Vermont Housing Finance Agency

Multifamily Underwriting Guidelines

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Contents

Purpose

This policy outlines the underwriting guidelines which are to be followed to evaluate applications for both construction and permanent loans for multifamily housing as may be applicable. These guidelines also address existing portfolio loans that are being refinanced and/or redeveloped.

Procedure

At the direction of the Executive Director, Multifamily Development staff in conjunction with Multifamily Management staff where appropriate will apply these guidelines consistently to each application for the financing of multifamily housing developments. Authority to issue a Letter of Interest and/or a Letter of Commitment for a particular project requires formal action by the Board of Commissioners. Based on the application of the underwriting guidelines, conditions for loan commitment and/or closing, loan terms and source of funds that maintain the financial viability of the project will be determined by the Multifamily Development staff and the Loan Review Committee with the concurrence of the Executive Director or his or her designee. Any significant changes (as described in these Guidelines) will require reconsideration by the Board of Commissioners. All loans are subject to the requirements of the source of funds to be used, such as, bond proceeds. The Loan Review Committee will submit a fiscal year report of the loans closed to the Board of Commissioners annually or as requested.

Types of Projects to be Financed	Existing portfolio, new construction; acquisition and/or rehabilitation; mobile home parks; tenant cooperatives; transitional housing; SROs; congregate care; residential care; group homes

Affordability/Income Targeting	By statute, the Agency can only finance residential housing that, among other things "is primarily for occupancy by persons and families of low and moderate income, or qualifies for financing with proceeds of federally tax-exempt obligations, or at least 20 percent of the units are for occupancy by persons and families of low and moderate income." This sets the minimum affordability requirements the Agency will consider. The Agency sees projects with a majority or even all units targeted to low and moderate income households. The Agency encourages mixed-income projects wherever feasible and supported by market conditions. LIHTC allocation and/or use of bond proceeds or use of other restrictive funding sources may dictate minimum income targeting and/or affordability requirements.
Loan to Value	Rules governing VHFA allow loan to values of up to 95% of appraised value or cost, whichever is less for for-profit developers, and up to 100% of appraised value or cost, whichever is less for non-profit developers. Typically LTVs will be below what the rules allow due to capacity for servicing hard debt and most projects utilize some soft sources of funding. All projects must underwrite with cash flows that support the requested loan amount.
Term	Based on source of funds and financial needs of project, but in no event shall the term exceed forty (40) years
Interest Rate	As determined by the VHFA Policy on Rates and Fees as amended from time to time
Debt Coverage Ratio	Generally requires 1.15 to 1; may be lowered if justified by mitigating circumstances. Use of bond proceeds or use of credit enhancement programs or use of other finance sources may require a higher ratio.
Property Analysis	Level I Environmental Assessment, including abatement plan when findings warrant mitigation.

Appraisals	Appraisals must meet VHFA Appraisal Standards as reviewed and accepted by VHFA staff. VHFA, in its sole discretion may choose not to require an updated appraisal on loans to projects currently financed by the Agency. In those instances the Agency shall rely on financial data on file with the Agency to estimate the appraised value based an income approach to value, using a cap rate consistent with and as adopted by the State annually. The Agency shall take into account the physical condition of the property and its experience with the current and/or proposed owners and property managers. Any appraisals required by the Agency for loans under the FHA/HUD Risk Share Program must conform to HUD Handbook 4590.1, and must meet current USPAP Standards
Market Study	Sponsor must demonstrate need for housing to support staff recommendation to Board of Commissioners; When a market study is required, the study must meet the VHFA Market Study
Development Budget	Staff approval by line item based on Agency experience and comparisons to benchmarks for similar projects.
Building Plans & Specifications	Staff approval with outside evaluation when needed; All projects must meet VHFA Green Building and Design Standards.
Management Capability	Proposed management plan and management agreement requires VHFA Multifamily Management approval.
Operating Budget	First year plus cash flow projections for the term of loan must demonstrate long term financial viability.
Income and Expense Projections	Burlington MSA: 1.5% per year for income and 3% per year for expenses Outside Burlington MSA: 1% per year for income and 2.5% per year for expenses Variations are permitted to this when historical performance supports the variance.
Vacancy Rate Projection	Not less than 5% at stabilized occupancy unless supported by compensating circumstances at Agency's discretion; may require a higher rate based on market study.
Replacement Reserves	Rental: Minimum of $400/unit/year deposit, or the amount recommended by CNA, whichever is greater. Mobile Home Parks: Based on CNA.
Development Operating Account	Initial deposit of two (2) months' operating expenses, including debt service and replacement reserves.
Rent Up Reserve	Amount determined at permanent loan closing to cover expenses during rent-up period.

Minimum Equity	Local or state agency, non-profit: VHFA can allow a zero equity transaction under the rules it operates under, but anticipates other funding sources, including tax credit transactions will require some level of cash contribution by the owner. For all others, 5% in cash or land or combination is allowed by rules, but again lower LTV's are typical in projects considered for financing by VHFA.
Regulatory Agreement	Is required on all transactions with provisions that will include, among other things, rent limits, minimum balance requirements for operating accounts, replacement reserve, and rent up reserves. The Agreement shall also provide for tenant income monitoring and reporting, and lays out VHFA's rights in case of default
Capital Needs Assessment ("CNA")	A Capital Needs Assessment (CNA) is an independent third party professional's opinion of a property's current physical condition including deferred maintenance, physical needs, remaining useful life of key components and a projection of future financial needs as indicated by an analysis of existing resources and ongoing replacement reserve deposits. Moderate rehabilitation projects and mobile home parks must obtain a CNA before closing and incorporate its recommendations into the Building Plans and Specifications for rehabilitation. All new construction and substantial rehabilitation projects with VHFA permanent loans will be required to have a CNA completed within six (6) months of substantial completion. An update will be required every 5 years.

Parameters

The following parameters will be applied to determine whether a project requires reconsideration by the Board of Commissioners:

1. **Change in Loan Amount:** VHFA construction or permanent loan amount increases by the greater of $50,000 or 10% over the Board-approved loan amount

2. **Change in or Additional Loan Type:** Applicant has amended application to change originally approved loan type

3. **Change in Project Type:** Applicant has amended application to change originally proposed resident profile

4. **Change in Borrower:** Original applicant is no longer part of ultimate ownership structure or new entity has been added to ownership structure or profit structure of Borrower has changed. (This may require a new application.)

5. **Change in Development Location**

6. **Other Changes:** The Executive Director will evaluate other unexpected changes and when appropriate, will discuss the change with the Chairperson to determine whether the change is "significant" and requires the Board's reconsideration.