

**AFFORDABLE HOUSING INVESTORS COUNCIL
WATCH LIST: PROBLEM PROJECT CATEGORIES**

Development Phase, including Lease-Up

CODE	CATEGORY	COMMENTS
D1-nn	Construction Delays	Construction completion is more than 3 months behind schedule. <u>NOTE: “nn” is a two-digit number and must be greater than “03”.</u>
D2	Construction Cost Overruns	Exceeds 15% of original contract AND / OR Contingency reserves spent
D3-nn	Leasing Delays	Qualified lease-up is more than 3 months behind schedule. <u>NOTE: “nn” is a two-digit number and must be greater than “03”.</u>
D4-nn	First Mortgage Closing Delay	Closing on first mortgage is more than 3 months behind schedule. <u>NOTE: “nn” is a two-digit number and must be greater than “03”.</u>
D5	Mechanics Liens	Filed lien not covered by indemnity and not cured within 3 months.
D6	Sources/Uses Of Funds	Uses greater than sources by 3% of total development costs or \$100,000 whichever is less.
D6A	Revenue / Expense Variance	A variance of more than 20% between actual NOI and underwritten NOI during the lease-up stage.
D7	Change In Qualifying Units	Any change
D8	Other Litigation	Any lawsuit filed against the Project Partnership that is pending or in litigation/arbitration including criminal lawsuits filed against the GP or any company or subsidiary with common ownership by the GP. Also includes any criminal lawsuit filed against the Property Manager or any company or subsidiary with common ownership by the Property Manager that is pending or in litigation/arbitration.
D9	Bankruptcy	General Partner, Developer, General Contractor, Property Manager or any related entity providing a guarantee has threatened to or declared bankruptcy.

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Operational Phase

CODE	CATEGORY	COMMENTS
O1	Rental Delinquency	Greater than 7% of Effective Gross Income for one quarter or more.
O2	High Vacancies	Greater than 10 % of all units.
O3	Negative Coverage ELIMINATED	CONSOLIDATED WITH O9.
O4	Unpaid Real Estate Taxes	Real Estate taxes, including any PILOT payments, are past due. Indicate whether there is a property tax escrow held by first mortgage lender.
O5	Insurance	<ul style="list-style-type: none"> • Expired property insurance; OR • Inadequate coverage (no earthquake / hurricane / flood insurance coverage where needed; OR • Lack of full replacement coverage; OR • Uninsured casualty loss. • Any non-compliance with first mortgage holder's insurance requirements.
O6	Mortgage or Guarantee Delinquency	Any "must pay" debt service or Guarantee payment more than 30 days late.
O7	Mortgage or Guarantee Default	Default on first mortgage, Guarantee or any subordinated debt
O8	Deferred Maintenance Extraordinary Repairs	Any repairs not budgeted in excess of 3% of EGI or \$25,000.
O8B	Physical Inspection	Any failed physical inspection performed by any funding or regulatory agency.
O8C	Physical Deterioration	Material change in property physical condition based on last inspection by Fund General Partner.
O8D	Physical Deterioration - Safety	Significant life-safety issues that threaten tenants' safety and tax credit compliance; GP obligations and/or reserves are insufficient to cover required repairs.

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Operational Phase

CODE	COMMENTS	COMMENTS
O9	Debt Coverage	Less than a 1.10 DSCR, on an annualized basis. DSCR is calculated thusly: <div style="text-align: center;"> [+ NOI less Replacement Reserves] Divided by Principal and interest payments on the “must pay” debt. </div>
O10	Unauthorized Debt	Any unauthorized liens or unauthorized subordinate debt.
O10A	Perm Loan funded/converted	<ul style="list-style-type: none"> Construction loan term expiring and no replacement financing available (permanent conversion benchmarks can not be achieved). A material change in the amount, term, amortization period, or interest rate of the permanent loan between the time the project was underwritten and the time the permanent loan closes.
O10B	Replacement / Removal of Operating (Lower-Tier) GP	Should be listed and an explanation why they were removed.
O12	GP/Management Agent - Failure to Perform	GP is misappropriating funds or has failed in their obligation to fund pre-DOD expenses.
O13	Required Deposits	<ul style="list-style-type: none"> Required deposits not funded for a three-month period. Adequacy of Reserves is not sufficient.
O14	Other Litigation	Any lawsuit filed against the Project Partnership that is pending or in litigation/arbitration including criminal lawsuits filed against the GP or any company or subsidiary with common ownership by the GP. Also includes any criminal lawsuit filed against the Property Manager or any company or subsidiary with common ownership by the Property Manager that is pending or in litigation/arbitration.
O15	Bankruptcy	General Partner, Developer, General Contractor, Property Manager or any related entity providing a guarantee has threatened to or declared bankruptcy.

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Other Compliance Issues

CODE	CATEGORY	COMMENTS
R1	Loss Of LIHTC	Any non-compliance on 10% or more of qualified units. Includes, but is not limited to: <ul style="list-style-type: none"> • Uncorrected non-compliance with 10% or more of qualified units. • 10% or more of the units off-line, or projected to be off-line, for more than two months within a calendar year. • 8823's issued and not corrected. • 10% or more of the qualified units in a project out of LIHTC rent compliance. • Significant casualty loss that puts more than 10% of the tax credits at risk.
R2	Sponsor Reporting	Last quarterly report missing
R3	Site Visit	<ul style="list-style-type: none"> • Project not visited within the last 18 months for projects rating "Fair" or better on all three aspects of performance: 1) Financial; 2) Compliance; 3) Physical Condition. • Project not visited within the last 12 months for projects rating "Poor" or worse on any one of the three aspects of performance: 1) Financial; 2) Compliance; 3) Physical Condition.
R4	State Certification	No receipt of State annual certification
R5A	IRS Compliance - Audit	Notice of IRS claim, examination or audit.
R5B	IRS Compliance – Tenant Files	Significant risk of non-qualified tenants discovered during review of 100% of the first year TIC files.
R6	Transfers Of Ownership And/Or Reorganization Of Project Sponsor	Any change
R7	Unscheduled Capital Call	Any amount of capital in excess of the legally obligated amount invested into a project.

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Chronic Watch List:

Report on any project having any of the above problems for more than one quarter.
Your Chronic Watch List should include any project that meets the above criteria and has been on the Watch List for more than two quarters:

1. Project Name
2. Location
3. Fund amount allocated to project
4. Last Year of Credits
5. Last Year of Compliance
6. Number of consecutive quarters on Chronic Watch List
7. Narrative of problem
8. Corrective Action taken
