APPENDIX A

TO SPECIAL NEEDS HOUSING TRUST FUND

UNDERWRITING FINANCING GUIDELINES AND FINANCING POLICY

Transfer of Ownership and Prepayment

The HMFA prohibits the sale of the project or any interest therein without prior HMFA approval. Any sale or prepayment not authorized by the HMFA will result in a default of the mortgage loan.

Any proposed refinancing of the project for a permitted prepayment of the Trust Fund financing or to refinance a project following a prior prepayment but during the remaining regulatory oversight period shall require Agency review and approval of the new financing to assure the continuing financial feasibility of the project during the remaining term of the HMFA regulatory oversight.

Secondary financing, representing a portion of the purchase price of the project or interest therein, may be permitted by the HMFA in accordance with the Sale or Prepayment section of these guidelines. Such secondary financing shall be subject to the HMFA's standard affordability requirements and limitations pursuant to these guidelines.

General Policy

a.

a. The prior specific review and approval of the Agency members is required if a proposed change constitutes a sale of the project or involves a general partner, managing member or shareholder with more than a 10 percent interest, or where the change involves a change in control of the sponsor. All other transfers may be approved by the Executive Director, Chief Financial Officer, Chief of Legal and Regulatory Affairs or Chief of Multi-family Programs.

b. Changes in ownership processed under these guidelines shall not result in a modification of the statutory, regulatory or contractual requirements governing the sponsor and project.

c. The proposed buyer must provide evidence satisfactory to the Agency that they have the financial sufficiency, organizational capabilities, background and previous housing experience that will help ensure that the buyer/new owner will be capable of operating the project. The Agency is under no obligation to approve the transfer or resale if these evidences are not provided.

d. The fee for any transfers of ownership interest with or without a permitted prepayment for projects financed under these guidelines shall be $1,000 paid to the Agency for its

administrative costs in processing the request to transfer ownership of the project or any interest therein. A nonrefundable fee of $1,000 shall be due with any request for a permitted prepayment of Trust Fund financing without an accompanying transfer of ownership.

e. Projects receiving financing from another Agency program in addition to the Trust Fund financing may also be subject to transfer of ownership or prepayment requirements and fees under N.J.A.C. 5:80-5.1 et seq., in which case the requirements of N.J.A.C. 5:80-5.1 et seq. shall supersede the within requirements.

f. Any outstanding supplemental financing must be paid at closing if the Agency determines the financial viability of the project is jeopardized by the continuation of such supplemental financing.

Required Documentation for Transfer of Ownership

a. The Agency will require a minimum of the following documents for review in connection with any proposed transfer of ownership interest:

1) Complete description as to the nature of the transfer of ownership interest;

2) Administrative questionnaire for buyer (company and personal as necessary) and its general partner or managing member and officers, directors and persons owning 10% or more interest in the buyer or exercising managerial control thereover;

3) Copy of buyer's Operations Agreement and/or project owner's Operations Agreement with proposed revisions, as applicable.

4) Copies of filed formation documents for the buyer and certificate of good standing from the state of formation.

5) Any other documents determined by the Agency to be necessary

b. The following additional documents may be required for transfers involving a sale of the project, general partner, managing member, or 90 percent or more of the ownership interest:

6) Experience questionnaire of buyer;

7) Buyer's certified financial statements;

8) Legal opinion from seller's attorney and, if requested by the Agency, from buyer's attorney;

9) Appraisal of property;

10) Physical inspection report approved by the Agency;

11) Financial report on project operations approved by the Agency.

12) Sponsor/owner's compilation report(s) or annual audit(s) that are due or past due as of the date of the proposed transfer.

Additionally, the payment of any arrears in any mortgage payments and servicing fees, if any, shall be required, and the funding of any escrow/reserve shortage may be required.

Prepayment of Mortgage

Prepayment of the Agency Trust Fund mortgage loan will be permitted only with the prior written approval of the Agency provided the following conditions are met:

a. Sponsors of projects financed by the Trust Fund may prepay the mortgage at any time following the 15-year period following the date of the mortgage closing. However, any such prepayment shall be conditioned upon the housing sponsor's agreement that: submission of annual audits or compilation reports, as applicable, the Agency policies on tax, insurance, repair and replacement reserves and escrows and the corresponding rules under these guidelines regarding targeted population, affordability controls, transfers of ownership, return on investment, and all Program related restrictions on the project as stated in the original loan documents shall continue to be applicable in their entirety to the sponsor, project and tenants residing therein until the original expiration date of the original mortgage loan. Such prepayment shall also be conditioned upon the agreement of the sponsor to fully fund any shortages in the aforementioned escrows and reserves and to pay servicing fees and charges, if any, currently being paid by the sponsor under the loan documents, through the remainder of the original mortgage term, in order to cover the administrative costs of the Agency in monitoring the statutory and regulatory controls that will continue to apply to the project. The sponsor/owner shall also be required to submit any past due compilation report(s) or audit(s), as applicable, prior to the prepayment. The Agency may require sponsors to execute a deed restriction or other appropriate agreement upon prepayment whereby the sponsor acknowledges the continuing statutory and regulatory control of the Agency and its obligation to pay fees and charges and any other payments determined by the Agency to be due in accordance with this section.

b. Additional mortgage financing placed on the project upon prepayment or otherwise during the Agency's continued statutory and regulatory oversight period shall be subject to Agency staff determination of continued project financial feasibility through the remainder of such period.

c. Upon prepayment of the Agency mortgage as provided above, the Agency will endorse the mortgage for cancellation so the sponsor may cancel it of record at sponsor's cost and expense.

d. After prepayment, applicable Return on Investment limitations shall continue to apply until the expiration of the original mortgage term.

Return On/Of Investment

Upon a sale of the project or any interest therein, as applicable:

a. The buyer of a project shall assume the same rate of Return on Investment that the seller had. The buyer's equity in the project shall be determined by the Agency as set forth in these guidelines and other contractual documents between the seller and the Agency.

b. The seller shall be limited to a cumulative, but not compounded, return on its equity, from project operations or sale, at the rate of return established under these guidelines.

1) Upon sale or other disposition of the project or any interest therein, the seller shall be entitled to a return of its equity investment in the project and any accrued but undistributed return on its investment. Such return shall be conditioned upon the Agency's mortgage and any other supplemental project financing from the Agency or other governmental agency or department being assumed by the buyer, as permitted by the Agency, and the payment of all amounts due to the Agency and the funding of escrows/reserves required by these guidelines. The seller shall not be entitled to nor paid any return until such conditions have been met. The seller's equity investment shall be the investment base as determined in accordance with these guidelines; alternatively, the equity investment base may be as determined by an Agency-approved appraisal, less all debt on the project as of the date of sale.

2) Upon sale or other disposition of the project or any interest therein, the seller is not entitled to and may not retain or be paid any more than its investment in the project, as set forth in section b.1) herein, plus any accrued but undistributed return on its investment, i.e., the maximum allowable return ("MAR"). Any amounts realized in excess of the MAR shall be paid into the Special Needs Housing Trust Fund or other Agency Program fund as determined by the Agency.