

## **HOME/TAX CREDITS TERM SHEET 2005 HOUSING TAX CREDIT ROUND**

**BACKGROUND** For many years MFA has awarded HOME Investment Partnership funding, in the form of second mortgages, together with the annual Housing Tax Credit (HTC) round. The rationale included a desire to simplify the process, ensure that the project's financing was complete at the time of commitment of Tax Credits, and enhance affordability. The level of demand for HOME has outstripped supply, and to ensure that HOME funds are being used strictly to fill the gaps in financing and enhance affordability, HOME/Tax Credit funds will be rationed through mechanisms described below.

**PURPOSE** The purpose of this term sheet is to advise developers preparing proposals as to the standards their projects must meet to obtain HOME/Tax Credit funding, and to the limits to be imposed for various types of projects.

**UNDERWRITING CRITERIA** All HOME/Tax Credit requests will be fully underwritten as the proposed project is reviewed for Tax Credit purposes. Standards applied to the HOME loans will include the following:

- ✓ Debt service coverage for all senior and subordinate debt may not fall below 1.15 or above 1.30, except in the case of very small projects for which coverage of 1.30 generates \$10,000 or less in annual cash flow.
- ✓ HOME funds cannot be used as a substitute for market rate first mortgage debt unless the debt amount would be less than \$150,000: Excess coverage will result in a requirement to obtain such debt and allocate HOME accordingly.
- ✓ If project cash flow cannot support amortization of the HOME loan within the DCR range above, then the award will be structured as a non-amortizing, interest only loan with a rate of 1% to 3%. Loan terms may extend up to 40 years. In certain cases HOME loans will accrue interest at the Applicable Federal Rate, though the payment rate may be much lower.
- ✓ MFA must determine that the overall financing gap (after inclusion or re-sizing of a first mortgage) can be satisfied within the annual HOME limits, structured according to parameters described above.

**CONSTRUCTION LOANS** In the past, HOME funding has been used for construction financing in limited amounts and with certain recourse provisions. Because MFA is at risk for repayment when HOME funds are expended and units are never produced, this policy has been revised. That is, continuing in the 2005 round, use of funds for construction will be allowed only when the borrower is a CHDO or when a Principal(s) acceptable to MFA provide limited guarantees during the construction period. Other HOME loans will be drawn on completion.

## HOME/TAX CREDIT LOAN AMOUNTS

Overall limits include \$10,000 per unit (\$20,000 for small projects of 25 or fewer units) or \$500,000 per project total, according to the 2005 ACTION Plan. For the 2005 HTC round, additional limits detailed below will apply. The purpose of these additional limits is to focus the use of HOME funding on the most needy counties and the most affordable projects within the state.

COUNTY TYPE	Counties With Median Income Less than Non-Metro Median <sup>1</sup>		All Other Counties	
	Small Projects	Large Projects	Small Projects	Large Projects
AGMI <sup>2</sup> 51% or Above	\$14,000	\$7,000	\$7,000	\$3,500
AGMI 46-50%	\$16,000	\$8,000	\$8,000	\$4,000
AGMI 41-45%	\$18,000	\$9,000	\$9,000	\$4,500
AGMI 40% or less	\$20,000	\$10,000	\$10,000	\$5,000

## HOME AWARDS

HOME/Tax Credit awards require successful competition of the proposed projects in the Tax Credit round. Following underwriting and processing, successful projects will be rank ordered according to Tax Credit scores, and HOME funds will be awarded to the highest scoring projects first, then to lower scoring projects until all available funds have been awarded.

## FOR FURTHER INFORMATION

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<sup>1</sup> Counties currently include Catron, Chaves, Cibola, Curry, DeBaca, Dona Ana, Grant, Guadalupe, Hidalgo, Luna, McKinley, Mora, Quay, Roosevelt, San Miguel, Sierra, and Socorro. Subject to change when HUD publishes the median income levels effective for 2005.

<sup>2</sup> Average Gross Median Income calculated for HTC Scoring Purposes.