



2022 Texas Housing Impact Fund Policy and Guidelines

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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 Texas Housing Impact Fund (the “Fund”). The Fund 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 Fund provides financing to non-profit and for-profit developers for the purpose of increasing and preserving the stock of affordable housing throughout the state of Texas.

2. SOURCE OF FUNDS. The primary source of monies available to the Fund are investments made by public and private entities into the Fund’s loan fund. The Corporation also commits its own funds to the Fund and borrows funds from public or private entities. All loan commitments will be conditioned upon the availability of funds.

3. ELIGIBLE ACTIVITIES. The Corporation uses the Fund for:

- a. Construction Loans: Short-term financing for acquisition, construction or rehabilitation of affordable multifamily rental housing;
- b. Permanent Loans: Long-term financing for affordable multi-family rental housing that has been newly built or rehabilitated;
- c. Revolving Lines of Credit: Financing for the acquisition, construction and/or rehabilitation of single family homes for sale to households of low and moderate income; and
- d. Any other purpose deemed suitable under the Fund policies and approved by the Corporation’s Board.

4. USE OF LOAN PROCEEDS. Loan proceeds may be used for the 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. Eligible predevelopment and soft cost expenses may include, but are not limited to, environmental surveys, market assessments, engineering fees, architect fees, or other expenses approved by the Corporation.

5. APPLICATION PROCESS. The Corporation accepts loan applications for eligible activities (“Developments”) on an ongoing basis. The Corporation will 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. The application submission fee must be submitted with the complete package;
- c. Applications must be typewritten on the printed application provided by the Corporation. Handwritten applications will not be accepted: and

- d. Electronic copies of an 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.

6. APPLICATION REVIEW.

- a. Applications will be reviewed in the order they are received. Applications will 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 Fund, the application will be terminated and notification will be provided to the borrower.
- b. Applications that pass the threshold and underwriting review processes will be presented to the Corporation's Loan Committee (defined below). 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. After 90-days if funds are not available, the Corporation will return the application or commitment fees submitted by a borrower.

7. 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 entity engaged in affordable housing Development, including non-profit or for-profit builders, developers, partnerships, limited liability companies, municipalities, housing authorities, or other business entities as approved by the Board of Directors (the "Board") are eligible to apply for funding. 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 must have a current certification of corporate status from the Texas Secretary of State and certificate of account status from the Texas Comptroller of Public Accounts;
 - iii. All non-profit borrowers must 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. Borrowers must demonstrate:

- A. An acceptable history of repaying credit in a timely manner;
 - B. A reasonable plan for use and repayment of loan proceeds;
 - C. Payments of all taxes, license fees and other fees required by applicable state and federal 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 marketing of affordable 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 a minimum, a borrower must have developed a number of homes or housing units equal to at least one-half (1/2) of the number of units in the borrower's application. The Corporation may consider the experience of a borrower's staff and board in determining the borrower's experience.
- c. *Affordability Threshold.* Affordability requirements will be based on the Corporation's statutory requirements and reasonable targets above the statutory minimums. Affordability requirements are different for Developments that target homeownership versus rental opportunities for low-income households. At a minimum the Corporation will require properties targeting rental housing to:
- i. Reserve at least 20% of the total units in the Development for persons or families earning 50% of the area median 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
 - ii. Reserve at least 40% of the total units in the Development for persons or families earning 60% of the area median income, as determined by HUD, based on the size of the unit and number of persons occupying the unit.

For Developments targeting the renovation or construction of homes for sale to low-income households the Corporation will require the following affordability standards:

- iii. At least 51% of the homes renovated or constructed using a revolving line of credit will be sold to households earning 80% or less of the area median income ("AMI") or Statewide Median Income, whichever is greater. The Corporation may require a minimum number of households earning 80% or less of the AMI ("Qualified Households") based on the percentage of funds provided by the Corporation, the nature of the investment, and any other factors the Corporation deems necessary (the "Affordability Requirement").
- iv. All for-sale housing developed, regardless of whether the buyer is a Qualified Household or not, must be financed with fixed rate loans. Qualified Households

must obtain homebuyer training from a certified Housing Counseling Agency. No homes may be sold with the use of non-profit or developer grants or down payment assistance that exceeds 5% of the appraised value of the home, unless otherwise approved in writing by the Corporation. Borrowers that do not fulfill Affordability Requirements will be subject to additional fees, fines or payments as determined by the loan agreement.

- v. A Land Use Restriction Agreement (the "LURA") or other restrictive covenant may be recorded with each housing unit and/or parcel of land developed.
- d. *Development Threshold.* To ensure that working families have safe, decent affordable housing, and to ensure long-term affordability and usability, homes must meet the following standards:
- i. All Developments, at the time of acquisition or completion of construction or rehabilitation, must 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 must meet the most recently published International Residential Code, or International Building Code;
 - ii. All Developments, at the time of acquisition or completion of construction or rehabilitation, must be compliant with the Federal Fair Housing Act Accessibility Standards, Titles II and III of the Americans with Disabilities Act of 1990, Texas Minimum Construction Standards and §2306.514 (visitability guidelines) of the Texas Government Code. Borrowers must submit to the Corporation a certification from the project architect, engineer or other third party building inspector that the proposed Development will meet or exceed the above listed accessibility requirements;
 - iii. All Developments, at the time of acquisition or completion of construction or rehabilitation, must be compliant with the U.S. Department of Energy's Energy Star Fund, as confirmed by a certified third-party Home Energy Rating System ("HERS") inspector or as certified to by the Development's architect or engineer; and
 - iv. All Developments, at the time of acquisition or completion of construction or rehabilitation, must have sidewalks, driveways and streets that are compliant with the Americans with Disabilities Act and Fair Housing Accessibility Standards.
- e. *Environmental Threshold.* The Corporation will consider environmental or site-specific conditions, including, but not limited to, adjacent or nearby land uses in determining the risk of environmental hazards. If the Corporation, in its sole determination, finds that an environmental hazard creates a risk to the health and well-being of Qualified Households, an application may be denied funding. The Corporation will also require the submission of a Phase I Environmental Site Assessment for multi-site or multifamily rental developments that involve the construction of more than 4 units of housing. If applicable, a Phase II Environmental

Site Assessment may be required. At loan closing borrowers must agree to an environmental indemnity, in favor of the Corporation, in a form provided by the Corporation's Counsel.

- f. *Relocation Threshold.* The Corporation will not award funds to any Development which may cause the displacement of a Qualified Household. Borrowers may propose Developments that temporarily displace Qualified Households, as long as there are sufficient funds to assist Qualified Households with temporary relocation costs.
- g. *Aggregate Exposure Limits.*
 - i. The Corporation will maintain a maximum aggregate exposure limit ("Aggregate Exposure Limit") of \$3 million dollars. This policy will limit any single borrower, or group of related entities, from receiving outstanding loans from the Fund in an amount greater than the Aggregate Exposure Limit. The Aggregate Exposure Limit excludes loans made through one of the Corporation's conduit lending channels.
 - 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 or may require additional requirements on the collateral position.
 - iii. For purposes of this Policy, loans will be grouped by borrower and related entities. Related entities will include those corporations, partnerships and limited partnerships where the borrower or sponsor has an equity stake. It will also include those loans where the borrower or sponsor is a guarantor.

8. UNDERWRITING STANDARDS. The Corporation will review all applications that meet Threshold Criteria, using the following underwriting standards ("Underwriting Standards"). Borrowers must understand that Underwriting Standards are subjective in many aspects. The Corporation's lending activities are generally subject to greater risks than typically experienced by conventional lenders and therefore must utilize criteria that are not easily measurable. The Corporation's review process will consider five key factors to determine feasibility of a Development:

- a. *Financial Feasibility.* The Corporation will thoroughly evaluate the Development budget, cash flow analysis, and pro forma to determine the feasibility of each Development. The Corporation will use the following minimum standards to determine feasibility:
 - i. Loan to Value Ratio (LTV): Generally, the maximum LTV for all loans is 80%. The

LTV will be calculated on the amount of the loan request and the total appraised value of land and completed on-site improvements including housing units. The Corporation may consider other loan-to-value limits based on financial strength and the amount of guarantees provided by the Applicant;

- ii. Sales and Income Projections. For applications to develop for-sale housing, the cash flows and proforma sales projections must demonstrate that 100% of the principal balance and interest can be repaid prior to the Maturity Date (as defined herein) of the loan. The Corporation may include extensions to the Maturity Date in its calculation of sales projections;
 - iii. Debt Coverage Ratio. All rental Developments must maintain, for the life of the loan or 15 years, whichever 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;
 - iv. Vacancy Rate. For rental Developments, the Corporation will use a minimum vacancy rate of 7% for all loans. Developments with 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 obtained by the Corporation;
 - v. Expense Ratio. For rental Developments, the Corporation will limit the amount of operating expenses to 70% of effective gross income ("EGI") for the life of the loan or 15 years, whichever is less. The calculation of operating expenses and EGI will be determined solely by the Corporation;
 - vi. Repayment Sources. The Corporation will consider the availability of repayment financing commitments in its analysis. Borrowers must submit executed commitment agreements to the Corporation for consideration in underwriting. The Corporation will work with borrowers to review alternative-financing structures; and
 - vii. Reserve Requirements. All rental Developments are subject to the following escrows and reserve accounts:
 - A. Escrows may be required for property taxes and insurance;
 - B. Replacement Reserves for Developments involving the permanent financing of multifamily rental developments will be: \$250 per unit per year for new construction Developments; or \$300 per unit per year for rehabilitation Developments; and
 - C. Operating Reserves in the amount of 2 to 6 months of operating expenses plus debt service.
- b. *Collateral.* The Corporation strives to make loans that are fully collateralized through real property, letters of credit, or other financial instruments. The Corporation may

consider unsecured loans for predevelopment lending on a case-by-case basis. In the case of real property, the Corporation will obtain a 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 affecting 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.

- c. *Financial Strength.* In order to assess the financial strength of every Borrower, the Corporation will require all Borrowers to submit the most recent 2-years of audited financial statements, and year-to-date balance sheet statements. If the Borrower does not conduct an annual corporate audit, 2- years of income tax statements, an Independent Accountants' Review Report with financial statements for the most recent 2-years, and year-to-date balance sheet and income statement will be acceptable.

Based on the Corporation's review of the financial statements, Borrowers may be required to provide a personal guarantee or letter of credit to meet the Corporation's financial strength requirements.

- d. *Market Conditions.* The Corporation will require the submission of market conditions data by borrowers, 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.
- e. *Community Impact.* The Corporation will evaluate the Development in the context of the Corporation's 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 Developments that include short-term LURAs, equity limitation provisions or other mechanisms that ensure the affordability of housing units.

9. TARGETED HOUSING NEEDS. In order to increase the production of housing located in rural areas and/or accessible to persons with disabilities, the Corporation will provide an interest rate reduction in the amount of .25% from the minimum interest required in this policy if the Development meets one or both of the following standards:

- a. Rural development: The property is located within an area that is: (a) outside the boundaries of a primary metropolitan statistical area (PMSA) or metropolitan statistical area (MSA); or (b) within the boundaries of a PMSA or MSA, if the area has a population of 20,000 or less and does not share a boundary with an urban area; or
- b. Accessible rental Development: All ground floor units are designed to be

accessible for persons with mobility impairments and at least 30% of all units in the development are accessible for persons with mobility impairments and/or visual and hearing impairments. For for-sale Developments all single family new construction homes are required to be accessible pursuant to the Corporation's development standards.

10. AWARDS. Once the Corporation has determined that an application has passed all Threshold Criteria and Underwriting Standards the application will be submitted to the Loan Committee made up of an appointee of the Board, and the Corporation's President, Executive Vice President, and Chief Financial Officer. The Loan Committee will review a loan summary, underwriting report, and any additional supplementary materials collected and prepared for presentation by the Fund manager. The Loan Committee must have a simple majority vote of a quorum of the members to approve an award or recommendation to the Board. A quorum of the Loan Committee will be at least three members. If a loan is not approved, the Corporation will notify a borrower, in writing, that the application was not approved. The approval of loans will be limited in the following manner:

- a. The Loan Committee may approve awards pursuant to this policy up to but not exceeding \$500,000.
- b. The Loan Committee may approve awards up to but not exceeding \$2 million if the Corporation is acting as a conduit for another financial institution that will purchase the loan upon closing.
- c. The Loan Committee will present all other loans to the Board for consideration and/or approval.

11. LOAN AGREEMENTS. The Corporation's President and Executive Vice President, will 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 will structure loan agreements, rates and terms using the following guidelines:

- a. *Term.*
 - i. For revolving lines of credit used for the construction of new homes or rehabilitation of existing homes for sale to Qualified Households, the standard length of loan agreements will be 24 months from the date of closing ("Term"). Full repayment of the line of credit will be due on the first day of the month following the end of the loan Term (Maturity Date"). Borrowers may be granted one 6-month extension to the Maturity Date, if certain benchmarks are met in

the development process as detailed in the loan agreement.

- ii. For rental housing developments, the Term of loan agreements may be between 5 and 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 will be 40 years. Full payment of principal and interest must be made by the end of the Term or the Maturity Date. The Corporation may set other Term or renewal schedules, as necessary.
 - iii. For construction loans to rental housing developments, the standard length of loan agreements will be 24 months from the date of construction loan closing ("Term"). Full repayment of the loan will be due at the sooner of: 1) the Borrower's closing on permanent financing sources; or 2) on the first day of the month following the end of the loan Term (Maturity Date"). Borrowers may be granted one 6-month extension to the Maturity Date, if certain benchmarks are met in the development process as detailed in the loan agreement.
 - iv. For predevelopment loans, the Term of the loan will be two years. Full payment of principal and interest must be made by the end of the Term or the Maturity Date. The Corporation may set other Term or renewal schedules, as necessary.
- b. *Interest Rate.* Interest rates for the Fund are generally set at a fixed rate of interest above the Corporation's cost of funds. The minimum interest rate for the Fund will be at least two percent (2%) above the cost of funds to the Corporation, except as may be permitted in accordance with this policy. The cost of funds (the "Cost of Funds") will 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 or extended Maturity Date will accrue interest at a rate of fifteen (15.00%) annually after the Maturity Date has passed. Interest rates for the Fund will be set based on the following factors:
- i. *Base Rate:* the base rate ("Base Rate") is the Corporation's lowest possible rate and is equal to its cost of funds, whether the source of funding is from investments, grants or other sources;
 - ii. *Cost of Operations:* The Corporation will generally add two-percent (2%) to the Base Rate to cover its cost of operations. The Loan Committee may make reasonable adjustments based on the characteristics of the loan on a case by case basis.
 - iii. *Default Risk:* The Loan Committee may add to the Base Rate an amount based on their review of the Borrower's financial statements, experience, market conditions, or any other factors the Loan Committee deems reasonable;
- c. *Payment.*
- i. For revolving lines of credit used for the construction of new homes or rehabilitation of existing homes for sale to Qualified Households, the Loan

Committee may approve (1) payments of interest on a monthly basis, with all accrued interest, if any, and principal due upon sale of the home; or (2) payments of principal and interest, if any, made from the net sales proceeds (i.e., those proceeds remaining after the payment of normal and customary closing costs) received from the sale of lots or homes. Interest payments will 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, will be made from financial guarantees within 45 days after the Maturity Date in the event that full payment has not been made.

- ii. For rental housing developments, Payments of principal and interest must 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, will be made from financial guarantees within 45 days after the Maturity Date in the event that full payment has not been made.
 - iii. For construction loans to rental housing developments, payments of interest on the outstanding principal balance of the loan shall be due on the 1st of each month, with all accrued interest, if any, and principal due upon the Borrower closing on permanent financing or the Maturity Date, whichever comes first.
 - iv. For predevelopment loans, payments of interest are due on a monthly basis, with all accrued interest, if any, and principal due upon closing on construction financing for the proposed project(s). Payment of all principal and interest, if any, will be made by financial guarantors within 45 days after the Maturity Date in the event that full payment has not been made by the Borrower.
- d. *Late Payments, Delinquencies, and Defaults.* The Corporation will 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 will be considered events of default for the purpose of the loan documents:
- i. If a loan payment is more than ten (10) days late, a notice of late payment will be forwarded to the borrower and a late fee of Fifty Dollars (\$50) will be added to principal balance of the loan.
 - ii. If a loan payment is more than twenty (20) days late, the Corporation will notify Borrower in writing and demand immediate payment.
 - iii. If a loan payment is more than 30 days late, a notice of default will be issued by the Corporation to the Borrower in writing. An additional late fee of Fifty Dollars (\$50) will be added to the principal balance of the loan.
 - iv. If a loan payment is more than 45 days late the Corporation will issue a second

notice of default to the Borrower in writing, and a report will be provided to the Corporation's Board, unless all defaults are cured prior to the next regularly scheduled Board meeting. Staff may make the following recommendations to the Board including, but not limited to:

- A. Correspondence or meeting with members of the borrower's managers and/or officers;
 - B. An on-site inspection of borrower's operations, including their books;
 - C. The sending of a third notice of default;
 - D. The charging of additional late fees;
 - E. The development of a re-structuring plan; and/or
 - F. Other action staff may recommend.
- v. If a loan payment is more than Sixty (60) days late the Corporation's Loan Committee may be convened for a special meeting. The Loan Committee will examine the situation, based upon a meetings and communication with the borrower and a detailed account of operational information. The Loan Committee may carry out the following actions:
- A. A loan re-structuring;
 - B. A strategy to sell the loan;
 - C. A notice of intent to foreclose; and/or
 - D. A further forbearance of action based upon certainty of repayment and confidence in operations.
- e. *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 an event of default, the Corporation may initiate foreclosure proceedings prior to such date. The Corporation will consider foreclosure as a last option when considering actions on loans in default. In instances of foreclosure, the Corporation will make a detailed assessment of the situation to the Board, including a full analysis of the plans and consequences of foreclosure. All foreclosure proceedings and actions will be done in such a way as to provide maximum protection for the Corporation and for the interest of affected parties, especially any families or individuals who have committed to purchase housing units. In the event of a collateral liquidation, every attempt will be made to cover the cost of the Corporation's loan principal, accrued interest, if any, and the transaction costs of liquidation (i.e. legal, marketing, staff time).
- f. *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 be payable only 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 not typical in the marketplace for a particular type of transaction, the determination will be provided by the Board.

- g. Permanent/Take-Out Financing.* All loans used for the development of new subdivisions or the construction of infrastructure will require the borrower to meet certain marketing and/or pre-sale requirements. If the borrower will be constructing site improvements to the property, the borrower must present a sales contract(s) for at least 70% of the proposed lots. If the borrower will be the primary contractor for completed housing units, the borrower must provide a sales contract(s) for at least 40% of the lots and homes to be developed. The Corporation may also require a purchaser waiting list that includes at least 50% of the number of lots or housing units to be developed.
- h. Revolving and Renewable Loans:* The Corporation may consider on a case-by-case basis revolving loans that allow borrowers to pay back all or a portion of the principal balance and later draw additional funds against the principal balance during the initial Term. The Corporation may consider on a case-by-case basis renewable loans that allow the borrower and Corporation to agree upon the terms of renewing a loan after the full payment of principal balance and interest of the original loan. Renewable loans will require the payment of closing fees, as well as the setting of a new Term, Interest Rate and Maturity Date.
- i. Equity Investments.* The Corporation will consider any financing, loan or investment of funds into a Development as an equity investment ("Equity Investment") when the borrower cannot provide sufficient guarantees or owner equity, as determined by the Corporation. The Corporation may consider Equity Investments in Developments that serve households at 50% or below AMI or special needs populations. A minimum number of 50% AMI households or special needs units may be required based on the amount and nature of the contributions made by the Corporation. Additional fees or charges may be included in loan payment terms for units or lots sold to non-qualified households.
- j. Deferred Forgivable Loans:* The Corporation may award deferred forgivable loans in cases where the funding source used for the loans is specifically designated for such purposes by the funding entity. In such cases, the Corporation may permit zero interest (0%) loans to be issued, where repayment of the principal is deferred and potentially forgiven if the Borrower fulfills all other requirements of the loan agreement.
- k. Loan Participations:* The Corporation may participate with other lenders in providing loans to qualified Borrowers through a participation agreement ("Participation Agreement") in order to minimize lending risk and to expand the number of affordable housing projects we can finance. The Participation

Agreement shall define the amount of participation by both parties, the terms and rates of the loan, and the responsibilities of each party. Generally, the Corporation will work to be the lender responsible for servicing the loan, collecting payments and conducting oversight of the Borrower.

13. COMMITMENT OF FUNDS. The Corporation will provide borrowers whose loans have been approved a letter detailing the commitment of funding made by the Corporation (“Commitment Letter”). The Commitment Letter will 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 will set timelines for the execution of the commitment, payment of fees and closing of the loan. The borrower will be solely responsible for fulfilling the requirements of the Commitment Letter. The Corporation will 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 that negatively affect the financial position of the borrower.

14. FEES. The Corporation will 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 time and other expenses as necessary. The Application Fee will 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. **Origination and Commitment Fees.** The Corporation may collect at closing a commitment fee (the “Commitment Fee”) in an amount of one-percent (1%) of the approved loan amount, but not less than \$2,500. For revolving lines of credit, the Corporation may collect an origination fee (the “Origination Fee”) of \$250 for each property added to the revolving deed of trust, and may collect a Commitment Fee less than one-percent of the approved loan amount, as long as, the sum of the Commitment Fee and projected Origination Fees is equal to or greater than one-percent of the approved loan amount.
- c. **Closing Fee.** For Predevelopment loans, the Corporation may collect at closing a fee equal to the greater of 2% of the loan amount or \$1,500. This fee may be waived by the Corporation on a case by case basis, if the Corporation’s funding source for Predevelopment loans includes funding of administrative costs.

15. LOAN CLOSING. Borrowers will receive instructions with the Commitment Letter that detail the required steps and actions necessary to close on their loan. The Corporation may require the following documentation prior to closing:

- a. Appraisal;

- b. Site and Development Plans;
- c. Final Budget and Timeline;
- d. Construction Contracts;
- e. Financial Statements;
- f. Certificates of Corporate Status;
- g. Title Insurance;
- h. Surveys;
- i. Insurance;
- j. Legal Opinions;
- k. Fees and Expenses;
- l. Proof of Zoning;
- m. Loan Documents; and
- n. Other documents as required by the Corporation.

16. CONSTRUCTION LOAN ADMINISTRATION.

- a. *Draw Requests.* Borrowers are required to submit requests for reimbursement or advances on their line of credit using forms provided them by the Corporation. Contractor/Supplier invoices are required to maintain oversight of construction procedures and fiscal management.
- b. *Site Inspections.* The Corporation may engage an experienced construction supervisor or architect to act as the Corporation's inspector. The inspector will perform site visits for each draw request to evidence work-in-place, conformity with plans, specifications and building standards. The cost of inspections will be paid by borrowers, from loan proceeds if desired.
- c. *Advances to Borrower.* The Corporation may allow borrowers to receive loan funds in advance of the start of construction activities, based upon the sole determination of the Corporation. Advances for new construction activity will be limited to \$25,000 and advances for renovation or rehabilitation activities will be limited to \$15,000. Additional advances of loan funds may be approved based upon the borrower's continued compliance with the terms and conditions of the loan.
- d. *Retainage.* The Corporation will withhold 10% from each draw request made by the borrower and a total of 10% from the loan amount until the later of (a) the date when all contractors and/or subcontractors have submitted affidavits of lien releases for the subject property, or (b) 40 days after the borrower records an affidavit of completion in compliance with Texas Property Code 53.106.
- e. *Interest Reserve.* Wherever possible, the Corporation will require borrowers to pay

interest from other Development 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.

- f. *Third Party Lenders/Funders.* When possible, the Corporation will require other Development sources to fund prior to the Corporation's loan. When pro-rata funding occurs, the Corporation will seek to administer other Development sources. The Corporation will seek to hold all Development 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. If the Corporation does provide proceeds for acquisition, borrowers must 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 prior to the closing of the loan. If delays in closing occur and exceed 5 days, the full amount of funds placed in escrow will be returned to the Corporation immediately upon the Corporation's request.

18. LOAN LOSS RESERVES. The Corporation will 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 will 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 loan ratings of all loans in the portfolio.

19. LOAN MONITORING. The Corporation will establish and maintain loan monitoring procedures in order to maintain the Corporation's security interest and to assist borrowers in organizational growth and asset management. The Corporation will maintain data on the regularity of payments, annual financial statements of borrowers, status of Development from site inspections, and updates on the collateral value. The Corporation may provide technical assistance, when necessary, to borrowers. The nature and frequency of loan monitoring will be based on loan type, the life cycle of the loan (construction period, business cycle, etc.), performance, and overall risk evaluation, and will be included in the loan agreement.

20. MONITORING SOCIAL IMPACT. The Corporation will compile a report on the social impacts of the Fund (the "Social Impact Report") annually. The report presented to the Board and investors annually will include the following data:

- a. The geographic distribution of loans;
- b. The type of loans;

- c. The number and type of housing units created;
- d. The economic and demographic characteristics of households; and
- e. The leverage capacity of loans.

21. CONFLICT OF INTEREST POLICY. The Corporation, in the process of reviewing and awarding loans under this Fund, will adhere to the conflict of interest policies set by the Corporation's Board and pursuant to §2306.5545 of the Texas Government Code. Additionally, at or prior to each Board meeting, 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.

22. 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 at a public meeting of the Board..