

ASSET MANAGEMENT PLAN FOR THE TENNESSEE HOUSING DEVELOPMENT AGENCY LOW-INCOME HOUSING TAX CREDIT MULTIFAMILY TCAP AND SECTION 1602 PORTFOLIO

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I. INTRODUCTION

In allocating Tax Credit Assistance Program (TCAP) and Section 1602 Exchange Program funds to affordable housing properties across the state of Tennessee, THDA has a responsibility to ensure the viability of these assets over the long term. This document outlines THDA's Asset Management Plan for these properties.

The Asset Manager (AM) will ultimately be responsible for meeting with the owners and managing agents of the properties in the Tennessee Housing Development Agency (THDA) Tax Credit Assistance Program and Section 1602 program to develop the most efficient strategies for leasing and ensuring occupancy by qualified residents. THDA will provide feedback and advice to owners and their managers to maximize rental and income potential while protecting the interests of THDA.

II. OVERVIEW

The asset manager (AM) will work with owners and property managers to collect and examine monthly and quarterly reports such as monthly monitoring, profit and loss statements as well as annual budgets. The AM will analyze monthly reporting data looking for crucial areas such as vacancies, lost rents, net operating income, operating reserves and debt coverage ratios to determine which properties are operating successfully and which properties are to be put on the watch list for underperformance. The AM will then report watch list properties to the appropriate management. From the findings of the reporting, the AM will strategically select and discuss shortfalls with the owners and property managers to develop an appropriate action plan. These

plans will vary from property to property as a failing development can have an array of issues such as vacancies, underfunded reserves for improvements, competition, poor property appearance, mismanagement etc. When necessary, the AM will review long range capital needs projections to determine the adequacy of reserves.

The AM will train and work with owners and property managers to collect and input annual budget projections into the Housing Credit Management System (HCMS). This is THDA's online tracking system for owners and property managers. Once the budgets have been entered, output reports will be created in THDA's Data Management System (DMS) for the AM to monitor the quarterly performance of each of the properties in the THDA TCAP and Section 1602 portfolio. The AM will compare budget predictions to actual income figures to see how the properties are performing.

The AM will train and work with owners and property managers to collect and input monthly and quarterly data into the HCMS. HCMS also serves as THDA's online tracking system for rents received and expenses paid by each of the properties in the THDA portfolio. Once the data is entered by the owners or managers, output reports will be created in THDA's DMS for the AM to monitor the success or failures of each of the properties in THDA's TCAP and Section 1602 portfolio.

In the monthly and quarterly financial reviews of the TCAP and Section 1602 portfolio, the AM will be looking for various items that could trigger a property being put on a watch list. Some of these items would include, but are not limited to, occupancy rates falling below 90% or debt coverage ratio of less than 1.0. Additionally, the AM will also be looking at other crucial areas such as replacement and operating reserves, potential for bankruptcy or foreclosures, significant deferred maintenance causing health and safety issues and nonpayment of insurance premiums and taxes as agreed with the lender and THDA. Once a property has been placed on the watch list, the AM will reach out to the owners and property managers to discuss what course of action will be taken to get the property back in order.

The AM will conduct site visits to ensure the properties are being maintained appropriately. Section 42 compliance reviews and site visits will continue to be conducted by THDA's Program Compliance Division at least every 3 years for property that have Low Income Housing Tax Credits. THDA Asset Management staff will conduct Section 42 compliance reviews for properties that do not have Low Income Housing Tax Credits.

In reviewing monthly and quarterly data, the AM will separate the properties into three distinct categories. 1) Low Priority Category will be given to properties that are financially stable and appear to be functioning in a strong manner. For these properties biennial or triennial site visits may be considered in some cases. 2) Mid Priority Category will be given to the properties that are performing at below an ideal level. Examples of this include, but are not limited to, higher vacancy rates, lower net operating income and cash flow, and physical deterioration. Annual site visits will have a higher sense of urgency than the Low Priority Category. 3) High Priority Category (watch list properties) will be given to the properties that are financially and physically struggling. Additional information may be requested monthly from the Owners and Property Managers in the

High Priority Category such as, but not limited to, rent rolls, management plans, and monthly financials. Site visits will be a priority for the AM in these High Priority circumstances. The AM will work directly with the owners and managing agents to correct existing issues and maximize rental results. The AM will work with the owners and property managers to prevent future issues by being proactive with upcoming construction projects as well as reviewing future data such as tenant turn over and expiring leases. The expectation will be for the AM or colleagues to conduct annual site visits for all of the properties in the TCAP and Section 1602 THDA portfolio.

The AM will monitor debt service and depending on the type of loan documents, any escrowed real estate taxes, reserves, insurance payments and water and sewer charges. The AM will review quarterly financials and balance sheets in an effort to ensure all debt service and escrowed amounts are current.

The AM will work closely with the property managers whose properties have been placed on the watch list or in a receivership by various banks and lenders. The AM will look for strategic avenues to get the various properties back online. The AM will work closely with the compliance team on any recapture of THDA-financed properties.

The AM will regularly perform insurance reviews for each of the developments in the TCAP and Section 1602 portfolio and will review the ownership's and their managing agent's general liability, property, fidelity and workers compensation certificates. The AM will check the amounts of coverage, the size and quality of the insurers and the required additional insureds and loss payees.

As previously noted, the AM monitors all required operating and replacement reserve requirements, deposits, balances and withdrawals.

In the event there is a significant reportable event, THDA will require that the owner or its managing agent provide us with an Incident report (e.g. police, security, fire department, etc.). If there seems to be a pattern of reportable events, for example vandalism, theft, etc., the AM will meet with the owners and managing agents to develop plans to mitigate these activities or occurrences. If these events continue to occur the property may be placed on the watch list.

THDA is required to impose conditions or restrictions on a sub-awardee to ensure that the properties in the TCAP and Section 1602 portfolio remain qualified low income housing during the fifteen (15) year compliance period and the fifteen (15) year extended use period. These conditions and restrictions would also apply to any subsequent owner during the compliance period. In the event of a continued non-compliance violation, the AM would assist THDA legal counsel in enforcing any remedies available to THDA through any methods deemed appropriate by THDA.

PLEASE NOTE:

THDA RESERVES THE RIGHT TO REQUIRE DOCUMENTATION ON ANY SUBJECT RELATED TO THE PROJECT AT ANY TIME, AND FAILURE TO PROVIDE SUCH DOCUMENTATION MAY RESULT IN THE PROPERTY BEING IN DEFAULT UNDER THE TCAP OR SECTION 1602 LOAN DOCUMENTS. IF SUCH A DEFAULT OCCURS, AND IS NOT CURED WITHIN THE PRESCRIBED TIMEFRAME SET FORTH IN THOSE LOAN DOCUMENTS, THDA RESERVES THE RIGHT TO ENFORCE ANY AND ALL REMEDIES IT MAY HAVE AT LAW OR EQUITY. MOREOVER, FAILURE TO RESPOND TO ANY REQUEST BY THDA FOR DOCUMENTATION MAY RESULT IN ALL PARTIES INCLUDED IN THE OWNERSHIP AND DEVELOPER ENTITIES BEING BARRED FROM PARTICIPATION IN THE COMPETITIVE TAX CREDIT PROGRAM IN TENNESSEE FOR A PERIOD OF FIVE (5) YEARS.

III. REPORTING GUIDELINES

All properties must report monthly, quarterly, and annual financial and operating information to THDA's Housing Credit Management System (HCMS) within 30 calendar days of the end of that period. The HCMS can be found at <http://resources.thda.org/>. The quarterly profit and loss statements in HCMS should report year to date financials (i.e., the total income and expenditures since January 1 of that year) and the December 31st quarterly financials will not be due until March 31 of the following year to allow for audits to be completed and audited financials to be updated.

The Asset Manager will provide internal reports to appropriate management by the within 60 days of the end of the quarter.

Properties will also report the following information to the asset manager according to the following schedule:

Standard Reporting Requirements for Performing Properties

Report Description	Timing of Submission	Submitted to
Annual Operating Budget	Annually, before December 1	assetmanager@thda.org
Certificates of Insurance (per financing or State Regulatory Agreement; with Additional Insured included)	Annually, at renewal	assetmanager@thda.org
Financial Statements including: income, expenses,	As requested	assetmanager@thda.org

account balances, and A/P and A/R aging schedules		
Detailed Monthly Rent Roll (dated the last day of each month)	As requested	assetmanager@thda.org
Copies of paid real estate tax bills	Before February 28 of the subsequent year	assetmanager@thda.org
Copies of paid insurance premiums	Before February 28 of the subsequent year	assetmanager@thda.org
Final Audited Financial Statements	Before March 15 of the subsequent year	assetmanager@thda.org
Reserve draw requests	As applicable	assetmanager@thda.org
Incident Reports including: security, police, fire, etc. and details regarding insurance claims or litigation that might follow	As applicable	assetmanager@thda.org
Written notices from interested government entities or mortgage lenders	As applicable	assetmanager@thda.org
Written correspondence from an attorney that could negatively impact the property	As applicable	assetmanager@thda.org
Market Survey of competitive properties	Per request by THDA	assetmanager@thda.org

IV. SITE VISIT GUIDELINES

During site visits, THDA staff will gather information about the following:

- Site, building, and unit condition and capital needs;
- Marketing plans and leasing procedures;
- Occupancy rates/vacancy turnover performance;
- Livability services, such as building security and amenities (e.g. pools, business center, laundry rooms);

- Energy efficiency measures/utility costs controls;
- Maintenance performance, including preventative maintenance;
- Inspection reports regarding local housing code compliance or other codes related to maintaining a valid certificate of occupancy or other necessary licenses;
- Documentation procedures for tenant files to ensure tenant qualifications per Low-Income Housing Tax Credit (LIHTC) and TCAP/1602 income targeting requirements;
- General operating procedures, including procedures for prompt correction of any physical and tenant noncompliance, disaster contingency plans, etc.;
- Inspections and evaluations of physical plant in conjunction with capital repair and replacement planning evaluation of building;
- Compliance related to LIHTC and TCAP/1602 requirements, and actions taken by the grantee and project owner to address findings of non-compliance made by the TCAP/1602 grantee or a federal agency; and
- Documentation of compliance or findings of non-compliance with other applicable federal, state or local laws related to property management, such as occupancy or property standards, fair housing laws, etc.

Site management will be asked to provide a copy of the current rent roll and most recent financial statements. The AM will ask to see a selection of resident files, and policy and procedure documents among other things determined to be relevant to the site visit. Documents provided by trusted third parties (e.g., site visit reports by other lenders, syndicators) on the above can be used to help provide THDA with background information that may make the site visit less burdensome for all parties involved.

V. RESERVE RELEASES

Our partnership agreements sometimes require that THDA review and approve all use of and withdrawals from the reserve balances. At the point of need, the owner will forward to the AM a breakout of the requested reserve release, together with documentation of the work performed, purchases made or deficits encumbered. Where applicable, the AM will review the documentation and prepare a release request sheet if the withdrawal is deemed appropriate. The AM will be practical, yet firm in the review of these withdrawals requests in order to ensure that the owners are adhering to their financial commitments as outlined partnership or operating agreements. Reserves may not be released if the owners or management are not in good standing with other THDA asset management and compliance requirements.

Eligible/Ineligible Expenditures

Items ordinarily eligible for release of reserves for replacement include:

- Replacement of major appliances in the dwelling units, such as, refrigerators, ranges, ovens and dishwashers.
- Extensive replacement of doors, kitchens and bathroom cabinets, countertops, sinks, lavatories, water closets and tubs.

- Major roofs repairs, including major replacements of gutters, downspouts, vents and associated cornice, caves and soffits.
- Replacement or major overhaul of HVAC systems and component equipment.
- Overhaul of elevator systems.
- Major repaving, resurfacing and seal coating of parking lots, driveways etc.
- Repainting of exterior buildings.
- Extensive replacement of siding.
- Replacement of carpeting, tile and/or linoleum (reviewed case-by-case).
- Replacement of or major repairs to swimming pools and related equipment.
- Other improvements that, in the opinion of the mortgagee, enhance the mortgage security; place the property in a more favorable competitive position in the rental market; are necessary to comply with changes in local, state or federal law; and would not inordinately deplete the Reserve for Replacement.

The following items are ordinarily not eligible for reserve for replacement draws:

- Repainting of interior areas.
- Replacement of small appliance parts, such as, burners, elements, switches, valves, wires.
- Minor HVAC repairs, such as, valves, thermostat, switch and filter replacements and cleaning.
- Minor repairs to roofs, gutters and downspouts.
- Minor paving repairs.
- Caulking and sealing.
- Window and screen repairs.
- Purchase of maintenance tools and equipment, such as, lawn mowers, weed eaters and snow blowers.
- Purchase of minor office equipment.
- Inspection, recharging and replacement of fire extinguishers.
- Other items traditionally considered routine maintenance.

Please note this list is not an all-inclusive list as each request will be reviewed on its own merits.

Appendix: SUMMARY OF ASSET MANAGEMENT TASKS

A. Property Management and Operations

THDA will review and assess the property management and operations functions of each property in THDA's portfolio for items including, but not limited to, the following:

- Marketing plans and leasing procedures;
- Occupancy rates/vacancy turnover performance;
- Livability services, such as building security and amenities (e.g. pools, business center, laundry rooms);
- Energy efficiency measures/utility costs controls;
- Maintenance performance, including preventative maintenance;
- Inspection reports regarding local housing code compliance or other codes related to maintaining a valid certificate of occupancy or other necessary licenses;
- Documentation of tenant files to ensure tenant qualifications per Low-Income Housing Tax Credit (LIHTC) and TCAP/1602 income targeting requirements;
- General operating procedures, including procedures for prompt correction of any physical and tenant noncompliance, disaster contingency plans, etc.;
- Inspections and evaluations of physical plant in conjunction with capital repair and replacement planning evaluation of building;
- Compliance related to LIHTC and TCAP/1602 requirements, and actions taken by the grantee and project owner to address findings of non-compliance made by the TCAP/1602 grantee or a federal agency; and
- Documentation of compliance or findings of non-compliance with other applicable federal, state or local laws related to property management, such as occupancy or property standards, fair housing laws, etc.

B. Review Project Financial Management

THDA will review and assess the project financial management and controls of each property in THDA's portfolio for items including, but not limited to, the following:

- Appropriate risk management techniques and insurance coverage;
- Proper budgeting, accounting and internal controls;

- Audit compliance (e.g., ensure delivery of independent audits, review draft audits prepared by independent auditors);
- Timelines of required project compliance reports submitted by owners to TCAP/1602 grantees with respect to LIHTC and TCAP/1602 requirements, and any findings of non-compliance by the grantee or a federal agency;
- Establishment of lease-up, operating, emergency and replacement project reserves, also management of operating reserves and replacement reserves (including approval of expenditures); and
- Analyses of annual operating budget, quarterly profit and loss, monthly reporting, debt coverage, cash flow trends, and other financial information, such as operating costs analyses, comparisons of actual costs vs. budget, prior year operations, and comps, such as state averages.

C. Periodic Viability Assessment

THDA will review and assess the viability of each property in THDA's portfolio, periodically, for items including, but not limited to, the following:

- Establishment of benchmarks to classify projects as "troubled";
- Trend analyses of property and financial management assessments described above;
- Project cash flow or other analyses to ascertain long term financial viability (e.g., evaluation of debt or other financing restructuring alternatives);
- Ongoing analysis of market conditions and vacancy rates, analysis of ongoing marketability and capital needs of development; comparisons of actual rental revenue and lease up to original projections; and
- Recommendations and implementation of workout strategies for troubled properties.