

WASHINGTON WORKS HOUSING PROGRAM

Term Sheet, June 11, 2010

I. Eligible Borrowers

- 501(c)(3) non-profit owner or general partner
- Public agency owner or general partner

Intent: "for public agencies and nonprofit organizations, including those materially participating as a managing member or general partner"

II. Eligible Projects

Development

- New construction
- Acquisition of newly constructed or rehabilitated building (with minimum rehab requirement), if Washington Works funds are only funded at acquisition
- Acquisition-rehabilitation with rehabilitation at least equal to that required for multi-family bonds.

Intent: "Minimum rehab to help create jobs, Single standard regardless of whether multi-family bonds/501(c)3/ public purpose bonds actually used. If using tax credits, need to meet tax credit minimum which may be higher."

Not already owned by non-profit or public agency

- Buildings are newly constructed or being acquired by non-profit or public agency from a for-profit owner.

Intent: (Sec. (2)(2)(a): "increasing the stock of .. housing owned by non-profit organizations and public agencies").

Not already affordability-restricted

- Buildings are newly constructed or not currently subject to affordability restrictions

Intent: (Sec. 2(2)(a): "increasing the stock of permanently affordable housing").

Size

- At least 5 units

Intent: Federal tax law for multi-family bonds

- No maximum number of units

Intent: Limit maximum funds amount of assistance for any single project

Fee simple or leased land

- Fee simple or Ground lease

Intent: Helps assure continuing affordability. Ground lease must be at least as long as regulatory restriction

III. Required First Mortgage Financing - WSHFC Bonds

Bonds must be issued by the Washington State Housing Finance Commission

(Section 2(2)(b) “through issuance of tax-exempt or taxable revenue bonds issued by the commission”)

Type of Bond

- multi-family private activity bonds (with volume cap and eligible for 4% credits)
- 501 (c) 3 bonds
- Governmental bonds
- Build America bonds
- Other taxable bonds

Type of Credit - Any type which meets WSHFC bond requirements, including:

- STEP/Private placement
- Publicly sold bonds
- Credit-enhanced (eg FHA, Freddie Mac or Fannie Mae, Bank letter of credit, etc)

Amount of Bond Debt

- Borrower is maximizing the first mortgage bond permanent loan amount under the lender’s requirements

To help minimize amount of Washington Works funds needed.

- If using LIHTCs, the tax-exempt multi-family bond debt must pay for at least 51% of aggregate basis of the project.

Sec. 2(2)(b): “through issuance of bonds ... with a subsidy necessary to make bond issues financially feasible

IV. Required Affordability

Income requirement

Of the units in the project at least:

- 20% below 50% of Area Median Income (AMI), with an additional 31% below 80% of AMI
- or**
- 40% below 60% of AMI, with an additional 11% below 80% AMI

Sec 2(2)(c) Effectively, projects will meet affordability requirements for using 4% tax credits

Washington Works funds not to be used to subsidize to deeper income levels (other funds of borrower may be used to do so)

Income mix

Mixed-income is encouraged, including units up to 80% AMI and market units, but not required

Law encourages 80% units and, during the initial debt period, market units

Affordability Term

75 years

Sec. 2(2)(a) “permanently affordable housing”

Sec. 2(2)(d) “affordable housing ... for remaining useful life of the property”

Foreclosure/subordination

- Washington Works regulatory restrictions can be removed upon foreclosure by lender

Otherwise lenders will not be able to lend on properties. Same provision as on WSHFC bonds

- For FHA-insured loans, restrictions must be subordinated to Federal government

FHA requirement

Rental Restriction During Initial Bond Indebtedness Period

Washington Works does not require rent restrictions during the Initial Bond Indebtedness Period. However, the income set-asides chosen by the applicant will apply during this period.

(Depending on the type of financing chosen, such as bonds with 4% tax credits, other rental restrictions may apply. Tax credits require rent restrictions)

Additional Requirements After Retirement of Initial Bond indebtedness

When Rental Restriction Period Begins

Upon the earliest of:

- (i) retirement of all Commission bond debt on the property (whether the original Commission bond loan or any refunding, refinancing or subsequent Commission bond loan)
- (ii) partial prepayment of Commission bond debt with other amortizing debt
- (iii) 40 years after bond closing, or, in case of initial FHA 221d3/d4 loan, 40 years after commencement of amortization

How Long Does It Continue

For the remainder of the 75 year period, unless earlier foreclosure

Income requirement

For all units originally restricted at 50%, 60% or 80% of area median:

The same income restrictions will remain in effect for those units previously restricted.

After initial bond indebtedness is retired, to provide “affordable housing for very low or low income households”

For units that were not income-restricted

Upon re-rental the Commission will expect the owner to present a plan that will begin the conversion, upon re-occupancy, of all market rate units to households at or below 80% of area median income, while remaining financially stable.

After initial bond indebtedness is retired, to provide “affordable housing for very low or low income households”

Rent restriction

Rent for restricted units will be sufficient for operation, maintenance and reserves of property as approved by the Commission. (see below)

Sec. 2(2) (d) “with the intent of providing affordable housing ... for the remaining useful life of the property.”

Additional Affordability

- The Commission will review with borrower to what extent the borrower can create additionally affordable units with either rent restrictions or lower income requirements and will determine whether or not the plan will enable the project to operate sustainably to the end of the review period.
- The review will be based on income, reasonable maintenance and operating expenses, capital reserves and capital needs and debt service on capital repairs as well as reasonable coverage required by the lender for such debt.

Periodic approval of reasonableness of rents

- Every 3 years the Commission will review updated annual reports of income, maintenance and operating expenses, necessary capital reserves, and other necessary expenses to determine rent levels.
- At a later time during this period, the Commission may establish guidelines for annual rent increases based on economic indicators representing inflation in income and expenses following discussions with owners of WA Works projects and a public hearing before the Commission.
- Owner may request, at owner's expense, a Commission review of income, operating and maintenance expenses, capital needs and reserve levels and rent levels on any anniversary of the rent restriction period.

(2)(2)(d): Commission must periodically approve reasonableness;

Includible amounts

Rents may reasonably include amounts needed for following purposes:

- pay debt service on debt used for reasonable capital repairs and reasonable coverage required by lender for such debt (including using such amounts for asset management fees and operating reserves as set forth below)

Intent is to cover "necessary capital needs"

Ability to refinance needed for lenders to make initial loans

- pay debt service on refunding bonds of the Commission or any other refinancing or new financing through the Commission, so long as such financing does not provide cash out to the owner

Debt service after 40 year date can only be for debt for capital repairs, regardless of when loan is originated

Assure rent restrictions effectively lower rents after period of initial bond indebtedness on a date certain

- pay reasonable asset management fees of the owner or general partner for property management and asset management

To provide reasonable long-term incentives to manage and maintain the property

- fund replacement reserves and
- build up an operating reserve up to 6 months of operating expenses

Helps assure adequate long-term operating reserves for future operating and maintenance costs

V. Washington Works Loan Form of Assistance

0% deferred loan, or as negotiated with the Commission.

Enables loan amount to be included in basis

Maturity

75 years

Due

Upon earlier of:

- sale of property, or
- upon foreclosure by senior lender, or upon default under the regulatory restriction

Assumability

Loan may be assumed by another Eligible Borrower upon approval by the Commission

Help maintain permanent affordability

Interest Rate

0% or such higher rate as borrower may request if higher rate helps project leverage other assistance (such as tax credits)

Timing of disbursement

- May be disbursed at bond closing, but with 10% holdback until lien-free completion and certificate of occupancy of the property. For 501(c)(3) bonds, the holdback will be 5%.
- Bond owner or credit enhancer may control disbursements
- If building is being constructed or rehabilitated by a private for-profit owner to be sold to Eligible Borrower, funds are only disbursed upon acquisition by the Borrower

Assures Washington Works funds are always used for eligible purposes by Eligible Borrowers

Lien Priority

May be subordinate to bond debt, to loans from other public funds, owner or partner, to eligible refinancing or loans for capital repairs (or otherwise upon WSHFC approval)

VI. Applications for Funds

Competitive Round

WSHFC will establish an initial competitive round with applications due by September 15, 2010. To be eligible for the initial round, projects must close by December 31, 2010 and be seeking no more than \$2.5 million in Washington Works funds.

For those projects not able to close by December 31, 2010, we will hold a second round with a deadline of October 29, 2010. Additional rounds may be held later in 2010 or in spring of 2011.

Required for Application

Washington Works application to the Commission including:

- lender commitment
- market study
- Tax credit application (if planning to use 4% tax credits)

- Copy of lender-ordered appraisal

All projects require a market study regardless of type of bond financing. Applicants may use the same market study they are submitting for tax credit application

Geographic Distribution

Applications will be compared by geographic region: King County, other metropolitan areas, non-metropolitan areas.

Helps assure reasonable comparison of projects in same types of markets

In first two rounds, not more than:

- \$10 million will be reserved for projects in King County (40% of funds 25 million), and
- \$7.5 million for projects in other metropolitan areas.

Assures that at least remaining funds \$7.5 million is initially available solely for projects in other metro areas

- \$7.5 million for projects in rural areas.

Assures initial access for rural areas.

If insufficient applications are received in one area, the Commission may reallocate funds to other first round projects in another geographic region.

In subsequent rounds, if any, amounts will not be reserved for specific geographic region.

Selection

- The Commission will consider criteria in the allocation process including: the total per-unit investment of Washington Works equity dollars, the total per unit cost of the project, cost per sq. ft. of housing units, transit-oriented development, the proximity to community amenities, and such other criteria as requested in the application.

To minimize the amount of WA Works equity funds necessary for each project and encourage more projects to apply;

To encourage Transit- oriented development and the consideration of other public benefits and amenities in the development of projects

- Commission allocation decisions are final.

Loan Amount

Target of \$2.5 million

10% of \$25 million appropriation

Potentially Higher Loan Amount for Exceptional Projects

Requests may be considered for amounts above \$2.5 million if, in the Commission's determination, the project is exceptional in the following ways:

- (i) low amount of Washington Works funds per unit,
- (ii) low cost per unit
- (iii) higher level of need for work-force housing in the project area, based on market studies
- (iv) meeting Commission priorities for transit-oriented development and other objectives for work-force housing

Total Loan Amount for any nonprofit or public agency, including affiliates and related entities

One Washington Works project per organization (including affiliates and related entities), unless there are not enough applications to use the funds available.

Costs

Washington Works projects will not be subject to fees from the Commission above the normal fees associated with the bond program selected by the borrower. For a list of these fees, please contact Capital Project's staff.

VII. Commission Obligation Date

- All sources funds must be approved for and obligated to the project no later than April 1, 2011

➤ Bond Closing Deadline

All funds must be fully committed and available to be disbursed no later than June 30, 2011