



HOME/LIHTC TERM SHEET – 2018 9% LOW INCOME HOUSING TAX CREDIT

BACKGROUND - MFA awards HOME Investment Partnership funding, in the form of second mortgages, together with the annual competitive 9% Low income Housing Tax Credit (LIHTC) round. The rationale includes a desire to simplify the process, ensure that project financing is complete at the time of commitment of tax credits and enhance affordability. The level of demand for HOME has outstripped supply, and to ensure HOME funds are being used strictly to fill the gaps in financing and enhance affordability, HOME/LIHTC funds will be rationed via the mechanisms described below.

UNDERWRITING CRITERIA:

- ✓ For initial MFA underwriting, debt service coverage ratio (DSCR) for all senior and subordinate must-pay debt may not fall below 1.20 or be above 1.40, except in the case of very small projects for which coverage of 1.40 generates \$10,000 or less in annual cash flow. For subsequent underwriting MFA will require 1.20 DSCR on senior debt but will accept 1.15 DSCR on all hard debt if the senior lender, subordinate lender, and equity provider allow it. HOME loans are considered must-pay debt with the sole exception of forgivable loans (for projects targeting households at or below 30% of area median income).
- ✓ HOME funds cannot be used as a substitute for market-rate first-mortgage debt unless the conventional first-mortgage debt amount would be less than \$150,000: Excess coverage will result in a requirement to obtain such debt and MFA will allocate HOME accordingly.
- ✓ HOME loan repayment will normally be structured at 0% interest with a minimum of 50% of principal to be repaid monthly over the term of the loan. MFA, however, may require a higher interest rate or shorter amortization if projected cash flows indicate an ability to cover higher debt payments. Projects targeting households at or below 30% of area median income are eligible for forgivable loans. Please note that, per LIHTC rules, forgivable HOME loans are considered federal grants and may not be included in eligible basis. Loan terms may extend up to 40 years plus a construction period of up to 24 months during which no payments are required.
- ✓ MFA must determine that the overall financing gap, after inclusion or re-sizing of a first mortgage loan, can be satisfied within the annual HOME limits structured according to the parameters described above. When all financing sources are committed to the project, MFA will perform a final underwriting prior to close and may restructure the HOME loan according to the above criteria, which may include reducing the loan amount if the amount awarded is not needed to fill the financing gap.

CONSTRUCTION LOANS - Because MFA is at risk for repayment when HOME funds are expended and units are never produced, the use of funds for construction will be allowed only when guarantors acceptable to MFA provide guarantees during the construction period. HOME loans without such guarantees may only be drawn upon at completion, except for minor amounts at initial close and 50% completion (e.g. \$25,000 each).

HUD ENVIRONMENTAL REVIEW - The environmental review process must be completed before any funds are committed to a HOME-assisted project. While the review is underway, and until environmental clearance is given by HUD, no choice-limiting actions may be taken. Such actions include activities that have physical impacts or limit the choice of alternatives, even if they are financed with the developer's or other project participant's funds.

These include starting the project by purchasing property and/or conducting site work. Please contact MFA's Environmental & Relocation Program Manager (see contact info below) or MFA's website for guidance (<http://www.housingnm.org/developers/environmental-review>).

Please note that, for LIHTC purposes, property must be purchased by November 15th, hence it is crucial to obtain HUD environmental clearance in sufficient time to meet this acquisition deadline. Purchase agreements must incorporate language allowing for the purchase to be cancelled in the event environmental clearance cannot be obtained.

SITE AND NEIGHBORHOOD STANDARDS (NEW CONSTRUCTION ONLY) - MFA is responsible for making the determination that proposed sites for new construction meet the requirements in 24 CFR 983.57(e). MFA will determine if a site meets these standards, which relate to concentrations of low-income/minority persons in census tracts, substandard dwelling conditions, and accessibility to jobs and services. Developers are advised to review these requirements prior to investing time and money in a specific site. Please confer with the MFA Environmental & Relocation Program Manager as needed.

RELOCATION PLANS (REHABS ONLY) - Upon receipt of a preliminary tax credit award letter, applicants must submit copies of: (1) the General Information Notice (GIN) that was mailed to tenants, (2) the rent roll for the month the GIN was issued, and (3) the relocation plan in accordance with the Uniform Relocation Act (URA). See <http://www.housingnm.org/developers/uniform-relocation-act>. Prior to submitting an application, contact MFA for guidance.

HOME/LIHTC LOAN AMOUNTS - In accordance with the approved 2017 State of New Mexico Action Plan, the maximum HOME loan amount for the 9% LIHTC round will be the lesser of (a) \$15,000 per residential rental unit for MFA-designated Community Housing Development Organizations (CHDOs) as developers, owners or sponsors/\$7,500 per residential rental unit for non-CHDOs, (b) a maximum of \$600,000 per project for CHDOs/\$400,000 for non-CHDOs or (c) 80 percent of the project's MFA-approved total development cost.

HOME/LIHTC AWARDS - HOME awards to LIHTC projects will only be made in conjunction with a LIHTC award. Following underwriting and processing of all applications, successful projects will be ranked according to LIHTC scores, and HOME funds will be awarded to the highest scoring CHDO projects first, then to other LIHTC projects, until all available funds have been awarded.

FOR FURTHER INFORMATION

Sabrina Su, Program Manager
Housing Development Department
(505) 767-2249
ssu@housingnm.org