

1999 Policy Guide

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POLICY GUIDE

The DCA Office of Affordable Housing Development (OAHD) Policy Guide incorporates the most frequently used policies pertaining to OAHD funding, but is not intended to be all-inclusive. The following policies represent those used regularly in the normal and customary conduct of OAHD business:

Note: Each policy is noted with the program(s) to which it applies; i.e. HOME Loan Program (“HOME”) and/or Low Income Housing Tax Credit Program (“Credit”).

A. ANNUAL OPERATION EXPENSES (HOME/Credit)

Annual operating expenses, excluding reserve contributions, must be no less than \$2,000 per unit for rural locations and no less than \$2,500 per unit for urban locations.

B. APPLICATION-RELATED DEADLINES (HOME/Credit)

It is DCA's policy to strictly enforce deadlines related to OAHD application and underwriting activities, e.g., application deadlines and documentation submission deadlines. DCA will not process applications submitted after the established deadlines.

C. AREA MEDIAN INCOME (HOME/Credit)

In counties where the area median income is below the State of Georgia's nonmetropolitan area median income, as defined annually by the U.S. Department of Housing and Urban Development, the income and rent limits are calculated based on the Georgia nonmetropolitan area median income.

D. BUILDER'S COSTS LIMITATION (HOME/Credit)

Builder's Overhead, General Requirements and Builder's Profit are limited to a percentage of the total construction contract minus Builder's Overhead, General Requirements and Builder's Profit, as follows: Builder's Overhead is limited to two percent (2%), General Requirements is limited to six percent (6%), and Builder's Profit is limited to six percent (6%).

E. CARRYOVER ALLOCATIONS (Credit)

No project is allowed to receive more than one Carryover Allocation of LIHTC. If the owner determines that more credit is necessary to make the project financially feasible, the owner may only apply for additional credits in the year in which the project is placed in service and the owner applies for the IRS Form(s) 8609.

**F. CARRYOVER APPLICABLE CREDIT PERCENTAGE ELECTION
(Credit)**

Owners choosing to lock in the applicable credit percentage at the time of carryover will receive the applicable credit percentage in effect for the month in which the Carryover is signed and issued by DCA.

**G. COMPLIANCE MONITORING FEES FOR MULTIPLE PROGRAMS
(Credit)**

When DCA is required to monitor projects for compliance with tenant income and/or rent limitations of more than one program, the applicable monitoring fees for each program will be charged.

H. CONSTRUCTION CONTINGENCY (HOME/Credit)

The construction contingency amount shall equal 2% of the total construction amount for a project involving new construction. The construction contingency amount shall be no less than 5%, and no greater than 7% of the total construction amount for a project involving rehabilitation of existing buildings. DCA reserves the right to adjust development budgets in this regard, for the purposes of its underwriting, in its sole and absolute discretion.

To the extent feasible, DCA funds should be allocated to cover disbursements from the construction contingency. Regardless of how the contingency is funded, DCA must approve all change orders. If applicable, an intercreditor agreement, which includes other funding sources, will be executed to ensure DCA's control over disbursements from the construction contingency.

Any unused balance in the construction contingency at the time of loan conversion to permanent must be used to reduce the principal amount of the Senior Lender Loan, with the monthly principal and interest payment amounts adjusted accordingly.

I. CONSTRUCTION HARD COST FINANCING (HOME)

OAHD loan funds can only be used to finance construction hard costs. Soft costs, acquisition costs and other project costs must be financed by other financing sources.

J. CONSTRUCTION LOAN RECOURSE (HOME)

All construction loans will be full recourse against the Borrower and/or the principals of the ownership entity until the completion of the project.

K. CONTRACT BIDDING AND BID BONDS (HOME)

Project owners are not required to solicit bids for construction contracts to be financed with DCA construction loans, and bid bonds are not required when bids are solicited,

unless otherwise required by law. This policy is based upon the following two requirements:

1. Prior to making a loan commitment, DCA shall have approved both the General Contractor and the contract documents; and
2. DCA will not close a construction loan unless the approved contract with the General Contractor has been fully executed.

L. COOPERATIVE, SINGLE FAMILY, AND SCATTERED SITE HOUSING NOT PERMITTED (HOME/Credit)

DCA will not accept applications for leasing cooperatives, limited-equity cooperatives, or rental housing where the ownership plans to convert the property to cooperative ownership following the fifteen (15) year compliance period. DCA also will not accept applications for projects consisting of detached single family houses, and/or scattered sites. Scattered sites will not be accepted for either single family or multifamily properties.

M. DEADLINES FOR FINAL ALLOCATION (Credit)

Unless otherwise specifically noted in a particular project's carryover allocation document, the work scope proposed in the initial application of a project must be no less than ninety-five percent (95%) complete by December 31 of the year in which it is placed in service (two years after the carryover allocation is made). If this requirement is not met, then DCA reserves the right to recapture any and all credit allocated to that project.

If the owner of a tax credit project wishes to have a land use restrictive covenant recorded on the property by the close of the calendar year in which it has been placed in service, and thus be eligible to claim the credit for that tax year, the application must be received by DCA no later than November 15 of the year the property is placed in service. Otherwise, the absolute final deadline for application for final allocation is January 5 of the following year. DCA will not accept applications for final allocation for a project after January 5 of the year following the year that project is placed in service. If DCA has not received an application for final allocation by January 5 of the year following the year a project is placed in service, the applicable carryover will be considered expired and DCA will recapture any and all credit allocated to that project.

N. DEBT COVERAGE RATIO (HOME/Credit)

Debt service coverage ratio for all secured tangible debt, after funding expenses and other required reserves, must be between 1.10 and 1.30 for the first full year of operation. The debt coverage ratio shall not drop below 1.10 during the compliance period. Tax Credit and/or HOME loan amount may be reduced if DCA's underwriting shows a debt coverage ratio greater than 1.30 in the first full year of operation; the resulting gap is reasonably assumed to be funded with conventional market-rate debt. For balloon loans, DCA reserves the right to modify its HOME loan repayment schedule should a project achieve a debt coverage ratio of 1.25 or better during the term of the loan.

O. DEFERRED DEVELOPER FEE (HOME/Credit)

To determine the amount of LIHTC necessary to make a project financially feasible, DCA will not use the deferred developer's fee in its credit calculation. When calculating the project's debt coverage ratio, the applicant should not include the deferred developer's fee in the calculation. Any owner's equity shown in the Formal Application, excluding the general partner's contribution required by the Limited Partnership Agreement, will be used in the calculation of Credit. This policy will apply at reservation, carryover, and final allocation. If the developer does not want the developer note to become a taxable event in the year it is taken out (i.e. the first year), an alternative approach is to incorporate the deferred developer fee into the limited partnership agreement along with a detailed repayment schedule and specific terms. DCA will accept either approach as long as the terms of the deferred fee meet the requirements as set forth in the Plan.

P. DENIAL FROM PARTICIPATION (HOME/Credit)

DCA will deny an applicant (the ownership entity, its principals, and/or development team members) from participating in any DCA program during an application cycle if the applicant: exhibits a continual pattern of noncompliance or demonstrates an inability or unwillingness to resolve noncompliance matters in a timely manner as further described in the Combined Qualified Allocation Plan's (Plan) threshold requirements, is in default on an obligation under a DCA-administered program, or is listed on any federal, state or local government's Debarred List or HUD's Limited Denial of Participation List.

Q. DEVELOPER'S FEE LIMITATIONS (HOME/Credit)

The Developer's Fee is the sum of the developer's overhead, developer's profit, consultant's fee, and working capital/rent-up reserves, operating reserves, and replacement reserves held for less than the period of affordability.

DCA restricts the developer's fee to fifteen percent (15%) of total development cost less the cost of land, the developer's fee, builder's profit (if there is an identity of interest between the owner and the general contractor). The consultant's fee is considered part of the developer's fee for purposes of calculating the maximum developer's fee if the consultant is acting in the capacity of developer or construction manager.

R. DEVELOPER'S OVERHEAD AND CONSULTANT FEE (HOME)

The sum of the Developer's Overhead and Consultant Fee that can be drawn down during construction must not exceed the lesser of (1) 20 percent of the maximum allowable developer fees, or (2) 50 percent of the total developer fees requested. The consultant's fee is considered part of the developer's fee for purposes of calculating the maximum developer's fee if the consultant is acting in the capacity of developer or construction manager. No part of the Developer's Fee is to be disbursed until all DCA conversion conditions have been met and the DCA loan has been converted to permanent. These disbursement conditions should be reflected in the loan documents and in an agreement with any other funding source(s) that will be funding these line items.

S. ENVIRONMENTAL IMPACT (HOME/Credit)

On-site and off-site specific environmental concerns identified in an environmental audit are to be considered in the context of the criticality of the housing to be provided. The public benefits of the housing are to be weighed against the costs to mitigate the hazard, the potential liability to the health of the residents, and the financial and public policy implications to DCA. The project will not be funded until all environmental matters are resolved in a manner satisfactory to DCA, in its sole and absolute discretion.

T. FINAL ALLOCATION PLACED-IN-SERVICE REQUIREMENT (Credit)

All buildings in a project must be placed in service before the owner may apply for a final allocation of tax credits. Therefore, IRS Form(s) 8609 for a project will be issued only once and not as different buildings are placed in service.

U. IDENTITY OF INTEREST (HOME)

An identity of interest exists when a person, principal, or entity with an interest in the ownership of the property contracts with the owner to provide services.

Owner-Contractor

If there is an identity of interest between project Owner and Contractor, a third party front-end construction analysis of the construction costs must be submitted to DCA at the time the DCA reservation is formally accepted. Additionally, industry standards for such owner-provided construction services shall be used by DCA to determine reasonableness for the services.

Other

If there is an identity of interest between the project Owner and any other provider of service, material, or supplies, three (3) bids must be submitted to DCA. Such Owner supplied services, materials, or supplies must not exceed the amount ordinarily paid for the service, material, or supply.

V. INTERCREDITOR AGREEMENTS (HOME)

When DCA is not the only construction lender on a project, an Intercreditor Agreement shall be executed with the other lenders in order to ensure DCA's involvement in all significant aspects of the administration of the construction loans. The Intercreditor Agreement shall also address other matters, such as subordination of one lender's interest to another lender's interest.

At a minimum, the Intercreditor Agreement should contain the following essential elements:

- An approved development cost budget indicating the source(s) of funding for each line item;

- A process and timetable for reviewing and approving change orders to the construction contract;
- A process and timetable for reviewing and approving draw requests, including site inspection and documentation standards;
- A process and timetable for amending the approved development cost budget; and
- Limitations on disbursements for developer's fee (owner's profit and risk) and consultant fees.

W. LAND USE RESTRICTIVE COVENANTS (HOME, Credit)

In cases where there is more than one restrictive covenant on the land, e.g., HOME and tax credit properties, there may be instances where one covenant may be more restrictive than the other(s). In those instances, the most restrictive requirements will apply to the project.

X. LOAN MODIFICATIONS (HOME)

Before DCA will consider any loan modification request, the loan (and any other loan or tax credit projects Borrower may have with DCA) must be current on all payments and in compliance with all funding terms. Once DCA receives a complete package of information needed to process the request, DCA will have up to sixty (60) days to forward a written response to the Borrower. All loan modifications, including subordination agreements, will be processed with DCA loan documents.

Y. LOAN UNDERWRITING CONSIDERATIONS (HOME)

When underwriting a loan request for OAHF financing, certain considerations should be incorporated into the process of determining the debt capacity, the loan amount, and the terms to satisfy the debt. Considerations will include:

1. Rents must be affordable at initial lease-up and must remain affordable over the term of the loan. However, rents will not be required to be affordable to less than fifty percent (50%) of the actual Area Median Income for that location, adjusted for the number of bedrooms. DCA will not underwrite rents below 50% AMI unless a DCA-commissioned market study shows that the market will require rents to be lower for the property to achieve initial and long-term lease-up.
2. Project cash flow must be sufficient to ensure financial viability over the term of the loan and provide for adequate reserves which will be maintained for the life of the loan.
3. Use the least amount of subsidized financing necessary to meet considerations 1 and 2. Utilize private debt when it can be serviced, maximize the use of other public financing sources, and use the shortest term needed to repay the DCA loan.

4. Provide a fair and reasonable return on investment for the Owner/Developer while ensuring that windfall profits are not received, and the proceeds resulting from conservative underwriting are used for the benefit of the tenants.

Z. LOCAL GOVERNMENT NOTIFICATION (HOME/Credit)

DCA will notify the chief elected official of the local jurisdiction where the proposed project is located. DCA will allow the local jurisdiction 30 days to respond to this notification. It is important that applicants communicate with the local elected body to ensure that there will be no opposition, and to recognize that, without a clear letter of non-opposition, the respective developer is assuming the risk that the local jurisdiction might change its position. Written letters of opposition that are received within the above referenced 30-day period will supercede any prior verbal agreement of non-opposition or instances of tacit non-opposition.

AA. MARKET FEASIBILITY AND APPRAISAL (HOME/Credit; Note: Appraisal only applies to HOME)

DCA will commission a market study and appraisal (“HOME loans only”) by a qualified firm selected through a competitive process. The market study and appraisal commissioned by DCA will be the official documents considered in the competitive round. Market studies and appraisals will not be commissioned until after the Formal Applications are received. DCA will charge the applicant a fee to offset associated costs of the market study. DCA recommends that prior to submitting a Formal Application, each applicant independently undertake a sufficiently rigorous market analysis to satisfy their own concerns about market viability. DCA will charge the applicant a fee to cover the cost of the appraisal report.

When preparing project development budgets, applicants should use a reasonable estimate for market study and appraisal costs based on the applicant’s experience with projects of a similar size and scope. The DCA market studies and appraisals will be assignable to other lenders. Copies of the market studies will not be accessible by the applicant or others until the close of the competitive round, in accordance with Title 50-26-8(a)32 of the Official Code of Georgia Annotated. Applicants may submit a written request after the close of the competitive round requesting a copy of their market study and appraisal. All market studies will remain the property of DCA.

DCA commissioned appraisals will include “as-is” market (unencumbered), “as-built” (encumbered), “as-built” (unencumbered), and tax credit value. In cases of HOME loans, the appraiser will be asked to provide an estimate of the fair market (unencumbered) value of the property at maturity.

BB. NO ADVERSE IMPACT ON EXISTING ASSISTED HOUSING (HOME/Tax Credit)

No awards will be made to a proposed project that is judged by DCA, in its sole and absolute discretion, to have a potentially adverse impact on existing assisted rental

housing property. “Assisted rental housing properties” include Low Income Housing Tax Credit, FmHA/Rural Development (RD) financed properties, HUD 202 or 811 financed properties as appropriate, DCA or locally financed HOME properties, Georgia Housing Trust Fund for the Homeless financed properties, and HUD 221(d)(3) and 221(d)(4) properties. DCA does not regard public housing as competitive with programs administered through the Plan; therefore, this policy does not apply to public housing properties. The DCA- commissioned market study will assess the possibility of adverse impact as one criterion used in judging the market viability of the proposed project.

CC. OPEN RECORDS REQUESTS (HOME/Credit)

All applications are subject to disclosure under the rules governing the Georgia Open Records Act (GORA). Applicants must agree in the Formal Application to hold harmless the agency for all loss associated with disclosures in accordance with GORA.

Requests for copies of DCA documentation should be made in writing to ensure accuracy and proper processing. DCA will provide a timely acknowledgement of the request, and will estimate the costs, if any, based on the services requested. A party may also elect to review the documents at the DCA offices. Under these circumstances, the party should forward to DCA a request to review specific documents and coordinate with DCA a time that is mutually agreeable. GORA allows the agency to charge a fee to cover the cost of a document custodian to monitor the review process.

DD. OPERATING DEFICIT RESERVES (HOME)

All developments financed in whole or in part with OAHD loans must budget for and fund an Operating Deficit Reserve in an amount of six times the secured debt service to lenders plus six months projected operating expenses. The funding of the Operating Deficit Reserve is a requirement that must be completed prior to the permanent loan conversion. If drawn upon, no further distribution to owners will be authorized until such time as the reserve is restored to full funding.

The Operating Deficit Reserve must be held by DCA or the Senior Lender, and is to remain in place for the term of the DCA loan or period of affordability, whichever is longer. If DCA is a subordinate lender, but funds the loan in an amount greater than the senior lender, DCA must hold the reserves. All withdrawals from the Operating Deficit Reserve must be requested in writing and approved in advance by DCA. Interest earned on the Operating Deficit Reserve account shall be added to the account as an additional contribution and will not be credited against the required monthly cash contributions.

EE. OVER INCOME TENANT RESTRICTION (Credit)

IRC Section 42 provides that a tenant’s income may increase during tenancy to exceed one hundred and forty percent (140%) of the allowable household income. DCA requires that the lease for tenants who exceed this limit for two (2) successive years may not be renewed for the third year. The penalty for failure to adhere to this DCA policy may be

forfeiture of the right to participate in all DCA programs in one or more future years depending upon the severity and nature of the particular circumstances.

FF. OWNER/CONTRACTOR AGREEMENTS (HOME)

If the Owner is not also the General Contractor, all developments financed in whole or in part with a DCA construction loan must utilize and AIA Standard Form Agreement Between Owner and Contractor, with Standard Form Terms and Conditions. The contract can be either stipulated sum or cost plus a fee with a maximum.

Unless there is a senior construction lender in the deal who will allow payment for stored materials, the contract must clearly indicate that no stored materials are to be included in draw requests. The contract must also provide that at least 10 percent of the completed work is to be withheld as retainage until DCA have determined that the work is substantially complete.

GG. PARTNERSHIP AGREEMENT (HOME)

The partnership agreement and any amendments must be fully executed before or simultaneously with the DCA loan closing. The Partnership Agreement and any amendments must reflect the terms of the loan transaction on all material points.

HH. PAYMENT AND PERFORMANCE BONDS (HOME)

A 100 percent Payment and Performance Bond will be required for all developments funded by DCA. A waiver may only be granted when there is an identity of interest between the Owner/Developer and the Contractor, regardless of the contract amount, since such a relationship is usually not bondable. A waiver will not be considered unless:

1. The Owner is required to provide a Construction Completion Guaranty, secured by a letter of credit; or
2. The Owner is required to secure a construction loan with private financing. DCA will disburse funds during the construction period, in an amount not to exceed \$2,500 per construction draw.

The final payment of funds shall be made at the time of Substantial Completion to be evidenced by submission of all items on the DCA Requirements for Final Draw, including but not limited to: Final Payment Request in AIA form, copies of all Certificates of Occupancy for all buildings, Final Lien Waivers, Construction Consultants final inspection, and approval for release of funds, etc.

II. RELOCATION/DISPLACEMENT OF TENANTS (HOME/Credit)

For HOME and Credits: tenant household data forms must be submitted with Formal Application for every unit in an occupied rehabilitation. Applicant is responsible for the accuracy of the information on the data forms.

(HOME)

A Formal Application for financing which requires relocation of existing resident tenants due to rehabilitation work will be accepted only if a DCA approved relocation plan is in place, and the relocation budget is sufficient, in the opinion of DCA, to cover all costs imposed under the Uniform Relocation Act and any other applicable laws. Funding sources other than HOME must be used to cover relocation costs.

(TAX CREDITS AND TAX EXEMPT BOND PROJECTS)

DCA policy is not to permanently displace tenants, if at all possible. If Applicant anticipates displacing tenants, the Applicant must include in the Formal Application a detailed Displacement Plan, which sets forth the specifics of the displacement, including a projected budget, and statement about what efforts are planned by the Applicant to mitigate the impact of any displacement. Any displacement of tenants will be subject to DCA's prior written approval.

JJ. RENT DISTRIBUTION ACROSS UNIT SIZES (HOME)

Projects with multi-tiered rent structure, e.g., HOME-funded projects with high HOME rents and low HOME rents, must distribute the rents equally across unit sizes. These units need not be fixed (e.g., specific 2-bedroom units always renting at low HOME rents), but may float in the same way high HOME rent and low HOME rent units may float within a project. The sole exception to this policy is for projects with rents affordable to households earning thirty percent (30%) or less of area median income.

For example, a HOME-funded project with ten (10) 1-bedroom units and ten (10) 2-bedroom units must have at least two (2) 1-bedroom units and two (2) 2-bedroom units at low HOME rents. These units need not be fixed, e.g., unit numbers 2, 6, 10 and 18, but may float as long the minimum requirement of two (2) 1-bedroom units at low HOME rents is met. The project could not have four (4) 1-bedroom units at low HOME rents, as it would be a violation of this policy.

KK. REPLACEMENT PLAN (HOME)

A reasonable reserve for capital and replacement expenditures should always be included in an operating budget. As part of the Formal Application, Applicant shall include a Replacement Plan and Schedule. The calculations and assumptions used in the Replacement Plan should take into account the fact that over the life of the project, capital items such as the roof, parking lot, HVAC system, major appliances, etc., will need to be replaced. DCA has the discretion to adjust the reserve fund to reflect reasonable and customary capital and replacement expenditures. At a minimum, the Replacement Plan must reflect reserve contributions shown in the following section, and depending on the project's characteristics, may require greater contribution amounts.

LL. REPLACEMENT RESERVES (HOME)

A Replacement Reserve is required for all developments financed with OAHD loans. Contributions must be made to the Reserve Account, starting at or before the conversion

date of the construction to permanent loan and must be funded for the term of the loan. The following minimum contributions must be used:

| | |
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| Rehabilitation | \$25.00 per unit per month (\$300 per unit per year) |
| New Construction | \$16.70 per unit per month (\$200 per unit per year) |

Replacement Reserve funds may be used only for capital improvements and system replacements, and must not be used for general maintenance expenses. All withdrawals from the Replacement Reserve account must be approved by DCA in advance. The Replacement Reserve account must be maintained in a FDIC-insured financial institution or by DCA. Interest earned on the Replacement Reserve account shall be added to the account as an additional contribution and will not be credited against the required monthly cash contributions. Capital improvements means improvements to the real estate, the cost of which would exceed \$10,000, such as re-roofing, structural repairs, or major projects to replace or upgrade existing furnishings, but not including replacement of individual appliances or minor repairs. Replacement reserves will escalate at a rate of 3 percent per year.

MM. REVENUE AND EXPENSE TRENDS (HOME/Credit)

Revenue should be trended at 2% per year, operating expenses 3%, and vacancy and collection loss at no less than 10%. Replacement reserves contributions will be escalated by 3 percent annually.

NN. SECTION 8 RENTAL ASSISTANCE CERTIFICATE AND VOUCHERS (HOME/Credit)

No owner may deny a unit to applicants possessing a Section 8 Rental Assistance Certificate or Voucher unless that applicant fails to meet the minimum requirements for all lease holders. Federal Statutes prohibit discrimination against Section 8 Certificate and Voucher holders. DCA will closely monitor whether the tenant application process is structured to achieve such discrimination or whether any actions are taken to discourage Section 8 Rental Assistance Certificate or Voucher holders from applying. Likewise, all lease provisions must be compatible and not in conflict with Section 8 leases.

OO. SOFT COST CONTINGENCY (HOME/Credit)

“Soft cost” or “total project” contingency, over and above the allowed construction contingency, will not be permitted as a budgeted line item.

PP. SUBORDINATION (HOME)

The decision whether to subordinate DCA's regulatory agreement and/or lien position to a private lender's security deed will be made only after DCA considers the individual circumstances of each loan. Factors that will be considered include but are not limited to: the senior loan amount, DCA's loan amount, debt coverage ratio, private lender's interest

rates, loan maturity, type of loan, etc. Subordination to a public entity's loan is not acceptable. In no instance will DCA subordinate to a public entity's loan.

QQ. SITE DENSITY (HOME/Credit)

DCA requires a minimum unit density of eight (8) units per acre. However, for instances in which local zoning requirements specify a maximum unit density less than eight (8) units per acre, DCA will consider waiving this requirement. In such instances, the applicant must submit clear documentation of the local limitations. This documentation may either reflect flood plains and wetlands designations that indicate the ratio of buildable land, or any other information which explains the size of the land block being developed. Land which is part of the project, but unsuitable for building, can not take up more than 1/5 of the site. This type of land includes easements, wetlands, and flood plains. **In no event will DCA approve fewer than 5 units per acre.**

RR. STABILIZATION/VACANCY FACTOR (HOME/Credit)

Projects shall be underwritten assuming a 10 percent vacancy factor. Projects will be considered stabilized when occupancy reaches 90 percent for four consecutive months.

SS. TAX CREDIT PLACED-IN-SERVICE DEADLINE (Credit)

All projects receiving tax credits must be placed in service by the date shown on the original Carryover Allocation document. Therefore, applicants have approximately a two-year (2) period to place all buildings in service. Incidental costs of no more than \$3,000 per unit will be allowed in the year in which the owner first claims the credit (this may be the year following the year in which the buildings are placed in service). However, DCA will not accept an application for the final allocation of credit until all costs have been paid. Incidental costs include such project related expenses as the landscaping, completion of aesthetic items, etc., and is more fully defined in Section 42 of the Internal Revenue Code.

TT. UNDERWRITING ASSUMPTIONS FOR LAND PURCHASE (HOME, Credit)

For purposes of its underwriting for tax credit and HOME allocations, the cost assumed for acquisition of land and existing buildings will be limited to the lesser of the sales price and the appraised "as-is" value. In cases where DCA is a lender in the project, the appraisal will be commissioned by DCA during the loan underwriting phase. In cases where DCA is not a lender in the project, the appraisal used for underwriting purposes will be the one used by the lender(s), a copy of which is required with the application for final allocation after a project is placed in service.

UU. UNIT DISTRIBUTION WITH MULTIPLE OAHF FUNDING (HOME/Credit)

Projects applying for both HOME and Credit funding must set aside the same units to be funded by HOME and Tax Credit resources. Tax Credit funding cannot be used for one set of units, and HOME funds for a different set of units in the same project.

VV. UTILITY ALLOWANCE (HOME/Credit)

Applicants should use the utility allowances provided by the agency administering the Section 8 Rental Assistance Program in the jurisdiction in which the project is located. For example, if a local Housing Authority administers Section 8 in the area, they would provide those utility allowances, but if DCA administers Section 8 in another area, the DCA utility allowance would be used. If a building receives USDA - Rural Development (USDA-RD) assistance, or any tenant in the building receives USDA-RD assistance, the low-income units must use the applicable USDA-RD utility allowance. If HUD reviews rents and utility allowances on a building, the low-income units must use the applicable HUD utility allowance. In all other cases, the owner is required to follow the applicable Public Housing Authority utility allowance, DCA utility allowances, or obtain a letter from the utility company stating rates, which must be based upon 1.5 persons per bedroom. It should be noted that independent utility consultant projections are not acceptable.

WW. WORKING CAPITAL/RENT-UP RESERVES (HOME)

Working Capital/Rent-Up Reserve is required for projects receiving a DCA loan only if a lease-up cash flow analysis results in a cash flow deficit. For those developments, the required rent-up reserve would equal the amount of the projected lease-up deficit. A required rent-up reserve will only be used to cover operating cash flow deficits during the period prior to converting a construction loan to a permanent loan.

Allocations to the Working Capital/Rent-Up Reserve above the amount required by DCA may be used as a general "soft cost" contingency in order to supplement insufficient allocations to other line items. Documentation of the budget insufficiency must be submitted with any disbursement request. DCA approval is required for all disbursements from the Working Capital/Rent-Up Reserve. Loan documents and intercreditor agreements should reflect this requirement and DCA's approval authority.

Any unused balance in the Working Capital/Rent-Up Reserve at the time of loan conversion to permanent must be used to reduce the principal amount of the Senior Lender Loan, with the monthly principal and interest payment amounts adjusted accordingly, unless the project owner has been required to leave all or part of the developer's fee (owner's profit and risk) in the deal as equity or as an unsecured loan. If the project owner has been required to leave all or part of the developer's fee in the deal, then at project completion the unused balance in the Working Capital/Rent-Up Reserve may be allocated to the developer's fee line item, and paid out to the project owner, up to

the amount of the reinvested fee. At no time can the developer's fee exceed the maximum developer's fee described above.
