

Texas State Affordable Housing Corporation

Multifamily Direct Lending Program Policy

1. **Policy.** This policy has been adopted by the Texas State Affordable Housing Corporation (the “Corporation”) in order to organize and codify its administration of the Multifamily Direct Lending Program (the “Program”). The Program supports the Corporation’s mission to promote equal access to safe, decent, and affordable housing with an emphasis on serving rural and underserved markets. The Program provides long-term financing to non-profit and for-profit developers for the purpose of increasing and preserving the stock of affordable rental housing throughout the state of Texas.
2. **Source of Funds.** The primary sources of funds available to this Program are from investments made by public and private entities into the Corporation’s multifamily loan pool. The Corporation may also commit its own funds to the Program, borrow funds from public or private entities to finance loans, or act as a conduit lender for public or private financial institutions. The availability of funds is dependant upon the Corporation’s ability to find new investments in this Program, borrow funds at reasonable rates and terms, or identify secondary purchasers of loans. All loan commitments shall be conditioned upon the availability of funds.
3. **Eligible Activities.** The Corporation shall only consider proposals for developments (“Development”) involving the acquisition, construction and/or rehabilitation of affordable rental housing projects containing at least 10 housing units located within the state of Texas. Developments may be comprised of scattered-sites, senior apartments, affordable assisted living, limited-equity cooperatives, single-family rental units and other nontraditional multifamily rental housing. The Corporation reserves the right to determine the eligibility of each Development on a case by case basis.
4. **Use of Loan Proceeds.** Loan proceeds may be used for predevelopment costs, acquisition of real property, on-site infrastructure, and the construction or rehabilitation of housing units. Loan proceeds may not be used for off-site infrastructure, administrative costs, general operating costs, or developer fees and profits. Predevelopment expenses may include, but are not limited to, environmental surveys, market assessments, engineering fees, architect fees, or other expenses approved by the Corporation. The maximum amount of loan proceeds that may be used for predevelopment expenses is the greater of \$50,000 or 20% of the total loan amount.
5. **Maximum Loan Amount.** The Program shall have a maximum loan amount of \$2 million dollars.
6. **Application Process.** The Corporation shall accept applications for the Program on an ongoing basis. The Corporation will only accept applications when there are available sources of funds to the Program. In the event that there are not sufficient funds available for a Development, the Corporation shall return any application or commitment fees submitted by a borrower. The Corporation shall publish an application package to its website. Borrowers should download and complete the application pursuant to the guidelines included in the application. At a minimum, applications must be completed in the following manner:
 - a. All applications must be signed and dated as required in the application package;
 - b. No faxed or emailed copies of the application will be accepted;
 - c. The application submission fee must be submitted with the complete package;
 - d. Five (5) complete copies of the executed application and attachments must be submitted in electronic format, as described in the application package, and included with the printed application materials submitted to the Corporation;
 - e. The electronic copy of the application must be readable using Adobe PDF Reader software. Each tab or attachment must be properly bookmarked. Scanned documents must be legible and printable on standard 11” by 8.5” paper;

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- f. Oversized documents should be scanned and submitted separately on paper with the application materials. Blue prints, plans and surveys may not be on paper larger than 11" by 17", unless otherwise requested by the Corporation; and
- g. Applications must be typewritten on the printed application provided by the Corporation as handwritten applications will not be accepted.

7. Application Review.

- a. Applications will be reviewed in the order they are accepted. Applications shall be reviewed for Threshold Criteria (defined below) and, if thresholds are met, Underwriting Standards (defined below). The Corporation may delay the consideration of an application for an award if there are errors, omissions or insufficient documentation that the Corporation deems necessary to complete its review. If an application fails to fulfill the minimum threshold criteria for the Program, the application will be terminated and notification shall be provided to the borrower.
- b. Applications that complete the threshold and underwriting review processes shall be presented to the Corporation's Loan Committee (hereinafter defined). If there are insufficient funds available at the time an application is brought to the Loan Committee, the application may be held for a period of no longer than 90 days and reconsidered for funding if funds become available.

8. Threshold Criteria. All applications must meet the following minimum threshold criteria ("Threshold Criteria") to be presented to the Loan Committee:

- a. **Eligible Borrowers.** Any reputable and experienced entities engaged in affordable housing development, including non-profit or for-profit developers, partnerships, limited liability companies, municipalities, housing authorities, or other business entities as approved by the Board of Directors of the Corporation (the "Board"). The Corporation will not fund real persons or entities not registered with the Texas Secretary of State. All Borrowers must also provide or meet the following requirements:
 - i. All borrowers must be registered with the Texas Secretary of State at least 30 days prior to the execution of a loan commitment;
 - ii. All borrowers shall have a current certification of corporate status from the Texas Secretary of State and certificate of account status in good standing from the Texas Comptroller of Public Accounts;
 - iii. All non-profit borrowers shall have valid and current IRS determination letters regarding their status as a 501(c)3 or (c)4 nonprofit corporation, along with a confirmation that the corporation is registered with the Texas Secretary of State as a non-profit; and
 - iv. In addition to other requirements contained herein, borrowers must demonstrate:
 - A. An acceptable history of repaying credit in a timely manner, as agreed;
 - B. A reasonable plan for use and repayment of loan proceeds;
 - C. Payments of all taxes, license fees and other fees required by applicable statutes; and
 - D. Other requirements which may be applied on a case-by-case basis by the Corporation
- b. **Experience Threshold.** All borrowers must be able to demonstrate sufficient experience in residential construction, the development of infrastructure, and managing affordable rental housing. Proof of experience may be demonstrated through evidence of past completed developments, partnerships with experienced developers and other development experience as approved by the Corporation. At

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a minimum, a borrower must own, manage or have developed a number of rental units equal to at least one-half (1/2) of the number of units proposed to be in the Development related to the loan..

c. ***Affordability Threshold.***

i. All Developments shall meet the following minimum Affordability Standards:

- A. Reserve at least 20% of the total units in the Development for persons or families earning 50% of the area median income (“Extremely Low-Income”), as determined by the U.S. Department of Housing and Urban Development (HUD), based on the size of the unit and number of persons occupying the unit; or
- B. Reserve at least 40% of the total units in the Development for persons or families earning 60% of the area median income (“Very Low-Income”), as determined by HUD, based on the size of the unit and number of persons occupying the unit.

ii. The Corporation may require additional affordability requirements, on a case by case basis.

d. ***Development Threshold.*** To ensure that working families have safe, decent affordable housing, and to ensure long-term affordability and usability, all Developments must meet the following standards:

- i. All Developments, at the time of acquisition or completion of construction or rehabilitation, shall meet all local building codes for the jurisdiction where they are located. If the Development is located in an area where no building codes are in place or have been adopted, the Development shall meet the most recent International Residential Code, or International Building Code;
- ii. All Developments, at the time of acquisition or completion of construction or rehabilitation, shall be compliant with the Federal Fair Housing Act Accessibility Standards, Texas Minimum Construction Standards and §2306.514 (visitability guidelines) of the Texas Government Code. Borrowers are encouraged to review these guidelines with their architect and/or construction team prior to application submission;
- iii. All Developments, at the time of acquisition or completion of construction or rehabilitation, shall be compliant with the U.S. Department of Energy’s Energy Star Program, as confirmed by a certified third-party Home Energy Rating System (HERS) inspector; and
- iv. All Developments, at the time of acquisition or completion of construction or rehabilitation, shall have sidewalks, driveways and streets that are compliant with the Americans with Disabilities Act and Fair Housing Accessibility Standards.

e. ***Location Threshold.*** the Corporation shall only consider Developments for funding that meet the following minimum location standards:

- i. All Developments, at the time of acquisition, shall be located within 2 miles of a full service grocery store (30,000 sq/ft or more), pharmacy, and bank or credit union;
- ii. All Developments, at the time of acquisition, shall be located within 5 miles of a school, medical clinic or hospital, and emergency response station (fire station, police station, or EMS facility);
- iii. Developments may not be located within the 100 year floodplain as identified by the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps; and
- iv. Developments located within a County or City that is covered by the Texas Windstorm Insurance Association (TWIA) shall be required to secure windstorm insurance in accordance with the TWIA insurance policy requirements.

f. ***Environmental Threshold.*** The Corporation shall require borrowers to submit a Phase I Environmental Site Assessment, any necessary updates and/or a Phase II Environmental Site Assessment, if any. At

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loan closing, borrower must agree to an environmental indemnity, in favor of the Corporation, in a form provided by the Corporation's Counsel.

- g. **Relocation Threshold.** The Corporation shall not fund any Development which may cause the displacement of a low-income household. Borrowers may propose Developments that temporarily displace low-income households, as long as there are sufficient funds to assist the household with temporary relocation costs.
- h. **Aggregate Exposure Limits**
- i. The Corporation shall maintain a maximum aggregate exposure limit of \$3 million dollars (the "Aggregate Exposure Limit"). This policy shall limit any single borrower, or group of related entities, from receiving outstanding loans in the Program in an amount greater than the Aggregate Exposure Limit.
 - ii. Aggregate Exposure Limit risk policies are made with the understanding that in instances where the Corporation is asked to make an additional loan commitment to a strong borrower that would exceed the exposure limit, (1) the Board may permit a policy exception, or (2) the Corporation will make an effort to refer the borrower to other sources of financial assistance. Moreover, in instances where the risk exposure limit is not exceeded, but the Corporation's fund balances are exhausted, the Corporation may seek external sources of loan guarantees and will require additional requirements on the collateral position.
 - iii. For purposes of this policy, loans will be grouped by borrower and related entities. Related entities shall include those corporations, partnerships and limited partnerships where the main borrower has an equity stake. It shall also include those loans where the main borrower is a guarantor.
- i. **Underwriting Standards.** The Corporation shall use minimum underwriting standards in evaluating all applications in the Program (the "Underwriting Standards"). Underwriting Standards shall be a guide to evaluating the level of risk and feasibility of an application. Any application jointly applying for housing tax credits shall be held to the Underwriting Standards adopted by the Texas Department of Housing and Community Affairs. Underwriting Standards are subject to additional limitations imposed by the source of financing. The following Underwriting Standards shall be applied to all applications:
- i. **Debt Coverage Ratio.** All Developments must maintain, for the life of the loan or 15 years, which ever is longer, a minimum debt coverage ratio (DCR) of at least 1.15. The Corporation reserves the right to raise the minimum DCR requirement based on the source of funds to be used and the perceived risk of the transaction.
 - ii. **Loan to Value Ratio.** The maximum loan to value ratio (LTV) for loans involving low-income housing tax credits shall be 90%, based on a third party income approach appraisal. The LTV for all other loans shall be 80%, or lower based on the financial feasibility analysis and term of the proposed loan.
 - iii. **Vacancy Rate.** The Corporation shall use a minimum vacancy rate of 8% for all loans. Developments involving 100% project based section 8 vouchers may be underwritten using a vacancy rate of 5%. The Corporation may use higher vacancy rates based on the current and historical rate reported in the third party market analysis or data obtain by the Corporation.

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- iv. Expense Ratio. The Corporation shall limit the amount of operating expenses to 70% of effective gross income (“EGI”) for the life of the loan or 15 years, which ever is less. The calculation of operating expenses and EGI will be determined solely by the Corporation’s underwriting process.
1. Reserve Requirements. All Borrowers shall be subject to the following escrows and reserve accounts:
 - v. Escrows may be required for property taxes and insurance;
 - vi. Replacement Reserves in the amount of \$250/unit/year adjusted for inflation during the first 10 years, increasing to \$300/unit/year for the remaining term of the loan;
 - vii. Operating Reserves in the amount of 3% of the EGI for Development over 35 units, 5% of EGI for Development of 35 units or less.
 - j. **Collateral.** The Corporation strives to make loans that are fully collateralized through real property, letters of credit, or other financial instruments. The Corporation will consider non-recourse loans when federal housing tax credits or bonds are used in the transaction, on a case by case basis. In the case of real property, the Corporation will obtain an insured, primary or subordinate mortgage lien on the subject real estate with full recourse to borrower evidenced by a security agreement and UCC-1 filings. Assignments of rents, leases and contracts effecting real estate may also be taken. When appropriate, a secondary source of collateral repayment may also be identified (e.g., personal guarantees, assignments or other appropriate security) if the Corporation determines that its primary source of collateral could deteriorate.
 - k. **Financial Strength.** The Corporation shall analyze each borrower’s financial statements and records to determine if there are sufficient cash reserves to maintain the operations for a period equal to the term at which developer fees or profits can be distributed from net proceeds.
 - l. **Market Conditions.** The Corporation shall require the submission of a third party market analysis, and may conduct its own assessment of market conditions to determine the feasibility of the Development. Market data that will be required includes current information on demographics, population growth, employment trends, median homes prices, zoning requirements, absorption rates, and any other indicators of the market capacity for the Development.
 - m. **Community Impact.** The Corporation will evaluate the Development in the context of its organizational mission. Specifically, the Corporation will evaluate the degree of housing need in the local community and the number of units to be produced by the Development. The Corporation will give priority to housing projects that include land use restriction agreements (“LURA”), equity limitation provisions or other mechanisms that ensures the long-term affordability of housing units.
9. **Awards.** After the completion of a review for Threshold Criteria and Underwriting Standards applications shall be submitted to a loan committee (“Loan Committee”) made up of an appointee of the Board, President, Executive Vice President, Manager of Multifamily Programs and Manager of Asset Oversight and Compliance. The Loan Committee shall review a loan summary and underwriting report prepared by the Manager of Multifamily Programs and subject to the limitations below, determine whether the loan shall be approved or recommended to the Board for approval. The Loan Committee shall approve all awards or recommendations by a simple majority vote of a quorum of the members. A quorum of the Loan Committee shall be at least three members. If a loan is not approved, the Corporation shall notify the borrower, in writing, that the application was not approved. The approval of loans shall be limited in the following manner:

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- a. The Loan Committee may approve awards that use the Corporation's unrestricted funds up to but not exceeding \$250,000.
 - b. The Loan Committee may approve awards that use funding that is borrowed by the Corporation, pursuant to this policy, up to but not exceeding \$500,000.
 - c. The Loan Committee may approve awards where the Corporation acts as a conduit for another financial institution that shall purchase the loan upon closing up to but not exceeding \$1 million.
 - d. The Loan Committee shall present all other loans to the Board for consideration and/or approval.
10. **Notice of Intent.** The Corporation's President or Executive Vice President may notify a borrower in writing that the Loan Committee intends to recommend an award to the Board. The notice of intent (the "Notice of Intent") shall not be construed as an award by the Board and shall be provided only when a loan has been reviewed by the Loan Committee and has been found to meet all of the Threshold and Underwriting standards of this Policy. The Notice of Intent shall not propose any rates or terms of a loan, but may include conditions to any future awards.
11. **Loan Agreements.** The Corporation's President and Executive Vice President, shall be authorized to consent to, accept, execute and attest any such agreements, assignments, certifications, contracts, documents, instruments, releases, financing statements, letter of instruction, written requests, Notices of Intent, Commitment Letters, closing documents and other papers, whether or not mentioned herein, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Policy
12. **Structure of Loans.** The Corporation shall structure loan agreements, rates and terms using the following guidelines:
- a. **Term.** The standard length of loan agreements ("Term") is 15 years. The amortization period for loans will be based on the financial analysis and source of funds, but is generally 20 to 30 years. The Corporation's maximum term and amortization period shall be 40 years. Full payment of principal and interest must be made by the end of the Term or the maturity date ("Maturity Date").
 - b. **Interest Rate.** Interest rates for the Program shall be set at a fixed rate of interest based on the cost of funds available to the Corporation. The minimum interest rate for the program shall be at least two percent (2%) above the cost of funds to the Corporation. The cost of funds (the "Cost of Funds") shall be calculated using the blended interest rates of all sources to be used in the financing. Loans not paid in full at the Maturity Date shall accrue interest at a rate of fifteen (15.00%) annually beginning 60 days after the Maturity Date has passed.
 - c. **Payment.** Payments of principal and interest shall be paid on the first of each month from revenues of the Development (or from any guarantees if revenues are not available) in accordance with an amortization schedule as discussed under "Term" above. Interest payments shall be calculated on the principal balance of the loan outstanding from time to time and based upon the actual number of days elapsed divided by 360. Payment of all principal and interest, if any, shall be made from financial guarantees within 30 days after the Maturity Date in the event that full payment has not been otherwise made.
 - d. **Subordination.** On a case by case basis, the Corporation may agree to subordinate the payment of its loan to that of one or more senior loans. In addition, the Corporation may also agree to allow a loan to only be payable from net cash flow in specific circumstances. All decisions regarding subordination will first be made by the Loan Committee, however, if the terms of subordination are

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not typical in the marketplace for a particular type of transaction, the determination will be provided by the Board.

- e. **Late Payments, Delinquencies, and Defaults.** The Corporation shall maintain complete records of the status of each loan, including any late payments, delinquencies or defaults. Penalty fees may be assessed in compliance with loan documents and state laws. Each of the following events shall be considered events of default for the purpose of the loan documents:
- i. In the event that loan payments are more than five (5) days late, a notice of default will be forwarded to the borrower.
 - ii. If payment has not been received eight (8) days after the due date, a loan officer or other staff person will follow up with a telephone call. Depending on the response to the telephone call, a site visit may be arranged.
 - iii. By the 15th day of a late payment, the loan monitoring staff must make a full report to the Board, at the next regularly scheduled Board meeting, detailing the nature of the problem and making recommendations. Recommendations may include, but are not limited to:
 - A. Correspondence or meeting with members of the borrower's managers and/or officers;
 - B. An inspection of borrower's operations, including their books;
 - C. The sending of a second notice of default;
 - D. The sending of late charge notice;
 - E. The development of a re-structuring plan; and/or
 - F. Waiting for an additional period without major new action.
 - iv. If by the 30th day, no payment has been received; a default committee consisting of a loan officer, Executive Vice President, President, Corporation's General Counsel, and Board Chair (the "Default Committee") will be convened. The committee will examine the situation, based upon a meeting with the borrower and a detailed account of operational information. The Default Committee may carry out the following actions:
 - A. A loan re-structuring;
 - B. A strategy to sell the loan;
 - C. A notice of intention to foreclose; and/or
 - D. A further forbearance of action based upon certainty of repayment and confidence of operations.
- f. **Foreclosures.** Notwithstanding the timeline provided above, in the event the Corporation determines, in its sole discretion, that a foreclosure action is necessary to protect its security for the loan, prior to the 30th day after a payment default, the Corporation may initiate foreclosure proceedings prior to such date. The Corporation shall consider foreclosure as a last option when considering actions on loans in default. In instances of foreclosure, the Corporation shall make a detailed assessment of the situation to the Board. The Corporation shall produce a foreclosure assessment that will include an analysis of the plans and consequences of foreclosure. All foreclosure proceedings and actions shall be done in such a way as to provide maximum protection for the Corporation and for the interest of affected parties, especially the current tenants in the Development. In the event of a collateral liquidation, every attempt will be made to cover the cost of the Corporation's loan principal, accrued

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interest, if any, and the transaction costs of liquidation (i.e. legal, marketing, staff time). The Corporation may be bound, from time to time, by additional limitations under a subordination agreement with other lenders involved in a transaction.

13. **Commitment of Funds.** The Corporation shall provide to a borrower, who has been approved for a loan by the Loan Committee, with a letter detailing the commitment of funding made by the Corporation (“Commitment Letter”). The Commitment Letter shall detail the rates, terms and other conditions of the loan, as well as, any due diligence materials or documents that must be submitted by the borrower prior to closing. The Commitment Letter shall set timelines for the execution of the commitment, payment of fees and closing of the loan. The borrower shall be solely responsible for fulfilling the requirements of the Commitment Letter. The Corporation shall have the right to terminate any Commitment Letter if it becomes aware of any changes or adverse events that may conflict with assumptions made during underwriting or the financial position of the borrower.
14. **Fees.** The Corporation shall be authorized to charge fees, penalties or other monetary accruals in the following manner:
 - a. **Application Fee** The Corporation may require the payment of an application fee (the “Application Fee”) to cover the cost of document preparation, data entry, staff review and other expenses as necessary. The Application Fee shall be no greater than \$500, and may be waived for non-profit applicants. An application will not be accepted by the Corporation unless it is accompanied by the appropriate Application Fee.
 - b. **Commitment Fee** The Corporation may require the payment of a commitment fee (the “Commitment Fee”) to cover the cost of document preparation, staff time and other expenses as necessary. The Commitment Fee shall be in a minimum amount of \$2,500, and may be increased on a case by case basis, if the Corporation determines that a loan will require additional services or expenses due to the structure or nature of the loan. A borrower shall pay the Commitment Fee concurrently with the borrower’s execution and delivery of the Commitment Letter.
 - c. **Closing Fee** The Corporation may require the payment of a closing fee (the “Closing Fee”) to cover the cost of document preparation, filing fees, staff time and other expenses as necessary. The Closing Fee shall be in a minimum amount of \$2,500, and may be increased on a case by case basis, if the Corporation determines that a loan will require additional services or expenses due to the structure or nature of the loan. A borrower shall pay the Closing Fee concurrently with the borrower’s execution of the Corporation’s loan documents; and
 - d. **Attorney Fees** The Corporation may require the payment of attorney fees (the “Attorney Fee”) to cover the cost of legal counsel. The Attorney Fee shall be a minimum of \$5,000, and may be increased on a case by case basis, if the Corporation determines that a loan will require additional services or expenses due to the structure or nature of the loan. A borrower shall pay the Attorney Fee concurrently with the borrower’s execution of the Corporation’s loan documents. The Attorney Fee may be included in the principal amount of the loan.
15. **Loan Closing.** Borrowers shall receive instructions with the Commitment Letter that detail the required steps and actions necessary to close on their loan. The Corporation shall require at a minimum the following documentation prior to closing:
 - a. Appraisal;
 - b. Site and Development or Rehabilitation Plans;
 - c. Final Budget and Timeline;
 - d. Financial Statements;

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- e. Certificates of Corporate Status;
- f. Title Insurance;
- g. Surveys;
- h. Insurance;
- i. Legal Opinions;
- j. Fees and Expenses;
- k. Proof of Zoning;
- l. Executed Loan Documents; and
- m. Other documents as required by the Corporation.

16. Construction Loan Administration.

- a. **Draw Requests.** Borrowers will be required to submit a request for a construction loan advance on a standard AIA form for hard costs. The form will be signed by the borrower and project architect. Other project costs (soft costs) will be listed on a "to-date" development budget in the format approved by the Corporation. Contractor/Supplier invoices may be required in some cases where construction and fiscal management is a concern.
- b. **Site Inspections.** All requests for loan funds involving hard costs will require an inspection. The Corporation shall engage, on a project-by-project basis, with an experienced construction supervisor or architect to act as the Corporation's inspector. The inspector will perform a site visit for each hard cost advance to evidence work-in-place, conformity with plans, specifications and building standards. The inspector may be required to submit a written report; at a minimum the inspector will sign the AIA form from the borrower. The cost of inspections shall be paid by the borrower, from loan proceeds if desired. The Corporation, on a case by case, may waive its right to an inspector if the Corporation's lien position is subordinate to a senior lender who will monitor and provide construction inspections during the course of construction.
- c. **Advances to Borrower.** The Corporation shall make advances based on a satisfactory report from the inspector and the borrower's continued compliance with the terms and conditions of the loan. The Corporation may withhold 10% of the total construction loan amount until all liens have been cleared from the subject property.
- d. **Interest Reserve.** Whenever possible, the Corporation will require the borrower to pay interest from other project sources or unrelated income. In instances where other sources are restricted, and/or unrelated income is unavailable or unreliable, the Corporation may permit a loan to self-fund accrued interest.
- e. **Third Party Lenders/Funders.** When possible, the Corporation will require other sources of funding to a Development to fund prior to the Corporation's loan. When pro-rata funding occurs, the Corporation shall seek to administer other funding sources. The Corporation shall seek to hold all construction retainage when possible.

17. **Acquisition Loan Administration.** The Corporation may provide up to 100% of its loan funds for the purpose of acquiring real property if the Corporation's financial interest in property does not exceed 50% of the total projected development costs. In the instance that the Corporation does provide proceeds for acquisition, the borrower shall provide the Corporation with a complete loan closing document package at least 7 days prior to the anticipated loan closing date. The Corporation may deposit the full amount of acquisition loan proceeds into an escrow account with the mortgage title company not more than 5 days

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prior to the closing of the loan. If delays in closing occur and exceed 5 days, the full amount of funds placed in escrow shall be returned to the Corporation immediately upon the Corporation's request.

18. **Loan Loss Reserves.** The Corporation shall establish a reserve fund to cover the cost of financial losses to the loan portfolio and for the repayment of funds borrowed by the Corporation to fund loans ("Loan Loss Reserve"). The amount of Loan Loss Reserve shall be equivalent to at least 5% of the principal balance of all outstanding loans, or at least 3 months of payments on borrowed funds, whichever is greater. The Corporation may maintain a higher amount of Loan Loss Reserves based on an assessment of the loan ratings of all loans in the Program.
19. **Loan Ratings.** The Corporation shall establish a loan rating policy in order to track the level of risk and strength of its portfolio in the Program. The loan rating policy will look at actual operations and repayment performance, strength of collateral (loan to value ratio), strength of repayment capacity (current ratios, debt coverage ratio, etc.) and management capacity. The loan rating policy shall be updated annually.
20. **Portfolio Reporting Requirements.** The Corporation's Board shall receive a quarterly report updating the status of the Program's loan portfolio and performance. This quarterly report shall be known as the "capital report", and is intended to provide sufficient information to the Board in order that they can make funding allocation and policy decisions. The quarterly Capital Report will contain current information on loan balances, rates and maturities, as well as senior and subordinate note balances, rates and maturities. Additionally, the Capital Report shall include a complete listing of all loans with loan number, borrower, outstanding amount, rate, maturity date and any other pertinent information requested. The Capital Report shall be available for inspection by note purchasers and the general public on the Corporation's website.
21. **Loan Monitoring Policy.** The Corporation shall establish and maintain loan monitoring policies in order to maintain the Corporation's security interest and to assist borrowers in organizational growth and asset management. The Corporation shall maintain data on the regularity of payments, annual financial statements of borrowers, status of development from site inspections, and updates on the collateral worth. The Corporation may provide technical assistance, when necessary, to borrowers. The nature and frequency of loan monitoring shall be based on loan type, the life cycle of the loan (construction period, business cycle, etc.), performance, and overall risk evaluation, and shall be included in the loan agreement for each loan.
22. **Loan Monitoring Report.** Annually, the Corporation shall produce a loan monitoring report on each outstanding loan in its portfolio and provide an analysis of the value of collateral (the "Annual Loan Monitoring Report"). This evaluation shall be done through staff analysis of comparable values, and does not, except in workout situations, require an appraisal report. The Annual Loan Monitoring Report shall be presented to the Board and shall be available to investors and note purchasers. The Annual Loan Monitoring Report shall have a listing of each loan in the portfolio.
23. **Monitoring Social Impact.** The Corporation shall compile a report on the social impacts of the program (the "Social Impact Report") annually. The Social Impact Report shall be presented to the Board and include the following data:
 - a. The geographic distribution of loans;
 - b. The type of loans;
 - c. The numbers and type of housing units created;
 - d. The economic and demographic characteristics of households; and
 - e. The leverage capacity of loans.

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24. **Conflict of Interest Policy.** The Corporation, in the process of reviewing and awarding loans under this Program, shall adhere to the conflict of interest policies set by the Corporation's Board , pursuant to §2306.5545 of the Texas Government Code. Additionally, at or prior to each meeting of the Board, each staff member and Board member will disclose the nature of any potential conflicts of interest that would be created by their participation in the discussion of a particular loan, application, membership or policy.
25. **Board Waivers.** The Corporation's Board may consider and approve a waiver to these policies at any time. Borrowers may request that the Board consider a waiver of these policies as a public meeting of the Board.