

AHIC BEST PRACTICES ASSET MANAGEMENT

Property Level

These Best Practices assume the investment in your deal has already been negotiated and closed. The level of asset management focus will depend on if your organization is a Direct, Proprietary, or Multi-Fund Investor.

PRE-STABILIZATION – prior to conversion date

Construction Monitoring – review General Partner/Syndicator construction reports quarterly or monthly depending on internal requirements and watch list status.

Items to Review:

- Actual construction start date compared to original projections
- Projected construction end date compared to original projections
- Construction costs on budget
- Based on internal watch list criteria, deal may be placed on watch list if the completion date is delayed (i.e. longer than 3 months from the original projections)
- Monitor remaining contingency/change orders and/or if the construction budget is out-of-balance
- Confirm Final CO is received
- Determine if construction loan extension is needed
- Confirm a permanent loan commitment expiration date
- Confirm construction completion guarantees
- Verify plans & specs have been reviewed by a construction consultant

Some Investors Require the Following:

- Acquisition/Rehab Deals – A third-party construction management company is engaged to attend all draw meetings
- New Construction Deals – A third-party construction management company is engaged to attend all draw meetings if the property is three or more months behind schedule

Lease-up Monitoring – Review General Partner/Syndicator lease-up reports quarterly or monthly depending on internal requirements and watch list status

Items to Review:

- Actual lease-up start date compared to original projections (concessions)
- Absorption rate compared to original projections
- Actual rental revenue compared to original projections
- Projected lease-up end date compared to original projections
- Based on internal watch list criteria, deal may be placed on watch list if the lease-up period is delayed (i.e. longer than 3 months from original projections) or expected to be delayed beyond 3 months based on actual absorption

Some Investors Require the Following:

- A third-party review/report of all resident files to be completed prior to the 8609 funding benchmark
- Each source of funds is monitored as property moves toward stabilization

Ongoing Portfolio Management

Items to Review:

- Confirm permanent loan closing
- Confirm General Partner's guarantees pre- and post-permanent loan closing
- First year credit delivery on track with original projections
- Adjuster language for late credit delivery
- First year projected losses compared to original projections
- First year yield delivery on target with original projections
- Confirmation of first year file review – no non-compliance issues
- Confirmation first year files are secured and a back-up set is created
- On-track with original projections for permanent loan conversion
- Confirmation of 8609 filing and obtain receipt of signed copy of 8609

POST-STABILIZATION – after conversion date

Quarterly Process – Items to Review

- DSC including replacement reserve deposits equal or greater than 1.15 or according to underwriting standards
- Physical occupancy equal or greater than 90%
- Operating reserves funded as originally projected; replacement reserves funded as originally projected; Confirm reserve withdrawals annually
- Confirm status of all guarantees and guarantors
- Operating deficit guarantee reasonable/expiration date
- Benefit Schedule – projection/yields are maintained as originally projected
- Site visit date in accordance with AHIC criteria
- Analysis indicating Upper Tier reserve is adequate through Year 15
- Upper Tier reserve level compared to original projections
- Quarterly receipt of Watch list report from Syndicator
- Receipt of Annual Owner's Certification
- Confirmation of sample file review showing no non-compliance issues
- Insurance limits and renewals as required (Investor should be named as additional insured)
- Notification of capital improvements; proposed or completed
- Notification of REAC inspections (if applicable)
- Notification of the date and the results
- Confirmation of subsidy renewals (if applicable)
- Confirm payment of real estate taxes – contacting taxing authority may be necessary
- Review all reporting requirements and due dates, timeliness of audits/tax returns & ensure penalties are being imposed (depending on remaining equity)
- Confirmation of dispositions at the lower-tier level

Some Investors Require the Following:

- A 25% resident file audit every three years by an independent firm. If significant issues are identified, then a 100% audit is required
- General Partner obtains Investor approval for all withdrawals from the replacement reserve and the operating reserve account
- Any capital improvement not in the approved annual budget requires Investor approval
- Track the date by which any deferred developer fee needs to be paid down

ON-GOING PROPERTY REPORTING

Investors should be notified immediately or not more than 5 business days if any of the following occur (some items may require investor consent):

- Refinancing
- Lawsuits
- Bankruptcy (General Contractor/General Partner/Guarantor)
- General Partner changes
- Property management changes
- Upper Tier reserve releases
- IRS examinations
- LIHTC compliance issues
- Recapture/Possible recapture
- Notices of Default from Lender
- Disaster in market area causing major property damage
- Casualty damage to Property (i.e. fires)

AHIC BEST PRACTICES ASSET MANAGEMENT

Fund Level

- Confirm the fund unit count and total equity raised
- Confirmation the fund size and previously named Investors have not changed since the previous year-end. Identify any changes
- Confirmation that no Investor is in default
- Confirm that any financing secured by pledged Investor notes is in compliance with its terms
- Confirmation of total equity committed to date. Timeframe for remaining equity to be committed
- Amount of actual reserves at year-end; confirmation that reserve funds are held in an account in the name of the Fund; identify if the reserve account is interest-bearing, and confirmation that interest remains in the account
- Reserve analysis through compliance to determine sufficient amount of reserves through Year 15
- Identify any fund or project level IRS audits and current status
- Identify any fund or project level litigation and current status
- Identify any known bankruptcies and current status
- Confirm the most recent site inspection date for each property in the fund. Include any site inspections later than 12 calendar months, including the anticipated inspection date
- Identify all projects that have exited the fund, and the reason for exit. Provide the financial impact to the fund, including recapture, interest, loss of credits and proceeds
- Confirm there are no known property level watchlist issues other than disclosed through regular reporting
- Confirm there are no known property level compliance issues or known 8823s other than disclosed through regular reporting
- Confirm any contingent liabilities that may adversely impact the fund or fund general partner
- Confirm there are no outstanding 704(b) issues and that all property level debt is in compliance with 704(b) matters