Mixed-Income Program Application Guide

This document provides background information and responses to some frequently asked questions related to the application and initial underwriting process for the CalHFA Mixed-Income Program.

These responses are for informational purposes only and are provided to guide MIP applicants in completing MIP applications accurately and completely for consideration of a MIP award. Please note that these FAQs are to be read in conjunction with the MIP term sheet for the applicable year and do not address all of CalHFA's requirements.

If you have further questions, please contact one of CalHFA's Housing Finance Officers for more information. To help improve our FAQ experience, please submit your questions via email.

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Underwriting Information

Program Focus

- CalHFA's Multifamily loan programs are structured as non-recourse commercial loans to developers specializing in constructing affordable housing that will be rented to low-to moderate-income individuals and families. CalHFA's financing requires unit rental restrictions that will be recorded on title concurrent with CalHFA's financing.
- The CalHFA Mixed-Income Program provides competitive long-term subordinate financing for new construction multifamily housing developments restricting units between 30% and 120% of the county's Area Median Income (AMI). Paired with CalHFA first-lien Permanent Loan programs (for Tax-Exempt and Taxable Perm loans) and its Conduit Issuer Program, the MIP subordinate loan is a permanent funding source and structured as a second-lien residual receipts loan.
- Please review the development team requirements located under the Process & Requirements section at this link, https://www.calhfa.ca.gov/multifamily/programs/forms/process-devel-team-reqirements.pdf.
- Please carefully review the applicable loan program term sheets for additional information and loan program requirements. Please refer to the CalHFA website for most updated versions.
- https://www.calhfa.ca.gov/multifamily/programs/forms/termsheet-perm-tax-exempt.pdf
- https://www.calhfa.ca.gov/multifamily/programs/forms/termsheet-perm-taxable.pdf
- https://www.calhfa.ca.gov/multifamily/programs/forms/termsheet-conduit.pdf

Indicative Perm Loan Rate for Application Submission

- Prior to completing and submitting a MIP loan application, applicants should contact one of CalHFA's Housing Finance Officers for an indicative rate to be used for the permanent loan when completing the CTCAC application. Please note the rate provided by CalHFA at this stage is only indicative for the purposes of the application and is NOT the final rate which is locked for final underwriting and closing after the CDLAC/CTCAC award.

- Applications submitted without using the permanent loan indicative rate quote provided by CalHFA may require an adjustment for consistency and reasonableness of the underwriting rate used in the CTCAC application before acceptance.

Soft Cost Contingency Calculation:

- CalHFA requires a minimum Soft Cost Contingency of 2% of soft costs, which are defined as total development costs (used for construction sources/uses in CTCAC app) less costs in the "Construction cost" line items.
- 2% is the minimum threshold based on the project risks and other concerns identified during underwriting. It is subject to upward adjustment consistent with the Agency's risk appetite and risk mitigation measures.

Project Hard Cost Contingency Calculation:

- CalHFA requires a minimum Hard Cost Contingency of 5% of hard costs, which are defined as "Construction cost" line items only (sitework, structures, GC overhead and profit, GC contingency, etc.)
- The 5% project Hard Cost Contingency is over and above the GC contingency built into the GC Contract or Schedule of Values.
- 5 % is the minimum threshold based on the construction and project risks and any other concerns identified during underwriting. It is subject to upward adjustment consistent with the Agency's risk appetite and risk mitigation measures.

Operating Expense Reserve (OER)

- CalHFA policy requires the OER to be sized based on six months of operating expenses, reserve deposits, debt service payments, and monitoring fees.
- Considered on a case-by-case basis, the CalHFA OER requirement may be reduced to four months if the project ownership qualifies for full experience points under CDLAC regulations. However, CDLAC scoring is not the sole determining factor, and other underwriting considerations may be applicable based on the credit risks or other project cash-flow analysis which may require a six-month funded OER.
- The OER must be fully funded at permanent loan closing and will be held by CalHFA for the term of the CalHFA permanent financing.
- In the event a higher OER is required by another party, CalHFA will collect and hold that portion of the OER at permanent loan closing as well.
- In the event OER funds are drawn down during the term of CalHFA permanent loan, the OER must be replenished over a period of 12 months to the original level required by CalHFA.

Ground Leases and CalHFA Loan Security:

- The ground lease must be satisfactory to CalHFA. The lessor shall enter into a non-disturbance agreement with CalHFA wherein the lessor shall not terminate the ground lease during the term of the Agency's mortgage(s) and affordability restrictions except by reason of default by the borrower, but not without first giving the Agency notice and opportunity to cure the default.
- CalHFA Loan Documents shall be secured against both the fee and leasehold interests.
- Subject to approval on a case-by-case basis, the CalHFA Loan Documents may be secured solely against the leasehold interest if;
    - No other subordinate lenders' loan security interest is recorded against the fee and:
    - the fee owner is a governmental entity (or, with CalHFA approval, a nonprofit public benefit corporation);
    - the ground lease rents are nominal (meaning inclusion of ground lease payments does not adversely affect debt service coverage ratio);
    - the Fee owner agrees to the terms of CalHFA's Leasehold Rider and any applicable HUD Risk-Share Program requirements;
    - the ground lease has a term that exceeds the Agency loan term by at least 10 years and is equal to or greater than the term of the Regulatory Agreement.

      Note: A Leasehold Rider is unnecessary if the Agency Loan Documents are secured against both the fee and leasehold interests.

Commercial Income:

- If the project has non-residential income (e.g., commercial income) from construction of commercial space in the project, the treatment of commercial income is dependent on the manner in which the commercial space is owned and leased, and considerations and requirements related to the use of CalHFA loan proceeds and tax-exempt bond proceeds, HUD Risk-Share requirements, appraisal value considerations for project collateral securing the CalHFA loans and the type of legal entity structure for the commercial operations. Please contact a CalHFA Housing Finance Officer for further information on the underwriting of commercial income for application and underwriting purposes.
- The Agency may require additional diligence including, but not limited to, organizational documents of entities, commercial space budget and contracts, plans and specs for commercial space, commercial lease contracts, etc.
- Any other commercial income (such as laundry income or internet/wi-fi) is also subject to CalHFA underwriting requirements on a case-by-case basis and may require additional diligence to support the underwritten income.

Split Parcel Acquisition Cost Allocation:

- In the event a development is one parcel that is expected to be subdivided into two parcels at closing, with the second parcel consisting of market-rate units, commercial space, or another non-residential use that will be under separate ownership, CalHFA expects the acquisition costs to be allocated between the owners on the basis of land area and built-up square footage of the building(s). If the purchase appraisal or deed of sale is for one parcel (prior to subdivision), the cost allocation method for acquisition costs will be subject to CalHFA approval. Further, the CalHFA-ordered appraisal will require review of actual, subdivided land parcels and plans and specs for the project for the collateral in securing CalHFA loans.

Application Due Diligence FAQs

1. ***QUESTION:*** **Do I need to submit multiple applications to CalHFA for MIP, conduit, and perm loans?**

   ANSWER: When applying for MIP, only one application form and submission is required to participate in these loan programs.

2. ***QUESTION:*** **Where can I find the most current CTCAC Workbook, Attachment 40 to submit with my MIP application?**

   ANSWER: It is the Developer's responsibility to submit the most current CTCAC Workbook Attachment 40 (February 20, 2025), found on the State Treasurer's Website.
   CTCAC Application Information

3. ***QUESTION:*** ***If notified of a MIP preliminary award, how much is the Application Fee?***

   ANSWER: The MIP Application Fee is $10K. If the project is notified of a preliminary award, CalHFA will provide an invoice with wiring instructions to be due within five days of notification.

4. ***QUESTION:*** ***The MIP application requires copies of the organizational documents for the various entities on the project. What if an entity is not yet formed?***

   ANSWER: Applicant should provide the name of the entity and list projected dates for the formation and receipt of documentation.

5. ***QUESTION:*** ***What entities on the project need to fill out the Credit Authorization Form?***

   ANSWER: MIP applicants should provide credit authorization for the developer/sponsor and co-developer of the project only. The Agency may require additional credit authorization for other project entities depending on their role in the project development and/or developer entity composition (organizational documents).

6. ***QUESTION:*** ***When submitting the MIP application and supporting documentation, can we email a link to access the attachments?***

   ANSWER: No, CalHFA cannot accept drop box or any other type of link with documentation, and its IT department will block these links. CalHFA will send a Biscom Secure File Transfer link from Secure Send.

7. ***QUESTION:* Who should the Phase 1 Reliance Letter be directed to?**

ANSWER: The Reliance Letter needs to be directed to CalHFA. Please note the report should indicate CalHFA as relying party through the CalHFA Reliance Letter Form. Please see link to the Reliance Letter template.

8. ***QUESTION:* Are there any examples of maps showing surrounding land uses within 300 feet of the proposed project site?**

ANSWER: Google earth maps are sufficient.

9. ***QUESTION:* Does the project need to hire its own HUD consultant to process the Environmental Review for NEPA?**

ANSWER: No, CalHFA will obtain a NEPA Consultant to process the Environmental Review (ER) for NEPA. If the project receives notification of a MIP preliminary award, the reports necessary to complete an ER will be due to CalHFA within 30 days of that notification. The reports needed can be found on the MIP Application Checklist. Failure to meet this 30-day deadline may result in delays with the HUD approval process prior to construction loan closing.

10. ***QUESTION:* What if the project already had a HUD Environmental Review processed for NEPA?**

ANSWER: This is likely acceptable. CalHFA will contact the consultant that prepared the ER and will proceed to adopt the original. CalHFA's NEPA consultant will be engaged for review and adoption.

11. ***QUESTION:* What if a project has already started an Environmental Review with their own NEPA consultant?**

ANSWER: This is likely acceptable. CalHFA will contact the consultant and request that we co-engage the environmental review for NEPA. CalHFA's NEPA consultant will be contacted to begin the co-engagement.