



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	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.
	Potential Risk Mitigants (for a better rating)
	<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.
	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.

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.

	<p>Potential Risk Mitigants (for a better rating)</p> <ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> ◦ 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 <i>demonstrated willingness</i> to fund budgetary gaps on current or previous projects. <ul style="list-style-type: none"> ◦ 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.
<p>Lease-Up & Pre-Stabilized Period</p>	<p>Schedule – Tracking initial lease-up performance against original projections to achieve the projected yield, tax credit delivery, and timing for stabilization/conversion.</p> <p>Potential Risk Mitigants (for a better rating)</p> <ul style="list-style-type: none"> • 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. <p>Pre-Stabilization Performance – Tracking initial operational performance against original projections to achieve stabilization/conversion hurdles.</p> <p>Potential Risk Mitigants (for a better rating)</p> <ul style="list-style-type: none"> • 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.
<p>Operating/ Compliance Period</p>	<p>Operating Performance – Tracking operational performance against original projections and ensuring compliance with all applicable governing provisions and requirements (e.g., <i>regulatory agreements, LURA, legal documents, etc.</i>).</p> <p>Potential Risk Mitigants (for a better rating)</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ◦ 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 (<i>approx. ≤1 year or longer for certain markets – NY, etc.</i>). DSA indicates that current cash/reserves and deferral of PMFs are: <ul style="list-style-type: none"> ▪ 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 (<i>cash + reserves + ODG</i>). <p> 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.</p> <ul style="list-style-type: none"> • 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.