GREATER MINNESOTA HOUSING FUND

Underwriting Standards Checklist

This checklist reflects a summary of GMHF's Underwriting Guidelines as of October 2024. Due diligence and underwriting may vary based on the specifics of a given project or any information learned during the underwriting process. Some of the items may not apply to your project. Any variances from GMHF's underwriting guidelines should be discussed with your loan officer to determine if there are mitigants that adequately address any increased risk due to the variance.

Borrower Underwriting

Developer/General Partner Track Record

- Successfully completed/owns properties with similar number of units and type of buildings
- Successfully completed/owns similar properties with similar revenue and expenses
- Successfully completed/owns properties with similar tenant populations
- Successfully completed/owns properties with similar types of financing and subsidies
- Successfully completed/owns similar types of projects (acquisition/rehab, historic, new construction)

GMHF will review the list of comparable properties submitted by each entity and determine if each entity has sufficient experience and current capacity to successfully complete the proposed project.

Creditworthiness of Guarantors/Principals of Developer

For non-profit borrowers, GMHF will underwrite the parent organization. For for-profit borrowers, GMHF will underwrite the parent organization along with individuals that control the borrower or own more than 25% of the borrower.

- Key principals have proven track records demonstrating willingness/ability to meet obligations
- No history of late payment of non-payment of creditors
- No history of default on debt without reasonable attempts to cure default
- No history of recent insolvency or pending bankruptcy
- No judgments or actions which could significantly impact financial position

Financial Capacity of Guarantors/Principals of Developer

Financial statements will be reviewed to determine if the borrower and principals have the financial capacity to develop, own, and operate the property. Capital requirements include:

- Stable financial history for past 3 years
- Current Ratio of at least 1.0
- Quick Ratio of at least 1.0
- Long-Term Debt: Net Assets < 4.0
- Minimum DSCR of 1.20 on existing apartment portfolio
- Satisfactory refinancing plan or exit strategy for all loans maturing within 5 years

Criminal History

- No felony conviction within past 10 years

- No conviction for fraud or other financial crimes
- Not currently on parole if a violation would inhibit ability to repay the loan
- No past convictions or other disclosures on GMHF borrower questionnaire that may result in determination that principal is an unacceptable credit risk

Single-Asset or Special-Purpose Entity
- Non-recourse loan requires a single-asset entity
- Loans that are not made to a single-asset entity will be full recourse to the borrower
- Guarantors may be required depending on the type of loan and GMHF's underwriting

Project Underwriting

Appraisal Requirements
- GMHF often orders the property appraisal, but will seek to save costs by relying on other financing entities' report if possible
- Multifamily Appraisal Meets GMHF requirements and was used for loan sizing as applicable
- Single-family BPO or appraisal meets GMHF requirements and was used for loan sizing as applicable

Capital Needs Assessment (CNA)
- GMHF often orders the property CNA, but will seek to save costs by relying on other financing entities' report if possible
- CNA meets GMHF requirements and was used to establish scope of work and/or reserve requirements

Residential Revenue
- Proforma income supported by historical operations, project-specific market study, appraisal, or rental assistance contract
- Rents for LIHTC units will be underwritten at least 10% below the achievable market rent as determined by the market study or appraisal
- Proposed rent and income restrictions, incorporating applicable utility allowance, meet or exceed GMHF's minimum requirements (20% of units rent-and-income-restricted at or below 50% AMI or 40% of units at or below 60% AMI; 75% of units rent-and-income-restricted at or below 80% AMI; Up to 25% of units unrestricted
- A 5% vacancy may be used if (1) supported by historical operations, (2) proforma rents at least 20% below achievable market rents, or (3) at least 90% of the units have project-based rental assistance
- Underwritten vacancy rate meets or exceeds GMHF underwriting guidelines and is based on staff's analysis of (1) historical operations, (2) proforma rents compared to the achievable market rents, (3) the size and type of property, and (4) the capacity of the proposed owner and property manager to achieve the underwritten economic occupancy

Commercial Revenue
- Commercial revenue is not underwritten unless supported by historical operations and long-term leases. GMHF will determine vacancy rate for commercial income on a case-by-case basis

Operating Expenses

- Underwritten expenses are reasonable based on comparable properties in owner's portfolio, comparable properties in GMHF's portfolio, and the subject's historical operating expenses, if applicable
- Insurance expenses underwritten based on a written quote from owner's insurance company
- Real estate tax based on actual tax rate and higher of assessed value, purchase price, or appraisal value

Reserves

- Operating Reserves at least 3 months of stabilized operating expenses plus debt service
- Three-month debt service reserve held by GMHF for all projects using GMHF amortizing first mortgages
- Annual Replacement Reserve deposits of at least $350 per unit per year or a higher amount determined based on a Capital Needs Assessment (CNA). For new construction, $250 per unit per year inflating 3% annually may be acceptable.
- For existing projects with permanent GMHF financing, replacement reserves projected to meet anticipated capital needs based on a CNA for at least 12 years

Debt Service Coverage Ratio (DCR)

- Minimum DSCR of 1.15 for first mortgage on new construction project
- Minimum DSCR of 1.20 for first mortgage on acquisition/rehabilitation project
- Minimum TIF DSCR of 1.00 if part of GMHF first mortgage
- Minimum overall DSCR of 1.10 projected for at least 15 years

Loan to Value (LTV)

- First mortgage LTV of < 80% (typically sized to a lower LTV based on DSCR of 1.15 or 1.20)
- Mezzanine Loan LTV of <95% (typically sized to a lower LTV based on DSCR of 1.10)
- Construction/Bridge Loan LTV < 80% of as-completed value and 80% of capital contributions
- Acquisition Loan LTV of <65% for vacant or unimproved land or 80% for land with buildings
- Deferred gap loans: No LTV requirement but project will be evaluated based on the ability to repay the gap loan at maturity

Income and Expense Growth Rates

- Income for units without rental assistance equal to or less than 2.00%
- Income for units with rental assistance between 1.50% and 2.00% depending on historical annual rent increases of rental assistance contract
- Management Fee growth rate equal to or greater than 2.00%
- Operating Expense growth rate equal to or greater than 3.00%
- Replacement reserve growth rate of 0-3% or greater as determined by CNA
- For Rural Development projects, the difference between income and expense growth rates may be less than 1% of supported by historical operations

Construction Contingency

- New construction: 4-5% of construction contract
- Rehabilitation: 7-10% of construction contract
- Historic Rehabilitation: At least 10% of construction contract

Capitalized Interest During Construction

- Interest during construction based on contractor’s projected draw schedule
- Interest post construction based on number of months from completion to repayment of construction loan plus at least one month of cushion
- Additional interest may be added based on developer experience, lease-up schedule, etc.
- For tenant-in-place rehabs, income from operations may be used in place of some or all capitalized interest

Balloon Payments

- Construction Loans: Projects must have secured permanent financing sufficient to repay the construction loan in place at the closing of the construction loan
- Long-Term Loans: The ability to repay the loan at maturity will be stress tested assuming a refinance in year 10 or 15, cap rate of no less than 6.50%, an interest rate of at least 1% higher than current rates, with new financing limited to 80% LTV and a 1.20 DSCR

Management Experience & Performance

- Manages properties with similar number of units and type of buildings
- Manages properties that are similar financially
- Manages properties with similar types of financing, subsidies and tenant populations

Environmental Conditions

- Property is not in a designated flood plan
- Property is not in a wetland
- Recommendations from Phase 1 or other environmental reports are incorporated in underwriting

General Contractor Experience & Liquidity

- Experience completing properties that are reasonably comparable to the subject
- GMHF has engaged or will engage appropriate construction monitoring consultant to review monthly draws
- Underwritten construction costs based on fixed price/guaranteed maximum price contract
- Payment and Performance Bonds satisfactory to GMHF
- Contractor has sufficient liquidity to bridge two months of draws and prepurchase materials if necessary