

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.
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.
Land & Acquisition Value:	Price must be supported by approved appraisal. DSHA reserves the right to request a second appraisal. See DSHA for guidance and Exhibit KK for additional details.

Development Cost Guidelines:

*Developer Fee:	10% of Total Development Cost excluding developer fee and land cost up to \$8,000,000. For identity of interest acquisitions of existing rental properties, the fee is calculated at 8½% of the Total Development Cost excluding developer fee and land cost up to \$8,000,000.
Working Capital Escrow:	2.5% of the combined construction mortgages. 2.5% of the permanent mortgages. This will reduce to 1.6% one year after permanent closing and 0.8% two years after permanent closing and released after year three.
Operating Reserve Escrow:	Four months of operating expenses, including debt service and replacement reserves. Must be funded at construction closing for acquisition/rehabilitation developments.

Equity Factor:
(For Tax Credit Developments)

Eighty-eight cents on the dollar of net equity should be raised. 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. DSHA will underwrite and allocate 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.

Operating Proforma Underwriting Guidelines:

Operating Income:

Limited to rents and laundry. Other income must be supported with written documentation.

Rents should be affordable for the market area. Please contact DSHA for comparable 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, if Tax Credits are part of financing.

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 (see DSHA for Guidance).
Operating Expenses:	Between \$3,900-\$4,400 per unit (for non-subsidized properties). Between \$4,800 and \$5,100 per unit (for federally subsidized properties). (See DSHA for guidance).
Debt Coverage Ratio:	1.15:1 Loan to Value ratio of 50% or less. 1.20:1 Loan to Value ratio of 51%-80%. 1.15:1 Loan to Value ratio of 51% to 60% 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.
Annual Replacement Reserves:	New Construction: .006 of cost of Buildings or \$500 for properties with 32 units or less. Rehabilitation: \$500 - \$1500 per unit.*
Replacement Reserves	Existing federally financed or 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, if Tax Credits are part of financing. *\$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.
Trending (20-year proforma):	Income: 3% Expenses: 4% <u>Section 8 Properties:</u> Trending must be approved by Contract Administrator prior to application submission.

Vacancy Rate:	5%
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.