Announcing Immediate Changes to VHDA's Underwriting Practices

Minimum Architectural & Engineering Submission Requirements:

VHDA always prefers the submission of a complete loan application package. There has been an increasing tendency of many applicants to delay submitting full architectural and engineering plans with a loan application. The need for a robust set of plans early in the process is critical to a thorough review of a proposed project prior to VHDA committing financially to the transaction. Having a full set of architectural and engineering plans at the time of application will greatly enhance our ability to underwrite the loan in a timely fashion, and to avoid unanticipated circumstances later in the process.

Accordingly**, all loan applications must now be accompanied by a full size set of plans and specifications that are deemed to be at least 85% complete**. The loan underwriting process will not officially begin until such time.

For purposes of this requirement, VHDA deems a set of plans to be 85% complete when:

1. All disciplines required to complete the scope of work have been incorporated into the set. This includes, but is not limited to, Civil, Structural, Architectural, Mechanical, Plumbing, and Electrical.
2. All VHDA Minimum Design and Construction Requirements, and all selected LIHTC amenities (if applicable) have been incorporated into the set.
3. Sufficient details and information have been provided to allow the general contractor to obtain "hard bid" pricing from subcontractors, but may not yet include "value engineering" (if applicable).
4. All necessary details and information addressing constructability and jurisdiction/building code requirements have been incorporated, though final comments from the *Authority Having Jurisdiction* may not yet be incorporated into the set.

In addition to an 85% set of plans and specifications, the submission must include:

-Scope of work
-Unit by unit survey*
-Phase 1 environmental report
-Geotechnical report (for new construction and additions)
-Structural report*
-Roof condition report*^
-Termite report*
-Plumbing video report*

**Applies to renovation and adaptive reuse only* *^if roof is over 5 years old*
Additional submission guidelines for renovation deals are forthcoming.

The review process must be completed (no "open" items) before a commitment will be issued.

In addition, rate lock will not be allowed until VHDA is in receipt of 1) final site plan approval; 2) the signed contract set of plans and specifications; and 3) the executed VHDA construction contract with Trade Payment Breakdown

A more detailed description of the procedures can be found at Architectural and Engineering Review Process.

Determining Contract Costs:

Owners often do not have firm cost estimates from contractors at the time of loan application submission, which can sometimes be the result of having an incomplete set of plans. Without firm construction cost estimates VHDA is underwriting a development in which the budget is still a work-in-progress. In the past, the owner has often not reached agreement with the contractor until the day of closing when the construction contract is signed. By this point in the transaction VHDA is financially at risk as the rate has been locked on a development whose costs are based only on an estimate. This approach leaves VHDA and borrowers to close with a budget that may be subject to increased funding requirements, with no certainty as to funding sources.

It is now VHDA's intent to have firm construction cost estimates prior to final loan approval. Going forward, loan applications may be submitted with the owner's *estimate* of construction costs. However, **prior to final VHDA loan committee approval, the owner will submit a "good faith estimate" from one or more contractors based on the plans submitted during the review process**; estimates will be provided on the contractor's company letterhead and include an updated plans index with the latest revision dates. The owner should keep VHDA and the contractor informed of any updates to the "85%" plans and specifications to ensure an accurate estimate.

After the loan commitment and documents have been issued, **but before VHDA will lock its rate,** the owner will 1) obtain final site plan approval, and 2) submit a fully executed VHDA construction contract with Trade Payment Breakdown based on the "contract" set which will incorporate any revisions to the "85%" set. Any further changes will be processed through a change order. Owners should assume that any cost increases will be paid with additional equity.

Self-Performance:

There have been a number of instances in which an owner has sought to contract for labor or material outside the VHDA construction contract. We have found this to be counterproductive to the coordination between owner and contractor, and introduces unnecessary complexity and risk to VHDA. The VHDA loan documents do not contemplate such an arrangement; therefore VHDA effectively loses control over a portion of the work being performed. When work is done by the owner outside of the contract, the work or material is not part of the general contractor's requisition which makes inspecting and funding the work as part of the normal draw process problematic. **Accordingly, VHDA will no longer allow the owner to contract for labor or material outside the VHDA construction contract.**

Direct Payments to Contractor:

VHDA has observed several situations in which owners have chosen to withhold a contractor's payment once the title company wires funds to the owner, even though such disbursements have been approved by all parties in connection with a draw requisition.

In the future, all approved contractor requisitions will be made directly to the general contractor through the VHDA title agent. VHDA will add an affirmative statement on the owner's application for disbursement that acknowledges direct payment to the general contractor.

Contingency Requirements:

The potential for cost increases through approved change orders must be accounted for in the development budget. As such, **all VHDA construction loans will require that an owner contingency of at least 5% of the construction cost be included in the development budget for a new construction or adaptive reuse project, and 8% for a rehabilitation project**. The contingency line item will be held and disbursed by VHDA. The minimum contingency assumptions described here may be adjusted upward based on deal specific circumstances.

VHDA will size its loan on not more than 95% of the approved Total Development Costs before contingency is added which will allow for a full funding of the VHDA loan in the event the contingency is not fully utilized.

Retainage:

Any construction draws administered by VHDA will require retainage to be held against the undisbursed VHDA loan proceeds. This will apply to equity draws and other lenders' funds.