BAY AREA HOUSING FINANCE AUTHORITY

REAP 2.0 Housing Preservation Pilot Program

DRAFT Terms and Underwriting Guidelines

Program Description	Funded by $15M in Regional Early Action Planning (REAP 2.0) Grant funding from the California Department of Housing and Community Development (HCD), the Program provides low-interest loans to mission-driven developers and community land trusts to acquire and rehabilitate unrestricted homes and convert them to permanently affordable housing. The Program's goals are to prevent displacement of low-income households, to create a safe, stable, permanently affordable housing stock, and to support the financial health of residents, borrowers, and properties. In accordance with HCD's REAP 2.0 Objectives, the Program will: • Accelerate infill development that facilitates housing supply, choice, and affordability • Affirmatively further fair housing • Reduce vehicle miles traveled Program-wide, BAHFA aims to preserve at least 60 homes and to fund at least three projects of various scales and tenure types throughout its jurisdiction.
Eligible Borrowers	Non-profit affordable housing developers, community land trusts, or joint venture partnerships that include such organizations. Borrowers must possess the following minimum experience: • Borrowers must have successfully acquired, rehabilitated, owned, and operated at least one comparable project relative to the proposed project within the past five (5) years in the State of California, demonstrating their capacity to perform development and asset management. • Alternatively, Borrower may rely on the experience of a staff member or consultant that has completed at least three comparable projects.

Eligible Projects

Acquisition only or Acquisition/Rehabilitation of existing occupied residential properties that are currently unrestricted and demonstrate some form of site control (see Application Requirements on page 7 below):

- While accounting for Program-wide goals and giving preference to unrestricted properties, BAHFA may consider properties that have current affordable regulatory agreements that are set to expire within 5 years and for which there is no feasible alternative funding plan. BAHFA may also consider unoccupied properties that serve community anti-displacement goals.
- Mixed-use properties are eligible so long as two-thirds of the building square footage is used for residential uses.
- BAHFA will consider funding ADU construction as part of an acquisition/rehab project if the ADU meets Regulatory Restrictions (see Regulatory Restrictions on pages 3-4) and installation/construction demonstrates permitting and construction can begin promptly upon closing by submitting the following:
    - Design proposals that use pre-approved plans or factory-built units
    - Data or documentation from the applicable jurisdiction demonstrating support and track record for permitting ADUs
    - Identification of an experienced contractor for construction
    - Demonstration of financial resources to cover potential cost overruns, including contingencies.

To achieve each of HCD's REAP 2.0 Objectives, projects must be located in a geography that meets all of the following geographic objectives:

- *Infill Objective: Accelerate infill development that facilitates housing supply, choice, and affordability*
    - Plan Bay Area 2050 Growth Geographies, including Priority Development Areas OR
    - Transit Priority Areas
- *Affirmatively Further Fair Housing Objective: Affirmatively further fair housing*
    - Plan Bay Area 2050 Equity Priority Communities OR
    - Areas identified by the Urban Displacement Project as being at risk of or experiencing displacement or gentrification OR
    - Areas defined by the TCAC Opportunity Index as "High Segregation and Poverty", "Low Resource", or "Moderate Resource"
- *VMT Objective: Reduce vehicle miles traveled (VMT)*

	◦ Census Tracts with Vehicles Miles Traveled per Capita at or below the Bay Area average of 15 Miles • Projects that do not fall within the qualifying geographies may demonstrate alternative methods of achieving the applicable REAP 2.0 Objective(s) at the project level.
BAHFA Loan Terms	<u>Maximum Loan Amount</u>: $250,000 per unit <u>Loan Term</u>: 55 years <u>Interest Rate</u>: 3.0% per year <u>Repayment</u>: BAHFA will forego annual repayment of principal and interest from surplus cash (residual receipts). Repayment will be deferred until the conclusion of the Loan Term or upon any transfer of title that results in loss of affordability, whichever occurs first. At the conclusion of the Loan Term, projects will have the option to extend the Regulatory Term and loan repayments will be deferred for as long as the project upholds Regulatory Restrictions.
Regulatory Restrictions	<u>Regulatory Term</u>: 55 years. The Executive Director or designee may consider an alternative term option if Borrower demonstrates that the term remains compatible with permanent affordability and prohibition of displacement. <u>Maximum Income Levels</u>: No resident shall be displaced regardless of income. For occupied units and vacant units due to turnover, Borrower shall achieve an average area median income (AMI) for all households in the Project of no more than 80%. Upon turnover, units may be occupied by households earning up to 120% AMI as needed to cross-subsize lower income units and achieve an 80% AMI average. Depending on local market conditions, Borrowers may obtain an AMI less than 80% if they can demonstrate long term financial feasibility. <u>Rent Increases</u>: Upon acquisition, rents for all existing residents shall remain unchanged until the anniversary of the tenant's initial leasing. • For units subject to local rent stabilization ordinances, Borrowers shall continue to comply with the rent stabilization ordinance when imposing rent increases after acquisition. • For units not subject to or exempt from rent stabilization requirements, annual rent increases shall be limited to the lesser of the annual increase in area median income (AMI) or 4%. • For existing residents earning less than or equal to 80% AMI and who pay more than 30% of gross household income for rent, Borrowers shall decrease those households' rents to a

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maximum of 30% of gross annual income, assuming Project income is sufficient to allow a rent decrease for such households while covering necessary and standard Project operating expenses.

<u>Displacement</u>: All existing residents may remain in their home regardless of income, and permanent relocation of tenants is prohibited. No existing resident in the project will be displaced because of the preservation action or by Borrower’s imposition of any new, discretionary “house rules” intended to circumvent this rule.

<u>Temporary Relocation: Permanent relocation is prohibited.</u> If Borrower must temporarily relocate tenants for the purpose of safely conducting a Project rehabilitation, the following requirements apply:

• Temporary relocation shall not exceed 180 days unless approved by Executive Director or designee. Permanent relocation is prohibited.
• Borrowers shall provide temporary housing that is decent, safe, sanitary, of comparable size to and within the vicinity of the relocated tenant’s dwelling unit as determined by the Executive Director or designee.
• Tenants shall continue to pay the rent for their original unit, but shall bear no costs related to relocation, including:
    o Moving and packing expenses
    o Any costs associated with the relocation dwelling that exceed their typical housing expenses (rent, utilities, parking, or other charges)

<u>Lien Priority</u>: BAHFA requires first lien priority for its occupancy deed restriction. In their sole discretion, the Executive Director or designee may agree to subordinate the restriction if Borrower demonstrates and the Executive Director or designee finds that subordination is necessary to secure financing and if such subordination furthers the goal of creating permanent affordable housing.
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<td>Resident Engagement and Income Certification</td>
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<u>Engagement</u>: Preference will be given to projects in which 100% of households are notified of the Borrower’s intention to acquire and restrict the building and a majority of tenants demonstrate support for the acquisition prior to application. However, BAHFA will consider proposals in which Borrowers are prohibited by the seller from conducting outreach to tenants prior to acquisition. A preliminary tenant engagement plan will be required at loan application, to be finalized prior to acquisition. After acquisition, all Borrowers are required to conduct robust tenant engagement to ensure residents are aware of the intent and impact of the preservation project and to offer residents the opportunity to inform any rehabilitation scope.
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	Income Certification: Occupants of a regulated unit must certify their household income on a form approved by the Executive Director or designee on an annual basis prior to lease renewal.
Financing Assumptions	Leveraging: Borrowers must obtain additional private and/or public financing as needed to ensure the project's financial feasibility. Given the program's per-unit subsidy cap, it is anticipated that Borrowers must seek construction as well as permanent third-party financing, which may also require Borrower to provide equity. Ideal leveraging shall consist of a construction-to-permanent third-party loan with a 20-year term. As part of Program outreach, BAHFA staff has consulted with numerous community development financial institutions and first mortgage lenders, some of whom may provide favorable financing terms. BAHFA will provide contact information as requested. Rental Income: Borrower must provide rent roll information to inform project underwriting, and, whenever possible, tenant income information. If tenant incomes indicate existing rent burdens, BAHFA will seek to work with Borrowers to lower rents to 30% of gross household income where possible. Property Tax Exemption: While income certifications will not be required at acquisition, to properly size the project's operating budget, Borrower must have some data about existing residents that indicates with high likelihood on a household-by-household basis eligibility for a welfare tax exemption pursuant to California Revenue and Taxation Code Section 214(g). If no income information is available, Borrower will be required to assume a property tax obligation in the operating budget. Construction Contingency: 15% of rehabilitation costs Construction Management Fee: Borrower is expected to negotiate the most competitive fee possible with a third party construction manager or rely on an in-house construction manager, if available. Construction management fees may not exceed $30,000 per project. BAHFA Legal Fee: $15,000, subject to change based on transaction requirements. BAHFA Asset Management Fee: Asset management fees may apply based on project needs. Operating Assumptions: • Vacancy Allowance: 5% of annual residential rent income • Increases in Gross Income: 2.5% annually • Increases in Operating Expenses: 3.5% annually

	• Debt Service Coverage Ratio: 1.2
	• Waterfall: Surplus cash flow after payment of operating expenses and debt service will be distributed annually as follows:
	    o Borrower Retention: 2/3 of surplus cash flow
	    o Replacement Reserve: 1/3 of surplus cash flow up to (1.5 x Capitalized Replacement Reserve value)
	    o Emergency Rental Assistance Reserve: After Replacement Reserve is fully funded, 1/3 of surplus cash flow up to ($xx average regulated unit rent x 20% of total regulated units x 3 months)
	    o After Replacement Reserve and Emergency Rental Assistance Reserve are fully funded as described above, Borrower may retain remaining 1/3 of surplus cash flow.
	
	<u>Underwriting</u>: In addition to compliance with this Term Sheet, BAHFA will apply industry standard underwriting guidelines in its evaluation of Project proposals. Subsequent to application, Borrower must demonstrate financial feasibility and capacity to carry out the project.

Reserves	<u>Replacement Reserve:</u> • Capitalized: Reserves must be sufficient to cover 20 years of replacement needs as identified in the Physical Needs Assessment ("Original Capitalized Replacement Value"). • Annual Deposits: $500 per unit per year, included in the annual operating budget. Borrower will also deposit 1/3 of annual surplus cash flow into Replacement Reserve until Borrower achieves 1.5 of the Capitalized Replacement Reserve value. • <u>Emergency Rental Assistance Reserve:</u> • Annual Deposits: Once Borrower has achieved 1.5 of the Capitalized Replacement Reserve value, Borrower will deposit 1/3 of annual surplus cash flow to establish and maintain an Emergency Rental Assistance Reserve, which is based on the average rent per regulated unit, for 20% of total regulated unit count, for 3 months (e.g., $xx average regulated unit rent x 20% of total regulated units x 3 months). Once Replacement Reserve and Emergency Rental Assistance Reserve are fully funded, Borrower may retain remaining surplus cash flow. <u>Operating Reserve:</u> • Capitalized: 25% of operating expenses, plus debt in Year 1. Borrower shall maintain this funding level throughout the term of the agreement.

	Vacancy Reserve for Rehabilitation and/or Initial Lease-Up: • Capitalized: Sized to cover monthly rent for Project units vacant at the time of acquisition and for the duration of any expected continued vacancy, whether to accommodate a lease-up period or to provide temporary relocation space for the purposes of building rehabilitation. Property Tax Reserve: • Capitalized: Sized based on Borrower's estimate of timeline to qualify for the welfare tax exemption
Maximum Developer Fee	Borrowers may include a one-time developer fee at their discretion within the Maximum Loan Amount up to $150,000, plus an additional$10,000 per unit for any planned rehabilitation. • The $150,000 developer fee may be paid at the time of acquisition closing • $10,000 per unit may be paid at the time of Borrower's receipt of a certificate of completion (or similar document) from the permitting local agency for the rehabilitation work
Compliance	Regional Early Action Planning Grant: Fair Housing and Rehabilitation: The Borrower must comply with all applicable Federal, State, and local laws, orders, and regulations prohibiting housing discrimination as well as all applicable laws and regulations governing construction, rehabilitation, relocation and building operations. Welfare Tax Exemption: Borrower is solely responsible for and must annually secure the welfare exemption from the applicable governing bodies. Borrower shall provide evidence of the welfare exemption to BAHFA annually, as well as any other Project-related information BAHFA requests.
Community-Controlled Set Aside Eligibility Requirements	A minimum of $3M will be set aside for community-controlled projects that include resident ownership, governance, and/or management. This set aside does not preclude such projects from applying for the remaining $12M deployed under the Program. Eligible Borrowers: • Community Land Trusts (CLTs)

	• Cooperative Housing Entities with existing 501C3 designation and executed governance and operating agreements • Community Based Organizations in a documented partnership with a CLT <u>Eligible Tenure Types</u>: • Affordable rental • Affordable homeownership • Shared or limited equity resident shareholder ownership in the cooperative • Affordable rental-to-homeownership (“lease to own”) projects • Affordable rental-to-cooperative projects <u>Homeownership</u>: Units must be sold to households at or below 80% of AMI. BAFA will structure its financing with the expectation that Borrower will secure a first mortgage loan. <u>Cooperative Conversion</u>: The average income of resident shareholders should not exceed 80% AMI, and income cap of 120% AMI shall apply for all households. Until such time that the CLT owner demonstrates approval of a conversion from traditional rental to a cooperative governance structure from all (100%) residents, CLT must operate the building as traditional rental. If the CLT anticipates the ability to secure approval from all residents for conversion, it must submit a proposed timeframe and resident engagement and training plan for the conversion, along with all resident and organizational documents supporting the conversion that BAHFA may reasonably request. BAHFA retains sole discretion to approve the conversion. Cooperative projects must establish ongoing training curriculum milestones to be met during regulatory agreement term, as set forth in the Regulatory Agreement, as well as training protocols for new residents who join the cooperative when units turn over.
Waivers	The Executive Director or designee may waive any of these terms, provided the Executive Director or designee finds such waiver is necessary achieve the Program goals.
Application Process and Loan Commitment	Projects will be selected through an over-the-counter process subject to the release of a Notice of Funding Availability (NOFA) from BAHFA. Applications will be reviewed for completeness, project feasibility, and compliance with this Term Sheet. If multiple eligible projects are received on the same day, BAHFA will prioritize projects based on Program priorities (see attachment) as established in the NOFA.. After loan commitment, BAHFA will require a minimum of 90 days for a synchronized closing with a third-party construction-to-perm lender.

Application Requirements	Applicants must submit the following documents for BAHFA review: 1) Project proposal and acquisition due diligence documents, including but not limited to: a. Purchase and Sale Agreement (or alternate form of site control, such as long term ground lease) b. Third-party, independent appraisal to be submitted within 60 days of the loan application with the following valuations: i. As-is value ii. As-improved value (for rehabilitation projects) iii. As-restricted and improved value c. Independent, third-party physical needs assessment, which shall include a 20-year capital needs schedule and associated costs (as inflated) d. Additional physical reports, e.g., wood-destroying pests; asbestos and lead; roof examinations; structural/seismic; sewer laterals; electrical; plumbing; elevator; any others recommended in property inspection report e. Zoning analysis f. Environmental review documents (e.g., Phase 1 and, as applicable, Phase 2, lead and asbestos survey, etc.) g. Preliminary Title Report h. ALTA Survey (this requirement may be waived for small projects) i. Rent roll and all other seller-provided documentation, including, e.g., existing operating expenses, utility payment information, property improvement information j. Income certifications, if available k. Subordination Non-Disturbance and Attornment (SNDA) for commercial tenants, as applicable l. Building plans and specifications, as applicable 2) Project financing documents, including: a. Sources & Uses budget b. Rehabilitation scope c. Operating budget d. 20-year cash flow 3) Development Team Documents, including: a. Current year unaudited financials b. Prior two years of Applicant's audited financials c. Organizational documents: i. Firm description ii. Leadership & governance (Board, Committees, profile of leadership) iii. Key staff resumes iv. Strategic planning documents (if available) v. Annual Report (if available)

	vi. Schedule of real estate owned and projects under construction (if any) d. As applicable, description of Project architect; general contractor; and property manager
Contact Information	Somaya Abdelgany Preservation Program Coordinator Bay Area Housing Finance Authority sabdelgany@bayareametro.gov