MULTIFAMILY LOAN PROGRAM

Program Guide

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EQUAL HOUSING OPPORTUNITY

The West Virginia Housing Development Fund is an Equal Housing Opportunity Lender

MULTIFAMILY LOAN PROGRAM

PROGRAM SUMMARY

The West Virginia Housing Development Fund's ("Fund" or "WVHDF") Multifamily Loan Program ("MLP" or "Program") provides eligible borrowers with construction and/or permanent financing for activities associated with the development or rehabilitation of safe, decent and affordable multifamily housing in the State. Eligible uses of MLP funds include, but are not limited to construction hard costs, soft costs, land acquisition and permanent financing. All MLP loans must be in compliance with the Fund's Multifamily Lending Policy.

Eligible Applicants – Any individual or entity. 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 of less than 620
- Adverse public filings and/or criminal record
- Issues of non-compliance with the Fund that continue to be unresolved at the time any such proposed loan is under consideration
- Failure to produce a project after receiving an award under any WVHDF program and/or a history of repeated compliance issues

Loan Types – Generally, funding is available in the following forms:

- Construction – revolving or non-revolving lines of credit for the new construction or rehabilitation of affordable housing projects.
- Permanent – single-advance term loans for the permanent financing of affordable housing projects. These loans are generally for fully developed properties that have exhibited the capability of generating cash flow sufficient to repay the loan (i.e. fully leased).
- Construction/Permanent – Two-phase loan to cover the construction and permanent financing of affordable housing projects.

Loan Term – Construction loans will typically be structured over a 12-18 month loan term, and not exceed 24 months. Permanent loans will generally be structured over a 20 - 30 year payment amortization, however the term of the loan will be determined based on a number of factors, including, but not limited to, the useful life and value of the asset(s) securing the loan, the project's cash flow, and other credit enhancements, if any (e.g. loan insurance, guarantees, etc.). A balloon maturity will be established when the term of the loan is shorter than the loan amortization. Loan terms and amortizations shall not exceed 30 years unless significant credit enhancements are present, such as 3rd party loan insurance/loan guarantees (e.g. USDA RD 538 loan guarantee).

Interest Rate – MLP loans will be priced on an individual basis and will be determined based on the risk, structure, and complexity of the project and other market conditions.

Collateral – Generally, a first lien on the subject property will be required for each Program loan. Junior liens are strongly discouraged unless the Fund is the holder of any senior lien(s) and the value of the collateral supports the combined (senior and junior) lien amounts.

For construction loans, additional collateral satisfactory to the Fund will be required during construction, such as:

- Payment & Performance Bonds
- Letters of Credit
- Cash/Marketable Securities
- Guarantee(s)

For Permanent loans, the property's reserve account(s) will be required as collateral for the loan.

Guarantees – Generally, personal and/or corporate guarantees satisfactory to the Fund are required for all MLP loans. For permanent loans to finance LIHTCP properties, in lieu of unconditional guarantees, which are not practical due to the structure of the LIHTCP, non-recourse guarantees limited to standard carve-outs (fraud, waste, misrepresentation, etc.) will be required.

Fees – A loan origination fee of approximately 1% of the loan amount will be charged. In addition, the borrower must reimburse the Fund for any costs incurred for items such as appraisals, title work, legal fees related to environmental issues, etc.

Other Conditions – MLP loans will generally require the following:

- Replacement reserve contributions satisfactory to the Fund for the life of the loan. The replacement reserve account shall be held at the Fund
- Operating Deficit Reserve Account funded at or prior to closing in an amount acceptable to the Fund
- Lender's Title Insurance Policy
- Liability, Hazard and Builder's Risk insurance coverage, if applicable, in amounts satisfactory to the Fund and which names the Fund as additional insured
- Limitations on additional indebtedness without prior consent of the Fund
- Limitations on owner distributions without prior consent of the Fund
- Standard affirmative and negative covenants

Construction Draws – Construction draws must adhere to the Fund's construction draw process. A pre-construction conference must be held with the Fund and the development team to establish certain procedures, including a construction inspection/draw schedule.

Application – MLP applications will be accepted at any time. However, funds are limited and the Program may be withdrawn by the Fund at any time. LIHTC project applicants may apply by using the 1040 application used in the LIHTCP. All other applicants should contact the Fund for an application. An application fee of $500 will be required for MLP applications, however this fee will be waived if the project has also requested another form of Fund financing (ex: LIHTC, HOME, HTF).

Underwriting/Processing – Applications will be processed and underwritten on a first come first served basis. The primary factors that will be analyzed during the underwriting process are as follows:

- Borrower / Development team experience – The borrower and the development team will be analyzed to determine if they have the experience and the capacity necessary to successfully deliver and maintain the proposed project. Generally, the following items, among other things, will be considered:
    - Loan/payment history with the Fund
    - The number and types of projects that the borrower has previously undertaken
    - The experience of the borrower in completing projects
    - Development team resumes (Developer, Contractor, Architect, Property Manager)
    - The borrower's financial resources and management capacity to undertake the project and resolve problems that arise over the course of the loan
- Project Cash Flow / Market – The project's cash flow projections will be analyzed for accuracy and project feasibility. A market study is strongly

recommended to help analyze the project's feasibility. The project's cash flow projections will be compared to the performance of the applicant's other projects (if any), and to other comparable projects in the Fund's loan portfolio. Generally, the project's cash flow must meet the following criteria:
    - Minimum debt service coverage ratio of 1.15x. Debt Service Coverage will be calculated as Net Operating Income divided by the annual mortgage principal and interest payment.
    - Minimum Debt Yield of 7%. Debt Yield is calculated as Net Operating Income divided by the loan amount.
- Sources and Uses - The project's sources and uses of funds will be analyzed to ensure that all project costs are reasonable and necessary. An independent costing of the project's scope of work will be performed by the Fund's Technical Services Department. Any large cost discrepancies (typically over 10%) will require further due diligence. Commitments from funding sources other than the Fund must be obtained prior to loan closing.
- Collateral – The project site will be analyzed for the following:
    - Site suitability – The Fund's Technical Services Department will perform a review of the site that includes, but is not limited to:
        - Compliance with all required permits, zoning, and health and safety standards
        - Utilities and infrastructure
        - Grading and drainage
        - Size and shape
        - Undesirable physical conditions
    - Environmental Conditions – A phase I environmental assessment and/or other professional reports may be required. If environmental issues are present, including flood issues, the Fund will not continue processing/underwriting the project until an acceptable plan to remediate the environmental issues is submitted by the applicant and approved by the Fund.
    - Valuation – An appraisal of the property will generally be required for MLP loans to determine a market value of the collateral. Appraisals shall be commissioned by the Fund and paid for by the borrower. Generally, the market value of the property must indicate a loan to value ratio of no greater than 80%, unless significant forms of additional collateral or credit enhancement are present.
- Guarantees and other credit enhancements – Loan security in the form of additional collateral, guarantees and other credit enhancements will be evaluated to determine their overall value to the transaction.

Ongoing Monitoring – MLP loans will generally be structured with various forms of ongoing monitoring to identify signs of emerging risk, including, but not limited to, the following:

- Borrower financial condition

- Repayment history
- Occupancy rates
- Reserve account activity
- Critical Needs Assessment
- Property Inspections

Disclaimers – Deviations from program requirements are subject to Board approval. The Fund reserves the right to share MLP loan information with other entities providing funding to the same project. The Fund reserves the right to accept or reject any application.

The applicant shall not discriminate on the basis of race, religion, color, national origin, sex, disability, familial status or any other basis prohibited by law in the sale or lease or other use or disposition of the property or related facilities covered by funding provided by or through the Fund. In addition, discrimination against any employee or applicant for employment on the basis of race, religion, color, national origin, sex, disability, age (40 and above) or any other basis prohibited by law will not be permitted by a contractor or subcontractor engaged to perform any work on any project financed by or through the Fund.