The following metrics include the quantitative standards by which the PHB multifamily housing investment staff evaluates the feasibility and sustainability of projects. These metrics represent changes to or refinement of previous standards based on PHB staff experience and current industry standards. These standards are effective for all projects applying for PHB funds after March 2014. PHB anticipates that most, but not all, projects will conform to these guidelines. If non-conforming, the Bureau's Housing Investment Committee must approve any variance from these metrics when approving funds for a project. Like all PHB underwriting guidelines, these metrics are subject to periodic review and revision as needed.

- **Debt Service Coverage Ratio**
  - The minimum debt service will reflect the amount of debt coverage typically found in successful, sustainable projects.
  - Year 1 minimum: 1.25x
  - Year 15 minimum: 1.15x

- **Developer Fee**

Project Size	Minimum Capitalized Developer Fee	Maximum Capitalized Developer Fee
1-24 units	8%	12%
25-60 units	6%	9%
61 -100 units	3%	6%
100+ units	2%	5%

  - The table above shows the range of capitalized (cash) developer fee only. More complex projects based on population served, financing and structure are expected to have a capitalized fee at the top of the range and less complex projects nearer the minimum.
  - PHB's maximum total developer fee, capitalized and deferred, is 15%. Conformance with percentage requirements (both capitalized and capitalized plus deferred) is calculated as follows:

$$\frac{\text{Developer Fee}}{\text{Total Development Cost – Developer Fee}}$$

  - The developer fee includes any capitalized and/or deferred fees paid to the sponsor, and certain third party fees that pay for tasks historically undertaken by developers including payments to a development consultant, LIHTC or financial consultant, and construction manager or consultant. Payments to a relocation consultant, historic tax credit consultant or LEED certification consultant are not included within PHB caps.

- The portion of the total developer fee in excess of the agreed capitalized fee is the deferred fee. For example, if the cash fee is 9% and the total fee is 15%, then the maximum deferred fee is 6%. Typically the deferred portion of the fee is paid over time from cash flow after priority debt service payments.

- **Replacement Reserve**
  - PHB will underwrite projects so that the capitalized replacement reserves and the ongoing contributions to replacement reserves can be expected to sustain the project without recapitalization for twenty years. This reflects PHB's long term interest in project sustainability and tenant stability. A capital needs assessment for existing projects or projects involving rehabilitation providing sufficient information for PHB to make that determination is required for all projects at application.
  - PHB recognizes that projects may require greater or lesser ongoing deposits based on the condition of the building after rehab, a building's physical characteristics, the tenant profile, and the amount of capitalized reserves.
  - The balance of the replacement reserve account is not capped at a specific dollar amount, and reserves are available for any long term capital investment in the asset.
  - Replacement reserve accounts are subject to PHB annual reporting requirements.
  - PHB will enter into a reserve account agreement with the owner. The balance in account will remain intact and with the property when the limited partner exits the partnership in syndicated projects.

- **Property Management, Asset Management and Administrative Expense**
  - The maximum standard for a project's combined budgets for property management, asset management and administrative expenses is 40% of operating expenses.
  - Expenses that are included in the combined cap are all the on-site and off-site management expenses; the value of any manager's apartment; organizational overhead and administrative costs; management and administrative payroll, taxes and benefits; tenant screening, marketing and promotion; postage; office supplies; staff training; dues and subscriptions; software; bank charges, telephone; asset management; and all similar management, overhead and administrative expenses. The cap does not include the cost of resident services, maintenance payroll, legal or third party accounting.
  - The definition of total operating expenses for purposes of this calculation includes ongoing contributions to operating and replacement reserves but does not include expenses paid "below the line" as allowed priority payments or paid from the owner's share of cash flow.

- **Resident Services**
  - A "Resident Services Plan" (RSP) must be submitted when the cost of resident services is an operating expense.
  - The RSP will outline the proposed services, specify the FTEs required to provide the services, and provide data supporting the plan.
  - The appropriate plan for the delivery of services and the appropriate expense is expected to be determined on a case by case basis. The allowed expense will be subject to PHB underwriting based on the submitted RSP.

- **Operating Reserve**
  - Historically, PHB allowed an annual "cash flow cushion" to be deducted before determining the repayment due to PHB for loans involving a cash flow split formula, and PHB did not require that funds taken by the sponsor under the cash flow cushion formula remain with the project. For projects that apply for funding/restructure on or after the release date of the Spring 2014 Notice of Funding Availability (NOFA), PHB will eliminate this non-restricted cushion but will allow borrowers to elect to fund an optional project operating reserve.
  - The operating reserve account is intended to provide sponsors additional means to address any urgent, unforeseen expenses at the project.
  - The maximum contribution to this operating reserve account is $250 per unit per annum, capped at the equivalent of 4 years of reserve payments. For example, a 30 unit building's operating reserve account will have a maximum balance of $30, 000.
  - If the balance in this reserve is below the cap for project size, the owner may elect annually to fund within the described annual and overall limits.
  - Funding the operating reserve will be considered a priority payment within the cash flow waterfall ahead of loan payments due to PHB.
  - Once the reserve account is fully funded or the maximum $250 per unit per year investment is made, excess cash flow is split in accordance with loan documents; generally 50% to the sponsor and 50% to PHB.
  - Operating reserves are for the designated project only and may not be applied to other projects in the sponsor's portfolio.
  - Sponsors will provide annual reporting to PHB on the operating reserve account.
  - PHB will enter into a reserve account agreement with the owner. The balance in the account will remain intact and with the property when the limited partner exits the partnership in syndicated projects

- **Priority Payments**
    - Priority payments are defined in the PHB Promissory Note as payments allowed before calculating the payment to PHB under a cash flow split formula. PHB's classification of which payments are priority payment is listed below.
    - Priority payments allowed ahead of the excess cash flow calculation are the Investor Services Fee, Deferred Development Fee, Operating Reserve, Unpaid credit adjusters Repayment of partner loan for excess project development costs, Operating Deficit Guaranty and Tax Credit Guaranty, and replenishment of project reserves.
    - Payments classified as non-priority and paid from the Sponsors share of excess cash flow include the Partnership Management Fee, Payments on Sponsor Loan (typically grants assembled by sponsor and used as a loan to the project),and the Incentive Management Fee.