NSP Revolving Loan Fund

Implementing the Neighborhood Stabilization Program's Revolving Loan Fund

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Introduction

In 2009 the Authority received over $49 million dollars of Neighborhood Stabilization Program (NSP) funding through the U.S. Department of Housing and Urban Development (HUD). Funding was authorized by Title III of the Housing and Economic Recovery Act of 2008 (HERA). In 2011, the Authority received an additional allocation of NSP funding in the amount of $5.6 million (NSP3) through the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The purpose of the NSP program is to provide assistance to stabilize communities adversely affected by the foreclosure crisis by funding the acquisition and redevelopment of vacant, abandoned, and foreclosed properties in the areas hardest hit. NSP funding is a special allocation of HUD’s Community Development Block Grant Program (CDBG). CDBG funds can be used for housing and economic development projects. At the state level, the CDBG Program is administered by the Department of Commerce. The state’s CDBG program is predominately structured to fund economic development projects and has over recent years phased out the housing component from their program design. In light of this, the Authority with its housing development expertise in particular its administration of the HOME Program, which is a HUD affordable housing program, administers the NSP programs on behalf of the Department of Commerce.

In order to address the destabilizing issues as quickly as administratively possible, HUD imposed stringent deadlines on both funding rounds to expedite the inflow of the financial assistance into distressed communities. The deadlines imposed for the expenditure of NSP funds are far more stringent than what is typically required by HUD for its entitlement programs.

<table>
<thead>
<tr>
<th>Funding Round</th>
<th>Amount Allocated</th>
<th>Expenditure Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSP1</td>
<td>$49,158,407</td>
<td>March 16, 2013</td>
</tr>
<tr>
<td>NSP3</td>
<td>$5,615,020</td>
<td>50% expended by March 4, 2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% expended by March 4, 2014</td>
</tr>
</tbody>
</table>
Initial NSP Program Design

To meet program objectives and goals, the Authority awarded NSP funds to over 45 organizations across the state through a competitive request for proposal (RFQ) process to undertake eligible activities in eighteen counties. Throughout the implementation of the NSP program, HUD has released revisions to the regulations and several policy updates regarding program requirements. When HUD initially released the NSP regulations, it was required that all program income funds received after July 30, 2013 were required to be returned to the Treasury. This requirement was revised by HUD in June of 2009 with several amendments to the regulations. The regulatory revisions were issued in the NSP Bridge Notice (Docket No. FR-5255-N-02) that was issued 8 months into the program, in which the requirement to return program income earned after July 30, 2013 was repealed. This revision to the regulation allowed for the Authority to permit its funding partners to retain the program income earned to use for additional eligible activities. One requirement that was not waived however is the requirement to expend all program income funds on hand prior to drawing down additional grant funds through the Treasury account.

Program income as defined by HUD in 24 CFR 570.500 is the following types of revenue generated from the use of NSP dollars:

Program income includes, but is not limited to the following:
1. Proceeds received from the sale or long-term lease of real property;
2. Proceeds from the disposition of equipment purchased with NSP funds;
3. Gross income from real property that is used for rental; less incidentals cost (i.e. operating/replacement reserves, maintenance, debt, vacancy, management fees, utilities etc.);
4. Payments of principal and interest on loans made with NSP funds;
5. Proceeds from the sale of loans made with NSP funds;
6. Proceeds from the sale of obligations secured by loans made with NSP funds;
7. Interest earned on program income pending its use; and
8. Recaptures on sales of homes pursuant to enforcement of NSP affordability requirements.

Current Status of the State's NSP Program

Although the earning of program income by the Authority's funding partners is a beneficial attribute of the State's program design, it has the potential to be problematic. The vast majority of NSP rental properties funded are scattered single family homes. After operating expenses are accounted for the program income generated by these properties is the net income received by the owners. These owners on average, own less than 10 properties each. HUD regulations do not allow for program income to be "stock piled" for a later use. Due to the NSP requirements for eligible properties, without acquiring additional foreclosed properties, it is extremely difficult for owners to identify additional projects on which to expend NSP program income. Due to program constraints, the monthly net income generated from
these small portfolios is not sufficient enough for owners to be able to expend program income on additional eligible NSP activities.

In addition to the rental properties funded, the Authority also awarded funds to organizations to acquire and redevelop foreclosed and abandoned properties to provide homeownership opportunities to eligible buyers. When homeownership units are sold, the proceeds received at closing are considered program income. In contrast to the situation pertinent to rental properties, homeownership properties are earning entities large amounts of program income. Several funding partners have generated such large amounts of program income, it may not be administratively feasible for them to expend all their program income and unspent grant funds prior to the federal expenditure deadlines. The table below displays the current balances of the Authority’s NSP funding.

**Fund Balances as of 12/31/11**

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Balance of Grant to Expend</th>
<th>Balance of Unexpended PI Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSP1</td>
<td>$6,726,170.00</td>
<td>$1,623,721.00</td>
</tr>
<tr>
<td>NSP3</td>
<td>$5,322,267.00</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Solutions for Consideration**

**Solution 1: Reallocating Funds**

One possible solution would be to require all funding partners to return all program income to the Authority. The Authority could then re-allocate funding to additional funding partners to undertake NSP eligible activities to expend the funds. There a several disadvantages that arise when taking this approach. The most significant is due to regulatory requirements, the Authority would have to disburse all program income funds prior to drawing down additional funds from the treasury. This would place a huge administrative burden on Authority staff to reallocate the funding structure of the NSP program in HUD’s DRGR system. (The DRGR system is an on-line database used by NSP grantees to post and amend action plans, establish activity budgets and responsible entities, draw finds from the Treasury, and submit quarterly reports.) Each time a draw is processed, time consuming funding adjustments would be required in the DRGR system. In addition to the administrative complications, the re-allocation of funds would require a competitive method for redistribution to be implemented and “learning curve” issues would arise as new entities adapt to learning program requirements. Over all, this solution would in effect be time consuming, burdensome, and does not allow for a quick enough turn-around time to ensure federal expenditure deadlines are met.
Solution 2: Authority Directly Undertakes an Financing Mechanism Activity

Another approach would be for the Authority to require all program income funds are returned so the Authority could undertake an activity not currently being utilized under the State's current program design. There are several allowable uses of NSP funds that the Authority did not incorporate into its program design when it implemented the program. NSP allows for the establishment of funding mechanisms to be utilized for the purchase and redevelopment of foreclosed properties. These mechanisms include providing loan loss reserves, shared-equity loans, and down payment and closing cost assistance. The Authority included in its Action Plan the ability to undertake activities directly, in addition to awarding funds to other entities to meet program objectives. To date, the Authority has not exercised the option to undertake activities directly. The Authority chose not to include a majority of the financing mechanism tools available due to their unfamiliarity and the lack of experience our funding partners had undertaking activities of similar scope and nature. Deciding to utilize one of these options at this point in time would be a large undertaking due to the lack of experience and amount of research required to launch these activities. One financing mechanism tool the Authority does have extensive experience with is the HOME Program down payment and closing cost program which it administers directly. A similar program could be established with NSP funds however regulatory requirements limit the amount of NSP dollars that can be provided for down payment assistance to 50% of what is required by the primary lender. This prohibition limits the number of clientele that can be serviced since additional funding sources would have to be leveraged in order for the program to be successful. This factor, creates the strong potential to delay expenditures since borrower approval is contingent upon their ability to secure additional funding.

Solution 3: Establishing a Revolving Loan Fund (RLF)

The chosen solution is for the Authority to require the owners of rental properties earning program income and for entities in jeopardy of meeting grant expenditure deadlines due to excessive program income earned from the sales of homeownership units to remit those funds to the Authority. The Authority will use the program income remitted to establish a revolving loan fund. The regulations of the NSP program are unique in that they allow for the creation of a revolving loan fund. Other HUD programs administered by the Authority prohibit the use of funds in this manner. NSP regulations permit the capitalization of revolving loan funds with program income and do not require that program income funds in revolving loan accounts are expended prior to expending grant funds from the Treasury. In addition, program income funds used to capitalize the account and replenish it are not subject to the federal expenditure deadlines. HUD regulations for RLFs are flexible and allow RLF's to be established to serve any NSP eligible purposes.

The creation of the revolving loan fund will be beneficial in the following ways:

- It will create a sustainable long term funding resource available to be utilized by affordable housing developers.
- It will provide opportunities to expand the State’s supply of affordable housing stock.
Recent reductions to the funding allocated for the HOME Program (38% for FY 2012) will have an effect on the number of projects funded and the staff time necessary for daily oversight. Creation of the RLF will help to fill that void through the need for additional responsibilities for staff.

- 10% of PI can be used by the Authority for administrative expenses to cover operation costs.
- Program income funds used for the revolving loan are not required to be expended prior to drawing down additional grant funds from the treasury. This would allow our funding partners to keep expending grant funds to ensure the federal expenditure deadlines are met preventing the State from losing any of its allocation.
- Pooling together the small amounts of PI earned each month by property owners will allow for the funds to be spent for substantial contributions and have a greater impact.
- In a time when we are confronted with budget cuts and reductions to federal allocations this loan portfolio can be used to leverage other scarce financial resources such as other public and private funds to continue the efforts of the NSP program by funding additional projects.
- The establishment of this loan fund will allow the Authority to have control and maintain complete oversight of the program income generated by our funding partners to ensure it is expended in a manner that meets all federal and state requirements.

Planning & Implementation

Implementing the establishment of the revolving loan fund requires a lot of planning and collaboration between Authority divisions and staff members. To ensure this solution was a feasible one it was necessary to determine what is required for federal compliance, how the creation of the RLF would impact the different departments of the agency, who would be responsible for each piece, and what data was needed to make necessary determinations. To get things started the following steps were undertaken:

- Research of compliance issues
- Creation of a plan
- Collaborated with staff to figure out logistics
- Data collection and analysis
**Step 1: Researching Federal Compliance Requirements**

The first step taken to begin the process was to research all the requirements and regulations set in place by HUD to ensure the establishment of the loan would be compliant with HUD regulations. Since prior to NSP the Authority had not administered a program that allowed for the establishment of a RLF this was unchartered territory that needed to be thoroughly researched. To get a feel for the level of complexity this undertaking would require, I discussed the creation of the RLF with our local HUD representative and a couple of local governments that have established small RLF’s with their CDBG allocations. These discussions led me to believe the creation of the RLF was a realistic goal and it would be able to be designed to suit the Authority’s specific needs.

I received permission from executive management to attend a three day training course titled “Revolving Loan Funds and CDBG Compliance” in Dallas, Texas that took place on September 20-22, 2011 which was hosted by Training and Development Associates. The training consisted of a thorough review of the regulatory requirements for RLFs. Course criteria consisted not only of regulatory requirements but also included in depth case studies involving analysis and discussions of actual situations and factors needed to be taken into consideration when establishing RLFs. This training was an extremely valuable resource I was able to access to make the decision to continue to move forward with the process of establishing the RLF.

**Step 2: Departmental Collaboration**

In order to begin the process of establishing the RLF, collaboration with the Authority’s Finance, Underwriting, and Compliance Monitoring departments was necessary to determine logistics, timing, cost, and staff issues. For implementation to be successful and for the transition period to go as smoothly as possible it is crucial for the roles and responsibilities of the different divisions to be communicated clearly. The importance of the effect the establishment of the RFL will have on all divisions cannot be understated. The benefits of establishing the RFL and its contribution towards the Authority’s goals to provide affordable housing for the citizens of South Carolina had to be communicated to the affected divisions to persuade them to devote divisional resources to accomplish the establishment of the RLF. The decision to establish the RLF reached by the staff of the Development Division was in effect meaningless until the necessity and benefit of its creation was communicated to and agreed upon by the other divisions needed to carry the decision to fruition.

Collaboration among the following divisions identified in red in the organizational chart below was necessary to begin the implementation of the RLF:
Collaboration with Finance Division

Collaboration with the Director of the Authority's Finance Division, Richard Hutto was necessary to identify and work out several logistical issues such as timing (see Exhibit 1), the budget approval process, and staff issues resulting from the additional tasks required for loan servicing, accounting, and reporting requirements. This collaborative effort resulted in the identification of the crucial components of the plan that needed to be prioritized to begin the process of establishing the budget for its presentation to the Budget and Control Board for approval.

One of the required components is the establishment of the budget and its presentation to the Budget and Control Board for approval. Although the loan funds are generated from federal funds and not from state appropriated funds, in order for the outflow of cash from the account to begin, approval of the budget must be granted. Since the Authority's budget for fiscal year 2013 has already been approved, this will require an amendment to the budget. Once the budget is determined and presented to the Budget and Control Board it is expected to take 120 days to receive approval. To project revenue and determine the budget amount to request, collaboration with the Development Division's underwriting staff was the next step required to move forward.

Another crucial component is the opening of the bank account. Program income regulations require that the revolving loan funds are held in an interest bearing account that is separate
from other Authority funds. It was determined during the meeting that it will take about 90 days to set up the bank account and that it is not necessary to have the budget for the RLF approved by the BCB prior to opening the account and depositing funds. Timing for the opening of the account will be coordinated to coincide with the availability of funds for deposit, which is anticipated to occur in July 2012.

The establishment of the RLF will not have a significant impact on Finance Division staff. The division already services a loan fund through the HOME program that is similar in nature to the servicing requirements that will be required to service the NSP RLF. Minor adjustments will need to be made to existing processes and procedures to accommodate the addition of the RLF. 10% of the program income received to capitalize the fund and of the revenue generated from the fund from repayments will be used to cover the costs incurred to administer the RLF.

**Collaboration with Development’s Financial Management Division**

Collaboration with the Development Division’s Financial Management Manager Jeff Maddox was the next step needed to determine revenue projections for both the initial capitalization of the fund and its eventual stabilization. Revenue generated from the collection of net income earned from the Authority’s NSP rental portfolio and excess program income earned from the sale of homeownership units will be used for the initial capitalization and the fund will continue to be sustained from loan repayments (principal and interest) received.

To project revenue as accurately as possible, underwriting criteria for the single family rental properties was created (see Exhibit 2). These requirements become effective as of April 1, 2012 when they will be mandated to property owners. Taking into consideration the newly mandated underwriting criteria, maximum rents, and the average operating expenses for properties based on geographical location, the average anticipated amounts of net income earned per property was determined (see Exhibit 3). The revenue projection model was based on the anticipated net income to be earned based on the average revenue generated and expenses incurred for a typical single family 3 bedroom home. To arrive at the projected amount, underwriting staff took a sample (31 of the 161 properties in the rental portfolio) and used actual revenue and expense data to project the amount of net income to be earned by the portfolio over the course of the next 12 months. To produce a realistic forecast the sample size selected was determined by the amount data available from property owners that was already comparable to the newly established underwriting criteria. The 31 properties included in the sample size were selected due to the detailed financial statements we had available for those properties that reflected reasonable and accurate expenses that were deemed necessary eligible, and were stabilized financially, meaning they had been leased for longer than 12 months. The properties chosen for the sample were reflective of what the average income and expenses are expected to be once the underwriting criteria are implemented on April 1, 2012. The geographic location was also taken into consideration when selecting the sample size. To account for varying expenses due to location such as taxes, insurance, and maintenance the number of properties chosen from each area of the state were evenly allocated to ensure the data would not be skewed and only relevant to properties located in one geographic location.
Data collected from the Authority’s rental portfolio to project revenue consisted of monthly financial statements submitted by rental property owners demonstrating current revenue and operating expenses, property tax bills, appraisals, maximum rent limits, occupancy restrictions based on household income, and the geographical locations of properties. Based on all of these factors, the projected revenue received during the first 12 months from remitted net income from the rental portfolio is expected to be $499,495.48. Property owners will be required to remit net income throughout the duration of the properties federal compliance period, which for the majority of the properties will be five years. The projection of remitted funds to be received over the course of the next five years is $2,494,477.40.

To forecast the amount of program income that may be available for the capitalization of the RLF received from the sale of homeownership properties, the following factors were considered; the number of unsold homes in the Authority’s portfolio of homeownership properties, the amount of unspent program income already earned by entities with homeownership activities, and the average length of time properties were listed on the market. The potential amount of program income available to capitalize the fund from the sale of homeownership units can be as much as $5,748,721.00.

The calculated projections for the program income to be remitted from the rental and homeownership portfolios were presented to Richard Hutto, Director of Finance. The determination was made that to ensure budget authority from the BCB we would request an annual budget of $4 million dollars for the RLF.

**Step 3: HUD Approval**

Upon completion of the revenue projection process the next requirement is to request formal approval from HUD through an amendment to our NSP Action Plan. All action plan amendments are requested and approved on-line through HUD’s Disaster Recovery Report System (DRGR). The amendment process will formally notify our local HUD representative of our intent to establish the fund and the anticipated amount of the RLF’s budget. Preliminary discussions with the Authority’s HUD representative have been ongoing and this part of the process will be to receive formal approval and to disclose the amendment to public through the DRGR system which will incorporate the RLF into the Authority’s federal quarterly reporting requirements.

**Step 4: Budget and Control Board Approval**

With revenue projections determined, the Authority’s Director of Finance, Richard Hutto will present the budget amendment to the Budget and Control Board for approval. Once the amendment has been requested it is anticipated to take up to 120 days to receive approval. The importance of accurately projecting the revenue of the RLF is crucial so that additional requests for amendments due to low projections are not necessary. It is assumed that all revenue that flows in will flow out, therefore under estimating the outflow of cash that will be
required will cause delays in loan approvals and may limit the amount of loans that can be approved at certain intervals in time.

**Step 5: Capitalizing the RLF**

The Authority will be ready to begin the initial capitalization of the RLF as soon as the bank account is opened. The newly created underwriting criteria for the single family rental properties will be released to property owners by the end of February 2012, and remittance of earned net income will begin at the end of the following quarter in July. The Authority will begin requiring that entities with excess program income in danger of not meeting expenditure requirements for their grant funds remit program income as of September 1, 2012. This will give those entities a 6 month window to expend their remaining grant funds prior to the first federal expenditure deadline of March 16, 2013.

**Capitalization of the RFL**

- **PI from Rental Units** → **RLF**
- **RLF** → **PI from Sale of Homeownership Units**
- **PI from Sale of Homeownership Units** → **Approved Loans**
- **Approved Loans** → **Loan Repayments (Principal & Interest)**
- **Loan Repayments (Principal & Interest)** → **Approved Loans**
- **Approved Loans** → **PI from Rental Units**

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Step 6: Awarding loans

The process for awarding loans will be structured very similar to the established processes and procedures we have in place for the HOME program. HOME loan documents and applications will be revised to meet the requirements of the NSP program. Eligible applicants will be entities that completed NSP activities in the Authority's NSP 1 and NSP3 programs. This pool will eventually consist of over 45 organizations that have experience with the NSP program that are eligible to apply for loans.

Loan applications will be accepted twice a year and will be reviewed on a first-come first-serve basis. Maximum loan amounts will be $175,000 and the terms and interest rates will be determined during the underwriting evaluation and based on the amount of debt service the project can support. Loans will be awarded for the acquisition and rehabilitation of foreclosed and/or abandoned properties located in the designated areas of greatest need identified in the State's Action Plans.

Different components of the RLF will be managed by different divisions in the Authority. The Development Division's Award Management staff will be responsible for HUD approval, DRGR data input, HUD reporting requirements, creation of the application and loan documents, awarding the loans, daily project management of the completion of the project, processing draw requests in DRGR.

The Development Division's Financial Management staff members will be responsible for the underwriting requirements, and collection of net income earned from the rental portfolio for deposit into the loan account. The Finance Division will be responsible for obtaining budget approvals from BCB, maintaining the bank accounts, accounting requirements, and loan servicing. The Compliance Monitoring Division staff members will be responsible for the on-site monitoring reviews of placed in service rental properties funded by the RLF throughout the compliance periods which range from 5 to 10 years.

Step 7: Stabilization of the fund

The anticipated time to begin awarding loans is January 2013. Loans will be awarded for the acquisition and rehabilitation of foreclosed residential properties. On average, NSP1 funding partners spent $150,000 to acquire and rehabilitate single family rental properties. The same average is expected to occur for projects awarded through the RLF. The availability of the actual acquisition and rehabilitation expense data from completed NSP1 projects led to the determination that the average loan amount awarded through the RLF will be around $150,000, at a 1% interest rate, amortized over a 30 year term. Loan repayments will be deferred for 90 days after project completion to allow for lease-up to occur prior to beginning repayment. Once awarded, it is anticipated that the acquisition, rehabilitation, and lease-up will take 6 to 9 months per property. Based on this time frame repayment of the initial loans awarded will begin around September 2013 and the RLF will reach stabilization by January 2015.
Impact of the RFL

The effectiveness of the RLF will be measured at both the federal and state level through various reports the Authority is required to produce as administrator of the NSP program. The revenue earned from the RLF will be NSP program income, which is required to be tracked and reported on for as long as it is being expended and earned. Program income is perpetual, it never loses its federal taint and is always subject to the NSP federal regulations and reporting requirements. At the federal level the RLF will have an account established in HUD’s DRGR system, which in essence puts the RLF on HUD’s radar. Once established in the Authority’s Action Plan in the DRGR system, the RLF will be incorporated into the NSP quarterly reports which due to the federal government’s recent initiative to improve transparency and accountability for the expenditure of federal funds, are required to be disclosed to the public. The quarterly reports are utilized by HUD to review funded activities, prepare reports to Congress and other interested parties, and to ensure program compliance. The NSP quarterly report is used by the Authority to report accomplishments of funded activities, such as the RLF.

The completion data of the properties funded through the RLF such as the end use (rental or homeownership), number of units produced, demographics of households benefitting, dollars expended, and geographic locations served are all included in the report as specific federal performance measurements. HUD also extracts data from the DRGR system to create additional federal reports such as the NSP Production Reports, NSP Snapshots, and the NSP Weekly Commitment and Drawdown Reports which are posted on HUD’s NSP website at:

http://www.hudnsphelp.info/index.cfm?do=viewDataandReports

At the state level the accomplishments of the program will be accounted for in the Authority’s Annual Affordable Housing Statewide Impact Report and the Accountability Report. The Affordable Housing Statewide Impact Report discloses the production, investment, and economic impact that our Agency makes across the state each year. When the RLF is initiated, the dollars expended and units produced will contribute to the overall impact demonstrated by the report.

The Authority recently partnered with the University of South Carolina’s Moore School of Business to validate our 2010 data and determine the agencies economic impact on the State’s economy. An economic multiplier was derived that was utilized to demonstrate that every $100 of direct spending from the Authority’s affordable housing initiatives resulted in a total spending impact of $158 on South Carolina’s economic output. (The South Carolina State Housing Finance and Development Authority’s Fiscal Year 2010 Affordable Housing Statewide Impact Report http://www.schousing.com/library/Pl/ImpactReport.pdf) The creation of this sustainable funding source will generate hundreds of thousands of dollars annually through the course of its existence into the state’s economy. As the number of foreclosures in South
Carolina continues to rise, the RLF will be a resource utilized to continue the efforts already in place by continuing to fund projects designed to stabilize communities and arrest declining property values. The South Carolina State Housing Finance & Development Authority's Impact Report for Fiscal Year 2010 is located at the link below:


The effectiveness of the RLF will also be measured in the Authority's Accountability Report. The key performance measures for each program administered by the Authority vary, based on the specific requirements of the program and its design. The performance measures for the NSP program are shown in the table below which is taken from page 35 of the Authority's FY 10-11 Accountability Report.

<table>
<thead>
<tr>
<th>Neighborhood Stabilization Program</th>
<th>Number of Awards</th>
<th>Dollar Value of Awards</th>
<th>Number of Units Produced</th>
<th>Percent of Budget Awarded</th>
<th>Dollar Awards Per FTEs</th>
<th>Dollar Cost Per Dollar Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSP</td>
<td>18</td>
<td>$41,792,851.00</td>
<td>N/A</td>
<td>100%</td>
<td>$9,287,300.22</td>
<td>$0.007</td>
</tr>
</tbody>
</table>

The establishment of the NSP RLF will create a sustainable resource for the production of affordable housing in South Carolina and continue the stabilization efforts already in place through the Authority's administration of the NSP Program. Recent budget reductions to federal entitlement programs have significantly reduced the amount of funds available to the Authority's funding partners for the production of affordable housing in the state. The reduction to the state's HOME allocation was 38% for FY 2012, reducing the amount available for funding from $6.9 million for FY 2011 to $4.4 million for FY 2012. This trend is not expected to change any time soon and it is expected that the budget for the HOME program will continue to see cuts in upcoming years. (National Council of State Housing Agencies website at http://www.ncsha.org/advocacy-issues/home) In light of current market conditions, the creation of a sustainable funding resource is beneficial now more than ever. The projected annual budget of $4 million will fill a significant void in the reduction funds available due to the recent 2.5 million reduction of the Authority's HOME allocation. The creation of this RLF will contribute towards continued job stability for Authority employees and the employees of the organizations we partner with to develop affordable housing.

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### Exhibit 1: Implementation Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDC Training in Dallas</td>
<td>September 2011</td>
</tr>
<tr>
<td>Initial Departmental Collaboration</td>
<td>December 2011</td>
</tr>
<tr>
<td>Revenue Projections Completed</td>
<td>January 2012</td>
</tr>
<tr>
<td>Underwriting Criteria Mandated to Owners</td>
<td>February 2012</td>
</tr>
<tr>
<td>Bank Account Opened &amp; Budget Approved</td>
<td>June 2012</td>
</tr>
<tr>
<td>Remittance of Program Income Begins</td>
<td>July 15, 2012</td>
</tr>
<tr>
<td>Program Income Remittance from Home Sales Begins</td>
<td>September 15, 2012</td>
</tr>
<tr>
<td>Begin Awarding Loans</td>
<td>January 2013</td>
</tr>
<tr>
<td>Repayment from Initial Loans Awarded Begins</td>
<td>September 2013</td>
</tr>
<tr>
<td>Stabilization</td>
<td>January 2015</td>
</tr>
</tbody>
</table>

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Exhibit 2: Underwriting Criteria

*For NSP Single Family Rental Properties subject to Program Income Regulations*

**Operating Expenses**

Operating expenses are expenses necessary to maintain and keep the property in service. Examples of acceptable operating expense line items are maintenance, repair, taxes, insurance, management fees, owner paid utilities, landscaping, advertising, and security.

Non-cash expenditures such as depreciation and amortization are not to be included as operating expenses and therefore cannot be deducted from gross income. Administrative costs such as payroll, benefits, and related expenses are not eligible.

**Management Fees**

Management fees are limited to 7% of effective gross income.

**Replacement Reserves**

Property owners are required to establish reserve accounts and make monthly contributions from cash flow until the accounts reach the maximum balance amounts listed below. These account maximums are not to be exceeded.

- Rehabilitated properties with 5 year compliance periods - $100 per month until balance reaches $6,000
- Rehabilitated properties with 10 year compliance periods - $100 per month until the balance reaches $12,000

**Vacancy Rate**

A vacancy rate of 10% is required to project effective gross income.

**Effective Dates**

These requirements are effective as of *April 1, 2012*. 
### Revenue Projections for Single Family Rental Properties:

<table>
<thead>
<tr>
<th>Monthly Maximum Rents (actual)</th>
<th>$130,000</th>
<th>12 months</th>
<th>$1,561,332.00</th>
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</thead>
<tbody>
<tr>
<td>Less Vacancy 10%</td>
<td></td>
<td></td>
<td>$156,133.20</td>
</tr>
<tr>
<td>= Effective Gross Income</td>
<td></td>
<td></td>
<td><strong>EGI:</strong> $1,405,198.80</td>
</tr>
<tr>
<td>Annual Expenses Per Unit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Fee 7% of EGI</td>
<td></td>
<td></td>
<td>$98,363.92</td>
</tr>
<tr>
<td>Replacement Reserve $100 per month</td>
<td>$1,200.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Tax</td>
<td>$1,140.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>$951.58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>$200.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>$522.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Expense</td>
<td>$1,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expense:</td>
<td>$5,014.53</td>
<td>161 units</td>
<td>$807,339.40</td>
</tr>
</tbody>
</table>

- **Annual NOI:** $499,495.48
- **Amount To be Remitted over 5 Years:** $2,494,477.40

### Revenue Projections for Homeownership Properties:

<table>
<thead>
<tr>
<th># of Properties currently for Sale</th>
<th>55</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average amounts of PI received at Closing:</td>
<td>$75,000.00</td>
</tr>
<tr>
<td>Potential Program Income to be Earned:</td>
<td>$4,125,000.00</td>
</tr>
<tr>
<td>Current Balance of Unspent Program Income on Hand:</td>
<td>$1,623,721.00</td>
</tr>
<tr>
<td>Total Potential PI Available for Capitalization:</td>
<td>$5,748,721.00</td>
</tr>
</tbody>
</table>