

**City of Milwaukee
Neighborhood Stabilization Program
Development Loan Fund**

Loan Fund Term Sheet

Borrower	Neighborhood Improvement Development Corporation (NIDC), a 501 (c) (3) Corporation which is a component unit of City of Milwaukee government. NIDC's mission is to support the redevelopment of City neighborhoods and improve the quality of life for its residents. It has been in existence since 1973. It is a component unit of the City government and operates under a Cooperation Agreement with the City of Milwaukee. NIDC is managed by a Board of Directors made up of members from the public and private sectors. NIDC is staffed by, and housed within, the Department of City Development (DCD).
Participating Lenders	U.S. Bank \$500,000 Guaranty Bank \$500,000 PNC Bank \$500,000 Harris Bank \$500,000 Deutsche Bank \$500,000
Purpose/Description	<p>The loans will be provided to NIDC in one or more advances for the purpose of supporting the City of Milwaukee's efforts in the Neighborhood Stabilization Program ("NSP"). NSP is a federal program administered by the United States Department of Housing and Urban Development to provide resources to stabilize neighborhoods that have been impacted by the foreclosure crisis.</p> <p>The loans will capitalize a loan fund for the City's Neighborhood Stabilization Program ("NSP Loan Fund") to provide financing for the acquisition and development of foreclosed and vacant properties for affordable rental and homeownership opportunities. NIDC will "relend" the funds to eligible and qualified developers who are undertaking NSP development projects.</p> <p>It is anticipated that 30 to 50 loans will be originated under the program. Repayments from loans originated by NIDC under the program will be used to repay the loan from participating lenders to NIDC.</p>
Rate	2.5%. Interest is payable semi-annually throughout the loan term.
Term	The loans shall be for a term of up to 36 months.
Recourse	This is a non-recourse facility.
Guaranty	NIDC will provide a loss guaranty for the NSP Loan Fund through NSP program

	<p>funds awarded to the City of Milwaukee in the amount of 20% of the principal amount of the NSP Loan fund in an amount of up to \$500,000. Guaranty funds in the amount of 20% of the amount of each loan originated under the program will be deposited at the time each loan is originated in an interest bearing escrow account at a financial institution to be determined.</p> <p>The guaranty funds shall remain in the escrow account until the maturity of the loans from the lenders to NIDC. At maturity, a final accounting will be made of all loans originated under the program, repayments, and any recoveries. Should the amount of principal repayments and loan recoveries be less than the amount of outstanding indebtedness, funds may be drawn from the escrow account in an amount of up to 20% of the total outstanding indebtedness to cover any losses. For example, if loans totaling \$1,800,000 are originated under the program, the amount of guaranty funds that would be available to cover any losses would be \$360,000.</p>
Risk Sharing	Each lender shall have a prorata share of risk (based on their level of participation) in the amount of outstanding loans in aggregate and the total outstanding principal amount of the loan to NIDC. NIDC shall use its best and commercially reasonable efforts to collect on any defaulted loan, including foreclosure of the underlying collateral taken by NIDC to secure individual loans originated under the program.
Loan Fund Administration	<p>Loans originated through the fund shall be administered by a third party loan administrator which has been procured by the City of Milwaukee – the Wisconsin Partnership for Housing Development (WPHD). The fund will be administered by WPHD in cooperation and consultation with NIDC and the City of Milwaukee.</p> <p>Information regarding the experience and governance structure of WPHD and NIDC has been provided to participating lenders as part of their consideration for participation in the fund.</p>
Loan Committee	A loan committee composed of representatives from the City of Milwaukee, each participating lender (at their discretion) and up to two at large members (familiar with real estate lending) will review and approve loans proposed under the loan fund.
Underwriting Guidelines/	Loans originated under the loan fund will be subject to the underwriting guidelines, policies and procedures which have been prepared and adopted for the program and which have been provided to all participating lenders.
Reporting	NIDC will provide quarterly reports to each of the participating lenders detailing a list of loans originated, their purpose, outstanding principal and loan status.
Prepayment	NIDC may prepay loans in whole or in part at any time, without penalty.

**CITY OF MILWAUKEE
NSP LOAN FUND**

INTRODUCTION

The City of Milwaukee has created a Loan Fund as part of its Neighborhood Stabilization Program (NSP). The Loan Fund is intended to provide developers of housing funded in part by the NSP with accessible, affordable financing to maximize the amount and quality of housing that can be produced using federal NSP funds available to the City.

The City has secured commitments of capital to create the Loan Fund from Deutsche Bank, Guaranty Bank, M&I Bank (now BMO), PNC Bank, and U.S. Bank.

The Wisconsin Partnership for Housing Development manages the Loan Fund for the City of Milwaukee.

ELIGIBLE PROJECTS

The Loan Fund will make loans for two types of projects:

- Projects that provide homes for sale to owner-occupants
- Projects that provide rental housing

Housing financed by the Loan Fund must be produced by acquiring and rehabilitating existing buildings. All housing financed by the Loan Fund must be eligible for funding under the City's Neighborhood Stabilization Program. *A loan application will be accepted for review only after the applicant has met the City's standards for NSP developers and the City has determined that it is prepared to provide NSP funding for the developer's proposed project.*

The applicant has the primary responsibility for planning projects. The Loan Fund will not begin reviewing a loan application until it is clear that the project is ready for financing. However, as part of its management of the Loan Fund, the Wisconsin Partnership can provide technical assistance to applicants to help them prepare an acceptable application.

ELIGIBLE BORROWERS

Loans from the Loan Fund may be made to:

- Nonprofit corporations organized under Ch. 181 Wis. Stats. and exempt from federal income taxes (or nonprofit corporations that have applied for tax-exempt status whose application is awaiting approval)
- Housing cooperatives (organized under Ch. 185, Wis. Stats)
- Housing authorities or other public agencies
- For-profit corporations
- Limited partnerships
- Limited liability companies
- Individuals

UNDERWRITING GUIDELINES

The Loan Fund has developed Underwriting Guidelines that are attached to this document.

TYPES OF LOANS

The Loan Fund will make construction and development loans. Those loans can finance property acquisition, rehabilitation, and disposition. As explained below under "Loan Term," disposition may include the time required to market and sell a home or meet requirements for closing on a longer-term loan for rental housing. The Loan Fund does not make "predevelopment" loans or long-term (sometimes called "permanent") mortgage loans.

Although a firm commitment of longer-term "take-out" financing for rental housing projects is not required, the applicant will be expected to demonstrate that at least one provider of such financing is willing to consider making a loan for the project and that the project reasonably expects to be able to meet the lender's conditions for making such a loan. The applicant should plan to submit a letter from a "take-out" lender clearly stating the conditions that must be met before a long-term loan can be closed.

LOAN TERM

To achieve maximum use of the available funds and to be prudent about lending risk, the Loan Fund will make loans for the shortest terms possible to meet project needs. Typical terms for the various loan types will as follows:

Construction and development loans for projects that provide homes for sale to owner-occupants will usually be made with a maximum term of 9 months to allow enough time for acquisition of the property, rehabilitation of the home, and marketing and sale to a homebuyer. Slightly longer terms may be considered under exceptional circumstances. An extension of term may be subject to an increase in the interest rate.

Construction and development loans for projects that provide rental housing will usually be made with a maximum term of 12 months to allow enough time for acquisition of the property, rehabilitation of the buildings, marketing and rent-up *and* a period of time in which to demonstrate to a long-term or "permanent" mortgage lender that the project can maintain stabilized occupancy and produce positive cash flow. Many mortgage lenders require that projects meet those conditions - sometimes called "seasoning" - before closing on the longer-term loan. If a borrower is unable to achieve permanent financing by the end of the loan term, an extension of the term may be considered and may be subject to an increase in the interest rate.

Interest Rates

The interest rate on loans Loan Fund will be [RATE], TBD Interest will be charged on the loan amount outstanding. Quarterly interest payments are required but may be financed as part of the loan. As noted above, the interest rate may be increased if the loan term is extended.

Loan Repayment

Loan repayments for the various loan types will be scheduled as follows:

- Construction and development loans for projects that provide homes for sale to owner-occupants will be payable upon sale of the home. The Loan Fund will require quarterly interest payments on the loan amount during the term of the loan, which can be financed as part of the loan.
- Construction and development loans for projects that provide rental housing will not have any payment of principal due until rehabilitation and initial rent-up are completed. The Loan Fund will require quarterly interest payments on the loan amount during the term of the loan, which can be financed as part of the loan.
- After a rental project is occupied at the level defined as full occupancy in the management plan and the operating budget, monthly payments of principal and interest will be required. Payments will be based on the amortization schedule specified by the intended long-term or “permanent” mortgage lender.
- All loans must be repaid in full at the end of the loan term.

Security on Loans

All loans will be secured by a first mortgage on the property. Loans for projects that provide rental housing may also be secured by a collateral assignment of leases and rental income. Depending on the risk profile of the loan, the Loan Fund may require the loan to be secured with other assets of the borrower.

If the borrower is a limited partnership or a limited liability company (LLC), the Loan Fund may require general or limited partners or members of the LLC to co-sign the Note and provide performance bonds or other forms of security.

Lending Process

Prior to making direct application to the Loan Fund, the applicant must have applied to and been approved for participation in the City of Milwaukee’s NSP program. Once an applicant has been approved by the City, the applicant’s contact information will be provided by the City to the Loan Fund and the applicant will then be able to apply directly to the Loan Fund.

If requested by the applicant, in order to avoid the applicant spending time and money unnecessarily, the Loan Fund will use a two-step process. First, we will review information about the development team, the amount and kind of housing that will be produced, the neighborhood in which the housing will be located and the market for the housing. The Loan Fund will decide whether it is willing to lend money to the developer for the kind of project described, and the total loan amount it is willing to have outstanding to the developer at any one time. This process will happen only once. After receiving this initial approval, borrowers will only need to submit project-specific material for the subsequent loan requests.

Underwriting Rental Projects - Chart 1

Project	Criteria
LTV	Maximum loan amount will be the lesser of: (1) 80% of after-rehabilitation appraised value or (2) the amount that can be supported by Net Operating Income after applying the Debt Service Coverage Ratio.
DCR	Loan will require a DCR of 1.20 based on stabilized net operating income.
Satisfactory Development Budget	The Loan Fund will use a standard format for development and operating budgets. The development budget will be reviewed to ensure completeness and accuracy. Developer will be required to supply supporting documentation for assumptions. Key elements to verify: acquisition costs, construction costs, select/sizeable soft costs, contingency amounts, and developer's fee.
Satisfactory Operating Budget	Operating budget will be reviewed to ensure completeness and accuracy. Developer will be required to supply supporting documentation for assumptions. Key elements to verify: vacancy rate, collection loss, expected lease up period, maintenance costs, reserve amounts, and projected rent levels.
Appraisal	The appraisal must support the requested loan amount. As necessary, a combined As Is Appraisal/After Rehab Appraisal may be required.
Marketing Plan	Developer must have a plan to market units to the identified audience and the underwriter finds the plan to be sufficient.
Permanent Financing	Developer must have applied for permanent financing and can furnish a letter from at least one lender stating that the project is eligible for financing by the lender and describing the lender's standards for closing on the permanent loan. The underwriter must believe it is reasonable to assume the project can meet the take-out lender's conditions for a loan closing by the end of the term of the City's loan.
Regulatory & Site Analysis	Project must have site control and proper zoning (or can reasonably expect to secure approval of needed zoning changes).
Environmental Review	Project must comply with all applicable environmental standards.
Insurance Standards	Project must be insured against a loss or damage occasioned by fire, extended coverage perils and such other hazards as Mortgagee may require.
Location Analysis	The condition of the housing market in the neighborhood, taking into account planned actions by the City or private parties intended to strengthen the market that have a reasonable likelihood of being implemented, must support the assumption that the housing can be rented at the proposed target rents and that the project can meet the financial performance requirements necessary to secure "take-out" financing by the end of the loan term.

Underwriting Ownership Projects

Project	Criteria
LTV	Maximum loan amount will be 90% of after-rehabilitation appraised value.
Satisfactory Development Budget	Pro Forma will be reviewed to ensure completeness and accuracy. Developer will be required to supply supporting documentation for assumptions. Ensure acceptable numbers for standard items. Key elements to verify: acquisition costs, construction costs, select/sizeable soft costs, contingency amounts, and developer's fee.
Appraisal	The appraisal must support the requested loan amount. As necessary, a combined As Is Appraisal/After Rehab Appraisal may be required.
Marketing Plan	Developer must have identified a qualified broker to list and sell the property and commits to entering into a listing contract with the broker prior to completion of rehabilitation or construction.
Regulatory & Site Analysis	Developer must have site control and proper zoning (or can reasonably expect to secure approval of needed zoning changes).
Environmental Review	Project must comply with all applicable environmental standards.
Insurance Standards	Project must be insured against a loss or damage occasioned by fire, extended coverage perils and such other hazards as Mortgagee may require.
Location Analysis	The condition of the housing market in the neighborhood, taking into account planned actions by the City or private parties intended to strengthen the market that have a reasonable likelihood of being implemented, must support the assumption that the housing can be sold to a homeowner at the projected sale price by the end of the loan term.
Developer	Criteria
Financial Strength	Developer must have net worth of at least 20% of proposed loan amount and liquid net assets of at least 5% of proposed loan amount.
Equity Stake	Developer must invest a minimum 10% of the total development cost in the project.
Relevant Experience	Developer must demonstrate success in completing projects of similar size, in terms of both number of units and cost.
Contractor	Criteria
Financial Strength	Contractor must be licensed by the City and meets the City's requirements for participation in the NSP Program.
Insurance Standards	Contractor must meet City standards.
Relevant Experience	Contractor must demonstrate success in completing projects of a similar kind and size, both in number of units and cost.
Architect	Criteria
Relevant Experience	If an architect is used, he/she must be properly licensed. The architect must demonstrate that he/she has worked on successful projects of a similar size and type, in terms of number of units, cost, and style.

Underwriting Rental Projects – Chart 2

Developer	Criteria
Financial Strength	Developer must have net worth of at least 20% of proposed loan amount and liquid net assets of at least 5% of proposed loan amount.
Equity Stake	Developer must invest at a minimum 10% of the total development cost in the project.
Relevant Experience	Developer must demonstrate success in completing projects of similar size, in terms of number of units and cost.
Contractor	Criteria
Financial Strength	Contractor must be licensed by the City and meets the City's requirements for participation in the NSP Program.
Insurance Standards	Contractor must meet City standards.
Relevant Experience	Contractor must demonstrate success in completing projects of a similar kind and size, both in number of units and cost.
Property Management	Criteria
Relevant Experience	A property management company may not be required if the developer can demonstrate competence and experience in property management. If a management company is required, it must have a proven track record of successfully renting up and managing projects of a similar size and type.
Architect	Criteria
Relevant Experience	If an architect is used, he/she must be properly licensed. The architect must demonstrate that he/she has worked on successful projects of a similar size and type, in terms of number of units, cost, and style.