

Indiana Housing Conference

Indiana's must-attend conference for affordable housing professionals.

Rating Your Communities Like an Investor Does – The Use of the AHIC Watch List Standards

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AHIC Risk Rating Guidelines

DEVELOPMENT PHASE

Risk Rating	A	B	C	D	F
CONSTRUCTION/LEASE-UP	<ul style="list-style-type: none"> Construction/Lease-up is on schedule or ahead of schedule 	<ul style="list-style-type: none"> Construction/Lease-Up is greater than 30 days delayed 	<ul style="list-style-type: none"> Estimated Construction Completion/Lease-Up Completion is greater than 90 days delayed 	<ul style="list-style-type: none"> Construction/Lease-Up is greater than 180 days delayed Mechanics Liens exist 	<ul style="list-style-type: none"> Construction has halted and the General Partner/Guarantor is unable to remediate Leasing activity has stopped prior to 100% Qualified Occupancy and the General Partner/Guarantor is unable to remediate Mechanics Liens filed but not satisfied within 30 days
FINANCIAL	<ul style="list-style-type: none"> Sources and Uses are in balance Cost Overruns/Change Orders are less than 5% of original contract and there are sufficient sources to cover shortfalls 	<ul style="list-style-type: none"> Sources and Uses are between 5% and 10% but identified sources needed to cover shortfalls are available Cost Overruns/Change Orders are between 5% and 10% of original contract and there are sufficient sources to cover shortfalls 	<ul style="list-style-type: none"> Sources and Uses are out of balance between 10% and 15% but there are identified sources to cover shortfalls Cost Overruns/Change Orders are between 10% and 15% of original contract and sources have been identified to cover shortfalls 	<ul style="list-style-type: none"> Sources and Uses are out of balance between 15% and 20% with no identified sources to cover shortfalls Cost Overruns/Change Orders are between 15% and 20% of original contract with no identified source to cover shortfalls 	<ul style="list-style-type: none"> Sources and Uses are out of balance exceeding 20% and there is no identified source to cover shortfalls Cost Overruns/Change Orders exceed 20% of original contract with no identified source to cover shortfalls
CONSTRUCTION LOAN	<ul style="list-style-type: none"> Construction Loan is anticipated to be paid down according to Original Projections 	<ul style="list-style-type: none"> Construction Loan is not anticipated to be paid down by original maturity but an extension has been secured 	<ul style="list-style-type: none"> Construction Loan is not anticipated to be paid down by first extension and second extension is being pursued 	<ul style="list-style-type: none"> Construction Loan is not anticipated to be paid down by any agreed extension Debt Restructure needed or in process 	<ul style="list-style-type: none"> Risk of Foreclosure Expired LOC
PERMANENT LOAN	<ul style="list-style-type: none"> Permanent Loan Conversion is on-track according to Original Projections 	<ul style="list-style-type: none"> Permanent Loan Conversion is delayed no more than 3 months from Original Projections 	<ul style="list-style-type: none"> Permanent Loan Conversion is delayed 6 months or more from Original Projections and Conversion may be in jeopardy Notice of Default has been issued 	<ul style="list-style-type: none"> Permanent Loan Conversion is delayed in excess of one-year from Original Projections Original Loan terms have changed unfavorably 	<ul style="list-style-type: none"> Permanent source of loan is lost and no other source has been identified Gap to Convert and no identified source of gap filler
PROGRAM COMPLIANCE	<ul style="list-style-type: none"> Property is anticipated to be complete by PIS deadline or has received a Carryover Extension from the Allocating Agency No material Compliance issues 	<ul style="list-style-type: none"> Correctable Compliance issues with no financial impact 	<ul style="list-style-type: none"> Receipt of 8609s is delayed Achieving Minimum Set-Aside Qualification is a concern Material Non-Compliance including the issuance of 8823s Annual Compliance Certification has not been submitted Potential for 15-year Credit for 10% or more of units 	<ul style="list-style-type: none"> Property is not expected to be complete by PIS deadline and Tax Credit delivery is in question Unresolved 8823s 	<ul style="list-style-type: none"> Property will not meet PIS deadline Loss or Recapture of all Tax Credits Property will not reach Minimum Set-Aside Qualification date Expected loss of Credits due to uncorrectable 8823s

AHIC Risk Rating Guidelines
DEVELOPMENT PHASE

Risk Rating	A	B	C	D	F
GENERAL CONTRACTOR	<ul style="list-style-type: none"> General Contractor is in place and work is on-track with Original Projections 	<ul style="list-style-type: none"> General Contractor has been removed but a replacement GC is in place and work is on-track with Original Projections 	<ul style="list-style-type: none"> General Contractor is not performing and has not been removed General Contractor has been removed for 30+ days and a replacement GC has not been identified 	<ul style="list-style-type: none"> General Contractor has been removed for 60+ days and a replacement GC has not been identified 	<ul style="list-style-type: none"> Significant misappropriation of funds and/or construction defects due to General Contractor mismanagement
GP/SPONSOR/DEVELOPER/MANAGEMENT	<ul style="list-style-type: none"> GP/Sponsor/Developer is financially secure and able to meet all obligations as identified in the Partnership Agreement 	<ul style="list-style-type: none"> GP/Sponsor/Developer is financially secure and able to meet all obligations 	<ul style="list-style-type: none"> GP/Sponsor/Developer has modest financial capacity and liquidity has been identified as an issue Partnership or Investor named in Lawsuit 	<ul style="list-style-type: none"> GP/Sponsor/Developer lacks ability or willingness to cover Guarantee Obligations Bankruptcy is a potential risk Default has been issued 	<ul style="list-style-type: none"> GP/Sponsor/Developer Bankruptcy Material Damages/Litigation and Costs Incurred Foreclosure
RECAPTURE	<ul style="list-style-type: none"> No Recapture 	<ul style="list-style-type: none"> No Recapture 	<ul style="list-style-type: none"> Nominal Actual or Expected Loss or Recapture of Tax Credits 2/3 Credit 	<ul style="list-style-type: none"> Material Actual or Expected Loss or Recapture of Tax Credits Notice of Default issued 	<ul style="list-style-type: none"> Total Investment Loss Expected Foreclosure Imminent with Loss of Affordability Requirements

AHIC Risk Rating Guidelines
STABILIZED PHASE

Risk Rating	A	B	C	D	F
DEBT COVERAGE RATIO (DCR)	<ul style="list-style-type: none"> DCR is at or above 1.20x or as underwritten 	<ul style="list-style-type: none"> DCR is between 1.0x and 1.20x 	<ul style="list-style-type: none"> DCR is below 1.0x but greater than .85x Loan is current on Must Pay Debt 	<ul style="list-style-type: none"> DCR is between .5x and .85x OR significant cash deficits Loan is delinquent on Must Pay Debt 	<ul style="list-style-type: none"> Loan is in default on Must Pay Debt Notice of Default issued
EXPENSE COVERAGE RATIO (ECR) TO BE USED FOR SOFT DEBT DEALS ONLY	<ul style="list-style-type: none"> ECR is at or above 1.10x or as underwritten 	<ul style="list-style-type: none"> ECR is between 1.0x and 1.10x 	<ul style="list-style-type: none"> ECR is below 1.0x but greater than .85x 	<ul style="list-style-type: none"> ECR is between .5x and .85x OR significant cash deficits 	<ul style="list-style-type: none"> ECR is Below .5x
ECONOMIC OCCUPANCY	<ul style="list-style-type: none"> Economic Occupancy is 95% or above 	<ul style="list-style-type: none"> Economic Occupancy is 90% or greater 	<ul style="list-style-type: none"> Economic Occupancy is below 90% but greater than 80% 	<ul style="list-style-type: none"> Economic Occupancy is less than 80% 	<ul style="list-style-type: none"> Economic Occupancy is less than 70%
RESERVES	<ul style="list-style-type: none"> Reserves and Escrows are fully funded as originally underwritten 	<ul style="list-style-type: none"> Reserves and Escrows are being funded and are sufficient to meet obligations 	<ul style="list-style-type: none"> Reserves and Escrows are underfunded by 25% from Original Projections, but payments are being made Balances are insufficient to meet long-term property needs 	<ul style="list-style-type: none"> Reserves and Escrows are underfunded by 50% from Original Projections, but payments are being made Balances are insufficient to meet immediate long-term property needs 	<ul style="list-style-type: none"> Reserves and Escrows are depleted and no payments are being made
PHYSICAL	<ul style="list-style-type: none"> No physical issues 	<ul style="list-style-type: none"> Correctable deferred maintenance 	<ul style="list-style-type: none"> Deferred maintenance causing structural and/or environmental issues with funding sources not fully identified Building Code violations 	<ul style="list-style-type: none"> Significant deferred maintenance causing life/safety issues, structural and/or environmental issues with no identified source to remedy 	<ul style="list-style-type: none"> Off-line units with no funding source to remedy Major issues or building(s) condemned
GP/SPONSOR/DEVELOPER/ MANAGEMENT	<ul style="list-style-type: none"> GP/Sponsor/Developer is financially secure and able to meet all obligations as identified in the Partnership Agreement 	<ul style="list-style-type: none"> GP/Sponsor/Developer is financially secure and able to meet all obligations Minor Property Management issues 	<ul style="list-style-type: none"> GP/Sponsor/Developer has modest financial capacity and liquidity has been identified as an issue Weak Property Management/Potential replacement needed Partnership or Investor named in Lawsuit 	<ul style="list-style-type: none"> GP/Sponsor/Developer lacks ability or willingness to cover guarantee obligations GP/Guarantor Bankruptcy is a potential risk Default has been issued Management Company is ineffective and replacement is required 	<ul style="list-style-type: none"> GP/Sponsor/Developer/ Bankruptcy Material Litigation/Damages and Costs Incurred Foreclosure



Risk Rating	A	B	C	D	F
PROGRAM COMPLIANCE	<ul style="list-style-type: none"> No material Compliance issues Part III is on-track 	<ul style="list-style-type: none"> Correctable Compliance issues with no financial impact Part III is on-track 	<ul style="list-style-type: none"> Correctable Compliance issues with financial impact 8609 delayed which will have an impact on Credit delivery Failing REAC and/or MOR Score with no corrective plan 8823s issued and not corrected within 90 days Part III delay is greater than 90 days 	<ul style="list-style-type: none"> 8609s are delayed more than 2 years Uncorrectable Compliance issues 8823s issued and left uncorrected at year-end Part III is in jeopardy with no remedy 	<ul style="list-style-type: none"> 8609s delayed more than 3 years Part III denied Recapture
INSURANCE/TAXES	<ul style="list-style-type: none"> No Insurance/Tax issues Adequate coverage is in place 	<ul style="list-style-type: none"> No Insurance/Tax issues Adequate coverage is in place 	<ul style="list-style-type: none"> Unpaid Real Estate Taxes but funds are available Insurance requirements are not being met Expired Coverage 	<ul style="list-style-type: none"> Unpaid Real Estate Taxes for two or more years Tax Certificates sold and ownership rights can be asserted Insurance requirements are not being met and no funds are available 	<ul style="list-style-type: none"> Unpaid Real Estate Taxes/Unpaid Insurance and no funds are available
REPORTING	<ul style="list-style-type: none"> No Reporting issues 	<ul style="list-style-type: none"> Minor Reporting deficiencies 	<ul style="list-style-type: none"> Audit issued with Going Concern Reporting is consistently delayed 	<ul style="list-style-type: none"> Tax Return and/or Audit not received prior to April 15 Inadequate or incomplete Reporting Reporting accuracy in question 	<ul style="list-style-type: none"> Tax Returns are delinquent leading to incurable default
RECAPTURE/ FORECLOSURE	<ul style="list-style-type: none"> No Recapture 	<ul style="list-style-type: none"> No Recapture 	<ul style="list-style-type: none"> Nominal Actual or Expected Loss or Recapture of Tax Credits Notice of Default 	<ul style="list-style-type: none"> Material Actual or Expected Loss or Recapture of Tax Credits 	<ul style="list-style-type: none"> Total Investment Loss Expected Foreclosure Imminent with Loss of Affordability Requirements