



HOME/LIHTC TERM SHEET 2013 LOW INCOME HOUSING TAX CREDIT (LIHTC) 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 (LIHTC) 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 the 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 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:

- ✓ For initial MFA underwriting debt service coverage (DSC) for all senior and subordinate hard 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 DSC on senior debt but will accept 1.15 DSC on all hard debt if the senior lender and equity provider allow it.
- ✓ HOME funds cannot be used as a substitute for market rate first mortgage debt unless the conventional 1st mortgage debt amount would be less than \$150,000: Excess coverage will result in a requirement to obtain such debt and 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 repayment period of the loan. MFA, however, may require higher interest rate or shorter amortization if projected cash flows indicate a Project's ability to cover higher debt payments. Projects targeting populations 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 will be required.
- ✓ 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. When all financing sources are committed to the project, MFA will perform a final underwriting at 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 Guarantor(s) 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.

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 action may be taken. Such action includes activities that have physical impacts, or limit the choice of alternatives, even if they are financed with the developer or other project participant's own funds. This includes starting the project by purchasing property and/or conducting site work. Please contact MFA's Environmental Officer or MFA's website for guidance <http://www.housingnm.org/environmental-review>. Please note that, for HTC 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 For new construction of rental housing, 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 Program Specialist as needed.

RELOCATION PLANS (REHABS ONLY) Applications must include 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/uniform-relocation-act>. Prior to submitting an application call the MFA Program Specialist for guidance.

HOME/LIHTC LOAN AMOUNTS In accordance with the proposed 2013 State of New Mexico Action Plan, the maximum HOME loan amount for the 9% LIHTC round will be \$12,500 per unit for MFA designated Community Housing Development Organizations (CHDOs) and \$7,500 per unit for Non-CHDOs up to a maximum of \$450,000 per project.

HOME/LIHTC AWARDS HOME/LIHTC awards will only be made in conjunction with an award of tax credits. Following underwriting and processing successful projects will be rank ordered according to LIHTC 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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