

DSHA UNDERWRITING GUIDELINES

Construction Guidelines:

General Contractor's Overhead and Profit

10% of construction costs including: site work, buildings and general requirements.

General Requirements:

8% of construction hard costs for new construction and for acquisition/rehabilitation, 10% of rehabilitation costs.

Additional general requirements may be allowed for contractors recycling building materials. See DSHA Cost Cert Guide for further information.

Contingency:

5% for new construction and 10% for rehabilitation based on the cost of buildings, site work, general requirements and contractor's overhead and profit.

Only one contingency is allowed. Contingency may be used to fund additional Developer fee under certain conditions. See Cost Cert Guide and Developer Fee footnote.

Land & Acquisition Value:

Price must be supported by approved appraisal. Appraisers must contact DSHA for comparable land cost analysis. DSHA reserves the right to request a second appraisal. See DSHA for guidance and Exhibit 53 for additional details.

Development Cost Guidelines:

*Developer Fee:

10% of Total Development Cost excluding developer fee, transferred reserves, bond prepayment penalty and land cost. For identity of interest acquisitions of existing rental properties, the fee is 8½% of the Total Development Cost excluding developer fee, transferred reserves, bond prepayment penalty and land cost. **In all cases, developer fee may not exceed \$1,000,000.**

Working Capital Escrow:

2.5% of the combined construction mortgages. Amount will be released at permanent closing assuming there are no outstanding constructions or financial issues.

Operating Reserve Escrow:

Four months of operating expenses, including debt service and replacement reserves. Must be funded at construction closing for acquisition/rehabilitation developments.

*NOTE: If applying for HDF funding, please review the HDF Supplement for further definition.

DSHA may consider an increase in the Developer's Fee at permanent loan closing in an amount up to 12.5% of the original Contingency line item as recorded in the DSHA Building Loan Agreement executed at construction closing (or in the absence of such document, as indicated in the DSHA approved proforma) provided that the following conditions are met:

1. There are sufficient unexpended funds in the contingency to reduce the DSHA permanent loan(s) by the same amount as being paid in additional developer's fee or if there are no DSHA permanent loan(s), to reduce the total development costs by the same amount as being paid in additional developer's fee; and
2. The original construction contract amount and increases in the construction contract amount required by approved change orders have been fully paid as indicated by the contractor's and mortgagor's cost certifications; and
3. The contingency funds are not otherwise required to fund approved development costs including but not limited to, required reserves or escrows; and
4. No funds have been transferred from other approved line items to the contingency and
5. Payment of any additional developer fee and subsequent reduction in DSHA permanent loans or the total development costs will not result in a decrease in the annual amount of Tax Credits or decrease in the amount of LIHTC equity contributed to the development.

ATTACHMENT 1 (CONTINUED)

Equity Factor:

DSHA requires that a minimum of .72 cents on the dollar of net equity be raised and contributed to the development. However, DSHA reserves the right to amend this amount due to changing market conditions. Net equity is defined as all equity raised for the development less syndication fees imposed by syndicator and allowances by DSHA (i.e., legal/accounting fees, 1% allocation/carryover fees and monitoring fee amounts. Excess may be used to fund investor/DSHA-required operating reserves and transition/subsidy reserves upon consent of DSHA). DSHA will underwrite and allocate acquisition credits based on the applicable rate issued by the Treasury Department one (1) month prior to application submission.

Relocation:

All state and federally financed, federally and state subsidized, or conversion properties must follow all Federal Uniform Relocation Act regulations as applicable and DSHA's Relocation Policy. Relocation assistance must be included as part of construction costs. DSHA must approve all relocation plans and correspondence to residents. At the time of application, the applicant may assume the risk for over-income residents and apply for the full amount of credits needed. However, at the carry-over allocation, verifications/certifications of current residents' income must be analyzed for eligibility. If the applicable fraction from application to construction closing/carryover allocation changes due to over-income residents that results in a loss of credits, the difference in any equity reduction will be the responsibility of the owner not DSHA. Relocation expenses include resident moving expenses, utility deposits, off-site rents, management administration and other relocation expenses allowed

under the URA. DSHA will allow up to \$3,000 per unit.

Relocation Operating Deficit Reserve:

DSHA allows up to \$1,500 per unit for a relocation operating deficit reserve for operating deficits caused by off-site relocation. This line item cannot be included in eligible basis. Any funds remaining will be applied to DSHA's loans, if applicable.

Bond Prepayment Fees:

Bond prepayment fees shall be included as part of the seller's costs and included in the acquisition price provided such payment is supported by an appraisal.

Operating Proforma Underwriting Guidelines:

Operating Income:

Must include rents and laundry income. Other income must be supported with written documentation.

Rents should be affordable for the market area. Please contact DSHA for comparable tax credit rents in the area of the proposed development.

For federally financed or subsidized properties, the contract rents approved by HUD/Contract Administrator must be used for the contract period. Tax Credit rents must be used after any subsidy period expires.

Interim income can only be used for HUD/DSHA approved operation expenses of the property and not for construction expenses except by written consent by HUD and DSHA as the case may be. For Subsidized Developments, existing escrows and interim income may be used to fund required reserves (contact DSHA for Guidance).

Operating Expenses:

Between \$4,200-\$4,600 per unit (for non-subsidized properties).

Between \$5,200 and \$5,800 per unit (for federally subsidized properties).

(See DSHA for guidance).

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| Debt Coverage Ratio: | <p>1.15:1 Loan to Value ratio of 50% or less.</p> <p>1.20:1 Loan to Value ratio of 51%-80%.</p> <p>No Negative cash flow within first 20 years of loan will be accepted. All first mortgages must have a term of 20 years or more unless otherwise approved by DSHA.</p> |
| Annual Replacement Reserves: | <p>New Construction: .006 of cost of Buildings or \$500/unit for properties with 32 units or less.</p> <p>Rehabilitation: \$500 - \$1500 per unit.*</p> |
| Replacement Reserves: | <p>Existing federally financed or subsidized properties that have replacement reserve funds in escrow. These existing funds may be used for capital improvements (rehabilitation expenses) or to re-establish new reserve escrows. Note: Reserve funds cannot be counted towards eligible basis.</p> <p>*\$1,500 per unit replacement reserve can be established during construction. Interim Income can be used to establish the reserve. If at permanent closing the \$1,500 per unit balance has been met, the annual replacement reserve per unit cost will reduce to \$500 per unit.</p> |
| Trending (20-year proforma): | <p>Income: 3%</p> <p>Expenses: 4%</p> <p><u>Section 8 Properties:</u> Trending must be approved by Contract Administrator prior to application submission.</p> |
| Vacancy Rate: | 5-7% (contact DSHA for guidance) |
| Management Fee: | 8% of gross income (exceptions made for subsidized developments) |
| Operating Proforma: | Must be approved by Development's management entity and for federally subsidized properties, the contract administrator must also approve the proforma. |

Note: Deviations from the above guidelines must be submitted in writing and approved by DSHA.

