# Exhibit B
# Dallas Housing Opportunity Fund ("DHOF")
# Investment Guidelines: Subordinate Debt

| Source | Dallas Housing Opportunity Fund |
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| Category | Subordinate debt |
| Eligible borrowers | Nonprofit or for-profit entities |
| AMI Targeting | ○ Project demonstrates high quality units for all income levels<br>○ Project must target at least 50% of units at 120% of the City of Dallas AMI or below. Preference will be given to projects with deeper affordability.<br>○ Developer must agree to accept voucher holders (no discrimination of income source) |
| Geographic Targeting | Project must be located within the municipal city limits of the City of Dallas and comply with fair housing laws. Projects will affirmatively further fair housing. |
| Project Scoring | Projects will need to meet a minimum threshold and prioritization will be determined by score. Projects located in census tracts with a poverty rate of 20% or below will be deemed located in "high opportunity areas" and will receive a higher prioritization. |
| Maximum Investment Amount | The lower of: (i) 10% of the total capitalization of the Fund or (ii) $10 million |
| Uses of Proceeds | ○ Acquisition<br>○ Construction<br>○ Construction to Perm<br>○ Rehabilitation |
| Loan to Value | Up to 95% |
| Interest Rate | Weighted average cost of capital (which is subject to the eventual Fund capital stack and investors'/lenders' contractual rates of return) plus a spread of 150 to 500 basis points subject to underwriting risk assessment |
| Maximum loan term | The lower of: (i) the remaining Fund life minus one year or (ii) 18 years |
| Debt Service Coverage Ratio | Minimum stabilized DSCR of 1.10x |
| Repayment | Interest-only or combination of interest-only/amortization. |
| Security | DHOF will evaluate ability to take a second lien position. DHOF will <u>not</u> subordinate to soft subsidies such as public subsidies or grant financing. DHOF may consider subordination to other CDFIs on a case-by-case basis. DHOF may consider an unsecured position. |
| Recourse | Recourse to the borrower or sponsor during the construction period, subject to DHOF's underwriting |
| Equity Requirement | • Nonprofit developers: equity requirement of 5%<br>• For profit developers: equity requirement of 5% - 10%, determined on a case by case basis.<br>Equity must be disbursed to the project in full before DHOF loan proceeds are disbursed, and must stay in the project until DHOF is fully repaid. |

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| **Vacancy Rate** | **Projects underwritten to minimum of 5% vacancy rate** |
| **Origination Fee** | **1% paid at closing** |
| **Exit Analysis Requirements** | **LTV of 70% and Cap Rate of 6% on forward Net Operating Income** |
| **Developer Fee** | **Developer fee may not exceed 7% of eligible development costs** |
| **General Underwriting Criteria** | ○ **Project Analysis: Analysis of loan opportunity, sponsor, partners, and project cash flow**<br>○ **Leadership and Staff Analysis: Analysis of the sponsor's staff should demonstrate adequate qualifications, skills, and capacity to successfully complete and manage proposed project**<br>○ **Market Study: Acceptable independent market analysis completed no longer than 6 months before anticipated closing**<br>○ **Moderate Rehab: Acceptable Capital Needs Assessment (CNA) & 15 yr. replacement reserve study**<br>○ **If project has commercial income, it is not relied upon to pay senior lender debt.**<br>○ **Trending Spread: At least 1% (minimum 2% trending on income and 3% trending on expenses)**<br>○ **Operating Expenses: Must be supported by at least 3 acceptable operating comparables**<br>○ **Eligibility for tax abatement documented (if applicable)**<br>○ **Property Management Fee: not less than 5% of net rental income** |
| **Guarantees** | **Guarantors:**<br>○ **Nonprofit: parent entity named as guarantor**<br>○ **For-profit sponsor: guarantee from the principals (personal guaranty) or a corporate guaranty, subject to DHOF's review of financials**<br>**Completion Guaranty: Unlimited** |
| **Reserves** | ○ **Construction Contingency: minimum 10% Rehab, 5% New Construction**<br>○ **Capitalized Operating Reserves: 6 months of 1st year's operating expenses, debt, and replacement reserves**<br>○ **Lease Up Reserve or Revenue Deficit Reserve: If warranted. For negative trending DSCR, reserve to be sized based on providing minimum DSCR**<br>○ **Annual Contribution to Replacement Reserves:**<br>• **New construction = $250/unit;**<br>• **Rehab= Min $300; 3-4 bedroom units = Min $350/ unit**<br>○ **Reserve deposit to be increased annually by the expense trend average** |
| **Guarantor Financial Measures** | ○ **Current Ratio: 1.2:1 or higher**<br>○ **Quick Ratio: 0.5:1 or higher**<br>○ **90 days or more unrestricted cash on hand**<br>○ **Debt/Net Assets <4:1**<br>○ **Total Liabilities/Net Assets <5:1** |
| **Third Party Reports** | **The following reports may be required at submission but shall be required no later than during the senior lender due diligence period:**<br>○ **Appraisal**<br>○ **Environmental site assessment**<br>○ **Structural engineer's report**<br>○ **Physical Needs Assessment**<br>○ **ALTA**<br><br>***Borrower to pay for all expenses related to Third Party Reports*** |

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| **Loan Conditions/ Covenants** | **Affordability covenants and requirements will be enforced throughout the term of DHOF's investment.** |
| **Financial Reporting** | **Borrowers will submit any or all the following information, post-closing, throughout the loan term:**<br>○ **Borrower financial information**<br>○ **Guarantor financial information, as applicable**<br>○ **Project status updates**<br>○ **Loan compliance with financial covenants**<br>○ **Impact data regarding affordability**<br>○ **Property Financials including rent rolls**<br>○ **Annual Audits** |
| **Pre-Payment Penalty** | **Lockout period and/or Yield Maintenance** |
| **Displacement Restrictions** | **In the event the borrower/developer exits the investment and converts the project to a market-rate project, the net present value of the difference between market-rate rent and affordable-rate rent for each unit shall be discounted by 5% over the remaining term of the investment, and such amount shall be paid to an escrow fund to help displaced residents.** |

# Dallas Housing Opportunity Fund ("DHOF")
# Investment Guidelines: Equity

| Source | Dallas Housing Opportunity Fund |
|---|---|
| Category | Equity (only available for non-LIHTC projects), either:<br>○ Preferred Equity<br>○ Common Equity |
| Limited Partner | Dallas Housing Opportunity Fund |
| Eligible Partners | Nonprofit or for-profit entities |
| AMI Targeting | ○ Project demonstrates high quality units for all income levels<br>○ Project must target at least 50% of units at 120% of the City of Dallas AMI or below. Preference will be given to projects with deeper affordability.<br>○ Developer must agree to accept voucher holders (no discrimination of income source) |
| Geographic Targeting | Project must be located within the municipal city limits of the City of Dallas and comply with fair housing laws. Projects will affirmatively further fair housing. |
| Project Scoring | Projects will need to meet a minimum threshold and prioritization will be determined by score. Projects located in census tracts with a poverty rate of 20% or below will be deemed located in "high opportunity areas" and will receive a higher prioritization. |
| Maximum Investment Amount | The lower: (i) of 10% of the total capitalization of the Fund or (ii) $10 million |
| Loan Type | ○ Acquisition<br>○ Construction<br>○ Rehabilitation |
| IRR Target | Up to 700 basis points above the average interest rate of the Fund |
| Repayment | Refinance after the end of the senior lender term or a forced put option to the General Partner before the fund's life expires |
| Equity Requirement | • Nonprofit developers: equity requirement of 5%<br>• For profit developers: equity requirement of 5% - 10%, determined on a case by case basis.<br><br>Equity must be disbursed to the project in full before DHOF equity proceeds are disbursed |
| Vacancy Rate | Projects underwritten to minimum of 5% vacancy rate |
| Origination Fee | NA |
| Reversion Valuation | 70% LTV and Cap Rate of 6% on forward Net Operating Income |
| Developer Fee | Developer fee may not exceed 7% of eligible development costs |
| General Underwriting Criteria | ○ Project Analysis: Analysis of loan opportunity, sponsor, partners, and project cash flow |

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| | ○ **Leadership and Staff Analysis: Analysis of the sponsor's staff should demonstrate adequate qualifications, skills, and capacity to successfully complete and manage proposed project**<br>○ **Market Study: Acceptable independent market analysis completed no longer than 6 months before anticipated closing**<br>○ **Moderate Rehab: Acceptable Capital Needs Assessment (CNA) & 15 yr. replacement reserve study**<br>○ **If project has commercial income, it is not relied upon to pay senior lender debt; such commercial component must be priced at or below market per square foot**<br>○ **Trending Spread: At least 1% (minimum 2% trending on income and 3% trending on expenses)**<br>○ **Operating Expenses: Must be supported by at least 3 acceptable operating comparables.**<br>○ **Documenting eligibility for tax abatement (if applicable)**<br>○ **Management Fee: not more than 5% of net rental income** |
| **Guarantees** | **Construction Completion Guaranty: GP will provide construction completion guaranty and environmental indemnification for the LP or Preferred Investor** |
| **Reserves** | ○ **Construction Contingency: minimum 10% Rehab, 5% New Construction**<br>○ **Capitalized Operating Reserves: 6 months of 1st year's operating expenses, debt**<br>○ **Lease Up Reserve or Revenue Deficit Reserve (if applicable): For negative trending DCR, reserve to be sized based on providing minimum DCR** |
| **Guarantor Financial Measures** | ○ **Current Ratio: 1.2:1 or higher**<br>○ **Quick Ratio: 0.5:1 or higher**<br>○ **90 days or more unrestricted cash on hand**<br>○ **Debt/Net Assets <4:1**<br>○ **Total Liabilities/Net Assets <5:1** |
| **Third Party Reports** | **The following reports are required at submission or during the senior lender due diligence period:**<br>○ **Appraisal**<br>○ **ALTA**<br>○ **Environmental site assessment**<br>○ **Structural engineer's report**<br>○ **Property Condition Assessment (if applicable)** |
| **Reporting** | **Partner will submit any or all the following information, post-closing, throughout the investment term at a minimum:**<br>○ **Project status updates**<br>○ **Impact data regarding affordability**<br>○ **Mortgage Documents**<br>○ **Property Management, monthly property financials, including rent rolls**<br>○ **Annual Audits** |
| **Displacement Restrictions** | **In the event the borrower/developer exits the investment and converts the project to a market-rate project, the net present value of the difference between market-rate rent and affordable-rate rent for each unit shall be discounted by 5% over the remaining term of the investment, and such amount shall be paid to an escrow fund to help displaced residents.** |

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| **Lock-Out Period** | **TBD** |