A Tradition of Stewardship
A Commitment to Service

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Multifamily Rental Housing

Transaction Underwriting Guidelines

June 8, 2010

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Mike Parness
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Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")

How these Underwriting Guidelines Work

These guidelines are being used jointly by Napa County and the City of Napa.

The County and the City each have their own Affordable Housing Trust Funds that they individually administer. However, they have three common documents that they use for the administration of the Affordable Housing Trust Funds: these Underwriting Guidelines, and common Pre-Application and Full-Application materials.

In these Underwriting Guidelines, references to Fund mean both the Napa County and City of Napa Affordable Housing Trust Funds, unless otherwise indicated.

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Part A: Key Contact Information
For Napa County's Affordable Housing Trust Fund ("Fund")

Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")	
Napa County Contact	Larry Florin Community and Intergovernmental Affairs Manager County Executive Office, County of Napa 1195 3rd Street, Suite 310 Napa, CA 94559 (707) 253-4621 lflorin@co.napa.ca.us
Part A: Key Contact Information For City of Napa's Affordable Housing Trust Fund ("Fund")	
City of Napa Contact	Jan Maurer Watkins Housing Manager City of Napa 1115 Seminary Street Napa, CA 94559 (707) 257-9547 jwatkins@cityofnapa.org
Part B: Fund Diversification Guidelines	
	The Fund will seek to promote a healthy diversification in its loan portfolio in order to minimize risk. As part of this risk diversification strategy, the Fund will seek to achieve diversity within all facets of its loan portfolio. Specifically, this will begin to be achieved by seeking to have a diversity of borrowers and a diversity of projects. To encourage borrower diversity, applicants will be limited to two applications per calendar year to Napa County and two per year to City of Napa provided that only one of the two applications may be submitted by a single developer applicant; any second application must be submitted with another development partner. Applicants may also submit two applications that both involve development partnerships . To achieve a diversity of project types, the Fund will seek over time to fund a diversity of populations in different housing types including a mixture of unit sizes, project sizes, and new project types including new construction and rehabilitation.
Part C: Transaction Underwriting Guidelines	

Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")	
Part I: Applicant Thresholds	
Developer Qualification/ Disqualification	An applicant seeking a Fund subsidy must meet the following qualifications listed below. If the developer entity is a joint venture, the leading developer must meet the required qualifications listed below. If the developers equally share the partnership interest, both developers must qualify. 1. A developer must have experiences within the last five years in developing and owning affordable housing projects that are similar in size, scale, tenure, type, target population and complexity (both from a physical and financial standpoint) to the one being proposed. 2. A developer will be required to disclose whether it, any of its principals, or any affiliated entity, has been an adverse party in litigation involving any county, city, redevelopment agency or other public entity within the past ten years. 3. A developer will be required to disclose all judgments and outstanding claims against it, its principals or any affiliated entity, involving, but not limited to, defaults on financial obligations, construction safety, landlord/tenant disputes, or negligence. 4. A developer will be required to disclose that it, any of its principals, or any affiliated entity, has filed for bankruptcy at any time within the past ten years. 5. A developer must demonstrate its experiences in gaining support from respective communities for its affordable housing projects. 6. Applications are not accepted from entities that have been notified that they are not in compliance with their current obligations on any loans issued by Napa County (if applicant is applying to Napa County), City of Napa (if applicant is applying to the City of Napa) or the Fund. Noncompliance, at the discretion of the Fund, may consist of any monetary or non-monetary provisions, such as failure to submit required financial statements in a timely manner, failure to comply with the requirements of the regulatory agreement, including but not limited to resident service and property management obligations, and failure to correct in a timely manner any building deficiency noted by any government agency. 7. The entities comprising the applicant must not have received negative points from the California Tax Credit Allocation Committee (CTCAC) or the California Debt Limit Allocation Committee (CDLAC) within the past three years. 8. If the applicant is seeking 9% tax credits, the applicant entity must meet the standard for maximum general partner experience points under California Qualified Allocation Plan. 9. The applicant is willing to designate a principal available through the entire course of development and construction of the project if the developer track record relies on that principal. 10. The Fund reserves the right to deny funding assistance to any applicant on the basis of the information provided by said disclosures.
Part II: Eligibility	

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Eligible Projects	Project types to be funded will be defined by Notices of Funding Availability (NOFAs) that will be released from time to time by Napa County and/or City of Napa. Generally, the Fund is committed to providing affordable housing opportunities to the populations that have the greatest needs. The Fund also strives to provide affordable housing opportunities to specific segments of the population that are underserved or are at risk of homelessness. In general, eligible projects are affordable rental developments including, mixed income developments and mixed use projects. The Fund provides loans for affordable housing projects that prevent the loss of existing long term affordable housing, or expand the supply of new long term affordable housing, through one or more of the following development opportunities: development and/or construction of new housing; conversion of non-residential structures to housing; preservation of existing affordable housing; acquisition of existing housing to preserve affordable housing or to create new affordable housing; and rehabilitation of existing housing. Priority will be given to projects in which the participation of the Fund fulfills a financial need not readily available from other sources, and for projects that provide the maximum level of affordability possible within the framework of leveraging sources available at the time. City of Napa NOFAs may require Fund applicants to proactively market units to the City's Section 8 waiting list or to households that may be facing dislocation due to publically assisted development projects.
Ineligible Projects	1. Emergency homeless shelters, transitional housing, and for-sale housing. 2. The Fund will not provide funds for applicants proposing housing types that are in violation of Federal or State fair housing laws.
Eligible Applicants	1. Applications are accepted from non-profit and for-profit housing corporations, joint ventures, limited liability companies, partnerships, and local governmental entities that have met the Applicant Thresholds. All applicants seeking a Fund loan must include a nonprofit managing general partner. 2. Fund staff will review and approve the qualifications of the applicant and all partners in the ownership entity. a. Applicants are required to submit proposed or executed organizational documents of the applicant and ownership entity, including a detailed description of the role of each, if separate entities, throughout the regulatory period of the project. Applicant shall submit complete financial statements including Balance Sheets, Income Statements, and Statement of Cash Flows with notes for the last three years. Audited financial statements must be submitted if available. A credit report may be requested by the Fund at its discretion. If both the applicant and the ownership entity are both newly formed, the information submitted must also include all of the requested information above for the general partner, or the established development company that is a partner in the general partnership.

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	b. Applicants are required to submit evidence of successfully participating in a least two projects of comparable size, scale, tenure, type, target population and complexity to the proposed development, and subject to a recorded regulatory agreement for at least five years prior to the application. The Fund may require evidence that projects have maintained positive operating cash flows and that all required reserves have been funded throughout the ownership period. Applicants who are unable to meet this experience requirement will be required to partner with an entity that has the necessary experience.
Eligible Uses of Funds	To provide take-out financing at construction loan closing for normal and customary pre-development and acquisition related expenses, and to fund normal and customary construction expenses on a pari passu basis with a construction lender. The Fund will determine, in its sole discretion, costs deemed excessive or unreasonable, or uses deemed ineligible. Project contingencies must be included at the following minimum levels: new construction hard costs of 5% to 10%; rehabilitation hard costs of 10% to 15% (with preference for 15%); soft costs of 3% to 5%.
Ineligible Uses of Funds	Costs associated with construction items or materials of a luxury nature; furnishings (except where required for special needs projects); developer/sponsor administrative costs (other than included in the developer fee); refinancing of existing debt, except in extraordinary cases; marketing events such as groundbreakings and grand openings; substitution of County funds for any source of funds that has been previously committed to the project, or represented to any other funding source as being available for the project.
Eligible Households	<u>For Napa County</u> Very low, low and/moderate income households including households with special needs. The Fund uses the income limits set by the US Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) to define low and moderate income households. These income limits are used for most federal, state and local housing programs. They are also used for targeting affordable housing units in local housing elements. <u>For City of Napa</u> Very low, low and moderate income households including households with special needs. If Redevelopment agency funding is being proposed, the Project's target tenant population (family, senior, etc.) and income targeting should also be reviewed with respect to California Redevelopment Law (CRL) proportionality requirements and current status for the relevant Redevelopment Project Area.
Part III: Project Priorities and Location and Design Guidelines	

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Project Priorities	Project priorities will be set forth in individual NOFAs when they are issued. <u>For Napa County</u> In general, priority in all disbursements shall be given first to housing projects that guarantee permanent affordability. <u>For Napa County and City of Napa</u> It is a goal of the Fund to provide loans for housing that serves a combination of special needs, very low income, low income and moderate-income households. Specific project targets and criteria may be adopted by the Fund periodically in response to evolving housing challenges and needs that are identified and adopted by the governing body of the Fund. Projects will be evaluated with respect to criteria that are consistent with Fund goals and policies. In addition, projects that provide the following will be viewed favorably and when compared against other projects: 1. Projects that provide the greatest benefit per dollar of funds spent. 2. Rental projects that have other funding sources identified and committed. 3. Rental projects which benefit the highest percentage of low and moderate income persons, provide the lowest rents, include a greater percentage of affordable units, or will maintain longer periods of affordability. 4. Rental projects that use program funds as a match or leveraging tool to stimulate the use of conventional and below-market resources, including tax credits, state and federal funding programs, and/or other funding sources.
Location Policy and Suitability for Development	<u>For Napa County</u> In general, the Fund seeks to distribute loans throughout the county in proportion to the population or housing needs of the various communities in the county and to avoid concentrating lending in a limited number of areas of the county. The Fund specifically seeks to target for lending those sites listed in the Housing Element as being suitable for affordable housing development. The Fund also encourages infill development and the redevelopment of properties that have outlived their useful lives, where economically feasible. This aligns with the County land use and development policies to accommodate growth without outward expansion of the urban area. <u>For City of Napa</u>

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	The Fund encourages infill development and the redevelopment of properties that have outlived their useful lives, where economically feasible. In general, the Fund seeks to distribute loans throughout the city in proportion to the population or housing needs of the various communities in the city and to avoid concentrating lending in a limited number of areas of the city. For both Napa County and City of Napa Land proposed for an affordable housing project must be suitable for development. Some characteristics of suitability include close proximity to transportation, services, schools, recreational amenities and compatibility with adjacent land uses. In negotiating the cost to acquire land, the developer should keep in mind that the development site should not have extraordinary costs associated with the proposed project, such as higher than typical grading costs due to unusually steep sloping or unstable soil characteristics or extraordinary costs to bring roads or utilities to the site, unless there exists some offsetting characteristic of the land, such as a lower price or there exists a County or City policy encouraging development at that particular location, that would provide equal or greater public benefit for allowing development as affordable housing.
Design Guidelines	For Napa County 1. Site and building design. All projects may be subject to architectural review and developers may be required to provide renderings of the project with their pre-application. For projects located in the unincorporated parts of Napa County, developers of new construction projects are required to meet with the Director of Conservation, Development and Planning (or Director's designee) prior to submitting a full application to the Fund. For projects located in the unincorporated parts of Napa County, developers of rehabilitation projects may be required to meet with Director of Conservation, Development and Planning (or Director's designee) prior to Board of Supervisors approval. Developers should incorporate the principals of universal design by improving accessibility and ease of use for all residents. For City of Napa 1. Site and building design. All projects will be subject to design review and developers may be required to provide renderings of the project with their pre-application. Developers of new construction projects are required to meet with City design review staff prior to submitting a full application to the Fund. Developers of rehabilitation projects may be required to meet with design review staff prior to Council approval. Developments should adhere to the City Design Standards, which provide guidelines for site layout, parking, building differentiation and orientation, and materials, among other design standards. Developers should incorporate the principles of universal design by improving accessibility and ease of use for all residents. For Both Napa County and City of Napa

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	The pre-application requires an extensive design review package to be submitted. Architectural drawings for conceptual review must be submitted and shall include a site plan, building elevations, and unit floor plans (including the square footage of each unit). The site plan shall identify all areas or features proposed as project amenities, laundry facilities, recreation facilities and community space. Preliminary drawings must have a conceptual landscape plan and shall be at a scale that clearly shows the requested information. Blueprints need not be submitted. A narrative site description from the architect must accompany the preliminary drawings and shall address the following: lot dimensions, surrounding uses, prevailing setbacks, traffic patterns (if applicable), neighborhood amenities and availability of public transportation. The narrative should explain the orientation of the project design in relation to the site and area characteristics. 2. Project must incorporate Crime Prevention through Environmental Design ("CPTED") principles.
Livability standards	The Fund's provision of affordable housing financing is a long term investment. Underwriting includes assuring that each development will be well-designed and well-constructed to provide decent, safe affordable housing over the long term for a population that does not have a wide range of housing choices. The quality and marketability of any housing unit is affected by its size and the livability of the space including the space's ability to accommodate the potential number of occupants and the necessary furniture. A larger unit does not guarantee the successful accommodation of a particular furniture layout over a more efficiently laid out smaller one. For Napa County, the project must meet all code requirements imposed by the Conservation, Development and Planning Department, but it may be appropriate to exceed these requirements for certain projects. For the City of Napa, the project must meet all code requirements imposed by the Community Development Department, but it may be appropriate to exceed these requirements for certain projects. Unit layout and size – Fund staff will carefully review unit size and layout for livability. Windows/Lighting/Ventilation – Units must be designed so that there is adequate natural light and ventilation. Building Shape and Appearance – The structure should respond to its context, enhance the neighborhood, and create a pride of place for its residents. Landscaping – The design should be appropriate for the intended use of all of the residents. Quality of Building Materials – Materials must be of a quality and durability to assure long term viability of the structures.

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	Open Space/Storage Space - The project must address adequate levels of the following, based on the type of project, location and target group. Examples of acceptable open space/storage space include: common space (e.g. community room and social services space, if applicable); secure, on-site laundry facilities; children's play area (family projects); storage space (both inside and outside of the unit); and open space (public and private space within the housing complex). Resident Service Community Space – Residential amenities, including but not limited to, common outdoor open space, common indoor space, private outdoor space (balconies, patios, etc.) should be incorporated into a project's design. Innovative project designs and construction types/methods that result in reduced construction costs are encouraged.
Inclusion of computer technology	Projects must provide the capacity for high-speed internet access in each unit by a means that does not impede use of a primary telephone line. This requirement may be waived for rehabilitation projects if infeasible.
Parking	In addition to providing the number of parking spaces required for the project by building code, special consideration should be given to security issues and safety elements for parking, including, but not limited to, pedestrian entrance and exits, lighting, open stairwells with clear visibility on each floor landing, and other design elements to ensure the tenant's/public's safety and well-being.
Accessibility requirements	The Fund expects the developer to be familiar with and comply with accessibility provisions of state and federal law. Information on federal requirements may be obtained from the U. S. Department of Housing and Urban Development and on state requirements may be obtained from the State of California Building Standards Commission.
Sustainability	<u>For Napa County</u> Sustainability is an important policy objective for the Fund. Napa County has strong preference for new construction affordable housing projects seeking Fund assistance to be designed to LEED-NC Silver. Alternative standards will be considered; however applicants must explain why they have used an alternative set of sustainability standards and must explain the cost savings of use of those standards instead of the LEED-NC Silver. Rehabilitation projects should maximize sustainability features as well. <u>For City of Napa</u> All projects will comply with the City of Napa's High Performance Building Standards, which are based on the California Green Building Standards (CAL Green).
Part IV: Development Team	
A. Development Team Underwriting and Qualifications	

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Developer Experience	Applicants must meet Applicant Thresholds. In addition, when applicable, applicant team shall have a demonstrated successful track record in providing social services to the targeted population, and adequate capacity to provide social services, or shall contract with a service provider who does. This track record should be evidenced by documentation on project staffing levels, annual social service budget, sources of funds, types of services provided and contracts/agreements with third party service providers at existing projects.
Staffing and workload levels	Pipeline, Staffing and Workload Levels 1. Applicant shall identify proposed project manager committed to the project. 2. Applicant shall identify current project pipeline including type of project, location, number of units and status. 3. Applicant shall identify the number of project managers on staff and the average number of current projects per project manager. Applicant shall also describe the how project management is structured within their organization.
Funding Ability/ Financial Strength	1. The borrower's capacity and financial strength are very important considerations when evaluating whether an affordable housing project will be successful. The Fund reviews the borrower's financial statements and/or tax filings for at least the past three years plus the current year to date to evaluate whether there is sufficient income, equity and cash flow to undertake, carry out and successfully complete the proposed project. Co-borrowers and guarantors will be considered in this evaluation. 2. Developer may be asked to demonstrate that it has met the financial guarantee requirements of any lenders and investors as may be required for the project to obtain the anticipated funding.
Identities of interest and related parties	1. Identities of interest and related parties. The applicant must identify any persons or entities (including affiliated entities) that plan to provide development or operational services to the proposed project in more than one capacity, and provide full disclosure of "related parties," as defined in the CTCAC Regulations, Section 10302 gg (Definitions) of the October 22, 2009 regulations. 2. The Fund prohibits members of the boards of directors of nonprofit corporations and their immediate and extended families from participating financially in their organization's projects.
B. Other Development Team Members	

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General Contractor	Although it is not necessary to select the project General Contractor (GC) at the Pre-Application stage, it is recommended that the applicant involve the proposed GC as early as possible during the project design stage. The Fund's expectation is that the selected GC has relevant experience working on housing of a similar design to the project being proposed, and it is highly desirable that the developer have previous experience working with the proposed GC. Experience in projects with similar funding source types, such as Federal, state or local assistance is desirable, but not mandatory.
Construction Contract	Form of Construction Contract: 1. The form of construction contract should be an AIA Stipulated Sum or Guaranteed Maximum Price (G Max) contract, Document A101 and A201, with special conditions as appropriate. 2. Under a G Max contract, the Fund may require sharing of cost savings on the construction contract between the contractor and the Fund, depending upon the overall level of compensation to the contractor.
Architect	The project architect must have design experience with at least three recent and similar projects as the proposed project. The architect must show experience in similar construction types and similar project complexities as the proposed project. Experience in projects with similar funding source types is desirable, but not mandatory.
Property Manager	The sponsor will include the property management company on the development team during the project design phase. The qualification of the firm should be submitted with the Pre-Application. The Fund reserves the right to approve or disapprove the property management company, management plan, and lease agreement as part of the Pre-Application and/or Full Application process and upon any subsequent change, and annually monitors all projects for occupancy, affordability, management and social service requirements. The Fund reserves the right to require the management company be changed if, in its sole discretion, the Fund determines the management company is not following policies and procedures specified in the approved management plan, lease agreement, or regulatory documents. For property management companies new to Napa, references from at least three property owners may be required.
Construction Manager	Developer must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including: permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis.

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Financial Advisor/Consultants	Consulting fees must not exceed $100,000 and should be dependent upon the size and complexity of the project. Specific consulting services include: preparation of tax credit applications; preparation of Fund applications and other public agency applications; preparation of Affordable Housing Program (AHP) applications and applications for conventional financing, as well as provision of general development services such as the selection and coordination of the development team; loan documentation; and, processing local approvals and entitlements. Fees required for construction management are not included in this category.
Part V: Project Underwriting Guidelines	
A. Fund Debt – Terms and Conditions	
1. Loan Terms	
a. Method of Financial Assistance	Construction and Permanent Loans
b. Loan Sizing	1. The loan amount shall not exceed the difference between total development cost and the maximum potential equity and debt raised from private and public sources other than the Fund. Fund staff shall determine the financial gap based on review of the application. 2. In order to serve the widest array of projects in the County and/or City and to be as efficient as possible in providing affordable housing units, and to also protect investors and users from unnecessary risk, the Fund will generally limit the size of its loans using the following guidelines based on maximum loan amounts per unit and/or per bedroom. The maximum amount will be determined through an economic analysis of the project to ascertain the necessary funding required to achieve housing affordability. Comparable projects will be used as one indicator, along with consideration of the unit size, number of bedrooms, affordability level, length of affordability, availability of other subsidies, and local or regional project costs.
c. Interest Rate	3.0% simple interest when developer has ability to repay Fund loan. 0% if proposed use/operation has no income source for repayment; special needs developments may be offered the possibility of debt forgiveness tied to years of service provision. For example, a project with 20 year restrictions could be offered 5% debt forgiveness per year for each year of meeting the project's housing and service obligations.

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d. Loan Term	55 years from conversion of permanent financing; this loan term will run in the range of 55 to approximately 57 years.
e. Loan Repayment	Determined on a project-by-project basis. Standard recommendation: Years 1-30: Fund/Developer 50/50 split of residual receipts; will be extended to 40 years if term debt is 40 years. Years 31-55: Fund/Developer 80/20 split of residual receipts Balance due at Year 56 Fund portion of residual receipts may be shared with other public agencies in proportion to the respective loan amounts committed by each public agency.
f. Refinance Proceeds	Fund/Developer 50/50 split of net refinancing proceeds (*net refinancing proceeds = proceeds after repayment of outstanding debt, refinancing costs, any funds invested in project and takeout of other third-party funding sources subject to Fund approval*).
g. Disbursement of Funds	50-50 distribution pari passu with construction lender and 10% withheld until project is completed (Certificate of Occupancy).
h. Draw Requests	Provided on a monthly basis or as needed.
i. Performance Bonds	Performance bonds may be required at the Fund's discretion.
j. Conditions for Final Disbursement	The Fund will hold back a minimum of 10% of loan proceeds until the following conditions have been met: • Receipt of a Certificate of Occupancy, a Temporary Certificate of Occupancy or acceptable evidence of final sign-off from the Conservation, Development and Planning Department. • Achievement of 90% occupancy. • Fund's receipt of complete rent rolls. • Evidence of application for property tax abatement if original proforma contemplated tax abatement. • Evidence that any conventional debt for the project has closed or will close concurrently. • Evidence that reserves have been fully funded and further, evidence that the replacement reserves levels are appropriate to

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	the development project. City of Napa has particular concerns that the levels of replacement reserves for small new construction projects be adequate to make future capital repairs, and may require higher than usual reserves levels for small new construction projects (ie projects under 20 units).
k. Reporting	Developer to provide Fund with copies of monthly construction inspection reports and draw reports provided to construction lender(s).
l. Cost Savings	To the extent that there are Excess Sources (as hereafter defined), the applicant (and at this future point in time will then be the "Borrower") shall make a special payment to the Fund within thirty (30) days of receipt by the Borrower of either (i) the approved final cost certification relating to the development, and (ii) the final equity payment from the Borrower's limited partner, whichever is later to occur. The amount of the special payment shall be the lesser of (x) the outstanding principal balance of the Fund loan, plus accrued interest, and (y) Excess Sources. For the purposes of these Underwriting Guidelines, "Excess Sources" shall be defined as the amount by which the funding sources actually available to Borrower for acquisition and new construction and/or rehabilitation of the development exceed the actual aggregate cost for the acquisition and new construction and/or rehabilitation of the development, as such sources are determined by the final cost certification. Such payment hall be applied first to accrued interest, and then to outstanding principal. For projects using both Napa County and City of Napa funding, the Excess Sources would be shared between Napa County and City of Napa on a pro rata basis.
2. Loan Related Fees *Note: if applicant is applying to both Napa County and City of Napa, applicant must pay **each** of the fees below, specifically the fees lettered a to d, to **each** entity (for example, loan application processing fees will be due to both the County and the City at the required payment times set forth below. For further clarification, an applicant would pay $5,000 to Napa County and $5,000 to City of Napa at the Pre-Application submittal; $5,000 to each entity at Full Application, and the balance of the 1% fee to each entity at the close of escrow).*	
a. Loan Application Processing Fees	Loan fees will total 1% of the requested loan amount with a minimum fee of $10,000 for any loan request under $1 million. This 1% fee is non-refundable and is to be paid as follows: $5,000 at Pre-Application submittal; $5,000 at Full Application submittal; and the balance at the close of escrow.
b. Rehabilitation Technical Services Fee	For rehabilitation projects, the Fund charges an additional fee of $5,000 beyond the loan application fee for rehabilitation technical services for a preliminary rehabilitation work write-up/cost estimate and subsequent inspections of work in place. This fee must be included in the total development cost of a proposed project and be paid at close of escrow.

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c. Loan Monitoring Fees	
i. Initial Set Up Fee	The loan monitoring system set up fee is $500 and is due at the close of escrow.
ii. Annual Monitoring Administration Fee	Compliance Monitoring fees must be incorporated into the operating proforma. The annual fees are based on a sliding scale. The base monitoring fee is $70 per unit for the first 40 units. The base fee decreases $10 for each unit more than 40 units, and decreases $20 for each unit more than 80 units. For example: 1-40 units/beds @ $70 per unit 41-80 units/beds @60 per unit 81+ units/beds @ $50 per unit Fees for the first two years will be withheld from the final disbursement of the Fund's loan. (Subject to annual increase based on CPI. Set annual escalator in proforma at operating expense escalation factor, generally 3.5%).
d. Loan Amendment and Modification Fees	The Fund will impose a $2,500 fee to cover costs associated with modifications and amendments when they are requested by the applicant/borrower.
3. Affordable Housing Provisions	
a. Term of Deed Restrictions	For Napa County The Fund places a strong priority on financing projects that provide permanently affordable housing units. Consideration will be given to units with affordability restrictions that expire at some future date, but they should remain affordable for the longest possible time, and at a minimum for a term of 40 years. For City of Napa All units assisted by the Fund will be subject to affordability covenants in perpetuity.
b. Eligible Households	See Eligibility section.

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B. Private Permanent Financing – Terms and Conditions	
1. Debt Service Coverage Ratio	Minimum 4% LIHTC: 1.10 – 1.20 9% LIHTC: 1.10 – 1.20 Maximum: Industry Standard
2. Loan to Value	Maximum 90% LTV. 80% LTV or less preferred. Subject to industry standards.
3. Loan Term	30-40 years (Shorter loan terms may apply subject to constraints imposed by State and Federal financing sources.)
4. Interest Rate	4% LIHTC: 100-300 basis points below conventional industry lending rates 9% LIHTC: Conventional industry lending rates The interest rate on the hard debt must be competitive with the prevailing market interest rate for similar financing structures with similar risk characteristics.
C. Cash Flow Projections (including Annual Reserves, Services and Fees)	
1. Income	
a. Rent Inflation Factor	2.5% annually (adjusted to industry standard annually).
b. Other Income - Description and Justification	The applicant should show the details of any miscellaneous income expected to be generated from the project. This income could include laundry machine income, storage, or other non-housing related income sources.
c. Other Income Inflation Factor	Not to exceed rent inflation factor and justification of inflation factor to be provided.
d. Lease-up Income	Lease-up income is defined as cash flow from the project operations prior to the conversion of the primary construction loan to a permanent loan. Lease-up income should not be shown as a source of funds for budgeting purposes; however, borrower must submit details of lease-up income amounts prior to conversion to permanent loan. Lease-up income can only be used to pay construction loan interest or reduce the Fund's permanent loan.

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2. Expenses	
a. Operating Expenses	Operating expenses must meet the minimum standards set by CTCAC, and must not exceed the industry standards.
b. Vacancy Rates	Vacancy rates will be set at the greater of the vacancy rate identified in appraisal, or at the following rates for stabilized occupancy: a minimum of 5% annually for multi-family projects and 10% annually for special needs and SRO projects. For mixed projects with both multi-family and special needs or SRO units, the multifamily component shall have a vacancy rate of not less than 5% and the special needs/SRO component shall have a vacancy rate of not less than 10%. Any commercial component of a project will have a vacancy rate set at the higher of the rate in the appraisal or 10% for stabilized occupancy.
c. Operating Expense Inflation Factor	3.5% annually: The proforma operating expenses (excluding property taxes and replacement reserves) should not be inflated by less than one percent (1%) higher than the proforma revenues.
d. Replacement Reserves	Minimum replacement reserves should be consistent with California Tax Credit Allocation Committee (CTCAC), California Debt Limit Allocation Committee (CDLAC), California Department of Housing and Community Development (HCD), and/or California Housing Finance Agency (CalHFA) requirements, as appropriate. In the absence of senior lender requirements, the Fund will require replacement reserves consistent with CTCAC standards. The Fund will require an annual audited financial statement including the balance, deposits, and withdrawals from the replacement reserve account. If the senior lender and/or tax credit investor does not require approval of withdrawals, the Fund shall reserve the right to approve. Limited partners can not take reserve accounts upon exit. Reserve levels must be supported by a capital needs assessment; this applies only to rehabilitation projects for Napa County applicants; for City of Napa applicants, this applies to both rehabilitation. Applicants will be required to meet the capital needs assessment standards set forth by CTCAC for rehabilitation projects, currently set forth in the 2009 regulations in Section 10322(4)(b). Applicants must provide evidence that the replacement reserves levels are appropriate to the development project. City of Napa has particular concerns that the levels of replacement reserves for small new construction projects be adequate to make future capital repairs, and may require higher than usual reserves levels for small new construction projects (ie projects under 20 units).

Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")	
e. Operating Reserves	Minimum operating reserves should be consistent with CTCAC, CDLAC, HCD, and/or CalHFA requirements, as appropriate. In the absence of senior lender requirements, the Fund will require operating reserves consistent with CTCAC standards. The Fund may require an annual audited financial statement including the balance, deposits, and withdrawals from the operating reserve account. If the senior lender and/or tax credit investor does not require approval of withdrawals, The Fund shall reserve the right to approve. For projects with tenant-based assistance and/or other operating subsidies that are renewable or terminate prior to the end of the Fund loan, reserves in excess of the CTCAC requirements may be required. Limited partners can not take reserve accounts upon exit.
f. Private Construction and Term Lender Fees	Total lender costs should be in the range of 1% to 3% of the loan amount for 9% LIHTC projects, and 4% to 8% for 4% LIHTC projects.
g. Property Tax Increases	2% annually (except for tax-exempt organizations). Payment In-Lieu of Taxes (PILOT) fee to be considered on a case-by-case basis. Developers/owners of projects with units restricted to households at 80% of area median income or less shall attempt to qualify for the property tax welfare exemption from the California Board of Equalization. In such cases, a nonprofit general partner of a limited partnership submits a certification that the limited partnership agreement provides sufficient management authority and duties to qualify the nonprofit general partner as managing general partner. If an exemption is not contemplated, the Fund may request that the borrower consider submitting an application in order to make the project feasible.
h. Limited Partner Asset Management Fee	Paid during years 1-15 from project cash flow after debt service prior to payment of a deferred developer fee or distribution of residual receipts. Potential range at Year 1: $5,000 - $7,500. May escalate annually at the minimum of CPI or 3%.
i. General Partner Asset Management Fee	Paid during years 1-55 from project cash flow after debt service and payment of deferred developer fee before distribution of residual receipts. Potential range at Year 1: $10,000 - $15,000 *(Limited Partner and General Partner Asset Management Fees combined not to exceed $20,000 in Year 1.)* May escalate annually at the minimum of CPI or 3%.
j. Incentive Management Fee	Any incentive management fees must be paid from the Developer's share of residual receipts; in no case will incentive management fees be paid or calculated before the annual repayment due to the Fund.

Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")	
3. Developer Compensation from Cash Flow	
a. Deferred Developer Fee	First draw on cash flow. Subject to repayment with interest within 10 years from date in service. Interest on deferred fees should be payable from the developer's share of residual receipts, and the rate shall not exceed the interest rate of the Fund loan.
b. Other Developer Compensation	Any other proposed developer compensation shall be evaluated on a case-by-case basis.
4. Social and Supportive Services Budget	Evaluated on a case-by-case basis. Budgets are to be accompanied by detailed explanations of costs.
D. Developer Compensation and Requirements	
Maximum Developer fees	Developer fees include all funds paid at any time as compensation for developing the proposed project. They include all development consultant fees, processing agent fees, developer overhead and profit, construction management oversight fees if provided by the developer, personal guarantee fees, syndication consulting fees, and reserves in excess of those customarily required by multifamily housing lenders such as CDLAC or CTCAC. The maximum developer fee allowed by the identified leveraging source may be included in project costs. The maximum developer fee that may be eligible for payment from construction or permanent financing sources shall be one million, four hundred thousand dollars ($1,400,000) regardless of whether the project is a 9% or 4% LIHTC deal, with any unpaid developer fee balance to be paid from annual, excess cash available following the payment of all project operating costs, debt service, reserve deposits and administrative fees. However, no developer fee may be disbursed from any source without the approval of the Fund. For projects not using bonds and/or tax credits, such as small supportive housing developments or small rehabilitation projects, the maximum developer fee shall be determined on a per unit basis: $25,000 per unit for the first ten units, $15,000 per unit for units 11 through 30, and $12,000 per unit for units 31 and above. In no case shall the developer fee exceed 15% of the total development costs.
Deferred Developer Fee	Same requirement as above since this item is both a development budget and cash flow issue. First draw on cash flow. Subject to repayment with interest within 10 years from date in service. Interest on deferred fees should be payable from the developer's share of residual receipts, and the rate shall not exceed the interest rate of the Fund loan.

Multifamily Rental Housing Transaction Underwriting Guidelines (“Underwriting Guidelines”)	
E. Other Financing Sources – Terms and Conditions	
Maximum Leverage Required	It is expected that the applicant will leverage all available outside funding sources to the greatest extent possible to minimize the Fund’s gap funding. During the earliest stages of the project development, the applicant is strongly encouraged to explore as many outside funding sources as possible. The applicant should provide to the Fund evidence of their activities in soliciting proposals from the various funding sources and/or detailed information supporting their funding assumptions.
Debt Sources	<u>Construction Loan</u> Applicants are required to actively solicit bids from prospective construction lenders in order to best leverage the use of construction funds while also working to minimize interest expense, credit enhancement costs, and lender fees incurred by the project. Applicants shall contact at least three different construction lenders to compare the various terms and conditions to see which loan program may work best with the proposed project. <u>Permanent Loan (Conventional mortgage loan or tax-exempt bond proceeds)</u> Applicants are required to actively solicit bids from prospective permanent lenders in order to best leverage the use of bond proceeds or private mortgage loans for their proposed project. Although applicants are not encouraged to use bank loans or tax-exempt bond proceeds for debt leveraging that would jeopardize the long-term viability of the project, they are encouraged to seek out the most competitive terms and conditions that allow for the maximum leveraging of project cash flow, while ensuring the long-term viability of the project operations. A project must have sufficient value to provide security to the primary hard debt lenders. An applicant must be able to show evidence that the project as proposed meets this requirement. The applicant can show this by providing preliminary commitment letters from lenders and/or an appraisal by a qualified appraiser showing that sufficient due diligence has been conducted to qualify the project for the proposed hard debt amount. The Fund will allow leveraging of these hard debt funds to the extent that the cash flow projected from the operations of the project will result in a Debt Service Coverage Ratio of at least 1.10, but no greater than 1.20. In the event the applicant chooses a permanent lender that provides a loan in amounts lower than the highest lender bid or at an interest rate, debt coverage ratio, or cost that is higher, the applicant must provide information to the Fund, in sufficient detail, explaining the greater benefit to the project of that lender’s proposal.
F. Tax Credit Equity Commitment	
	Applicants are required to actively solicit bids from prospective tax credit equity investors. As with construction lenders, the applicant shall contact at least three different tax credit equity investors or syndicators to compare the various terms and conditions, such as tax-credit factors and pay-in schedules, to see which investor or syndicator may be able to provide the most beneficial tax credit equity contributions for the proposed project.

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	In the event the sponsor chooses the tax credit investor that provides equity in amounts lower than the highest equity bid, the sponsor must provide information to the Fund, in sufficient detail, explaining the greater benefit to the project of that investor's proposal.
G. Exceptions to Guidelines	
	Exceptions to the Fund's underwriting policies will be granted in limited situations if staff concludes a waiver is appropriate and approves the request. Requests for exceptions must be submitted by the applicant in writing. It shall be at staff's sole discretion to determine the appropriateness of the request. For Napa County, requests for exceptions must be submitted by the applicant to the Housing Director who will approve or disapprove such requests in writing. For City of Napa, requests for exceptions must be submitted by the applicant to the Community Development Director who will approve or disapprove such requests in writing. Appeals may be made to the City Manager.
H. Commercial Space Underwriting Guidelines	
	To be determined on a case-by-case basis and subject to industry standards.
Part VI: Third Party Reports	
Appraisals	All appraisers must be state-certified MAI appraisers who do not have an identity of interest with any member of the development team or sponsor. Appraisals must be prepared no earlier than six months prior to the date of the land or building's purchase contract, or if land or buildings have not been purchased, no earlier than six months prior to the Fund application date. Appraisals prepared for the project's lender(s) may be accepted with Fund's approval. Appraisals are to be submitted as soon as possible, but no later than two months before the projected closing date of the Fund loan and/or the construction loan. Appraisals for rehabilitation projects must include "as-is" and "postrehabilitation" values. Appraisals for new construction must include a land valuation and completed value. The property value shall be based on an appraisal that takes restricted rents and the value of below-market financing and tax credits into consideration, as applicable. The appraisal must be commissioned by the senior lender or by the Fund, funded through project costs, and performed by a reputable agency that is acceptable to the Fund. The appraisal must address unit type demand at the submarket level (or other geographic area if deemed more appropriate), and must provide unit comparables of other restricted affordable apartments. The valuation methodology should assess:

Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")	
	• Value of unimproved land • Value as-improved without rent restrictions • Value as-improved with restricted rents • Value of below-market financing • Value of tax credits • Value of commercial space, if any. The Fund should be consulted in determining the scope of appraisal to ensure it meets the County's underwriting needs. As Napa's real estate market can change rapidly, an update for appraisals less than six months old may be appropriate for purposes of accurate valuation. For leasehold properties, appraisals should define market value and estimate the property's below-market value. The appraisal valuation, whether for fee simple or leasehold properties, should support the amount of the first-priority loans as well as the Fund's loan amount.
Market study	Market studies must be consistent with CDLAC and/or CTCAC requirements. For projects not using those resources, the market study must include three rent comparables for each unit type from similar properties within a one-mile radius of the project, or, if not available within a one-mile radius, the three comparables closest to the project, subject to Fund approval.
Rehabilitation assessment	A capital or physical needs assessment of the property must be submitted that details the conditions and remaining useful life of the building's major components, including but not limited to electrical, plumbing, HVAC, foundation, and roofing. The scope of rehabilitation work identified in the application should match the findings of the physical needs assessment. The physical needs assessment must be prepared by the project architect or a qualified independent third party, neither of whom has an identity of interest with any member of the development team or sponsor. The needs assessment must be performed no earlier than 120 days prior to the application. The physical needs assessment shall include a 15-year reserve study, which indicates the expected dates and costs of future replacements of all major building components that are not being replaced immediately. The assessment shall also include a schedule of reserve contributions needed to fund those replacements.
Phase I or Phase II environmental assessments	Every application must include a Phase I Environmental Assessment which must follow the standards outlined in the American Standards of Testing and Materials (ASTM) standards (E 1527-05) to discover the potential presence of onsite and neighboring property contamination, (including but not limited to lead-based paint, asbestos, and methane) and will have been completed within the last six months. If a project's Phase I Environmental Assessment indicates the need for further assessment, a Phase II report must be submitted. The applicant must include a cost estimate for any required remediation.

Multifamily Rental Housing Transaction Underwriting Guidelines ("Underwriting Guidelines")	
Lead-based paint/Asbestos	All rehabilitation projects and new construction projects, which involve demolition of existing structures in advance of the rehabilitation or new construction, must submit an asbestos assessment and lead-based paint report completed within the past twelve months. For new construction projects where there is complete demolition of all existing structures, the applicant may submit a letter in lieu of a lead test report indicating that he/she will assume the presence of lead and follow the appropriate (federal, state, and local) lead hazard abatement protocols. For occupied sites, assessment must include minimally-invasive sampling and readily-accessible surfaces. Testing for asbestos shall be subject to AQMD standards. As it relates to lead-based paint, testing and compliance shall be consistent with those standards outlined in HUD's "Guidelines for the Evaluation and Control of Lead-Based Paint Hazards in Housing" (June 1995), including chapter 7- Lead-Based Paint Inspection (1997 Revision), which are the industry standard. If the assessment determines that lead is present, (except for new construction with complete existing structure demolition as indicated above), a Lead Abatement Plan must be submitted with application.
Soils report	All new construction projects must submit a soils report completed within the last twenty-four months for the purpose of evaluating the geo-technical engineering characteristics of the on-site subsurface soils relative to the anticipated development. The report shall include the description of the field exploration and laboratory tests performed; evaluation of soil liquefaction potential; conclusions and recommendation relating to construction of the proposed residential development based upon the analyses of data from exploration and testing programs; and knowledge of the general and site-specific characteristics of the subsurface soils. Reports for sites occupied by structures must include subsurface investigations that are conducted in compliance with, and subject to, Napa County's Department of Building and Safety standards and/or City of Napa Community Development Department standards.
Pest report	All applications for rehabilitation projects must submit a pest report completed within the previous 6 months. If the report shows repairs necessary, these costs must be included in the construction budget and scope, and a clear pest report will be required at the conclusion of construction. The pest report must be prepared by a company licensed by the State of California Pest Control Board.

End.