EXHIBIT A

(Menu of Credit and Mission Criteria)

CITY OF CHARLESTON
AFFORDABLE HOUSING
LOAN PROGRAM

Managed in partnership with the
Charleston Redevelopment Corporation
and
The Charleston Citywide Local Development Corporation

John J. Tecklenburg, Mayor
City of Charleston

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Executive Summary

The City of Charleston remains one of the most desirable places to live, work and raise a family. The Charleston area has seen an unprecedented increase in its population growth and demand for housing. The rise in housing demand creates the need for increased housing opportunities for households at all economic levels. The City of Charleston, in coordination with private, public, and non-profit housing developers have made significant contributions to the provision of affordable housing. However, the City of Charleston seeks to enhance the efforts made to date by expanding the supply of affordable for-sale and rental housing available on Charleston's Peninsula, West of the Ashley, Daniel Island, James and Johns Island.

The City of Charleston in collaboration with the Charleston Citywide Local Development Corporation shall assist in enhancing the creation and preservation of affordable housing by removing barriers to funding for organizations providing housing at every spectrum of the affordability range. The goal is to include affordable housing throughout communities in the City of Charleston.

In 2019, the Charleston Metro Chamber of Commerce reported that 78,000 units of housing is needed by the year 2030 to meet the current and future demand for housing in the Charleston region. From 2019-2030, 5200 units of housing should be constructed each year; of that amount 2600 should be affordable. This would allow a sufficient supply of housing in the Charleston community to meet the current demand. Since 1975, the City of Charleston has created or preserved over 10000 units of housing. We need to achieve a higher level of production and working in concert with development partners across our region and removing financial barriers that hinder the development of housing; we believe this goal can be attained. The goals of the program are as follows:

1. **Provide funding opportunities to ensure that the breadth of housing opportunities continue to exist for generations to come.**
2. **Provide funding opportunities that address the needs of residents requiring for-sale and rental housing.**
3. **Provide funding opportunities that provide housing to a broad range of family incomes, including families whose incomes are less than sixty percent of the Area Median Income (AMI).**
4. **Provide funding opportunities by which housing is provided at a variety of price points to ensure economic integration within and between neighborhoods.**
5. **Provide funding which ensures housing with the highest quality build and appearance is created with products used to ensure resilience of the property over the life of the building.**

6. **Provide a housing finance model that ensures funding is revolved back to ensure long-term sustainability of that fund for the purpose of future housing preservation and development.**

Purpose of Loan Funds: Loan funds provided under the Affordable Housing Program are created to ensure the preservation and development of affordable and workforce housing in the City of Charleston. Loan funds from the Affordable Housing Loan Program will finance the construction of affordable for-sale housing to include single-family detached, fee-simple townhomes, diverse multi-family rental developments to include townhouses, apartments, renovated, single-family detached, infill houses and the adaptive reuse of existing buildings. Condominium development is not an allowed use. Other uses include the following:

- Lines of Credit
- Letters of Credit
- Mortgages for Accessory Dwelling Units
- Construction Financing
- Gap Financing
- Bridge Financing
- Pre-development Costs
- Land acquisition
- Redevelopment/renovation of structures
- Infrastructure costs for the development of housing
- Permanent or Mini-Perm refinance for construction loans (rewriting to indicate the likely use)
- Repurchase of multiplex affordable housing and portfolios of affordable single family homes
- Leveraged Debt for New Markets Tax Credits
- Recapitalization

Loan Amounts: Loan amounts will range from a minimum of $100,000 to a maximum of 40% of the principal balance of the loan fund.

Terms and Amortizations of Loans: Terms and amortizations of loans will vary based on the type of loan product and the finance package presented to the Loan Committee of the Charleston Redevelopment Corporation.

- Loan terms shall include a minimum of four (4) months to a maximum of forty (40) years.
  - Loans for projects utilizing the Low Income Housing Tax Credit (LIHTC) at 15 years will include a balloon payment to reconsider interest rates;
  - New Markets Tax Credit (NMTC) loans will have a balloon payment due at the end of seven years;
  - Real Estate loans exceeding five years will include a balloon payment to reconsider interest rates.
- Amortizations vary based on project needs including:
  - Interest only for periods up to 12 months
  - Capitalized interest during construction

- Amortizations ranging up to periods of 40 years.

<u>Loan Interest Rates, Terms and Amortizations</u>: Interest rates provided through the affordable loan program are provided on a sliding scale and shall be assessed to the loan based on the strength of the application and other loan factors outlined in the loan criteria and application. Interest rates shall range from zero percent interest to the prime rate of interest plus six percent based on the type of loan offered. Loans that are assessed a zero percent interest rate are charged an annual loan servicing fee. Longer than standard amortizations may be offered to aid cash flow.

Types of Loan	Term of Loan	Amortization	Applicable Interest Rate	Definition of Loan Types
Construction Loan	**A minimum of twelve (4) months to twenty-four (24) months triggered by when permanent financing is injected into the deal.**	**Capitalized and/or interest only with principal and interest due upon permanent take out**	**Prime rate of interest to prime plus two percent to six percent**	**Loan used to finance the construction of housing.**
Bridge Loan	**Minimum twelve (12) month term**	**Fully amortizing equal to term; Capitalized and/or interest only with principal and interest due upon take out**	**Prime rate of interest to prime plus two percent to six percent**	**A short-term loan, taken out for a short period of time pending the arrangement of longer term financing**
Gap Loan	**Six (6) months to twelve (12) months.**	**Fully amortizing equal to term; Capitalized and/or interest only with principal and interest due upon take out**	**Prime rate of interest to prime plus two percent to six percent**	**A temporary loan used during the period of time between the construction loan and the permanent loan financing.**
Conventional Permanent Loan	**LIHTC = 15 years with a balloon payment; NMTC = 7 years with a balloon payment; All other loans after five years, borrower is required to consider terms that**	**Based on useful life of asset up to 40 years.**	**Zero (()%) percent to Prime Rate of Interest plus 350 basis points.**	**A loan that is not offered or secured by a government entity.**

	include a balloon payment.			

Eligible Entities: Eligible entities include Local governments, Towns, For-profit or Nonprofit Development Entities, or individuals creating or preserving rental, for-sale or owner-occupied housing in the City of Charleston. Entities awarded funding from the City of Charleston Affordable Housing Program must have a valid business license for the conduct of business in the State of South Carolina, County and City of Charleston. The City of Charleston encourages collaborations between Non-Profit and For-Profit development entities, and strives to increase participation of minority and women-owned businesses in this program.

Eligible Costs: Eligible costs include both hard and soft costs associated with the development and construction of affordable housing. Detailed below are soft costs associated with the construction of affordable housing and include, but are not limited to the following:

- Construction Project Plans
- Specifications and estimates
- Planning and engineering
- Construction Management
- Architectural and design work
- Environmental Impact Reports and Assessments
- Appraisals/Marketing/Feasibility Studies
- Legal Expenses

Housing Typology: Funding from the Loan Fund shall finance diverse for-sale, multi-family rental developments to include townhouses, apartments, renovated, single-family detached, infill houses and the adaptive reuse of existing buildings.

Developer Incentives: Incentives available to development entities include the following. Other incentives may be available.

a. Charleston Water Systems Affordable Housing Incentive Program defers or reduces the payment of water and wastewater impact fees for developments providing affordable for-sale or rental housing. Program details and applications are available by contacting South Carolina Community Loan Fund at 843.973.7285
b. City of Charleston waives permits fees for development organizations constructing for-sale affordable housing in the City of Charleston.
c. Expedited Review Processes. Development entities constructing five or more affordable for-sale or rental homes in the City of Charleston are subject to an expedited review process. The Owner/Developer should ensure a letter is secured from the Department of Housing and Community Development advising the permit clerk to the nature of the development.

Application Review Process: An application is available for entities interested in applying for loan funds. Applications can be accessed through the websites of the Charleston Redevelopment Corporation (CRC) and the Charleston Citywide Local Development Corporation. Applications are due the fifth day of each month on a recurring basis. Entities that require assistance in completing the application should contact ____________________________.

Scoring Elements: The scoring elements are attached to this document and described as **Exhibit C**.

Award Notification: Development entities applying for funding will be notified within thirty (30) days of application submission of the status of the loan and whether additional information is required. Forty-five (45) days following submission of a completed loan application, a letter evidencing approval or denial is sent; describing next steps. Sixty days from application submission a letter or email is sent and a telephone call is made to the primary contact advising to the final decision made by the Loan Committee.

Loan Modifications: The Charleston Redevelopment Corporation and the Charleston Citywide Local Development Corporation may modify existing loan terms and conditions to conform with current Affordable Housing Loan Program policies at the request of the applicant. The City of Charleston may change the income limits or affordability level for units within the development if required by a funding source used for a supplemental loan or to provide increased public benefit by serving lower income and/or special needs residents. A loan modification will not result in higher income or rent limits for the development; except where the Loan Committee determines that such a modification is required to sustainably operate the project and capital fund sources permit higher limits.

Loan Subordination: Loan subordination shall occur on a case by case basis. A full analysis of the loan request to include submission of a revised application shall be required by the applicant. When considering subordination of the funds provided by the affordable housing loan program loan to value ratios should not exceed 80%, but in limited circumstances a ratio of up to 90% may be acceptable.

Monitoring and Follow – Up: The Charleston Local Development Corporation (LDC) shall provide oversight and management of each funded loan. The LDC has the capacity and experience in understanding affordable housing finance, underwriting, lending and loan servicing. The LDC will work in concert with the Charleston Redevelopment Corporation to ensure standard underwriting guidelines and loan criteria are followed. For the purposes of rental property, the owner/developer shall provide annually a confirmation that the units are being rented to the intended population as outlined in the contractual agreements and restrictive covenants.

Reporting Requirements: During the term of the loan agreement and according to the annual deadline identified in the loan agreement, the recipient shall submit, upon request of the Charleston Redevelopment Corporation, or the Charleston Citywide Local Development Corporation, an annual performance report that demonstrates satisfaction of all reporting requirements pursuant to the City of Charleston Affordable Housing Loan Program reporting requirements identified in the loan agreement. The recipient shall also submit any additional reporting requirements developed by the Charleston Redevelopment Corporation, or the Charleston Citywide Local Development Corporation. The reports will be filed on forms provided by the Charleston Redevelopment Corporation and created by the Charleston Citywide Local Development Corporation. At any time during the term of the loan agreement, the Charleston Redevelopment Corporation or the Charleston Citywide Local Development Corporation shall perform or cause to be performed a financial audit of any and all phases of the recipient's project. At the City of Charleston's request, the recipient shall provide, at its own expense, a financial audit prepared by a Certified Public Accountant. The Charleston Redevelopment Corporation and the Charleston Citywide Local Development Corporation have the right to review project documents and conduct audits during project implementation and over the project life.

Addendums:

Exhibit A – Department of Housing & Community 2018-2019 Income Limits

Exhibit B- Basic Underwriting Criteria

Underwriting Requirements:

Retainage of 10% for GC contracts (protects against overruns and insures punch list completed)
Developer fee: 25% can be earned when construction 50% completed, the rest deferred until project placed in service.
Payment and performance bonds required for all general contractors.
Minimum global debt service coverage of 1.05 including LDC debt once project placed into service
When global DSCR exceeds 1.20, LDC debt repaid out of net cash flow on accelerated amortization
0% loans only allowed with negative global DSCR prior to stabilization
No projects funded with negative global DSCR at projected stabilization (proforma)
All borrowers and contractors subject to credit and OFAC searches
LDC will accept subordinate lien position but not standby on repayment of principal for more than six months
LDC will not sign Super SNDAs
Intercreditor agreement signed by all lenders prior to closing
Industry Standard Beneficial interest forms completed prior to closing

Project Economics:

Net Operating Income (NOI) – Projected NOI should be a positive figure. If it is negative in the first few years then there would need to be sufficient capital set aside to pay operating expenses during this period.

Debt Service Coverage Ratio – A minimum DSCR is 1.15 for affordable housing loans. Most commercial lenders threshold is 1.25. If this ratio is less than the minimum in the first few years then there would need to be sufficient capital within the company to pay operating expenses during this period.

Loan to Value Ratio – Typically no higher than 75% for commercial lenders; affordable housing loans, sometimes require a ratio of eighty percent (90%).

Debt Yield Ratio – Net operating income divided by the first mortgage debt amount times 100%. Typically, Commercial lenders require ten percent (10%).

<u>Company Economics:</u>

NOI – The company's NOI should be positive, stable and hopefully growing historically. If there are exceptions to this norm, the borrower or development entity must explain to the lender's satisfaction.

Debt Service Coverage Ratio – The company's overall debt service ratio should be above 1.15. Commercial lenders require 1.25% or higher.

Current Ratio – This ratio should be positive. The higher the number the better. If it falls below 1.0 then the current liabilities of a company are higher the currents assets.

Net operating income (NOI) is a calculation used to analyze the profitability of real estate investments that generate income. Net operating income equals all revenue from the property minus all reasonably necessary operating expenses.

NOI is a before-tax figure that excludes principal and interest payments on loans, capital expenditures, depreciation, and amortization. The metric is also used in other industries but is called EBIT, or earnings before interest and taxes.

The Formula for NOI Is:

Net operating income=Real estate Revenue−Operating expenses

Key Takeaways

- *Net operating income measures an income-producing property's profitability before adding in any costs from financing or taxes.*
- *The operating expenses used in the NOI metric can be manipulated if a property owner defers or accelerates certain income or expense items.*
- *The NOI metric does not include capital expenditures.*

Example of How to Use Net Operating Income

NOI appears on a property's income and cash flow statements. Assume you own a property that takes in $120,000 annually in revenues and incurs $80,000 in operating expenses. It will have a resulting net operating income of ($120,000 - $80,000) = $40,000. If the total is negative, with operating expenses higher than revenues, the result is called a net operating loss (NOL).

Creditors and commercial lenders, rather than evaluating a property owner or investor's credit history, use net operating income to determine the income generation potential of the property to be mortgaged. This fundamental metric is used to assess the initial value of the property by forecasting its cash flows. If the property is deemed to be profitable, the lender decides how much to loan the investor. However, if the property has a net operating loss, the lender may reject the borrower's mortgage application.

The Loan to Value (LTV) ratio represents the amount of the mortgage lien divided by the value of the property. So, if you borrowed $500,000 to finance an $800,000 building, the LTV would be 62.5 percent.

A low LTV of around 75 percent or less means the bank stands a good chance of getting its money back in a foreclosure sale even if the property has become less valuable over time.

The Debt Yield Ratio is defined as the Net Operating Income (NOI) divided by the first mortgage debt (loan) amount, times 100%. For example, let's say that a commercial property has a NOI of $437,000 per year, and some conduit lender has been asked to make a new first mortgage loan in the amount of $6,000,000. Four-hundred thirty-seven thousand dollars divided by $6,000,000 is .073. Multiplied by 100% produces a Debt Yield Ratio of 7.3%. What this means is that the conduit lender would enjoy a 7.3% cash-on-cash return on its money if it foreclosed on the commercial property on Day One.

Please notice that this new Debt Yield Ratio does not even look at the cap rate used to value the property. It does not consider the interest rate on the commercial lender's loan, nor does it factor in the amortization of the lender's loan; e.g., 20 years versus 25 years. The only factor that the Debt Yield Ratio considers is how large of a loan the commercial lender is advancing compared to the property's NOI. This is intentional. Commercial lenders and CMBS investors want to make sure that low interest rates, low caps rates, and high leverage never again push real estate valuations to sky-high levels.

So what is an acceptable Debt Yield Ratio? For many years the answer was 10.0%. This was the lowest number that most conduit lenders were using to determine the maximum size of their advances. In our example above, the subject commercial property generated a NOI of $437,000. Four-hundred thirty-seven dollars divided by 0.10 (10% expressed as a decimal) would suggest a maximum loan amount of $4,370,000.

Typically, a Debt Yield Ratio of 10% produces a loan-to-value ratio between 58% to 63%.

Across the commercial real estate sector, the typical minimum acceptable debt yield is 10 percent. However, the actual number you're quoted will depend on the property type, financial strength of the tenant and interest rates. Risky property types such as hotels, which may have fluctuating vacancy rates and an unpredictable NOI, typically demand higher debt yields than more stable office investments. In lender speak, a higher debt yield indicates "lower leverage," which indicates a lower lending risk.

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

The Formula for the Current Ratio Is

Current Ratio = Current assets /Current liabilities

To calculate the ratio, analysts compare a company's current assets to its current liabilities. Current assets listed on a company's balance sheet include cash, accounts receivable, inventory and other assets that are expected to be liquidated or turned into cash in less than one year. Current liabilities include accounts payable, wages, taxes payable, and the current portion of long-term debt.

A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average may indicate a higher risk of distress or default. Similarly, if a company has a very high current ratio compared to their peer group, it indicates that management may not be using their assets efficiently.

Exhibit C

Financial Capacity of Borrowers:

Affordability Period: All developments financed with the funding from this program shall have recorded covenants that ensure long-term affordability.

Population Served: The developments will serve individuals and families with incomes at the full spectrum of need from thirty (30%) percent of the Area Median Income (AMI) to one hundred and twenty percent (120%) AMI. AMI in 2019 is $74,500 based on a family of four at 100% of the AMI. Mixed income communities are encouraged (a range of affordable and market rate units), although funding can only be applied to affordable units. See the attached Area Median Income (AMI) Chart, marked as Exhibit A.

Marketing and Outreach Strategies: Each development shall seek to affirmatively further fair housing by marketing the availability of housing constructed with loan funds to the widest audience feasible through various news mediums, to include: radio, newspaper, social media and television.

Energy Efficient & Environmental Strategies: Entities that borrow Loan Funds shall ensure that the designs contemplate and build developments that have Energy Efficient and Environmentally-friendly Strategies implemented throughout the development for the purposes of meeting resiliency standards.

Transportation and Service Accessibility: Loan Funds shall target developments located in close proximity to an active or planned public transit stop or terminal, Grocery Stores, Doctor's Office/ Medical Offices, and other key services outlined in the Loan Application Criteria.

Underwriting Criteria: See Exhibit B in the Addendum section**.** Loan applications submitted by qualified entities will undergo an underwriting review of the financial strength of the company and the strength of the development. Exhibit B provides the basic elements that shall be considered by the Loan Review Committee for applications submitted.