Vermont Housing Finance Agency Underwriting Standards

Revised October 2024

Effective January 2025

Background

Vermont Housing Finance Agency (VHFA and, referred to as the "Agency") maintains Underwriting Standards to ensure the Agency is effectively serving the Agency's mission. VHFA will adhere to statutory requirements, affordable housing lending best practices, and finance projects that will enable the Agency to be in a position of financial strength to serve Vermont's housing needs.

Applicability

VHFA Underwriting Standards apply to multi-family rental projects financed under the Agency's Community Development financing programs. The standards apply to projects receiving VHFA awards for any stage of development. From time to time, VHFA will fund loans through various grants and facilities provided by the State of Vermont or the United States. Underwriting criteria for such loans shall reflect the related grants and facilities and may differ from the underwriting criteria otherwise applicable.

For projects applying for federal Low-Income Housing Tax Credits or State Affordable Housing Tax Credits, the Underwriting Standards are complementary to and not intended to replace the Qualified Allocation Plan (QAP). Applicants seeking tax credits should also meet the requirements of the QAP.

VHFA also acknowledges that projects may receive funding and financing from other funders or lenders. There may be cases where a project's primary funder or lender may have underwriting guidelines or standards that projects must adhere to as well. Please consult with Agency staff in cases where a project cannot meet VHFA standards due to requirements placed by other funding sources.

Applicant & Project Eligibility

Applicant Eligibility and Review

VHFA may provide multi-family housing financing to a range of entities, including:

- private for-profit
- non-profit
- cooperatives
- Public and State Housing Authorities
- Municipal and governmental entities
- other Limited partnerships, General partnerships, Corporations, and Limited Liability Companies

Borrowers must meet the definition of "housing sponsor" as used in Chapter 10 VT Statutes Annotated Section 601 (as it may be modified, supplemented, amended, or replaced from time to time). VHFA will perform enterprise or organizational reviews for each new borrower and on an ongoing basis for existing borrowers. VHFA will consider and review organizations for the following:

- Financial condition of the applicant;
- Experience of the sponsor and all related entities in developing, owning, and operating affordable housing;
- Any previous loss of affordable housing due to legal action or qualified contract activities by the applicants, related parties, or key project partners;
- Eligibility of organization for applicable financing programs;
- Experience with or willingness to participate in the requirements of Executive Order 3-73;

- Experience and capacity of the sponsor to fulfill the proposed application activities; and
- Past performance in meeting VHFA Asset Management & Compliance requirements, including timely submission of materials associated with project and management reviews.

Durability and Transfer of Requirements

Projects that receive investment from VHFA will be subject to long-term income and operational requirements set by the Agency. VHFA is authorized by statute 10 VSA 624(b)(5) to apply limitations in a project's setting of rents, sales prices, and other operational or financial requirements. The requirements set forth in VHFA's loan and subsidy agreements will remain in place for the duration of the agreements regardless of whether ownership changes hands in the future.

Eligible Projects and Affordability Requirements

Project eligibility may be contingent on the type of financing or combination of financing sought by the applicant. Projects requesting Tax Credits should review the Vermont Qualified Allocation Plan along with these standards. At a minimum, the following apply for all projects eligible for VHFA financing:

- Projects must serve low- and moderate-income Vermonters by:
    - At least 20% of the units are for low-to-moderate income Vermonters at 80% AMI; or
    - The project qualifies for federal tax-exempt financing for affordable housing or low-income housing tax credits for housing by meeting IRS-defined income eligibility – 20% of units serve households at or below 50% AMI, 40% of households serve households at or below 60% AMI, or project utilizes the Average Income Test; or
    - At least 51% of the units in the project are limited to 120% AMI households; or
    - The Agency is providing financing to a limited number of units at or below 120% AMI.
- Sponsors will be required to demonstrate a need within the proposed market area, and how the prospective project will address the shortage of decent, safe, and sanitary housing affordable to low-to-moderate income households.
- Housing must be available to the public or qualify under program guidelines for one of the following considerations:
    - housing made available to specific populations permitted under federal guidelines, for example, age-restricted housing or housing for households with developmental disabilities; or
    - transitional housing for Vermonters experiencing homelessness; or
    - emergency housing; or
    - master-leased projects or portions of projects to serve specific populations or local employment needs.
- At least 50% of any project financed by the Agency must be for residential use, and other restrictions on commercial use apply as described in these guidelines.

Project Purpose and Type

The Agency may provide financing for the construction, acquisition, rehabilitation, preservation, or refinancing of eligible housing projects.

Each development transaction shall be assigned a Loan Purpose. The Loan Purpose describes the nature of the transaction. Loan Purposes are defined as follows:

> **Pre-Development** - Financing to cover costs associated with determining the feasibility of a project, including professional fees and funding application costs, but excluding site control.

Acquisition - Financing to cover costs associated with obtaining control of a site.

Acquisition/Rehabilitation - Financing to cover costs associated with obtaining control of a site and upgrading, enhancing, or adapting an existing physical structure.

New Construction - Financing to cover costs associated with the creation of a new building or buildings where none existed previously or where a previous structure was demolished.

Rehabilitation - Financing to cover costs associated with upgrading, enhancing, or adapting an existing physical structure.

Refinance - Financing to take out an existing loan with a new loan structure for different terms, typically with cost savings realized to then re-invest in the project's operations.

For each Loan transaction, the Agency funds shall also be assigned a Loan Type. Loan Types describe both the timing of the Agency's investment and the length or term of the investment. Loan Types are defined as follows:

Pre-Development - Financing to cover costs associated with determining the feasibility of a project, including professional fees and funding application costs, but excluding site control. Pre-development loans may follow separate or additional guidelines from the provisions in these standards.

Acquisition - Financing to cover costs associated with obtaining control of a site, and typically have a maximum term of 36 months.

Construction – Financing to cover the initial construction period, typically up to a max of 24 months, and can apply to Acquisition, Rehabilitation, or New Construction Loan purposes.

Construction-to-Permanent - Financing which covers the initial construction period (typically up to a max of 24 months) and then converts, in whole or in part, to long-term permanent debt (typically with a term of at least 10 years) at the conclusion of the construction period.

Acquisition Bridge - Short-term financing to cover initial costs of site control until additional funding to rehabilitate the acquired property can be assembled, typically up to 24 or 36 months.

Equity Bridge - Short-term financing at permanent closing to cover take out of the construction loan until tax credit equity or other permanent sources become available, typically 6 to 9 months after permanent closing.

Permanent - Long-term debt, which is mortgaged against the real estate and related assets of the property, typically with a term of at least 10 years up to a max of 40 years.

Subordinate - Permanent debt which does not have the priority position relative to the first lien mortgage.

Conduit - Financing which utilizes tax-exempt bonds for which the Agency serves as a pass-through entity and for which the borrower (not VHFA) is responsible for principal and interest payments to the bondholders.

Participation - Financing which has multiple lenders for a single borrower/project that are secured under a shared financing agreement.

Identification of Sources and Financing

As part of the application process, applicants are required to identify the other sources of non-Agency financing included in the transaction. Applicants will be required to demonstrate they have the experience, capacity, and are eligible to obtain all proposed sources of funding. Applicants must also demonstrate that the project can meet the requirements and commitments required for all financing sources for a project. Such sources include:

- Hard debt that amortizes with a term or has a balloon payment from a lender that is secured by the property/project and requires amortizing repayment.
- Soft debt that does not amortize and may be either payable from cashflow or deferred.
- Grants which typically are not repayable and may count as income to the project in certain cases.
- Equity from developers, investors, or from a tax credit investor.

The Agency will require documentation that demonstrates approvals and commitments from each funding source that exceeds $50,000. This threshold may be reduced at the discretion of the Agency. Approval and commitment documentation should include any relevant term sheets. Each source must be included in the proforma development budget.

Site Control

To apply for construction or permanent financing programs, applicants must demonstrate site control. Site control should be evidenced by:

- Option Agreement
- Purchase and Sales Agreement

Agreements should be legally binding, recorded in the relevant land records, and include a financial deposit. The term of the option or agreement must, at minimum, extend to or provide clear provisions for the extension to the project's proposed acquisition date.

Project Financial Requirements & Required Assumptions

Loan-to-Value and Loan-to-Cost Ratio

VHFA funding will be limited by the Loan-to-Value or Loan-to-Cost Ratio. The lower of the two values will be applied to the maximum ratio permitted for each project. Construction loans may use the Loan-to-Cost method for maximum loan values. Maximum amounts are as follows:

Entity Type	Loan-to-Value/Loan-to-Cost Maximum
For-Profit	95%
Non-Profit	100%

Appraisal and Valuation

All financing related to the acquisition, construction, and permanent debt requires a project to be valued through an appraisal, which will be ordered by the Agency on the project's behalf using an Agency-approved certified appraiser. Appraisals must conform to the Agency's Appraisal Standards and Policy.

When the Agency is conducting a refinancing for a current VHFA project, at the sole discretion of the Agency, VHFA may accept a valuation methodology using the Net Operating Income and the statewide affordable housing Capitalization Rate.

Carryforward of Existing Soft and Subordinate Resources

For rehabilitation, preservation, and resydication projects, VHFA must approve the carryforward of existing soft and subordinate resources. VHFA staff will analyze each proposed source that would remain with the property in the final funding stack. Projects carrying non-amortizing subordinate debt may be required to reduce the principal or forgive accrued interest at the discretion of the Agency. VHFA will pay special attention to the impact of carryforward soft and subordinate sources on the Combined Loan-to-Value ratio. Cases where new project funds are proposed to repay a related party's deferred interest will not be permitted.

Debt Coverage Ratio (DCR) & Expense Coverage Ratio

VHFA will review the proposed cashflow to determine each project's ability to repay all forms of required amortizing debt and cover expenses. The acceptable ratios will be determined by the revenue and expenses in four categories:

1. In projects with **no required amortizing debt,** the Expense Coverage Ratio is calculated by dividing the Gross Income by the Expenses plus the Reserves. The minimum Expense Coverage Ratio for these projects is 1.05.
2. Projects where **100% of the units** are covered under a Project Based Rental Assistance Contract, are a Section 8 Project, or a Rental Assistance Demonstration program project as defined by the Department of Housing and Urban Development (HUD), the minimum DCR must be 1.10. The DCR will be calculated by dividing the Net Operating Income before debt and without Reserves by any Required Amortizing Debt Payments.
3. **Affordable Housing projects** are those in which at least 50% of units:
    a. Meet IRS section 42 income definitions, as referenced in Project Eligibility and Affordability Requirements in VHFA's Underwriting Guidelines; or are
    b. Non-tax credit/bond financing-eligible units where rents are set lower than those affordable to households earning 80% of Area Median Income (AMI).

In these developments, the DCR will be calculated by dividing the Net Operating Income before debt and without Reserves by the Required Amortizing Debt Payments. The minimum DCR must be 1.15 or higher.

4. Projects where at least **50% of units *exceed* rents affordable** to 80% of AMI households will calculate the DCR by dividing the Net Operating Income before debt and without Reserves by the Required Amortizing Debt Payments, and the minimum DCR must be 1.20 or higher.

Additional requirements for Debt & Expense Coverage Ratios:

- Ratios must be based on the lesser of the underwritten or actual rents.
- Minimum requirements apply to the first year of stabilized operations. Exceptions may be considered by VHFA where improved and upward trends in DCR are sustained over 15 years.
- Projects should maintain an annual DCR above 1.00 during the entire 15-year compliance period. The average DCR over the 15-year compliance period may not exceed 1.45 for projects using 9% Housing Credits, and will be capped at an amount to be determined on a deal-by-deal basis for 4% Housing Credits.
    - In limited cases, the Agency may allow projects to have a DCR below 1.00 if it can be demonstrated that project reserves or a debt service sinking fund will support operations.
- Projects that require a Subsidy Layering Review for Project-Based Vouchers must adhere to the requirements set by HUD.

Income/Expense Trending and Vacancy Assumptions

Area	Income Trending Assumption	Expense Trending Assumption	Income From Other Sources	Residential Vacancy[1]	Unrestricted Unit Vacancy Rate (if market-rate units exceed 40% of total)	Commercial Vacancy
Burlington – South Burlington Metropolitan Statistical Area	1.5%	3%	1.5%	5%	7%	20%
Statewide (all non-MSA areas)	1%	2.5%	1.5%	5%	7%	20%

The following assumptions for income, expenses, and vacancy are required for all projects:

- For existing projects with established income and expense profiles, VHFA will consider applicants requests to use historical numbers.
- The presence of Project Based Rental Assistance (PBRA) may allow for lower vacancy rates in markets where it can be demonstrated the PBRA units have lower vacancy levels.

[1] Projects receiving 100% Project Based Rental Assistance, in consultation with Agency staff, may be permitted to use a range between 3-5%.

- Projects with market data, existing portfolio experience with similar projects in the service area, or other unique factors may request exceptions to assumptions, and will be considered at the sole discretion of VHFA. All projects will be "stress-tested" with the assumptions above to establish baseline financial feasibility.
- When an applicant is required to use different assumptions for equity investors' or other funders' approval, the Agency should be notified. Applicants are required to disclose that there are alternative forms of the proforma with different modeling being used for approvals by other funds or a project's equity investor.

Subsidy Layering Review

Projects that have new or adjusted Project Based Rental Assistance (PBRA) commitments as part of a new project, re-syndication, or refinance will be subject to a HUD Subsidy Layering Review (SLR). In most cases, VHFA will conduct the SLR on behalf of HUD through its delegated authority. Fee's related to SLRs can be found on VHFA's website.

Applicants should review the most recent SLR guidance in the Federal Register for HUD requirements regarding cash flow, debt coverage ratios, net operating income, operating expense trending requirements, guidance for projects that do not have hard debt, and additional requirements. Project Sponsors and the public housing agency responsible for issuing the PBRA are responsible for submitting a complete application to VHFA. Sponsors can find the required elements of an SLR application & checklist in the Federal Register for HUD.

Term, Amortization, and Interest Rate Assumptions

Projects that do not have current financing commitments from VHFA or another source that also includes a fixed interest rate shall be required to use an underwriting interest rate. Applicants may use VHFA's current publicly posted rates, or provide indicative rates from a lender and then generally increase the rate by 35-50 basis points at the discretion of the Agency to provide a cushion for potential rate changes prior to closing. This cushion can vary depending on the current rate environment and the time length until the anticipated loan closing.

Sinking Funds and Debt Coverage Reserve Accounts

Individual projects are not generally permitted to establish sinking or debt coverage reserve accounts. Projects may not assume capitalized expenses or ongoing cashflow contributions toward sinking funds or debt coverage reserve accounts in a proforma without approval by VHFA.

Capital Needs Assessment

Capital Needs Assessments (CNAs) must be completed for each VHFA-financed project.

More guidance on the requirements and timing of a Capital Needs Assessment can be found in the VHFA, VHCB, DHCD Capital Needs Assessment (CNA) Guidance policy.

Environmental Review

All projects that will be new to VHFA's portfolio and include new construction or substantial rehabilitation work (substantial as defined by the IRS, currently $7,500 per unit) must complete a Phase I Environmental Site Assessment (ESA). The Phase 1 ESA must identify existing or potential contamination and Recognized Environmental Conditions (RECs), and the sponsor must address all RECs through a Corrective Action Plan (CAP) prior to commencing construction.

Findings or the presence of RECs during a Phase I ESA may result in a Phase 2 or 3 ESA, as determined by the State of Vermont Environmental Review process as determined by the Vermont Agency of Commerce and Community Development.

Projects using a HUD-related form of Credit Enhancement (Risk Share or others) will also be subject to a National Environmental Protection Act (NEPA) review.

Market Study

All projects must obtain a market study from a 3rd party provider. VHFA has Market Study Guidelines, which lay out the format and data required. The standards also address the recency, scope, and content requirements of the study. Market Studies must be current and should be less than a year old at the time of application and no older than 18 months at the time of construction closing. The market study provider should update aged reports.

Reserve Requirements and Distributions

VHFA requires four types of reserves for each project. Replacement and Operating Reserves are ongoing forms of reserves that projects must continue to fund throughout their lifetime. Residential and Commercial Lease-up Reserves are required during the initial period between project development and stabilized operations. Below are the minimums VHFA will apply to each project. However, the Agency may require greater amounts based on the market study, concerns around the market for the units/space, or other factors at the Agency's discretion:

Reserves specific to the development phase of a property:

- **Residential Lease-up Reserves** should initially be funded at a minimum of 2-4 months of all operating expenses, including debt payments, deposits into other reserve accounts, and all operating costs. VHFA staff will analyze the market study absorption information, current construction environment, and other factors in determining between 2-4 months.
- **Commercial Lease-up Reserves** may follow the standards above for spaces that have a signed lease prior to closing. Projects without an executed lease must carry 6 months' of commercial space expenses.

Reserves required to be maintained for the lifetime of the property:

- **Operating Reserves** should be established after construction completion and cover a minimum of 4 months of scheduled debt service and estimated operating expenses, including replacement reserves and real estate taxes.
- **Replacement Reserves** are required in the amount of $400 per unit per year, or the amount recommended by the Capital Needs Assessment. Replacement reserves are subject to ongoing compliance.

The following applies to reserves:

- Reserves must remain positive for at least 15 years in the proformas.
- Distributions are subject to a project meeting several benchmarks in the VHFA Regulatory Agreement. In the absence of a Regulatory Agreement, please refer to VHFA's Replacement Reserve – Surplus Cash Distribution Policy.

Rental Subsidies
Project-Based Rental subsidies may impact the budget and allow the project to serve deeper affordability. Projects proposing to include rental subsidies must provide 1.) evidence the project has applied under an open Request for Proposals or otherwise submitted a bona fide request with a reasonable assumption of receiving an award; and 2.) provide a letter of interest and/or commitment of the project-based subsidies.

For new construction projects, assumptions that up to 15% of units may be occupied by tenants who will have tenant-based vouchers may be permitted in the Burlington MSA and in other markets at the discretion of VHFA. The sponsor should support this assumption using tenant-based voucher occupancy information in their current portfolio of housing in the proposed area.

For existing and rehabilitation projects: historical trends of tenant-based voucher utilization at the project may generally be used as part of future rental subsidy projects, subject to approval by the Agency.

Proportionality of Affordable & Market Units
Projects that are mixed income with a combination of affordable and market rate units must be designed with proportionality between the affordable and market rate units.

- The affordable and market rate units must be disbursed evenly throughout the building;
- The unit size, both in square footage and bedroom numbers, should be balanced between the affordable and market rate units;
- Differentiation in finishes must pass IRS tests for disproportionality regarding quality and costs of development; and
- If a building is part of a broader development, the Agency may consider whether the concentration or disbursement of affordable units throughout the broader development is appropriate.

VHFA staff will review project design/plans, proposed disbursement of units, and development costs to review projects to ensure proposed projects are proportional in their treatment of affordable and market-rate units.

Credit Enhancements, Guarantees, Personal Liability
Throughout the development process, the Agency will require both a Completion Guaranty from the responsible development applicant, as well as a Construction Completion Guaranty of timely lien-free completion of the work in accordance with the construction plans and specifications and the applicable loan documents. The forms of Construction Guarantees may vary based on a number of factors, but may include the following:

- **Completion Guarantee** including one of the following:
    - Completion/Performance Bonds that cover the cost to complete the project
    - Letter of Credit equal to 15% of the total proposed project cost
    - At the discretion of the Agency, VHFA may allow Cash Deposits and Draw Set-Asides that total, at minimum, 15% of the total proposed project cost in certain circumstances.
- **Payment Guarantees** may be required until projects reach the approved, stabilized Debt Coverage Ratio or Operating Cost Ratio proposed in the application.
- **Developer/Builder Guarantees** as required by the Agency.

At its sole discretion, VHFA may require construction and completion guarantees from owners, applicants, developers, and other related parties.

Commercial Space

Projects that include commercial space must include supporting documentation related to the commercial space for underwriting consideration. Projects must also provide a list of the proposed sources that will be used to construct/fund the space.

Commercial income from commercial space may not exceed 20% of the projected revenue for a project using federal tax credits. Projects that do not have a commercial lease executed prior to closing will be required to have lease-up reserves equal to 6 months of the commercial space lease, and will be required to use a higher vacancy rate (20%) than the residential units in the project.

Master Leases

Master leases are permitted for either a portion or all of the units. Master leases will be approved on a case-by-case basis at the Agency's discretion. Master leases are often used for projects that serve specialized housing needs or will be leased to meet specific population needs.

In each case, the owner/development team is responsible for underwriting and analyzing the creditworthiness and operational capacity of the proposed lessee. VHFA must also approve the lessee prior to the master lease agreements being formalized. The owner/development team may be responsible for sharing material or information related to the proposed lessee with VHFA.

Proposed Management Plan & Budget

Property Management Experience, Plan, and Qualifications
Property plans, selection, experience, and capacity should all be responsive to the design, location, scale, and tenancy of a proposed project.

VHFA will review the experience and capacity of the proposed property manager, including the following thresholds:

- Property managers should have at least 10 years of property management experience. In the absence of that level of experience, they should team up with an experienced property management entity for ongoing support.
- Property managers should have at least three years' experience with Low-Income Housing Tax Credit program compliance if a project is applying for tax credits. In the absence of that level of experience, they should team up with an experienced property management entity for ongoing support and show a high level of training when entering into the program.
- VHFA will review service plans to ensure property management and/or other external partners supporting the project are qualified to meet the project's needs. Reviews will focus on:
  - Population-level services available to all residents through property management providers and Resident Service Coordinators.
  - More intensive services for Vermonters experiencing homelessness that will be provided by owner/manager staff or a 3rd party will be reviewed in coordination with the Agency of Human Services.
- Owners and managers with existing VHFA-financed portfolios who have ongoing challenges with the timely submission of financial information or other items required for compliance are required to document steps that will be taken to meet current and future ongoing compliance obligations.
- Owners and managers are required to submit a recent history of REAC scores and 8823s, and will be required to provide follow-up information about their current portfolio "curing" efforts if applicable.

Management Budget and Expenses
Property management fees may be between 4-8% of total Net Income.

Each year, VHFA will issue a memo outlining current trends in Per-Unit Management and Operating Costs. Each applicant must include a management and operating budget based on anticipated stabilized operating expenses occurring after the development is placed in service or upon full occupancy.

For operating properties, the historic expenses will be used with appropriate adjustments for projected economies attributable to the proposed rehabilitation and for changes associated with new program requirements. Management and operating expenses (total operating expenses not including real estate taxes and reserves) will be evaluated and analyzed in relationship to comparable properties in VHFA's portfolio, along with market study/appraisal information.

Developers may be asked to provide information related to their current portfolio management and operating budget experiences to help analyze or support the proposed costs in the proposed development.

Utility Allowances

If utilities are paid directly by the tenant, applicants must include the utility allowance in the gross rent. Please note that telephone, cable TV, and internet costs are not included in the utility allowance. Also, utility allowances are not available if tenant payments for utilities are made by or through the owner. This includes sub-metering, where the owner pays the utility company and bills the tenant for the usage.

- For Rural Development (RD) units, use the RD utility allowance schedule.
- For Section 8 project-based units, use the HUD utility allowance schedule.
- For Section 8 certificate or voucher units, use the local public housing authority utility allowance schedule.

For all other units, there are five options the owner can use:

1. Use the local PHA utility allowance schedule;
2. Obtain a utility company estimate;
3. Obtain a housing credit agency utility cost estimate provided the Agency agrees to provide the estimate (this option may be obtained anytime during the extended use period);
4. Calculate the utility estimate using HUD's Utility Schedule Model; or
5. Hire an unrelated qualified professional (approved by the Agency) to calculate utility estimates using an energy consumption model.

Fair Housing Policy and Affirmative Fair Housing Marketing Plan

VHFA will affirmatively further fair housing in all program offerings to ensure equal access to housing for all, regardless of income levels, race, color, creed, religion, national origin, sex, marital status, receipt of public assistance, disability, familial status, and sexual orientation.

All applicants for VHFA financing must submit an Affirmative Fair Housing Marketing Plan (AFHMP). The following requirements apply for establishing and maintaining an AFHMP:

- Applicants should follow the HUD Office of Fair Housing and Equal Opportunity forms and requirements for AFHMPs.
- Plans must be updated every five years or each time the State of Vermont updates the HUD Consolidated Plan, whichever occurs first.
- Owners and managers will be required to demonstrate they are actively using the AFHMP and related data to actively market and integrate the AFHMP plan into their daily approach to housing management.

In addition to possible action on behalf of the Agency to address fair housing violations, owners may be required to work with the Vermont Human Rights Commission, Vermont Housing Discrimination Law Project, Vermont Center for Independent Living, and the Vermont Fair Housing Project.

Section 3, Prevailing Wages, and Davis-Bacon

Various forms of state and federal funding may require developments to ensure compliance with HUD Section 3, Prevailing Wages, and/or Davis-Bacon. Applicants are required to certify their ability to monitor, document, and comply with all wage and employment requirements associated with the sources of funding for a project. VHFA may review records, require 3rd party review and verification of compliance, and/or require an owner certification of adherence to all wage and employment regulatory programs.

Project Development

Attorney and Title Work

All financing transactions must be closed under the supervision of a title attorney or agent. Title insurance is required for all loans. Title insurance must include an ALTA Survey for all acquisition or new construction loans, or an updated survey if the project is being refinanced. Surveys must be performed by a licensed 3rd party.

Construction Contract & Agreements

The Agency must review and approve all construction contracts and agreements. The Agency will permit the following approaches to project development:

- Construction management through a construction management at risk approach. Construction management firms must provide the developer with a Guaranteed Maximum Price agreement.
- General contracting with a stipulated lump sum or fixed price that is documented on an AIA 101 agreement.

Construction Budget & Cost Analysis

The construction budget and total development costs will be analyzed for reasonability for the project type, location, size, and proposed tenancy. The Agency will review both the cost-per unit and cost-per square footage. Developers must submit a construction budget along with any supporting documentation requested by the Agency, which will allow the Agency to analyze the cost and reasonableness of the proposed budget.

The following assumptions must apply to all construction/development budgets:

- Developer fees must follow the guidelines in the Qualified Allocation Plan effective at the time of the application.
- Construction contingency ranges and limits shall be as follows:
    - New construction contingency should be set at 4-5%, at the discretion of the Agency.
    - Rehabilitation construction contingency should be set at 7-10%, at the discretion of the Agency.
- Contractor's profit may not exceed 6% of hard construction costs
- Contractor overhead may not exceed 2% of hard construction costs
- Contractor general requirements may not exceed 6% of hard construction costs

Insurance Requirements

VHFA must be listed as a mortgagee and lender loss-payee on all policies. More information can be found in the VHFA Insurance Handbook.

Relocation & Displacement Prevention

Each project proposing to relocate tenants during a construction/rehabilitation period must submit a Tenant Relocation Plan to VHFA for review.

If tenants are not required to move permanently but must relocate temporarily because of rehabilitation to a development, the applicant shall provide the tenants with:

1. Reimbursement for all reasonable out-of-pocket expenses and increased costs incurred in connection with the temporary relocation; and

2. Appropriate advisory services including reasonable advance notice of the date and approximate duration of the temporary relocation; the location of a suitable, decent, safe and sanitary dwelling to be made available for the temporary period; the terms and conditions under which the tenant may lease and occupy a bed or unit in the development upon completion of the development; and the provisions for reimbursement of expenses and increased costs.

The Tenant Relocation Plan must include a budget and clearly identify the location that current tenants will occupy during the construction/rehabilitation period.

Loan Terms and Amortizations

Maximum Term/Amortization: VHFA loans may not exceed the term or amortizations of 40 years.

Prepayment penalties shall apply to VHFA financed loans and will be determined as defined in the loan note and housing subsidy covenant. Loans may include "lock-out" periods where loans are also subject to pre-paid interest or bond breakage fees as a result of early calls on the bond that are triggered by prepayment.

For transactions where VHFA or other lender is offering a "balloon" term (term is shorter than amortization), the Agency will conduct a balloon risk analysis on the project. The following considerations will be part of the balloon risk analysis:

- Net Operating Income (NOI): NOI at maturity must be at least equal to NOI in year 1.
- VHFA will use projected cashflows in the final year of the term to derive an expected property value. Capitalization Rates shall be set using the applicable rate used in initial underwriting + 2%.
- The expected Loan-to-Value ratio should be 80-85%. Please note that "soft debt" will be included in the Loan-to-Value ratio.
- Projected Debt Service Coverage Ratios must adhere to agency standards outlined in the "Debt Service Coverage Ratio & Operating Coverage Ratio" section of these guidelines.
- The Agency will estimate an exit interest rate, likely 2-4% above initial underwriting rates.

Cost Savings after Cost Certification

Cost savings remaining at the end of the construction or rehabilitation, if any, may be used at VHFA's discretion, typically using one of these methods:

1. Deposited in the replacement reserve account;
2. Used to reduce VHFA funding; or
3. Put to another appropriate use for the benefit of the development (additional improvements to property) as approved by VHFA.

In some limited circumstances, at the Agency's sole discretion, cost savings that occurred as a result of documented and demonstrated efficiencies initiated by the developer or related party contractors may be shared with those parties.

Other types of financing, special considerations: applicants that have received funding from multiple agencies that have cost saving or cost certification requirements are required to notify each entity of the savings realized by the project and propose an approach to addressing the savings.

Conduit Pass-Through Financing

Conduit financing is permitted for tax-exempt transactions at the Agency's consent. To apply for conduit financing, a project is required to submit the complete Common Application with all required supplements and attachments. The conduit lender is subject to review and approval by the Agency. The following items will be required for all proposed conduit deals:

- A term sheet from the lender that discloses key underwriting metrics (such as DCR, LTV, and financial assumption requirements) for the project. If a detailed term sheet does not address key underwriting metrics, the Agency may require the lender to submit guidelines or other materials to substantiate how the project is being underwritten.
- Identify the structure of the conduit deal, including
    1. how long the bonds will be outstanding;
    2. if the transaction is a direct purchase, the name of the purchasing institution;
    3. if the transaction will be publicly offered, the method by which the bonds will be sold; and
    4. any credit enhancement or guarantee program being used on the loan.

Conduit financing will be subject to fees as posted on the Agency's website. Fees will include both an upfront conduit fee, and an ongoing monitoring fee. The conduit fees are required to be included and clearly identified in the lenders' term sheet. The conduit lender is required to disclose and collect fees and remit payment to the Agency.

For conduit financing, the applicant and lender are responsible for legal fees associated with the issuance of the bonds. This will include bond counsel opinions, and preparation of other legal closing documentation.

Turnkey Construction Method

In addition to traditional design-bid-build approaches to development, the Agency will also consider proposals for turnkey development approaches.

All projects using the turnkey method must provide a Reliance Letter for VHFA for the following documents:

- Appraisal;
- Market Study; and
- Phase 1 and all subsequent Environmental Reviews.

In advance of funding, VHFA will require review and documentation of, at minimum, the following:

- Building plans and specifications will be reviewed by VHFA;
- Construction contracts;
- Demonstration that the project complies with all material purchasing requirements associated with the funding sources used in the final funding stack;
- Completion guarantees that meet VHFA's standards detailed in these guidelines;
- A signed and executed assignment of the Purchase and Sales Agreement with appropriate industry extension options.

Projects using the turnkey method may request a construction loan from VHFA, but borrower equity and project valuation must support the project costs.

Manufactured Home Communities

Manufactured home communities that are owned by non-profits, or are cooperatives (or obtaining financing to become a cooperative) shall be eligible for both construction and permanent financing from the Agency. For VHFA to provide financing for a community, at least 85% of the homes must be owner-occupied.

Per-Lot Reserve Requirement: Reserves will be based on property assessment reports and/or capital needs assessments to ensure long-term asset management. At a minimum, reserves must be set at $300 per lot per year.

In addition to the materials required by the VHFA Common Application, the following items are required for manufactured home communities:

- Infrastructure assessment completed by a qualified engineer who has experience with manufactured home communities. The report should include an assessment of all water infrastructure, electrical systems, roadways, and any buildings related to the operation of the community.
- Income survey and ongoing income eligibility: income survey requirements will be discussed with borrowers upon application. An income survey may be required if other funding sources do not require one to be completed. At a minimum, ongoing tracking must be completed for move-ins.
- Operating budgets should clearly document expected lot rent increases over the term of the financing, including any amounts expected to raise capital for future infrastructure needs.
- Existing communities must provide up to three years of rent rolls to demonstrate consistent lot rent collection.

Senior Care Housing

VHFA will consider projects that provide high levels of senior care and rely on Medicaid waivers.

Changes to Projects After Board Approval

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

- **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
- **Change in or Additional Loan Type:** Applicant has amended the application to change originally approved loan type
- **Change in Project Type:** Applicant has amended the application to change the originally proposed resident profile
- **Change in Borrower:** The original applicant is no longer part of the ultimate ownership structure, or a new entity has been added to the ownership structure or the profit structure of the Borrower has changed. (This may require a new application.)
- **Change in Development Location**
- **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.