

**CONSTRUCTION AND PERMANENT LOAN FINANCING**  
**TERM SHEET**

This Term Sheet is to be utilized for disclosure of possible terms and conditions only. This is not to be construed as a commitment to lend. Terms and conditions are subject to change at the sole discretion of IHFA. Loan Commitments will embody the requirements for loan closing.

The Construction Phase of the Development, as defined in Section B of this Term Sheet, will be for the purpose of providing interim construction financing, and the Permanent Phase, as defined in Section C of this Term Sheet, will be to provide long-term financing.

Said Mortgage Loan will be incorporated into one Promissory Note and one all-inclusive Deed of Trust.

**A. TOTAL COMMITTED LOAN AMOUNT:**

The total committed loan amount is the greater of the Construction Phase or Permanent Phase loan amounts. Borrower shall pay a non-refundable loan fee equal to one and one-half percent (1.5%), collected and calculated as follows:

- i) One percent (1.0%) of the Construction Loan amount or the Permanent Loan amount, whichever is greater, to be paid at the time the Commitment is accepted by Borrower.
- ii) One-half percent (0.5%) of the Construction Loan amount or the Permanent Loan amount, whichever is greater, to be paid at the time the Mortgage Loan is closed.

**Specific requirements for both the Construction Phase and Permanent Phase are:**

**B. CONSTRUCTION PHASE:**

- Maximum Loan:** 90% of development costs subject to underwriting determinations.
- Guarantors:** Guarantee by the general partner and personally by Principals.
- Loan Term:** Not to exceed 12 to 18 months following Mortgage Loan closing. Prior to Permanent Phase conversion, a payment of principal shall be made in an amount necessary to reduce the outstanding loan balance of principal, plus any interest owing on the outstanding balance accrued to the date of payment, at the interest rate set forth.
- Amortization:** Payments of interest only, accrued on the outstanding principal balance, shall be made beginning on the first of the month following the initial advance of mortgage proceeds and continuing on the first day of each succeeding month or upon conversion to the Permanent Phase financing, whichever is earlier.
- Interest Rate:** Contact IHFA for interest rate quote.

**Prepayment:** Under the Deed of Trust, the debt by the Deed of Trust Note may be prepaid prior to the maturity date thereof with prior written approval of the lender. Lender will consent to a prepayment of the principal upon those terms set forth in said Deed of Trust Note.

**Application Fee:** \$2,000. Please also include a check for \$200 for miscellaneous expenses at the time of application.

**Loan Fee:** Borrower shall pay a non-refundable loan fee equal to one and one-half percent (1.5%) to be collected as follows:

- i) One percent (1.0%) of the Construction Loan amount or the Permanent Loan amount, whichever is greater, to be paid at the time the Commitment is accepted by Borrower.
- ii) One-half percent (0.5%) of the Construction Loan amount or the Permanent Loan amount, whichever is greater, to be paid at the time the Mortgage Loan is closed.

**Other Expenses:** Borrower shall be responsible for all out-of-pocket expenses of the Borrower and IHFA including, without limitation, appraisals, appraisal review, environmental reports, title and recording costs, survey costs, insurance, legal fees, architectural fees (pre-construction and periodic inspections), credit reports, soils tests, physical needs assessment, taxes and assessments due on the date of closing, and all other expenses in connection with the negotiation of, preparation for, and closing of the Loan. In the event the Loan does not close, such out-of-pocket costs are not refundable.

**Please include a check for \$200 for miscellaneous expenses at the time of application.**

**Disbursements:** The funds loaned to Borrower will be disbursed through a title company, subject to 122 endorsements, as construction progresses on the Development in accordance with the IHFA Construction Loan Agreement and the Construction Funds Disbursement Agreement.

**Inspections:** Monthly inspections by an IHFA approved architect are required for disbursement of funds.

**Funds Control:** The Commitment and disbursement of the Mortgage Loan shall be contingent upon the deposit by the Borrower of all funds necessary to fund the development budget, which, in conjunction with this loan, shall fully fund the construction budget. The IHFA Mortgage Loan funds will be disbursed after all other funding sources have been utilized.

IHFA requires Disbursements of loan proceeds are made based upon percentage of project completion for construction related costs and by invoice and evidence of payment for owner-related costs.

**Equity Injection:** Injections of equity during construction will be governed by a Construction Funds Disbursement Agreement.

**Title:** A current preliminary title commitment from a company satisfactory to IHFA, together with copies of all documents establishing exceptions, and an explanation as to how the exceptions, including printed exceptions, will be disposed. After closing of the Mortgage Loan, and more specifically after placement of footings and foundations, the Borrower shall provide IHFA an ALTA 102.4 title endorsement.

ALTA Lender's Policy of title insurance reflecting a first position lien with appropriate endorsements as required.

**Survey:** A current metes and bounds survey prepared by a registered land surveyor acceptable to IHFA and the title insurance company reflecting the following: 1) legal description and square footage of the Property site; 2) perimeter lot lines; 3) all roads bordering on, or contiguous to the Property site; 4) all easements, lot lines, setback lines and other rights-of-way, or covenants affecting the Property site, recorded easements to be identified by book and page; and 5) utilities and sewers (delineating their course to point of connection to public system).

This requirement may be waived at the discretion of IHFA if the Property site is identified in a recorded Subdivision Plat.

**Assurance of Completion:** Performance and payment bonds or Letter of Credit equal to 25% of the construction contract. On approval, waiver of completion assurance is subject to review of sufficient owner equity or guaranty.

**Retainage:** 5% of the construction related costs including builder's profit and overhead. A consent for release of final retainage must be provided if any HOME funds are utilized during construction.

**Construction Prior to Loan Closing:** The Construction Phase of the Development shall not commence prior to the closing of the Mortgage Loan unless specifically so authorized in writing by an Authorized Officer of IHFA and on such terms and conditions as such Authorized Officer of IHFA may deem to be appropriate.

**Insurance:** Prior to closing the construction loan, Borrower shall provide evidence of the contractor's Builder's Risk Insurance naming IHFA as additional insured in an amount of at least the full insurable value of the improvements, and the contractor's standard commercial liability policy in the amount of \$2,000,000, naming IHFA as an additional insured.

Such insurance to be in amounts, form, and by such companies as shall be approved by IHFA. Borrower will produce evidence

that the contractor's insurance carrier certifies to IHFA that any partial occupancy of a portion of the development, while construction continues, will not in any manner jeopardize or reduce the coverage and the Builder's Risk insurance policy. A copy of the Certificate of Contractor's Workmen's Compensation showing IHFA as the Certificate Holder shall also be furnished.

Borrower shall also provide evidence of standard commercial liability policy in the amount of \$2,000,000, (\$3,000,000 if an elevator is involved with the project), naming IHFA as an additional insured.

After issuance of certificate of occupancy and prior to lease-up, the Borrower will provide evidence of insurance in the amount and types required under the permanent phase.

**Documentation:**

IHFA will require the following documentation as may be required or specified by IHFA or its legal counsel in order to complete the financing unless waived in writing:

Drawings and Specifications: Borrower shall furnish to IHFA and to IHFA's architect or engineer, signed and dated, complete and final drawings and specifications for review and approval prior to recording of the Deed of Trust and commencement of construction on the Development. The drawings and specifications provided are also to be formally acknowledged by the Borrower, Architect, and Contractor, to be in their complete and final form.

Soil Tests: Prior to the loan closing, Borrower shall provide IHFA, at Borrower's expense, a test acceptable to IHFA which indicates that the soil conditions of the Property site are sufficient to support the proposed construction and approves the proposed foundation design.

Government Permits and Availability of Utilities: Borrower has obtained or will obtain, or complied or will comply, with all necessary and applicable zoning development, design, and building permits, and regulations of any state, federal, or municipal agency having jurisdiction over the Development. Borrower will provide to IHFA a copy of the following:

- (i) Building permit for the proposed development;
- (ii) Zoning approval;
- (iii) Evidence of availability of all necessary utilities setting forth cost to connect all utilities to the Development;
- (iv) Environmental Impact Statement (if required by local jurisdiction); and
- (v) Any other documentation, permits, or licenses IHFA may request reasonably evidencing the proper and lawful operation of the Development.

Organization Documents: Borrower shall provide IHFA with all organizational documentation including, but not limited to Articles of Incorporation/Organization, Bylaws, Operating Agreement, a Certificate(s) of Good Standing, Partnership Agreement(s), Assumed Name Certificate(s) or Certificate of Limited Partnership, and all revisions thereto as applicable and the same shall be acceptable to IHFA.

Opinions of Borrower's Counsel: An Opinion addressed to, and in a format satisfactory to IHFA, indicating compliance with all legal requirements in the formation of the Borrower and in the execution of documents and the enforceability of all provisions of the various loan documents and other matters as required by IHFA.

**C. PERMANENT PHASE:**

**Guarantors:** Not applicable to the Permanent Phase after Mortgage Loan conversion.

**Loan Amount:** Lesser of 90% of development costs or 75% of market value (unencumbered by Section 42 rent restrictions) or amount justified by 1.20 debt service coverage ratio.

**Loan Term:** Term must correspond to the interest rate term 15, 20, or 30 years.

**Amortization:** 30 years.

**Debt Service:** A debt service coverage ratio of not less than 1.20.

**Interest Rate:** The interest rate shall be a fixed rate, determined by adding 175 basis points to the current yield on the Seattle Federal Home Loan Bank Intermediate Term Amortizing Advance Rate for terms corresponding to the loan request, 15, 20, or 30 years. Said interest rate shall be adjusted upward to the nearest 1/8th of one percent. Interest rate shall be established on the Permanent Phase conversion date or as defined under the terms of the Interest Rate Lock Agreement.

Since IHFA generally originates affordable housing loans for secondary market placement, IHFA will consider lower interest rates and fees if available in the market.

**Interest Rate Lock:** Borrower shall have the option to exercise a one-time interest rate lock to be negotiated by the parties for the Permanent Phase of the Mortgage Loan. In consideration for locking the interest rate, Borrower shall pay a non-refundable lock fee to be determined by the parties at the time of interest rate lock-in. Said fee shall be collected at the time the Interest Rate Lock Agreement is agreed to by all parties. A variance in the loan amount of up to 5% over

and above the Loan Commitment may be negotiated on a case-by-case basis due to unforeseen increases in project costs.

**Permanent Loan Fee:** Borrower shall pay a non-refundable Permanent Phase conversion fee equal to one-half percent (0.5%) of the Permanent Loan Amount. Said fee shall be collected at the time the Construction Phase is converted to the Permanent Phase.

**Other Expenses:** Borrower shall be responsible for all out-of-pocket expenses of the Borrower and IHFA including, without limitation, appraisals, appraisal review, environmental reports, title and recording costs, insurance, legal fees, credit reports, soils tests, physical needs assessment, taxes and assessments due on the date of closing, and all other expenses in connection with the negotiation of, preparation for, and Permanent Phase conversion of the Mortgage Loan. In the event the Mortgage Loan does not convert to the Permanent Phase, such out-of-pocket costs are not refundable.

**Title Insurance:** ALTA Mortgagee's Title Policy in a form approved from a company satisfactory to IHFA in the amount of not less than the Mortgage Loan. IHFA's Deed of Trust shall be a first lien against the real estate and improvements in fee simple, subject only to such exceptions and encumbrances as pre-approved in writing by IHFA. The policy shall include such endorsements as IHFA may require.

**Survey:** An ALTA "As Built" survey prepared by a registered land surveyor acceptable to IHFA and the title insurance company.

**Insurance:** Hazard insurance coverage including a Lender's Loss Payable Endorsement is to be provided naming the IHFA and its assigns as an Additional Insured as a Loss Payee and Mortgagee.

Liability insurance is to be provided naming IHFA and its assigns as an additional insured. Said insurance shall provide a minimum of \$2,000,000, (\$3,000,000 for a project with an elevator), for bodily injury and property damage for any single occurrence.

Rent Loss insurance including a Lender's Loss Payable Endorsement is to be provided naming IHFA and its assigns as an Additional Insured as a Loss Payee and Mortgagee. Such insurance shall provide coverage for rent loss due to fire and other hazards. A minimum of six months coverage is required for properties up to three stories high and twelve months coverage for all other properties. Coverage must be adjusted annually to reflect current rent levels.

IHFA may require earthquake insurance as appropriate on a case by case basis and will require flood insurance if the development is located in a flood hazard area. Appropriate Lender Loss Payable Endorsements will be required.

All policies must have a standard mortgage clause providing IHFA at least 30 days notice in the event of a policy reduction or cancellation. Policies must be issued by an insurance company with a Best's general policyholder's rating of at least A and a financial size category of at least V. All insurers must be fully licensed to do business in Idaho.

**Reserves:** The Borrower will be required to establish escrow accounts for taxes, insurance, and replacement reserves based on a Physical Needs Assessment. After the initial installment, Borrower shall make monthly contributions to said accounts as required by IHFA as defined in the Replacement Reserve Agreement.

**D. ADDITIONAL CONDITIONS:**

**Appraisal:** The Commitment is subject to receipt of an appraisal (the "Appraisal") conforming to current appraisal standards as established by the Uniform Standards of Professional Appraisal Practice (USPAP), and requirements as implemented under the Final Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) by federal regulatory agencies and those requirements of FNMA. All appraisal assignments shall be ordered by IHFA and will be prepared naming IHFA as the client, unless prepared for a federally regulated institution and accepted and properly assigned to IHFA.

**Appraisal Review:** The Appraisal is subject to a satisfactory review and assessment, at IHFA's discretion. Said review will be at the Borrower's expense.

**Environmental:** Prior to the Construction Phase, a Phase I Environmental Assessment will be performed on the subject development by a qualified, licensed engineer or certified environmental/industrial hygienist in accordance with FNMA's Environmental Hazards Management Procedures and the requirements of IHFA. If the Phase I Environmental Assessment identifies concerns, it may be necessary to conduct a Phase II Environmental Assessment. Additional testing shall be approved by both Borrower and IHFA prior to commencement. The cost of all such assessments shall be paid by the Borrower. Loan conversion is subject to the satisfactory completion of the environmental analysis, review of the Development and satisfactory resolution of all environmental concerns of IHFA.

Borrower must execute an Environmental Statement representing and warranting that to the best of its knowledge, all past and current uses of the Development comply with all current federal, state, and local environmental laws. Borrower further must certify that it has never received notice of any violations and that no actions have ever been commenced or threatened for noncompliance. Borrower must agree to keep the Development

free from environmental law violations including, but not limited to, hazardous waste and ground water contamination in excess of standards imposed by federal or state law.

**Subordinate Loans:** Subordinate debt, in conjunction with the closing of the IHFA Mortgage Loan, must be approved in writing by IHFA. If approved, the obligations of the Borrower under the subordinate debt must be clearly subordinate to the obligations of the Borrower under the IHFA Loan. The IHFA Loan and subordinate loan must have a minimum debt service coverage of 1.05 on a combined basis; and the subordinate lender and Borrower must enter into a Subordination Agreement acceptable to IHFA.

**Security:** It is understood and agreed that IHFA and IHFA's legal counsel shall review all loan documents prior to closing and draw such documents as IHFA deems necessary to evidence and document the Construction Phase and Permanent Phase to conform with documentation requirements of Fannie Mae ("FNMA"). The necessity for, and the form and substance of, each document evidencing this loan and security therefore, shall be determined by and must be satisfactory to IHFA and IHFA's legal counsel.

Borrower shall provide all instruments, including resolutions, which are, in the opinion of IHFA or its legal counsel, necessary to authorize the execution of the related Mortgage Loan documents by the Borrower or to otherwise complete the loan.

**Cost Verification:** This Commitment is subject to receipt of a Cost Verification after completion of the Development, supported by construction contracts, subcontracts, materialmen invoices, and evidence of soft costs as deemed necessary by IHFA.

**Professional Fees:** Developer, Contractor, Architectural, and other Professional Fees are subject to industry standards and IHFA underwriting requirements.

**Financial Review:** Borrower and principals shall provide IHFA with current (within 90 days of Permanent Phase conversion) signed financial statements, tax returns, and any other financial data required by IHFA, which must be in form and content satisfactory to IHFA.

The Permanent Phase conversion is subject to receipt of the Development's Operating Statement(s), Annual Budget and Certified Rent Roll evidencing that the Mortgage Loan has achieved a 1.20 Debt Service Coverage.

**Financial Reporting:** Throughout the course of the Mortgage Loan, and until the Mortgage Loan is fully and completely paid, Borrower agrees to provide financial information, tax returns, occupancy statements or documentation with respect to the Borrower's financial condition and operation as IHFA may from time to time request, and report any and all changes in accounting methods.. IHFA will analyze

the financial statements provided to identify significant changes, vacancy, rental rates, and debt service coverage.

**Operating Deficit:** IHFA may require an escrow account, at the time of Permanent Phase conversion, if it is determined that such an account is necessary for the viability of the Development.

**Inspections:** Prior to Permanent Phase conversion, IHFA shall contract for an architectural/engineering review and inspection of the development, and may require a physical needs assessment for establishing a replacement reserve, the expense of which will be borne by the Borrower.

**Regulatory:** An IHFA Regulatory Agreement and/or other Regulatory Agreements as required by other funding sources. Said Agreements must contain provisions providing for the Low-Income Commitment of the Borrower and the basis for determining low-income tenant income limitations and rent restrictions all in a form approved by IHFA. Said Regulatory Agreements must permit IHFA's regulation of the Borrower, pursuant to the Act and IHFA's Rules and Regulations, containing such provisions as IHFA shall require in order to comply with the Act.

**Occupancy:** For the loan to be funded by IHFA, the development, at a minimum, shall set aside units for low-income households as follows:

a. At least 40% of the units in the development must be occupied by households earning not more than 60% of the area median income as defined by HUD,

OR

b. At least 20% of the units in the development must be occupied by households earning not more than 50% of area median income as defined by HUD.

**Restricted Rents:** All units designated for low-income households shall be rent restricted. Rents (including appropriate utility allowances) may not exceed 30% of the maximum imputed income limitation established for the unit. Rent restrictions will be based upon current Low-Income Housing Tax Credit regulations (Section 42 of the Internal Revenue Code).

**Compliance:** The Development must remain in compliance with the IHFA Regulatory Agreement and/or other Regulatory Agreements required by other funding sources.

All record keeping necessary to document compliance and required reporting is the responsibility of the Borrower. IHFA will conduct random inspections of the Development. The Borrower

will be notified of the inspection and what records will be required for review.

The Borrower shall promptly pay IHFA or its agent representative for all costs incurred in inspecting the Development or auditing the Borrower for compliance with the Regulatory Agreement upon receipt of IHFA's billing.

**Public Notification:** IHFA reserves the right to publicize the issuance of any Commitment and the making of the Mortgage Loan hereunder to the Borrower.

**Secondary Marketing:** IHFA anticipates that it will actively market the loan into the secondary market and privately place the loan with an investor.