

**M² (Mixed-Middle-Income Program)
 Term Sheet**

**Program
 Description**

HPD's M² Program funds the new construction of multi-family rental housing affordable to low-, moderate- and middle-income families up to 165% of Area Median Income (AMI).

Under this initiative, 20% of the units in a new development must be reserved for low-income households earning less than 50% of the New York City Area Median Income (AMI), alternatively 25% of the units must be affordable to those earning at or below 60% AMI.. A minimum of 30% of the units would be set aside for moderate-income households earning between 80% and 130% of AMI. A maximum of 50% of the units would be set aside for middle-income households earning between 130% and 165% of AMI.

HPD subsidy is in addition to construction and permanent financing sources provided by, but not limited to: private institutional lenders; New York City Housing Development Corporation's (HDC) M² (Mixed-Middle-Income Program); New York State Homes and Community Renewal (HCR) programs such as Homes for Working Families Initiative (HWF), Low Income Housing Trust Fund Program (HTF), New York State Low Income Housing Tax Credit Program (SLIHC) and Low Income Housing Credit Program (LIHC), Federal Low Income Housing Tax Credit Program (LIHTC), and New York State Housing Finance Agency programs.

**Eligible
 Borrowers and
 Sponsors**

In order to be eligible for Capital funds, it is required that a borrower be a Housing Development Fund Corporation either alone or in partnership with for-profit developers, limited partnerships, corporations, trusts, joint ventures, or limited liability companies.

The development team for the project must have demonstrated a track record in successfully developing, marketing, and managing the type of facility proposed or must form a joint venture with an entity with such expertise. Borrowers must demonstrate sufficient financial stability and liquidity to construct and operate the project.

**HPD Loan
 Amount**

Affordability Options	Maximum Subsidy Limits
Requires moderate income units to be underwritten at or below 100% AMI	Up to \$85,000 / du
Requires moderate income units to be underwritten at or below 80% AMI	Up to \$95,000 / du

Preference will be given to projects requesting less than the maximum subsidy and include a variety of household income tiers that are less than the maximum tiers listed below. Per-Unit subsidies may be reduced for projects utilizing other sources, including the Inclusionary Housing Program, absent broader/deeper affordability or project benefits, or for projects that do not meet the minimum 15% three-bedroom unit requirement. Additional permanent affordability may be required for projects required to comply with the Mandatory Inclusionary Program.

For all units, tenants may pay up to 35% of their income toward net rents. Incomes will be adjusted for family size.

Low Income Units - Units with rents set at or below 40%, 50% or 60% of AMI can be rented to those with incomes at those respective levels.

Moderate and Middle Income Units – The following income limits apply unless further restricted by other funding sources:

	<ul style="list-style-type: none"> • Units with rents set at or below 80% AMI can be rented to those with incomes up to 100% of AMI. • Units with rents set at or below 100% AMI can be rented to those with incomes up to 130% of AMI. • Units with rents set at or below 130% AMI can be rented to those with incomes up to 165% of AMI. <p>More restrictive income limits of other financing sources may apply. The maximum income of any middle-income unit will be 165% of AMI.</p>
<p>Loan Terms</p>	<ul style="list-style-type: none"> • Loan Term: 30 years (Loan terms vary by funding source and lending authority). • Interest Rate: 1% per annum plus 0.25% servicing fee during construction. HPD may consider reducing the paid rate under 1.00% to leverage additional private financing. An additional simple interest rate set at the Applicable Federal Rate (AFR) may defer and accrue, with balloon due at maturity. • Amortization: Balloon allowable up to 100% of HPD loan amount. • Debt Service Coverage: 115% on all financing. • Loan to Cost: May not exceed 90% overall of total development cost. • Income to expense ratio: 1.00 to 1.05 on all financing. Project Income should include residential rental and commercial income, as applicable • Developer's Fee: A developer's fee is only allowed when tax credits are used or funds are combined with other public subsidy programs allowing such fees. As described in the HPD Qualified Action Plan, total developer fee is not to exceed 15% of improvement costs (excluding developer fee, reserves, and syndication and partnership expenses) and 10% of acquisition costs for tax credit projects. Up to 10% of the fee may be paid during construction. Consultant fees should be paid from the developer fee. HPD may require a reduction in paid developer fee beyond what is required by eligible basis in order to reduce public subsidy. HPD will recognize deferred developer fee if there is a revenue stream, usually cash flow, to enable the deferred fee to be paid within 15 years of the expected placed in service date of the project. • HPD requires that the general contractor secures projects by either a Payment and Performance bond for 100% of hard costs or a letter of credit. • Projects funded with Federal funds require compliance with Section 3 new hires and Davis Bacon prevailing wages, as applicable.
<p>Equity Requirement</p>	<p>At least 10% of total allowable development costs. This equity requirement is exclusive of the paid and deferred developer's fee. Preference will be given to proposals with greater equity contributions.</p>
<p>Maximum Initial Rents; Income Limits; Rent Increases</p>	<p><u>Low Income Units</u> –20% of the units must be affordable to low-income households earning at or below 50% AMI. Alternatively, 25% of the units must be affordable to those earning at or below 60% AMI.</p> <p>Rent levels are calculated as gross rents less an electricity allowance at 37%, 47%, and 57% AMI respectively</p> <p><u>Moderate and Middle Income Units</u> – a minimum of 30% of the units must be must be affordable to moderate-income households earning between 80-100% AMI. A maximum of 50% of the units must be affordable to middle-income households earning up to 130% AMI. Units with rents above 130% AMI may be considered but will not receive subsidy.</p>

2016 Low-, Moderate- and Middle-Income maximum rent levels are outlined below:

2016 MAXIMUM INITIAL RENTS FOR RESTRICTED UNITS FOR TENANTS WITH INCOMES UP TO:						
	40% AMI	50% AMI	60% AMI	80% AMI	100% AMI	130% AMI
0 BR *	\$464	\$600	\$736	\$1,049	\$1,321	\$1,729
1 BR	\$589	\$759	\$929	\$1,320	\$1,660	\$2,170
2 BR	\$713	\$917	\$1,121	\$1,591	\$1,999	\$2,611
3 BR	\$817	\$1,053	\$1,289	\$1,831	\$2,302	\$3,009

* Studio rents calculated with a 0.6 household factor.
 Rent levels are calculated as gross rents less an electricity allowance at 37%, 47%, 57%, 80%, 100% and 130% AMI respectively

Additional requirements for mixed-income tax-exempt bond projects may include:

- o Deep-rent skewing – 15% or more of the low-income units have rents set at or below 40% AMI and are occupied by those with income at or below 40% AMI.
- o 2:1 test – by unit size, average rents for the moderate- and middle-income units must be a minimum of 2 times the rent for the low-income units.

Rent Increases: Subsequent rent increases for restricted units will be governed by the lower of AMI or rent stabilization increases, with no vacancy or luxury decontrol for the duration of the HPD restriction period for all unit types.

**DESIGN AND
 CONSTRUCTION
 REQUIREMENTS**

- Projects must meet [HPD Design Guidelines for Multifamily New Construction and Senior Housing](#) and plans must be approved by HPD.
 HPD will approve unit distribution. Projects must have a minimum of 15% one-bedroom, 15% two-bedroom, 15% three or more-bedroom units and a maximum of 25% studio units, unless it is demonstrated that the project is located in an atypical market.

Unit Type	Net Square Footage
Studio	350 - 400 sq. ft.
1 BR	500 - 550 sq. ft.
2 BR	650 - 725 sq. ft.
3 BR	850 - 950 sq. ft.
4 BR	950 - 1,075 sq. ft.

- HPD reserves the right to participate in construction monitoring.
- HPD may at its discretion require competitive bidding for general contractors.
- All projects must achieve Green Communities Green Certification. The Green Communities Criteria and Certification portal is available online at <http://www.greencommunitiesonline.org/>
- All projects will be required to retain a qualified benchmarking service provider to track utility usage for heating, electric and water. The HPD Benchmarking and Performance Tracking Protocol is available online at <http://www1.nyc.gov/site/hpd/developers/green-building.page>
- Projects must be in full compliance with the design requirements of all applicable laws, including, but not limited to, the *New York City Zoning Resolution*, the *New York City Building Code*, the *New York City Housing Maintenance code*, the *New York State Multiple Dwelling Law*, the *Fair Housing Act*, and *Section 504 of the Rehabilitation Act of 1973*. Projects receiving New York State Homes and Community Renewal (HCR) funding must also comply with the *HCR Design Guidelines*, as applicable.

<p>Real Estate Exemption</p>	<ul style="list-style-type: none"> • Projects may qualify for the Article XI tax exemption. See HPD Tax Incentive Programs guidelines for more information. • Developers must provide proof of such tax exemption prior to construction loan closing.
<p>Overall Terms</p>	<p>Loan to Value: Combined first and second mortgage not to exceed 95% LTV as established by an independent MAI appraisal acceptable to HDC.</p> <p>Loan to Cost: May not exceed 90% overall.</p> <p>Debt Coverage: 1.15 times overall.</p> <p>Income to expense ratio: 1.05 to 1.00 or greater on all financing.</p>
<p>Closing Requirements</p>	<p>Conditions precedent to construction loan closing include (but are not limited to):</p> <ul style="list-style-type: none"> • Completed and satisfactory Sponsor Review disclosure documents for all applicable individuals and entities in the project. Further disclosure documentation may be required. • Completed and satisfactory Equal Opportunity documents for applicable entities, including contractors and sub-contractors, in the project. Further documentation may be required for contractors and sub-contractors on the Enhanced Contractor Review status list. • Completed and satisfactory HUD Section 3 documents for applicable entities in the project, if project is receiving federal funding. • Completed and satisfactory Campaign Finance documents for applicable individuals and organizations in the project. • Completed and satisfactory Environmental Review including, but not limited to, City Environmental Quality Review (CEQR), and/or State Environmental Quality Review Act (SEQRA) review, and/or National Environmental Policy Act (NEPA) environmental review, as applicable. Detailed environmental studies and compliance measures may be required. • Final architectural plans submitted to HPD and approved by the NYC Department of Buildings (DOB). • HPD may require the inclusion of an HPD rider as part of the construction contract. • Borrower's organizational documents including W-9 forms and IRS EIN letters. <p>Documentation will require that HPD be named a beneficiary on a number of documents, including but not limited to insurance certifications and completion guarantees.</p>
<p>Conversion Requirements</p>	<p>Conditions precedent to permanent loan conversion include (but are not limited to):</p> <ul style="list-style-type: none"> • 95% residential rental achievement evidenced by a certified rent roll. • 100% commercial/retail occupancy evidenced by executed leases. • Evidence of real estate tax benefits. • Evidence of compliance with zoning and all applicable codes. • Certification of "no change" in borrower's financial status. • Certificate of completion from construction lender's construction monitor. • Certificate of completion from HPD on City-owned sites. • All other conditions as required by the credit enhancer. • Completed and satisfactory final developer's tax certification (Final 95/5).

**Marketing and
 Rent Up**

- All projects must be marketed according to HPD and HDC marketing guidelines. The developer must submit a marketing plan for agency review and approval prior to marketing. Where applicable, marketed projects will be required to use HPD's and HDC's lottery process and include a 50% community preference.
- On an annual basis, HPD may require a certified rent roll, written certification of tenant incomes, and other supporting documentation.

**Proposal Review
 Information**

For consideration, please submit the following:

- Location (Borough/Block/Lot and address) and description of site and proposed development. Include commercial, parking and residential square footage.
- Proposed pro-forma including development and operating budgets, as well as acquisition price per developable floor area for privately owned sites. Include an appraisal for private site acquisitions.
- Indicate whether the project is conveying tax benefits to another project on the same zoning lot.

Proposed development team (borrower, contractor, architect, management company) respective principals and previous development experience over the last 10 years. HPD and NYC development experience should be highlighted.

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HPD Contact

HPD, 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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