

RENTAL HOUSING

A. MULTIFAMILY HOUSING PROGRAM

**A-1. Inquiries**

(a) Housing Development and Mortgage Finance Staff responds to all inquiries. If a developer wishes to pursue possible financing with the Authority, a Developer's Packet is sent.

(b) An application for an Authority multifamily mortgage loan for a proposed housing development shall be accompanied by the exhibits required by the application form or otherwise necessary to determine whether the mortgage loan applied for should be made. The issuance of a mortgage commitment evidences approval by the Authority of the mortgage loan application. The terms and conditions upon which the Authority will make the mortgage loan shall be contained in the mortgage commitment. The mortgage commitment shall be effective for a period set forth therein.

(c) All proposals are screened to obtain an initial determination as to the following criteria:

(1) Meets threshold criteria of the Comprehensive Housing Affordability Strategy (CHAS), as incorporated into the Five Year Housing Advisory Plan for the State of Connecticut;

(2) Meets preliminary threshold feasibility established by the Authority subject to further review;

(3) Meets Public Policy Objectives consistent with the procedures and objectives for which the application is filed;

(4) Meets eligibility standards set for all applicants;

(5) Meets site suitability; and

(6) Meets demonstrated need and/or demand.

(d) Within available resources and to the extent practicable, housing developments are to serve a mix of incomes, inclusive of households with incomes less than:

(1) 50 percent of the area median income adjusted for family size, as determined by the Department of Housing and Urban Development (HUD);

(2) 25 percent of the area median income adjusted for family size as determined by HUD; and

(3) Will attempt to serve households in the lower range of the income group for which the housing program was developed.

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(e) The Authority may require any or all of the following prior to determining whether an applied for mortgage loan should be made, without limitation by reason of enumeration:

- (1) proposed plans, drawings, and specifications for the proposed housing development;
- (2) evidence of the existence, availability, and adequacy of all required utility services without deferred cost or charge for connection thereto;
- (3) audited financial statements for the applicant's most recently completed fiscal year; and
- (4) proposed estimate of construction costs and all other costs associated with the proposed development;
- (5) market study commissioned by the Authority; and
- (6) appraisal commissioned by the Authority.

### **A-2. Site Evaluation**

(a) Upon receipt of a completed Developer's Packet with appropriate fee, a site evaluation is performed by staff to determine that the site is acceptable and meets the Authority's goals, including, but not limited to, land use, zoning, proximity to community facilities and services, transportation, utility services and topography.

(b) All sites must be evaluated by independent firms acceptable to the Authority to determine potential hazardous material. An environmental assessment is required for all sites using a method acceptable to the Authority. The Authority, at its discretion, may require site environmental hazard insurance.

(c) A site evaluation report is prepared and either:

(1) A site approval letter with special conditions stated is sent to the developer. All items required to further process the proposal are requested from the developer; or

(2) A site disapproval letter is sent to the developer if the site and/or the initial underwriting are not acceptable.

### **A-3. Qualified Development Team**

(a) Each application must designate a development team and provide information relating thereto as required by the qualified development team matrix contained in each application. Each member of the development team must be licensed or approved to do business in the state of Connecticut.

(b) The Authority shall require each organization applying for a mortgage loan to submit for the Authority's review its certificate of incorporation or other basic organizational documents. Such documents must comply with the provisions of Section 8-250(29) of the General Statutes and other legal requirements.

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(c) The Qualified Development Team Matrix contained in each application identifies all potential team members and sets forth minimum standards and documentation necessary to determine if a team member is qualified to ensure effective and efficient performance. The following members of the development team should be selected through an open and competitive process: Housing Consultants, General Contractor, Architect, Syndicator, Resident Training Consultant and Property Manager. Applicant should establish scope of services, interview at least three qualified firms pursuant to minimum standards, and provide justification of final selection including, but not limited to the selection process and proposed fee schedule. For experienced development teams, a waiver from this open and competitive process may be obtained from the President-Executive Director.

(d) All developers of proposed developments will sign an " Identity of Interest " statement which discloses relationships involved in the development. The statement will attest to the relationship, if any, of all persons who will benefit financially from the proposed development. When an identity of interest exists, the Authority reserves the right to evaluate the cost reasonableness of that service and/or work to be performed and accept or reject.

### **A-4. Credit Evaluation**

(a) The Authority will conduct an in-depth general credit investigation to ascertain and assure that the assembled development team possess the capacity and are capable of building and operating the proposed project. The extent of the credit investigation will be the sole decision of the Authority and the individuals comprising the development team shall consent to such credit investigation.

(b) The investigation will include, but is not limited to, an analysis of the following:

(1) The applicant's and the general contractor's qualifications and business experience.

(2) Financial and trade references.

(3) Current credit information on an individual and commercial/trade basis.

(4) Certification of prior participation in any other development with the Authority, the State or HUD.

(c) The development team will furnish a listing of any general partners or principal shareholders as required by the Authority.

(d) Financial statements, prepared by an independent CPA, with appropriate support data for the preceding three years will be required. These statements will be utilized to determine past financial condition, present liquidity and future financial capacity.

### **A-5. Affirmative Action**

(a) Each mortgagor and its contractors, subcontractors, and management agents shall agree to comply with (a) federal and state executive orders, statutes, regulations, and other requirements of law relating to affirmative action and equal employment opportunity, including (without limitation by reason of enumeration) the requirements that section 4-114a of the General Statutes imposes on those who enter into contracts to which the state is a party, and (b) the Authority

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guidelines and goals established for each housing development financed by the Authority relating to equal employment opportunity, affirmative fair marketing, and other affirmative action.

### A-6. Assurance of Completion

(a) The Authority shall require a mortgagor or its contractor to provide:

(1) a 100% Performance Bond and 100% Labor and Material Bond -- bonds (bid, performance and payment) from a surety company with a B+ or better rating by Best and licensed to do business in the State of Connecticut and the owner and the Authority shall be named as obligees; or

(2) letters of credit -- when a UNIFIED Letter of Credit ("LOC") is used in lieu of a Performance and Payment Bond, the amount of the LOC shall be twenty five percent (25%) of the construction contract. For a contractor awarded a contract under Section 32-9e of the Connecticut General Statutes, the amount of the letter of credit may be ten percent (10%) of the construction contract provided said contract is less than one hundred thousand dollars (\$100,000). Written notice of nonrenewal of the LOC must be sent by certified mail, return receipt requested and the owner and the Authority shall be named as beneficiaries; (See Section A-7 for additional LOC requirements); or

(3) other security satisfactory to the Authority to assure completion of the housing development. In establishing the type, duration, and amount of acceptable security, the Authority shall consider development cost, development performance record, the number of units or stories, the time for construction, and other pertinent factors.

(b) Proceeds from either the Performance and Payments Bond or LOC or other security may be applied, in the Authority's sole discretion to meet the following, including, but not limited to:

- (1) Completion of the project;
- (2) Payment of subcontractors and suppliers;
- (3) Correction of a latent construction defect(s);
- (4) Replacement of any building component or appliance; and
- (5) Replacement or correction of any loss to the project not otherwise covered by insurance and which is the General Contractor's responsibility.

(c) The completion assurance deposit shall be held by the Authority and may be used in its sole discretion to pay any costs or expenses incurred:

(1) in the event the General Contractor defaults during construction, for example:

- a) Failure to complete construction; and
- b) Failure to pay subcontractors for completed work.

(2) or arising from or caused by latent defects.

(d) Assurance of Completion Reduction and Release -

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(1) The Letter of Credit or other security may be reduced by one half, or where there is an identity of interest between the developer and general contractor, a portion thereof may be converted to a working capital deposit, upon satisfactory demonstration by the General Contractor, through the cost certification process that all costs incurred in the construction of the project have been paid in full. If items remain unpaid due to a dispute or litigation, the letter of credit, or other security reduction, or conversion of a portion thereof to a working capital letter of credit, will be permitted, provided funds equal to the sum of the unpaid items are placed in escrow with the Authority pending the resolution of the litigated or disputed items.

(2) The Letter of Credit or other security shall remain in effect until the end of the latent defects period. The latent defects period shall begin on the date of issuance of the final, complete, permanent certificate of occupancy for the development or substantial completion of the development, whichever is later, and end 15 months thereafter.

(3) Performance, Payment and Bid Bonds - No substitution of a bond in a lesser sum shall be permitted until the General Contractor has demonstrated, through the cost certification process prescribed by the Authority, that all costs incurred in the construction of the project have been paid. The bonds shall contain language requiring the surety to honor claims until the latent defects period has expired and the Contractor has complied with the cost certification requirements recited in the Construction Contract.

### **A-7. Letter of Credit**

(a) The Letter of Credit issuer must be licensed in the State of Connecticut and have at the time of issuance, replacement, substitution or renewal, one of the following ratings:

- (1) Standard & Poor's - AAA, AA, A
- (2) Moody's - Aaa, As, A
- (3) Keefe, Bruyette & Woods - B or better
- (4) LACE - B or better

(b) The issuer's rating is subject to review for compliance with above rating standards at any time during the term of the Letter of Credit. The issuer's rating will be verified upon each extension or renewal but not less than annually. The letter must be clean, irrevocable, transferable without fee, permit multiple draws, governed by Connecticut law and subject to Uniform Customs and Practices for Documentary Credits.

(c) A Letter of Credit will be automatically renewable unless 60 days prior to the expiration, the Authority is informed in writing that the Letter will not be renewed. Failure to renew a Letter of Credit at least 30 days prior to expiration will be an event of default under the loan documents and the Letter of Credit may be called. Failure to maintain a Letter of Credit in the amount pledged will be an event of default.

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### A-8. Return on Equity

(a) The mortgagor's equity in a development shall consist of the difference between the total amount of certified project costs as defined in C.G.S. Section 8-243(f), whether or not such costs have been paid in cash or in a form other than cash and the total amount of mortgage and/or grant proceeds.

(b) A loan to a mortgagor, other than a nonprofit corporation having as one of its purposes the construction or rehabilitation of housing, shall be subject to an agreement between the Authority and the mortgagor limiting the mortgagor, and its principals or stockholders, to a return on the mortgagor's equity in any development assisted with a loan from the Authority. The cumulative cash return on equity shall be no greater than ten percent (10%) per annum unless otherwise determined by the Authority to further public policy objectives.

(c) At the Authority's discretion and to the extent economically feasible, the cumulative cash return on equity may be increased an additional two (2.00%) percent for developments in areas designated as urban centers and urban conservation areas as defined in the State Plan for the Conservation and Development of Connecticut.

(d) At the Authority's discretion and the extent economically feasible, the cumulative cash return on equity may be adjusted periodically to compensate for inflation. Such adjustment may be implemented by the Authority no earlier than the tenth anniversary of the final closing of the permanent mortgage loan on the development, and thereafter no more frequently than once every five years, provided that the initial adjustment shall be implemented concurrent with the first annual budget and financial statement review after such tenth anniversary. No such adjustment shall result in an adjustment of mortgagor's equity greater than the rate of inflation, as indicated by the increase in the CPI index for the preceding five years as designated by the Authority.

Such adjustments may be approved by the President-Executive Director upon determination that:

- i. the development is operated in a manner consistent with Authority standards as defined in the CHFA mortgage regulatory agreements, and the development's management plan,
- ii. the development is meeting all its financial obligations including the funding of replacement reserves in accordance with a current capital needs assessment and funding schedule,
- iii. the development is maintained in good physical condition based on the Authority's observation and management reviews, and
- iv. the development will be able to continue to meet all low income tenant profile requirements delineated in the regulatory agreement and low income housing tax credit extended low income use agreement,
- v. the annual audited financial statement and current year operating budget reflect a projected net operating income and future cash flow which provides a minimum debt service coverage ratio of 1.15, and

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- vi. the Ownership entity is not in default, financial or otherwise, under the terms and conditions of any other financing or assistance provided by the Authority.

Developments for which the Owners are eligible for incentives offered through the Authority's Multifamily Troubled Debt Restructuring under Section II.D of these Procedures and the Section 8 Affordable Housing Preservation Program under Section II.E of these Procedures or any other similar program are not eligible under this Section.

The President-Executive Director shall notify Owners of the provisions of and effective date of this Subsection and shall evidence Owners agreement through appropriate amendments to Authority mortgage documents.

### **A-9. Related Facilities**

(a) The Authority may provide financing for related facilities that are necessary, convenient, or desirable in providing safe and adequate housing financed by the Authority. Section 8-243(d) of the General Statutes defines "related facilities" as commercial, office, health, welfare, administrative, recreational, community, and service facilities incidental and pertinent to housing as determined by the Authority. If any related facility is to be leased, the Authority shall have the right to disapprove any proposed use, tenant, or provision of the lease.

### **A-10. Market Study**

(a) The Authority requires an independent, professional market study on all proposed developments. The Authority, at its discretion, may accept a market analysis prepared by an acceptable alternative source provided the sponsor is a not-for-profit and the proposed development is 15 units or less.

(b) The Authority staff will select and commission a Market Analyst from an approved list developed by the Authority. The applicant will make payment in advance for the market study, which payment is nonrefundable. The Market Analyst will prepare the analysis based on guidelines and standards established by the Authority.

(c) The Market Analyst will select and commission a report which provides complete data profile and analysis of the primary and secondary market areas in sufficient detail for the Authority to make a determination of the feasibility of the proposed development.

(d) Market studies must include data and analysis, conclusions and recommendations on the proposed development, and must be inclusive of the following areas in narrative form:

(1) Demographic Analysis - This component reveals historic patterns as well as project trends usually for the nation, state and the market or sub-market area of the proposed development, and must address population growth or decline characteristics, income and family composition profiles.

(2) Economic Profile and Projections - This analysis evaluates the current economy of the nation, state and market or sub-market, reveals prior trends, provides a current economic profile and supplies projections on employment characteristics and retail purchasing patterns for the proposed development. At the market or sub-market level, the analysis should evaluate the effects, if known, of major changes in the local economy (plant closing, new

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facility construction, governmental actions, etc.) which could impact the feasibility of the proposed project.

(3) Comparables and the Competition - The competitive strength of existing and proposed developments likely to impact the subject property is examined. The competition is evaluated on performance, actual or expected, and the level of amenities and other characteristics versus those in the proposed development. Current and historic occupancy levels, absorption or "lease-up" performance, the rental rate structure, and amenity package are among key descriptive characteristics of the competition which should be described and evaluated.

(4) Trend Analysis and Growth Rate of Residential Rents - This analysis must provide an in-depth evaluation of rental rate trends for the Northeast, state and market areas; project residential rates for the areas discussed; compare the proposed rental rates with the area trends and provide a pro forma of rent increases and expected vacancy for the proposed development including commercial income and analysis if applicable.

(5) Market Support Area Analysis - The range of market support for the proposed project throughout one or more defined areas is evaluated. Area(s) of the project's market strength are defined in terms of competing facilities, existing or proposed, and other factors such as the transportation system, physical constraints and demographic shifts.

(6) Absorption Analysis - This evaluation usually includes an estimate of maximum development potential and a rate at which absorption can be expected to occur between commencement of lease-up and sustaining occupancy. Qualified rents and market rents should be analyzed separately and/or distinguished.

(7) Site and Development Program Analysis - The geographic location and the physical characteristics of the site, proposed architecture and site planning, the amenity package, mix of proposed units and uses, and other intrinsic features required to allow the development to compete at its maximum potential in the defined market must be evaluated.

(8) Summary - The Market Analyst must include a summary date with conclusions and recommendations on the feasibility of the proposed development, supported by the documentation provided within the report.

(9) Exhibits - The market study is expected to include charts, graphs, rent grids, maps and photographs of the subject property, neighborhood, city and region.

(10) Qualifications - The Market Analyst must possess the educational background, academic affiliations, professional and business experience necessary to provide the analysis required. The Analyst must also provide a statement to the Authority attesting to no conflict of interest.

(11) Assumptions and Limiting Conditions - All assumptions and limiting conditions upon which the Market Study is predicated must be clearly defined.

(12) Market Study Updates - The Authority reserves the right to require current information prior to the approval of the proposed development.

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### A-11. Appraisal

(a) Independent professional " as is " and "to-be-developed" appraisals are required on all proposed multifamily developments. The policy may be modified for not-for-profit sponsored developments of fifteen (15) units or less at the Authority's discretion.

(b) The Authority staff will select and commission an appraiser from an approved list developed by the Authority. The applicant will pay for the appraisal(s) in advance. The appraisal fee is non-refundable. The appraisal will be prepared according to industry standards and within guidelines and standards established by the Authority. All appraisals will be reviewed, analyzed and approved by the Authority's staff appraiser. The Authority reserves the right to require additional appraisals.

(c) The selected appraiser will perform the task to determine the highest and best use of the property under current zoning.

(d) The appraisal will be performed by a Connecticut state certified general appraiser and at a minimum, conform to the Uniform Standards of Professional Appraisal Practice (USPAP). A minimum of two-thirds of the comparables shall be non government-assisted properties. Government-assisted property will include property acquisitions financed by HUD, FmHA, the Authority and DOH programs.

(e) The appraisal will include the following methods of valuation:

(1) Direct Sales or Market Value Approach - This approach is based on the proposition that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility;

(2) Income Approach - This procedure in appraisal analysis converts anticipated benefits ( dollar income or amenities ) to be derived from ownership of property into a value estimate. Anticipated future income and/or reversions are discounted to a present worth figure through the capitalization process; and

(3) Cost Approach - This approach in appraisal analysis is based on the proposition that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility as the subject property.

(f) All appraisal reports will be in a narrative format, properly signed and include, where applicable, the following:

(1) Site Review - A physical inspection of the subject property and the surrounding areas;

(2) Legal Constraints - An inspection of relevant local municipal records, interviews with local officials regarding assessments, flood hazard zone, deed restrictions, non-conforming land use, zoning requirements, etc.;

(3) Description of Improvements - A thorough description of existing improvements;

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- (4) Demographic Analysis - An analysis of census data, economic and demographic research and projections, including appropriate populations, age, household, income and residential development patterns;
- (5) Market Overview - A brief overview of the market feasibility of the proposed
- (6) "As-is" Value - An opinion based on "as-is" condition of the subject property at market value;
- (7) Exhibits - A report inclusive of maps, plans and photographs of the subject property, neighborhood, municipality and region;
- (8) Assumptions and Limiting Conditions - All assumptions and limiting conditions upon which the valuation is predicated must be clearly identified;
- (9) Qualifications - The appraiser must be a Connecticut state certified general appraiser, possess the educational background, academic affiliations, professional and business experience necessary to provide the analysis required. The appraiser must also provide a statement to the Authority attesting to no conflict of interest; and
- (10) Appraisal Updates - The Authority reserves the right to require current information in writing prior to the approval of the proposed development.

### **A-12. Processing**

- (a) The following documents are reviewed:

- (1) Apartment Loan Analysis and Estimate of Replacement Cost;
- (2) financial statements and qualifications of the development team members as identified in the matrix;
- (3) market study and appraisal;
- (4) cost breakdown and Authority exploded cost breakdown;
- (5) plans and specifications.

- (b) The following items must be complete before the proposal is considered:

- (1) conditions, if any, of site approval letter are met;
- (2) market study and appraisal are acceptable;
- (3) the financial capability of the members of the development team is acceptable;
- (4) plans and specifications are approved;
- (5) the threshold criteria of the CHAS, as incorporated into the Five Year Housing Advisory Plan for the State of Connecticut, are met;
- (6) estimated operating expenses are approved;
- (7) real taxes are satisfactorily substantiated;
- (8) construction costs are approved;
- (9) Apartment Loan Analysis and Estimate of Replacement Cost have been prepared;
- (10) any additional item(s) which the Authority may require.

(c) The Authority's Board of Directors shall review and/or revise at least annually the application fee schedule for the Multi-Family Housing Programs.

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## A-13. Underwriting Standards

(a) The Authority will establish Loan Underwriting Standards in the following areas and will review and revise the standards as market and economic conditions dictate.

(1) Debt Service Coverage Ratio - The minimum coverage for all uninsured projects is 1.15. Depending on market and location characteristics, this coverage may increase to 1.25 unless determined otherwise by the Authority to further public policy objectives. FHA-insured loans - 1.10 or FHA standard, whichever is higher; commercial space- 1.20 relative to the NOI of the commercial space.

(2) Determination of Value -

a) The market value established in the "as-is" appraisal will be one consideration of facts and circumstances used to determine the value to be financed for the real property.

b) The "to-be-developed" value using the Market and Income Approaches will be used to determine the potential underwriting risk.

(3) Loan to Value ("LTV") - The loan to value ratio must not exceed 80 percent of the lesser of the appraised market value or total replacement cost. This ratio may be increased to 90 percent to further public purpose objectives. Not-for-profit developers may be financed at a higher LTV ratio. For the purpose of this section, loan is defined as that which is self-amortizing.

(4) Total Project Cost - The total project cost will be based on the Authority's cost data base adjusted for time, type, extraordinary features, location, public purpose and type of sponsor.

(5) Vacancy Assumptions -

a) Residential Properties: The vacancy rates will be based on the percentage of the Area Median Income ("AMI") of the intended tenant population as of the stabilized year:

AMI	Vacancy Rate
0 - 50%	2.5 - 5%
51 -80%	5.0 - 10%
81% + Year 1	10 - 15%
Year 2	10 - 12%
Year 3 +	10%

b) Commercial Properties:

Year 1	20%
Year 2	15%

Allowance may be made for pre-leased tenants with AAA credit ratings.  
Rates may be adjusted upward depending on market conditions.

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(6) Income Trends - To determine the loan limitation, income will be forecasted on an annual basis to the stabilized year as determined by the Authority based on relevant information. Commercial space income will be determined by the market analysis. Other documentation, including Consumer Price Index ("CPI") and other indices, may be considered.

(7) Expense Trends - To determine the loan limitation, expenses may be forecast as determined by the Authority based on relevant information. Other documentation, including CPI and other indices, may be considered. Tax abatement and/or deferment agreements approved by the governing body of the municipality are the only acceptable sources of lower tax trends.

(8) Maximum Loan Amount - The maximum permissible loan for all projects is equal to the LEAST of the following based on market, location and other conditions:

- a) An amount based on applicable statutory limits;
- b) An amount based on the loan to value ratio;
- c) An amount based on the debt service coverage ratio; and
- d) The annual debt service divided by the applicable annual loan constant.

(9) Rent Limitations - To the extent economically feasible, the maximum rents will be set at a level affordable to the targeted income group(s) to be served and will be determined by market analysis and experience and the need to serve low income groups.

(10) Reserve for Replacement - The project will establish a Reserve for Replacement Account in an amount of \$250 per unit per year, which will be increased annually by the percentage of the rent increase. The minimum balances, applicable to all Authority-financed developments, before consideration of suspension, will be Elderly projects - \$1000.00 per unit, and Family projects - \$1,500.00 per unit. Reserve plus interest or other earnings thereon shall at all times be under the sole control of the Authority.

(11) Working Capital Escrow Deposit - A good faith and working capital escrow deposit is required at initial closing in an amount equal to one percent of the total development costs and an amount equal to six months' debt service. The deposit must be in cash or in the form of an irrevocable and unconditional letter of credit in form and content acceptable to the Authority. If there is an identity of interest between the mortgagor and the general contractor and the completion of assurance is in the form of a letter of credit or other security, the working capital escrow deposit may be posted at substantial completion prior to the reduction of the completion of assurance letter of credit or other security.

a) Proceeds of this deposit may be applied to meet the cost of:

- (1) Equipment purchases and rent-up of the entire development;
- (2) Mortgage reduction, if required;
- (3) Correction of a latent construction defect discovered or developed subsequent to the normal latent defect period for discovery;
- (4) Replacement of any building component or appliance in the event that the Reserves for Replacement are insufficient;

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- (5) Replacement or correction of any loss to the development not otherwise covered by insurance;
- (6) Capital improvements as deemed necessary by the Authority;
- (7) Assisting or improving marketing of the dwelling units within the project;
- (8) Providing additional amenities to the project;
- (9) Completing the project;
- (10) Benefiting the project;
- (11) Paying principal, interest and other charges on the mortgage;
- (12) Paying taxes;
- (13) Paying assessments;
- (14) Paying property insurance premiums and other operating expenses;
- (15) Paying liens and legal expenses; and
- (16) For any other reason the Authority deems appropriate to cure a problem with the project.

b) The deposit will not be used if the net income of the development is insufficient to cover such costs and expenses and, in any case, will not be used without the prior written approval of the Authority.

c) The working capital escrow must remain in place for two consecutive years of deficit free operation and not less than one year after final closing. Reduction of the working capital escrow may take place in three annual increments as approved by the Authority. In the event the project returns to a deficit operation, reductions of the working capital escrow shall cease and will resume only after two subsequent years of deficit free operation. The initial reduction of the working capital escrow is contingent upon receipt of an acceptable supplemental cost certification by both the mortgagor and general contractor.

d) Cash working capital escrow - the mortgagor will not be entitled to receive any distribution of interest on the deposit while held by the Authority, but shall be entitled to the accrued interest and any unused portion of the deposit at the end of the deposit period.

e) This requirement may be modified or waived for not-for-profits; e.g. this escrow may be included in the development budget.

f) The Authority at its sole discretion may enter into an agreement with a development's syndicator or other party to post the working capital letter of credit. The amounts and terms of release of said escrow shall be no less than those stated above.

(12) Operating Deficit Letter of Credit - The Authority may require a separate Operating Deficit Letter of Credit based on its sole determination of risk.

(13) Type of Financing - Both recourse and non-recourse financing may be used, as determined by the Authority. Non-recourse loans will become recourse if the borrower defaults including the failure to close in a timely fashion and/or utilization of the income and assets of the property for other than permitted operating expenses, debt service or capital improvements to the property.

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(14) Developer's Equity - A mortgagor must have a minimum continued financial interest in the development of at least two (2) percent of the total development cost for no less than ten (10) years.

(15) Mortgage Increase - May be considered if the increase was unforeseen and unavoidable, due to circumstances beyond the developer's control, to correct a government-mandated condition or in the Authority's or the public's interest as determined by the Authority. The loan must be re-underwritten with the same standards and criteria as the original loan and submitted to the Board of Directors for approval.

(16) Savings Allocation - a balanced Sources and Uses statement must be presented and approved by the Authority prior to the Initial Closing. All hard and soft cost savings will be treated as follows ( to the extent permitted by applicable federal and/or state law):

a) Early Completion Savings - To the extent that such savings are directly attributable to early completion, 50 percent of the savings in interest, insurance and real estate taxes may inure to the benefit of the developer provided such savings may not exceed 2.00 percent of the originally approved total for site and building improvements or the same total as adjusted for change orders approved by the Authority.

b) Hard Cost Savings - Hard cost savings, recognized by the Authority, may inure to the developer provided such savings may not exceed five percent (5.00%) of the originally approved total for site and building improvements or the same total as adjusted for change orders approved by the Authority;

Any early completion and hard cost savings which may not benefit the developer due to the above limitations shall be added to the balance of the soft cost savings. The developer may enter into an agreement with the general contractor to share cost systems within the limitations cited within.

c) Soft Cost Savings - The balance of soft cost savings will be treated as follows:

(1) First, to fund lease up and marketing expenses, as certified to and recognized by the Authority, in excess of the amount shown on the originally approved budget, provided such expenses are incurred for a period not exceeding one hundred and twenty (120) days following substantial completion as determined by the Authority.

(2) Second, to fund the pledge back of the approved developer's fee to the extent that the total of such fee shall not exceed the applicable percentage of final Total Development Costs ("TDC") recognized by the Authority.

(3) Finally, the balance of cost savings will be treated as follows:

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(a) Fifty percent (50%) of the savings shall be applied to reduce the final amount of low Income Housing Tax Credits (if applicable) allocated to the development; and

(b) Of the remaining amount, half would go to the benefit of the developer to increase its fee by an additional two and a half percent (2.50%) of TDC and the balance to benefit the development or to the Authority and/or the Department of Housing to reduce their mortgage loans as their interests may appear.

(4) Any excess syndication proceeds to the development above the amount reflected in the approved sources and uses at the time of initial closing, shall insure one hundred percent (100%) to benefit the development or to the Authority and/or Department of Housing to reduce their mortgage loans as their interests may appear.

(17) Loan Term and Rate - The loan term may be up to 40 years, with prepayment subject to the Authority's procedures and the Connecticut General Statutes. When the Authority and State of Connecticut Department of Housing (DOH) financing is involved, the loan term will be coterminous. The interest rate may be fixed or variable. Except for the Authority and DOH financing, with prior written approval of the Authority junior financing may be allowed on a case-by-case basis and may be in the form of an unsecured or secured loan, as determined by the Authority.

(18) Mortgage Insurance - At the Authority's discretion, mortgage insurance or a form of credit enhancement may be required.

(19) Non-Profit Developer's Overhead - For projects involving not-for-profits, the developer's overhead is 2.5 percent of the TDC up to a maximum of \$125,000 and is a mortgageable item which is cost certified. To the extent feasible, the minimum amount will be \$25,000.

(20) Developer's Fee - To the extent economically feasible, in projects involving not-for-profits, the developer's fee will not exceed 12.5 percent of the TDC. For projects involving for-profit entities, the developer's fee shall not exceed 15 percent of the TDC. For properties in default and which are being purchased from an insured depository institution such as FDIC or RTC, or from a receiver or conservator of such institution, a fee on the acquisition (net of land) of up to 6.67 percent shall be based on the lesser of the as-is appraised value or purchase price. The developer's fee is a non-mortgageable item, except in the case of DOH non-syndicated projects.

(21) General Contractor's Overhead, Profit and General Requirements -

a) Overhead and profit are not to exceed 12 percent of the total construction cost.

b) General Requirements shall be part of the cost certification process and may not exceed four percent (4%) of the contract price. An additional percentage may be permitted for extraordinary circumstances as determined by the Authority.

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(22) Cost Certification - The mortgagor's and general contractor's cost certification is required within 60 days of the project's substantial completion date. A cost certification will be submitted which complies with guidelines prescribed in HUD Handbook 4470.2. Costs actually paid and costs to be paid (within 45 days) will be documented by Construction Standards Institute line item showing the payee and the amount paid, signed and dated by the General Contractor and certified to by an independent C.P.A. The certified costs will be reconciled to the project's adjusted costs and unwarranted certified costs will be disallowed. If payables are noted on the cost certification, the contractor and mortgagor must submit supplemental cost certifications. Public bid construction contracts are exempt from this requirement. All costs must be certified in accordance with Authority procedures.

(23) Syndication Costs - The costs of syndication shall not exceed a rate acceptable to the Authority based on fees as a percentage of syndication proceeds. Syndication costs include all direct and indirect costs incurred in securing syndication proceeds ( e.g., would include not only any fee paid to the syndicator, but the developer's legal costs).

(24) Bridge Loan Financing - All sources of funds must be available to the development. Funds derived from the syndication of Low Income Housing and/or Historic Tax Credits must be available either from the syndication proceeds or bridge loan financing in an amount and manner satisfactory to the Authority. If there is an identity of interest between the lender and either the syndicator, the owner, or the developer, the rate must be a commercially reasonable rate. The interest cost of financing the developer's fee will not be recognized. An exception may be granted in the case of a developer's fee for a not-for-profit sponsor.

(25) Restrictive Covenant - All projects will have a restrictive covenant identifying the term of affordability as defined in the CHAS.

(26) Affirmative Fair Housing Marketing - All developments seeking Authority financing will execute an "Affirmative Fair Marketing Contract". The contract will be coterminous with the Mortgage Note.

(27) Small, Minority and Women-Owned Set-Asides - The mortgagor and general contractor for all developments seeking Authority financing will execute an Equal Opportunity Certification and a Minority Hiring Agreement.

(28) Additional Underwriting Policy Considerations - The Authority may not entertain proposals which are deemed undesirable whether because of purpose, source of repayment, collateral, buyer's performance and/or management. The following are examples of proposals considered undesirable and may not be considered:

a) As provided herein, unless otherwise specifically approved by the Board of Directors of the Authority, proposals filed by parties with nonperforming loans with the State Department of Housing (DOH) or the Authority or other governmental loans or obligations, or such parties have been found to have misused DOH or Authority or other governmental funds;

b) As provided herein, financing to entities whose principals are principals of other entities which either are currently delinquent on Authority, DOH or other governmental loans or obligations, or have a history of delinquencies of any nature;

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- c) Financing not in the public interest;
- d) Bridge loans;
- e) Financing solely for the purpose of making interest payments to the Authority, DOH or another lender;
- f) Financing for projects that have external requirements but are lacking a legally binding financial commitment to cover the costs of those requirements;
- g) Loans supported by collateral of unproven marketability; and
- h) Financing which does not adhere to the Authority's policies or meet the underwriting criteria.

(29) Modifications - The President-Executive Director may modify or exempt not-for-profit sponsored developments of fifteen (15) units or less from the requirements of Sections A-10, A-11, and A-13(a) subsection (3). The President-Executive Director may modify or exempt not-for-profit sponsored developments regardless of size from the requirements of Section A-13 (a) subsections (11), (14) and (24). Requests for a modification must be in writing from the applicant. Such modification/exemption may be granted for the following reasons, including, but not limited to:

- a) CHAS Class I projects;
- b) Service to very low income households;
- c) Minimal risk to the Authority;
- d) Conflicting public policies; and/or
- e) Acceptable financial capacity and proven track record.

(30) Waivers - The Board of Directors of the Authority may waive any of the non-statutory requirements. Requests for a waiver must be in writing from the applicant. Such a waiver may only be granted if there is sufficient evidence that:

- a) The literal enforcement of such provisions provide for exceptional difficulty or unusual hardship not caused by the applicant;
- b) The benefit to be gained by the waiver clearly outweighs the detriment which will result from enforcement of the requirement;
- c) The waiver is in harmony with conserving public health, safety and welfare; and
- d) The waiver is in the best interest of the State or the Authority.

### **A-14. Approval and Issuance of Mortgage Commitment**

(a) The proposal is submitted to the Mortgage Committee of the Board of Directors of the Authority for its consideration. If the proposal is approved by the Committee and adopted by the Board of Directors, the mortgage commitment is issued. If the proposal is rejected, the developer will be notified and the processing will stop. If the proposal is accepted,

- (1) commitment is forwarded to developer;

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- (2) acceptance and return of commitment with appropriate fee by developer within stated time are required for acceptance;
- (3) the President - Executive Director executes two copies of the commitment; one copy will be retained by the Authority and the other will be returned to developer with a copy of the initial closing checklist;
- (4) an initial closing date is scheduled when all items required for the closing are submitted and approved.

### **A-15. Preparation for Initial Closing**

(a) Prior to the advance of any funds to the mortgagor from the mortgage loan, the Authority shall require that the mortgagor deliver to the Authority the fully executed mortgage deed, note, and other documents required by the mortgage commitment or deemed by the Authority to be necessary to assure that the proposed housing will be completed and shall require that the mortgagor deliver to the Authority the following in a form and upon terms acceptable to and approved by the Authority, without limitation by reason of enumeration:

(1) a construction contract with the general contractor with a guaranteed maximum price including not less than a one-year warranty for construction defects (the Authority requires a minimum of 15 percent of the construction contract to be performed by the General Contractor's own work force. The Vice-President -Housing Development and Mortgage Finance may grant an exemption to the Authority-financed developments if, in his or her opinion, the exemption will be in the best interest of the public);

(2) the Authority requires Housing Consultants to execute an agreement which states terms, conditions and scope of services. Housing Consultants will be paid from the developer's fee;

(3) the Authority requires Resident Training Consultants to execute an agreement which states terms, conditions and scope of service. Resident Training Consultants will be paid from the developer's fee;

(4) all building and other permits, licenses, waivers, variances, and approvals necessary for the construction of the proposed housing development;

(5) a mortgagee's title policy in the amount of the mortgage loan, with a company and in a form acceptable to the Authority, containing (i) endorsements as may be required by the Authority and (ii) no exceptions other than those approved by the Authority;

(6) a currently dated survey within the standards of Class A-1 or A-2 of the code of Connecticut Association of Land Surveyors showing all existing buildings and improvements, lot and building lines, encroachments, watercourses, wetlands, significant topographical features, easements, zoning classification, and other pertinent matters required by the Authority;

(7) the Authority requires that the mortgagor provide a standard AIA architect's contract with standard supplemental conditions, with the design architect and supervising architect,

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together with evidence of their professional liability insurance coverage in amounts established by the Authority for each proposed housing development;

(8) solvency certificates stating that the financial condition of the mortgagor has not suffered any material adverse change from the date of the mortgage loan application;

(9) the Authority requires owners and management agents to execute a standard Management Agreement. The Management Agreement includes a management plan and tenant selection plan to be submitted and approved by the Authority prior to execution of the Management Agreement;

(10) complete cost breakdowns from the general contractor and mortgagor and from such other contractors and material suppliers as the Authority may require, in each case together with certifications that the proposed housing development or portions thereof can be built at the cost shown in said cost breakdowns;

(11) allocation of funds for the development prepared by staff and accepted by the developer;

(12) Construction Progress Schedule/Cash Flow Analysis;

(13) (a) an opinion of an attorney for the mortgagor stating without limitation that the mortgagor is validly organized and existing, has authority to perform its obligations under the loan commitment, is bound by the mortgage note and other closing documents, and has no defenses to any action or proceeding to enforce any closing documents and that all applicable zoning, building, safety, ecological and environmental laws, codes, and regulations have been complied with and all appeal periods have expired, building permits have been legally issued, and construction in accordance with the plans, drawings, and specifications is authorized thereby and such other opinions as the Authority may require;

b) opinions from an attorney for the general contractor and the management company stating without limitation that the entity represented is validly organized and existing, has authority to perform its obligation under the loan documents required to be executed by it, and is authorized to do business in the state and such other opinions as the Authority may require;

(14) mortgagor shall obtain a Phase I environmental site assessment in form and in content and issued by an entity satisfactory to the Authority. In the event the Authority determines it necessary or appropriate, mortgagor shall obtain a Phase II environmental site assessment in form and content and issued by an entity satisfactory to the Authority. Mortgagor shall provide the Authority with a description of the historical use of the Property. Mortgagor shall certify to the effect that, to the best of its knowledge after due inquiry, there is no hazardous waste, asbestos or inground oil tanks on the Property, and the soil, structures and ground water are not contaminated. Mortgagor will promptly notify the Authority of the discovery of any hazardous waste, asbestos, or inground oil tanks, or contamination of soil, structures or ground water on the Property during the construction of the Development, or at any other time; and if any are discovered on the Property, Mortgagor shall take the appropriate actions to clean up the Property, including such actions as may be required by the Authority. **MORTGAGOR SHALL ACKNOWLEDGE THAT IF ANY HAZARDOUS WASTE, ASBESTOS, INGROUND OIL TANKS, OR**

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CONTAMINATION OF SOIL, STRUCTURES OR GROUND WATER ARE DISCOVERED ON THE PROPERTY PRIOR TO THE INITIAL CLOSING, THE COMMITMENT SHALL BE VOID AB INITIO. IN THE EVENT THAT ANY HAZARDOUS WASTE, ASBESTOS OR INGROUND OIL TANKS OR CONTAMINATION OF SOIL, STRUCTURES OR GROUND WATER CAN BE REMOVED OR OTHERWISE BECOME OR BE RENDERED SAFE IN ACCORDANCE WITH LAWS AND REGULATIONS OF ALL GOVERNING BODIES HAVING JURISDICTION THEREOF THE AUTHORITY MAY IN ITS SOLE AND EXCLUSIVE DISCRETION ISSUE A NEW COMMITMENT FOR THE DEVELOPMENT. Mortgagor shall certify to the Authority that all applicable state and federal laws and regulations concerning identification, treatment, and disposal of hazardous waste, asbestos, and inground oil tanks, or contaminated soil, structures or ground water have been complied with. Mortgagor may provide the Authority with a statement in affidavit form describing the nature of any and all hazardous waste, asbestos, and inground oil tanks, or contaminated soil, structures or ground water and that the same has been removed in accordance with all applicable local, state and federal laws and regulations. Such affidavit shall set forth the specific consents and approvals required by said local, state and federal laws and regulations. The Authority at its discretion may require environmental hazard insurance prior to initial closing.

(15) fire and other hazard insurance policies providing for such coverage, terms, deductibles, insureds, and loss payees as the Authority may require;

(16) assurance of utilities;

(17) an agreement to expend not less than such percentage of the proceeds of the mortgage loan for the acquisition, or reconstruction of residential real property as may be required by the Authority to insure that any interest on bonds, bond anticipation notes, and other obligations issued by the Authority remains exempt from taxation;

(18) agreement that advances of mortgage proceeds shall be made no more frequently than once per month unless otherwise prior written agreement of the Authority is obtained;

(19) documents satisfactory to the Authority evidencing the commitment of any federal, state, or local government, or agency thereof, to provide any insurance, subsidy, grant, tax abatement or other assistance for the benefit of the proposed housing development; and

(20) any other conditions contained in the commitment letter.

(b) All documentation is reviewed, and if approved, an initial closing is scheduled. Closing is held at the offices of the Authority, conducted by the Vice President - General Counsel's office and a preconstruction conference is held before construction commences. Terms of the discussion include:

- (1) starting and completion dates and progress schedule;
- (2) supervisory Architect's requirements and procedures;
- (3) testing of materials;
- (4) copies of the approved shop drawings available to the staff;
- (5) job meeting;
- (6) general contractor's requisitions;

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- (7) field order;
- (8) change orders;
- (9) on-site sign;
- (10) cost certification;
- (11) correspondence;

### **A-16. Construction Period**

(a) During the construction period, the staff should review and report on the progress of construction. The following exhibits must be submitted to the Authority as part of the requisition:

- (1) contractor's requisition, listing of inventory and copies of invoices for inventory;
- (2) invoices for soft costs;
- (3) lien waivers, as required.

(b) Current title endorsement is provided by owner. Requisition is reviewed for completeness and accuracy. If acceptable, advance of funds is authorized.

(c) Supervising architect submits proposed change order to the Authority for consideration after review by staff.

### **A-17. Substantial Completion/Permission to Occupy**

(a) Staff evaluates the development and determines items which are incomplete and reports this information. The owner is advised of incompletes, and substantial completion date, as determined by the Authority.

(b) Permission to occupy form is submitted to the Authority together with architect's punch list and copy of certificate of occupancy. Based upon the certificate of occupancy date and recommendations of staff, a permission to occupy date is established and the mortgagor is advised.

### **A-18. Cost Certification**

(a) The costs shown on the general contractor's certificate of actual cost are reviewed. After approval, the maximum mortgage letter is prepared and executed by the President - Executive Director and sent to the mortgagor.

### **A-19. Final Closing**

(a) Prior to final closing the following shall be accomplished:

- (1) maximum mortgage letter shall be signed by the owner, acknowledging acceptance thereof;
- (2) final advance is prepared;
- (3) property insurance shall be in place and paid for;
- (4) escrow amounts shall be determined;
- (5) as-built survey shall be approved.

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(b) The office of the Vice President - General Counsel is responsible for review of legal documentation submitted by mortgagor's counsel, preparation of any additional documentation required and conduct of the final closing.

### **A-20. Subsequent to Final Closing**

(a) Items of delayed completion are to be completed by the date recited in the escrow agreement. The supplemental cost certification by both the mortgagor and general contractor must be submitted in a timely manner. Receipt of an acceptable supplemental cost certification by both the mortgagor and general contractor is required before any reduction in the working capital escrow.

### **A-21. Annual Physical Observation Report**

(a) Staff makes annual observation reports of all Authority-financed multifamily developments when complete and under management.

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