to those with incomes up to 100% of AMI. • Units with rents set at or below 100% AMI can be rented to those with incomes up to 130% of AMI. • Units with rents set at or below 130% AMI can be rented to those with incomes up to 175% of AMI.
<p>First Mortgage</p>	<p>Loan Amount: Debt Coverage 1.20 on the first and 1.15 overall.</p> <p>LTV max 85%. Value will be determined using a capitalization rate that does not consider the tax-exempt financing. Value based on an independent MAI appraisal acceptable to HDC.</p> <p>Interest Rate: Perm 30-Year Fixed Rate, Weekly Tax-Exempt Variable Rate or Auction Rate may be available. Interest rates on long-term first mortgages established at bond sale based on market conditions. If variable rate debt is used, an appropriate hedge is required.</p> <p>Underwriting Rate: Fixed Rate: Usually based on bond rate plus 20 basis points for HDC servicing and 50 basis points for mortgage insurance premium.</p> <p>Variable Rate: Includes a base rate and cushion recommended by credit enhancer and approved by HDC, all on-going fees (e.g. credit enhancement and servicing, HDC servicing, liquidity, issuer and trustee, remarketing agent, cap escrow) and an amortization component.</p> <p>Term: Perm 30-year term with a 30-year amortization schedule.</p> <p>Amortization: First mortgage will be fully amortizing with the ability to build up principal reserve funds up to 20% of the bond balance of the first mortgage loan prior to actual redemption of bonds.</p> <p>HDC Fees: Commitment Fee: 1.00% of the HDC first loan amount plus costs of issuance as determined by HDC.</p> <p>Servicing fee: 20 basis points annually to HDC on the outstanding bond balance.</p>
<p>Second Mortgage</p>	<p>Loan Amount: Second mortgage (subsidy) is calculated per dwelling unit (du) on the units with low and middle income rent levels (see <u>Maximum Monthly Rents</u> above). The amount available per du is based on middle income rent levels outlined below and on need as determined by HDC. Subsidy is reduced for publicly owned sites.</p> <ul style="list-style-type: none"> • Up to \$65,000 / du, (\$40,000/ du for public sites), Requires middle income units to be underwritten at or below 130% AMI. • Up to \$75,000 / du, (\$50,000 / du for public sites), Requires middle income units to be underwritten at or below 100% AMI. • Up to \$85,000 / du, (\$60,000 / du for public sites), Requires middle income units to be underwritten at or below 80% AMI. <p>Interest Rate: 1% fixed</p> <p>Term: Up to 30 years permanent term for new construction, rehabilitation and conversion projects.</p> <p>Amortization: A minimum of a 2% constant is required on the second mortgage, although preference will be given to projects that permit full amortization of HDC subordinate financing. At permanent conversion, 35% of the additional revenue earned from any and all rent increases, including those on market-rate rents, will be used to accelerate amortization</p>

	<p>on the second mortgage (see <u>Other: Rent/Loan Increases</u> below). If the additional income is sufficient and funds are available, an increase in the first mortgage may be permitted as well.</p>
<p>Credit Enhancement and Mortgage Insurance</p>	<p>Open Resolution (fixed rate pooled financing) Transactions:</p> <p>Construction Period: Credit enhancement for the bonds is required during construction and stabilization periods. A stand by letter of credit (LOC) for the full amount of the bonds may be provided by either the permanent credit enhancer or by a Construction Lender through a letter of credit. The stand by LOC provider must be a highly rated financial institution acceptable to HDC.</p> <p>Permanent Period: Mortgage insurance or permanent credit enhancement is required during the permanent mortgage period.</p> <ul style="list-style-type: none"> • Mortgage insurance may be provided by REMIC, SONYMA, or HUD. On deals with first mortgages of less than \$20,000,000, mortgage insurance requirements may be satisfied with partial REMIC mortgage insurance. • Permanent credit enhancement must be in the form of a long term stand by letter of credit (LOC) provided by a highly rated financial institution acceptable to HDC. <p>Stand Alone Transactions:</p> <p>Construction Period: Credit enhancement for the bonds is required during construction and stabilization periods. A direct pay letter of credit (LOC) for the full amount of the bonds may be provided by either the permanent credit enhancer or by a Construction Lender through a letter of credit. The direct pay LOC provider must be a highly rated financial institution acceptable to HDC.</p> <p>Permanent Period: Mortgage insurance or permanent credit enhancement is required during the permanent mortgage period.</p> <ul style="list-style-type: none"> • Mortgage insurance may be provided by REMIC, SONYMA, or HUD. On deals with first mortgages of less than \$20,000,000, mortgage insurance requirements may be satisfied with partial REMIC mortgage insurance. • Permanent credit enhancement must be in the form of a direct pay letter of credit (LOC) or alternate credit facility. The direct pay LOC provider must be a highly rated financial institution acceptable to HDC. Any alternate credit facility must be approved by HDC. A payment guarantee may be required by the credit enhancer. Typical fees to the Credit Enhancer include origination fee, annual LOC Fee, LOC Servicing Fee, and liquidity fee.
<p>Overall Terms</p>	<p>Loan to Value: Combined first and second mortgage not to exceed 95% LTV as established by an independent MAI appraisal acceptable to HDC.</p> <p>Loan to Cost: may not exceed 90% overall.</p> <p>Debt Coverage: 1.15 times overall.</p> <p>Income to expense ratio: 1.05 to 1 or greater on all financing.</p> <p>Variable interest rate protection: At the time of conversion to the permanent credit enhancement, an interest rate cap or swap will be required.</p>
<p>Construction</p>	<p>Conditions precedent to construction loan closing include (but are not limited to):</p> <ul style="list-style-type: none"> • Completed and satisfactory disclosure documents for principals and known investors with more than 20% interest in the project. • Completed and satisfactory State Environmental Quality Review Act (SEQRA) review. • Completed and satisfactory third party reports with reliance letters to HDC. • Completed and satisfactory Developer's Tax Certification (95-5 Form) • Financial statements and credit reports.

	<ul style="list-style-type: none"> • Final architectural plans reviewed and approved by HDC. • Construction Lender Loan Offering Package. • Commitment letter from the construction lender and other subordinate lenders. • Assignment of Leases and Rents. • Mortgage and Note and UCC's. • Certifications and attorney opinion letters. • Borrower's organizational documents. • Property and Liability Insurance in form and substance acceptable to HDC. • Good and marketable title, free and clear of encumbrances except as permitted by HDC. • Title Insurance and Survey in form and substance acceptable to HDC. <p>Documentation will require that HDC be named a beneficiary on a number of documents, including but not limited to insurance certifications and completion guarantees.</p>
<p>Conversion</p>	<p>Conditions precedent to permanent loan conversion include (but are not limited to):</p> <ul style="list-style-type: none"> • 100% rental achievement/sales evidenced by certified rent roll. • Evidence of real estate tax benefits. • Evidence of compliance with zoning and all applicable codes. • Certification of "No Change" in borrower's financial status. • Certificate of completion from construction lender's construction monitor. • Certificate of completion from HPD on city-owned sites. • All other conditions as required by the credit enhancer.
<p>Other</p>	<p>Design Guidelines: In addition to meeting HPD's Design Guidelines for New Construction and Substantial Rehabilitation, projects should meet the following overall square footages per apartment type:</p> <p>Studio: 400 sf 1 BR: 575 sf 2 BR: 775 sf 3 BR: 950 sf</p> <p>HDC will approve unit distribution; preference will be given to projects with 50% or more 2+ BR units.</p> <p>Rent/Loan increases: At the time of marketing, rent increases on subsidized units may be permitted. However, any rent increase in low and middle income rents must be approved by HDC prior to the commencement of marketing. Increased rents must be in conformance with the HDC maximum allowable rents in effect at the time of marketing.</p> <p>Upon project stabilization, New HOP and Market rate rent increases will be governed by allowable rent stabilization increases with no vacancy decontrol. Tax-credit (low-income) unit rents may be increased by the more restrictive of AMI increases or rent stabilization increases.</p> <p>Reserves: Replacement reserve: minimum of \$250/unit/year increased with CPI. Smaller projects may require higher replacement reserves.</p> <p>Taxes, Insurance, subsequent Interest Rate Cap (as required by credit enhancer).</p> <p>Real estate tax benefits: Enriched §421-a for new construction</p> <p>Standard or enhanced J-51 for rehabilitation and conversion projects. To receive enhanced J-51 benefits project must restrict all household incomes, including those in non-subsidized units to 165% of AMI, or 20% of the units can be set at 80% of AMI with the remaining units at 180% of AMI.</p> <p>Note: Only projects located north of East/West 96th Street for all rehabilitation projects as well as for new construction projects located east of Fifth Avenue and new construction projects west of Fifth Avenue located north of West 110th Street are eligible for full tax abatements.</p> <p>Minimum equity:</p>

	<p>At least 10% of total development cost. No more than 50% of the minimum equity requirement may be met through the pledge of developer's fee. Preference will be given to proposals with greater equity contributions.</p> <p>Maximum developer fee: Not to exceed 10% of non-subsidized development cost.</p> <p>Marketing: Must comply with all HDC marketing guidelines. Guidelines can be found on HDC website or by contacting John Simons in HDC's Asset Management Department (E-mail: jsimons@nychdc.com, Phone: 212-227-9406).</p> <p>Recourse: HDC permanent loans are generally non-recourse to Borrower, except for environmental indemnity and standard non-recourse "carve out" Guaranty for fraud and related misrepresentation.</p> <p>Collateral: First and/or second mortgage on land and improvements.</p> <p>Other subordinate liens permitted with HDC approval of terms.</p>
<p>Items Required for Project Review</p>	<p>For consideration, submit project information, including:</p> <ul style="list-style-type: none"> • Location and description of site & proposed development (including address, borough, block and lots). • Preliminary pro-forma including hard and soft costs, unit distribution, and expected rents. • Development team (borrower, contractor, management company) and list of their experience and principals.
<p>Contact Information</p>	<p>Rachel Grossman, Senior Vice President Phone: (212) 227-9373 Fax: (212) 227-6845 E-Mail: rgrossman@nychdc.com</p> <p>110 William Street, 10th Floor New York, NY 10038 www.nychdc.com</p>