SLIDE 1

Welcome everyone. We want to apologize for last week's fiasco. We had had done several dry runs and while we had identified possible audio issues we had not had anything like last week.

Since the problems seemed to have started early on during the presentation and resulted in the cancelation of over half the webinar this week presentation is going to be a repeat of the Rental Application training in its entirety .

The presentation is scheduled for two hours. We do not expect it to take quite that long to go through the actual presentation. We will take several breaks during the presentation.

I want to point out to all that are logged on that today's presentation is intended primarily for small organizations that either have not participated in a NOAH or CHAAP project prior, or those that have had issue with the application, understanding of terms, and who want a basic understanding of key underwriting issues. This webinar is not intended for those with a great deal of experience.

We encourage you to ask questions as they come to you by using the Q & A feature at the top of the screen. Alvin and Desiree will be reviewing these as they come in. In some cases, we may respond privately if your question is something that is specific to your situation or project but generally we will keep these question in a que to answer after coming back from one of breaks or for a final wrap up at the end of the formal presentation.

We will answer every question. If we do not answer it during the presentation it will be answered in the FAQ that we will do on the presentation after it is concluded and posted to the LHC website.

The session is being recorded and will be posted to the LHC website once it is completed. If there is again a problem with audio quality, please let us know through the Q & A.

We are once again going to ask several "poll" type of questions. These will be the same questions asked last week because we want to have information on who is on this webinar.

At the end of today's presentation, we will have one "essay type question where you can tell us what worked, what we need to improve and any other comment that you may have.

In this webinar we will go over threshold items such as eligible applicants and areas and the actual spreadsheet application. We will briefly discus why certain areas and organizations are eligible under these programs while other similar organizations and areas are not. We will then go through the application tab by tab with emphasis on items that are frequently left blank or not properly filled in. We will also very briefly touch on major components of our under writing policy, how to determine the maximum loan that your project can support, and the residual value of your project.

To begin we going to start with five (?) quick questions to you so that we will have a record of who is logged on to this session. Each question will have to be done separately since our system does not allow for multiple questions at one time. Each poll will be open for one minute.

First Question

What type of entity are you?

1. A 501 (c)(3) Non-Profit
2. A LHC designated CHDO
3. A local PJ designated CHDO
4. Both LHC and Local PJ designated CHDO
5. A Private For-Profit Developer
6. A Consultant
7. Other

Second Question

In which areas of the state do you do business?

1. Primarily in an Entitlement PJ
2. Primarily in the Non-Entitlement Rural Areas
3. Primarily in the Non-Entitlement Urban Area
4. Strictly in the Entitlement PJ areas
5. Strictly in the Non-Entitlement Rural Areas
6. Strictly in the Non-Entitlement Urban Areas
7. Both Entitlement and Non-Entitlement Urban
8. All

Third Question

How many years of affordable housing development experience does your organization have?

1. 0
2. 1 – 2
3. 3 – 5
4. 5 – 10
5. More than 10

Fourth Question

How many affordable housing projects has your organization completed? (Not just LHC)

1. 0
2. 1 – 2
3. 3 – 5
4. More than 5

Fifth Question

How many units of affordable housing has your organization developed?

1. 0
2. 1 – 10
3. 10 – 20
4. 20 – 40
5. More than 40

Both the NOAH and CHAAP programs are funded by the Federal HOME Investment Partnership Program which simply goes by the name HOME.

SLIDE 2

HOME is currently the largest federal program for the production of affordable housing. You should always keep in mind that the housing built by HOME is Affordable housing. It is not temporary shelters, it is not student housing, it is not migratory worker housing and it is not public housing. Each of those programs has another funding source. HOME is concerned with permanent affordable housing.

The promote the goals of the HOME program HUD provides formula allocations to both local and state grantees that under the program are called Participating Jurisdictions or PJs.

On a national level the funds are distributed with 40% of the funds going to the state PJs and 60% of the fund going to the local entitlement PJs. The exact distribution within in a state may vary depending on the extent that the state is primarily a rural or urban in nature.

SLIDE 3

In Louisiana there are 9 areas that are designated as a local PJ. These are: The City of Baton Rouge and the unincorporated areas of EBR Parish, City of Lafayette and the unincorporated areas of Lafayette Parish, Houma-Terrebonne, Cities of Alexandria, Lake Charles, Monroe, New Orleans, Shreveport and the Jefferson Parish Consortia which includes all of Jefferson Parish including the City of Kenner and all of St. Charles Parish.

The HOME Program created a special type of non-profit developer called a Community Housing Development Organization or CHDO.

SLIDE 4

Under HOME the PJ (state or local) must set-aside at least 15% of its annual allocation for project to be developed, owned or sponsored by CHODs.

Poll

We are now going to take a quick poll to see where you think Louisiana currently rates in the amount of funds that have been historically set-aside for CHDOs.

Question: What percentage of its annual allocation does Louisiana (through LHC) annually contract for to CHDOs for the development of affordable housing?

1. 13.69% (Texas)
2. 15.85% (Louisiana)
3. 19.87% (Iowa)
4. 27.49% (Missouri)

We will now give you 2 minutes to answer the question.

SLIDE 5

As you can see on the next slide the answer is 15.85%. This in on the low end nationally but still above the required 15% minimum. (Texas is lower that 15% but that is likely due to waivers that result from natural disasters.)

Our goal, which is shared by the Board is to increase this percentage to somewhere near the middle of the pack. That is why under the CHAAP program we have set-aside a minimum of 20% but not less than $2 million for CHDO only projects. At our current funding level of $6,897,534 the $2,000,000 minimum is actually 28.99%.

Editorial Note: In order for LHC to reach its goal and for you to take advantage of this increased funding you must apply under the CHAAP program. As of today we have only received one application under the CHAAP. The CHAAP should be the primary funding tool for the CHDOs. If it is not utilized, we may be forced to reduce the funding.

So What type of projects are eligible under the CHAAP and NOAH programs?

SLIDE 6

Under HOME four types of projects are eligible. These are:

1. Affordable Homeownership Activity such as down payment assistance and closing costs assistance to complete financing acquisition of homebuyer units by lower income households and rehabilitation of owner-occupied units;
2. New Construction rental and homebuyer;
3. Acquisition/Rehabilitation rental, homebuyer units;
4. Tenant-based Rental Assistance

Poll

Quick question to test your current knowledge:

Question:

Which of the four types of projects are eligible CHDO projects:

1. 1 only
2. 2 only
3. 3 only
4. 4 only
5. 1 and 4
6. 2 and 3
7. All

The poll will close in 1 min.

Answer : The answer is 2 and 3. The reason is that why all of the above are eligible HOME activities to be an eligible CHDO activity the CHDO must own, sponsor or develop the activity. So only projects that are eligible.

As with eligibility for CHDO projects the only type of projects eligible under the CHAAP and Noah programs are those that develop or retain existing units of housing.

So who are the Eligible Beneficiaries of the CHAAP and NOAH programs?

SLIDE 7

HOME requires that in rental projects 90% of the beneficiaries be at or below 60% AMI. This requirement is for the first year of lease-up. That is 90% of your projects tenants must be at or below the 60% AMI. After the first year this requirement goes away BUT you may not evict someone just so that you can have a higher income tenant in the units. This is called the Program Rule because it is applied to the HOME Program administered by LHC as a whole.

The Project Rule. The Project Rule, so named because it applies to each individual project requires that any rental activity that has 5 or more units must set-aside 20% of those units for households at or below 50% AMI. That means that 20% of your units must charge no more than Low HOME rent and be occupied by households with that income.

Finally, all HOME activities, and CHAAP and NOAH are HOME projects must benefit households that are at or below 80% of AMI.

Poll

Where do the majority of eligible households reside in Louisiana?

1. Within Entitlement Participating Jurisdictions
2. Outside of Participating Jurisdictions?

SLIDE 8

Answer: As can be seen from slide 8 the answer is outside of entitlement participating jurisdictions.

This bring up another issue that affects both CHAAP and NOAH programs. And that is the funding of projects within local entitlement participating jurisdictions.

Those of you that have been around awhile will know that there has been a change in policy at LHC over the awarding of funds. In the past funds were awarded regardless of whether or not a project was located inside an entitlement jurisdiction. Now, however, the policy of the LHC Board, as reflected in both the NOAH and CHAAP programs is to not fund projects that are located within the boundaries of an entitlement PJ.

So what is the origin of this new policy?

SLIDE 9

Slide 8 shows that within Louisiana 58% of the eligible potential beneficiaries reside outside of the a local PJ slide 9 shows that the majority of funding (54%) already goes to the local Pjs. The average per eligible person funding for all local PJs is $7.58 while for the non-entitlement PJs if all funds are so expended would only be $6.34. Some local PJs however have even a greater disparity.

SLIDE 10

You will note that on slide 10 most jurisdictions receive even more on a per eligible person basis. For example, note that the City of New Orleans receives $11.25 per eligible AMI person while the state receives $6.34.

The LHC Board looked at this or similar data and made the decision that since the entitlement PJs were already receiving funding and that the non-entitlement PJs did not have any other means to fund projects so, at least temporarily, LHC HOME funding will not be going to fund strictly HOME projects in an Entitlement PJ.

SLIDE 11

Slide 11 shows that prior to the implementation of the new policy LHC was providing funding to projects inside of entitlement PJ to the extent that nearly 2/3 of the rental unit produced with LHC HOME funds were located within the boundaries of the entitlement PJs.

SLIDE 12

The next two slides give a brief summary of the purpose and criteria of the CHAAP and NOAH programs.

You will note that the NOAH program has Total Funding set at $6,000,000 while CHAAP has the Total funding set at $2,000,000. Originally NOAH was capitalized at $4,000,000 but it has proved so popular that LHC has up the authorization to $6,000,000. The CHAAP, which is supposed to be the primary funding source for CHDOs has not as yet funded a single project. Currently LHC has one application on hand under the CHAAP.

As mentioned earlier NOAH is designed to be an entry point for non-profits that are interested in undertaking the development of affordable housing and in possibly becoming a CHDO. CHAAP is meant as the annual funding resource for CHDOs. This is the mechanism that LHC has to meet the 15% set-aside requirement and to in fact increase the funding made available to CHDOs.

Under NOAH the projects are limited to 4 total units while under CHAAP there is no limit.

Eligible applicants under NOAH are any 501 (C) (3) non-profit that has production of affordable housing as a part of its mission. Since the program is designed for non-profits that are possibly interested in becoming a CHDO LHC generally requires that the organization meet the requirements of a CHDO to apply but they do not have to be a CHDO at the time of application. To apply the interested organization must be the entity that contacts LHC. We understand that an inexperienced non-profit may not have the capacity to undertake a project that they are interested by themselves and may need the assistance of an experienced consultant. The consultant role is to answer questions that the non-profit may have and to provide technical assistance. But since the purpose of this program is to grow more experienced developers the non-profit must be the entity that initiates conversations, they must attend any meetings and they must be the primary contact for the project. Remember we are trying to develop the capacity of our non-profit partners.

For the CHAAP program in order to apply your organization must have received CHDO designation status prior to your applying for funding. LHC may designate a CHDO without limits, as an ownership only CHDO or as a development certified CHDO provided that the CHDO contract with an experienced developer during the first year of designation.

As mentioned earlier only the development or rehabilitation of homeownership or rental projects are eligible under either program.

SLIDE 13

Minimum Leverage. LHC requires under nearly all of its HOME assisted programs that the HOME funds leverage other funding. This is an offshoot of the HUD requirement that only enough HOME funds may be committed to a project that are necessary to make the project feasible and viable. HOME is, therefore, intended as a gap filler. It is very important that you remember that the 15% of “other” funding that is required does not have to be a loan for a bank or other financial institution. It can be in the form of the value of the land if the land is owned by the applicant prior to applying for funding. It can be the difference in the sale price of the land and the appraised value even if the land is purchased with HOME funds. It can be donated labor such as the sweat equity in a Habitat for Humanity project, It can be in donated professional services such as an attorney on your board that donates his time to review and draft you legal documents for the project or an architect waving his fee to design your project. Finally, if can come from your organization. If you are a developer and you have undertaken a rental project before then you have earned a developer fee. A portion of this fee may be used by you on future projects to meet the leverage requirement. If you are a CHDO and have undertaken a homeownership development project you have likely earned a developer fee and, provided that you have turned in a CHDO Proceeds Reuse Plan, been allowed to retain the proceeds from your project. These proceeds must be reinvested into other affordable housing projects within typically 3 years or repaid back to LHC. These proceeds can and should be used to meet at least a part of your required leverage. LHC believes that 15% is a minimum that a developer should be expected to leverage and it well below both national averages and LHC historic level for HOME assisted projects. Nationally the average leverage is $5.06 for every dollar of HOME funds while LHC has averaged $4.67 for every dollar of HOME funds provided. This would mean that if NOAH was funded at the typical leverage rate that in order to receive $400,000 in HOME you would have to have $1,868,000 in other funding. Instead LHC is only requiring that you have $60,000 in value of other sources.

The eligible areas go back to our discussion on the Board new policy. Currently primarily only non-entitlement areas may apply. Under NOAH there are two exceptions first that your application for a project was on hand prior to the adoption of the new policy and second that your project is one being undertaken as a result of a disaster, is receiving primary assistance through one of LHCs disaster assistance programs and it needs a small amount of funds to fill a gap. Even with these exceptions the project must also still meet the requirements of the NOAH program relative to project size funding, etc.

Under CHAAP assistance during this implementation year, which runs until December 31, 2018, is only for projects located in ono-entitlement PJ areas.

The application period for NOAH is open. This means projects will be considered until the funds are exhausted. CHAAP is also open but is limited to non-entitlement project from July 1 until January1 of each year and then open to all CHDOs from January 1 to June 31.

Rental Development

SLIDE 14

When considering undertaking a Rental development project there are certain factors that should be considered.

1. Market – IS there a market in the area for the apartments that are being proposed? LHC is required to determine if a market exists. This can be accomplished either through a formal Market Study which costs $4,500 or through an Alternative Markey Analysis. If the Alternative Market Analysis is used the applicant must submit the following information with the application:

SLIDE 15

a) Number of prospective low income (80% of AMI and less) current rental households in the Market Area;
b) Household size of eligible prospective renters;
c) Vacancy Rate of Comparable projects;
d) Rents of comparable projects;
e) Capture rate;
f) Number of rent burden households in the market area;

As stated in the required information you must provide comparable rents in the area. By regulation your rents cannot be more than the lesser of the Market Study, Fair Market Rent or HOME Rents for the Parish. All rents include utilities so if you are not going to be paying the utility costs a utility allowance must be taken out of the rents. Process for determining the Utility Allowance will be discussed later.

Also the information must be provided with the application. Since this training is primarily focused on NOAH and CHAAP you can submit your application prior to having this information BUT it will not be considered as a complete application until such time as this information is turned in. Remember LHC is required to underwrite all rental applications and underwriting cannot be completed without market information. We will go into this more deeply when we have our underwriting webinar.

SLIDE 16

2. Affordability – As opposed to Homeownership Development the only criteria for affordability in a rental development is the rent. All projects must be affordable to household at or below 80% Area Median Income. You may notice that the requirements in some LHC NOFAs and Program Descriptions state that:

"Rent for HOME Funds-assisted units must not exceed 30% of the adjusted income of a family whose annual income equals or is less than 65% of the area median income as determined by HUD, adjusted by bedroom size. HUD provides annual HOME rent limits that include average occupancy per bedroom and adjusted income assumptions. For purposes of this Initiative, HOME rent limits and requirements will be used for all HOME Funds-assisted units."

This should be of no concern to you. This requirement is met if HOME rents or less are charged for the units.

Also there is a requirement that for all developments of 5 or more units at least 20% of the units must be at the Low HOME rents.

Both of these requirements are firm ***unless*** your project includes Project Based Section 8. This is project based section 8 and does not the section 8 housing choice vouchers that a tenant may bring. If a tenant shows up with a HCV then you must still charge no more than the rent you would charge someone without a voucher. If your project does have Project Based Rental Assistance, then you can charge up to the Fair Market rent for the parish the project is located in.

SLIDE 17

As with Homeownership Development there is an extended affordability period. This period is determined by the amount of HOME funds invested per unit and whether or not the project is new construction or rental.

Rental Housing Activity	Minimum Period of Affordability in Years
Rehabilitation or acquisition of existing housing per unit amount of HOME funds: Under $15,000	5
$15,000 to $40,000	10
Over $40,000 or rehabilitation involving refinancing	15
New construction or acquisition of newly constructed housing	20

In proposing your project, it may be beneficial to you to propose more than the minimum required number of HOME assisted units. Many of our funding proposals allow for large total developments but limit the amount of HOME funds that may be utilized so the required number of units may be much less than the total. If so and it is a rehab project, you should consider offering more HOME units to bring the per unit costs down so that your affordability period is less.

Break

The Rental Application

We are now going to take a detailed look at rental development applications that LHC uses. While this webinar is concerned with the NOAH and CHAAP programs the application used for all HOME only funding is the same.

Cover – The Cover is exactly what its name implies. It is the cover for the hard printed application The Cover only has one user input cell.

Comments Box: The only user input box is the comments box. This box can be used by the applicant to tell the story of the application. Who are you proposing to serve? What are the special challenges? If you have any issues or special request for consideration the should be place in this box. If you are going to give LHC more than the minimum number of required HOME assisted units that should first be mentioned in this box.

NON-User Boxes: In addition to the comment box the Cover also has two boxes that will auto fill when the necessary information is enter later. These are the Project Name and Parish Location.

Primary Input Tab -- Next we click on the Primary Input Tab. The Primary Input page is used to gather basic project. All information entered on this page unless specifically stated as otherwise should be project related. For example, Project Parish. For this item you should selected the Parish the project will be located in, not the Parish that is home to the applicant.

Most of the items on this page are self-explanatory there are, however, some terms that may not be clear to someone new that is considering submitting an application.

Qualified Non-Profit (Line 16) – As mentioned LHC uses the same application for many different funding mechanisms some of which include Tax Credits.

The Tax Credit program defines a Qualified Non-Profit as “An organization (i) described in paragraph (3) or (4) of Section 501(c) of the Code, (ii) exempt from tax under Section 501(a) of the Code, (iii) determined by the LHC or the Corporation not to be affiliated with or controlled by a for-profit organization and (iv) one of the exempt purposes of such organization includes the fostering of low-income housing.

For the purpose of a HOME only application such as NOAH or CHAAP you can leave it blank if there is no non-profit involved or if you just don't feel like filling it in. If you are a CHDO or other non-profit this would simply be the name or your organization.

Applicant Authorized Representative Name (Line 17) – This innocuous line is actually very important. This is to who the applicant is authorizing LHC to release information.

It may be the executive director or some other employee of the applicant organization.

It should not be a consultant.

As mentioned previously the purpose of the NOAH program is to build the capacity of non-profit organizations to become CHDOs. To this end the Non-Profit must be intimately involved in the development of the project so an employee of the non-profit must be the primary point of contact.

To Be Formed Date (Line 22) – Sometimes developers for single purpose entities to own projects that they develop. If you plan on doing that for a project under NOAH or CHAAP please indicate when the ownership organization will be formed.

Keep in mind that if you are a CHDO planning to do this that the CHDO must be the sole member of the organization so formed.

Total Units (Line 26) – This is the total number of units, HOME assisted and non-HOME assisted that are in the project. For some projects such as NOAH this number is limited while in other applications that is no limit to the number of units that may be proposed.

Total HOME Assisted Units Proposed by Developer (Line 27) – Here is where you can enter a number that is larger than the required minimum. Please note however that the message that appears to the right of the entry point only pertains to if the number matches or is less than the total. It does not determine if the number is the minimum allowed.

HOME Request – Maximum HOME Funds Requested (Line 30) – This is the amount of funds that you are applying for under whatever funding mechanism you are filling out the request. The application will check to be certain that the amount that you put on this line does not exceed the amount allowed by the funding mechanism. For example, the mode utilized in our example is for NOAH. Therefore, the maximum amount allowed is $400,000. If you enter an amount above $400,000 you will get an error message. Notice what happens when I enter $400,001.

Number of Residential Buildings – This is the number of separate individual buildings. So a 16-unit development could be 1 16-unit building; 4 4-unit buildings or16-single unit buildings. It is not the number of unit in the project.

Accessory Buildings – This is the number of building that do not contain residential units that are to be built. It could include a standalone laundry, a storage building etc. If such a structure is in a CHAAP or NOAH application, it must be paid for with other funds. HOME does not allow its funds to be utilized for non-housing purposes.

Property Breakdown -- Utility Information (Lines 38, 39, 40 and 41) – You must fill in these items. For each item that will be the responsibility of the tenant answer the question with the name of the utility company. If the tenant will not be paying the utility (rather the owner will be paying the costs) then enter NA. For each name of a utility company that you enter you will need to provide the rate sheet from the utility company with your application. The rate sheets are usually available from the utility company's website but if there is no website or the rate sheets are not on them the you must contact the company and obtain one for the information specified.

Residential Unit Mix – The number entered here are the number of units at each type. Our example is a four-unit development that has two 2-Bedroom Units and two 3-bedroom units. The number entered here will be utilized later in determining your rental income and expected cash flow.

Maximum Per Unit Subsidy – This is an FYI. The numbers here are maximum by federal regulation and are therefore not negotiable. You will probably find that the LHC requirement are lower than the HUD numbers. LHC may be flexible on its requirements but HUD requirements must be followed.

Appraisal – The Appraisal information is not necessarily required. It is only required if:

a) You are going to request reimbursement for the property from LHC, or;
b) You want to use part of the value of the property as match, or;
c) Your project is rehab and you would like to try and speed up the Environmental Review Process.

LHC requires the appraisal if you are going to request reimbursement since under the HOME regulations you cannot pay more than the appraised value.

You can use the value of the property as match/leverage if you pay less than the appraised value for the property. To do this just have the seller agree to convey the property to you for X$ in cash and the difference will be their donation to affordable housing.

If your project is a renovation and the work can be considered a minor under the regulations, then you can get environmental clearance more quickly. As a rule, minor renovation is anything that costs less than 50% of the appraised value.

If the appraisal info is left blank, we will assume that none of the above applies.

Type of Housing Tab:

There is only one set of user input on this tab.

That is the percentage of income of the targeted population to benefit from the housing to be constructed.

Keep in mind that if you choose a lower percentage of income that that percentage will be required in your agreements with LHC.

So for example if you put that out of a 4-unit development all will be for households at 30% AMI then you may only charge rents that are affordable to 30% AMI households and you may only rent units to these households. If you chose any group at or below 80% AMI and above 50% AMI you may rent to any one in that group and then rents that you may charge are any that are at or below the High HOME rent for the area and apartment size. You must have 90% at or below 60% AMI during the initial lease-up period and for any development with more than four (4) units you must set-aside 20% for households at or below 50% AMI (the Low HOME Rents). The numbers entered into the cells for each AMI percentage must total to the total number of units in the development.

Development Team Tab – Basically self-explanatory.

However, there are a couple of terms that may not be familiar to a relatively inexperienced developer.

Taxpayer – This is the legal entity that will own project. If a single entity is set up to own the property that name should be entered here.

Managing Member/Partner – This is the entity or individual(s) that controls or owns all of an entity which is designated in the Application as the managing general partner or the primary sponsor/operator of the Project. So if you are a CHDO setting up a single entity this is where you would put the CHDO name.

If you are going to claim MBE/WBE or CHDO status you must provide proof of such designation.

Financial Considerations Tab – Strictly and FYI tab. You can check this to see if you make these mini threshold requirements. Do not check this tab until all information is entered as it pulls from later tabs and will give incorrect info at a preliminary stage.

If you have any questions or issue with this page indicate them in the comments box.

Rental Income Tab – One of the most important tabs on the application. This tab gathers information that will be used in computing expected operating income, cash flow, debt coverage, cost per unit etc.

You must pay close attention to this tab and be careful in the information that you enter.

Some cells are frequently miss-filled in.

Number of Bath Rooms – This is the number of Bathrooms in the unit. Not the number of units of this type, which is a common mistake. You will notice that it allows for decimals. A complete bath room is one with a toilet and bathtub. One that has a toilet and shower is ¾ (or .75). One that has just a toilet is considered as a ½ bath.

Average Number of Square Feet – Enter the average number of square feet in units of the bedroom configuration listed. In larger developments there may be more than one size of a particular bedroom configuration. You would add all the type of units together and then divide by the total number of bedroom units. For example, if a development has 10 total units of which 5 are two bedrooms and of the five 2bedrooms two are 750 sq. feet and 3 are 800 sq. Ft. then you would add 750+750+800+800+800 = 3,900. You would then divide the 3,900 by the total of 5 2-bedroom apartments and get a total of 780 that would go in the cell for 2-bedroom units. Do the same for all bedroom configurations.

It is important that this be filled in accurately since it is used when performing the preliminary subsidy layering review.

Maximum HOME Rents Allowed: You will notice in column I are maximum HOME rents. These are the High HOME rents and they take into account the utility allowance. You do not see anywhere in the application on this tab the maximum for the Low HOME Rents. You do have the test in column X but it appears that nowhere is there the max that you can charge a low HOME unit. Actually the Low HOME Rents taking the utility allowance into consideration are on this tab. They are just a bit of an Easter egg. If you scroll right to column AZ you will find the Maximum Low HOME rents that will be allowed. Notice in the sample that the Anticipated Low HOME Rent of $499 for a 2bedroom unit fails the test. By scrolling over we see that the max allowed for Low HOME 2bedroom unit is $445.

ENTER NUMBER OF UNITS WITHOUT RENTAL SUBSIDIES Table – Unless your project is going to be 100% project based units, which is not very likely, this is where you will enter the number of units that will be occupied by various income groups. Only enter numbers under the income heading if the unit will be restricted to that income or less. The number entered on this table and the WITH SUBSIDIES Table must equal your total number of units. So if you are going filling out a NOAH application with a total of the maximum number of 4 total units, then you would enter numbers that totaled to 4 in these cells. In our sample we have two 2-bedroom units and two 3-bedroom units. These are all placed under the 60-80% AMI heading that does not include Rental Subsidies. You are only to put a number in the rental subsidies if that unit will receive project based rental assistance. Most of you will not have Project Based Rental Contracts.

INPUT ACTUAL RENTS THE UNITS NET OF UTILITY ALLOWANCES Table **--** in this table you will enter your proposed rents. The rent entered must have the expected utility allowance taken out.

Enter utility allowances **–** In this table you will enter the utility allowance. For the purpose of the application and for planning purposes you may utilize a Utility Allowance that is prepared by another entity such as a local Housing Authority. However, you will have to use the Utility Allowance that is prepared by LHC if an award is made. If you would like to start with the LHC utility allowance you must send LHC the necessary information prior to your applications. Please allow LHC 1 week to prepare the UA.

In entering the information, you will put the dollar amount for each items that is to be paid by the tenant. If the complex will pay a cost, you do not have to enter a dollar amount for that cost. If the complex will be 100% Project Based Vouchers and that is indicated elsewhere then you do not have to fill out this table.

Proposed Rent Mechanism – Again put the proposed rents for each type unit in appropriate cell. There are multiple comment boxes on this tab. If you have an issue with any of the tables express, it here. If the issue is that a formula does not appear to be working properly so state and we will review when we go through your applications.

Utility Allowance Tab – Use this tab to tell us which of the utilities will be paid by the tenant and which by the development. For each utility that is to be paid by the tenant give enter the name of the provider, such as "Entergy", and attach the appropriate rate sheet. Be advised that the utility companies have multiple rate sheets. You must send in the one that is right for your development. For example, while most rental proprieties will turn in a rate sheet for commercial residential if you project consist of individual single family homes you would submit on for that type of client.

Match/Leverage Tab -- This is generally a match table where you would enter the match provided to the project by outside sources. Some items, however, would not qualify as match but are allowed as a source of leverage for example the loan that you would take out to cover costs not met by the LHC assistance. Your loan information will self-populate this page from other points in your application.

Rehab/New Construction Tab -- This is where you will enter the line items cost to construct or rehabilitate your project. You should have this information in your construction contract or from your architect.

The total from this page will carry over to the Sources and Uses tab.

Notice on our example that it is new construction and that there have been no costs entered for interior, floors, finishes etc. If this were turned in to LHC in this fashion it would be considered as an incomplete application. If it were in a competitive funding it would be deemed as non-responsive. You must have costs in every line necessary to have complete construction.

You will notice that the bottom of this tab show how certain of your actual charges compare to the maximum allowed by LHC.

Loan Information Tab – The Loan Information Tab is where you will put the loan terms for each loan that you may have to complete the project. Generally, LHC requires a 15% leverage and this may be in the form of a loan for all are a part of the 15%. The information comes from your loan offer sheet.

You will notice that the LHC information is in red. This means that it is set by LHC and locked. We will update this for each funding mechanism. The Interest rate charged by LHC starts at the applicable federal rate. This rate fluctuates and is currently at 3.04%. If during the course of underwriting the project it becomes necessary to alter the terms to make the project work LHC will do so. The numbers in these cells are the starting point.

Also notice that this square gives information on the amount of your LHC loan that is expected to be repaid by the end of the private loan.

In the sample case at the payoff of the private loan the debt will have increased to $621,654 from the original $400,000.

This is used in LHC underwriting to help determine if the project is feasible and viable and if the terms of the LHC loan should be adjusted.

Sources & Uses Tab -- This is where you list the funders and their amount and the different costs. It is somewhat different from the Rehab/New Construction Tab in that the hard cost of construction here is simply a single line and more detail is given to soft costs.

Please note that line 22 Other Sources Needed to Balance is not a source but rather the gap. At the time of your application to LHC this line should be $0.00. If there is a positive number in this line then you are short of funding. If there is a negative number, then you have too much funding for the expected costs.

The thing to keep in mind is that Sources MUST equal Uses.

You may not have a figure for every cost. For example, a Non-profit may not have to pay some of the taxes. Also you project may not have any demolition costs. Fill in as best you can and remember that Source MUST equal Uses. Surprisingly not all application submitted seem to understand this basic concept. IF the application submitted is for a competitive round such as for a NOFA and the application did not have sources equaling uses it would be deemed Non-Responsive and would not be considered.

There are certain soft cost items that you must have budgeted. For example, architect fees. If you are going to be constructing housing, you must have an architect. Before you apply who should have chosen your architect and negotiated a contract with a fee structure. You should enter those costs in this tab.

Also don't enter a figure for a cost that does not exist. For example in our sample project the applicant has entered $1,000 for an application fee. Since this sample is for NOAH there is no application fee. So this line should have been left blank.

Break

Pro Forma Calculation Tab – The Pro Forma Calculation Tab is where you enter the expected costs of running the rental development. Currently Tax credits requires that you allow $3,700 per unit per year for operating costs. HOME has started to require a higher number because our analysis of HOME assisted project undertaken by LHC have higher average operating costs. The average for an LHC project falls somewhere between $4,500 and $5,000 per unit per year. This is comparable to the national average.

LHC will be calculating and posting average costs per line so that you will have something to measure your costs against and to help you in the preparation of your applications. The number entered into the sample are based on LHC averages for units with the cost indicated. Again you may not have all of the costs listed so enter only those that apply but keep in mind that you project will be underwritten at around $4,500 per unit per year. Notice that each of the costs listed is the average times the number of units that will be in the project. This is a case where you will always use total units and not just the HOME assisted unit number. If you have existing projects, you may use the average costs for your project but you will be required to adjust upward if you average costs are below the average required by LHC for the funding mechanism under which you are applying.

You will notice that there are spaces for both Administrative and Operating and Maintenance expenses. All of these costs are included in the $4,500 per unit per year average.

Finally, you will notice that this tab has a lot of calculated fields (those in the Salmon color). Some of these are for total of different type of costs and income but some provide additional information. For example, line 82 gives the Adjusted Net Operating income. This is a very important number in that it is used to determine the largest loan amount that your project can support. We will go into its use shortly.

Line 92 gives the expected amount of your yearly payment to LHC to repay the HOME loan.

Pro Forma Tab – This is strictly an FYI tab. There are no user input cells. The Pro Forma shows the expected financial position of the project during its affordability period which LHC will default to 20 years. This is the most important parts of the application. Once all of your data has been entered you should review it to get a good idea on if your project is likely to be deemed feasible and viable.

LHC will use the pro forma to determine:

1. If the private loan that is included is the largest that can be supported;
2. That the project is not over subsidized;
3. That return to the developer/owner is sufficient but not overly enriching;
4. If the LHC HOME Loan can reasonably be expected to be paid back;
5. If not the degree of subsidy that is required;
6. The overall feasibility and viability of the project

Let's take each of these in order

1. If the private loan that is included is the largest that can be supported;

The largest loan that can be supported can be determined by using the LHC Max Loan Amount calculator.

This calculator will be made available as a down load after the completion of this training.

The items in gray need to be filled in by the user. The salmon colored items are calculations. The first three items are obtained from your back. LHC will use the numbers that are in the loan offer sheet that you provide with your application and entered into the cells on the Loan Tab. The forth required piece of information comes from the pro forma and is the Adjusted Net Operating Income. You can get the Adjusted New Operating Income either from cell D 27 in the pro forma or from cell I 82 on the Pro Forma Calculation Tab.

Let's now enter the information from the Loan Information Tab:

Interest Rate 4.5%

Loan Term 30 years

Debt Coverage Ratio 1.20

Now Enter the information from the Pro Forma Calculation I 82 $6,856

You will notice that the largest loan that can be supported based on the initial Adjusted Operating income is the same as the bank loan. So this would pass the initial test.

But is the Max Loan also the Optimum Loan?

Optimum is defined as "the amount or degree of something that is most favorable to some end." In looking at the Pro Forma on line 42, we see that the project goes red, that is the debt coverage ratio becomes less than 1, in year twelve and that it gets worse each year thereafter. So in this case the Max loan that the project could qualify for would not necessarily be the optimum loan since it does not lead to the most favorable end. Since LHC has an upper end DCR of 1.40 let's see what happens if we adjust the initial year DCR to 1.4. To determine the new loan amount, we will change only the required DCR on the max loan calculator to 1.40. Doing so results in a new max loan of $80,545. If we now enter this into the loan section of the application spreadsheet the new pro forma indicates that the first year is at 1.40 so there is no need for special treatment of income and DCR declines each year but does not go red until year 16 and then does not fall below .82. So this would be a more optimum loan amount in this situation.

But would this be the best fix for the project?

Keep in mind that the Max and Optimal Loan amounts are dependent on certain factors a few of which you have some control over.

For example, remember that LHC requires a minimum Per Unit operating cost. Currently that number is set at $4,500 per unit per year initially.

You can check you per unit operating cost by looking at cell E20 on the Pro Forma.

In our example we will notice that the per unit cost is $4,749. This means that are cost are $249 more than required.

So you should review your operating cost on the Pro Forma calculation sheet to determine if all costs are accurate or if any can reasonably be reduced.

Do not reduce them just to make the project work since this will impact your long term viability but do carefully review to see if you are overestimating a cost.

For example, let's say that in reviewing our sample project we have determined that the Miscellaneous Admin. Exps. Line item (cell I39) is over estimated by $60 per unit and the O & M Other Expenses if (cell I61) is over estimated by $178 I would go in and make the adjustment and then check my Pro Forma. The Pro Forma now shows that the per unit operating costs are $4,511. So the project is compliant with the requirement. The initial DCR is 1.37 so the application is compliant with this requirement. The project has a declining DCR but does not go red until the final year of the affordability period. So the original loan is optimal at this expense level.

2. That the project is not over subsidized;

LHC determines if a project is over subsidized by looking at the Debt Coverage Ratio. In our original example the project starts out with a DCR of 1.20 which LHC considers acceptable. The DCR declines over the course of the affordability period. So LHC would not consider this project as over subsidized. LHC has seen Pro Formas that have the DCR rising during the affordability period sometimes to unacceptable levels (anything above a 1.40). In cases like this the applicant would be required to agree to put all funds above the maximum allowed 1.40 DCR into the reserve for replacement account, agree to repay the debt earlier than required, obtain a loan that would be the most that the project could support.

3. That return to the developer/owner is sufficient but not overly enriching;

This is very similar to number 2 above and actually starts in the same place, the DCR. If the DCR is high then the actions listed in number 2 are required to be implemented. Additionally, however, LHC will look at the costs listed in the Pro Forma Calculation tab and check for identity of interests. If an owner is also acting as a management company and charging the project a rate that is not in line with the average rate charged, then they may be required to lower the cost or to bid the service out to a non-related entity.

4. If the LHC HOME Loan can reasonably be expected to be paid back;

To determine this LHC will look at two points. First on the Loan Information Tab. Cell E 41 shows the amount of the LHC loan that can reasonably be expected to be paid back during the life of the bank loan. In the case of the sample this number is a negative $221,564.00. This means, of course, that the amount owed to LHC has actually increased, due to interest, over the course of the bank loan.

The second thing that LHC will look at is the maximum amount that the developer could refinance at the end of the HOME term to repay the HOME Loan. This is determined in the same manner as the maximum bank loan. The only difference is that the Adjusted Net Operating Income used is the one at the time of refinancing. If the HOME Loan was 20 years we would use that number. So according to the Pro Forma the Adjusted Net Operating Income for year 20 would be $3,996. Assuming all other requirements of the loan remain the same let’s look at the maximum refinancing loan. So the largest loan that the project can support at refinancing is $54,769. So the answer to this question is No. LHC cannot reasonably expect to be paid back based on the way the project is currently structured. This is not necessarily a deal breaker. While LHC does want to be paid back and will insist on it, since we are required to provide no greater subsidy than necessary to make to project feasible and viable, our primary goal is the production of affordable housing. As long as the other part s of the underwriting are met LHC can be flexible on the repayment.

Repayment may be required at the end of the affordability period, completely or partially forgiven, required through an extended lease period or some other a arrangement. Whatever LHC decides will be memorialized in your closing documents.

5. If not the degree of subsidy that is required;

Based on the above LHC can expect to be paid back $54,769.00 since the cash flow during the bank loan is negative. Therefore, the subsidy required would be $345,231. As mentioned above LHC can be flexible on the repayment so it is possible that this project could still be funded. LHC may have temporary underwriting standards that apply only to the funding mechanism that is being used. If so they should be detailed in the particular Program Description. One such temporary standard could be the amount of a development subsidy that will be allowed for a rental project. You should always check the Program Description especially for a competitive round.

6. The overall feasibility and viability of the project;

Feasibility and Viability are two parts of the same coin.

<u>First Feasibility</u>

Feasibility is defined as “the possibility that something can be made, done, or achieved, is reasonable”

So can the project be done? Are there enough sources for the cost to develop the project. This is the Sources = Uses test. But feasibility is more than just Sources=Uses. It also involves the feasibility under the regulations. Keep in mind that HOME must be modest housing and it is possible for Sources to equal Uses and not produce modest housing. LHC must review the application to determine if the housing produced is “modest by local standards”. This will involve checking to be certain that there are no “luxury” amenities and that the cost to construct is reasonable. In any application you will have to turn in plans. LHC uses these plans to determine if the housing is modest and if the cost projected is reasonable. LHC will compare the cost that you list to the cost that a third party firm indicates is typical for the area. For this purpose, LHC utilizes the RS Means construction cost program. HUD is fairly vague on the term “modest by local standards”. Very few items are listed but Jacuzzi tubs and saunas are always considered as luxury items that are not allowed in “modest” housing. LHC construction staff will review you listing of materials and you may be challenged on certain items. For example, if you list granite counter tops and hart pine floors in your materials we would expect to be able to go into any unassisted rental development and find these materials. If we do not believe that we would find such materials, you can expect to be challenged. If a material or amenity is deemed as a luxury items, then it cannot be in the development. This is not simply a matter of paying for the items with funds other than HUD.

Second Viability.

Viability is defined as “Capable of success or continuing effectiveness;”

That is, is the project a good risk when considering it ability to meet the affordability period.

Remember the affordability period can be anything from 5 years to 20. So LHC has to assess its long term potential to complete this period successfully.

While LHC will seriously look at a project that cannot pay back the loan as one that may have to be reconsidered that is not the deciding point for the project. LHC looks at a couple of factors.

First cash flow.

LHC will take a look at the positive cash flow and the negative cash flow and add them together. If the final number is $0.00 (Break Even) or less (losing money) then the project is not likely to be funded. Additionally, even projects that have a small positive are not likely to be funded. LHC would like to see at least an average 10% return at the end of the affordability period.

Secondly Adjusted Net Operating Income. LHC will look very closely at the Adjusted Net Operating Income. If at any point during the affordability period, there is a negative in the Adjusted Net Operating Income cell for more than 1 year the project will not be funded. This would indicate that the project cannot even generate enough income to cover its normal operating costs let alone any debt that may be on the property.

Finally, LHC will look at the ratio of operating expenses to total revenue. Nationally operating expenses are 46.9% of total revenue (for assisted projects). For LHC assisted project operating expenses are 87.7% of total revenue. This is a very risky position and one that was arrived at over time.

Since projects are forecast to have expenses increased faster (3%) than revenue (2%) any project where Operating Costs are 90% or greater of expected total revenue at application will not be funded. In our sample application total expenses are $18,996 during the first year with expected total revenue of $27,052. Therefore, the cost to revenue ratio is 70.2%.

So this would pass the test. In the final year the total expenses would be $33,310 and the expected total revenue would be $39,409 with the ratio being 84.5% which would again pass.

Failure on any one of the items would mean that your project, as proposed, would not passing underwriting and could result in denial of funding.

Properties Tab – On this tab you need to enter the information for each lot that ***may be*** utilized for the project. This information will be used in preparing your agreements and as a cross check for properties that are environmentally cleared for the project. A property that is left off of this tab will make it difficult to proceed timely with the project and could end up causing significant delay or even cancelation of the award. So if you have multiple lots could be used list all. Any lots not used will be released from the deed restrictions at your request once the project is completed.

So let's say you are going to be doing a scattered site rental project with 4 units under the NOAH program. You currently own 12 lots but will only need 4 since the size of each is sufficient to build. You should submit your application with the note that you will utilize 4 of the 12 lots identified depending on site suitability. You could then proceed with the environmental review and if any of the lots had environmental problems, such as wetland or noise you could drop them and use 4 of the lots that did not have the environmental issues.

The information can be obtained from the legal description in the sale or option documents associated with the project.

Project Schedule Tab – This tab is self-explanatory. Enter the information required for the overall project. Your application will not be considered as complete without this information. In a competitive round that would result in the application being denied.

Completed Projects Tab – Another self-explanatory tab. Enter are information for each project that you have previously undertaken that you wish to report. You do not have to include any projects that you consider as "old" but keep in mind that your capacity to undertake a potential award will be partially judged by the information provided on this tab. If you have not done any prior projects write "None" in the Name of Project cell and enter NA in all the other cells on the first line.

Certification Tab – Self-explanatory. Print, sign and have notarized and return with your application.

Checklist Tab – Self-Explanatory.