

Risk Rating Instructions & Guidelines¹ (Published April 2026)

Risk Rating Definitions

- A – Excellent:** The investment is performing according to original projections. Any minor variances to underwriting assumptions are properly mitigated.
- B – Average Risk:** The investment is stable but slightly underperforming based on original projections. A “B” rating could be warranted if sufficient mitigants are available to meet the project’s needs, even though risk characteristics outlined in the AHIC Risk Rating Guidelines may support a worse rating.
- C – Weak:** The investment is unlikely to meet original operating or targeted projections. The investment exhibits two or more of the characteristics outlined in the AHIC Risk Rating Guidelines and requires an additional level of oversight, absent sufficient mitigants. In the case of DSC, Occupancy, Program Compliance, Recapture or Construction/Lease-Up, the one issue alone may be sufficient to warrant at least a “C” Rating.
- D – Distressed:** The investment has deteriorated to the point that credits are at risk if not corrected. A minor recapture event could be imminent. The Asset exhibits three or more of the characteristics outlined in the AHIC Risk Rating Guidelines and requires intensive oversight in the absence of sufficient mitigants.
- F – Loss Expected:** Material recapture is imminent.

- The risk profile of an investment should be **evaluated on a quarterly basis**.
- Investments **rated "C" or worse** should be placed on the **watch list** and undergo enhanced monitoring, such as monthly property-level reporting. If a watch list investment shows a positive trend and there is sufficient evidence that its performance will continue, it may be upgraded. An "established positive trend" should span a minimum trailing period of 6 months and, in rare instances, up to 12 months if audited financial results are required for confirmation. An upgrade may be implemented earlier if a particular issue is conclusively resolved (e.g., successful real estate tax appeal, lawsuit resolution, etc.). Investments maintained at a C risk rating for 12 months should be downgraded to D, **unless** adequate mitigating factors support the retention of a better rating.
- Downside Analysis (DSA)** is a *sensitivity analysis* based on current performance, conducted at least annually for stabilized investments performing below break-even or rated C or worse. It models anticipated annual performance to forecast deficits and resources needed to maintain break-even results throughout the remaining 15-year compliance period, using assumptions based on historical and anticipated trends with professional judgment.

Deal Phase	Factors to Consider
Construction Period	<p>Schedule - Monitoring the construction timeline against the original projected placed in service (PIS) and construction completion dates, ensuring there is sufficient cushion to meet the required PIS deadlines (“Cliff Date”), if applicable.</p> <p>Potential Risk Mitigants (for a better rating)</p> <ul style="list-style-type: none"> Construction delays that do not materially impact the delivery of tax credits in the first and/or second year (e.g., ≤10% or ≤\$50,000 reduction) or are considered temporary with the possibility of accelerating the schedule. The construction loan and, if applicable, the perm loan commitment, includes built-in extensions, with no concern about meeting the conditions for extension and/or additional extension option has been granted or is available. No budgetary gaps are anticipated, and the interest reserve remains sufficient. Stabilization and Conversion are generally on pace with original projections, despite delays. Tenant-in-place rehabilitation project with occupancy being maintained, reducing lease-up risk. Projects with a 4% tax credit allocation and no regulatory-required PIS date. Property will not PIS by the Cliff Date, but a new tax credit reallocation/exchange has been approved. A new General Contractor (GC) is needed, but one has already been identified, a contract is in place, or lien waivers have been received from the original GC, and the budget remains balanced.

¹ This Risk Rating Instructions and Guidelines serves as general guidance for determining the appropriate risk rating for a Low-Income Housing Tax Credit (LIHTC) property that may warrant inclusion on a watch list. The application and prioritization of these risk indicators may vary based on each investor's individual risk tolerance, specific investment criteria, and partnership priorities. Investors should consider their unique circumstances and partnership priorities when applying this framework. Professional judgement must be used when assessing a LIHTC investment's risk rating and applying these guidelines.

Budget – Analyzing actual construction costs to ensure the project remains within the original budget. Construction contingency utilization should be on pace with the overall completion percentage.

Potential Risk Mitigants (for a better rating)

- The percentage of contingency utilization is greater than the completion percentage, but the budget remains in balance and sources are considered sufficient to complete the project, with outpacing considered temporary.
 - Consider construction type, method, and stage of progress when reviewing change orders, as changes during the early phases of construction could pose greater budgetary and completion risks.
- General Partner’s (GP)/Guarantor’s depth of experience, financial capacity, and *demonstrated willingness* to fund budgetary gaps on current or previous projects.
 - The GP is committed to directly funding budgetary gaps.
 - The GP is not fulfilling funding guarantees but has identified likely outside sources.
 - The GP is deferring additional developer fee (dev fee) without a timing gap for funding needs.

Lease-Up & Pre-Stabilized Period

Schedule – Tracking initial lease-up performance against original projections to achieve the projected yield, tax credit delivery, and timing for stabilization/conversion.

Potential Risk Mitigants (for a better rating)

- There is sufficient cushion to meet regulatory deadlines (e.g., 100% qualified occupancy in the year of PIS or by the end of the deferred year, etc.) for completing the initial lease-up of the project.
- Lease up delays that do not materially impact the delivery of tax credits in the first and/or second year (e.g., ≤10% or ≤\$50,000 reduction) or are considered temporary with the possibility of accelerating the schedule.
- Strong pre-leasing activity/absorption rates equal to market analyst’s or underwriter’s projections.
- The lease-up reserve(s) are adequate to meet the needs of the project. Achievable rental rates and concessions are in line with original projections.

Pre-Stabilization Performance – Tracking initial operational performance against original projections to achieve stabilization/conversion hurdles.


Potential Risk Mitigants (for a better rating)

- Despite delays, the ability to maintain physical and economic occupancy and Debt Coverage Ratio (DCR)/Expense Coverage Ratio (ECR) ratio relative to requirements of the Limited Partnership Agreement (LPA), permanent, and/or mini-perm financing.
- There are no performance conversion hurdles for permanent financing. Permanent loan conversion is delayed no more than three months from original projections, and/or extension option has been granted or is available.

Operating/ Compliance Period

Operating Performance – Tracking operational performance against original projections and ensuring compliance with all applicable governing provisions and requirements (e.g., *regulatory agreements, LURA, legal documents, etc.*).

Potential Risk Mitigants (for a better rating)

- GP’s/Guarantor’s depth of experience, financial capacity, and **demonstrated** willingness to fund operating deficits. Should a project’s performance deteriorate, additional considerations may be given to the following:
 - DSA indicates that property-level cash/reserves and, if required per LPA, deferral of related-party property management fees (PMF) are adequate to meet the forecasted needs through the compliance period.
 - Ability to correct the rising uncertainties with operational performance within reasonable time frames (*approx. ≤1 year or longer for certain markets – NY, etc.*). DSA indicates that current cash/reserves and deferral of PMFs are:
 - adequate to meet the needs of the project through the anticipated correction period; or
 - sufficient in excess of the Operating Deficit Guarantee (ODG) through the compliance period (*cash + reserves + ODG*).
-  When utilizing mitigants to hold a rating, consider investor’s tolerance, ensure current real estate taxes and insurance, and verify no signs of deferred maintenance or non-compliance.
- Before adding an investment to the watch list, it should demonstrate a declining trend in the following quarter if its operations are at a .95x+ DCR/.85x+ ECR or (\$15,000) or less in annualized negative cash flow in any given quarter, absent sufficient mitigants and adjustments for one-time expenses.
- Investments beyond the 15-year tax credit compliance period with limited compliance and credit risk.

Please see the AHIC Risk Ratings Instructions & Guidelines at www.ahic.org for additional information in employing this Grid.

The best practices described in AHIC guidelines represent the collective views of knowledgeable AHIC volunteers committed to improving the effectiveness of the LIHTC program. AHIC guidelines are not intended to be a substitute for professional (legal or accounting) advice. Outcomes are not guaranteed, and AHIC is not liable for damages relating to the use or application of AHIC guidelines or best practices.

AHIC Risk Rating Guidelines: **DEVELOPMENT PHASE**

2026

RISK RATING	A	B	C	D	F
CONSTRUCTION SCHEDULE	<ul style="list-style-type: none"> Construction is on schedule or ahead of schedule, with no material impact on tax credit delivery, or delays are temporary with potential for acceleration 	<ul style="list-style-type: none"> Construction is ≤ 90 days delayed and / or $\geq 1x$ coverage of equity paid developer fee holdback to equity downward adjuster 	<ul style="list-style-type: none"> Estimated construction completion is > 90 days delayed and / or $< 1x$ dev fee equity and additional source(s) to cover forecasted equity downward adjuster 	<ul style="list-style-type: none"> Construction is > 180 days delayed 	<ul style="list-style-type: none"> Construction has halted, and the GP is unable to remediate
LEASE-UP (LU)	<ul style="list-style-type: none"> LU on / ahead of schedule, with no material impact on tax credit delivery, or delays are temporary with potential for acceleration Rental rates/expenses are in line with projections 	<ul style="list-style-type: none"> LU is ≤ 90 days delayed and / or $\geq 1x$ coverage of equity paid dev fee holdback to equity downward adjuster Rental rates/expenses are in line with projections, or temporary concessions are being used 	<ul style="list-style-type: none"> Estimated LU completion is greater than 90 days delayed, and / or $< 1x$ dev fee equity and additional source(s) to cover the forecasted equity downward adjuster Rental rates/expenses are in line with projections, or temporary concessions are being used 	<ul style="list-style-type: none"> LU is greater than 180 days delayed Rental rates / expenses deviate from projections, raising concerns about meeting the required DSC 	<ul style="list-style-type: none"> Leasing activity halted before 100% Qualified Occupancy, and the GP / Guarantor cannot remediate
CONSTRUCTION BUDGET	<ul style="list-style-type: none"> Sources and Uses (S&U) are in balance Change Orders are $\leq 5\%$ of the original contract, and there are sufficient sources to cover shortfalls Contingency utilization exceeds completion percentage by between 60 and 80 percentage points, but is considered sufficient. 	<ul style="list-style-type: none"> S&U are out of balance, but other source(s) identified and committed Change Orders are between 5%-10% of the original contract, and there are sufficient sources to cover shortfalls Contingency utilization exceeds completion percentage by > 80 percentage points, but still sufficient Mechanics liens exist, and GP is able to mitigate with a bond / deposit 	<ul style="list-style-type: none"> S&U are out of balance with no identified sources, and dev fee equity earmarked as available without acceleration Change Orders are between 10%-15% of the original contract, and sources have been identified to cover shortfalls Contingency has been or will be depleted, but GP/Guarantor can fund Mechanics liens filed and not satisfied within 30 days or cure period 	<ul style="list-style-type: none"> S&U are out of balance with no identified sources to cover shortfalls; LP funding is likely to occur Change Orders are between 15%-20% of the original contract with no identified source to cover shortfalls Contingency has been depleted without the Borrower's ability to fund 	<ul style="list-style-type: none"> S&U are out of balance with no identified source to cover shortfalls; Investment is impaired with a negative yield Change Orders exceed 20% of the original contract with no identified source to cover shortfalls Contingency has been depleted without the Borrower's ability to fund
CONSTRUCTION LOAN	<ul style="list-style-type: none"> Construction loan is anticipated to be paid down according to original projections 	<ul style="list-style-type: none"> Construction loan payoff will miss original maturity, but built-in extension is available, or a new extension has been secured 	<ul style="list-style-type: none"> Construction loan is not anticipated to be paid down by first extension, and second extension is being pursued 	<ul style="list-style-type: none"> Construction loan is not anticipated to be paid down by any agreed extension Debt restructuring is needed / process 	<ul style="list-style-type: none"> Risk of Foreclosure Expired LOC
PERMANENT LOAN / LPA STABILIZATION TEST	<ul style="list-style-type: none"> Permanent loan conversion / Stabilization test is on track according to original projections 	<ul style="list-style-type: none"> Permanent loan conversion / Stabilization test is delayed ≤ 6 months from original projections 	<ul style="list-style-type: none"> Permanent loan conversion / Stabilization test is delayed > 6 months from original projections Notice of Default has been issued Conversion hurdles are required to be modified for conversion 	<ul style="list-style-type: none"> Permanent loan conversion / Stabilization test may be in jeopardy and/or delayed $> a$ year from original projections Original loan terms have changed unfavorably 	<ul style="list-style-type: none"> Permanent source of loan is lost, and no other source has been identified Gap to convert and no identified source of gap filler
PROGRAM COMPLIANCE	<ul style="list-style-type: none"> Property is anticipated to be complete by the PIS deadline or has received a carryover extension from the Allocating Agency No material compliance issues 	<ul style="list-style-type: none"> Correctable compliance issues with no financial impact 	<ul style="list-style-type: none"> Delayed receipt of 8609s Concerns achieving minimum set-aside qualification Material non-compliance, including issuance of 8823s Annual Compliance Cert not submitted Potential 15-year credit $\geq 10\%$ of units 	<ul style="list-style-type: none"> Property is not expected to be complete by the PIS deadline, and tax credit delivery is in question Unresolved 8823s 	<ul style="list-style-type: none"> Loss or Recapture of all tax credits Property will not reach the minimum set-aside qualification date Expected loss of credits due to uncorrectable 8823s
GENERAL CONTRACTOR (GC)	<ul style="list-style-type: none"> GC is in place, and work is on track with original projections 	<ul style="list-style-type: none"> GC removed, but a replacement GC is in place, and work is on track GC capacity issues and/or occasionally delayed reporting 	<ul style="list-style-type: none"> GC has been removed for 30+ days, and a replacement GC has not been identified Consistently delayed and/or staled reporting 	<ul style="list-style-type: none"> GC has been removed for 60+ days, and a replacement GC has not been identified 	<ul style="list-style-type: none"> Significant misappropriation of funds and/or construction defects due to GC mismanagement
GP / GUARANTOR / MANAGEMENT (GGM)	<ul style="list-style-type: none"> GGM is operationally/financially secure and able to meet all obligations and has demonstrated a willingness and capacity to fund any shortfalls 	<ul style="list-style-type: none"> GGM is financially secure and able to meet all obligations and has demonstrated a willingness and capacity to fund any shortfalls Minor operational concerns may exist 	<ul style="list-style-type: none"> GGM has modest financial capacity, and liquidity has been identified as an issue Operational concerns could lead to replacement 	<ul style="list-style-type: none"> GGM lacks the ability or willingness to cover guarantee obligations Bankruptcy is a potential risk GGM not meeting Partnership obligations, replacement likely Default has been issued 	<ul style="list-style-type: none"> GGM Bankruptcy Foreclosure GP removal
RECAPTURE	<ul style="list-style-type: none"> No recapture 	<ul style="list-style-type: none"> No recapture 	<ul style="list-style-type: none"> Actual or expected loss or recapture of tax credits, but closing yield maintained 	<ul style="list-style-type: none"> Actual or expected loss or recapture of tax credits, yield below closing 	<ul style="list-style-type: none"> Recapture event

Please see the AHIC Risk Ratings Instructions & Guidelines at www.ahic.org for additional information in employing this Grid.

The best practices described in AHIC guidelines represent the collective views of knowledgeable AHIC volunteers committed to improving the effectiveness of the LIHTC program. AHIC guidelines are not intended to be a substitute for professional (legal or accounting) advice. Outcomes are not guaranteed, and AHIC is not liable for damages relating to the use or application of AHIC guidelines or best practices.

AHIC Risk Rating Guidelines: **STABILIZED PHASE**

2026

RISK RATING	A	B	C	D	F
DCR / ECR	<ul style="list-style-type: none"> DCR is $\geq 1.15x$ or as underwritten ECR is $\geq 1.05x$ or as underwritten 	<ul style="list-style-type: none"> DCR is $< 1.15x$ and $\geq 0.95x$ ECR is $< 1.05x$ and $\geq 0.85x$ Property-level resources are sufficient to meet obligations 	<ul style="list-style-type: none"> DCR $< 0.95x$ with a consistent trend ECR $< 0.85x$ with a consistent trend Deficits being funded by GP / Guarantor Loan is current on must-pay debt 	<ul style="list-style-type: none"> DCR $< 0.95x$ with a consistent trend ECR $< 0.85x$ with a consistent trend Investment of additional LP capital is likely due to GP / Guarantor concerns Loan is delinquent on must pay debt 	<ul style="list-style-type: none"> Loan is in default on must pay debt
OCCUPANCY	<ul style="list-style-type: none"> Economic Occupancy is $\geq 93\%$ 	<ul style="list-style-type: none"> Economic Occupancy is between 90%-93% 	<ul style="list-style-type: none"> Economic Occupancy is between 80-89% 	<ul style="list-style-type: none"> Economic Occupancy is between 70-79% 	<ul style="list-style-type: none"> Economic Occupancy is $\leq 69\%$
RESERVES	<ul style="list-style-type: none"> Reserves and escrows are fully funded as originally underwritten 	<ul style="list-style-type: none"> Property-level reserves and escrows are being funded and are sufficient to meet obligations 	<ul style="list-style-type: none"> Reserves and escrows are underfunded by 25% from original projections, but payments are being made Balances are insufficient to meet long-term project needs 	<ul style="list-style-type: none"> Reserves and escrows are underfunded by 50% from original projections, but payments are being made Balances are insufficient to meet immediate and long-term project needs 	<ul style="list-style-type: none"> Reserves and escrows are depleted, and no payments are being made
PHYSICAL	<ul style="list-style-type: none"> No physical issues 	<ul style="list-style-type: none"> Correctable deferred maintenance with sufficient sources 	<ul style="list-style-type: none"> Deferred maintenance/structural or environmental issues with funding sources not fully identified Building Code violations 	<ul style="list-style-type: none"> Significant deferred maintenance causing life/safety issues, structural and/or environmental issues, with no identified source to remedy 	<ul style="list-style-type: none"> Off-line units with no funding source to remedy Major issues or building(s) condemned
GP / GUARANTOR / MANAGEMENT (GGM)	<ul style="list-style-type: none"> GGM is operationally/financially secure and able to meet all obligations 	<ul style="list-style-type: none"> GGM is financially secure and able to meet all obligations Minor operational concerns may exist 	<ul style="list-style-type: none"> GGM has modest financial capacity, and liquidity has been identified as an issue Operational concerns could lead to replacement Partnership or Investor named in Lawsuit 	<ul style="list-style-type: none"> GGM lacks ability or willingness to cover guarantee obligations GP/Guarantor Bankruptcy is a potential risk GGM not meeting Partnership obligations, replacement likely 	<ul style="list-style-type: none"> GGM Bankruptcy Foreclosure GP removal
PROGRAM COMPLIANCE	<ul style="list-style-type: none"> No material Compliance issues Part III is on track 	<ul style="list-style-type: none"> Correctable Compliance issues with no financial impact Part III is on track 	<ul style="list-style-type: none"> Correctable Compliance issues with financial impact 8609 delayed, impacting Credit delivery HUD inspection failing score with no corrective plan 8823s issued and not corrected within 90 days Part III delay is greater than three months 	<ul style="list-style-type: none"> Uncorrectable Compliance issues 8823s issued and left uncorrected at year-end Part III is in jeopardy with no remedy 	<ul style="list-style-type: none"> 8609s delayed ≥ 3 years Part III denied
INSURANCE / TAXES	<ul style="list-style-type: none"> No insurance/tax issues Adequate coverage is in place 	<ul style="list-style-type: none"> No material insurance/tax issues Variance in Partnership insurance may exist as compared to requirements, but does not materially increase risk 	<ul style="list-style-type: none"> Unpaid real estate taxes, but funds are available Insurance requirements are not being met Expired coverage Material insurance claim is open / in process 	<ul style="list-style-type: none"> Unpaid Real Estate Taxes for two or more years Tax Certificates sold and ownership rights can be asserted Insurance requirements are not being met, and no funds are available 	<ul style="list-style-type: none"> Unpaid real estate taxes/unpaid insurance, and no funds are available
REPORTING	<ul style="list-style-type: none"> No reporting issues 	<ul style="list-style-type: none"> Minor reporting deficiencies 	<ul style="list-style-type: none"> Audited financial statements issued with Going Concern Reporting is consistently delayed 	<ul style="list-style-type: none"> Inadequate or incomplete Reporting Reporting accuracy in question 	<ul style="list-style-type: none"> Reporting not received
RECAPTURE / FORECLOSURE	<ul style="list-style-type: none"> No Recapture 	<ul style="list-style-type: none"> No Recapture 	<ul style="list-style-type: none"> Actual or expected loss or recapture of tax credits, but closing yield maintained Notice of Default 	<ul style="list-style-type: none"> Actual or expected loss or recapture of tax credits, yield below closing Receiver has been appointed 	<ul style="list-style-type: none"> Recapture event resulting in a negative yield Sheriff's Sale

Please see the AHIC Risk Ratings Instructions & Guidelines at www.ahic.org for additional information in employing this Grid.

The best practices described in AHIC guidelines represent the collective views of knowledgeable AHIC volunteers committed to improving the effectiveness of the LIHTC program. AHIC guidelines are not intended to be a substitute for professional (legal or accounting) advice. Outcomes are not guaranteed, and AHIC is not liable for damages relating to the use or application of AHIC guidelines or best practices.