GMHF Quick-Start Guide for Borrowers

Greater Minnesota Housing Fund can close on our affordable housing loan products in about 90 days if the Borrower is prompt in responding to requests for due diligence and works ahead on items that require some lead time. Reviewing this Quick-Start Guide as early as possible in the process will help keep clarify roles and responsibilities and keep projects on track for closing within about 90 days from GMHF's first look at the project.

Initial due diligence needed for GMHF to size a loan and provide preliminary feedback

Due Diligence Item	Existing Projects	New Construction
3 years of property operating statements	X	
Proposed rehab scope of work (if known)	X	
Current Rent Roll	X	
Comparable property operating statements (Preferably from developer's portfolio)	X	X
Purchase Agreement (needs a 90 day+ closing window)	X	X
Breakdown of utilities paid by tenants	X	X
Proposed development budget, sources of funds, rents, and operating expenses (GMHF can provide template if needed	X	X
Proposed site and building plan		X

GMHF will use the initial due diligence above to evaluate feasibility, size a loan (or loans) and provide a letter of interest/term sheet. To move forward we will need the developer to sign off on the term sheet and provide a $10,000 due diligence deposit to cover GMHF's due diligence costs and stay on track for closing.

Roles and Responsibilities for critical items that affect timeline

GMHF responsible for:

1. Appraisal
2. Capital Needs Assessment (used to determine rehab scope of work and reserves)[1]
3. Project underwriting, loan approval, and closing process

Developer responsible for:

- Providing all due diligence to GMHF when requested
- Title & Survey (see end for list of approved Title Companies)
- Zoning letter from city showing zoning requirements
- Insurance (Owner's General Liability, Property, Builder's Risk, Flood)
- Working with own attorney and obtaining organizational documents
- Providing personal financial statement, 3 years of tax statements
- Identifying a property manager (GMHF must approve manager)

[1] While GMHF will order a CNA and confirm the costs of replacements about 30 days before closing, it is a best practice for the Borrower to identify likely capital needs in advance and work with trusted contractors to determine costs earlier in the process.

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GMHF Approval and Closing Timeline

*(Note timeline is subject to change if there are other funding partners involved in the project)

90-120 days before closing	60-90 days before closing	45-60 days before closing	30-45 days before closing	2 weeks before closing
Borrower sends initial due diligence	GMHF issues term sheet or preliminary commitment	Appraisal is complete	GMHF seeks final loan approval (Loan Committee meets once monthly)	All due diligence needs to be received by GMHF 2 weeks before closing
GMHF loan officer provides feedback on preliminary loan sizing and offers feedback	Borrower provides due diligence deposit to GMHF	CNA is complete	GMHF and Borrower begin regular due diligence calls to review checklist	
	GMHF orders appraisal and Capital Needs Assessment (CNA), and 3rd party review of CNA costs	Firm bids are in hand for construction or rehab	Borrower provides due diligence requested in a timely manner	
	Borrower provides due diligence needed for final loan approval	GMHF completes final underwriting		

Frequently Asked Questions

1. **What are GMHF's affordability restrictions and how can I look up the rent and income limits?**
   GMHF requires at least 40% of units to be rent-and-income restricted at or below 60% of Area Median Income (AMI) <u>or</u> 20% of units restricted at or below 50% AMI. Up to 25% of units may be unrestricted/market rate. The remaining 35-55% of units must be restricted at or below 80% AMI.

   Minnesota Housing maintains a website which provides the income limits and gross rent limits for each county in Minnesota. The rent limits include tenant-paid utilities. You will need to obtain a copy of the local Public Housing Authority (PHA) utility allowance to calculate the tenant-paid utilities. Subtract the tenant-paid utilities from the gross rent limit to find the maximum rent that can be charged for each unit type. If you know the tenant-paid utilities, GMHF can provide a table showing the current rent and income limits that would apply to your project.

2. **What happens if the appraisal comes back with a lower value than expected?**
   If the appraisal value would cause the proposed GMHF loan to be higher than the maximum loan based on our Loan-to-Value limits for that loan product, the GMHF loan will be reduced based on our maximum loan-to-value (LTV) ratio. This may require the Borrower to provide additional funds at closing, negotiate a lower purchase price, or identify other cost savings in order to close.

3. **How much will my downpayment be?**
   The downpayment required from the Borrower is equal to the amount of funds required to close in balance, which is the Total Development Cost minus other committed funding sources including the GMHF loans. Although GMHF can lend up to 80% Loan-to-Value for a first mortgage and 95% Loan-to-Value for a second mortgage, our loans are typically limited based on a maximum 1.20 DSCR for a first mortgage and 1.10 DSCR for a second mortgage. GMHF has underwriting guidelines that may result in an underwritten Net Operating Income that is lower than what is proposed by the Borrower. GMHF also will require 3 months of operating and debt service reserves and replacement reserves based on a Capital Needs Assessment and 3rd party review of the replacement costs identified by the CNA.

4. **What rent levels will GMHF underwrite?**
   For existing properties, GMHF will underwrite rents based on the current rent roll, provided they are within GMHF's rent and income restrictions. If the rents are above GMHF's rent and income restrictions GMHF will underwrite a minimum of 20% of the units at or below 50% AMI or 40% of the units at or below the 60% AMI rent limit, and 75% of all units must be at or below the 80% AMI rent limit.

   For new construction properties, or vacant/distressed properties, GMHF will underwrite the achievable market rents based on a market study. If your project requires a market study, GMHF will work with you to identify a market analyst that we approve of.

   If the achievable market rents for an existing property are higher than the current rent roll. GMHF will require a rent transition reserve to be funded at closing to protect existing residents from greater than a 5% rent increase. The sizing of this reserve is determined on a case-by-case basis in coordination with your loan officer. This scenario is extremely rare and GMHF reserves the right to determine the underwritten rent levels and the use of a rent transition reserve.

5. **Will GMHF underwrite Section 8 or Housing Support if the payment standard is higher than the achievable rents?**
   See #4 above. GMHF will underwrite the achievable market rent, which typically is the current rent roll for acquisition of existing properties. If the property will be entering into a long-term project-based rental assistance contract (15 years+) from a rental assistance provider at closing, the rents will be underwritten based on the contract rent if the contract rent is based on the achievable market rent. If the contract rent is higher than the achievable market rent, GMHF will need to evaluate how the risk caused by the differential between contract and market rents is mitigated on a case-by-case basis.

6. **What vacancy rate will GMHF underwrite?**
   GMHF assumes 10% vacancy for small properties under 15 units and 7% vacancy for medium-sized properties 15+ units. A 5% vacancy rate may be used at GMHF's sole discretion if the developer has an established track record of maintaining a low vacancy rate and it is supported by the local market and historical operations of the property. A minimum 7% or 10% vacancy should be assumed until GMHF has determined the appropriate vacancy rate.

7. **What operating expenses will GMHF underwrite?**
   GMHF will underwrite per-unit per-year operating expenses based on our experience in the local market, the historical performance of the property, and the developer's demonstrated track record in operating similar properties. A starting assumption for NOAH properties in the Twin Cities metro area is below. GMHF will underwrite a management fee, administrative, and maintenance costs even if the developer plans to provide some of these services without charging the property for them. Variations from the benchmarks below will be determined at GMHF's sole discretion.

GMHF NOAH Benchmarks Updated July 2025	**Per Unit Per Year Operating Cost**
Management Fee	$900 per unit
Administrative	$900 per unit
Maintenance	$2,000 per unit (includes trash/rubbish removal)
Utilities	$1,200 per unit (but rely most heavily on historical)
Insurance	$1,000 per unit (will underwrite actual insurance quote)
Taxes	Underwriting assumes a 4d(1) tax classification and is calculated based on the greater of current assessed value, estimated market value, or purchase price, and current tax rates.
Replacement Reserves	$350/unit or higher depending on CNA

8. **What happens if the Capital Needs Assessment (CNA) identifies unanticipated repair needs?**
   GMHF will size the replacement reserves and establish a required rehab scope of work based on the CNA and 3rd party review of the replacement costs identified by the CNA (including verification with local contractors). This may require additional rehab funds or replacement reserves to be funded at closing, and/or GMHF may require increased monthly reserve deposits to meet the anticipated capital needs of the property based on the CNA. Increasing the ongoing reserve deposits may reduce the GMHF loan amount based on the maximum debt coverage ratio (DCR) for the loan product. The results of this analysis may require the Borrower to provide additional cash at the initial closing.

9. **What are GMHF's reserve requirements?**
   - Operating reserves based on 3 months of underwritten operating expenses and reserve deposits
   - Debt service reserves (held by GMHF) based on 3 months of P&I payments on the first mortgage
   - Operating and debt service reserves must be replenished to the required level by the end of each year
   - Annual deposits to replacement reserves of at least $350 per unit per month (or $250 for senior properties), or more based on the CNA
   - Capitalized replacement reserves funded at closing, if required based on the CNA or to address critical or short-term repair needs
   - Capitalized reserves to make monthly payments on GMHF's loan until construction is complete and property is stabilized (if applicable)
   - Capitalized reserves funded at closing to pay the difference between market rate taxes and 4d taxes until the property is enrolled in the 4d program (12-24 months depending on timing).
   - Other reserves may be required on a case-by-case basis depending on GMHF's underwriting.

10. **What are GMHF's fees and closing costs?**
    - Origination fee equal to the greater of 1% of the loan amount or $5,000
    - Cost of third-party reports ordered by GMHF, including appraisal and CNA (typically about $10,000-$15,000 total)
    - GMHF legal expense are billed to the Borrower at cost and can range from approximately $5,000-$15,000 depending on complexity of the project

GMHF-approved Title Companies

1. Servion Commercial Title (Melissa Page Boeshans), New Brighton
2. Commercial Partners Title (Heather Grommesch), Minneapolis
3. Land Title (Larry Mountain), Roseville
4. First American Title Insurance Company (Jim Erickson), Minneapolis
5. Guaranty Commercial Title (Kristy Lieblein/Heather Haars), Minneapolis