

DSHA HDF LOAN
UNDERWRITING GUIDELINES

Construction Guidelines

A. General Contractor's Overhead and Profit

1. Maximum 10% of construction costs including site work, buildings and general requirements.
2. For General Contractors that are part of the Development Team **at** application the following applies:
 - a. Maximum 7% of construction costs including site work, buildings and general requirements.
3. No increase in the percentage of overhead and profit will be allowed.

B. General Requirements

1. Maximum 8% of construction hard costs for new construction
2. Maximum 10% of rehabilitation costs for acquisition/rehabilitation
3. For General Contractors that are part of the Development Team **at** application the following applies:
 - a. Maximum 7% of construction hard costs for new construction
 - b. Maximum 8% of rehabilitation costs for acquisition/rehabilitation
4. No increase in the percentage of general requirements will be allowed

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

C. Contingency

1. 5% for new construction and 10% for rehabilitation based on the cost of buildings, site work, general requirements and contractor's overhead and profit.
2. Only one contingency is allowed.

D. Land and 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.

Development Guidelines

A. Developer Fee

1. 12% of Total Development Cost excluding developer fee, transferred reserves, bond prepayment penalty, relocation operations deficit reserve and land cost.
2. For identity of interest acquisitions of existing rental properties, the fee is 9% of the Total Development Cost excluding developer fee, transferred reserves, bond prepayment penalty, and land cost.
3. In all cases, the developer fee may not exceed \$1,000,000.

B. Working Capital Escrow

1. 2.5% of the combined construction mortgages (for total loans exceeding \$1 million). Amount will be released at permanent closing assuming there are no outstanding financial or construction or issues.

C. Operating Reserve Escrow

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

D. Relocation

1. All state and federally financed, federally and state subsidized, or conversion properties must follow all Federal Uniform Relocation Act (URA) 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.
2. 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.

E. Bond Prepayment and Broker Fees

1. Bond prepayment and broker 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**A. Operating Income**

1. Must include rents and laundry income and income from solar energy, as long as it benefits the property and/or residents. Other income must be supported with written documentation.
2. Rents should be affordable for the market area. Please contact DSHA for comparable rents in the area of the proposed development.
3. For federally financed or subsidized properties, the contract rents approved by HUD/USDA Contract Administrator must be used for the contract period.
4. Interim income can only be used for HUD/USDA/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).

B. Operating Expenses

1. Range must be between \$4,400 and \$4,800 per unit (for non-subsidized properties).
2. Range must be between \$5,600 and \$6,000 per unit (for federally subsidized properties).
3. For special populations or federally-assisted properties that are eligible for budget-based rent increases, please contact DSHA for guidance.

C. Debt Coverage Ratio

1. 1.15:1 Loan to Value ratio of 50% or less.
2. 1.20:1 Loan to Value ratio of 51%-80%.
3. 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 amortized over 30 years unless otherwise approved by DSHA.

D. Annual Replacement Reserves

1. New Construction: .006 of cost of Buildings or \$500/unit for properties with 32 units or less.
2. Rehabilitation: \$500 - \$1500 per unit.

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

E. Replacement Reserves

1. Existing federally financed or subsidized properties that have replacement reserve funds currently in escrow, may use these funds for capital improvements (rehabilitation expenses) or to re-establish new reserve escrows.
2. \$1,500 per unit replacement reserve shall 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.

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

F. Trending (20-year proforma)

1. Income 3%
2. Expenses 4%

Subsidized Properties: Other trending must be approved by DSHA prior to application submission.

G. Vacancy Rate

1. 5-7% (contact DSHA for guidance)

H. Management Fee

1. 8% of gross income (exceptions made for subsidized developments)

I. Operating Proforma

1. 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 requested in writing prior to application and approved by DSHA.