AFFORDABLE HOUSING TRUST FUND UNDERWRITING STANDARDS

Most of these underwriting standards are from the Interagency Stabilization Group's (ISG) Uniform Underwriting Standards. ISG was created in 1993 to encourage further coordination among affordable housing funders in Minnesota. Member agencies include MHFA, the Family Housing Fund, the Greater Minnesota Housing Fund, Hennepin County, Ramsey County, the City of St. Paul and the City of Minneapolis.

1. **Capacity of Owner:** Sufficient relevant experience and demonstrated, reliable financial and organization capacity to adequately execute its asset management responsibilities. This includes City review of audited and unaudited financial statements.

2. **Capacity of Property Manager and Quality of Property Management Plan:** Sufficient relevant experience and demonstrated, reliable financial and organizational capacity to adequately execute property management responsibilities. Property managers should have a track record with the type of housing being proposed and should be guided by a sufficiently detailed property management plan that contains property and tenant management policies and procedures including security measures to maintain a safe living environment.

3. **DCR:** Debt service coverage/expense coverage ratio:

   A) 1.15 minimum for 10 years, 1.10 DCR for years 11-15.

   B) 1.05 ECR minimum for 10 years, 1.02 for years 11-15.

4. **Developer Fee:** Defined in the Part I, Section VIII of the RFP.

5. **Income and expense trend factor over 20 year cash flow:** Expense inflator should be 1% higher than the revenue inflator.

6. **Maximum rents:** The project rents for restricted units should fall below the maximum rent allowed for the targeted income level to create a sufficient window of tenant eligibility and to create room for rent growth over time. The preferred, but not required, difference between project rents and the maximum rent allowed is at least 5%

7. **Management Fees**
   a. **Asset Management Fee:** Up to $25 per unit per month, minimum of $5,000 annually. This fee should be the last operating expense paid after debt service.
   b. **Property Management Fee:** Up to $60 per unit per month based on size of development.

8. **Operating Expenses (including utilities and property insurance, but not real estate taxes):**
Provide detailed explanations for each of the following line Operating Expense line items:
   A) General Admin (including marketing and leasing).
   B) Payroll 9 salaries, payroll taxes, fringe benefits)
   C) Utilities
   D) Maintenance and Repair (including turnover costs)

   Please include three years of comparable property audits or previous operating expenses audits to support operating expense budgets.

9. **Replacement Reserves:** Initial deposit - A replacement reserves analysis will include an inventory of the existing components in the development, their costs, effective ages, and effective useful lives. Ongoing deposits - $200 - $250 per unit per year.

10. **Vacancy Rate:** 7% for residential / 20% for Commercial