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SACRAMENTO HOUSING & REDEVELOPMENT AGENCY

APPROVED
DEC - 1 1998
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

APPROVED
DEC - 1 1998
SACRAMENTO HOUSING AUTHORITY
CITY OF SACRAMENTO

APPROVED
BY THE CITY COUNCIL
DEC 1 1998
OFFICE OF THE
CITY CLERK

November 18, 1998

Housing Authority, Redevelopment Agency
and City Council of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT UNDERWRITING GUIDELINES

LOCATION & COUNCIL DISTRICT City

RECOMMENDATION

Staff recommends adoption of the attached resolution(s) which:

- establishes underwriting guidelines for the Agency's commercial and residential loan programs;
- delegates authority to the Sacramento Housing and Redevelopment Loan Committee to approve funding recommendations for commercial loans under $500,000 within the established program guidelines;
- delegates approval authority to the Executive Director or her designee to fund loans under $100,000 within the established program guidelines.

CONTACT PERSON(S)

Beverly Fretz-Brown, Director, Development Services, 440-1347
Leslie Fritzsche, Program Manager, Commercial and Employment Development, 440-1301

FOR COUNCIL MEETING OF December 1, 1998

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SUMMARY

This report recommends implementing Agency-wide underwriting guidelines known as Standard Underwriting Policy (Attachment I) for Agency residential and commercial loan programs. In addition, it recommends the delegation of approval authority to the Sacramento Housing and Redevelopment Loan Committee for loans up to $500,000 for commercial projects and to the Executive Director or her designee for all loans under $100,000 within established program guidelines.

COMMISSION ACTION

At its meeting of November 18, 1998, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Castello, Dobbins, Harland, Hoag, Holloway, Newsome, Rotz, Simon, Taylor
NOES: None
ABSENT: Amundson
NOT PRESENT TO VOTE: Cespedes

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BACKGROUND

This report recommends adoption of comprehensive policies to be applied across the Agency's lending activities that assist the rehabilitation and development of residential and commercial properties. The recommendations come out of the Agency's reengineering effort and are intended to further the following Agency goals:

- facilitate community and neighborhood revitalization
- encourage economic integration within neighborhoods
- increase and preserve the supply of affordable housing
- improve the commercial corridors through the addition of viable economic activity
- provide new employment opportunities

- optimize the effectiveness of Agency funding through maximum leverage of private-sector funds

Agency Lending Activities

The Agency's existing lending programs are funded by several federal and local sources. The federal sources include the Community Development Block Grant (CDBG) and Home Investment Partnership (HOME) funds. Local sources consist of the tax increment (TI) funds accruing from redevelopment areas and the Low-income Housing Trust Fund. Once received by the Agency, these funds have been lent to economic development and residential projects. The funds are to serve as "gap" financing through which project proponents are required to maximize the equity and private debt possible, with Agency funds then being lent to fill the difference between such financing and total project development costs.

The Agency's ability to finance projects is critical to the revitalization of Sacramento's low and moderate-income neighborhoods that are marked by disinvestment and whose businesses are outside the lending criteria of most traditional lenders. Therefore Agency loans are an essential tool for accomplishing redevelopment objectives. Thus the key business issue faced by the Agency's reengineering team was not whether to continue the Agency lending function but rather how to improve efficiency, effectiveness and increase customer satisfaction.

The reengineering team first reviewed the Agency's existing residential and commercial lending programs and processes, followed by collecting underwriting criteria utilized by public and private lenders. Specific lending policies were recommended which. were then reviewed by lenders and the Agency's Loan Committee. The resulting recommendations address changes which can be categorized as structural (who does the work), functional (how the work is done) and programmatic (what work is done). The recommended changes can be summarized as follows.

Structural Changes

1. Recommendation: Improve the efficiency of the loan process.
   Method: Designate a loan administrator position responsible for document preparation, loan processing and closing, and post-construction loan certifications for approved projects. The recruitment of a loan administrator is currently underway.

2. Recommendation: Develop a system for transitioning all existing and future project files to a newly created Portfolio Management Unit that would monitor and service housing and commercial Agency loans. This unit would assure that all the project requirements are maintained over the life of the loan.
   Method: The Portfolio Management Team will bring forward Agency-wide guidelines on loan servicing, monitoring and asset management policies and procedures in the spring of 1999.

Functional Changes

3. Recommendation: Streamline the lending function by implementing one standard process for all Agency loans (including both residential and commercial).
   Method: Develop template loan documents and standardize Agency Loan Committee reports. Staff has initiated the one lending process and anticipates implementing the use of template loan documents and standard Loan Committee Reports by January 1999.

4. Recommendation: Improve the quality of our lending analysis.
   Method: Establish standard underwriting guidelines

5. Recommendation: Streamline the approval process.
   Method: Delegate responsibility for loan approvals to the Executive Director, or her designee, and the Loan Committee.

Programmatic Changes

6. Improve our service to the client and increase redevelopment activities.
   Method: Develop new loan products, more public/private partnerships, and better marketing and application materials.

Agency staff has already initiated the structural recommendations and has begun development of the one lending process. This report focuses on the implementation of the remaining functional recommendations. It seeks governing body approval of standard underwriting criteria and delegation of approval authority. The proposed guidelines are structured to allow SHRA to serve as a catalyst to fill gaps in the supply of commercial and residential financing in the low-moderate income area of Sacramento by creating clear standards that are nevertheless more flexible than traditional lending programs. They were developed to balance the needs of Agency clients/borrowers in the low and moderate income markets the Agency serves while maintaining a portfolio that protects the long-terms interests of the community.

The proposed "Standard Underwriting Policy" (included as Attachment I) is comprised of three main components.

- Establishes broad approval authorities. One of the clear messages received from our customers during the Agency's reengineering was the need to shorten the time required to process a commercial facade grant and/or loan. In order to accomplish this, the Agency has initiated the structural changes described above and will be instituting standard documents. In addition, staff recommendings raising the loan approval authority of the Agency's Loan Committee for commercial loans from $250,000 to $500,000 for projects that meet program and underwriting guidelines. This action would more closely mirror the process for Agency residential lending in which loans less than $1 million or $20,000 per unit can be approved by the Loan Committee. It is anticipated that this step will allow loans to move through the approval process faster and increase the rate of implementation. Larger loan amounts will be subject to the approval of the Board or Council. The Board or Council would also retain the right to call for a hearing of any Loan Committee decisions.

- Defines the minimum documentation needed for application submittal and underwriting analysis. Prior to this, each existing program had its own list of requirements. This list clarifies and standardizes the type of information needed by Agency staff to make a financial underwriting decision on the loan request.

- Establishes specific underwriting standards that will be applied to all Agency loans. This will provide consistency among all the Agency programs and result in a formal method to evaluate the risk associated with each project. The underwriting guidelines include a matrix to allow staff to evaluate a borrower's credit history, standards for evaluating collateral, general collateral requirements for loans, and a requirement for obtaining personal guarantees from the borrower. (Specific criteria such as loan to value ratios, debt service coverage ratios and collateral coverage are included in Attachment I. It is proposed that the Loan Committee have the authority to approve loans that vary slightly from these guidelines and those variations are also included in Attachment I).

These guidelines are structured as lending standards and will be coupled with an analysis of the project's benefits as well as any compensating factors that may mitigate risk. Extensive community benefits such as high job creation or renovation of a priority project will be considered. If such a loan request does not meet the proposed guidelines, the project will require an exception to be made by the governing boards.

These recommended guidelines have been developed by staff that possess a combined total of over 50 years of public and private-sector lending experience. Staff has also utilized the experience of other colleagues and customers benchmarked with public and private lenders and held discussions with national community development financial organizations to develop an Agency-wide uniform system to perform underwriting analysis and risk assessment for each project that comes forward. It is anticipated that these guidelines coupled with the structural changes currently underway will significantly improve the quality and effectiveness of the Agency's lending practices.

FINANCIAL CONSIDERATIONS

This report recommends adoption of guidelines for the lending of funds from various federal and local sources. All such funds have either already been received by the Agency, or are budgeted in each annual Agency budget.

POLICY CONSIDERATIONS

This report establishes new lending policies for the Agency, which provide structure and efficiencies to the Agency's lending function. The guidelines are established to assist in balancing the achievement of the Agency's long-term community objectives with the mitigation of risk and loss. These recommendations are part of the Agency's reengineering efforts.

ENVIRONMENTAL REVIEW

The proposed action does not constitute a project under CEQA per Guidelines Section 15378 (b) (3), nor a federal undertaking under NEPA.

M/WBE CONSIDERATIONS

The actions contained in this report have no direct M/WBE impact. All projects receiving Agency funding through the lending process, however, will be required to meet Agency M/WBE requirements.

Respectfully submitted,

Anne M. Moore

ANNE M. MOORE
Executive Director

Transmittal approved by

WILLIAM H. EDGAR
City Manager

RESOLUTION NO. 98 - 058

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF ______________________

APPROVED
DEC - 1 1998
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

ESTABLISHMENT OF UNDERWRITING GUIDELINES AND DELEGATION OF AUTHORITIES WITH REGARD TO AGENCY LENDING PROGRAMS

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. The Agency Standard Underwriting Guidelines ("the Guidelines") attached as Attachment I are approved.

Section 2. Upon delegation by the City Council of the City of Sacramento to the Acting Executive Director and the Agency Loan Committee of the authorities required by the Guidelines, such delegation is accepted.

Section 3. In implementing the Guidelines, the Executive Director shall assure that actions to approve or reject any Agency loans are in accordance with the Guidelines, adopted Agency loan program rules and all other applicable laws, rules, regulations and policies which govern the use of the funds to be lent.

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CHAIR

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SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: ______________

DATE ADOPTED: ______________

RESOLUTION NO. 98-593

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF ____________________

APPROVED
BY THE CITY COUNCIL

DEC 1 1998

OFFICE OF THE
CITY CLERK

ESTABLISHMENT OF UNDERWRITING GUIDELINES AND DELEGATION OF AUTHORITIES WITH REGARD TO SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY LENDING PROGRAMS

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

Section 1. The Agency Standard Underwriting Guidelines ("the Guidelines") attached as Attachment I are approved.

Section 2. The Sacramento Housing and Redevelopment Agency and its Loan Committee are delegated the authorities required by the Guidelines, provided that actions to approve or reject any Agency loans are in accordance with the Guidelines, adopted Agency loan program rules and all other applicable laws, rules, regulations and policies which govern the use of the funds to be lent.

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MAYOR

ATTEST:

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CITY CLERK

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: ____________

DATE ADOPTED: ____________

RESOLUTION NO. 98- 007

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF ______________________

ESTABLISHMENT OF UNDERWRITING GUIDELINES AND DELEGATION OF AUTHORITIES WITH REGARD TO AGENCY LENDING PROGRAMS

BE IT RESOLVED BY HOUSING AUTHORITY THE CITY OF SACRAMENTO:

Section 1. The Agency Standard Underwriting Guidelines ("the Guidelines") attached as Attachment I are approved.

Section 2. Upon delegation by the City Council of the City of Sacramento to the Acting Executive Director and the Agency Loan Committee of the authorities required by the Guidelines, such delegation is accepted.

Section 3. In implementing the Guidelines, the Executive Director shall assure that actions to approve or reject any Agency loans are in accordance with the Guidelines, adopted Agency loan program rules and all other applicable laws, rules, regulations and policies which govern the use of the funds to be lent.

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CHAIR

ATTEST:

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SECRETARY

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: ______________

DATE ADOPTED: ______________

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Attachment I

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

STANDARD UNDERWRITING POLICY

DECEMBER 1998

STANDARD UNDERWRITING POLICY
CONTENTS

CREDIT PHILOSPHY

This manual outlines the general credit policies and standard underwriting criteria of the Sacramento Housing and Redevelopment Agency (SHRA). The mission of the lending function of SHRA is to provide constructive extensions of credit to qualified homeowners, developers and businesses to stimulate investment in the Sacramento community. The primary focus of SHRA is the revitalization of low and moderate income areas of the City and County of Sacramento and thus these areas become the target markets for SHRA programs. SHRA strives to serve as a catalyst to fill the gaps in the supply of commercial and residential credit and is dedicated to providing responsive and professional service to all applicants.

In addition to the requirements outlined herein, all loans provided by SHRA are subject to the requirements of the federal and/or local funding sources utilized.

I. GENERAL CREDIT PHILOSOPHY

A. To meet the financing needs of residential and commercial customers in the low-moderate income areas of Sacramento operating in a manner that is consistent with the goals and directives of the SHRA governing bodies.

B. To underwrite loans in a manner consistent with specific applicable policies and prudent underwriting standards, whereby the primary consideration is the ability and willingness of the subject borrower to repay the proposed loan after consideration of all other existing and anticipated obligations.

C. To assess the management ability of the principals of the project, business, and/or management company to assure the ongoing viability of the project/business.

D. To analyze all available collateral, and to require the pledging of worthwhile real and personal property as deemed necessary to adequately protect the interests of SHRA and the public funding utilized.

E. To develop and maintain appropriate due diligence procedures to insure the integrity and validity of all transactions and the documentation associated with these transactions. This includes, but is not limited to, verification of identities, ownership rights, and third party representations, as well as identification and elimination of any and all real and or apparent conflicts of interest involving the party to the transaction.

F. To administer the SHRA lending programs in a manner which continually balances the needs of our borrowers in the markets that we serve and the various competitive factors that exist while maintaining a portfolio that protects the long-term interests of SHRA and the public we serve.

LENDING AUTHORITY

A. Staff Authority

Subject to the rules and restrictions of the respective loan program and the Underwriting Guidelines, the Agency Loan Committee is delegated the authorities, as outlined below in this Section B. These levels of authority apply to Commercial and Residential Loans as well as Facade Grants that are within the standard underwriting criteria.

Position	*Maximum Loan Amount*
Executive Director, or her designee	$100,000

B. Loan Committee and Governing Body Authority.

Subject to the rules and restrictions of the respective loan program and the Underwriting Guidelines, the Agency Loan Committee is delegated the authorities as outlined below in this Section B.

Body	*Maximum Loan Amount*
Loan Committee	Commercial Loans <$500,000 Residential Loans <$1,000,000 or $20,000 per residential unit, whichever is less

C. Governing Body

For all other loans, governing body approval must be obtained.

Body	*Maximum Loan Amount*
City Council or Board of Supervisors	Above $500,000 for Commercial and above $1,000,000 for Residential

DOCUMENTS REQUIRED

The following documents and information are required to underwrite a loan (if the information is not provided, the loan cannot be made):

Commercial and Multi-Family Loans

- Loan Application (for the appropriate program).
- Authorization to Release Information
- A Balance Sheet and Profit & Loss Statement for the previous three years. Signed and dated.
- A current Balance Sheet and current Operating Statement (no older than 30 days). Signed and dated.
- Complete Federal Income Tax Returns for the previous three years for the business and corporation, if applicable. Signed and dated.
- A Schedule of Fixed Debt which contains the original date and amount, present balance owed, interest rate, monthly payment, maturity and security for each loan or debt that the business has outstanding.
- Current Personal Financial Statement, past three years tax returns and personal budget for each proprietor, partner and each stockholder with 20% or more ownership of the business In tax credit projects, these are also required from the general partner and/or sponsor.
- Evidence of Site Control or if purchase is part of the proposed project, a copy of the Purchase Agreement for the land or building. If renter, owner's permission must be evidenced.
- Contractor's estimate of cost covering new construction or remodeling.
- Estimated cost of machinery and equipment, if any, to be purchased from loan proceeds.
- Signed 4506 – Request for Copy or Transcript of Tax Form.
- Status of any other financing commitments.
- Organizational status, structure and documentation.
- Fictitious Business Name Certificate and Certificate of Good Standing.
- Business and/or personal credit report.
- Business Plan, where applicable.
- Property Information.
- Market Analysis (for multi-family loans, this must include three "comps" within one-mile radius of site and include comps for "non-restricted" units).
- Pro-forma cash flow statement and operating statements with assumptions (3 years for commercial and 10 years for residential).
- Management plan and resume of management agent.
- For Multi-Family – list of residential property owned in which they have a financial interest over last 10 years citing location, nature of interest and condition of property.
- For Multi- Family – Disclosure of any code enforcement action at properties where borrowing entity has a financial interest.

SINGLE-FAMILY LOANS

- Loan Application (FNMA Form 1003)
- Purchase Contract (First time Home Buyers)
- Notice of Access to Information
- Credit Report
- Mortgage Credit Analysis Worksheet from first lender, if applicable
- Employment verification and verification of all income and recent paystubs
- Past Three Year's Tax Returns for First Time Homebuyers Programs
- Income Tax Affidavits
- Preliminary Title Report
- Appraisal or staff opinion of value (in case of rehabilitation loan)
- Additional information required for Rehabilitation Loans:
    Copy of Grant Deed
    Cost Estimate for Work to be done
    Verification of Bank Accounts
    Mortgage Verification Form and copy of current statement showing status of account

CREDIT HISTORY MATRIX

	A	*B*	*C*
MORTGAGE PAYMENT HISTORY	0x30	3X30	4X30
	0x60	0X60	1X60
	0x90	0X90	0X90
Months Reviewed	24	24	24
Bankruptcy	None	2+YRS	2YRS *
Foreclosure	None	3+YRS	2+YRS
Current Delinquency	NO	NO	NO

* IF DISMISSED / DISCHARGED LESS THAN 2 YRS THEN NO MORTGAGE OVER 30 DAYS IN THE PAST 12 MONTHS

	A	*B*	*C*
CONSUMER PAYMENT HISTORY	0X30	Some 30's	Some 30's
	0X60	Some 60's	Some 60's
	0X90	2x90 **	3x90 ***
Months Reviewed	24	24	24
Current Delinquency	NO	NO	YES ****

** TWO CHARGE OFFS (defined as instances where a creditor has determined a debt to be uncollectible and "written it off") > $500 IN THE LAST 24 MONTHS O.K. WITH ONLY ONE IN THE LAST 12 MONTHS WITH SATISFACTORY EXPLANATION.

*** THREE CHARGE OFFS > $500 IN THE LAST 24 MONTHS O.K. WITH ONLY TWO IN THE LAST 12 MONTHS.

**** CURRENTLY DELINQUENT ACCOUNTS (NON-CHARGE OFF / COLLECTION) MUST BE BROUGHT CURRENT PRIOR TO CLOSE.

EXCLUDED FROM GRADING:

1. DEBTS DISCHARGED IN BANKRUPTCY
2. ANY CHARGE OFF UNDER $500
3. ANY MEDICAL COLLECTION ACCOUNTS
4. ALL DEROGATORY CREDIT WHICH OCCURRED OUTSIDE THE LOOK BACK PERIOD.

NOTE:

ALL OPEN LIENS / JUDGEMENTS MUST BE SATISFIED PRIOR TO CLOSE.

COLLATERAL

GENERAL REQUIREMENTS

All loans made by SHRA should be secured with collateral sufficient to ensure loan repayment from the pledged assets in the event that the borrower defaults on loan payments. Collateral should match the debt on a 1:1 basis.

- The Agency will require a perfected security interest (included but not limited to deed of trust, UCC financing statement, guarantees or the equivalent) in all assets purchased with Agency loan proceeds.

- The Agency will obtain appraisals to verify current market valuations of real estate and other assets obtained as security for loans. For the properties taken as the main source of collateral for an Agency loan, the Agency will obtain a full appraisal. Appraisers must be qualified to give the type of appraisal requested and must be otherwise acceptable to the Agency and/or approved by the first lienholder if the first lienholder is another traditional (i.e., financial institution) lender. For other properties taken as collateral (non-primary collateral), the Agency will accept a short-form of appraisal or opinion of value. For single-family rehabilitation loans, the Agency will accept an opinion of value.

- The Agency must have an insured lien position (ALTA lender's title policy or its equivalent for first deeds of trust or mortgage position) on all real estate taken as collateral.

- The borrower must obtain and provide the Agency with proof of adequate, extended coverage fire and hazard insurance covering the maximum insurable value of the property with SHRA named as loss payee for all real estate and personal collateral. If the property is within a flood plain, the borrower must obtain and provide the Agency with proof of flood insurance sufficient for federally insured loans.

- In lease situations, the Agency will assign no value to leasehold improvements unless a first position on the underlying leasehold estate is perfected by a security instrument on the leasehold estate. The Loan Committee will approve loans secured solely by liens on leasehold estates only if the borrower demonstrates financial capacity that is significantly greater than that of the typical borrower. The Agency will require leases on subject business locations will be required as deemed necessary based on the overall strength of the credit.

- The Agency will not require a borrower to obtain life insurance on a loan or to assign borrower's life insurance proceeds except when the age or health of the borrower or his or her importance to the company adds significant risk to the continuation of project or business in their absence.

VALUATION GUIDELINES

Because of costs of liquidation, time delays, and the fact that the highest price is rarely obtained at a distress-type sale, discount rates may be applied to estimate the value of the collateral being pledged against the loan at the time of origination. The discount rates used to value the collateral are based on the anticipated ease of liquidation and the likelihood that the asset will maintain its value over time. In most instances, however, collateral will be evaluated based upon appraised value determined at the time of the loan.

Commercial and Multi-Family Real Estate

When SHRA receives a first lien on a piece of commercial property, the collateral value of the property will be valued at 100% of the fair market value of the property as determined by a third party, objective, independent appraisal. In many instances, SHRA will be in a second or lesser position behind a bank or other lender(s). In those instances, the collateral value of the property will be 100% of the fair market value of the property, minus the senior lien(s). In instances where SHRA is in a second or lesser position, careful consideration should be given to the amount of the senior lien(s) for if foreclosure does occur, SHRA could find itself in the tenuous position of the asset not having sufficient value in foreclosure for SHRA to recapture its investment. SHRA would have to make a substantial payment to the first mortgage holder to satisfy that lien and thus can not count on the unencumbered portion of the property's value when the preceding lien is significant. For this reason, if the preceding lien exceeds 80% other collateral should be secured.

Residential Real Estate

When SHRA receives a first lien on a piece of single-family residential property as additional collateral for a commercial or multi-family loan, the Agency will consider the value of the property for collateral as 90% of the fair market value of that piece of property as determined by an independent, outside appraisal. If there is an existing senior lien, the collateral value of the property will be 90% of the fair market value minus the amount of the existing senior lien

If the senior lien(s) encumber more than 70% of the fair market value of the property, the Agency will consider the collateral value of the property to be zero. The Agency's position behind a relatively large senior debt minimizes the possibility of retrieving much, if any, of the loan amount.

If the loan is to be made for and secured by a single-family property, the Agency will consider the collateral value of the property to be 100% of its fair market value.

Personal Property

In order to provide security for a commercial loan for business uses or to provide additional security for real estate secured loans, it is necessary to look to sources other than real estate. In such circumstances, the Agency may accept machinery and equipment and inventory and receivables as collateral or additional collateral.

The Agency will consider the collateral value of machinery and equipment to be 50% of fair market value as determined by an independent source, such as appraisal or an estimate from a dealer familiar with that type of equipment, as adjusted for its age and condition. If there is a senior lien on such personal property, the Agency will consider such its collateral value to be zero.

Because of the Agency's difficulty in tracking and collecting inventory and receivables in liquidation, the Agency will not accept inventory and receivables as collateral, except as provided in the instruments securing interests in real property. As additional collateral the Agency will consider the collateral value of inventory and receivables to be 20% of the face (or wholesale) value. If there is a senior lien on such personal property, the Agency will consider such its collateral value to be zero.

Guarantees

The Agency will, in some instances, require personal guarantees from the principals of the business (or the development team) seeking the loan, as additional security for the loan. On all commercial and multi-family projects, the Agency will require personal guarantees of the principals who own 20% or more of the project or of the business that owns the project. The guarantors of the loan must have assets located in the United States. The Agency will consider the guaranty to have a collateral value of 50% of guarantor's the liquid assets located within the United States and 20% of the guarantor's non-liquid assets located in the United States.

DOCUMENTED COMPENSATING FACTORS

Underwriters have the dual responsibility of mitigating loss exposure, while at the same time, ensuring that the agency's long-term community objectives are achieved. The dual roles of the underwriter do not always complement each other; as a result, underwriters are often faced with decisions that conflict with one or more of their duties. Due to the diverse nature of loan submissions and the subjective aspects of the position, underwriters must rely on individual judgement and prudent underwriting standards to make balanced decisions. One of the most important tools available to aid underwriters in their decision making process are compensating factors. Compensating factors are loan attributes that serve as the basis of loan approval and are critical elements to approval of loan terms that fall outside of the box (e.g. DSC ratio exceptions). In short, compensating factors are those elements of a loan that, when weighed against the proposed exception, mitigate the inherent risk of the exception.

Additionally, documented compensating factors provide insight into the underwriters decision making process and serve as a tool for expediting loan approval by SHRA management and/or loan committee. SHRA underwriting staff are required to clearly and concisely address all compensating factors supporting their recommendations for loan approval or loan exception.

EXAMPLE:

The project's Debt Service Coverage Ratio (DSCR) is slightly below underwriting standards	=	Increased Capacity Risk
Possible compensating factors for Debt Service Coverage exception	=	Good collateral position and excellent credit history (e.g. 0x30 mortgage for the last 7 years).

<u>Compensating Factors</u>
<u>Sample List</u>*

Credit History
DSCR
Loan to Value (1^{st})
Combined LTV (2^{nd})
Current Borrower
Documented Cash Reserves or other liquid assets
Management Experience
Community Benefits Of Project

*This list is not all-inclusive. There are numerous loan attributes that can be considered compensating factors for loan approval; however, underwriters must be prudent when using a compensating factor to mitigate a loan exception. The question, "Does this compensating factor truly offset the additional risk being absorbed by the agency?", should be asked when assessing whether a loan exception is warranted.

COMMERCIAL AND NON- OWNER- OCCUPIED RESIDENTIAL GUIDELINES

LOAN PRODUCTS: Commercial and Non Owner-Occupied Residential Loans

FUNDING SOURCE: Commercial - Tax Increment, Community Development Block Grant
Multi-Family – Housing Trust Fund, HOME

LOAN TERM: Up to 30 years

LOAN RATE: Varies dependent on project's need

PURPOSE: Acquisition, rehabilitation or construction of multi-family or commercial property

COLLATERAL: Minimum of Deed of Trust on the Property

EXISTING BUSINESSES (OVER 3 YEARS IN BUSINESS) AND NON 0WNER-OCCUPIED

BORROWER'S CREDIT QUALITY	TARGETED DEBT SERVICE COVERAGE	MAXIMUM COMBINED LOAN TO VALUE (of subject property)*	COLLATERAL COVERAGE (on all collateral pledged)*
A	Based on recent 2 years financials – 1.15	90%	1:1
B	Based on Most recent 1 year financial – 1:1.2	90%	1:1
C	Based on Existing or Projected - 1: 1.25	75%	1: 1.25

NEW BUSINESSES (UNDER 3 YEARS IN BUSINESS)

A	All financials + Projection – 1:1.2	90%	1:1.1
B	All financials + Projection 1:1.25	90%	1.1.2

The Loan Committee will have the authority to approve exceptions to these guidelines (see Compensating Factors). The minimum underwriting thresholds for the Loan Committee will be a 1:1.1 Debt Service Coverage Ratio, a 95% Loan to Value Ratio for A and B credit borrowers and 80% for C credit borrowers, and a 1:1 Collateral Coverage Ratio.

***These ratios are the maximum limits for the commercial/non owner-occupied residential loan programs. Multiple programs have designed to meet specific needs and thus the ratios may be lower in specific program guidelines.**

OWNER-OCCUPIED GUIDELINES

LOAN PRODUCTS: REHABILITATION LOANS

FUNDING SOURCE: Community Development Block Grant, HOME

LOAN TERM: Up to 20 years

LOAN RATE: Deferred payment loan – up to 20 years, currently 4%

PURPOSE: Acquisition and/or rehabilitation of single-family property and multi-family properties up to and including four units.

COLLATERAL: Deed of Trust on the Property

CREDIT QUALITY:

BORROWER'S CREDIT QUALITY	TARGETED DEBT/ INCOME RATIOS	MAXIMUM COMBINED LOAN TO VALUE
A	55%	110%
B	50%	110%
C	45%	110%

The Loan to Value ratios above are the maximum allowed. Lower ratios may be dictated by the specific program guidelines and participating lenders