



OHFA Soft Debt Repayment Policy  
April 5, 2010

Over the past decade, the Ohio Housing Finance Agency (OHFA) has provided gap financing in the form of “soft” loans through the Housing Development Assistance Program (HDAP). Annual payments on a loan were not required unless there was at least \$10,000 of excess cash flow. The payment was equal to 1) the higher of 50 percent of excess cash flow above \$10,000 or 2) \$500. If there was no available cash flow, principal and interest are deferred and due as a balloon payment at the end of the loan term or sale of the property. Payments for deferred developer fee were permitted prior to payments for HDAP during the first 10 years following the project’s placed in service date. Under this repayment system, OHFA has received minimal repayments to date.

In the past year, OHFA has increased the amount of gap financing provided per project. In addition, OHFA used more conservative underwriting guidelines in order to size the subsidy. Generally, OHFA assumed higher expenses, less “hard” debt”, and larger reserves. If the properties are maintained appropriately and the economy eventually improves, there is a greater possibility that these projects will generate excess cash flow. Since sources of gap financing may be scarce in the next few years, it will be beneficial to the entire development community if OHFA can recycle loan funds for future programming. Therefore, OHFA is taking the following steps to ensure repayment of OHFA soft debt if there is excess cash flow available:

1. Require a copy of the audited financial statements and an OHFA cash flow worksheet to be submitted on an annual basis.
2. Eliminate the “\$10,000 repayment threshold” and require repayment based on first available dollar of excess cash flow. Please note that the amount of the payment will remain calculated as a percentage of excess cash flow, ranging from 25 to 50 percent.  
**It is not OHFA’s intent to require all available cash flow to be used for repayment of the OHFA soft debt.**
3. Use the following definition of adjusted cash flow to be included in all OHFA soft loan documents: Gross Cash Receipts to the property minus:
  - a. Debt service (Principal and Interest) on loans with a superior mortgage position (excluding General Partner and/or partner/partnership notes/mortgages);



- b. Replenishment of the Operating Reserve Account up to the maximum of its original established amount through year 10. Replenishment of the Operating Reserve Account is not precluded after year 10, but will be subordinate to the soft loan repayment to OHFA;
- c. Payments of any Deferred Developer fee through year 10 after any required obligations to the Operating Reserve Account are met. A payment to the Deferred Developer fee is not precluded after year 10, but will be subordinate to the soft loan repayment to OHFA;
- d. Any required payments deposited to in the established Partnership Replacement Reserve accounts;
- e. Payments / Accruals for reasonable and customary Project Operating Expenses as documented in the annual financial statements but excluding the following:
  - i. Depreciation,
  - ii. Amortization,
  - iii. Interest on Soft Debt,
  - iv. Syndicator Asset Management Fees,
  - v. Incentive Fees of any kind, including Management Incentive Fees and Partnership Incentive Fees,

A payment for the excluded expenses is not precluded after year 10, but will be subordinate to the soft loan repayment to OHFA.

“Gross Cash Receipts” means all cash received in any fiscal year from the operations of the Partnership including all government subsidies received by the Partnership, construction contingency, but excluding Capital Contributions, loan proceeds, repayment of rent, security deposits, insurance proceeds, condemnation awards, proceeds from Net Cash from Sales and Refinancing, and any other funds not generated from current Project Operating Expenses. The Partnership definition of “Net Cash from Sales and Refinancing” (or other applicable related term or activity) must be provided to OHFA for review and approval.

Year 1 is calculated as the year in which the last building is placed into service.

Please note the following:

1. OHFA still considers these loans as soft debt. Repayment is only required if there is available cash flow.





## OHIO HOUSING FINANCE AGENCY

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# Memorandum

2. OHFA may agree on a case-by-case basis to modify repayment conditions in order to be consistent with requirements of other government lenders, such as HUD, Rural Development, cities, and counties.

3. These procedures will be implemented for all OHFA soft debt starting with loans closed after March 31, 2010. However, the existing definition of cash flow as stated in the 2009 HDAP guidelines will apply to all OHFA soft debt for projects that closed on their Housing Tax Credit equity prior to March 31, 2010 or projects that were in the process of closing on HDAP and/or ARRA on or before March 31, 2010.

4. This document does not apply to OHFA's TCAP Permanent Loans or Housing Development Loans.

### ***Sample Cash Flow Calculation (using audited numbers):***

Net Income		(10,000)
Add Back:		
Depreciation	54,012	
Amortization	1,167	
Interest Soft Debt	14,559	
Syndicator Asset Mgt Fee	5,000	
Incentive Fees	3,500	78,238
Subtract:		
Mortgage Principal	(6,746)	
Replacement Reserve	(20,000)	(26,746)
Net Income Adjusted:		41,492
<b>OHFA Cash Flow Payment (25% of cash flow):</b>		<b>10,373</b>

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The Ohio Housing Finance Agency is an Equal Opportunity Housing entity. Loans are available on a fair and equal basis regardless of race, color, religion, sex, familial status, national origin, military status, disability or ancestry. Please visit [www.ohiohome.org](http://www.ohiohome.org) for more information.