MOHCD CASH OUT ACQUISITION/REHABILITATION,
RESYNDICATION, AND REFINANCING POLICY
Effective: June 7, 2019

I. BACKGROUND:

This memorandum updates MOHCD's Cash Out Acquisition/Rehabilitation, Resyndication, and Refinancing Policy (the "Policy") governing the conditions under which a sponsor may take cash out from an affordable housing development through an acquisition/rehabilitation, resyndication, or refinancing of the property.

Between 2017-2020, MOHCD expects to invest approximately $1.2 billion to build or preserve over 6,000 affordable units. MOHCD's investments (including: loans, grants, operating subsidies, and land dedication) strengthen the social, physical and economic infrastructure of San Francisco's low-income neighborhoods and communities in need. To date, MOHCD's investment of public resources has created an affordable housing portfolio ("MOHCD Properties") exceeding 21,000 units, in collaboration with its partner community-based organizations, and affordable housing developers (collectively "Sponsor").

But for the City's investment of public resources, and ongoing stewardship, MOHCD Properties would not exist today, nor would they support a cash out through an acquisition/rehabilitation, resyndication, or refinancing. In consideration of the City's prior investments, and to support the preservation of MOHCD Properties, effective June 7, 2019, MOHCD shall limit cash out pursuant to this Policy.

II. UPDATED POLICY ON CASH OUT:

If a Sponsor is conducting an acquisition/rehabilitation, resyndication or refinancing, is repaying a previous MOHCD loan in full, and owes no accrued ground rent to MOHCD, then MOHCD will allow the withdrawal of cash out (equity or acquisition proceeds) subject to a 50/50 split of proceeds ("Excess Proceeds") between the Sponsor and MOHCD to be paid on a pari passu basis. For the avoidance for doubt, Excess Proceeds are the remaining funds available after paying off all MOHCD financing, and ground rent, as applicable. MOHCD will not restrict the Sponsor's use of cash out approved pursuant to this Policy. Notwithstanding the forgoing, any existing restrictions governing a Sponsor's use of project income, program income, or cash out equity or acquisition proceeds shall remain in full effect.

Payments made to MOHCD pursuant to this Policy ("MOHCD Fees") shall be structured based on MOHCD's investments in the project, and/or the project's proposed acquisition/rehabilitation financing, or refinancing structure. Potential MOHCD Fee structures include, but are not limited to: ground lease payment, prepayment fee, amendment/modification fee, and monitoring fee.

MOHCD Fees will be utilized to provide critical funding to support the City's existing investments in affordable housing, and ensure the long-term viability of San Francisco's affordable housing stock. MOHCD Fees shall be deployed across MOHCD's existing and successor financing programs that prioritize the preservation of the City's existing affordable housing portfolio (e.g. Existing Non-Profit Owned Rental Housing Capital Repairs).

III. GOVERNING DOCUMENTS, POLICY AND REGULATIONS:

Cash out withdrawals of equity or acquisition proceeds from MOHCD Properties are highly regulated through various mechanisms, including, but not limited to:

- Transaction Documents:
    - Long-term affordability covenants which keep project income low and reduce available equity
    - Long-term asset management requirements requiring regular re-investment into the physical needs of the properties
    - Loan Agreement provisions regarding property transfer rights
    - Secured Promissory Note provisions regarding prepayment privileges
    - Contracts providing rental assistance
    - Restrictions related to other funding sources (e.g. CDBG Program Income)
- Policy & Regulations:
    - Cash Out Acquisition/Rehabilitation, Resyndication, and Refinancing Policy
    - Subordination Policy
    - Ground Lease Policy
    - Residual Receipts Policy
    - Operating Fee Policy
    - Developer Fee Policy for Tax Credit Projects
    - Multifamily Securities Program Manual
    - Other third-party restrictions (e.g. CDLAC & CTCAC Regulations)

When Sponsors seek to acquire/rehabilitate, resyndicate or refinance MOHCD Properties, they are required to secure MOHCD's approval. *MOHCD's cooperation is a condition precedent for an acquisition/rehabilitation, resyndication or refinancing to proceed*.

IV. EXAMPLES:

Project Type	Cash Out	MOHCD Fee Structure	Notes
1. NO CASH OUT ALLOWED WITH MOHCD FUNDS:			
Unpaid MOHCD ground rent; new, or unpaid MOHCD financing	None allowed. No Excess Proceeds are available, unless MOHCD ground rent, or MOHCD financing are paid in full.	N/A	Available project equity should be utilized to partially pay off MOHCD ground rent, and/or MOHCD financing, and then reinvested in the project as a seller carryback loan

Project Type	Cash Out	MOHCD Fee Structure	Notes
2. CASH OUT WITH GROUND LEASE:			
Operating with an existing long-term ground lease	Excess Proceeds split 50/50 between MOHCD and Sponsor	Residual Rent	Sponsor must enter into a new, or extended ground lease in a form and substance acceptable to MOHCD
3. CASH OUT WITH PREPAYMENT FEE:			
Existing MOHCD financing	Excess Proceeds split 50/50 between MOHCD and Sponsor	Prepayment Fee	Compliance term must be extended (per the General Conditions below). The existing MOHCD loan documents may be modified or amended, as required.

V. GENERAL CONDITIONS:

- Long-term extension of the compliance term (minimum of 55 years)
- Demonstration of compliance with asset management requirements, including either completion of all capital repair needs or a capital repair expenditure plan that meets the building's physical needs
- Fully funded reserves
- Full repayment of MOHCD financing (including principal and accrued interest), as applicable
- Full repayment of MOHCD accrued ground rent, as applicable

VI. WAIVERS:

Subject to MOHCD's review of supporting documentation including, but not limited to: CNAs, underwriting, and long-term cash flows, the Citywide Affordable Housing Loan Committee may recommend to waive or modify any portion of this Policy for the purpose of ensuring project feasibility, maximizing affordability, and minimizing the use of public resources. All recommendations related to this Policy are subject to the Mayor's approval in his or her sole discretion.

VII. IMPLEMENTATION:

This Policy applies to any development that is seeking a cash out on or after June 7, 2019.