



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

**GAP FINANCING TERM SHEET PROGRAM GUIDELINES SUMMARY**

<b>Program Description</b>	<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 <del>policies and</del> guidelines (<u>Guidelines</u>) as well as specific guidelines that may be included in Notices of Funds Available (“NOFAs”) issued from time to time.</p>								
<b>General Loan Terms</b>	<table border="0"> <tr> <td data-bbox="305 772 446 823">Pre-development</td> <td data-bbox="454 772 1084 976"> <p>Amount: Max of \$1,000,000, <u>of which up to \$200,000 may be non-recourse with an assignment of plans &amp; specs</u></p> <p>Term: 12 to 24 months, <u>with two six-month extensions</u></p> <p>Rate: Up to 4% simple, <u>accrued interest may be capitalized</u></p> <p><del>LTV</del> <u>loan to value</u>: N/A</p> <p>Recourse: <u>Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable Full-recourse, developer guarantee, requires security</u></p> </td> </tr> <tr> <td data-bbox="305 997 446 1026">Acquisition</td> <td data-bbox="454 997 1084 1192"> <p>Amount: Based on LTV limitations</p> <p>Term: 12 to 36 months, <u>with two six-month extensions</u></p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p><del>Loan to value</del> <u>LTV</u>: Up to <del>95</del><u>100</u>% total LTV <u>of the City loan plus all senior debt</u></p> <p>Recourse: <u>Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable Full-recourse, developer guarantee, requires real estate security in form of Deed of Trust (DOT)</u></p> </td> </tr> <tr> <td data-bbox="305 1213 446 1243">Construction</td> <td data-bbox="454 1213 1084 1369"> <p>Amount: Up to \$<del>12500</del><u>125,000</u> per <u>affordable unit + capitalized interest</u><sup>‡</sup></p> <p>Term: 12 to 36 months, <u>with two six-month extensions</u></p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p><del>Loan to value</del> <u>LTV</u>: 100% total LTV <u>of the City loan plus all senior debt</u></p> <p>Recourse: <u>Full-recourse, developer Completion guarantee, requires real estate security in form of DOT</u></p> </td> </tr> <tr> <td data-bbox="305 1390 446 1419">Permanent</td> <td data-bbox="454 1390 1084 1564"> <p>Amount: Up to \$<del>100</del><u>125,000</u> per <u>affordable unit + prior capitalized interest</u></p> <p>Term: 30-55 years <u>rate reset after compliance period</u></p> <p>Rate: AFR, 360-day year, actual basis</p> <p><del>Loan to value</del> <u>LTV</u>: 100% total LTV <u>of the City loan plus all senior debt</u></p> <p>Recourse: <u>Full Non-recourse, developer guarantee, requires real estate security in form of DOT</u></p> </td> </tr> </table>	Pre-development	<p>Amount: Max of \$1,000,000, <u>of which up to \$200,000 may be non-recourse with an assignment of plans &amp; specs</u></p> <p>Term: 12 to 24 months, <u>with two six-month extensions</u></p> <p>Rate: Up to 4% simple, <u>accrued interest may be capitalized</u></p> <p><del>LTV</del> <u>loan to value</u>: N/A</p> <p>Recourse: <u>Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable Full-recourse, developer guarantee, requires security</u></p>	Acquisition	<p>Amount: Based on LTV limitations</p> <p>Term: 12 to 36 months, <u>with two six-month extensions</u></p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p><del>Loan to value</del> <u>LTV</u>: Up to <del>95</del><u>100</u>% total LTV <u>of the City loan plus all senior debt</u></p> <p>Recourse: <u>Full recourse to the borrower including repayment guaranties from project sponsor and parent organizations, as applicable Full-recourse, developer guarantee, requires real estate security in form of Deed of Trust (DOT)</u></p>	Construction	<p>Amount: Up to \$<del>12500</del><u>125,000</u> per <u>affordable unit + capitalized interest</u><sup>‡</sup></p> <p>Term: 12 to 36 months, <u>with two six-month extensions</u></p> <p>Rate: Up to 4% simple; accrued interest may be capitalized</p> <p><del>Loan to value</del> <u>LTV</u>: 100% total LTV <u>of the City loan plus all senior debt</u></p> <p>Recourse: <u>Full-recourse, developer Completion guarantee, requires real estate security in form of DOT</u></p>	Permanent	<p>Amount: Up to \$<del>100</del><u>125,000</u> per <u>affordable unit + prior capitalized interest</u></p> <p>Term: 30-55 years <u>rate reset after compliance period</u></p> <p>Rate: AFR, 360-day year, actual basis</p> <p><del>Loan to value</del> <u>LTV</u>: 100% total LTV <u>of the City loan plus all senior debt</u></p> <p>Recourse: <u>Full Non-recourse, developer guarantee, requires real estate security in form of DOT</u></p>
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<b>General Affordability Restrictions</b>	<p>Affordability restrictions will reflect <del>those the policies and regulations</del> of the funding sources used by the City: <u>NOFAs may require additional affordability restrictions. These restriction-ands will be may 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(see policy below) or a covenant that runs with the land. Additional affordability restrictions may be required in a NOFA. If the project’s rental assistance or</u></p>								

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<sup>‡</sup>City is developing a policy that establishes maximum loan amounts for different housing products and affordability levels.

~~operating subsidy is terminated through no fault of the owner, the City will work with the developer on alternative subsidies, financing structures and/or affordability restrictions.~~

**Subordination**

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.

**Float-up Provision  
Design and Construction Cost Review**

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. The City's Housing Department has a fiduciary responsibility to ensure that City financing supports as many affordable housing units as possible. Therefore, to ensure that the City's funds are used most effectively, the City requires a design and construction cost review in the early predevelopment phase for all projects eventually financed under this program, regardless of loan product type.

**Ground Lease**

All new construction developments seeking new gap financing will be subject to a ground lease. See Ground Lease Policy for details.

**Subordination**

~~The City will not subordinate its Affordability Restriction. If the conventional lender requires a senior lien position (Senior Lender), the City may consider subordination if the form of subordination provides City with sufficient rights to cure a default under the Senior Lender's loan (Senior Loan), and allows the City to address defaults under the City's loan documents. The City will also include standstill language in the event of a default of the City's loan documents. In the event of a foreclosure by the Senior Lender, rents will be allowed to float up to 60% of AMI.~~

**Project Savings**

All project savings, including construction cost savings, shall go to reducing the City's financing gap loan.

**Developer Fee**

The City supports general consistency with TCAC's developer fee policy with a few modifications. 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. ~~Both principal and interest on deferred developer fee must be repaid from the owner's 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**

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

- 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.)

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Rental Subsidy Reserves The City will accept reasonable rental subsidy reserves if required by the Senior Lender.

**Resident Services Coordination** Resident services coordination expenses will be limited to the following:

<del>Senior and Family</del> Units Restricted to:	Maximum Allowed Per Unit / Per Year
0 – 30% AMI	<del>\$500</del> 75
31 – 49% AMI	<del>\$475</del> 00
50 – 60% AMI	<del>\$250</del> 325

**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** ~~The debt service coverage ratio for the Senior Loan shall be~~ 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 and a minimum of 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 ~~Residual Receipts payments~~ 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 requiring Residual Receipts payments is 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.*

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