



Small Building Participation Loan Program

HCR’s Small Building Participation Loan Program provides gap project financing assistance for qualified housing developers for acquisition, capital costs and related soft costs associated with the preservation and improvement of rental properties in buildings of 5 to 40 units located outside of New York City. HCR subsidy is combined with bank financing from a participating private institutional lender, resulting in a lower blended financing cost.

The program’s primary target is the renovation of small buildings in medium density neighborhoods where rents are already affordable, but not strong enough to support market transactions, with a focus on neighborhoods supported by other targeted investments by New York State or local initiatives. An overall goal of the program is neighborhood restoration and the removal of blight.

Actual award amounts will be based on the demonstrated need for such funding by underwriting standards of HCR staff and the participating lender, and must be recommended by HCR Staff, the HCR Credit Committee and approved by the Board. Applicants are strongly encouraged to apply for only the funding necessary for the financial feasibility of the project and to leverage funding from non-HCR sources.

PROGRAM DESCRIPTION	
Eligible Uses	Substantial or moderate rehabilitation of site-specific multifamily rental housing in buildings of 5 to 40 units. Construction and permanent financing available.
Financing Requirements	To be eligible for funding under this program, the project must have a commitment for a 30-year, fixed rate loan with required mortgage insurance from a participating lender acceptable to HCR that will service the combined construction and permanent loans. Funding is not available for projects financed with LIHTCs or bonds.
FY 2018-19 Anticipated Amount Available	Up to \$20 million.
Per Residential Unit Maximum Award	Up to \$50,000 per housing unit. Projects are strongly encouraged to secure other, non-HCR subsidy resources. The maximum per unit awards are expected for projects unable to secure leveraged resources and/or for projects where prevailing wages are required.
Priorities	Economic Development Projects, Community Renewal and Revitalization Projects, Housing Opportunity Projects, Workforce Opportunity Projects, Disaster Relief Projects, Downtown Revitalization Initiative Projects

Geographic Targeting	Awards will promote a statewide geographic distribution outside of New York City.
AFFORDABILITY REQUIREMENTS	
Area Median Income Restrictions	The average AMI of units in the project must not exceed 80%, and all units must be affordable to households earning no more than 120% of AMI.
Rent Limits	For all income-restricted units, gross rents cannot exceed 30% of the applicable percentage of AMI adjusted for family size. In some cases, HCR may allow an income band if required by other funders of the project to accommodate specific public policy goals. For example, maximum rents set at 57% of AMI may be permitted for a unit restricted for households earning up to 60% of AMI.
Regulatory Agreement Requirements	<p>Borrowers will be required to enter into a Regulatory Agreement to ensure compliance with HCR policy including but not limited to, income restrictions, restrictions on transfers, and financial reporting, typically for a period of at least 30 years.</p> <p>The Regulatory Agreement must be executed prior to construction closing. Requirements imposed by other loan and/or subsidy sources may be more restrictive but must be consistent with the HCR Regulatory Agreement.</p>
LOAN TERMS	
Interest Rate and Loan Terms	<p>Private Loan: As established by the participating lender. 30 year term.</p> <p>HCR Subsidy Loan: 0.5% interest-only paid during construction and permanent. 30 year term.</p> <p>Loan to Value Maximum: 80% of the private loan, based upon the as-built appraised value from an independent appraisal commissioned by the participating lender and acceptable to HCR.</p> <p>Loan to Cost Maximum: 90% of the combined debt of the private loan and HCR subsidy loan.</p> <p>Income to Expense: SONYMA: Minimum of 1.05 for 15 years and then not less than 1.00 for years 16-20 on projects with SONYMA mortgage insurance. Other Permanent Credit Enhancers' requirements must be acceptable to HCR.</p> <p>Debt Service Coverage: Minimum of 1.15 of the combined debt of the private loan and HCR subsidy loan, or as set by the participating lender and permanent credit enhancer.</p>

Equity Requirements	During the construction period the minimum equity exposure requirement of at least 10% of total development cost (TDC) for for-profit developers and 2% for not-for-profit developers can be met with cash. During the permanent period, a cash equity contribution consisting of cash or deferred developer fee must be the aggregate amount that can be repaid by the projected cash flow as underwritten for the first 15 years after conversion.
Mortgage Insurance	Mortgage insurance must be provided by SONYMA or another insurer acceptable to HCR.
Term/Amortization	Expected permanent term of 30 years for first mortgages, following the construction term with a 30-year amortization schedule. Longer terms and balloons will be considered on a case by case basis.
Financing and Servicing Fees	Monitoring Fee: 1% of the project's regulated rent.
PRO FORMA REQUIREMENTS	
Developer's Fee	<p>The maximum allowable developer fee is not to exceed 5% of allowable projects costs, excluding reserves, partnership expenses and developer fee, and is allowed for not-for-profit borrowers only. Fee must be fully deferred at construction loan closing. Developer fees may be reduced to minimize public subsidy and are subject to agency review.</p> <p>Deferred fee is considered an equity contribution and source for the project. Deferred fee at permanent must be the aggregate amount that can be repaid by the projected cash flow as underwritten for the first 15 years after conversion. Any deferred developer fee interest rate is subject to HCR review and cannot exceed AFR.</p> <p>All housing development consultant and owner's representative fees should be paid from developer fee or from outside the project budget.</p>
Reserves	<p><i>Replacement Reserve Capitalized:</i> \$1,000 per unit.</p> <p><i>Replacement Reserve Annualized:</i> \$250 per unit per year in annual Reserves for Replacement, payable monthly. This amount may be subject to annual increases.</p> <p><i>Operating Reserves:</i> Up to three months of debt service plus three months of operating expenses.</p> <p>Any reserves in excess of these amounts, including reserves required by other funders, shall be established with developer fee eligible for payment during the construction period.</p>

Contingencies	<p>Hard Cost Contingency: 10% of hard costs.</p> <p>Soft Cost Contingency: Maximum 5% of soft costs less developer fee and reserves. May be reduced and are subject to agency review to reduce HCR subsidy.</p> <p>Upon project conversion, the balance of all unutilized contingencies shall be used to reduce HCR subsidy.</p>
DEVELOPMENT TEAM REQUIREMENTS	
Eligible Borrowers	<p>Not-for-profit corporations or charitable organizations, or a wholly owned subsidiary of such corporations or organizations, or private for-profit developers.</p> <p>The borrower must be a single-asset, sole-purpose entity. The sponsor and principal participants in the project must not be in default under any existing mortgage financing and must meet all HCR credit review criteria.</p>
REVIEWS AND APPROVALS	
Environmental Review	<p>To comply with the Agency’s environmental requirements, an applicant must complete the following:</p> <p>(1) File an application with the New York State Office of Parks Recreation and Historic Preservation’s (NYS OPRHP) Cultural Resource Information System (CRIS) to obtain a “No Impact” determination.</p> <p>(2) Prepare a Phase I Environmental Site Assessment (ESA) Report. The Phase I ESA must be completed within six (6) months of Board financing approval and must follow the most recently revised version of ASTM Standard Practice E-1527. If “<i>recognized environmental conditions</i>” (RECs) exist at the site, as defined by ASTM E1527-13, a Phase II ESA Report will be required.</p> <p>(3) If the Project involves federal funding and/or permits, a National Environmental Policy Act (NEPA) federal environmental review will be required, in addition to the above requirements. If project sources, such as HOME or CDBG funds or PBVs, are utilized that trigger NEPA, this process could require several months.</p> <p>(4) Certain projects, based on age and location, will be required to prepare an asbestos-containing materials (ACM), lead-based paint (LBP), and radon testing/analysis reports.</p>
Appraisal Report	<p>An independent appraisal is required and subject to HCR review and approval. The project’s acquisition cost must be the lesser of the actual acquisition cost or the value supported by an as-is value from an independent appraiser licensed to practice in the State of New York and acceptable to HCR. The appraisal must agree with analysis of rents and</p>

	<p>operating expense. If needed, an independent market study may be requested.</p>
<p>Scope of Work</p>	<p>The determination of the Scope of Work should be based on a physical needs assessment.</p> <p>HCR may request changes to the Scope of Work to ensure the long-term quality and sustainability of the project.</p>
<p>Conditions for Credit Committee and Board Review</p>	<p>All financing is subject to review and approval by the HCR Credit Committee and Board.</p> <p><i>Credit Committee consideration requires all information required in the application, in addition to:</i></p> <ul style="list-style-type: none"> • Draft Commitment Letters: Draft commitment letters from the participating lender, satisfactory evidence of commitment from all subordinate lenders. • Appraisal: An independent appraisal acceptable to HCR. • Physical Needs Assessment: Completed and satisfactory to HCR. • Third Party Reports: Completed and satisfactory third-party reports with reliance letters to HCR. • Disclosure: Completed and satisfactory disclosure documents for principals and known investors in the project, as required by HCR. All members of a non-profit board must complete the disclosure process. • Financial Statements: Financial statements and credit reports. • Background Check: Satisfactory as completed by HCR. • Operating Statements: Submission of three years of audited historic building operating statements. • Acceptable project budget including agreed upon income, expenses, and sources and uses. <p><i>Board consideration requires the above documents plus:</i></p> <ul style="list-style-type: none"> • SEQRA: Completed and satisfactory State Environmental Quality Review Act (SEQRA) review. • SHPO: No Impact determination letter from the State Historic Preservation Office (SHPO). • MWBE Goal Projection: Complete estimate for MWBE utilization goal for the project.

EQUAL OPPORTUNITY GOALS	
Affirmative Fair Housing Marketing Plan Requirements	Must comply with all HCR marketing guidelines and submit an Affirmative Fair Housing Marketing Plan acceptable to HCR’s Office of Fair Housing and Equal Opportunity, which must be approved prior to construction closing.
CONSTRUCTION CLOSING	
Conditions Precedent	<p>In addition to the items listed above in final form for credit committee and Board, conditions precedent to construction loan closing include, but are not limited to the following:</p> <ul style="list-style-type: none"> • NEPA, if necessary, when Federal funds are included in the project. • Commitment Letters: Executed commitment letters from the participating lender and all subordinate lenders, if any. • Other Funding: Evidence of all other project funding. • Project Budget: Must be agreed to and in final form for all parties. • Plans: Building permits from the local jurisdiction issued as necessary. • Note, mortgage, assignment of leases and rents, and UCC’s. All documents in final form acceptable to all parties. • Certifications: Applicable certifications and attorney opinion letters. • Insurance: Property and liability insurance in form and substance acceptable to HCR. • Title: Good and marketable title, free and clear of encumbrances except as permitted by HCR. • Title Insurance: Title insurance and survey in form and substance acceptable to HCR. • HCR Named Beneficiary: Documentation will require that HCR be named a beneficiary on several documents, including but not limited to insurance certificates and completion guarantees. • MWBE Plan: An MWBE Utilization Plan acceptable to the agency. • Fair Marketing Plan: Fair Marketing Plan acceptable to HCR’s Office of Fair Housing and Equal Opportunity. • Agreement on any real estate tax exemption/abatement must be in place. • Approval from the NYS Attorney General Office for property sale from non-profit entity. • Agreement of any rental and operating subsidies must be in place.
APPLICATION INFORMATION	
Application Fee	0.5% of loan amount.

HCR retains the right to revise this term sheet from time to time and to waive any requirement contained therein, subject to the applicable statutes and program regulations. HCR also retains the right to not award any or all of its funds under this program. All proposals must comply with all federal, state and local laws.