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# UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES

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Multifamily Finance



# NEW HAMPSHIRE HOUSING FINANCE AUTHORITY UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES FOR MULTIFAMILY FINANCE

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# UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES FOR MULTIFAMILY FINANCE

## **Part 1 Purpose**

### **1.01 Purpose**

These underwriting standards present NH Housing’s guidance and criteria for evaluating and underwriting proposed multifamily development projects financed by NH Housing. These standards apply to all NH Housing programs (including projects allocated low-income housing tax credits only), excluding the Supportive Housing Program.

For projects funded through the Low-Income Housing Tax Credit Program (4% and 9%), refer to the NH Qualified Allocation Plan for *additional* requirements. Additionally, a Notice of Funding Opportunity will usually be published annually for the Tax-Exempt Bond and 4% LIHTC program that will include additional guidance and requirements.

## **Part 2 Loan Terms and Conditions**

### **2.01 Types of Loans**

NH Housing offers long-term, deferred payment (also referred to as “capital subsidy” or “subordinated debt”), construction, construction/long-term, energy efficiency, and bridge loans. All loans shall be in compliance with all laws, regulations, program rules (found on the NH Housing [website](#)) for the source of the loan proceeds as well as with the requirements of NH RSA Chapter 204-C.

### **2.02 Types of Projects**

NH Housing finances multifamily rental housing units and mixed-use projects which are newly constructed or substantially rehabilitated, and acquisition financing for the purpose of preserving affordability. Types of projects also include adaptive reuse into affordable housing, 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, NH Housing will not provide financing for acquisition only without a definitive rehabilitation, preservation or development plan.

Any project financed in whole or in part with NH Housing funds, or other federal resources, shall not provide a preference for selecting residents from a specific community or group of communities.

The 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.

All projects funded by NH Housing must comply with the Fair Housing Act, Section 504 of the Rehabilitation Act, and any other applicable state and/or federal requirements.

### **2.03 Project Age-Restrictions**

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

- For projects that receive a reservation of low-income housing tax credits (LIHTC), age restricted projects are defined in the New Hampshire Qualified Action Plan, 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 FHA Risk-Share insurance, age-restricted projects are defined in 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 all general occupancy properties, there shall be no limitations for tenant age.

## **2.04 Loan Amounts**

Loan amounts for construction and long-term loans are not limited, except as required to meet these underwriting standards. NH Housing capital subsidy deferred payment loans are limited as follows.

- The lesser of \$50,000 per-unit or \$2.5 million total for general occupancy projects using 9% LIHTC and the lesser of \$45,000 per-unit or \$2 million total for age-restricted 9% LIHTC projects.
- A maximum of \$100,000 per income and rent restricted unit for tax-exempt bond financed projects, with no maximum overall dollar amount but limited by the availability of funds per NH Housing’s annual program plan (i.e. annual funding budget).

Tax-exempt bond program: Notices of Funding Opportunities (NOFO) may include a per-unit capital subsidy limit that is in excess of these standards or the NOFO may further limit the per-unit capital subsidy limits, due to various factors including the availability of funding resources.

## **2.05 Loan Terms and Amortization Schedule**

### **A. Long-term Loans**

Long-term loans shall have loan terms of not less than 17 years, with amortization of payments not less than 30 years and up to 40 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 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**

Generally, construction loans shall have terms no greater than 36 months and bridge loans shall have terms that correspond to the project’s LIHTC investment equity pay-in schedule. In either case, the project completion requirements (placed in service date) of the LIHTC program apply. Both types of loans will have interest only payments during their term. Construction and bridge loans are generally due and payable at the long-term loan closing; refer to the executed promissory note for specific due dates.

## C. Deferred Payment Loans

NH Housing may provide deferred payment loans that are generally junior to the first mortgage, have a zero interest rate, and require no monthly payments during the term of the loan. NH Housing in its sole discretion may elect to charge interest on these deferred payment loans on a case-by-case basis. Deferred payment loans are due and payable in full at the expiration of the deferred loan mortgage. Repayments on deferred payment loans are made from available surplus cash (reference Section 2.12 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**

Loan interest rates and terms are set in accordance with NH Housing policies established for 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 NH Housing capital subsidy, if final pricing results in a lower rate relative to underwriting, NH Housing reserves the right to increase the long-term loan amount to either reduce the capital subsidy amount, the deferred portion of the developer fee, or to cover escalating development costs, provided that the projected Debt Coverage Ratio (DCR) remains within the limits defined in these Underwriting Standards.

### **2.08 Security**

A first mortgage or first leasehold mortgage is required as security for all long-term 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 subordinate mortgage or a subordinate leasehold mortgage is required 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 long-term, construction, and tax credit bridge loans. Construction loans will require additional security in accordance with the NH Housing's Construction and Bridge Loan Program Rules (HFA 110).

All projects receiving NH Housing financing must maintain income and rent targeting requirements in accordance with the respective program rules. Restrictions will be enforced by the following agreements and other regulatory documents, as required and as applicable:

- Regulatory Agreement;
- HOME Investment Partnerships Program Written Agreement;
- Housing Trust Fund Written Agreement; and
- Land Use Restriction Agreements (low-income housing tax credits, state Affordable Housing Fund, HOME, HTF and others as required by the funding source).

### **2.09 Floodplain Development**

For both federal funds and non-federal funds being considered for the project, the project must comply with 24 CFR Part 55 Floodplain Management requirements to receive funding. Projects that receive federal and/or non-federal funds that are located within the 100-year floodplain are required to obtain flood insurance under the National Flood Insurance Program. No projects will be funded in a community that is not participating in the National Flood Insurance Program.

New construction projects within the FEMA 100- or 500-year floodplain cannot commit units to the HUD Section 811 PRA Program. However, 811 PRA Program funds can go into existing properties in the 100- or 500-year floodplain as long as:

- The structure is flood-proofed or the lowest habitable floor and utilities are elevated above both the 100- and 500-year floodplain;
- The project must have an early warning system and evacuation plan that includes evacuation routing; and
- If the project is within the 100-year floodplain it must obtain flood insurance under the National Flood Insurance Program.

## **2.10 Distributions From Surplus Cash**

NH Housing financed projects may require a limitation on distributions to the borrower depending on the funding source. The annual distribution to a borrower is governed in accordance with HFA 204.12 Distribution Limitations and Performance Indicators.

## **2.11 Equity Take-outs**

On a case-by-case basis, NH Housing may allow equity take-outs for existing affordable housing when the equity take-out is used for purposes that further the mission of creating and/or preserving affordable housing. The following criteria shall be met to be considered.

- Capital Needs Assessment (CNA): all work required per the CNA shall be completed as part of the project and/or budgeted for to ensure that capital needs are properly addressed within an acceptable time period as outlined in the CNA.
- Existing affordability requirements (typically Land Use Restriction Agreements) shall be extended for a period acceptable to the developer and NH Housing, but generally not for less than an additional 10 years.
- Repayment or resubordination of any NH Housing capital subsidy loan(s).
- Other project-specific criteria or factors, at the sole discretion of NH Housing.

## **2.12 Surplus Cash**

In general, when NH Housing provides a deferred payment loan, repayment will be based on a percent of the annual surplus cash (typically 50%) as stated in the project's NH Housing Regulatory Agreement. Repayments will be applied first to accrued interest, if any. NH Housing 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. NH Housing 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 shall 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).** NH Housing requires that a relocation plan, and all necessary notices to tenants (both residential and commercial) under the URA, if applicable, be submitted with the project application if any temporary or permanent relocation is anticipated.

## **2.14 Insurance**

A summary of the closing insurance requirements is posted on the NH Housing [website](#). Detailed insurance requirements will be included in the project's regulatory agreement.

## **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.

### **3.02 Assurances of Completion**

For all projects, including HUD-assisted projects and those that are FHA Risk-Share insured, NH Housing will monitor construction advances to meet requirements for assurance of completion. These requirements include, but are not limited to, the following:

- Continued coverage of surety and insurance as required by HFA 111.15 Bonding and Insurance;
- Completed requisition package, including the architect's and construction inspector's approval for payment, and a general contractor/construction manager's mechanics lien affidavit; and
- A clear title insurance disbursement endorsement for the requisition.

Prior to requesting the Risk-Share final endorsement, NH Housing will ensure that the project conforms to the Project Closeout section of the NH Housing's [Technical Design and Construction Standards](#).

### **3.03 Renewable Energy**

The addition of renewable energy to a project must be done in a manner that meets the requirements of federal funders, such as HUD, and all programs, including the Low-Income Housing Tax Credit Program. NH Housing procurement requirements must be followed as described in HFA 111 Design and Construction Policy Rules.

Sponsors should be aware of the underwriting and regulatory requirements for adding income streams to a project post construction loan closing. If renewable energy is added after the construction loan closing, the developer/sponsor should inform NH Housing as soon as possible so that staff can review the renewable energy procurement and re-underwrite the project to ensure that subsidy layering requirements continue to be met.

## **Part 4 Development Team**

### **4.01 Developer/Sponsor**

The developer/sponsor and development team must demonstrate sufficient experience in the successful development of projects of similar scale and complexity to the proposed project. While loans to the project are non-recourse, NH Housing will review the professional and financial capacity of developer/sponsors as part of the project review process. For all LIHTC projects, refer to Threshold Requirements in the QAP for more details. The following are required:

- Resume of the developer/sponsor, highlighting development experience;
- Resumes for all professional team members including architects, civil engineers, general contractors/construction managers, management company, and any and all consultants used in developing the project;
- Financial statements (preferably audited and/or prepared by a Certified Public Accountant) or their equivalent for the previous three years showing a satisfactory payment history and adequate financial capacity to complete and own the project; and
- Other qualifications as deemed appropriate by NH Housing staff.



NH Housing in its sole discretion may require the developer/sponsor to hire a qualified development consultant as part of the development team if the developer/sponsor lacks the experience to develop the proposed project.

#### **4.02 Limited Partner**

NH Housing must 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 HFA Design and Construction Policy Rules.

#### **4.04 Architect/Engineer**

The architect and engineer must be licensed and registered in the State of New Hampshire and must meet all the requirements of both HFA 111 and the NH Housing's Technical Design and Construction Standards.

#### **4.05 Management Agent**

The management agent must have demonstrated experience with the management of properties subject to federal affordable housing programs and be acceptable to NH Housing. (In this case, "affordable housing" does not include the Housing Choice Voucher program.)

The owner/management agent must provide the management plan, tenant selection plan, affirmative fair housing marketing plan, and a lease or occupancy agreement in their final form prior to the construction (or refinance) loan closing. An executed management agreement (using the current management agreement on NH Housing's [website](#)) is also required prior to the construction loan closing.

Any changes to the management agent initially hired to manage the property must be approved in advance by NH Housing. To obtain NH Housing's approval, the owner must demonstrate that the proposed new management agent is qualified as required in this section and has a record of successful performance at other properties in the NH Housing asset management portfolio.

#### **4.06 Owner's Representative (formerly Clerk of the Works)**

The developer may hire a qualified unrelated (to the developer/sponsor/owner) third party to serve as an owner's representative to be paid from project sources. The developer shall submit the following for NH Housing's review prior to the developer executing a contract with an owner's representative:

- Resume for the owner's representative;
- Written scope of work; and
- Written summary demonstrating how hiring an owner's representative will add value to the project.

In addition to experience with multifamily housing construction and/or rehabilitation (experience must align with the proposed project), the owner's representative generally shall have experience and/or knowledge of the following:

- Section 3 of the Housing and Urban Development Act;
- Davis Bacon Act;

- Construction Contract Administration; and
- Build America Buy America Act.

#### **4.07 Development Consultant**

The developer/sponsor may hire a development consultant to assist in the application and development of the proposed project. As these services provided by a development consultant would normally fall under the developer/sponsor role, the development consultant shall be paid from the developer fee. A copy of the development consultant contract or agreement shall be submitted to NH Housing prior to the construction loan closing.

#### **4.08 Specialized Consultants**

Certain projects require the assistance of technical consultants with expertise that the typical development team could not reasonably be expected to possess. Examples of such technical consultants include solar, historic credits, or passive house experts. In such situations NH Housing, in its sole discretion, may allow reasonable consulting fees to be included in the project budget and not be paid from the developer fee. The sponsor will be required to submit the consultant's resume and the developer-consultant contract for NH Housing's review prior to the construction loan closing. Consulting fees should generally be billed on an hourly basis and not as a percentage of the total cost of construction. NH Housing staff may limit the fee paid from project resources if the fee is deemed to be unreasonable based on factors such as the project characteristics, current market, and scope of work to be performed.

### **Part 5 Underwriting Requirements**

#### **5.01 Application**

Developers/sponsors seeking NH Housing financing and/or LIHTCs must use the current version of the financing application located on NH Housing's website. All applications must be completed in full.

#### **5.02 Sources of Funds**

##### **A. Loan to Value Ratio**

The maximum loan-to-value ratio (LTV) for NH Housing amortizing debt shall be 90% of the appraised value or the sales price, whichever is less. Projects owned or sponsored by a nonprofit or limited equity cooperative the maximum LTV shall be 95% of the appraised value or the sales price, whichever is less. Value will be determined by a NH Housing-commissioned appraisal. In limited circumstances, NH Housing may consider an appraisal commissioned by a third party, listing the NH Housing as an intended user.

##### **B. Developer Fee**

- The Developer Fee is not a guaranteed or automatic budgetary line item and must be approved by NH Housing for each project.
- For purposes of calculating the maximum developer fee allowed, NH Housing 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 nonprofit entity.

- For projects with LIHTCs, NH Housing will follow the development services agreement or operating agreement for the developer fee pay-in schedule. Modifications to the payment schedule may be made on a case-by-case basis to reflect specific requirements of a project's equity investor provided that, at NH Housing's discretion, sufficient performance-based incentives are maintained to achieve timely construction completion, final closing, and rent-up of the project. For all other projects where there is an eligible developer fee, up to 33% of the Developer Fee, net of developer fee loan (if applicable), may be paid at construction loan closing with the balance held for payment until after construction completion.
- For rehabilitation of existing housing, in order for a developer to earn a Developer Fee, a minimum of \$6,000 per unit of rehabilitation is required.
- For construction projects where construction management is used, NH Housing reserves the right to withhold the developer fee at loan closing until the developer has provided the necessary documentation to satisfy the guaranteed maximum price requirements in HFA 111 Design and Construction Policy Rules.
- Where there is an identity of interest between the builder and developer, and construction costs exceed \$2.5 million, the sum of the developer 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 \$2.5 million, the sum of the developer fee plus the builder's overhead, profit, and general conditions (CM fee) may not exceed 20% of the total development cost.
- Maximum Developer Fee Calculation:
  - i. The maximum fee in any case shall 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 per-unit.
  - iii. General Occupancy projects:
    - \$23,760 per-unit for first 10 units;
    - \$19,440 per-unit for next 30 units;
    - \$16,200 per-unit for next 60 units; and
    - \$7,020 per-unit for any unit above 100.
  - iv. Age-restricted projects:
    - \$21,600 per-unit for first 10 units;
    - \$17,280 per-unit for next 30 units;
    - \$14,580 per-unit for next 60 units; and
    - \$7,020 per-unit for any unit above 100.
- 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 (not including the developer fee). However, the difference between the developer fee that would have been otherwise allowed under section 5.02.B above (maximum developer fee per-unit calculation) 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 loan is defined as a loan, independent of any developer fee loan, provided by the developer/sponsor of a project that is receiving NH Housing financing. A seller loan is defined as a loan provided by the seller of the property of a project that is receiving NH Housing 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 NH Housing policies. 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.
2. Seller/sponsor loans are permitted as amortizing and/or deferred payment loans. Interest may be permitted on such notes with NH Housing approval; however, interest 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 a NH Housing deferred payment loan is NH Housing's operating fund, no interest may be charged on sponsor/seller notes.

### D. LIHTC Equity

On all LIHTC projects that receive NH Housing financing (bridge, construction, or deferred payment loans), NH Housing will require that 18% of the Limited Partner's LIHTC equity be made available during the construction period (prior to receipt of a certificate of occupancy), unless the developer demonstrates that an alternative pay-in schedule that does not meet this requirement provides a financial benefit to the project.

The developer shall submit a written explanation to NH Housing evidencing the benefit of an alternative pay-in schedule. When negotiating with a syndicator or investor, developers should consider project-specific factors, such as construction loan interest costs and timing of equity pay-in.

### E. Holdbacks

NH Housing will hold back 2% of all HOME and/or HTF deferred payment loans until HOME and/or HTF tenant beneficiary data is submitted to NH Housing.

### F. HOME/HTF Underwriting

1. NH Housing will underwrite projects funded with HOME and/or HTF funds using 24 CFR Part 92 and 93, respectively, as well as HUD's published guidance. NH Housing, in its sole discretion, will only allow certain eligible costs to be paid by these funds. Please refer to Attachment A to these Underwriting Standards for more information, which can be found on NH Housing's [website](#).
2. HOME and HTF loans will be underwritten to the following terms:
  - (a) HOME Loans:
    1. Underwriting term: 20 years;
    2. Loan term: 30 years; and

3. LURA term: 20 years.

(b) HTF Loans:

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

3. HOME and HTF: the affordability period begins upon construction completion and when the project is entered into HUD's Integrated Disbursement Information System in compliance with HUD requirements.

### **5.03 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. Rents will be underwritten at the lower of: (a) 98% of maximum allowable LIHTC rent; (b) 98% of maximum allowable HOME or HTF rents (for units assisted with 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 determined by NH Housing in its sole discretion.
2. For projects with a commitment of project-based rental assistance, rent associated with 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) 100% of market rent in the area as determined by third party reports.
3. For projects that are financed with a USDA Rural Development (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 rental assistance 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 (PRA) 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. NH Housing 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 agreeing to commit units to the 811 PRA Program.
5. Non-tenant based 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 a realtor or other qualified industry professional to 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 the NH Housing amortizing debt (as applicable). NH Housing reserves the right to reduce the projected pledged rents in order to ensure project feasibility if the pledged rent asset fails to perform as anticipated.
6. Gross rent for the purpose of underwriting includes contract rent net of utility allowances but does not include any other fees.

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

#### B. Other Income

In general, NH Housing 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 a risk analysis performed by NH Housing. 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 current operating expense budgets which have been reviewed as reasonable by the professional management agent who will be managing the project. NH Housing will determine the reasonableness of these expenses based on operating expense data of similar properties and may require that adjustments to the operating budget be made in a project's application.

Investor servicing fees shall be paid from surplus cash after payment in full of any developer fee loan and then payment of any required NH Housing deferred payment loan payments.

#### E. Management Fee

All operating budgets shall include the sponsor's estimated annual management fee. The management fee will be reviewed for reasonableness compared to the market.

NH Housing staff reserves the right to adjust the fee based on data of projects of similar size and construction. NH Housing may require supporting documentation from the sponsor and/or the management agent as backup for any proposed management fee.

#### 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 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 NH Housing's 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 NH Housing for consideration.

2. Project income and expenses will be projected for 20 years unless program regulations require a longer outlook. The project should be able to fund all operating expenses and debt service payments for at least a 12-year projection period utilizing NH Housing's trending assumptions. Any NH Housing-financed project with a projected operating deficit during the 12 to 20 year projection period will be required to ensure that funds in the capitalized operating reserve are sufficient to cover the projected project cash flow shortfall amount during that period.

#### 5.04 Pro Forma

##### A. Debt Coverage Ratio (DCR)

1. The forecasted initial year DCR shall, 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 20-year projection.
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 without the need for a NH Housing waiver for the initial year DCR being greater than 1.45.
3. In the case of a project supported by a long-term rental assistance subsidy contract or other extenuating circumstance, the initial year DCR 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 LIHTC 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, NH Housing will review the proposed DCR and the 20-year cash flow projection to ensure that a project receives no more capital subsidy or LIHTCs 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 NH Housing capital subsidy relative to the need when underwritten using NH Housing'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 low-income housing 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 coverage ratio (total annual operating expenses divided by the annual gross operating income) of 85% or less is required in year one.
2. NH Housing may re-underwrite the project upon receipt of the project's application, if a

NH Housing deferred payment loan is a source, 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 a syndicator, investor, and/or lending institution that applies more stringent underwriting criteria or less favorable loan terms, thus requiring the need for additional NH Housing capital subsidy in spite of the availability of more favorable terms from other syndicators, investors, and lending institutions (including financing from NH Housing), the developer/sponsor may be required to fill the resulting subsidy gap with a developer fee loan or a cash contribution to the project.

## 5.05 Development Budgets

The development budget must be completed in full in the NH Housing Financing Application with current estimated costs. A summary of eligible projects costs (overall eligible and eligible/ineligible by source of funds) can be found on NH Housing's website: Underwriting Standards - Attachment A. All projects covered by these Underwriting Standards shall conform to the requirements included in Attachment A.

### A. Land and Building

- Land and building costs shall be substantiated by an independent third-party valuation or appraisal.

### B. Construction Budget

- The construction budget must reflect reasonable and current estimated costs giving consideration to the scope of the project and market conditions.
- In general, the developer's construction contingency shall be 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 NH Housing financed projects, using the S&U schedule tab on the financing application.

### C. Soft Cost Budget

NH Housing will review the soft cost budget to determine that the budget is both reasonable and adequate. Budget line items may be adjusted by NH Housing to levels actually incurred by other similar projects recently financed by NH Housing, unless variances are satisfactorily justified by the developer/sponsor. Please see additional requirements below.

#### **Title Insurance**

NH Housing's general counsel will handle all title insurance policy work.

#### **Furniture, Fixtures, and Equipment (FF&E)**

FF&E are nonpermanent items that are not integral to the project's structure but are considered business assets that are utilized in the day-to-day operations of the project.



All developers must submit a list of the items with estimated costs that are included in the FF&E development budget in NH Housing's financing application prior to loan closing. This shall include FF&E items outside of the construction contract. Items included in this budget must adhere to the following qualifications. All FF&E shall stay on the property of the project.

All items shall be new. NH Housing may approve refurbished items, on a case-by-case basis if there is reasonable justification for not purchasing new.

Below is a list of items considered acceptable as FF&E. This is not a complete list; however, any items included in the budget that are not listed below will require approval by NH Housing.

All costs should be reasonable and appropriate.

#### Furniture

Furniture includes items that are used by residents, guests and staff for living in and operating the project. This includes desks, chairs, couches, bookcases and other reasonable furniture for use in management offices, service coordinator space, common areas and other similar areas.

#### Fixtures

Fixtures include items that are generally considered personal property but due to the attachment to the project, are considered as being part of the real estate. This includes artwork, lamps and whiteboards.

#### Equipment

Equipment includes items that are not readily attached to the real estate but necessary for operations, such as computers/servers/monitors, phones, and laundry equipment.

FF&E does not include operating costs (maintenance costs, property management cost) and supplies such as, *but not limited to*, the following: costs associated with repair and/or replacement of equipment, cleaning solutions, computer ink and paper. It also does not include immovable parts such as faucets and toilets; these items are included in the construction budget.

### **Rent-up Expenses**

The developer/sponsor may budget for rent-up expenses and is required to submit an absorption schedule and a budget detailing the proposed amount of the rent-up expense line item broken down by category. The rent-up expenses shall fund the following categories: 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, upon approval by NH Housing.

### **Developer Fee Loans**

NH Housing expects developer fee loans not to exceed 50% of the maximum developer fee allowed; however, a higher developer fee loan will be permitted as long as financial projections show that the developer fee loan is expected to be paid in full during the 15-year compliance period. Interest may not be charged on developer fee loans. Developer fee loans shall be paid from available surplus cash in priority to any NH Housing deferred payment loan or other loans.

For all developer fee loans, 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.

## Reserves

1. In general, NH Housing will hold all reserve and escrow accounts. NH Housing, in conjunction with the equity investor, will allow the first mortgagee to hold some or all of the reserve and escrow accounts. However, if an NH Housing deferred payment loan is being used as financing, NH Housing will generally hold the replacement reserves.
2. For new construction projects, the following reserves will be required to be funded no later than long-term loan closing and prior to the issuance of IRS form 8609.

- i. **Operating reserve:** Generally, an amount equal to four to six 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, NH Housing 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 NH Housing 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 Distribution Limitations and Performance Indicators

- ii. **Replacement reserve:** A minimum amount equal to \$500 per-unit shall be capitalized for most project types. Additional reserves may be required based on an NH Housing commissioned CNA or other analysis completed on the property. Annually, \$500 per-unit shall be deposited into the reserve. In general, the annual rate of deposits will increase by 3% annually.
    - iii. **Insurance escrow:** An amount equal to one full year's property and liability insurance premium meeting the NH Housing requirements will be escrowed at loan closing. The necessary construction period insurance premium shall be paid in full at loan closing. NH Housing must be named as loss payee on all policies.
    - iv. **Real estate tax escrow:** At long-term 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 projects with at least a three-year operating history, NH Housing will require both a real estate tax and an insurance escrow be funded at the levels stated above. A replacement reserve will also be required, funded at a level based on NH Housing's Design and Construction Standards for Rehabilitation. An operating reserve may be required based on the project operating history and whether there is a Housing Assistance Payment contract at the property. Both the operating reserve and the replacement reserve amounts will be determined by NH Housing in its sole discretion.

## 5.06 Third Party Reports

### A. Appraisal

Acquisition costs which exceed the appraised value are generally not eligible to be financed using NH Housing funds, except under extenuating circumstances with NH Housing approval. The acquisition price is limited to the lesser of the sale price or appraised value. The appraisal must comply with all requirements of the Uniform Standards for Professional Appraisal Practice (USPAP). In general, when NH Housing provides long-term financing (amortizing first mortgage debt) NH Housing will commission an appraisal report. If NH Housing is providing debt other than a long-term first mortgage, such as a deferred payment loan or a construction loan, it may rely on appraisal reports commissioned by the long-term lender, provided that NH Housing is listed as an interested party or intended user.

### B. Environmental

For all NH Housing financed projects, a satisfactory Phase I Environmental Site Assessment (ESA) report is required. The Phase I ESA report must conform with the requirements of the most recent edition of the ASTM Standard Practice for Environmental Site Assessments: Phase I ESA Process.

In order to be valid for a property transfer, the Phase I ESA report must be current. Current means that the report is still within a year of the effective date of the report. If more than 180 days but less than a year has lapsed from the report's effective date, the following components of the Phase I report must be updated in a letter:

- Interviews with past and present owners, operators, and occupants (40 CFR 312.23)
- Searches for recorded environmental cleanup liens (40 CFR 312.25)
- Reviews of federal, tribal, state, and local government records (40 CFR 312.26)
- Visual inspections of the facility and adjoining properties (40 CFR 312.27)
- The declaration by the EP (40 CFR 312.21)

If a year or more has lapsed from the report's effective date, a new Phase I report must be obtained and submitted to NH Housing.

Projects that are receiving federal funding (such as HOME, Project-Based Vouchers or FHA Risk Share insurance) will be required to submit the appropriate HUD 24 CFR §58 Checklist(s). The Checklist(s) must be submitted to HUD (by NH Housing) for a release of funds before a project loan closing can occur. The federal Housing Trust Fund (HTF) requires an environmental review as well, but the requirements for this funding are found at 24 CFR §93.301(f). HTF funding does not require a release of funds from HUD.

If adverse environmental conditions are found at the property through the environmental review process, NH Housing will require an adequate mitigation plan and budget to cure such conditions. Additionally, buildings planned for renovation should follow certified asbestos and lead testing completed as outlined in NH Housing's Technical Design and Construction Standards for Rehabilitation.

In general, Phase I ESA reports should be commissioned by the developer/sponsor. If a HUD Checklist(s) is required, it shall be completed by a third-party professional selected by NH Housing.

### 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. All surveys must include the following:

- North arrow shown;
- Legend of all symbols used;
- Location of all buildings on the surveyed property;
- Evidence of any easements burdening and/or appurtenant to the surveyed property, including notes to be placed on the face of the plan indicating scope of easements;
- Complete boundary survey showing metes, bounds, and closures;
- Location of all springs, ponds, lakes, streams, and rivers bordering on or running through the surveyed property;
- Location of any existing utilities;
- Narrative metes and bounds;
- Any other matters revealed by the title search;
- Other matters deemed reasonably necessary by NH Housing and/or its counsel; and
- Certification of land surveyor including the date of field work, date of map/plan, surveyor's signature, printed name, and seal with registration and/or license number.

### D. Market Study

1. An independent, comprehensive, and professional market study will be required for all projects that apply for LIHTCs as outlined in the NH Qualified Allocation Plan – Threshold Requirements. The market study must be performed by one of the approved providers listed on the NH Housing Market Study Provider List and shall meet the Market Study Report Requirements (see NH Housing's [website](#)).

NH Housing has no liability to the developer or any other party of the proposed project based on NH Housing's use of the market study to make financing decisions. The developer is responsible for the project's feasibility and lease-up.

2. NH Housing may require the completion of an independent market study for non-LIHTC projects meeting the requirements described in the Market Study Report Requirements 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 NH Housing's purpose, the date of the site inspection conducted by the market study provider will be the effective date of the report. The effective date must be clearly stated on the cover page or in the executive summary section of the report.
  - For a market study with an effective date that is six to 24 months old at the time of application submission and with no material changes to the development and/or market, the analyst can provide a letter stating that there are no material changes since last report dated - insert date of original market study. If there are material changes, the market study must be updated to include a detailed discussion about those changes. A market study with an effective date older than 24 months will not be accepted.

4. NH Housing may require an additional market and rent analysis, to be commissioned at the developer/sponsor's expense, if determined by staff to be necessary to confirm market feasibility, or if required by other parties such as participation lenders, investors or insurance companies.

#### E. Rehabilitation/Construction Risk Management

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

## Appendix A – Subsidy Layering Policy

The NH Housing subsidy layering policy is used to evaluate and ensure that the level of Federal, State and/or NH Housing subsidy to a NH Housing-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 NH Housing closing documents and policies, as outlined below.

- Maximum per-unit limits – NH Housing 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 and/or HTF.
- Cost allocation – Cost allocation for HOME and/or HTF units will follow 24 CFR Parts 92 and 93, respectively, as well as HUD’s published guidance.
- Written agreements – Written agreements for HOME and/or HTF will follow 24 CFR Part 92 and 93, respectively, 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 NH Housing.
- Property standards – Projects that have NH Housing-financed Federal funds will be monitored by NH Housing using the guidelines established by HUD (24 CFR § 5.703).

Rent & Utility allowances – Projects will have their rent and utility allowances underwritten using the latest available allowances determined by HUD, or other methods as determined in the guidelines found on NH Housing’s website: [NH Housing Utility Allowance Guidance](#).

- Market assessment – NH Housing will make a project market assessment based on one or more of the following: a market study, NH Housing market research including local market assessment, and rent trends in neighboring NH Housing-financed projects as outlined in these NH Housing Underwritings Standards.
- Developer capacity – Developers will be evaluated as outlined in these NH Housing Underwriting Standards. Developers of LIHTC projects will be further evaluated as outlined in the QAP.
- Sources and uses – Sources will be evaluated and uses will be reviewed for reasonableness for the project size and scope using these NH Housing Underwriting Standards.
- Pro Forma – The pro forma will follow DCR trending found in these NH Housing Underwriting Standards.
- Project expenses – Project expenses will be reviewed for reasonableness and adjusted by NH Housing if deemed necessary.
- Developer profit – Developer profit will be determined based on these NH Housing Underwriting Guidelines.

## **Appendix B – Balloon Structure Underwriting Standards**

### **Section 542(c) Risk Share Balloon Structure Underwriting Requirements**

All underwriting will be completed using the NH Housing financing application form.

#### **RISK ANALYSIS AND SENSITIVITY ANALYSIS INITIAL AND EXIT**

##### **UNDERWRITING**

Both Initial and Exit underwriting will be conducted prior to NH Housing loan approval and commitment. The loan must meet current NH Housing 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 Debt Coverage Ratio (DCR): Per NH Housing's Underwriting Standards
  - Loan-to-Value (LTV): Per NH Housing's Underwriting Standards
  - Minimum Term / Maximum Amortization: 17-year term / 40-year amortization
  - Interest Rate Cushion: determined at the time of Initial Underwriting
  - Vacancy Assumptions: Per NH Housing's Underwriting Standards
- **EXIT UNDERWRITING**
  - Exit Cap Rate: Initial Cap Rate + 2.0%
  - Exit Interest Rate: Initial Interest Rate + 3.0%
  - Exit DCR: 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**

NH Housing's underwriting analysis will include the ability to adjust the following parameters based on NH Housing's Underwriting Standards 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 NH Housing'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 NH Housing's underwriting standards.

## Appendix B – Balloon Structure Underwriting Standards (continued)

### **ASSET MANAGEMENT**

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

- Monthly delinquency monitoring.
- Quarterly income & expense reporting.
- Regular monitoring and management of reserves and escrows. This includes tax escrow, insurance escrow, replacement reserve (see HFA 204 Replacement Reserve and Residual Receipts Rules) and other reserves as applicable. Withdrawals from the replacement reserve are reviewed for appropriateness of scope, bidding and performance including on-site confirmation of work quality. For work valued at \$20,000 or greater, owners must solicit and receive at least three bids from qualified contractors or suppliers.
- Loan will have a REAC inspection conducted by HUD. The cost of these inspections will be paid from the property's replacement reserve.
- Annual review of audited financial statements, budgets and loan risk rating.
- Annual on-site management review including Tenant File Reviews, and financial review.
- Physical inspection of property and units are conducted by a REAC inspector and the frequency is dependent upon the score. If the property is a Section 8 PBCA an inspection of the physical and common areas will be performed based on the Section 8 risk rating performance.
- Non-performance or other red flag concerns related to the performance of the property would place the property on the cross-departmental Multifamily 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.



MULTIFAMILY HOUSING DIVISION

# UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES

Multifamily Finance

JULY 10, 2024

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**NHHousing.org**

New Hampshire Housing promotes,  
finances, and supports housing solutions  
for the people of New Hampshire.