

# Multifamily Transitional Housing Loan Guarantee Program



U.S. DEPARTMENT OF VETERANS AFFAIRS

## **Program Manual**



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**1 INTRODUCTION**

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## CHAPTER 1: INTRODUCTION

### *Chapter 1 Highlights:*

1. *Purpose of Program Manual*
2. *The U.S. Department of Veterans Affairs*
3. *Program Description and Objectives*
4. *Key Definitions*

### **Purpose of Program Manual**

This Program Manual provides an overview of the U.S. Department of Veterans Affairs (VA) Multifamily Transitional Housing Loan Guarantee Program (Program), a pilot program. The mission of the Program is to promote the development and operation of supportive multifamily transitional housing for homeless and formerly homeless veterans in geographic areas of greatest need. This Program Manual is to be used by applicants to the Program, developers of multifamily housing facilities, supportive and counseling service providers, VA staff members, and other interested third parties involved in the Program. The Program Manual provides information on the:

- Purpose and objectives of the Program
- Roles and responsibilities of Program participants
- Legal requirements
- Loan guarantee application process
- Program terms and fees
- Minimum underwriting criteria
- Additional source selection criteria
- Construction loan servicing
- Permanent loan servicing
- Loan guarantee payment process

The guidelines provided in this Program Manual are intended to be consistent with all applicable laws, Executive Orders, and VA regulations. Guidelines should not be construed to supersede, rescind, or otherwise amend such laws, Executive Orders, and regulations. **This Program Manual is subject to revision.**



**The U.S.  
Department  
of Veterans  
Affairs**

VA administers Federal benefit programs for veterans and their dependents. VA provides medical care and research, disability compensation, pensions, insurance, education, training, home loan assistance, and National cemeteries for veterans. Several of its programs are geared toward specific populations including minorities, women, and the homeless.

**VA's  
Homeless  
Programs**

VA's homeless programs constitute the largest integrated network of homeless treatment and assistance services in the country. On any given day, as many as 200,000 veterans in the United States are living in the streets or in emergency shelters, and perhaps twice as many experience homelessness at some point during the course of a year. VA's homeless programs are designed to help these veterans attain self-sufficiency and live as independently as possible. VA offers a multitude of services, which can be categorized into five major areas, including:

- Aggressive outreach to those veterans living on the streets and in shelters, who otherwise would not seek assistance;
- Clinical assessment and referral to needed medical treatment for physical and psychiatric disorders, including substance abuse;
- Long-term sheltered transitional assistance, case management, and rehabilitation;
- Employment assistance and linkage with available income supports; and
- Supported transitional and permanent housing.

Please visit VA's website at <http://www.va.gov/homeless/page.cfm?pg=2> to obtain more information on programs and initiatives specifically designed for homeless veterans.

**Program  
Description  
and  
Objectives**

To complement VA's existing homeless programs, Congress authorized the Multifamily Transitional Housing Loan Guarantee Program (section 601 of Public Law 105-368), a pilot program. This Program authorizes VA to guarantee up to 15 secured loans with an aggregate dollar amount of \$100 million to develop multifamily transitional housing with supportive services for homeless veterans. Loans are to be made in those communities that have the greatest need for such housing. The Program provides low-interest loans originated by the Federal Financing Bank (FFB), an arm of the U.S. Department of the Treasury, with a 100 percent guarantee by VA. In certain cases, a Program loan guarantee may cover up to 80 percent of total project costs. State or local governments or non-government entities must provide additional funding or substantial services. Due to the economics of the Program, it is anticipated that in most cases, VA guaranteed loan amounts will fund considerably less than 80 percent of total project costs. VA will deliver Program funds as either combination construction and permanent guaranteed loans or permanent guaranteed loans. Funds may be used for acquisition or acquisition and development of real estate or rehabilitation of existing improved real estate, or to refinance an existing loan. Loan proceeds may include reasonable amounts for financing the acquisition of furniture, equipment, supplies, or materials for the facility; or, except in the case of

refinance, for supplying the borrower with working capital relative to the facility. The facility may include commercial space, such as space for neighborhood retail services or job training programs. A summary of the legislation authorizing this Program can be found on the VA Program website at: [www.va.gov/homeless/page.cfm?pg=8](http://www.va.gov/homeless/page.cfm?pg=8). This Program does not fund single-family housing.

The Program has multiple objectives:

1. To increase the number of community beds for homeless veterans nationally by at least 5,000.
2. To help homeless veterans transition to permanent housing by providing supportive services, counseling, and requiring that residents take personal responsibility to remain sober, employed, and to pay monthly rent.
3. To determine whether a Federal loan guarantee program is an effective tool for facilitating the development of transitional supportive housing for homeless veterans.

VA expects that the projects in the Program will be self-sustaining. To maximize the likelihood of a project's long-term success, VA requires that project sponsors demonstrate the financial wherewithal to repay a Program loan as well as a high capacity to develop and operate transitional housing for homeless veterans. Sponsors and their development teams must show a strong track record. Applications must demonstrate that the supportive services strategy is needs-based and financially feasible, that it will be monitored and adapted as necessary to attain its goals, and that it will help participants make the transition to permanent housing. The supportive services strategy must be integrated with existing community services. Sponsors must demonstrate community support by, at a minimum, securing for their projects State, local, or non-governmental funding, property, and/or services.

## Key Definitions

**Analyst** – A member of the servicer's staff who prepares the initial construction report and ongoing draw request inspections, among other responsibilities. The analyst must have sufficient expertise to determine compliance with plans and specifications.

**Applicant** – The term applicant refers to the sponsor, or its authorized agent, who is applying for a loan guarantee under the Program.

**Appraisal** – An appraisal is a report setting forth an estimate or opinion of value.

**Basis Point** – One basis point equals one hundredth of a percentage point (0.01 percentage points). Basis points are commonly used to measure changes in or differences between yields or interest rates.

**Borrower** – A borrower is a single-purpose entity, that: (i) Receives funds in the form of a Program loan, (ii) Has the obligation of repaying the Program loan in full with interest, (iii) Is responsible for satisfying all other requirements of the Program, and (iv) Maintains continuing control over the multifamily transitional housing project. *Note: The borrower must be apprised in full or in part by the sponsor or its authorized agent and must be bankruptcy remote.*

**Chronically Homeless:** An unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or has had at least four (4) episodes of homelessness in the past three (3) years.

**Combination Construction and Permanent Loan-** A combination construction and permanent loan is a type of loan that becomes effective from the date of loan closing (which will occur on or before the date that construction of an eligible multifamily project begins) and converts to a permanent loan upon the earlier of either reaching a pre-specified minimum occupancy level, as determined by the Secretary of Veterans Affairs, or at the end of 24 months from the date of loan closing. Occupancy needs to be stabilized for a period of 90 days prior to conversion to a permanent loan; however, in no event shall the construction period exceed 24 months.

**Conditional Commitment Letter** – A conditional commitment letter is a conditional guarantee and non-binding commitment from VA to guarantee the borrower funds under the Program subject to certain conditions being met by the applicant.

**Construction Company** – The construction company is the builder hired by the sponsor/borrower or developer to build the proposed project.

**Construction Loan** – A construction loan refers to a short-term or interim loan for financing the cost of construction. A construction loan will only be guaranteed under the Program if made as part of a combination construction and permanent loan.

**Debt Service Coverage Ratio (DSCR)** – The DSCR is the ratio of a project's cash flow available to pay for debt to the total amount of debt on the project. The minimum DSCR must be 1.10. VA in its sole discretion may require a higher debt service coverage ratio. DSCRs above 1.15 are preferred.

**Department of Veterans Affairs (VA)** – VA is the administrator of the Program and the (100 percent) guarantor of Program funds. This term shall also include any VA employee or VA contractor.

**Developer** – The developer is the person or entity who arranges for the construction, rehabilitation, or development of a piece of land.

**Developer Fee** – The developer fee is the fee a developer receives from preparing raw land for building sites or substantially rehabilitating existing buildings.

**Engineering Report** – An engineering report is a report rendered by an engineer evaluating the physical condition of the property that has been inspected, with a summation or recommendation thereof.

**Federal Financing Bank (FFB)** – FFB is an arm of the U.S. Department of the Treasury authorized to make Program funds available to borrowers in accordance with Program requirements, at a rate that captures the premium between Treasury securities and the private sector lending rate, and that fully reflects the risk inherent to a project when such a rate will accomplish a broader public policy goal. In no case will this rate be less than a comparable Treasury rate. The FFB is to fund approved Program loans and VA must guarantee 100 percent of each loan.

Source: <http://www.ustreas.gov/ffb/resolution-2002-01.htm>

**Firm Commitment Letter** – A firm commitment letter is a firm guarantee and binding commitment from VA to guarantee funds to a borrower under the Program, subject to certain conditions being met by the borrower.

**General Contractor** – The general contractor is the party that performs, or supervises, the construction or development of a project pursuant to the terms of a primary construction contract. The general contractor may use its own employees for this work or the services of other contractors (subcontractors).

**Homeless Individual** – A homeless individual is an individual who lacks a fixed, regular, and adequate nighttime residence; also an individual who has a primary nighttime residence that is: (a) A supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill); or (b) An institution that provides a temporary residence for individuals intended to be institutionalized; or (c) A public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings. *NOTE: The term “homeless individual” does not include any individual imprisoned or otherwise detained pursuant to an Act of Congress or a State law.*

**Homeless Veteran** – A homeless veteran is a veteran who is a homeless individual as defined above.

**Key Principal** – The key principal is the sponsor or managing member of the borrower who has the decision-making authority over the borrower. The key principal may also be the main financial source behind the transaction.

**Loan Committee** – The loan committee is a group comprised of representatives from specific offices within VA who are tasked with the responsibility to review, evaluate and approve or reject prospective applications seeking award of a loan guarantee under the Program.

**Loan Guarantee** – A loan guarantee, under the Program, is a pledge by the Secretary to pay the loss incurred by FFB in the event of a borrower's default

on a Program loan. A loss may be due to either a monetary or non-monetary default.

**Managing Member** – The managing member is the individual or entity who has the decision-making authority over the borrower, usually the key principal.

**Member Appraisal Institute (MAI) Certification** – MAI Certification is the highest professional designation awarded by the American Institute of Real Estate Appraisers.

**Metropolitan Statistical Area (MSA)** – A geographic area designated by the U.S. Census Bureau for the purposes of collecting and disseminating demographic information.

**Multifamily Transitional Housing** – Multifamily transitional housing is a supportive housing facility that provides transitional housing to homeless veterans. Multifamily transitional housing may be single-room occupancy but must, at a minimum:

- (1) Provide supportive services at the facility site with the goal of assisting residents in becoming self-sufficient;
- (2) Require each resident to seek to obtain and maintain employment;
- (3) Charge a reasonable fee for occupying a unit; and
- (4) Maintain strict guidelines regarding sobriety as a condition of residency.

**Northeast Program Evaluation Center (NEPEC)** – NEPEC conducts program evaluations in six broad categories:

- (1) Specialized treatment programs for homeless veterans;
- (2) Specialized programs for treatment of veterans with Post-traumatic Stress Disorder (PTSD);
- (3) Assertive community treatment for veterans with severe mental illness;
- (4) Compensated Work Therapy (CWT);
- (5) Residential Rehabilitation and Treatment Programs; and
- (6) Performance assessment of quality, cost, and outcomes of standard general VA mental health programs through the National Mental Health Program Performance Monitoring System.

**Permanent Loan** – A permanent loan is a long-term loan on a project. In those instances where the borrower has elected to obtain a combination construction and permanent loan, the construction loan must, without any further action taken by VA or the borrower, automatically and immediately convert to permanent loan status upon the earliest occurrence of one of the following:

- (1) VA's determination that the project has met an acceptable minimum level of occupancy, or

(2) Twenty-four months passes from the date of loan closing.

Under no circumstances will the loan convert to permanent later than 24 months from the date of loan closing.

**Phase I Environmental Report** – A Phase I Environmental is a basic study conducted to evaluate the environmental condition of real property and/or improvements.

**Phase II Environmental Report** – A Phase II Environmental is a study of the environmental condition of property/improvements that is more detailed and in-depth than a Phase I report. It may include groundwater testing or testing of the soil.

**Physical Needs Assessment (PNA)** – A PNA is a report prepared by either an engineering firm or an architect that outlines the useful life of major building systems found at a property and identifies a replacement schedule and estimated cost of replacement.

**Program** – The VA Multifamily Transitional Housing Loan Guarantee Program is established under 38 U.S.C., and Chapter 20, Subchapter VI, and is implemented by VA.

**Program Financing Agreement** – The program financing agreement is the document that outlines the procedures and responsibilities of VA and FFB with regard to funding and guaranteeing program loans.

**Program Funds** – Program funds are loaned to the borrower by FFB and guaranteed by VA for the purposes of the Program.

**Project** – A project is under the auspices of one or more sponsors for the development, financing, construction (including renovation or rehabilitation), operation, and management of multifamily transitional housing, authorized by, approved, and conducted under the Program.

**Property Manager** – The property manager may include the following entities:

(1) Self-Managed Company/Identity of Interest (IOI) Management - The borrower self manages the real estate through its own management company or through an affiliate that has a relationship with the borrower, such that selection of the property manager and determination of the management fee cannot be determined through an arms-length transaction.

(2) Independent Fee Company – The property manager is neither a self-managed nor an IOI management company. The property manager is an independent, third-party firm unrelated to the borrower and earns a fee for the services it provides.

**Resident** – A resident is a homeless veteran who is currently residing in multifamily transitional housing provided under the Program. Residents may also include veterans who are not homeless and homeless individuals who are



not veterans, if VA, in its sole discretion, has determined that the transitional housing needs of homeless veterans in the project area have been met and that the housing needs of any such veteran or homeless individual can be met in a manner compatible with Program requirements.

**Secretary of Veterans Affairs (the Secretary)** – The Secretary of Veterans Affairs is an officer of the United States. This term includes any VA employee or VA contractor authorized to act on behalf of the Secretary.

**Servicer** – The servicer is a public or private entity that is responsible for collecting, monitoring, and reporting loan payments. The servicer, acting as an agent of VA, will provide, among other things: construction loan servicing, permanent performing loan servicing, special servicing of defaulted mortgage loans, and other services provided for under the Servicing Agreement between Servicer and VA. It is expected that the servicer will assign a staff member, who will function independently of the analyst, to review and recommend approval of draw requests. After a mortgage loan closes, the loan servicer collects the payments, manages escrow accounts, pays escrow taxes and insurance, and manages delinquent payments.

**Servicing Agreement** – A Servicing Agreement is a written agreement, and any amendments or supplements thereto, between VA and VA's designated mortgage servicer stipulating the rights and obligations of both parties.

**Single-Purpose Entity** – A single-purpose entity is a corporation, partnership or Limited Liability Corporation (LLC) that is bankruptcy remote and created by, or under, the authority of the laws of a state, territory, or U.S. possession for the sole purpose of owning a multifamily transitional housing facility. Approval of whether the Single-Purpose Entity meets the requirements of the Program is subject to the discretion of the Secretary of Veterans Affairs.

**Single-Room Occupancy (SRO)** – An SRO is a residential unit for occupancy by one person, which need not, but may, contain food preparation or sanitary facilities, or both.

**Sober** – Sober refers to when a person's body is free of alcohol or controlled substances, unless such substances are being used under the direction of a physician.

**Sponsor** – A sponsor is an artificial person or legal entity that is:

- (1) Created by or under the authority the laws of a State, territory, or possession of the U.S.,
- (2) Comprised of officers, members, managers, partners, and/or shareholders who are U.S. Citizens or permanent legal residents,
- (3) Responsible for the coordination of the project's financing and construction and, through the borrower, has the primary responsibility for a project's long-term operation and management, including the coordination and implementation of a supportive services program.

*Note: A project must have one or more sponsors.*

**Supportive Housing Facility** – A supportive housing facility is a facility that assists homeless individuals to transition from homelessness to permanent housing by providing short-term housing (generally not to exceed 24 months) and supportive services. A supportive housing facility may also be referred to as a “facility” or “project” in this Program Manual.

**Supportive Services** – Supportive services are services that may be designated by the sponsor that address the needs of homeless veterans to be served by the facility and provide appropriate services or assist such persons in obtaining appropriate services. Supportive services include:

- (1) Conducting outreach activities;
- (2) Providing food, nutritional counseling, counseling, health care, mental health treatment, alcohol and other substance abuse services, and case management services;
- (3) Where applicable, establishing and operating child care services for dependents of homeless veterans;
- (4) Providing supervision and security arrangements for the protection of residents and for homeless veterans using the services;
- (5) Providing assistance in obtaining permanent housing;
- (6) Providing education, employment counseling, and job training;
- (7) Establishing and operating an employment assistance program;
- (8) Providing assistance in obtaining other Federal, State, and local assistance available for facility residents including mental health benefits, employment counseling, veterans’ benefits, medical assistance, and income support assistance such as supplemental security income (SSI) benefits, temporary assistance to needy families (TANF), general assistance, food stamps, etc.; and
- (9) Providing housing assistance, legal assistance, advocacy, transportation, and other services essential for achieving and maintaining independent living. Inpatient acute hospital care does not qualify as a supportive service.

**Underwriter** – The designated party who is responsible for the independent analysis of the risk involved in making a mortgage loan and who determines whether the risk is acceptable to the lender. The underwriter analysis involves the evaluation of the property as outlined in the appraisal report, the application, the third party reports, the project pro forma financial results and of the borrower's ability and willingness to repay the loan.

**Veteran** – A veteran is a person who served in the active military, naval, or air service, and who was discharged or released under conditions other than dishonorable (38 U.S.C. §§101(2)).



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## 2 OVERVIEW OF THE PROGRAM

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## CHAPTER 2: OVERVIEW OF THE PROGRAM

### *Chapter 2 Highlights:*

1. *Program Features*
2. *Program Restrictions*
3. *Roles and Responsibilities of Program Participants*
4. *Overview of the Loan Guarantee Application Process*

### **Program Features**

This Program is intended to promote the development and operation of multifamily transitional housing for homeless veterans. It offers a number of unique features to achieve this goal.

#### *A Pilot Program*

The Program's enabling legislation authorizes VA to administer the Program on a pilot basis, guaranteeing up to 15 loans with an aggregate dollar amount of up to \$100 million. Guarantees are to be made in geographic areas that have the greatest need for supportive housing for homeless veterans.

#### *A Federal Guarantee*

VA will guarantee 100 percent of the unpaid principal balance and accrued interest due, but unpaid, of a Program loan.

#### *A Moderate Loan-to-Cost Ratio*

The original principal balance of the Program loan may not exceed 80 percent of the total cost actually incurred by the borrower to develop the transitional housing facility, including the cost of acquiring and preparing the land, the cost of constructing, remodeling, or rehabilitating the necessary buildings, cost of necessary furniture, equipment and fixtures, developer's fees, and reasonable costs of development including the cost of architects, surveyors, and legal services, and, except in the case of refinance, working capital relative to the facility.

In many instances, projects will be financed through a high percentage of State and local funding and the Program loan amount will be significantly less than 80 percent of cost.

#### *Long-Term Permanent Financing*

The term of the Program loan shall not exceed 40 years and shall be based on VA's credit underwriting assessment. The loan terms will usually be 30 to 35 years, and up to 40 years only where circumstances warrant.

#### *Combined Construction and Permanent Loans*

The Program will provide permanent and/or combination construction and permanent financing, and may include reasonable amounts for the acquisition of furniture, equipment, supplies, or materials for the facility or, except in the case of refinance, for supplying the borrower with working capital relative to the facility.

#### *Below-Market Interest Rates*

Funding for this Program is made available directly through the FFB, which allows borrower to obtain financing at below-market interest rates.

*Substantial Participation by Other Funders*

Projects funded by a Program loan must include funding and/or the substantial provision of property or services by a State or local government or a nongovernmental entity or entities.

*Support Services*

Sponsors must develop a supportive services program that (a) includes an employment program that is designed to help resident veterans attain long-term employment once they leave the facility and that requires residents to obtain and maintain employment while living in the facility; and (b) clearly identifies how resident veterans will attain and transition to permanent housing. Supportive services must be provided throughout the loan term or for a minimum of 20 years, whichever is longer.

**Program Restrictions**

Program restrictions include:

- (1) The Program loan must be superior to all other indebtedness. No additional indebtedness may be obtained without the Secretary of Veterans Affairs advance written consent.
- (2) The loan guarantee applies only to funds lent by FFB under this Program
- (3) The Program loan amount may not exceed 80 percent of the total project cost.
- (4) When refinancing a Program loan, Program funds may not be used to fund a developer fee or for supplying the borrower with working capital relative to the project.
- (5) Disbursement of a developer fee must be structured to provide an incentive to the developer to complete and lease up the facility as planned. Disbursement of the developer fee must be tied to the developer's completion of certain milestones as specified by the Secretary of Veterans Affairs, with a 10 percent holdback until, at a minimum, three months of stabilized occupancy occurs.
- (6) This Program does not fund single-family housing.

**Roles and Responsibilities of Program Participants**

The Program is intended to increase the supply of supportive transitional housing for homeless veterans by providing low-interest rate loans guaranteed by VA. Each participant in the Program plays a significant role in achieving the Program goals. Therefore, it is important to understand the roles and responsibilities of each Program participant, as summarized below:

**1. U.S. Department of Veterans Affairs -- Guarantor**

VA serves as the administrator of the Program and the guarantor of Program funds. VA's responsibilities include:

- Identifying target geographic locations with the greatest need for multifamily transitional housing

- Informing the public about the availability of funds and establishing the application process
- Underwriting Program loans
- Approving Program loan guarantee applications
- Servicing Program loans or oversight of a third-party loan servicer contracted to service the loan portfolio
- Monitoring projects for compliance with Program statutes, regulations, and rules
  - VA must be responsible for performing annual physical inspections of the facilities funded under the Program
  - VA must conduct regular financial reviews of the facilities in accordance with the loan documents. *Note: Details relating to the financial reviews can be found in the Program loan documents.*
  - VA is responsible for reviewing the supportive services program at each facility on a regular basis to determine that the supportive services program is meeting the needs of homeless veterans (*Note: If VA determines the supportive services program is not acceptable, VA may recommend changes*)
- Exercising fund control over Program and non-Program funds in projects that include construction, renovation, or rehabilitation
- Processing and paying any loan guarantee payments to FFB
- Evaluating the economic feasibility of offering a Program loan to community and faith-based sponsors who are to provide high quality multifamily transitional housing
  - Data must be collected using NEPEC Form D and Form X. Pilot sites are to be monitored and evaluated. NEPEC is responsible for this task. Monitoring protocols and training are available to assist in these efforts
  - NEPEC is the office of primary responsibility for any questions concerning program evaluation

## 2. Federal Financing Bank – Lender

The FFB will provide funds to approved borrowers in accordance with VA's requests. VA may direct FFB to disburse funds to the borrower for up to 80 percent of the total cost of the project. FFB will have limited interaction with the borrower, with most correspondence going through either VA or the designated loan servicer.

## 3. Sponsor/Borrower

The sponsor, as defined in Chapter 1, is responsible for the coordination of the projects' financing and construction and, through

the borrower, has the primary responsibility for a project's long-term operations and management, including the coordination and implementation of a supportive services program.

The borrower, as defined in Chapter 1, must be comprised in full or in part by the sponsor or its authorized agent. The borrower must be a single-purpose entity whose sole purpose is the owning and operating of the multifamily transitional housing facility subject to the Program loan.

Sponsors must have demonstrated expertise in owning and operating multifamily real estate. The sponsor should show that it has experience with projects of similar size and scope and has completed or placed in service at least one currently operating supportive, affordable and/or other housing community of a size comparable to or larger than the proposed project.

The sponsor should possess a good reputation for reliability, service and commitment to the intended population. Based on the sponsor's involvement with low-income housing, it should be familiar with and have developed strong working relationships with local housing authorities and social services agencies.

Adverse indicators that would affect a sponsor's eligibility include:

- No previous experience,
- No established roots in the neighborhood in which the proposed project would be located,
- Evidence that any member of the proposed development team has willfully withheld any information from the VA about that team member's financial interests, either direct or indirect, in the proposed project,
- Lack of professional expertise to develop, build and operate the project successfully, or
- Some sponsors are likely ineligible without considering factors of strength and weakness, such as a non-profit entity controlled by the builder or the builder's family or by any other person or persons who would derive a profit or fee from the project.

Borrowers are eligible to receive funds under this Program provided that the sponsor/borrower and its principals and the development team members and their principals meet the following requirements:

- Are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transactions by any Federal department or agency
- Have not within a three-year period preceding this application, been:

- Convicted of, or had a civil judgment rendered against them for commission of fraud or an offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State, or local) transaction or contract under a public transaction
- In violation of Federal or State antitrust statutes; or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false Statements, or receiving stolen property; or
- Convicted of a commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false Statements, or receiving stolen property
- Are not presently indicted for, or otherwise criminally or civilly charged by a governmental entity (Federal, State, or local), with the commission of any of the offenses enumerated in the immediately preceding bullets;
- Have not within a three-year period preceding the application had one or more public transactions (Federal, State, or local) terminated for cause or default;
- Must not have any outstanding VA audit findings of concern or they are to be considered ineligible. No organization may receive assistance that has an outstanding obligation to VA that is in arrears, or for which a payment schedule has not been agreed to, or whose response to an audit is overdue or unsatisfactory;
- Have not within the past five years filed for bankruptcy; and
- Is not delinquent or in default on another government-subsidized direct or guaranteed loan, per the Debt Collection Improvement Act of 1996.

Sponsors must commit to:

- Agree to establish, before loan closing, a single-purpose entity to serve as borrower
- Through the single-purpose entity, provide transitional housing to homeless veterans
- Certify that it is able to, and intends to, maintain and operate the project in accordance with Program objectives and requirements identified in the authorizing legislation, in this Program Manual, and in any other applicable rules, regulations, statutes, and Program guidelines
- Be in compliance with all legal and regulatory requirements and not be in default with respect to any VA Program or any Federal debt

Borrowers must commit to:

- Run the proposed facility as multifamily transitional housing for a period of 20 years from the date of loan closing or until the

loan pays off, whichever is longer, unless VA determines the transitional housing for homeless veterans is no longer necessary in the particular location. In no event is the facility to be used for something other than multifamily transitional housing so long as any portion of the FFB note remains outstanding

- Develop and maintain facilities that are decent, safe, and sanitary and are in compliance with all Federal, State and local laws, local ordinances, zoning requirements, and regulations on building requirements and health and safety standards
- Provide on-site supportive services with the goal of assisting resident veterans in becoming self-sufficient
- Require that each resident seek to obtain and maintain employment
- Ensure that the occupancy and rent requirements are met
- Charge a reasonable residential occupancy fee, not to exceed 30 percent of a resident's gross monthly income
- Maintain strict guidelines regarding sobriety as a condition of occupancy
- Seek funding, or the substantial provision of property or services, by a State or local government or a nongovernmental entity. Such funding or assistance is in addition to the contemplated Program funds
- Comply with all other Program rules, statutes, and regulations as amended from time to time
- Comply with all provisions of the Program loan agreement

#### **4. Service Provider**

A unique and critical component of the Program is its requirement that the projects it finances offer supportive services that assist in moving homeless veterans into jobs and equip them to make the transition to permanent housing. The project sponsor has the responsibility for providing these supportive services. The borrower may contract with the sponsor or an experienced services coordinator to provide these services.

The sponsor must develop a supportive services plan for coordinating and managing supportive services for residents. The plan must:

- Identify an ongoing outreach plan for identifying and screening potential residents that ensure the facility is fully occupied,
- Discuss how residents are to be involved in making facility decisions that affect their lives, including how they are to be involved in selecting supportive services, establishing

individuals' goals, and developing plans to achieve these goals so that they achieve greater self-determination,

- Include an employment program designed to help the residents attain long-term employment once they leave the facility
- Clearly identify how residents are to attain and transition to permanent housing,
- Identify which supportive services are to be provided on-site and off-site, as well as who is going to provide them,
- Include a realistic budget and a strategy for obtaining funding,
- Include a realistic staffing plan that identifies staff qualification requirements,
- Identify how residents are to be provided with necessary follow-up services to help them achieve stability when transferred to permanent housing,
- Identify how the service needs of residents are to be assessed on an ongoing basis,
- Discuss how residents are to be assisted in assimilating into the community through access to neighborhood facilities, activities, and services,
- Discuss how and when the progress of residents toward meeting their individual goals is to be monitored and evaluated,
- Discuss how and when the effectiveness of the overall project in achieving its goals is to be evaluated and how Program modifications are to be made based on those evaluations, and
- Discuss how the proposed project is to be implemented in a timely fashion

The borrower during the period of a loan or a period of 20 years, whichever is greater, must conduct an ongoing assessment of the supportive services needed by the residents of the facility and the availability of such services, and make adjustments as appropriate. The borrower must provide evidence of this ongoing assessment to VA at such times as VA deems necessary, but, at a minimum, once annually in the form of a report that addresses the borrower's ability to meet the goals, objectives, measures, and special needs.

The borrower, during the period of the Program loan or a period of 20 years, whichever is greater, must have an active and aggressive outreach effort intended to ensure that homeless veterans are aware of the opportunity to obtain residency at the multifamily transitional housing facility and must make efforts to ensure that to the maximum extent feasible all beds are filled by homeless veterans. These efforts must include active liaison with VA medical centers serving the area



and with State, local, and private agencies and organizations providing services to homeless veterans.

#### 5. Underwriter

The underwriter assesses a proposed project with respect to the project's economic feasibility. This process involves comprehensive analysis of certain factors such as the creditworthiness of the applicant and the economic value of the facility as an income-producing investment. While VA has primary responsibility for project underwriting decisions, it may engage a third party to conduct the underwriting. A third-party underwriter is expected to use its experienced judgment in drawing conclusions about the proposed project and will be primarily guided by VA's underwriting guidelines contained in this Program Manual and by any additional guidelines developed for the Program.

#### 6. Servicer

The servicer administers the Program loan and promotes steps necessary to keep a loan in "good standing." VA has primary responsibility for loan servicing decisions but may engage a third party to conduct servicing tasks such as:

- Monitoring construction period progress and lender draw activity
- Collecting mortgage payments during the permanent financing period
- Remitting funds to the FFB
- Employing workout measures and other collection procedures with respect to a delinquent loan
- Corresponding with sponsors and borrowers, as appropriate

The servicer will also collect periodic reports submitted by borrowers. The reports will allow VA to assess a project's financial and physical condition as well as its compliance with the Program rules and objectives, the Fair Housing Act, and applicable civil rights laws. Such reports include, but are not limited to, annual audited financial statements and reports documenting the progress of the resident population in securing jobs and transitioning to permanent housing.

#### Overview of the Loan Guarantee Application Process

Following is a summary of the Program loan guarantee application process.

Please refer to Chapter 4 for more details on this process.

*Stage 1  
Application*

Applicants will be required to submit a completed stage 1 application to VA for initial underwriting. In stage 1, applicants will submit preliminary proposal information including:

- Project Summary
- Site Information
- Estimate of Operating Income
- Estimate of Operating Expense
- Operating Pro Forma
- Sources of Development and Operating Funds
- Uses of Funds
- Development Team Information
- Services Information

Applications will be accepted on a rolling basis until VA has committed to guarantee 15 Program loans of \$100 million in Program funds, whichever occurs first. Upon receipt of an application, VA will review the application for completeness and eligibility. In the event multiple applications are received at the same time, the applications will first be grouped into geographic areas and then ranked within their geographic area to ensure that facilities are established in the areas with the greatest need. VA will rate each application for eligibility and feasibility.

The rating criteria are based on four general areas:

- The financial feasibility of the facility,
- The quality of the facility proposed to be used for a multifamily transitional housing facility,
- The quality of supportive services to be provided at the multifamily transitional housing facility, and
- The quality of the applicant's proposed development and management team.

*Conditional  
Commitment  
Letter*

Those applications received first and deemed appropriate or those receiving the highest ranking(s) within the same Metropolitan Statistical Area (MSA) will be selected and VA will issue a conditional commitment letter to guarantee a Program loan. In its sole discretion, VA will invite applicants with proposals deemed eligible and feasible to submit a stage 2 application.

In the event of a tie among applicants within the same MSA, the applicant proposing to provide the most new beds will be selected from among those that have the tied ratings.

*Stage 2  
Application*

The stage 2 application will collect any information that may have changed since the submission of the stage 1 application. In addition, the applicant must submit more detailed site information including, but not limited to, proof of site control, appropriate zoning, a relocation plan, a draft set of plans and

updated cost estimates, financial Statements for the project or proposed sponsor, and an ALTA survey if available.

*Underwriting*

Once VA receives a completed stage 2 application from the applicant, the proposed loan will be subject to an underwriting process. As part of the underwriting process, the applicant must also submit for review a complete appraisal, prepared by a qualified appraisal company satisfactory to VA; a Phase I Environmental Report, a Phase II Environmental report if appropriate, a soils report and an Engineering Report if appropriate. These reports are to be prepared for the benefit of VA and are to be paid for by the applicant. VA or its designated agent will analyze the information provided by the borrower. If VA believes the proposed loan should be recommended for approval, the loan information is then sent to the Office of Management and Budget (OMB) for review and apportionment.

If the proposed loan is a combination construction and permanent loan, a detailed analysis of the construction budget and plans will also be reviewed in conjunction with the documentation provided above. If the analysis reveals both the budget and the plans to be reasonable and appropriate to the scope of the project and the market, the loan review process will proceed. If the cost or proposed plans are found to be unacceptable, the proposed transaction may need to be revised before moving to a firm commitment.

*Firm  
Commitment  
Letter*

If after underwriting the stage 2 application VA determines that the proposed loan meets its criteria and VA receives an approved apportionment from OMB, VA will issue a firm commitment letter to the applicant to guarantee the loan outlining conditions that must be satisfied prior to loan closing within a specified term.

*Loan Closing*

Once the firm commitment letter has been issued, VA will prepare the necessary legal documentation to document the transaction. As part of the closing process, VA requires a current survey and a lender's title insurance policy. When the sponsor has resolved all of the conditions in the firm commitment letter, VA and the sponsor must execute a regulatory agreement that governs their relationship. Once the legal documents have been signed by both parties, VA will issue a guarantee and Program funds will be made available.

In the case of a combination construction and permanent loan, the VA loan guarantee will go into effect as specified in the loan guarantee certificate. VA will permit a construction period that does not exceed 24 months. The maximum term of the Program loan shall not exceed 40 years, including the construction period, if any, and shall be based on VA's underwriting assessment. The loan terms will usually be 30 to 35 years, and up to 40 years only where circumstances warrant.

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### 3 LEGAL REQUIREMENTS

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## CHAPTER 3: LEGAL REQUIREMENTS

### *Chapter 3 Highlights:*

1. *Overview*
2. *VA Transitional Housing Legislation*
3. *Civil Rights*
4. *Fair Housing*
5. *Environmental Requirements*
6. *Other Requirements*
7. *OMB Standard Form 424*
8. *Davis-Bacon Act*
9. *Subsidy Layering Review*

### **Overview**

Projects funded under this Program must comply with all applicable Federal, State and local laws. All proposed sponsors/borrowers must have the legal authority to apply for Federal assistance and the institutional, managerial and financial capability to carry out the assumptions represented in the application. Each sponsor/borrower will be asked to self-certify their compliance with certain laws, rules, and regulations outlined on a specified Certifications and Assurances Form. The required certification is not an exhaustive list but provides the minimum assurances required under the Program. Not all certifications or assurances noted on the form may be applicable to every transaction. It will be the responsibility of the sponsor/borrower, in conjunction with their legal counsel to ensure that they are in compliance with all appropriate Federal, State, and local laws.

The fact that the project will be receiving a Federally-guaranteed loan does not exempt the project from State or local laws ordinarily applicable to similar privately funded projects.

### **VA Transitional Housing**

The borrower will carry out the object and purpose of Subchapter VI of Chapter 20 of Title 38, United States Code (38 U.S.C. §§ 2051, et seq.), which is to increase the number of beds available for homeless veterans and to promote a successful transition from homelessness to independent living by creating a safe, supportive environment for the veterans served by the Program.

### **Fair Housing**

The Fair Housing Act, 42 U.S.C. § 3604, prohibits discrimination against any person in the terms, conditions, or privileges of sale or rental of a dwelling, or in the provision of services or facilities in connection therewith, because of race, color, religion, sex, familial status, or national origin. Projects are also subject to State and local laws, but where they are in conflict, the Federal law will preempt the State or local law.

**Environmental Requirements**

The sponsor must meet certain environmental requirements related to the site. Program sponsors must provide a description of any known environmental issues that may affect the project. Requirements include the following:

- (1) An environmental review must be conducted in accordance with the National Environmental Policy Act (NEPA) prior to taking any action on a Program loan application.
- (2) A Finding of No Significant Impact (FONSI) must be issued prior to the issuance of a firm commitment.

If environmental issues are found, an operations and maintenance program may be imposed.

**Other Requirements**

Other requirements include compliance with Clean Air Act and Water Pollution Control Act; Lead Based Paint Poisoning Prevention Act (42 U.S.C. §§ 4801 et seq.); Intergovernmental Personnel Act of 1970; the Hatch Act; Wild and Scenic Rivers Act; Drug Free Work Place Act; the National Historic Preservation Act of 1966 and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§469a-1 et seq.); the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 U.S.C. §§ 4601 et seq.); Accessibility Standards for Construction; and Flood Hazard requirements.

**OMB Standard Form 424**

Applicants will be required to submit OMB Standard Form 424, Application for Federal Assistance. The form certifies that the applicant has, where applicable, given the appropriate State entity an opportunity to review the Program application, pursuant to Executive Order 12372. Executive Order 12372 is intended to foster an intergovernmental partnership and to strengthen Federalism by relying on State and local processes for State and local coordination and review of proposed Federal financial assistance.

**Davis-Bacon Act**

Sponsors/borrowers must comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C., Section 276a to 276a-7) in addition to the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§327-333) regarding labor standards for Federally-assisted construction sub-agreements. Notwithstanding the requirements of these or any other law, however, the project may accept uncompensated voluntary services performed by an eligible public or nonprofit entity (as defined by 38 U.S.C. § 2011(d)) in connection with the construction, alteration, or repair of the project. See: 38 U.S.C. § 2051(g).

**Subsidy  
Layering  
Review**

If a project is receiving assistance from the Department of Housing and Urban Development (HUD) or low-income tax credits in addition to the Program loan, the project must comply with the requirements of Pub. L. 102-550, title IX, Sec. 911, Oct. 28, 1992, 106 Stat. 3875, as amended by Pub. L. 103-233, title III, Sec. 308, Apr. 11, 1994, 108 Stat. 379 (codified in the notes section of 42 USC 3545), and any additional amendments thereto.

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**4 THE LOAN GUARANTEE APPLICATION  
PROCESS**

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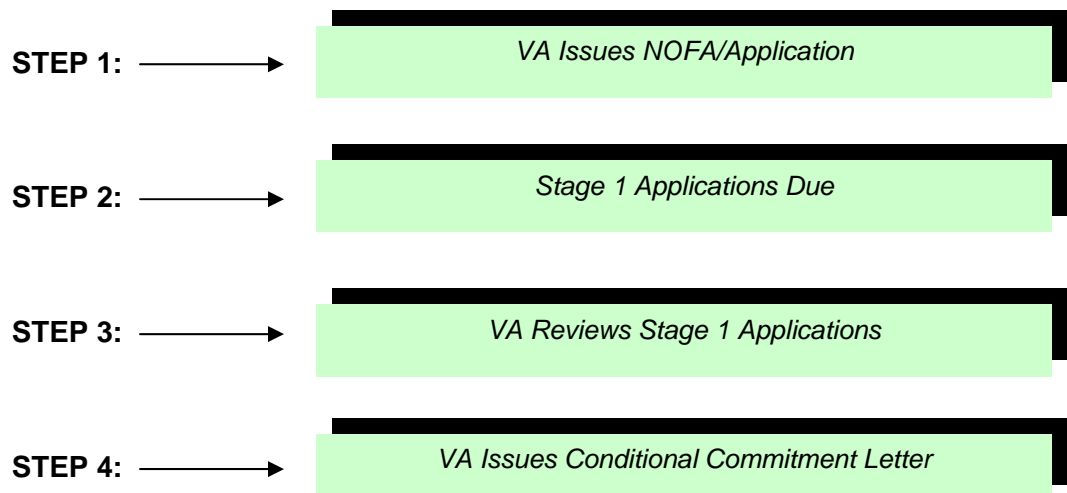


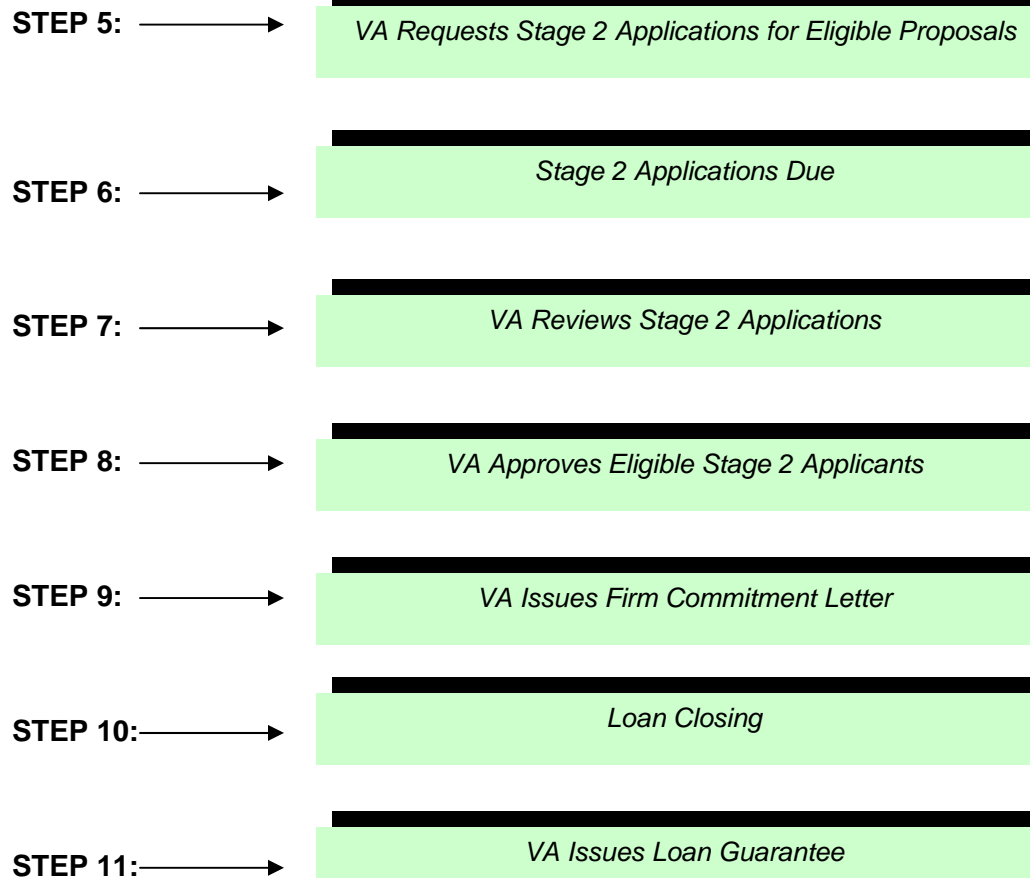
**CHAPTER 4: THE LOAN GUARANTEE APPLICATION PROCESS***Chapter 4 Highlights:*

1. *Application Process*
2. *Stage 1 Application*
3. *Conditional Commitment*
4. *Stage 2 Application*
5. *Firm Commitment*
6. *Loan Closing*

**Application Process**

The Program has a two-stage application process. Stage 1 of the application is designed to allow assessment of a project's eligibility and feasibility. VA will invite applicants whose stage 1 applications are deemed eligible and feasible to submit stage 2 applications. Stage 2 applications must include credit reports and updated financial information on the sponsor, borrower, architect, developer, property manager, supportive services provider and general contractor in addition to third-party reports such as appraisals, engineering reports and environmental assessments. The information collected in the stage 2 application is intended to enable VA to make a final determination about which applications to approve and guarantee. Applications will be received on a rolling basis. Funds will be committed on a first-come, first-served basis provided applications successfully meet all underwriting criteria. In the event multiple applications are received and subsequent evaluation is required, a rating and ranking process is in place which looks first to geographic location and second to the competitiveness and appropriateness of applications received. The steps involved in the application/loan guarantee process, from the issuance of the application to the issuance of the loan guarantee, are shown below:





### Stage 1 Application

The stage 1 application allows VA to make a preliminary determination of a project's eligibility and feasibility. There are nine sections, plus required attachments. Below is a summary of the information required in each section:

#### Section 1: Project Summary

Provides an overview of the project and its VA funding needs, including detailed information about the sponsor and the project; formal funding request; building description; unit mix and bed/bath count; description of facilities, equipment and utilities; and major project milestones.

The applicant must provide VA with the following attachments: OMB Standard Form 424, a detailed project narrative and preliminary schematics and cost estimates.

#### Stage 1 Application Requirements:

- ✓ *Project Summary*
- ✓ *Site & Market Information*
- ✓ *Estimate of Operating Income*
- ✓ *Estimate of Operating Expenses*
- ✓ *Operating Pro Forma*
- ✓ *Sources of Development and Operating Funds*
- ✓ *Uses of Funds*
- ✓ *Development Team Information*
- ✓ *Services Information*
- ✓ *Stage 1 Attachments*

### Section 2: Site and Market Information

The applicant must provide VA with photographs of the project site and surrounding area, an area need analysis, and a map of the area around the project, including amenities and public transportation services.

### Section 3: Estimate of Operating Income

The applicant must provide VA with estimates of all sources of operating income, as well as market rental rates, vacancy rates and lease-up assumptions. These estimates and assumptions must be supported by the area need analysis provided in Section 2.

### Section 4: Estimate of Operating Expenses

The applicant must provide VA with estimates of project operating expenses, including any supportive services expenses to be funded through project rents.

If supportive services are not intended to be paid through project rents, a separate budget is recommended. This section requires supporting documentation of key assumptions.

### Section 5: Operating Pro Forma

The applicant must provide VA with an overview of the project's long-term income and operating expenses, net operating income, debt service coverage ratios, and cash flows. This section of the application provides calculations based on net operating income and cash flow assumptions entered in earlier sections of the application. This section also requires the applicant to attach supporting documentation of key assumptions.

### Section 6: Sources of Development and Operating Funds

The applicant must document all sources of project development and operating funds and the status of their commitment and/or on going availability. All projects must include funding and/or the substantial provision of property or services by a State or local government or a non-governmental entity. Section 6 divides these sources into debt, grants, bridge loans, tax credit and developer equity, donations, operating and supportive services subsidies, and fee/tax waivers.

The applicant must attach evidence of funding commitments, donations, operating subsidies and fee/tax waivers with commitment letters, utility services commitment letters, memoranda of understanding, and other evidence of firm commitment of project assistance.

### Section 7: Uses of Funds

The applicant must provide VA with information on the projected uses of project funds and which sources will be allocated to cover them. There are two categories of uses: (1) construction costs and (2) permanent costs.

Construction costs may include:

- Acquisition of land and buildings
- On-site work
- Off-site work (e.g., streets, curbs)
- Construction/Rehabilitation expenses
- Professional fees (e.g., architect, engineering, accounting, legal, real estate, appraisal)
- Developer fees
- Interim costs and closing (e.g., construction interest and loan fee, insurance, title, taxes)
- Construction period reserves

Permanent costs may include:

- On-going construction costs
- Permanent financing fees and expenses
- Start-up expenses (e.g., organizational costs, furnishing, equipment, , supplies, outreach, and, except in the case of refinance, working capital)
- Syndication costs (e.g., legal fee, tax opinions)
- Project reserves (e.g., operating/vacancy/lease-up, maintenance/replacement)

#### Section 8: Development Team Information

The applicant must provide VA with information on the development team's organizational structure and capacity to develop, own, and operate a Program-funded project. Required information includes detailed information on the sponsor entity, a list of key members of the development team, credit references and past performance detail.

The application seeks supporting information about the sponsor, borrower, developer, construction company/general contractor, property manager, architect, and supportive services coordinator, and requires the applicant to submit a number of attachments attesting to the financial capability, qualifications and experience.

#### Section 9: Services Information

The applicant must provide VA with information about the project's supportive services plan. Because the provision of supportive services to help homeless veterans become self-sufficient is one of the central requirements of the Program, Section 9 asks for detailed information about the following topics: services to be provided; needs assessment and outreach strategy; service delivery strategy; coordination with other programs and service providers; performance objectives; and the services budget.

The applicant must attach an affirmative fair housing outreach plan, a supportive services program budget, and evidence of coordination with community resources.

### Conditional Commitment Letter

As noted in Chapter 2, VA will rate and rank all stage 1 applications received and offer a conditional commitment for a loan guarantee to those projects determined to have the highest ratings.

If, after the preliminary underwriting of the stage 1 application, VA determines that the proposed loan meets its criteria, VA will issue a conditional commitment letter to the applicant outlining the conditions that must be satisfied prior to loan closing within a specified term.

### Stage 2 Application

Applicants that receive a conditional commitment letter from VA after the stage 1 review and analysis will be invited to submit a stage 2 application. In the stage 2 application, applicants must update any information that has changed since stage 1, as well as provide additional documentation pertaining to the feasibility of the project. Specific requirements include:

#### Section 1: Project Summary

The applicant must update the project summary if it has changed since stage 1. In addition, the applicant must contact the appropriate State single point of contact to find out about, and to comply with, the State's process under Executive Order 12372. Applicants must provide a copy of any comments or recommendations received by State or local governments pursuant to Executive Order 12372. As mentioned earlier, Executive Order 12372 is intended to foster an intergovernmental partnership and to strengthen Federalism by relying on State and local processes for State and local coordination and review of proposed Federal financial assistance.

#### Section 2: Site Information

The applicant must update any site information that has changed since stage 1 and provide additional specific information about the proposed site, including:

- Evidence of site control
- Evidence of proper zoning

#### Stage 2 Application Requirements:

- ✓ Updated Project Summary
- ✓ Updated Site Information
- ✓ Updated Estimate of Operating Income
- ✓ Updated Estimate of Operating Expenses
- ✓ Updated Operating Pro Forma
- ✓ Updated Sources of Development and Operating Funds
- ✓ Updated Uses of Funds
- ✓ Updated Development Team Information
- ✓ Updated Services Information
- ✓ Updated Certifications
- ✓ Stage 2 Attachments

- Documentation of community support
- Relocation plan
- Phase I Environmental Report (Phase II if necessary)
- Engineering Report: VA may require that the applicant obtain an Engineering Report/Physical Needs Assessment for the project on behalf of VA. A VA-approved engineering firm, with experience in analyzing projects of similar size and scope, must complete the report.
- A draft set of plans or biddable schematics
- If available, a detailed construction budget on an AIA form
- Soils reports for new construction as needed
- Updated cost estimates
- If a rehabilitation or refinancing loan is proposed, financial statements for the facility for the last three years
- Title Report (if available, otherwise due at or before loan closing)
- ALTA (American Land Title Association) Survey – boundary survey, locating all observable improvements on the property and locating, where possible, all encumbrances of record (easements, setbacks, encroachments, flood zones), if available otherwise at or before loan closing
- Proof of insurance (if available otherwise at or before loan closing)
- Appraisal that meets the requirements set forth under the appraisal section in Chapter 6 of this Program Manual. (Note that in its sole discretion, VA may choose to order a new appraisal.)
- Certification that the proposed site is free of historical/archeological/cultural Implications

### Section 3: Estimate of Operating Income

The applicant must update any operating income estimates that have changed since stage 1.

### Section 4: Estimate of Operating Expenses

The applicant must update any operating expense estimates that have changed since stage 1.

### Section 5: Operating Pro Forma

The applicant must update any pro forma information that has changed since stage 1 and must attach additional supporting documentation on key assumptions not provided in stage 1.

### Section 6: Sources of Development and Operating Funds

The applicant must update any information pertaining to sources of development and operating funds that has changed since stage 1. In addition, the applicant must provide evidence of commitment of sources of funding (e.g., commitment letters, services commitments, memoranda of understanding, etc.).

### Section 7: Uses of Funds

The applicant must update any information pertaining to the uses of funds that has changed since stage 1.

### Section 8: Development Team Information

The applicant must update any development team information that has changed since stage 1.

### Section 9: Services Information

The applicant must update any information on supportive services that has changed since stage 1.

### Certifications

The applicant must execute the VA Certification Form, which provides but is not limited to the following certifications:

- Certification Regarding Debarment, Suspension, and Other Responsibility Matters
- Certification Regarding Drug-Free Workplace
- Certification Regarding Lobbying
- Assurances (e.g., compliance with Program requirements, compliance with Federal statutes relating to non-discrimination, compliance with provisions of the Davis-Bacon Act, compliance with environmental standards, compliance with required financial audits)
- Certification that the project will serve homeless veterans
- Certification that the project maintains strict guidelines regarding sobriety as a condition of residency.

## **Underwriting**

Once VA receives a completed stage 2 application from the applicant, the proposed loan will undergo a full underwriting review. As part of the underwriting process, the applicant must also submit for review a complete appraisal, prepared by a VA-approved appraisal company; a Phase I Environmental Report, a Phase II Environmental Report, if appropriate, a soils report and an Engineering Report or Physical Needs Assessment, if appropriate. VA's underwriter will analyze the information provided by the applicant. If VA believes the application should be recommended for approval, the application is then sent to OMB for review and apportionment.

For combination construction and permanent loans, VA will undertake a thorough review of the proposed construction contract. The review will take place before a firm commitment letter is issued in order to evaluate whether the proposed budget will be sufficient to successfully complete the proposed project for the project funds outlined in the application. If it is determined that the construction budget is unacceptable, VA will require that the applicant revise the budget and possibly obtain additional sources of funds or establish a contingency reserve to offset potential change orders and/or unanticipated expenses.

**Firm  
Commitment  
Letter**

If, after underwriting the stage 2 application, VA determines that the proposed loan meets its criteria, and upon receipt of an apportionment from OMB, VA will issue a firm commitment letter to the applicant to guarantee the loan outlining conditions prior to closing that must be satisfied within a specified period, including VA's title and survey requirements.

**Loan  
Closing**

Once the firm commitment letter has been issued, VA will prepare the necessary legal documentation to document the transaction. As part of the closing process, VA requires a current survey and a lender's title insurance policy.

*Title  
Insurance*

All mortgages must be covered by a title insurance policy. The title insurance policy must meet the following conditions:

- The single maximum risk assumed by any title insurer may not exceed 25 percent of the company's capital, surplus and statutory reserves.
- The insurer issuing the title policy must be licensed in the jurisdiction where the project is located.
- The title insurance company must be satisfactory to VA
- The policy should be in an amount equal to the original principal balance of the loan.
- The effective date of the policy should be no earlier than the date on which the mortgage is recorded.
- The policy must name VA and/or FFB as the insured.
- The title insurer must write the policy on the 1992 ALTA Lenders Policy. If the 1992 ALTA policy is not approved in the jurisdiction where the project is located, then the approved form should be utilized, subject to VA's written prior consent.

*Legal  
Documentation*

VA and the borrower must execute a series of documents that governs their relationship. Documentation includes those documents between VA and the borrower in addition to those documents required of the FFB and any other legal documents necessary for carrying out the project.



*Guarantee*

The loan guarantee will go into effect as specified in the loan guarantee certificate.

In the case of a permanent loan only, the loan closing will not occur until construction is complete and the underwriting and lease-up assumptions in the project pro forma have been met for a period of 90 consecutive days, or an escrow has been established in an amount that will equal pro forma rental income when combined with actual receipts from project operations.

In general, the minimum level of occupancy generally equates to at least 85 percent occupancy sustained for at least 90 days at the pro forma assumptions for rent and debt service coverage. In lieu of meeting the minimum level of occupancy, borrowers may establish a lease-up reserve. The lease-up reserve will be a percentage of the appraised value of the project or the total development cost, whichever is greater. This reserve is project-specific and is sized according to specific development needs during the underwriting process. If the project has not stabilized within a 24-month period or if a lease up reserve has not been established, the project will be deemed in default under the loan documents. If construction is not complete by the first principal payment date under the note, the loan will convert to permanent and be in default under the loan documents.

If tax credits are used in conjunction with the VA guarantee, the borrower must meet any occupancy requirements in the tax credit partnership agreement before VA will issue the permanent guarantee.

Chapters 7 and 8 outline the construction loan servicing process and the workout options available in the event of a default.

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**5 PROGRAM TERMS AND FEES**

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**CHAPTER 5: PROGRAM TERMS AND FEES***Chapter 5 Highlights:*

1. *Program Terms*
2. *Program Fees*

**Program  
Terms***VA Loan Guarantee Amount*

VA will guarantee 100 percent of the unpaid principal balance and accrued interest due but unpaid, of the Program loan. The original Program loan amount may equal up to 80 percent of total project costs. It is anticipated that in most cases, the project loan guarantee will cover significantly less than 80 percent of the total project cost.

*Combination Construction and Permanent Loan*

The Program will provide combination construction and permanent loan financing or permanent loan financing. Uses of Program funds may include reasonable amounts for the acquisition of furniture, equipment, supplies, or materials for the facility or, unless in the case of refinancing, for supplying the borrower with working capital relative to the facility. This is intended to encourage the development of new transitional multifamily housing in the areas of greatest need. It is assumed that applicants will apply for either a combination construction and permanent loan or a permanent loan. VA will not accept any applications solely for construction loan financing.

*Permanent Loan Term*

The term of a permanent loan shall not exceed 40 years and shall be based on VA's credit underwriting assessment. The loan terms will usually be 30 to 35 years, and up to 40 years only where circumstances warrant. Due to the intent and purpose of the Program, VA under certain circumstances is willing to extend the loan beyond a standard 30-year loan term. If the intended term is greater than 30 years, the project must have a 25 percent useful life remaining upon the expiration of the loan term. (Chapter 6 provides additional detail on appraisal requirements)

For example: If the proposed loan term is 40 years, the building must be determined to have a useful life of 53.5 years.

Determination of the term will be at VA's sole discretion and documented as part of the loan underwriting process.

### Construction Loan Term

A construction loan may be guaranteed only as part of a combination construction and permanent loan. The construction period may not exceed 24 months.

### Maximum Permanent Loan Interest Rate (base + spread)

The interest rate to the borrower will be the applicable Treasury rate plus a spread that captures the liquidity premium between Treasury securities and the private sector lending rate. The rate will fully reflect the risk inherent in a borrower or transaction when such a rate will accomplish a broader policy goal. In no case will the interest rate be less than a comparable Treasury rate. The applicable Treasury rate will be consistent with the term of the loan. For terms not readily discernable from the Treasury curve, FFB will establish a rate with a comparable term.

### Construction Interest Rate

VA will guarantee construction advances only as part of a combination construction and permanent loan. During the construction period, the interest rate will be set at the time of each disbursement of funds. The disbursement of funds (amount and timing) will be governed by the draw schedule established between the borrower and VA. If the draw schedule identifies multiple disbursements, the interest rate on each disbursement will be determined by the interest rate environment at the time of that disbursement. The borrower will have the ability to purchase an interest rate cap from FFB to help mitigate the variability of market interest rates. Pricing and terms for interest rate caps are established by FFB and documented in the note purchase agreement.

VA will convert the guarantee on a construction loan to a guarantee on a permanent loan once the underwriting and lease-up assumptions indicated in the application have been met.

### Prepayment Options

Recipients of loan guarantee commitments will have two prepayment options, one of which must be selected by the borrower at the time the funds are drawn. Please see Table 1 below. Prepayment may not result in a substantial change in the use of the facility, unless VA determines that the facility is no longer needed. Borrowers may consider the fixed-price prepayment option to avoid the interest rate risk associated with the market-value prepayment option.

**Table 1: Prepayment Options**

<i>Market Value Prepayment Privilege</i>	The standard prepayment privilege will allow the borrower to prepay at a price equal to the <b>difference</b> between (a) the price for such advance that would produce a yield for the period from the date of the purchase to such maturity date substantially equal to the interest rate that would be set on a loan from the Secretary of the Treasury to FFB to purchase an obligation having a payment schedule identical to the payment schedule of such advance for the period from the date of prepayment to such maturity date and (b) the sum of (1) the outstanding principal amount of such advance on the date of prepayment; and (2) all unpaid interest accrued on such advance through the date of prepayment.
<i>Fixed-Price Prepayment Privilege</i>	A second prepayment privilege will allow the borrower to prepay its loan either at any time or after an agreed-upon no-call period, and either at a fixed price or at par, in each case as selected by the borrower at the time the funds are drawn on its VA-guaranteed loan. This prepayment privilege will be offered to borrowers at an additional cost equal to the interest rate spread that FFB determines would be charged on an obligation issued by the Secretary of the Treasury having prepayment provisions identical to the particular prepayment provisions selected by the borrower. At the borrower's option, the additional cost for a fixed-price prepayment privilege may be paid in a single payment equal to the present value of the interest rate spread over the term of the loan.

*Refinancing a Program Loan*

Borrowers who receive a Program loan may be offered refinancing privileges at costs and on terms that are consistent with the prepayment privileges offered by FFB, provided that the facility continues to meet VA Program requirements.

**Program Fees**

**Table 2 details the fees associated with the Program. VA reserves the right, in its sole discretion, to modify, eliminate, or waive any of these fees for the Program as a whole or with respect to individual applicants/borrowers.** Please refer to Chapter 1 for the definitions of the fees identified below.

**Table 2: Program Fees**

<i>Late Fee</i>	If any monthly installment payment is not received by the Secretary of VA prior to the 11 <sup>th</sup> calendar day after the same is due (without regard to any applicable cure and/or notice period), borrower must pay to the Secretary without demand an amount equal to the lesser of (a) four percent (4%) of such unpaid sum, or (b) the maximum amount permitted by applicable law to defray the expenses incurred by the Secretary of VA in handling and processing such delinquent payment.
<i>Assumption Fee</i>	The assumption fee is a non-refundable review fee in the amount of \$3,000 and includes a transfer fee equal to one percent of the outstanding indebtedness due immediately prior to the transfer of the property or ownership interests in the property.
<i>FFB Administration Fee</i>	The FFB administration fee is equal to one-eighth of one percent per annum of the unpaid principal balance on each advance. The fee is separate from and different than the interest rate although computed in the same manner as accrued interest is computed. The fee shall be due at the same time that accrued interest is due to FFB on the note.

### Loan Conversion

Loan conversion occurs on the date the promissory note converts from construction status to permanent status. In the event the following requirements are not met prior to the loan conversion date, the borrower will be considered in default.

- **Certificate of Completion:** The construction must be completed in accordance with the construction agreement. The certificate of completion is a document issued by the architect stating that construction is completed in accordance with the construction agreement, approved plans, and specifications.
- **Certificates of Occupancy:** The construction analyst and the local jurisdiction must approve the building as ready for occupancy. Certificates of occupancy are documents issued by the local municipalities that certify a newly constructed or significantly rehabilitated building as ready for occupancy by tenants.
- **Occupancy Requirements:** The project must have a minimum physical occupancy of 85 percent as measured as of the last day of the month and an economic occupancy at a minimum level of 85 percent for 90 consecutive days at the pro forma rents. The borrower must provide rent rolls to substantiate its analysis. In the event the project fails to achieve the occupancy requirement, the borrower may establish a lease-up reserve. The lease-up reserve will be a percentage of the appraised value of the project or the total development cost, whichever is greater. This reserve is project specific and is sized according to the specific development needs

identified during the underwriting phase. If tax credits are used in conjunction with the VA loan guarantee, the borrower must meet any occupancy requirements in the tax credit partnership agreement.

➤ Financial Requirements:

- A Certified Public Accountant must certify that all costs expended for the development of the project were the actual costs. This entails itemized verification of all costs associated with construction and development of the project. If the cost certification includes any anticipated, but unpaid costs, the servicer must withhold those amounts until the costs are actually incurred. The purpose of this certification is to confirm that the project is meeting the requirements of the Program.
- The project should exhibit a DSCR of at least 1.10 for three consecutive months in order to meet the requirements for closing.
- The servicer must compare the pro forma and actual operating expenses and make a determination if the project's annualized expenses match the pro forma.

➤ Continued Compliance with VA Eligibility and Underwriting Standards: The borrower under the permanent loan must remain unchanged and remain eligible.

➤ No Borrower Delinquency: The borrower's payment on the construction loan must be current. In addition, the borrower must not have been delinquent during the previous 12 months, and the borrower must not otherwise be in default, whether monetary or non-monetary, under its construction loan. VA may use its discretion in evaluating compliance with conversion requirements.

➤ Equity Contributions: The servicer must obtain a certificate from the borrower, or other evidence satisfactory to VA, confirming that all funds reflected on the borrower's sources and uses of funds statement, including but not limited to all equity contributions to the borrower required to be paid in as of the time of loan conversion, have been received by the borrower and have been properly invested in the project as of the time of loan conversion.

➤ Certification of Conversion Questionnaire by Servicer

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**6 MINIMUM UNDERWRITING CRITERIA**

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**CHAPTER 6: MINIMUM UNDERWRITING CRITERIA***Chapter 6 Highlights:*

1. *Overview*
2. *Applicant and Project Eligibility*
3. *Development Team Experience, Capacity, and Coordination*
4. *Appropriateness and Feasibility of the Supportive Services Program*
5. *Project Site and Design Requirements*
6. *Compliance with Federal Legal Requirements*
7. *Additional Source Selection Criteria*

**Overview**

This chapter describes VA's minimum underwriting criteria, as follows:

1. Applicant and project eligibility
2. Development team experience, capacity, and coordination
3. Appropriateness and feasibility of the supportive services program
4. Financial feasibility
5. Project site and design requirements
6. Compliance with Federal legal requirements

VA will evaluate applications to assess whether they are eligible under the Program and economically feasible. As part of the underwriting process, VA will:

- Evaluate the need for the project in the respective area
- Assess the reasonableness of pro-forma assumptions including income, expense amounts and reserves as well as the overall viability of the financial model
- Evaluate lease-up assumptions, vacancy rates, and projected market rents
- Review the applicant's qualifications and ability to operate the facility in accordance with the loan terms and Program requirements
- Assess the creditworthiness of the applicant based on current financial records and financial history in relation to its ability to support the transaction
- Determine an appropriate DSCR
- Review the plans and specifications for the construction/rehabilitation of the facility

- Review all materials prepared by outside parties such as appraisers, architects, attorneys, environmental consultants, engineers, surveyors, or cost estimators
- Evaluate the market value of the facility to be used to estimate the total amount of financing the facility can support
- Review the management plan and management agreement for the facility
- Review the appropriateness and viability of the supportive services program

**Applicant and Project Eligibility**

Both the applicant and the proposed project must demonstrate an ability to meet the Program eligibility requirements described in this section in order to receive further review.

*Eligible Applicant*

An applicant must meet all of the commitments outlined in Chapter 2 (pp. 15-17). In addition, the applicant must meet the following eligibility requirements:

- The applicant must be creditworthy. Creditworthiness refers to the concept of ability, willingness and capacity to repay a loan. In assessing creditworthiness, lenders use criteria, such as DSCR, credit history and financial strength in assessing the applicant's ability to support the transaction.
- If the sponsor and property manager are the same entity, the applicant must use a related entity, which is called an IOI management company, provided the sponsor/property manager is adequately qualified and approved in advance by VA.

*Ineligible Applicant*

An applicant may not receive a VA loan guarantee if it or one or more of its principals, architect, property manager, supportive services coordinator, general contractor and subcontractors, or its principals is deemed ineligible by any of the ineligibility factors outlined in Chapter 2 (p. 16).

In addition, applicants will be considered ineligible if they or any of their principals have any outstanding VA audit findings of concern. No organization may receive assistance that has an outstanding obligation to VA that is in arrears or for which a payment schedule has not been agreed to, or whose response to an audit is overdue or unsatisfactory.

If an applicant is found to be ineligible due to its principal, architect, property manager, supportive services coordinator, general contractor or subcontractor, VA may, at its discretion, invite the applicant to resubmit an application once the applicant is in compliance with the aforementioned requirements.

*Identity of Interest*

With respect to a proposed project, applicants must identify any and all financial interests of any type, or appearance of same, that exist or will exist between or among the sponsor, borrower, property manager, suppliers of materials or services, or vendors, in any combination of relationships. At its sole discretion, VA may disqualify a project from further consideration should an inappropriate identity of interest relationship exist.

*Project Eligibility*

To meet the requirements of the stage 1 application process, the proposed project must:

- Be for an allowable purpose.
- Meet one of the following criteria as applicable:
  - Charge the minimum rent required by the subsidy program if the project has a rent subsidy, and
  - Charge rents that when combined with other sources of project revenue allow the project to cover operating costs and debt service, if the project does not have a rent subsidy. Borrowers must demonstrate that such rents are affordable to the intended residents, and may not exceed 30 of the resident's gross income.
- Must be supported by funds provided by a State or local government or a nongovernmental entity including, but not limited to:
  - Commitment of development funds such as low-income housing tax credits, Community Development Block Grants (CDBG), HOME Investment Partnerships Program for Community Housing Development Organizations, and the Federal Home Loan Bank's Affordable Housing Program funds.
  - Commitment of rent or operating subsidies.
  - Commitment of supportive services funding.
  - Donations that reduce total development costs, including: land, leasehold interests, labor, buildings, infrastructure or site improvements, services, furnishings, and other items included in the development budget, or the provision of these at below-market cost.
  - Donation of operating services, or the provision of these at below-market cost.
  - Donation of supportive services, or the provision of these at below-market cost.
  - Significant local or State government fee or tax waivers.

- Private financing such as bank loans, capital contributions, or donations.
- Be run as multifamily transitional housing for eligible homeless veterans in accordance with Subchapter IV, or Chapter 20, Title 38 of the United States Code until such time as VA determines a change in demand dictates a new target population.
- Provide on-site supportive services and counseling services (including job counseling) with the goal of assisting residents in becoming self-sufficient.
- Require that each resident seek to obtain and maintain employment.
- Maintain strict guidelines regarding sobriety as a condition of residency.

**Development  
Team  
Experience,  
Capacity,  
and  
Coordination**

The development team must demonstrate a proven track record in supportive housing facility development and operation. At a minimum, the development team includes a sponsor and an architect. The sponsor will, through the borrower, coordinate the project's financing and construction and will have primary responsibility for the project's long-term operation and management, including the coordination and implementation of a supportive services program. Borrowers who lack experience developing affordable supportive housing facilities must retain a development consultant with affordable supportive housing facility development expertise. Experienced sponsors may develop and implement the supportive services program; otherwise, they must enter into a relationship with a supportive services coordinator to do so. Borrowers must report and obtain prior written approval from VA for changes in the supportive services provider and/or property manager.

**APPLICANT**

To meet the feasibility requirements of stage 1, the core project development team must be in place. Furthermore, VA will evaluate the team's capacity as presented in the application according to the following criteria:

- The applicant and/or applicant's development consultant has a sufficient development track record.
- The applicant, or its development consultant, must have completed and placed in service at least one currently operating affordable supportive housing facility of comparable or larger size.
- If the applicant seeks a VA construction loan guarantee, the applicant or development consultant must have experience managing construction.
- VA must rate proposals relative to others based on the number of facilities the applicants have placed in service and are successfully operating, with facilities in service for more than three years receiving greater preference than those in service for three years or fewer.

- To receive consideration for facilities in existence for more than three years from the filing deadline for the application, the applicant must submit a certification from a certified public accountant that the facilities have maintained a positive cash flow for the year in which each development's last financial statement has been prepared (must be no earlier than one year prior to application deadline) and demonstrate funded reserves.
- Applicants who retain a development consultant must provide track record information for both themselves and the consultant.
- VA must also consider in its evaluation whether any of the applicant's facilities, or those of its consultant, has defaulted within two years of being placed in service, and whether any of the applicant's facilities did not complete construction because of cost overruns or other factors directly within the control of the applicant or its consultant.
- The applicant has a demonstrated track record of working constructively with local and/or State governments to develop affordable housing. Evidence may include securing government housing-related funding (including tax credits), property donation, reduction or dismissal of liens on property to be developed as affordable housing, and tax relief.
- The applicant demonstrates the financial capacity to undertake development and operation of the project.
- The applicant demonstrates stability in the composition of its board (if applicable) and staff.
- The architect has local experience designing affordable housing communities.
- The applicant has successfully managed at least one supportive housing facility of similar or larger size during the last five years or, if management is contracted, the property manager has successfully managed at least two supportive housing facilities during the last five years, one of which is of comparable or larger size.
- The supportive services plan is appropriate for the target population.
- The applicant has conducted a needs assessment that identifies the need of homeless veterans in the community and estimated the demand for a project. The needs assessment is to reflect the findings of the most recent VA CHALENG report (see "Needs Assessment" section below).

In addition to the applicant, the project development team should include an architect, a general contractor/construction company, a property manager, and a supportive services coordinator. The applicant will be required to submit for the stage 1 evaluation information regarding project development team members and their respective experience with supportive housing facilities. For each project team member, the applicant must submit as part of its stage 1 application a qualification statement or narrative and, where applicable, a resume. VA will evaluate project development team members

based on the information provided. Important factors for each project development team member include, but are not limited to, the following:

### **ARCHITECT**

The architect must have local experience designing affordable housing communities.

### **GENERAL CONTRACTOR**

The general contractor must demonstrate overall financial stability and experience in building multifamily housing of a size, scope, design, and complexity similar to those of the proposed project. VA will require that the borrower or its general contractor obtain a performance and/or payment bond equal in amount to the construction contract that is financed by the project loan to cover liability for the entire project.

### **TEAM COORDINATION FOR PROPERTY MANAGEMENT**

The applicant must submit a plan for managing the facility that defines the roles and responsibilities of the owner, property manager, and supportive services coordinator, and any other key players in project operations, and provides a workable plan for performing the functions of property, financial, and resident management.

### **PROPERTY MANAGER**

The applicant will be responsible for selecting and hiring a qualified property manager (either the applicant or a separate firm) to manage the project. As part of the stage 1 application, the applicant must submit a property manager narrative that meets the minimum criteria described below in order to obtain initial approval from VA. If the applicant decides to contract property management to another firm, the applicant must submit to VA a draft property management agreement with a qualified property manager as part of the stage 2 application. VA will issue final approval of the proposed property manager after the stage 2 underwriting process. An executed property management agreement will be required at loan closing.

During the term of the loan, the borrower may wish to change property managers. The proposed property manager must meet the guidelines set forth below. The borrower must submit a request to VA at least 60 days before the desired property manager transition date. VA must approve all changes to property managers in writing prior to the borrower terminating the existing property management contract and/or signing a property management contract with a new firm.

Property managers must demonstrate the ability to manage a project consistent with all relevant Program requirements and specifications. Listed below are two types of property managers. The differences among these types of companies relate to their ownership and not to the services that they perform.

- Self-Managed Company/Identity of Interest (IOI) Management - In this arrangement, the borrower self manages the real estate through its own management company or through an affiliate that has a relationship with the borrower, such that selection of the property manager and determination of the management fee cannot be determined through an arms-length transaction.
- Independent Fee Company – In this relationship, the property manager is neither a self-managed nor an IOI management company. The property manager is an independent, third-party firm unrelated to the borrower and earns a fee for the services it provides.

#### Minimum Criteria for Property Managers

The applicant is required to submit a property manager narrative during the stage 1 application period that supports the following minimum criteria:

1. Professional Credentials
2. Management Experience
3. Past and Current Performance, as verified by references
4. Staffing Breadth and Depth
5. Resident Relations Experience
6. Maintenance and Operational Capability and Capacity
7. Office Management Experience
8. Security Capability and Capacity
9. Marketing, Advertising, and Public Relations Skills and Experience

Each of these areas is listed below and followed by a brief description of what it entails.

1. **Professional Credentials** – Professional credentials (e.g., certification programs, licenses, memberships, accreditations) demonstrate a property manager's commitment to achievement and excellence in the property management field. The Institute of Real Estate Management offers the CPM®, ARM®, and AMO® designations. Please see the following website for more detailed information.

[http://www.irem.org/i04\\_edu\\_pub\\_be/html/educred.cfm](http://www.irem.org/i04_edu_pub_be/html/educred.cfm)

2. **Management Experience** – Property managers should demonstrate that they have management experience with multifamily housing that provides supportive services. VA will assess management experience by considering the following:
  - Number of years of relevant experience managing multifamily supportive houses
  - Organizational information for all principals and affiliates of the property manager



- Previous and current relevant housing projects that the property manager has managed
- Dun & Bradstreet search
- Credit reports
- Business References

On an exception basis, property managers that have minimal or no experience in providing a combination of multifamily housing and supportive services may be considered for the Program. In these cases, evaluation will focus on the experience of key staff members of the management company and on the experience in aspects of management that are essential to the provision of such services.

3. **Past and Current Performance** – VA will review the property manager's track record and current performance. In cases where the property manager has encountered problems in the past, VA will investigate whether the property manager was either the source of the problem or proved to intensify or prolong it, as well as whether the property manager took the necessary corrective steps to address and remedy the problem and to prevent future occurrences.

In addition, proposed property managers' records with respect to adherence to non-discriminatory marketing, resident selection, and employment practices with regard to race, ethnicity, religion, disability, age, marital status, gender, etc. will be assessed. Evidence of the property manager's familiarity with civil rights and fair housing laws should also be provided by the applicant.

4. **Staffing** – The property manager should submit a proposed staffing plan. The following statistics should be provided with respect to staffing:
- Staffing Pattern/Strategy
    - Job descriptions: title, duties, approximate salary/hourly rates, and nature of position (i.e., full- or part-time)
    - Allocation of time and salary for staff members who may be working for more than one project or working part-time for the company in a non-supervisory capacity
  - Supervisory Hierarchy
  - Decision-making Process
  - Staff Training Procedures and Policies

Furthermore, the property manager must identify a community manager to implement its policies and supervise day-to-day project operations. This individual should possess the following qualifications:



- Professional designation in housing management from a national organization that provides such accreditation (see “Professional Credentials” section above)
  - A minimum of two years experience in leading and overseeing multifamily housing projects that provide supportive services.
5. **Resident Relations** – The property manager should demonstrate its capacity with respect to the following aspects of maintaining positive resident relations:
- On-boarding Process: Resident Acceptance Criteria, Application Processing, Interviewing, Selection, Unit Assignment, and Orientation
  - Communication
  - Resident Surveys
  - Social Events
  - Building a Sense of Community
  - Confidentiality
  - Nuisance and Disruptive Behavior Management
  - House Rules and Regulations Enforcement, such as sobriety
  - Complaint Resolution
  - Rent and Arrears (Schedule, Collection, Adjustment)
  - Criteria and Procedures for Workout, Delinquency Accounts and Eviction
  - Resident Retention

A property manager’s capacity in resident relations can be demonstrated through evidence of a positive past record and/or documented process for addressing the above types of items. The property manager should outline its plans for the subject project and be prepared to discuss them in detail if requested.

6. **Maintenance and Operations** – A property manager’s capacity in maintenance and operations can be demonstrated through evidence of a positive past record on similar multi-family supportive-services projects. Valid project references will demonstrate success with the following aspects of maintenance and operations:
- Maintenance Request Turnaround Time
  - Renovation/Rehabilitation
  - Preventive Maintenance
  - Repairs/Property Preservation
  - Building Inspections

- Domestic/Janitorial Services
  - Grounds Maintenance
  - Environmental Considerations: Waste Disposal, Pest Control, etc.
7. **Office Management** – The property manager should demonstrate its capacity with regard to the following aspects of office management:
- Records Management
  - Bookkeeping
  - Accounting
  - Collections
  - Budgeting
  - Enforcement of Management Plan (see “Management Plan” below)

A property manager’s capacity in office management can be demonstrated through evidence of a positive past record, documented process, and/or internal audit records.

8. **Security** – The property manager should demonstrate its capacity with regard to the following aspects of security:
- Physical Security Presence
  - Property Access
  - Resident Security
  - Emergency Procedures
  - Room Inspections
  - Contingency Planning/Risk Management

A property manager’s capacity in security can be demonstrated through evidence of a positive past record, documented process, and/or examples of security measures they have taken on currently or previously managed properties (e.g., neighborhood watch programs, security guard patrols, doormen, front desk attendants).

9. **Marketing, Advertising, and Public Relations** – The property manager should demonstrate its capacity and experience in performing the following aspects of marketing, advertising, and public relations:
- Outreach to identify new residents and a tailored plan to identify and attract homeless veterans
  - Local market surveys to understand the rental opportunities in the neighborhood and consequently adjust rent levels and

amenities to provide residents with comparable housing options

A property manager's capacity in marketing, advertising, and public relations can be demonstrated through evidence of a positive past record and/or documented process.

#### Management Agreement

All property managers must execute a management agreement with borrowers. A management agreement is also recommended for owner-managed projects. The agreement must clearly state the responsibilities and obligations of the property manager. The management agreement also establishes the management fees, including both how they are determined and conditions for their payment. The management agreement should, at a minimum, include the following:

- Scope of Services
- Required Clauses (in regard to management fees, terms of agreement termination, prohibited "hold harmless" clause, etc.)
- Agreement Length/Term (fixed versus open-ended)

The borrower must submit the management agreement to VA as part of its stage 2 application. VA requires all property management agreements to be terminable without cause with 30 days' notice.

Although the borrower signs the property management agreement with the property manager, the borrower collaterally assigns the property management agreement to VA as part of the loan closing documents. This collateral assignment allows VA to provide direction to the property manager when there is a delinquency or foreclosure situation.

#### Property Management Fees

The borrower may pay the selected property manager a management fee for the property management services it provides. The management fee should be assessed for reasonableness when being negotiated by the borrower and property manager. Reasonableness can be determined by competitively bidding such contracts, by considering association-published market data and by looking at what other property managers in the same market offering comparable services charge. Special circumstances may result in fees that are either significantly higher or lower than those on similar projects. The borrower should assess whether or not the special circumstances justify the fee discrepancy. In most cases, a competitive fee will be based upon charging a negotiated percentage of rent collections or a combination of base fixed fee with an incentive fee component based on income and service level achievement of the property manager. At the borrower's discretion, subject to agreement, periodic reviews of the management fee may be conducted to ensure that they remain at reasonable, market-competitive levels.

**SUPPORTIVE SERVICES COORDINATOR**

The supportive services coordinator (either the borrower or a separate supportive services coordinator) who is responsible for executing and managing the supportive services program, must demonstrate experience successfully operating a supportive services plan of a size and scope similar to or larger than the plan being proposed, with maximum efficiency. In addition, the supportive services coordinator must demonstrate the ability to obtain public and private funding for the types of services programs being proposed; the ability to assess and monitor its programs; and organizational stability.

To meet the stage 1 application minimum feasibility requirements, the supportive services coordinator must:

- Have the resources and experience to implement the supportive services plan.
- Have experience operating a services plan of size and scope similar to the plan being proposed, with maximum operating efficiencies.
- Demonstrate the ability to obtain government program or private subsidy funds for services for homeless and/or other special-needs populations.
- Demonstrate ability in other fundraising activities to ensure continued organization operations with relative fiscal stability.
- Exhibit stability in the composition of its board and its staff.
- Demonstrate ability in assessing and monitoring the housing and relevant supportive services needs of homeless veterans and/or other special needs populations.
- Ensure a financial model is viable.
- Ensure the sources and uses budget presented in the application appears adequate to implement the development of the project.
- Ensure the uses budget includes reasonable preliminary estimates for potential environmental remediation and geotechnical work.
- Ensure the development sources are at least equal to uses.
- Ensure that rents are affordable to the target population. VA expects that residents are to be charged no more than 30 percent of a resident's gross income.
- Ensure the operating budget adequately covers costs and includes adequate replacement reserves.
- Ensure the supportive services budget is adequate for the proposed supportive services plan.
- Ensure the applicant's financing model reflects the requirements of the terms of the Program.
- Ensure all key trending, income, expense, and vacancy assumptions are realistic and justified.

- Ensure the disbursement of the developer fee is structured so that the project is able to be completed and leased up as planned.
- At a minimum, ensure disbursement of the developer fee is tied to a developer's completion of project milestones.
- Ensure that ten percent of the fee is held until the project reaches a stabilized occupancy for a period of three months.
- Make sure the market supports the proposed development program.
- Make sure that the borrower has a comprehensive market study conducted by a disinterested third party.
- Make sure that the report demonstrates that the proposed number and type of units meet an existing and identified need, and can be readily absorbed by the existing need for multifamily housing in the local area if and when homelessness among veterans is no longer a problem.

**Appropriateness  
and Feasibility  
of the  
Supportive  
Services  
Program**

A comprehensive, well-targeted supportive services program must be an integral part of any facility financed by the Program. Borrowers will be required to agree to provide such services at the time of origination and over a 20-year period or the life of loan, whichever is longer.

*Needs  
Assessment*

The services program must be based on a needs assessment that identifies the needs of homeless veterans in the community and estimates the demand for services. The needs assessment must incorporate the findings of the most recent VA CHALENG report. The CHALENG report is published each year and includes survey data from local governments, service providers, and formerly and currently homeless veterans about current perceptions of homeless veterans' needs, the degree of VA/community cooperation and collaboration in serving homeless veterans, and progress on local homeless veterans program initiatives. VA will use the CHALENG findings to evaluate the needs assessment. This report is available electronically at [www.va.gov/homeless/page.cfm?pg=17](http://www.va.gov/homeless/page.cfm?pg=17).

*Services Program  
Requirements*

The supportive services plan must address needs identified in the needs assessment and include a comprehensive, realistic strategy to foster self-sufficiency in the resident veterans. The plan must:

The supportive services plan submitted in the stage 1 application must address needs identified in the needs assessment and includes a comprehensive, realistic strategy to foster self-sufficiency in the residents. The plan must:

- Identify an ongoing outreach plan for identifying and screening potential residents that ensure the facility is fully occupied.
- Discuss how residents are to be involved in making facility decisions that affect their lives, including how they are to be involved in selecting supportive services, establishing individuals' goals, and

developing plans to achieve these goals so that they achieve greater self-determination.

- Include an employment program designed to help the residents attain long-term employment once they leave the facility.
- Clearly identify how residents are to attain and transition to permanent housing.
- Identify which supportive services are to be provided on-site and off-site, as well as who is going to provide them.
- Include a realistic budget and a strategy for obtaining funding.
- Include a realistic staffing plan that identifies staff qualification requirements.
- Identify how residents are to be provided with necessary follow-up services to help them achieve stability when transferred to permanent housing.
- Identify how the service needs of residents are to be assessed on an ongoing basis.
- Discuss how residents are to be assisted in assimilating into the community through access to neighborhood facilities, activities, and services.
- Discuss how and when the progress of residents toward meeting their individual goals is to be monitored and evaluated.
- Discuss how and when the effectiveness of the overall project in achieving its goals is to be evaluated and how program modifications are to be made based on those evaluations.
- Discuss how the proposed project is to be implemented in a timely fashion.

The supportive services program may include all services outlined in the definition of supportive services outlined in Chapter 1. Inpatient acute hospital care does not qualify as a supportive service.

*Services Delivery  
and Coordination*

The borrower may act as the supportive services coordinator if it has the experience and capacity to do so. Otherwise, the borrower must develop a partnership with a capable coordinator to carry out the supportive services program. The supportive services coordinator may provide the services directly or through agreements with other qualified service providers. The services coordinator should coordinate efforts with Federal, State, local, private and other entities serving homeless persons in the planning and operation of supportive services. Such entities may include shelter transitional housing, health care, or social service providers; providers funded through Federal initiatives; local planning coalitions or provider associations; or other programs relevant to the local community.

VA will evaluate the financial feasibility of proposed projects based in part on the financial criteria described in this section.

**Potential  
Funding  
Sources**

Homeless veteran housing facilities to be financed through the Program must include other funding sources. *Table 3*, shown below, lists potential sources of complementary development subsidies and operating subsidies. Many States have developed their own development and operating subsidy programs that may be used as well. In addition, one of the most effective ways a State or local government can help reduce development and long-term operating costs is to waive fees and taxes.

**Table 3: Example Potential Funding Sources to Be Used  
in Conjunction with the Program**

<b>Development Subsidies</b>	
	Low Income Housing Tax Credits
	CDBG (Community Development Block Grant) funds
	HOME funds
	Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP)
	Specialized Local or State Housing Production Funds
	State or Local Fee Waivers
	Donations of Land, Development Services, Supplies, or Furnishings
<b>Operating Subsidies</b>	
	Section 8 (through the McKinney Program administered by HUD)
	State or Local Rental Assistance Programs
	State or Local Fee Waivers
	State or Local Tax Abatements

**Financial  
Model  
Viability**

VA will analyze the proposed financial model for the facility to be sure that it is reasonable and supported by information on income and expenses for similar facilities. VA will evaluate each component of the transaction for reasonableness and accuracy in order to assess whether the proposed project can realistically support expenses and debt and remain viable for the term of the loan.

In addition to evaluating the financial components of the transaction, VA will also evaluate the credit strength of the applicant. If the project is new construction, VA will evaluate the development costs for reasonableness and the general contractor's ability to manage and complete the job. Based on the underwriting review of both the financial component of the transaction, and the applicant's credit, VA will be able to make an informed decision on whether to approve the loan application.

VA will evaluate stage 2 applications and make a decision to issue a commitment letter based on a number of factors. The stage 2 application financial feasibility criteria are as follows:

- The proposal demonstrates strong repayment ability
- VA will prioritize those proposals that represent the least risk of default to the Federal government
- VA will evaluate a number of factors, including the following, to assess repayment ability:



*Reserve  
Requirements*

- The sponsor/borrower shows strong financial capacity through net worth.
- The sponsor/borrower has a strong track record of timely debt repayment.
- The project funding sources include a large amount of equity (through sponsor/borrower contributions, tax credits, grants, etc.) and cash-flow-based debt.
- Project shows a prolonged debt service coverage ratio in excess of 1.10.
- Proposals that do not include construction and do not require public reviews or approvals are to be evaluated only on the extent to which they have secured financing commitments.
- Alternative funding is in place.
- Award letters signed by the awarding entity, authority, and/or institution, indicating rate and term, and that the commitment is not subject to any condition outside the control of the developer, must be the only acceptable evidence to receive consideration under this criterion.
- If applicable, construction financing is in place.
- Award letters signed by the awarding entity, authority, and/or institution, indicating rate and term and that the commitment is not subject to any condition outside the control of the developer, must be the only acceptable evidence to receive consideration under this criterion.
- The project must have adequate reserves as described below. **VA reserves the right, in its sole discretion, to modify, eliminate, or waive any of these reserve requirements for the Program as a whole or with respect to individual applicants/borrowers.**
  - Operating Reserves – required to cover unexpected operating expenses and/or liquidity crunches. Borrowers will be required to build up operating reserves sufficient to cover a minimum of six months operating expenses. The required reserve levels will be calculated on an individual project basis, based on potential cash flow shortfalls. Operating reserve requirements will be dependent on loan characteristics, such as loan-to-value (“LTV”) and loan term.
  - Replacement Reserves – required to increase the probability that a borrower will have sufficient funds available for capital expenditures on the properties that are secured by the VA Program loan. Reserve requirements will be approximately \$200-\$400 per unit but will be evaluated on an individual deal basis.
  - Lease-up Reserves – for construction and rehabilitation loans, a lease-up reserve account will be maintained until occupancy is sustained within the facility. In general the lease-up requirement will demand that reserves be sufficient to cover any projected



interest and operating cash flow deficits during the construction and lease-up period. Reserve requirements will vary according to individual project construction/rehabilitation loan terms and the specific development needs during the underwriting phase.

Borrowers must maintain adequate insurance to protect against financial loss due to property damage, principal/employee dishonesty or error, and any personal injuries that may occur on the property. A borrower must have:

*Insurance  
Requirements*

▪ Hazard Insurance

Hazard insurance protects against all risks of physical loss or damage including losses caused by fire, windstorms, terrorism (Terrorism Risk Insurance Act or "TRIA") and other common insurable hazards, usually excluding earthquake and flood coverage. Additional provisions include building ordinance or law coverage. Policies must be written on a per occurrence basis.

The amount of hazard insurance that will be required under the Program will be based on the aggregate value of the loan guarantee amount and the value of improvements made to the property (or the value of a newly constructed property). The insurance amount must be the higher of the loan guarantee amount or the replacement value of the improvements at the property.

Coverage is required for loss of rental income equal to a minimum of 100 percent of anticipated rents. Loss recoveries are required to be on an actual loss sustained basis. The deductible is \$25,000 for replacement values of \$100 million or less, or the lesser of \$100,000 or one percent of coverage for replacement values of \$100 million.

▪ Liability Insurance

Liability insurance policies are required for bodily injury, property damage, and personal injury and must be written on a per occurrence basis. Liability insurance is required in the following amounts:

- In properties that are equipped with elevators, are less than three stories high, and have mortgages of less than \$3 million, the coverage limit is \$3 million per occurrence and \$6 million general aggregate
- In properties that are equipped with elevators, are greater than three stories high, and have mortgages greater than \$3 million, the coverage limit is \$5 million per occurrence and \$7 million general aggregate
- For all other properties, the coverage limit is \$1million per occurrence and \$2 million general aggregate.

The deductible is the lesser of \$10,000 or one percent of coverage.

- **Umbrella Liability Insurance**

Umbrella liability provides coverage in excess of the scheduled underlying liability policies, and will drop-down to provide insurance in the event of exhaustion or reduction in the underlying policies. Coverage is required in amount of \$5 million per occurrence and aggregate and will include terms and conditions at least as broad as the scheduled underlying policy terms and conditions.

Depending on the location, legal jurisdiction, and characteristics of the facility (i.e., flood zone, earthquake zone), a borrower may also be required to purchase:

- **Builders Risk Insurance**

The borrower must provide coverage for additions, alterations, or repairs made to the property at the time of any construction, either by extension of its property damage policy or with a separate builder's risk insurance policy.

Coverage must include fire, extended coverage, vandalism, and malicious mischief insurance in an amount equal to 100 percent of the completed value of the building(s).

- **Surety Bond Insurance**

Prior to the start of construction, the underwriter should confirm that the borrower and/or the developer and contractor have obtained adequate Insurance on the project during construction. The borrower must purchase or require the developer to purchase a Surety Bond for the project. The Surety Bond should at a minimum include a performance bond and the amount of the bond should equal the total amount of the construction contract or the cost to complete the project.

- **Flood Insurance**

Flood insurance reimburses damage to property caused by storms, melting snow, hurricanes and water backup. Flood insurance premiums are determined by several factors, including the amount of coverage purchased, the deductible, the location, age, occupancy, and type of building. Flood insurance will be required if the premises is located in a Special Flood Hazard Area (Zones A and V) as designated by the Federal Emergency Management Agency ("FEMA").

The amount of flood insurance coverage required under the Program must equal to 100 percent of the replacement value (actual cash value) of the property or the maximum insurance available under the appropriate National Flood Insurance Administration program. Unless a higher minimum amount is required by FEMA or other law, the maximum deductible clause should be no more than \$5,000 per building.

- Sinkhole and Earthquake Insurance

Sinkhole insurance provides coverage for loss or damage caused by the sudden sinking or collapse of land, which is due to the action of subsurface water on soft rock formations. Earthquake insurance provides coverage for property damage caused by an earthquake or volcanic eruption. The amount of earthquake and sinkhole insurance coverage required under the Program must be equal to 100 percent of the replacement value of the property, and the policy should have a maximum deductible of five percent of the loan amount or the lowest deductible available in the area in which the premises is located. Earthquake Insurance is generally included in property coverage unless the property is located in a known seismic area (for example: CA, HI, and WA). In these instances separate Earthquake insurance would need to be acquired.

- Boiler and Machinery Insurance

Boiler and machinery insurance covers boilers, heating, ventilation, and air conditioning equipment against loss due to an accident that results in partial or complete replacement of an object. Boiler coverage is required if a steam boiler or other pressure-fired vessels are present on the borrower's property.

Coverage is required for loss of rental income equal to a minimum of 100 percent of anticipated rents. Loss recoveries are required to be on a replacement cost valuation basis.

The deductible on boiler and machinery insurance must not exceed \$5,000 and must provide direct damage coverage on steam objects with a limit of at least 25 percent of the 100 percent replacement cost of building and improvements, but in no event less than the aggregate replacement cost value of the equipment insured hereunder.

- Worker's Compensation and Employer's Liability Insurance

The borrower must have coverage that fulfills its obligations under the Worker's Compensation Act for statutory benefits, with minimum coverage of \$500,000 for employers' liability. All contractors and subcontractors to the borrower must procure and maintain similar levels of insurance.

- Employee Fidelity Bond / Employee Crime Insurance

An employee fidelity bond or employee crime insurance provides coverage or a loss of borrower's money or securities by theft or fraud of its employees. Coverage is required in a minimum amount of \$1 million for each claim.

- Rent Loss Insurance

Rent loss insurance provides coverage in the event of a major insurance loss or catastrophe at the project causing the borrower to be unable to charge rents.

Each insurance carrier must be rated A/VIII or better in A.M. Best Ratings. On all insurance policies, the Borrower must be listed as the insured, with VA listed as additional insured. Blanket policies may be used if:

- The blanket policy provides coverage that is equal to or better than coverage under a single policy
- The blanket policy lists the property in an identifiable manner (e.g., street address is listed)
- The blanket policy includes a per project / per location aggregate limit of insurance endorsement

In documenting insurance coverage, a borrower will be required to provide, within 90 days of closing, original policies, certified copies of policies, or the declaration page, as well as evidence that one full year's premium payments have been paid. The servicer must monitor that the borrower has obtained adequate coverage.

All policies are to be specifically endorsed to provide written notification to VA or its designated agent within 45 days of an event of cancellation, non-renewal, or material change to be delivered by overnight carrier.

At the time of underwriting, the underwriter should obtain a copy of the insurance policy for review. If the policy is not available, a certificate in the form of Accord 27 with Accord 25s and Accord 75 should be provided for review. VA should be named as additional insured on all insurance policies.

*Non-Residential Space*

Facilities may provide space for neighborhood retail services or job training programs. VA does not place a square footage limit on non-residential space. VA will review proposals that include such space for their overall viability, taking into account such factors as the market for the proposed space, the contribution of the space to project revenues, and the impact of the space on the project's services program. The borrower will need to provide copies of all leases or proposed leases as well as financial information on the tenant.

*Developer Fee and Disbursement Limits Policy Proposal*

A reasonable developer fee is an allowable use of Program proceeds except in the case of refinancing loans. When Program funds will be used to pay a developer fee, the fee may not exceed 12 percent of total development costs, not including the developer fee, hard or soft cost contingencies, tax credit syndication-related costs, and operating and escrow reserve accounts. For Program refinancing loans, proceeds may not be used to fund a developer fee. Development consultant fees are included in the developer fee cap.

VA reserves the right to limit annual distributions of cash flow to the borrower to serve the best interests of the residents, the facility, and the government. When determining whether to place limits on annual distributions to the project, VA will take into consideration the amount of any developer fee the project has or will receive.

*Developer Fee Disbursement*

Disbursement of the developer fee must be structured to provide an incentive to the developer to complete and lease up the facility as planned. VA recommends that disbursement be tied to completion of specific project milestones outlined at loan closing. No more than 80 percent of the total fee should be disbursed prior to completion of construction. VA will require a 10 percent retainer be held by the lender until after the loan stabilization period (i.e., stabilized occupancy of greater than or equal to 85 percent for at least ninety days).

*Area Need for Project*

There must be an area need for the proposed project. A comprehensive need analysis must demonstrate that the proposed project meets identified needs of homeless veterans and can be readily absorbed by existing demand in the local area.

*Appraisal Requirements*

VA requires an appraisal of the property that meets the requirements contained in the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 and the appropriate guidelines contained in Standards 1 and 2 of the Uniform Standards of Professional Appraisal Practices (USAP). All appraisals must include consideration of the effect of any potential contamination from hazardous wastes or from the release of nearby hazardous substances and petroleum products on the security value of the facility. The appraisal should reflect that portion of the project that is intended to secure VA debt. An applicant may submit an appraisal that was completed within six months of the application. However, at its sole discretion, VA may choose to reject the appraisal and commission a new one. In addition, VA may order an appraisal, at the applicant's expense, if one is not submitted. The appraisal may be considered an eligible cost in the project budget.

The appraiser must be MAI certified and unrelated to the sponsor and must be reviewed and approved by VA or its underwriter prior to the commissioning of the report. The appraisal should contain the three standard approaches to value that upon completion and support the proposed debt being applied for by the applicant. The report must include the useful life of the building without renovations, as well as an opinion by the appraiser that upon expiration of the loan term, the project will have a 25 percent useful life expectancy remaining, which is a requirement for any proposed loan term of greater than 30 years. For example, if the proposed loan is seeking a 40-year loan term, then the useful life of the building must be determined to be at least 53.5 years.

The appraisal must contain the following certification:

"I certify that to the best of my knowledge and belief:

- a. The statements of fact contained in this report are true and correct.
- b. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- c. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.

- d. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- e. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- f. I have made a personal inspection of the property that is the subject of this report.
- g. No one provided significant professional assistance to the appraisers signing this report, except for the Architectural and Engineering, and Cost Estimation professionals signing this document. These professionals' estimations of the subject property's dimensions and "hard" replacement costs have been relied upon by the Appraiser and Review Appraiser."

For construction loans, VA will require the project be reappraised after completion of construction to determine that the project does in fact appraise in accordance with underwriting assumptions. An update of the initial appraisal would satisfy this requirement.

*Commitment of  
Non-VA  
Funding*

The sponsor may obtain a VA loan guarantee of up to 80 percent of project costs, depending on the financial feasibility of the proposed project to carry this amount of debt. The sponsor must supplement the Program loan with funding and/or the substantial provision of property or services by a State or local government or a nongovernmental entity. Eligible support by a State or local government or a nongovernmental entity includes but is not limited to:

- Commitment of development funds including but not limited to Low-Income Housing Tax Credits, CDBG, HOME, and the Federal Home Loan Bank's Affordable Housing Program funds.
- Commitment of rent or operating subsidies.
- Commitment of supportive services funding.
- Donations that reduce total development costs, including land, leasehold interests, labor, buildings, infrastructure or site improvements, services, furnishings, and other items included in the development budget, or the provision of these at below-market cost.
- Donation of operating services or the provision of these at below-market cost.
- Donation of supportive services or the provision of these at below-market cost.
- Significant local or State government fee or tax waivers.
- Private financing such as bank loans, capital contributions, or donations.

Where a proposed project intends to utilize tax credits, the underwriter must obtain a copy of the letter of commitment from the tax credit investor or

syndicator. The letter must outline the amount paid by the investor/syndicator, the pay in schedule and any other information the underwriter deems necessary to document sufficient equity in the transaction.

These requirements notwithstanding, the sponsor is required to have a minimum equity stake of five percent (5%) of the total development costs in the project.

### **Project Site and Design Requirements**

Project site and design characteristics such as location, size, amenities, proximity to transportation and services, and environmental conditions are important to the success of a facility. They affect a property's financial success and effectiveness in reaching homeless veterans. VA will review project site and design characteristics based on the following standards.

#### *Site Control*

The applicant must have site control. The applicant must provide evidence that it has and will maintain control of the facility for which the VA guarantee is requested at loan closing and through the life of the loan. Acceptable forms of site control may be any one of the following:

- Deed or other proof of ownership
- Executed contract of sale
- Executed capital lease agreement
- Executed option to purchase or lease

#### *Site Standards And Facility Design*

During the stage 2 application review process, VA will review site plans and facility design for compliance with the following standards:

- The site is suitable for the proposed project, and the project complies with all applicable laws and codes.
- The proposed project has all required zoning approvals needed by State and local authorities.
- The proposed project complies with all applicable Federal, State and local codes, laws, ordinances, zoning requirements, and health and safety standards.
- The site has utilities and infrastructure that are adequate for the needs of the project and that meet all local building and zoning requirements.
- Soil and geological conditions are suitable for the type of construction proposed.
- The site layout adequately addresses environmental issues.
- The project's design is appropriate for the tenant population, site characteristics, and the neighborhood.
- The design features secure, well-designed unit interiors.
- The design features security and crime prevention measures, which may include but are not limited to strategically placed fencing, keyless entry systems, and security cameras.



- The project's design provides adequate space for the supportive services program. The design must consider space needs for case management of residents, meeting and/or classroom space for service and program provision, and integrated community living space.
- The project's construction cost is reasonable and construction budget is realistic and cost-efficient, based on local norms. The construction budget must include adequate funding to address all identified and reasonable foreseeable environmental geotechnical issues.

*Access to Public  
Transportation and  
Other Services*

The project must provide ready access to transportation. The applicant must demonstrate fulfillment of at least one of the following three criteria:

1. Project is located within reasonable distance of public transportation such as a bus or subway stop.
2. A project provides regular shuttle service to and from public transportation, either directly or through a partnership with a supportive service provider.
3. In areas without adequate public transportation, the borrower must provide a plan for how residents are able to meet their transportation needs and have ready access to services provided in the local community.

In addition, VA encourages the location of facilities near full-service grocery stores, recreation facilities, health services providers, religious institutions, and other institutions that will promote the resident veterans' transition to self-sufficiency.

**Compliance  
with Federal  
Legal  
Requirements**

VA will review applications for compliance with the Federal legal requirements described in Chapter 3 of this Program Manual.

**Additional  
Source  
Selection  
Criteria**

VA will have sole discretion to make guarantees under the Program. VA will use an evaluation process that is guided by the underwriting eligibility and feasibility parameters described in this chapter. At VA's discretion, additional source selection criteria may be imposed. During the pilot phase of the Program, the criteria may be different than what are noted in this chapter.



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**7 CONSTRUCTION & PERMANENT  
LOAN SERVICING**

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**CHAPTER 7: CONSTRUCTION & PERMANENT LOAN SERVICING***Chapter 7 Highlights:*

1. *Construction Loan Servicing*
2. *Transfers of Ownership*
3. *Payoffs*
4. *Late Fees*
5. *Foreclosure Process*

**Combined Construction and Permanent Loans**

The Program offers prospective applicants the opportunity to obtain financing with a VA guarantee for combination construction and permanent loan or permanent loan only financing of multifamily properties intended to house homeless veterans. This chapter will provide an overview of some of the responsibilities of VA and the borrower during the construction period. The level of monitoring of a construction loan is very intensive because this phase of development is considered to be particularly risky.

*Construction Loan Servicing*

The most effective way to mitigate risk during the construction phase is to have a strong underwriting process in place. In addition, the establishment and implementation of sound construction servicing policies and procedures is critical. The servicing agreement, already executed, details VA's expectations of the servicer. These procedures are designed to contribute to the successful construction/rehabilitation of the building(s) according to the development schedule and the construction budget. The servicer will monitor the progress of the construction and inspect the property on a monthly basis to make sure that borrower is using the loan proceeds in accordance with the note purchase agreement and promissory note as well as building plans, specifications and contract documents. In addition, the servicer is responsible for recommending disbursement of funds for project costs per the construction agreement. The construction agreement is a legal document between the borrower and the general contractor and/or the construction company.

*Permanent Loans: Construction Loan Servicing*

In cases where VA is guaranteeing only the permanent loan, the borrower and the construction lender must agree to the following requirements during the preceding construction or rehabilitation period:

- The borrower must have a consulting architect make at least monthly on-site inspections of the construction progress. The borrower may use the same third-party architect for the initial and final plans and specifications reviews and the construction period inspections.
- The consulting architect must perform a final inspection to confirm that the project has been constructed or rehabilitated in accordance with the approved plans and specifications. The architect is required to provide the borrower with a certification of completion.

- The borrower must provide VA with construction period monitoring reports (see below) and the final certification of completion.

*Reporting to VA*

During the construction or rehabilitation period, the borrower must provide regular reports to VA's servicer on the following schedule:

- At commencement of construction
- Every three months thereafter

The borrower is also required to report to the servicer any delays, delinquencies, costs overruns, risks to timely completion, and other significant issues within 10 days of learning of them.

Construction period monitoring reports shall be submitted to the servicer in a specified format. The borrower must report the construction start date and status of the following:

- Projected completion date - original and as revised
- Percentage of completion
- Amount of construction loan disbursed
- Cost to complete
- Reallocations during the period of reporting - any change orders greater than \$25,000
- Other items relevant to construction status
- Liens filed
- Lawsuits pending
- Leasing status

*Permanent  
Loan  
Servicing**Transfers of  
Ownership*

This section of the Program Manual describes the procedures for handling transfers of ownership. A transfer of ownership occurs when the borrower or a significant interest in the borrower, which is defined below, assumes legal ownership of the project. A transfer of ownership is also called a transfer of physical assets. Although this type of transfer is not considered a new loan, the proposed transferee must obtain VA approval to assume the loan prior to the legal change in ownership. The proposed assumptor must meet the same underwriting standards for a borrower on a new transaction.

All loans in the Program will permit ownership transfers with VA's prior written approval. VA has the authority to deny a proposed transfer of ownership. If a transfer of ownership occurs without VA prior written approval, these unauthorized transfers of ownership constitute a default under the loan documents. VA relies on the servicer to identify unauthorized transfers of ownership through its annual review process and through routine loan servicing. For example, the servicer might receive a hazard insurance cancellation notice as an indication of a possible change in ownership. The

receipt of a mortgage payment from an entity other than the borrower of record might be another indication of a possible change in ownership.

Types of  
Transfers  
Requiring VA  
Approval

The borrower must obtain VA's prior written approval for any of the following types of transfers:

- Transfer of the project – Any transfer of the borrower's fee simple title or ground leasehold interest.
- Transfer of ownership interests - Any of the following types of transfers of (direct or indirect) ownership interests in the borrower:
  - A transfer of any “significant interest” in the borrower or a principal of the borrower, which is defined as follows:
    - ❑ If the entity is a general partnership or a joint venture, (a) any partnership interest in the general partnership, or (b) any interest of a joint venturer in a joint venture;
    - ❑ If the entity is a limited partnership, (a) any limited partnership interest in the entity which, together with all other limited partnership interests in the entity transferred since the date of the note, exceeds 49 percent of all the limited partnership interests in the entity, or (b) any general partnership interest in the entity;
    - ❑ If the entity is a limited liability company, any membership interest which, together with all other membership interests in the limited liability company transferred since the date of the note, exceeds 49 percent of all the membership interests in the limited liability company;
    - ❑ If the entity is a corporation, any voting stock in the corporation which, together with all other voting stock of the corporation transferred since the date of the note, exceeds 49 percent of all of the voting stock of the corporation;
    - ❑ If the entity is a trust, any beneficial interest in the trust which, together with all other beneficial interests in the trust transferred since the date of the note, exceeds 49 percent of all the beneficial interests in the trust; or
    - ❑ If the borrower is a trust, or if any trust owns a significant interest in the borrower, the addition, deletion, or substitution of a trustee of such trust.
  - A transfer of any significant interest in a corporation, partnership, limited liability company, joint venture, or trust which owns a significant interest in the borrower.
  - A transfer of all or any part of any principal's ownership interest (other than limited partnership interests) in the borrower, or in any other entity that owns, directly or indirectly, through one or more intermediate entities, an ownership interest in the borrower.

Request for  
VA Approval  
of Transfer of  
Ownership  
and Loan  
Assumption

Applications for approval of a transfer of ownership and loan assumption will require the same underwriting as required with a new loan. The servicer must notify the borrower and the proposed transferee that VA will require a complete package at least 60 days prior to the proposed transfer date. See Chapter 4: Loan Guarantee Application Process.

The servicer will review the package and assess whether:

- The transferee meets all underwriting criteria
- The transferee assumes the total remaining debt
- The transferee acquires all of the project securing the guaranteed loan balance
- The priority of the existing lien securing the guaranteed loan will be maintained or improved
- The transferor retains liability
- The transferee is capable of providing supportive services that meet the Program standards

The servicer will make a recommendation to VA as to whether to approve the proposed transfer and loan assumption.

The servicer will charge the borrower a review fee of \$3,000 to compensate the servicer for the new application review. In addition, the borrower will also pay an assumption fee equal to one percent of the unpaid principal balance as a transaction cost. Both fees are non-refundable.

In accordance with the agreements between VA and FFB, VA will notify FFB of any ownership transfer or any other material events that affect the quality of FFB's security interest in the project.

Approval  
Decision

VA will review the proposed transfer and loan assumption request and provide the servicer with a written approval within 30 days of receipt of a completed application package.

Preparation of  
Documents

The servicer's legal counsel is responsible for preparing and reviewing all documents associated with the transfer of ownership. The legal fees will be the responsibility of the borrower or transferee. The documents must demonstrate:

- Proper execution and delivery of the conveyance and assumption documents
- Compliance with any legal requirements
- Perfection of the transfer and lien priority

Following the closing, the servicer will provide VA with an executed assumption agreement and a statement showing changes in the loan documents.

**Unauthorized  
Transfers of  
Ownership**

If the servicer has reason to believe there was an unauthorized transfer, the servicer must contact the borrower to determine whether an unauthorized transfer actually transpired. The servicer must notify VA of the following items within one week after confirmation of the unauthorized transfer:

- Sponsor name
- Borrower name
- Project name and address
- Names of all parties involved
- Identification/Details of unauthorized transfer
- Date(s) of unauthorized transfer(s)
- Recommendation for resolution

VA will make a decision as to whether to have the transferee go through the approval process or to disallow the transfer, leaving the loan in technical default.

***UCC Renewals***

The Uniform Commercial Code (UCC) is a comprehensive code of laws regulating important legal aspects of business and financial transactions. The UCC has been accepted by every State except Louisiana. A prescribed UCC document perfects VA's security interest in personal property associated with the real estate loan.

The servicer must retain the original stamped copies of all applicable UCC financing statements and assignments filed in connection with the personal property securing the mortgage.

The deadlines for filing UCC renewal or continuation statements vary from jurisdiction to jurisdiction. The servicer is responsible for preserving, on a continuous basis, VA's first lien security interest in the personal property. Sixty days prior to the expiration date, the servicer must monitor the expiration dates of financing statements filed and take steps to file and record the UCC continuation statements. The servicer must maintain an effective "tickler" system for tracking the UCC renewal or continuation filing deadlines applicable to all of the mortgages it services.

The servicer may request a limited power of attorney from FFB/VA that enables the servicer to execute UCC continuation statements on behalf of FFB/VA.

***Payoffs***

The borrower must notify the servicer in writing that it intends to pay off a loan according to the program financing agreement, note purchase agreement, and future advance promissory note. The servicer is responsible for the initial review of a borrower's request to prepay a mortgage in whole or in part. A servicer will accept a prepayment of principal in whole or in part only if the prepayment is made in accordance with the terms of the note (see Chapter 5 of this Program Manual for prepayment options). Before responding to any inquiry regarding the prepayment of a mortgage, the servicer must carefully

review the terms of the note to determine any prepayment restrictions and the amount of any prepayment premium to be collected if prepayment is permitted. The servicer will submit the payoff request to VA for approval, and VA will send the final approval to FFB.

Within four business days after its receipt of the borrower's notice that it intends to prepay in whole or in part, the servicer must forward the following information to VA and FFB:

- A request for prepayment approval and prepayment premium confirmation
- A letter from the borrower or the borrower's agent, addressed to the servicer, requesting prepayment approval and prepayment premium confirmation
- The project name and address
- The current unpaid principal balance
- The approximate date of payoff

VA and FFB will review the request for the prepayment and will send a written response to the servicer to confirm the payoff amounts. FFB will provide the final market-value prepayment premium or discount at the close of business two business days prior to the payoff. The FFB note purchase agreement and the promissory note refer to the prepayment premium or discount.

*Non-Performing  
Loan Servicing*

All payments are due on the first of the month. The servicer will assess late fees on the 11<sup>th</sup> or the next business day if the 11<sup>th</sup> falls on a holiday or weekend.

Late  
Payments

The servicer must contact the borrower between the first and the 10th day of the month by telephone, in person, or in writing in an effort to determine the reason for the late payment to ascertain the borrower's intentions to cure the delinquency. There are circumstances, such as an administrative error, that could result in a late payment. These circumstances are not indicative of loan trouble. The servicer may resolve the situation without further action.

In the event that the borrower has not made a payment by the 10th, the servicer will send a late notice on the 11th of the month and assess the late fee to the loan account. The servicer will use a specified Late Notice form. The servicer will call the borrower to determine the:

- Status of the payment
- Cause of delinquency
- Likelihood of reinstatement
- Plan for reinstatement
- Potential need for temporary or permanent loan workout

If, in the servicer's judgment, the delinquency situation will deteriorate without loss mitigation efforts, then the servicer must contact VA immediately via telephone and email or fax and proceed to the initial assessment of delinquency.

#### Late Fees

##### Assessment

The servicer must assess late fees of four percent of the monthly principal and interest installment on the 11th. If the servicer collects the payment before the 30th, per the servicing agreement, the servicer may retain the late fee as its compensation for successfully collecting the payment.

Late charge payments must be collected from the borrower. Late charges may not be deducted from regular mortgage payments, escrows, other impound accounts, or replacement reserves.

##### Waivers

The servicer may waive a late fee once in a 12-month period if the borrower requests a waiver in writing. The servicer must document the late fee waiver request and approval in the loan file. VA must approve waiver requests outside of this policy.

#### Watchlist

A watchlist is a specialized document that serves as an early warning and monitoring tool. Both performing and non-performing loans may be placed on the watchlist. Within the context of servicing a loan that is current, the identification of issues on the watchlist will cause the servicer to perform a closer analysis of the facility. This approach focuses the servicer's resources on the assets that need the most attention. The servicer will communicate with the borrower verbally and in writing and will request a plan to return the project to stabilized operations.

For performing loans, specific examples of indicators that the servicer will monitor include but are not limited to:

- Chronic late mortgage payments of fewer than 30 days past due
- Declining DSCR
- Declining occupancy
- Non-payment of rent by the residents

VA may impose more frequent monitoring requirements if, in its discretion or at the recommendation of the servicer, the mortgage appears to present an increased level of risk.

Non-performing loans that have completed a workout should be considered watchlist loans for 12 months following the workout.

The servicer will provide the watchlist report to VA with the quarterly financial reports. The format of the watchlist report will be a memorandum on the servicer's letterhead with the following information:



- Loan Number
- Sponsor Name
- Borrower Name
- Principal Name
- Project Name
- Current Principal Balance
- Payment Status
- Reason for Placement on Watchlist and Status of Current Delinquency Management Efforts, if any.
- Anticipated Future Actions on the Loan

The servicer will operate under an agreement that outlines its responsibilities and VA's termination options. The servicer receives a fee for its services, as described in the servicing agreement. VA can choose to replace the servicer with another loan servicer, although it is unlikely that the servicer would abandon its contractual responsibilities.

*Foreclosure  
Process*

Foreclosure is a remedy that the servicer will likely recommend to VA, based on its analysis of the loan. The servicer will consider whether workout options might be successful in returning the loan to performing status before recommending foreclosure. VA may approve initiation of a foreclosure action as soon as it is legally possible. Conditions leading to foreclosure may include:

- A situation in which a workout plan or other loss mitigation option is not possible or practical - for example, if the loan is 90 days delinquent and the borrower has not agreed to the terms of the workout presented by the servicer and approved by VA and reasonable attempts have been made to negotiate provisions of the workout plan.
- Borrower non-compliance with a workout plan – If the borrower has an approved workout plan and is not complying with certain of its key terms and reasonable attempts have been made to negotiate provisions of the workout plan, the servicer may conclude that the workout plan will not return the project to physical and financial health as originally intended.

If foreclosure is the only financially viable option, VA will take title to the project. VA will evaluate its workout and disposition options with the dual objectives of minimizing the loss to the Government and maximizing the number of beds available to homeless veterans. VA will be particularly focused on the welfare of the residents.

Foreclosure is a legal process governed by State law. In non-judicial foreclosure States, statutes address the foreclosure process. In judicial foreclosure States, the courts govern the foreclosure process. There are delays in taking possession of the project under either regime. The process to foreclose on properties in non-judicial foreclosure States may appear to be

more expeditious because the statute spells out the time frames for all actions, but the risk of borrower bankruptcies increases. Borrower bankruptcy delays foreclosure. Please refer to the following web link for a listing of all judicial and non-judicial foreclosure States:

<http://www.foreclosureassistance.com/states.html>

Pre-foreclosure Once VA approves the recommendation of foreclosure, the VA Regional Counsel having jurisdiction over the property should contact the local U.S. Attorney. In the event the U.S. Attorney declines to handle the foreclosure, legal counsel engaged by the servicer, and approved by the U.S. Attorney, handles the proceedings, keeping the servicer and VA apprised of all developments. Any local legal counsel will copy the servicer on all of its correspondence with the borrower. The servicer will compile all correspondence and provide a summary of all activity to VA and the local U.S. Attorney on a monthly basis, or more or less frequently, depending on the requirements of the U.S. Attorney.

The servicer continues to closely monitor the asset and proceeds to protect the financial and physical condition of the asset. The earliest anticipated time frame for foreclosure is when the loan is 120 days delinquent (or as permitted under State law), although the foreclosure may take 12 months or longer in the event of a bankruptcy filing.

VA will work with the servicer and others to find a qualified buyer who proposes to maintain the project's current use. If VA cannot find a buyer who will operate the project as transitional housing for homeless veterans, VA may own and operate the project while continuing to market it to prospective purchasers. If the project's revenue is insufficient to pay operating expenses, VA as owner will fund the shortfall from the financing account. Should the hiring of local legal counsel be necessary, the costs associated with foreclosure may be funded from the subsidy cost if the associated cash flow assumptions are part of the baseline subsidy estimate for the Program. This practice is consistent with both OMB guidance and other agencies' practices in similar situations.

During foreclosure, the objective is to mitigate loss by maintaining net operating income and project condition. VA has the sole authority to accelerate a delinquent note, to exercise other available remedies, and to dispose of funds or property.

The servicer will support the foreclosure process by providing:

- A collateral list for the VA guaranteed loan
- A recommendation for preserving and maximizing the value of collateral
- A property appraisal and due diligence report
- A proposed date for foreclosure
- Current financial statements of the project

- An estimate of liquidation expenses
- A recommended acquisition method by VA/FFB: deed-in-lieu of foreclosure; judicial foreclosure or non-judicial foreclosure
- Project marketing recommendations

VA's operating objectives will be to sell the project, while keeping the transition in ownership from the borrower to VA to a new owner as seamless to the residents as possible. Resident concerns will remain a high priority in all of VA's ongoing operating decisions. The servicer and the property manager carry out these decisions. In the event that the project's use changes, VA will instruct its servicer and the property manager to facilitate the placement of the residents in other suitable housing.

Post-foreclosure

Following the foreclosure, the servicer will continue to control rents and/or net operating income. The servicer and/or VA will work with the property manager to promote the stabilization of the project's financial condition.

Ongoing Management

If VA is satisfied with the performance of the property manager, the property manager may continue to collect rent and pay operating expenses. In the event that the property manager is not performing according to its contract or is not managing the project according to the VA loan Program guidelines, the servicer will, at VA's instruction, terminate the property manager. The property manager's contract will provide for a 30-day notice period. During the notice period, the servicer will work to identify three qualified property managers along with a recommendation for VA's approval.

VA will sign a contract with the existing property manager or with a new property manager. The property manager's fee will be paid, as is customary, out of the project's operations. If the revenue on a VA-owned asset is insufficient to fund all project operating expenses, including the property management fee, VA would be the source of funding for the property management contract.

Marketing and Sale of Property

The servicer will assist VA in engaging a qualified real estate broker to actively market and sell the project. The broker will present prospective offers to the servicer for evaluation and recommendation to VA. At VA's request, the servicer will engage outside counsel on VA's behalf to process the sale documents and settlement. The outside counsel's fee will be paid out of sale settlement proceeds.

Although the timeframe to market and sell the real estate will vary from project to project, the target timeframe is six months after the foreclosure. VA will take the following steps to monitor the efforts to market and sell the property:

- VA will publish a notice of sale in the Federal Register.
- The listing agreement will require the real estate broker to present each offer to the servicer on behalf of VA.

- The broker will report to the servicer on a monthly basis with the number of prospects that have inquired, toured the project, and made offers on the project. This information will be called a traffic report. Also included in the traffic report will be a discussion and summary of the broker's marketing efforts. With this type of reporting, VA and the servicer will keep close tabs on the progress of marketing and sales efforts.

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**8 LOAN GUARANTEE PAYMENTS**

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**CHAPTER 8: LOAN GUARANTEE PAYMENTS***Chapter 8 Highlights:*

1. *Overview*
2. *Guarantee Payment Triggers*
3. *Partial Guarantee Payment*
4. *Full Guarantee Payment*
5. *Recovery/Disposition Options*

**Overview**

VA will work with the servicer in an effort to resolve borrower delinquencies and avoid making a payment on VA's loan guarantee to FFB. However, in the event of a borrower's delinquency and a deficiency in the principal and interest custodial account, VA will honor its commitment as guarantor to make FFB whole under the program financing agreement. Chapter 7 contains a section called Non-Performing Loan Servicing. It is within this section that loss mitigation techniques are listed. This chapter describes the process that VA will follow to make loan guarantee payments to FFB and to recover those payments from the borrower or through loan or collateral disposition.

**Guarantee Payment Triggers**

Among its other responsibilities, VA's servicer performs loan accounting and reporting functions. If a borrower does not make its scheduled loan payment, the servicer will notify VA as part of its regular monthly reporting.

**Partial Guarantee Payment**

A delinquent loan may necessitate VA's full or partial loan guarantee payment to FFB in accordance with the program financing agreement. If there are insufficient funds available to pay FFB when the payment becomes due (i.e., if the loan is delinquent), VA will fund payment deficits to honor its guarantor obligation to FFB during workout negotiations. At the point in time when a workout or resolution option (e.g., foreclosure, note sale, deed-in-lieu) is known, VA will either make a principal curtailment or pay its full guarantee.

*Payment Deficits*

VA may elect to fund payment deficits by making semi-annual payments to FFB for some period or by a payment of the guarantee in full. In addition, VA may pay the servicing fee during the delinquency period. As described in the servicer's agreement, the servicer will provide a monthly report to VA on the status of borrower payments. If there are insufficient funds in the P&I custodial account to make the required FFB semi-annual payment when due, VA will fund the deficiency to FFB's account on the due date of the semi-annual payment in accordance with the servicer's payment schedule. Funding such deficiencies will constitute partial guarantee payments.

VA's incremental guarantee payments to FFB will continue from the first semi-annual payment after the initial delinquency to the time that VA makes the full guarantee payment or the loan is returned to performing status by the borrower. VA will continue to make partial payments on the guarantee until a resolution or disposition path is certain. At that time, if the loan remains delinquent, VA will pay the remaining balance of the guarantee so that it may take assignment of the note or title to the project. VA will pursue the path that presents the best opportunity for a full recovery. The incremental guarantee payment option may prove useful as a short-term solution while the servicer and VA are assessing workout alternatives. VA and the servicer will re-evaluate the financial benefits of this approach on a monthly basis and either confirm the use of this option or select another option.

During the delinquency management process, VA may elect to workout a loan and change certain loan terms. For example, VA may consider this option if it has been determined that there is a decline in the value of the project caused by a long-term decline in net income. The servicer may recommend this approach as a part of a workout recommendation noted in the detailed assessment of delinquency (as described in Chapter 7).

*Principal  
Curtailment*

The change in the FFB loan terms may necessitate a principal curtailment on the FFB loan in the form of a partial guarantee payment by VA. The dollar amount of the guarantee payment would be calculated based on the present value of the anticipated principal and interest payments from the time of the workout agreement among VA, the borrower, and FFB until scheduled loan payoff.

The reduction in principal on the loan might be considered a taxable event to the borrower as a forgiveness of debt. In order to preserve the status of VA's partial loan guarantee payment as a non-taxable event for the borrower, VA will place a subordinate lien on the project in the amount of the partial loan guarantee payment. The subordinate lien will be due if the project is sold, but will not require monthly payments by the borrower. This action is typically referred to as placing a "soft second" mortgage on the project because the debt does not have monthly payment requirements.

VA will not guarantee a loan that represents more than 80 percent of total project cost. The restructuring of the existing FFB debt is a shifting of debt from one first mortgage to two mortgages – a primary mortgage and a secondary mortgage. The first mortgage will have principal and interest payments at a reduced rate and the second mortgage will not have payment obligations during its term but will be payable upon sale. The second mortgage would begin to amortize upon payment in full of the first mortgage. The concept of a subordinate lien in this case is a means to record the reallocation of the FFB debt.

**Full  
Guarantee  
Payment**

A full guarantee payment is a payoff of the entire amount due to FFB. In the event of a delinquent loan, there will be insufficient funds to make the semi-annual payment on the due date to FFB. A full guarantee payment may

occur as soon as six to 12 months after the initial delinquency unless the loan returns to performing status or a satisfactory workout plan is implemented. VA will make a full guarantee payment in the event that a delinquency analysis indicates that a disposition alternative, which could include deed-in-lieu, pre-foreclosure sale, note sale or a foreclosure, will yield the best recovery to VA.

### **Recovery / Disposition Options**

Following a loan guarantee payment to FFB, VA will seek to recover its costs through one of several options. The Non-Performing Loan Servicing section of Chapter 7 addresses the operational aspects of loan workouts and note and property dispositions. In general terms, VA will work with the borrower to return the loan to performing status by implementing a workout plan. If the workout plan fails or the borrower has been non-compliant with the workout procedures, VA may pursue another option, such as foreclosure. The FFB will assign its rights under the loan to VA. The timeframes associated with each recovery/disposition option vary.

Recovery of loan guarantee payments will typically come from the asset rather than from the borrower or from personal or corporate guarantors. Recourse to the borrower is dependent on whether the loan is negotiated with recourse at the time of loan origination. If the loan is negotiated with full recourse to the borrower, recourse to an individual or an entity that has assets could be a source of recovery for VA.

The following are recovery options that VA may implement to recoup loan guarantee payments:

1. **Loan Workout**
2. **Note Sale**
3. **Deed-in-Lieu of Foreclosure**
4. **Pre-foreclosure Sale**
5. **Foreclosure**

### *Late Fees*

VA does not anticipate paying late fees because it will not allow the FFB loan to become delinquent. However, if the borrower has made all monthly payments and the servicer does not remit these funds in a timely fashion, the servicer will be responsible for the late fee payable to FFB and any other related penalties resulting from mishandling of federal funds. The borrower is not liable in this case.

In the event that VA does not remit the semi-annual payment to FFB, the FFB will assess a late fee as defined in the program financing agreement. The late fee will be assessed on the overdue amount. The late fee is equal to one and one-half times the rate on the most recently auctioned 13-week United States Treasury Bill. As long as any overdue amount remains unpaid, the



late fee will accrue. The late fee will re-adjust at each successive missed payment due date to occur thereafter, and will be applied to the overdue amount and all amounts of the accrued late fees to date. An example of the calculation of the late fee is as follows:

<b>Calculation of Late Fee Percentage</b>	
Treasury Bill Rate (13 week) as of February 23, 2007	5.035%
<i>Times Additional Fee</i>	1.5
<i>Equals Late Fee Percentage</i>	7.553%
Semi-annual payment due to FFB	\$216,800
<i>Times Adjusted Late Fee Percentage (7.553% / 2)</i>	3.776%
Late Fee Payment due to FFB	\$8.187

*Please note: The numbers used in this example are for illustrative purposes only and reflects a loan payment that is six months late.*

If the semi-annual payment due to FFB is not paid within 30 days of the due date, FFB will issue a delinquency notice to VA and initiate a payment request against the guarantee. VA will have 30 days to cure the delinquency or to honor its commitment under the guarantee. VA will have 60 days from the delinquency notice to make the payment to FFB. VA will continue to pay interest at the FFB note rate due plus any late fees during the delinquency period until the delinquency is cured or the loan guarantee payment is paid.