



## Housing Production Trust Fund (HPTF) Preservation / Stabilization Term Sheet (Rental and Cooperatives)

### Program Description:

HPTF Financing rental or cooperative projects for purposes of preservation and/or stabilization in which up to 100% of the units are up to 80 percent of Area Median Income (AMI). HPTF is a subsidy that can be paired with other public and private sources, including, but not limited to, private financing, tax exempt bond financing, Federal and DC State Low Income Housing Tax Credits, and other Federal affordable housing finance funding sources. (i.e., CDBG, HOME, NHTF, RHP).

Qualified sponsors to purchase and rehabilitate vacant and occupied multi-family properties in order to improve housing affordability to low- moderate income households.

The program assesses the needs of each project and develops a long-term preservation strategy to address the projects' financial and physical needs. DHCD assistance may include below-market loans, and/or extensions or modifications of existing DHCD mortgages to induce conventional financing for preservation efforts and ensure long term financial stability.

### Eligible Projects:

Multiple dwellings of five (5) or more units that can leverage conventional debt, and/or Moderate or substantial rehabilitation of multiple properties.

DHCD HPTF loan should not be used to pay down or refinance existing debt, although exceptions may be considered on a case-by-case basis.

### Eligible Sponsors:

The program is open to for-profit and not-for-profit owners including limited partnerships, corporations, joint ventures, limited liability companies, 501(c)(3) corporations, etc.

The development team must have sufficient financial stability and a demonstrated track record of successfully developing, owning, and operating comparable projects, or must form a joint venture with an entity that has such expertise.

DHCD may, among other interventions, require the development team to hire a consultant, form a partnership or joint venture, or change of property management as a condition of DHCD assistance if there is a history of noncompliance or poor performance at the project and throughout any existing DHCD-financed and DHCD-regulated portfolio owned by the sponsor.

### DHCD Loan Amount:

For substantial rehabilitation projects:

- Maximum of **\$260,000 HPTF subsidy per unit**. All projects planning to pursue electrification are required to apply to the DC Green Bank or DOEE to offset the subsidy requirement.

For moderate rehabilitation and limited equity cooperative projects:

- Maximum of **\$115,000 HPTF subsidy per unit**.

The transaction must address all scope items identified by an Independent Property Needs Assessment detailing items needing replacement in 7 years or less.

Preferences will be given to projects demonstrating cost containment; examples may include but will not be limited to proposals that utilize efficient construction and lease-up schedules, and use of reserves and construction period cash flow.

DHCD will consider available funding sources in the following order: existing project reserves ability to leverage private debt, sponsor equity and DHCD loans.

DHCD will also evaluate and determine the project's ability to repay existing outstanding loans.

DHCD will only recognize acquisition prices at the lesser of the contract acquisition price or "as-is" appraised value.

All projects with private site acquisitions must have an "as-is" appraisal acceptable to DHCD. Any acquisition that needs HPTF subsidy to finance any part of acquisition or take out of acquisition must have DHCD approval prior to the acquisition.

**DHCD Loan and Loan Modification Terms:**

**Permanent Loan Term:**

- Minimum of 30 years with a repayable balloon loan term of up to 40 years.
- DHCD may subordinate its loan in order to secure additional financing. Any senior debt should have a minimum term of 30 years and should generally be coterminous with the DHCD Permanent Loan.

Construction Term Interest Rate (rentals and co-ops):

- 1% per annum plus 0.25% servicing fee accruing with simple interest. DHCD may consider deferring and accruing interest to accept a paid rate under 1.00%. The servicing fee cannot be deferred. Any accrued and deferred interest is to be paid as a balloon at maturity of the permanent loan.

Permanent Loan Interest Rate (rentals/co-op):

- Up to 3% during the permanent loan period. DHCD may structure the financing to leverage additional private financing. Any unpaid balance will be accrued to paid in a balloon payment at maturity.

Existing DHCD Debt:

- May be extended to run concurrent with the new loan term. An interest rate up to 3% will accrue. DHCD may adjust rate based on operational need.

**Underwriting Terms:**

DHCD requires that the general contractor secures projects by a Payment and Performance bond for 100% of hard costs, excluding contingency for scopes of \$1M or more or a Letter of credit (10% of hard costs excluding contingency) is required.

**Acquisition (i.e., the maximum portion of acquisition DHCD will finance via an HPTF loan):**  
\$25,000/per unit

**Debt Service Coverage:**

- 1.15x on all financing.

**Construction Contingency:**

- 10% of hard costs; 5% of soft costs.

**Income & Expense Trending:**

- 2% income increase and 3% expense increase.
- Minimum of 1.05x coverage

**Maintenance and Operation (M&O) Expenses:**

- The lower of actual expenses or a level acceptable to DHCD

**Vacancy and Collections Loss Rate:**

- 7% for Residential and 10% for Commercial.

**Commercial Space (if applicable):**

- All commercial spaces must have triple net leases at closing or next lease renewal that require commercial tenants to pay for any commercial property taxes.

**Reserves:**

All Project reserves will remain in place for the full regulatory agreement restriction period. If private senior debt is satisfied prior to the end of the restriction period and the senior lender controlled the reserves, DHCD will assume control of all reserves, which will remain in place for the benefit of the project.

- Initial Capitalized Operating Reserve – an amount equal to 6 months of maintenance and operating expenses and debt service on all loans is required.
- Replacement Reserve – with annual deposits of \$350 per unit per year, increasing at 3% annually.
- Projects with non-DHCD senior debt will have reserves serviced by the senior lender or other lender approved by DHCD

DHCD will require a cash flow sweep for projects that are unable to fund initial capitalized operating reserve requirements to the extent needed to meet those reserve requirements

**Equity Requirements:**

- 2% of total development costs less acquisition, existing debt, developer fee, and reserves. At least 50% of construction period cashflow must be included as an owner equity source in the budget. Equity must be paid with cash equity contributions by the owner, use of existing reserves in excess of term sheet requirements, and/or a cashflow sweep during construction by DHCD or the senior lender.

**Developer's Fee:**

- Non-LIHTC Projects – 8% of total development cost (TDC) less acquisition, existing debt, reserves, and developer fee with a net developer fee cap of **\$35,000 per unit**.
- LIHTC Projects – overall fee capped in accordance with the DHCD Qualified Allocation Plan (QAP).
- DHCD will allow up to 8% of Total Development Cost less acquisition, reserves, and developer fee with a cap of \$35,000 per unit to be paid in full by permanent loan conversion. Any fee not paid by permanent loan conversion will be deferred. If the remaining fee exceeds an amount that can be repaid with 15 years of cash flow, the overall fee must be reduced to not exceed an amount that can be repaid within 15 years of cash flow.
- Up to 50% of paid developer fee may be released between construction loan closing and permanent loan conversion in accordance with the milestones outlined below. The remaining balance of the paid developer fee will be payable upon permanent loan conversion.
- The above developer fee pay in terms are also subject to approval by debt and equity providers.
- The eligible Developer's Fee may be reduced if DHCD subsidy exceeds the maximum loan amount outlined above.
- Development consultants and owner's representatives fees must be paid from the developer fee.

**Not for Profit Organizations:**

- May receive up to 25% of paid developer fee paid at construction loan closing, inclusive of the amount required to pay development consultant fees and up to 25% of the paid developer fee may be released at construction completion as evidenced by a fully executed Certificate of Substantial Completion or Temporary Certificate of Occupancy (TCO), if applicable.

**Service Fee:**

\$1,000/application. Due at time of submission of HPTF Project Application submission.

**Rents:**

Rents for all units in a project shall be restricted in one or more regulatory tiers at a discount to market, and are determined by the existing rent distribution, amount of DHCD subsidy provided, and restrictions set forth through other subsidies or regulations.

**Occupied units:**

- Collectible rents will be projected to increase by rent stabilization allowances during the construction period and may be limited by HPTF rent limits. If a more significant increase is necessary to support building operations and debt service, rents may be restructured post-completion. If needed, post-completion and upon DHCD's issuance of a rent order, collectible rents will be set no higher than a level affordable to households earning 80% AMI.

**Vacant units:**

- Collectible rents shall generally be set no higher than a level affordable to households earning 120% AMI, unless further restricted based on HPTF, federal funding sources and/or LIHTC requirements as applicable.

**Cooperative Maintenance Fees:** As a condition of DHCD assistance, maintenance increases may be required up to at least 110% of the year-one projected building operating expenses based on maintenance and operations, or to otherwise ensure long-term, sustainable cash flow.

**Regulatory Requirements:**

All owners must enter into an DHCD regulatory agreement at closing requiring the following items:

**Multi-Family Rentals / Cooperatives:**

- Term of Regulatory Agreement – owners must, at a minimum, agree to the later of:
  - Fifteen (15) additional years from the expiration of the current DHCD regulatory period, or
  - A regulatory agreement that is co-terminus with the DHCD financing up to 40 Years.

**Building Operations –**

- o The buildings must employ professional 3rd party paid management services, management fee not to exceed 6.5% of Effective Gross Income unless otherwise approved for projects with new allocations of LIHTC, which may have a maximum fee of 8%.
- o Projects must maintain an operating and replacement reserve at DHCD that will stay with the project throughout the regulatory term.
- o Owners must manage the property in accordance with generally acceptable management practices in the District of Columbia. DHCD may require the owner enter into a management contract with an alternative third-party management entity.
- o Must employ a cooperative monitor acceptable to DHCD within one year of construction completion.
- o Cooperative maintenance charges must increase by at least 2% annually.
- o Annual occupancy rolls and certified financial statements will be submitted to DHCD on an annual basis. DHCD may additionally request on an annual basis documentation demonstrating that unit sales have been conducted in accordance with the regulatory terms. Other documentation will be maintained and submitted to DHCD upon request.

**Cooperatives Rent / Sale Stipulations:**

- o May not rent vacant units.
- o Any current or future vacant rental units must be sold to eligible households according to a Marketing Plan approved by DHCD.
- o Sales AMIs will be at or below 80% AMI for HPTF funded units
- o Prices are calculated to cap housing costs at 33% of total annual income which takes into consideration monthly maintenance costs and projected mortgage payments (assuming a 30 year mortgage term with a 10% down payment and 5% fixed interest rate).
- Income Limitation – current and future units must be sold to households whose incomes are in accordance with HPTF requirements.

*Prepayment does not release Regulatory Agreement requirements, which will remain in effect for the full term.*

**Design and Construction Guidelines:**

All HPTF projects must follow the District of Columbia Building Code.

**IPNA & Scope:** The loan amount is sized according to the rehabilitation needs of the project. Energy efficiency, water conservation and rehabilitation needs must be determined through an Integrated Physical Needs Assessment (IPNA), which is a roof-to-cellar assessment of a building's physical conditions combined with an energy audit conducted by a third party firm. The following items from the IPNA must be included:

- Items that correct physical deficiencies and significantly lower energy and water cost.
- Items noted as being in "poor condition" and/or items noted as "unsafe", and systems, components, and finishes that are classified as "immediate needs" or with a remaining useful life of 7 years or less.
- Item that include all applicable, mandatory items that are required to comply with DHCD Design Guidelines.

**Enterprise Green Communities (EGCC):** All substantial and gut rehabilitation projects, as receiving funding from DHCD must comply with the current version of the EGC or may pursue certification with LEED v4, gold or platinum.

**Other Eligible Projects:**

Projects may be considered for an HPTF only loan if capital needs identified in the Physical Needs Assessment cannot be financed through other resources including reserves, cash flow, modifications to existing DHCD debt and/or third-party private financing, with written confirmation of at least one capital provider unwilling to finance the project.

Projects that will ensure the future financial and physical viability and preserves the long-term affordability of Low-Income Housing Tax Credit Properties.

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