Connecticut State Bond Commission
Multifamily Rental Housing Underwriting Review Guidelines for Mortgage Loans

This document is applicable to all entities seeking an allocation of Private Activity Bonds ("PAB") from the Office of Policy and Management ("OPM") in conjunction with an allocation of 4% Low-Income Housing Tax Credits ("LIHTCs") awarded by the Connecticut Housing Finance Authority ("CHFA"). OPM may request CHFA to review development proposals based on the guidelines noted below. This review would be done concurrently with the review CHFA will undertake for the award of 4% LIHTCs.

All entities seeking 4% LIHTCs will be reviewed by CHFA, based on criteria established in the QAP, LIHTC Guidelines, CHFA/DOH Consolidated Application and other CHFA posted materials.

Operating and Replacement Reserves

Operating and Replacement Reserves shall be established for each development financed with proceeds from the sale of Tax-Exempt Bonds ("TEBs"). The specific amounts of such reserves shall reflect the realistic needs of the development based on its location, type, and projected cash flows. However, at a minimum, operating reserves should be equal to one percent of total development cost ("TDC") (i.e., total uses less developer fee, acquisition costs, reserves, and syndication costs, if any) plus six months of permanent debt service payments. The annual replacement reserve should be based upon the syndicator's requirement or CHFA's Multifamily Rental Housing Program Guideline and should be increased annually during the permanent term of the mortgage loan.

Debt Service Coverage ("DSC")

The minimum DSC should be 1.10 for developments fully insured by the federal government or 1.15 for uninsured developments. DSC should not exceed 1.25 during the first fifteen (15) years of the permanent mortgage loan term. DSCs above this amount produce an unnecessary and inefficient use of TEBs and LIHTCs. In addition, the minimum DSC should be maintained for a minimum of the first fifteen (15) years of the mortgage loan's permanent term. As a general guideline, income should be trended at a rate less than the rate for expenses.

Developer Allowance/Fee ("DAF")

To the extent economically feasible, the paid developer fee shall be the lower of the percentage allowed by the issuer of the TEBs or CHFA, but not greater than fifteen percent (15%) of TDC on a sliding scale as shown below. The combination of the paid fee and the deferred fee cannot exceed 15%. The DAF is a non-mortgageable item. Fees paid to third-parties other than for architectural, appraisal, marketing, engineering, accounting, legal, environmental, or syndication expenses shall be paid from the developer's fee.

(a) 15.0% of the first $5 Million of TDC, plus
(b) 12.5% of the next $5 Million of TDC, plus
(c) 10.0% of the next $5 Million of TDC, plus
(d) 7.5% of the next $5 Million of TDC, plus
(e) 5.0% of the next $5 Million of TDC, plus
(f) 2.5% of the TDC over $25 Million

Operating Expenses

The applicant entity shall adequately demonstrate that appropriate and realistic market-based operating expenses and vacancy rate projections have been developed and utilized in the development's underwriting and cash flow analyses. After a 4% LIHTC application is received, CHFA may provide a benchmark for appropriateness for the applicant entity to consider.

Market Study, Appraisal and Capital Needs Assessment ("CNA")

The issuing Tax-Exempt Bond entity should commission, at the applicant's expense, an independent, comprehensive, timely and professional market study and "as-is" appraisal by an appropriately experienced entity, unaffiliated with the owner or developer. The "as-is" appraisal should be used as a guide for determining the appropriate acquisition price to be paid for the property. Similarly, if the development involves acquisition/ rehabilitation, then a study of development's long-term capital needs prepared by a competent, independent third party, shall be required by the issuing agency, and paid for by the applicant or developer. The scope of the applicant proposed rehabilitation of the development should incorporate the findings/conclusions of such CNA.

Total Development and Per Unit Cost

The issuing Tax-Exempt Bond entity shall demonstrate that the development and per housing unit costs are realistic, market-based, essential and appropriate for the development's long-term viability. The contractor's general requirements should not exceed nine percent (9%) of site and building costs. Builder's overhead and profit should not exceed seven percent (7%) of site and building costs, not including costs for permits and performance bonds. Collectively, the contractor's general requirements, overhead and profit (excluding costs for permits and performance bonds) should not exceed sixteen percent (16%) of site and building costs.

Limit on the Rate of Return on Equity

A limit on the rate of return an owner can earn on equity shall be established and required for each development. If the full amount of return on equity is unavailable to the owner in a given year, then the allowable amount may accrue but not compound. For non-HUD transactions, non-cumulative cash return on equity shall be determined at the CHFA's discretion or where economically feasible. Equity shall be defined as the difference between the total cost of the development, inclusive of acquisition and syndication costs, total debt and grant funds to complete the development. Funds above the allowable amount should be deposited in an account under the control of the issuing Tax-Exempt Bond entity. This account may be used to pay rate of return accruals to the owner or for purposes to benefit the development and/or its tenants. Upon sale of the development or dissolution of the ownership of the development, these funds should revert to the issuing Tax-Exempt Bond entity for use in its general, public business purposes.

Mortgage Prepayment Limitation

The mortgage loan on a property developed through the sale of TEBs may be assumable by a new owner with the issuing agency's prior written consent; however, it shall be closed to prepayment during the first twenty (20) years of the mortgage loan. Prepayment after twenty (20) years, but before the maturity of the mortgage loan, may only be permitted if the issuing Tax-Exempt Bond entity finds that there is a reasonable expectation that the development's rents will not materially escalate and that the need for low- and moderate-income housing in the development's general market area is not acute.

CHFA as Issuing Agency

Notwithstanding the above guidelines, when CHFA is the issuing agency, CHFA's Procedure, policies and guidelines shall prevail.

LIHTC Application

Applicants pursuing an allocation of 4% LIHTCs in conjunction with an allocation of PAB volume cap must also complete a 4% LIHTC application. Refer to CHFA's website at www.chfa.org for application requirements.

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