I. Background

This document provides an overview of the responsibilities, procedures, composition and authority of the Tax Credit Pilot Program Loan Committee. These procedures are subject to change, based on further experience with the Pilot Program.

II. Pilot Loan Committee Composition and Authority

The Committee members include two senior staff members of the Headquarters Office of Multifamily Housing Development and one supervisory Designated Underwriter (“DU”) from a Pilot Hub other than the Pilot Hub(s) presenting the project(s) to be reviewed in a given meeting. Although only two Multifamily Housing Development senior staff members need to participate in any given meeting, there will be a total of six designated senior staff members to allow for rotation of members and coverage in the case of absences. A quorum of any three members is needed for decisions. Either the Deputy Director of the Office of Multifamily Housing Development, the Housing Program Manager or the Senior Project Manager assigned to the Pilot Program must be present, to chair the meetings. Finally, it is important to note that the Pilot Loan Committee is authorized to approve all Tax Credit Pilot Projects, regardless of loan size, unit count, age restriction or other project characteristics, including certain project types that might otherwise be subject to Hub Loan Committee and/or National Loan Committee Reviews.

III. Pilot Loan Committee Operations

a. The Pilot Loan Committee will be convened in person or by conference call twice a month on fixed dates, or more frequently as needed based on demand to avoid delay to the issuance of a Firm Commitment. Consent in advance is achieved if each Committee member reviews the material posted to SharePoint or otherwise distributed, posts comments or questions, and either recommends approval by consent or discussion at the scheduled Committee meeting. Committee members may request additional review material or invite certain members of the Field staff transaction team to be available for questions during the meeting. Transactions that receive unanimous consent prior to the Loan Committee meeting will not be discussed at the Committee meeting or voted on individually, but rather will be assumed approved by the Committee based on unanimity.

b. The Hubs retain the authority to reject transactions without Committee involvement. In such cases the DU will document the decision in a letter to the lender, and post a copy onto the Tax Credit Pilot Program SharePoint site.

1 These will include the Director, the Deputy Director, the Policy Division Director, the Technical Support Division Director, the Housing Program Manager, the Senior Project Manager and the Housing Program Officer assigned to the Pilot Program, all within the Office of Multifamily Housing Development.
c. The Designated Underwriter who prepared the approval documents will schedule the project for an upcoming Pilot Loan Committee meeting and post the required documents on the Pilot’s SharePoint site no less than three (3) full business days in advance of the meeting. At the meeting the DU will make a brief oral presentation to the Committee, summarizing all salient aspects of the transaction, and will then respond to Committee questions.

d. Document requirements and naming conventions described in Appendix 1 will be observed.

e. The Committee may either approve, conditionally approve, table (take no action) or deny the commitment request.

f. Loans must be approved by a majority vote (i.e. by two of the three members) of the full committee membership.

g. A Headquarters Staff member will manage the committee’s meeting schedule, member rotations, and agendas and maintain a record of the committee’s deliberations, decisions and any conditions of an approval, all on the SharePoint site.

h. Observation of meetings by HUD’s Hub and HQ staff is encouraged, but no comments should be made by staff who are not required to attend the meeting, and their phones must be set on “mute” throughout the meetings. Representatives of the Office of Risk Management and the DUs from other Pilot Hubs will be invited to listen in on Pilot Committee meetings as well.

IV. Process Overview

The process for obtaining approvals of Tax Credit Pilot transactions begins as the underwriting process is successfully concluded. It is part of the Designated Underwriter’s responsibility to manage the process, which includes two primary steps: Hub Director approval and Pilot Loan Committee approval.

V. Hub Director Review and Approval

Following the underwriting phase the Designated Underwriter (“DU”) will make arrangements for approvals of the Firm Commitment. The first step is to obtain the approval of the Hub Director (or his/her designee subject to dollar limits under HUD’s existing delegations.) The Hub Director who will approve the proposal and sign the Firm Commitment will be the director of the Hub Office with jurisdiction over the project (the Originating Office), which may or may not be a Pilot Hub (the Processing Office). To start off the process the DU arranges a meeting or call with the appropriate Hub Director, and prepares the necessary summary material for presentation to the Hub Director. This material will include the following:
VI. Loan Committee Review and Approval

Once the recommendation of the Hub Director is obtained and the documents have been revised to reflect any changes, the DU will schedule the project for an upcoming Pilot Loan Committee meeting and will post all of the following materials on SharePoint for the Committee’s use:

a. Tax Credit Pilot Program Lender’s Narrative or other document containing the same information, provided by the lender and adjusted by the DU through the underwriting process as needed;

b. Tax Credit Pilot Program Wheelbarrow or other substitute pro forma operating budget, development budget and sources and uses of funds statement provided by the lender and adjusted by the DU through the underwriting process as needed; and

c. The Tax Credit Pilot Loan Committee Submission Template, fully completed by the Designated Underwriter (Form provided in Appendix 2.); and

d. The Hub Director’s Pilot Project Approval and Recommendation to the Tax Credit Pilot Program Loan Committee (Sample provided in Appendix 3.)

These materials should be posted to the SharePoint site, accessible to the committee members no less than three full business days in advance of the meeting.

The DU will present his/her summary to the Committee, and the Committee will discuss and resolve any concerns or questions in order to reach a decision. However, additional information may be needed first, in which case Committee members will table the transaction and schedule a second
meeting time to complete the review. If the loan is rejected outright by the Committee, the DU will prepare a letter of rejection to be issued by the Hub Director, and the project will be terminated.

If the project is approved by Committee subject to additional information or changes in terms or conditions, then it will be the DU’s responsibility to ensure that the additional information is collected and deemed acceptable, and that any conditions or changes imposed by the Committee but not achieved prior to issuance of the Firm Commitment are included in the Firm Commitment. Finally, if approved by Committee without changes or contingent data, then all parties involved will be notified by the DU to proceed to closing. The Firm Commitment should then be issued by the Hub as soon as possible (generally within 5 days of the committee approval.) Committee staff will prepare approval or rejection memoranda following the meeting, along with meeting minutes. Sample documents for this purpose are available in Appendices 4 and 5.
APPENDIX LIST

Appendix 1: Document Requirements and Naming Conventions

Appendix 2: Tax Credit Pilot Loan Committee Submission Template

Appendix 3: Sample Hub Director’s Pilot Project Approval and Recommendation to the Tax Credit Pilot Program Loan Committee

Appendix 4: Sample Tax Credit Pilot Loan Committee Meeting Minutes

Appendix 5: Sample Tax Credit Pilot Loan Committee Decision Memorandum
## APPENDIX 1

### TAX CREDIT PILOT LOAN COMMITTEE DOCUMENT REQUIREMENTS AND NAMING CONVENTIONS

February 4, 2014

<table>
<thead>
<tr>
<th>#</th>
<th>Document Description</th>
<th>Electronic Naming Protocol</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Hub Director’s Recommendation</td>
<td>(Project Name) (7-digit FHA Number) Hub Director’s Recommendation (Date ##/##/##)</td>
</tr>
<tr>
<td>2</td>
<td>Designated Underwriter’s Narrative Summary</td>
<td>(Project Name) (7-digit FHA Number) Tax Credit Pilot Transaction Summary (Date ##/##/##)</td>
</tr>
<tr>
<td>3</td>
<td>Lender’s Narrative</td>
<td>(Project Name) (7-digit FHA Number) Tax Credit Pilot Lender’s Narrative (Date ##/##/##)</td>
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<tr>
<td>4</td>
<td>Tax Credit Pilot Wheelbarrow</td>
<td>(Project Name) (7-digit FHA Number) Tax Credit Pilot Wheelbarrow (Date ##/##/##)</td>
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</table>
APPENDIX 2

TAX CREDIT PILOT LOAN COMMITTEE SUBMISSION TEMPLATE

(Note this template is separate to maintain formatting)
APPENDIX 3

SAMPLE HUB DIRECTOR’S PILOT PROJECT APPROVAL AND RECOMMENDATION TO THE TAX CREDIT PILOT PROGRAM LOAN COMMITTEE
Memorandum

Date: _____________________, 201#

To: FHA Housing Tax Credit Pilot Program Loan Committee

From: _________________________
      Hub Director, _________________ Hub

RE: {Project Name}
      Town, County, State

Project # _______________
Section 223(f ) {Refinance or Acquisition/Refinance}
Application for Firm Commitment
Mortgage Amount $############### limited by {Loan Criterion}

Please be advised that I have reviewed and approved the above referenced project for firm commitment under the FHA Housing Tax Credit Pilot Program. It is hereby recommended and submitted to the Pilot Loan Committee for review and final approval, prior to our issuing a firm commitment for mortgage insurance. {Staff Name} will make the presentation to Loan Committee and answer any questions if necessary.

Enclosed with this request are the following documents:

1. Tax Credit Pilot Program Loan Committee Template,
2. Tax Credit Pilot Program Wheelbarrow, and
3. Tax Credit Pilot Program Lender’s Narrative.

The HUD Staff who processed the application and will be available to the Committee include {List names and titles}. 
APPENDIX 4

SAMPLE TAX CREDIT PILOT LOAN COMMITTEE MEETING MINUTES

DATE: January 14th, 2014

MEMO FOR: File

FROM: Lynn Wehrli, to the Pilot Loan Committee

SUBJECT: Pilot Loan Committee Minutes for January 14th, 2014

<table>
<thead>
<tr>
<th>Project</th>
<th>FHA #</th>
<th>Location</th>
<th>Section/Stage</th>
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<tr>
<td>Naomi Gardens Apartments</td>
<td>122-11328</td>
<td>Arcadia, CA</td>
<td>223(f) Tax Credit Pilot Program</td>
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<table>
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<tr>
<th>Originating Hub</th>
<th>Processing Hub</th>
<th>Loan Amount</th>
<th>Outcome</th>
<th>Underwriter</th>
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<tbody>
<tr>
<td>Los Angeles</td>
<td>Los Angeles</td>
<td>$10,300,000</td>
<td>Approval Without Conditions</td>
<td>Erich Yost</td>
</tr>
</tbody>
</table>

The Committee meeting began at noon Eastern. The following were the voting members:

**Senior Development Staff Members:** Lynn Wehrli, Dan Sullivan  
**Designated Underwriter, Non-Presenting Pilot Hub:** Vincent Benvenuto  
**Others Present Included:** Ken Cooper  
**Pilot Hub Designated Underwriter:** Erich Yost, LA Hub  
**Others Attending:** Tom Azumbrado, Acting Director LA Hub

Erich Yost provided the following overview:

Naomi Gardens consists of an age-restricted project in the City of Arcadia and it consists of 101 units (100 1-Bedroom/1-Bath units and 1 2-Bedroom/1-Bath unit) built under HUD’s Section 202 program. The existing HAP Contract covers 100 of the 101 units at the property. The project will be encumbered the 4% Low Income Housing Tax Credits (“LIHTC”) (acquisition and rehabilitation) regulatory agreement and will be issued a new 20-Year HAP Contract at the current rents at initial/final endorsement (“Closing”). Under the LIHTC rent restrictions 10 units will be restricted to 50% of AMI, 90 units will be restricted to 60% of AMI and 1 unit will be the manager’s unit at market rent. The loan is constrained by the borrower’s request of $10,300,000. The purpose of the loan is to acquire and substantially rehabilitate the project. It is considered an “Assisted Housing Project” Tax Credit Pilot project. Rehabilitation costs are estimated at approximately $26,000 per unit. Following this overview, the following strengths and weaknesses were noted:

**Most important strengths**

- **Development Team Experience** – The development team has extensive experience with acquiring, rehabilitating and developing multifamily properties throughout Southern California. Along with the nonprofit co-general partner the team has the experience to manage Tax Credit projects.
● **General Contractors Extensive LIHTC and HUD Experience** – The General Contractor has significant LIHTC and HUD experience and similar to the key principals has experience with substantial rehabilitation of affordable housing projects in the Los Angeles area.

● **Strong Market Demand** - The occupancy rates in the market are strong. The submarket’s multifamily market and the subject’s competitive properties continue to illustrate strong demand for multifamily properties due to the limited supply and continued population growth. And considering the high rental rates, higher single family home prices and lack of new supply, the demand for affordable housing is strong.

● **Low Loan to Value** – Based on the concluded Market Value “Post Rehab” of $15,957,00 and the requested loan amount of $10,300,000 the loan to value is 65%. Based on the Restricted Value “Post Rehab” the loan to value is 76%.

● **Historically High Occupancy** – The subject has had historically high occupancy over the past few years with occupancy rates from 99% to 100%. The subject has a wait list that exceeds five years.

● **Restricted Rents Well Below Market Rents** – The average restricted rent per unit is 36% below the average market rent at the project.

● **General Partner Equity and No Deferred Developer Fee** – As is common most LIHTC developments the Developer typically has to defer their Developer Fee. However, for this project the General Partner has elected to contribute $1,000,000 to the project thereby eliminating the deferral of the Developer Fee.

● **Investor Required Operating Reserve and Revenue Deficit Reserve** – The Investor, NEF, is requiring an Operating Reserve in the amount of $675,000 and a Revenue Deficit Reserve in the amount of $1,000,000.

### Most important weakness & risks and their mitigating factors

● **Unforeseen Conditions during Renovation** – As with any rehabilitation, there is a risk of unforeseen problems in the property during the renovation. **Mitigant:** The General Contractor has extensive HUD experience and experience with this type of transaction. In addition, given this is a Section 202, there will be a repair escrow collected in the amount of 10% of the total cost of repairs.

● **Seller Carry-Back Loan and Exceeding Debt Limit** - A Surplus Cash Note will be issued by the Seller for $5,791,959 at initial/final endorsement. Combined with the FHA Insured Mortgage, the loan-to-value is 101% at that time. The Lender has asked for a Waiver of the 92.5% as $1,771,665 will be re-paid with LIHTC Equity at the end of the rehabilitation, resulting in an 89.7% loan-to-value. **Mitigant:** It should be noted that the seller note will not be secured against the property and once paid down to $4,020,294, it will be soft, non-amortizing debt, with repayment based solely on available cash flow after the FHA Insured Loan. The Seller Carry-Back Loan will be for 35 years and will have an interest rate of 4% and will paid solely from cash flow in accordance with the “Waterfall” in the Limited Partnership Agreement.

Mr. Yost noted that 4 waivers had been requested and approved at the Hub level: 1) A waiver for a real estate tax exemption that runs with the owner, 2) the ability to defer critical repairs for completion during the rehab, 3) a roughly $5.8MM surplus cash seller note that would force LTV above the 92.5% limit to 101% at initial endorsement, but which would not be secured by the property, and which would be paid down by $4MM to 89.5% LTV after completion of rehab, and finally, 4) use of an appraisal report that would expire 69 days before closing.

All of the waivers were found acceptable and the committee voted unanimously without further conditions to approve the project.
APPENDIX 5

SAMPLE TAX CREDIT PILOT LOAN COMMITTEE DECISION MEMORANDUM
DATE: November 15, 2012

MEMORANDUM FOR: Angela Corcoran, Acting Director, San Francisco Multifamily Hub

FROM: Tax Credit Pilot Loan Committee Members,
       Lynn Wehrli, Dan Sullivan, Sean Gallagher

SUBJECT: Tax Credit Pilot Loan Committee: Approval With Conditions
       Twin Oaks Apartments, FHA Project #121-11151

Thank you for your loan committee presentation Wednesday, November 14, 2012. The subject property FHA Tax Credit Pilot transaction was approved for issuance of a Firm Commitment by the Loan Committee, subject to the following conditions:

1. Deferral of funding the repair escrow for a portion of the repairs funded from other than loan proceeds is approved for this transaction (only) subject to the following:
   a. At least 30% of the tax credit proceeds funded at loan closing; and
   b. The Lender providing financial analysis which demonstrates to the San Francisco Hub’s satisfaction, that funding 100% of the repair cost at closing would have a significant negative impact on the financing of the project. A copy of the Lender’s analysis is to be provided to Lynn Wehrli, Director of the FHA Tax Credit Pilot, following issuance of the Firm Commitment.
   c. Approval is for this transaction only and not intended to set precedent.

2. The mortgagor must obtain its Borrower’s Counsel’s Opinion Letter from a non-Identity of Interest law firm. The lender’s request for HUD waiver of the identity-of-interest between an owner of mortgagor entity and its legal counsel is denied.

3. The San Francisco Hub must assure to its own satisfaction that the proposed scope of work meets the eligibility requirements of FHA’s Section 223(f) program: specifically that no more than one major building component is being substantially replaced.

4. The San Francisco Hub must assure to its own satisfaction that the subject project complies with the National Historic Preservation Act, specifically that the undertaking has either “no effect” or “no adverse effect” upon historic properties.

5. The San Francisco Hub must assure to its own satisfaction that the subordinated California Housing Finance Agency Use Agreement’s tenant income or other eligibility requirements will not adversely impact project tenants-in-place.

Meeting minutes are attached. Please contact Sean Gallagher at (202) 746-3417 if you have any questions about this memorandum or conditions for approval.