



**Housing Department - Project Development Program
Affordable Housing Gap Financing**

PROGRAM GUIDELINES SUMMARY

Program Description	<p>The mission of the Housing Department is to strengthen and revitalize our community through housing and neighborhood investment. As a part of this mission and the execution of its housing element plan, the City supports the new construction and rehabilitation of housing for extremely low-, very low-, and low-income families with various policies and programs. The primary program administered by the Housing Department is the provision of gap financing for affordable housing projects. This program is guided by general guidelines (Guidelines) as well as specific guidelines that may be included in Notices of Funds Available (NOFAs) issued from time to time.</p>														
General Loan Terms	<table border="0"> <tr> <td style="vertical-align: top;">Pre-development</td> <td> <p>Amount: Max of \$1,000,000, of which up to \$200,000 may be non-recourse with an assignment of plans & specs</p> <p>Term: 12 to 24 months, with two six-month extensions</p> <p>Rate: Up to 4% simple, accrued interest may be capitalized</p> <p>LTV: N/A</p> <p>Recourse: Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable</p> </td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td style="vertical-align: top;">Acquisition</td> <td> <p>Amount: Based on LTV limitations</p> <p>Term: 12 to 36 months, with two six-month extensions</p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p>LTV: Up to 100% total LTV of the City loan plus all senior debt</p> <p>Recourse: Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable; requires real estate security in form of Deed of Trust (DOT)</p> </td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td style="vertical-align: top;">Construction</td> <td> <p>Amount: Up to \$125,000 per unit + capitalized interest</p> <p>Term: 12 to 36 months, with two six-month extensions</p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p>LTV: 100% total LTV of the City loan plus all senior debt</p> <p>Recourse: Completion guaranty, requires real estate security in form of DOT</p> </td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td style="vertical-align: top;">Permanent</td> <td> <p>Amount: Up to \$125,000 per unit + prior capitalized interest</p> <p>Term: 30-55 years</p> <p>Rate: AFR, 360-day year, actual basis</p> <p>LTV: 100% total LTV of the City loan plus all senior debt</p> <p>Recourse: Non-recourse, requires real estate security in form of DOT</p> </td> </tr> </table>	Pre-development	<p>Amount: Max of \$1,000,000, of which up to \$200,000 may be non-recourse with an assignment of plans & specs</p> <p>Term: 12 to 24 months, with two six-month extensions</p> <p>Rate: Up to 4% simple, accrued interest may be capitalized</p> <p>LTV: N/A</p> <p>Recourse: Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable</p>	<hr/>		Acquisition	<p>Amount: Based on LTV limitations</p> <p>Term: 12 to 36 months, with two six-month extensions</p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p>LTV: Up to 100% total LTV of the City loan plus all senior debt</p> <p>Recourse: Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable; requires real estate security in form of Deed of Trust (DOT)</p>	<hr/>		Construction	<p>Amount: Up to \$125,000 per unit + capitalized interest</p> <p>Term: 12 to 36 months, with two six-month extensions</p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p>LTV: 100% total LTV of the City loan plus all senior debt</p> <p>Recourse: Completion guaranty, requires real estate security in form of DOT</p>	<hr/>		Permanent	<p>Amount: Up to \$125,000 per unit + prior capitalized interest</p> <p>Term: 30-55 years</p> <p>Rate: AFR, 360-day year, actual basis</p> <p>LTV: 100% total LTV of the City loan plus all senior debt</p> <p>Recourse: Non-recourse, requires real estate security in form of DOT</p>
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General Affordability Restrictions	<p>Affordability restrictions will reflect the policies and regulations of the funding sources used by the City; NOFAs may require additional affordability restrictions. These restrictions will be documented with an Affordability Restriction (AR), unless the project is subject to the ground lease policy, then additional project-specific affordability restrictions will be recorded on the leasehold interest.</p>														
Subordination	<p>The City will not subordinate its AR. The City may consider subordinating its DOT if 1) the conventional lender (Senior Lender) requires a senior lien position; 2) the form of subordination provides the City with sufficient rights to cure a default under the Senior Lender's loan (Senior Loan); and 3) the form of subordination allows the City to address defaults under the City's loan documents. In the event that the City is in first lien position, the City will allow a standstill agreement giving the subordinate lender(s) the right to cure an event of a default under the City's loan documents.</p>														

Float-up Provision	The City may include a float-up of affordability restrictions up to 60% AMI in the AR under certain conditions (generally, loss of rental subsidy and foreclosure) conditioned up the developer demonstrating an increase is needed for project feasibility.								
Ground Lease	All new construction developments seeking gap financing will be subject to a ground lease. See Ground Lease Policy for details.								
Project Savings	All project savings, including construction cost savings, shall go to reducing the City's gap loan.								
Developer Fee	The City supports general consistency with TCAC's developer fee policy. Please see Developer Fee Policy for details. If necessary, a portion of the developer fee may be deferred and structured as a loan (with interest subject to TCAC limits and City policy) repayable from the developer's share of residual receipts.								
Operating Expenses	Minimum operating expenses (not including property taxes, replacement reserves, depreciation or amortization expense, or the costs of any service amenities) to be set by TCAC per region and project type. Maximum operating expenses to be approved by City in its sole discretion and reviewed alongside comparable data from the City's portfolio, developer's data and appraisal, if available.								
Reserves	<table border="0"> <tr> <td>Capitalized Operating Deficit Reserve</td> <td>Minimum is the TCAC guidelines of 3 months of OERDS (operating expenses, reserves and debt service). The development budget may include a higher amount if required by the syndicator, but City funds won't pay any amount in excess of the minimum policy.</td> </tr> <tr> <td>Replacement Reserves</td> <td> <ul style="list-style-type: none"> • New construction: minimum \$250/unit per annum and maximum \$350/unit; may be determined by a 20-year replacement schedule • Rehabilitation: minimum \$300/unit per annum and maximum \$400/unit; 20-year replacement schedule (and based on physical needs assessment) required • Exceptions may be granted for other financing requirements (e.g. permanent supportive housing (PSH), MSHA, HCD, etc.) </td> </tr> <tr> <td>Rental Subsidy Reserves</td> <td>The City will accept reasonable rental subsidy reserves if required by the Senior Lender.</td> </tr> </table>	Capitalized Operating Deficit Reserve	Minimum is the TCAC guidelines of 3 months of OERDS (operating expenses, reserves and debt service). The development budget may include a higher amount if required by the syndicator, but City funds won't pay any amount in excess of the minimum policy.	Replacement Reserves	<ul style="list-style-type: none"> • New construction: minimum \$250/unit per annum and maximum \$350/unit; may be determined by a 20-year replacement schedule • Rehabilitation: minimum \$300/unit per annum and maximum \$400/unit; 20-year replacement schedule (and based on physical needs assessment) required • Exceptions may be granted for other financing requirements (e.g. permanent supportive housing (PSH), MSHA, HCD, etc.) 	Rental Subsidy Reserves	The City will accept reasonable rental subsidy reserves if required by the Senior Lender.		
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Resident Services Coordination	<p>Resident services coordination expenses will be limited to the following:</p> <table border="1"> <thead> <tr> <th>Units Restricted to:</th> <th>Maximum Allowed Per Unit / Per Year</th> </tr> </thead> <tbody> <tr> <td>0 – 30% AMI</td> <td>\$575</td> </tr> <tr> <td>31 – 49% AMI</td> <td>\$475</td> </tr> <tr> <td>50 – 60% AMI</td> <td>\$325</td> </tr> </tbody> </table>	Units Restricted to:	Maximum Allowed Per Unit / Per Year	0 – 30% AMI	\$575	31 – 49% AMI	\$475	50 – 60% AMI	\$325
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Homeless Case Management	It is expected that expenses for case management for units restricted to the homeless shall be paid by a separate source other than project income.								
Senior Loan Debt Service Coverage Ratio	1.15x to 1.20x in the first stabilized year based on projected eligible income and expenses (pending Senior Lender approval), but in any event no less than 1.00x throughout the compliance period unless the total estimated deficit is covered by reserves, as approved by the City.								
Loan Repayment	Please see Operating Expense and Residual Receipts Policy for the calculation of net cash flow. Generally, the City requires 50% of net cash flow for Residual Receipts payments, but this share may be higher when other gap financing lenders are involved in the project.								
Contact Information	City of San José Housing Department - Project Development Program (408) 535-3860 housing@sanjoseca.gov								

The City of San José, in its sole discretion, may, at any time and without prior notice, terminate the program, amend or waive compliance with any of its terms, or reject any or all proposals for funding.