

The Future is Now: MassHousing's Momentum Fund

MassHousing

Rental Housing: Encouraging New Construction and
Promoting Preservation

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Background

Massachusetts faces an acute housing crisis driven by a persistent shortfall in the production of housing units, both rental and homeownership, which continues to drive up cost and limit options for all, but particularly for moderate-income individuals and families.

The Agency's origin story began with an act of the Massachusetts Legislature in 1966, to finance the production of mixed-income rental housing. That objective is woven through every aspect of MassHousing's "DNA." For almost 60 years MassHousing has consistently developed creative programs targeted to the needs of the day. The BILD Initiative is our most recent response to the housing production challenges faced by the Commonwealth.

The Problem

While the state utilizes every available dollar of its allocation of housing credits, the usage of these resources is, by necessity, split between production and preservation. Further, in Massachusetts, production of larger-scale rental housing accounts for at least 7,000 units annually. Approximately 3,000 of those units are in market-oriented, mixed-income developments, so called "80/20" deals. This segment represents a vital segment of the overall rental housing production volume in Massachusetts. Unfortunately, a significant number of these developments are permitted, but "stalled" due to the following challenges:

- rapidly changing economic factors including significantly increased prices;
- a lack of affordable equity financing on predictable terms in the traditional commercial market; and
- high interest rates on senior debt that lead to financing gaps.

The Innovation

Traditional financing methods alone cannot move these deals because the entities that developers need to invest equity in them have other places to invest where they can get sufficient risk-adjusted returns than they can in the housing market.

This led MassHousing to develop something that has never been tried before – an equity financing product from a housing finance agency, issued in tandem with low-cost permanent debt. This is a first-of-its-kind public-private financing partnership in Massachusetts. The Agency believes this is the future of lending in the mixed-income housing production space. While state agencies normally support new housing by providing mortgage financing, here, public dollars are invested directly into a mixed-income housing development, as equity in the project.

The Big Picture Solution

MassHousing worked cooperatively with the Healey-Driscoll Administration in Massachusetts to establish a \$50 million equity investment fund, known as the Residential Production Momentum Fund. This was created in the summer of 2024 through the Governor's historic \$5.16 billion housing bond bill.

This new tool will help address the state's housing production crisis – especially in the current high-cost environment – and lead directly to the creation of 1,500 new mixed-income rental homes.

MassHousing will pair Momentum Equity with a new debt product, in partnership with Berkadia and Freddie Mac, giving developers access to Freddie's most competitive loan pricing and terms.

This unique public-private financing partnership is meant to provide housing developers with greater flexibility and will help jumpstart more housing construction. Public equity financing will lower the overall cost of capital to new housing developments, change project economics, and allow stalled shovel-ready projects to proceed.

Bringing Innovation to Lending and Development (BILD)

BILD is the MassHousing program born of the opportunity created by the Momentum Fund. This product creates financing solutions for market-oriented, mixed-income rental housing construction to catalyze private capital investment.

Through BILD, MassHousing will provide a one-stop financial solution by offering a competitive senior debt product coupled with innovative equity financing.

Through BILD, MassHousing introduced two new products:

Momentum Equity:

This is an efficient and predictable source of stable equity financing. While not a subsidy or a grant, this is designed to be flexible compared with other equity available in the commercial market. Momentum Equity is also designed to blend with private equity and revolve to enable MassHousing to continue making investments in housing over time.

MassHousing can finance up to 49% of the total equity for a development through Momentum Equity to blend with private equity, resulting in an overall lower cost of capital. Momentum Equity investments will be coterminous with the senior loan and funding will generally come in as takeout financing.

These developments must produce net new units (new construction or adaptive re-use) and have at least 50 total units (with a preference for larger developments) and a minimum affordability level of 20% of the units restricted to 80% of AMI. Developments that are permitted and ready to close are given priority.

FORGE LOAN (Financing Options for Residential Growth and Expansion)

This is a new MassHousing rental taxable lending product offered in collaboration with Berkadia and Freddie Mac. For each FORGE Loan, MassHousing provides 10% of the debt as a subordinate loan in a first loan loss position.

This enables the borrower to access Freddie Mac's most favorable taxable terms, including loan pricing, leverage, and forward rate-lock periods.

The FORGE Loan is designed to be paired with MassHousing's Momentum Equity investment and features:

- a 36-month forward commitment, at a fixed rate;
- a loan term of up to 15-years, with a 40-year amortization schedule;
- up to 80% LTV, with 1.25x DSCR.

Eligibility Requirements:

- developments that have at least 50 total units (with a preference for larger developments);
- developments that are permitted and ready to close will be given priority;
- developments must have minimum affordability levels of 20% of units, restricted to 80% of AMI.

The Market Response

The market demand for this new product is exceptionally strong. There are currently 33 projects, representing over 7,000 new rental units and \$4 billion in total development cost and approximately \$400 million in Momentum Equity demand, in MassHousing's pipeline.

To date, MassHousing has committed \$5 million in public equity financing to a 92-unit mixed-income development, Residences at East Milton Square, in the town of Milton. Without the public investment, this project, which has been permitted, but stalled for six years, would not be proceeding to construction. A second transaction, Allston Post, represents a public-public-private partnership in Boston with the City proposing to co-invest public equity alongside MassHousing.

In both the Milton and Boston deals, the public equity is priced comparably to commercial debt. These two equity commitments are the first of several that the Agency is on track to commit over the next 12 months.

Conclusion

It has been over 30 years since the Commonwealth had a formal, capitalized housing production program to finance mixed-income, "80/20" rental housing developments. Before BILD, MassHousing could only finance these mixed-income deals on a sporadic basis for lack of a reliable, large-scale capital source.

The BILD program provides the sustainable, large-scale source of both equity and debt the Agency needs to continue pressing its mission – *"to confront the housing challenges facing the Commonwealth to improve the lives of its people."*

With these new tools, MassHousing sees an opportunity to leverage public capital to mobilize private capital toward mixed-income rental production in Massachusetts to ensure we keep our *momentum* in residential production. MassHousing also believes this could be a model of innovation in equity finance for other housing finance agencies across the country facing similar challenges.

BILD Bringing Innovation to Lending and Development

ABOUT BILD

MassHousing BILD (Bringing Innovation to Lending and Development) creates financing solutions for market-oriented, mixed-income rental housing construction to catalyze private capital investment.

Through BILD, MassHousing will provide a comprehensive financial solution by offering a competitive senior debt product, the FORGE Loan (Financing Options for Residential Growth and Expansion), coupled with innovative equity financing, Momentum Equity. Rental developers are eligible to apply if their developments are new production, with at least 50 total units, where at least 20% of the units are affordable to residents earning up to 80% of AMI.

Both the FORGE Loan and Momentum Equity are considered eligible subsidized financing sources under Chapter 40B.

MASSHOUSING'S IMPETUS FOR LAUNCHING THE BILD STRATEGY

To address the housing shortage in Massachusetts, there is a need to build all types of housing; MassHousing **recognized an opportunity to support the creation of market-oriented housing.**

Multifamily rental developments account for approximately 7,000 units built annually. Approximately 2,000 of those units are in market-oriented, mixed-income developments, and represents a vital and fast-growing segment of the overall rental housing production volume in Massachusetts. 1,000 of these units are from Chapter 40B. These developments generally have income-restricted units (between 20% and 25%) either because 1) they get their zoning through Chapter 40B or 2) the municipality has inclusionary zoning requirements.

The **state's existing toolkit for market-oriented developments includes limited tools** to ensure this segment of the market continues to function at scale which is necessary to address the housing shortage.

Massachusetts businesses generally agree that housing supply is an issue that impacts their economic advantage, yet there is no clear way they can participate as part of the solution.

MassHousing **sees an opportunity to leverage public capital to mobilize private capital** toward mixed-income rental production in Massachusetts to **ensure we keep our momentum in residential production.**

MOMENTUM EQUITY

The Momentum Equity is an efficient and predictable source of stable equity financing. While not a subsidy or a grant, it is designed to be flexible compared with other equity available in the commercial market.

Momentum Equity is designed to blend with private equity and revolve to enable MassHousing to continue making investments in housing over time.

Momentum Fund Features

- MassHousing can finance 25% of total equity for a development through Momentum Equity to blend with private equity, resulting in an overall lower cost of equity.
- Momentum Equity investments will be coterminous with the senior loan.
- Funding enters as takeout financing
- Momentum Equity will be considered an eligible subsidized financing source under Chapter 40B.

Eligibility Requirements

- Developments that produce net new units (new construction or adaptive re-use) and has at least 50 total units (with a preference for larger developments).
- Developments that are permitted and ready to close will be given priority.
- Developments must have minimum affordability levels of 20% of units restricted to 80% of AMI.

THE FORGE LOAN

The FORGE Loan is a new MassHousing rental taxable lending product offered in collaboration with Freddie Mac. For each FORGE Loan, MassHousing provides 10% of the debt as a subordinate loan in a first loan loss position. This enables the borrower to access Freddie Mac's most favorable taxable terms, including loan pricing, leverage, and forward rate-lock periods.

The FORGE Loan may be utilized either as a standalone financing solution, or in combination with MassHousing's Momentum Equity investment.

FORGE Loan Features

- 36-month forward commitment, at a fixed rate
- The FORGE Loan has up to a 15-year loan term, with a 40-year amortization schedule
- Up to 80% LTV, with 1.25x DSCR
- The FORGE Loan will be considered an eligible subsidized financing source under Chapter 40B.

Eligibility Requirements

- Developments that have at least 50 total units (with a preference for larger developments).
- Developments that are permitted and ready to close will be given priority.
- Developments must have minimum affordability levels of 20% of units, restricted to 80% of AMI.

CHAPTER 40B

MassHousing's BILD Strategies represents a statewide toolbox for accelerating mixed-income housing growth. Mixed-income developments may be permitted and constructed either under local inclusionary zoning ordinances, or under Chapter 40B. Financing programs under BILD Strategies will lower development costs for projects in and around the Boston core, constructing new affordable homes under strong local inclusionary zoning policies. Outside the Boston core, where Chapter 40B remains a key engine of mixed-income housing growth, BILD Strategies will create new competitively-priced financing options for 40B developers.

For more information

Visit us at
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MassHousing BILD Product Guidelines

February 2025



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FORGE Loan and Momentum Equity



About BILD

MassHousing BILD (Bringing Innovation to Lending and Development) creates financing solutions for market-oriented, mixed-income rental housing construction to catalyze private capital investment.

Through BILD, MassHousing provides a comprehensive financial solution by offering a competitive senior debt product, the FORGE Loan (Financing Options for Residential Growth and Expansion), coupled with innovative equity financing, Momentum Equity. BILD includes the FORGE Loan and Momentum Equity, which are not severable. Rental developers are eligible to apply if their developments are new production, with at least 50 total units, where at least 20% of the units are affordable to residents earning up to 80% of AMI.

Both the FORGE Loan and Momentum Equity are considered eligible subsidized financing sources under Chapter 40B.

A | Overview

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| <p>FORGE Loan</p> | <p>The FORGE Loan is an integrated debt financing package through the Federal Home Loan Mortgage Corporation (“Freddie Mac”) offered by Berkadia Commercial Mortgage LLC (“Berkadia”), consisting of a permanent Freddie Mac first mortgage loan (the “First Mortgage Loan”) and a co-terminous subordinated second mortgage loan from MassHousing (the “Subordinated Loan” and together with the First Mortgage Loan, the “Loans”)</p> <p>The FORGE Loan is only available through MassHousing.</p> |
| <p>Momentum Equity</p> | <p>Momentum Equity is a preferred equity investment offering designed to be paired with MassHousing’s FORGE Loan.</p> <p>Momentum Equity will be a preferred equity investment in the Venture generally in the amount of \$2,000,000 to \$12,000,000. The terms and conditions of the MH Investment will be set forth in a forward commitment.</p> <p>The proceeds of the equity investment will be eligible to use for completing new construction developments, refinancing the construction loan on the Developments, funding required reserves, paying closing fees and expenses, and other uses permitted by the Term Sheet (Exhibit 2).</p> |

Eligibility Criteria

B | Development Eligibility

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| <p>Development Type</p> | <p>Multifamily rental housing. In general, developments will have at least 50 units, of which at least 20% are restricted as affordable to households earning up to 80% of area median income (AMI).</p> <p>BILD is available only for new construction and adaptive reuse developments.</p> |
| <p>Borrower Type</p> | <p>A single-purpose, sole-asset entity created for the purpose of owning the Development and controlled by the Sponsor. Must be a Freddie Mac and MassHousing compliant borrower structure.</p> |
| <p>Readiness to Proceed</p> | <p>Sponsor must be able to submit all application materials (listed in Section H, below) including a term sheet from a construction lender at MassHousing’s invitation.</p> |
| <p>Equity Levels and Capital Stack</p> | <p>The Sponsor’s required equity will be in an amount that is not less than the Momentum Equity at closing.</p> <p>Developments utilizing LIHTC for equity investments are not eligible for Momentum Equity investments.</p> |

C | Affordability

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| <p>MassHousing Disposition Agreement</p> | <p>A disposition agreement shall be recorded ahead of the Loans at Closing that requires at least 20% of the units at the development be rented to tenants earning not more than the maximum amount that would make them eligible for public housing in the city or town where the development is located (under current law, equal to approximately 80% of Area Median Income or “AMI”) at rents not more than 30% of such income limit. The term of the disposition agreement shall be the greater of the loan term or 15 years.</p> |
| <p>MassHousing Regulatory Agreement</p> | <p>A regulatory agreement, which shall include provisions relating to (i) compliance with a tenant selection plan approved by MassHousing; (ii) management of the Development after occupancy; (iii) procedures for the protection of low income tenants in the event of prepayment; (iv) original rental levels and procedures relating to changes in the amounts to be charged as rentals; (v) rents payable by tenants occupying units used to satisfy the statutory 20% set-aside requirement must be net of a utility allowance calculated using a method approved by MassHousing and (vi) limitations on distribution of dividends in compliance with the Enabling Act and such regulations and policies as MassHousing shall make and publish from time to time.</p> <p>With respect to clause (iii), the Regulatory Agreement shall provide that Borrowers shall comply with M.G.L. Chapter 40T if applicable and shall provide supplementary provisions for circumstances not covered by Chapter 40T.</p> |
| <p>Overlapping Restrictions</p> | <p>An Affordable Unit may be subject to additional affordability restrictions imposed by other subsidy programs or zoning requirements, including a 40B Comprehensive Permit or a local Inclusionary Zoning requirement.</p> |
| <p>Rent Levels for Affordable Units</p> | <p>MassHousing shall confirm that underwritten and initial rents comply with all other underlying subsidy programs or affordability restrictions.</p> |

D | Priority Considerations

Geography

There are no geographic exclusions or specific geographic requirements; however, development investments will be made in a manner that promotes geographic equity across the Commonwealth.

Priority for Green, Sustainable, and Climate Resilient

There are no geographic exclusions or specific geographic requirements; however, development investments will be made in a manner that promotes geographic equity across The Commonwealth.

BILD investments will prioritize developments that comply with decarbonization and sustainability standards and meet the standards set forth in the Commonwealth's Opt-in Specialized Energy Code under 225 CMR 22.00 and 23.00 and the Enterprise Green Communities standards. Any development proposing less than full compliance with these standards shall provide a detailed analysis demonstrating why full compliance would render the development infeasible.

Further prioritization will be determined based on a developments scoring in accordance with applicable components of the objective scoring criteria in the Qualified Allocation Plan (QAP) developed by the Executive Office of Housing and Livable Communities.¹

Exhibits

Exhibit 1. FORGE Loan

| A. TERMS | |
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| Maximum Combined Loan-to-Value | 80% |
| Minimum Combined Debt Service Coverage | 1.25x in Year 1 |
| Term of Forward Commitment | Up to thirty-six (36) months. |
| First Mortgage Loan Term | Up to fifteen (15) years. |
| Subordinated Loan Term | Co-terminous with the FHL. |
| Amortization | Up to Forty (40) years |
| Interest Rate Index | Ten (10) Year U.S. Treasury |
| Interest Rate Spread | The spread will be determined by Freddie Mac. A hard quote is good for 150 days from issuance. |
| Prepayment Rights | Prepayment of the Loans is prohibited. Loans for developments that also receive Momentum Equity preferred equity as a source of funds may prepay subject to Freddie Mac prepayment standards in effect. |
| B. FEES | |
| Application Fee | A non-refundable application fee equal to the greater of 10 basis points of Loan amounts or \$3,000 is due with this Application to Freddie Mac ("Freddie Mac Application Fee"). Freddie Mac policy is that the non-refundable Application Fee is deemed earned by Freddie Mac on the earlier of delivery of the full underwriting package or 30 days after the date the Borrower executes the Lender's Application. As the fee is 100% payable to Freddie Mac, any waivers related to the Application Fee will be determined directly by Freddie Mac. |
| Due Diligence Deposit | \$25,000 is required upon submission of Lender Application to be applied to estimated Due Diligence Expenses. Lender will refund any unused portion of the Due Diligence Fee (i) at closing if the Loans are made to Borrower or (ii) within thirty (30) days of when the Application terminates if the Loans are not made to Borrower. \$5,000 of this amount is a nonrefundable underwriting fee that is earned when Borrower submits application. |

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| Loan Origination Fee | 1.0% is earned and due upon Borrower's acceptance of the integrated commitment package for the Loans. The loan origination fee shall be determined by Berkadia and be due upon the Borrower's acceptance of the integrated commitment package for the Loans. |
| Commitment Fee/Standby Fee/Rate Lock Deposit | <p>3.0% of the of the final combined, total amount of the First Mortgage Loan and the Subordinated Loan as specified in the integrated commitment package (the "Commitment Fee") and a standby fee (the "Standby Fee") in an amount equal to 0.15% of the combined, total Amount specified for each year (or partial year, prorated) of the Construction Phase.</p> <p>If the Loans achieve Conversion prior to the Forward Commitment Maturity Date, the Commitment Fee will be refunded to Borrower on the Conversion Date, less any unpaid Due Diligence Expenses.</p> |
| Conversion Fee | \$10,000 due upon conversion for expenses in connection with Conversion underwriting expenses. |

C. ADDITIONAL REQUIREMENTS

The project will be subject to fees which include the following:

01. Applicable Fee
02. Due Diligence Deposit
03. Loan Origination
04. Commitment Fee and Standby Fee Rate Lock
05. Conversion Fees

Additional information of said above – noted fees are referenced in Exhibit 1 of this document.

D. PROCESS OVERVIEW

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| Application Submission | At MassHousing's invitation, Sponsors may submit a package of preliminary application materials (listed in Section H, below). Berkadia and MassHousing will review the application and request a loan quote from Freddie Mac. |
| Application Execution | <p>Berkadia will provide to the Sponsor a loan quote from Freddie Mac, including all relevant terms and conditions, in the form of the Berkadia Application. The MassHousing subordinate mortgage loan will be evidenced in an exhibit to the Berkadia Application (the "MassHousing Application Exhibit").</p> <p>Full execution of the Berkadia Application by Berkadia and the Sponsor will initiate final underwriting and legal review. Berkadia will request and the Sponsor will submit a full application package, including those items necessary for MassHousing's review.</p> |

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| Commitment | <p>Berkadia and MassHousing will independently review the application package.</p> <p>Berkadia will submit a request for commitment for the First Mortgage Loan to Freddie Mac. Berkadia will share evidence of such commitment with MassHousing promptly upon receipt.</p> <p>Concurrently, MassHousing will seek approval of commitment of the MassHousing Subordinated Loan. Evidence of such a commitment will be promptly shared with Berkadia.</p> <p>Berkadia will deliver an integrated commitment package to the Sponsor for the Loans, which will include a Berkadia commitment letter for the First Mortgage Loan and a MassHousing commitment letter for the Subordinated Loan.</p> |
| Closing | <p>Full execution of the integrated commitment package, inclusive of both the Freddie Mac and MassHousing commitments, will initiate the closing process.</p> <p>Berkadia counsel will lead the closing process for the FORGE loan, and MassHousing counsel will lead the closing process for Momentum Equity.</p> |

E. PRELIMINARY APPLICATION MATERIALS

Forward Commitments

- Most Recent Proforma – Development and Operating
- Identify Construction Lender and Equity Bridge Lender (if applicable)
- Real Estate Tax Information (PILOT or abatement, if applicable)
- Proposed LURA terms
- HAP or RAD Contract Terms (if applicable)
- Ground Lease, if applicable
- Property Management Company Resume
- Description of Development (including unit mix, buildings, amenities, etc.)
- Site Plan
- Renderings and Site Photos
- Available Third-Party Reports
- Identification of Architect and General Contractor
- Resumes of Sponsor or Principals (highlighting affordable housing development experience)
- Financials of Sponsor or Principals (net worth and liquidity)
- Sponsor REO Schedule
- Proposed Organizational Chart

Acquisition and Refinancing Transactions – Available Upon Request

Exhibit 2. Momentum Equity Terms

A. OVERVIEW

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| Purpose | To make preferred equity investments in Eligible Projects (as defined below) to increase their financial feasibility. |
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B. ELIGIBILITY CRITERIA

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| Eligible Projects: | <p>“Eligible Project” means a new construction or adaptive re-use multifamily development project which satisfies each of the following:</p> <ul style="list-style-type: none"> Has 50 or more units Does not involve Low Income Housing Tax Credits Has 20% or more Affordable Units (as defined below) Has at least 1 physically accessible unit per Title II of ADA <p>“Affordable Unit” means a residential unit that satisfies each of the following:</p> <ul style="list-style-type: none"> Is restricted to households with incomes at or below 80% of area median income Has rents restricted to no more than 30% of 80% of area median income <p>Is subject to standard MassHousing regulatory and disposition agreements requiring maintenance of the Affordable Units for a minimum of term of 15 years.</p> |
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C. TERMS AND DEFINITIONS

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| MH Investor | “ MH Investor ” is a Massachusetts limited liability company wholly-owned (directly or indirectly) by the Massachusetts Housing Finance Agency (“ MassHousing ”). |
| Preferred Equity Investments | Each “ Preferred Equity Investment ” made by MH Investor in a Venture (as defined below) shall be a minority share (target range 25% to 35%) of the total required Venture equity as set forth in a forward commitment acceptable to MassHousing (an “ Equity Commitment ”). |
| Preferred Equity Preferred Return | <p>MH Investor will be entitled to receive a preferred return on each Preferred Equity Investment (the “Preferred Equity Preferred Return”) at a fixed rate per annum equal to the Applicable 10 Year Treasury Rate (as defined below) plus an additional spread of up to 200 basis points as determined by MassHousing (collectively, the “Preferred Equity Preferred Return Rate”).</p> <p>The “Applicable 10-Year Treasury Rate” is the yield received for investing in a US government issued treasury security that has a maturity of 10 years as determined by MassHousing prior to the issuance of the Equity Commitment.</p> |

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| Sponsors | Each " Sponsor " will be a developer approved by MassHousing (or a joint venture between a developer and one or more investors, in each case approved by MassHousing). |
| Projects | Each " Project " will be an Eligible Project approved by MH Investor. |
| Ventures | <p>Each "Venture" will be a newly formed [Massachusetts] limited liability company, the sole members of which will be MH Investor and a Sponsor. A Venture will be governed by a limited liability company operating agreement approved by MH Investor (the "Venture Operating Agreement").</p> <p>A Sponsor will be the managing member ("Managing Member") of each Venture in charge of day-to-day operations, subject to the approval by MH Investor of Major Decisions (as defined below) and removal as set forth below.</p> <p>MH Investor will be the preferred member of each Venture.</p> |
| Venture Operating Agreements | Each Venture Operating Agreement will include customary provisions, including covenants regarding the performance of obligations under the Loans (as defined below) for a Project and the right of MH Investor to remove a Sponsor as Managing Member (and terminate any Sponsor affiliate agreements) if a Control Event (as defined below) occurs. |
| Project Owners | Each " Project Owner ", unless it is a joint venture, will be a newly formed single purpose Delaware limited liability company, the sole member and manager of which will be a Venture. |
| Loans | Each Preferred Equity Investment will be paired with an integrated debt financing package for a Project, consisting of a permanent Freddie Mac first mortgage loan to the Project Owner (the " First Mortgage Loan ") and a coterminous subordinated second mortgage loan to the Project Owner made by MassHousing (together with the First Mortgage Loan, the " Loans "). The proceeds of the Loans for a project will be used to refinance its construction loan. |
| User of Preferred Equity Investments Proceeds | Each Preferred Equity Investment will be used to refinance a Project's construction loan, fund required reserves, pay the closing fees and expenses for the refinancing, and for other uses permitted by the holders of the Loans for the Project and MH Investor. |
| Venture Capitalization | <p>A Sponsor will be required to invest capital in a Venture ("Sponsor Equity") in an amount acceptable to MH Investor. Any third-party, institutional equity investment will be invested through and treated as Sponsor Equity. The Sponsor Equity and the Preferred Equity Investment for a Project will be fully funded at the closing of the Loans for the Project.</p> <p>The Sponsor also will be required to fund 100% of any additional capital beyond what is funded by the Sponsor and MH Investor at the closing of the Loans ("Sponsor Additional Equity", together with the Sponsor Initial Equity, the "Total Sponsor Equity").</p> |

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| Distributions by Project Owner | Distributions of available net cash flow and available net capital event proceeds will be made by the Project Owner to a Venture, subject to the terms of the documents governing the Loans or any other financing for a Project and limitations under the MassHousing enabling statute. |
| Distributions by Venture of Net Cash Flow | <p>Distributions of available net cash flow (which excludes net capital event proceeds) of a Venture will be made by the Venture in the following order of priority (the “Net Cash Flow Distribution Waterfall”):</p> <p>First, to MH Investor and a Sponsor in accordance with their respective Venture Capital Percentages until MH Investor has received the then outstanding cumulative Preferred Equity Preferred Return on the Preferred Equity Investment; and</p> <p>Second, to the Sponsor.</p> <p>“Venture Capital Percentage” means, with respect to each member of a Venture, the percentage equivalent to a fraction: (i) the numerator of which is the member’s total capital contributions to the Venture; and (ii) the denominator of which is the total capital contributions to the Venture of all the members of the Venture.</p> |
| Distributions by Venture of Net Capital Event Proceeds | <p>Distributions of net capital event proceeds (e.g., the net proceeds received by a Venture from the sale or refinancing of a Project) will be made by the Venture in the following order of priority (the “Net Capital Event Proceeds Distribution Waterfall”):</p> <p>First, to MH Investor until MH Investor has received the then outstanding cumulative Preferred Equity Preferred Return on the Preferred Equity Investment;</p> <p>Second, to MH Investor, until MH Investor has received the return of the then outstanding Preferred Equity Investment;</p> <p>Third, to the Sponsor, until the Sponsor has received (after taking into account any prior distributions made to the Sponsor under the Net Cash Flow Distribution Waterfall) an internal rate of return with respect to the Total Sponsor Equity equal to the Preferred Equity Preferred Return Rate plus an additional spread of up to 1,000 basis points as determined by MassHousing; and</p> <p>Thereafter, to MH Investor and the Sponsor in accordance with their respective Venture Capital Percentages unless otherwise agreed to.</p> |

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| MH Investor's Funding Conditions | <p>The funding of each Preferred Equity Investment for a Project will be subject to the satisfaction of each of the following:</p> <ul style="list-style-type: none">• The execution and delivery of the Venture Operating Agreement and any Sponsor Guaranty (as defined below)• MH Investor's approval of the Project's business plan• MH Investor's approval of customary legal, title and due diligence matters• The closing and funding of the Loans for the Project• The satisfaction of the closing conditions of the Equity Commitment for the Project |
| Major Decisions | <p>MH Investor's approval will be required for all major decisions. Major decisions will be defined in a Venture Operating Agreement (the "Major Decisions") to include, without limitation, the following unless otherwise agreed to:</p> <ul style="list-style-type: none">• Major capital expenditures• Initial business plan• Annual budgets• Material alterations• Property management selection and modification• Affiliate transactions• Change of control and material equity transfers• Any sale or refinancing, which does not repay the MH Investor Liquidity Amount (as defined below) in full (other than an Applicable Project Refinancing (as defined below)) |

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| MH Investor Liquidity Events | <p>Commencing on the earlier of the MH Investor Liquidity Date (as defined below) or the occurrence of any Control Event, MH Investor will have the continuing right (but not the obligation) to cause a Sponsor to purchase all, but not less than all, of MH Investor's Preferred Equity Investment in a Venture at a price (the "MH Investor Liquidity Amount") equal to the greater of: (i) the amount that MH Investor would receive under the Venture Operating Agreement if (a) the Project were sold by its Project Owner for its then Fair Market Value (as defined below), (b) all Project Owner and Venture liabilities were paid or reserved against, (c) all the Venture's net sales proceeds were distributed by the Venture in accordance with the Net Capital Event Proceeds Distribution Waterfall and (d) the Venture were liquidated; or (ii) the amount required to provide MH Investor with (a) the then outstanding cumulative Preferred Equity Preferred Return on the Preferred Equity Investment and (b) the return of the then outstanding Preferred Equity Investment.</p> <p>A Sponsor will have the continuing right (but not the obligation) to purchase all, but not less than all, of MH Investor's interest in a Venture at a price equal to the MH Investor Liquidity Amount.</p> <p>A Sponsor also will have the continuing right to initiate a sale of a Project unless a Control Event occurs.</p> <p>"MH Investor Liquidity Date" means, with respect to a Project, the maturity date of the First Mortgage Loan (whether at initial maturity, by acceleration or by refinancing).</p> |
| Fair Market Value | <p>The "Fair Market Value" of a Project will be determined utilizing a baseball appraisal process, under which a Sponsor and MH Investor each will provide an arbitrator with their respective determinations of the fair market value of the Project, and if their valuations differ by less than a percentage determined by MassHousing, then the fair market value of the Project will be the average of the valuations, but if their valuations differ by that percentage or more, then the arbitrator will select either the Sponsor's valuation or MH Investor's valuation as the Project's fair market value.</p> |
| Control Events | <p>A "Control Event" for a Project will include, without limitation, each of the following:</p> <ul style="list-style-type: none">• The default (beyond any applicable notice and cure periods) by a Project Owner or any guarantor affiliate of a Sponsor under the documents governing the Loans or any other financing for the Project.• The default (beyond any applicable notice and cure periods) by a Sponsor, its parent entity (the "Sponsor Parent") or any of their affiliates under a Venture Operating Agreement, any Sponsor Guaranty or any affiliate agreement.• A "bad act" (e.g., gross negligence, willful misconduct, material misrepresentation, fraud, etc.) by a Sponsor, its Sponsor Parent or any of their affiliates. <p>MH Investor will have the right to initiate a sale of a Project from and after the occurrence of any Control Event.</p> |

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| Property Management | An affiliate of a Sponsor or a third party, in each case acceptable to MH Investor, will be the property manager of a Project pursuant to a property management agreement with customary termination rights upon any default (beyond any applicable notice and cure periods) or sale of the Project, and otherwise will be acceptable to MH Investor. |
| Sponsor Affiliate Fees | Except for affiliate transactions approved by MH Investor, no fees, payments or compensation will be paid by a Project Owner, a Venture or MH Investor to a Sponsor or any affiliate of the Sponsor. |
| Financing Guarantees | A Sponsor will provide or cause to be provided all required guarantees and indemnities, including, without limitation, payment and “nonrecourse carveout” guarantees, carry guaranties, and environmental indemnities, in connection with the Loans or any other financing for a Project without any contribution or indemnification by MH Investor. |
| Sponsor Guaranty | Subject to the terms of the documents governing the Loans or any other financing for a Project, at MH Investor’s election, MH Investor may require a guarantee (a “ Sponsor Guaranty ”) from one or more of a Sponsor, its Sponsor Parent or their respective affiliates (each such guarantor, a “ Sponsor Guarantor ”) that guarantees: (i) obligations substantially similar to the guaranteed obligations in respect of the First Mortgage Loan for the Project; and (ii) the repayment to MH Investor of the MH Investor Liquidity Amount if any “Preferred Equity Guaranty Trigger Event” (as updated by Freddie Mac from time to time and as is available at mf.freddie.com) occurs. |
| Accounting / Financial Reporting | A Sponsor will be responsible for providing MH Investor with periodic financial reporting for the Sponsor, the Sponsor Guarantor, a Venture, a Project Owner and a Project in a form acceptable to MH Investor and, if applicable, MassHousing, as set forth in the Venture Operating Agreement for the Venture. |
| Application Fee | A Sponsor will be required to pay MassHousing a non-refundable application fee in the amount of \$15,000 or 0.3% of the proposed Preferred Equity Investment, whichever is greater (the “ Application Fee ”). |
| Out-of-Pocket Costs | In addition to the Application Fee, a Sponsor will also be required to pay MassHousing’s and MH Investor’s out-of-pocket costs, legal fees and other expenses incurred in connection with the proposed Preferred Equity Investment, regardless of whether an Equity Commitment is issued or a proposed Preferred Equity Investment is funded. |

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| <p>Equity Commitment Deposit</p> | <p>If an Equity Commitment is issued with respect to a Project, the Sponsor will be required to deposit at the time of issuance an amount equal to 3.0% of the Preferred Equity Investment (the “Equity Commitment Deposit”) with MassHousing.</p> <p>If the proposed Preferred Equity Investment is funded, an amount equal to 1.0% of the Preferred Equity Investment (the “Commitment Fee”) will be paid to MH Investor out of the Equity Commitment Deposit, and the remaining balance of the Equity Commitment Deposit (less any of MassHousing’s and MH Investor’s unreimbursed out-of-pocket costs, legal fees and other expenses) will be returned to the Sponsor.</p> <p>The Equity Commitment Deposit will be retained by MH Investor as liquidated damages (and will not be returned to the Sponsor) if the Preferred Equity Investment is not funded other than due to a breach of the Equity Commitment by MH Investor.</p> |
| <p>Due Diligence</p> | <p>A Sponsor, its Sponsor Parent and the Sponsor Guarantor will also be required to provide MH Investor with customary disclosures regarding the Sponsor, the Sponsor Guarantor and the Project, including updates from time to time of any material developments and a completed due diligence questionnaire which includes “know your customer”, background and beneficial ownership information, each in a form acceptable to MH Investor and, if applicable, MassHousing.</p> |
| <p>Governing Law; Applicable Restrictions</p> | <p>A Venture Operating Agreement will be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts.</p> <p>The rights and obligations of the parties are subject to the terms of the documents governing the Loans, any other financing for a Project and the MassHousing enabling statute.</p> |
| <p>Brokerage Commissions</p> | <p>No third party brokerage commissions will be payable in connection with a Venture or any Preferred Equity Investment.</p> |