

**The Development Process**  
Part 2: Underwriting through Property Operations

Sponsored by the Florida Housing Finance Corporation's Affordable Housing Catalyst Program  
Florida Housing Coalition  
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Catalyst Training Schedule



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**The Florida Housing Coalition**



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**Poll: Who's attending today?**

- Local government
- Nonprofit developer
- For profit developer
- Other

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**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



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**Last Week: Concept to Funding**

- Grounding your concept
- Local Government's Role
  - Data resource
  - Land Entitlement
  - Subsidies
- Development Team
- Rental development
- Homeownership development



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**Today's Agenda: Underwriting through Lease Up and Operation**

- Rental Development
  - Credit Underwriting
  - Funding Award and Initial Closing
  - Construction
  - Lease-Up
  - Project Stabilization and Final Closing
  - Ongoing Compliance
- Homeownership Development
  - Construction and Sales

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**Rental Development**

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### FHFC General Funding Process

- Request for application submission
- Lottery number assigned
- Recommendation for funding, based on RFA; factors may include:
  - Application score
  - Funding goals
  - Lottery number
- Credit underwriting
- Closing
- Ongoing compliance



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### Credit Underwriting for Rental Developments

- Purpose is to evaluate
  - Suitability of site
  - Feasibility of the project
  - Borrower Capacity
- Preliminary Analysis then Final Credit Underwriting Report
- Timing of final report dependent on project
- 3 Credit Underwriters
  - Assigned to project by FHFC
  - Will work with same credit underwriter through entire development process through operations



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### Credit Underwriter Role Throughout Rental Development Process

- Final Credit Underwriting Report reviewed and approved by FHFC Board
- Initial Closing
  - All checklist items must be reviewed and approved
- Construction
  - All draws submitted to Credit Underwriter for review
  - Construction monitoring reports
  - Credit Underwriter's approval for release of FHFC funds



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### Credit Underwriter Role Throughout Rental Development Process

- Construction Completion
  - Confirms construction is complete
  - Confirms all requirements of RFA, and needs assessment are met
  - Confirms insurance is up to date
- Lease-Up
  - May visit site during lease-up period
  - Completes file reviews and physical inspection



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### Credit Underwriter Role Throughout Rental Development Process

- Stabilization and Conversion to Permanent Financing (Final Closing)
  - Completes operational analysis
  - Completes final check that requirements of RFA and needs assessment are met
  - Makes sure insurance is up to date
- Ongoing Operations
  - Conducts periodic file reviews and physical inspections
  - Reviews and reviews financial reporting
  - Monitor reserves
  - Continues to make sure insurance remains up to date



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### The Credit Underwriting Checklist

Taylor Arruda, Senior Credit Underwriter, First Housing



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### Initial Closing on Construction Financing



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### Preparing The Draw Schedule

- Understand when sources will come into the deal
  - What sources will be used for the initial draw
  - How sources will pay for construction
    - Do some sources need to be paid out before other sources will kick in?
    - Or will sources come in progressively throughout?
  - What sources will "pay down" construction loan(s) to permanent amount
- Anticipation when expenses will be incurred, for example
  - When impact fees need to be paid
  - When things will occur, such as the interior decorating or the installation of furniture, fixtures and equipment
  - When Developer Fee is payable



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### The Draw Schedule – Common Types of Draws

- Initial draw to begin construction
- Construction draws
- Construction completion
- Fully leased or 100% qualified for tax credits
- Project stabilization and conversion to permanent financing
  - Fully operational
  - Meeting occupancy and debt service coverage ratio requirements for at least 3 consecutive months



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### Initial Closing on Construction Financing for Rental Developments

- First draw on development funds
- Usually used to close on site acquisition and pay development startup expenses
  - Including "reimbursable" expenses incurred prior to the beginning of construction but part of total development costs (ex.: design, reports, etc)
- May involve payment of developer fee
- May involve repayment of predevelopment financing



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### Preparing for Initial Closing

- Items that typically hold up closing
  - Building Permitting
  - Insurance approvals
  - Missing signatures on documents
  - Missing original documents
  - Last-minute title issues
- Any item on a lender or investor's checklist could potentially delay closing



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### 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



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## Construction Period



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### Permitting Process

- Predevelopment
  - Informal review
  - Site Plan Approval
  - Development Order
- Development
  - Building permits
  - Utility connection plan
  - Required inspections
  - Certificate(s) of Occupancy or Completion



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### Permitting Process

- Generally, will need permits to complete underwriting process and close
- Will need permit ready drawings
- Expedited review usually offered for affordable housing developments



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### Construction Draws: Typical Requirements

- Updated Draw Schedule
  - Track how the development is staying on budget overall
  - Make line-item adjustments
  - Determine if there is a need to use contingencies
- General contractor's application and certificate for payment
- Any additional invoices for hard and soft costs incurred during period and/or not previously paid
- Title Update
- Third-party inspection report
- Confirmation that insurance is current
- Any other required reports/forms as detailed in agreements



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### Role of Local Government During Construction Process

- Recommend receiving and reviewing draw construction request documents, even if no funding involved
- Monitor construction progress



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### Construction Completion

- The point at which construction is substantially (100%) complete
- If tax credits are involved, there may be a final draw on the construction loan followed by an infusion of equity
- General contractor is looking to have "retainage" released – an amount from each monthly payment withheld until construction is complete. Releasing retainage usually requires:
  - Certificates of Occupancy or Completion
  - As-built drawings
  - Architect and inspector certifications
  - Owner and Contractor Affidavits



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### Lease Up to Final Closing

Leasing and Stabilizing the Development in Preparation for Permanent Financing

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### Marketing To and Qualifying Perspective Tenants

- Work with professional management company
- Start marketing within 6 months of completion
- Begin qualifying tenants 120 days prior to anticipated move-in date
- Have as many units pre-leased at time of certificate of occupancy as possible

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### Implications of Lease-Up

- Financial projections based on lease-up
  - Ability to generate income prior to starting debt service payments
  - Ability to deliver housing credits as projected
  - Ability to convert to permanent financing on time
  - Ability to remain in compliance with all funding requirements
- Staying on schedule requires strong communication and coordination with owner/developer, general contractor and property management

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### Typical Requirements for Final Closing (Conversion to Permanent Financing)

- All required low-income units are qualified
- Stabilized Operations
- Updated title and insurance
- Any required environmental testing and mitigation
- Anything else lenders and/or investors require

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### Stabilized Operations

- Typical requirements
  - 93% to 95% occupancy for at least 3 consecutive months
  - Debt Service Coverage Ratio of 1.15 or 1.2 for at least 3 consecutive months based on income statements
- Meeting requirements evidenced by rent rolls and income statements

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### Special Requirements for "Closing" on the Tax Credits

- General Contractor's Cost Certification – establishes the total cost incurred by the general contractor towards the tax credit calculation
- Owner's Cost Certification – completed by the Accountant certifying all of development costs eligible for tax credits
- IRS Tax Forms 8609 –
  - Documents the total annual tax credit each building in a development generates
  - Documents the irrevocable income set-aside election (40% at 60% AMI or 20% at 50% AMI)

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### Ongoing Compliance

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### Documents Required and Reviewed by the Compliance Monitor

- Monthly/Quarterly Financial Statements
- Monthly/Quarterly Rent Rolls
- Program Reports
- Annual Reports
- Tax Returns
- Audited Financial Statements
- Other required IRS Forms
- Files for new move-ins

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### Best Practices for Ongoing Compliance

- Know reporting requirements outlined in loan documents and/or partnership agreement
- Create schedule to stay on task
- Communicate regularly with on-site management, regional manager or party responsible for reporting
- Communicate any anticipated delays in reporting prior to due date
- There may be fees associated with late submission of reports or forms!

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### Local Government Role

- Set and maintain reporting calendar for each project
- If piggybacking on state monitoring reports, obtain and review for compliance
- Recommendation: contract with state compliance monitor to track compliance requirements in local land use restriction agreement

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### Homeownership Development

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### Homeownership Developments



- Developers Fee is basically sales proceeds and can be realized upon the sale of all units once all development expenses have been paid

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### Marketing To and Qualifying Perspective Homebuyers

- Pre-sales
  - Plans
  - Model home w/ staging
  - Marketing
- Homebuyer Counseling
- Purchase assistance
- Contracts
- Permanent financing
- Closing
- Post-purchase counseling

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### Assistance Available to Prospective Buyers

- SHIP Purchase Assistance
- HOP= Homeownership Opportunity Pool
- Florida Assist Down-Payment Assistance
- HFA Preferred Grant Down-Payment Assistance
- Rural Development Single-Family Loan (Section 502) and Guarantee program
- Lender purchase price and closing cost assistance

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### Construction and Permanent Sources

- Construction sources
  - Traditional construction loan
  - Construction line of credit
- Construction financing paid off with each sale
  - Buyer's mortgage loan
  - Buyer's down payment
  - Purchase assistance
- Developer Fee
  - Typically 10% of development costs
  - Paid from proceeds of sales and other sources (i.e. developer subsidies)

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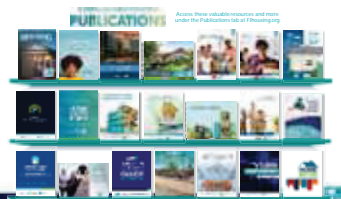
### Ongoing Compliance

- Deed restriction or ground lease – functions like land use restriction
- Primary residence requirements
- Resale restrictions – income-qualified household and/or affordable purchase price
- Purchase assistances sources – due on sale or assumable?

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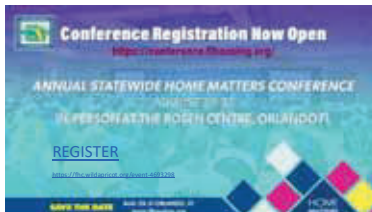
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**Upcoming Trainings**

- May 26: Building Capacity to Build: The Nonprofit as Affordable Housing Developer
- May 31: Tracking SHIP Activity Throughout the Year
- To Register, visit <https://flhousing.org/events/>



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**More questions? Need help with a project? Just ask!**

- Technical Assistance Hotline  
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