West Virginia Housing Development Fund
Multifamily and Commercial Lending Policy

Multifamily and Commercial Loan Programs

The West Virginia Housing Development Fund's mission is to provide financing that encourages the development of safe, decent affordable housing. This includes Multifamily and Commercial loans related to the acquisition, development, construction and/or rehabilitation of affordable housing projects. The following loan programs are designed to provide financing for such projects:

Multifamily Loan Programs – Programs involved in the direct financing of the acquisition, development, construction and/or rehabilitation of multifamily housing:

- HOME Program – encourages the development and financing of housing for persons at or below 80% of the State's median income. This program is restricted by federal regulations.
- Housing Trust Fund (HTF) – encourages the development and financing of housing for persons considered very low income (50% of area median income) and extremely low income (30% of area median income). This program is restricted by federal regulations.
- Mini-Mod Rehabilitation Program - allows owners of rental properties to rehabilitate existing rental units.
- Multifamily Loan Program – provides construction and/or permanent financing for multifamily rental projects, which may receive part of their financing from equity raised through the syndication of Low-Income Housing Tax Credits and other permanent lenders. Many of these loans are guaranteed under the USDA Section 538 Guaranteed Rural Rental Housing Program

Commercial Loan Programs – Programs designed to finance the acquisition, deconstruction or development of land for the future use of affordable housing:

- Land Development Program - provides below-market interest rate loans to qualified builders and developers for the purpose of acquiring and making improvements to land for residential housing and nonresidential construction,
- West Virginia Property Rescue Initiative - provides loans to assist cities and counties throughout the State in the acquisition and/or demolition of blighted properties which constitute health and safety hazards
- New Construction Financing Program – encourages WV licensed home builders and modular home dealerships to build moderately priced single-family homes for sale to the public.

In addition to the programs listed above, The WVHDF has also utilized the Low-Income Housing Tax Credit Program, Tax Credit Assistance Program, Tax Credit Exchange Program, and the Special Assistance Loan Program in connection with the financing of affordable housing**.** These programs are not covered by this policy.

The purpose of the WVHDF Multifamily and Commercial Lending Policy (the Policy) is to promote the diversification of the WVHDF loan portfolio and protect assets. These policies apply regardless of the program under which a property was financed (other than the exclusions listed above) or the source of funds utilized.

In applying the Policy, a Borrower is defined as follows:

- any individual owner(s);
- any principal (each individual and each entity) involved in any general partner of a limited partnership; and/or
- any principal (each individual and each entity) involved in any managing member of a limited liability company
- any Related Person

"Related Person" includes but is not limited to a spouse, children, parents, grandparents (including "steps" of the above), household members, significant others, and includes any other person or entity that is essentially the same source of debt repayments or is financially interdependent with any individual or principal. In addition to the forgoing, the WVHDF will consider whether an individual or principal is a related person on a realistic evaluation of the facts and circumstances of particular transactions.

Ineligible Borrowers

The WVHDF reserves the right to disqualify any applicant based on a variety of factors, including but not limited to, the following:

- HUD's Excluded Parties list
- Delinquencies of 30 days on two or more occasions during the previous 12 months, or delinquencies of 60 days on one or more occasion(s) during the previous 12 months on any WVHDF loan
- Uncured default on any WVHDF loan
- Foreclosure within the past 10 years on any WVHDF loan
- Unresolved material audit findings, particularly related to funds management or compliance with federal program requirements, during the most recent three-year period
- Credit score that is less than 620
- Adverse public findings and/or criminal record

- Issues of non-compliance with the WVHDF that continue to be unresolved after the end of the correction period, and continue to be unresolved at the time any such proposed loan is under consideration
- Failure to produce a project after receiving an award under and WVHDF program and/or has a history of repeated compliance issues.

Project Affordability

The WVHDF mission is to provide for safe, decent, affordable housing. Federal programs such as LIHTC, HOME, HTF and RD 538 programs have specific restrictions on tenant income and/or rents to provide for affordable units over a specific period of time. The WVHDF will consider a project requesting financing from non-federal programs operated by the WVHDF, where the project includes affordable units as determined by the WVHDF based on factors including property location, area median income, fair market rent, and other area demographics.

Lending Limit

To promote the diversification of Borrowers in the loan portfolio and to prevent a concentration of risk to a single Borrower, the maximum aggregate loan exposure to a single Borrower shall be limited to the greater of:

1. 20% of the WVHDF's Audited Unrestricted Net Assets*
2. $15,000,000

For the purposes of calculating a Borrower's aggregate loan exposure, certain loan types and loan structures are deemed "low-risk" and should not be fully allocated to a Borrower's aggregate balance. Low-risk loans are as follows:

1. Federal guarantee or mortgage insurance – Loans with a federal guarantee or mortgage insurance, such as the USDA 538 Loan Guarantee Program, reduce the Fund's risk exposure as they insure a predetermined percentage of the loan's balance in a loss scenario. As a result, for loans with such guarantees/insurance, only the uninsured balance of the loan will be allocated to a Borrower's aggregate loan balance.
2. LIHTC Construction** – The LIHTC Program has a very strict selection process that evaluates a developer's ability to perform and the viability of the project. As a result, projects that are awarded tax credits have already been vetted to a certain degree. The construction loan amounts for LIHTC projects are typically large, however tax credit equity is injected into the project at the completion of construction, which substantially lowers the loan amounts to their permanent financing level. In addition, projects typically have permanent financing in place prior to the start of construction. All of the aforementioned factors contribute to lower financing risk. Therefore, projects that (1) have been awarded tax credits, (2) have entered into an agreement with a syndicator outlining the equity

contributions to the project (equity contributions must be made at, or prior to, the completion of construction), and (3) have a permanent financing commitment acceptable to the Fund at its sole discretion, will be deemed "low-risk" and only 50% of the loan's exposure will be added to a Borrower's aggregate balance. Because of the size of construction loans, no more than three construction loans to the same Borrower can be outstanding at one time.

3. LIHTC Permanent** – Loans made for the permanent financing of LIHTC projects have reduced risk due to the quality, historical performance of LIHTC projects and the presence of tax credit syndicators and investor groups in the projects. The syndicators and investment groups must ensure the property (and related financing) performs as agreed to avoid the risk of a tax credit recapture. Because of this, these parties act as an extra layer of oversight during the compliance period (first fifteen years of the project). As a result, such loans are deemed "low-risk" and only 50% of the loan balance will be added to a Borrower's aggregate balance.

** Due to fluctuations in the balance of Unrestricted Net Assets the annual lending limit may decrease from the prior year. In these instances, entities will be considered in compliance with the lending limit if the limit was met at the time of loan approval.*
***In addition to being considered low-risk, LIHTC projects are designed to be "stand-alone", therefore the success or failure of one project should not have any influence on the success/failure of another. Because of this, there is less need to limit LIHTC exposure to a single developer. This is further justification to only allocate 50% of LIHTC loan balances to a Borrower's aggregate loan exposure*.

There may be circumstances where more than one of the low-risk categories applies. In these cases, all applicable exposure limitations will be implemented. For example, if a permanent LIHTC loan (#3 above) includes a USDA 538 guarantee (#1 above), only 50% of the uninsured loan balance will be added to the Borrower's aggregate loan balance. For the purpose of determining the aggregate loan exposure for each Borrower, the WVHDF will, at its sole discretion, group together loans to related parties and companies with common ownership based on an evaluation of the facts and circumstances of each loan relationship.

Special attention will be given to HOME and HTF loans when calculating aggregate exposure. The Fund has risk exposure up to the original loan amount during the affordability period. For issues of non-compliance during the affordability period, the Fund could be required to repay the entire original loan amount, regardless of payments that have been received and the outstanding balance at the time of the violation. Therefore, when calculating aggregate exposure, an amount appropriate to cover the Fund's overall risk related to each HOME and HTF loan will be used. For loans with a lower risk profile, an appropriate percentage of the original HOME/HTF allocation to cover the Fund's risk (such percentage shall not be below 50%) will be added to a borrower's aggregate loan exposure. All other HOME/HTF loans will be fully allocated to a borrower's aggregate loan exposure. To control the administrative burden of determining a HOME/HTF project's risk profile for the purposes of calculating aggregate loan exposure, only HOME/HTF

loans equal to or greater than $500,000 will be considered. Therefore, all HOME/HTF loans under $500,000 will be fully allocated to a borrower's aggregate loan exposure. For HOME/HTF loans to be deemed low-risk, the project/loan should display some of the following characteristics:

- Strong collateral coverage (generally 75% LTV or less)
- Strong project cash flow (generally 1.25x DSC or greater)
- Strong debt yield (generally 8.0% or higher)
- Strong overall financial rating(s) based on annual reviews performed by the Asset Management Department
- No issues of non-payment or non-compliance
- Satisfactory balances in any required escrow and/or reserve accounts

Because of the added risk related to HOME and HTF projects, an increased emphasis will be placed on the loan structure and ongoing monitoring of these loans to give the Fund additional security.

Underwriting

Underwriting shall be performed for every new loan request to identify and minimize the risk associated with each loan. Underwriting guidelines will depend on the type, size and complexity of each loan. At a minimum, the following characteristics must be assessed:

- Borrower background, experience and financial condition
- Project cash flow/primary repayment source
- Guarantor analysis/secondary repayment source
- Collateral evaluation
- Property inspection (if applicable)

Underwriting guidelines that are specific to loan programs will be identified in the loan program guides. The underwriting performed for each loan shall be attached to or summarized in the loan's executive summary for review by the loan's approval source.

Loan Risk Monitoring

Ongoing monitoring is essential to help identify emerging risk factors. Several loan programs have requirements for ongoing monitoring, such as the HOME Program, the HTF and the USDA 538 Guarantee Program. WVHDF loans and relationships exceeding $1MM that are not part of a program with ongoing monitoring requirements shall be reviewed annually to identify any emerging risk factors. At a minimum, the following characteristics must be reviewed:

- Borrower financial condition
- Payment history
- Occupancy rates (if applicable)

- Reserve account activity (if applicable)
- Critical needs assessment (if applicable)
- Property inspection (if applicable)

If signs of increased risk are discovered during the annual review process, additional and/or more frequent reviews may be warranted.

For WVHDF loans and relationships under $1MM that are not part of a program with ongoing monitoring requirements, Loan Servicing will conduct their standard review of payments and escrows. If delinquencies occur and standard collection efforts prove to be unsuccessful, Multifamily and/or Asset Management will be alerted for further monitoring and remediation.

Authority Limits – Executive Director/Board of Directors

The WVHDF's Executive Director will have the authority to commit up to $300,000 of WVHDF resources for the financing of a proposal, provided that any such proposal is consistent with the WVHDF's Board of Directors-approved program description for any such program. In the event the amount of funding requested and recommended for approval is in excess of $300,000; and/or any such proposal is not consistent with the program description for any such program, the proposed financing of any such proposal will require approval by the WVHDF's Board of Directors. In addition, all transactions approved by the Executive Director will be reported to the Board of Directors.

Any variance to the policies contained in this document is subject to consideration and approval by the Board of Directors.