



## Equitable Developers Fund Program Guidelines

The Massachusetts' Equitable Developers Fund (EDF) was established and funded by the Commonwealth of Massachusetts to provide emerging developers early-stage capital and on-going support to build capacity and to develop project pipelines within the Commonwealth. Through a partnership with MassHousing and Massachusetts Housing and Investment Corporation (MHIC), the fund offers two financing products and technical assistance designed to break down traditional barriers of entry into the real estate development market.

With the intent to support and grow the capacity of developers actively engaged in pursuing eligible projects in Massachusetts, and to expand the supply of low- and moderate-income housing in Massachusetts, the Fund seeks to provide financing to emerging developers that meet these Equitable Developers Fund Program Guidelines. MHIC will administer the Fund, including the loan application, underwriting, closing and loan servicing process. MassHousing's Equitable Developers Fund Review Committee will provide oversight of the fund and final approval of financing requests.

Requests for loans will be accepted from businesses/enterprises that develop and own real estate and are referred to as the **Developer Entity**. Loan applications will be accepted on an ongoing basis. Loan commitments will be made based on the strength of the developer application and date received.

### EDF Loan Application Process:

1. Complete and submit EDF Eligibility Questionnaire online at [www.mhic.com/edf](http://www.mhic.com/edf).
2. EDF staff reviews developer questionnaire responses. Notice of initial eligibility will be emailed within approximately 2 weeks of submission.
3. If eligible, the developer will also receive a link to an online EDF Loan Application.
4. Developer completes and submits the EDF Loan Application online along with required additional documentation.
5. Completed application and all required documentation are due within 4 weeks of receiving the application link.
6. EDF staff confirms eligibility, and reviews submitted materials for completeness and adherence to program underwriting guidelines. If confirmed, the application will be advanced to underwriting.
7. An EDF Underwriter will be assigned to work with the developer and process the loan request. Loans recommended for approval by the Underwriter will be presented to the EDF Review Committee for a final decision.
8. If approved, loans will then move into the closing process. Once in underwriting it is estimated that loans would close within approximately 4 weeks.
9. Email [edf@mhic.com](mailto:edf@mhic.com) with questions.



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#### A. Products Offered:

EDF program products offered include the following:

Working Capital Line of Credit ("WCLOC")

Standby Letter of Credit ("SLOC")

#### B. Loan Amount: (minimum \$500,000)

WCLOC: up to \$5,000,000

SLOC: up to \$5,000,000

Aggregate Limit: \$10,000,000 subject to the maximum amounts listed above.

Loans will be sized based on Developer Entity financial strength, ability to repay and other underwriting criteria.

#### C. Eligible Developments

Development must meet **both** of the following criteria:

##### 1. *Type*

Any multi-unit residential rental or ownership development that is new construction, rehabilitation, or adaptive reuse, including mixed-use properties with both residential and commercial components.

##### 2. *Location*

Located within an Eligible Geography, defined as any of the Commonwealth's Gateway Cities; any of Massachusetts' Disproportionately Impacted Communities (communities disproportionately impacted by the 2019 novel coronavirus pandemic as determined by the Financial Funds Office of the Massachusetts Executive Office for Administration and Finance, June 10, 2021) memorandum); or a HUD Qualified Census Tract within Massachusetts.



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Eligible Massachusetts cities and towns include:

Attleboro, Barnstable, Boston, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Framingham, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Randolph, Revere, Salem, Springfield, Taunton, Westfield, and Worcester.

If a development is not located in one of the cities and towns listed above, confirmation it is located within a Massachusetts Qualifying HUD Qualified Census Tract can be found here [HUD User QCTs](#).

The totality of the circumstances evaluated will include the nature of the projects the developer is pursuing and the likelihood that they will contribute to increasing the supply of affordable housing in Eligible Geographies.

### D. Eligible Applicants

The funding recipient will be an enterprise controlled by individuals with the intent of developing and owning real estate and actively engaged in pursuing eligible projects in Massachusetts (the “Developer Entity”).

For the Developer Entity to be deemed an eligible for EDF financing, the following criteria must be met:

#### 1. ***Socially Disadvantaged***

At least one Controlling Individual (at least a 30% ownership interest) in the Developer Entity must meet the definition of Socially Disadvantaged (the “Eligible Individual”).

The Social Disadvantage at issue must be chronic and substantial in nature, not fleeting or insignificant, and must be of a kind that may reasonably have negatively impacted entry into or advancement in the business world.

In Massachusetts, factors which contribute to social disadvantage closely correlate to geography and Individuals who experience social disadvantage are highly likely to have a period of long-term residency in one of the Eligible Geographies.

As such, current and former long-term residents of those communities may establish that they meet the definition of Socially Disadvantaged by documenting that residency (option a, below).

However, individuals also experience social disadvantage in other communities. If a person who experiences social disadvantage cannot document long-term residency in an Eligible Geography, they may submit a brief statement explaining the nature and impact of their social disadvantage (option b, below).



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Eligibility is documented as follows:

- a. Documentation of previous or current long-term residence (five or more consecutive years) in Eligible Geography as defined above; or
- b. A brief statement submitted by the Eligible Individual and evaluated by the Fund Administrator documenting social disadvantages such as, economic insecurity, barriers to educational access, disability, membership in a group historically subject to social prejudice or social bias, or previous and/or long-term residence in an environment isolated from the mainstream of American society. The Eligible Individual may point to any relevant evidence, including experiences relating to education, obtaining credit or other financing, employment, and business history (for the applicant firm and any other previous firm owned and/or controlled by the individual).

The program may request that an applicant present additional information to support a determination of Social Disadvantage. This definition is subject to change at the discretion of MassHousing and MHIC.

### 2. ***Economically Disadvantaged***

The Eligible Individual, the Developer Entity, and other controlling individuals combined must meet the definition of Economically Disadvantaged.

Economic Disadvantage shall be demonstrated through financial statements and tax returns documenting a limited ability to access capital, as evidenced by one or more of the criteria outlined below:

- a. Liquidity: no greater than \$2,000,000
- b. Net Worth: no greater than \$15,000,000
- c. Units Developed: no greater than 100 currently owned or controlled

### 3. ***Proven Experience***

Either a Controlling Individual or the Developer Entity must have a demonstrated track record of having held key responsibilities related to the successful completion of at **least one** residential development or one mixed-use residential/commercial development that meets the following criteria:

- a. Residential developments of 5 or more units.
- b. Funded with public or private subsidy and/or financing.
- c. 50% construction complete or completed; and
- d. Preference will be given to applicants with completed development(s) that meet Eligible Development criteria.

### 4. ***Active Pipeline***

The Developer Entity must document an acceptable Active Pipeline including at least one development under control or in the predevelopment phase that meets the definition of an Eligible Development;



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OR

the Developer Entity demonstrates BOTH:

- a. Continuing ownership or management of, or a track record of developing, residential or mixed-use developments, and
- b. Active steps to pursue new Eligible Developments.

In addition to the Active Pipeline criteria above, a non-Massachusetts based Developer Entity must also demonstrate current ownership of a residential or mixed-use development located within Massachusetts. Final determination of eligibility will be made by the MassHousing Equitable Developers Fund Committee based on the totality of the circumstances and information provided in the application.

### E. Eligible Uses

Developer Entity may use EDF financing to support the following activities undertaken within an Eligible Geography:

1. Support enterprise level costs associated with identifying, securing, and advancing Eligible Developments, such as identifying and securing site control, expanding staffing, paying outside experts and consultants, and other overhead costs; and
2. Provide financing mechanisms such as designated capital to meet minimum equity requirements; construction completion guarantees; project operating deficit loans; and alternate bonding security.
3. Refinance or consolidation of existing Lines of Credit.
4. A Developer Entity who, on receiving EDF lines of credit or standby letters of credit, may have a specific need for assistance in scaling up the capacity of their organizations to successfully advance Eligible Developments and, more generally, execute affordable housing or mixed-income projects in the Commonwealth, are also eligible for technical assistance through MassHousing. Technical Assistance for EDF borrowers is focused on advice and support on improving and advancing business entity organizational, planning, and administrative capacity in the areas of business technology and reporting, accounting, human resource management, system standardization, and in managing general entity level expenses related to advancing real estate projects.

**Developer Entities that do not meet EDF underwriting criteria shall be referred to the MassHousing's Technical Assistance program.**

### F. Loan Terms

The following is a list of general terms for informational purposes only to be used as a general guide for Developer Entity finance planning needs. Final EDF loan terms will be based on Developer Entity specific loan requests and underwriting. *This does not constitute a commitment of financing or any specific loan terms.*

#### **Term and Amortization:**



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1. Working Capital Line of Credit:
  - Interest capitalized until maturity or Interest-only
  - 12 – 36 months
  - No prepayment penalty
  - Revolving
  
2. Standby Letter of Credit:
  - Interest-only until maturity
  - 36 months
  - No prepayment penalty
  - Once called, the SLOC will function as a revolving line of credit with total advances capped at the SLOC amount, interest paid monthly.
  - If at maturity, the outstanding balance is not fully repaid, and at the sole discretion of MHIC, the loan may convert to a 5-year amortizing loan with principal and interest due monthly.

### Interest Rate:

1. Working Capital Line of Credit –5%, may be adjusted based on current market conditions.
  
2. Standby Letter of Credit– 2% annual unused facility fee; variable rate per annum equal to the Prime Rate mins 50 bps

### Fees:

- \$10,000 per EDF lending product
- Developer Entity to pay all legal and 3rd party costs
- Payment of the above fees are allowable uses of EDF loan proceeds

### Security and Guarantees:

- Unlimited, joint and several guarantee(s) of any individual with ownership interest in or has influence on the operations of the Developer Entity.

### One or more of the following *may* also be required:

- 1<sup>st</sup> mortgage on real estate.
- 1<sup>st</sup> position all-asset business lien.
- Consolidation of enterprise level debt or subordination of existing debt.
- Pledged assets readily liquidated based on market conditions.
- Off-site real estate lien.
- Assignment of receivables and contracts.
- Assignment of development rights and project documents.
- Other collateral instruments based on product specific underwriting.



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### **Repayment and Take Out Financing:**

- Developer Entity to demonstrate ability to make required debt service payments.
- Interest may be capitalized in certain circumstances based on underwriting/management of repayment risk.
- Developer Entity to demonstrate feasible plan for take-out financing/ full repayment by maturity date.

### **Other Underwriting Requirements:**

Developer Entity Equity:

- WCLOC/SLOC: As may be required per underwriting recommendations.

Limit on Additional Indebtedness:

- Developer Entity and Eligible Individuals may not incur any additional debt (excluding consumer debt), or guarantee any additional debt, during the loan term without review and MHIC's consent which would not be unreasonably withheld.

Advances:

- Advances based on specific performance benchmarks recommended during underwriting.

### **Other Underwriting Considerations:**

Overall financial strength of Developer Entity and Controlling Individuals demonstrated by analysis of:

- 3-year Federal Income Tax Returns.
- 3-year Management prepared and/or audited financials.
- Personal Financial Statement
- Credit Reports
- Any other statements or reports that may be requested during the underwriting process

### **Applicant Criteria:**

1. Meets all EDF Developer Entity requirements.
2. Meets program underwriting criteria.
3. Demonstrates:
  - A business model that creates socially responsible development.
  - Ability to manage development process.
  - Ability to complete due diligence.
  - Ability to meet debt service obligations.
  - Ability to repay loan, financial feasibility of take-out financing.



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- Financial feasibility of planned developments/realistic market expectations.
- Likelihood to achieve growth goals.
- Commitment to success.
- Inability to obtain financing in the traditional banking market.

### **Exclusions:**

- Developers who are able to obtain financing under similar conditions at FDIC-insured institutions.
- Experienced developers with:
  - Portfolio of more than 100 units developed or owned that are currently owned and/or controlled by the Developer Entity; or
  - history of having successfully completed increasing size projects.
- Developers not seeking to target development efforts in one or more Eligible Geographies.
- Developers not actively engaged in pursuing eligible projects in Massachusetts.
- Non-Massachusetts based developers who cannot demonstrate ownership of a development within Massachusetts.

Non-profit developers. Final determination of eligibility will be made by the MassHousing Equitable Developers Fund Committee based on the totality of the circumstances and information provided in the application.

### **G. Terms and Definitions**

Developer Entity – The business entity pursuing real estate development; controlled by Controlling Individuals.

Controlling Individuals – Individuals who have at least a 30% ownership interest in or influence the operations of the Developer Entity.

Eligible Individuals – Controlling Individual(s) evaluated to assess eligibility of the Developer Entity and determined to be eligible to receive EDF support.

### **H: Lender of Record**

- Lines of Credit – Massachusetts Housing Finance Agency shall be the lender of record for working capital lines of credit.
- Standby Letter of Credit – Massachusetts Housing Investment Corporation shall issue all Standby Letters of Credit.