

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

**SUMMARY OF MULTIFAMILY UNDERWRITING GUIDELINES**

<p><b>Program Description</b></p>	<p>The mission of the City of San José's (City's) 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 individuals and families with various policies and programs. The primary program administered by the Housing Department is the provision of gap financing for affordable and permanent supportive housing projects. The underwriting for this program is guided by these general policies and guidelines, as well as specific guidelines that may be included in Notices of Funds Available (NOFAs) issued from time to time.</p>								
<p><b>General Loan Terms</b></p>	<table border="0"> <tr> <td data-bbox="293 562 509 877">Pre-development</td> <td data-bbox="509 562 1524 877"> <p><i>Amount:</i> Max of \$1,000,000  <i>Term:</i> 12 to 24 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple, accrued interest may be capitalized  <i>LTV:</i> If property owned by sponsor or developer, up to 100% total LTV of the City loan plus all senior debt, based on the As-is value of the property  <i>Security:</i> Deed of trust (DOT) required if property owned by sponsor or developer; repayment guarantee for all loan amounts over \$250,000 from project sponsor and assignment of plans &amp; specifications  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p> </td> </tr> <tr> <td data-bbox="293 877 509 1136">Acquisition</td> <td data-bbox="509 877 1524 1136"> <p><i>Amount:</i> Based on actual costs and LTV limitations  <i>Term:</i> 12 to 36 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple; accrued interest may be capitalized  <i>LTV:</i> Up to 100% total LTV of the City loan plus all senior debt, based on the As-is value of the property  <i>Security:</i> DOT required; may require repayment guaranties from project Sponsor  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p> </td> </tr> <tr> <td data-bbox="293 1136 509 1360">Construction</td> <td data-bbox="509 1136 1524 1360"> <p><i>Amount:</i> Up to \$125,000 per unit + prior and construction capitalized interest (See Loan Repayment Policy)  <i>Term:</i> 12 to 36 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple; accrued interest may be capitalized  <i>Security:</i> DOT required; completion guaranty from project sponsor  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p> </td> </tr> <tr> <td data-bbox="293 1360 509 1556">Permanent</td> <td data-bbox="509 1360 1524 1556"> <p><i>Amount:</i> Up to \$125,000 per unit + prior capitalized interest (See Loan Repayment Policy)  <i>Term:</i> 30-55 years  <i>Rate:</i> AFR, compounded daily, using the actual number of days of the year  <i>Recourse:</i> Non-recourse to the borrower in permanent phase  <i>Security:</i> DOT required</p> </td> </tr> </table>	Pre-development	<p><i>Amount:</i> Max of \$1,000,000  <i>Term:</i> 12 to 24 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple, accrued interest may be capitalized  <i>LTV:</i> If property owned by sponsor or developer, up to 100% total LTV of the City loan plus all senior debt, based on the As-is value of the property  <i>Security:</i> Deed of trust (DOT) required if property owned by sponsor or developer; repayment guarantee for all loan amounts over \$250,000 from project sponsor and assignment of plans &amp; specifications  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p>	Acquisition	<p><i>Amount:</i> Based on actual costs and LTV limitations  <i>Term:</i> 12 to 36 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple; accrued interest may be capitalized  <i>LTV:</i> Up to 100% total LTV of the City loan plus all senior debt, based on the As-is value of the property  <i>Security:</i> DOT required; may require repayment guaranties from project Sponsor  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p>	Construction	<p><i>Amount:</i> Up to \$125,000 per unit + prior and construction capitalized interest (See Loan Repayment Policy)  <i>Term:</i> 12 to 36 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple; accrued interest may be capitalized  <i>Security:</i> DOT required; completion guaranty from project sponsor  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p>	Permanent	<p><i>Amount:</i> Up to \$125,000 per unit + prior capitalized interest (See Loan Repayment Policy)  <i>Term:</i> 30-55 years  <i>Rate:</i> AFR, compounded daily, using the actual number of days of the year  <i>Recourse:</i> Non-recourse to the borrower in permanent phase  <i>Security:</i> DOT required</p>
Pre-development	<p><i>Amount:</i> Max of \$1,000,000  <i>Term:</i> 12 to 24 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple, accrued interest may be capitalized  <i>LTV:</i> If property owned by sponsor or developer, up to 100% total LTV of the City loan plus all senior debt, based on the As-is value of the property  <i>Security:</i> Deed of trust (DOT) required if property owned by sponsor or developer; repayment guarantee for all loan amounts over \$250,000 from project sponsor and assignment of plans &amp; specifications  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p>								
Acquisition	<p><i>Amount:</i> Based on actual costs and LTV limitations  <i>Term:</i> 12 to 36 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple; accrued interest may be capitalized  <i>LTV:</i> Up to 100% total LTV of the City loan plus all senior debt, based on the As-is value of the property  <i>Security:</i> DOT required; may require repayment guaranties from project Sponsor  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p>								
Construction	<p><i>Amount:</i> Up to \$125,000 per unit + prior and construction capitalized interest (See Loan Repayment Policy)  <i>Term:</i> 12 to 36 months, with two six-month extensions  <i>Rate:</i> Up to 4% simple; accrued interest may be capitalized  <i>Security:</i> DOT required; completion guaranty from project sponsor  <i>Other:</i> Option for City to purchase may be required (See Ground Lease Policy)</p>								
Permanent	<p><i>Amount:</i> Up to \$125,000 per unit + prior capitalized interest (See Loan Repayment Policy)  <i>Term:</i> 30-55 years  <i>Rate:</i> AFR, compounded daily, using the actual number of days of the year  <i>Recourse:</i> Non-recourse to the borrower in permanent phase  <i>Security:</i> DOT required</p>								
<p><b>General Affordability Restrictions</b></p>	<p>Affordability restrictions will reflect the policies and regulations of the funding sources used by the City and NOFAs may require additional affordability restrictions. These affordability requirements will be documented with an Affordability Restriction (AR) that will only be subordinated to any document with a power of foreclosure in a manner consistent with these City Underwriting Guidelines.</p>								
<p><b>Subordination of DOT and AR</b></p>	<p>If required for feasibility, and in a form acceptable to the City, the City will subordinate its DOT to a senior construction and permanent loan (see Subordination Agreement Requirements). Except where provided below and in the Ground Lease Policy, the City will not subordinate its AR. In lieu of subordinating the AR, the City may allow a 60-day standstill and a float-up of affordability levels up to 60% AMI upon foreclosure (as required for feasibility). In some cases, the City may, in its sole discretion, allow subordination of the AR if it is required by a senior lender whose loan product is the only available product that allows financial feasibility; any such subordination must be in a form acceptable to the City (see Subordination Agreement Requirements).</p>								

<b>Ground Lease</b>	All new construction developments seeking gap financing will be subject to a City option to purchase and a ground lease back to the developer. (See Ground Lease Policy for details).									
<b>Total Development Budget Savings</b>	Total project cost savings shall be determined in an accounting report prepared by a third party certified public accountant and shall show Project Development Costs and Project Sources Income (as defined in the loan documents) through the date of the report as well as estimated through the Conversion Date and project Form 8609 filing with TCAC. Total project cost savings will be shared per Total Development Budget Savings Policy in 6.5.									
<b>Developer Fee</b>	The City supports general consistency with TCAC’s developer fee policy. Please see Developer Fee Policy for details. If necessary for feasibility, 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.									
<b>Operating Expenses</b>	Minimum operating expenses shall be generally consistent with those set by TCAC per region and project type (does not include property taxes, replacement reserves, depreciation or amortization expense, or the costs of any service amenities). Maximum operating expenses to be approved by City in its sole discretion based on its portfolio, surveys and/or developer information (developer to provide basis/comparable data for all estimated expenses if appraisal not available).									
<b>Reserves</b>	All reserves outlined below must remain with the project when the investor exits the owner entity.									
	Capitalized Operating Deficit Reserve	Minimum is the TCAC guideline of 3 months of OERDS (operating expenses, reserves and debt service), but this may be higher if required by the syndicator or other lender.								
	Replacement Reserves	<ul style="list-style-type: none"> <li>• New construction: minimum \$250/unit per annum and maximum \$350/unit; may be determined by a 20-year replacement schedule</li> <li>• Rehabilitation: minimum \$300/unit per annum and maximum \$400/unit; 20-year replacement schedule required based on a physical needs assessment</li> <li>• Exceptions may be granted for other financing requirements (e.g. permanent supportive housing (PSH), MHSA, NPLH, HCD, etc.)</li> </ul>								
	Rental Subsidy Transition Reserve	The City will accept reasonable rental subsidy reserves if required by the Senior Lender.								
<b>Resident Services Coordination</b>	Resident services coordination expenses will be limited to the following:									
	<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
Units Restricted to:	Maximum Allowed Per Unit / Per Year									
0 – 30% AMI	\$575									
31 – 49% AMI	\$475									
50 – 60% AMI	\$325									
<b>Services in Supportive Housing</b>	It is expected that expenses for supportive services for permanent supportive housing units (restricted to formerly homeless and chronically homeless individuals and families with a range of special needs) and the Transition In Place / Rapid Re-housing units shall be paid by a separate funding source other than project income.									
<b>Senior Loan Debt Service Coverage Ratio</b>	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.									
<b>Loan Repayment</b>	Please see Permitted 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. Prepayment is subject to City approval.									
<b>Contact Information</b>	City of San José Housing Department - Project Development Program (408) 535-3860   <a href="mailto:housing@sanjoseca.gov">housing@sanjoseca.gov</a>									

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.