

## TERM SHEET FOR PRESERVATION PROJECTS

The following is a list of conditions that the FCRHA will require to be included in preservation agreements, financing plans, and other relevant agreements that effectuate preservation acquisitions and loans.

### Procedural Terms

- **Affordability Requirement:**
  - The target affordability for the units on the property is 60% of the Area Median Income (AMI). A mix of incomes with deeper affordability is preferred. (See “Phasing Plan” below.)
  - The FCRHA may consider satisfaction of the affordability requirements through income averaging. If approved, Borrower may rent units to households with an initial qualifying income of up to 80% of AMI, provided the average of income limits assigned to units on the property does not exceed 60% AMI.
- **Phasing Plan:** In order to minimize displacement of existing residents, a detailed affordability phasing plan explaining how the income restrictions will be phased in for existing tenants in the property, if applicable, will need to be developed and approved by HCD.
- **Affordability Period:** Unit affordability must be maintained for a minimum of 30 years, but longer-term affordability is preferred.
- **Property Conditions and Capital Improvements:** The condition of the property will be assessed by the Housing Provider and County prior to submission for FCRHA funding approval to determine if any capital repair or renovation is necessary.
  - The Housing Provider shall ensure that the property is maintained in good condition.
  - Where LIHTC is utilized, the condition of the property will, at a minimum, meet LIHTC requirements.
- **First Right of Refusal and Option to Purchase:** Borrower will provide FCRHA with an option to purchase the property and a right of first refusal for the property.
  - Option to Purchase: The FCRHA will have the right to purchase the property under certain conditions.
  - First Right of Refusal: The FCRHA will have a right of first refusal to purchase the property during the affordability period.
- **Conditions Precent to Closing:** The following conditions will be met prior to closing on the property:
  - Fully executed partnership/operating agreement of Borrower, with admission of investor.
  - Fully executed loan commitment for permanent loan, and all necessary approvals for any other permanent and/or ongoing funding sources.

- A satisfactory lender's title insurance commitment and subsequent lender's policy for the benefit of the FCRHA, from a title company acceptable to the FCRHA.
- If not already provided as part of Borrower's loan application, the following items, as the FCRHA may reasonably deem necessary:
  - description of significant litigation,
  - Borrower organizational documents (including good standing certificate and authorizing resolutions),
  - ALTA survey reasonably satisfactory to the FCRHA, and
  - legal opinion of Borrower's counsel.
- All site control, equity, and non-FCRHA loan documents must be reasonably acceptable to FCRHA.
- Final underwriting must be approved by the FCRHA, including sources and uses, acquisition budget, annual operating expenses, 15-year cash flow analysis, renovation schedule (if applicable), and affordability phasing schedule (if applicable).
- FCRHA loan documents fully negotiated and in final form, including a Loan Agreement, Promissory Note, Deed of Trust, Land Use Restriction Agreement, Purchase Option and Right of First Refusal Agreement, Loan Monitoring Agreement.
- Such other items and information as the FCRHA may reasonably require.

## **Financial Terms**

- **Appraisal:** A satisfactory appraisal shall be provided prior to funding approval. The FCRHA reserves the right to request its own independent appraisal at the Housing Provider's expense.
- **FCRHA Funding Interest rate:** 2% simple interest per annum.
- **Leveraging Ratio:** Housing providers will be expected to maximize how FCRHA funds are leveraged with other funding sources. The target minimum ratio for leveraging of external resources to FCRHA funds is 4:1.
- **Loan Repayment:**
  - Loan will be repaid from 50% of annual net cash flow (NCF).
  - NCF includes cash flow remaining after payment of must-pay debt service, operating expenses, operating reserves, fees, and deferred developer fee.
  - Payments made will be applied first to accrued interest, then to principal.
  - All outstanding principal and accrued but unpaid interest will be due on the earlier to occur of the maturity date or upon refinance.
- **Position of FCRHA Loan:**
  - FCRHA loan may be secured by the property in second position, or such lower priority lien position as the FCRHA may accept in its sole discretion.

- The value of the property, as determined by an appraisal acceptable to the FCRHA, must exceed the aggregate debt of the FCRHA loan together with all higher priority loans.
- **Developer Fee:**
  - The amount of any Developer Fee contemplated in the financing plan is subject to the approval of the FCRHA.
  - Borrower may recoup its deferred developer fee in full before making amortization payments on the FCRHA loan, subject to certain FCRHA requirements.
- **Loan Monitoring Fee:** Borrower will pay to the FCRHA an annual monitoring fee of \$5,000, escalating at 3% annually (subject to any increases due to updated FCRHA policy), for monitoring project compliance with affordability requirements. The monitoring fee must be paid annually as part of operating expenses.
- **Repair and Replacement Reserve:** At Funding, Borrower will establish a repair and replacement reserve in the amount required by Borrower's first position lender, investors, or the FCRHA, as applicable.
- **Transfer:** The FCRHA loan documents will include reasonable restrictions on Borrower's right to transfer the property and transfer interests in Borrower.
- **First Trust Loan:**
  - The first position loan must amortize and have a fixed interest rate.
  - First position lender must enter into intercreditor / subordination agreement with FCRHA on terms reasonably acceptable to the FCRHA including, without limitation, the right to cure defaults, to acquire the senior debt, and to acquire ownership of the property.
- **Additional Debt:**
  - Borrower may not subject the property to any deed of trust or other lien, whether senior or subordinate to the FCRHA loan, without the prior approval of the FCRHA.
  - Borrower may not obtain any unsecured loans without the prior approval of the FCRHA, except for an unsecured loan that is cash flow dependent and the repayment of which would come after annual payment of the FCRHA loan in priority of payment from net cash flow.
- **Bond Financing:** If the permanent financing for the project involves the use of "4%" LIHTC financing, it is expected that FCRHA bonds will be used.
- **Refinancing:** Any FCRHA loans will become due upon any refinancing of the senior loan. The FCRHA, in its sole discretion, may agree to keep the FCRHA loan in place on a refinancing of the senior loan upon such terms and conditions as it may negotiate. In any case, any such actions will be subject to FCRHA approval.