

**CHOICES IN HOMEOWNERSHIP (“CHOICE”) PROGRAM 2017
SELECTION, UNDERWRITING & FINANCING GUIDELINES & POLICY**

<p>Program Overview</p>	<p>The Agency’s Choices In Homeownership Program (“CHOICE”), is a comprehensive financing program for the development of newly constructed and gut rehabilitated homeownership (owner-occupied primary residences) housing available in New Jersey.</p> <p>Following in the tradition of its predecessors UHORP and MONI, CHOICE provides subsidy funding to be a catalyst for the creation of viable homeownership markets in municipalities where home values currently do not support a sustainable new construction housing market. The CHOICE program seeks to strengthen homeownership in CHOICE subsidized markets by financing and subsidizing the development of for-sale housing that is not deed-restricted for resale, thereby encouraging and facilitating the emergence of a viable and market driven housing market.</p> <p>The CHOICE program features below-market interest rate construction loans and construction subsidy funding for developers.</p> <p>Prior to submitting an application, the developer is required to meet with Agency Staff to review the submission packages. This meeting is in lieu of the CHOICE training that was previously required. The purpose of the meeting is to provide technical assistance and does not obligate the Agency to take action on the project’s CHOICE funding application.</p> <p>These CHOICE underwriting guidelines, policies, procedures, and forms may be amended from time to time due to changes in market conditions and/or changes in the Agency’s housing policies or initiatives. Such amendments may occur without notice and are applicable to all pending and future applications. Developers are, therefore, responsible for contacting the Agency to ascertain whether or not there have been any changes since the date of these guidelines and for complying with such changes. CHOICE guidelines are posted on the Agency’s website.</p>
<p><u>1. Project Selection Criteria</u></p>	<p>Projects must be located within the boundaries of an area, deemed by the municipality to be in need of rehabilitation, through municipally adopted Redevelopment Plan, pursuant to N.J.S.A. 40A:12a-1 through 40A:12a-49.</p> <p>Projects must establish a core presence of homeownership or must fill critical gaps necessary to stabilize an identifiable neighborhood or area. All projects must demonstrate significant neighborhood impact, i.e. infill units in developed areas, with approved redevelopment plans.</p> <p>Projects that are not located in a redevelopment area, may be eligible for funding, but must be located in an area monetarily supported by the municipality. This monetary support must be evidenced by a written commitment from the municipality. Additionally, the project must have a concentrated impact on the neighborhood supported by an Agency commissioned market study/appraisal and a visual inspection by Agency staff.</p> <p>The CHOICE application must be for the funding of a project that stands on its own when completed, has its own municipally-approved site plan and is not dependent in any legal and/or financial way upon the construction or rehabilitation of one or more additional forthcoming phases.</p> <p><u>Funding Commitments</u></p> <p>CHOICE construction loan and subsidy funding commitments will be made by the Agency’s Board on a first come first served basis. Only project applications that are complete and in conformity with these Guidelines will be recommended to the Agency’s Board for a funding commitment.</p> <p><u>Cure Period</u></p> <p>The Agency staff will make best efforts to review the application and issue a cure letter within 30 calendar days. All required items in the cure letter must be sent in as a single submission. In the event the items are submitted separately they will be returned to the developer. The Agency will allow up to 45 calendar days, from the date of the cure letter to submit the outstanding items. If additional items are required the</p>

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	<p>developer will have an additional 10 days to satisfy the cure. If all items are not submitted within the required time the application will be returned to the developer and the application will be considered inactive. A new application must be submitted with the applicable application fee if the developer wishes to continue with the financing.</p>
<p align="center">2. <u>Program Funding</u></p>	<p>The Agency’s Board of Directors approved \$10 million in gap financing subsidies for eligible homeownership developments. Funding availability will terminate at the earlier of when the funds are all committed or when the Agency declares the 2017 funding round ended.</p>
<p align="center">3. <u>Developer and Development Team Capacity</u></p>	<p>The developer must demonstrate adequate experience with both land development and construction of similar size and complexity. In addition to reviewing the developer’s experience, the developers private construction lender (herein after “<u>Participating Lender</u>”) and the Agency will review the entire development team and/or other entities that have a role in project implementation, including but not limited to the builder, general contractor, project manager, modular company, marketing firm, counseling agency and consultant. The qualifications of all key participants will be reviewed.</p> <p>If the developer is also acting as the general contractor they must use or form a separate legal entity. The contractor must enter into a construction contract(s) with the developer and must provide any other documentation as required by the Agency. The general contractor must provide evidence that they are able to obtain a 100% Payment & Performance Bond in an amount equal to the construction cost with a bonding company rated with an A.M. Best Rating of B+ or better. The developer must designate a person to serve as the liaison between the developer and the general contractor in ensure a single point of contact.</p> <p>The Agency will underwrite the CHOICE application taking into consideration the previous experience of the developer with Agency and other real estate projects. In determining capacity, the Agency will take into consideration past performance in Agency and NJ Department of Community Affairs (DCA) programs including, but not limited to, Balanced Housing, Agency Single & Multifamily programs, and state, county or municipal funded HOME programs. Failure to perform by any of the key participants in past contracts with the Agency or the DCA, including failure to pay fees to the Agency or the Agency’s Housing Affordability Services or failure to repay loans from the Agency or the Department, may be grounds for disqualifying an application. The Agency will also consider the developer’s past performance in federal, county and local government contracting.</p> <p>Additionally, the Agency will consider current or past loan or contract defaults and serious events of default attributable to the developer or its principals or to any members of the development team to be material to the Agency’s determination of capacity to effectively perform under the loan and construction agreements and of the developer’s overall creditworthiness. The Agency will require personal guarantees (Refer to 12-J. Guarantees) from the developer, in an amount equal to the construction loans. The Agency will also require a not to exceed contract price, between the developer and the general contractor in a form acceptable to the Agency, signed by both parties.</p> <p>The developer must notify the Agency staff, in writing, of any proposed change in the legal status of the developer, changes to the development team, or of any change in the principal ownership of the developer. All changes, pre or post-closing, will require approval by Agency staff.</p>
<p align="center">4. <u>Eligibility</u></p> <p align="center">4-A Eligible Applicants</p>	<p>Eligible applicants are legally recognized for-profit developers and non-profit developers with demonstrated housing development capacity. Joint ventures involving legally recognized for-profit and nonprofit unrelated entities are also eligible applicants, but at least one of the major entities in the joint venture must demonstrate housing development experience/capacity. Demonstrated housing development capacity means actual development experience in projects of similar nature, size and financing complexities as the developer’s proposed project. CHOICE Program Guidelines applicable to nonprofit developers may be applicable to joint ventures if the nonprofit entity is to receive at least 20% of the developer fee/profit and provides a meaningful contribution to the project and can be expected to attain greater development capacity through the experience.</p>

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	<p>The entity serving as the borrower for the CHOICE financing must be formed for the sole purpose of owning and operating the project and shall own no other assets unrelated to the project.</p>
<p>4-B Milestone Requirements</p>	<p>For-profit developers or nonprofit developers previously approved for CHOICE funding may apply for CHOICE 2017 financing provided the funded projects have met the following milestone requirements:</p> <ul style="list-style-type: none"> - if the financing closed more than 36 months ago, projects must be 100% complete and all units sold, with project cost audits and recorded documents that have been received by and are acceptable to Agency; - if the financing closed within the past 36 months, projects must be 80% complete and proceeding on schedule, with at least 100% of the completed units under contract of sale to purchasers with mortgage commitments (or for mid-rise multi-unit construction 80% construction completion, a certificate of occupancy for the building shell, and a verification from the Participating Lender that construction is proceeding on schedule), and an independent professional absorption schedule from the Participating Lender and Agency’s Technical Inspector projecting that the project will be 100% under contract of sale to purchasers with mortgages by the time that construction is completed or within 3 months of project completion for mid-rise or other single CO type multi-unit construction; - if the financing closed within the past 24 months, projects must be 60% complete and proceeding on schedule, with at least 100% of the completed units under contract of sale to purchasers with mortgage commitments (or for mid-rise multi-unit construction 60% of individual units construction completion, and a certificate of occupancy for the building shell, and a verification from the Participating Lender and Agency’s Technical Inspector that construction is proceeding on schedule), and an independent professional absorption schedule from the Participating Lender and Agency’s Technical Inspector projecting that the project will be 100% under contract of sale to purchasers with mortgages by the time that construction is completed or within 3 months of project completion for mid-rise or other single CO type multi-unit construction; - if the financing closed in within the past 12 months, projects must be proceeding on construction schedule and the marketing plan must be in place, and an independent professional absorption schedule projecting that the project will be 100% under contract of sale to purchasers with mortgages by the time that construction is scheduled to be completed or within 3 months of project completion; - if the financing was committed but not yet closed, projects must have met conditions outlined per the Agency Board approved commitment; - no more than one project sponsored by the same principals may be submitted for approval for CHOICE 2017 funding, no more than two projects in total may be committed to the same principals, including principals affiliated with a joint venture or other developers, if such principals have a financing commitment from 2015 that has not yet closed, principals may have no more than a total of two incomplete projects from any CHOICE or prior funding round at any given time. Prior to submission, developers must receive approval for an application waiver from the Agency’s Executive Director if they have more than two active projects.
<p>4-C Eligible Unit Types</p>	<p>Eligible unit types include newly constructed and/or gut rehabilitated one-family dwellings that are developed as fee simple units, condominium units or planned unit developments (PUDs). (Refer to 12-C. Pre-sale requirements). Two-family dwellings and one-bedroom units are not permissible.</p> <p>Scattered site projects will be considered where properties involved in the project are contained within an approximate 1/4 mile radius of the most central property. Projects must establish a core presence of homeownership or must fill critical gaps necessary to stabilize occupancy of an identifiable neighborhood or area. Projects, in the Agency’s determination and discretion that will have limited discernible impact on their location in the neighborhood or because they are too defuse are not eligible. Agency staff will also gauge the impact in a site visit. Project applications must demonstrate the neighborhood impact of the project through the submission of any governmentally-approved neighborhood plans for the area and/or any documentation required by the Agency.</p>

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	<p>Projects must have a reasonable expectation of being eligible for end loan financing for unit purchasers. Reasonable expectation may be FHA or other high LTV mortgage insurer eligibility or a declaration of interest in providing end loans from a credible lender.</p> <p>Partially completed projects and projects with age-restricted units are not eligible for CHOICE financing.</p> <p>Commercial/retail/residential mixed-use properties are eligible at street level, if the host municipality requires such uses under its master-plan or other pre-existing ordinances, resolutions or codes.</p>
4-D Eligible Project Size	Projects must contain at least ten (10) homeownership units.
4-E Eligible Uses of the CHOICE Construction Loan and Subsidy Funding	The CHOICE Construction Loan, approved subsidy and the participating lenders construction loan will be released on a pari passu basis for any development budget items approved by the Participating Lender and Agency. All other funding sources available to the project and all side agreements, contracts or contractual understandings of any kind that the developer has entered into or intends to enter into with any other party or parties regarding the project must be immediately provided to the Agency and the participating lender.
4-F Ineligible Uses of the CHOICE Construction Loan and CHOICE Subsidy Funding	<p>Ineligible uses of the CHOICE Construction Loan and CHOICE Subsidy Funding include, but are not limited to, the following:</p> <ul style="list-style-type: none"> ■ Payment of developer’s administrative costs/overhead. ■ Payment of project consultant fee (this must be paid from the developer fee/profit at project completion) ■ Payment of interest/fees not in the Agency approved development budget ■ Pre-construction deposits on modular units or on any other construction materials, unless pre-approved by the Participating Lender and the Agency. ■ Payment for costs incurred by the developer for materials stored on or off site ■ Payments for community development activities and employment training and tools <p>Additionally, CHOICE Subsidy Funds may not be:</p> <ul style="list-style-type: none"> ■ Drawn down prior to the depletion of the construction loan proceeds unless approved by the Agency at time of commitment (Refer to 6. CHOICE Subsidy Financing) ■ Used to reimburse interest or lost opportunity costs on developer’s equity ■ Drawn down after submission of the project cost audit.
5. <u>Off-Site Improvements</u>	<p>If the Agency determines an expense is necessary or directly related to the construction of the CHOICE project, the line item may be included as part of the total development cost of the project.</p> <p>If the cost/improvement benefits both the project and other non-project entities unrelated to the project, the Agency will recognize the pro rata share of the cost that is attributable to the CHOICE project only. The developer must provide documentation acceptable to the Agency to allow the Agency to determine the project’s share of the cost.</p> <p>The funding of the “shared” off-site improvement outside of the approved CHOICE budget is the responsibility of the developer.</p>
6. <u>CHOICE Subsidy Financing</u>	The Agency will structure the timing of the release of the subsidy funding based upon a review of the project criteria, including but not limited to, location, developer history, market and other risk factors. The Agency will determine whether the subsidy funds can be used during construction as a pro rata share of the construction draw or must be held until construction is completed.
6-A Types of Financing Available	<p><u>CHOICE Construction Loan:</u></p> <p>The maximum construction loan shall not exceed 90% of the appraised value of the completed project.</p>

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	<p>The Agency and the Participating Lender will contribute an equal percentage of the final construction loan amount approved for the project. The construction loan will be administered as one loan and the Agency and the Participating Lender's participation are secured by separate pari passu first mortgages and notes of equal lienhold status.</p> <p>CHOICE financing cannot be used to develop or support projects designed as lease-purchase projects.</p> <p>At time of closing, the Agency will set an interest rate on its portion of the loan that is equal to the interest rate offered by the Participating Lender on its portion of the loan. The construction loans will be co-terminus and will not exceed 24 months from the date a construction loan agreement is executed by the developer and Participating Lender. Extensions may be considered for a term up to six-months beyond the original term of the construction loan subject to the approval of the Agency’s Executive Director and the receipt of the ¼ point extension fee.</p> <p>Construction loan extensions may require a complete re-underwriting of the loan which may result in a subsidy adjustment. Developers may be required to provide additional collateral, guarantees, etc.</p> <p><u>CHOICE Subsidy Funding:</u></p> <p>The CHOICE subsidy amount will be sized based on a determination of the funding needed to close the gap between the construction costs and the achievable sales prices. The maximum subsidy per unit is \$50,000 with a cap of \$1.5 million per project. Subsidy can only be used to subsidize market units. Affordable (deed-restricted) units are not eligible for subsidy. The subsidy funds will be provided as a second lien secured by a mortgage, with the mortgage lien partially discharged as each completed unit is sold. Any intervening liens or encumbrances must be pre-approved by the Agency. CHOICE subsidy funds may only be used in conjunction with a CHOICE Construction Loan.</p> <p>The Agency will consider the inclusion of affordable deed restricted units in cases where the Municipality has an affordable housing set aside requirement and is contributing the required subsidy needed to subsidize the affordable units. A letter from the Municipality confirming this must be included with the application, along with confirmation of the subsidy funds. In no event will CHOICE subsidy be used to subsidize affordable deed restricted units.</p>
<p align="center">6-B Participating Lender Involvement and the Intercreditor Agreement</p>	<p>The Agency will fund 50% of the approved construction loan and the developer’s private construction lender will fund 50% of the construction loan. The Agency and the Participating Lender will have equal shares of the construction loan along with a pari passu first lien position.</p> <p>The Participating Lender must be approved by the Agency and must enter into an Intercreditor Agreement with the Agency. The Participating Lender must be independent of the developer. Developers should be aware that it is their sole responsibility to obtain a lending commitment from a Participating Lender and that the Agency makes no representation that any lender, be it an Agency approved Participating Lender or otherwise, will make a commitment to the developer or sign the Intercreditor Agreement.</p> <p>The Participating Lender Term Sheet must be submitted within 30 days of CHOICE application date which will serve as the conditional letter of interest for construction lending.</p> <p>The Participating Lender must submit their commitment for financing, within 120 days of the Agency’s commitment. In the event that the Agency does not receive the commitment from the Participating Lender, the application will be considered inactive.</p> <p>The Agency and the Participating Lender will make progress inspections, approve draw requests, and handle construction period servicing. (Refer to Sections 8-B. Disbursement of CHOICE Financing/Funding and 8-C. Requisition Draws for details).</p>

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	<p>The Participating Lender may impose requirements regarding recourse and guaranties, and other terms and conditions, that may not be included in the Agency’s documents, but which will inure to the benefit of the Agency either under the Intercreditor Agreement or the terms of the Participating Lender’s construction loan agreement.</p>										
<p align="center">7. FEES</p> <p align="center">7-A Financing Fees</p>	<p>The Agency will require a nonrefundable application fee of \$4,000 for for-profit developers and \$2,000 for nonprofit developers.</p> <p>The Participating Lender is permitted to charge for usual and reasonable costs involved in processing the application. All fees will be borne by the developer. Fees should not exceed those charged privately for comparable loans. Fees may include inspection and plan review fees, credit reports, appraisal, flood certification, environmental tests, attorney fees, survey, and other reasonable third party costs. A usual and reasonable application fee may be charged in addition to the reimbursement of third party expenses.</p> <p>The Agency and Participating Lender will charge a commitment fee of 50 basis points each on the full Construction Loan amount, payable at commitment.</p> <p>Developers are permitted to include counseling fees and a 3% sellers concession fee (to be used towards closing costs) as budgeted line items for any units that are <u>not</u> eligible for the Agency’s End Loan Financing Program.</p> <p>CHOICE financing must close within 180 days of the date of the Agency’s commitment. In the event the loan does not close within this time period and the developer wishes to extend the commitment, the developer must submit a written request to the Agency asking for an extension. The written request must include an extension fee of \$2,000 for for-profit developers and \$1,000 for nonprofit developers. Along with the extension request and the extension fee the developer must provide an updated Section X budget, documenting that the Board approved soft cost budget remains feasible, and a certified letter from the engineer, general contractor and architect of record stating that the Board approved hard cost budget remains feasible.</p> <p>Any extension of the construction loan term will be subject to a fee equal to ¼ point calculated on the outstanding principal balance of the Agency’s construction loan amount, plus any available loan balance.</p> <p>No fees or points may be charged by the Participating Lender or by the Agency to the developer for the CHOICE Subsidy Funding.</p>										
<p align="center">7-B Developer Fee/Profit</p>	<p>The maximum developer fee/profit will be capped at 8% of the total development cost (excluding the developer fee/profit) based on the original Board approved budget. In no event will the developer fee exceed the Board approved fee.</p> <p>The minimum developer fee/profit will be 5% of the total development cost (excluding the developer fee/profit). Project consultant fees are to be paid out of the developer fee/profit, which is paid per a schedule approved by the Participating Lender/Agency.</p> <p>The developer fee/profit may be affected by a change in the budget or the sales price of the units.</p>										
<p align="center">7-C Contractor Fee</p>	<p>The contractor's fee will be based on a percentage of the construction cost as such:</p> <table border="1" data-bbox="467 1682 1487 1896"> <thead> <tr> <th align="center" colspan="2">MAXIMUM CONTRACTOR FEE SCHEDULE</th> </tr> <tr> <th align="center">TOTAL CONSTRUCTION COST</th> <th align="center">MAXIMUM FEE</th> </tr> </thead> <tbody> <tr> <td align="center">Under \$2 million</td> <td align="center">10%</td> </tr> <tr> <td align="center">Under \$3 million</td> <td align="center">9.5%</td> </tr> <tr> <td align="center">Under \$4 million</td> <td align="center">9.0%</td> </tr> </tbody> </table>	MAXIMUM CONTRACTOR FEE SCHEDULE		TOTAL CONSTRUCTION COST	MAXIMUM FEE	Under \$2 million	10%	Under \$3 million	9.5%	Under \$4 million	9.0%
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<p align="center">7-D Maximum Developer/Contractor Fee for Related Parties</p>	<p>If the developer and the contractor are related parties, the maximum combined developer and contractor fees will not exceed the lesser of: the total amounts permitted by the above limitations OR 20% of the total development budget (excluding the developer fee/profit). If any part of the development entity is providing additional services to the project, compensation for these costs must be paid from the developer fee/profit.</p>														
<p align="center">8. <u>CHOICE Subsidy Funding</u></p>	<p>The maximum subsidy per project is \$1,500,000.</p> <p>The maximum subsidy per unit is \$50,000.</p> <p>The Agency reserves the right to re-calculate the amount of the CHOICE subsidy funding based on factors such as adjustments to the Section X Budget, increases in the sales prices or other events that may affect the amount of the subsidy needed to complete the project. If it is determined that the project has been over-subsidized the developer will be required to immediately return the subsidy in an amount equal to the overpayment.</p> <p>If the CHOICE subsidy funding is reduced by the Agency due to units being sold for higher prices than were initially approved by the Participating Lender/Agency, the reduced amount will be equal to the amount of the increased portion of the sales price for each applicable unit. The foregoing notwithstanding, market price increases cannot be made without the Agency's pre-approval.</p> <p>Subsidy may not be used for contingency draws. Contingency will come from the construction loan funds only.</p> <p>Subsidy only draws are not permitted. All draws must be a pro-rata share of the construction loan draw.</p>														
<p align="center">8-A Subsidy Retainage</p>	<p>No more than 85% of the CHOICE Subsidy Funding will be made available during construction. The remaining 15% of the subsidy will be held as a project retainage and will be made available only after all of the units in the project have been sold and the Agency has approved all required documentation including original recapture notes, recorded repayment mortgages, declaration of covenants for the CHOICE subsidized market units, contracts of sale, certificates of occupancy, closing statements, Energy Star certificates and the independent project cost certification. (Refer to 12-D. Unit Sales Proceeds and 12-E. Unit Sale Lien Release) The Agency may revise the amount of the project retainage to be released to the developer if there are any warranted issues identified during review of the project cost certification (Refer to 13. Project Cost Certification).</p>														

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<p align="center">8-B Disbursement of CHOICE Financing/Funding</p>	<p>After the Agency and lender loan closings, the Participating Lender will oversee the construction period servicing and will disburse the CHOICE construction loan and subsidy funds with the exception of the required subsidy retainage, which will be disbursed by the Agency directly to the Developer upon receipt and approval of all required documents as outlined in Section 8-A.</p> <p>The Agency portion of the CHOICE Construction Loan and the CHOICE Subsidy Funding will remain with the Agency until requisitioned by the Participating Lender for disbursement in accordance with the requisition procedure outlined in the Intercreditor Agreement. Progress payments to contractors will be made for work in place which is inspected and approved by the Participating Lender or its designee and the Agency.</p>
<p align="center">8-C Requisition Draws</p>	<p>All requisitions for draws must be submitted to the Participating Lender. The Participating Lender will facilitate the draw and forward a copy of the requisition to the Agency for approval. Upon approval, the Agency will submit their portion of the construction loan along with the approved portion of the subsidy funds to the Participating Lender. The Participating Lender will disburse the full draw to the developer.</p> <p>Draw requests will be submitted on an AIA G-702 and G-703 form that provides line item detail approved by the owners designee. Each draw must be covered under an updated title rundown which shows no current liens or encumbrances. All draw requests must include conditional and unconditional lien waivers from subcontractors and material suppliers. Construction funds will be based on a percentage of completion for a particular line item.</p> <p>The Agency reserves the right to randomly audit line item costs during construction to assure that the costs incurred are verifiable and that there is evidence that loan and subsidy proceeds have been correctly paid for requisitioned costs. (Refer to 14. Interim Line Item Audit)</p> <p><u>Please Note:</u></p> <p>Developers are under a continuing affirmative obligation to advise the Agency of any changes to any aspect of the proposed development (e.g. changes to the construction schedule, general contractor, proposed sales prices, etc.) and provide relevant information as it becomes available. The Agency reserves the right to review the need for CHOICE subsidy funding at any time. Substantive changes may cause the project's award to be reconsidered/adjusted by the Agency. CHOICE subsidy will be immediately due and payable to the Agency should it be determined that a unit has been over-subsidized.</p>
<p align="center">8-D Construction Retainage</p>	<p>A construction loan retainage of 10% will be held against each construction draw. For midrise projects containing more than six units the retainage may be 5% upon 60% completion. Remaining retainage will be released upon phase completion and the issuance of certificates of occupancy, except that the Participating Lender and Agency may retain funds to assure completion of punch list items.</p>
<p align="center">9. <u>Project Requirements</u></p>	<p>CHOICE projects must be comprised of for-sale homeownership housing units in Agency-identified markets that are not currently considered viable for new construction or gut rehabilitation because the cost to build a unit is higher than the market price for which the unit can be sold. CHOICE subsidized market units cannot be developed or restricted as affordable housing units under the New Jersey Fair Housing Act, N.J.S.A. (P.L. 1985, c.222), but rather upon sale or resale can be conveyed without regard to sales price or income of the buyer.</p> <p>The CHOICE application must include documentation to demonstrate that the cost to develop the housing units is greater than the price at which the units can be sold. At a minimum, developers must provide Participating Lender/Agency-commissioned appraisals/market analyses along with real estate sales comparables and development budgets. (Refer to Section XI of the application.) To ensure against over subsidizing a project, the developers must justify any sales prices of subsidized units that are less than 95% of comparable market sales prices evidenced by an independent appraisal.</p>

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	<p>Sales prices must be approved by the Agency. The Agency may consider increases in the approved sales prices, which could require a new appraisal.</p>																														
<p align="center">10. <u>Deed Restriction</u></p>	<p>The CHOICE subsidized market units are subject to a Shared Appreciation for 10 years. Under this restriction, upon an arms-length sale, conveyance, or refinance of the CHOICE subsidized market unit, and in an amount that will not exceed that of the subsidy attributed to the unit, the buyer must repay the Agency 100% of the net appreciation should the unit be sold/refinanced during the first 3 years, decreasing 12.5% each year thereafter as defined in the following schedule:</p> <table border="1" data-bbox="597 510 1360 827"> <thead> <tr> <th>Number of Years</th> <th>Owner’s Portion</th> <th>Agency’s Portion</th> </tr> </thead> <tbody> <tr> <td>1 thru 3</td> <td>0.00%</td> <td>100.00%</td> </tr> <tr> <td>4</td> <td>12.50%</td> <td>87.50%</td> </tr> <tr> <td>5</td> <td>25.00%</td> <td>75.00%</td> </tr> <tr> <td>6</td> <td>37.50%</td> <td>62.50%</td> </tr> <tr> <td>7</td> <td>50.00%</td> <td>50.00%</td> </tr> <tr> <td>8</td> <td>62.50%</td> <td>37.50%</td> </tr> <tr> <td>9</td> <td>75.00%</td> <td>25.00%</td> </tr> <tr> <td>10</td> <td>87.50%</td> <td>12.50%</td> </tr> <tr> <td>After the 10th year</td> <td>100.00%</td> <td>0.00%</td> </tr> </tbody> </table> <p><i>(In accordance with the Declaration, the shared appreciation schedule will be reinstated and effective against the new buyer if the new buyer(s) fails to occupy the unit within 60 days and continuously thereafter for at least one year from the date of closing title. Subsequent sale by a non-resident owner to a household who will occupy the home as a primary residence will not subject the sale to shared appreciation and the shared appreciation requirement will terminate if the buyer occupies the EMU within 60 days and continuously thereafter for at least one year from the date of closing title.)</i></p>	Number of Years	Owner’s Portion	Agency’s Portion	1 thru 3	0.00%	100.00%	4	12.50%	87.50%	5	25.00%	75.00%	6	37.50%	62.50%	7	50.00%	50.00%	8	62.50%	37.50%	9	75.00%	25.00%	10	87.50%	12.50%	After the 10 th year	100.00%	0.00%
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<p align="center">11. <u>Application Requirements</u></p> <p align="center">11-A Municipal Resolution</p>	<p>Developers must provide documentation, acceptable to the Agency, evidencing municipal support for the project. The resolution must adequately identify the site, and the total number of CHOICE subsidized market units. At the time of application, the developer must present, at a minimum, written confirmation that the project is viewed favorably and that a resolution memorializing its approval of the project, its location and the CHOICE subsidized market unit mix, will be introduced for approval by the governing body of the municipality. A final resolution must be submitted to the Agency prior to loan closing.</p>																														
<p align="center">11-B Site Control</p>	<p>Site control by the developer must be documented for project properties at the time of application and must show evidence that full title to all property involved in the project can be obtained by the CHOICE closing deadline.</p> <p>Where the property is being obtained in conjunction with a redevelopment agreement, a copy of an executed disposition and development agreement with a public agency with powers of eminent domain must be provided along with evidence of site control as indicated below for all properties.</p> <p>Site control must be evidenced by a fee simple title; option to purchase, including evidence that options are renewable subject to similar terms until the date of loan closing, or an executed land sales contract or other enforceable agreement for acquisition of the property. If any of the property (or properties) is to be transferred by the municipality to the developer, a certified true copy of the authorizing ordinance/resolution for the transfer of the property must be submitted if the authorization has not already been included in the redevelopment agreement.</p>																														
<p align="center">11C Site Plan/Regulatory Approvals</p>	<p>Evidence of preliminary site plan approval and all related reports is required at the time of application. The final site plan and final municipal approvals or planning board resolution must be submitted together with all other approvals including evidence of condominium documents submittal from Department of Community Affairs, within 30 days of the Agency’s financing commitment. This will be a condition of the Agency’s commitment. In the event this documentation is not received, the commitment may be</p>																														

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	<p>considered null and void. If preliminary and/or final site plan approval is not required by a municipality prior to the start of construction, a letter from the municipality explaining this must be provided and approved by the Participating Lender/Agency.</p> <p>It is the developer's responsibility to demonstrate that the project complies with all applicable local land use and zoning requirements. A list of all prior government and Agency approvals from the developers professional must be provided.</p>										
<p align="center">11-D Site Utilities</p>	<p>The developer must provide evidence that the site will be serviced by all required utilities, including but not limited to the sewer, electric, gas and water as may be provided for in the plans. Evidence of authorization to connect at the planned capacity levels must be provided along with documentation of fees.</p>										
<p align="center">11-E Property Environmental Review</p>	<p>At time of CHOICE application, a Phase I environmental assessment using ASTM standards regarding the project property is required, unless agreed to otherwise by the Participating Lender/Agency. The report must be provided by a firm acceptable to the Participating Lender. Additional assessments, such as a Phase II site investigation or NJ Department of Environmental Protection (DEP) environmental remediation measures, may also be warranted, particularly if recommended in the Phase I report. If remediation is necessary, the remediation plan must be cost estimated in detail and included in the total development cost budget. The Agency may request updated assessments at its discretion.</p> <p>Substantial rehabilitation projects that are not required by the Participating Lender/Agency to provide identification of a Phase I must, at a minimum, provide an environmental assessment report(s) prepared by a third party professional(s) acceptable to the Agency/Participating Lender that addresses mold, pest inspection and underground storage tanks. Developers that develop projects involving gut rehabilitation must provide at a minimum, documentation from a third-party professional(s), acceptable to the Agency/Participating Lender, confirming any existence of and needed removal or remediation of lead based paint, asbestos or underground storage tanks in the project.</p> <p>If a Phase I is required for a clustered scattered site project, the 1 mile radius contamination report may be from a central address within the project rather than from multiple addresses.</p> <p>The developer must certify that all necessary environmental approvals have been obtained and submit evidence of each approval.</p>										
<p align="center">11-F Structural Integrity/Soils Test</p>	<p>Applications involving projects that include the substantial rehabilitation of structures must include a report from a structural engineer or the architect of record for the project documenting the integrity of the structure.</p> <p>Applications for new construction project funding must include a geotechnical soils load-bearing capacity test. The test must cover both the proposed project sites as well as the areas where utility lines and infrastructure for the project will be provided. If remediation is necessary, the remediation plan must be cost estimated in detail and included in the total development cost budget.</p> <p>After the Agency commitment is issued Agency staff will revisit the site.</p>										
<p align="center">11-G Unit Minimum Square Footage Requirements</p>	<p><u>Unit Minimums:</u></p> <p>The minimum, useable, interior square footage requirements per unit are as follows:</p> <table border="1" data-bbox="609 1711 1356 1932"> <thead> <tr> <th align="center" colspan="2">MINIMUM INTERIOR UNIT SPACE REQUIREMENTS*</th> </tr> <tr> <th align="center"><u>Unit Size</u></th> <th align="center"><u>Minimum Square Footage</u></th> </tr> </thead> <tbody> <tr> <td align="center">2-Bedroom Unit</td> <td align="center">850</td> </tr> <tr> <td align="center">3-Bedroom Unit</td> <td align="center">1,050</td> </tr> <tr> <td align="center">4-Bedroom Unit</td> <td align="center">1,150</td> </tr> </tbody> </table>	MINIMUM INTERIOR UNIT SPACE REQUIREMENTS*		<u>Unit Size</u>	<u>Minimum Square Footage</u>	2-Bedroom Unit	850	3-Bedroom Unit	1,050	4-Bedroom Unit	1,150
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	<p>For purposes of calculating the minimum square footage, basements, garages, crawl spaces, attics or other unfinished space may not be used.</p> <p><u>Bedroom Minimums:</u></p> <p>Each unit must include one bedroom with a minimum of 150 square feet of clear, useable floor space, not including closets. Additional bedrooms must be at least 100 square feet.</p> <p>Developers developing gut rehabilitation units that cannot meet the above square footage may request an exception. The request should include municipal certification stating that the municipality requires the use of the existing unit foundation footprint and/or shell or municipal set-back requirements that prevent expansion; historic requirements that prevent unit expansion; and/or a certification from an architect or engineer detailing that such expansion would affect the financial feasibility of the project. A certification from the contractor would be acceptable in the event the municipality confirms in writing that architect and/or engineer plans are not required for project permits.</p> <p>All bedrooms must include at least one closet.</p> <p>All work must conform to the New Jersey Rehabilitation Sub-code.</p>
<p align="center">11-H Unit Options</p>	<p>Developers planning to offer unit options must submit the list of options, including the cost to the developer and the cost to the homebuyer at time of application. In no event will the cost to the homebuyer exceed 20% over the actual cost to the developer. All options are subject to the approval of the Agency and the Participating Lender.</p> <p>Developers will be permitted to offer options to buyers that will increase Agency-approved sales prices of any units by up to 20% but will not result in an increase of the approved developer fee. Prices increased due to unit options do not need Executive Director approval.</p>
<p align="center">11-I Energy Star</p>	<p>Units must be Energy Star certified.</p>
<p align="center">11-J Hard and Soft Contingency Requirements</p>	<p>A construction contingency is required as part of the development budget for at least 5% of the total hard construction costs for new construction units and at least 10% of the total hard construction costs for rehabilitation units. A soft cost contingency is required as part of the development budget in the amount of 2% of the total soft costs (including professional fees and carrying costs), unless special circumstance acceptable to the Agency are shown to exist. Contingency should only be used for unforeseen items. Hard cost and soft cost contingency draws will come from hard cost and soft cost contingency line items, respectfully. No soft cost contingency funds will be used for hard cost overruns.</p> <p>Contingency draws will come from the construction loan only. Subsidy funds cannot be used to cover contingency draws.</p>
<p align="center">11-K Budget Maximum per Unit Cost Maximum Sq. Ft. Costs</p>	<p>The application should include complete financing and budget information (refer to Section X of the CHOICE Application). The application must include an engineer’s cost estimate for site work per approved site plans and architect or engineer’s cost estimate of the total construction cost by square footage or per unit cost. Before commitment, all line items must be evidenced by contracts or binding proposals. This includes all contracts and/or proposals for all major sub-contractors and suppliers.</p> <p>The total development cost must not exceed \$275,000 per unit (not including hard/soft cost contingency) unless there are extenuating circumstances.</p> <p>The Development Budget should include costs for building and property acquisition, construction, contractor fee, hard cost contingency, professional services, carrying and financing costs, soft costs contingency, and developer’s fee.</p>

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	<p>Additionally, the budgeted per square foot cost for residential structures should not exceed \$130 per sq. ft., (\$150 per sq. ft. if on-site and off-site infrastructure are included) for construction projects.</p> <p>Soft costs directly related to the project will be permitted as a budgeted line item provided they are acceptable to the Agency and were incurred within one year of the application submission date.</p>
<p align="center">11-L Developer Equity</p>	<p>For-profit developers must contribute a minimum of 10% equity to the project, and non-profit developers must contribute a minimum of 5% equity to the project. Equity must be the first money spent on or credited to the project before any release of construction loan proceeds and subsidy funding. The total development cost for each project or each specified phase of a project, less the developer fee/profit, must be used to determine the minimum equity requirement.</p> <p>Acceptable equity sources include:</p> <ul style="list-style-type: none"> ■ Approved pre-development costs shown in the development budget which are documented as already paid for by the developer and that will not be reimbursed from any CHOICE financing/funding. Eligible pre-development costs for purposes of calculating the equity include: developer funded site acquisition (Participating Lender/Agency-approved as-is value of property), survey, environmental studies, architect, appraisal, legal and engineering fees. Proof of payment is required at time of application for all claimed equity. Other equity-qualifying costs will be considered on a project basis. All third party fees must be reasonable for the scope and cost of the project. ■ For-profit developers may use various sources for developer’s equity, including borrowed funds, but may not charge interest to the development budget related to their equity and may not secure any lien on the project to secure equity or borrowing to cover equity. ■ Cash or other approved funds that will be used to pay towards specific line items in the development budget and will not be reimbursed from any CHOICE financing/funding. Evidence of availability must be confirmed by the Participating Lender and to the Agency’s satisfaction.
<p align="center">11-M Appraisal/Market Study</p>	<p>To determine project valuation and marketability an independent market valuation appraisal and an as-is valuation appraisal, which conforms to the Uniform Standards of Professional Appraisal Practice (USPAP), and in accordance with the Agency and Participating Lender standards, if applicable, and addresses comparable unit sales prices and absorption rates, will be commissioned by the Agency. The cost of the appraisal will be passed through to the developer.</p> <p>The “as-is” valuation should not take into consideration the effect that potential CHOICE or other project subsidies may have on the use of the property.</p> <p>All appraisals have a shelf life. Property Values change quickly and are dependent on many different data. The demographics change, as do economic indicators. A supply and demand study can be affected by new construction or a change in purpose. For this and other due diligent reasons, the Agency requires that appraisals be updated under the following circumstances.</p> <ul style="list-style-type: none"> ■ An up-date must be ordered for purposes of confirming viable unit sales prices, if the appraisal is more than 6 months old from the planned financing closing date, or if a re-commitment is needed. ■ Once the construction loan is closed and construction begins, the Agency will assess the time remaining for completion of the project and make a determination as to whether an update or new appraisal will be ordered. <p>A market study or a supply and demand analysis is generally included in the appraisal. Under certain circumstances, the Agency may require a more detailed market study to determine the overall absorption</p>

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	<p>periods, comparable unit sale prices and marketing plan. The Agency will order the study. The cost will be passed through to the developer.</p> <p>For project property owned for 5 years or less, the Agency will recognize the lesser of the appraised value or the purchase price of the realty and any buildings and improvements thereon involving the most recent arm's length transaction as provided by a “Delineation of Title” history (completed by the appraiser or a title agency) identifying each party associated with the conveyance. The total purchase price may include documented carrying costs, expenditures to obtain zoning, environmental or other governmental approvals necessary or useful for the development of the project. For project property owned for more than 5 years, the appraised value alone may be recognized.</p> <p>NOTE: Arms Length Transaction is defined as: A transaction negotiated by unrelated parties, each acting in their own self-interest in arriving at a basis for a fair market value determination.</p>
<p align="center">12. <u>Pre-Closing, Closing and Construction Requirements</u></p>	<p>Developers must close on the CHOICE financing within 180 days of the date of the commitment. The participating lender and the agency will prepare the closing.</p> <p>Project construction is prohibited from commencing prior to the closing of CHOICE financing/funding.</p> <p>Any work commenced or completed without Agency and Participating Lender pre-approval will not be funded and may result in a termination of the CHOICE financing commitment.</p> <p>All project sites must display a separate sign stating that the “Funding for the project was provided by New Jersey Housing and Mortgage Finance Agency.” The sign must be a minimum of 3’ by 5’, and be placed on the site before the start of construction and must remain on the site until the project is completed and sold out. The design of the sign must be provided to the Agency for approval prior to construction start.</p>
<p align="center">12-A Change Orders</p>	<p>All change orders must be pre-approved by the Participating Lender and the Agency and be consistent with the standards and procedures established by the Participating Lender and the Agency. The Participating Lender and the Agency have the authority to deny change orders and/or require the developer to deliver sufficient funds to complete construction of the project.</p>
<p align="center">12-B Model Units</p>	<p>The construction of a limited number of model units will be a permitted use of the CHOICE Construction Loan. The Participating Lender and the Agency will determine the number of model units, the marketing of the project will be enhanced by the construction of models and warrant that sufficient security is in place to protect the investment.</p>
<p align="center">12-C Pre-Sales</p>	<p>The Participating Lender and the Agency may require an acceptable level of pre-sales for each project or phase in accordance with their normal standards. The Participating Lender must consult with the Agency to establish a measurable level of pre-sales and ensure that the established pre-sale requirement is met prior to requesting Agency construction loan funds or CHOICE Subsidy funds. The Participating Lender and Agency’s analysis may be based on a market study, absorption analysis or other sales and neighborhood data acceptable to the Participating Lender and Agency.</p> <p>Developers of mid-rise multi-unit buildings will be required to demonstrate a certain number of presales, as determined by the Agency and the Participating Lender, prior to any draws on the construction loan. The determination as to the number of presales will be on a case by case basis. Documentation needed to meet the pre-sale condition must include valid sales contracts and purchaser pre-qualifications for the purchase money mortgages.</p>
<p align="center">12-D Unit Sales Proceeds</p>	<p>The release price for all units cannot be less than 95% of the sale price. The exact amount will be determined by the Participating Lender and Agency.</p> <p>Unless determined otherwise by the Participating Lender/Agency, all unit sales proceeds will be divided equally between the Participating Lender and Agency and used for the following purposes in this order:</p>

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	<ul style="list-style-type: none"> ▪ to pay off any unpaid portion of the CHOICE construction loan and the Participating Lenders construction loan, ▪ to pay off any unpaid portion of other construction financing provided by non-CHOICE sources, as required, ▪ to cover any other non-developer fee/profit costs required by the Participating Lender/Agency, ▪ to pay the developer fee/profit <p>These conditions and any other conditions for the use of sales proceeds should be set forth in the Participating Lender's commitment and approved by the Agency.</p>
<p align="center">12-E Unit Sale Lien Release</p>	<p>In order to receive a fully-executed lien release from the Agency for its applicable CHOICE first and second mortgages on a completed unit that is to be sold, the developer must provide to the Agency for its review and approval in advance of the unit closing: (1) a copy of the fully-executed contract of sale and all addendums, (2) a copy of the fully-executed Certificate of Occupancy, (3) a copy of the Energy Star completion certificate, (4) a draft copy of the unexecuted documents prepared for shared equity restrictions for a CHOICE subsidized market unit, if applicable, and (5) a statement from the lender for the release amount.</p> <p>Upon sale of the unit, the developer must provide to the Agency for its review and approval after closing: (1) the original Recapture Mortgage Note, and a copy of the executed Recapture Mortgage and Declaration of Covenants, (2) evidence that payment was made directly to the Participating Lender for the release amount of the home, (3) a copy of the executed HUD-1 Settlement Statement, and (4) a Partial Release of Mortgage prepared by the developer’s attorney and sent to the Agency for execution by the Director or Assistant Director of Single Family Programs.</p>
<p align="center">12-F Modular Units</p>	<p>Payment for the delivery of modular units will be in accordance with the Agency and Participating Lender's standard disbursement policy. If a disbursement of funds is made when the modular unit is delivered, the Participating Lender's and the Agency’s representatives must be on site to approve the unit and confirm its compliance with the plans and specifications. Appropriate advance notice to the Agency of a scheduled delivery is required. The Agency may require factory site visits by Single Family’s Technical Inspector during manufacturing of the units.</p> <p>Deposits, or downpayments, on modular units must be paid by the developer and will be reimbursed from the construction loan once the unit is permanently attached to the foundation and the Participating Lender's and the Agency’s inspections are completed.</p>
<p align="center">12-G Title Insurance</p>	<p>Title Insurance naming the Agency and the Participating Lender as insured parties on all mortgaged property is required from a N.J. authorized title insurance company acceptable to the Agency and Participating Lender, insuring that the lien of the mortgage is a first mortgage lien; free and clear of all encumbrances (except for usual encumbrances such as utility easements). The Agency or Participating Lender will specify the form of the title insurance at the time of loan commitment. The Agency requires title policy coverage for the full amounts of the CHOICE Construction Loan and the CHOICE Subsidy Funding and any other Agency financing. If the loan is revolving or being paid down during construction, the amount of coverage must be in at least the amount of the highest anticipated outstanding principal loan balance. CHOICE subsidy coverage must also be at least in the amount of the highest anticipated outstanding subsidy balance, recognizing any scheduled reduction of the subsidy caused by the release of the corresponding mortgage upon sale of units to homeowners. The title policy must permit amendment to increase coverage if the outstanding balances exceed projections.</p> <p>The Agency or Participating Lender must verify by title run-down that the mortgage is in a first lien position, free and clear of all liens and encumbrances, prior to each draw. Conditional and unconditional Lien waivers in the form provided by the Agency (see Attachment #4) should be obtained from all contractors and sub-contractors for each draw.</p>

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<p align="center">12-H Insurance Policies</p>	<p>The Participating Lender and the Agency must be listed as the First Loss Payee or equivalent status on all insurance policies which cover the project site, equipment, materials and construction completion.</p>
<p align="center">12-I Survey</p>	<p>All project developers must submit a completed ALTA SCMA Urban Class Survey at time of application. Survey must include all easements and/or right-of-way. The Surveyor must sign and seal the survey. The survey must be certified to the owner, Title Company, Participating Lender and the Agency.</p>
<p align="center">12-J Guarantees</p>	<p>The Agency or Participating Lenders will be required to ensure that each project has the appropriate safeguards to ensure project completion. Participating Lenders and/or the Agency’s discretion may require recourse, performance bond, letter of credit, additional equity, or other forms of guaranty as may be reasonable. A Personal Guaranty is required for all projects. Personal and/or corporate recourse may be required, at the Agency or Participating Lender's sole discretion, from for-profit developers, limited equity corporations and joint development teams. Non-profit developers will not be subject to personal recourse.</p> <p>Any guarantees required must also apply to the benefit of the Agency (see the Intercreditor Agreement for further explanation).</p> <p>A letter of credit for up to 25% of the total financing (construction loans) may be required for all mid-rise multi-unit buildings.</p> <p>The Personal Guaranty and letter of credit will stay in place until all Agency financing has been repaid.</p>
<p align="center">13. <u>Project Cost Certification</u></p>	<p>At project completion, the Developer must provide a final Project Cost Certification of the total development costs prepared by a Certified Public Accountant in a format acceptable to the Agency. A copy of such will be delivered to the Agency within three months of the project's completion. If the cost audit is not submitted within three months, the developer must provide a letter from a Certified Public Accountant explaining the reason for the delay and when the audit will be submitted to the Agency. If this explanation is found acceptable, the Agency will grant up to no more than three additional months for the audit’s submission. If the Agency does not receive the audit within this approved extended time period, any remaining undisbursed CHOICE subsidy will not be released and will remain permanently with the Agency.</p> <p>Any expenditures in the submitted cost audit that are in excess of those documented and/or approved by the Agency will be considered ineligible. Funds remaining with the Participating Lender and the Agency, as well as any sales proceeds in excess of the construction loan balance, will be used to offset ineligible expenses.</p> <p>In advance of the Project Cost Certification, the developer must affirm in writing that all project funding is complete and that no additional draws will be submitted, except for any withheld subsidy retainage contingent on the completion of the Project Cost Certification.</p>
<p align="center">14. <u>Interim Line Item Audit</u></p>	<p>At any time prior to project completion the Agency may randomly audit or cause to be audited any line item or items for which payment has been requested. Such audit may include review of costs submitted including all backup for all materials and labor and interviews and certifications with and from subcontractors.</p>
<p align="center">15. <u>Agency Rights and Reservations</u></p>	<p>The Agency reserves the right, at its sole discretion, to determine eligible amounts and use of the CHOICE Construction Loan, the CHOICE Subsidy Funding and any Agency end loan financing. In the event a developer is awarded less than the requested financing/funding amounts, it may be necessary for the developer to modify the project plans and budget accordingly. In addition, the Agency reserves the right to reject any and all submissions.</p> <p>Developer's affirmative obligation to disclose changes</p>

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(a) Developers are under a continuing affirmative obligation to advise the Agency of any changes to any aspect of the proposed development and provide relevant information as it becomes available, including but not limited to notification of any pending/anticipated litigation which may affect the proposed development. The Agency will require the owner to certify and may require further documentation to verify that all representations made in the application concerning the proposed development, including but not limited to the representations relied upon to determine the developer's eligibility and the approved project's plans and budget, are, and continue to be achievable. Substantive changes to the development plans, budgets and any other documents used in making the initial approval decision may cause the project's subsidy allocation to be reconsidered by the Agency. The Agency reserves the right to request any and all documentation necessary to monitor the progress of the development throughout the construction phase, sale of units, and until approval of the final cost audit.

(b) The Agency has the authority to rescind the approval of funding to any project, including but not limited to, all or a portion of its subsidy allocation if any representations made in the application are mistakenly or intentionally misrepresented or not fulfilled.