

## Executive Summary: 2026 Updates to AHIC Risk Rating Instructions & Grids

### Purpose & Philosophy

The consolidated Risk Rating Instructions & Guidelines move AHIC’s approach from a static checklist to a risk-based framework that (1) explicitly recognizes generally accepted mitigants and (2) embeds professional judgment where mitigants materially offset measured risks. The result is more accurate, consistent, and defensible ratings, with decisions grounded in documented capacity to remedy—not just current variances.

### What’s Materially New

- Mitigant-driven rating logic (A-F) across phases.**  
Rating definitions/instructions and guidelines are now expanded to include **sufficient mitigants** (e.g., GP/Guarantor support, contractual extensions, reserve sufficiency, strong pre-leasing) that justify holding or improving a rating despite threshold breaches—particularly around DCR/ECR, occupancy, construction and lease-up timing, and compliance milestones.
- Phase-specific mitigant menus.**  
The instructions provide **deal-phase checklists** of credible mitigants—e.g., **built-in loan extensions; quantified contingency sufficiency vs. % complete; equity paid developer-fee holdback coverage of downward adjusters; lease-up reserves and absorption evidence**—to standardize when and how teams apply mitigants.
- Governance of Watch List movement.**  
Assets at **C or lower** require enhanced monitoring; upgrades require an **established positive trend** (generally 6–12 months, or shorter if a discrete issue is conclusively resolved). **Twelve months at C should trigger a move to D, unless** documented mitigants justify retention.
- Downside Analysis (DSA) institutionalized for post-closed.**  
For stabilized assets performing below break-even or rated **C or lower**, **DSA** is a required sensitivity tool to estimate **deficits and resources needed** through the 15-year compliance period/correction period, anchoring mitigant decisions in quantified runway (cash, reserves, PMF deferrals, ODG).
- Terminology alignment: “GGM.”**  
Across both phases, the row formerly labeled “**GP/SPONSOR/DEVELOPER/MANAGEMENT**” is now “**GP/GUARANTOR/MANAGEMENT (GGM)**”—shifting focus to the parties providing guarantees, liquidity, and operational backstops, and emphasizing **demonstrated willingness and capacity** to fund gaps.

### Development Phase — What Changed and Why It Matters

#### Structural Change

- Split of Construction/Lease-Up into two distinct criteria.**  
The legacy grid combined Construction/Lease-Up in one row; the updated grid separates them into Construction Schedule and Lease-Up (LU) to score risks and mitigants independently. This allows, for example, a schedule delay to be offset by strong LU traction (or vice versa).

#### Key Rating Nuances & Mitigants

- Schedule delays with mitigating coverage of equity adjuster.**  
Should construction and/or lease-up delays lead to a reduction in first-year tax credit delivery and subsequent equity downward adjusters, available Developer Fee equity as a source (or equivalent)

covering the adjuster ( $\geq 1.0x$ ) is an acceptable mitigant. With such coverage, the delay is considered financed and does not by itself warrant a downgrade, formalizing an already common practice.

- **Contingency and liens graded with cures.**  
The new grid adds guidance for contingency utilization vs. % complete and recognizes bond/deposit cures for mechanics liens, supporting B/C outcomes where the legacy grid skewed to C/D.
- **Debt timing and extensions.**  
Built-in or newly secured construction loan extensions align to B, while inability to meet any extension or the need for debt restructuring escalates to D; permanent conversion/LPA stabilization test now has explicit  $\geq 6$ -month and  $> 1$ -year delay markers for B $\rightarrow$ C $\rightarrow$ D.
- **Compliance gradations.**  
The update clarifies **partial exposure** (e.g., potential 15-year credit  $\geq 10\%$  of units) versus **unresolvable issues**, improving signal on materiality.
- **GGM emphasis.**  
A/B now hinge explicitly on **demonstrated willingness and capacity** to fund shortfalls; “**replacement likely**” appears at **D** when obligations aren’t being met, providing clearer escalation.
- **Recapture precision.**  
The updated grid distinguishes **loss with closing yield maintained (C)** vs. **yield below closing (D)** and **recapture event/negative yield (F)**, replacing the older “nominal/material/2-3 credit” language.

## Stabilized Phase — What Changed and Why It Matters

### Coverage Metrics (Bigger Change)

- **ECR added alongside DCR in the main coverage row.**  
The new grid pairs **DCR and ECR for all assets**, setting **A at DCR  $\geq 1.15x$ /ECR  $\geq 1.05x$** , **B at DCR  $0.95x$ – $1.15x$ /ECR  $0.85x$ – $1.05x$**  with an explicit sufficiency test for property-level resources, and shifts **C/D** to emphasize **trend** and **who funds deficits** (GP/Guarantor vs. need for LP capital). This dual-coverage approach better captures the dynamics of expense inflation in LIHTC operations.

### Other Grid Refinements

- **Occupancy bands tuned to market reality.**  
The band for A now starts at  $\geq 93\%$  (vs. 95% legacy), with adjusted B/C/D/F bands to reduce noise-driven rating moves while still flagging persistent weakness.
- **Reserves and physical condition re-anchored to ability to cure.**  
With the changes, **B** explicitly requires **sufficient sources** (not just “funding as projected”), and physical “B” now reads “**correctable deferred maintenance with sufficient sources**,” keeping the focus on **funded solutions**.
- **GGM clarity.**  
The new **GGM** terminology and criteria emphasize **operational concerns/likelihood of replacement at C/D** and **demonstrated gap-funding at A/B**.
- **Compliance, Insurance/Taxes, Reporting, Recapture.**  
Language modernizes thresholds (e.g., **HUD inspection failing score with no corrective plan**), recognizes **immaterial partnership insurance variances** as a **B**-level issue, clarifies “**reporting not received**” at **F**, and uses **yield-based** recapture severity—**notice/receiver at C/D**, **negative yield events at F**.

## How the Industry Should Use This (Practical Guidance)

- **NEW — How to use the phase-specific mitigant menus in tandem with the risk rating grids.**  
When determining a rating, **first identify the applicable criteria within the Development or Stabilized grid** (e.g., Construction Schedule, Lease-Up, DCR/ECR, Occupancy, Reserves, GGM, Compliance). **Then consult the corresponding phase-specific mitigant menu in the Instructions** to evaluate whether sufficient mitigants exist to either (i) **hold a better rating** when raw indicators suggest a downgrade, or (ii) **prevent a further downgrade** when multiple criteria are deteriorating. This two-step process ensures ratings reflect actual risk indicators as well as the strength, credibility, and sufficiency of available mitigants—as intended by the updated framework.
- **Rate the risk, not the moment.**  
Temporary dips in **DCR/ECR** or **occupancy** may remain **B** when **cash + reserves + contractual tools + ODG support** demonstrably bridge the risk window; document the mitigant and the **runway** (*via DSA for stabilized—“Despite two consecutive quarters of  $DSC \leq .90x$ , property cash and reserves are sufficient for the expected 12-month correction per DSA, supporting a B rating.”*).
- **Delays are tolerable when financed.**  
For Development-phase,  **$\leq 90$ -day** LU or construction delays with  **$\geq 1x$  holdback coverage to downward adjusters** (*or equivalent committed sources*) can remain in **A/B** territory. When assessing the impacts on Construction/LU schedules, there are two considerations that must be evaluated to assess the proper risk rating (*e.g., Construction/LU schedules—45-day delay but credit delivery is still 92% of underwritten amount and  $< \$50,000 = A$  [immaterial impact to tax credits], 110-day delay and credit adjuster is covered 1.2x by available dev fee equity = B, 89-day delay but credit adjuster exceeds available dev fee equity = C*).
- **Governance discipline.**  
**C for 12 months** → **D** absent strong, documented mitigants; upgrades require **proof of trend** (6–12 months) or a **conclusive fix** (e.g., tax appeal/litigation resolved).