Baltimore County Department of Housing and Community Development
Finance Underwriting Criteria

Policy Title: Development Finance Underwriting Criteria	Effective Date: 02-2022
Policy Number: DHCD – HFO-0723	**Assigned Staff:** Various
Purpose: *To ensure consistent and appropriate guidelines are utilized in the underwriting of development finance requests for the construction and preservation of affordable housing in accordance with industry standards, best lending practices, programmatic requirements, the Development Guide, and Baltimore County Code.*	
Regulation Reference:	

Overview

The following underwriting guidelines pertain to all applications submitted to DHCD for financial assistance. DHCD will review projects using these underwriting standards. If a project deviates from the guidelines, the Applicant must request a waiver that includes a detailed reason that the project is unable to meet the standard. DHCD may require an extension to a project's proposed affordability period, or some other change, when evaluating waivers. All waivers must be circulated to the Loan Review Committee for review and approval.

Policy

This regulation ensures that a consistent criterion is applied to the review and underwriting of all development finance applications submitted to DHCD.

Guidelines

1. Rents – Utilize the rent and income limits for Baltimore County. The rents levels including utility allowance must be supported by the market data present in an appraisal and market study.
2. Financing – DHCD is a gap lender, so Applicants must demonstrate that they have maximized all other financing sources before sizing their request for DHCD funding.
3. Percent of DHCD Funding – DHCD funding in a project may not exceed 25% of the total development cost.
4. Maximum Senior Debt – All projects submitted will have senior debt with competitive terms.
5. DHCD's financing will be structured as a cash flow contingent loan repaid from cash flow based on the following terms:
    a. Annual interest rate of 3%, simple interest;
    b. Term of 40 years;
    c. Annual payments equal to 75% of cash flow, but not to exceed the amount that would be due based on a 40-year amortization schedule;
    d. The Deed of Trust creases a second lien position, behind the 1st mortgage loan;
    e. The outstanding balance of the loan is due and payable at loan maturity.
    f. The affordable covenant is coterminous with the loan term and released at maturity, but not before maturity even if the loan is repaid prior to loan maturity.

6. DHCD's Payment-in-lieu of Taxes ("PILOT") are structured for a 10-year term with a 10-year extension option. The payments are equal to $300 per unit per year.
7. Operating Reserves – Operating reserves must range between three and six months of projected operating expenses and must pay debt service payments.
8. All projects should include contingency amounts for construction, soft costs and financing. The range of contingency is as follows:
    a. 5% to 10% for new construction
    b. 12% to 15% for rehabilitation, with the higher percentages for smaller projects, scattered sites, less experienced developers or contractors, or projects with known issues.
    c. 5% to 8% for soft costs and financing costs.
9. Limitation on Fees – this applies to Architectural, General Contracting, Management and Developer fees
    a. Builder's Profit – 5% to 10% of the net construction costs
    b. Builder's Overhead – 2% to 3% of the net construction costs (% based on size of project)
    c. General Conditions/Requirements – 5% to 10% of the net construction costs (% based on size of project)
    d. Architect Design – 2% to 6% of the construction contract (excluding contingency)
    e. Architect Administration – 1% to 3% of the construction contract (excluding contingency)
    f. Construction Management – 1% to 2% of the construction contract (excluding contingency)
    g. Developer Fees – 15% for fees on development costs, and 5% for fees on acquisition costs. Total development costs do not include the following: hard or soft cost contingencies, syndication related costs, funded guarantees and reserve accounts that are required by lenders or investors, and developers' fees. Any amount in excess of $2 million shall be deferred, up to an amount that can be recovered from cash flow over 12 years of operations.

Net construction costs are equal to the construction contract amount less builder's profit, builder's overhead, general requirements and bond fees.

10. Operating Pro Forma – The Applicant must submit a minimum 20-year pro forma located in the Form 202.
11. Operating Expenses – Estimated annual expenses including real estate taxes and excluding reserve for replacement deposits should range from $6,000 to $7,500 per unit.
12. Reserve for Replacements – For new construction and substantial rehab, minimum annual deposit of $300 per unit per year. For moderate rehab, a minimum of $350 per unit.
13. Vacancy Rate – Applicants should assume 5%, which should be supported by the market and verified by an appraisal and market study.
14. Debt Service Coverage Ratio ("DSCR") – 1.15 based on all must pay debt service and stabilized operations.