

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

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Part 1 Purpose

1.01 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, 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 Type of Projects

Multi-family residential units and mixed use projects which are newly constructed or substantially rehabilitated, and acquisition financing for the purpose of preserving affordability. Type 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.

2.03 Project Age-Restrictions

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 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% LIHTCs; the lesser of \$45,000 per unit or \$2 million for age restricted 9% projects.
- A maximum of \$60,000 per 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 will be limited by the availability of the funding sources identified.
- FEES & CHARGES - Please refer to the Authority's program-specific term sheets for fees and charges related to Authority loans.

2.05 Term/Amortization Schedule

A. Permanent Loans

In general, permanent loans shall have loan terms of not less than 20 years, with amortization of payments not less than 30 years. Loans may have other term and amortization periods if sold to a 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.

B. Construction and Bridge Loans

Construction and bridge loans shall have terms up to 24 months, and are interest only during their term. Construction and tax credit bridge loans are due and payable in conjunction with a permanent loan take-out.

C. Deferred Payment Loans

Deferred payment loans are generally 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, reference Section 11 for additional information.

2.06 Recourse/Non-Recourse Debt

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

2.07 Interest Rates

Interest rates and terms are set in accordance with Authority policy established for various funding programs. Projects will be underwritten with an estimated interest rate, which is subject to change when final pricing is completed.

2.08 Security

First Mortgage or First Leasehold Mortgage 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. Subordinate Mortgage or Subordinate Leasehold Mortgage as security for all subordinate loans. For projects involving LIHTCs, 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 LIHTCs.

2.09 Floodplain Development

The Authority will not fund projects proposed in the 100-year floodplain, 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, 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 flood zone, the Authority will provide financing as long as FEMA flood insurance has been maintained and is current on the property.

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 annual distribution to a borrower will be established in accordance with rules established by the Authority (reference HFA:204).

2.11 Equity Take-outs

Equity take outs may be granted by the Authority for HUD Risk Share projects based upon a HUD Risk Share waiver being approved, and certain underwriting conditions being met.

2.12 Surplus Cash

See HFA:204 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 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.

Part 3 Construction Requirements

3.01 Builder's Fees

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.

Part 4 Development Team

4.01 Developer/Owner

The Authority requires that the developer/owner and development team demonstrate sufficient previous experience in the development of projects of similar scale and complexity to the proposed project. 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:

- Resumes for all professional team members including, but not limited to, architects, civil engineers, sponsor, CM/GC's, and consultants.
- Developer tax returns and financial statements for the previous three years (preferably audited and/or prepared by a CPA)

The Authority, in its sole discretion, may require the developer/owner to include a qualified development consultant as part of the development team.

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 (HFA:111).

4.04 Architect

The architect 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 subsidized housing and be acceptable to the Authority. The Authority must also review the Management Agreement, Management Plan, Tenant Selection Plan, Affirmative Fair Housing Marketing Plan, and Lease or Occupancy Agreement 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 Clerk of the Works. The Clerk's fees must be paid out of the developer's fee as outlined in the Technical Design and Construction Standards.

Part 5 Underwriting Requirements

5.01 Sources

A. Loan to Value Ratio

The maximum loan to value ratio 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%.

B. Developer Fee

1. 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.
2. 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 entity. "Consultant fees" counted as developer fee do not include normal professional fees such as architectural, engineering or appraisal fee.
3. 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.

4. In order for a developer to earn a Developer fee, a minimum of \$6,000/unit of rehabilitation per project is required.
5. For construction projects, 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.
6. Maximum Developer Fee Calculation:
 - i. The maximum fee in any case shall absolutely be 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 \$6,000 per unit.
 - iii. General Occupancy:
 - \$21,000 per unit for first 10 units;
 - \$17,000 per unit for next 30 units;
 - \$14,000 for next 60 units;
 - \$6,000 per unit for any unit above 100.
 - iv. Age-restricted projects (senior designation):
 - \$19,000 per unit for first 10 units;
 - \$15,000 per unit for next 30 units;
 - \$13,000 per unit for next 60 units;
 - \$6,000 per unit for any unit above 100.
7. Projects financed through the issuance of tax-exempt bonds are eligible for a developer fee of 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 and the developer fee calculated at 15% of total development cost must be loaned back to the project in the form of a Developer Fee Loan.

C. Seller/Sponsor Loans

1. A sponsor/seller loan 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 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 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, the Authority will hold back 10% of any capital subsidy amount until 75% of construction has been completed.

F. HOME/HTF Underwriting

1. The Authority will underwrite HOME and HTF funds using 24 CFR Part 92 and 93, as well as, HUD's published guidance. However, the Authority, in its discretion, will only allow certain eligible costs to be paid by these funds as outlined below.
2. HOME 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, and developer fee.
3. 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.
4. 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.

5.02 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 rents will be underwritten at the lower of: (a) 98% of maximum allowable tax credit rent; (b) 98% of maximum allowable HOME or HTF rents 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.

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 tax credit rent; or (c) 100% of market rent in the area as determined by third party reports.
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.
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.
5. Commercial rents that are pledged to a project as a source of income will require a comparative market analysis performed by a realtor or similar real estate professional to justify the 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, if applicable. The Authority reserves the right to apply a "haircut" of up to 50% of projected commercial rents in order to ensure project feasibility in the event that commercial space is not leased.
6. "Gross rent" for the purpose of underwriting includes contract rent and 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 market or other data.

C. 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.

D. 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, and may require that adjustments to the operating budget be made to a project's application

E. 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 adjustment from time to time. Rent trending will reflect historic changes in area median income (AMI) and local market 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 out 20 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 -20 year projection period may be required to provide additional funds to the capitalized operating reserve to cover the projected project cash flow shortfall amount during that period.

5.03 Pro Forma

A. Debt Coverage Ratio

1. The forecasted initial year DCR shall be no less than 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 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 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 be adjusted accordingly. A higher DCR may be used in cases of small or special use projects where there is higher than normal 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.
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 reservation than is necessary to make the project financially feasible.
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:
 - ii. Provide evidence of competitive solicitation for tax credit investment; and
 - iii. 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, 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

If the developer/sponsor chooses to work with a syndicator, investor, and/or lending institution that applies such stringent underwriting criteria that additional subsidy is necessary in spite of the availability of more favorable terms from other syndicators, investors, and lending institutions, the developer/sponsor may be required to provide that additional subsidy as a developer fee loan or a cash contribution to the project.

5.04 Budgets

A. Construction Budget

1. The construction budget must reflect reasonable costs giving consideration to the scope of the project and market conditions.
2. 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.

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

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 reserve and escrow accounts.
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.
 - 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.
 - iii. Rent-up Reserve: 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.
 - iv. 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.

- v. 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 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.

5.05 Third Party Reports

A. 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, when the Authority provides permanent financing, the Authority will commission all appraisal reports. If 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.

B. Environmental

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. Additionally, projects may be required to submit a HUD Statutory Checklist if HUD funding and/or 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.

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 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 website, and shall meet the Authority's Market Study Requirements 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 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 vacancy 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 Executive Summary section of the report. For a market study with an effective date that is 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 projects receiving Authority financing to address the housing needs of individuals with special needs, 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 additional market and rent analysis above and beyond the requirements described to be commissioned at developer/sponsor expense if determined by staff to be necessary for project underwriting, or if required by other parties such as loan placement 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

A. 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.

B. 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 based program.

C. Investor Servicing Fees

The Authority does not allow investor servicing fees 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 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.

5.08 Tenant-Based Vouchers

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 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:

1. A statement of the competence of the market study provider;
2. A description of the proposed site including site and location considerations relevant to the marketability of the proposed project;
3. 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;
4. A map and photos of the subject site and surroundings showing location of community services;
5. 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;
6. 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;
7. Demographic analysis of the number of households in the market area that are income eligible and can afford to pay the rent;
8. Analysis of household sizes and types in the market area, including households by tenure, income, and persons per household;
9. 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.

10. 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.
11. 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:

1. **Liability Insurance:**

- a. 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."

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

- d. 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.

2. Property Insurance:

- a. 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
- b. 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.

3. 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:

1. 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.

2. 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.

3. 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.

4. 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

5. Construction Inspector

Commercial Liability	
• Each Occurrence	\$1,000,000
• Aggregate	\$2,000,000
<u>Automobile Liability</u>	\$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: at project design, during construction, or post lease up. 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 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 documents. 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 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 Part 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 written agreement is signed by the owner and the Authority.
- Property standards – Projects that have Authority-financed Federal funds will be monitored by the Authority using the guidelines established on the Authority website: <http://www.nhhfa.org/asset-management-compliance>.
- Rent & Utility allowances – Projects will have their rent and utility allowances underwritten using the latest available allowances determined by HUD and the guidelines found on the Authority website: <http://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 deemed reasonably necessary by the Authority or its counsel.