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## Underwriting Standards



<b>Minimum Underwriting Standards</b>		
Initial Project Reserves	Operating Assurance Reserve (minimum)  Replacement Reserve for preservation and acquisition/rehabilitation (minimum)	4 months of debt service, operating expenses & reserve deposits  Initial deposit based on 20-year Capital Needs Assessment
Annual Replacement Reserves		New Construction (minimum)      Family: \$300 per unit Elderly: \$250 per unit  Rehab (minimum)      \$300 per unit
Annual Trending Factors	Income (maximum)  Utility Expenses (minimum) All Other Operating Expenses (minimum) Replacement Reserves (minimum)	1% - 1 <sup>st</sup> 5 yrs; 2% - yrs 6-end  6% - 1 <sup>st</sup> 5 yrs; 3% - yrs 6-end 3% - Entire Period  2% - Entire Period
Other	Vacancy Rate (minimum)	8.00%
	Debt Service Coverage Ratio (minimum)	1.25
*Operating Expenses – See attached geographic limits		

**Note:** The underwriting standards outlined above are starting point minimum and maximum standards. For purposes of Direct Lending underwriting standards, which are applied to all direct loans and to any development seeking soft/gap financing from the Authority, staff analysis of a specific transaction may suggest variance from these standards. For example, in some counties where the actual median incomes are substantially below historic exception figures used by HUD to calculate income and rent limits, it may be appropriate to use even more conservative rent trending assumptions for units with rents at regulatory limits. In a similar vein, in preservation transactions, actual operating histories may suggest different financial projections related to expense growth.

For developments seeking only 9% credits without soft/gap financing from the Authority, sponsors may request waivers from these standards based on documentation that the alternative underwriting standards have been reviewed and approved in advance by both the debt and equity providers for the project.

# Development Per-Unit Annual Operating Expenses: Regional Averages 2009

