

The Credit Underwriting Process

For Rental Developments Seeking Funding through FHFC

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Poll #1: Who Are You?

- Local Government
- Nonprofit developer
- For profit developer
- Property Manager
- Other – tell us in the Questions tab



Poll #2:

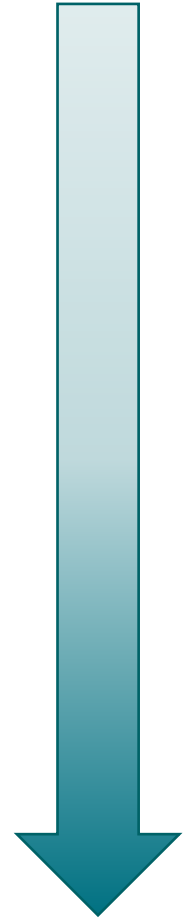
How knowledgeable are you of FHFC's Credit Underwriting Process?

- Knowledgeable through previous experience
- Familiar, though not through a previously selected application
- Limited knowledge, but would like to learn



The Development Process

- Conceptual vision
- Site Selection
- Programming/Preliminary Design
- Funding Application
- Credit Underwriting
- Funding Award and Initial Closing
- Construction and Lease-Up
- Project Stabilization and Final Closing
- Project Operation and Program Compliance



FHFC's RFA Process

- Rulemaking
- Anticipated timeline
- RFA Workshop
- RFA release
- Application review and recommendations for funding
- Credit Underwriting and final approval

FHFC's RFA Process

- <http://www.floridahousing.org/programs/developers-multifamily-programs>

The screenshot displays the Florida Housing Finance Corporation website. At the top left is the logo with the tagline "we make housing affordable™". To the right are language selection options and a search bar. The main navigation bar includes "ABOUT FLORIDA HOUSING", "LEGAL", "PROGRAMS", "DATA, DOCS & REPORTS", "PRESS", and "CONTACT US". The "PROGRAMS" menu is expanded, listing various options with expand/collapse icons. A "Click here" button with a hand cursor icon is positioned over the "Multifamily Programs" link. The footer contains the organization's name and tagline, along with the URL www.floridahousing.org/programs/developers-multifamily-programs.

PROGRAMS	DATA, DOCS & REPORTS	PRESS	CONTACT US
Multifamily Programs	Competitive		
Homebuyers	Non-Competitive		
Homeowners	Elderly Housing Community Loan		
Renters	Grants for Persons with Developmental Disabilities		
Preservation	HOME Investment Partnerships		
Special Programs	Low Income Housing Tax Credits		
Homeownership Development	Multifamily Mortgage Revenue Bonds		
	National Housing Trust Fund		
	State Apartment Incentive Loan		
	Guarantee Program		
	Multifamily Mapping Application (BETA)		



The Credit Underwriting Checklist

What happens after initial approval and/or commitment of financing?

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Credit Underwriting

- Purpose is to evaluate
 - Suitability of site
 - Feasibility of the project
 - Borrower capacity
 - Compliance factors
- 3 Credit Underwriters
 - Assigned to project by FHFC
 - Will work with same credit underwriter through entire development process through operations

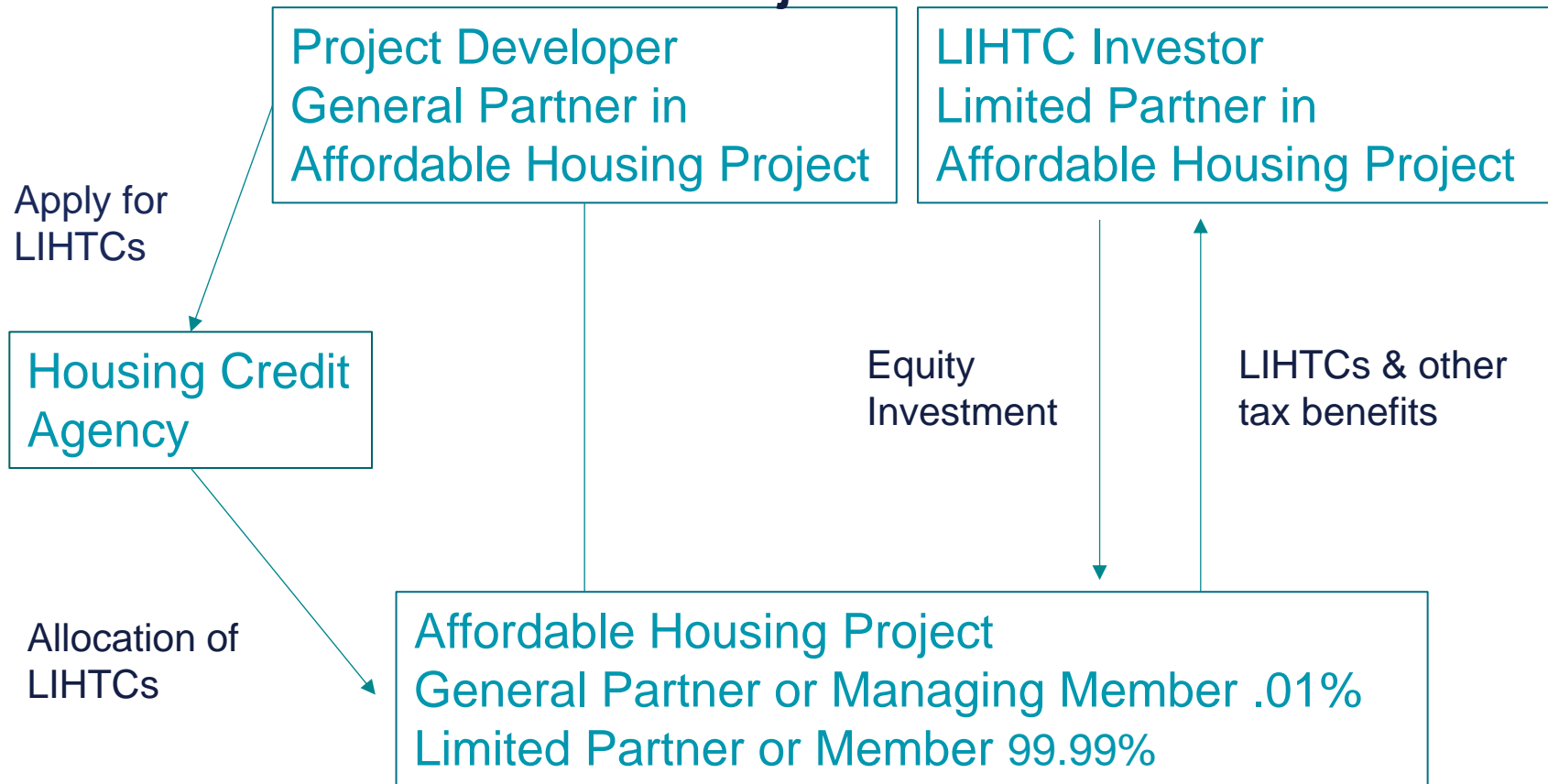
Credit Underwriter's Role Throughout Rental Development Process

- Preliminary Recommendation Letter
- Final Credit Underwriting Report
- Construction Loan Servicing
- Permanent Loan Servicing
- Compliance Monitoring
- Federal Labor Standards Monitoring

Applicant/Borrower Information

- Purpose
 - Clearly identify the entities and parties responsible for executing the development
 - Verify the credentials and experience
- Checklist Items Include:
 - Articles of Incorporation
 - Certificates of Good Standing
 - Resumes
 - Credit Authorization
 - Certification of Experience

Typical Legal Structure for Direct Investment in LIHTC-financed Project



Adapted from: OCC *Insights* 4/2014

Financial Information

- Purpose

- Determine the ability of the proposed development to meet financial obligations
- Verify the financial capacity of the applicant to complete construction and operate the proposed development

- Checklist Items

Include:

- Financial Statements
- Tax Returns
- Real Estate Owned and Contingent Liabilities Schedules
- Financing Commitment Letters
- Sources and Uses
- Operating Pro Forma

Property Information

- Purpose

- Clearly identify the property where the development will take place in legal terms
- Verify that the type of development proposed can occur on the property

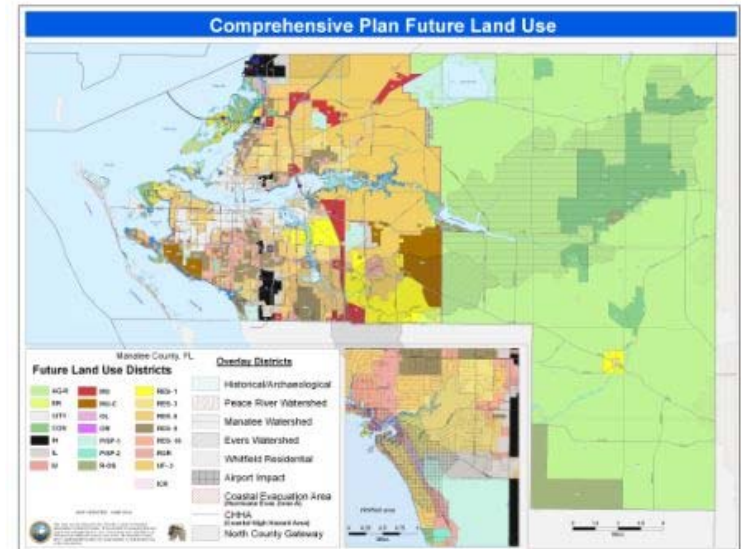
- Checklist Items

Include:

- Site Plan and Zoning
- Survey
- Appraisal
- Market Study
- Plan and Cost Review
- Capital Needs Assessment
- Title Report

Land Use and Zoning

- Future Land Use element
- Housing element
- Zoning – base and overlay
- Other Land Development Regulations
- Special concerns- historic or form based



The Survey

- Must be dated within 6 months of closing
- Must meet lender requirements
- Must be certified to all parties that request it
- Issues may arise that must be addressed prior to closing
- Will be completed again after construction completion

The Appraisal

- Lenders and investors all require appraisal including acquisition
- May have to get multiple
- Confidentiality – permission to share
- Affects loan-to-value and insurance requirements
- May also affect developer fee if acquisition price is more than appraised value

The Appraisal: Key Analyses and Valuation Procedures

- Key Analyses
 - Market overview
 - Improvement Analysis
 - Highest and Best Use Analysis
 - Insurable Value
- Valuation Procedures
 - Land value
 - Sales approach
 - Income Capitalization approach
 - Reconciliation of Sales and Income Capitalization approaches

Market Study

- Market study should be done for both rental and ownership
- Key Analyses includes site, demographics, rental and sales prices, competition, impact on existing inventory
- Focus in on: Average absorption rate

Plan and Cost Review

- Required for new construction and rehab
- Comprehensive review of all construction-related documents, including:
 - Complete set of plans and specifications
 - Architect Contract
 - Construction Contract
 - Schedule of Values
- Determine reasonableness of plans and costs in relation to each other and for program compliance

Capital Needs Assessment for Existing Properties

- Required for rehabilitation or preservation projects
- Will involve detailed inspection
- Focus on immediate needs and cost feasibility
- Will affect:
 - Scope of work for rehabilitation
 - Replacement Reserve requirement

Environmental Phase I

- **Required for all developments with federal funding**
- Likely completed twice during development process
- Involves site inspection and checklist items
- Usually completed for one party and reliance by others
- Environmental issues may need to be addressed as part of scope of work

Other Environmental Reviews and Clearances

- Soil studies required for new construction
- Radon Testing required for Zones 1 and 2
 - Must be completed prior to construction
 - Mitigation may be required
 - Retesting required at Completion to show below harmful levels
- Asbestos, Lead-Based Paint and other environmental hazards
 - May require removal or O&M Plans

Initial Title Report and Title Insurance Policies

- Completed by title insurance company or attorney
- Will reveal any issues affecting title for issuance of title insurance policy
- Lenders/investors do not want anything that will negatively affect their ability to recover their investment
- For Rental: Lender and Owner's policies required; cost included in development budget

Permitting Process

- Will need permits to complete underwriting process and close
- Will need permit ready drawings
- Expedited review usually offered for affordable housing developments
- Permit-ready letter may suffice in lieu of actual building permits for initial closing



Other Property Information

- Management Company
 - Property Report
 - Draft Management Agreement/Plan
- Outstanding obligations of the property
- Rent roll and Operating Statements (for existing properties)
- Service Contracts
- Commercial Leases

Other Construction Information

- Resume, banking and trade references for the General Contractor
- Architect's license and experience with type of development proposed
- Engineering contract
- Construction draw schedule
- Termite inspection report

Fees Paid During Underwriting and Due Diligence Period

- Credit Underwriting Fee
- Market Study
- Appraisal
- Capital Needs Assessment
- Plan and Cost Review Fee
- Building Permit Fees

Role of Local Government

- Review/Underwrite development plan
- Obtain and review third-party reports prior to initial closing
- Monitor building permitting process
- Participate in closing calls
- Monitor any changes in closing dates
- Have approvals in place to release funds on closing date if part of initial closing



Initial Closing

What is generally required and how does it proceed?

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Initial Closing for Rental Developments

- First draw on development funds
- Usually used to close on site acquisition and pay development startup expenses
 - Including “reimbursable” expenses
- May involve payment of developer fee
- May involve repayment of predevelopment financing

Initial Closing for Rental Developments

- All eyes on the initial closing
 - Owner/Developer, all lenders, tax credit investor (if housing credits are part of sources) and all of their attorneys and consultants take part
 - Several calls leading up closing, usually weekly
 - Every group has their own checklist that must be met
 - Lots of documents with specific instructions

Initial Closing for Rental Developments

- Items that typically hold up closing
 - Building Permitting
 - Insurance approvals
 - Missing signatures on documents
 - Missing original documents
 - Last-minute title issues
- Any checklist item could potentially delay closing!

FHFC has three Credit Underwriting Firms

- Amerinat
- First Housing
- Seltzer Management Group

- Check Fees

[https://www.floridahousing.org/docs/default-source/legal/contracts/credit-underwriting/2017-servicing-contracts/2017-contract---2019-fee-schedule-\(effective-9-20-2019\).pdf?sfvrsn=7d9be07b_2](https://www.floridahousing.org/docs/default-source/legal/contracts/credit-underwriting/2017-servicing-contracts/2017-contract---2019-fee-schedule-(effective-9-20-2019).pdf?sfvrsn=7d9be07b_2)



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Technical Assistance is Available

- Call us at 800 677 4548
- Request a site visit or training
- Complete training schedule
 - www.flhousing.org

