RESOLUTION NO. 98-058

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF DEC 01 1998

ESTABLISHMENT OF UNDERWRITING GUIDELINES AND DELEGATION OF AUTHORITIES WITH REGARD TO AGENCY LENDING PROGRAMS

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. The Agency Standard Underwriting Guidelines ("the Guidelines") attached as Attachment I are approved.

Section 2. Upon delegation by the City Council of the City of Sacramento to the Acting Executive Director and the Agency Loan Committee of the authorities required by the Guidelines, such delegation is accepted.

Section 3. In implementing the Guidelines, the Executive Director shall assure that actions to approve or reject any Agency loans are in accordance with the Guidelines, adopted Agency loan program rules and all other applicable laws, rules, regulations and policies which govern the use of the funds to be lent.

CHAIR

Valerie A. Burrowes
SECRETARY

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DATE ADOPTED: DEC 01 1998

Attachment I

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

STANDARD UNDERWRITING POLICY

DECEMBER 1998

FOR CITY CLERK USE ONLY

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DATE ADOPTED: DEC 01 1998

Attachment I

STANDARD UNDERWRITING POLICY
CONTENTS

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CREDIT PHILOSPHY

This manual outlines the general credit policies and standard underwriting criteria of the Sacramento Housing and Redevelopment Agency (SHRA). The mission of the lending function of SHRA is to provide constructive extensions of credit to qualified homeowners, developers and businesses to stimulate investment in the Sacramento community. The primary focus of SHRA is the revitalization of low and moderate income areas of the City and County of Sacramento and thus these areas become the target markets for SHRA programs. SHRA strives to serve as a catalyst to fill the gaps in the supply of commercial and residential credit and is dedicated to providing responsive and professional service to all applicants.

In addition to the requirements outlined herein, all loans provided by SHRA are subject to the requirements of the federal and/or local funding sources utilized.

I. GENERAL CREDIT PHILOSOPHY

A. To meet the financing needs of residential and commercial customers in the low-moderate income areas of Sacramento operating in a manner that is consistent with the goals and directives of the SHRA governing bodies.

B. To underwrite loans in a manner consistent with specific applicable policies and prudent underwriting standards, whereby the primary consideration is the ability and willingness of the subject borrower to repay the proposed loan after consideration of all other existing and anticipated obligations.

C. To assess the management ability of the principals of the project, business, and/or management company to assure the ongoing viability of the project/business.

D. To analyze all available collateral, and to require the pledging of worthwhile real and personal property as deemed necessary to adequately protect the interests of SHRA and the public funding utilized.

E. To develop and maintain appropriate due diligence procedures to insure the integrity and validity of all transactions and the documentation associated with these transactions. This includes, but is not limited to, verification of identities, ownership rights, and third party representations, as well as identification and elimination of any and all real and or apparent conflicts of interest involving the party to the transaction.

F. To administer the SHRA lending programs in a manner which continually balances the needs of our borrowers in the markets that we serve and the various competitive factors that exist while maintaining a portfolio that protects the long-term interests of SHRA and the public we serve.

LENDING AUTHORITY

A. Staff Authority

Subject to the rules and restrictions of the respective loan program and the Underwriting Guidelines, the Agency Loan Committee is delegated the authorities, as outlined below in this Section B. These levels of authority apply to Commercial and Residential Loans as well as Facade Grants that are within the standard underwriting criteria.

Position	*Maximum Loan Amount*
Executive Director, or her designee	$100,000

B. Loan Committee and Governing Body Authority.

Subject to the rules and restrictions of the respective loan program and the Underwriting Guidelines, the Agency Loan Committee is delegated the authorities as outlined below in this Section B.

Body	*Maximum Loan Amount*
Loan Committee	Commercial Loans <$500,000 Residential Loans <$1,000,000 or $20,000 per residential unit, whichever is less

C. Governing Body

For all other loans, governing body approval must be obtained.

Body	*Maximum Loan Amount*
City Council or Board of Supervisors	Above $500,000 for Commercial and above $1,000,000 for Residential

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DOCUMENTS REQUIRED

The following documents and information are required to underwrite a loan
(if the information is not provided, the loan cannot be made):

Commercial and Multi-Family Loans

- Loan Application (for the appropriate program).
- Authorization to Release Information
- A Balance Sheet and Profit & Loss Statement for the previous three years. Signed and dated.
- A current Balance Sheet and current Operating Statement (no older than 30 days). Signed and dated.
- Complete Federal Income Tax Returns for the previous three years for the business and corporation, if applicable. Signed and dated.
- A Schedule of Fixed Debt which contains the original date and amount, present balance owed, interest rate, monthly payment, maturity and security for each loan or debt that the business has outstanding.
- Current Personal Financial Statement, past three years tax returns and personal budget for each proprietor, partner and each stockholder with 20% or more ownership of the business In tax credit projects, these are also required from the general partner and/or sponsor.
- Evidence of Site Control or if purchase is part of the proposed project, a copy of the Purchase Agreement for the land or building. If renter, owner's permission must be evidenced.
- Contractor's estimate of cost covering new construction or remodeling.
- Estimated cost of machinery and equipment, if any, to be purchased from loan proceeds.
- Signed 4506 – Request for Copy or Transcript of Tax Form.
- Status of any other financing commitments.
- Organizational status, structure and documentation.
- Fictitious Business Name Certificate and Certificate of Good Standing.
- Business and/or personal credit report.
- Business Plan, where applicable.
- Property Information.
- Market Analysis (for multi-family loans, this must include three "comps" within one-mile radius of site and include comps for "non-restricted" units).
- Pro-forma cash flow statement and operating statements with assumptions (3 years for commercial and 10 years for residential).
- Management plan and resume of management agent.
- For Multi-Family – list of residential property owned in which they have a financial interest over last 10 years citing location, nature of interest and condition of property.
- For Multi- Family – Disclosure of any code enforcement action at properties where borrowing entity has a financial interest.

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SINGLE-FAMILY LOANS

- Loan Application (FNMA Form 1003)
- Purchase Contract (First time Home Buyers)
- Notice of Access to Information
- Credit Report
- Mortgage Credit Analysis Worksheet from first lender, if applicable
- Employment verification and verification of all income and recent paystubs
- Past Three Year's Tax Returns for First Time Homebuyers Programs
- Income Tax Affidavits
- Preliminary Title Report
- Appraisal or staff opinion of value (in case of rehabilitation loan)
- Additional information required for Rehabilitation Loans:
  - Copy of Grant Deed
  - Cost Estimate for Work to be done
  - Verification of Bank Accounts
  - Mortgage Verification Form and copy of current statement showing status of account

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CREDIT HISTORY MATRIX

	A	B	C
MORTGAGE PAYMENT HISTORY	0x30	3X30	4X30
	0x60	0X60	1X60
	0x90	0X90	0X90
Months Reviewed	24	24	24
Bankruptcy	None	2+YRS	2YRS *
Foreclosure	None	3+YRS	2+YRS
Current Delinquency	NO	NO	NO

* IF DISMISSED / DISCHARGED LESS THAN 2 YRS THEN NO MORTGAGE OVER 30 DAYS IN THE PAST 12 MONTHS

	A	B	C
CONSUMER PAYMENT HISTORY	0X30	Some 30's	Some 30's
	0X60	Some 60's	Some 60's
	0X90	2x90 **	3x90 ***
Months Reviewed	24	24	24
Current Delinquency	NO	NO	YES ****

** TWO CHARGE OFFS (defined as instances where a creditor has determined a debt to be uncollectible and "written it off") > $500 IN THE LAST 24 MONTHS O.K. WITH ONLY ONE IN THE LAST 12 MONTHS WITH SATISFACTORY EXPLANATION.

*** THREE CHARGE OFFS > $500 IN THE LAST 24 MONTHS O.K. WITH ONLY TWO IN THE LAST 12 MONTHS.

**** CURRENTLY DELINQUENT ACCOUNTS (NON-CHARGE OFF / COLLECTION) MUST BE BROUGHT CURRENT PRIOR TO CLOSE.

EXCLUDED FROM GRADING:

1. DEBTS DISCHARGED IN BANKRUPTCY
2. ANY CHARGE OFF UNDER $500
3. ANY MEDICAL COLLECTION ACCOUNTS
4. ALL DEROGATORY CREDIT WHICH OCCURRED OUTSIDE THE LOOK BACK PERIOD.

NOTE:

ALL OPEN LIENS / JUDGEMENTS MUST BE SATISFIED PRIOR TO CLOSE.

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COLLATERAL

GENERAL REQUIREMENTS

All loans made by SHRA should be secured with collateral sufficient to ensure loan repayment from the pledged assets in the event that the borrower defaults on loan payments. Collateral should match the debt on a 1:1 basis.

- The Agency will require a perfected security interest (included but not limited to deed of trust, UCC financing statement, guarantees or the equivalent) in all assets purchased with Agency loan proceeds.

- The Agency will obtain appraisals to verify current market valuations of real estate and other assets obtained as security for loans. For the properties taken as the main source of collateral for an Agency loan, the Agency will obtain a full appraisal. Appraisers must be qualified to give the type of appraisal requested and must be otherwise acceptable to the Agency and/or approved by the first lienholder if the first lienholder is another traditional (i.e., financial institution) lender. For other properties taken as collateral (non-primary collateral), the Agency will accept a short-form of appraisal or opinion of value. For single-family rehabilitation loans, the Agency will accept an opinion of value.

- The Agency must have an insured lien position (ALTA lender's title policy or its equivalent for first deeds of trust or mortgage position) on all real estate taken as collateral.

- The borrower must obtain and provide the Agency with proof of adequate, extended coverage fire and hazard insurance covering the maximum insurable value of the property with SHRA named as loss payee for all real estate and personal collateral. If the property is within a flood plain, the borrower must obtain and provide the Agency with proof of flood insurance sufficient for federally insured loans.

- In lease situations, the Agency will assign no value to leasehold improvements unless a first position on the underlying leasehold estate is perfected by a security instrument on the leasehold estate. The Loan Committee will approve loans secured solely by liens on leasehold estates only if the borrower demonstrates financial capacity that is significantly greater than that of the typical borrower. The Agency will require leases on subject business locations will be required as deemed necessary based on the overall strength of the credit.

- The Agency will not require a borrower to obtain life insurance on a loan or to assign borrower's life insurance proceeds except when the age or health of the borrower or his or her importance to the company adds significant risk to the continuation of project or business in their absence.

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VALUATION GUIDELINES

Because of costs of liquidation, time delays, and the fact that the highest price is rarely obtained at a distress-type sale, discount rates may be applied to estimate the value of the collateral being pledged against the loan at the time of origination. The discount rates used to value the collateral are based on the anticipated ease of liquidation and the likelihood that the asset will maintain its value over time. In most instances, however, collateral will be evaluated based upon appraised value determined at the time of the loan.

Commercial and Multi-Family Real Estate

When SHRA receives a first lien on a piece of commercial property, the collateral value of the property will be valued at 100% of the fair market value of the property as determined by a third party, objective, independent appraisal. In many instances, SHRA will be in a second or lesser position behind a bank or other lender(s). In those instances, the collateral value of the property will be 100% of the fair market value of the property, minus the senior lien(s). In instances where SHRA is in a second or lesser position, careful consideration should be given to the amount of the senior lien(s) for if foreclosure does occur, SHRA could find itself in the tenuous position of the asset not having sufficient value in foreclosure for SHRA to recapture its investment. SHRA would have to make a substantial payment to the first mortgage holder to satisfy that lien and thus can not count on the unencumbered portion of the property's value when the preceding lien is significant. For this reason, if the preceding lien exceeds 80% other collateral should be secured.

Residential Real Estate

When SHRA receives a first lien on a piece of single-family residential property as additional collateral for a commercial or multi-family loan, the Agency will consider the value of the property for collateral as 90% of the fair market value of that piece of property as determined by an independent, outside appraisal. If there is an existing senior lien, the collateral value of the property will be 90% of the fair market value minus the amount of the existing senior lien

If the senior lien(s) encumber more than 70% of the fair market value of the property, the Agency will consider the collateral value of the property to be zero. The Agency's position behind a relatively large senior debt minimizes the possibility of retrieving much, if any, of the loan amount.

If the loan is to be made for and secured by a single-family property, the Agency will consider the collateral value of the property to be 100% of its fair market value.

Personal Property

In order to provide security for a commercial loan for business uses or to provide additional security for real estate secured loans, it is necessary to look to sources other than real estate. In such circumstances, the Agency may accept machinery and equipment and inventory and receivables as collateral or additional collateral.

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The Agency will consider the collateral value of machinery and equipment to be 50% of fair market value as determined by an independent source, such as appraisal or an estimate from a dealer familiar with that type of equipment, as adjusted for its age and condition. If there is a senior lien on such personal property, the Agency will consider such its collateral value to be zero.

Because of the Agency's difficulty in tracking and collecting inventory and receivables in liquidation, the Agency will not accept inventory and receivables as collateral, except as provided in the instruments securing interests in real property. As additional collateral the Agency will consider the collateral value of inventory and receivables to be 20% of the face (or wholesale) value. If there is a senior lien on such personal property, the Agency will consider such its collateral value to be zero.

Guarantees

The Agency will, in some instances, require personal guarantees from the principals of the business (or the development team) seeking the loan, as additional security for the loan. On all commercial and multi-family projects, the Agency will require personal guarantees of the principals who own 20% or more of the project or of the business that owns the project. The guarantors of the loan must have assets located in the United States. The Agency will consider the guaranty to have a collateral value of 50% of guarantor's the liquid assets located within the United States and 20% of the guarantor's non-liquid assets located in the United States.

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DOCUMENTED COMPENSATING FACTORS

Underwriters have the dual responsibility of mitigating loss exposure, while at the same time, ensuring that the agency's long-term community objectives are achieved. The dual roles of the underwriter do not always complement each other; as a result, underwriters are often faced with decisions that conflict with one or more of their duties. Due to the diverse nature of loan submissions and the subjective aspects of the position, underwriters must rely on individual judgement and prudent underwriting standards to make balanced decisions. One of the most important tools available to aid underwriters in their decision making process are compensating factors. Compensating factors are loan attributes that serve as the basis of loan approval and are critical elements to approval of loan terms that fall outside of the box (e.g. DSC ratio exceptions). In short, compensating factors are those elements of a loan that, when weighed against the proposed exception, mitigate the inherent risk of the exception.

Additionally, documented compensating factors provide insight into the underwriters decision making process and serve as a tool for expediting loan approval by SHRA management and/or loan committee. SHRA underwriting staff are required to clearly and concisely address all compensating factors supporting their recommendations for loan approval or loan exception.

EXAMPLE:

The project's Debt Service Coverage Ratio (DSCR) is slightly below underwriting standards	=	Increased Capacity Risk
Possible compensating factors for Debt Service Coverage exception	=	Good collateral position and excellent credit history (e.g. 0x30 mortgage for the last 7 years).

<u>Compensating Factors</u>
<u>Sample List</u>*

Credit History
DSCR
Loan to Value (1st)
Combined LTV (2nd)
Current Borrower
Documented Cash Reserves or other liquid assets
Management Experience
Community Benefits Of Project

*This list is not all-inclusive. There are numerous loan attributes that can be considered compensating factors for loan approval; however, underwriters must be prudent when using a compensating factor to mitigate a loan exception. The question, "Does this compensating factor truly offset the additional risk being absorbed by the agency?", should be asked when assessing whether a loan exception is warranted.

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COMMERCIAL AND NON- OWNER- OCCUPIED RESIDENTIAL GUIDELINES

LOAN PRODUCTS: Commercial and Non Owner-Occupied Residential Loans

FUNDING SOURCE: Commercial - Tax Increment, Community Development Block Grant
Multi-Family – Housing Trust Fund, HOME

LOAN TERM: Up to 30 years

LOAN RATE: Varies dependent on project's need

PURPOSE: Acquisition, rehabilitation or construction of multi-family or commercial property

COLLATERAL: Minimum of Deed of Trust on the Property

EXISTING BUSINESSES (OVER 3 YEARS IN BUSINESS) AND NON 0WNER-OCCUPIED

BORROWER'S CREDIT QUALITY	TARGETED DEBT SERVICE COVERAGE	MAXIMUM COMBINED LOAN TO VALUE (of subject property)*	COLLATERAL COVERAGE (on all collateral pledged)*
A	Based on recent 2 years financials – 1.15	90%	1:1
B	Based on Most recent 1 year financial – 1:1.2	90%	1:1
C	Based on Existing or Projected - 1: 1.25	75%	1: 1.25

NEW BUSINESSES (UNDER 3 YEARS IN BUSINESS)

A	All financials + Projection – 1:1.2	90%	1:1.1
B	All financials + Projection 1:1.25	90%	1.1.2

The Loan Committee will have the authority to approve exceptions to these guidelines (see Compensating Factors). The minimum underwriting thresholds for the Loan Committee will be a 1:1.1 Debt Service Coverage Ratio, a 95% Loan to Value Ratio for A and B credit borrowers and 80% for C credit borrowers, and a 1:1 Collateral Coverage Ratio.

***These ratios are the maximum limits for the commercial/non owner-occupied residential loan programs. Multiple programs have designed to meet specific needs and thus the ratios may be lower in specific program guidelines.**

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OWNER-OCCUPIED GUIDELINES

LOAN PRODUCTS: REHABILITATION LOANS

FUNDING SOURCE: Community Development Block Grant, HOME

LOAN TERM: Up to 20 years

LOAN RATE: Deferred payment loan – up to 20 years, currently 4%

PURPOSE: Acquisition and/or rehabilitation of single-family property and multi-family properties up to and including four units.

COLLATERAL: Deed of Trust on the Property

CREDIT QUALITY:

BORROWER'S CREDIT QUALITY	TARGETED DEBT/ INCOME RATIOS	MAXIMUM COMBINED LOAN TO VALUE
A	55%	110%
B	50%	110%
C	45%	110%

The Loan to Value ratios above are the maximum allowed. Lower ratios may be dictated by the specific program guidelines and participating lenders

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