

UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES

Supportive Housing



NEW HAMPSHIRE
HOUSING

NEW HAMPSHIRE HOUSING FINANCE AUTHORITY UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES FOR SUPPORTIVE HOUSING

TABLE OF CONTENTS

Part 1 Purpose.....	3
1.01 Purpose.....	3
Part 2 Loan Terms and Conditions.....	3
2.01 Types of Loans.....	3
2.02 Types of Projects.....	3
2.03 Non-discrimination	3
2.04 Project Age-Restrictions	4
2.05 Loan Amounts	4
2.06 Loan Terms and Amortization Schedule	4
2.07 Recourse/Non-Recourse Debt.....	4
2.08 Interest Rates.....	5
2.09 Security	5
2.10 Floodplain Development	5
2.11 Distributions From Surplus Cash.....	5
2.12 Surplus Cash.....	6
2.13 Anti-Displacement and Relocation Policy	6
2.14 Insurance	6
Part 3 Construction Requirements	6
3.01 Builder’s Fees.....	6
3.02 Assurances of Completion.....	6
3.03 Renewable Energy	6
Part 4 Development Team.....	7
4.01 Developer/Sponsor	7
4.02 General Contractor/Construction Manager	7
4.03 Architect/Engineer	7
4.04 Supportive Housing Service Providers	7
4.05 Management Agent	7
4.06 Owner’s Representative.....	8
4.07 Development Consultant	8
4.08 Specialized Consultants	8

Part 5 Underwriting Requirements	8
5.01 Project Application	8
5.02 Performance Risk.....	8
5.03 Sources of Funds.....	9
A. Loan to Value Ratio.....	9
B. Developer Fee.....	9
C. Seller/Sponsor Loans	9
5.04 Income/Operating Expenses	10
A. Project Rents	10
B. Donations	10
C. Other Income	10
D. Vacancy Rates.....	10
E. Operating Expenses.....	11
F. Management Fee.....	11
G. Income and Expense Trending.....	11
5.05 Pro Forma	12
A. Debt Coverage Ratio (DCR)	12
B. Projects Without Amortizing Debt	12
C. Multiple Lenders and Trending Requirements	13
5.06 Development Budgets.....	13
A. Land and Building	13
B. Construction Budget.....	13
C. Soft Cost Budget.....	13
5.07 Third Party Reports	15
A. Appraisal.....	15
B. Environmental.....	15
C. Site Survey	16
D. Market Study.....	16
E. Rehabilitation/Construction Risk Management	16
5.08 Asset Management/Compliance.....	17
 EXHIBIT A	 18

UNDERWRITING STANDARDS AND DEVELOPMENT POLICIES FOR SUPPORTIVE HOUSING DEVELOPMENT

Part 1 Purpose

1.01 Purpose

These underwriting standards present NH Housing’s guidance and criteria for evaluating and underwriting proposed housing projects that incorporate supportive services that provide for the needs of the residents and are financed by NH Housing. These standards apply only to the NH Housing Supportive Housing Program and the Opioid Use Disorder Supportive Housing Capital Program. These standards do **not** apply to supportive housing units that are incorporated into Low-Income Housing Tax Credit Program projects or Tax-Exempt Bond funded projects.

A Supportive Housing Notice of Funding Opportunity (SH NOFO) and an Opioid Use Disorder Supportive Housing Capital Program Notice of Funding Opportunity (OUD NOFO) will generally be published annually, as long as program funds are available. The NOFOs and the NH Housing Supportive Housing Program Rules (HFA 112) include additional program information and requirements.

Part 2 Loan Terms and Conditions

2.01 Types of Loans

NH Housing offers long-term, deferred payment (also referred to as “capital subsidy” or “subordinated debt”), construction, energy efficiency, and bridge loans. All loans shall be in compliance with all laws, regulations, program rules (found on the NH Housing [website](#)) for the source of the loan proceeds, as well as with the requirements of NH RSA Chapter 204-C.

2.02 Types of Projects

NH Housing finances supportive housing projects which are newly constructed or substantially rehabilitated, and acquisition financing for the purpose of preserving affordability. Types of projects may also include adaptive reuse into supportive housing and refinancing of existing supportive housing properties. *In general, NH Housing will not provide financing for acquisition only without a definitive rehabilitation, preservation or development plan.*

2.03 Non-discrimination

All projects funded by NH Housing must comply with the Fair Housing Act, Section 504 of the Rehabilitation Act (if applicable), and any other applicable state and/or federal requirements.

Any project financed in whole or in part with NH Housing funds may only provide a preference for selecting residents from a specific community or group of communities as permitted.

The owner shall not discriminate against Housing Choice Voucher holders or refuse to lease a rental unit to a family solely because of the family’s participation in the tenant-based program.

2.04 Project Age-Restrictions

In general, age-restricted projects are defined as projects for people age 62 or over (all household members must be age 62 or older). The following exceptions may be permitted, in compliance with the Fair Housing Act, at the sole discretion of NH Housing.

For all general occupancy properties, there shall be no limitations for tenant age (except in relation to the minimum age legally permitted to sign a lease. In NH that age is 18).

2.05 Loan Amounts

Loan amounts for construction and long-term loans are not limited, except as required to meet these underwriting standards and based on the availability of funding sources. NH Housing capital subsidy deferred payment loans are limited as follows:

A maximum per-project subsidy limit will be the lesser of the per-unit subsidy limits or the maximum project subsidy as outlined in the NOFOs.

2.06 Loan Terms and Amortization Schedule

A. Long-term Loans

Long-term loans shall have loan terms of *generally* not less than 17 years with an amortization of payments up to 40 years. The loan terms such as interest rate and fees will be determined based upon the loan's associated program.

B. Construction and Bridge Loans

Generally, construction loans shall have terms no greater than 24 months and bridge loans shall have terms that correspond to the project's repayment/take-out source. Both types of loans will have interest only payments during their term. Construction and bridge loans are generally due and payable at the long-term loan closing; refer to the executed promissory note for specific due dates.

C. Deferred Payment Loans

NH Housing provides deferred payment loans that are generally in first mortgage position (or junior to the first mortgage, if applicable) have a zero interest rate, and require no monthly payments during the term of the loan. NH Housing in its sole discretion may elect to charge interest on these deferred payment loans on a case-by-case basis. Deferred payment loans are due and payable in full at the expiration of the deferred loan mortgage. Repayments on deferred payment loans are made from available surplus cash (reference Section 2.12 for additional information).

2.07 Recourse/Non-Recourse Debt

Loans are non-recourse debt secured by a mortgage and security agreement.

2.08 Interest Rates

Loan interest rates and terms are set in accordance with NH Housing policies established for their respective funding programs. Projects will be underwritten with an estimated interest rate, which is subject to change when final pricing is completed.

NH Housing capital subsidy (deferred payment loans) are generally not charged interest (see section 2.06.C above for more information).

For projects that include a NH Housing long-term loan and NH Housing capital subsidy, if final pricing results in a lower rate relative to underwriting, NH Housing reserves the right to increase the long-term loan amount to either reduce the capital subsidy amount, the deferred portion of the developer fee, or to cover escalating development costs, provided that the projected Debt Coverage Ratio (DCR) remains within the limits defined in these Underwriting Standards.

2.09 Security

A first mortgage or first leasehold mortgage is required as security for all deferred loans (when not secondary to a long-term loan), long-term, and construction loans. A subordinate mortgage or a subordinate leasehold mortgage is required as security for all subordinate loans.

NH Housing may require that an intercreditor agreement be executed when the NH Housing loan(s) is not in first security position. The terms of the intercreditor agreement will be determined on a case-by-case basis.

In connection with a project that has an existing first mortgage, alternative forms of security, such as developer cash, will be considered for construction/bridge loans. Construction loans will require additional security in accordance with the NH Housing's Construction and Bridge Loan Program Rules (HFA 110).

All projects receiving NH Housing financing must maintain income and rent targeting requirements in accordance with the respective program rules. Restrictions will be enforced by the following agreements and other regulatory documents, as required and as applicable:

- Regulatory Agreement;
- Affordable Housing Fund Land Use Restriction Agreement (LURA); and
- Land Use Restriction Agreements as required by any other funding source.

2.10 Floodplain Development

For both federal funds and non-federal funds being considered for the project, the project must comply with 24 CFR Part 55 Floodplain Management requirements to receive funding. Projects that receive federal and/or non-federal funds that are located within the 100-year floodplain are required to obtain flood insurance under the National Flood Insurance Program. No projects will be funded in a community that is not participating in the National Flood Insurance Program.

2.11 Distributions From Surplus Cash

NH Housing financed projects may require a limitation on distributions to the borrower depending on the funding source. The annual distribution to a borrower is governed in accordance with NH Housing rule HFA 204.12 Distribution Limitations and Performance Indicators.

2.12 Surplus Cash

In general, when NH Housing provides a deferred payment loan, repayment will be based on a percent of the annual surplus cash (typically 50%) as stated in the project's NH Housing Regulatory Agreement. Repayments will be applied first to accrued interest, if any. NH Housing reserves the right to prioritize its loan source repayments when multiple sources are used.

2.13 Anti-Displacement and Relocation Policy

Involuntary permanent displacement of tenants is strongly discouraged. NH Housing reserves the right to reject any Project Application that fails to minimize permanent displacement of tenants. Any proposed plan for temporary and/or permanent relocation of tenants shall attempt to minimize the relocation impact on tenants.

Projects using federal funding must fully comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (or URA). NH Housing requires that a relocation plan, and all necessary notices to tenants (both residential and commercial) under the URA, if applicable, be submitted with the project application if any temporary or permanent relocation is anticipated.

2.14 Insurance

A summary of the closing insurance requirements will be posted on the NH Housing [website](#). Detailed insurance requirements will be included in the project's regulatory agreement.

Part 3 Construction Requirements

3.01 Builder's Fees

Builder's fees will follow the schedule in the NH Housing's Design and Construction Policies (HFA 111).

3.02 Assurances of Completion

NH Housing will monitor construction advances to meet requirements for assurance of completion. These requirements include, but are not limited to, the following:

- Continued coverage of surety and insurance as required by NH Housing's Bonding and Insurance requirements;
- Completed requisition package, including the architect's and construction inspector's approval for payment, and a general contractor/construction manager's mechanics lien affidavit; and
- A clear title insurance disbursement endorsement for the requisition.

All projects must conform to the Project Closeout section of the NH Housing's [Technical Design and Construction Standards](#).

3.03 Renewable Energy

The addition of renewable energy to a project must be done in a manner that meets the requirements of all funders. NH Housing procurement requirements shall be followed as described in NH Housing's Design and Construction Policies (HFA 111). If renewable energy is added after the construction loan closing, the developer/sponsor should inform NH Housing as soon as possible so that staff can review the renewable energy procurement and re-underwrite the project to ensure that subsidy layering requirements continue to be met.

Part 4 Development Team

4.01 Developer/Sponsor

The developer/sponsor and development team must demonstrate sufficient experience in the successful development of projects of a similar scale and complexity to the proposed project. While loans to the project are non-recourse, NH Housing will review the professional and financial capacity of developers/sponsors as part of the project review process. The following documents shall be submitted in conjunction with the application as outlined in the NOFOs.

- Resume of the developer/sponsor, highlighting development experience.
- Resumes for all professional team members including architects, civil engineers, general contractors/construction managers, management company, and any and all consultants to be used in developing the project.
- Financial statements (preferably audited and/or prepared by a Certified Public Accountant) or their equivalent for the previous three years showing a satisfactory payment history and adequate financial capacity to complete and own the project.
- Other qualifications as deemed appropriate by NH Housing staff.

NH Housing in its sole discretion may require the developer/sponsor to hire a qualified development consultant as part of the development team if the developer/sponsor lacks the experience to develop the proposed project.

4.02 General Contractor/Construction Manager

The general contractor or construction manager shall be selected in a method consistent with NH Housing's Design and Construction policies (HFA 111).

4.03 Architect/Engineer

The architect and engineer must be licensed and registered in the State of New Hampshire and must meet all the requirements of both NH Housing's Design and Construction policies (HFA 111) and Technical Design and Construction Standards.

4.04 Supportive Housing Service Providers

Supportive housing service plans must incorporate supportive services that provide for the needs of the residents to improve housing stability and help residents live a productive life in the community. Refer to the NOFOs for more information about this requirement.

4.05 Management Agent

The management agent must have demonstrated experience with the management of properties subject to affordable housing programs and be acceptable to NH Housing. (In this case, "affordable housing" does not include the Housing Choice Voucher program.)

The owner/management agent must provide the management plan, tenant selection plan, affirmative fair housing marketing plan, and a lease or occupancy agreement in their final form prior to the construction loan closing. An executed management agreement (using the current management agreement on NH Housing's [website](#)) is also required prior to the construction loan closing.

Any changes to the management agent initially hired to manage the property must be approved, in writing, in advance by NH Housing. To obtain NH Housing's approval, the owner must demonstrate that the proposed new management agent is qualified as required in this section and has a record of successful performance at other properties in the NH Housing asset management portfolio.

4.06 Owner's Representative

The developer may hire a qualified unrelated (to the developer/sponsor/owner) third party to serve as an owner's representative to be paid from project sources. The developer shall submit the following for NH Housing's review prior to the developer executing a contract with an owner's representative:

- Resume for the owner's representative;
- Written scope of work; and
- Written summary demonstrating how hiring an owner's representative will add value to the project.

4.07 Development Consultant

The developer/sponsor may hire a development consultant to assist in the application and development of the proposed project. As these services provided by a development consultant would normally fall under the developer/sponsor role, the development consultant shall be paid from the developer fee. A copy of the development consultant contract or agreement shall be submitted to NH Housing prior to the construction loan closing.

4.08 Specialized Consultants

Certain projects require the assistance of technical consultants with expertise that the typical development team could not reasonably be expected to possess. Examples of such technical consultants include solar, historic credits, or passive house experts. In such situations NH Housing, in its sole discretion, may allow reasonable consulting fees to be included in the project budget and not be paid from the developer fee. The sponsor will be required to submit the consultant's resume and the developer-consultant contract for NH Housing's review prior to the construction loan closing. Consulting fees should generally be billed on an hourly basis and not as a percentage of the total cost of construction. NH Housing staff may limit the fee paid from project resources if the fee is deemed to be unreasonable based on factors such as the project characteristics, current market, and scope of work to be performed.

Part 5 Underwriting Requirements

5.01 Project Application

Developers/sponsors seeking NH Housing financing must use the current version of the supportive housing Project Application located on NH Housing's website. All applications must be completed in full.

5.02 Performance Risk

The help ensure long-term success of projects, NH Housing will assess performance risk of the proposed project by reviewing various indicators of the likelihood of successful long-term performance, including:

- The amount and source of requested NH Housing funds;
- Security position in the project of NH Housing loan(s);
- The existence of project-based rental assistance;
- The demand for the proposed housing; and

- The long-term stability of revenue sources for providing services, including, but not limited to, fee-for-services, or funding from the government, private sector, or fundraising.

Further, NH Housing may consider the project’s adaptability to other affordable housing uses should the finances and/or demand for the housing change.

NH Housing reserves the right to reduce or deny funding to a project when it concludes that 1.) there is a high risk of nonperformance; 2.) NH Housing’s funding is determined to be at a significant risk; and/or; 3.) alternative uses are unfeasible.

5.03 Sources of Funds

A. Loan to Value Ratio

The maximum loan-to-value ratio (LTV) for NH Housing amortizing debt (long-term loan) shall be 90% of the “as-complete” appraised value or the sales price, whichever is less. Projects owned or sponsored by a nonprofit or limited equity cooperative the maximum LTV shall be 95% of the “as-complete” appraised value or the sales price, whichever is less. Value will be determined by a NH Housing-commissioned appraisal. In limited circumstances, NH Housing may consider an appraisal commissioned by a third party, listing the NH Housing as an intended user, or a broker’s Opinion of Value.

B. Developer Fee

The total developer fee is up to 15% of the total development cost. The Developer Fee is not a guaranteed or automatic budgetary line item and must be approved by NH Housing for each project.

For construction projects where construction management is used, NH Housing reserves the right to withhold the developer fee at loan closing until the developer has provided the necessary documentation to satisfy the guaranteed maximum price requirements per the NH Housing Design and Construction Policies (HFA 111).

C. Seller/Sponsor Loans

A sponsor loan is defined as a loan, independent of any developer fee loan, provided by the developer/sponsor of a project that is receiving NH Housing financing. A seller loan is defined as a loan provided by the seller of the property of a project that is receiving NH Housing financing. Sponsor/seller loans generally take the form of deferring the land cost at closing, or cash provided to the project by the sponsor that is then repaid over time according to procedures defined in recorded project regulatory documents and consistent with applicable program rules and NH Housing policies. If a seller/sponsor loan takes some form other than cash, the value represented as the principal of the loan must be an eligible cost in the development budget.

Seller/sponsor loans are permitted as amortizing and/or deferred payment loans. Interest may be permitted on such notes with NH Housing approval; however, interest rates may not exceed the lesser of the 10-year Treasury Note Rate plus 250 basis points or the rate on the long-term amortizing debt. Payments made towards principal and/or interest on deferred payment seller/sponsor loans may only be paid from surplus cash.

If the source of funds for a NH Housing deferred payment loan is NH Housing’s operating fund, no interest may be charged on sponsor/seller notes.

5.04 Income/Operating Expenses

A. Project Rents

1. Gross rent for the purpose of underwriting includes contract rent net of utility allowances but does not include any other fees.
2. In most cases, maximum rents for a project are based on household income levels that are adjusted annually by HUD. All rents must comply with applicable program rules. Rents will generally be underwritten as follows.
 - For projects funded with Affordable Housing Fund; 98% of the AHF maximum rent limits.
 - For projects with a commitment of project-based rental assistance, rent associated with units for which rental assistance is committed shall be underwritten to the payment standard for the program.
3. NH Housing reserves the right to review each project for unique conditions and consider alternative scenarios (remaining in compliance with applicable program rules).
4. Non-tenant based rents, such as a roof lease for cellular, commercial space, or solar/hydroelectric income, that are pledged to a project as a source of income will require a comparative market analysis performed by a realtor or other qualified industry professional to substantiate the proposed rental income stream. Generally, pledged rents will require a guarantee in the form of a master lease or similar arrangement whereby the term of the guarantee, at a minimum, coincides with the term of the NH Housing amortizing debt (as applicable). NH Housing reserves the right to reduce the projected pledged rents in order to ensure project feasibility if the pledged rent asset fails to perform as anticipated.

B. Donations

Evidence of sustained, ongoing fundraising activity to support ongoing operations must be adequately documented. Inclusion of donations in the project's revenue projections will be at the sole discretion of NH Housing.

C. Other Income

In general, NH Housing will not recognize other income in excess of 2% of the gross rental income unless adequately supported by a market analysis or other data such as a third-party report.

D. Vacancy Rates

In general, vacancy rates will be initially underwritten at 5%. Vacancy rates greater than or less than 5% may be used based on a risk analysis performed by NH Housing. Vacancy rates may be adjusted for out years based on the expected maturing of a project. In no case will the vacancy rate be underwritten at less than 2% unless the property has a long-term rent subsidy contract.

E. Operating Expenses

Project sponsors are required to submit current operating expense budgets which have been reviewed as reasonable by the professional management agent who will be managing the project. NH Housing will determine the reasonableness of these projected expenses based on operating expense data of similar properties and may require that adjustments to the operating budget be made in a project's application.

F. Management Fee

All operating budgets shall include the sponsor's estimated annual management fee. The management fee will be reviewed for reasonableness compared to the market.

NH Housing staff reserves the right to adjust the fee based on data from projects of similar size and construction. NH Housing may require supporting documentation from the sponsor and/or the management agent as backup for any proposed management fee.

G. Income and Expense Trending

Trending assumptions are based on historical information and projections for future changes and may vary by project type and location. Trending assumptions will require adjustments from time to time. Rent trending will reflect historic changes in area median income (AMI) and local market conditions but will typically not exceed 2.5% on an annual basis. Trending for incomes other than project rents may be adjusted upward or downward based on NH Housing's determination. Operating expenses will generally be trended at 3% throughout the projection period with the exception of property tax expense which may be trended at the same rate as income if the developer/sponsor confirms intent to opt for assessment under NH RSA 79-e. If evidence exists for a different rate of change for a specific expense category, such as a binding contract for services, then the developer should submit that information to NH Housing for consideration.

Project income and expenses will be projected for 20 years unless program regulations require a longer outlook. The project should be able to fund all operating expenses and debt service payments for at least a 12-year projection period utilizing NH Housing's trending assumptions. Any NH Housing-financed project with a projected operating deficit during the 12 to 20 year projection period will be required to ensure that funds in the capitalized operating reserve are sufficient to cover the projected project cash flow shortfall amount during that period.

H. Projects with Project-Based Vouchers must comply with the following requirements:

The project must be able to pay all operating expenses and debt service payments through the 20-year projection period utilizing HUD Safe Harbor standards (88 FR 15443) and NH Housing's trending assumptions.

The project's cash flow (total operating income minus total operating expenses and debt service) may not exceed 10% of the total operating expenses.

5.05 Pro Forma

A. Debt Coverage Ratio (DCR)

1. The forecasted initial year DCR shall, at a minimum, be 1.15. The DCR as estimated using the 20-year cash flow projection may not drop below 1.0 before year 13. Generally, the DCR should be no higher than 1.45 during the 20-year projection.
2. The lower limit of 1.0 in year 12 takes precedence over the upper limit of 1.45 in year 1, so if a higher DCR is necessary in order to keep the DCR above 1.0 in year 12, the project should be structured accordingly without the need for a NH Housing waiver for the initial year DCR being greater than 1.45.
3. In the case of a project supported by a long-term rental assistance subsidy contract or other extenuating circumstance, the initial year DCR may be adjusted accordingly. A higher DCR may be used in cases of small or special use projects where there is higher than normal operating expense or repayment risk.
4. If a project has a higher than usual ratio of income to operating expenses (this is usually due to a market rate component that makes the project more dependent on debt and less dependent on LIHTC equity) the forecasted year initial DCR may be as low as 1.10 provided that the 20- year cash flow projection shows the DCR increasing in every subsequent year.
5. As part of the subsidy layering analysis, NH Housing will review the proposed DCR and the 20-year cash flow projection to ensure that a project receives no more capital subsidy than is necessary to make the project financially feasible. For projects with Project-Based Voucher, the DCR must be between 1.10 and 1.45 during the 20-year projection.
6. Lending institutions sometimes apply different underwriting criteria that have the effect of increasing the project's need for NH Housing capital subsidy relative to the need when underwritten using NH Housing's underwriting criteria. This can result in very high DCRs. If this is the case, and DCR exceeds 1.45 in year 1 and 1.15 in year 12, the developer/sponsor may be required to:
 - i. Provide evidence of competitive solicitation for low-income housing tax credit investment; and
 - ii. Show efforts to obtain terms from other lending institutions that would not have required additional subsidy.

B. Projects Without Amortizing Debt

Projects that do not include amortizing debt, without *Project-Based Vouchers*, shall have an Operating Expense Coverage Ratio (total annual operating expenses divided by the annual gross operating income) of 85% or less is required in year one.

Projects that do not include amortizing debt and have *Project-Based Vouchers*, must demonstrate an Expense Coverage Ratio (gross income divided by total operating expenses) of no less than 1.10 and no higher than 1.45.

C. Multiple Lenders and Trending Requirements

These underwriting guidelines take precedent over any other party's underwriting criteria. If the developer/sponsor chooses a lending institution that applies more stringent underwriting criteria or less favorable loan terms, thus requiring the need for additional NH Housing capital subsidy in spite of the availability of more favorable terms from other lending institutions (including financing from NH Housing), the developer/sponsor may be required to fill the resulting subsidy gap with a developer fee loan or a cash contribution to the project.

5.06 Development Budgets

The development budget must be completed in full in the NH Housing Financing Application with current estimated costs. A summary of eligible project costs (overall eligible and eligible/ineligible by source of funds) can be found NH Housing's website: [Project Development Eligible Costs](#).

A. Land and Building

- Land and building costs shall be substantiated by an independent third-party valuation; see section 5.07.A Appraisal for more information.

B. Construction Budget

- The construction budget must reflect reasonable and current estimated costs giving consideration to the scope of the project and market conditions.
- In general, the developer's construction contingency shall be 5% of the construction costs for new construction projects and 10% of the construction costs for rehabilitation projects.
- A construction period sources and uses (S&U) schedule is required for all NH Housing financed projects, using the S&U schedule tab on the financing application.

C. Soft Cost Budget

NH Housing will review the soft cost budget (non-hard construction costs) to determine that the budget is both reasonable and adequate. Budget line items may be adjusted by NH Housing to levels incurred by other similar projects recently financed by NH Housing, unless variances are satisfactorily justified by the developer/sponsor. Please see additional requirements below.

Title Insurance

All title policies will be originated by Counsel to NH Housing.

Furniture, Fixtures, and Equipment (FF&E)

FF&E are nonpermanent items that are not integral to the project's structure but are considered business assets that are utilized in the day-to-day operations of the project.

All developers must submit a list of the items with estimated costs that are included in the FF&E development budget in NH Housing's financing application prior to loan closing. This shall include FF&E items outside of the construction contract. Items included in this budget must adhere to the following qualifications.

All FF&E shall stay on the property of the project. All items shall be new. NH Housing may approve refurbished items, on a case-by-case basis if there is reasonable justification for not purchasing new. Items considered acceptable as FF&E include, but are not limited to, guest chairs, office furniture, common area furniture, telephones, and laundry equipment.

Rent-up Expenses

The developer/sponsor may budget for rent-up expenses; a budget detailing the proposed amount of the rent-up expense line item broken down by category shall be submitted. The rent-up expenses shall fund the following categories: marketing, operating, and debt service deficits during the lease-up period.

Developer Fee Loans

Generally, NH Housing expects developer fee loans not to exceed 50% of the maximum developer fee allowed. Interest may not be charged on developer fee loans.

Reserves

1. In general, NH Housing will hold all reserve and escrow accounts. If a lender other than NH Housing holds the first mortgage, NH Housing will allow that lender to hold some or all of the reserves and escrow accounts. However, if a NH Housing deferred payment loan is being used as financing, NH Housing will generally hold the replacement reserve account.
2. For new construction and adaptive re-use projects, the following reserves will be required to be funded no later than the long-term loan closing or project construction close-out. Some or all of the following reserves may be required for rehabilitation projects.
 - i. **Operating reserve:** Generally, an amount equal to four to six months of the project's annual operating budget, including debt service, must be capitalized and held for the term of the mortgage loan.
 - ii. **Replacement reserve:** A minimum amount equal to \$500 per-unit shall be capitalized for most project types. Additional reserves may be required based on an NH Housing commissioned Capital Needs Assessment or other analysis completed on the property. Annually, \$500 per-unit shall be deposited into the reserve. In general, the annual rate of deposits will increase by 3% annually.
 - iii. **Insurance escrow:** An amount equal to one full year's property and liability insurance premium meeting the NH Housing requirements will be escrowed at loan closing. NH Housing must be named as loss payee on all policies.
 - iv. **Real estate tax escrow:** At long-term loan closing sufficient funds shall be escrowed to pay the estimated amount of real estate taxes at the next billing date, less any amounts estimated to be escrowed for real estate tax payment from rental receipts for the period between the closing and the real estate tax billing date.

5.07 Third Party Reports

A. Appraisal

An as-complete value appraisal (which will include an “as-is” value as well) is required when the financing includes a NH Housing long-term loan. An “as-is” only appraisal will be accepted for projects that include acquisition costs without a NH Housing long-term loan. An “as-is” appraisal is required for all projects with Project-Based Vouchers.

See the requirements below for more information.

1. Acquisition costs which exceed the appraised value are generally not eligible to be financed using NH Housing funds, except under extenuating circumstances with NH Housing approval. The acquisition price is limited to the lesser of the sale price or appraised value. The appraisal must comply with all requirements of the Uniform Standards for Professional Appraisal Practice (USPAP). In general, when NH Housing provides long-term financing (amortizing first mortgage debt) NH Housing will commission an appraisal report.
2. If NH Housing is providing debt other than a long-term first mortgage, such as a deferred payment loan or a construction loan, it may rely on appraisal reports commissioned by the long-term lender, provided that NH Housing is listed as an interested party or intended user.
3. NH Housing, in its sole discretion, may allow for an Opinion of Value in place of an appraisal on a case-by-case basis.

B. Environmental

For all NH Housing financed projects, a satisfactory Phase I Environmental Site Assessment (ESA) report is required. The Phase I ESA report must conform with the requirements of the most recent edition of the ASTM Standard Practice for Environmental Site Assessments: Phase I ESA Process.

In order to be valid for a property transfer, the Phase I ESA report must be current. Current means that the report is still within a year of the effective date of the report. If more than 180 days but less than a year has lapsed from the report’s effective date, the following components of the Phase I report must be updated in a letter:

- Interviews with past and present owners, operators, and occupants (40 CFR 312.23);
- Searches for recorded environmental cleanup liens (40 CFR 312.25);
- Reviews of federal, tribal, state, and local government records (40 CFR 312.26);
- Visual inspections of the facility and adjoining properties (40 CFR 312.27); and
- The declaration by the EP (40 CFR 312.21).

If a year or more has lapsed from the report’s effective date, a new Phase I report must be obtained and submitted to NH Housing.

Projects that are receiving federal funding (such as Project-Based Vouchers or FHA Risk Share insurance) will be required to submit the appropriate HUD 24 CFR §58 Checklist(s). The Checklist(s) must be submitted to HUD (by NH Housing) for a release of funds before a project loan closing can occur.

If adverse environmental conditions are found at the property through the environmental review process, NH Housing will require an adequate mitigation plan and budget to cure such conditions. Additionally, buildings planned for renovation should follow certified asbestos and lead testing completed as outlined in NH Housing's Technical Design and Construction Standards for Rehabilitation.

In general, Phase I ESA reports should be commissioned by the developer/sponsor. If a HUD Checklist(s) is required, it shall be completed by a third-party professional selected by NH Housing.

C. Site Survey

A site survey, performed by a New Hampshire licensed land surveyor, is required for all properties. The survey and survey affidavit must meet all requirements necessary to remove the survey exception from the title insurance policy for the property. All surveys must include the following:

- North arrow shown;
- Legend of all symbols used;
- Location of all buildings on the surveyed property;
- Evidence of any easements burdening and/or appurtenant to the surveyed property, including notes to be placed on the face of the plan indicating scope of easements;
- Complete boundary survey showing metes, bounds, and closures;
- Location of all springs, ponds, lakes, streams, and rivers bordering on or running through the surveyed property;
- Location of any existing utilities;
- Narrative metes and bounds;
- Any other matters revealed by the title search;
- Other matters deemed reasonably necessary by NH Housing and/or its counsel; and
- Certification of land surveyor including the date of field work, date of map/plan, surveyor's signature, printed name, and seal with registration and/or license number.

D. Market Study

1. A formal market study is generally not required; however, market demand does need to be evidenced and documented. This could be done with the following data targeted to the population to be served in the proposed supportive housing: waiting lists for current properties, client base data (not to include sensitive data or personally identifiable information), and other information and data as requested by NH Housing to determine demand.
2. NH Housing may require an additional market and rent analysis, to be commissioned at the developer/sponsor's expense, if determined by staff to be necessary to confirm market feasibility, or if required by other parties such as participation lenders, investors or insurance companies.

E. Rehabilitation/Construction Risk Management

Physical improvements to existing properties will follow the policies and standards in NH Housing's Design and Construction Standards for Rehabilitation, including requirements related to Capital Needs Assessments, energy audits, asbestos, lead abatements, and accessibility.

5.08 Asset Management/Compliance

Asset management oversees supportive housing properties funded by NH Housing to ensure quality administration and maintenance of the properties. More information can be found on the NH Housing [Asset Management page of our website](#) and within this document: [Annually Required Certifications, Reports and Submission](#) (compliance monitoring activities are based on the type of funding awarded to a project).

Subsidy Layering Policy for Project-Based Vouchers

Subsidy layering reviews (SLRs) are undertaken to ensure the amount of assistance provided by HUD is not more than necessary to make the Project-Based Voucher (PBV) project feasible in consideration of all other governmental assistance. The requirements for SLRs are detailed in the two federal register notices, which are cited below.

- *Federal Register, Vol. 88, No. 40, March 13, 2023; “Administrative Guidelines: Subsidy Layering Review for Project-Based Vouchers.” (For projects which include PBVs, other government assistance, but no LIHTCs)*

New Hampshire Housing has been approved by HUD to complete SLRs for projects that include PBVs, and for projects that include PBVs and some other form of government assistance (e.g. State of NH Affordable Housing Fund). HUD has established safe harbor standards, as detailed in the federal register notices, to determine cost reasonableness and compliance with SLR requirements. Project costs that exceed the safe harbor standards must be consistent with the NH Housing’s published rules and policies.


- General Contractor Fees
 - For projects with construction costs of \$3,000,000 or more, NH Housing limits the combined value of the General Contractor’s or Construction Manager’s overhead, profit, and general conditions to 14% of the Cost of the Work excluding performance and payment bonds and building permits.
 - For projects with construction costs of less than \$3,000,000 but greater than \$1,300,000, NH Housing limits the combined value of the General Contractor’s or Construction Manager’s overhead, profit, and general conditions to 16% of the Cost of the Work excluding performance and payment bonds and building permits.
 - For projects with construction costs of \$1,300,000 or less, NH Housing limits the combined value of the General Contractor’s or Construction Manager’s overhead, profit, and general conditions to 20% of the Cost of the Work excluding performance and payment bonds and building permits.
- Developer Fee
 - The standard maximum developer fee is 15% of the total development cost.
- Housing Assistance Payment (HAP) Contract Term
 - The maximum initial term for a PBV HAP contract is 20 years.
- Debt Coverage Ratio (project with amortizing debt)
 - The minimum DCR is 1.10 and the maximum is 1.45. If the projected DCR remains between 1.10 and 1.45 during the initial term of the HAP contract, then it is assumed the project has enough cash-flow to pay operating expenses and amortized debt, and that the amount of government assistance is not excessive.
- Expense Coverage Ratio (project without amortizing debt)
 - An Expense Coverage Ratio (Gross Income divided by Total Operating Expenses) of no less than 1.10 and no higher than 1.45 is required.
- Operating Expense Trending
 - A project’s operating expenses shall trend at a consistent rate between 1% and 3% for the first five years and 3% thereafter. Any exceptions to this will require written justification.
- Rental Income Trending
 - Rent increase shall trend at a consistent rate between 2% and 3% per year. Any exceptions to this will require written justification.

- Vacancy Rates
 - Vacancy rates may not exceed 7%.
- Pro forma
 - For any given year of the project's operating pro forma, cash flow may not exceed 10% of total operating expenses.
- Operational and Replacement Reserves
 - Operational and replacement reserves may be deducted from cash flow when reserves are adjusted by a consistent amount each year.



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 New Hampshire Housing promotes, finances, and supports housing solutions for the people of New Hampshire.