Multifamily Subordinate Loans

Mixed-Income Program (2024)

The California Housing Finance Agency ("CalHFA" or "Agency") Mixed-Income Program ("MIP") provides long-term, subordinate subsidy financing for new construction multifamily housing projects restricting units (tax credit or CalHFA) between 30% and 120% of county Area Median Income ("AMI").

The MIP subsidy loan ("MIP Loan") must be paired with CalHFA's Conduit Bond Issuer Program and CalHFA's Tax-Exempt Permanent Loan Program. CalHFA will work with MIP applicants to assess the benefits of utilizing CalHFA's Bond Recycling Program during the project construction and/or permanent loan periods and may require recycled bonds to be included as a source, subject to availability and project feasibility. Eligible projects must create newly constructed (including all uses considered new construction per California Debt Limit Allocation Committee ("CDLAC") and California Tax Credit Allocation Committee ("CTCAC") applicable regulations), regulated units that meet the income and occupancy requirements reflected below. Approval of all MIP funding allocations will be subject to CalHFA underwriting standards and will be at the sole discretion of CalHFA.

Mixed-Income Program Subsidy Loan Limits

MIP Loan amount for each project will be based on project need and will be limited to the lesser of the following:

1. $4 million; or
2. $50,000 per MIP-regulated unit (restricted between 30%-120% AMI). Projects located within the Highest or High Resource areas pursuant to CTCAC regulations designated on the CTCAC/HCD Opportunity Area Map shall be eligible for an additional amount up to $10,000 per MIP-regulated unit; or
3. 50% of the permanent loan amount.

Application

MIP applicants must submit a completed application package which includes all items listed on the application, application addendum, and checklist. Incomplete application packages will not be considered. The application and checklist can be found at www.calhfa.ca.gov/multifamily/mixedincome/forms. If the MIP applicant is not able to meet the readiness timeline referenced below, MIP awards may be rescinded.

Qualifications

Availability

Available to for-profit, nonprofit, and public agency sponsors. Development teams must meet all the requirements in the Development Team Qualifications section below as well as additional requirements per the Agency's underwriting standards as updated from time to time.

Uses

MIP Loans must be used in conjunction with CalHFA's Conduit Bond Issuer Program and a construction loan from a CalHFA Mixed-Income Qualified Construction Lender (as defined below). MIP Loans must also be used in conjunction with

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CalHFA's Tax-Exempt Permanent Loan Program. CalHFA will work with MIP applicants to assess the benefits of utilizing CalHFA's Bond Recycling Program during the project construction and/or permanent loan periods and may require recycled bonds to be included as a source, subject to availability and project financial feasibility.

Financing Structure

Projects accessing the MIP Loans must be structured as both of the following:

1. Tax-exempt bond and 4% tax credit project where at least 51% of the units in the project must be tax-credit financed (LIHTC units); and
2. Qualified mixed-income project through income averaging pursuant to Internal Revenue Code Section 42 (g)(1)(C).

Project Readiness

MIP applicants must have evidence of site control and they must be prepared to submit for an award of tax-exempt bond cap and 4% tax credits from the CDLAC and CTCAC, respectively. Project applicants will only receive funds if tax-exempt bond cap is awarded within the 2024 calendar year including available carryforward volume cap based upon meeting the issuance timeframes specified in the CDLAC Regulations Section 5100.

- **Site:** The site must be ready for construction. Any potential environmental issues must have been identified, mitigation plans must be in place, and costs associated with the mitigation plan must be incorporated in the development budget. Environmental issues may include, but are not limited to, receipt of clearances for CEQA, NEPA, and applicable tribal land environmental reviews. Pursuant to HUD-Risk Sharing requirements and MIP financing requirements, the MIP applicant is expected to start the NEPA process shortly after CalHFA verifies application completeness and determines that the project is ready to move forward with an initial commitment. The NEPA clearance and HUD's firm approval letter will be required prior to construction loan closing.
- **General Contractor and/or Third-Party Construction Services Engagement:** At the time of application, the MIP applicant must provide evidence that a full-service general contractor ("GC") or third-party construction services company has been engaged to provide construction and project management services including, but not limited to; value engineering, bid/budget services, and constructability review of plans and designs. The proposed construction budget must be based on the general contractor's or third-party construction services company's preliminary bid estimates pursuant to the current plans and designs. CalHFA may require additional construction due diligence items for its Final Commitment underwriting including an indicative draft Schedule of Values (SOV), draft Construction Contract (draft AIA GMP or Stipulated Sum Contracts) and contract provisions for sharing construction cost savings.
- **Disposition and Development Agreement:** The MIP applicant must provide a copy of the locality Disposition and Development Agreement ("DDA"), if applicable. The DDA must be effective and/or must be executed prior to the CalHFA Initial Commitment approval.

- **Tax Credit Financing and Other Financial Commitments:** The MIP applicant is required to provide copies of a binding Letter of Intent ("LOI"), term sheet and/or commitment for all of the financing indicated in the project capital stack for CalHFA's underwriting. CalHFA may request additional due diligence for its underwriting including a draft Limited Partnership Agreement ("LPA") or financial projections for the Tax Credit Investor for the purposes of confirming Limited Partner ("LP") membership; LP fees; Developer fees amount and pay-in schedule; the Tax Credit Equity pay-in Schedule; governmental Residual Receipt lenders and subordination conditions; non-governmental subordinate lenders repayment and lien terms; etc.
- **Construction Start:** All projects must commit to begin construction 180 or 194 days from the earlier of the date of the tax-exempt bond allocation or the 4% federal/state tax credit reservation, unless an extension has been approved by CTCAC, CDLAC, and CalHFA, as applicable. Within the 180- or 194-day period (as may be applicable pursuant to CDLAC Regulation Sections 5100(b)(3)(i) and 5230(i) and CTCAC Regulations Section 10325(c)(7)), the following items must be submitted to CalHFA in their final form for the construction close:
    - An executed construction contract.
    - A complete, updated application form with a detailed explanation of any changes, including but not limited to, changes in sources and uses from the initial application.
    - Recorded deeds of trust for all construction financing (unless a project's location on tribal trust land precludes this).
    - Binding commitments for construction and permanent financing, including any sponsor loan and any other financing required to complete project construction.
    - Copy of a LPA executed by the general partner and the LP/equity provider.
    - An updated CTCAC Attachment 16, if applicable.
    - Copies of buildings permits (a grading permit does not suffice to meet this requirement, except if the city or county as a rule does not issue building permits prior to the completion of grading, then a grading permit shall suffice; if the project is a design build project in which the city or county does not issue building permits until designs are fully complete, the city or county shall have approved construction to begin) or the applicable tribal documents.
    - Copy of the notice to proceed delivered to the contractor.
    - Other documentation and information required by CalHFA to close construction financing.

Evidence Of Cost Containment

A Cost Containment Certification must be provided at the time of Application and Construction Loan Closing, if applicable. The Cost Containment Certification acceptable to CalHFA may be found on the agency's website.

The MIP applicant must certify within the Cost Containment Certification that cost containment measures have been implemented to minimize construction costs.

Qualifications continued

These measures should include, but are not limited to:

1. Competitively bidding out of all major subcontractor and self-performing trades; and
2. Engaging a value engineer/consultant during the design process.

Evidence Of Subsidy Efficiency

A Subsidy Efficiency Analysis will be completed as part of the application review prior to CalHFA's consideration to issue an Initial Commitment approval. The analysis will be completed again prior to CalHFA's consideration to issue a final commitment approval, prior to construction loan closing, at final cost certification, and again at the closing of the MIP subordinate loan. The MIP Loan amount may be reduced based on each subsequent analysis. Parameters of the analysis may include, but are not limited to, the following:

- A maximum of 1.20x Debt Service Coverage Ratio ("DSCR") at Year 1 (Initial DSCR). CalHFA may allow an initial DSCR higher than 1.20x on a case-by-case basis, if deemed necessary. The underwriting prior to construction and permanent closing must show an on-going minimum DSCR of 1.15x through the term of the CalHFA permanent first lien loan.
- A project cash flow that supports the residential component of the project based on the required CalHFA permanent first lien annual debt service coverage ratio.
- A separate project cash flow that supports any commercial component of a mixed-use project, if applicable.
- The cash flow after debt service shall be limited to the higher of 25% of the anticipated annual must-pay debt service payment, or 8% of gross income, during each of the first three years of project operation.
- Inflation factors and vacancy rates consistent with the Agency's Underwriting Standards.
- Maximum Developer Fee requirements consistent with CTCAC Regulation Section 10327(c)2(B). CalHFA approval of structuring of the Developer Fee paid in cash and from project cash-flow is required in the event of any exceptions to Agency's subsidy loan underwriting standards, including exit analysis and residual receipts requirements, and MIP term sheet requirements.
- Capitalized reserves subject to approval by Agency for reasonableness and consistent with both the Agency's Underwriting Standards and the LPA.
- Review of Excess Sources over final Uses as approved by CalHFA resulting from any of the following:
  - An increase in tax credit equity.
  - An increase in permanent loan debt due to newly obtained financing, a permanent loan rate reduction or adjustments to residential income and operating expense assumptions.
- Construction Cost Savings funds evidenced by final cost certification shall be used to reduce the MIP Loan prior to CalHFA MIP Loan closing or if required by other subordinate lenders. These funds may be split on a pro rata basis between CalHFA and other subordinate lenders.

Qualifications continued

- State tax credits (“STC”) maximum requested amount shall be consistent with CTCAC Regulations Section 10317. MIP Loan final commitment shall be subject to evidence of project’s receipt of CDLAC’s preliminary tax-exempt bond allocations and CTCAC’s tax credits reservations within the respective year.
- Acquisition cost shall be the lesser of:
  1. Purchase price pursuant to a current purchase and sales agreement between unrelated parties; or
  2. Purchase price of an arm’s length transaction and between unrelated parties executed within the past 10 years plus reasonable carrying costs; or
  3. Appraised “as-is” value based on a current appraisal acceptable to CalHFA in its sole discretion. The appraised value of the real estate may be considered if the arm’s length transaction exceeds 10 years.

In the event that an identified project site is a portion of the purchased parcel, where the purchased parcel is to be subdivided, then CalHFA will require that the appraisal specifically identify the portion of the acquisition cost attributable to the project site.

Project Application Ranking Qualifications*

CalHFA shall select qualifying projects subject to the Agency’s decision to efficiently allocate the available STC, MIP funding as determined by the Agency, and tax-exempt volume cap limit from the State-funded Mixed-Income Pool. The prioritization of MIP project application(s) shall follow a ranking calculation method described below:

1. **Project Public Benefit and Efficiency:** MIP project applications shall be initially assigned a ranking number based on the highest amount of public benefit per dollar of the total cost-adjusted amounts of the tax-exempt bond allocation requested from CDLAC, plus the STC allocation requested from CTCAC consistent with CDLAC Regulation Section 5231(g)(1) and 5231(g)(2) (“Project Rank Number”). Next, the Project Rank Number may be adjusted pursuant the below bonus factors, subject to eligibility:
2. **MIP Efficiency Bonus:** The total requested MIP amount as a percentage of the eligible maximum MIP amount per MIP-regulated unit shall be eligible for an adjustment to the original Project Rank Number based on a sliding scale per the below chart:

MIP as % of Eligible Maximum Per Unit	**Adjustment**
<20%	-0.500
20-40%	-0.375
41-60%	-0.250
61%-80%	-0.125
>80%	0.000

3. **STC and Soft Funds Leveraging Bonus:** The total requested STC amount and total permissible soft funds (refer to limitations section) as a percentage of the maximum STC shall be eligible for an adjustment to the original Project Rank Number based on a sliding scale per the below chart:

STC as % of Eligible Maximum Per Unit	**Adjustment**
>80%	-0.500
61%-80%	-0.375
41-60%	-0.250
20-40%	-0.125
<20%	0.000

4. **New Developer Bonus:** Developers that are new to MIP (requesting MIP funding for the first time) shall be eligible for -1 adjustment to the initial Project Rank Number. Developers that have not received MIP funding awards in the past two years shall be eligible for -0.5 adjustment to the initial Project Rank Number. To be considered a new Developer, the new Developer entity should be able to demonstrate that they have greater than a 51% share in the GP partnership entity and also receive greater than 51% share of the Developer Fee as evidenced by a Partnership or Development Services Agreement or any document acceptable to CalHFA in its sole discretion.
5. **Geographic Distribution Bonus:** Projects located in a city with a population over 1 million, that has not received MIP funding in the prior two years, will be eligible for -1 adjustment to the initial Project Rank Number. Projects located in a city with a population over 500,000, and up to 1 million, that has not received MIP funding in the prior two years, will be eligible for -0.5 adjustment to the initial Project Rank Number.

* *In future years, MIP may be awarded using additional factors, including, but not limited to cost containment or tax credit equity changes, as measured by change in total development cost from initial commitment to construction close.*

Additional Eligibility Criteria

Additionally, eligibility for a MIP award shall be subject to the following criteria:

- **Project Cap:** Per Project MIP funds available will be equal to the lesser of the following:
  a. Maximum MIP Loan Amount of $4 million per Project application.
  b. Maximum of $50,000 per MIP-regulated unit for Projects located in Moderate, Low, or Lowest Resource Areas.**
  c. Maximum of $60,000 per MIP-regulated unit for Projects located in High or Highest Resource Areas.**
  d. Maximum MIP Loan Amount of no more than 50% of the CalHFA Permanent Loan.
- **Sponsor Cap:** No Sponsor (any individual, entity, affiliate and/or related/affiliated entity) may receive an allocation of MIP funds for more than one Project application. Sponsor shall be defined as any individual, entity, affiliate and/or related entities that (i) is or has interest in the any general partner entity, including but not limited to the managing, and/or administrative partner, of the MIP applicant, and

(ii) is entitled to receive the Developer fee (in whole or in part) as evidenced by the applicable legal documents acceptable to CalHFA. An exception to the Sponsor Cap limit may be considered for up to one additional project for any Sponsor that partners with an Emerging Developer to submit a MIP project application so long as the Emerging Developer (i) is or has a 51% ownership interest in a general partner, managing, and/or administrative partnership entity of the MIP applicant, and (ii) is entitled to receive 51% or more of the Developer Fee as evidenced by the applicable legal documents acceptable to CalHFA. Emerging Developer is defined as any Sponsor which cannot independently meet the MIP Developer/Co-Developer/General Partner qualifications as outlined below.ed below.

- **County Cap:** No county may receive more than 25% of total available MIP funds for the respective year.
- **Age-Restricted Cap:** No more than 25% of total available MIP funds for the respective year may be received by age-restricted Project Applications (units that are restricted to residents who are 55 years of age or older under the applicable provisions of California Civil Code Section 51.3 and the federal Fair Housing Act).

*** Determination of Resources Area types shall be pursuant to CTCAC regulations and designated on the CTCAC/HCD Opportunity Area Map.*

CalHFA Mixed-Income Qualified Construction Lender

A CalHFA Mixed-Income Qualified Construction Lender is defined as a Construction Lender that has closed at least five construction loans using tax-exempt bonds and 4% federal and/or STC in California within the last three years and satisfies the requirements set forth in the Agency's underwriting standards as updated from time to time.

CalHFA Mixed-Income Development Team Qualifications

Below is a list of minimum qualifications and experience requirements for the Development Team. Additional requirements per the Agency's underwriting standards (as updated from time to time) will apply for Initial and Final Commitment underwriting. The Agency may require a review of Development Team credentials and due diligence items provided including: prior experience and track record with CalHFA; performance of existing projects; total exposure and risk to the Agency with respect to subject financing and development pipeline.

- The **Developer/Co-Developer/General Partne**r must be registered to do business and in good standing in the state of California. A CalHFA Qualified Developer/Co-Developer/General Partner must meet all the requirements of the Agency's underwriting standards including but not limited to: must have developed at least three projects which are comparable in their size and complexity to the subject Project, within the past five years or meet the requirements necessary to receive a minimum of seven points under the CDLAC General Partner Experience category pursuant to CDLAC Regulations Section 5230(f).
- **Emerging Developers** who do not meet the Developer/Co-Developer/General Partner requirements mentioned above are encouraged to partner with firms that can provide the required expertise and experience, which may include but is not limited to partnering with another development firm and/or third-party financial

partner acceptable to CalHFA ("Experienced Partner"). Experienced Partner must be acceptable to CalHFA and must meet the requirements per Agency's underwriting standards.

- The proposed **Project/Construction Manager** must, at the minimum, have personally managed the development of at least two projects which are comparable in their size and complexity to the subject Project, within the past five years in California.
- **Financial Consultants** hired to assist the Developer in meeting the minimum experience requirements must be able to provide details regarding at least three projects which have financing comparable in their size, financing and complexity to the subject Project over the last five years in California.
- **Architects** new to CalHFA must provide information for three projects they designed which are comparable in their size, design and complexity to the subject Project, which were built and occupied within the past five years in California.
- **General Contractor** must be licensed by the State of California. GCs new to CalHFA must provide information related to three projects comparable in size, design and complexity to the subject Project, built in the past five years. The GC must provide resumes of the principals, key staff, and the proposed on-site construction supervisor and provide evidence that they are familiar with federal, state, and locality building code requirements for comparable projects.
- **Tax Credit Investors** must have closed/executed at least five LPAs for a deal structure which is comparable to the subject Project using tax-exempt bonds and 4% federal and/or STC in California within the last three years.
- **Management Company** must have a local presence or a field office in Northern or Southern CA (depending on the location of the Project) and have experience managing at least 10 low- to moderate-income, rent-restricted projects which are comparable in size and tenant types to the subject Project. Also required is a resume for the proposed on-site Property Manager, reflecting prior experience during the past five years managing onsite project operations and compliance with rent-restricted units or meet the requirements necessary to receive a minimum of three points under the CDLAC Management Company Experience category pursuant to CDLAC Regulations Section 5230(f).

Permanent First Lien Loan

All project applications approved for a MIP subsidy loan must utilize CalHFA's Permanent Loan Program, which includes the requirement that the underwriting prior to construction and permanent loan closing shows a minimum 1.15x initial debt service coverage ratio (including any financing with amortizing debt) for the term of the permanent loan. CalHFA may require the initial DSCR to be higher than the minimum 1.15x if deemed necessary to meet the Agency's underwriting standards and credit risk assessment.

Any project application that contemplates a ground lease must accommodate CalHFA's requirement that the first lien permanent loan shall be secured against both the fee and leasehold interests in the Property. The ground lease term must exceed any CalHFA subsidy or permanent loan term(s) by 10 years or more. The term of the ground lease must be equal to or longer than the term of the CalHFA Regulatory Agreement(s).

Construction First Lien Loan

All project applications receiving a MIP loan must use a Construction Loan provided by a CalHFA Mixed-Income Qualified Construction Lender. All parties shall permit the Agency to recycle all, or a portion, of any bond volume cap related to a paydown of the bond-financed loans, at the conversion of the construction financing to permanent financing and payoff of the construction loan, pursuant to the authority provided in Section 146(i)(6) of the Internal Revenue Code of 1986 and CDLAC Regulation Section 5060 ("Bond Recycling"). The bond documents, loan documents and any other documents related to the financing of the Project shall contain any necessary approvals and permit all actions necessary to accomplish a Bond Recycling.

Limitations

- MIP cannot be combined with the CTCAC 9% program.
- MIP cannot be combined with other state subordinate debt and/or subsidy programs (this does not include STC) except the Infill Infrastructure Grant ("IIG"), Affordable Housing and Sustainable Communities ("AHSC") and Transit Oriented Development ("TOD") housing programs. Inclusion of these programs is contingent upon restrictions that are compatible with the MIP program requirements outlined herein.
- Inclusion of other debt and subsidy may be considered on a case-by-case basis in CalHFA's sole discretion so long as any restrictions of subordinate debt or subsidy are compatible with MIP program requirements outlined herein.
- Projects that have a below market rate component or are entirely restricted at below market rents because of an inclusionary obligation must demonstrate master developer commitment through a dollar-for-dollar match of CalHFA's subsidy resources. Match can be obtained through a monetary match or equivalent in-kind contributions (e.g., land donation, land use fee concessions.)
- At the time of MIP application, a project must not have already received an allocation of 4% federal and/or STC from CTCAC or a tax-exempt bond allocation from CDLAC.
- Projects will not be eligible for other subsidy resources from CalHFA in addition to a MIP Loan.

Mixed-Income Project Occupancy Requirements

Bond Regulatory Agreement Requirements (All Projects)

Must maintain either:

a. 20% of the units must be rent restricted and occupied by individuals whose incomes are 50% or less of AMI with adjustments for household size (20%@ 50% AMI); or

b. 40% or more of the units must be both rent restricted and occupied by individuals whose incomes are 60% or less of AMI with adjustments for household size (40% @ 60% AMI). In this case, CDLAC and CalHFA require a minimum of 10% of the unit types must be at 50% or less of AMI (i.e., 30% @ 60% AMI; 10% @ 50% AMI).

Mixed-Income Program Regulatory Agreement Requirements (All Projects)

To qualify, a project must meet the following affordability restrictions, which are based on the HUD and locality (as applicable) income and rent limits which are current at the time of MIP application, for a term of 55 years:

- 30% of total units at or below 50% of AMI. Of these, a minimum of 10% of total units must be at or below 30% of AMI; and
- 10% of total units between 60% and 80% of AMI with an average of 70% of AMI or greater, subject to the Maximum Allowable Rents outlined below; and
- Remaining units at or below 120% of AMI (with the exception of any nonrestricted manager's unit(s)); and
- The minimum range between the lowest and highest occupancy target levels must be at least 40%.

(Deviations from the above requirements will only be considered if a current market study and/or appraisal report(s) support such deviations.)

The maximum average affordability is no greater than 60% of AMI across all CTCAC-restricted units.

Maximum Allowable Rents

Rents for all restricted units must be underwritten at the lesser of either:

1. The CTCAC or locality maximum rents (whichever is applicable) based on the target occupancy; or
2. 10% below market rents, as evidenced by a current market study and/or appraisal, for the MIP affordability term.

This threshold will be analyzed at time of application and again at CalHFA's final commitment approval and may be monitored on an ongoing basis for the MIP affordability term. The report shall be current within 90 days of Agency's final commitment and may be subject to a new or updated report if the appraisal was completed more than 90 days prior to construction and/or permanent loan closing, in the Agency's sole discretion.

Any units restricted by the Agency pursuant to this program, including those units restricted in addition to the minimum requirements set forth above, shall be rented at rents not to exceed 30% of the applicable income restriction (target occupancy) required in the Agency's Regulatory Agreements.

Mixed-Income Subordinate Loan Rates & Terms

- **Interest Rate:** 3% simple interest. A higher simple interest rate may be used at time of MIP Loan closing in the event the true debt test is at risk for tax credit purposes.
- **Loan Term:** The MIP Loan term shall be coterminous with the CalHFA permanent first lien loan and is due upon prepayment of the CalHFA permanent first lien loan.
- **Lien Position:** MIP Loan shall be in second lien position, after the CalHFA permanent first lien loan.

- **Loan Payment:** "Surplus cash" is determined as net operating income minus total debt service on CalHFA loans and other Agency approved payments. Surplus cash distributions shall permit 50% to Borrower and 50% shall be paid pro rata as "Residual Receipts" between CalHFA and other governmental residual receipt lenders only. Payments shall be applied to the current and/or accrued interest and then principal of the MIP Loan. Residual Receipts may be shared with "non-governmental" lenders providing subordinate financing; however, the terms of payment and subordination are subject to CalHFA's sole discretion and approval.
- **Affordability Term:** 55 years.
- **Prepayment:** The MIP Loan may be prepaid at any time without penalty.
- **Funded:** Only at permanent loan conversion.

CalHFA Conduit Issuer & Bond Recycling Programs (subject to change)

For more information on conduit issuer and bond recycling rates and terms, refer to CalHFA's Conduit Issuer Program and Bond Recycling Program term sheets.

CalHFA Permanent First Lien Rates & Terms (subject to change)

For more information on permanent first lien rates and terms, refer to CalHFA's Tax-Exempt Permanent Loan Program term sheet.

Fees (subject to change)

- **Loan Fee:** 1.00% of the loan amount (50% due at final commitment and 50% due at MIP Loan closing).
- **Conduit Issuer Program Fees:** Refer to CalHFA Conduit Issuer Program term sheet.
- **CDLAC Fees:** Refer to CDLAC regulations for all applicable fees.
- **Other Fees:** Refer to CalHFA Tax-Exempt Permanent Loan Program term sheet for first mortgage loan fees, credit enhancements, trustee fees, legal fees, inspection fees, administrative fees. ■