LHC 2025 QAP Underwriting FAQs

1. Syndication Costs in Underwriting Guidelines

Q: The QAP states that syndication costs are capped at 10% for private placements and 15% for public offerings and will be treated as part of the Developer Fee. Can you clarify?

A: Syndication costs refer to expenses associated with marketing and selling investment interests in a partnership, including legal fees, marketing, and broker commissions. The **2025 QAP correctly establishes that syndication costs within the stated limits will be included as part of the Developer Fee**. This approach ensures **consistent evaluation of syndication efficiency and aligns with LHC's underwriting standards**.

2. Cash Flow Threshold (QAP, p. 21)

Q: Is the 10% cash flow cap assessed as an average over 15 years? Some projects require higher early cash flow to meet Year 15 debt service ratios.

A: Cash flow measures an affordable housing development's financial health. LHC follows HUD's SLR guideline, which limits annual cash flow to 10% of operating expenses. If cash flow exceeds this threshold, adjustments must be made, or LIHTC allocations may be reduced to ensure compliance.

3. Required Debt Service Ratios (QAP, p. 21)

Q: How does LHC define **"Excess Cash Flow"** within the required debt service ratio (DSCR) guidelines? Must the DSCR remain between 1.15 – 1.40 over the 20-year pro forma?

A: LHC follows HUD's SLR guidance: if cash flow exceeds 10% of operating expenses, adjustments must be made to reduce it. While DSCR must remain between **1.15 – 1.40**, any surplus above 1.40 DSCR must be allocated to **Reserves for Replacement** or used for debt prepayment.

4. Project Management Fee Adjustment in the Excel Model

Q: Will the Application Excel Model correct the past assumption of escalating the **Management Fee at 3%** instead of as a percentage of income?

A: Yes. The underwriting model will now escalate property management fees at **2%**, aligning with the income inflation rate.

5. Surplus Cash Distributions & Investor Interest

Q: The QAP requires LHC approval for all surplus cash distributions. Could this discourage investor interest due to potential delays in returns?

A: LHC anticipates that **25% of Surplus Cash** will be available for distribution. However, approval ensures sufficient funding for deferred developer fees, reserves, and priority payments. Investors should expect distributions **only if projects perform as originally underwritten**.

6. Rural Development (RD) Projects & Surplus Cash

Q: Will LHC still require approval for surplus cash distributions for **RD-funded projects**, given RD already oversees distributions?

A: No. LHC will defer to RD and HUD regarding their financing programs but will communicate concerns about future financial shortfalls if necessary.

7. Developer Fee Cap (15% of Total Development Cost)

Q: Does the **Developer Fee Cap** apply to the total cost, including the Developer Fee itself?

A: LHC applies the **15% cap** to Total Development Costs, excluding **lease payments for self-owned equipment, payments to related entities, and acquisition/land costs for certain rehab projects.** This aligns with **NCSHA Best Practices**, ensuring fees remain reasonable while maintaining project feasibility.

Additional Clarifications

For further clarification on underwriting matters, **written requests may be submitted on a case-by-case basis** for review.