

PRESERVATION PROGRAM

PRESERVATION PROGRAM.....**SECTION 5**

| | Page |
|--|------|
| 1. Section 8 Preservation Program..... | 2 |
| 2. Preservation Program Term Sheet..... | 3 |
| 3. Taxable Refinance Program Term Sheet..... | 5 |

Section 8 Preservation Program

RIHousing's Preservation Program is intended to provide Owners or Buyers of Section 8 developments with incentives to maintain these developments as quality affordable housing for a period of forty (40) years beyond any current use restrictions. The primary sources of financing are tax-exempt bonds, syndication proceeds from the sale of 4% LIHTC and the development's existing reserves. Taxable loans are also available if Owners choose to refinance without a sale.

Term sheets outlining the Program can be found in this Section.

Other guidelines outlined throughout this Developer's Handbook apply to Preservation transactions as well.

Preservation Program Term Sheet

| | |
|---------------------------------------|--|
| Product Description | Permanent loan used for the purpose of extending the affordability of an existing Section 8 development. |
| Eligible Properties | Properties with existing HAP contracts |
| <u>Underwriting Parameters</u> | |
| Maximum Loan Amount | Maximum 90% of the appraised value |
| Debt Service Coverage | 1.15x proforma Net Operating Income based upon the lower of appraised market or current Section 8 rents. RIHousing reserves the right to require a higher DSC depending on deal specifics. |
| Loan Term | Both 30 and 40 year fully amortizing terms available. |
| Credit Enhancement | Credit enhancement is typically provided through the HUD/HFA Risk Sharing Program. Permanent or construction/permanent loans available depending on level of rehabilitation. |
| Recourse | Loans are non-recourse secured by a first mortgage lien on both land and improvements. |
| Prepayment | The later of 15 years after Loan Closing or the start of Loan Amortization. |
| Existing Reserves | Existing reserves are available to the seller to facilitate the transaction to the extent allowed by HUD |
| <u>Rates & Fees</u> | |
| Interest Rates | RIHousing has both taxable and tax-exempt financing. A fixed rate will be determined based on our cost of funds dependent on market conditions. Please contact the Development Division for current rates. |
| Credit Enhancement Fee | Credit Enhancement is typically provided through the HUD Risk Sharing Program; cost is generally 12.5 basis points; first year premium due at closing. |
| Origination Fee | 2% of the first \$5,000,000; 1% thereafter |
| Application Fee | For projects not currently financed by RIHousing, \$2,500 prior to Preliminary Commitment by our Board of Commissioners |

| | |
|---|--------------------------------------|
| LIHTC Allocation Fee (if applicable) | 4%: 1 percent of 10-year allocation |
| | 9%: .5 percent of 10-year allocation |

Due Diligence Requirements

Rehabilitation Based on Capital Needs Assessment (CNA). Repair funds to be escrowed with and administered by RIHousing.

Environmental Phase 1 required

New Reserves The combination of the initial Operating and Replacement Reserves will be sized to equal six months of operating expenses and six months of debt service. Of this amount, the initial Replacement Reserve will generally be equal to \$2,000 per unit. We reserve the right to require a higher Replacement Reserve based upon the CNA's 20-year projections.

Tax and Insurance Borrower will be required to capitalize 6 months tax and insurance escrows and make monthly payments equal to one-twelfth of the annual premiums.

Third Party Fees The Borrower will be responsible for paying all third party expenses required to complete the due diligence and close the transaction, including legal fees and any costs of issuance associated with bond transactions. Costs may be capitalized in the development budget.

Developer Fee 5% of acquisition plus 10% of rehabilitation and soft costs but not including new reserves.

Regulatory Agreement Borrower is required to sign a new affordability agreement restricting the units for 40 years from closing.

Affordability Requirements A minimum of 20% of the units must be affordable to households earning less than or equal to 50% of the Area Median Income.

This is not an offer to make a loan. This term sheet shall serve as an outline for underwriting criteria and is for discussion purposes only. RIHousing is committed to working with owners or developers to find mutually agreeable terms.

RIHousing Taxable Refinance Term Sheet with HUD Risk Sharing Insurance

| | |
|-----------------------------------|---|
| Product Description | Permanent taxable loan |
| Eligible Properties | RIHousing financed properties that have an existing Regulatory Agreement and the existing loan is more than 10 years old, and non-RIHousing financed properties. |
| Maximum Loan-to-Value | Maximum 90% of appraised value as improved based upon a RIHousing commissioned appraisal. |
| Rents | Underwriting to the lesser of Section 8 or Current Market Rents or, tax credit rents or market rents. |
| Debt Service Coverage | Minimum 1.15 |
| Loan Term | 30, 35 or 40 year fully amortizing loans are available. |
| Vacancy Rate | 5 percent; lower for qualifying affordable developments. |
| Rehabilitation | Based on a RIHousing commissioned Capital Needs Assessment (CNA), proceeds will be utilized to ensure that at a minimum, immediate repairs and ADA deficiencies are completed within the first year, including any health and safety related issues. |
| Replacement Reserve | Borrower will be required to capitalize a Replacement Reserve equal to \$2,000 per unit and make annual deposits equal to a minimum of \$300 per unit. We reserve the right to require higher initial or annual deposits based upon the CNA analysis of future capital needs. |
| Operating Reserve | An up to amount equal to 3 months debt plus 3 months operating expenses minus the initial deposit to the Replacement Reserve. We reserve the right to require a higher initial deposit for low income housing tax credit transactions. |
| Interest Rate | Fixed rate financing. Please contact the Development Department at RIHousing for current rates. |
| Mortgage Insurance Premium | Credit enhancement provided through the HUD/HFA Risk Sharing Program, minimum MIP is .125% of the outstanding loan amount annually and is included in the interest rate. One year of MIP is due at closing and should be included in the development budget. |

| | |
|--|--|
| Application Fee | \$2,500 due prior to Preliminary Commitment by our Board of Commissioners for deals not currently financed by RIHousing. |
| Origination Fee | 2% of the first \$5,000,000; 1% thereafter. |
| Developer Fee | For transactions with a rehabilitation component, Developer Fee is a maximum of 5% of acquisition (subject to a P&S Agreement) and 10% of construction and soft costs not including new reserves and Developer's Fee. |
| Tax and Insurance | Borrower will be required to capitalize tax and insurance escrows in amounts not to exceed 6 months of the annual premiums and make monthly payments equal to one-twelfth of the annual premiums. |
| Third Party Fees | The Borrower will be responsible for paying any and all third-party fees required to complete the due diligence review and all lender legal costs to close the transaction. Costs may be capitalized in the development budget. |
| Regulatory Agreement | Borrower is required to sign an affordability agreement restricting the units for 40 years from closing. |
| Prepayment Premium on existing loan | Prepayment penalty waived based on refinancing terms with RIHousing. A prepayment fee equal to the Present Value of lost income as calculated by RIHousing will be the benchmark for determining whether or not the fee is waived. |
| Prepayment Provisions of New Loan | Not allowed for first 15 years. Prepayment fee equal to the Present Value of lost income as calculated by RIHousing which may be waived if the loan is refinanced with RIHousing. |
| Recourse | Loans are non-recourse secured by a first mortgage lien on both land and improvements. |

This is not an offer to make a loan. This term sheet serves as an outline of this program's underwriting criteria and is for discussion purposes only.