City of Huntington Beach

Affordable Housing Program Underwriting and Subsidy Layering Guidelines

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SECTION I. INTRODUCTION

The City of Huntington Beach, Community Development Department (City or CDD) supports the acquisition, rehabilitation, and new construction of affordable rental housing for low-, very low-, and extremely low-income households with its annual funding allocations from the U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program (HOME) and available local housing funds including, but not limited to: 1) former Redevelopment Agency housing set-aside funds (referred to as Low- and Moderate-Income Housing Asset Fund); and 2) the City's Housing Trust Fund, which includes housing in-lieu fees. HOME regulations, as amended, require the City to identify minimum elements the City must consider and requires the City to establish specific guidelines against which affordable housing projects are to be evaluated. HOME regulations also require that the City of Huntington Beach conduct underwriting and subsidy layering reviews of each project prior to committing federal assistance.

Affordable Housing Program Guidelines

The purpose of the Affordable Housing Program Guidelines is to describe the City of Huntington Beach's housing policy objectives, the range of affordable housing activities available to advance these objectives, and the manner in which transactions will be evaluated and selected for funding. The overall goal of these guidelines is to ensure prudent underwriting and subsidy layering review and to ultimately achieve compliance with applicable Federal, State, and City laws, ordinances, regulations, and policy objectives.

The Affordable Housing Program Guidelines, more fully explained in Section II below, provides information on eligible activities and costs, eligible applicants, general project requirements, affordability, development requirements and other pertinent information relevant to the application for HOME-assistance for the development of affordable housing.

Underwriting

Underwriting is more than a technical requirement, and the term itself is used in several different ways. Depending on the context, underwriting is sometimes used in a limited fashion to refer primarily to the financial review of a potential transaction. Other times, the term underwriting is narrowly understood as a check the box set of static technical reviews resulting in a determination that a project does or does not meet a certain formula. In both cases, these uses of the term are too limited.

In practice, underwriting is a reflexive process. Every project involves risk, and even the best project can fail due to unforeseen factors. The goal of underwriting is to both identify and mitigate risk across a series of perspectives. In other words, the underwriting process is not an up or down review, but it often changes the project itself by imposing requirements to improve viability.

In this sense, the City's approach to underwriting is informed not only by traditional lending perspectives and minimum requirements of the HOME program, but a holistic approach to balancing the various risks inherent in any real estate transaction and the public purposes the City seeks to support – not the least of which is producing safe, decent, affordable housing that will be an enduring community resource.

Subsidy Layering Review

The City of Huntington Beach has adopted layering review guidelines included herein in compliance with HOME Investment Partnerships Act (HOME) requirements in HUD Notice CPD 15-11 issued December 22, 2015 entitled "Requirements for the Development and Implementation of HOME Underwriting and Subsidy Layering Guidelines", which supplanted the prior CPD Notice-98-01. The intent is to "*Ensure that the level of HOME investment does not exceed the amount that is necessary to provide quality affordable housing that is financially viable*."

Additionally, the City is required under Section 212(f) of the Cranston-Gonzalez National Affordable Housing Act of 1990 (NAHA), as amended, to certify that it will not invest any more HOME funds in combination with other governmental assistance than is necessary to provide quality affordable housing that is financially viable for the HOME affordability period (24 CFR 92.252). The 2013 HOME Final Rule reiterates this requirement (24 CFR 92.250(b)) that projects be evaluated according to written underwriting and subsidy layering guidelines for all HOME activities to determine the appropriate HOME investment. That is:

> *Before committing funds to a project, the participating jurisdiction must evaluate the project in accordance with guidelines that it has adopted for determining a reasonable level of profit or return on owner's or developer's investment in a project and must not invest any more HOME funds, alone or in combination with other governmental assistance, than is necessary to provide quality affordable housing that is financially viable for a reasonable period (at minimum, the period of affordability in § 92.252) and that will not provide a profit or return on the owner's or developer's investment that exceeds the participating jurisdiction's established standards for the size, type, and complexity of the project. The participating jurisdiction's guidelines must require the participating jurisdiction to undertake:*
>
> 1. *An examination of the sources and uses of funds for the project and a determination that the costs are reasonable; and*
>
> 2. *An assessment, at minimum, of the market conditions of the neighborhood in which the project will be located, the experience of the developer, the financial capacity of the developer, and firm financial commitments for the project.*

The City asserts that:

1. Prior to the commitment of funds to a project, the project is to be evaluated based upon the City's layering guidelines; and

2. It will not invest any more HOME funds in combination with other governmental assistance than is necessary to provide affordable housing. The City's layering review guidelines will also determine the level of HOME funds to be used in a project absent other governmental assistance[1]. In the event that additional sources of funds not initially contemplated are infused, the City may opt to update the evaluation.

The City's intent is to implement general underwriting tenets, consistent with HUD Notice CPD 15-11, to "*ensure that the amount of HOME assistance is the amount of warranted assistance necessary for a project to be financially feasible based upon the various HOME covenants and restrictions to be put in place."*

[1] The term "governmental assistance" refers to any loan, grant, guarantee, insurance payment, rebate, subsidy, credit, tax benefit or any other direct or indirect assistance from a federal, state or local government used for a specific housing project.

SECTION II. AFFORDABLE HOUSING PROGRAM GUIDELINES

The City of Huntington Beach provides financing for a range of housing programs and activities utilizing funds from different sources including Federal HOME and CDBG funds; former Redevelopment Agency housing set-aside funds (referred to as Low- and Moderate-Income Housing Asset Fund); and the City's Housing Trust Fund, including housing in-lieu fees. While each funding source is subject to specific regulatory restrictions and requirements, these general affordable housing guidelines will specifically cover those associated with the federal HOME Investment Partnership Act funds (HOME).

Eligible Activities & Costs

The following activities and costs are eligible to be carried out by the City of Huntington Beach to facilitate the preservation of existing or creation of new affordable housing.

New Construction

HOME funds may be used for new construction of both rental and ownership housing. Any project that includes the addition of dwelling units outside the existing walls of a structure is considered new construction.

Rehabilitation

This includes the alteration, improvement, or modification of an existing structure. It also includes moving an existing structure to a foundation constructed with HOME funds. Rehabilitation may include adding rooms outside the existing walls of a structure, but adding a housing unit is considered new construction.

Reconstruction

This refers to rebuilding a structure on the same lot where housing is standing at the time of project commitment. HOME funds may be used to build a new foundation or repair an existing foundation. Reconstruction also includes replacing a substandard manufactured house with a new manufactured house. During reconstruction, the number of rooms per unit may change, but the number of units may not. NOTE: Replacing a manufactured housing unit with a stick-built unit is considered a homebuyer activity even if the applicant/beneficiary owns the lot and existing manufactured unit.

Conversion

Conversion of an existing structure from another use to affordable residential housing is usually classified as rehabilitation. If conversion involves additional units beyond the walls (envelope) of an existing structure, the entire project will be deemed new construction. Conversion of a structure to commercial use is prohibited.

Site Improvements

Site improvements must be in keeping with improvements to surrounding standard projects. They include new, on-site improvements (sidewalks, utility connections, sewer and water lines, etc.) where none are present. They are essential to development or repair of existing improvements. Building new, off-site utility connections to an adjacent street is also eligible. Off-site infrastructure is not eligible as a HOME expense, but may be eligible for match credit.

Example: Infrastructure, such as sewer and water lines in a public street in front of a HOME-assisted property, cannot be paid for with HOME funds. However, the connections that run from the HOME-assisted property to the street are eligible HOME costs since they are essential to the property.

Acquisition of Property

Acquisition of existing standard property, or substandard property in need of rehabilitation, is eligible as part of either a homebuyer program or a rental housing project. After acquisition, rental units must meet HOME rental occupancy, affordability and lease requirements.

Acquisition of Vacant Land

HOME funds may be used for acquisition of vacant land only if construction will begin on a HOME project within 12 months of purchase. Land banking is prohibited.

Demolition

Demolition of an existing structure may be funded through HOME only if construction will begin on the HOME project within 12 months.

Relocation Costs

The Uniform Relocation Act and Section 104(d) (also known as the Barney Frank Amendments) apply to all HOME-assisted properties. Both permanent and temporary relocation assistance are eligible costs. Staff and overhead costs associated with relocation assistance are also eligible.

Refinancing

HOME funds may be used to refinance existing debt on single-family, owner-occupied properties in connection with HOME-funded rehabilitation. The refinancing must be necessary to reduce the owner's overall housing costs and make the housing more affordable. Refinancing for the purpose of taking out equity is not permitted. HOME may also be used to refinance existing debt on multi-family projects being rehabilitated with

HOME funds, if refinancing is necessary to permit or continue long-term affordability, and is consistent with the City's-established refinancing guidelines.

Initial Operating Reserve

HOME funds may be used to fund an initial operating deficit reserve for new construction and rehabilitation projects for the initial rent-up period. The reserve may be used to pay for project operating expenses, scheduled payments to a replacement reserve and debt service for a period of up to 18 months.

Project-Related Soft Costs

These must be reasonable and necessary.

Examples of eligible project soft costs include:

- Finance-related costs.
- Architectural, engineering, and related professional services.
- Tenant and homebuyer counseling provided the recipient of counseling ultimately becomes the tenant or owner of a HOME-assisted unit.
- Project audit costs.
- Affirmative marketing and fair housing services to prospective tenants or owners of an assisted project; and
- City staff costs directly related to projects (not including TBRA).

Eligible Applicants

- For-profit, non-profit and quasi-public developers with a documented capacity to construct (or rehabilitate) and operate multifamily housing that benefit extremely low to low-income households.
- Developer/applicants and their team members must be in good standing with the City on all previous grants, loans or loan commitments.
- Developer/applicants must affirm that there are no defaults or negative collection actions relating to any financial obligation, either to the City of Huntington Beach or to any other public agency or private lender.
- Applicant cannot be on any local, state or federal debarment list.

- No applicant, developer or contractor with compliance issues outstanding with the City or other public agencies can participate.

- The developer/applicant cannot have any outstanding tax liens on any properties owned and operated by the applicant.

- The City may seek references from other lenders, partners, or public agencies with which the applicant has done business.

Minimum Project Requirements

- Located in the City of Huntington Beach city limits.

- Project must consist of three or more residential units unless otherwise approved by City.

- All new construction housing projects constructed with HOME funds must meet all applicable State and local codes, ordinances, and zoning requirements. HOME-assisted new construction projects must meet State or local residential and building codes, as applicable or, in the absence of a State or local building code, the International Residential Code or International Building Code (as applicable to the type of housing) of the International Code Council. The housing must meet the applicable requirements upon project completion. New construction housing projects must also meet all HUD requirements of 24 CFR Part 92.251 (a)(2).

- Acquisition and rehabilitation or rehabilitation projects must:

  - ✓ Meet the City of Huntington Beach's Rehabilitation Standards which address standards in the areas of: health and safety; major systems; lead-based paint; accessibility; disaster mitigation; State and local codes, ordinances, and zoning requirements; Uniform Physical Condition Standards; applicability of a Capital Needs Assessment; and broadband infrastructure.

  - ✓ Have amenities that will allow it to compete effectively in the local market area as determined by City.

  - ✓ Upon completion, pass the UPCS.

  - ✓ Complete a third-party Capital Needs Assessment[2] as necessary.

[2] For multifamily rental housing projects of 26 or more total units, the participating jurisdiction must determine all work that will be performed in the rehabilitation of the housing and the long-term physical needs of the project through a capital needs assessment of the project.

- Acquisition ONLY projects must meet the City of Huntington Beach's Rehabilitation Standards as described above and have amenities that will allow it to compete effectively in the local market area as determined by City.

- Project must meet HUD environmental review requirements.

Ineligible Costs

Project components may be deemed non-essential elements by City and therefore removed from the total project cost. Such items may include, but are not limited to, the following:

- Carpeting for kitchens, bathrooms or patios
- Window treatments
- Dumbwaiters
- Greenhouses, hot tubs or whirlpool baths
- Mobile homes
- Outdoor fireplaces or hearths
- Swimming pools or swimming pool decks (except repair of existing)
- Tennis courts
- Other items deemed to be a luxury

General Project Requirements

The following are general project requirements for all applicants seeking funding from the City of Huntington Beach for housing-related projects.

Site Control

Project applicants must have control of any site that will receive City funding for acquisition, rehabilitation and new construction activities. To document site control one of the following must be submitted: a deed or other proof of ownership; an executed lease agreement; an executed contract of sale; or an executed option to purchase or lease. Please keep in mind URA regulations apply and must be followed or applications cannot be considered for funding.

Appraisal

A property appraisal may be required for projects that will receive City funding for acquisition, rehabilitation, or new construction. An appraisal cannot be more than 1 year old unless the appraisal has been accepted by the California Tax Credit Allocation Committee (CTCAC) as part of a tax credit application submittal. The appraiser must be a certified appraiser. The City reserves the right to require an appraisal on completed activities.

Reasonable Costs

The City is responsible for ensuring that the costs are reasonable by examining the sources and uses for each project. Assessment may include comparison to similar projects within the local market, market trend analysis, survey of industry participants, City housing-related experience, and other third-party sources.

Work Write-Ups

For acquisition of existing buildings (not slated for demolition) and rehabilitation, City must approve work write-ups (i.e., plans and specifications) to determine compliance with the City's Rehabilitation Standards. The project cannot be bid and work cannot begin until approval from City is received.

Cost Estimate

For acquisition of existing buildings (not slated for demolition) and rehabilitation, City must approve written cost estimates to ensure that the costs are reasonable. The project cannot be bid and work cannot begin until approval from City is received.

Procurement

Applicants must comply with all applicable federal, state and City procurement requirements. The developer shall ensure that all contracts are awarded in a fair, open and competitive manner. Executed copies of all contracts shall be forwarded to City along with documentation concerning the selection process.

Debarment and Suspension

Developers, contractors or subcontractors working on a City funded project cannot be located on a federal, state or local debarment or suspended list. Prior to awarding a contract, the developer must secure approval from City to ensure that the proposed contractor is eligible.

Davis Bacon Weekly Payrolls

If applicable, Davis Bacon payrolls must be submitted weekly on the most current Department of Labor form.

Affirmative Marketing

Developers must create an affirmative marketing plan to further the City's commitment to non-discrimination and equal opportunity housing. Affirmative marketing consists of actions to provide information and otherwise attract eligible persons in the housing market area to the available housing without regard to race, color, national origin, gender, religion, familial status, disability, sexual orientation, gender identity, or marital status. Records should be maintained describing actions taken by the developer to affirmatively market units. Documentation is required by the Fair Housing Act and the City will review the documentation at each monitoring visit, but may request to review the documentation annually.

Waiver Requests

City acknowledges that each project may face unique site, design, financing, population or market constraints for which full compliance may be difficult or impossible. It is intended that such unique constraints are identified during the design process and that the applicant may request a modification or waiver to specific standards and requirements, which will be reviewed on a case-by-case basis to determine whether specific standards should be modified or waived for reasons and purposes acceptable to the City. Requests for modification or waiver to specific standards must be in writing and document the applicant's need and unique situation. When such modifications or waivers are granted, additional requirements may be imposed by City.

Affordability Requirements

Assisted Units

Projects may have a mix of HOME-assisted units and non-HOME assisted units. Assisted units may be fixed or floating. HOME units shall not be isolated within a specific area or areas of the development. The HOME units shall be scattered throughout the development and be of the same quality and have the same proportional mix of square footage and bedroom size as non-HOME units.

Affordability Period

Income and rent restrictions are required for all HOME-assisted units for period of time known as the "affordability period." The affordability period is enforced using a legally binding restrictive covenant that assures that a specified number of units meet certain affordability restrictions for the specified period of affordability. This requirement will be satisfied by a Regulatory Agreement that will be prepared by or deemed acceptable by the City and then recorded with the Orange County Recorder's Office. All debt instruments secured by the subject property must be subordinate to the Regulatory Agreement.

HOME Required Affordability Periods		
Activity	**Average Per Unit**	**Minimum Affordability Period**
Rehabilitation or Acquisition of Existing Housing	< $15,000	5 Years
	$15,000-$40,000	10 Years
	> $40,000	15 Years
Refinance of Rehabilitation Project	Any Dollar Amount	15 Years
New Construction or Acquisition of New Housing	Any Dollar Amount	20 Years

All other funding, including local funds, will require a minimum of 55 years of affordability. The affordability period begins upon issuance of a Certificate of Completion by the City or by other triggers (e.g., percentage of lease-up) deemed appropriate by the City. The affordability period will remain in effect per the affordability term identified in the recorded Regulatory Agreement.

Income Determination Method

A developer/applicant for a project must determine income eligibility of each household using the appropriate methodology from either HUD, CTCAC, or State of California-Department of Housing and Community Development depending upon the source of the funds.

- **Income Recertification Schedule**

  - ✓ The developer/applicant must adopt a schedule for annual recertification of income and a copy must be provided to the City. Income can be recertified on the anniversary of the original income evaluation, at lease renewal, or on an annual schedule whereby all tenants are recertified during the same month.

  - ✓ Recertification of income eligibility must be conducted by collecting source documentation annually.

Occupancy & Rent Restrictions

- **General Restrictions:** Income limits for housing projects are calculated according to the actual number of household members as residents are identified. Occupancy limits must comply with HUD and HCD standards.

  - ✓ Rent restrictions are strictly enforced during the affordability period.

- ✓ All new tenants must meet the income limits established by City per HUD, CTCAC or HCD standards depending upon the source of funds.
- ✓ If a tenant pays utilities, the maximum allowable rents must be reduced by the amount of the applicable utility allowance as established by HUD and the Orange County Housing Authority.

- **HOME Assisted Units**
  - ✓ For households at 50% AMI or less, tenant rent must be the lowest of 30% of adjusted income, Low HOME rent or Fair Market Rent (FMR)
  - ✓ For households between 51% and 60% AMI, tenant rent must be the lowest of 30% adjusted income, High HOME rent or FMR.
  - ✓ Occasionally, units can serve households up to 80% AMI.

Site Selection and Neighborhood Compatibility

Site Design Principles

The determination of the site location is a very important part of the project preparation process and should not be overlooked. A well-chosen site location can significantly increase the success of the project. Issues to consider include orientation, access to transit, and proximity to community amenities (commercial, social services, education, parks, and healthcare facilities).

Affordable Multi-Unit Family and Senior Housing Concentration Policy

Affordable housing opportunities should be available to residents throughout the City of Huntington Beach. The City strongly discourages the concentration of affordable housing units within neighborhoods and promotes housing choice throughout the City.

Proximity to Site Amenities

Developments should be located on sites within a 2-mile radius of social, recreational, commercial, educational and health facilities and services.

A map identifying the development site and the location of supporting services is required.

The service must be identified by name on the map. All services must exist or be under construction.

Connectivity Requirements and Proximity to Transportation

A site should be located within one mile of a transit stop. A map showing the walkable route to the bus stops is required.

Zoning

The City's Zoning and development plan requirements should be the first consideration when finding a suitable location. Contact the Community Development Department offices to determine the correct zoning for multi-family, duplex, or single-family homes.

Development Requirements

Minimum Units

The minimum unit size for a multi-family development is three units. Single family units may be considered.

Zoning Code Compliance

All acquired property must conform, at minimum, to prevailing building standards and Zoning Code of the City of Huntington Beach. For projects which incorporate rehabilitation or new construction, the completed project must conform to these standards prior to final disbursement of awarded funds.

Capital Needs Assessment

For the acquisition of existing structures (not slated for demolition) and rehabilitation projects, a Capital Needs Assessment (CNA) per the Uniform Physical Condition Standards (UPCS) must be completed. The CNA must identify the useful life of major systems to include structural support, roofing, cladding, weatherproofing (windows, doors, siding, gutters), plumbing, electrical, heating, ventilation and air conditioning. If the remaining useful life is less than the affordability period, a replacement reserve as well as a replacement schedule is required to ensure the items can be adequately maintained and addressed throughout the affordability period. The CNA must be conducted by a qualified third party that is independent of the developer.

Sustainability and Energy Efficiency

Designing and locating affordable housing with sustainable design and green building in mind will ensure efficient land use, reduce energy costs and add to the appeal of the property. It is important to the City that housing positively contributes to the environmental health of our residents and neighborhoods by decreasing energy and water usage, reducing operating and maintenance costs, and improving the efficiency and longevity of the building system. Construction projects of new and existing buildings must be designed and constructed to be energy and water efficient, reducing tenant costs while improving the structure's sustainability.

- Appliances, mechanical systems, windows, doors, insulation must meet Energy Star standards.

- Toilets, faucets, shower heads must meet state volume standards.

Accessible and Adaptable Units

Financial assistance may not be provided for the acquisition or development of multi-family units that will not allow a portion of the units to be made accessible to persons with disabilities.

Occupancy of Accessible Dwelling Units Policy

Owners/managers of projects that have accessible units should ensure that information regarding the accessible units reaches individuals with disabilities. Additionally, owners/managers should take non-discriminatory steps to maximize the utilization of accessible units by qualified individuals with disabilities. This can be done by maintaining a waiting list for accessible units and offering vacant accessible units to applicants in the following order:

1. To a current occupant of another unit in the same property or other comparable property within the owner/manager's control, who has a disability requiring the accessibility of the vacant unit and who currently occupies a unit that does not have the accessibility features.

2. To a qualified applicant on the waiting list who has a disability requiring the accessibility features of the vacant unit.

3. To a qualified applicant who does not have a disability requiring the accessibility features of the unit; however, the owner/manager may incorporate language in the lease that the applicant will agree to move to a non-accessible unit when one becomes available.

Loan Process

Documents

Once applicants have been notified of loan approval, the City will provide applicants a copy of the draft loan documents for review and comment. A City loan agreement includes:

- Affordable Housing Agreement

- Loan Agreement

- Promissory Note
- Deed of Trust
- Regulatory Agreement (land use and affordability restrictions)
- Developers that are required to comply with the Davis Bacon or State of California prevailing wage regulations as a condition of the commitment, must schedule a pre-construction meeting to ensure the development team and contractor understand the prevailing wage monitoring and include the appropriate provisions in the construction contracts.

Loan Funding

In preparation for loan funding, City staff will perform the following:

- **Verification of closing conditions**: review all pre-funding conditions of the Loan Agreement to ensure that the developer has complied with conditions and provided necessary documentation.
- **Schedule the closing**: developer will be responsible for scheduling the closing, collecting and reviewing the final loan documents and working with City staff to set a closing date.
- **Loan funding**: prior to disbursement of loan funds, the developer must comply with all conditions set forth in the Affordable Housing or Loan Agreement and provide City with the following:
  - ✓ Certified copies of executed loan documents
  - ✓ Proof of current property tax payments
  - ✓ Proof of insurance meeting City insurance requirements
  - ✓ Title insurance meeting City standards
  - ✓ Proof of compliance with prevailing wage requirements, if applicable

Reporting

Developers, as stated in the loan agreements, will be required to make periodic reports to the City regarding project financials, project cash flow, and developer's compliance with applicable requirements of City and other funding. The required reports shall provide information on the beneficiaries (homebuyers, renters, special needs populations) of federal funding and the financial condition of the project. If developers have not responded timely to the City's requested annual or periodic reporting, the project will be found in default of the City loan and developer contractual obligations.

Reporting to demonstrate compliance with the terms of the loan agreement will include:

- ✓ Annual Audited Financial Statements and other financial reports to show project cash flow and developer's compliance with applicable requirements of the HOME or other funding source
- ✓ Quarterly Performance Reports (October, January, April, and July of each year)
- ✓ Tenant Information Report if City funds were used in the creation of the City's loan
- ✓ A-133 Audit if the developer received more than $500,000 in total federal funds
- ✓ The assisted units are being property managed/operated.
- ✓ The assisted units are being affirmatively marketed per Fair Housing Act requirements.

Monitoring

After a project has been completed and all funds have been drawn, the developer will submit annual reports in compliance with the funding agreement or loan covenant. Delinquent reporting will result in the suspension of further disbursement of awarded funds.

Periodic site reviews will be conducted by appointment to confirm the extent of work to be completed, to monitor progress, and to ensure work has been completed in accordance with project plans, City building code, the construction contract and all plans and specifications provided within the program application.

During the monitoring process an analysis of randomly selected client files will confirm compliance with resident eligibility and documentation standards. A written summary will be sent to the developer within thirty days of the site review. A determination of noncompliance will be communicated to the developer in writing with the required corrective actions and the cure period. Non-compliance will result in the suspension of further disbursement of awarded funds and ineligibility for future funding.

Default Actions and Sanctions

The City retains the right to determine in its sole decision, whether a default has taken place in a City funded project. The City may exercise default actions if the City determines that the default or violation(s) of the terms and conditions of the executed agreement has or may take place by the developer of the project. A default or violation may be facilitated as the result of an action or inaction taken by the project developer, organization, agency, contractor, individual or duly appointed representative of the developer or developer's project. A default or violation may include, but may not be limited to the following:

- Developer or developer's project fails to adequately address the applicable local, state or federal rules and/or regulations governing the acquisition, construction and/or initial occupancy requirements of the project.
- Any breach of any provision contained in the loan document.
- If City program funds are used for any purpose other than authorized in the City program agreement.
- The appropriate proportion of assisted units are not maintained for the term of the loan.
- There is a change in use of the property prior to repayment of the HOME loan without City review and written approval.
- Developer fails to respond to the City, HUD's or IRS requests for occupant and rental information during the life of the loan.
- Property is not maintained in compliance with the City's Rehabilitation Standards or Code or federal Uniform Physical Conditions Standards.
- Developer fails to comply with information submitted by the developer to the City through the project selection process.
- Developer or developer's project violates local, state or federal law.
- Developer or developer's project fails to maintain adequate documentation in support of project requirements.

Default sanctions available to the City may include, but are not limited to any one or any combination of the following:

- Call the project note due and payable in accordance with the terms and conditions of the note.
- Call the note due and payable for the full amount of the City funds provided to the project.
- Temporarily suspend the project until corrective action is taken.
- Terminate the agreement and associated documents with the project.

- Request a review or investigation by local or federal authorities, if applicable.
- Debar or suspend the project organization or individual from consideration of any future funding opportunities from the City.

SECTION III. UNDERWRITING GUIDELINES

In reviewing applications for HOME assistance, as required by 24 CFR §92.250(b) and prudent business practices, the City's underwriting framework includes, but is not limited to, evaluations of:

- **Regulatory requirements** applicable to the project, including compliance with affordability period restrictions, property standards, and cross-cutting federal requirements.

- **Market risk**, including whether sufficient demand exists for the project, the anticipated lease-up period, and whether general economic conditions and other competition supports ongoing viability (*see Attachment A: Market Assessment*).

- **Developer risk**, focusing on whether the owner/developer (including but not limited to the underlying owners of special-purpose and/or single-purpose entities) has/have the technical capacity to develop and operate the project and the financial capacity to safeguard public funds and backstop the project in the event of poor financial performance *(see Attachment B: Developer Capacity & Qualifications Questionnaire and Attachment C: Development History).*

- **Project risk** (or financial underwriting), testing the economic and financial projections for the transaction including both sources and uses as well as ongoing operating assumptions. This includes confirmation that all sources of project financing are available, commercially reasonable, and have been appropriately maximized prior to awarding HOME assistance *(see Attachment D: HUD HOME Underwriting and Financial Analysis Template Tables*).

In addition to the above, the City will, at a minimum, also perform a collateral evaluation and assess environmental conditions to determine that the proposed project is suitable and viable for a project requesting HOME assistance from the City of Huntington Beach.

Federal and Other Regulations

The City of Huntington Beach will be responsible for administering HOME-funded housing projects in compliance with other Federal rules as outlined below; however, owners, developers, Community Housing Development Organizations (CHDO's), and other nonprofits should also be made aware of these cross-cutting requirements in order to ensure a project or activity's compliance. Therefore, any proposal/application submitted for funding consideration must comply with all state and federal regulations related to the construction, rehabilitation or provision of housing.

Non-Discrimination and Equal Access

No person in the United States shall on the grounds of race, color, national origin, religion or sex be excluded, denied benefits or subjected to discrimination under any program funded in whole or in part by HOME funds. Consequently, the City of Huntington Beach will take measures to ensure non-discriminatory treatment, outreach and access to program resources. This applies to employment and contracting, as well as to marketing and selection of program participants.

Fair Housing and Equal Access

- Title VI of the Civil Rights Act of 1964, as amended (42 U.S.C. 2000d et seq.): States that no person may be excluded from participation in, denied the benefits of, or subjected to discrimination under any program or activity receiving Federal financial assistance on the basis of race, color or national origin. The regulations implementing the Title VI Civil Rights Act provisions for HUD programs may be found in 24 CFR Part 1.

- Fair Housing Act: Prohibits discrimination in the sale or rental of housing, the financing of housing or the provision of brokerage services against any person on the basis of race, color, religion, sex, national origin, handicap or familial status. Furthermore, section 104(b)(2) of the Act requires that each grantee certify to the secretary of HUD that it is affirmatively furthering fair housing. The certification specifically requires grantees to conduct a fair housing analysis, develop a fair housing plan, take appropriate actions to overcome the effects of any impediments identified and maintain records on the analysis, plan and actions in this regard. Fair Housing Act implementing regulations for HUD programs may be found in 24 CFR Part 100-115.

- Equal Opportunity in Housing (Executive Order 11063, as amended by Executive Order 12259): Prohibits discrimination against individuals on the basis of race, color, religion, sex or national origin in the sale, rental, leasing or other disposition of residential property, or in the use or occupancy of housing assisted with Federal funds. Equal Opportunity in Housing regulations may be found in 24 CFR Part 107.

- Age Discrimination Act of 1975, as amended (42 U.S.C. 6101): Prohibits age discrimination in programs receiving Federal financial assistance. Age Discrimination Act regulations may be found in 24 CFR Part 146.

Affirmative Marketing

The City of Huntington Beach must adopt affirmative marketing procedures and requirements for all housing with five or more HOME-assisted units (except for TBRA programs). Affirmative marketing plans must include this information:

- Methods for informing the public, owners, and potential tenants about fair housing laws and Huntington Beach’s policies (for example: use of the Fair Housing logo, or equal opportunity language).

- Description of what owners and/or the City of Huntington Beach will do to affirmatively market housing assisted with HOME funds.

- Description of what owners or the City of Huntington Beach will do to inform persons not likely to apply for housing without special outreach.

- Maintenance of records to document actions taken to affirmatively market HOME-assisted units and to assess marketing effectiveness.

- Description of how efforts will be assessed and what corrective action will be taken when requirements are not met.

Handicapped Accessibility

- Americans with Disabilities Act (ADA) (42 U.S.C. 12131; 47 U.S.C. 155, 201, 218, and 225): Provides comprehensive civil rights to individuals with disabilities in the areas of employment, public accommodations, state and local government services and telecommunications. The Act, also referred to as the ADA, also states that discrimination includes the failure to design and construct facilities (built for first occupancy after January 26, 1993) that are accessible to and usable by persons with disabilities. The ADA also requires the removal of architectural and communication barriers that are structural in nature in existing facilities. Removal must be readily achievable, easily accomplishable and able to be carried out without much difficulty or expense.

- Fair Housing Act: Multi-family dwellings must also meet the design and construction requirements at 24 CFR 100.205, which implement the Fair Housing Act (42 U.S.C. 3601-19).

- Section 504: Section 504 of the Rehabilitation Act of 1973 prohibits discrimination in Federally assisted programs on the basis of handicap. Section 504 imposes requirements to ensure that "qualified individuals with handicaps" have access to programs and activities that receive Federal funds. Under Section 504, recipients and subrecipients are defined more broadly than under the HOME program. Section 504 recipients and subrecipients include any entity that receives Federal funding (for example, a subrecipient or CHDO).

Employment and Contracting

The following cross-cutting regulations pertain to employment and contracting opportunities, including equal opportunity, labor requirements, and contracting/procurement procedures.

Equal Opportunity

- Equal Employment Opportunity, Executive Order 11246, as amended: Prohibits discrimination against any employee or applicant for employment because of race, color, religion, sex or national origin. Provisions to effectuate this prohibition must be included in all construction contracts exceeding $10,000. Implementing regulations may be found at 41 CFR Part 60.

- Section 3 of the Housing and Urban Development Act of 1968, as amended by the Housing and Community Development Act of 1992: Section 3 contributes to the establishment of stronger, more sustainable communities by ensuring that employment and other economic opportunities generated by Federal financial assistance for housing and community development programs are, to the greatest extent feasible, directed toward low- and very low-income persons, particularly those who receive government assistance for housing. Section 3 applies to training or employment arising in connection with HUD-funded housing rehabilitation, housing construction, or other public construction projects, and any contracting opportunities arising in connection with both public housing and other Section 3 projects. These opportunities are, to the greatest extent feasible, required to be given to low- and very low-income persons and business concerns that provide economic opportunities to low- or very low-income persons. The new Section 3 Final Rule regulations can be found at 24 CFR Part 75.

- Minority/Women's Business Enterprise: Under Executive Orders 11625, 12432 and 12138, the City of Huntington Beach must prescribe procedures acceptable to HUD for a minority outreach program to ensure the inclusion, to the maximum extent.

Labor Requirements

- Davis-Bacon and Related Acts (40 USC 276(A)-7): Ensures that mechanics and laborers employed in construction work under Federally assisted contracts are paid wages and fringe benefits equal to those that prevail in the locality where the work is performed. This act also provides for the withholding of funds to ensure compliance, and excludes from the wage requirements apprentices enrolled in bona fide apprenticeship programs. This Act applies to the construction of housing (rehabilitated or new) that contains 12 or more HOME-assisted units.

- Contract Work Hours and Safety Standards Act, as amended (40 USC 327-333): Provides that mechanics and laborers employed on Federally assisted construction jobs are paid time and one-half for work in excess of 40 hours per week, and provides for the payment of liquidated damages where violations occur. This act also addresses safe and healthy working conditions. This Act applies to the construction of housing (rehabilitated or new) that contains 12 or more HOME-assisted units.

- Copeland (Anti-Kickback) Act (40 USC 276c): Governs the deductions from paychecks that are allowable. Makes it a criminal offense to induce anyone employed on a Federally assisted project to relinquish any compensation to which he/she is entitled, and requires all contractors to submit weekly payrolls and statements of compliance.

- Fair Labor Standards Act of 1938, as amended (29 USC 201, et. seq.): Establishes the basic minimum wage for all work and requires the payment of overtime at the rate of at least time and one-half. It also requires the payment of wages for the entire time that an employee is required or permitted to work, and establishes child labor standards.

Contracting and Procurement Practices

- Procurement: Huntington Beach will follow procurement standards at 24 CFR 85.36. For nonprofit organizations receiving HOME funds (other than CHDOs undertaking set-aside projects) the procurement requirements at 24 CFR Part 84 apply.

- Conflict-of-interest: The HOME Program regulations require that Huntington Beach and its subrecipients (including CHDOs that are acting as subrecipients) comply with two different sets of conflict-of-interest provisions. The first set of provisions comes from 24 CFR Parts 84 and 85. The second, which applies only in cases ***not*** covered by 24 CFR Parts 84 and 85, is set forth in the HOME regulations at 24 CFR Part 92.356.

- Debarred contractors: HOME funds may not be used to directly or indirectly employ, award contracts to or otherwise engage the services of any contractor or subrecipient during any period of debarment, suspension or placement of ineligibility status. Huntington Beach will check all contractors, subcontractors, lower-tier contractors and subrecipients against the Federal publication that lists debarred, suspended and ineligible contractors.

Environmental Requirements

For environmental review purposes, Huntington Beach is the “responsible entity” (RE) referred to in 24 CFR Part 58, Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities. In this capacity, Huntington Beach will be responsible for ensuring that the environmental review process is satisfied before non-exempt HOME funds are committed to specific project site.

Once a proposal has been received by the City, the project must be in compliance with all federal environmental regulations. During the review period, neither an applicant nor any participant in the development process, including public or private non-profit or for-profit entities or any of their contractors may commit or expend any funds, including Local Funds (non-HUD funds), or undertake any activities having either an adverse environmental impact or limitation on the choice of reasonable alternative.

Site and Neighborhood Standards

Huntington Beach will promote great choice of housing opportunities for all housing provided through the HOME program. Specific rules are as follows:

- HOME-provided housing must be suitable from the standpoint of facilitating and furthering full compliance with Title VI of the Civil Rights Act - 1964, the Fair Housing Act and Executive Order 11063.
- The Final Rule requires only new construction rental projects to meet site and neighborhood standards from 24 CFR 983.6(b), which places limiting conditions on building in areas of "minority concentration" and that are "racially mixed."
- Huntington Beach will maintain records that document the results of the site and neighborhood standards review.

Lead-Based Paint

- <u>Title X of the 1992 Housing and Community Development Act (24 CFR Part 35)</u>: Huntington Beach will comply with Title X of the 1992 Housing and Community Development Act (24 CFR Part 35) for all units in a project assisted with HOME funds. Subparts of 24 CFR Part 35 that apply to HOME assisted housing include:
    - ✓ Subpart A: Disclosure
    - ✓ Subpart B: General Requirements and Definitions
    - ✓ Subpart J: Rehabilitation
    - ✓ Subpart K: Acquisition, Leasing, Support Services, and Operations
    - ✓ Subpart M: Tenant-Based Rental Assistance
    - ✓ Subpart R: Methods and Standards for Lead-Based Paint Hazard Evaluation and Reduction

Relocation

- <u>Uniform Relocation Act</u>: HOME projects involving rehabilitation, conversion or demolition may be subject to the provisions of the Uniform Relocation Act.

Identity of Interest Transactions

Identity of interest refers to situations where the owner, developer or project sponsor control or own the services to be provided in a project, including, but not limited to the general contractor, subcontractor, property manager or other service provider. A declaration of subcontractors or suppliers for which there is an identity of interest through joint ownership with the owner or developer must be declared in the application for funding to City. Failure to declare an identity of interest situation may deem a project ineligible.

Market Assessment

All HOME assistance project applications must include a market study prepared in a manner consistent with these underwriting guidelines. Market studies must be less than three months old at the time of application for HOME assistance. The City of Huntington Beach reserves the right to request an updated market study, if required. Proposed rent levels must be supported by the applicant's market study and be within regulatory limits.

Applicants may choose to use the Market Assessment form provided in *Attachment A*, or may use their own template. At a minimum, the market study should demonstrate the following:

- All units, including any market rate units as well as any units with income/rent restrictions imposed by other programs such as Low-Income Housing Tax Credits (LIHTC), the Low- and Moderate-Income Housing Asset Fund, or the City's Affordable Housing Trust Fund must demonstrate viability within the primary market area taking into account any known rent concessions being offered by competing properties.

- Achievable occupancy rates, based on a comparison of comparable properties in the primary market area, must be at or above 95% (physical occupancy).

- Capture and absorption rates must be realistic and achievable.

For projects not meeting these standards, the City, in its sole discretion, may also consider the following:

- For projects targeting special needs populations (e.g., homeless households, domestic violence victims, veterans, or other specific subpopulations), the City may accept higher capture rates if data from the local Continuum of Care and/or service providers specializing in the targeted populations (e.g., VA service centers) suggests an adequate pipeline of eligible renters exists and will be consistently referred to the development.

- For existing projects being rehabilitated, the City will consider the recent operating history of the project in terms of actual rents charged/received, eligibility of in-place tenants, and the like for evidence that the development's projections are supported by actual performance.

Assessing Developer Capacity

In addition to assessing a project's financial stability and gauging the minimum HOME subsidy (discussed later in these Guidelines) to ensure a project's feasibility, the City is also to assess an entity's financial ability to develop and operate a project. The City is to only fund housing projects in which the developer has demonstrated development experience. The City will review a developer's capacity in light of the developer's operational capacity, development history, and financial soundness.

Current Operational Capacity

The developer is to provide documentation demonstrating paid staff has sufficient knowledge, skills and development experience to complete the proposed affordable housing project. The City will determine if the use of volunteers and board members or consultants are the basis for the determination of development capacity. In requiring paid employees, the City will not prohibit a developer from employing an individual who is an independent contractor and using that contractor's experience as the basis for the demonstrated capacity determination**.** Developer is to complete and submit the Developer Capacity and Qualifications Questionnaire in *Attachment B*.

The City will also review the capacity of the development team including, but not limited to, the general contractor, architect, engineer, market analyst, management company, accountant, attorney, and any other specialized professionals or consultants, as applicable.

As a whole, the development team should have the skills and expertise necessary to successfully complete and operate the development. Insomuch as possible, the development team should have worked successfully on other projects in the past. That is, while a developer may identify new development team members from project to project, an entirely new team may present added risk.

In no case, may any owner/developer/applicant or any member of the development team be a suspended, debarred, or otherwise excluded party.

Development History

The developer is to provide documentation about prior development experience for comparable projects. Relevant developments would have to do with projects of similar size, scope and level of complexity as the proposed project. Developer must complete the Development History Table in *Attachment C*.

Financial Capacity

Developers must also demonstrate the financial capacity to support the proposed project both during construction and lease-up as well during ongoing operations. This includes not just that the applicant has sufficient financial resources, but that it has adequate financial systems in place to appropriately manage project funding, accurately account for all project costs, and provide reliable reporting to the City and other project funders.

At minimum, and as applicable, the City will review audited financial statements, contingent liabilities, interim financial statements, and individual personal financial statements to ensure that:

- The primary development entity's most recent audit demonstrates compliance with Generally Accepted Accounting Principles (GAAP) and does not express material weaknesses in the entity's system of internal controls or financial management systems; and

- Financial ratios and trending are acceptable.

Identity of Interest Relationships & Costs

Applicants must disclose all identity of interest relationships/contracts and/or costs involved in a transaction, including during the development period and following completion of the project. The City reserves the right to review any such costs further to ensure they are reasonable and consistent with the costs expected from arms-length relationships.

An Identity of Interest (whether or not such term is capitalized) is any relationship based on family ties or financial interests between or among two or more entities involved in a project-related transaction which reasonably could give rise to a presumption that the entities may not operate at arms-length. The City will take a broad approach to defining identities of interest and expects all applicants to err on the side of disclosure. That is, if there is any question about whether an identity of interest may exist, the relationship should be disclosed and explained to the City.

Beyond this general definition, an identity of interest relationship will be deemed to exist if:

1. An entity, or any owner of any direct or indirect ownership interest in such entity, or any family member of any such owner is also an owner, through a direct or indirect ownership interest, or an officer, director, stockholder, partner, trustee, manager, or member of the counterparty; or

2. Any officer, director, stockholder, partner, trustee, manager, member, principal staff, contract employee or consultant of an entity, or any family member of thereof, is an owner, through any direct or indirect ownership interest, or an officer, director, stockholder, partner, trustee, manager or member of the counterparty.

For purposes of this definition, family member means the spouse, parents or stepparents, children or stepchildren, grandparents or step-grandparents, grandchildren or step-grandchildren, aunts, uncles, parents-in-law, and siblings-in-law (or their children or stepchildren). It also includes any other similar relationship established by operation of law, including but limited not to guardianship, adoption, foster parents, domestic partnerships, and the like.

Project Risk

As noted in the Introduction, the City views underwriting as more than just the financial review of a project. However, a review of the underlying financial assumptions and project risk is still a critical and core part of underwriting. In reviewing projects and as a public funder, the City of Huntington Beach must balance two potentially competing perspectives.

Projects must be viable; that is, they must have sufficient allowances for all costs to maximize the chances the project can meet or exceed its financial projections and thereby succeed in the marketplace. In otherwords, the project must represent a safe investment. However, taken to an extreme, a safe or overly conservative projection can also result in a project that is over-subsidized and risks providing excessive returns to the owner/developer.

As a steward of very limited HOME funding for affordable housing, the City also must ensure that costs are reasonable, they represent a "good deal" to the public, and returns to the owner/developer are fair but not excessive. In seeking to balance these perspectives, the City will evaluate the development proforma provided by the developer to determine whether the development costs are necessary and reasonable using the attached HUD HOME Underwriting and Financial Analysis Template tables (*Attachment D: HUD HOME Underwriting and Financial Analysis Template Tables*) or comparable information.

In general, for projects requesting LIHTC, HOME funds, or other City-related housing funds (e.g., Housing Trust Fund), the financial underwriting will follow HUD and CTCAC standards. In the event that a project contains both HUD and CTCAC funding, the financial underwriting will comply with CTCAC standards. In evaluating the financial analysis tables, the City has established the following review factors and principals.

Development Costs

In general, the City will review the entire project budget to confirm all costs are reasonable and the budget is sufficient to complete and sustain the project. All line items, whether or not paid directly with HOME funding, must be necessary and reasonable.

The City will consider the cost of both specific line items as well as the total development cost on a per unit and per square foot basis, comparing costs to other projects from the City's portfolio.

Selected Development Cost Items

- **Acquisition:** Acquisition costs must be supported by an independent third-party appraisal[3] prepared by a state-licensed appraiser. The purchase price must be at or below the as-is market value of the property. In the event an applicant has previously purchased land prior to submitting a development application to the City, the project budget may only reflect the lesser of the actual purchase price or the current as-is market value. Standard closing costs from the acquisition may be included; acquisition reimbursement is governed by HOME regulations.

  Applicants who purchased property prior to submitting an application to the City, or following environmental releases under NEPA but prior to closing, may not charge or include financing costs associated with interim financing, whether from third-party or related lenders.

- **Collateral Evaluation***:* For all projects, whether new construction or rehabilitation, the loan to cost and loan to value ratios must be appropriate and acceptable to the City.

- **City Soft Costs***:* The development budget for each project must include an allowance for the City's internal project-related soft costs as specified in these policies. Similar to lender due diligence or lender legal costs, the inclusion of soft costs allows the City to recoup its staff and overhead costs directly related to carrying out the project as permitted by 24 CFR 92.206(d)(6). These costs will be included in the HOME assistance and will be drawn directly from HUD by the City rather than via payment requests from the project owner.

- **Construction Interest***:* Any budgeted line item for construction interest must be supported by developer-prepared cash flow projections, modeling the actual expenditure of development costs and the anticipated pay-in of equity, HOME assistance, and other construction period sources. For projection purposes, only

[3] Appraisals should be prepared for and addressed to the City of Huntington Beach, Community Development Department. Appraisals, at a minimum, should include the following values: (a) for rehabilitation projects: as-is, after-rehabilitation cost approach, and after-rehabilitation income approach; (b) for new construction projects: land value, after-construction cost approach based on plans and specifications, and after-construction income approach based on the project's projections. The City's thorough review of an appraisal includes determination of appropriate Loan to Value and Loan to Cost limits.

interest from the date of initial closing through the end of the month in which the building(s) are placed in service (i.e., approved for occupancy) may be included as construction interest. Additional interest following that date and prior to the conversion to (or closing on) permanent debt must be separately itemized and modeled. In most cases, this should be included in the lease up reserve noted in the Reserves Section.

- **Contractor Fees**: Contractor fees are limited as a percentage of net construction costs as further identified below. Net construction costs exclude the contractor fees, any budgeted contingency, if applicable, and (even if otherwise included in the construction contract) permits and builder's risk insurance.

  ✓ **Contractor Profit:** 3% of direct construction costs

  ✓ **General Requirements/General Conditions:** 6% of net construction costs. General requirements include on-site supervision, temporary or construction signs, field office expenses, temporary sheds and toilets, temporary utilities, equipment rental, clean-up costs, rubbish removal, watchmen's wages, material inspection and tests, all of the builder's insurance (except builder's risk), temporary walkways, temporary fences, and other similar expenses.

  ✓ **Contractor Overhead:** 3% of direct construction costs.

  With prior approval of the City, contractor fees may vary from the limits above provided that the gross contractor fees do not exceed 12% of net construction costs.

- **Contingencies***:* Applicants should include a contingency (inclusive of hard and soft costs) related to the amount of risk involved with the project. The contingency will be measured as a percentage of hard costs (including the construction contract plus any separate contracts for off-site work but excluding contractor fees).

  ✓ New construction projects should include a contingency of 5% to 10% of hard costs.

  ✓ Acquisition/rehabilitation projects, including adaptive reuse projects, should include a contingency of up to 10% of hard costs; the City may consider a higher contingency based on the size and complexity of the rehabilitation or adaptive reuse.

  The City may consider higher contingencies based on identified risk factors such as the known need for environmental remediation or poor subsurface soils.

- **Developer Fees***:* Developer fees are intended to compensate a developer for the time and effort of assembling a project, overseeing the development team, and carrying a project to fruition. Developer fees are also intended to compensate for the risk inherent in the development process, including that not every potential project proves viable and that developers must necessarily advance funds for their own operating costs and various third-party predevelopment costs prior to closing (or in some cases for projects that never proceed). Therefore, the City allows the inclusion of developer fees as follows:

- ✓ **For projects requesting HOME funds and LIHTC**: The LIHTC Developer Fee Schedule will be used (http://www.treasurer.ca.gov/ctac/)

- ✓ **For projects requesting HOME funds and no LIHTC:**

  Developer's fees for properties that have not been occupied as residential rental housing at any time during the year preceding the date of the option, purchase contract, or deed for the subject property, which is furnished with the initial application with respect to site control:

Identity of Interest Does Not Exist	Identity of Interest Does Exist
The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to 15% of Adjusted Basis**.	The Developer's Fee included in Property Costs and Adjusted Basis must be less than or equal to the lesser of 15% of Adjusted Basis** or 19% of Adjusted Basis** minus Builder's Profit.

Developer's fees for properties that have been occupied as residential rental housing at any time during the year preceding the date of the option, purchase contract, or deed for the subject property, which is furnished with the initial application with respect to site control:

Identity of Interest Does Not Exist	Identify of Interest Does Exist
Acquisition	
The Developer's Fee included in the Property Costs and Adjusted Basis must be less than or equal to 10% of Acquisition Adjusted Basis**.	The Developer's Fee included in the Property Costs and Adjusted Basis must be less than or equal to 10% of Acquisition Adjusted Basis**.
Substantial Rehabilitation	
The Developer's Fee included in the Property Costs and Adjusted Basis must be less than or equal to 13% of Substantial Rehabilitation Adjusted Basis**.	The Developer's Fee included in the Property Costs and Adjusted Basis must be less than or equal to the lesser of 13% of Substantial Rehabilitation Adjusted Basis** or 16% of Substantial Rehabilitation Adjusted Basis** minus Builder's Profit.

***Adjusted Basis, which by definition, excludes land and any other costs which are not capitalized and depreciated, and which, for the purposes of the Developer's Fee formulas provided above also excludes property costs in excess of the City property cost limits, and the Developer's Fee itself.*

The maximum Developer's Fee is further limited to the amount of Developer's Fee that is actually paid, or otherwise earned or recognized as income, from one unrelated individual, entity, or both to another individual, entity, or both as compensation for the work, costs and risks associated with the development of a property.

The equations used to determine the maximum amount of Developer’s Fee apply to the total of the amounts listed in the application for Developer’s Fee, and to any separately listed Consultant’s Fees or other costs relating to the development work and costs associated with the development of a property.

Additional Developer Fee information:

⇒ “Double dipping” the Developer’s Fee is not permitted. For projects requesting multiple sources from the City (e.g., LIHTC and HOME assistance), the combined Developer Fee must be within the developer fee schedule, as noted herein.

⇒ The developer fee schedule, as noted herein, provides a calculation for the maximum allowable developer fee. The maximum allowable developer is not a guaranteed amount. During underwriting, the City will determine an appropriate and acceptable developer fee.

- **Reserves**: Capitalized reserves to facilitate the initial start-up and to protect the ongoing viability of the project will include the following:

  ✓ **Deficit Reserve:** The City anticipates that in most cases, developments with predicted deficits during the affordability period would not be funded. However, in the event a development’s long-term operating proforma projects actual cash deficits during the affordability period, an operating deficit reserve must be included in the development budget in an amount sufficient, taking into account any interest on reserve balances, to fully fund all predicted deficits through the affordability period.

  ✓ **Lease-Up Reserve:** A lease-up reserve intended to cover initial operating deficits following the completion of construction but prior to breakeven operations may be included. Any such reserve must be based on lease-up projections/cash-flow modeling and the lease-up (or absorption) period identified in the project’s market study. In evaluating the appropriateness of any lease-up reserve, the City will consider whether the development budget includes specific line items for other start-up expenses that otherwise are typically part of the ongoing operating budget for a development. This may include budgets for marketing, working capital, etc.

  ✓ **Operating Reserve:** If required by the City, an operating reserve in an amount acceptable to the City, anticipated to be six (6) months of underwritten operating expenses, reserve deposits, and amortizing debt service, must be included in the development budget. The operating reserve is intended as an unexpected “rainy day” fund and will only be accessible after a project has achieved stabilized occupancy.

- ✓ **Replacement Reserve:** A capitalized replacement reserve may be included in the development budget. The capitalized replacement reserve should be funded at (i) an amount that realistically covers the cost of replacing covered items; and (ii) for rehabilitation projects, the amount determined by a capital needs assessment approved by the City. An expensed replacement reserve, as outlined in the Operating Costs section, must be included in the development budget.

- ✓ **Preservation Reserve:** Following the completion of construction, at a minimum and if required by the City, project owner shall make annual deposits and/or annual contributions of 50% of surplus cash to a preservation reserve.

- ✓ **Other:** The City may consider other specialized reserves as appropriate based on unique features of the project and/or requirements of other funding sources. These may include special security reserves, supportive service reserves, or transition reserves for projects with expiring project- based rental assistance contracts, etc.

Operating Revenues

The City will review an applicant's projection of operating revenues to ensure they are reasonable and achievable both initially and throughout the affordability period. In evaluating operating revenues, the City will take into account the (i) project-specific market study; (ii) actual operating performance from other comparable projects including those from the applicant's existing portfolio of real-estate owned; and/or (iii) data available from comparable projects in the City's portfolio.

For purposes of the long-term operating proforma, operating revenue projections cannot be increased by more than 2% per year. Operating expenses projections cannot be increased by more than 3% per year. The City reserves the right to stress proposals for underwriting purposes to assess the impact of lower inflationary increases, such as modeling the impact of only 1% rent increases for the first three to five years of a project's affordability period.

- **Rents**: All rents should be supported by the market study and within regulatory limits.

- **Non-Rental Revenue**: Non-rental revenue must be fully explained and conservatively estimated. In general, no more than $60 per-unit, per-year may be budgeted in "other revenue" including that from tenant fees (such as fees for late payment of rent, nonsufficient funds, laundromat fees, pet fees, interest on operating account balances, etc.). Exceptions may be considered by the City based on the operating history of an acquisition/rehabilitation project, normalized operations, or other comparable properties in the same market area.

Vacancy

Total economic vacancy includes physical vacancy (a unit is unrented), bad debt (a unit is occupied but the tenant is not paying rent), concessions (a unit has been leased for less than the budgeted rent), and loss to lease (a pre-existing lease is less than the most recently approved annual rent but will be adjusted upward at renewal).

In all cases, based on the market study or other data available to the City, the City reserves the right to require higher vacancy projections. This may include higher vacancy rates for small developments (e.g., less than 20 units) where standard percentage assumptions about vacancy may not be appropriate. Minimum allowances for vacancy must include:

- 5% for projects where all units are supported by a project-based rental assistance contract with a term equal to or in excess of the affordability period (e.g., project-based Section 8); or
- 7% for all other projects.

Operating Costs

The City will review an applicant's projection of operating expenses to ensure they are reasonable and adequate to sustain ongoing operations of the project throughout the affordability period. In evaluating a proposed operating budget, the City will compare the project's costs to (i) actual operating expenses of comparable projects in the applicant's existing portfolio of real-estate owned (insomuch as possible, comparable projects will be in the same vicinity and operated by the same management company); and/or (ii) actual operating expenses of other comparable projects in the City's portfolio.

For purposes of the long-term operating proforma, operating expenses, including reserve deposits, will be inflated at no less than 3% per year. The City reserves the right to stress proposals for underwriting purposes to assess the impact of higher operating cost factors, such as modeling the impact of higher inflation rates in general for specific items of cost (for example, assessing the impact of high rates of increase for insurance or development paid utility costs).

Selected Items of Operating Cost

- **City Compliance Monitoring Fee**: Pursuant to 24 CFR §92.214(b)(1)(i), the City may assess an annual Compliance Monitoring fee. The operating budget for each project must include an allowance for the City's Compliance Monitoring Fee as negotiated between the City and the developer.

- **Property Management Fees**: A realistic property management fee should be included. In the event an excessive management fee is proposed, the City will lower it.

- **Property Taxes**: Applicants must provide detailed explanations of property tax projections and, as applicable, provide documentation that any anticipated partial or full exemptions or payments in lieu of taxes (PILT) have been approved by the appropriate tax assessor. The City, at its option, may require confirmation from the tax assessor of the applicant's projection.

- **Replacement Reserve Deposits**: Unless otherwise approved by the City, the operating budget must include minimum replacement reserve deposits of:

  - ✓ New Construction: $300 per-unit, per-year

  - ✓ Rehabilitation: The greater of (i) $350 per-unit, per-year; or (ii) a higher amount established by a Capital Needs Assessment (CNA) approved by the City.

  Note: The City will reserve the right within a project's transactional documents to require periodic Capital Needs Assessments (CNA's) for all projects and to adjust ongoing replacement reserve deposits based on the results of the CNA and other factors to ensure that the replacement reserve is sufficient to address all anticipated needs for the project's affordability period or the term of the City loan, whichever is longer.

Items Payable only from Surplus Cash

Certain costs, sometimes identified by project owners as operating costs cannot be included in the operating budget and will only be payable from surplus cash (aka cash flow). These include:

- Incentive Management Fees payable in addition to the allowable management fees noted above, whether paid to related party or independent third-party management fees.

- Asset Management Fees payable to any investor, general or limited partner, or member of the ownership entity.

- Deferred Developer Fees

- Operating Deficit Loan Payments made to any related party including any investor, general or limited partner, or members of the ownership entity.

- Other payments to investors, general or limited partners, or members of the ownership entity, however characterized, including but not limited to negative adjustors, yield maintenance fees, etc.

Ongoing Economic Viability

The City will review the ongoing economic viability of all projects, taking into account long-term projections of revenues and expenses. Projects must demonstrate they can be expected to remain viable for at least the affordability period, taking into account trending assumptions noted above, as well as any other changes in operating revenues or expenses that can reasonably be anticipated based on other information available to the City or other project funders. In particular, the City will review the debt coverage ratio and operating margin as outlined below.

- **Debt Coverage Ratio**: Projects must demonstrate a minimum debt coverage ratio (DCR) (DCR is Net Operating Income divided by amortizing debt service) of 1.0 through the affordability period.

- **Operating Margin**: In addition to considering the DCR, the City will review the operating margin (surplus cash divided by total operating expenses and amortizing debt service). The operating margin must remain at an achievable and realistic amount.

Other Funding Sources

Prior to committing HOME funds, all other funding sources necessary for a project must be identified, committed in writing, and consistent with both the City's underwriting requirements and the affordability restrictions of the HOME program. In general, developers must make all reasonable efforts to maximize the availability of other funding sources, including conventional mortgage debt and tax credit equity (as applicable), within commercially available and reasonable terms.

Additionally, restrictions or limitations imposed by other funding sources cannot (i) conflict with any applicable HOME program requirements; and (ii) in the discretion of the City, create undue risk to the City.

Senior Mortgage Debt

Any amortizing mortgage debt that will be senior to the City's HOME loan must:

- Provide fixed rate financing.

- Have a term equal to or in excess of the HOME affordability period. The affordability period will generally be 15 years beyond the date of project completion for HOME rehabilitation projects, 20 years for HOME new construction projects, and a minimum of 55 years for all LMI Housing Asset or Housing Trust Funds projects. In practice, the date of project completion will not be the same as placed in service date for tax purposes, but for most projects will occur prior to permanent loan conversion following property stabilization. Insomuch as possible, the first mortgage should have the longest amortization period available but cannot balloon prior to the expiration of the affordability period; and

- As applicable, allow the HOME covenant running with the land (i.e. the deed restrictions imposing the HOME affordability requirements) to be recorded senior to all other financing documents such that the HOME covenant is not extinguished in the case of foreclosure by a senior lender.

Tax Credit Equity

Projections of tax credit equity must be documented by letters of intent or other similar offers to participate in the transaction by the proposed tax credit investor. Prior to committing HOME funds, the applicant must provide the proposed limited partnership agreement or operating agreement, as applicable, documenting the terms of the equity investment, including the pay-in schedule.

The City will review proposed equity pricing and pay-in schedule against information from other projects in the region to assess whether the pricing and terms are reasonable.

Deferred Developer Fee

It is common for projects to include deferred developer fees as a financing source. The City will generally require that:

- Projections of surplus cash available (after any cash-flow contingent payment due the City) be sufficient to repay the deferred fee within 15 years (notwithstanding other waterfall provisions in the partnership or operating agreement, the City will assume that all surplus cash distributions will be credited against the developer fee);

- Following the initial application to the City, the level of deferred developer fee will remain fixed (in nominal dollar terms) in the event city underwriting identifies cost reductions, increases in other funding sources, or other changes that result in a net reduction of the gap to be filled with HOME assistance; and

- Any net savings (or increased funding sources including but not limited to upward adjusters for tax credit equity) at project completion and cost certification will be used in equal parts to reduce the deferred developer fee and the City's permanent

HOME loan. In the event savings are sufficient to eliminate the deferred fee in this manner, any remaining net savings will be used to further reduce the HOME loan, or in the sole discretion of the City, to increase the operating reserve or preservation reserve.

Exceptions and Interpretation

The City of Huntington Beach has developed these guidelines for several reasons. Not only are they required by HUD as part of the City's role in awarding HOME assistance, but more generally they are intended to provide clarity to applicants on what the City expects and transparency about the rules of the road. However, the City recognizes that it cannot pre-emptively identify every possible special circumstance that may warrant an exception to its general requirements, nor can it identify every possible loophole whereby a creative presentation of costs or other projections might undermine the general need to balance viability and reasonable risk to the City and public benefit.

Consequently, the City reserves the right to waive specific underwriting criteria for specific projects when, in its judgment, the purposes of the HOME program can be better achieved without taking on undue risk. When waiving any given requirement, the City may impose additional special conditions or business terms that are not otherwise typically applied to all projects.

For administrative ease, the City may also align its underwriting standards with those required by other public funders involved in a given transaction, particularly if those standards are more restrictive or conservative than the City's. However, the City retains the right, in its sole discretion, to decide whether to accept alternative standards.

The City also reserves the right to reject any element of a transaction that, despite not being specifically prohibited, was not anticipated by these guidelines or such an element or business term otherwise creates unacceptable risks, excessive returns to the owner/developer, or otherwise undermines the public purposes of the HOME program.

Insomuch as is reasonable, the City will update and clarify these guidelines over time to account for exceptions, waivers, or additional restrictions it imposes.

SECTION IV. SUBSIDY LAYERING GUIDELINES

HOME regulations at 24 CFR 92.250(b) requires the City as a participating jurisdiction to conduct a “subsidy layering” review for projects receiving multiple governmental assistance sources of funds. The HOME Final Rule states that:

> *Before committing funds to a project, the participating jurisdiction must evaluate the project in accordance with guidelines that it has adopted for this purpose and will not invest any more HOME funds, in combination with other governmental assistance, than is necessary to provide affordable housing.*

This subsidy layering review includes these key components when determining and documenting the appropriate level of HOME assistance.

- **Maximum per unit subsidy limits**. Pursuant to Section 92.250, the maximum amount of HOME funds that may be invested on a per-unit basis in affordable housing may never exceed the per unit dollar limits for elevator-type projects that apply to the area in which the housing is located. In this regard, HOME regulations stipulate at 24 CFR 92.250 (a) that the maximum per unit subsidy limits are controlled by the following limitation:

  > *The total amount of HOME funds and ADDI funds that a participating jurisdiction may invest on a per-unit basis in affordable housing may not exceed the per-unit dollar limitations established under section 221(d) (3) (ii) of the National Housing Act (12 U.S.C. 17151(d) (3) (ii)) for elevator-type projects that apply to the area in which the housing is located. These limits are available from the Multifamily Division in the HUD Field Office. If the participating jurisdiction’s per-unit subsidy amount has already been increased to 210% as permitted under section 221(d)(3)(ii) of the National Housing Act, upon request to the Field Office, HUD will allow the per-unit subsidy amount to be increased on a program-wide basis to an amount, up to 240% of the original per unit limits.*

  When determining the subsidy, HOME funds may only pay the actual costs of HOME-assisted housing, using either a prorating cost allocation approach or by a unit-by-unit standard cost allocation approach. If the units in a project are comparable (e.g., size, features, and number of bedrooms), then the actual costs can be pro-rated to the total HOME-eligible development costs. This approach allows HOME funds to pay the pro-rated share of the HOME-assisted units. When units are not comparable, the City must allocate the HOME costs on a standard unit-by-unit basis, charging only actual costs to the HOME Program. [4]

- **Cost allocation (§92.205(d))**: The HOME Program permits the funding of one or more units in a project, including mixed-income and mixed-use properties. Cost allocation requirements, more fully described below, affect project underwriting by

[4] See CPD Notice 16-15. “Allocating eligible costs and identifying HOME-assisted units in multi-unit HOME rental and homeownership development projects.”

dictating either the maximum amount of HOME investment the City may provide, or the minimum required number of units that must be designated as HOME-assisted.

- **Written agreements**: A written agreement must be executed prior to disbursing HOME funds to any entity, including developers and owners of rental housing (24 CFR 92.504). The written agreement must incorporate the project and financing terms that result from the underwriting process.

- **Commitment**: HOME monies cannot commit funds to a project until all necessary financing is secured, the underwriting and subsidy layering has been completed, HOME funds must be committed within 24 months of the grant award and construction can be expected to begin within 12 months (24 CFR 92.2).

- **HOME deadlines**: The HOME program imposes several additional regulatory deadlines that may affect the underwriting process, including:

  - ✓ Project completion: A project must complete the projects within four years of the date funds are committed to the project. This necessitates that the underwriting analysis and project plan must ensure that funds are available and construction is scheduled within this timeframe (Sections 92.205(e)(2) and 92.2).

  - ✓ Lease-up: The City must carefully assess the market study and the project plan to ensure that there is documentation of sufficient demand for the proposed units. The City must report status and marketing efforts to HUD, if a HOME-assisted unit is not occupied by an eligible tenant within six months following project completion. If the HOME-assisted unit remains unoccupied at 18 months after the project completion date, the City will be required to repay the HOME funds (24 CFR 92.252)

  - ✓ Property standards: Underwriting must ensure that all costs are eligible and the resulting housing units will meet the established property standards at project completion (24 CFR 92.251(b)(1)(ix)).

  - ✓ Rents/utility allowance: The underwriting process must cap HOME-assisted units at HUD published rent limits and demonstrate that the project will be financially viable on this basis (24 CFR 92.252(a)).

  - ✓ Affordability period: Underwriting must ensure the Project remains financially viable and the assisted units meet the property standards and affordability requirements for not less than the applicable affordability period, beginning at project completion (§92.252(e), §92.254(a)(4)).

Cost Allocation Process

The City of Huntington Beach may use one of three methods for conducting the required cost allocation: the Standard Method, the Proration Method, and the Hybrid Method. The Standard Method of cost allocation can be used in all projects, whether or not the units are comparable in terms of size, quality, and amenities. Alternatively, the Proration Method and the Hybrid Method may only be used if the units are comparable. Regardless of the method used, the cost allocation process involves six basic steps.

Step 1 - Determine unit comparability and select the cost allocation method.

If the project contains units of the same basic size, configuration, and amenities—for example, all units are two-bedroom, two-bathroom units of 1,000 square feet with identical finishes—then the units are comparable. However, most projects contain a mix of unit configurations, sizes and types that vary at least by bedroom count. Even so, it may be that within unit types individual units are comparable to one another, despite minor variances in configuration. Therefore, the City will organize the units into a list of unit types that identifies and classifies groups of comparable units. The City will consider the following features of the units:

- **Configuration**: It is not required that unit layout/configuration be exact. Small variations in space and layout are acceptable if the key features – number of bedrooms, bathrooms, and total rooms – are identical.

- **Size**: Within each unit configuration, unit size can be considered comparable if the square footage is within a small variance of the average square footage of all such units.

- **Amenities and finishes**: The City will compare the cost and quality of amenities, finishes, fixtures, and appliances. If the planned HOME-assisted units will have fewer or lower quality amenities or finishes than the unassisted units of the same unit type, then the units are not comparable.

- **Rents**: Units with same configuration, size, amenities and finishes should have roughly the same market value.

Once the City has determined whether the units are comparable, it will select the appropriate method of cost allocation.

- ***The Standard Method*** - When HOME-assisted and non-assisted units in a project are incomparable, the City will base the HOME subsidy upon the ***actual costs*** for the HOME units. The City designates the HOME-assisted units, prepares a pro forma for the assisted units, and monitors each unit's costs. Common costs (e.g., roofing courtyard, manager's office) attributable to HOME-assisted units are determined by calculating the total square feet in HOME units as a percentage of the total square feet in the project. HOME funds can pay for that percentage of the common costs that can be attributed to the HOME portion of the project.

- ***The Proration Method*** - When ***prorating costs***, the minimum number of HOME units is equal to the ratio of the HOME assistance to the total eligible development costs (acquisition, development hard costs to construct or rehabilitate, project soft costs, and excluding relocation costs) multiplied by the total number of units in the project. This approach allows all project costs to be distributed among all sources of funds, provided that the HOME share does not exceed the maximum per unit subsidy limits under Section 221 (d) (3) of the National Housing Act.[5]

- ***The Hybrid Method*** - This is a variation on the Proration Method, so it is only permitted for projects with comparable units. The Hybrid Method allows the City to determine the cost of HOME-assisted units by prorating the HOME eligible development costs for each unit type. In following the Hybrid Method, the City will use a proposed number of HOME-assisted units to determine the cost of those HOME units.

Step 2 - Select either the proposed amount of HOME investment or proposed number of HOME units from project underwriting.

Cost allocation is based on the proposed amount of HOME investment and/or the proposed number of HOME-assisted units as determined through preliminary project underwriting. The City will perform a cost allocation using the proposed amount of HOME investment to determine the minimum required number of HOME-assisted units. Or, if the proposal specifies the number of HOME-assisted units that the project can support, then the City will perform a cost allocation to determine the maximum permissible amount of HOME investment.

Step 3 – Calculate the estimated costs of the HOME units based on the preliminary budget.

After determining the method of cost allocation and the proposed HOME investment or proposed HOME units, the next step is to calculate the Cost of HOME Units by following the steps for either the Standard, Proration, or Hybrid Method.

Standard Method *(see <u>Attachment F</u>: Step by Step Standard Method Process Chart & Example):*

1. *Calculate the Base Project Cost*: Subtract from the project's total development cost any ineligible costs, costs associated with unit-specific upgrades, and relocation costs associated with complying with the URA that will be paid for with HOME funds. See complete list of ineligible items in *<u>Attachment E</u>*: CPD Notice 15-11.

[5] The published HOME subsidy limits under the Section 221 (d) (3) mortgage units for elevator projects may not be adjusted subsequent to initially funding a project.

2. *Calculate Base Cost per Square Foot*: Divide the Base Project Cost by the gross residential square footage of the project to arrive at the Base Cost per Square Foot (Base Cost/Sq. Ft).

3. *Calculate Individual Unit Cost*: Multiply each HOME-assisted unit's square footage by the Base Cost/Sq. Ft. For example, if Unit 101 is 700 square feet, and the project's Base Cost/Sq. Ft. is $125, then the Individual Unit Cost of Unit 101 is $87,500. (700 sq. ft. x $125/sq. ft. = $87,500)

4. *Determine the Number of HOME-assisted Units*: The City will perform the cost allocation using the proposed amount of HOME investment and will indicate a specific number of HOME-assisted units for each unit type. The City will ensure that there are enough HOME-assisted units so that the total of the Individual Unit Costs added together is equal to or exceeds the proposed amount of HOME investment.

   If the City has chosen to pay for relocation costs exclusively with HOME funds, then the sum of the Individual Unit Costs must be equal to or exceed the proposed HOME investment minus the relocation costs.

   If the City performs cost allocation using a proposed number of HOME-assisted units, then the City can skip this fourth step.

5. *Calculate Cost of the HOME Units*: Add the Individual Unit Costs of all HOME-assisted units to calculate the Subtotal Cost of HOME Units. If the City has chosen to pay for all relocation costs with HOME funds, then the relocation costs must be added back into the total at this point. The result is the Cost of the HOME Units.

Proration Method (HOME investment <u>known</u>, solve for units) *(see <u>Attachment G</u>: Step by Step Proration Method Process Chart & Examples):*

1. *Base Project Cost*: Subtract from the project's total development cost any ineligible costs and relocation costs associated with complying with the URA that will be paid for exclusively with HOME funds. Follow the guidance under the Standard Method for calculating the Base Project Cost. However, unlike the Standard Method, with the Proration Method there is no need to review or exclude unit-specific upgrade costs because units are comparable.

2. *Calculate Base Cost per Square Foot*: Divide the Base Project Cost by the gross residential square footage of the project to arrive at the Base Cost per Square Foot (Base Cost/Sq. Ft).

3. *Calculate the HOME Share Ratio (HOME investment <u>known</u>, solve for units)*: The HOME share ratio is the share of eligible project costs to be paid by HOME based on the share of HOME-assisted units. When the proposed HOME investment is known, the HOME share ratio is expressed as:

HOME Share Ratio = $\frac{\text{HOME Investment – URA Costs Assigned Exclusively to HOME}}{\text{Base Project Cost}}$

4. *Apply the HOME Share Ratio*: Multiply the HOME share ratio by the number of units in each unit type. The result, which must be rounded up to the next whole number, is the minimum number for that unit type that must be HOME-assisted.

   For example, if the HOME share ratio is 13% and the 30-unit project has 10 comparable one-bedroom units and 20 comparable two-bedroom units:

   - 13% of the one-bedroom units is 1.3, which is rounded up to 2 HOME-assisted one-bedroom units; and

   - 13% of the two-bedroom units are 2.6, so 3 two-bedroom units must be HOME-assisted.

5. *Calculate Cost of the HOME Units*: Multiply the Base Cost/Sq. Ft. by the average square footage of each unit type, and then multiply that number by the number of HOME-assisted units for that unit type. The result is the HOME Cost by Unit Type.

   For example, if there will be 2 one-bedroom HOME units, the average one-bedroom unit is 700 sq. ft., and the Base Cost/Sq. Ft. is $125 then the cost of those two HOME units is $175,000. (2 units x 700 sq. ft./unit x $125/sq. ft. = $175,000)

   Sum the cost for each Unit Type to calculate the Subtotal Cost of HOME Units. Then add back any relocation costs that are being paid for exclusively with HOME funds. The result is the **Cost of the HOME Units.**

Proration Method (number of units known, solve for amount of HOME investment)
(see Attachment G: Step by Step Proration Method Process Chart & Examples):

If the proposed number of HOME units is known, the City may use the Proration Method when all units are the same type or if the share of proposed HOME units within each unit type is identical as described in Step 1.

1. *Base Project Cost*: Subtract from the project's total development cost any ineligible costs and relocation costs of complying with the URA that will be paid for exclusively with HOME funds. Follow the guidance under the Standard Method for calculating the Base Project Cost. However, unlike the Standard Method, with the Proration Method there is no need to review or exclude unit-specific upgrade costs because the units are comparable.

2. *Calculate the HOME Share Ratio (units known, solve for HOME investment)*: The HOME share ratio is the share of eligible project costs to be paid by HOME based on the share of HOME-assisted units. When the proposed number of HOME units is known, the HOME share ratio is expressed as:

HOME Share Ratio = HOME Units / Total Units

3. *Apply the HOME Share Ratio*: Multiply the HOME share ratio by the Base Project Cost to determine the Subtotal Cost of HOME Units (this amount excludes any relocation costs paid for exclusively with HOME funds).

4. Calculate Cost of the HOME Units: Add back any relocation costs that are being paid for exclusively with HOME funds. The result is the Cost of the HOME Units.

Hybrid Method (number of units known, solve for amount of HOME investment) *(see Attachment H: Step by Step Hybrid Method Process Chart & Example)**:***

If the proposed number of HOME units is known, but the share of proposed HOME units within each unit type is not identical as described in Step 1, then the City may use the Hybrid Method.

1. *Base Project Cost*: Subtract from the project's total development cost any ineligible costs and relocation costs of complying with the URA that will be paid for exclusively with HOME funds. Follow the guidance under the Standard Method for calculating the Base Project Cost. However, unlike the Standard Method, with the Proration Method there is no need to review or exclude unit-specific upgrade costs because the units are comparable.

2. *Calculate Base Cost per Square Foot:* Divide the Base Project Cost by the gross residential square footage of the project to arrive at the Base Cost per Square Foot (Base Cost/Sq. Ft).

3. *Calculate the HOME Square Footage by Unit Type:* For each unit type, multiply the average square footage by the number of HOME units in that unit type (to determine the HOME Square Footage by Unit Type.

   For example, if 2 one-bedroom/one-bath HOME units are proposed for a project and the average square footage of all of the one-bedroom/one-bath units is 700 square feet, then the HOME Square Footage for the one-bedroom/one-bath unit type is 1,400 sq. ft. (2 units x 700 sq. ft.=1400 sq. ft.).

4. *Calculate the HOME Cost by Unit Type:* For each unit type, multiply the HOME Square Footage by Unit Type by the Base Cost per Square Foot to determine the HOME Cost by Unit Type.

5. *Calculate Cost of the HOME Units:* Sum the HOME Cost by Unit Type for all unit types to determine the Subtotal Cost of HOME Units (this amount excludes any relocation costs paid for exclusively with HOME funds). Then add back any

relocation costs that are being paid for exclusively with HOME funds. The result is the Cost of the HOME Units.

Step 4 – Calculate the maximum subsidy limit.

In addition to the required cost allocation, the HOME investment is also restricted by HOME maximum per-unit subsidy limits identified in the HOME regulations at §92.250(a). After calculating the Cost of the HOME Units in Step 3, the City will calculate the Maximum Project Subsidy based on the per-unit subsidy limits. The maximum per-unit subsidy limits vary based on the number of bedrooms in a unit. The City will contact the Los Angeles HUD Field Office to obtain the maximum per-unit subsidy limits in effect at the time of project commitment. To calculate the Maximum Project Subsidy, multiply the maximum per-unit subsidy limit for each unit type by the number of HOME-assisted units of that type. If the project has multiple unit types, sum the maximum subsidies for each unit type. The result is the Maximum Project Subsidy.

Step 5 – Determine the maximum HOME investment.

The Maximum HOME Investment allowed is the lesser of three amounts: (1) the funding gap as determined in the project's underwriting, (2) the Cost of HOME Units, or (3) the Maximum Project Subsidy.

The City of Huntington Beach cannot invest more HOME funds in any project than as described below:

- *Funding Gap*: The needed amount of HOME investment, determined during the City's required underwriting and subsidy layering review under §92.250(b). This is the amount necessary to produce affordable housing that is financially viable for the period of affordability. In most cases, this was the initial input for the cost allocation analysis identified in Step 2.

- *Cost of HOME Units*: The eligible cost of the HOME units as required by §92.205(d)(1). This number is the result of either the Standard Method, Proration Method, or Hybrid Method in Step 3; or

- *Maximum Project Subsidy*: The Maximum Project Subsidy is based on the maximum per-unit subsidy limits established under §92.250(a). This is the result of calculations in Step 4.

Step 6 – Finalize the project underwriting based on HOME investment and the number and type of HOME units.

At this point, the City can evaluate whether the amount of HOME assistance, or any other form of assistance, exceeds the amount the City feels is necessary to make the project work. The City must determine if the costs are reasonable, conclude if the assistance is warranted, and that the amount of HOME assistance needed will be used on program-eligible costs or activities.

If the total amount of HOME assistance and other sources exceeds the amount determined necessary to make the project feasible and viable for at least the affordability period, the City will consider:

- Reducing the amount of HOME assistance.

- Increasing the number of HOME assisted units in the project or lowering the target income levels and rents to be charged; and/or

- Imposing loan terms that bring the rate of return into line with standards. The City will consider denying HOME assistance if the developer is unwilling to make reasonable adjustments or to limit its return/costs in compliance with underwriting guidelines or if it appears that HOME funds are not needed to close a financing gap. While the City will identify the amount of subsidy needed through gap and other project analysis, the City will also determine that the amount of HOME assistance needed will be used on program-eligible costs or activities.

SECTION V. DISCLAIMERS

The City of Huntington Beach reserves the right to fund projects at a lower amount than requested, and the right to deny applications that are not consistent with the City's Consolidated Plan or Annual Action Plan goals and policy direction. The City is under no obligation to consider or fund any proposed project that does not demonstrate compliance with national objectives and eligible activities or local program requirements and does not assist in meeting the City's affordable housing policy goals and/or objectives.

The City reserves the right to determine project eligibility and select the funding source to be used for any proposed project. Funding decisions will be based on City staff's initial evaluation of a variety of factors in a developer's proposal with final funding approval to be considered by the City Council. Factors include the following:

1. Operational and management capacity of the developer

2. Financial capacity

3. The project's potential for transformative impact on the residents and surrounding community

4. Repayment of funds borrowed from City (either HUD, Local Funds, tax credits)

5. Whether the request for funding is for a project that has been previously awarded City funds

6. Dedication of other sources of public and private investment

7. City will consider how the City programs can best maximize the effect of the funding

The Affordable Housing Program Underwriting and Subsidy Layering Review Guidelines are not intended to address every circumstance that may be encountered in the development process, nor are they a verbatim restatement of all regulatory requirements. Omission of any federal or local regulatory requirements does not relieve the City or the applicant from their respective obligations that may be required by the funding source.

Once a loan agreement has been executed between the City and applicant for the purpose of developing rental housing according to these guidelines, in case of any conflict between the program guidelines and the loan agreement, the terms of the loan agreement shall prevail.

The City program guideline changes as a result of federal, state or local regulatory or legal requirements may be implemented immediately by the Community Development Director.

Revision of the program guidelines usually occurs annually; however, additional revisions and waivers of any provisions described in these guidelines can be initiated by the Community Development Director at any time as long as such revisions or waivers are not in direct conflict with HUD requirements. While stakeholder outreach is the goal of City, such revisions may occur without notice and are applicable to all pending and future development proposals. Developer applicants are responsible for complying with any changes.

ATTACHMENT A:

Sample Market Assessment

MARKET ASSESSMENT

Project Name: ______________________________

Developer: ___________________________

Date: _______________________________________

Please provide these minimum components as a Market Assessment for the proposed project.

Minimum Components
A brief description of the market area, including a map delineating the market area from which potential renters are expected to come. • Definitions of the Primary (PMA) and Secondary Market Areas (SMA) (including a radial map delineating the areas) and an explanation of the basis for the boundaries of the PMA and SMA. • A scaled for distance map of the suggested market area that identifies the proposed development, the comparable rental developments and location amenities, including the closest transportation linkages, shopping and schools. • A description of the site characteristics including its size, shape, general topography and vegetation and proximity to adverse conditions. • Photographs of the site and neighborhood.
For non-senior housing projects, an analysis is provided about the employment and economy of the primary market area to give an understanding of the overall economic health of the PMA. The analysis should include for instance, employment growth in comparison to the larger geographic area, the availability of affordable housing for employees of businesses and industries that draw from the PMA and commuting patterns for workers.
Demographic information provided for both the PMA and the SMA. • Population Trends: ✓ Total Population. ✓ Population by age group. ✓ Number of elderly and non-elderly**.** • Household Trends: ✓ Total number of households. ✓ Household by tenure; that is, the number of owner and renter households by elderly and non-elderly. ✓ Average household size. ✓ Renter households by number of persons in the household.

• Income Trends: Estimate of household incomes by household size and by tenure. Elderly proposals should reflect the income distribution of elderly households only.
The market study is to define and justify the Absorption Rate for the project, which considers such factors as the overall estimate of new household growth, the available supply of competitive units, observed trends in absorption of comparable units, and the availability of subsidies and rent specials. Market Rate Comparables: • The market study is to identify what market rate developments are currently available to serve the target market in the PMA, and provide sufficient information on existing developments • The analysis is to include information on all rental developments that can be considered currently available to serve the target population in the PMA as well as planned rental developments in the PMA that could also serve the target population and are expected to be placed in service during the two years.

To be completed by Huntington Beach staff.

Project Market Assessment	Yes	No	Conclusions
What is the demand for rental housing? Has a need for the type and number of housing units been convincingly demonstrated? Does the market assessment clarify that multifamily housing supply and demand is balanced, there is a need for additional housing or that the market is overbuilt?	☐	☐	
Will developer be able to lease-up the planned rental units within the timeframe specified in the project pro-forma? The market study adequately assesses potential unit adsorption.	☐	☐	

Will the infusion of a HOME subsidy make the project competitive?	☐	☐	
How is the market area defined?	☐	☐	
What are the advantages and disadvantages regarding the site's location?	☐	☐	
What do key indicators tell us about, for example, timing/lease-up, likely tenants and whether vacancy rates are increasing, stable, or declining?	☐	☐	
Will the development adversely impact existing affordable housing developments?	☐	☐	

I find that the Developer and/or City has adequately examined neighborhood market conditions and, based on this assessment, there is adequate need for the project.

Staff Reviewer:

____________________________________ ________________________

Signature Date

ATTACHMENT B:

Developer Capacity and Qualification Questionnaire

DEVELOPER CAPACITY AND QUALIFICATIONS

What role, if any, will the developer or its affiliate have in the nonprofit organization ship entity? (Check one)	**Own** ☐	**Develop** ☐	**Sponsor** ☐

Name of Developer			
Mailing Address			
Contact		**Phone No.**	
Title		**Fax No.**	
TIN/EIN		**E-Mail**	

Type of Organization (check one)			
☐	**Individual**	☐	**General Partnership**
☐	**Corporation**	☐	**Limited Partnership**
☐	**Limited Liability Corporation**		

Number of completed projects in which developer(s) or its affiliate is the managing general partner/managing member.
Comments:
Of this number, how many completed projects of comparable size and type of development (viz., rental or nonprofit organization ship, new construction or acquisition/rehabilitation).
Comments:
Number of projects currently under construction.

Comments:		
Can the developer(s) obtain 100% payment and performance bonds for constructing the subject development? NOTE: If developer is involved in more than one project recommended for funding, it must be able to obtain bonds for all projects.	Yes ☐	No ☐
Comments:		
Has the developer(s) *(or any of its principals and affiliates)* ever had a limited denial of participation from HUD or been debarred, suspended or voluntarily excluded from participation in any federal or state program? If yes, explain.	Yes ☐	No ☐
Comments:		
Has your organization had any audit findings and, if so, are any still open and unresolved?	Yes ☐	No ☐
Comments:		
The City is to evaluate the developer's capacity to complete a rental housing project as evidence by the developer's knowledge, skills, and experience necessary to undertake eligible projects of the same size, scope and level of complexity as the activities for which HOME funds may later be reserved or committed. **Check all that apply:**		

Project Related Activities	**Capacity?**	**Staff Name &Title**
Conduct market/needs analyses and conceptual project design	☐	
Choose and negotiate purchase of a suitable site	☐	
Select and work with architects and other consultants	☐	
Understand and comply with entitlement process, e.g.,	☐	

planning, zoning and building requirements		
Create a development pro forma and operating budget	☐	
Establish rents or sales prices	☐	
Identify financing sources and apply for financing	☐	
Comply with other lender requirements	☐	
Deal with community concerns	☐	
Comply with CEQA and NEPA requirements	☐	
Choose and work with construction contractors	☐	
Manage the construction process	☐	
Choose and work with a management agent	☐	
Successfully market a project	☐	
Comply with HOME program requirements, construction closeout and long-term obligations	☐	

Type of Staff*	Employee Name	Title	Full Time or Part Time**	Percent of Time spent on HOME Projects

*1 W-2 employee, 2 1099 independent contractor, 3 Future W-2 employee, 4 Future 1099 independent contractor, 5 consultant, 6 future consultant, 7 other

* *Staff Development Experience

- Full time or part time employment – Provide a payroll report or a W-4 or a W-2.
- Contracted staff – Provide a contract for employment and a W-9 and 1099 (at the end of a year).
- Consultant - Provide a consultant contract

Resumes

Attach resumes of all key staff that have experience relevant to project development and management.

ATTACHMENT C:

Development History

Development History (Comparable Projects)					
Name and Address of Project	**1 Type of Project**	**2 Type of Construction**	**3 Size of Project**	**4 Financing and Subsidies**	**Date of Completion**

1 - Type of project: rental, homeownership, commercial, or mixed use.
2 - Type of construction: substantial rehab, moderate rehabilitation, new construction, or financial restructuring.
3 - Number of affordable units & the number of unrestricted units.
4 - Type of financing or subsidy and the lender or agency involved

ATTACHMENT D:

HUD HOME Underwriting and Financial Analysis Template Tables

HOME Investment Partnerships Program ("HOME")
Multi-Family Underwriting Template

U.S. Department of Housing and Urban Development
Office of Community Planning and Development

Project Information	
Project Name:	
Address:	
Developer:	
Date of Analysis:	
City:	
State:	
Development Type:	

NOTES ON KEY HOME REQUIREMENTS AND THIS TEMPLATE

This HOME Multi-Family Underwriting Template is intended to assist in planning multi-family affordable rental housing, not single-family affordable housing.

Typical users will be Participating Jurisdiction (PJ) underwriters, Community Housing Development Organization (CHDO) underwriters, and underwriters for other developers of HOME-assisted affordable rental housing projects. This template supports normal underwriting tasks such as review of development costs and review of operating revenues and expenses, but also includes features that help the user determine the appropriate amount of HOME assistance as well as the appropriate number and mix of HOME-assisted units.

Users may find it helpful to review the HOME Underwriting and Subsidy Layering Notice, CPD 15-11. This template does not cover all elements of the Notice requirements.

The U.S. Department of Housing and Urban Development and ICF International assume no liability for the use, functionality, or content of this template. This template is for draft calculations only. All inputs, outcomes, and calculations should be independently verified.

This template does not automatically cap rents at HOME levels. Each user must do this, as applicable, on the Rents and Income tab.

This template does not include cost allocation which must be completed separately by the PJ to allocate costs and designate the number of HOME units. Users should refer to the guidance provided in CPD Notice 16-15 and utilize the HOME cost allocation tool available at the following links: https://www.hudexchange.info/resources/documents/Notice-CPD-16-15-Allocating-Eligible-Costs-and-Identifying-HOME-Assisted-Units-in-Multi-Unit-HOME-Rental-and-Homeownership-Development-Projects.pdf, and https://www.hudexchange.info/resource/5190/home-cost-allocation-tool/ for guidance on allocating costs and determining maximum investment and minimum HOME units."

HOME PJs must conduct a subsidy layering analysis prior to commitment of HOME funds.

$407	Cells with light green background are data entry cells
$40,700	Cells with white background are formulas

Do not change formulas (many of them track to other formulas)

? Blue boxes like this contain guidance (place the mouse pointer over the question mark)
If the guidance text is too small for the user to read, increase the zoom setting on the tab.

The Role of HOME Funds in a Development Project

In rental housing development projects, HOME funds typically serve as "gap financing" – funds provided when the contributions of private lenders and other funding resources are not sufficient to cover the cost of developing and leasing-up the project. PJ and non-profit staff are often called upon to determine the appropriate amount of HOME funds required to "fill the gap" in order to make the project feasible, while ensuring the project is not over-subsidized and that HOME funds are used only for HOME-eligible expenses.

While HOME funds are an indispensable resource for many affordable housing projects, they come with requirements that can also influence a project's finances. To ensure that a portion of the housing units created when HOME funds are invested will remain available to low-income and very-low-income households, rents for these units are limited for a specified period to affordable levels appropriate to the project's geographic area. These HOME rent limits may impact the amount of income generated by the property, which in turn can influence the amount and availability of private and other public funding resources for the project.

HOME Investment Partnerships Program ("HOME")
Multi-Family Underwriting Template

U.S. Department of Housing and Urban Development
Office of Community Planning and Development

Multi-Family Underwriting

Underwriting is the process of determining the financial feasibility and the terms of a project. The objective of underwriting is to determine whether the ongoing revenues from a property will be sufficient to cover construction and operating costs to ensure that property will be sustainable for the specific period of affordability. There is no one "right" way to do underwriting. However, across all approaches, there are some common elements:

• Review of costs for constructing the project in order to determine both reasonableness and eligibility.
• Review of the sources of financing for the project.
• Review the projected profitability and financial health of the project.
• Establish the financing and operating t

Introduction to this Template

The HOME Multi-Family Underwriting Template is composed of several interrelated Excel tabs, which are accessible by tabs found at the bottom of the Excel screen. Open the Template in Excel and look along the bottom of the screen. You will see a set of tabs reading:

• Intro
• Requirements
• Rents and Income
• Development Costs
• Repl Reserve
• Const Schedule
• LIHTC Basis
• Operating Expenses
• First Mortgage Sizing
• Sources and Uses
• Pro Forma Assumptions
• Operating Pro-Forma
• Administrative Record
• Summary

Microsoft Excel and This Template

This template is provided in Excel 2007 format. Two versions are available. One is macro-enabled (an .xlsm file); this version includes radio buttons that will allow the user to hide and reveal columns and rows used for supporting calculations, and helpful features such as automatically providing the appropriate number of columns on the Operating Pro-Forma tab. If you are using the .xlsm format, be sure to always save the file in .xlsm format (if you save it in .xlsx format, you will lose all of the macros).

In the .xlsm format, if you click on a radio button labeled 'Hide Columns' or 'Hide Rows', the template will hide the rows or columns that hold supporting calculations. A radio button labeled 'Reveal columns' or 'Reveal rows' will reveal (un-hide) the supporting calculations.

For users whose information technology policies do not allow enabled macros, this template is also available in a non-macro-enabled format (an .xlsx file).

This template also contains two forms of protection. The first is worksheet (tab) protection (formula cells are locked to prevent accidental damage to formulas). The second is workbook protection (which prevents accidental deletion of tabs). However, if you need to make custom modifications to this template, you can do so by entering the password (the password is a single blank character).

Upon completing this tab, proceed to the *Requirements* tab.

HOME and Other Affordable Housing Requirements

Enter data in green cells only

The HOME Program, as well as other affordable housing programs (e.g., Low-Income Housing Tax Credits or the Community Development Block Grant), are designed to provide effective resources for housing development, while ensuring that use of public funds results in increased availability of affordable housing. To meet the latter objective, the HOME Program and other affordable housing programs impose requirements and restrictions, such as maximum subsidies, maximum rents for units reserved for affordable housing, and affordability periods during which units must remain affordable.

Note that some individual units may be subsidized using both HOME funds and funds from another affordable housing program. For the purposes of this Template, consider those units to be HOME-assisted units.

Use this worksheet to enter (or change) the following: Area Median Incomes, rents, utility allowances, the HOME period of affordability, and HOME per-unit investment limits.

Project Name - : 0 Units

4 Person AMI ______ at 100% AMI

?

HOME Investment Limits		
HOME per Unit Limit - 0 Bedroom		
HOME per Unit Limit - 1 Bedroom		
HOME per Unit Limit - 2 Bedroom		
HOME per Unit Limit - 3 Bedroom		
HOME per Unit Limit - 4 Bedroom		
HOME per Unit Limit - 5 Bedroom	$0	(same as 4BR limit)

?

HOME Rent Limits (monthly, including rent and tenant-paid utilities)

Low 0 BR	Low 1 BR	Low 2 BR	Low 3 BR	Low 4 BR	Low 5 BR
High 0 BR	**High 1 BR**	**High 2 BR**	**High 3 BR**	**High 4 BR**	**High 5 BR**

?

HOME Utility Allowances (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

?

HOME Affordability Period		
HOME-Eligible Rental Activity (select one)		
Average Per-Unit HOME Subsidy (select one)		See the Note below
HOME Required Affordability Period (in years)	20	(Advisory information only.)
? PJ's Required Affordability Period (in years)		(Must be at least as long as HOME requirement.)
? PJ's Affordability Period in Compliance with HOME Program?	Entry Missing	**Enter PJ's Affordability Period**

Note: the Template indicates underwritten HOME subsidy of $0 per unit. See the Sources and Uses and Rents and Income tabs.

HOME and Other Affordable Housing Requirements

Enter data in green cells only

?

Market Rents (the rents that these units could achieve without rent or income restrictions)

Market Rents (monthly, rent only, do not add tenant-paid utilities)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

On the Rents and Income tab, for each unit type you will be able to select the most restrictive rent limit (for example, High HOME or Market or Project Based Section 8) and a set of utility allowances. You will also be able to underwrite, for each unit type, less than 100% of the applicable rent limit (for example, you can underwrite 95% of the High HOME rent instead of 100% if you choose).

Below are several sections in which you can enter the gross rents (rent plus tenant-paid utilities) and utility allowances for affordable housing programs other than HOME. Examples might include Low Income Housing Tax Credit (LIHTC) units restricted at 60% AMI rents, LIHTC units restricted at 50% AMI rents, CDBG units, and project-based Section 8 units.

If multiple programs use the same utility allowances (for example, LIHTC 60% and 50% and 40% AMI), you might choose to enter the utility allowances only once in the sections below

Gross Rents and Utility Allowances for Other Affordable Housing Program #1

Other Affordable Housing Program Name			of AMI (if AMI rents are applicable)

Gross Rent Limits for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Gross Rents and Utility Allowances for Other Affordable Housing Program #2

Other Affordable Housing Program Name	LIHTC 60 AMI	60%	of AMI (if AMI rents are applicable)

Gross Rent Limits for LIHTC 60 AMI (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for LIHTC 60 AMI (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Gross Rents and Utility Allowances for Other Affordable Housing Program #3

Other Affordable Housing Program Name			of AMI (if AMI rents are applicable)

Gross Rent Limits for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

HOME and Other Affordable Housing Requirements

Enter data in green cells only

Gross Rents and Utility Allowances for Other Affordable Housing Program #4

Other Affordable Housing Program Name			of AMI (if AMI rents are applicable)

Gross Rent Limits for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Gross Rents and Utility Allowances for Other Affordable Housing Program #5

Other Affordable Housing Program Name			of AMI (if AMI rents are applicable)

Gross Rent Limits for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Gross Rents and Utility Allowances for Other Affordable Housing Program #6

Other Affordable Housing Program Name	Other 2	25%	of AMI (if AMI rents are applicable)

Gross Rent Limits for Other 2 (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for Other 2 (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Gross Rents and Utility Allowances for Other Affordable Housing Program #7

Other Affordable Housing Program Name			of AMI (if AMI rents are applicable)

Gross Rent Limits for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Gross Rents and Utility Allowances for Other Affordable Housing Program #8

Other Affordable Housing Program Name			of AMI (if AMI rents are applicable)

HOME and Other Affordable Housing Requirements

Enter data in green cells only

Gross Rent Limits for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Utility Allowances for (monthly)

0 BR	1 BR	2 BR	3 BR	4 BR	5 BR

Upon completing this tab, proceed to the *Rents and Income* tab.

The rows below are working computations for AMI rents

	0 BR	1 BR	2 BR	3 BR	4 BR	5 BR	Percentage of AMI
20%	$0	$0	$0	$0	$0	$0	20%
25%	$0	$0	$0	$0	$0	$0	25%
30%	$0	$0	$0	$0	$0	$0	30%
35%	$0	$0	$0	$0	$0	$0	35%
40%	$0	$0	$0	$0	$0	$0	40%
45%	$0	$0	$0	$0	$0	$0	45%
50%	$0	$0	$0	$0	$0	$0	50%
55%	$0	$0	$0	$0	$0	$0	55%
60%	$0	$0	$0	$0	$0	$0	60%
80%	$0	$0	$0	$0	$0	$0	80%
100%	$0	$0	$0	$0	$0	$0	100%
120%	$0	$0	$0	$0	$0	$0	120%
N/A							N/A

Rents and Income

Enter data in green cells only

Use this worksheet to enter (or to modify) the unit mix, the mix of Low and High HOME units, the mix of LIHTC and CDBG and market rate units, and square fo each unit type. Also use this worksheet to select the maximum rents that will be underwritten for each unit type, and to select utility allowances. Also use this w to enter any 'other revenue' such as commercial revenue or tenant late fees. Information for number of units, Low HOME units, High HOME units, LIHTC units units, market rate units, square footage, underwritten rents, underwritten utility allowances, and underwritten other revenue will carry forward from this workshe rest of the underwriting template.

?	?	?	?	?	?	
Unit Type	**Underwritten Rent Level**	**Number of Units**	**Square Footage per Unit**	**Gross Rent, per unit, per month**	**Monthly Utility Allowance**	**Net Rent After Utilities, per unit, per month**
Total		**0**	**0**	**NA**		**$0**
Annual Gross Potential Rent						**$0**

Rent Loss (Vacancy + Bad Debt + Concessions)

Rent Loss Rates (As % of GPR)		**HOME Units**	**Market Rate Units**	**Other Affordable Units**
Rent Loss Year 1 (Lease-Up)				
Stabilized Rent Loss Rate (after Year 1)				

Other Revenue

Laundry and Other			per month
			per month
			per month
			per month
			per month
			per month
Total Other Revenue		**$0**	per month

Development Costs

Enter data in green cells only

Project Name - : 0 Units

Cost	Amount	Cost Per Unit	Cost Per Square Foot	Comment
Acquisition Costs				
Land		need data	need data	
Existing Structures		need data	need data	
		need data	need data	
Site Work Costs *(not included in construction contract)*				
Demolition/Clearance		need data	need data	
Site Remediation		need data	need data	
Off-Site Costs (these are not HOME eligible)				
Improvements		need data	need data	
Construction Equipment (HOME eligible portion)		need data	need data	
Construction Equipment (non-HOME eligible portion)		need data	need data	
		need data	need data	
		need data	need data	
Construction / Rehabilitation Costs (construction				
Site Work Included in Construction Contract		need data	need data	
Construction Equipment (HOME eligible portion)		need data	need data	
Construction Equipment (non-HOME eligible portion)		need data	need data	
New Construction		need data	need data	
Rehabilitation		need data	need data	
General Requirements		need data	need data	
Builder’s Overhead		need data	need data	
Builder Profit		need data	need data	
Performance Bond Premium		need data	need data	
Construction Contingency		need data	need data	
		need data	need data	
		need data	need data	
Architectural and Engineering Fees				
Architect Fee -- Design		need data	need data	
Architect Fee -- Construction Supervision		need data	need data	
Engineering Fees		need data	need data	
		need data	need data	
Other Owner Costs				
Project Consultant Fees		need data	need data	
Owner Attorney Fees (initial closing)		need data	need data	
Owner Attorney Fees (final closing)		need data	need data	
Syndication Costs		need data	need data	
Other Owner Organizational Expenses		need data	need data	
Market Study		need data	need data	
Survey		need data	need data	
Appraisal Fees		need data	need data	
Environmental Studies		need data	need data	
Capital Needs Assessment		need data	need data	
		need data	need data	
Tap Fees and Impact Fees		need data	need data	
Building Permits and Fees		need data	need data	
Tax Credit Fees		need data	need data	
Accounting / Cost Certification / Audit		need data	need data	
Soft Cost Contingency		need data	need data	
		need data	need data	
		need data	need data	
Interim Financing Costs				
Construction Period Insurance		need data	need data	
Construction Period Taxes		need data	need data	
Construction Interest (see calculation below)	$0	need data	need data	
Construction Loan Origination Fee		need data	need data	
Construction Loan Legal Fees		need data	need data	
Other Construction Loan Fees		need data	need data	
Bond Costs of Issuance		need data	need data	
Title and Recording Costs (for the construction loan)		need data	need data	
		need data	need data	
		need data	need data	
Permanent Financing Costs				
Credit Report		need data	need data	
Lender Origination / Financing Fee		need data	need data	
Lender’s Counsel Fee		need data	need data	
Other Lender Fees		need data	need data	
Title and Recording Costs (for permanent financing)		need data	need data	
Establish Tax and Insurance Escrows		need data	need data	
		need data	need data	
		need data	need data	
Developer's Fee		need data	need data	
Initial Project Reserves				
Initial Rent-Up Reserve (not HOME eligible)		need data	need data	
Initial Operating Reserve (HOME-eligible portion)		need data	need data	
Initial Operating Reserve (non-HOME-eligible portion)				
Initial Debt Service Reserve (not HOME eligible)		need data	need data	
Initial Replacement Reserve (not HOME eligible)		need data	need data	

		need data	need data	
		need data	need data	

Project Administration and Management Costs				
Marketing/Management		need data	need data	
Operating Expenses		need data	need data	
Furniture, Fixtures & Equipment		need data	need data	
Tenant Relocation Costs		need data	need data	
		need data	need data	
		need data	need data	
Other Development Costs				
		need data	need data	
		need data	need data	
		need data	need data	
		need data	need data	
		need data	need data	
		need data	need data	

Total Development Costs	**$0**

Construction Interest Calculation	
Construction Loan Amount	
Interest Rate	
Estimated First Draw Amount	
Months of Construction	
Months Const. Loan Outstanding After Completion	
Average Outstanding Balance	

Interest on first draw, during construction period	$0
Interest on remaining funds, during construction	$0
Construction interest after completion	$0
Total Construction Interest	$0

Notes:

Construction Contingency is 0%
General Requirements is 0% of construction costs
Builder’s Overhead is 0% of construction costs
Builder Profit is 0% of construction costs

Developer's Fee is 0% of total development cost (excluding developer fee and initial reserves)

Later in this template, you will calculate the maximum allowable HOME investment and the minimum required number of HOME-assisted units. These calculations take place on the Cost Allocation tab. For these calculations, you need to have identified any development costs that are not HOME-eligible. List the ineligible costs here (these costs can be funded from other sources of funds, but cannot be funded by HOME).

Costs that Are Not HOME-Eligible	Amount	Comment
Construction Equipment (non-HOME eligible portion)	$0	
Off-Site Costs (these are not HOME eligible)	$0	
Initial Rent-Up Reserve (not HOME eligible)	$0	
Initial Operating Reserve (non-HOME-eligible portion)	$0	
Initial Debt Service Reserve (not HOME eligible)	$0	
Initial Replacement Reserve (not HOME eligible)	$0	
Other HOME-Ineligible Cost 1	$0	
Other HOME-Ineligible Cost 2	$0	
Other HOME-Ineligible Cost 3	$0	
Other HOME-Ineligible Cost 4	$0	

Total Non-HOME-Eligible Costs	**$0**

Upon completing this tab, proceed to the *Repl Reserve* tab

Replacement Reserve

Enter data in green cells only

Project Name - : 0 Units

For HOME rental projects involving rehabilitation, Section 92.250(b)(1) of the HOME Final Rule requires the PJ to estimate the long term capital needs of the project and to determine a replacement reserve funding approach that will allow 100% of estimated long term capital needs -- over the HOME period of affordability -- to be funded from the replacement reserve. If the project has 26 total units or more, the PJ must require a capital needs assessment. These requirements must be included in the PJ's underwriting standards for rental projects involving rehabilitation.

There is no similar requirement for new construction rental projects, but it would be a best practice for PJs to include a similar requirement in the PJ's underwriting standards for new construction rental projects.

This worksheet will allow the user to determine an annual replacement reserve deposit that will satisfy the 92.250(b) requirement, plus a higher annual reserve deposit that will be adequate over the long term (including the years after completion of the HOME period of affordability).

Component	Quantity	? Unit of Measure	? Replacement Cost (UoM)	? RUL (Years)	? EUL (Years)
Signage					
Driveways and Parking Areas (resurfacing)					
Driveways and Parking Areas (sealing)					
Other Site 1					
Other Site 2					
Other Site 3					
Windows					
Exterior Walls 1					
Exterior Walls 2					
Exterior Painting					
Other Exterior 1					
Other Exterior 2					
Roofing					
Gutters					
Interior Flooring (Tile)					
Interior Flooring (Carpet)					
Kitchen Cabinets and Bath Vanities					
Counter Tops and Sinks (Kitchens and Baths)					
Refrigerators					
Ranges					
Exterior Doors					
Elevators					
Unit Heating System					
Unit Cooling System					
Unit Hot Water Heating System					
Other Interior 1					
Other Interior 2					
Other Interior 3					

Comment on capital needs estimate

Reserve Deposit Adequate During the HOME Period of Affordability (but likely to be inadequate thereafter): For a typical rental project, an annual replacement reserve deposit in the amount described below would satisfy the 92.250(b) requirement so long as (1) the annual deposit is increased each year for inflation and (2) there are no high-cost systems that will require replacement early in the HOME period of affordability. If either condition (1) or condition (2) cannot be satisfied, the PJ will need to make a more sophisticated computation, using a capital needs assessment or using a spreadsheet that is similar to those used in preparing capital needs assessments. Similarly, a more sophisticated computation should be used if the PJ intends to utilize a large <u>initial</u> reserve deposit and a smaller annual deposit. PJs should note that minimum compliance with the 92.250(b) requirement <u>will not</u> generally result in a replacement reserve that will be adequately funded <u>over the long term</u>; see the additional discussion in the next section. Over the HOME affordability period:

#DIV/0!

Reserve Deposit Adequate Over The Long Term: For a typical rental project, an annual replacement reserve deposit in the amount described below would be adequate to fund <u>all</u> long-term capital needs so long as (1) the annual deposit is increased each year for inflation and (2) there are no high-cost systems that will require replacement early in the life of the project. If either condition (1) or condition (2) cannot be satisfied, the PJ will need to make a more sophisticated computation, using a capital needs assessment or using a spreadsheet that is similar to those used in preparing capital needs assessments. Over the long term:

#DIV/0!

Upon completing this tab, proceed to the *Const Schedule* tab

Construction Schedule

Project Name - : 0 Units

Enter data in green cells only

The HOME Final Rule's definition of *commitment* specifies that if a project includes rehabilitation or new construction, a construction schedule is required at or before the time of the commitment. Additionally, construction must be scheduled to start within twelve months after the commitment date, and construction must be scheduled to be completed within four years after the commitment date.

Intended HOME Commitment Date	
Initial Closing Date	
Construction Start Date	
Other construction milestone #1	
Other construction milestone #2	
Other construction milestone #3	
Other construction milestone #4	
First Building Completion Date	
Last Building Completion Date	
Achievement of Sustaining Occupancy	
Closing of Permanent Financing	

Total	Per Unit		
$0	#DIV/0!		Hard cost before contingency
$0	#DIV/0!	#DIV/0!	Hard cost contingency
$0	#DIV/0!	#DIV/0!	GR / BO / BP
$0	#DIV/0!		Initial reserves
$0	#DIV/0!		Soft costs before contingency
$0	#DIV/0!	#DIV/0!	Soft cost contingency
$0	#DIV/0!	#DIV/0!	Developer fee (gross)
$0	**#DIV/0!**		**Total Uses of Funds**

Below, please include any comments about the construction schedule

#DIV/0!
#DIV/0!
#DIV/0!

Adequacy of the Development Budget and Risk of Cost Increases. Experience indicates that the primary risk of delay in starting construction is unanticipated escalation in development costs, to the extent that the sponsor has to seek additional funding. The three lines above present key information about the development budget, about available contingency allowances, and about the developer fee (which -- if not already deferred -- can provide additional ability to absorb cost increases).

The risk of cost increases is most significant early in the development process. Once the plans and specifications are completed and there is a firm-fixed-price construction contract, there is a lower risk of increases in hard costs. However, even if there is a performance bond, there is still the risk of hard cost increases due to change orders. The risk of increases in soft costs depends on how many of the soft costs are subject to firm-fixed-price contracts. Construction period interest costs will run over budget whenever construction takes longer than anticipated. Even if there is no construction loan or bridge loan, additional construction time typically results in increased soft costs of some sort.

Below, please discuss the current state of (1) plans and specs and (2) the construction contract. Discuss whether the contractor is bonded.

Below, please discuss the adequacy of the development budget, the risk of cost increases, and why you are confident that even with moderately severe increases in development cost, the project is still likely to go forward on schedule.

Construction to Start Within Twelve Months. The HOME Final Rule definition of *commitment* specifies that construction must be scheduled to start within twelve months after the date of the written agreement between the PJ and the project sponsor.

Experience indicates that the primary risks of delay in starting construction are (1) unanticipated increases in development cost requiring increased sources of funds; (2) unanticipated difficulties in finalizing non-HOME sources of funds; and (3) unanticipated difficulties with zoning, building permits and other entitlements.

Below, please explain why you believe that construction will start within twelve months. Please address each of the primary risks discussed above.

Upon completing this tab, proceed to the *LIHTC Basis* tab or (if the project will not be utilizing LIHTCs) to the *Operating Expenses* tab

LIHTC Basis
Project Name - : 0 Units

Enter data in green cells only

This tab is useful for projects that will have Low Income Housing Tax Credits (LIHTCs). The purpose of this tab is to make a rough estimate of LIHTC equity, which you can use to compare to the developer's estimate. If the rough estimate here is materially different from the developer's estimate, you should ask the developer for an explanation.

To enter (or change) the number of LIHTC units, use column P of the Rents and Income tab.

LIHTC Eligible Basis	**Acquisition**	**Construction**
Estimated LIHTC Eligible Basis From 'Development Costs' page	$0	$0
Less any amounts not eligible as a result of a grant or other ineligible source of funds (enter as negative amounts):		
Ineligible		
LIHTC Eligible basis	**$0**	**$0**

Applicable Fraction by Units:	**0.00%**	
Total LIHTC Units	-	(from the Rents and Income tab)
Total Units	-	(from the Rents and Income tab)
Applicable Fraction by Square Feet:	**0.00%**	
Square feet of total LIHTC Units	-	(from the Rents and Income tab)
Square feet of total Units	-	(from the Rents and Income tab)
Use This Applicable Fraction:	**0.00%**	(lowest of the two methods)

LIHTC Calculation	**Acquisition**	**Construction**	
Eligible Basis	$0	$0	
Applicable Fraction	$0	$0	0.00%
Basis Boost Factor	$0	$0	
Credit Factor			
Annual Credits	$0	$0	
LIHTC Equity Price (per dollar)	$0.000		
Estimated LIHTC Equity	$0	$0	
Total Estimated LIHTC Equity	**$0**		
Proposed LIHTC Equity	$0		

Upon completing this tab, proceed to the *Operating Expenses* tab.

Operating Expenses

Enter data in green cells only

Project Name - : 0 Units

Expense	Annual Cost	Monthly Cost	Per Unit Per Year	Comment
Administrative / Management Expenses				
Management Fee		$0	$0	
Management Administrative Payroll Costs		$0	$0	
Renting / Advertising / Marketing Expenses		$0	$0	
Legal Fees		$0	$0	
Accounting / Audit Fees		$0	$0	
Telephone		$0	$0	
Office Supplies		$0	$0	
PJ Monitoring Fee (if any)		$0	$0	
		$0	$0	
		$0	$0	
Operations and Maintenance Expenses				
Security		$0	$0	
Operations and Maintenance Payroll Costs		$0	$0	
Repairs Supplies		$0	$0	
Repairs Contracts		$0	$0	
Elevator (if any)		$0	$0	
Other Mechanical Equipment		$0	$0	
Interior Painting		$0	$0	
Exterminating		$0	$0	
Lawn and Landscaping		$0	$0	
Garbage Removal		$0	$0	
Snow Removal		$0	$0	
Resident Service Cost		$0	$0	
		$0	$0	
		$0	$0	
Utilities Paid by the Property				
Electricity		$0	$0	
Natural Gas, Oil, Other Fuel		$0	$0	
Sewer and Water		$0	$0	
		$0	$0	
Taxes / Insurance / Other Expenses				
Real Estate Taxes		$0	$0	
Payroll Taxes			$0	
Other Taxes and Licenses		$0	$0	
Property Insurance		$0	$0	
Workers Compensation Insurance			$0	
Health Insurance / Other Employee Benefits			$0	
		$0	$0	
		$0	$0	

TOTAL OPERATING EXPENSES	$0	$0	$0

Reserve for Replacement Deposit		$0	$0	

TOTAL EXPENSES PLUS RESERVE	$0	$0	$0

SUBTOTAL ADMINISTRATIVE EXPENSES	$0	$0	$0
SUBTOTAL O&M EXPENSES	$0	$0	$0
SUBTOTAL OWNER PAID UTILITIES	$0	$0	$0
SUBTOTAL TAXES / INSURANCE / OTHER	$0	$0	$0
TOTAL OPERATING EXPENSES	$0	$0	$0

Upon completing this tab, proceed to the *First Mortgage Sizing* tab.

First Mortgage Sizing and Junior Loan Characteristics

Enter data in green cells only

Project Name - : 0 Units

Net Operating Income Summary	**Annual**	**HOME Units**	**Other Affordable**	**Market Units**
Gross Potential Rents	$0	$0	$0	$0
Rent Loss	$0	$0	$0	$0
Other Income	$0			
Effective Gross Income	**$0**			
Total Operating Expenses	$0			
Replacement Reserve Deposit	$0			
Net Operating Income (NOI)	**$0**			

Capitalization Rate and Value

Capitalization Rate		
Calculated Market Value	$0	(NOI ÷ Capitalization Rate)
Lender's Appraised Value for the Project		
Value of Project at Sale**		(Year of sale is year)

** If Value of Project at Sale is left blank, the Template will use the Capitalization Rate to determine the project's value when sold.

In this Template:
- First Mortgage means a fixed-rate, fixed-payment, self-amortizing loan (without balloon payments).
- Amortizing Second Mortgage means a junior fixed-rate, fixed-payment, self-amortizing loan (without balloon payments).
- Deferred Payment Loan means a loan that will receive no payments during its term.
- Custom Loan means any other type of loan (i.e., with some payments but not fixed-payment / self-amortizing).

First Mortgage Characteristics

Minimum Debt Service Coverage		
Maximum Loan to Value		
Interest Rate		0.00000% Annual P+I as % of loan amount
Mortgage Insurance Premium		0.00000% Annual MIP as % of loan amount
Loan Term (years)		
First Mortgage Lender		

For each loan below, the Template asks 'Is this loan funded by the HOME program?'. The Template uses your answers to calculate the total amount of proposed HOME funding, recognizing that you may be planning multiple types of HOME funding (for example, a first mortgage loan with required monthly payments plus a soft second mortgage loan with payments limited to a share of cash flow). Later, on the Sources and Uses tab, you will verify that the proposed total HOME funding does not exceed the project's funding gap.

First Mortgage Loan Amount

Maximum Loan Amount by LTV	$0	(Lender's value x maximum LTV)
Maximum Loan Amount by DSC	$0	(NOI ÷ DSC ÷ [PI factor + MIP factor])
Calculated Maximum Loan Amount	$0	(Lesser of the two limitations above)
Lender's Proposed Loan Amount		
Is this loan funded by the HOME program?		
Calculated Monthly P+I+MIP Payment	$0.00	(This total is sometimes referred to as the 'debt service' payment)

Debt Service Coverage (DSC) is the ratio of Net Operating Income to the 1st mortgage debt service payment (P+I+MIP). If the ratio is below 1.0 it means that there is not enough NOI to cover the debt service payment, and the proposed project will not be viable unless the first mortgage debt service payment can be reduced (for example, by utilizing more HOME funds so that the first mortgage loan amount can be reduced). The HOME underwriter will want to consider whether to require DSC that is higher than required by the first mortgage lender. In general, the higher the DSC, the less risk that the project will have negative cash flow because of a future revenue or expense problem. However, a high DSC may indicate that the first mortgage loan amount can be increased (without endangering the finances of the project) which would allow HOME funding to be decreased.

Estimated Debt Service Coverage (DSC) Ratio	0.00

First Mortgage Sizing and Junior Loan Characteristics

Enter data in green cells only

Project Name - : 0 Units

First Mortgage Lender Origination and Financing Fees (Points)

Origination and Financing Fees		of the loan amount
Calculated Origination and Financing Fees	$0	
Amount entered on Development Costs tab	$0	

Characteristics of Amortizing Second Mortgage Loan

Amortizing Second Mortgage Loan Amount	
Is this loan funded by the HOME program?	
Amortizing Second Mortgage Source	
Interest Rate	
Loan Term (years)	
Calculated Monthly P+I Payment	$0.00

Final year of Operating Pro Forma	0	(from Pro Forma Assumptions page)

Characteristics of Deferred Payment Loan #1

Name of Deferred Payment Loan #1	
Loan Amount for	
Is this loan funded by the HOME program?	
Lender for	
Interest Rate for	
Loan Term (Maturity) for	

A deferred loan is one with no payments due until maturity

Characteristics of Deferred Payment Loan #2

Name of Deferred Payment Loan #2	
Loan Amount for	
Is this loan funded by the HOME program?	
Lender for	
Interest Rate for	
Loan Term (Maturity) for	

A deferred loan is one with no payments due until maturity

Characteristics of Custom Loan #1

Name of Custom Loan #1	
Loan Amount for	
Is this loan funded by the HOME program?	
Lender for	
Interest Rate for	
Loan Term (Maturity) for	

A custom loan has payments prior to maturity but is not a normal fixed rate amortizing loan.
Enter the annual payments for this loan directly on the Operating Pro Forma tab.

Characteristics of Custom Loan #2

Name of Custom Loan #2	
Loan Amount (Custom loan 1)	
Is this loan funded by the HOME program?	
Custom Loan 1 Source	
Custom Loan 1 Interest Rate	
Custom Loan 1 Year of Maturity	

A custom loan has payments prior to maturity but is not a normal fixed rate amortizing loan.
Enter the annual payments for this loan directly on the Operating Pro Forma tab.

Upon completing this tab, proceed to the *Sources and Uses* tab.

Sources and Uses of Funds

Enter data in green cells only

Project Name - : 0 Units

In this template, the underwriter enters all proposed Sources of Funds (including HOME) on this tab (other than those that were already entered on the First Mortgage Sizing tab). The Uses of Funds are repeated below (from the Development Costs tab). Then the template verifies whether the Sources and Uses are in balance; be sure that Sources and Uses are balanced before moving forward. If there are insufficient Sources, potential solutions include deferring a greater portion of the developer fee, increasing HOME funding, and obtaining increased funding from some other source. If there are excess Sources, the HOME underwriter should consider reducing the proposed HOME funding.

PJs must perform cost allocation separately from this tool to verify that the proposed amount of HOME funding is within the allowable maximum HOME investment.

Sources of Funds	**Amount**	**HOME?**	**Comment**
First Mortgage Loan (proposed amount)	$0	0	
Amortizing Second Mortgage Loan	$0	0	
	$0	0	
	$0	0	
	$0	0	
	$0	0	
Deferred Developer Fee			
Developer Cash Investment			
Tax Credit Equity (proposed amount)			
Total Sources of Funds	**$0**		

Total HOME Funding	$0	
Developer Investment for Financial Analysis	$0	(used in Operating Pro Forma for IRR, etc.)

Uses of Funds / Total Development Cost	**Amount**	**Comment**
Acquisition Costs	$0	
Site Work Costs	$0	
Construction / Rehabilitation Costs	$0	
Architectural / Engineering Costs	$0	
Other Owner Costs	$0	
Construction Interest	$0	
Other Interim Financing Costs	$0	
Permanent Financing Costs	$0	
Developer's Fee	$0	
Initial Project Reserves	$0	
Project Management Costs	$0	
Other Development Costs	$0	
Total Uses of Funds	**$0**	

Subsidy layering gap (before HOME funding) $0 (Total Uses of Funds minus Total Sources of Funds other than HOME)

Sources and Uses by Month

Project Name - : 0 Units

Enter data in green cells only

Months of Construction	0
Months Const. Loan Outstanding After Completion	0

Development Costs (Uses of Funds)	Total	Initial Closing / First Draw	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Acquisition Costs								
Land	$0	$0	$0	$0	$0	$0	$0	$0
Existing Structures	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Site Work Costs *(not included in construction contract)*								
Demolition/Clearance	$0	$0	$0	$0	$0	$0	$0	$0
Site Remediation	$0	$0	$0	$0	$0	$0	$0	$0
Improvements	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Construction / Rehabilitation Costs (construction								
Site Work Included in Construction Contract	$0	$0	$0	$0	$0	$0	$0	$0
New Construction	$0	$0	$0	$0	$0	$0	$0	$0
Rehabilitation	$0	$0	$0	$0	$0	$0	$0	$0
General Requirements	$0	$0	$0	$0	$0	$0	$0	$0
Builder's Overhead	$0	$0	$0	$0	$0	$0	$0	$0
Builder Profit	$0	$0	$0	$0	$0	$0	$0	$0
Performance Bond Premium	$0	$0	$0	$0	$0	$0	$0	$0
Construction Contingency	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Architectural and Engineering Fees								
Architect Fee -- Design	$0	$0	$0	$0	$0	$0	$0	$0
Architect Fee -- Construction Supervision	$0	$0	$0	$0	$0	$0	$0	$0
Engineering Fees	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Other Owner Costs								
Project Consultant Fees	$0	$0	$0	$0	$0	$0	$0	$0
Owner Attorney Fees (initial closing)	$0	$0	$0	$0	$0	$0	$0	$0
Owner Attorney Fees (final closing)	$0	$0	$0	$0	$0	$0	$0	$0
Syndication Costs	$0	$0	$0	$0	$0	$0	$0	$0
Other Owner Organizational Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Market Study	$0	$0	$0	$0	$0	$0	$0	$0
Survey	$0	$0	$0	$0	$0	$0	$0	$0
Appraisal Fees	$0	$0	$0	$0	$0	$0	$0	$0
Environmental Studies	$0	$0	$0	$0	$0	$0	$0	$0
Capital Needs Assessment	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Tap Fees and Impact Fees	$0	$0	$0	$0	$0	$0	$0	$0
Building Permits and Fees	$0	$0	$0	$0	$0	$0	$0	$0
Tax Credit Fees	$0	$0	$0	$0	$0	$0	$0	$0
Soft Cost Contingency	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Interim Financing Costs (excluding interest)								
Construction Period Insurance	$0	$0	$0	$0	$0	$0	$0	$0
Construction Period Taxes	$0	$0	$0	$0	$0	$0	$0	$0
Construction Interest is Calculated Below								
Construction Loan Origination Fee	$0	$0	$0	$0	$0	$0	$0	$0
Construction Loan Legal Fees	$0	$0	$0	$0	$0	$0	$0	$0
Other Construction Loan Fees	$0	$0	$0	$0	$0	$0	$0	$0
Bond Costs of Issuance	$0	$0	$0	$0	$0	$0	$0	$0
Title and Recording Costs (for the construction loan)	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Permanent Financing Costs								
Credit Report	$0	$0	$0	$0	$0	$0	$0	$0
Lender Origination / Financing Fee	$0	$0	$0	$0	$0	$0	$0	$0
Lender's Counsel Fee	$0	$0	$0	$0	$0	$0	$0	$0
Other Lender Fees	$0	$0	$0	$0	$0	$0	$0	$0
Title and Recording Costs (for permanent financing)	$0	$0	$0	$0	$0	$0	$0	$0
Establish Tax and Insurance Escrows	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Developer's Fee	$0	$0	$0	$0	$0	$0	$0	$0
Initial Project Reserves								
Initial Rent-Up Reserve (not HOME eligible)	$0	$0	$0	$0	$0	$0	$0	$0
Initial Operating Reserve (HOME-eligible portion)	$0	$0	$0	$0	$0	$0	$0	$0
Initial Debt Service Reserve (not HOME eligible)	$0	$0	$0	$0	$0	$0	$0	$0
Initial Replacement Reserve (not HOME eligible)	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0

Project Name - : 0 Units

Project Administration and Management Costs								
Marketing/Management	$0	$0	$0	$0	$0	$0	$0	$0
Operating Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Furniture, Fixtures & Equipment	$0	$0	$0	$0	$0	$0	$0	$0
Tenant Relocation Costs	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Other Development Costs								
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Total Development Costs (TDC)	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
TDC Excluding Construction Interest	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Sources of Funds	Total	Initial Closing / First Draw	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
First Mortgage Loan (proposed amount)	$0	$0	$0	$0	$0	$0	$0	$0
Amortizing Second Mortgage Loan	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Developer Fee	$0	$0	$0	$0	$0	$0	$0	$0
Developer Cash Investment	$0	$0	$0	$0	$0	$0	$0	$0
Tax Credit Equity (proposed amount)	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
0	$0	$0	$0	$0	$0	$0	$0	$0
Total Sources Before Construction Loan	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Construction Loan Draw Needed (Before Interest)		**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Construction Loan Beginning Balance		$0	$0	$0	$0	$0	$0	$0
Plus This Draw		$0	$0	$0	$0	$0	$0	$0
Plus Interest (Total Interest at immediate right)	$0	$0	$0	$0	$0	$0	$0	$0
Equals Ending Balance		$0	$0	$0	$0	$0	$0	$0

Construction interest estimate from Development Costs tab	$0	Construction interest estimate from detailed Sources and Uses By Month	$0

0

Key Assumptions
For Operating Pro Forma
Project Name - : 0 Units

Enter data in green cells only

HOME Affordability Period	0	years	
Go to the Requirements tab to adjust the HOME affordability period			
Switch HOME unit rents to market after:		years	

For units originally at HOME rents, the Operating Pro Forma uses HOME rents during this period, and market rents thereafter

Other Affordable Housing Affordability Period			
Other Affordable Housing Affordability Period		years	
Switch 'Other Affordable' unit rents to market after:		years	

For units originally at LIHTC / Other Affordable rents, the Operating Pro Forma uses restricted rents during this period, and marke

Inflation / Trending Assumptions	**Total**		
Rent increase / rent trending assumptions:			
HOME-assisted units		***required***	
Market Rate units		***required***	
Other affordable units		***required***	
Other income trending assumption		***required***	
Operating Expense Increase per Year		***required***	

Length of Pro Forma			
Years to Sale*		years	***required***

* Years to Sale is used by the Template to determine the final year of the Pro-Forma.

Use one of the two radio buttons below, to set the number of years in the Operating Pro Forma tab.

Debt Service Coverage Ratio	
In year 2 (first stabilized year)	100.00
In year 5	100.00
In year 10	100.00
In year 15	100.00
In year 20	100.00

Upon completing this tab, proceed to the *Operating Pro Forma* tab.

Operating Pro-Forma

"####" indicates that the columns should be widened.

Project Name - : 0 Units

The only data entry cells on this tab are for payments on any 'custom loans' (see rows 31 and 32).

PROJECT TIMELINE

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Gross Potential Rent (GPR) Projections															
HOME/CDBG/LIHTC Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Market Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Affordable Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Potential Rent	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Effective Gross Income (EGI) Projections															
Vacancy Loss	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Effective Gross Income	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Expense and Net Operating Income (NOI) Projections															
Management Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Operations and Maintenance Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Utilities Paid by Property	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxes/Insurance/Reserves/Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Expenses	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Replacement Reserve Deposit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Operating Income	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Debt Service															
First Mortgage Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Second Mortgage Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment 1 Loan Payoff	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment 2 Loan Payoff	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cash Flow (After Debt Service)															
Cash Flow	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Proceeds from Property Sale	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Return	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Developer Return on Equity (N/A; there is no developer investment)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Cash on Cash	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Project Value based on Capitalization Rate	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

NOTE: Project Value equals $0 if Net Operating Income is negative.

	IRR
IRR (Year 1 through sale of project)	no investment

Debt at Year End

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
First Mortgage Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Second Mortgage Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment Loan 1 Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment Loan 2 Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Operating Pro-Fo

PROJECT TIMELINE

	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
Gross Potential Rent (GPR) Projections															
HOME/CDBG/LIHTC Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Market Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Affordable Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Potential Rent	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Effective Gross Income (EGI) Projections															
Vacancy Loss	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Effective Gross Income	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Expense and Net Operating Income (NOI) Proje															
Management Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Operations and Maintenance Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Utilities Paid by Property	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxes/Insurance/Reserves/Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Expenses	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Replacement Reserve Deposit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Operating Income	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Debt Service															
First Mortgage Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Second Mortgage Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment 1 Loan Payoff	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment 2 Loan Payoff	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Debt Service	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cash Flow (After Debt Service)															
Cash Flow	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Proceeds from Property Sale	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Cash Return	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Developer Return on Equit

Cash on Cash	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Project Value based on Capitalization Rate	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

NOTE: Project Value equals $0 if Net Operati

Debt at Year End

First Mortgage Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Second Mortgage Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment Loan 1 Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred Payment Loan 2 Remaining	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

PROJECT SUMMARY

Project Name and Unit Count:	
Address:	
Developer:	
Date of Analysis:	
City:	
State:	
Development Type:	

DEVELOPMENT SOURCES SUMMARY

Funding Sources	Amount	Comment
First Mortgage Loan (proposed amount)	$0	
Amortizing Second Mortgage Loan	$0	
	$0	
	$0	
	$0	
	$0	
Deferred Developer Fee	$0	
Developer Cash Investment	$0	
Tax Credit Equity (proposed amount)	$0	
	$0	
	$0	
	$0	
	$0	
	$0	
	$0	
Total Sources of Funds	**$0**	

DEVELOPMENT USES SUMMARY

Development Uses	Amount	Comment
Acquisition Costs	$0	
Site Work Costs	$0	
Construction / Rehabilitation Costs	$0	
Architectural / Engineering Costs	$0	
Other Owner Costs	$0	
Construction Interest	$0	
Other Interim Financing Costs	$0	
Permanent Financing Costs	$0	
Developer's Fee	$0	
Initial Project Reserves	$0	
Project Management Costs	$0	
Other Development Costs	$0	
Total Uses of Funds	**$0**	

UNIT SUMMARY

Unit Types	Number of Units	Total Rents (Year 1, without vacancy)
High HOME Units	0	$0
Low HOME Units	0	
Market Rate Units	0	$0
Other Affordable Units	0	$0
Total	**0**	**$0**

OPERATIONS SUMMARY

Project Income	Year 1	Year 2	Year 5	Year 10	Year 15	Year 30
HOME/CDBG/LIHTC Rents	$0	$0	$0	$0	$0	$0
Market Rents	$0	$0	$0	$0	$0	$0
Other Affordable Rents	$0	$0	$0	$0	$0	$0
Gross Potential Rent	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Vacancy Loss	$0	$0	$0	$0	$0	$0
Other Revenue	$0	$0	$0	$0	$0	$0
Effective Gross Income	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Total Expenses	$0	$0	$0	$0	$0	$0
Net Operating Income	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Total Debt Service	$0	$0	$0	$0	$0	$0
Cash Flow (After Debt Service)	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

RETURNS SUMMARY

Developer Returns on Equity	Year 1	Year 2	Year 5	Year 10	Year 15	Year 30
Cash on Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

IRR (Year 1 through sale of project)	no investment

ATTACHMENT E:

CPD Notice 15-11
Requirements for the Development and Implementation of HOME Underwriting and Subsidy Layering Guidelines

U.S. Department of Housing and Urban Development
Community Planning and Development

Special Attention of:
CPD Division Directors
All HOME Coordinators
All HOME Participating Jurisdictions

Notice: CPD-15-11

Issued: December 22, 2015
Expires: **This NOTICE is effective until it is amended, superseded, or rescinded**

Cross Reference: 24 CFR Part 92

Subject: Requirements for the Development and Implementation of HOME Underwriting and Subsidy Layering Guidelines

Table of Contents

I. PURPOSE

The purpose of this Notice is to provide guidance to HOME participating jurisdictions (PJs) in the development and implementation of written subsidy layering and underwriting guidelines in accordance with the HOME regulations at 24 CFR Part 92. A PJ is required to develop and use such guidelines to evaluate and ensure that the level of HOME investment does not exceed the amount that is necessary to provide quality affordable housing that is financially viable.

II. APPLICABILITY

The underwriting and subsidy layering requirements at §92.250 are applicable to projects for which HOME funds are committed on or after August 23, 2013.

This Notice is applicable to all rental projects developed in whole or in part with HOME assistance. For projects which are only partially funded by HOME, the PJ must assess the financial viability of the entire project, not just the HOME-assisted units.

This Notice is also applicable to HOME-assisted projects which seek to develop and sell units to homebuyers, whether scattered site or within a designated subdivision or target area. The regulations at §92.2 define a HOME "project" as a site or sites together with any building under common ownership, management, and financing and assisted as a single undertaking. The project includes all the activities associated with the site and building.

While the underwriting requirements of Part 92 generally apply to all HOME-assisted projects, there are some activities for which not all elements of the underwriting analysis are required:

- For **direct homebuyer assistance** which is not part of a HOME-funded development activity and for **homeowner rehabilitation assistance** activities when the HOME loans are amortizing, the general project underwriting and subsidy layering requirements of §92.250 will apply. Section §92.254(f) requires a PJ to develop underwriting standards as part of the program policies for direct homebuyer assistance. Under §92.3, the requirements at §92.254(f) are applicable to projects for which HOME funds are committed on or after January 24, 2014.

- For HOME-funded direct homebuyer assistance that is not part of a HOME-funded development activity, the underwriting guidelines at §92.254(f)(1) apply, but:

    - A market analysis is not required; and

    - An evaluation of developer capacity is not required.

- For homeowner rehabilitation activities:

    - Underwriting the homeowner's ability to make mortgage payments is required only if the HOME-funded rehabilitation loan is an amortizing loan;

- A market analysis is not required; and
- Evaluation of developer capacity is not required as a developer is not involved.

III. BACKGROUND

For purposes of the HOME program, underwriting involves the analysis of project assumptions and risks to determine if the public investment is reasonable and the project can be expected to meet all applicable program requirements during the period of affordability. Subsidy layering is a component of project underwriting, which involves assessing whether the proposed level of HOME assistance is appropriate given the level of project investment by other financing sources. This notice covers both the HOME underwriting requirements and the subsidy layering analysis, which forms the basis for the detailed evaluation of the prudent investment of HOME funds.

A. STATUTORY AND REGULATORY REQUIREMENTS

Section 212(f) of the Cranston-Gonzalez National Affordable Housing Act of 1990 (NAHA), as amended, requires a PJ to certify that it will not invest any more HOME funds in combination with other governmental assistance than is necessary to provide quality affordable housing that is financially viable for the period of affordability required in §92.252 or §92.254. The 2013 HOME Final Rule ("HOME Rule") establishes the requirements for underwriting guidelines to govern the PJ's decision regarding investment of HOME funds in all projects:

- **§92.250(b)** requires the PJ to adopt and evaluate projects according to written underwriting and subsidy layering guidelines for all HOME activities to determine the appropriate HOME investment. These guidelines must require the examination of project sources and uses, cost and profit reasonableness, market demand, developer experience and capacity, and financial commitments.

- In addition, **§92.254(f)** requires the PJ to adopt and follow written underwriting standards for assistance to homebuyers, including analysis of housing and family debt, monthly family expenses, assets available to acquire the housing, resources needed to sustain homeownership, including the terms of planned mortgages.

B. RELATED HOME REQUIREMENTS

In addition to the requirements stated at §92.250 and §92.254, there are several other types of requirements which affect the underwriting of HOME-assisted projects that must be taken into account when determining and documenting the appropriate level of HOME assistance.

1) **Maximum per unit subsidy limits (§92.250)**: The amount of HOME funds that a PJ may invest on a per-unit basis in affordable housing may never exceed the per unit dollar limits for elevator-type projects that apply to the area in which the housing is located. For information on maximum per unit subsidy limits, see CPD

Notice 15-003 or successor notices. These limits will vary by the number of bedrooms in a unit; a published listing is available from the HUD Field Office. The maximum subsidy limits apply to all HOME-assisted units. Under no circumstances may the level of per unit HOME investment exceed the maximum subsidy limits; therefore, underwriting cannot be completed without knowledge of these limits. Also, §92.205(c) imposes a minimum subsidy of $1,000 per unit.

2) **Cost allocation (§92.205(d)):** The HOME Program permits the funding of one or more units in a project, including mixed-income and mixed use properties. However, HOME funds may only be used to pay eligible costs for HOME-assisted units. When a PJ designates fewer than 100% of a project's units as HOME-assisted, the PJ must calculate the eligible costs that are allocable to the assisted units and may only pay the actual costs related to those HOME-assisted units, capped by the maximum subsidy limits described above. Thus, cost allocation requirements affect project underwriting by dictating either the maximum amount of HOME investment a PJ may provide, or the minimum required number of units that must be designated as HOME-assisted.

3) **Written agreements (§92.504)**: A PJ must execute a written agreement before disbursing HOME funds to any entity, including developers and owners of rental and homebuyer housing. The written agreement must capture the project and financing terms that result from the underwriting process.

4) **Commitment (§92.2)**: HOME funds are not committed to an identifiable project until the parties execute a legally binding written agreement. A PJ cannot commit funds to a project until all necessary financing is secured, the underwriting and subsidy layering described in this notice has been completed, and construction can be expected to begin within 12 months. The commitment date is especially important because all HOME funds must be committed within 24 months of the grant award (§92. 92.500(d)(1)(B)). Thus, the PJ must have an efficient process for soliciting and reviewing proposed projects. For information on maximum per unit subsidy limits, see CPD Notice 15-09 or successor notices.

5) **HOME deadlines**: The HOME program imposes several additional regulatory deadlines that may affect the underwriting process:

   - **Acquisition/demolition (§92.2:** When reviewing the development and marketing plan submitted by the applicant, the PJ must ensure that any acquisition of standard housing will occur within six months of the contract or purchase agreement date, and construction, or demolition of the property is scheduled or reasonably can be expected to start within 12 months of the agreement date.

   - **Project completion (§92.205(e)(2), §92.2):** The PJ must complete the projects within four years of the date funds are committed to the project. Therefore, the underwriting analysis and project plan must ensure that funds are available and construction is scheduled within this timeframe.

- **Lease-up (§92.252):** If a HOME-assisted unit is not occupied by an eligible tenant within six months following project completion, the PJ must report status and marketing efforts to HUD. If the unit remains unoccupied at 18 months after the project completion date, HUD will require the PJ to repay the HOME funds. Thus, the PJ must carefully assess the market study and the project plan to ensure that there is documentation of sufficient demand for the proposed units.

- **Homebuyer unit sale (§92.254(a)(3)):** For homebuyer development projects subject to the HOME Rule, if there is no ratified sales contract within nine months of the construction or rehabilitation completion, the ownership unit must be converted to HOME-assisted rental housing pursuant to §92.252. For homebuyer development projects subject to the 2012 or 2013 Appropriations requirements (P.L. 112-55) and (P.L. 113-6), there must be a ratified sales contract within six months of the construction or rehabilitation completion. As a component of the underwriting process, the PJ must carefully review the project development, market study and sales plan submitted by the developer to ensure that there is sufficient demand for the homeowner units to meet these timelines.

6) **Property standards (§92.251):** All properties assisted with HOME funds are subject to minimum property standards at project completion. In addition, rental projects are subject to property standards throughout the affordability period. When reviewing a budget as part of the project underwriting, the PJ must ensure that all costs are eligible and the resulting housing units will meet the established property standards. In addition, for projects that provide 26 or more units the PJ must complete a capital needs assessment (§92.251(b)(1)(ix)).

7) **Rents/utility allowance (§92.252(a))**: HUD publishes the maximum rent that may be charged in HOME-assisted units, depending on the number of bedrooms and project location. HOME rent limits include either actual utilities or a utility allowance. The underwriting process must cap HOME-assisted units at these rent limits and demonstrate that the project will be financially viable on this basis.

8) **Affordability period (§92.252(e), §92.254(a)(4)):** All HOME-assisted rental and homebuyer projects are subject to an affordability period, depending on the type and amount of investment. As a part of the underwriting process for rental projects, a PJ must ensure that projects will remain financially viable and the assisted units will meet the property standards and affordability requirements for not less than the applicable affordability period, beginning at project completion.

IV. UNDERWRITING POLICIES AND PROCEDURES

Under the provisions of §92.250(b) of the HOME Rule, a PJ may not invest any more HOME funds, alone or in combination with other governmental assistance, than is necessary to provide quality affordable housing that is financially viable through the affordability period (see §§92.252 or 92.254). In addition, the PJ must ensure that the return to the owner or developer is reasonable and does not exceed the PJ's established standards based on the size, type and complexity of the project.

To implement this requirement, the HOME Rule requires that develop and use written guidelines to underwrite each project. As previously mentioned, the PJ's underwriting and subsidy layering policies and procedures must, at a minimum, include:

- An examination of the sources and uses of funds for the proposed project and a determination that all project costs are reasonable;
- An assessment of the current market demand in the area where the project will be located;
- An assessment of the experience and the financial capacity of the developer or rental project owner; and,
- An assessment of the firm written financial commitments for the project.

The PJ is required to evaluate a project using its underwriting and subsidy layering guidelines before committing HOME funds and is responsible ensuring that underwriting is revised in response to any changes that may occur in the project budget. The PJ must be able to demonstrate it has independently evaluated the project budget, financing and development schedule. To confirm that this has occurred, the PJ is required to certify in HUD's Integrated Disbursement and Information System (IDIS) that it has followed its underwriting and subsidy layering standards before making a commitment of HOME funds. It is important that a PJ re-check and update the project underwriting at:

- Initial Closing or construction start, since construction costs at the time of project application typically are estimates instead of firm bids and contracts; Before HOME funds, in addition to the original commitment, are awarded to the project during development (e.g. in response to a change order or other changes in project costs).
- Construction completion or final draw, when final sources and uses can be verified;

While a PJ is ultimately responsible for the project underwriting, it may permit a subrecipient, State recipient or contractor working for the PJ to perform underwriting functions or services. However, the PJ must retain full review authority and must certify in IDIS to the use of its underwriting standards. The use of subrecipients, State recipients, or contractors does not relieve the PJ of its responsibility to provide for proper levels and types of investment with HOME funds.

The PJ may also choose to review the underwriting of other lenders. However, the PJ must still make and document its own determination that the project meets HOME requirements, is compliant with the PJ's written underwriting and subsidy layering standards, is a reasonable investment, and is likely to remain financially viable throughout the HOME affordability period.

Although a project that combines HOME and LIHTC funding may have been underwritten by the state credit allocating agency, the PJ must still review and document compliance with its own underwriting and subsidy layering guidelines. The PJ may choose to review the state tax credit allocating agency's evaluation (of whether there are excess tax credits) to help ensure that HUD subsidies are not greater than necessary to provide affordable housing when combining HOME assistance with Tax Credits.

V. MARKET ASSESSMENT

Before committing funds to a project, the HOME Rule at §92.250(b)(2) requires a PJ to assess "the current market demand in the neighborhood in which the project will be located." To meet this requirement, a PJ must develop and follow procedures to review a project proposal against *current* market data to address two key issues: pricing and absorption.

A PJ must have written underwriting guidelines for assessing and documenting the demand for the type and number of <u>all</u> housing units being developed, not just those designated as HOME-assisted. The PJ must determine whether the project can be expected to be rented or sold to within the regulatory time frames and at the cost or price estimated by the developer. Timely occupancy of HOME units by eligible tenants is critical to comply with statutory requirements as well as the sale and rental occupancy deadlines established in the regulations.

It is important to note that the market assessment required under the HOME Rule at §92.250(b)(2) differs from the needs analysis conducted for the purposes of the Consolidated Plan required by HUD at 24 CFR Part 91. The Consolidated Plan describes the general characteristics of the PJ's housing market. The HOME market assessment seeks to quantify and document demand for a specific project – that is, what is a prospective renter or buyer - willing to pay to rent or buy the unit, in this location, with these amenities, and the size of the pool of potential tenants or buyers?

The cost of a market assessment may be charged as an administrative or project delivery cost. The market assessment can take different forms, including independent market studies, waiting lists and other market information assembled by the applicant, or market data compiled by the PJ. A PJ is not required to pay for an external, independent market study or to perform a full, formal market study. The scope of the assessment should be relative to the project scope.

The PJ's underwriting guidelines must establish standards for demonstrating the evidence of *current* market demand that applicants must provide and the documentation to be used when the PJ completes an in-house analysis. HUD recognizes that data availability varies by geographical area. Consequently, a PJ must establish in its policies the data sources and age of the data that will be acceptable for its assessment. In all cases, however, the market analysis for a project should:

- Evaluate general demographic, economic, and housing conditions in the community.

- Delineate the market area by identifying the geographic area from which the majority of a project's tenants or buyers are likely to come. This may or may not coincide with census tract or neighborhood boundaries.

- Quantify the pool of eligible tenants or buyers in terms of household size, age, income, tenure (homeowner or renter), and other relevant factors. Not all residents of the market area are potential or likely tenants or buyers of any given project.

- Analyze the competition by evaluating other housing opportunities with an emphasis on other affordable rental developments or sales opportunities in the market area, including those financed through either the HOME program or other federal programs.

- Assess the market for the planned units and determine if there is sufficient demand to sell the HOME-assisted housing within nine months of construction completion (§92.254(a)(3)) or to rent the HOME-assisted housing within 18 months of project completion (§92.252).

- Evaluate the effective demand and the capture rate, usually expressed as a percentage (the project's units divided by the applicant pool). The capture rate is the percentage of likely eligible and interested households living nearby who will need to rent units in the proposed project in order to fully occupy it. The lower this rate, the more likely a project is to succeed.

- Estimate the absorption period. Plan how many units can be successfully leased or sold each month and how long it will take to achieve initial occupancy/sale of the HOME units and stabilized occupancy for the project as a whole.

In some cases, other funders may require independent market studies. A PJ may accept the independent market study prepared for another funder if the study meets the requirements outlined in the PJ's underwriting standards. However, the PJ must review any market studies or assessments and make its own conclusions about the likelihood of project success. The PJ may not simply accept the conclusion of another source as its sole evidence of market demand.

Independent or third party market studies are not required by the HOME regulations, and, in a few circumstances, may not be practical or cost-effective:

- Market studies may not be cost effective for smaller developments. For example, for existing projects where tenants are already HOME-eligible and rents are already within program limits, simplified or in-house market assessments may be more appropriate.

- Assessments for projects serving special needs can often be completed using primary data from service providers whose existing client base will form the primary pool of potential tenants.

VI. DEVELOPER CAPACITY ASSESSMENT

The HOME Rule specifies two elements of underwriting analysis related to the developer – (1) the experience and the capacity of the developer (including the entity staff and project team) to implement the project and (2) the fiscal soundness of the developer to meet its financial obligations and risks of the project. The PJ must establish policies and procedures by which they will determine what constitutes acceptable experience and financial capacity based on the size, scope, and complexity of the project, and the process by which they will make and document this determination. It is important to note that these capacity requirements apply to all developers of rental and homebuyer housing seeking HOME assistance, including CHDOs and other nonprofit developers.

A. EXPERIENCE

A PJ must assess the experience of the developer by determining whether the developer has the technical and managerial experience, knowledge, and skills to successfully complete the development. When assessing the developer's experience, the PJ should consider both prior experience and the current capacity of the organization. In considering this, the PJ must take into account:

- The corporate or organizational experience of the development entity;
- The experience of the staff assigned to the project and overall quality of the development team; and
- The prior experience of the individuals compared to their roles in the proposed project.

For rental projects, a developer/owner needs specific skills and capacity including property management, asset management, service provision (as applicable), and special financing skills.

For homebuyer projects, the development team must demonstrate its capacity to market and sell the units. This may involve the addition of a realty professional to the team, or evidence that in-house staff have the capability to oversee the advertising, unit showing, intake, and processing of potential buyers. For CHDO projects, the PJ must certify that the CHDO has paid staff with experience relevant to the proposed project and role of the CHDO.

B. FINANCIAL CAPACITY

A PJ must also examine whether the developer has the financial capacity necessary to complete the proposed project. The PJ needs to determine whether the developer has:

- Adequate financial management systems and practices; and
- Sufficient financial resources to carry the project to completion or through initial lease-up, as the case may be.

When determining whether the developer has the financial capacity to undertake the project, the PJ should examine financial statements and audits to determine the developer's net worth, portfolio risk, pre-development funding, and liquidity. Developers with limited financial resources should only be considered for projects where cash needs will not exceed the developer's net or liquid assets.

Some HOME developers may be subject to specific financial requirements. For instance, CHDOs and nonprofit subrecipients must have financial accountability standards consistent with 2 CFR 200.302 ("Financial Management") and 2 CFR 200.303 ("Internal Controls"). Other public entities seeking HOME funds as owners or developers of affordable housing may also be subject to the provisions of 2 CFR part 200 ("Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards") or other state and local requirements.

VII. PROJECT REVIEW

Before committing HOME funds, a PJ must evaluate a proposed project to ensure that funds are invested such that the project is likely to succeed over time. To verify this, a PJ must assess all of the assistance that has been, or is expected to be, made available to that project. The PJ should take into account all the factors relevant to project feasibility, which may include, but are not limited to: total development costs and available funds; impacts of HOME restrictions such as eligible costs, maximum subsidy limits, cost allocation, and rent/utility allowance limitations; rates of return to owners, developers, sponsors, or investors; resale or recapture limitations for homebuyer projects; and the long-term needs of rental projects and tenants. There are two types of documents which a PJ must review in order to assess and underwrite a project:

- A sources and uses statement; and
- An operating pro-forma. For homebuyer development projects, the pro-forma will take the form of a sales and revenue plan.

A. SOURCES AND USES STATEMENT

The HOME Rule requires a PJ to examine the development budget, commonly referred to as the "Sources and Uses" statement. A PJ's underwriting guidelines must require completion of a Sources and Uses statement, typically submitted by a developer as part of its application to the PJ. The PJ must also identify the types of documentation necessary to verify the sources and uses indicated. The Sources and Uses of Funds statement must list:

- All Sources (both private and public) of funds with dollar amount(s) and timing of availability for each source, and
- All Uses of funds (for example acquisition costs, site preparation and infrastructure costs, rehabilitation/or construction costs, financing costs, professional fees, developer fees and other soft costs) associated with the project.

1) Sources

Both the definition of commitment in §92.2 and the project evaluation requirements in §92.250 require that a PJ determine that financing sources are in place before it can commit HOME funds to a project. Consequently, the PJ should request the following for all project sources:

- Firm commitment letters with all terms and conditions for all mortgages, grants, bridge (interim) loans and investment tax credits (historical, low-income, if applicable);

- If the applicant is a partnership or limited liability corporation, a copy of the partnership agreement or operating agreement, which will indicate the cash contributions by the partner(s) or member(s); and

- If equity is committed by the developer or owner(s), evidence of available equity funds.

As part of the project sources review, the subsidy layering analysis requires a PJ to determine that the total amount of HOME assistance is reasonable and necessary. The questions that the PJ should assess when evaluating sources include:

- *Are total funding sources adequate and timely in their availability to cover development costs at all phases of the development – acquisition, construction/rehabilitation, and permanent loan?* Before committing HOME funds, a PJ must determine that all necessary financing is available to cover reasonable costs of development. PJs must review any conditions the developer must meet in order to draw funds and the schedule upon which funds will be available. The availability of sources should match the project's timeline and allow the PJ to anticipate when and for which items it will disburse HOME funds. The PJ should also review the commitment and availability of permanent funding sources, the repayment terms of which need to be incorporated in the long term operating projections.

- *Are the other funding sources compatible with HOME, or do they contain different requirements that affect the structure of the project, including unit mix, and are these differences accommodated in the project plan?* In its review of written commitments for other funding sources, the PJ must determine whether there are provisions that: (1) conflict with HOME requirements; or (2) are not reflected in the project plan. The availability of sources should match the project's timeline and allow the PJ to anticipate when and for which items it will disburse HOME funds.

- *Are the funding sources firmly committed?* The PJ must have assessed all firm written financial commitments to ensure that they are in fact firm commitments that are consistent with the PJ's underwriting of the project. Firm commitments must be non-speculative sources identified and secured in the amount necessary to complete the project. It is not necessary that financing sources have "closed" or been disbursed. Documentation of firm financing can include award letters, offer letters, final term sheets, or other commitments which are conditioned upon the receipt of HOME funds. But, these may not include automatic self-expiring clauses or highly conditioned language and must have all substantial terms tired to a specific project.

In the case of projects with LIHTC, the project must have received a reservation from the Housing Credit Allocator (e.g., State Housing Finance Agency) and be able to provide a good faith offer of equity investment from an investor prior to the issuance of a HOME commitment.

2) Uses

Uses are the project costs that are budgeted to be paid during the development phase. A PJ must review all costs of the project because the determination of the amount of HOME assistance needed is based on the gap between uses and other sources. Even costs not being paid with HOME funds must be necessary and reasonable, as the inclusion of excessive costs inflates the apparent need for public subsidy in a project.

In its review of the Sources and Uses statement, a PJ should assess the detailed breakdown of costs, including all hard and soft costs of the project, and review documentation or explanations of the basis of the calculation. PJs should require applicants to provide project budgets in sufficient itemized detail to evaluate not only the sufficiency of the budget but also to evaluate whether project costs are reasonable both on a line item basis and in the aggregate. If the documentation is not adequate and does not support the costs as stated, the PJ should request additional documentation, a second opinion and/or reference from the appropriate source (i.e., another construction cost estimator, another architect or lawyer), or deny the project HOME funding. Note that for projects with tax credits to be sold, the proceeds from the sale of these credits must be identified as a source of funding.

The PJ will need to request and review documentation for all line item costs in the budget, including:

- Acquisition documentation, such as purchase agreement, option or closing statement and appraisal or other documentation of value;
- Construction cost estimate, construction contract or preliminary bid(s);
- Contracts, quotes or other agreements substantiating key professional costs and the basis for estimating other soft costs and working capital items, including capitalized reserves;
- Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
- A third-party appraisal (to substantiate the value of the land and the value of the property after rehabilitation or the structure being built);

- If LIHTC are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization/individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project.

- Note that for homebuyer projects, some of the costs – such as realty fees, closing costs and some of the developer fees – will not be incurred until the closing and might be paid out of closing proceeds. Also, since the development phase loans such as construction loans are repaid at time of sale from sales proceeds, the estimation of the period to sell and close on the units is an essential part of the analysis. Again, this is affected by the ready presence of buyers under agreement or in the counseling/screening pipeline. A PJ should make certain that the developer has projected interim financing interest and carrying costs to reflect the expected project absorption.

The PJ's review of project uses needs to address the following questions:

- *Are all of the proposed costs of development "necessary and reasonable" in compliance with OMB cost principles contained in 2 CFR part 200?* Costs are considered "necessary" if they are required to implement the project in full compliance with all program standards. According to 2 CFR part 200, a cost is reasonable if it "does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost." The determination of reasonable cost should include the following factors:

    - Costs of comparable projects in the same geographical area

    - The qualifications of the costs estimators for the various budget line items

    - Comparable costs published by recognized industry cost index services.

- *Are the proposed costs sufficient to achieve all program requirements, including property standards, to provide quality housing for at least the affordability period*? PJs must ensure that the project budget is adequate to meet and maintain the property standards of §92.251 and all other HOME and cross-cutting federal requirements that apply to its development. The completion of a capital needs assessment or estimate of the property's useful life is essential to this analysis in rehabilitation projects.

- *Are the costs proposed to be paid with HOME funds eligible under the HOME rule?* Refer to the HOME rule at §92.206 for additional guidance on eligible costs.

B. OPERATING PRO FORMA

The PJ must require the rental project applicant to furnish an operating pro forma (project income and expense statement) projected for the HOME period of affordability at a minimum. The PJ's underwriting and subsidy layering guidelines will need to establish minimum criteria for the content and/or format of the pro-forma.

A PJ must evaluate the reasonableness of the financial assumptions of the project to establish minimum total per unit operating costs. To do so, the PJ should evaluate the sufficiency of both specific line item and total operating costs. A PJ should also ensure that long-term operating projections over the period of affordability are based on reasonable assumptions and demonstrate that project can cover expenses and debt service throughout the affordability period.

It is imperative that the PJ scrutinize the pro forma consistent with its written guidelines and to ensure the cash flow projections are realistic in light of economic conditions. The cash flow projections should be neither unduly conservative nor overly optimistic. It is the PJ's role to balance the need for public subsidy to make the project viable while safeguarding the investment of HOME funds in the project by ensuring that projected income and expenses are reasonable, and provide resources that are sufficient for the property's upkeep and planned capital repairs during the affordability period.

Long-term operating projections should be based on reasonable assumptions about how revenues and operating costs are expected to change over time, and demonstrate the project is expected to operate within normal operating parameters throughout the affordability period. A PJ should assume that operating costs increase at a faster rate than revenues.

1) Projected Income

Operating revenues must be based on achievable rent levels, reasonable vacancy and collection loss, and conservative estimates of non-residential sources of incomes.

- In most projects, non-residential revenue from fees/late charges, commercial income, interest, laundry/vending, or other similar sources likely will be modest, therefore should be projected conservatively.
- Even in strong rental markets, HUD recommends setting initial rents somewhat below program limits or projected market rents because HOME rents may not increase as rapidly as market rents.
- Vacancy projections should reflect local market conditions and account for both physical vacancy and collections loss.
- The rate of projected growth for rental income and other revenues should be appropriate to the local market and regulatory limits.

- In projects with deeply targeted rents, lower than average rates of revenue increase should be used, as utility allowances will surpass rent increases.Net Operating Income (gross revenue minus operating expenses) should be sufficient to cover debt service obligations and mandatory replacement reserve funding and generate reasonable but not excessive Cash Flow throughout the period of affordability. If deficits are projected, the HOME subsidy may be increased to reduce amortizing debt and the deficit reserves might be funded from other sources.

2) Projected Expenses

All operating costs must be in sufficient detail to compare line items against properties that are similar in physical type and size, so that the PJ may determine whether the planned expenditures are sufficient and reasonable. The operating budget should include general management expenses, maintenance and operating costs, any project paid utilities, taxes, insurance premiums, and adequate deposits to replacement reserves. In most cases, evaluation of total operating costs should be summarized in "per unit per year" amounts rather than as a percentage of projected revenue.

- Most operating costs (e.g. water/sewer rates or lawn mowing) do not vary based on how much tenants are paying in rent. Whenever possible, the PJ should compare against other projects in the property manager's portfolio or the neighborhood.

- Management and other fees to the owner should be reasonable in the local market.

- The identity of interest (also referred to as related party) relationships with contracted property management, repair/rehabilitation contractors, or other project vendors must be disclosed.

- Minimum replacement reserve deposits should be specified based on the characteristics of each project. Reserve needs may vary based on the type of physical product, the target population, and whether the building is newly constructed or rehabilitated.

- Any debt service or other funding/reserve requirements related to 'secondary' financing in mixed financed deals, if applicable.

- Cash flow should be evaluated both as a "debt coverage ratio" and as a percentage of operating costs and debt service.

C. SALES PLAN – HOMEBUYER PROJECTS

In lieu of an operating pro-forma, a PJ must request a sales plan from homebuyer developers (which may also be evaluated as a component of the market assessment). This sales plan should indicate the developer's anticipated cash flow and timing of when and how units will be sold. A PJ should evaluate the sales plan for:

- *Timelines***:** Analyze the speed that the developer anticipates selling homes. Is this realistic given the market?
  - Overall supply in the market and how many months of supply that represents (a 4 – 6 month supply is often considered a stable market.) A PJ should also examine listing times, and the foreclosure and shadow (delinquent but not foreclosed) inventories.
  - Other affordable homeownership options already available, including projects in the pipeline.
  - The price, location, amenities and financing of units that are most directly comparable with the housing proposed. Pricing needs to be competitive and locational factors can offset the program advantages.
- *Cash flow:* A PJ should analyze the developer's intended plans for use of the sales revenues.
  - Is the developer counting on obtaining previous sales revenues before they begin construction on the next for-sale unit? If yes, does this cause concerns for the HOME timeliness requirements for the entirety of the project? How is the project affected if the first units are slow to sell or sell at a lower price than anticipated?
  - As discussed further below, is the anticipated return to the developer from the sales revenue reasonable or should the PJ require some of these proceeds be returned to the PJ as program income?

D. PROFIT AND RETURNS TO DEVELOPER

The HOME regulations at (§92.250(b) require that any profit or return on the owner's or developer's investment will not exceed the PJ's established standards. This analysis includes profit that is projected to flow to the developer as operating cash flow from rental projects, sales proceeds from homebuyer units (if not considered as program income by the PJ) and any other professional fees being paid to the developer or related entities. The PJ's underwriting guidelines must include a standard for determining a limit for overall returns and cash flow distributions to ensure that owners do not receive excessive gains/profits from the project as a result of HOME and other public subsidies.

Developers and owners may financially benefit from HOME-assisted projects in several ways:

- **Developer Fees**: These are fees charged by the developer as a part of the project cost to compensate for the risk, time and effort to build and sell or lease the property. Developer fees are allowed under the HOME program, but the PJ must review these fees and determine that they are reasonable. A PJ may set limits on the developer fee that differ from other funding sources (e.g. LIHTC underwriting standards). A PJ should establish developer fee schedules or ranges that reflect the local market and consider the following:

  - The scope and complexity of the project being developed;
  - The size of the project;
  - The relative risk the developer is taking;
  - The costs a developer will incur from the fee as compared to those being charged as project costs;
  - The fees that are regularly and customarily allowed in similar programs and projects; and,
  - Other fees the project is generating for the developer and its related entities.

- **Sales revenues**: Developers of for-sale properties may keep some or all of the sales proceeds, as deemed reasonable by the PJ.

- **Cash-Flow**: Assuming that the rental property is properly structured and financed, successfully attracts residents, and is effectively managed; the project likely will have net cash-flow after the payment of debt service. Cash-flow is distributed to the owner and/or investors as a return on their original investment.

- **Tax Benefits**: Rental owners and/or investors can also benefit from tax savings—a reduction in the income taxes they owe due to tax losses or tax credits.

- **Equity Appreciation**: Over time, the value of the rental project sponsor/owner's ownership share in the project will increase as debt financing is paid down (due to the portion of debt service that is applied to the loan principal), and depending on market conditions, the property appreciates in value.

- **Identity of Interest (IOI) Roles:** Some developers may also own construction companies and if this company is used for the HOME project, the construction firm may earn reasonable profit and overhead as a component of the development budget. If the rental property owner also operates a property management company contracted to service the property, the developer may earn fees from those activities. These and other IOI contracts require additional scrutiny by the PJ to make sure that they are clearly disclosed, priced at arms-length rates, and subject to cancellation if the IOI contractor does not provide acceptable service.

The PJ should also consider how the sales revenues will be distributed, especially if the HOME assistance was provided as a grant to the developer or if the unit sells for more than the development cost.

Profit from rental project operations must be analyzed and determined to be reasonable. The simplest evaluation is the cash flow return on the investment. The cash-on-cash rate of return simply measures the annual cash-flow that is distributed to an investor as a percentage of the funds invested (Annual Cash Flow/Equity Invested = X%). An evaluation of what constitutes an acceptable rate of cash-on-cash return depends upon the perceived level of risk in the project (is cash flow actually going to be there) and the level of return available in other investments (e.g., what is the going rate on lower risk investments such as Treasuries).

Another approach to assessing developer profit is to assess the Internal Rate of Return (IRR). IRR expresses all future benefits (cash, tax savings, and profit from sale of property) as an interest rate that the owner or sponsor is determined to be earning as a percentage of total cash invested in the project. The IRR technique adjusts for differences in timing and differences in amounts of future benefits and reduces the entire stream of benefits (initial investment, annual cash flow, expected future resale/refinancing proceeds) to a single interest rate.

For project where developers do not actually invest equity into a project (other than that from the syndication of tax credits),, returns may be evaluated against guidelines on reasonable per-unit per-year cash flow allowances, and can be controlled by: requiring annual installment payment on HOME loans; requiring reduced rents on affordable units to serve lower-income tenants, or other means. A PJ should establish standards related to the use and distribution of project cash flow, including payment to reserves, payment of related party fees (e.g., asset management fees, investor service fees, incentive or performance fees) to the developer or owner, and the relative priority of distribution for net cash flow.

VIII. ESTABLISHING THE LEVEL OF HOME SUBSIDY (SUBSIDY LAYERING)

The analysis to determine the amount of investment needed to make a project feasible is sometimes referred to as “gap analysis”, as it is used to determine the gap between approved costs (Uses) and available financing and other subsidies (Sources). The gap is influenced by many factors, some of which can be modified prior to commitment, including:

- Level of physical improvements;
- Rent levels and affordability;
- Income levels being served (e.g., a target population of 60 percent of median income could require less assistance than if the target population is below 30 percent of area median income); and
- Payment terms of all funding, including HOME and other public funding.

In addition to conducting the subsidy layering review described above, before committing HOME funds to a project to help fill the financing gap, the PJ should:

- **Evaluate Debt Capacity**. Make sure that the lender’s financing terms are reasonable and comparable to those available from other lenders.

- Are other lenders willing to finance at a higher loan to value ratio (LTV)?
- Are other lenders willing to finance at a lower debt coverage ratio (DCR)?
- Is the interest rate competitive with what other lenders are willing to offer?

- **Evaluate Equity Contributions**. Evaluate the full spectrum of returns that are accruing to owners and investors. If it appears that the project is returning a higher level of return than is warranted given project risk and market conditions, then the PJ can require additional equity investment (or reduce the level of HOME assistance). Also, evaluate the calculations of tax credit basis and market price to determine if the projected amount of tax credit equity is reasonable.

If the total amount of HOME assistance and other sources exceeds the amount that the PJ determines is necessary to make the project feasible and viable for at least the affordability period, the PJ may consider:

- Reducing the amount of HOME assistance;
- Increasing the number of HOME assisted units in the project or lowering the target income levels and rents to be charged; and
- Imposing loan terms that bring the rate of return into line with standards.

The PJ should deny HOME assistance if the applicant refuses to make reasonable adjustments or to limit its return/costs in compliance with underwriting guidelines or if it appears that HOME funds are not needed to close a financing gap. While a PJ will identify the amount of subsidy needed through gap and other project analysis, the PJ must also determine that the amount of HOME assistance needed will be used on program-eligible costs or activities. As noted above, HOME funds are capped by two important measures:

- Total HOME-eligible costs allocable to assisted units; and
- The maximum subsidy as permitted by regulation for the assisted units (based on unit size).

IX. UNDERWRITING TO PROMOTE SELF-SUSTAINING PROJECTS

HUD encourages the PJ to build into its underwriting and subsidy layering procedures underwriting principles that promote long-term financial viability and self-sustaining operations for assisted projects during their HOME affordability periods. Whether a project can remain viable and self-sustaining over time partly will depend on whether the project:

- Can accommodate moderate "income shocks" such as an increase in vacancy;
- Can accommodate moderate "expense shocks" such as an increase in utility rates; and

- Can self-fund its major repairs and replacements (“capital needs”) from a combination of its Reserve funds, its cash flow, and future refinancing.

To do so, the PJ, the owner or sponsor, and any other subsidy providers need to approach the underwriting process in a way that helps to assure:

- Gross potential rents that are actually achievable, taking into account location, design, and intended resident population.
- An allowance for rent loss (vacancy, bad debt, and concessions) that reflects the likely long-term average the property can be expected to achieve.
- Underwritten operating expenses that are likely to be adequate to allow a competent management agent to operate the property successfully, in a typical year.
- Trending factors for income and expenses that are reasonable and prudent.
- Sufficient debt service coverage to allow the property to survive income and expense shocks.

Reserve funding that, when combined with reasonably foreseeable future cash flow and reasonably foreseeable future refinancing potential, will be adequate to meet the property’s capital needs over the HOME affordability period.

X. DOCUMENTING COMPLIANCE

The HOME regulations require a PJ to develop and follow procedures for documenting all elements of the required underwriting and subsidy layering analysis— e.g., who submits the documentation, when it was submitted, etc. (92.508(a)(3)(iii)). Each project file must contain the required project evaluation, demonstrating that the PJ’s guidelines have been applied to the project. In order to document compliance with this requirement, the PJ must affirmatively review and approve the underwriting and subsidy layering analysis with dated signatures. The written agreement must reflect- project underwriting. If changes are made to underwriting or subsidy layering during the development period, the PJ must update its written agreement and project file documentation.

ATTACHMENT F:

Step-by-Step Standard Method Process Chart
&
Standard Method Example

<u>Step by Step Standard Method Process Chart</u>

<table>
<tr><td colspan="2">Step 1: Determine Comparability & Select Method</td><td colspan="2">Standard Method
Can always use, must use if units are not comparable</td></tr>
<tr><td colspan="2">Step 2: Proposed Investment or Units</td><td colspan="2">Underwriting provides Proposed HOME Investment (e.g., funding gap) or identifies Proposed Number of HOME Units</td></tr>
<tr><td colspan="2">Step 3. Designate HOME Units and Calculate Costs</td><td>Dollars known, solve for units</td><td>Units known, solve for dollars</td></tr>
<tr><td rowspan="4"></td><td>(1.</td><td>Calculate Base Project Cost
Start w/Total Dev. Cost
Subtract Ineligible Dev. Costs
Subtract the Cost of Upgrades in Unassisted Units
Subtract relocation costs
Result = Base Project Cost
Base Project Cost/Gross Res Sq. Ft.
Result = Base Cost per Sq. Ft.</td><td>Calculate Base Project Cost
Start w/Total Dev. Cost
Subtract Ineligible Dev. Costs
Subtract the Cost Upgrades in Unassisted Units
Subtract relocation costs
Result = Base Project Cost
Base Project Cost/Gross Res Sq. Ft.
Result = Base Cost per Sq. Ft.</td></tr>
<tr><td>(2.</td><td>Calculate Individual Unit Cost
Unit sq. ft. X Base Cost/Sq. Ft
Result = Individual Unit Cost</td><td>Calculate Individual Unit Cost
Unit sq. ft. X Base Cost/Sq. Ft
Result = Individual Unit Cost</td></tr>
<tr><td>(3.</td><td>Designate HOME Units
Specify the number of HOME-assisted units
Add the Individual Unit Costs
Result = Subtotal Cost of HOME Units
Subtotal must equal or exceed the Proposed HOME Investment – relocation costs</td><td>If units are known from the outset, the PJ can skip this step</td></tr>
<tr><td>(4.</td><td>Calculate Cost of HOME Units
Add back relocation costs to the Subtotal Cost of HOME Units
Result = Cost of HOME Units</td><td>Calculate Cost of HOME Units
Add the Individual Unit Costs
Result = Subtotal Cost of HOME Units
Add Back relocation costs
Result = Cost of HOME Units</td></tr>
<tr><td colspan="2">Step 4: Calculate Maximum Project Subsidy Based on Limits</td><td colspan="2">Calculate Maximum Project Subsidy Limit
Identify HOME-designated units by number of bedrooms
Apply applicable max. per-unit subsidy to each HOME unit
Add max per-unit subsidy for all HOME units
Result = Maximum Project Subsidy Limit</td></tr>
<tr><td colspan="2">Step 5. Determine Maximum HOME Investment</td><td colspan="2">Maximum HOME Investment is the lesser of:
Proposed HOME Investment (From Step 2, if provided)
Cost of HOME units (From Step 3)
Maximum Project Subsidy (From Step 4)</td></tr>
<tr><td colspan="2">Step 6: Finalize Underwriting</td><td colspan="2">Apply Maximum HOME Investment and Unit Designations to Underwriting Analysis, then recheck Underwriting</td></tr>
</table>

Standard Method Example

Example: Standard Method					
Step 1: Determine Comparability, Select Method					
Units are NOT comparable. Must use Standard Method.					
Gross Residential Square Footage					42,000 sq. ft.
Step 2: Proposed HOME Investment or Proposed HOME Units					
Proposed HOME Investment					Not provided
Developer has proposed designating six (6) HOME units—units 101, 103, 202, 203, 305, & 306.					
Step 3: Calculate the Cost of HOME Units					
Total Development Costs					6,800,000
Remove Ineligible Development Costs (e.g., swimming pool, car ports, & syndication fees)					(682,000)
Remove Cost of Unit Specific Upgrades in unassisted units (e.g. fireplace, Jacuzzi tub, high end finishes)					(600,000)
Remove URA Relocation Expenses (to be added back to HOME Cost)					*(150,000)*
Base Project Cost					5,368,000
Base cost per square foot, includes common costs (Base Project Cost/Gross Residential Square Footage)					127.81
Designate HOME Units & Calculate Individual Unit Cost					
Unit	Description	Unit Sq. Ft.	Base Cost/Sq. Ft.	Individual Unit Cost	
101	1B/1B base	700	127.81	89,467	
103	3B/2B base	1,200	127.81	153,372	
202	1B/1B base	800	127.81	102,248	
203	2B/1.5B base, accessible	1,000	127.81	127,810	
305	2B/2B base	1,100	127.81	140,591	
306	3B/2B base	1,260	127.81	161,041	
				Subtotal Cost of HOME Units	774,529
Add back Relocation Expenses (excluded from Base Project Cost above)					*150,000*
Cost of HOME-assisted Units					**924,529**
Step 4: Calculate Maximum Project Subsidy					
Unit Size	Maximum Per-Unit Subsidy	Number Units	Total HOME Subsidy Maximum		
1-Bedroom Limit	150,000	2	300,000		
2-Bedroom Limit	165,000	2	330,000		
3-Bedroom Limit	180,000	2	360,000		
			Subtotal		**990,000**
Step 5: Maximum HOME Investment (lesser of Proposed HOME investment (e.g., funding gap), Cost of HOME Units, or Max. Project Subsidy)					**924,529**

ATTACHMENT G:

Step-by-Step Proration Method Process Chart
&
Proration Method Examples

<u>**Step by Step Proration Method Process Chart**</u>

<table>
<tr><td colspan="2">Step 1: Determine Comparability & Select Method</td><td colspan="2">Proration Method
May only be used if units are comparable</td></tr>
<tr><td colspan="2">Step 2: Proposed Investment or Units</td><td colspan="2">Either provides Proposed HOME Investment (e.g., funding gap) or identifies Proposed number of HOME units</td></tr>
<tr><td colspan="2">Step 3: Determine Number of HOME Units and Calculate Costs</td><td>Dollars known, solve for units</td><td>Units known, solve for dollars</td></tr>
<tr><td rowspan="4"></td><td>(1.</td><td>Calculate Base Project Cost
Start w/Total Dev. Cost
Subtract Ineligible Dev. Costs
Subtract relocation costs
Result = Base Project Cost
Base Project Cost/Gross Res. Sq. Ft.
Result = Base Cost per Sq. Ft</td><td>Calculate Base Project Cost
Start w/Total Dev. Cost
Subtract Ineligible Dev. Costs
Subtract relocation costs
Result = Base Project Cost</td></tr>
<tr><td>(2.</td><td>Calculate HOME Share Ratio
HOME Share = (HOME Investment-relocation costs)/Base Project Cost
Result = HOME Share Ratio</td><td>Calculate HOME Share Ratio
HOME Share = HOME Units/Total Units
Result = HOME Share Ratio</td></tr>
<tr><td>(3.</td><td>Apply HOME Share Ratio
Apply HOME Share Ratio to each unit type and round up to whole number</td><td>Apply HOME Share Ratio
Apply HOME Share Ratio to Base Project Cost</td></tr>
<tr><td>(4.</td><td>Calculate Cost of HOME Units
For each unit type, multiply avg. sq. ft. by Base Cost per Sq. Ft. by number of HOME units
Sum HOME Cost by Unit Type
Add back relocation costs
Result = Cost of HOME Units</td><td>Calculate Cost of HOME Units
Add back relocation costs
Result = Cost of HOME Units</td></tr>
<tr><td colspan="2">Step 4: Calculate Project Subsidy Limit</td><td colspan="2">Calculate Maximum Project Subsidy Limit
Identify the number of HOME-assisted units by number of bedrooms
Apply applicable max. per-unit subsidy to each HOME unit
Add max per-unit subsidy for all HOME units
Result = Maximum Project Subsidy Limit</td></tr>
<tr><td colspan="2">Step 5. Determine Maximum HOME Investment</td><td colspan="2">Maximum HOME Investment is the lesser of:
Proposed HOME Investment (From Step 2, if provided)
Cost of HOME units (From Step 3)
Maximum Project Subsidy (From Step 4)</td></tr>
<tr><td colspan="2">Step 6: Finalize Underwriting</td><td colspan="2">Apply Maximum HOME Investment and Unit Designations to Underwriting Analysis, then recheck Underwriting</td></tr>
</table>

Proration Method Examples

Example: Proration Method (dollars known, solve for units)					
Step 1: Determine Comparability, Select Method					
Three unit types, all units within each type are comparable and no HOME units identified. May use ***Proration Method***.					
Unit Type	# of Units	Avg. Sq. Footage			
1-Bed/1-Bath	10	900			
2-Bed/1.5-Bath	20	1,100			
3-Bed/2-Bath	10	1,275			
				Gross Residential Square footage	43,750 sq. ft.
Step 2: Proposed HOME Investment or Proposed HOME Units					
Proposed HOME investment (preliminary gap identified)					800,000
Proposed number of HOME Units not identified					
Step 3: Calculate the Cost of HOME Units					
Total Development Costs					6,050,000
Remove Ineligible Development Costs (e.g., swimming pool, car ports, & syndication fees)					(682,000)
Remove URA Relocation Expenses (to be added back to HOME Cost)					-
Base Project Cost					5,368,000
Base Cost per Square Foot, includes common costs (Base Project Cost/Gross Residential Square Footage)					122.70
Apply the HOME Share Ratio and Assign HOME Units					
HOME Share Ratio (HOME Investment/Total Base Project Cost)					14.903%
Determine the number and type of HOME Units					
Unit Type	# of Units	HOME Share	Min. # of HOME Units	Number of HOME Units after Rounding Up	
1-Bed/1-Bath	10	14.903%	1.490	2	
2-Bed/1.5-Bath	20	14.903%	2.981	3	
3-Bed/2-Bath	10	14.903%	1.490	2	
Calculate HOME Costs by Unit Type					
Unit Type	Avg. Sq. Ft.	Base Cost/Sq. Ft.	# of HOME Units	HOME Cost by Unit Type	
1-Bed/1-Bath	900	122.70	2	220,860	
2-Bed/1.5-Bath	1,100	122.70	3	404,901	
3-Bed/2-Bath	1,275	122.70	2	312,885	
				Subtotal Cost of HOME Units	938,646
Add Back URA Relocation Expenses					-
Cost of HOME Units					**938,646**
Step 4: Calculate Maximum Project Subsidy					
Unit Size	Maximum Per- Unit Subsidy	# of HOME Units	Maximum HOME Subsidy by Unit Size		
1-Bedroom	150,000	2	300,000		
2-Bedroom	165,000	3	495,000		
3-Bedroom	180,000	2	360,000		
				Total	**1,155,000**
Step 5: Maximum HOME Investment (lesser of Proposed HOME investment (e.g., funding gap), Cost of HOME Units, or Max. Project Subsidy)					**800,000**

Example: Proration Method (units known, solve for dollars)					
Step 1: Determine Comparability, Select Method of Cost Allocation					
Three unit types, all units within each type are comparable and HOME share of type is equal. May use ***Proration Method***.					
Total # of Units	# of HOME Units	Unit Type Description	Avg. Sq. Ft.	HOME Share of Type	
10	2	1-Bed/1-Bath	900	20.00%	
20	4	2-Bed/1.5-Bath	1,100	20.00%	
10	2	3-Bed/2-Bath	1,275	20.00%	
Gross Residential Square footage					43,750 sq. ft.
Step 2: Proposed HOME Investment or Proposed HOME Units					
Proposed HOME Investment					Not provided
Developer has proposed seven (8) HOME units— two one-bedroom, four two-bedrooms, and two three-bedrooms					
Step 3: Calculate Cost of HOME Units					
Total Development Cost					6,050,000
Remove Ineligible Development Costs (e.g., swimming pool, car ports, & syndication fees)					(682,000)
Remove URA Relocation Expenses (to be added back to HOME Cost)					-
Base Project Cost					5,368,000
Apply the HOME Share Ratio					
HOME Share Ratio (HOME Units/Total Units)					20.00%
Subtotal Cost of HOME Unit (HOME Share Ratio x Base Project Cost)					1,073,600
Add Back URA Relocation Expenses					-
Cost of HOME Units					**1,073,600**
Step 4: Calculate Maximum Project Subsidy					
Unit Size	Maximum Per-Unit Subsidy	Number of HOME Units	Maximum HOME Subsidy by Unit Size		
1-Bedroom	150,000	2	300,000		
2-Bedroom	165,000	4	660,000		
3-Bedroom	180,000	2	360,000		
			Total		**1,320,000**
Step 5: Maximum HOME Investment (lesser of Proposed HOME investment (e.g., funding gap), Cost of HOME Units, or Max. Project Subsidy)					**1,073,600**

ATTACHMENT H:

Step-by-Step Hybrid Method Process Chart
&
Hybrid Method Example

Step by Step Hybrid Method Process Chart

Step 1: Determine Comparability & Select Method		**Hybrid Method** *Can be used if units are not comparable, but the share of HOME units within each unit type is not identical*
Step 2: Proposed Number of HOME Units		Underwriting identifies **Proposed Number of HOME Units**
Step 3: Determine Number of HOME Units and Calculate Costs		***Units known, solve for dollars***
	(1.	**Calculate Base Project Cost** • Start w/Total Dev. Cost • Subtract Ineligible Dev. Costs • *Subtract relocation costs* Result = Base Project Cost • Base Project Cost/Gross Res Sq. Ft. Result = Base Cost per Sq. Ft.
	(2.	**Calculate HOME Square Footage by Unity Type** • For each unit type, multiply Avg. Sq. Ft. by number of HOME units Results = HOME Square Footage by Unit Type
	(3.	**Calculate HOME Cost by Unit Type** • For each unit type, multiply HOME Sq. Ft. by Unit Type by Base Cost per Sq. Ft. Results = HOME Cost by Unit Type
	(4.	**Calculate Cost of HOME Units** • Sum HOME Cost by Unit Type for each unity type Result = Subtotal Cost of HOME Units • *Add back relocation costs* Result = Cost of HOME Units
Step 4: Calculate Maximum Project Subsidy Based on Limits		**Calculate Maximum Project Subsidy Limit** • Identify the number of HOME-assisted units by number of bedrooms • Apply applicable max. per-unit subsidy to each HOME unit • Add max per-unit subsidy for all HOME units Result = Maximum Project Subsidy Limit
Step 5. Determine Maximum HOME Investment		**Maximum HOME Investment is the lesser of:** • Proposed HOME Investment (From Step 2, if provided) • Cost of HOME units (From Step 3) • Maximum Project Subsidy (From Step 4)
Step 6: Finalize Underwriting		**Apply Maximum HOME Investment and Unit Designations to Underwriting Analysis, then recheck Underwriting**

Hybrid Method Example

<table>
<tr><th colspan="6">Example: Hybrid Method</th></tr>
<tr><td colspan="5">Step 1: Determine Comparability, Select Method</td><td></td></tr>
<tr><td colspan="5">Three unit types, all units within each type are comparable, but the HOME share of unit type is not equal. May use Hybrid Method.</td><td></td></tr>
<tr><td>Total # of Units</td><td># of HOME Units</td><td>Unit Type</td><td>Avg. Sq. Ft.</td><td>HOME Share of Unit Type</td><td></td></tr>
<tr><td>10</td><td>2</td><td>1-Bed/1-Bath</td><td>900</td><td>20.00%</td><td></td></tr>
<tr><td>20</td><td>3</td><td>2-Bed/1.5-Bath</td><td>1,100</td><td>15.00%</td><td></td></tr>
<tr><td>10</td><td>2</td><td>3-Bed/2-Bath</td><td>1,275</td><td>20.00%</td><td></td></tr>
<tr><td colspan="5">Gross Residential Square Footage</td><td>43,750 sq. ft.</td></tr>
<tr><td colspan="5">Step 2: Proposed HOME Investment or Proposed HOME Units</td><td></td></tr>
<tr><td colspan="5">Proposed HOME investment</td><td>Not provided</td></tr>
<tr><td colspan="5">Developer has proposed seven (7) HOME units— two one-bedroom, three two-bedrooms, and two three-bedrooms</td><td></td></tr>
<tr><td colspan="5">Step 3: Calculate the Cost of HOME Units</td><td></td></tr>
<tr><td colspan="5">Total Development Costs</td><td>6,050,000</td></tr>
<tr><td colspan="5">Remove Ineligible Development Costs (e.g., swimming pool, car ports, & syndication fees)</td><td>(682,000)</td></tr>
<tr><td colspan="5">Remove URA Relocation Expenses (to be added back to HOME Cost)</td><td>-</td></tr>
<tr><td colspan="5">Base Project Cost</td><td>5,368,000</td></tr>
<tr><td colspan="5">Base cost per Square Foot, includes common costs (Base Project Cost/Gross Residential Square Footage)</td><td>122.70</td></tr>
<tr><td colspan="5">Calculate HOME Square Footage by Unit Type</td><td></td></tr>
<tr><td>Unit Type</td><td># of HOME Units</td><td>Avg. Sq. Ft.</td><td colspan="2">HOME Sq. Ft. by Unit Type</td><td></td></tr>
<tr><td>1-Bed/1-Bath</td><td>2</td><td>900</td><td colspan="2">1,800</td><td></td></tr>
<tr><td>2-Bed/1.5-Bath</td><td>3</td><td>1,100</td><td colspan="2">3,300</td><td></td></tr>
<tr><td>3-Bed/2-Bath</td><td>2</td><td>1,275</td><td colspan="2">2,550</td><td></td></tr>
<tr><td colspan="5">Calculate HOME Cost by Unit Type</td><td></td></tr>
<tr><td>Unit Type</td><td>HOME Sq. Ft. by Unit Type</td><td>Base Cost/Sq. Ft.</td><td colspan="2">HOME Cost by Unit Type</td><td></td></tr>
<tr><td>1-Bed/1-Bath</td><td>1,800</td><td>122.70</td><td colspan="2">220,860</td><td></td></tr>
<tr><td>2-Bed/1.5-Bath</td><td>3,300</td><td>122.70</td><td colspan="2">404,910</td><td></td></tr>
<tr><td>3-Bed/2-Bath</td><td>2,550</td><td>122.70</td><td colspan="2">312,885</td><td></td></tr>
<tr><td colspan="5" align="right">Subtotal Cost of HOME Units</td><td>938,655</td></tr>
<tr><td colspan="5">Add back Relocation Expenses (excluded from Base Project Cost above)</td><td>-</td></tr>
<tr><td colspan="5">Cost of HOME Units</td><td>938.655</td></tr>
<tr><td colspan="5"></td><td></td></tr>
<tr><td colspan="5">Step 4: Calculate Maximum Project Subsidy</td><td></td></tr>
<tr><td>Unit Size</td><td>Maximum Per-Unit Subsidy</td><td>Number of HOME Units</td><td colspan="2">Maximum HOME Subsidy by Unit Size</td><td></td></tr>
<tr><td>1-Bedroom</td><td>150,000</td><td>2</td><td colspan="2">300,000</td><td></td></tr>
<tr><td>2-Bedroom</td><td>165,000</td><td>3</td><td colspan="2">495,000</td><td></td></tr>
<tr><td>3-Bedroom</td><td>180,000</td><td>2</td><td colspan="2">360,000</td><td></td></tr>
<tr><td colspan="5" align="right">Total</td><td>1,320,000</td></tr>
<tr><td colspan="5">Step 5: Maximum HOME Investment (lesser of Proposed HOME investment (e.g., funding gap), Cost of HOME Units, or Max. Project Subsidy)</td><td>938,655</td></tr>
</table>