HUD/FHA Risk Share Program Underwriting Guidelines

The following are the underwriting standards for RIHousing financed Risk Share Transactions. Please refer to the RIHousing *Developer's Handbook* for detailed underwriting requirements.

Eligible Mortgagor:

Borrower must be a single asset mortgagor. For-Profit, Non-Profit, Limited Dividend entities eligible.

Maximum Loan Amount:

Maximum 90% of the appraised value based on lower of:

- Option A: Lesser of Section 8 rents or market rents
- Option B: Lesser of 60% tax credit or market rents

Debt Service Coverage:

Minimum 1.15

Loan Term:

30, 35 and 40 year fully amortizing terms available

Affordability Requirements:

Properties must meet one of the following criteria:

- 20% of the units are affordable to households at 50% median income; or
- 40% of the units are affordable to households at 60% median income.

Affordability requirements are required for the term of the RIHousing loan but in no event shall they be less than 30 years.

Subordinate Financing:

Allowed subject to RIHousing requirements. Any subordinate amortizing loans will be included in the 1.15 debt service ratio calculation. All subordinate loans and ancillary documents must be subordinate to the RIHousing first mortgage.

Interest Rates:

A fixed rate will be determined using our cost of funds plus an appropriate margin dependent on market conditions, loan size and other relevant credit considerations plus credit enhancement. Please contact RIHousing for current rates.

Security:	All Risk Share Loans shall be secured by a first priority mortgage (fee simple or leasehold) that meets the requirements of the HUD-FHA Risk Share Program.

Development Team Review

Developer:	The developer (including mortgagor, sponsor and consultant) must demonstrate the expertise, capacity and financial capability to undertake the proposed development project. Developer must demonstrate they have successfully completed projects of similar scope, size and complexity.
Architect:	An architect licensed to practice in Rhode Island is required. Requirements for plans and specifications are outlined in the Design and Construction guidelines published in the RIHousing Developer's Handbook.
General Contractor:	General Contractor (GC) must demonstrate they have successfully completed projects of similar scope, size and complexity. An AIA 305 Contractor Qualification Statement is required. The GC must provide a 100% payment and performance bond or alternative financing instrument (such as a Letter of Credit) guaranteeing completion acceptable to RIHousing in its sole discretion.
Management Agent:	Management Agent must demonstrate experience in affordable housing management. They must submit a management plan demonstrating acceptable financial reporting and controls, maintenance systems, tenant selection procedures, affirmative fair marketing plan, and tenant outreach.
HUD 2530:	HUD Previous Participation Clearance Forms are required for all sponsors, owners, management agents, contractors and consultants.
Reserve Requirements:	**All reserves will be held by RIHousing**
Operating Reserve:	**New Construction transaction:** Initial deposit equal to six months of operating expenses and six months of debt service.

	Preservation Transaction: Initial deposit equal to six months of operating expenses and six months of debt service minus the initial deposit to the replacement reserves.
Replacement Reserve:	**New Construction transaction:** Initial deposit equal to first year of Replacement Reserve deposits. Annual contributions determined based upon projected needs of the development. **Preservation Transaction:** Initial deposit equal to $2,000 per unit. Annual contributions determined based upon scope of rehabilitation work and projected needs of the development. RIHousing reserves the right to require a higher Replacement Reserve based upon the Capital Needs Assessment (CNA).
Insurance Reserve:	**Escrow impound equal to 6 months of annual premium. Current Insurance Requirements may be found in the Developer's Handbook.**
Real Estate Tax Reserve:	Escrow impound equal to 6 months of annual premium.

Other Due Diligence

Appraisal:	The reports must be commissioned by RIHousing, in conformance with RIHousing Requirements for Appraisal Assignments by an independent appraiser approved by RIHousing. All appraisals will be according to the Uniform Standards of Professional Appraisal Practice (USPAP). As-is and As-complete valuations for the property(s), including land values and market information about rents and absorption rates of the units, are required.
Market Study:	A market study is required for all new production transactions and may be required for preservation transactions. The reports must be commissioned by RIHousing and meet NCHMA standards.
Environmental Review:	Phase I Environmental Site Assessment according to the current ASTM standards. At the discretion of RIHousing, a Phase II environmental report may also be required.

Construction/Rehabilitation:	All plans, specifications and Capital Needs Assessments will be reviewed and approved by RIHousing to determine conformance with the Design and Construction guidelines published in the RIHousing Developer's Handbook. The construction cost breakdown will be reviewed to ensure it is adequate to cover the approved scope of work.
Capital Needs Assessments:	Required for all occupied developments. All CNAs must include a Long Term Physical Needs Cost Summary that utilizes a Remaining Useful Life Schedule to estimate the repairs and replacements that will be required to maintain the property's physical integrity over the life of the loan.

ADDITIONAL RISK SHARE UNDERWRITING REQUIREMENTS FOR MORTGAGES WITH BALLOON PAYMENTS

The following are additional underwriting standards for RIHousing financed Risk Share Transactions proposing loans with balloon payment structures.

HUD Risk Share:	Level I 50/50 Risk Share
Vacancy Allowance:	Minimum 5%
Amortization Schedule/Term:	Loan Term: minimum of 17 years Amortization: up to 35 years for moderate rehabilitation and up to 40 years for substantial rehabilitation
Developer/Mortgagor:	In addition to standard RIHousing underwriting requirements, Developer must demonstrate a minimum of 10 years of development experience and ownership of affordable properties of similar size.
Management Agent:	In addition to standard RIHousing underwriting requirements, Management Agent must demonstrate a minimum of 10 years of successful management of affordable properties of similar size.

Credit Capacity of Developer/Guarantor:

Mortgagor must have acceptable credit history, balance sheet and financial resources to ensure long term economic viability and capacity to undertake a refinance at the time of balloon payment.

Replacement Reserves:

All minimum standard Replacement Reserve requirements must be met. Prior to closing, the Capital Needs Assessment and 20-year reserve schedule must be updated based on final scope of work to determine annual replacement reserve deposits.

A new Capital Needs Assessment must be commissioned in the 10th year after construction completion to determine adequacy of existing Replacement Reserves and potential changes to the Replacement Reserve deposit schedule to ensure physical viability. The report can be commissioned by the owner but RIHousing must approve the vendor. The expense will be considered an eligible Replacement Reserve cost.

Construction Contingency:

Generally, 10% on rehabilitation projects; 7.5% on new construction projects

Exit Strategy:

Borrower must demonstrate an exit strategy, acceptable to RIHousing in its sole discretion and shall at a minimum include:

(1) Demonstration of potential for sale and re-syndication
(2) Financial analysis based upon an interest rate increase at time of balloon payment
(3) Negative trending through term of the loan
   - 2% income
   - 3% expenses (including RE taxes unless eligible for RE abatement based on state law)
   - 2% replacement reserve deposits

End of Term Marketability:

Year 14 of Permanent Loan

(1) Borrower will be required to commission an appraisal by a RIHousing approved appraiser, to establish a value and determine demand for the development. Such appraisal shall include a determination of market rents and be underwritten to the lower of HAP or market rents in accordance with program requirements.

(2) Borrower must demonstrate that they have a capable partner to purchase the property and maintain all applicable affordability requirements.

End of Term LTV Methodology: Valuations to include:
(1) Remaining term of affordability restrictions (original terms of 30 years for LIHTC and 40 years for bond financing)
(2) Changes in capitalization rates, interest rates and other factors potentially affecting value.

Evaluation Checkpoints: (1) Annual asset management review of the development including physical inspection and annual audits.
(2) 10-year Capital Needs Assessment (as per above)
(3) If deemed necessary based on the annual asset management review, RIHousing may require a Capital Needs Assessment prior to year 10.

This is not an offer to make a loan. This term sheet shall serve as an outline of this loan program's underwriting criteria and is for discussion purposes only. We are committed to working with Borrower's to find mutually agreeable terms. For more information, contact Anne Berman, Director of Development, at (401) 457-1269.