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

TABLE OF CONTENTS

~~Rev. ~~5~~/1/20~~20~~5/9/2018~~

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

Part 1 Purpose

1.01 Purpose

These underwriting standards are intended to be both a guide for developers that are considering financing with New Hampshire Housing Finance Authority (the Authority), and 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, refinancing, and/or new construction of affordable multi-family housing and related facilities.

Part 2 Loan Terms and Conditions

2.01~~:~~ Type of Loans

The Authority offers permanent, deferred payment, construction, construction/permanent, energy efficiency, and ~~tax credit~~ bridge loans. All loans must be in compliance with the program rules (found on the Authority website) for the source of the loan proceeds as well as with the requirements of NH RSA 204-C.

2.02 Types of Projects

The Authority finances ~~M~~multi-family residential unit~~s~~ and ~~mixed use~~mixed-use projects which are newly constructed or substantially rehabilitated, and acquisition financing for the purpose of preserving affordability. Types of projects also include refinancing of existing affordable properties, and market rate properties where a portion of the units will be made affordable as part of the deal structure. In general, the Authority will not provide financing for acquisitions only without a definitive rehabilitation, preservation or development plan.

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. The developer/sponsor and~~/~~ owner shall not discriminate against Housing Choice voucher holders or refuse to lease a rental unit to a family solely because of the family’s participation in the Section 8 tenant-based program, and must comply with the Fair Housing Act.

2.03 Project Age-Restrictions

In general, age-restricted projects are defined as projects that house people age 62 or over:

- For projects that receive a reservation of Low Income Housing Tax Credits (LIHTC) under the Authority's Qualified Action Plan, age restricted projects are defined in HFA 109:08(A):
  > *"For a project to be defined as age-restricted, all units must be restricted to households whose members are all age 62 or over."*
- For projects that have Risk Sharing insurance, age restricted projects are defined under 24 CFR §266.200(g):
  > *"Elderly Projects. Projects or parts of projects specifically designed for the use and occupancy by elderly families. An elderly family means any household where the head or spouse is 62 years of age or older, and also any single person who is 62 years of age or older."*
- For all other age-restricted projects, exceptions will be allowed in cases where a pre-existing use restriction dictates a different age restriction and/or provides for a combination of elderly and disabled populations

~~For underwriting purposes, projects that are defined as age-restricted shall house persons intended for and solely occupied by persons whose ages are 62 years old or older, which applies to all members of the household. In some limited instances, the Authority will allow an age-restricted project to house persons where at least one person is age 55 years old or older. In the case where a project has a federal program through USDA Rural Development, or the U.S. Department of Housing and Urban Development, which is specifically designed and operated to assist elderly persons as defined in those federal programs, those agencies will govern the age restriction of the project's tenants.~~ For all general occupancy properties, there shall be no limitations for tenant age.

2.04 Loan Amounts

No minimum loan amounts are required for construction and permanent loans. Deferred payment loans from the Authority's capital subsidy programs are limited as follows:

- The lesser of $50,000 per unit or $2.5 million total for general occupancy projects using 9% Low Income Housing Tax Credits ("LIHTC"); the lesser of $45,000 per unit or $2 million total for age-restricted 9% projects.

- A maximum of $~~60~~100,000 per income and rent restricted unit for tax exempt bond financed projects ~~using 4% LIHTCs~~, with no maximum overall dollar amount but limited by the availability of funds per the Authority's program plan (i.e. annual funding budget).

- In general, the maximum loan amount for construction, deferred, or permanent loans will be limited by the availability of the funding sources identified.

- Authority fees and charges~~FEES & CHARGES~~ - p~~P~~lease refer to the Authority's program-specific term sheets on the Authority's website for fees and charges related to Authority loans.

2.05 Term/Amortization Schedule

A. Permanent Loans

~~In general, p~~Permanent loans shall have loan terms of not less than 17~~20~~ years, with amortization of payments not less than 30 years. Loans may have other term and amortization periods if sold to a Government Sponsored Entity (GSE) or other similar institution. The loan terms such as interest rate and fees will be determined based upon the loan's associated Authority program. Specific loan terms can be found on the program's term sheet. For balloon-structured loans, refer to Appendix B for additional terms and conditions.

B. Construction and~~-~~ Bridge Loans

Construction loans ~~and bridge loans~~ shall have terms ~~up to~~no greater than 24 ~~months, and~~months, and bridge loans shall have terms that correspond to the project's pay in schedule. Both types of loans will have~~are~~ interest only payments during their term. Construction and ~~tax credit~~ bridge loans are due and payable in conjunction with a ~~permanent loan and/or equity~~loan take-out source.

C. Deferred Payment Loans

~~Deferred payment loans are generally non-amortizing~~The Authority may provide deferred payment loans that are generally junior to the first mortgage and require no monthly payments during the term of the loan. ~~However, based on the financing requirements of a particular project, t~~The Authority in its sole discretion may elect to charge ~~and accrue~~ interest on these deferred payment loans. Deferred payment loans are due and payable in full at the expiration of the deferred loan mortgage in accordance with the Authority's Deferred Loan Maturity Process policy~~document~~ (located in the Forms and Rules section of the Authority website), which is ~~–~~ typically 30 years. Repayments on deferred payment loans are~~is~~ made from available surplus cash (~~,~~reference Section 2.12 for additional information). Deferred payment loans are also referred to as "capital subsidy."

2.06 Recourse/Non-Recourse Debt

Loans are non-recourse debt secured by a mortgage and security agreement.

2.07 Interest Rates

Loan ~~I~~interest rates and terms are set in accordance with Authority policies~~cy~~ established for ~~various~~ their respective funding programs. Projects will be underwritten with an estimated interest rate, which is subject to change when final pricing is completed.

For projects that use Authority subsidy, if final pricing results in a lower rate relative to underwriting, the Authority reserves the right to increase the permanent loan amount to either reduce the subsidy amount, the deferred portion of the developer fee, or to cover escalating development costs, ~~so long as~~provided that the projected Debt Coverage Ratio (DCR) remains within the limits defined in the Underwriting Standards.

2.08 Security

F~~F~~irst m~~M~~ortgage or f~~F~~irst l~~L~~easehold m~~M~~ortgage as security for all permanent and construction loans. In connection with a project that has an existing first mortgage, alternative forms of security, such as LIHTC contributions or cash, will be considered for construction/bridge loans. A ~~S~~subordinate m~~M~~ortgage or a s~~S~~ubordinate l~~L~~easehold m~~M~~ortgage is required as security for all subordinate loans. For projects involving LIHTCs, an a~~A~~ssignment of the i~~I~~nvestor's c~~C~~apital c~~C~~ontributions 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~~ and Bridge Loan Program Rules (HFA ~~:~~110).

All projects receiving financing must maintain income and rent targeting requirements in accordance with the respective Authority program financing program rules. Restrictions will be enforced by either one or a combination of the following agreements: NHHFA ~~Mortgage~~ r~~R~~egulatory a~~A~~greement, HOME Investment Partnerships Program (“HOME”), ~~/~~federal Housing Trust Fund (“HTF”) or other l~~L~~and u~~U~~se r~~R~~estriction a~~A~~greement (“LURA”), HOME/HTF written agreement, or a LIHTC~~and~~ ~~lLand uUse rRestriction aAgreement~~LURA ~~for LIHTCs~~.

2.09 Floodplain Development

The Authority will not fund projects proposed in the 100-year floodplain. Exceptions will be allowed ~~, except~~ in situations where a portion of a site not containing the housing is in the floodplain but will remain either undisturbed or used as recreation, and/or ~~or~~ existing buildings where all residential access and living/mechanical areas will be above the 100-year flood elevation.

~~–~~For projects that have current HUD assistance, and are located in a special flood hazard area ~~zone~~ (100-year floodplain), the Authority will provide financing so~~as~~ long as Federal Emergency Management Agency (FEMA) flood insurance has been maintained and is current on the property.

Projects within the FEMA 500-year floodplain cannot ~~–If there will be units are~~ commit~~ted~~ units to the 811 PRA Program based on current federal regulations.~~, the project site cannot be located within the Federal Emergency Management Agency (FEMA) 500-year floodplain.~~

2.10 Distributions

Authority financed projects may require a limitation on distributions to the borrower depending on ~~such considerations as project management, physical and financial condition of the project, terms set forth by HUD or other Federal agencies, and the presence of Authority deferred payment loans or subsidy.~~the funding source. The annual distribution to a borrower ~~will be~~is ~~established~~ governed in accordance with ~~rules established by the Authority (reference~~ HFA ~~:~~204~~:~~.12 – Distribution Limitations and Performance Indicators~~)~~.

2.11 Equity Take-outs

In general, the Authority ~~may~~will allow equity take-outs when the equity take-out is used for purposes that further the mission of creating and/or preserving affordable housing. Equity take-~~-~~outs may be granted by the Authority for HUD Risk Sharing~~e~~ projects based upon a HUD Risk Sharing~~e~~ waiver being approved, and certain underwriting conditions being met. Equity take-outs from new or refinancing projects where there is Authority capital ~~soft money~~subsidy included in the debt stack will be considered on a case-by-case basis.

2.12 Surplus Cash

See HFA ~~:~~204~~:~~.04 - Definitions for definitions and method for calculating surplus cash.

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 by Authority staff 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 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. ~~If a project has multiple deferred payment loans, each loan will be paid from surplus cash in relative proportion to the size of each loan at origination.~~ The Authority reserves the right to prioritize its loan source repayments when multiple sources are used.

2.13 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 plan for temporary and/or permanent relocation of tenants should both meet minimum relocation standards and attempt to minimize the relocation impact on tenants. Projects using federal funding such as HOME or HTF must fully comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (or "URA"). The Authority requires that a relocation plan, and all necessary notices to tenants under the URA, if applicable, be submitted with the project application if any temporary or permanent relocation is anticipated.

Part 3 Construction Requirements

3.01 Builder's Fees

Builder's fees will follow the schedule set forth in HFA 111 Design and Construction Policy Rules (see HFA ~~, sections HFA~~ 111.07 Procurement).

~~In total, a builder's overhead, profit, and general conditions may not exceed 14% of the hard construction cost excluding bonds and building permits.~~

~~Where there is an identity of interest between the builder and developer, the sum of the developer's fee plus the builder's overhead, profit, and general conditions may not exceed 18% of the total development~~

~~cost.~~

3.02 Assurances of Completion

For all HUD assisted construction projects, including projects that are HUD Risk Sharing insured, the Authority will monitor construction advances to meet HUD's requirements for assurance of completion. These requirements include, but are not limited to, the following:

- Continued coverage of ~~bonding~~surety and insurance as required by HFA 111.14 Bonding and Insurance.
- Completed requisition package, including the architect's and construction inspector's approval for payment, and a GC/CM's mechanics lien affidavit.
- A ~~-~~clear title insurance disbursement endorsement for the requisition.

Prior to requesting the Risk Sharing final endorsement, the Authority will ensure that the project conforms to the Project Closeout section of the Authority's Technical Design and Construction Standards.

3.03 Renewable Energy

The addition of renewable energy to a project must done in a manner that meets the requirements of federal funders, such as the IRS and HUD~~, that may be taking part in a project~~. Sponsors should be aware of the underwriting and regulatory requirements for adding additional income streams to a project post construction loan closing. If ~~a source of~~ renewable energy is added ~~post~~after the construction loan closing, the developer/sponsor should ~~contact~~inform the Authority as soon as possible ~~immediately~~ so that ~~Authority~~ staff can review~~approve~~ the renewable energy procurement and re-underwrite the project to ensure that ~~Authority~~ subsidy layering requirements have been met.

Part 4 Development Team

4.01 Developer/Sponsor~~Owner~~

The Authority requires that the developer/~~owner~~ sponsor and development team demonstrate sufficient previous experience in the development of projects of similar scale and complexity to the proposed project. While loans to the project are non-recourse, the Authority will review the professional and ~~underwrite~~ financial capacity of developer/sponsors~~owners~~ as part of the project~~'s financial~~ review process. Some or all of the following may be required~~based on the historical relationship between the developer/owner and the Authority~~:

- ~~The developer/owner must possess a satisfactory credit history and adequate financial capacity to complete and own the project. The Authority will require from the sponsor the following items when underwriting a proposed Authority financed project:~~

- Resume of the developer/sponsor, highlighting his/her/their development experience.
- Resumes for all professional team members including~~, but not limited to,~~ architects, civil engineers,~~ sponsor,~~ CM/GC's, the management company, and ~~consultants~~any consultants used in developing the project~~.~~

~~Developer tax returns and f~~Financial statements (preferably audited and/or prepared by a CPA) or their equivalent for the previous three years ~~(preferably audited and/or prepared by a CPA)~~ showing a satisfactory payment history and adequate financial capacity to complete and own the project.

- Other qualifications as deemed appropriate by Authority staff.

The Authority, in its sole discretion, may require the developer/sponsor~~owner~~ to ~~include~~ hire a qualified development consultant as part of the development team if the developer/sponsor~~owner~~ lacks the experience in developing ~~low income~~affordable housing.

4.02 Limited Partner

The Authority requires that it approve any limited partner who acquires or holds an interest of 25% or more in the Partnership.

4.03 General Contractor/Construction Manager

The general contractor or construction manager shall be selected in a method consistent with the Authority's Design and Construction Policy Rules (see HFA ~~:~~111.07 Procurement).

4.04 Architect/Engineer

The architect and/or engineer must be licensed and registered in the State of New Hampshire and must meet all the requirements of both HFA~~:~~ 111 and the Authority's Technical Design and Construction Standards.

4.05 Management Agent

The management agent must have demonstrated experience with the management of federally subsidized housing and be acceptable to the Authority. All Authority projects will require the management agent to provide a~~The Authority must also review the Management Agreement,~~ m~~M~~anagement p~~P~~lan, t~~T~~enant s~~S~~election p~~P~~lan, a~~A~~ffirmative f~~F~~air h~~H~~ousing m~~M~~arketing p~~P~~lan, -and a ~~and~~ l~~L~~ease or o~~O~~ccupancy a~~A~~greement:

- For refinancing or occupied construction, the above documents are required in their final form for the construction or refinance closing.

- For new construction, drafts of the above documents are required at construction closing. Final versions are required prior to occupancy.

An executed management agreement, using the current management agreement on the Authority website, is required for all loan closings where Authority financing is used.
~~prior to closing. Management agreements will be signed using the Authority management agreement template found on the Authority website.~~

4.06 Clerk of the Works

The developer may, at its discretion, hire a qualified third party to serve as a c~~C~~lerk of the w~~W~~orks or owner's representative. The ~~Clerk's~~ third party's fees must be paid out of the developer's fee as outlined in the Technical Design and Construction Standards.

4.07 Development Consultant

The developer/~~owner~~sponsor, at ~~his/her~~its discretion, may hire a development consultant to assist in the application and development of the proposed project. The Authority recognizes that services provided by a development consultant would normally fall under the developer/~~owner~~sponsor role; therefore, the development consultant must be paid from the ~~developer/owner's~~ developer fee.

4.08 ~~Other/~~Specialized Consultants

The Authority recognizes that certain projects require ~~specialized~~the assistance ~~in the form~~ of ~~a~~technical consultants~~, such as for solar, energy, historic credits, or passive house,~~ ~~where~~with expertise ~~the level of knowledge required for construction is beyond what~~that ~~a~~ the typical ~~developer~~development team ~~would have~~could not reasonably be expected to possess. Examples of such technical consultants include solar, historic credits, or passive house experts. In such situations the Authority in its sole discretion may allow some consulting fees to be included in the project budget, outside of the developer fee. ~~The Authority will allow these additional consultants under certain circumstances where it deems a specialized consultant necessary.~~ The sponsor will be required to submit the consultant's~~a~~ resume and the developer-consultant contract for Authority review prior to closing. Consulting fees should generally be billed on an hourly basis and not as a percentage of the total cost of construction or TDC.

In those situations where the Authority has allowed fees for certain consultants to be paid for outside of the developer fee, Authority staff may limit the fee in terms of a dollar amount or percentage of TDC. – ~~Consultants that the Authority deems necessary can be paid for outside of the developer fee.~~

Part 5 Underwriting Requirements

5.01 Application

Projects seeking Authority financing or LIHTCs must use the current version of the underwriting application located on the Authority website. All applicable t~~t~~abs should be filled out as required for Authority financing to be considered.

5.02~~1~~ Sources

A. Loan to Value Ratio

The maximum loan to value ratio (“LTV”) for Authority amortizing debt 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%. Value will be determined by an Authority-commissioned appraisal. In limited circumstances, the Authority may consider an appraisal commissioned by a third party, listing the Authority as an intended user.

B. Developer Fee

a) The Developer Fee is not a guaranteed or automatic budgetary figure and must be approved by the Authority within the context of each project. The fee will be strictly limited, and with all LIHTC projects, any violations of the developer’s certification of development cost will ~~be forwarded to the IRS using IRS Form 8823.~~ follow the rules set forth in the Qualified Allocation Plan.

~~a)~~b) For purposes of calculating the maximum developer fee allowed, the Authority does not distinguish between the developer fee and fees for consultants doing those tasks typically done by a developer, regardless of whether the developer/sponsor is a for-~~-~~profit or non-profit entity. “Consultant fees” counted as developer fee do not include normal professional fees such as architectural, engineering, historic, energy, or appraisal fee, as outlined in section 4.08.~~.~~

~~b)~~c) For projects that have LIHTCs as a source, the Authority will follow the development services agreement for the developer fee pay in schedule. For all other projects where there is an eligible 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.

~~c)~~d) In order for a developer to earn a Developer fee, a minimum of $6,000/unit of rehabilitation per project is required.

For construction projects where construction management is used, the Authority reserves the right to withhold the developer fee at loan closing until the developer has provided the necessary documentation to satisfy the GMP requirement in HFA 111.08 –Construction Management. ~~Where there is an identity of interest between the builder and developer, the sum of the developer’s fee plus the builder’s overhead, profit, and general conditions (CM fee) may not exceed 18% of the total development cost.~~

e)

~~d)~~f) Where there is an identity of interest between the builder and developer, and construction costs exceed $2.5M, the sum of the developer's fee plus the builder's overhead, profit, and general conditions (CM fee) may not exceed 18% of the total development cost. ~~.~~ Where there is an identity of interest between the builder and developer, and construction costs are equal to or less than $2.5M, the sum of the developer's fee plus the builder's overhead, profit, and general conditions (CM fee) may not exceed 20~~18~~% of the total development cost.

~~e)~~g) Maximum Developer Fee Calculation:

i. The maximum fee in any case shall~~ absolutely~~ be no more than 15% of total development costs.

ii. Projects primarily related to acquisition, with renovation/new construction (including contingency) equaling less than 50% of total development costs not including land is $6,300~~000~~ per unit.

iii. General Occupancy projects:
$22,000~~1,000~~ per unit for first 10 units;
$~~17,000~~18,000 per unit for next 30 units;
$~~14,000~~15,000 per unit for next 60 units;
$6,500~~000~~ per unit for any unit above 100.

iv. Age-restricted projects~~ (senior designation)~~:
$~~19,000~~ 20,000 per unit for first 10 units;
$~~15,000~~ 16,000 per unit for next 30 units;
$13,500~~000~~ per unit for next 60 units;
$6,5~~0~~00 per unit for any unit above 100.

~~For projects that have a more than 25% of its units greater than 1 bedroom, developers can add an additional $5,000 per unit for those units above 25%.~~

~~f)~~h)Projects financed through the issuance of tax~~-~~ exempt bonds using 4% LIHTC's are eligible for a developer fee of up to 15% of the total development cost ~~less~~ (not including the developer fee). However, the difference between the developer fee that would have been otherwise allowed under ~~this~~ section 7~~6~~ and the developer fee calculated at 15% of total development cost must be loaned back to the project in the form of a d~~D~~eveloper f~~F~~ee l~~L~~oan.

C. Seller/Sponsor Loans

1. A sponsor/seller loan is defined as~~means~~ a loan, independent of any developer fee loan, provided by the developer/general partner of a project that is receiving Authority financing. Sponsor/seller loans generally take the form of deferring the land cost at closing, or cash provided to the project by the sponsor that is then repaid over time according to procedures defined in recorded project regulatory documents and consistent with applicable program rules and Authority policy. If a seller/sponsor loan takes some form other than cash, the value represented as the principal of the loan must be an eligible cost in the development budget as approved by the Authority.

2. Seller/sponsor loans are permitted as amortizing and/or deferred payment loans. Interest rates may be permitted on such notes with Authority approval however, rates may not exceed the lesser of the 10-year Treasury Note Rate plus 250 basis points or the rate on the long-term amortizing debt. Payments made towards principal and/or interest on deferred payment seller/sponsor loans may only be paid from surplus cash.

3. If the source of funds for an Authority deferred payment loan is the Authority's operating fund, no interest may be charged on seller notes.

D. 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.

E. Holdbacks

~~In general, t~~The Authority will hold back 2~~10~~% of any HOME or HTF capital subsidy amount until the HOME or HTF tenant beneficiary data is submitted. ~~until 75% of construction has been completed.~~Other sources of capital subsidy, such as the Authority's operating fund, or Affordable Housing Fund, may allow for the full amount of subsidy to be available at closing.

F. HOME/HTF Underwriting

1. The Authority will underwrite projects funded with HOME ~~Investment Partnerships ("HOME")~~ ~~HOME~~ and/or ~~federal Housing Trust Fund ("HTF")~~ funds ~~HTF funds~~ using 24 CFR Part 92 and 93, as well as~~,~~ HUD's published guidance. However, the Authority, in its sole discretion, will only allow certain eligible costs to be paid by these funds as outlined below.

2. HOME and HTF~~Investment Partnerships ("HOME") and federal Housing Trust Fund ("HTF")~~ funds will only be used to pay or reimburse costs related to acquisition, construction, architecture, engineering ~~architecture, engineering~~ ~~other related professional services~~, project legal costs (related to the project and closing but not organizational legal costs such as costs to create the ownership entity or syndication costs)~~-~~, and developer fee. Other soft costs, non-professional fees, financing fees, and reserve contributions are not eligible to be paid using either HOME or HTF funds. However, for certain projects where the majority of the funding sources for a project are HOME and/or HTF funds, the Authority reserves the right to pay additional eligible costs, pursuant to 24 CFR 92 and 93, at its discretion.

3. HOME and HTF loans will be underwritten to the following terms:
   (a) HOME Loans:
      1. Underwriting term: 20 years
      2. Loan term: ~~up to~~ 3~~2~~0 years

3. LURA term: ~~minimum of~~ 20 years

(b) HTF Loans:

1. Underwriting term: 30 years
2. Loan term: 30 years or the term of the LURA, whichever is longer
3. LURA term: minimum of 30 years

~~2.~~4. HOME and HTF loans will ~~A~~begin on the date of completion established by the Authority and entered into HUD's Integrated Disbursement Information System~~)~~. ~~For HOME loans only: the affordability period may be reduced on certain projects, based on the HOME units' level of rehabilitation.~~

~~1. Other soft costs, non-professional fees, legal costs, financing fees, and reserve contributions are not eligible to be paid using either HOME or HTF funds.~~

~~When the majority of the funding sources for a project are HOME and/or HTF funds, the Authority reserves the right to pay additional eligible costs, pursuant to 24 CFR 92 and 93, at its discretion.~~

5.03~~2~~ Income/Operating Expenses

A. Project Rents

1. In most cases, maximum rents for a project are based on household income levels that are adjusted annually by HUD. ~~Generally r~~Rents will be underwritten at the lower of: (a) 98% of maximum allowable LIHTC~~tax credit~~ rent; (b) 98% of maximum allowable HOME or HTF rents (for units assisted with ~~projects funded by~~ HOME and/or HTF) or (c) 90% of market rent in the area as determined by third party reports, i.e. market study, rent comparability study, or appraisal. The final determination of a market rent will be ~~exclusively~~ determined by the Authority in its sole discretion.

~~2.~~ For projects with a commitment of project based rental assistance ~~provided by HUD's Office of Public and Indian Housing and administered by a Public Housing Authority or Housing Finance Authority~~, rent associated with units for which rental assistance is committed ~~shall be underwritten using the payment standard set by the entity committing the rental assistance unless the permanent debt for the project is insured through the HUD Risk Sharing program in which case those units for which rental assistance is committed~~ shall be underwritten using the lesser of: (a) the payment standard set by the entity committing the rental assistance, or ~~(b) 98% of maximum allowable~~ LIHTC~~tax credit rent; or~~ (b~~c~~) 100% of market rent in the area as determined by third party reports.

~~3.~~

2. ~~3. For preservation transactions where the existing affordable housing property has a Housing Assistance Payment (HAP) contract regulated by HUD's Office of Multifamily Housing, rent associated with units covered by the HAP contract will be underwritten at the lesser of: (a) the Gross Rent as determined in accordance with the applicable program rules; (b) 100% of market rent in the area as determined by third party reports.~~

3. For projects that are financed with an USDA RD loan, special financing circumstances may apply, particularly if there is RD project-based rental subsidy. In general, RD rents will be

underwritten similarly to Project-Based Section 8 rents as outlined above. If two financing/rent programs have similar restrictions, the more restrictive program rules will be used.

4. For projects committing units to the Section 811 Project Rental Assistance program to serve individuals with severe mental illness, rents will be underwritten at the greater of: (a) the Fair Market Rent as defined by HUD or (b) 98% of the achievable market rents in the area as determined by a market study prepared by a third party market study provider. Authority staff reserves the right to underwrite a portion of the 811 units based on the underlying program rents, as outlined above (5.03.A.1). Developers/sponsors must execute a Memorandum of Understanding ~~to~~ agreeing to commit units to the 811 PRA Program.
4. ~~For projects committing units for individuals with disabilities (811 units) with an executed MOU between the sponsor, the Authority, and New Hampshire Department of Health and Human Services, 811 unit rents will be underwritten based upon the program's unit payment standards. the unit's underlying rent restrictions, as the voucher payment standard is not guaranteed for a unit due to the potential unavailability of 811 tenants.~~

5. Non-tenant based~~Commercial~~ rents, such as a roof lease for cellular, commercial space, or solar/hydroelectric income, that are pledged to a project as a source of income will require a comparative market analysis performed by ~~by~~ a realtor or other qualified industry ~~similar real estate~~ professional to ~~justify~~ substantiate the proposed rental income stream. Generally, pledged rents will require a guarantee in the form of a master lease or similar arrangement whereby the term of the guarantee, at a minimum, coincides with the term of Authority amortizing debt (as applicable)~~, if applicable~~. The Authority reserves the right to ~~to apply a "haircut"~~reduce the ~~of up to 50% of p~~ projected pledged~~commercial~~ rents in order to ensure project feasibility if the pledged rent asset fails to perform as anticipated ~~in the event that commercial space is not leased~~.

6. "Gross rent" for the purpose of underwriting includes contract rent ~~and~~ net of utility allowances but does not include any other fees.

7. The Authority reserves the right to review each project for unique conditions in order to ensure compliance with program rules.

B. Other Income

In general, the Authority will not recognize other income in excess of 2% of the gross rental income unless adequately supported by a market analysis or other data such as a third-party report.

C. Vacancy Rates

In general, vacancy rates will be initially 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.

D. Operating Expenses

Project sponsors are required to submit operating expense~~s~~ budgets 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, and~~properties and may require that adjustments to the operating budget be made ~~to~~ in a project's application.

The Authority, in its sole discretion, will approve a reasonable investor servicing fee to be carried in the project operating budget. Any investor servicing fees not approved by the Authority, and/or any deferred fees from prior years, will be required to be paid from surplus cash after any required Authority cash flow loan payments.
~~its~~

E. Management Fee

Projects that use Authority permanent financing will be allowed to submit their application with the sponsor's estimated management fee amounts. However, Authority staff reserves the right to adjust these based on the Authority's experience with projects of similar size and construction. Authority staff may require supporting documentation from the sponsor and/or the management agent as backup for any proposed management fee.

~~E.~~F. Income and Expense Trending

1. Trending assumptions are based on historical information and projections for future changes and may vary by project type and location. Trending assumptions will require adjustments from time to time. Rent trending will reflect historic changes in area median income (AMI) and local market ~~conditions, but~~conditions but will typically not exceed 2.5% on an annual basis. Trending for incomes other than project rents may be adjusted upward or downward based on Authority determination. Operating expenses will be trended at 3% throughout the projection period with the exception of property tax expense which may be trended at the same rate as income if the developer/sponsor confirms intent to opt for assessment under NH RSA 75:1-a or NH RSA 79-e. 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.

2. Project income and expenses will be projected for~~out~~ 20 years unless program regulations require a longer outlook. ~~, and t~~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 Authority-financed project ~~(using Authority amortizing and/or deferred payment loans as financing)~~ with a projected operating deficit during the 12 -20 year projection period ~~may~~ will be required to ~~provide~~ ensure that~~additional funds to the~~ ~~a~~ funds in the capitalized operating reserve ~~to~~ are sufficient to cover the projected project cash flow shortfall amount during that period. ~~This is a requirement for projects with HOME funds.~~

5.04~~3~~ Pro Forma

A. Debt Coverage Ratio

1. The forecasted initial year DCR shall, ~~be no less than~~at a minimum, be 1.15. The DCR as estimated using the 20-year cash flow projection may not drop below 1.0 before year 13. Generally, the DCR should be no higher than 1.45 during the ~~20year~~20-year projection. ~~Any project with projected operating deficit during the 12 -20 year projection period may be required to provide additional funds to the capitalized operating reserve to cover the projected shortfall amount.~~

2. The lower limit of 1.0 in year 12 takes precedence over the upper limit of 1.45 in year 1, so if a higher DCR is necessary in order to keep the DCR above 1.0 in year 12, the project should be structured accordingly ~~and no special permission or waiver is required~~without the need for an Authority waiver for the initial year DCR being greater than 1.45.

3. In the case of a project supported by a long-term rent subsidy contract or other extenuating circumstance, the initial year DCR ~~will~~ may be adjusted accordingly. A higher DCR may be used in cases of small or special use projects where there is higher than normal operating expense or repayment risk.

4. If a project has a higher than usual ratio of income to operating expenses (this is usually due to a market rate component that makes the project more dependent on debt and less dependent on tax credit equity) the forecasted year initial DCR may be as low as 1.10 provided that the 20-year cash flow projection shows the DCR increasing in every subsequent year.

~~4.~~5. As part of the subsidy layering analysis, the Authority will review the proposed DCR and the 20-year cash flow projection to ensure that a project receives no more capital subsidy or ~~credit~~ LIHTCs ~~reservation~~ than is necessary to make the project financially feasible.

~~5.~~6. Syndicators, investors, and lending institutions sometimes apply different underwriting criteria that have the effect of increasing the project's need for capital subsidy relative to the need when underwritten using the Authority's underwriting criteria. This can result in very high DCRs. If this is the case, and DCR exceeds 1.45 in year 1 and 1.15 in year 12, the developer/sponsor may be required to:

   i. Provide evidence of competitive solicitation for tax credit investment; and

   ii. Show efforts to obtain terms from other lending institutions that would not have required additional subsidy.

B. Projects Without Amortizing Debt

1. An operating expense ratio (total annual operating expenses divided by the annual gross operating income) of 85% or less is required in year one.

2. The Authority may re-underwrite the project upon receipt of the project's application, if Authority deferred debt is used, to determine if the projected cash flow could support an amortizing debt payment.

C. Multiple Lenders and Trending Requirements

These underwriting guidelines take precedent over any other party's underwriting criteria. If the developer/sponsor chooses ~~to work with~~ a syndicator, investor, and/or lending institution that applies ~~such~~ more stringent underwriting criteria or less favorable loan terms, thus ~~tha~~requiring the need for~~t~~ additional Authority subsidy ~~is necessary~~ in spite of the availability of more favorable terms from other syndicators, investors, and lending institutions (including financing from the Authority), the developer/sponsor may be required to ~~provide that~~fill the resulting subsidy gap with ~~additional subsidy as~~ a developer fee loan or a cash contribution to the project.

5.0~~5~~4 Budgets

A. Construction Budget

- The construction budget must reflect reasonable costs giving consideration to the scope of the project and market conditions.
- In general, the developer's ~~construction hard cost~~ contingency shall be no less than 5% of the construction amount for new construction projects and 10% for rehabilitation projects.
- A construction period sources and uses ("S&U") schedule is required for all Authority financed projects, using the S&U schedule tab on the Authority financing application.

~~1.~~

~~2.~~

B. 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 developer/sponsor's application, unless variances are satisfactorily justified by the sponsor.

Rent-up expenses: ~~– T~~the Authority will allow a sponsor to requisition rent up expenses against the construction loan with each monthly requisition, budgeting the expense against a rent-up expense line item. The sponsor is required to submit an absorption schedule detailing the estimated amount of the rent-up expenses to be budgeted. The rent-up expenses shall fund marketing, operating, and debt service deficits during the lease-up period. For new housing units, a market study will be relied upon to help determine the projected lease-up period. The sponsor may requisition rent up expenses until the construction loan is paid off, and sufficient revenue is available to fund project expenses. If funds are needed for rent up expenses post construction loan payoff, a temporary escrow may be established to cover the expected shortfall.

C. Developer Fee Loans

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. Developer fee loans may be paid from available surplus cash in priority to any Authority deferred payment loan. The 20-year cash flow projection included in the application must show the developer fee loan being paid off completely in 15 years or less.

D. Reserves

1. In general, the Authority will hold all reserve and escrow accounts. The Authority may, in conjunction with the equity investor, allow the first mortgagee to hold some or all of the reserve and escrow accounts. However, if an Authority deferred payment loan is being used as financing, the Authority reserves the right to hold the replacement reserves.

2. For new construction projects, the following reserves will be required to be funded no later than completion of construction:

   i. **Operating reserve:** A minimum amount equal to four months of the project's annual operating budget, including debt service, must be capitalized and held for the term of the mortgage loan.

   No earlier than 15 years after the development of a project, the Authority may allow projects that meet certain benchmarks for stable and successful operation to transfer funds from their operating reserve to the replacement reserve. A capital needs assessment (CNA) will be required in order for Authority staff to determine the appropriate amount of the operating reserve balance that may be transferred. Benchmarks for transferring reserves will generally reflect the requirements of HFA 204.12 ~~the~~ Distribution Limitations and Performance Indicators ~~section of HFA 204.~~

   ~~i.~~ii. **Replacement reserve:** A minimum amount equal to $500 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 eserve:** The Authority will allow a sponsor to requisition rent up expenses against the construction loan with each monthly requisition, budgeting the expense against the rent-up reserve line item. The sponsor is required to submit an absorption schedule detailing the estimated amount of the rent-up reserve to be budgeted. The rent-up reserve shall fund marketing, operating, and debt service deficits during the lease-up period. For new housing units, a market study will be relied upon to help determine the projected lease-up period. The reserve will remain in effect until three consecutive months of stabilized occupancy are achieved. Any unused budgeted rent up funds 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.~~

~~ii.~~iii. **Insurance escrow:** An amount equal to one full year's property and liability insurance premium meeting the Authority's requirements will be escrowed 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.

~~iii.~~iv. **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.

3. For ~~seasoned~~ projects with at least a ~~3 year~~three~~3~~-year operating history, the Authority will require both a tax and an insurance reserve funded at the levels stated above. A replacement reserve will also be required, funded at a level based on the Authority's Design and Construction Standards for Rehabilitation. An operating reserve may be required based on the project operating history and whether there is a HAP contract at the property. Both the operating reserve and the replacement reserve amounts will be determined by the Authority in its sole discretion.

5.06~~5~~ Third Party Reports

A. Appraisal

Acquisition costs which exceed the appraised value are generally not eligible to be financed using Authority funds, 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, when the Authority provides permanent financing (amortizing first mortgage debt)~~,~~ the Authority will commission all appraisal reports. If the Authority is providing debt other than a permanent first mortgage, such as soft debt or a construction loan, ~~a third party is providing permanent financing,~~ the Authority may rely on appraisal reports commissioned by the permanent lender, provided that the Authority is listed as an interested party or intended user. Under certain circumstances, the Authority may waive the requirement of an appraisal for supportive housing projects.

B. Environmental

For all Authority financed projects, ~~A~~a satisfactory Phase 1 environmental report is required~~-~~ as defined in the most recent edition of the ASTM Standard Practice for Environmental Site Assessments - Phase I (ESA Phase I). Additionally, some projects may be required to submit a HUD Statutory Checklist if HUD funding and/or Risk Sharing insurance is intended for the project. If hazardous conditions exist, the Authority will require an adequate mitigation plan and budget to cure such conditions. Buildings planned for renovation should follow asbestos and certified lead testing completed as outlined in the Authority Design and Construction Standards. ~~In general, environmental reports should be commissioned by the developer/sponsor.~~ For HUD programs subject to 24 CFR § 58 environmental review procedures, additional documentation will be required to complete the environmental review record, including, but not limited to, historical inventory form and archaeological study.

In general, ESA Phase I reports should be commissioned by the developer/sponsor. HUD ~~Any project requiring a HUD~~ Statutory Checklists -will be ~~required to have the~~ commissioned by the Authority ~~commission the report~~for projects financed with federal funds or projects that have HUD Risk Sharing insurance.

C. Site Survey

A site survey, performed by a New Hampshire licensed land surveyor, is required for all properties. The survey and survey affidavit must meet all requirements necessary to remove the survey exception from the title insurance policy for the property. See the Authority website for details.~~See Appendix E for title insurance survey requirements.~~

D. Market Study

1. An independent, comprehensive, and professional market study will be required for all projects that receive LIHTCs. The market study must be performed by one of the approved providers listed on the NHHFA Market Study Provider List~~website~~. Additionally, ~~, and~~each market study shall meet the Authority's M~~M~~arket S~~S~~tudy R~~R~~equirements. Both the Market Study Provider List~~,~~ and the Market Study Requirements~~,~~ can be found on the Authority's website.~~- located in Appendix A.~~

2. The Authority may require the completion of an independent market study for non-LIHTC projects meeting the requirements described in the Authority's Market Study Requirements~~- Appendix A~~ for the construction, refinancing and/or re-syndication of existing affordable properties depending on such factors as historical vacancy information and current and proposed rents. Generally, a market study will be required unless an existing project can show that it has experienced a vacancy rate of less than 7% of housing units over the most recent three years, charging rents that comply with current underwriting standards.

3. For the Authority's purposes, the date of the site inspection is the effective date of the report. The effective date must be obviously stated on the cover page or in the e~~E~~xecutive s~~S~~ummary section of the report. For a market study with an effective date that is six~~6~~ to 24 months old at the time of submission, if there are no material changes to the development and/or market, the analyst can provide a letter stating "No material changes since last report dated…" If there are material changes, the market study must be updated to include detailed discussion about those changes. No market study greater than 24 months old will be accepted, meaning a site inspection by the market analyst must occur within 24 months of the Authority's application deadline.

4. For supportive housing~~projects receiving Authority financing to address supportive the housing needs of individuals with special needs~~ projects~~,~~, -the Authority may, at its sole discretion, accept other methods of establishing the market for a proposed project such as a current waiting list for a similar project and population or recent independent studies or reports documenting the need for the proposed project.

5. The Authority may require an additional market and rent analysis ~~above and beyond the requirements described~~, to be commissioned at the developer/sponsor's expense, if determined by staff to be necessary ~~for~~to confirm project underwriting, or if required by other parties such as loan placement companies, investors or insurance parties.

E. Rehabilitation/Construction Risk Management

Physical improvements to existing properties will follow the policies and standards in the Authority Design and Construction Standards for Rehabilitation, including requirements related to CNAs, energy audits, asbestos, lead abatements, and accessibility.

5~~.06 Asset Management~~

~~B. 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 plan for temporary and/or permanent relocation of tenants should both meet minimum relocation standards and attempt to minimize the relocation impact on tenants. Projects using federal funding resources such as HOME or HTF must fully comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (or "URA"). The Authority requires that a relocation plan, and all necessary notices to tenants under the URA if applicable, be submitted with the project application if any temporary or permanent relocation is anticipated.~~

~~C. 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. The mortgagor shall not discriminate against Housing Choice voucher holders or refuse to lease a rental unit to a family solely because of the family's participation in the Section 8 tenant basedtenant-based program.~~

~~D. Investor Servicing Fees~~

~~The Authority does not allow investor servicing feess to be carried in the project operating budget; rather, the fees will be paid from surplus cash after any Authority cash flow loan payments.~~

~~5~~.07~~7~~ ~~Special Needs~~Supportive Housing

The Authority will review all financing applications in accordance with the Authority's ~~Special Needs~~Supportive 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~~ supportive service programs necessary to support the tenants for the proposed project.

5.08~~8~~ Tenant-Based Vouchers

~~The mortgagor~~No project receiving Authority financing, tax credits, or other financial support ~~shall not~~ may discriminate against Housing Choice voucher holders or refuse to lease a rental unit to a family solely because of the family's participation in the Section 8 ~~tenant based~~tenant-based program.

~~**Appendix A – Market Study Requirements**~~

~~An independent, comprehensive, and professional market study will be required for most projects (including all projects that are applying for Low Income Housing Tax Credits). The market study may be commissioned by the Authority or by the applicant but must be provided by a market study provider approved 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:~~
~~Number of bedrooms;~~
~~Number of bathrooms;~~
~~Unit and common area square footage;~~
~~Structure type;~~
~~Unit and project amenities and services;~~
~~All income and rent restrictions imposed on the project;~~
~~Target population including age restrictions and/or special needs populations;~~

~~A map and photos of the subject site and surroundings showing location of community services;~~

~~An overview of local economic conditions, including employment by sector, list of major employers, and labor force employment and unemployment trends over past 5-10 years;~~

~~Geographic definition and analysis of the primary and secondary market areas including description of methodology used to define market area and map of market area including proposed site;~~

~~Demographic analysis of the number of households in the market area that are income eligible and can afford to pay the rent;~~

~~Analysis of household sizes and types in the market area, including households by tenure, income, and persons per household;~~

~~A comparative analysis, by unit type, of the proposed property with comparable properties in the market area (both market-rate and rent-restricted/subsidized). The product of this analysis should give an estimate of what rents could realistically be achieved if the property were not subject to income and rent restrictions.~~

~~This information should be summarized in an easily understandable table that lists comparable properties, rents charged, and significant factors making them more or less attractive than the proposed project (with corresponding adjustments made for those significant factors) so that a reader can discern the analyst's method for estimating the achievable market rents.~~

~~One acceptable format for summarizing this analysis is the HUD 92273-S8 Rent Comparability Grid.~~

~~The comparative analysis should also include a map showing locations of comparable properties and those under development.~~

~~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.~~

~~A description of the effect on the market area, including the impact on Housing Credit and other existing affordable rental housing.~~

~~A market study is required for preservation financing of existing affordable housing if tax credits (either 4% or 9%) are being used. For this type of transaction, the report should include documentation of vacancy data per month for a period of at least three years ending within one year of the application due date.~~

~~If the average vacancy rate over the three-year period is 5% or less, requirement 7 and requirements 9 through 12 may be waived if the market analyst determines that the sustained occupancy performance of the property is adequate to conclude that the project is competitive with the existing rental inventory.~~

~~Appendix B – Closing Insurance Requirements~~

~~All insurance policies, certificates and endorsements are subject to New Hampshire Housing Finance Authority's (the Authority) approval prior to closing. The Managing General Partner or Developer will provide and maintain evidence of insurance policies issued by such insurance companies during construction, in form and substance acceptable to the Authority, for the property in accordance with the following requirements.~~

~~The policy shall be written on a SPECIAL FORM of coverages for all locations on a replacement cost basis in an amount not less than that necessary to comply with any co-insurance percentage stipulated in the policy, but not less than 100 percent of replacement cost. The amount of coverage shall be sufficient, except for deductibles as permitted above, so that in the event of any damage or loss to the Premises, which damage or loss is of a type covered by the insurance, the insurance proceeds shall provide at least the lesser of: 1) compensation equal to the full amount of damage or loss; or b) compensation to the Authority equal to the full amount of the unpaid balance of the Note. All buildings valued at $1,000 and over must be insured.~~

~~Each policy will contain an endorsement stating that the policy will not be canceled, materially changed, or non-renewed without sixty (60) days' written notice before the effective renewal date. However, for nonpayment a ten (10) day notice is acceptable. All notices to be sent to: New Hampshire Housing, PO Box 5087, Manchester, New Hampshire 03108. All policies must be issued by companies licensed to do business in the state of New Hampshire or by companies not so licensed but which have been approved by the New Hampshire Commissioner of Insurance as Surplus Line Insurers.~~ **~~Policies will include the New Hampshire Housing Finance Authority, 32 constitution Drive, Bedford, NH 03110, as Mortgagee. The party responsible for the repayment of the Loan must be the named insured in the policy~~**

~~The following insurance certificates are required for a project closing:~~

~~Liability Insurance~~~~:~~
~~The Comprehensive General Liability Insurance shall be provided and maintained with a combined single limit of at least $1,000,000 per occurrence for bodily injury and property damage, personal and advertising injury $1,000,000 each occurrence, fire damage liability $50,000, medical expense limit $5,000, and general aggregate $2,000,000.~~

~~The General Liability policy shall be amended to include the following wording:~~

~~"Failure of the insured or any other party to disclose all hazards existing as of the inception date of the policy shall not prejudice the insurance with respect to the coverage afforded by this policy provided such failure or omissions was not intentional."~~

~~Loss of rents coverage in the amount equal to one (1) year's rental income.~~

~~Worker's Compensation Insurance will be provided in accordance with the New Hampshire Compensation Act as amended. It must cover all owners' operations in the state.~~

~~Boiler insurance if there is a steam boiler or other pressurized vessel in operation in connection with the~~

~~property. The boiler insurance policy should be on a comprehensive form and should provide a minimum of $250,000 limit per accident per location.~~

~~**Property Insurance**:~~
~~Property insurance must be written on a building special form on replacement cost basis satisfactory to the Authority. An agreed amount provision is acceptable to the Authority~~

~~Flood insurance in the amount specified below must be provided if the premises are located in a community for which flood insurance has been made available under the provisions of the Flood Disaster Protection Act of 1973 and which is located in a designated special flood hazard area. Such flood insurance shall be in a form of the standard policy issued by members of the National Flood Insurers Association or in the form of a policy which meets the criteria set forth in the guidelines published by the Flood Insurance Administration in the Federal Register on July 17, 1974.~~

~~The minimum amount of flood insurance required is the lowest of the following: (1) the outstanding principal balance of the Loan; (2) the full insurable value of the improvements secured by the Mortgage; or (3) the maximum amount of flood insurance available on the date the Mortgage was filed of record. The deductible shall be the least amount allowed by law.~~

~~**Title Insurance**~~:
~~Generally accepted standards will be adhered to in qualifying ALTA title policy insurers. Mortgagee's ALTA title policies must be in an amount equal to the amount of the Loan, and must contain appropriate endorsements for easements, hazardous waste, etc.~~

~~Additional insurance requirements for construction projects:~~

~~**Builders Risk:**~~
~~The borrower, general contractor, and/or construction manager will purchase and maintain Builder's Risk Insurance in an amount at least equal to the total construction cost of the project. Said insurance is to be maintained during the entire construction period, will have a maximum deductible of $10,000 and all policies shall designate the Authority as Mortgagee/Loss Payee/Endorser providing a minimum of ten (10) days' written prior to cancellation.~~

~~**Performance and Payment Bond:** A performance and payment bond is required for construction projects that have 11 or more units. Bond requirements can be found in the HFA 111.14 rules.~~

~~**Architect, Civil Engineer:** All primary design professionals must provide proof of insurance to the developer and the Authority prior to the start of construction. The coverage shall provide protection against design errors and omissions and shall have annual aggregate limit of no less than $2,000,000.~~

~~**Construction Manager/General contractor**~~
~~Commercial Liability~~

~~Each Occurrence~~	~~$1,000,000~~
~~Aggregate~~	~~$2,000,000~~
~~Automobile Liability~~	~~$1,000,000~~
~~Worker's Compensation~~	~~Statutory~~
~~Umbrella Liability~~	~~$5,000,000~~

~~**Construction Inspector**~~

~~Commercial Liability~~	
~~Each Occurrence~~	~~$1,000,000~~
~~Aggregate~~	~~$2,000,000~~
~~Automobile Liability~~	~~$1,000,000~~
~~Worker's Compensation~~	~~Statutory~~

-

~~**Appendix C – Renewable Energy Policy**~~

~~The Authority Renewable Energy Policy is designed to ensure that the addition of renewable energy generation (REG) to a project is done in a manner that meets the guidelines of the various funders that may be taking part in a project, including Federal agencies such as the IRS and HUD. Adding REG to a project may take place at different stages of development~~

~~developer/sponsorbe notified~~
~~an information or actions will be eddeveloper/~~

~~. The Authority highly encourages sponsors to consider REG in their initial designs, which requires less development resources than adding REG in the future; however, there are circumstances that will warrant a project to consider adding REG either during construction, or once the project has been operational for a period of time. The following is an overview of how the Authority will process requests for REG for a project, depending on where the project is relative to its construction.~~

- ~~**REG Included in Design**~~

~~The best time to bring REG into a project is during the planning stages, so that all members of the design and construction team can influence how the REG is being integrated into all of the project's systems, and approvals from investors and lenders can be done up front:~~

~~REG that is included in the planning stages of the project must be included in the plans and specs, including the MEP drawings.~~

~~The REG construction should be competitively bid, either through the GC/CM contract, or by the project owner. Each bidder will include a design specification of the proposed REG installation.~~

~~The Authority may require a third party report be part of the underwriting and include:~~

~~Utility use analysis based on the proposed REG design.~~

~~A chart/graph showing the savings to the project using REG versus not installing REG.~~

~~The project operating budget and utility allowances must reflect an accurate view of the utility savings to the project, ensuring that the pro forma (and DCR) are accurate.~~

~~**REG Requests During Construction**~~

~~REG requests for installation during construction includes the time after construction loan closing, but prior to lease up, where there may be construction savings or other resources (internal and/or external) that would be used to finance the additional cost of adding REG:~~

~~The Authority may require a third party report be part of the underwriting and include:~~

~~Utility use analysis based on the proposed REG design.~~

~~A chart/graph showing the savings to the project using REG versus not installing REG.~~

~~Proposed system design which will be bid out with the GC/CM contract.~~

~~An updated Authority financing application form showing any new sources, with the REG added to the uses. The utility allowances and operating budget should be adjusted based on the cost savings predicated in the report above.~~

~~Based on reduced operating costs to the project, the Authority may need to adjust the project sources in order to comply with HUD subsidy layering guidelines and/or Authority underwriting guidelines. These adjustments may include increasing permanent debt and/or reducing Authority subsidy.~~

~~If the REG is to be financed, the loan must be subordinate to any Authority amortizing loans. As a matter of policy, subordinate loans generally may be in front of Authority cash flow loans.~~
~~The project will be responsible for any additional soft costs related to the REG addition, including any Authority legal costs.~~

~~The REG contractor must be bid out with a minimum of three bids. Each bidder will include a design specification of the proposed REG installation, with the lowest bid being awarded the contract, unless otherwise approved by the Authority. In certain circumstances, the sponsor may choose another bidder with Authority approval. Either the property owner or the GC/CM can be party to the contract.~~

~~Adding REG Post Lease Up~~
~~The Authority encourages REG being added to already operational projects in order to reduce operating costs. For projects that seek non-Authority funds to add REG:~~

~~The Authority may require a third party report be part of the underwriting and include:~~

~~Utility use analysis based on the proposed REG design.~~

~~A chart/graph showing the savings to the project using REG versus not installing REG.~~

~~Proposed system design which will be bid out with the GC/CM contract.~~

~~A projected budget must be provided showing the new savings to the utility costs in the operating budget.~~

~~The REG contractor must be bid out with a minimum of three bids, with the lowest bid being awarded the contract. In certain circumstances, the sponsor may choose another bidder with the Authority's approval.~~

~~If the REG is to be financed, the loan must be subordinate to any Authority amortizing loans. As a matter of policy, subordinate loans generally may be in front of Authority cash flow loans.~~

~~The project will be responsible for any additional soft costs related to the REG addition, including any Authority legal costs.~~

Appendix A~~D~~ – Subsidy Layering Policy

The Authority subsidy layering policy is used to evaluate and ensure that the level of Federal, State and/or Authority subsidy to an Authority-financed project does not exceed the necessary amount of subsidy to provide quality affordable housing that is financially viable. Requirements for subsidy layering exist in one or more Authority closing documents, as outlined below:~~. The following is a summary of Authority subsidy layering guidelines:~~

- Maximum per unit limits – Authority staff will review applications to ensure that the project does not exceed the applicable subsidy limit standards set forth in the QAP, or within any HUD provided subsidy such as HOME or HTF.

- Cost allocation – Cost allocation for HOME or HTF units will follow 24 CFR Parts 92 and 93, as well as, HUD's published guidance.

- Written agreements – Written agreements will follow 24 CFR Part 92 and 93, as well as, HUD's published guidance.

- Commitment of funds – For HOME and HTF funds, funds will be committed at the time that a legally binding HOME or HTF written agreement is signed by the owner or partnership and the Authority.

- Property standards –Projects that have Authority-financed Federal funds will be monitored by the Authority using the guidelines established by HUD's Uniform Physical Condition Standards.

~~Property standards – Projects that have Authority-financed Federal funds will be monitored by the Authority using the guidelines established on the Authority website: www.nhhfa.org/asset-management-compliance.~~

- Rent & Utility allowances – P~~Pr~~rojects will have their rent and utility allowances underwritten using the latest available allowances determined by HUD, or other methods as determined in the ~~and the~~ guidelines found on the Authority website: NHHFA Utility Allowance Policy. ~~: www.nhhfa.org/assets/pdf/LIHTC-Utility-Allowance-Policy.pdf.~~

- Market assessment -Authority staff will make a project market assessment based on one or more of the following: a market study, Authority market research including local market assessment, and rent trends in neighboring Authority projects as outlined in the Authority Underwritings Standards.

- Developer capacity – Developers will be evaluated as outlined in the Authority Underwriting Standards.

- Sources and uses – Sources will be evaluated and uses will be reviewed and deemed reasonable for the project size and scope using the Authority Underwriting Standards.

- Pro Forma – The pro forma will follow DCR trending found in the Authority Underwriting Standards.

- Project expenses – Project expenses will be reviewed for reasonableness and adjusted by Authority staff if deemed necessary.

- Developer profit – Developer profit will be determined based on the Authority Underwriting Guidelines.
- ~~Appendix E – Title Insurance Survey Requirements~~

~~All surveys prepared for or in conjunction with the Authority should have the following included:~~

~~**1. Location of all buildings on the surveyed property;**~~

~~**2. Evidence of any easements burdening the surveyed property, including notes to be placed on the face of the plan indicating the scope of easements;**~~

~~**3. Complete boundary survey showing metes, bounds and closures;**~~

~~**4. Location of all springs, ponds, lakes, streams and rivers bordering on or running through the surveyed property;**~~

~~**5. Narrative metes and bounds description printed on the survey;**~~

~~**6. Certification of land surveyor including the date of field work, date of map/plan, Surveyor's signature, printed name and seal with registration/license number;**~~

~~**7. Any other matters revealed by a title search or requested by the Authority or its counsel.**~~

~~**8. Surveyor certification as may be required by title insurance company, lenders or other interested parties.**~~

~~**9. All other matters deeded reasonably necessary by the Authority or its counsel.**~~

~~Exhibit F~~Appendix B – Balloon Structure Underwriting Standards

NHHFA Section 542(c) Risk Sharing Balloon Structure Underwriting ~~Standards~~Requirements

All underwriting will be completed using the Authority's application form.

RISK ANALYSIS AND SENSITIVITY ANALYSIS

INITIAL AND EXIT UNDERWRITING

Both Initial and Exit underwriting will be ~~reviewed~~ conducted prior to Authority loan approval and commitment. The loan must meet current Authority Underwriting Standards (Initial Underwriting) and must meet a minimum projected financial strength at the end of the loan term (Exit Underwriting) as outlined below:

- **INITIAL UNDERWRITING**
  - Minimum ~~DSCR~~ ~~("~~Debt ~~Service~~ Coverage Ratio (DCR~~"~~): Per the Authority's U~~u~~nderwriting S~~s~~tandards.
  - Loan-to-Value (LTV): Per the Authority's U~~u~~nderwriting S~~s~~tandards.
  - Minimum Term / Maximum Amortization: 17-year term / 40-year amortization.
  - Interest Rate Cushion: ~~per the General Lending terms located on the Authority website~~determined at the time of Initial Underwriting
  - Vacancy Assumptions: Per the Authority's Underwriting Standards.

~~**EXIT UNDERWRITING**~~

- **EXIT UNDERWRITING**
  - Exit Cap Rate: Initial Cap Rate + 2.0%
  - Exit Interest Rate: Initial Interest Rate + 3.0%
  - Exit D~~S~~CR: 1.25
  - Unpaid Principal Balance at Terminal Cap Rate: Must be 80% or less at maturity.
  - Net Operating Income (NOI): NOI at maturity must be at least equal to NOI in year 1.

ADJUSTMENTS TO EXIT UNDERWRITING

The Authority's underwriting analysis will include the ability to adjust the following parameters based on the Authority's U~~u~~nderwriting S~~s~~tandards and market forces:

- Increase terminal cap rate based on current market forecasts (currently +2.00%)
- Increase assumed interest rate at refinance (currently 3.0% above initial underwriting rate)
- Adjust assumptions for exit amortization and DCR based on changes to conventional underwriting market standards

Any adjustments to the assumptions noted above may be as conservative as the Authority's current exit underwriting requirements outlined in this document.

MORTGAGE CREDIT REVIEW

Loans with a balloon structure will only be offered to qualified sponsors who demonstrate sufficient liquidity, financial strength, and experience developing and refinancing affordable housing developments as determined by the Authority's underwriting standards.

ASSET MANAGEMENT

During the period of the Risk-Sharing loan, Asset Management monitors the property for a variety of factors including:

- Monthly delinquency monitoring.
- Quarterly income & expense reporting.
- Management reviews every one to three years depending on risk level assessed.
- Regular monitoring and management of reserves and escrows. This includes tax escrow, insurance escrow, replacement reserve and other reserves as applicable. Withdrawals~~s~~ from the replacement reserve are reviewed for appropriateness of scope, bidding and performance including on-site confirmation of work quality for projects over $10,000.
- Annual review of audited financial statements, budgets and loan risk rating.
- Annual on-site management review every one to three years, including Tenant File Reviews, depending on risk level assessed.
- Annual physical inspection of property and units, or more frequently as required by prior inspection performance.
- Non-performance or other red flag concerns related to the performance of the property would place the property on the cross-departmental Multi-Family Risk Assessment Team agenda where the status and next steps for bringing the loan and property into compliance are discussed.
- Loan maturity letter is sent to the borrower prior to the loan maturity to~~-~~ begin discussion on refinancing options.