

# Tax-Exempt Financing Product Term Sheet

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| <b>Program Overview</b>    | Tax-exempt bond financing is available for the new construction or acquisition and rehabilitation of affordable housing with 4% federal Housing Tax Credits (HTC). If you are interested in this type of financing, please note it is federally regulated and has income limits and rent requirements. Virginia Housing is a frequent issuer of bonds based on a pooled tax-exempt bond financing schedule.                                                                                                                |
| <b>Eligible Loan Types</b> | All loans under this program must be construction-to-permanent loans. No permanent forward requests will be eligible. Short-Term Gap loan financing (defined below) is also available only for compliance with the 25% test for HTC.                                                                                                                                                                                                                                                                                       |
| <b>Loan Terms</b>          | First lien position is required; New construction financing up to 40 years is available (at an additional cost and only on a case-by-case basis); Acquisition/Rehabilitation and adaptive re-use up to 35 years based on the age of property, renovation scope and physical condition. Virginia Housing debt is fixed-rate interest-only during construction. All permanent debt is fixed rate and fully amortizing. All debt is non-recourse to the borrower and its principals during construction and permanent phases. |
| <b>Eligible Borrowers</b>  | For-profit or non-profit borrowers are eligible. The mortgagor must be a single asset entity Limited Liability Company or Partnership. Borrowers must demonstrate sufficient financial stability and liquidity to construct and operate the project. The development team for the project must have a demonstrated track record in successfully developing, marketing and managing the type of facility proposed, or must form a joint venture with an entity which has such expertise.                                    |
| <b>Eligible Properties</b> | All properties must be entirely located in Virginia. Fee simple title is required, absent approval of a satisfactory ground lease. Ground leases, condominium regimes, proffers, restrictive covenants, and other encumbrances on title are subject to review by Virginia Housing's outside counsel and may require payment of a review fee.                                                                                                                                                                               |
| <b>Loan Origination</b>    | Loan application proposals are accepted by Virginia Housing only if submitted through an approved mortgage broker. ( <a href="#">Click here for Approved Broker List</a> )                                                                                                                                                                                                                                                                                                                                                 |

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| <b>Loan Amounts</b>               | \$5M - \$75M (Inclusive of any Gap loans)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                   |          |                   |
| <b>Unit Limitations</b>           | Minimum Count – 50<br>Maximum Count - 300                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                   |          |                   |
| <b>Loan Ratios</b>                | New Construction / Acquisition-Rehab                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | LTV               | MIN DSCR | LTC               |
|                                   | Loans <\$25M                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Not to exceed 90% | 1.15x    | Not to exceed 90% |
|                                   | Loans ≥\$25M - <\$50M                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Not to exceed 90% | 1.15x    | Not to exceed 90% |
|                                   | Loans ≥\$50M                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Not to exceed 80% | 1.20x    | Not to exceed 80% |
|                                   | <i>These ratios represent baseline programmatic limitations. Virginia Housing reserves the right to evaluate each loan individually and impose stricter limits.</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                   |          |                   |
| <b>Gap Loans</b>                  | Gap loans are originated through short-term tax-exempt bond financing and are solely to enable the owner to meet the 25% test for HTC compliance. Gap loans must be repaid at permanent conversion. A minimum of 30% of the Gap loan must be secured by an irrevocable and unconditional Letter of Credit. A 2% Gap Loan Fee will be assessed on the (remaining 70%) unsecured portion. The Letter of Credit associated with the security of the Gap Loan must be provided on a form prescribed by Virginia Housing and the provider must be a highly rated financial institution approved by Virginia Housing.                                                                         |                   |          |                   |
| <b>REACH Rate Subsidy</b>         | Virginia Housing uses a portion of its net assets to provide interest rate subsidies for rental housing projects through the REACH program. The REACH component of the loan is offered at a reduced rate and blended with our standard loan funds to create a lower blended rate. Other than the discounted rate, all other loan terms apply. The REACH rate is based on Virginia Housing's cost of funds and other market conditions and may be adjusted from time to time.<br><a href="#">(Click here for the REACH Policy Update)</a>                                                                                                                                                |                   |          |                   |
| <b>Affordability Requirements</b> | <p>Option 1: 20% or more of the total units must be occupied by individuals whose income is 50% or less of area median gross income (AMI) as adjusted for family size; or</p> <p>Option 2: 40% or more of the total units must be occupied by individuals whose income is 60% or less of area median gross income (AMI) as adjusted for family size.</p> <p>Virginia Housing's lending requirements allow the balance of units to be occupied by individuals and families with income up to 150% AMI; however, compliance must still be maintained with all applicable income and rent set-asides imposed by the housing credit program, which are expected to be more restrictive.</p> |                   |          |                   |

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| <b>Loan Rates</b>                                     | <p>Indicative rates are posted regularly on Virginia Housing's website. For tax-exempt bond financed construction-to-permanent loans, both construction rate and permanent rates are fixed, and rate lock occurs at the time of bond pricing. The construction period and term of the loan impact the permanent interest rate. Additional guidance is provided during underwriting by the assigned Development Officer.</p> <p>To be included in a bond pricing, all requisite conditions of the commitment letter must be met by the deadline stated in the commitment. These conditions generally include acceptance of the commitment, including payment of all fees and standby security, an executed construction contract, and evidence of site plan approval. Other requirements, as described in the commitment, may be required.</p> <p><a href="#">(Click here to access today's rate sheet)</a></p> |
| <b>Loan Closings</b>                                  | <p>Once the rate is locked, the loan must close within a specified time frame. Rental housing properties financed with Virginia Housing's tax-exempt loan program require only one closing ("Initial Closing"). Permanent conversion occurs in conjunction with the final disbursement of loan proceeds (a process called "Final Closing"). There is no inherent stabilization period.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Construction Loan Initial Closing Requirements</b> | <p>The initial closing is the closing of the Virginia Housing construction financing phase with the Deed of Trust Note, Deed of Trust, Regulatory Agreement, UCC-1 financing statements, attorney opinion, evidence of all required insurance meeting Virginia Housing's insurance requirements, and other applicable documents required by Virginia Housing and must be on Virginia Housing's forms (this includes the Virginia Housing form of construction contract and general conditions). An index of closing requirements and draft loan documents is provided with the Virginia Housing Mortgage Loan Commitment.</p>                                                                                                                                                                                                                                                                                  |
| <b>Permanent Loan Conversion</b>                      | <p>The Final Closing requires 100% completion of construction, audited Mortgagor's Cost Certification, General Contractor's (GC) Cost Certification, pre-funding of servicing escrows, final Certificates of Occupancy, as-built survey, final Lender's Title Policy endorsement, evidence of casualty and liability insurance meeting Virginia Housing's insurance requirements and other applicable documents listed on the Virginia Housing Closing Index. Final disbursement (including retainage) occurs in conjunction with permanent conversion and not at substantial completion.</p>                                                                                                                                                                                                                                                                                                                  |
| <b>Subordinate Debt and/or Secondary Financing</b>    | <p>Any subordinate debt and/or secondary financing cannot mature earlier than the Virginia Housing loan and are permitted only if provided by a public source or if LTC is below 50%. Third-party bridge financing may not be secured by a lien against the real estate without prior approval by Virginia Housing and will only be evaluated on a case-by-case basis. A combined must-pay DSCR minimum of 1.15 is required. Any subordinate debt secured by an interest in the Development or the Property must enter into the applicable Virginia Housing Subordination Agreement. All requests are subject to Virginia Housing legal and external bond counsel review.</p>                                                                                                                                                                                                                                  |

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| <b>Subsidy Layering Review</b>              | Virginia Housing's Tax Credit Department can perform a subsidy layering review in certain scenarios. The subsidy layering review should be completed by the Bond Inclusion date. Additional fees apply.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Maximum Developer Fee Considerations</b> | Developer fee guidelines are set by the Virginia Housing Tax Credit Department. Please see the HTC manual for guidance. ( <a href="#">Click here for the HTC manual</a> ) HTC calculations exclude developer fees.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Replacement Reserves and Escrows</b>     | Reserve requirements include a minimum of \$300/unit/year for family deals and \$250/unit/year for senior deals. Escrows are required for property insurance, real estate property taxes, liability insurance, and flood insurance (if applicable). Escrows may also be required for HOA or Property Association fees.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Other Reserve Requirements</b>           | In HTC transactions, operating reserves may be required to cover potential operating deficits and unforeseen expenses. Debt service reserves may be required to ensure mortgage payments can be made even if there are temporary revenue fluctuations.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Prepayment Provisions</b>                | Minimum 15-year lock-out from 50% occupancy, and any additional stipulations as required by Deed of Trust Note. Once the prepayment date has been met, a prepayment fee of 6% of the outstanding principal balance reduced by 1% each year after lockout is required, but in no event less than 1%.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Other Use Restrictions</b>               | <p>Virginia Housing may allow income set-asides imposed by the <b>locality</b> to survive foreclosure and be binding upon a successor in interest. However, Virginia Housing must come to an agreement with the locality on affordability surviving foreclosure prior to issuance of the Commitment. Due to the lead time often required to obtain approval from locality boards/councils, applicants are strongly encouraged to communicate early with Virginia Housing to ensure that the wording of the locality's set-aside restriction meets the specific legal requirements.</p> <p>If Virginia Housing, as first lien holder, is the successful bidder at foreclosure and becomes the successor in interest, the locality's income set-aside must terminate, other than:</p> <ol style="list-style-type: none"> <li>20% of the units in the development may remain set aside at income and rent limits of no lower than 60% of AMI, adjusted for family size, following such a foreclosure; and</li> <li>In support of its mission, Virginia Housing will work with the locality to reinstate or add affordability restrictions (income and rent, adjusted for family size), provided that Virginia Housing projects that the development will achieve a targeted Debt Service Coverage Ratio of at least the greater of 1.25 or Virginia Housing's standard programmatic lending requirements as of the date of foreclosure, while subject to such additional set-aside. This determination to reinstate or add affordability requirements will be made by Virginia Housing in its sole discretion.</li> </ol> |

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| <b>Equity Funding &amp; Out of Balance Requirements</b> | Virginia Housing has a “loan in balance” policy that requires all non-Virginia Housing funding sources to be paid in before any Virginia Housing funds. Project owners will be required to demonstrate the availability of required equity and other sources prior to final credit committee approval. Additional owner equity may be required because of actual costs exceeding budgeted costs during the construction phase. Virginia Housing charges a fee based on the estimated out-of-balance funding requested.                                                                                                                                        |
| <b>Required Housing Tax Credit (HTC) Equity</b>         | At initial closing the HTC investor is expected to invest 25% of their total capital investment toward Total Development Costs (TDC) (calculated by Virginia Housing), which do not include any paid Developer Fee.<br><br>Upon 50% construction completion at least 50% of the Required Equity (calculated as the TDC less the Virginia Housing loan amount) invested into the deal by HTC investor, Historic Tax Credit Investors, and/or bridge lender); and<br><br>By construction completion, 100% of the required equity (calculated as the TDC less the Virginia Housing loan amount) must be invested into the deal, less Developer Fee and Reserves. |
| <b>Application Fee</b>                                  | A non-refundable application fee in the amount of \$10,000 is due with the application. This fee will be applied to the 0.5% processing fee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Processing Fee</b>                                   | 0.5% processing fee on the total loan amount is due upon acceptance of the Commitment. The Virginia Housing loan amount includes the construction/ permanent loan, Tax-Exempt Gap and REACH loan amounts (if applicable).                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Financing Fee</b>                                    | 1.5% due on the first \$7.5M of Virginia Housing loan amount; and 0.625% of the remaining balance of the Virginia Housing loan amount over \$7.5M. Financing Fees are due upon acceptance of commitment.                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Standby Deposit</b>                                  | The standby deposit is calculated as 3% of the loan amount, less the sum of the processing and financing fees and can be posted as cash or a Letter of Credit. A standby deposit is due upon acceptance of the commitment and held until loan post-closing items have been received and approved by Virginia Housing.                                                                                                                                                                                                                                                                                                                                         |
| <b>Extension Fees</b>                                   | Extension fees may be due and payable if the closing of the Loan is delayed beyond the dates agreed to in connection with locking the interest rate. If the loan closing is delayed or does not close, the Borrower may be liable for any losses incurred by Virginia Housing.                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Other Fees</b>                                       | Other fees may apply to include Out of Balance Fees, Extended Construction Fee, Stored Materials Administrative Fee, Ground Lease Review Fee, Condominium Review Fees or others as required.                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

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| <b>Third Party Reports and Submissions</b>   | These include the Appraisal, Market Study, Phase I ESA, Zoning Report, ALTA survey, mortgagee title insurance binder and pro form policy, and other reports as needed or required. All third-party reports must be ordered by the borrower, and the reports should either be addressed to the Virginia Housing Development Authority or have the Virginia Housing Development Authority listed as an intended user.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Appraisal</b>                             | The appraisal must not be dated more than one year prior to loan closing and must be prepared by a qualified MAI or SRPA appraiser that is acceptable to Virginia Housing. The appraisal must be addressed to the Virginia Housing Development Authority or Virginia Housing Development Authority must be listed as an intended user of the report. Values/Valuations are required in addition to identification of the three main appraisal approaches to value (Value as Restricted, Value with Restrictions Surviving Foreclosure, and Value as Unrestricted) along with the remaining economic life.                                                                                                                                                                                                                                                             |
| <b>Environmental Submission Requirements</b> | Environmental Site Assessment (ESA) is required. The report must be addressed to the Virginia Housing Development Authority or Virginia Housing Development Authority must be listed as an intended user of the report and dated within 180 days of closing. <a href="#">(Click here for Environmental Guidelines)</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>A&amp;E Submission Requirements</b>       | Plans and specifications must meet Virginia Housing's Minimum Design and Construction Requirements (MDCRs). Plans and specifications are required to meet Virginia Housing's definitions of 85% complete at application submission. The loan underwriting process will not officially begin until such time. Plans should be submitted digitally. <a href="#">(Click here for Architectural Design Requirements)</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Architect</b>                             | Virginia Housing Construction Loans require the use of Virginia Housing's Architect Agreement Forms for design and supervisory services (AIA forms are not accepted). There may be only a single architect of record. A waiver will be required for a related-party design architect; and if such waiver is granted, a third-party architect acceptable to Virginia Housing will be required to serve as the supervisory architect.                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>General Contractor Requirements</b>       | Proposed General Contractors will be required to submit background materials as part of the underwriting processes. These materials may include a company resume, financial information, project lists and other information as requested. All work, as defined by the construction contract, must be managed and completed by a single prime Virginia-licensed Class A GC retained by the developer. In no event may work be self-directed or self-performed by the developer unless the developer's construction arm is the contracted prime GC and Virginia Housing has approved, in writing, the developer's construction arm as the prime GC. Use of Virginia Housing construction contract documents is mandatory. As noted above, the Virginia Housing form of construction contract and general conditions is required (AIA or other forms are not accepted). |

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| <b>Performance and Completion Assurance</b>          | An irrevocable and unconditional standby Letter of Credit in the amount of 7.5% of the construction contract (12.5% if billing for stored materials on-site) is required at closing and must be posted by the General Contractor. All require Virginia Housing approval. In addition, Virginia Housing requires a 2.5% latent defect Letter of Credit be held for one year after Final Closing. Please note that Virginia Housing will not accept payment and performance bonds in lieu of a Letter of Credit. |
| <b>Maximum Allowable General Contractor Fees</b>     | In general, the applicable Virginia Housing Qualified Allocation Plan (QAP) rules apply. These generally include, but are not limited to profit, overhead and general requirements.                                                                                                                                                                                                                                                                                                                            |
| <b>Related Party General Contractor Requirements</b> | Use of Virginia Housing documents is mandatory. In rare cases, an additional third-party participation requirement may be put in place by Virginia Housing. Please note that Virginia Housing will not accept performance bonds in lieu of a Letter of Credit.                                                                                                                                                                                                                                                 |
| <b>Minimum Contingency</b>                           | All construction/permanent loans require an owner's contingency: Minimum of 5% of hard costs for new construction, 8% of hard costs for acquisition/rehab or 10-12% for adaptive use. Note these are required minimum contingency percentages and may increase based on deal characteristics.                                                                                                                                                                                                                  |
| <b>Retainage</b>                                     | 10% retainage will be withheld on draws until Virginia Housing determines that construction of the development is 50% or more complete. Virginia Housing holds funds equivalent to the retainage requirement until Final Closing.                                                                                                                                                                                                                                                                              |
| <b>Cost Certification</b>                            | All construction loans require a General Contractor prepared cost certification. An audited mortgagor cost certification is also required.<br><a href="#">(Click here for Cost Certification guide)</a>                                                                                                                                                                                                                                                                                                        |
| <b>Rental Subsidies</b>                              | Virginia Housing is currently evaluating underwriting guidelines relative to project based rental assistance vouchers. For specific questions, please contact Virginia Housing Development staff.                                                                                                                                                                                                                                                                                                              |
| <b>Cash Flow Distribution</b>                        | No cash flow distributions can be taken until permanent loan conversion. See Section 24 of the Regulatory Agreement for limitation and timing ties to "Residual Receipts." In addition, rental income during construction cannot be used as a capital source.                                                                                                                                                                                                                                                  |
| <b>Occupancy Requirements</b>                        | The Owner shall obtain and verify annual gross income and other criteria of eligibility upon move-in/initial certification from each tenant of the Development. Owners are required to recertify the household's annual income annually or every three years depending on the Virginia Housing loan or applicable program guidelines. Please refer to the "Tenants" tab of the Rental Housing Loan Application found <a href="#">here</a> .                                                                    |

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| <b>Private Activity Bond Issuance Information</b> | In issuing bonds for this loan type, Virginia Housing utilizes its available tax-exempt bond cap and no separate application for such bond cap is necessary. As part of the underwriting, the Developer must complete a Developer Questionnaire with all required attachments to ensure compliance with all tax-exempt bond requirements, and such documents are subject to approval by Virginia Housing's tax counsel in their sole discretion. Virginia Housing typically does not charge separate fees to the Developer for bond counsel, and other bond issuance costs. Tax-exempt bond financing application updates, bond schedule, mandatory deadlines, and upcoming announcements can be found on Virginia Housing's website <a href="#">here</a> . See bond schedule and mandatory deadlines. |
| <b>Loan Assumability</b>                          | Subject to Virginia Housing approval on a case-by-case basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Tax Abatements</b>                             | Subject to project underwriting.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Property Management</b>                        | A Virginia Housing approved management entity and Virginia Housing form property management contract are required. Virginia Housing does not charge a loan servicing or asset management fee, however, there are annual compliance monitoring fees in connection with the HTC program. <a href="#">(Click here for Certified Management details)</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Loan Servicing / Asset Management</b>          | Loan Servicing and Asset Management/Compliance are internally managed by Virginia Housing. Virginia Housing does not charge a loan servicing or asset management fee, however, there are annual compliance monitoring fees in connection with the HTC program. <a href="#">(Click here for Certified Management details)</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Exclusions</b>                                 | Tax-exempt bond financing is not available for Scattered Site, 1031 Exchanges, Congregate Care Facilities, Student Housing and Tenancy in Common investments ("TIC" or "TIC Investments"). Any commercial space or space intended for use, in whole or in part, by the general public is subject to review and approval by Virginia Housing. Any other questions about exclusions not listed, please contact <a href="mailto:RentalLending@VirginiaHousing.com">RentalLending@VirginiaHousing.com</a> .                                                                                                                                                                                                                                                                                                |

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