Massachusetts Housing Partnership

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Permanent Rental Financing Program – Term Sheet

Summary of Terms and Underwriting Guidelines

Eligible Borrowers:	For-profit and non-profit borrowers.
Property Types:	Multifamily rental and single-room occupancy (SRO) properties with 5 or more units.
Loan Type:	Permanent take-out financing provided by a first mortgage. Minor renovations may be funded through a holdback of a portion of the permanent loan at closing. For more significant renovations, construction financing is required through a construction lender.
Loan Size:	Minimum loan of $250,000 (except for projects that are part of a community redevelopment effort, in which case the minimum loan size is $100,000). MHP may choose to sell participation interests in its loan amounts above $10 million.
Affordability:	At least 20% of the units in the property must be affordable to households earning less than 50% of the area median income ("AMI"), or at least 40% of the units must be affordable to households earning less than 60% of AMI, or at least 50% of the units must be affordable to households earning less than 80% of AMI, as defined by the U.S. Dept. of Housing and Urban Development (HUD). Alternatively, for developments approved pursuant to MGL Chapter 40B at least 25% of the units (or at least 20% of the units for developments located in Smart Growth Zoning Overlay District pursuant to MGL Chapter 40R) must be rented to households earning less than 80% of AMI, provided that the maximum allowable restricted rents are at least 10% below comparable market rents. An affordable housing agreement shall be recorded to ensure the maintenance of affordability remains for a term of no less than 10 years (regardless of whether the loan is prepaid).
Term:	Maximum of 20 years, amortizing up to a maximum of 35 years.

Loan-to-Value Ratio:	Maximum of 85% based on the lower of total development cost or as complete and stabilized appraised value.
Debt Coverage Ratio:	Minimum of 110% over the life of the loan. For properties with fewer than 20 units, the pro forma must demonstrate a minimum coverage of 115% over the life of the loan. A capitalized operating reserve may be required to meet these requirements over time.
Interest Rate:	Current interest rates are available on MHP's website at https://www.mhp.net/rental-financing/loan-products/interest-rates . The interest rate may be fixed prior to permanent loan closing for up to 30 months.
Subordinate Debt:	All other financing must be fully subordinated to the MHP first mortgage. Subordinate debt from other lenders is permitted within the constraints of MHP's minimum debt coverage requirements.
Environmental:	Phase One environmental site assessment is required for any loan in excess of $500,000 to be dated no later than 6 months prior to loan closing. In addition, radon testing, conducted at the time of construction completion from an environmental professional demonstrating a radon level below 4 pCi/l.
Lead Paint:	For buildings constructed before 1978 (including commercial structures adapted for residential use), Letters of Compliance issued no earlier than 5 years prior to loan closing that certify that each unit in the property complies with the Massachusetts Lead Law (M.G.L. Chapter 111 and 105 CMR 460.00) and is suitable for occupancy by a child under the age of six. This may be waived by MHP under certain conditions (e.g., SRO properties).
Rehabilitation:	The scope of rehabilitation must be sufficient to maintain the long-term use of the property as affordable housing as outlined in a capital needs assessment. The property will be inspected by MHP staff including a review of existing conditions of the building and may include a review of plans and specifications by MHP's consulting architect or engineer.
Commercial Space:	Total commercial revenue cannot exceed 33% of the gross potential rent. If commercial income is required to achieve debt coverage requirements, this income will be discounted from actual or estimated market rents and commercial leases will be required.
Development Team:	The development team must demonstrate a successful track record with projects of similar size and complexity.

Management:	The management agent selected for the project must have a proven track record in managing properties of similar type and tenancy; including, compliance with all fair housing and accessibility regulations.
Financial Capacity:	The borrower and sponsor must demonstrate the financial capacity to successfully operate the project over the full term of the loan.
Recourse:	No recourse required for loans on projects financed with low-income housing tax credits. For loans on other projects, recourse requirements may apply based on the specific characteristics of the project and sponsor.
Loan Closing/ Take Out:	Shall occur once borrower has certified that either (a) 95% occupancy at rents plus actual income from any other revenue source included in the pro forma, are sufficient to provide for debt service coverage of 110% based on the greater of pro forma or actual operating expenses; or (b) break-even cash flow for a period of 3-months with a minimum occupancy level of 70%. Borrower may provide cash or letter of credit at loan closing in an amount equal to the difference between the original loan amount and the loan amount that would allow these take-out conditions to be met, provided this additional collateral shall not be released until the take-out conditions have been full achieved. For projects that have at least 30% of the units with rents at comparable market rents alternative take out requirements are required.
Replacement Reserve:	For family units, the minimum requirement typically is $325/unit/year; for SRO units, the minimum requirement is $200/unit/year but it may vary depending on the term of the loan or condition of the property (as the amount may be increased depending on the particular capital needs of the project).
Prepayment:	No prepayment is allowed within the first five years after the loan is closed, and thereafter prepayment is only allowed provided that arrangements satisfactory to MHP for the continuation of the affordability restrictions at the property is maintained and a yield maintenance premium may apply. Loans may be prepaid without a yield maintenance premium within 3 months of loan maturity.
Application Fee:	A non-refundable application fee is due at the time of application submission. For loan requests up to $500,000, the fee is $500 ($250 for non-profit sponsors). For loan requests over $500,000, the fee is equal to one-tenth of one percent (0.01%) of the loan amount.
Commitment Fee:	Upon approval and issuance of a loan commitment, a non-refundable commitment fee of up to 1% of the loan amount (may be up to 1.5% for loans with a construction holdback).
Third Party Costs:	Borrower is responsible for all third party costs incurred during loan processing including but not limited to appraisal, legal review, and architectural/engineering reviews.

For further information call Nancy McCafferty, Director of Business Development at 857-317-8556 or Alma Balonon-Rosen, Senior Relationship Manager at 857-317-8578.