

**NEW HAMPSHIRE HOUSING FINANCE AUTHORITY  
UNDERWRITING AND DEVELOPMENT POLICIES FOR MULTI-FAMILY FINANCE**

**Purpose:** These underwriting standards are intended to be an internal procedures document to assist New Hampshire Housing Finance Authority (“Authority”) staff in the evaluation and analysis of applications seeking a commitment of one or more Authority administered financing sources for the acquisition, rehabilitation, and/or new construction of affordable multi-family housing and related facilities.

*UNDERWRITING CRITERIA & LOAN TERMS*

**Type of Loans:** The Authority offers permanent, deferred payment, construction, construction/permanent and tax credit bridge loans. All loans must be in compliance with the program rules for the source of the loan proceeds as well as with the requirements of NH RSA 204-C.

**Type of Projects:** Multi-family living units which are newly constructed or substantially rehabilitated and acquisition financing for the purpose of preserving affordability. In general, the Authority will not provide financing for acquisitions only without a definitive rehabilitation, preservation or development plan.

**Loan Amounts:** No minimum. In general, the maximum loan amount will be limited by the availability of the funding sources identified.

**Term/Amortization Schedule:** Permanent loans shall not exceed 40 years. In general, construction loans shall not exceed 18 months. Tax credit bridge loans are amortized in accordance with the scheduled capital contributions of investor equity.

In general, deferred payment loans are non-amortizing. However, based on the financing requirements of a particular project, the Authority may charge and accrue interest on deferred payment loans. Deferred payment loans are due and payable in full at the expiration of the mortgage - typically 30 years. Repayment on deferred payment loans is made from available surplus cash, if any. In general, repayment will be required on an annual basis as a project is reviewed for regulatory compliance and it is determined through the project financial statements or audits that the project has produced surplus cash. This repayment will be based on a percent of the annual surplus cash (typically 25-50%) and will reduce the loan by the amount of accumulated payments resulting from surplus cash. Repayments will be applied first to accrued interest, if any.

**Recourse/Non-Recourse Debt:** Loans are non-recourse debt secured by a mortgage and security agreement.

**Debt Coverage Ratio:** The forecasted initial year DCR shall be at a minimum, no less than 1.15. In the case of a project supported by a long-term rent subsidy contract or other extenuating circumstance, the initial year DCR will be adjusted accordingly. A higher DCR may be used in cases of small or special use projects where there is higher than normal risk. In general, the following minimum DCR range will apply for such projects:

<u>Project Size (# of units)</u>	<u>Minimum DCR</u>
1-5	1.50
6-10	1.40
11-15	1.30
16-20	1.20
> than 20	1.15

As part of the subsidy layering analysis, the Authority will utilize this DCR table to ensure that a project receives no more capital subsidy than is necessary to make the project financially feasible.

**Loan to Value Ratio:** The maximum loan to value ratio shall be 90%, except for projects owned or sponsored by a non-profit or limited equity cooperative for which the maximum LTV shall be 95%. Non-amortizing or deferred payment loans may be excluded from the LTV calculation.

**Interest Rates:** Interest rates and terms are set in accordance with Authority policy established for various funding programs. The Authority will commit to a maximum interest rate on the mortgage at the conclusion of a favorable project review and financial underwriting.

#### *LOAN SECURITY*

**Security:** First Mortgage or First Leasehold Mortgage as security for all permanent and construction loans. Subordinate Mortgage or Subordinate Leasehold Mortgage as security for all subordinate loans. For projects involving low income housing tax credits, an Assignment of the Investor's Capital Contributions is to be provided as security for all permanent, construction and tax credit bridge loans. Construction loans will require additional security in accordance with the Authority's Construction Loan Program for Rental Housing Program Rules (HFA:110).

All projects receiving financing must maintain income and rent targeting requirements in accordance with the respective financing program rules. Restrictions will be enforced by either one or a combination of the following agreements: Mortgage Regulatory Agreement, HOME or other Land Use Restriction Agreement, and Land Use Restriction Agreement for Low Income Housing Tax Credits.

#### *PROFORMA REQUIREMENTS*

**Project Rents:** In most cases, maximum rents for a project are based on household income levels that are adjusted annually by HUD. In general, rents will be underwritten at the lesser of (1) 95% of the maximum allowable tax credit rent for low income households to be served or (2) 90% of the market rent in the area as determined by independent third party reports, i.e. market study, rent comparability study, appraisal. However, the final determination of a market rent will be exclusively determined by the Authority.

**Other Income:** In general, the Authority will not recognize other income in excess of 2% of the gross rental income unless adequately supported by market or other data.

**Vacancy Rates:** In general, vacancy rates will be underwritten at 5%. Vacancy rates greater than or less than 5% may be used based on the risk analysis performed by the Authority. Vacancy rates may be adjusted for out years based on the expected maturing of a project. In no case will the vacancy rate be underwritten at less than 2% unless the property has a long- term rent subsidy contract.

**Operating Expenses:** Project sponsors are required to submit operating expenses which have been reviewed as reasonable by the professional management agent who will be managing the project. The Authority will further determine the reasonableness of these expenses based on the Authority's experience with similar properties.

**Income and Expense Trending:** Trending assumptions are based on historical information and projections for future changes and may vary by project type and location. Trending assumptions will necessarily require adjustment from time to time. Rent trending will reflect historic changes in median area incomes and local market conditions, but will typically not exceed 2% on an annual basis. Operating expenses will be trended at 3% throughout the projection period. If evidence exists for a different rate of change for a specific expense category, such as a binding contract for services, then the developer should submit that information to the Authority for consideration.

Project income and expenses will be projected out a minimum of 15 years, and the project should be able to fund all operating expenses and debt service payments for at least a 12 year projection period utilizing the Authority's trending assumptions. Any project with projected operating deficit during the 12 -15 year projection period may be required to provide additional funds to the capitalized Operating Reserve to cover the projected shortfall amount.

#### *DEVELOPMENT BUDGET*

**Construction Budget:** A professional cost estimator must prepare the construction budget. This same person must certify that the construction estimates and trade-item breakdowns are complete and accurate. The construction budget must reflect reasonable costs giving consideration to the scope of the project and market conditions.

In general, the construction hard cost contingency shall be no less than 5% of the construction amount for new construction projects and 10% for rehabilitation projects.

**Soft Cost Budget:** The Authority will review the soft cost budget to determine that the budget is both reasonable and adequate. Budget line items may be adjusted by the Authority to levels actually incurred by other similar projects financed by the Authority within the year prior to the sponsor's application, unless variances are satisfactorily justified by the sponsor.

**Developer Fee:** The maximum allowable developer fee shall be calculated in accordance with the Authority's Developer Fee Schedule in Appendix A of the Qualified Allocation Plan. Fees for consultants doing those tasks typically done by a developer, regardless of whether the applicant is a for-profit or non-profit entity, are to be included as part of the calculated developer fee. Extraordinary development consulting services may, at the sole discretion of the Authority, be paid for outside of the developer fee.

Up to 33% of the Developer Fee, net of any developer fee loan, may be paid at construction loan closing with the balance held for payment until after construction completion. Modifications to this payment schedule may be made on a case-by-case basis to reflect specific requirements of a project's equity investor provided that, at the Authority's discretion, sufficient performance-based incentives are maintained to achieve timely construction completion, final closing and rent-up of the project.

**Reserves:** In general, the Authority will hold all reserve and escrow accounts. For projects that are only financed with HOME funds, the Authority will allow the first mortgagee to hold all reserve and escrow accounts with the exception of Replacement Reserve. For projects that receive USDA RD financing, the Authority will defer to RD reserve requirements and allow RD to hold or manage all reserves.

In most cases, the following reserves will be required to be funded no later than completion of construction:

**Operating Reserve:** In general, a minimum amount equal to four to six months of the project's annual operating budget (excluding debt service) must be capitalized and held for the term of the mortgage loan.

**Replacement Reserve:** In general, a minimum amount equal to \$300 per unit per year must be capitalized for most project types. Additional reserves may be required based on an Authority commissioned Capital Needs Assessment (CNA) or other analysis completed on the property. In general, the annual rate of deposits will increase by 3% annually.

**Rent-up Reserve:** The sponsor is required to submit an absorption schedule detailing the estimated amount of the Rent-up Reserve to be capitalized. The Rent-up Reserve shall fund marketing, operating, and debt service deficits during the lease-up period. An Authority commissioned market study will be relied upon to help determine the projected lease-up period. The reserve shall remain in effect until three consecutive months of stabilized occupancy are achieved. Any remaining funds in the Rent-up Reserve after three consecutive months of stabilized occupancy are achieved shall be used to pay down the balance of any Authority deferred payment loan or remitted to the Replacement Reserve in the absence of a deferred payment loan.

**Insurance:** An amount equal to one full year's property and liability insurance premium meeting the Authority's requirements will be paid at loan closing. The necessary construction period insurance premium shall be paid in full at loan closing. The Authority will be named as loss payee on all policies. Other types of insurance will be required as the Authority deems necessary.

**Real Estate Tax Escrow:** At loan closing sufficient funds shall be escrowed to pay the estimated amount of real estate taxes at the next billing date, less any amounts estimated to be escrowed for real estate tax payment from rental receipts for the period between the closing and the real estate tax billing date.

#### *DEVELOPMENT TEAM REQUIREMENTS*

**Developer/Owner:** The Authority requires that the developer/owner demonstrate sufficient previous experience in the development of projects of similar scale and complexity to the proposed project. The Authority requires resumes for all members of the development team. The Authority, in its sole discretion, may require the developer/owner to include a qualified development consultant as part of the development team.

The developer/owner must possess a satisfactory credit history and adequate financial capacity to complete and own the project. The Authority will require tax returns and financial statements for the previous three years (preferably audited and/or prepared by a CPA).

**Limited Partner:** The Authority requires approval of a Limited Partner who acquires or holds an interest of 25% or more in the Partnership.

**General Contractor:** The General Contractor shall be selected in a method consistent with the New Hampshire Housing Finance Authority Design and Construction Standards (HFA:111).

**Architect:** The architect must be licensed and registered in the State of New Hampshire and must meet all the requirements of HFA:111.

**Management Agent:** The management agent must have demonstrated experience with the management of subsidized housing and be acceptable to the Authority. The Authority must also approve the Management Agreement, Management Plan, Tenant Selection Plan, Affirmative Fair Housing Marketing Plan, and Lease or Occupancy Agreement.

**Clerk of the Works:** The Authority recognizes the importance of an Owner's Representative to monitor project construction. If requested by the Developer/Owner, the Authority may, at its discretion, approve the inclusion of a Clerk of the Works in the Development Team, and a corresponding line-item expense in the development budget.

The Clerk of the Works must demonstrate extensive construction experience, and must be familiar with current industry standards, materials, and methods. The Clerk's salary shall not exceed prevailing industry wage rates for this position.

#### *GENERAL REVIEW REQUIREMENTS*

**Appraisal:** Acquisition costs which exceed the appraised value are generally not eligible to be financed except under extenuating circumstances which must be stated in writing as part of the application. The appraisal must comply with all requirements of the Uniform Standards for Professional Appraisal Practice (USPAP). In general, the Authority will approve all appraisers and commission all appraisal reports.

**Environmental:** A satisfactory Phase 1 environmental report is required. The report must meet ASTM Standard E 1527-97 for Environmental Site Assessments. If hazardous conditions exist, the Authority will require an adequate mitigation plan and budget to cure such conditions. Older buildings planned for renovation should have asbestos and lead testing completed (unless a total renovation is planned). In general, the Authority will commission all environmental reports. For HUD programs subject to 24 CFR Part 58 environmental review procedures, additional documentation may be required to complete the environmental review record, including, but not limited to, historical inventory form and archaeological study.

**Site Survey:** A site survey, performed by a New Hampshire licensed land surveyor, is required for all properties. The survey must meet requirements necessary to remove the survey exception from the title insurance policy for the property.

**Market Study:** In general, an independent, comprehensive, and professional market study will be required for most projects and be commissioned by the Authority. At a minimum, the market study shall include the following:

- A statement of the competence of the market study provider;
- A description of the proposed site including site and location considerations relevant to the marketability of the proposed project;

- A description of the proposed development, including the number of units by type and size, and proposed rents and utility allowances. Include information on:
  - o Number of bedrooms;
  - o Number of bathrooms;
  - o Unit and common area square footage;
  - o Structure type;
  - o Unit and project amenities and services.
  - o All income and rent restrictions imposed on the project.
  
- Geographic definition and analysis of the primary and secondary market areas;
  
- Demographic analysis of the number of households in the market area that are income eligible and can afford to pay the rent;
  
- Analysis of housing conditions in the market area, including:
  - o Current competitive rental inventory assessing the same information as was described for the proposed project. This inventory should include all rental inventory, not simply subsidized or below-market developments;
  - o Recent global market experience, including:
    - .. Occupancy levels and trends
    - .. Absorption experience of recently completed projects
  - o Characteristics of projects under construction or in planning.
  
- A comparative analysis, by unit type, of the proposed property with comparable properties in the market area. This analysis should include:
  - o A map showing locations of comparable properties and those under development
  - o Rent levels
  - o Vacancy levels
  - o Rent concessions, if any
  - o Adjustments for:
    - .. Design, location and condition
    - .. Unit equipment/amenities
    - .. Site equipment/amenities; and
    - .. Utilities
  
- Expected market absorption of the proposed rental housing, including capture rate analysis of target populations. The analysis should include the absorption experience of recently completed projects, with particular emphasis on the most similar projects.

**Rehabilitation/Construction  
Risk Management:**

The Authority must review and approve all plans and specifications in accordance with HFA:111. The Authority may also require and commission a CNA prior to review of a project application in order to help determine the necessary scope of work to be completed.

*OTHER AUTHORITY POLICIES & BUSINESS TERMS*

**Anti-Displacement and  
Relocation Policy:**

Involuntary permanent displacement of tenants is strongly discouraged. The Authority reserves the right to reject any application that fails to minimize permanent displacement of tenants. Any proposed temporary and permanent

relocation of tenants should generally meet standards equivalent to the federal Uniform Relocation Act (URA). Projects using federal funding resources such as HOME must fully comply with the URA. Because of tenant noticing requirements, it is essential that a relocation plan be submitted at the time of application for funding if any temporary or permanent relocation is anticipated.

**Tenant Selection Policy:** Any project financed in whole or in part with Authority funds, or other federal resources, shall not provide a preference for selecting residents from a specific community or group of communities.

**Special Needs Housing:** The Authority will review all financing applications in accordance with the Authority's Special Needs Housing Program Rules (HFA:112). In addition to the Authority's minimum underwriting standards imposed herein, analysis will also include, but not be limited to, review of the service provider and its capacity to provide both financial and program services to the proposed project. The Authority will also review the social programs necessary to support the tenants for the proposed project.

**Distributions:** All Authority financed projects require a limitation on distributions to the borrower. The annual distribution to a for-profit borrower may not exceed 12% of the borrower's initial equity in the project. Initial equity is the total development cost of the project (including any allowed developer fee) as determined by the Authority at project completion, less the amount of all project development funds requiring a security position except deferred developer fees. Any excess cash available after the distribution payment to the borrower shall be deposited in a residual receipts account controlled by the Authority and available for project related purposes as authorized by the Authority. Any balance remaining in this account after mortgage pay-off will be retained by the Authority.

Non-profit borrowers are allowed to receive a sponsor fee that is based on gross project income and available for distribution only if cash exists in the project operating account at the end of each fiscal year after the payment of all other expenses including debt service. In general, the maximum fee that a non-profit borrower may withdraw following any fiscal year shall be 4% of gross project income except that if the Authority funds 25% or less of a project's total development cost, then the fee that may be withdrawn shall be increased to 8%.

**Surplus Cash:** Surplus cash is any income remaining after payment of operating expenses (including debt service) and necessary payments to escrows and reserve accounts and any developer fee loan, but before owner distributions as allowed under the distribution limits cited above.

In general, the Authority will impose additional stipulations on surplus cash when it provides a subordinate or deferred payment loan. An interim repayment provision will be required on an annual basis as a project is reviewed for regulatory compliance and it is determined through the project financial statements or audits that the project has produced surplus cash. This repayment will be based on a percent of the annual surplus cash (typically 25-50%) and will reduce the loan by the amount of accumulated payments resulting from surplus cash. Repayments will be applied first to accrued interest, if any.

**Investor Servicing Fees:** The Authority must approve all Investor Servicing Fees as reasonable. In general, Investor Servicing Fees, if approved as reasonable at the sole discretion of the Authority, may be paid in priority to any Deferred Developer Fee Loan and Deferred Payment Loan.

**Developer Fee Loan:** In general, the Authority will not allow developer fee loans to exceed 50% of the maximum developer fee allowed as determined at project funding commitment. The Authority will not allow interest rates to be charged on Developer Fee Loans and any other Owner or Sponsor Loan when there is an Authority Deferred Payment Loan made to the project.

**LIHTC Equity:** On all LIHTC projects that receive Authority financing, the Authority will require that at least 20% of the Limited Partner's LIHTC equity be made available during the construction period.

**Holdbacks:** In general, the Authority will holdback 20% of its capital subsidy amount until construction completion in projects where it is not the primary construction lender and/or will not be the first mortgagee on the permanent loan.

*FEES & CHARGES*

**Application Fee:** \$500

**Commitment Fee:** For loans financed through the issuance of bonds, a commitment fee equal to 1% of the bond financed mortgage amount up to a maximum fee of \$25,000 is payable in full at the time of commitment.

**Loan Origination Fee:** For loans financed through the issuance of bonds, a loan origination fee equal to 1.25% of the mortgage amount, less the amount of the commitment fee already paid, is due at loan closing. For Authority financed construction loans, a loan origination fee equal to 1% of the loan amount is due at loan closing.

**LIHTC Projects**  
(paid in addition to other fees)

**Tax Credit Monitoring Fee:** \$600 per tax credit unit is to be paid prior to issuance of 8609.

**LIHTC Application Fee:** 7% of the final allocation amount. 1% is due at application with the balance due at application for 8609. For loans financed through the issuance of tax-exempt bonds, a LIHTC application fee equal to 7% of the anticipated LIHTC dollar amount is payable with 2% due at the issuance of a Determination Letter and 5% payable at application for 8609.