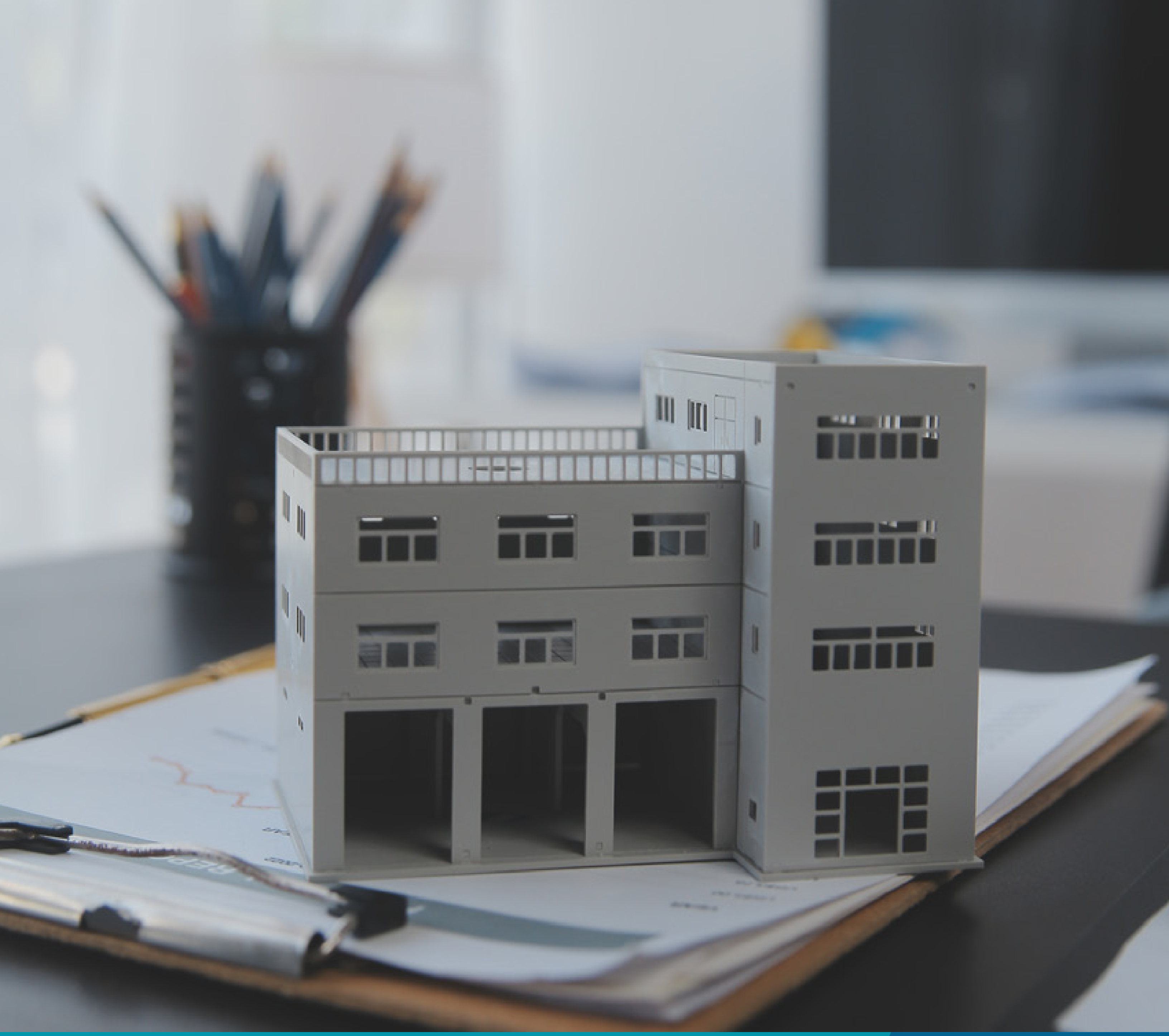
Credit Underwriting Guide

FOR MULTIFAMILY AFFORDABLE HOUSING IN FLORIDA



SPONSORED BY:
The Florida Housing Finance Corporation

PREPARED BY:
The Florida Housing Coalition

Table of Contents

Preamble

This guidebook is intended to help nonprofit and newer affordable housing developers gain a better understanding of how to navigate the credit underwriting process that ensues after a development has been selected for financing by the Florida Housing Finance Corporation. This guidebook may also be useful to local housing providers in the public sector who evaluate the feasibility of housing projects that have requested funding from local sources, or anyone who has an interest in the mechanics of an affordable housing transaction. Sound credit underwriting procedures are a necessary form of risk management for any affordable housing transaction and should be a priority in evaluating the feasibility of affordable housing developments. In fashioning these guidelines to set standards for compliance with local, state and federal housing finance programs, it is important to ensure that the guidelines advance local housing objectives, and that the selection of projects will serve the specific needs for housing within the community.

FREQUENTLY USED ACRONYMS	
Florida Housing Finance Corporation	FHFC
Credit Underwriting Report	CUR
Requests for Application	RFA

INTERCHANGEABLE TERMS
“Projects” and “Developments”
“Applicant” and “Borrower”
“Developer” may refer to the applicant or borrower but at times the developer is a separate entity qualified to perform the work the applicant or borrower is planning to undertake.

Credit Underwriting: An Overview

What is Credit Underwriting in Affordable Housing?

Credit underwriting is the process of evaluating or analyzing the risk of financing a specific borrower for a specific project. Credit underwriters, sometimes referred to as Servicers, are specialized firms whose financial analysts evaluate borrowers and proposed projects prior to the award of a loan, tax credits, or grant. Projects that have demonstrated the ability to proceed and are selected for financing by FHFC are formally invited to enter into credit underwriting. Projects may be selected for financing by FHFC through either the competitive RFA process, or the non-competitive application process, depending on the sources of funding being sought by the borrower. The phrases "ability to proceed" or "project readiness" address the question: if the project received funding today, would it be able to proceed to construction tomorrow?

Credit underwriting takes place over several months and must be completed within nine months from the date of invitation. Once the resulting Credit Underwriting Report (CUR) is approved by the FHFC Board of Directors, the project goes to loan closing. Once the loan closing is completed, construction may begin. This guide covers the credit underwriting process up to the loan closing.

During this period, the borrower provides documentation sufficient for the credit underwriter to determine that the proposed project is feasible, the site is appropriate, and the borrower including the development team has the financial capacity and experience required to develop and operate the project for the duration of the compliance period. The underwriter must determine that the project as proposed will be consistent with the terms of the RFA, the laws and regulations governing the funding source, and the local jurisdiction's planning, zoning, and building construction laws and regulations.

Why is Credit Underwriting Important?

Financing of affordable housing relies on a high level of investment of public funds. The award of public funding necessitates a third-party underwriting process to make sure that program rules, set-asides, affordability, and long-term compliance with regulations will be in place. Therefore, the job of the credit underwriter is to evaluate proposed projects by assessing the risk of any proposed loan for the development of a project. All projects financed by FHFC must have a positive CUR before the loan may be closed. This demonstrates an assurance that the award of funding, whether a loan or low-income housing tax credits (LIHTC), will meet its intended result.

The underwriting process includes a comprehensive review of all aspects of the project, site, and borrower to ensure compliance with regulations for each funding source. The underwriter evaluates each project selected for financing for conformity to the award criteria specified within the applicable RFA or the non-competitive application. The extensive review and evaluation of proposed projects reduces the likelihood of default on loans. Finally, the underwriting process, particularly the appraisal and market study, establishes the insurable value of a project.

Objectives of Credit Underwriting by Type of Lender

The credit underwriting process depends on the type of entity that is financing the project. Lenders, investors, and grant makers share in common the priority to make loans and grants to projects that are physically and financially feasible for the term of the financing.

Permanent Lenders. Private permanent mortgage lenders view credit underwriting through the lens of originating loans that serve the requirements of bond holders and the secondary mortgage market including Fannie Mae and Freddie Mac. The lender must identify the risk of these loans and bring them into conformity with the underwriting standards of the secondary market. The lender will consider the capacity of the borrower, the collateral of the loan and the repayment assumptions.

Construction Lenders. Construction loans are specifically intended to finance the construction or renovation of a property and must be repaid when the project is completed. Construction lenders are primarily concerned that there is sufficient funding committed to repay their loan upon the issuance of a certification of occupancy. The construction lender will evaluate a project's readiness to proceed, the capacity of the developer, and its general contractor and subcontractors. The underwriter will carefully review feasibility of completing the stages of the project based on a draw schedule suitable to the lender. The disbursement of funds will be tailored to completion stages and risk is minimized by avoiding disbursements for work that has not been adequately completed.

The financial capacity of the developer is critical as the construction lender will typically only finance 70-80% of the total cost of development. The borrower must be able to show that the balance of funds is available to complete the project. Credit underwriters will often require a signature guarantee for construction completion. This impacts the ability of smaller organizations to enter the development arena as they may not have access to either guarantors or sufficient capital to complete a project on time.

Equity Investors. Investors in housing projects focus on the feasibility of the project over the period of compliance (timeframe in which low-income housing requirements must be in effect). They must be confident in the construction lending and feasibility of completing the project on time but also the ongoing operation and management of the property. Investors often use brokers, called syndicators, to perform underwriting and compliance monitoring functions on their behalf. As the investor has exposure from project construction through long term operations, their review will be extensive. They will be concerned with the capacity of the developer, contractor, and management entities. Investors will continuously monitor risks to their investment from project closing through construction completion and stabilization and will adjust their investment accordingly to mitigate certain risks.

As mentioned, investors are just as concerned about ongoing operations as they are about construction completion. Therefore, they may require that project replacement or operating reserves be funded up front. The confidence of investors will be impacted by any potential delays in construction, or anticipated inability to meet lease-up, operating, and reserve requirements in a timely manner.

Public Sector Lenders and Grant Makers. The public sector can provide vital financing, development incentives, real estate donations, and development approvals to affordable housing projects. The public sector is often the shepherd of housing projects and the first stop in seeking support and financing. The objectives of the public sector include long term financial feasibility, as well as policy objectives that are at the core of ensuring there is a public benefit from affordable housing projects.

Depending on the context, public sector objectives may include neighborhood improvement, providing housing for vulnerable populations, or increasing housing supply. The public sector and private grant makers prioritize the project's impact on meeting housing needs and the quality and sustainability of each project. Public sector and private sector funders may want to target funds to populations such as persons at-risk of or experiencing homelessness, the elderly, persons with special needs, persons with disabling conditions, or large families.

Public sector objectives also include compliance with funding programs and regulations. These compliance factors include:

- All costs are eligible
- The subject property is eligible
- Property standards are met (existing projects)
- The borrower is eligible
- Costs are reasonable
- Developer and contractor have not been suspended or debarred from federally funded projects
- Developer and principals have met all terms of prior projects, have no defaults or tax liens
- Labor standards will be enforced
- The project has an Affirmative Fair Housing Marketing Plan
- Maximum subsidy amount is not exceeded
- CHDO is qualified and certified for each project if using HOME/CHDO funds (CHDO is a special type of nonprofit designated as a Community Housing Development Organization)
- Cross-Cutting Federal regulations are followed

Q & A WITH CREDIT UNDERWRITERS

Q: How much time should an organization expect the underwriting process to take so they can plan for this?

A: The Credit Underwriting Report (CUR) will take approximately three weeks to prepare once all due diligence and third-party reports have been completed. The underwriting report is due a month prior to the FHFC Board meeting. A good rule of thumb is to identify the Board meeting target date then subtract two months to obtain the date that all due diligence should be provided to the credit underwriter.

Most RFAs have CUR deadlines identified within them. It is good to keep those in mind when planning as exceeding the deadline may have extension fees associated with it.

Development is a long and arduous process with its own timeline that is often under-estimated.

The Credit Underwriting Process

The underwriting process can begin informally when a project is first contemplated. The overall concept can be considered in the context of eligibility. Each step of the project should be designed with program compliance and credit underwriting process in mind. The Credit Underwriting Checklist, explained in detail below, can serve as a guide to decision-making on the site, target population, selection of team members, and potential sources of funding. The Credit Underwriting Checklist can be a valuable tool to plan the development steps and timeframe and determine if the project will have a positive cash flow. The checklist can be used to identify and evaluate potential insufficiencies that could delay or terminate a project, or to determine that the project should move forward.

The credit underwriting process for affordable housing projects is basically the same as that for market rate housing but has additional criteria that includes public benefit tests (listed above). Projects that are underwritten for financing from FHFC must meet basic feasibility criteria, requirements associated with each funding source and the criteria from the specific Request for Application (RFA).

What are the Steps of the Credit Underwriting Process?

The credit underwriter is charged with conducting sufficient analyses necessary to provide a recommendation regarding financing for a project using the sources that have been awarded. The project must be "ready to proceed" immediately upon loan closing. The credit underwriter summarizes their analyses and recommendation in a Credit Underwriting Report. This report describes the project and site, the developer, and financial feasibility. The report indicates if the project will meet the compliance requirements of each funding source and makes a recommendation to proceed (or not) towards closing. The report may further include conditions that must be met at or before closing the financing. The three main areas of analysis include:

Project Financial Feasibility

- Market analysis
- Sources of funding are committed
- Project cost analysis
- Loan terms can be met
- Project is in compliance with regulations
- Cash flow analysis

Site Suitability

- Site control
- Appraisal
- Capital needs assessment (existing projects)
- Environmental suitability
- Permit readiness
- Proximity

Capacity and Credit Worthiness of the borrower, developer, contractor, architect and property management entity

- Experience
- Financial capacity
- Credit worthiness

As previously stated, once the project, site and borrower have been evaluated, the credit underwriter prepares the Credit Underwriting Report with recommendations and conditions. This report is provided to FHFC and the borrower. Once FHFC staff and the borrower approve the report, it is considered by the Board of Directors of FHFC. If approved, the project may proceed to closing, construction, and long-term management.

Working with the Credit Underwriter

Projects that have been successful in receiving an award from FHFC are invited into the underwriting process. The specific underwriter is assigned to the project by FHFC. The relationship between the borrower and the credit underwriter should be professional, responsive, and courteous. The credit underwriter's client is the financing entity - not the borrower. Project financing cannot be approved without a positive credit underwriting report. If the underwriter is not provided with the information needed to make this recommendation according to necessary timelines, the project will not be financed.

Because there is an allotted timeframe in which the credit underwriter must submit its report, time is of the essence. However, while understanding the time-sensitivity of the credit underwriting process, it should be acknowledged that even the most experienced borrowers will encounter challenging or unforeseen circumstances in gathering necessary deliverables and information. This is why the relationship between the credit underwriter and the borrower is critical. Continued and consistent communication with the credit underwriter will allow both parties to better navigate challenges and issues that may occur along the way. The credit underwriters are highly experienced and may have guidance on how to cure deficiencies, or may allow some flexibility, but neither is possible if there are gaps in communication from the borrower.

Q & A WITH CREDIT UNDERWRITERS

Q: Are there different underwriting standards, checklists or timelines for different types of projects?

A: The checklists will vary slightly with the applicable loan program, and some specific underwriting requirements also vary slightly with each loan program. The requirements and timelines are usually identified within the applicable RFA and Rule. It is recommended that the applicant be familiar with both.

We treat them all the same, but you have to realize that permitting in Urban Miami is going to be different from Suburban Orlando.

Q: Do permanent supportive housing projects pose special underwriting challenges?

A: For these types of deals, keys points heavily reviewed are the amount of operating deficit reserves, and tenant subsidies, such as project-based rental assistance or vouchers, etc. If a deal has vouchers, they need to have them for the long **term.**

Q & A WITH CREDIT UNDERWRITERS

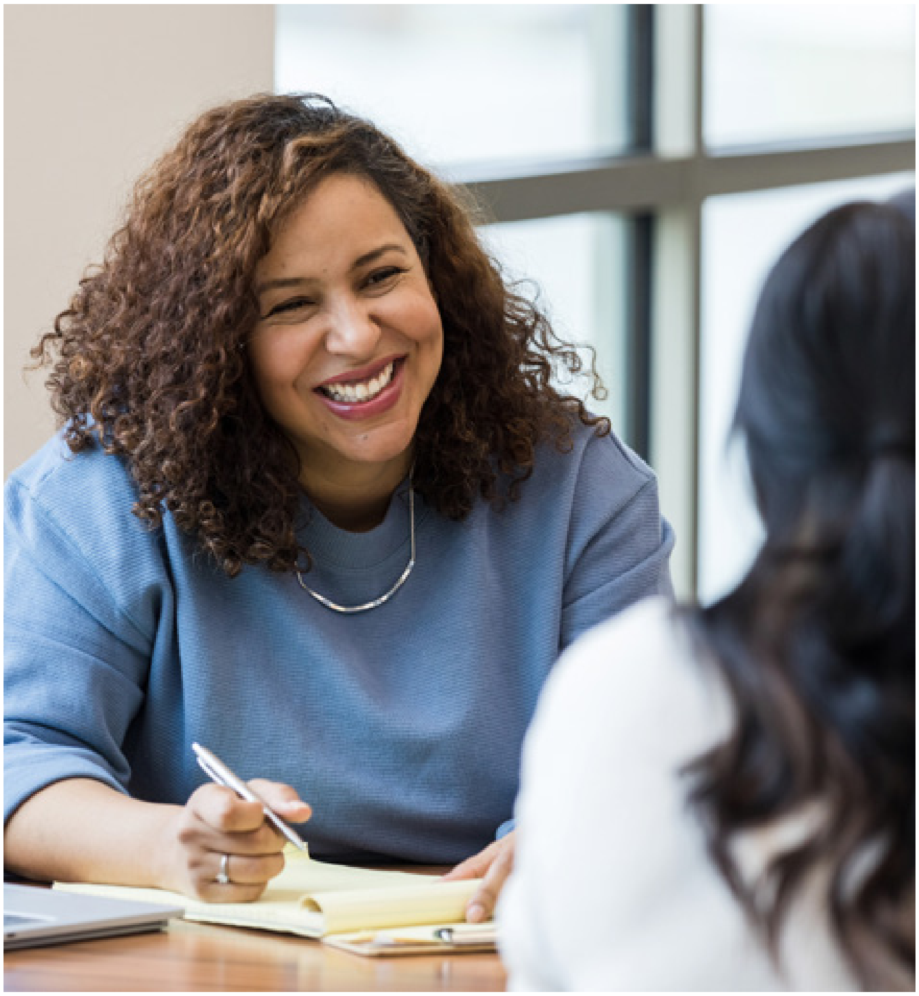
Q How do you engage the applicant in developing a working relationship?

A: Once the applicant is invited to underwriting, the credit underwriter will reach out with a due diligence checklist and applicable forms. It is helpful to have an opening conference call to discuss the specifics of the deal, any initial questions concerning forms and the checklist, and the timeline the developer is targeting. Throughout the underwriting process, the communication with the underwriter is open, and we are always available for questions. It is recommended that the applicant touch base with the credit underwriter at least every four to six weeks to update on the timeline and progression of the deal. Communication should be at least weekly once the deal is moving forward (to closing) and the majority of the due diligence is available.

Many times, the nonprofit applicant is not in good communication with their co-developer- they need to talk regularly.

If organizational capacity allows, it is firmly recommended that the borrower assign a project manager to serve as a point of contact for the credit underwriter. This will assist with communication and preparedness.

Upon invitation to credit underwriting, the borrower will receive a Credit Underwriting Checklist from the underwriter. This comprehensive list is an excellent guide to ensure that the information and documentation required is available or obtainable. The underwriter may ask for more documentation if the information available is not sufficient for a recommendation to be made.



The Credit Underwriting Checklist

A pivotal event in the affordable housing development process is when the borrower is invited to participate in the credit underwriting process. This begins with a comprehensive checklist provided to the borrower that outlines important deliverables necessary for a positive credit underwriting report. In this section a typical checklist is explained in detail. There are several main sections of a checklist, and these points are provided followed by annotations that explain why this is required and what is expected to be provided.

Applicant/Borrower Information

The Credit Underwriting Checklist typically requests the following information. Each item is expanded upon below with further explanations.

_____	1.	Identity of borrower entity and principals, and the ownership structure (i.e., identify principals and officers/ general partners, percentage of ownership and responsibilities in partnership/organization)
_____	2.	Copy of documentation creating the borrower entity (i.e., partnership agreement, certificate of limited partnership, articles of incorporation, bylaws, certification of good standing, and any other corporate documents for the borrower and any corporate general partner)
_____	3.	Resumes and trade references for each Principal of the borrower, including a description of experience in the development, ownership and management of multifamily properties. References must include addresses, contact names and telephone numbers.
_____	4.	Signed credit authorization forms completed by borrower entity and all principals (form provided by credit underwriter).
_____	5.	Completion by borrower and Principals of the Certification of Previous Multifamily Housing Experience form (provided by credit underwriter)
_____	6.	Completion of Deposit and Mortgage Verification forms by borrower entity and all Principals along with banking references, including account numbers, addresses, contact names and telephone number (forms provided by credit underwriter)

Identity of borrower entity and principals, and the ownership structure (i.e., identify principals and officers/general partners, percentage of ownership and responsibilities in partnership/organization)

The borrower must be either a limited partnership, limited liability company, for-profit corporation, or non-profit corporation. "Principal" is defined in subsections 67-48.002(94) and 67-21.002(86) F.A.C. The structure of the organization may be identified on FHFC Form "Principals of the borrower and developer's disclosure form 05-2019 rev".

This form allows for the borrower to fully disclose the type of principal, name, and organizational structure for each. Beyond this, the underwriter will require the percentage of ownership and their responsibility in the partnership or organization.

Copy of documentation creating the borrower entity (i.e., partnership agreement, certificate of limited partnership, articles of incorporation, bylaws, certification of good standing, and any other corporate documents for the borrower and any corporate general partner)

Legible copies must be provided to document the agreements and foundational documentation of the borrower and partners. Agreements should be provided for the developer, architect and property management company.

Q & A WITH
CREDIT UNDERWRITERS

Q: What are the most frequent deficiencies in an organization that must be addressed in the underwriting process?

A: One (preceding) comment: There is often confusion regarding the forms and information as to whether they apply to the individual board members or the entity. If the applicant is unsure who the form should be filled out for (entity or board) check with the underwriter before completing as it may save time.

We mainly look for the organization to be able to provide a history of development similar to the development for which the applicant is applying whether single-family or multi-family, emphasis on FHFC-funded developments.

Resumes and trade references for each Principal of the borrower, including a description of experience in the development, ownership and management of multifamily properties. References must include addresses, contact names and telephone numbers

Resumes should provide detailed timeframes for engagements or periods of employment. The contact information for trade references should be provided in list format. The underwriter will contact the trade reference contact to obtain the information needed to verify the relationship and status. Generally, five trade references will be required. References from accountants, architects and banking are not accepted.

Experience in ownership and management of affordable housing should be provided and include the name, location, and description of each property.

Signed credit authorization forms completed by borrower entity and all Principals (form provided by credit underwriter)

The underwriter will provide release forms that must be signed by the borrower and all Principals. This release will be used to run credit reports

Completion by borrower and Principals of the Certification of Previous Multifamily Housing Experience form (provided by credit underwriter)

The form provided by the underwriter includes the following sections to be completed:

- Project name and number
- Project address
- Number of units and type of project if other than multifamily
- Role and interest of the borrower or principal in the project (General Partner, Limited Partner, and ownership percentage)
- Type and source of permanent financing and Subsidy (if any)
- Disclosure of any defaults, assignments, bankruptcies or foreclosures (explanations should be attached)

Completion of Deposit and Mortgage Verification forms by borrower entity and all Principals along with banking references including account-numbers, addresses, contact names and telephone number (forms provided by credit underwriter)

The form provided by the underwriter is to be completed with banking references and contact information and returned to the underwriter for further processing.

Property Information

The Credit Underwriting Checklist typically requires the following:

_____	1.	Detailed property description
_____	2.	Legible location map, showing the property and surrounding area, including commercial/shopping facilities, schools, competitive projects, and its proximity to the areas central business district
_____	3.	Site Survey indicating the exact boundaries of the property, site acreage, any flood hazard area(s), all ingress and egress to the property, all utilities, and the property's legal description
_____	4.	Site plan
_____	5.	Zoning compliance
_____	6.	Copy of the most recent title report for the property
_____	7.	Evidence of site control (i.e., copy of ground lease analysis, sales or purchase agreement and most recent deed to the property, or ground lease to include all attachments and addendum. Closing statement if purchase has occurred within past 24 months)
_____	8.	Color photographs of the subject property
_____	9.	Aerial photograph of the property and immediate surrounding area, if available
_____	10.	Evidence of availability of utilities
_____	11.	Final Plans and specifications (with certification) - The developments final plans and specifications during underwriting "as submitted for permitting", Building permits or Permit Ready Letter, if available, and certificates of occupancy (if Acquisition/Rehabilitation). Loan closing is contingent on building permits in hand.
_____	12.	Soil test report
_____	13.	Feasibility study / market study
_____	14.	Appraisal with resume and references of appraiser
_____	15.	A plan and cost review, or engineering and property condition report (to be order by the credit underwriter at the borrower's expense)
_____	16.	Capital needs assessment (for existing projects)
_____	17.	Phase I environmental review, including history of title to the property, with resume and references of environmental auditor
_____	18.	Evidence of insurance including, but not limited to, general liability, workmen's comp., builder's risk, auto liability
_____	19.	Utility allowances

Detailed property description.

The address, legal description and parcel identification number must be provided. Many projects involve the assemblage of multiple parcels of land. It is important to plan early to have the site surveyed with a legal description prepared. If the site is to be a part of another project, such as a subsequent phase, the legal description should include information clarifying the separate parcels.

Legible location map, showing the property and surrounding area, including commercial/shopping facilties, schools, competitive projects, and its proximity to the area central business district.

The location map should be legible and clearly depict the components requested. The distance to any required proximity features should be noted along with a methodology if applicable. This will allow the underwriter to verify the proximity requirements from the RFA. Competitive projects may be partly identified on the FHFC Limited Development Area list. This list provides the location of projects financed by FHFC in the past several years.

Survey indicating the exact boundaries of the property, any flood hazard area(s), all ingress and egress to the property, all utilities, and the property's legal description.

Surveys that were obtained prior to purchase or purchase contract may need to be updated to include the specific information required during underwriting. The legal description should match the information submitted with the RFA. The surveyor should provide the following information on the site:

- Boundaries
- Legal description
- Site Acreage
- Encumbrances
- Easements
- Structures
- Access
- Right of way
- Elevation (flood or wind zone)

Surveys should be ALTA/NSPS, which means the survey meets the Minimum Standard Detail Requirements of the American Land Title Association (ALTA) and National Society of Professional Surveyors (NSPS).

Site plan.

The Preliminary Site Plan and Preliminary Site Plan Approval in the credit underwriting for a proposed development project lies in their role of facilitating early project evaluation and ensuring compliance with local zoning regulations and land-use requirements. Subsequently, the Final Site Plan and Site Plan Approval become essential components for credit underwriting, offering detailed project descriptions, regulatory compliance confirmation, and insights into environmental considerations and infrastructure planning. Zoning compliance.

The verification of zoning provided with the application should be readily available. Official zoning compliance may be in the form of a letter or a completed form. It is critical that the municipality has been given the correct description of the proposed uses and specific site to ensure the project is in compliance with zoning. Generally, the zoning will be consistent with the Future Land Use designation of the property, but many projects require a planned unit development application. This will need to be verified with the Future Land Use element of the Comprehensive Plan as well as all other elements of the Plan. The credit underwriter may examine the cited zoning classification and verify that the proposed project is consistent with the municipal code. Unless the credit underwriting process is exclusively for predevelopment purposes, which includes site acquisition, all proposed projects must have approved zoning to be given a positive credit underwriting report.

The FHFC RFA process requires evidence of proof of ability to proceed, which includes proper zoning. The language presented below is excerpted from RFA 2024-106; this example is included as a reference and each RFA should be carefully reviewed to confirm specific requirements.

> Appropriate Zoning. The borrower must demonstrate that the entire proposed Development site is appropriately zoned and consistent with local land use regulations regarding Page 108 of 142 RFA 2024-106 density and intended use or that the proposed Development site is legally non-conforming by providing the applicable properly completed and executed verification form.

Copy of the most recent title report for the property.

The underwriter will review the most recent title report from the property to identify any conditions that may not be covered by title insurance, such as liens, assessments or other encumbrances or clouds on the title. These issues must be corrected prior to completing the underwriting process. The title report must be linked to a recent survey that shows boundaries, encroachments, rights of way and easements. Any survey problems must be addressed during the underwriting process.

Evidence of site control (i.e., copy of ground lease analysis, sales or purchase agreement and most recent deed to the property, or ground lease to include all attachments and addendum, closing statement if purchase has occurred within past 24 months).

The FHFC RFA process typically includes this language describing the acceptable forms of site control. Applications that do not include evidence of site control in this format will not be considered. Below is an example of this requirement from RFA 2024-102; each RFA should be carefully reviewed to meet site control requirements.

> The borrower must demonstrate site control by providing, as Attachment 6* to Exhibit A, the documentation required in Items (1), (2), and/or (3), as indicated below, demonstrating that it is a party to an eligible contract or lease, or is the owner of the subject property. Such documentation must include all relevant intermediate contracts, agreements, assignments, options, conveyances, intermediate leases, and subleases. If the proposed Development consists of Scattered Sites, site control must be demonstrated for all of the Scattered Sites. Note: The Corporation has no authority to, and will not, evaluate the validity or enforceability of any site control documentation. *Attachment 5 was intentionally omitted from this RFA.

1. An eligible contract must meet all of the following conditions:
    a. It must have a term that does not expire before June 30, 2024 or that contains extension options exercisable by the purchaser and conditioned solely upon payment of additional monies which, if exercised, would extend the term to a date that is not earlier than June 30, 2024;
    b. It must specifically state that the buyer's remedy for default on the part of the seller includes or is specific performance;
    c. The Applicant must be the buyer unless there is an assignment of the eligible contract, signed by the assignor and the assignee, which assigns all the buyer's rights, title and interests in the eligible contract to the Applicant; and
    d. The owner of the subject property must be the seller, or is a party to one or more intermediate contracts, agreements, assignments, options, or conveyances between or among the owner, the Applicant, or other parties, that have the effect of assigning the owner's right to sell the property to the seller. Any intermediate contract must meet the criteria for an eligible contract in (a) and (b) above.
2. Proof of Ownership through a recorded document such as a Deed or Certificate of Title – The documentation must be recorded in the county in which the property is located and show the Applicant as the sole Grantee.
3. Lease
    a. If providing a lease, the lease must have an unexpired term of at least 50 years after the Application Deadline and the lessee must be the Applicant. The owner of the subject property must be a party to the lease, or a party to one or more intermediate leases, subleases, agreements, or assignments, between or among the owner, the Applicant, or other parties, that have the effect of assigning the owner's right to lease the property for at least 50 years to the lessee.
    b. If there is an existing Declaration of Trust recorded on the subject property, the Applicant may provide an Option to Enter into a Ground Lease Agreement ("eligible agreement") between the Applicant and the owner of the property. An eligible agreement must meet the following conditions:
        i. It must have a term that does not expire before June 30, 2024, or that contains extension options exercisable by the Applicant and conditioned solely upon payment of additional monies which, if exercised, would extend the term to a date that is not earlier than June 30, 2024;
        ii. The Applicant must be a party to the eligible agreement unless there is an assignment of the eligible agreement, signed by the assignor and the assignee, which assigns all of the lessor's rights, title and interests in the eligible agreement to the Applicant; and

iii. The owner of the subject property must be a party to the eligible agreement, or is a party to one or more intermediate contracts, agreements, assignments, options, or conveyances between or among the owner, the Applicant, or other parties, that have the effect of assigning the owner's right to lease the property to the lessor. Any intermediate agreement must meet the criteria for an eligible agreement in (i) and (ii) above

Color photographs of the subject property

Photographs should be of sufficient quality to appear clear when printed. The subject property should be shown with views of each side and any distinguishing features.

Aerial photograph of the property and immediate surrounding area, if available

Aerial photographs should be readily available from the county property appraiser website or mapping applications available from the internet. Property lines should be indicated, and the quality should be sufficient to remain clear when printed. Adjacent streets or other uses should be labeled.

Evidence of availability of utilities

The verification of utilities forms submitted in the RFA process should be readily available. The FHFC RFA process requires the evidence of utilities as part of documenting readiness to proceed. Documentation of utilities includes electric, water, sewer, and roads. If any of these are not available to the site, an inquiry should be made as to the estimated cost to bring this infrastructure to the site. It is also important to check with the capital improvements plan of the municipality to learn if and when these improvements might be provided to the site. It must be determined if there will be or remain unpaid assessments for the installation of utilities. During the underwriting process these will be reviewed closely, and the borrower may need to provide clarification on availability of service or location of connections and easements.

Building plans and specifications for the rehab of site and buildings

During the predevelopment process, complete architectural drawings are not prepared; At that point, sketches and schematic drawings are needed for site plan approval and overall planning of the development. During the underwriting process the full plans are to be completed and submitted for permitting. It is thus important that the architect and engineers on the development team be prepared to expeditiously complete the plans and specifications upon notice. The plans and specifications must be at a stage suitable for permitting since loan closing is contingent upon permits being issued.

Soil test report

Soil testing is required for all new construction projects. Projects that expand an existing building will be required to have a soil test. Preservation or rehabilitation projects that do not expand onto new ground will most likely not be required to obtain a soil test. Soil testing can reveal conditions that will adversely impact the budget or engineering of the site. This is normally conducted during the initial due diligence process as unfavorable soil conditions can render a project infeasible. The presence of dense material (i.e., rock) under the surface or poor drainage can require remediation that may be too costly. The soil results must be reviewed immediately upon availability by a qualified engineer. Soil reports, along with other engineering and environmental documents must be in compliance with ASTM Practice D-1586. (American Society for Testing and Materials.)

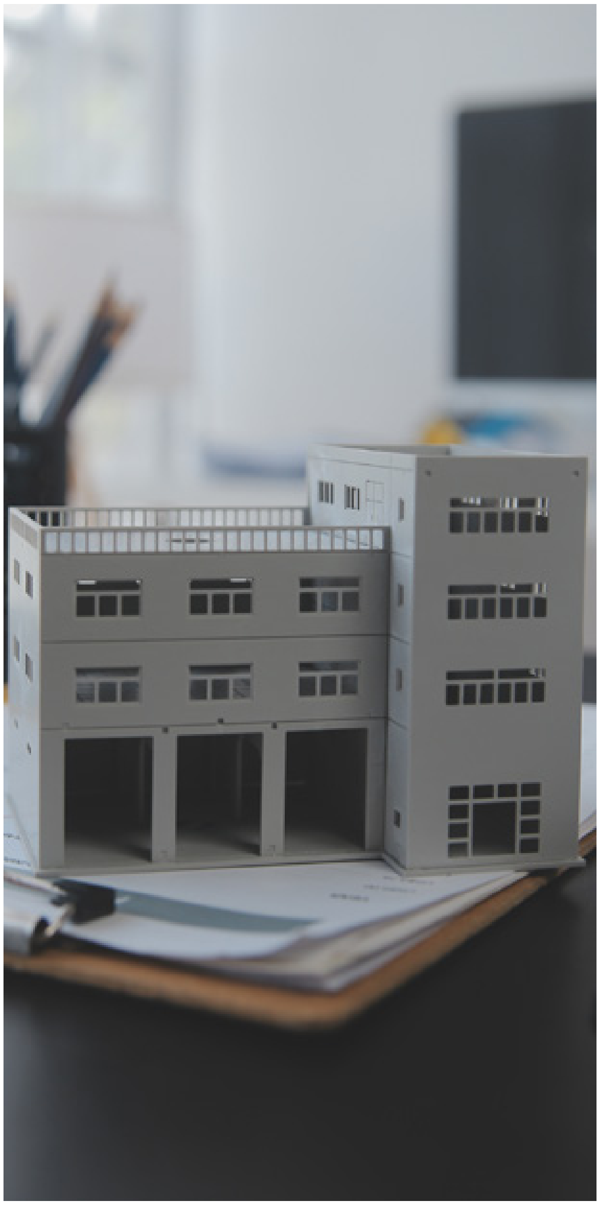
Building permits, if available

The completion of the credit underwriting process is contingent upon the issuance of development orders and building permits. Projects should be ready to enter the permitting process during the underwriting process. Those projects that require more complicated permitting, such as water management district or Army Corps approvals or land use plan amendments, should have that process already completed or near completion.

Feasibility Study / Market Study

The credit underwriter orders the market study to determine the feasibility of the project; the borrower is required to pay for the study to be completed. A market study is an evaluation of the economic conditions of supply and demand and rental rates for the type of housing being proposed, as well as the rent levels for the specific project. The analysis must determine the feasibility of the rental rates of the subject project and state conclusions about the impact of the project in meeting affordable housing needs. The conclusion must address whether the proposed project will have a negative long-term impact on existing rental communities. The market study will provide information on the following topics:

- Site Analysis – does it have good exposure and access
- Improvement Analysis – is it suitable for the proposed use
- Regional Analysis – trends in the metropolitan statistical area (MSA) such as population growth and housing costs
- Neighborhood Analysis – look at same trends from regional analysis within a 3-mile ring around the proposed project site
- Apartment market overview – availability of units and costs
- Primary Market Area determination – conclusions about market characteristics within a 10-mile ring of the proposed project site (from which 66% to 75% of tenants will come) to include:
    1. Demographic Analysis - population inside ring
    2. Rental Estimates – comparison of income-restricted rates and market rates
    3. Unit Mix, unit sizes, amenities relative to competition given area characteristics
    4. Impacts on existing affordable inventory
    5. Average occupancy rate
- Absorption rate – the rate at which apartments in the proposed project are expected to lease up



The credit underwriter is responsible for reviewing the study and making a determination on the market feasibility of the proposed project.

Appraisal with resume and references of appraiser

The credit underwriter will engage the appraiser directly to conduct a valuation of the property as is, as developed as proposed, and as if it were developed without subsidy or rent restrictions. For affordable housing projects, the rent restricted value is the key value given the long-term compliance period. The purpose of the appraisal is to determine if the development itself is sufficient collateral or if additional forms of collateral will be required.

A plan and cost review (PCR), or engineering and property condition report

The credit underwriter will engage a qualified project cost reviewer at the borrower's expense. The purpose of the PCR is to determine that all proposed work is reflected in the proposed budget and that costs are reasonable. This process starts during the credit underwriting process but continues throughout the construction phase. The analyst is responsible for reviewing project construction draws and determining that work has been completed at the costs represented in the construction contract. The PCR is the final review before funding is awarded and therefore is very important to the flow of the project.

The PCR reviews the following:

- Construction drawings
- Specifications
- Total Project Budget
- Scope of work
- Construction contracts
- Environmental reports
- Geotechnical reports

The PCR report includes the following:

- Project Description
  - Sitework
  - Building construction
- Document Review
  - Regulatory
  - Infrastructure
- FHFC RFA requirements including construction materials and energy sustainability criteria
- FHA, ADA, Section 104 Compliance
- Cost Analysis
- Estimated insurance value

Capital needs assessment

A capital needs assessment (CNA) or property condition analysis is required for all rehabilitation or preservation projects awarded funding from FHFC. The credit underwriter engages the assessor and considers the results to determine that there is sufficient financing available to cover immediate needs. The analyst may request preliminary construction plans and specifications to understand what is being proposed and to identify work needed that may not have been contemplated in the preparation of construction plans. The process involves a detailed inspection of all components of an existing property including the interior of apartments. The report should include a capital reserve analysis that is based on the outcome of the evaluation of the useful life of mechanical and structural systems.

Phase I environmental review, including history of title to the property, with resume and references of environmental auditor

Not every project is subject to a full environmental review (i.e., every project's environmental impact must be examined, but the extent of this examination varies), but every project must be in compliance with the National Environmental Protection Act and other related federal and state environmental laws.

Initially, a Limited Due Diligence: Transaction Screen Process (TSP) report should be provided. The work must be in accordance with the American Society for Testing and Materials (ASTM) designation E-1528-22.

Mitigation may be required for protected habitat, wetlands, or species. Projects that will negatively impact properties that have historical or archaeological signifcance may not be permitted or there may be mitigation requirements. The purchase contract should have an exit if the site has significant environmental issues.

Properties constructed before 1989 must be inspected for asbestos and those constructed before 1978 must undergo a lead-based paint analysis as part of the Phase I environmental review. Building code regulations require that testing be conducted by certified analysts. If hazardous materials are discovered, a Phase II Environmental review and assessment must be conducted to include the results of testing and plan for remediation. The housing developer should prepare for the presence of hazardous materials when first considering a rehabilitation project, as this is vitally important to the safety of tenants. However, the budget impact of remediation can render a project infeasible.

Evidence of insurance including, but not limited to, general liability, worker's compensation, builder's risk, and auto liability

The underwriter will indicate required coverages, including amounts, and which entities should be named as additional insured on insurance policies. Project completion bonding must be completed during the underwriting period as well.

Utility Allowances

The calculation of the maximum tenant rent is based on income and size of unit, but many programs require that if utilities are tenant paid, the rent amount must include a utility allowance. The borrower must provide an explanation and satisfactory documentation of the projected utility allowance per unit.

Additional Information For Existing Projects

Projects involving the acquisition and rehabilitation of existing projects, including the preservation of affordable housing, require review of additional documents not applicable to new construction. Typical items requested are described below:

_____	1.	Statement of All Outstanding Obligations against the Property
_____	2.	Certification of Project Rent Roll executed by Owner
_____	3.	Current project rent roll. Rent roll must include unit number or identification, tenant's name, unit type, monthly rent subsidies (if applicable), rent controlled or rent stabilized (if applicable), concessions, rebates or discounts given to tenant, furnished or unfurnished status, lease commencement date, lease expiration date, arrearages owed by tenant, if any, and amount of security deposit(s) held.
_____	4.	The actual Income and Expense Statements on the Property for the current year-to-date, and the year-end statements for the previous three (3) years (certified by the borrower). In addition, subsequent monthly year-to-date statements must be submitted each month no later than the tenth day of the following month while the loan request is in processing. Also, if any major capital improvements have been made to the Property within the past three (3) years, and the costs are included in the operating statement(s) as expense items, provide a break-out of said cost(s) and item(s). (Example: new roof, new heating system, replacement of appliances, replacement of carpet, etc.)
_____	5.	Historical occupancy and rent roll information
_____	6.	Statement(s) indicating what costs, if any, are shared with other properties.
_____	7.	Copies of all service contracts
_____	8.	Copies of laundry leases
_____	9.	If there are Commercial Leases within or associated with the Property, provide the following: a. Complete copies (with all amendments) of all Commercial Leases; b. Commercial Tenant's Estoppel Certificates.
_____	10.	Personal Property Certification. Borrower

Statement of all outstanding obligations against the property

The borrower must provide a written statement describing all obligations, such as existing mortgage debt, other loans, liens, ground leases or equity obligations related to the property. The purpose of this statement is to determine whether there are adequate resources to satisfy such obligations, particularly those that must be satisfied at the closing of the financing. This also helps in assessing the risk that any outstanding obligation could lead to the lender or equity provider being unable to recover their investment. It is important that the borrower fully disclose all obligations with enough detail, so the proper analysis and conclusions are reached regarding each obligation, and the project can successfully proceed to closing.

Q & A WITH CREDIT UNDERWRITERS

Q: What types of project deficiencies recur that must be addressed in the underwriting process?

A: Insurance has been an issue for some nonprofits. Be sure to carefully read the specific RFA for all requirements. If the RFA refers to an insurance guide or a specific rule, be sure to read it carefully.

All features and amenities in the RFA should be included in the plans and specifications. If not explicitly stated that they are included, it could slow down the process.

The Management Plan and Management agreement should discuss that this is an affordable housing transaction, and should mention how any amenities committed to in the RFA will be met, such as literacy classes, budgeting classes, etc.

There needs to be adequate preparation for operating over the long term. Many nonprofits do not show adequate operating funds.

Certification of project rent roll

The borrower must certify that the information provided in the current project rent roll is true and accurate to the best of their knowledge, thus taking responsibility for the information represented in the rent roll. Therefore, prior to submission, the borrower should review the rent roll with property management to understand the information and be prepared to address any questions raised by the underwriter.

Current project rent roll

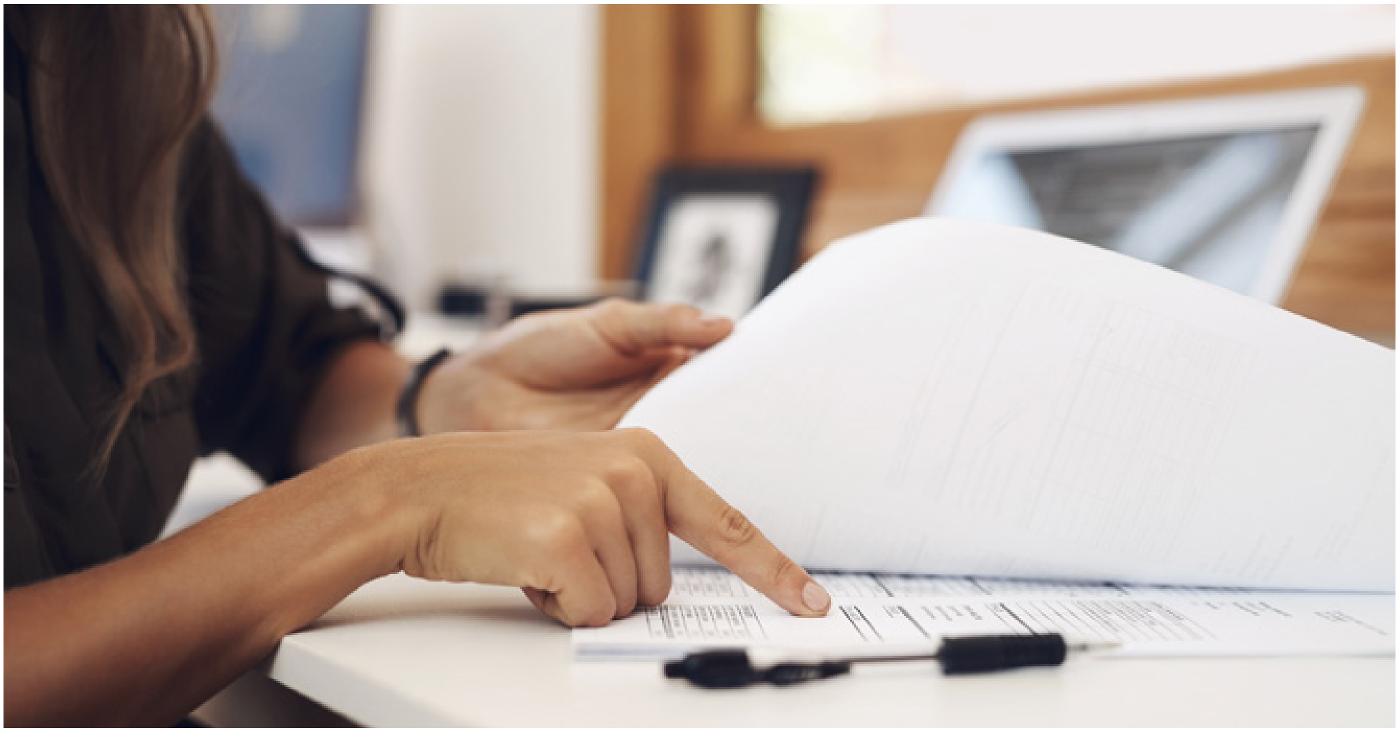
The borrower must provide a current rent roll to understand how the project is currently operating in terms of occupancy and rates. The rent roll should include the following:

- Tenant name
- Unit number
- Unit type
- Rental rate
- Amount paid by tenant and amount paid by rental subsidy (if applicable)
- Information on concessions
- Lease beginning and expiration date
- Security deposits held

The borrower should also attach a tenant delinquency report broken down into 30-, 60- and 90 plus-day delinquencies to present a snapshot of current operations. This will help determine any issues that must be addressed by property management going forward. Further, this information helps the underwriter understand how occupancy will be managed during construction, such as how tenants will shift during construction, whether existing tenants will meet income qualifications for the development, and if any tenants will need to be relocated from the project.

Actual income and expense statements for current year-to-date and year-end for the previous three (3) years

In addition to examining rent rolls, income statements play a pivotal role as they provide crucial insights into future operational performance. Underwriters assess various essential metrics such as utilities, salaries, maintenance costs (including materials and contracted maintenance), taxes, insurance, and deposits into reserve accounts. Additionally, a trailing 12-month profit and loss (often referred to as a T-12) statement may be necessary. This document allows underwriters to scrutinize the last 12 month's trends, enabling them to make informed estimations about future trends. In the end, the underwriter will compare this current and historical information to the borrower's projections, and ultimately evaluate the ability of the project to support the new funding obligations. Combined with the rent roll information, the underwriter will determine how the property has met all financial obligations in the past, and whether the proposed acquisition and rehabilitation will allow for any increase in income and/or reduction in expenses. Major differences between historical and current statements and projections will need to be addressed. For example, if projected maintenance costs are significantly higher or lower than the historical costs, the borrower may be asked to provide a written explanation and supporting documentation.



Historical occupancy and rent roll information

Current operations may not present an accurate picture of typical operations. For example, the current vacancy may be higher than typical if the property manager is holding open units for tenants displaced from their homes due to rehabilitation. Therefore, the borrower will provide historical occupancy and rent roll information, ranging from the previous 12 months to 36 months. This will provide a more accurate picture of normal operations and serve as an indicator for future operations. For example, if historical information shows that property generally operates at 98% occupancy, it will likely continue to operate at that level of occupancy going forward. If history shows extended periods of low occupancy (below 90%), that may signal issues with previous management or the market; the underwriter may ask the borrower and management company to address these issues and consider when writing the property management plan.

Statement(s) indicating costs shared with other properties

It is not uncommon for costs to be shared among properties managed by the same company, particularly when the properties are in close proximity to each other. For example, properties may share a property manager, maintenance staff, or service contracts. Statements describing these arrangements will further aid the underwriter in understanding the income and expense statements as well as projections. For example, it may be that properties are sharing a property manager currently, but that may not be the case going forward. Or, it could be that an existing maintenance contract on another property will be extended to the acquired property without additional cost, resulting in lower operating expenses.

Copies of all service contracts

Expenses such as pest control, lawn care, and equipment are often governed by service contracts. The terms of the service contract should support expenses reflected in the income and expense statements and the underwriter may ask the borrower to explain any differences. For example, the underwriter may request an explanation if the actual pest control expense on the year-to-date income statement reflects an amount above the monthly amount in the contract, or if the projections show a lower amount for pest control than the current contract.

Copies of laundry leases

A common practice is for properties to lease laundry equipment for their laundry facilities. The obligations under such leases must be subordinated to the mortgage debt and/or equity obligations to ensure that the mortgagee's or investor's interests always supersede those of the equipment lessor's (i.e., in the event of default, revenue will go first to satisfy financial obligations under the financing agreements).

Copies of commercial leases

If there are commercial spaces in the property contributing to income, those leases must be provided with all amendments. The estoppel certificate is also important as a legally binding document making certain representations regarding the lease, such as:

- When the lease started and expires
- Terms of renewals and extensions
- Rental rate and remaining amounts to be paid under the lease
- Deposits/escrows collected and how they can be used
- If there were any defaults on obligations of the lease by any party
- Names and contacts of the parties to the lease

The estoppel certificate functions as a promise of the borrower to the lender and/or investor regarding the terms of the lease and prevents the borrower from later claiming a different set of facts. The borrower must confirm that the information in the certificate is true, accurate and consistent with the language of the lease. The underwriter may ask the borrower to explain any material differences between the terms of the lease and those in the estoppel certificate.

Personal property certification

There may be some personal property to be transferred to the new owner as part of the transaction, such as maintenance equipment and artwork, the value of which may be included in the acquisition price. The personal property certificate(s) provides information the underwriter may use to determine the reasonableness of the acquisition price.

Financial Information

_____ 1.	Current signed financial statements of borrower entity and each Principal, General Partner, General Contractor and Credit Enhancer or Guarantor.
_____ 2.	Most recent two years' tax returns for borrower entity; all Principals, General Partners, General Contractor and Credit Enhancer or Guarantor, with all supporting notes and schedules.
_____ 3.	Schedules of Real Estate Owned and Contingent Liabilities certified as complete and accurate by the party whose finances are summarized by the statement.
_____ 4.	Monthly income and operating expense projections until stabilization, showing absorption, occupancy analysis, and supporting terms and conditions for interest reserve calculations and operating reserves.
_____ 5.	Fifteen-year income and expense pro forma (detail operating expense items).
_____ 6.	For tax exempt developments, commitment letter from placement agency outlining terms of financing requested. If credit enhanced, commitment letter from Credit Enhancer including Credit Enhancer's resume with references.
_____ 7.	Commitment letters for all financing, including first mortgage loan, tax credit equity and secondary financing.
_____ 8.	If a refinance, the mortgage loan payment record for the past three (3) years.
_____ 9.	Detailed Sources and Uses of Funds Statement.
_____ 10.	Section 8 HAP Contract (if applicable).

Current signed financial statements

All of the major players must provide financial statements. Audited financial statements as well as current income and expense statements, signed or certified, are generally required. If any entities are formed for the purpose of the transaction, the financial statements of the principals will be evaluated in lieu of the new entities. The underwriter evaluates the financial position of each party, and the collective ability of the parties to guarantee completion of the project and ongoing financial obligations. For example, a general contractor with weak finances may pose an unacceptable risk to the project, in terms of its ability to pay employees and subcontractors (which results in risks of liens) or maintain proper insurance. A guarantor will need to demonstrate adequate liquidity to meet financial obligations should the borrower default. The underwriter may request multiple years of financial statements to demonstrate stability of financial position.

Most recent two year's tax returns

Similar to financial statements, the tax returns will demonstrate stability of financial position for the major actors in the development. Submission of tax returns also demonstrates that each party is properly filing tax returns, and there is little risk of penalties from the Internal Revenue Service. Further, tax returns should be consistent with financial statements. If two years of filed tax returns are not available, then two years of tax returns plus evidence of an extension for the current tax return will be requested.

Schedule of real estate owned

A schedule of real estate owned is required of the borrower entity, its principals, general partner or managing member. The schedule will generally contain the name of the property, location, type of property, number of units, the party's ownership interest, current occupancy and description of financing. This schedule will show each party's experience (or lack thereof) with the type of property that is proposed for financing, and the strengths or weaknesses of the properties associated with that party. Any potential issues with experience or the current state of the real estate owned will need to be addressed with the underwriter. The underwriter may also require the party to sign and certify the accuracy of the information on this schedule.

Schedule of contingent liabilities

The disclosure of contingent liabilities provides the underwriter information regarding the amounts and likelihood of financial obligations associated with each party. Similar to the schedule of real estate owned, this schedule will name a property, the party's ownership interest, the terms of financing, and current balances of liabilities. This information will be compared with financial statements to determine if the borrower can take on new financial obligations resulting from the transaction at hand.

Monthly income and expense projections through stabilization

Income and expense projections forecast how the property is expected to operate month by month during the first year of operations following construction completion through project stabilization (i.e., when the project meets defined performance measures of occupancy, income and expenses for at least three

Q & A WITH CREDIT UNDERWRITERS

Q: Can you address the matter of guarantees? When are personal guarantees required and what types of guarantees or collateral are acceptable?

A: Guarantees depend upon the particular circumstances of the development and are evaluated on a case-by-case basis during underwriting. Typically, individual guarantors are provided if they are involved in the organizational structure, unless the owner or general partner is a verifiable not-for-profit with appropriate history and experience.

The deal has to pencil out… we will look for some form of collateral absent a strong personal guarantor.

consecutive months). The borrower should make sure these projections are realistic based on previous experience, historical operations (if an existing project), and the market analysis. These projections will affect such things as the amounts required to be deposited into an operating reserve, required lease-up reserves, and interest reserves. This information will also help determine when a project is deemed fully qualified for tax benefits (credits and bonds), which in turn affects the anticipated timing of conversion of construction to permanent financing, and the timing and amounts of capital contributions from tax credit equity. Projections that are too aggressive or conservative may be questioned by the underwriter and may also negatively impact the financial health of the project.

Fifteen year operating pro forma

The minimum compliance period for most funding is 15 years. Therefore, the underwriter will typically require a 15-year operating pro forma to demonstrate that the project will have the ability to meet financial obligations over the first 15 years of operation. These obligations include hard mortgage debt, soft debt (i.e., those requiring interest only and/or regular compliance fees), required replacement reserve deposits, and deferred developer fees. As a rule of thumb, incomes reflect increases of 2% per year, while expenses are projected to increase 3% per year. The underwriter is generally looking for a debt service coverage ratio (DSCR) of at least 1.15 (where DSCR equals Net Operating Income ÷ Must-Pay Debt) or, if no debt, an income to expense ratio of 1.10 (generally, all revenue sources ÷ all expenses). The property should demonstrate these ratios throughout the entire period; if desired ratios are not met, the underwriter may require adjustments to the projections. If the 15-year operating pro indicates that a project is over-subsidized, the project may need to reduce rents or use less public subsidy.

Commitment letters

All financing commitments must be supported by commitment letters from the funders, including the amounts and terms of financing. These figures should be accurately reflected in the sources and uses, and operating pro formas. The underwriter will require the borrower to address any differences between the commitment letters and budgets.

Mortgage loan payment record

When financing will be used to refinance or pay off existing debt, the underwriter will require documentation of the current mortgage balance and payment record. This information should be consistent with that in financial statements and tax returns. An inconsistent payment record may be cause for concern, particularly in refinancing that does not involve new ownership or management. When there are debt payoffs, the underwriter will confirm adequate proceeds to pay off the balance of the loan. The underwriter will also require that the borrower address any issues revealed by the review of the mortgage payment record.

Detailed sources and uses of funds

The sources and uses of funds information will be reviewed to determine that the development budget includes all reasonably expected and foreseen expenses, including whether expenses are accurately projected and supported by contractual documents where applicable, such as construction contracts, architect contracts, commitment letters, loan agreements, fee schedules, etc. The detail will also be reviewed to help the underwriter confirm the adequacy of sources to cover all uses. Amounts of sources will also be compared with amounts listed in commitment letters to ensure accuracy and the underwriter will require the borrower to address any discrepancies or anticipated shortfalls in sources.

Section 8 HAP contract

If the project is dependent on a Section 8 Housing Assistance Payment (HAP) contract, evidence of the contract must be provided, such as the actual contract showing the amount of assistance and expiration date, or a letter from HUD demonstrating approval of the HAP contract application and confirmation that the project will meet requirements of such approval.

Property Management Agent Information

The management company is the firm selected by the owner to oversee the operation and management of the development. The property management company also accepts compliance responsibility. FHFC must approve management companies selected by owners to manage developments participating in FHFC programs. The credit underwriter conducts the evaluation to determine that the property management company is qualified and experienced to manage the type of housing under consideration.

It is the borrower's responsibility to obtain from FHFC its approval of the management company – this requirement is in addition to the management company information provided by the credit underwriter. FHFC expects anyone who is authorized to lease apartment units to residents to be thoroughly familiar with each federal and state law, rule, or regulation governing tenant income certification as well as any other project specific demographic requirements, and leasing procedures.

Each RFA requires management company information. It is the responsibility of the credit underwriter to verify the experience stated in the RFA. Along with providing a prior experience chart, the borrower must document that the management company has demonstrated experience. A typical requirement is the management of at least two affordable rental properties (i.e., properties funded through an affordable housing program such as low-income housing tax credits, tax exempt bonds, HOME, SAIL, etc. Further, at least one of those properties must consist of a total number of units no less than 50 percent of the total number of units proposed in the development. To be considered, each of the two previous projects must have been operating for at least two years.

The Credit Underwriting Checklist related to property management typically requires the following:

_____	1.	Management agent's resume and references, to include number of years in business, number and location of other properties/units managed, and brief resumes of key principal.
_____	2.	Executed Management Agreement, including documentation of program requirements; i.e., income and rent restrictions
_____	3.	Management Plan
_____	4.	Copy of standard tenant lease

Management agent's resume and references, to include number of years in business, number and loction of other properties/units managed, and brief resumes of key principals

The management's prior experience information must include the name of each development, location, whether the company is currently managing the development or formerly, the length of time and the total number of units that the management company has successfully managed within the submarket. Resumes should describe the timeframe of an engagement or period of employment and specific duties should be described, particularly as they relate to experience required for the proposed project.

Executed Management Agreement, including documentation of program requirements; i.e., income and rent restrictions

The management agreement should conform to the program requirements for compliance as well as detail the roles and responsibilities of the manager in the leasing, on-site supervision, maintenance, and reporting duties. The agreement should also define the specific demographic requirements of tenants including the income and rent restrictions.

Management Plan

The Property Management Plan is a key factor in the successful and sustainable operation of affordable housing. The Management Plan defines the governing framework of the property and sets forth the policies and procedures to be used by management staff including leasing, support service coordination, maintenance, and compliance with the Regulatory Agreement and any other financing conditions. A separate Management Plan should be provided for each property in the portfolio.

In June of 2018, FHFC received recommendations from the Low Barriers to Entry (LBE) workgroup created by the 2017 Affordable Housing Workgroup regarding lowering barriers for extremely low-income households to access rental housing in FHFC's portfolio. The memo, "Proposed Standards and Processes that Lower Barriers to Rental Housing Entry" can be downloaded here.

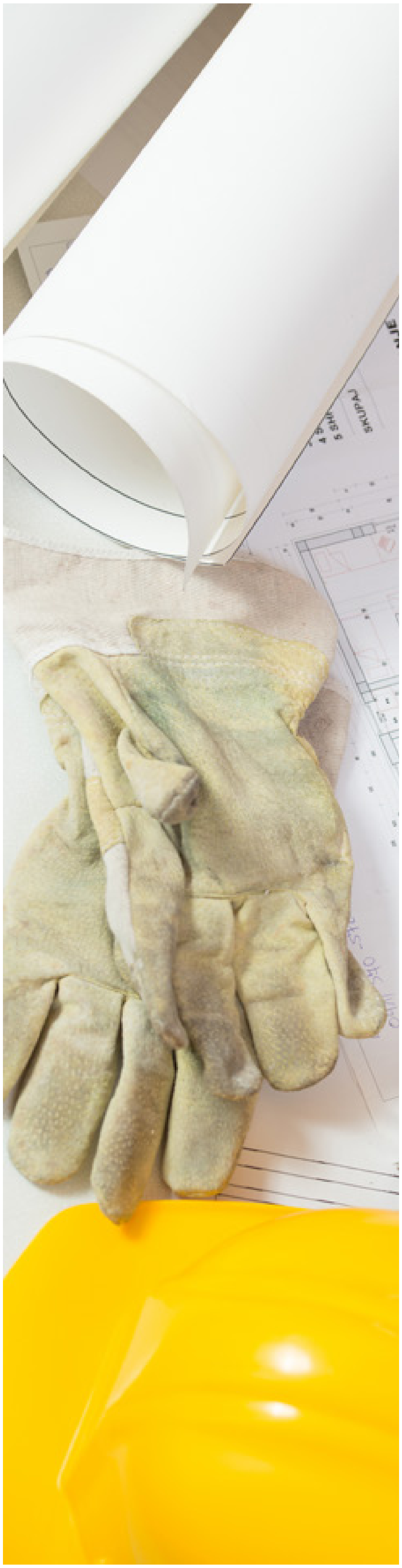
Copy of standard tenant lease

Generally, the standard eases provided by the Florida Bar or the Florida Association of Realtors is acceptable for credit underwriting. Additional provisions may be required if rental assistance was indicated in the financing application and the rental assistance agreement will be requested as well.

Construction Information

Typical construction information required includes:

_____	1. Detailed project cost breakdown highlighting breakout of hard construction costs (including contingencies, general requirements, and all overhead and profit figures) and soft costs
_____	2. Proposed construction contract and general contractor's license
_____	3. Resume, banking and trade references (include bonding company) on the general contractor, including a description of experience in the development of multifamily properties
_____	4. Signed credit authorization form for general contractor (form provided by credit underwriter)
_____	5. Copy of architect's contract, current license, and resume which list experience with this type of development (Executed contract required prior to loan closing)
_____	6. Copy of engineering contract, current License, and resume which list experience with this type of development (Executed contract required prior to loan closing)
_____	7. Construction draw schedule (for loan programs)
_____	8. Termite inspection report and/or a termite bond (or other acceptable evidence of damage/repair coverage)



Detailed project cost breakdown

The project cost detail information should be covered in the Sources and Uses described above. The information should clearly delineate between land/acquisition, hard (construction) costs, and soft costs. The breakdown of costs should also be consistent with contracts and meet the requirements of financing, such as required percentages for hard and soft cost contingencies, general requirements and overhead for the contractor, developer fee amounts as a percentage of development costs, and required deposits into reserve accounts. Generally, required amounts for operating and replacement reserves are provided by the underwriter and dictated by the funding source. However, other reserves, such as lease-up and interest reserves, should be supported by construction and lease-up schedules and loan documents. Generally, the maximum amount of soft cost contingency is 5% of total soft costs.

Construction contract

The construction contract should be a standard, AIA (American Institute of Architects) contract, with a guaranteed maximum price. The underwriter will generally review the contract to ensure it contains a clear schedule of values, inclusions and exclusions, references to the architectural drawings and specifications, and change order procedures, and includes in the price the construction of all require features, amenities and items from the construction needs assessments and plan/cost reviews. Generally, the maximum general contractor fee for overhead and profit is 14% of the construction budget.

Contractor’s credentials

The intent of this requirement is to determine the contractor’s qualifications to complete the project both in terms of its legal standing to do the work (licensure) as well as prior experience with the project type proposed. Therefore, the underwriter will request a copy of the license showing that it is active, the business resume of the contractor for general experience, banking and trade references to demonstrate the contractor has a good reputation with vendors, and an experience chart with the contractor’s direct experience with the project type (multifamily, mid-rise, high-rise, etc.), with specific interest in affordable housing experience.

Credit authorization for the contractor

The credit underwriter will require the contractor to provide authorization for a credit check in addition to checking references to form a complete background check. The credit underwriter will provide the authorization form to be signed by the contractor.

Architect’s contract

Similar to the construction contract, this should also be a standard AIA contract. The scope of work should be clear, particularly regarding approval of change orders, and price of services. Also, because the architect will be required to sign off on all draw requests, the contract should include provisions for inspections by the architect periodically throughout construction.

Architect's credentials

Also, just as with the general contractor, the architect must possess an active license, and the architect's resume should demonstrate experience working on the development type proposed.

Engineer's contract

In most cases, the architect will contract with an engineer. However, there may be cases where the borrower will contract directly with an engineer or engineers for specific aspects of a project. This scope of work should be well-defined, including approval authority of the engineer on work completed and design changes. The price of services should also be clear. The underwriter will need to understand this contract and expect that the borrower will follow the procedures outlined in the contract.

Engineer's credentials

As with the general contractor and architect, the engineer must possess the proper active license, and the engineer's resume should demonstrate experience working on the development type proposed.

Architect/Engineer Insurance Requirements

Appropriate insurance for the architect and engineer is required. If the engineer contracts with the architect, the underwriter will request a copy of this agreement.

Construction draw schedule

In addition to the sources and uses, the underwriter must understand how capital is anticipated to flow to the project starting from loan closing through project stabilization. As there are likely various sources involved, each with its own requirements in terms of timing and use, the underwriter will review the draw schedule to determine that all sources are timed and used appropriately to meet funding requirements and keep the project in balance. The draw schedule will be updated with each draw request as the project proceeds, mainly due to increases or decreases in budget.

Termite Inspection Report

Termites are a particular issue in Florida. Therefore, existing buildings (in the case of acquisition and rehabilitation) require termite inspections, as their presence could lead to safety issues due to compromised structures. Therefore, if found, termites must be eradicated, and any structural issues addressed as part of the rehabilitation.

APPENDIX A

Credit Underwriting Considerations of the Live Local Act

In recent years, Florida has seen major statewide housing legislation, with the Live Local Act ushering in a new era in how the state approaches affordable housing policy. Not only did the Live Local Act provide a sustained funding commitment for the state's core affordable housing funding programs of SHIP and SAIL, but it also contained a variety of tax incentives, land use policies, publicly owned land tools, and other strategic initiatives aimed at building more affordable homes in Florida.

Newer affordable housing developers and non-profit organizations, as well as more experienced affordable housing developers, may have questions about how the Live Local Act could affect standardized and longstanding affordable housing finance practices, such as credit underwriting. This section provides a breakdown of how various provisions of the Live Local Act may, or may not, impact the practice of credit underwriting for affordable housing transactions, either directly or indirectly. At the very least, borrowers entering the credit underwriting process should be mindful of how these provisions may affect their situation.

The Live Local Act's Land Use Preemption

How it works

At its core, the land use preemption of the Live Local Act is designed to facilitate eligible affordable housing developments on parcels zoned for commercial, industrial, and mixed-use by providing favorable development standards. Specifically, the preemption introduces use, density, height, floor area ratio, administrative approval, and parking standards for affordable housing development if a proposed project meets the following criteria:

- Multifamily or mixed-use residential in any area zoned for commercial, industrial, or mixed use;
- At least 40% of units are rental units affordable for households up to 120% AMI for at least 30 years; and
- If mixed-use, at least 65% is residential.

A local government cannot require a development authorized under this preemption to obtain a zoning or land use change, special exception, conditional use approval, variance, or comprehensive plan amendment for use, density, height, floor area ratio, or parking (under certain limited circumstances). This ultimately results in more streamlined approval processes for affordable housing development at the local level with an added effect of increasing allowable density in certain contexts.

Additionally, subsequent amendments to the Live Local Act have provided the following additional provisions to the land use preemption that should be noted by housing professionals:

- Newly provides that local governments cannot limit the floor area ratio of a proposed development below 150% of the highest currently allowed floor area ratio (FAR) on any land where development is allowed in the jurisdiction under the jurisdiction's land development regulations.
- Clarifies that the maximum density, height, and FAR allowances do not include that of buildings using the Live Local Act land use preemption or any "bonus, variance, or other special exception" for density, FAR or height provided in the jurisdiction's land development regulations as incentives for development.
- Allows local governments to limit the maximum height allowance if the proposed development is adjacent to, on two more sides, a parcel zoned for single-family residential use that is within a single-family residential development with at least 25 contiguous single-family homes to 150 percent of the tallest building on property adjacent to the proposed development, the highest currently allowed height for the property provided in the land development regulations, or 3 stories, whichever is higher.
- Reduces the buffer for local governments to "consider" reducing parking requirements from ½ mile of a "major transit stop" to ¼ mile of a "transit stop." This will establish a lower buffer

and encourage reduced parking requirements for projects near any transit stop, not just a "major" transit stop.

- Requires local governments to reduce parking requirements by 20% for proposed developments located within ½ mile of a "major transportation hub" that have available parking within 600 feet of the proposed development and eliminates parking requirements for a proposed mixed-use residential development within an area recognized as a transit-oriented development or area.

Potential impacts related to credit underwriting

Project readiness. For planned affordable housing developments that have utilized the Live Local Act's land use preemption and are also awarded funding from FHFC, these aforementioned provisions associated with the land use preemption may affect the credit underwriting aspects of market analysis (project feasibility), site control (site suitability), permit readiness (site suitability), and proximity (site suitability).

Prior to applying for funding from FHFC and, if awarded, entering the credit underwriting process, the more streamlined approval process at the local level may allow for greater efficiency and predictability in demonstrating a project's ability to proceed. This would apply to aspects such as site plan approval, demonstration of appropriate zoning, and obtaining building permitting, all of which are necessary to receive funding from FHFC. Keep in mind that unless the credit underwriting process is exclusively for predevelopment purposes, which includes site acquisition, all proposed projects must have approved zoning to be given a positive credit underwriting report.

Potential for reduced parking requirements and added density. Within the credit underwriting process, planned projects using the Live Local Act's land use preemption may see impacts to the feasibility study or market study that is ordered by the credit underwriter for review and paid for by the borrower. This is especially pertinent for developments that meet the above-referenced requirements for reduced parking and increased height and density. As outlined prior, projects utilizing the land use preemption of the Live Local Act may be entitled to reduced parking requirements and greater density than would otherwise be allowed. Keep in mind that lenders may require parking minimums separately from what is required by local zoning, depending on level of comfort.

Property Tax Exemptions

The Live Local Act features several prominent property tax exemptions that are geared toward affordable housing development: 1.) the local option affordable housing property tax exemption; 2.) the non-profit land used for affordable housing with a 99-year ground lease property tax exemption; and 3.) the Missing Middle Market property tax exemption. However, the Missing Middle Market property tax exemption is not applicable to this guidebook, as properties with a Land Use Restriction Agreement in place under FHFC are not eligible, eliminating any property that has received traditional FHFC funding sources from participation.

However, a newly created property tax exemption for FHFC-funded permanently affordable housing may include FHFC-funded projects that have a Land Use Restriction Agreement in place. To qualify for this new property tax exemption, a project must meet the following eligibility criteria:

- Be composed of an improvement to land where an improvement did not previously exist or the construction of a new improvement where an old improvement was removed, which was substantially completed within 2 years before the first submission of an application for exemption.
- Contain more than 70 units that are affordable to households at or below 80% AMI
- Has a land use restriction agreement (LURA) with the Florida Housing Finance Corporation (FHFC) that requires the property to be affordable for households up to 120% for 99 years.
- Exemption only applies to units affordable to households at or below 80% AMI.
- First applies to the 2026 tax roll

Using Public Land for Affordable Housing

The Live Local Act also signaled a refreshed focus from the Legislature on the importance of opportunities to use public land inventories as a resource for developing affordable housing. Specifically, the Live Local Act amended existing statewide surplus land laws that required cities and counties throughout the state to identify publicly owned parcels of land that are deemed by the local government to be "appropriate for use as affordable housing." The Live Local Act amended these requirements to go further as follows:

- Newly apply to dependent special districts (including CRAs),
- Require local government to post their affordable housing inventory list online
- Encourage local governments to adopt best practices including:
- Establishing eligibility criteria for the receipt or purchase of surplus land by developers;
- Making the process for requesting surplus land publicly available; and
- Ensuring long-term affordability through ground leases by retaining the right of first refusal to purchase property

The desired effect of these changes is to encourage local governments and dependent special districts to more actively and transparently make public land available for affordable housing.

Additionally, as part of the Live Local Act's ten-year commitment to fund an additional $150 million per year for the SAIL program, projects using or leasing public lands are listed as a specified preference for funding awards to be administered at FHFC's discretion as part of the RFA process.

Potential impacts related to credit underwriting

Affordable housing developments on publicly owned land may often benefit from local land donation programs and other incentives to considerably lower land acquisition costs. This is particularly relevant to the financial analysis and development budget. It also affects the construction information provided during the credit underwriting process, which requires clear categorization and delineation between land/acquisition costs, hard (construction) costs, and soft costs.

Appendix B

Additional Information on Required 3rd Party Reports

Survey

The surveyor should provide the following information on the site:

- Boundaries
- Legal description
- Encumbrances
- Easements
- Structures
- Access
- Right of way
- Elevation (flood or wind zone)

Appraisal – Informal

The informal appraisal can give a general idea of the current value and that of comparable properties. The informal appraisal helps in making the "go or no-go" decision.

- Comparative analysis of similar properties
- General market for similar properties- how long on market, price reductions
- Value of vacant and unimproved land

Appraisal – Formal

It is likely that the credit underwriter will require a specific type of appraisal. Credit underwriters for Florida Housing Finance Corporation order the appraisal and the developer must pay the fees involved. Once the appraisal is completed, it is important to discuss the findings in the report with the appraiser so proper decisions can be made. The formal appraisal will provide the following:

- Market overview
- Improvement analysis
- Highest and best use analysis
- Marketability and exposure period

The formal appraisal valuation procedures result in a set of valuations for the property ranging from undeveloped, to developed with or without long term affordability restrictions. Affordable housing subsidies will result in long term or permanent affordability requirements that affect the market value of the property. For purposes of obtaining financing for a development, the credit underwriter expects the purchase price to be consistent with appraised values. The appraisal considers the market rate rental income the property could garner, the land value, and the value as a property with restricted rents.

Land Use and Zoning

Florida real properties may have a basic zoning category that would allow the development of rental housing, but a planned unit development zoning request might be more compatible with the specific requirements of the site. This process takes time and there are fees. Property that is not zoned for residential uses may be problematic. In these cases, it is best to seek guidance from the planning department and request that the City or County conduct the rezoning on behalf of the project.

Environmental Review

Not every project is subject to a full environmental review (i.e., every project's environmental impact must be examined, but the extent of this examination varies), but every project must be in compliance with the National Environmental Protection Act and other related Federal and state environmental laws. Mitigation may be required for protected habitat, wetlands or species. Projects that will negatively impact properties that have historical or archaeological significance may not be permitted or there may be mitigation requirements. The purchase contract should have an exit if the site has significant environmental issues.

A Limited Due Diligence

Transaction Screen Process (TSP) report should be initially provided. The work must be in accordance with the American Society for Testing and Materials (ASTM) designation E-1528-06.

Negative Site Features

Proposed sites that are adjacent to or in the vicinity of certain negative land uses may not be a desirable location for affordable housing. The criteria below are suggested for consideration:

- Junkyards- not adjacent or within 300 feet
- Railroad tracks- not adjacent or within 3,000 feet
- Interstate Highways- not adjacent or within 1,000 feet
- Heavy industrial uses- not adjacent or within 300 feet
- Solid waste or sanitary landfill- not adjacent or within 300 feet
- High voltage transmission power lines- not adjacent of within 100 feet

Hazardous materials

Any pre-1978 buildings must be inspected for the presence of lead-based paint and for pre-1989 buildings for asbestos. If the project moves forward remediation will be required by licensed, certified hazardous materials professionals.

Flood elevation

The prospective applicant should determine the elevation of the site and if it is within a 100-year flood zone or a wind velocity zone. Generally funding will not be approved for projects within the 100-year floodplain. Since the maps are updated from time to time it is important to check with the most current map. Projects within the 500-year floodplain can generally be approved. Flood and wind insurance will be required as well as advanced disaster preparedness.

Soil testing

Soil testing can reveal conditions that will adversely impact the budget or engineering of the site. The presence of dense material (rock) under the surface can require funding to remove it. Sandy soils may not drain properly and can require additional engineering expenses to correct.

Site planning sketches

Site plan approval is required by FHFC in the Request for Application process. This is a threshold item. Site planning is not the same as architectural drawings for the development of the project. Full architectural drawings are costly and should not be undertaken until funding has been awarded and the project is in the underwriting stage.

Ingress and egress

The entry and exit points to a property should be considered with regard to traffic safety as well as safety of pedestrians who come and go from the property. Projects on a busy road will require protective fencing and signage to protect residents.

Lot coverage

Most zoning ordinances have maximum lot coverage ratios of built to open space. This can be a barrier if the proposed project is multiple buildings or the building size required exceeds the lot coverage ratio, so the developer should inquire to determine if relief is offered through the local government's SHIP LHAP (Local Housing Assistance Plan) or Housing Element.

Storm water retention

Many land development codes require storm water runoff to be retained on site. If the engineer determines that there is inadequate space on a site to handle the retention areas, an alternative methodology may be required. A site with a low elevation that collects water may need to be rejected if there is inadequate space for the excess water or if the site is in a flood hazard area.

Utility access (verification of public infrastructure)

The existence of utilities at the site must be documented when responding to the RFA process of FHFC. The requirements include electricity, water, sewer, and roads. If any of these are not available to the site, an inquiry should be made as to the estimated cost to bring this infrastructure to the site. It is also important to check with the capital improvements plan of the municipality to learn if and when these improvements might be provided to the site.

APPENDIX C

Guidelines for Local Governments

Timing of Review

Generally, the timing of review should allow for a thorough assessment and meet any program guidelines or requirements. The timing of review is important for several reasons, both to the reviewer and proposer. The main reason for special attention to timing relates to funding sources. Most local sources of funding have expenditure deadlines, such as SHIP with its two-year expenditure requirements. Further, in many cases, preliminary approval for local funding is sought prior to applying for larger sources of funding through state and local housing finance authorities, such as low-income housing tax credits and mortgage revenue bonds. Therefore, the decision on when to accept applications and length of time for review should be made in context with:

- SHIP expenditure requirements
- Florida Housing Finance Corporation RFA timelines
- Other local funding expenditure requirements (federal entitlements such as HOME and CDBG, infrastructure surtax, etc.)

The timing of review should also take into consideration internal processes, as well as (to the extent possible) application-specific issues such as closing deadlines in purchase and sale agreements, and financing commitment letters already obtained.

The Review Team

Reviewing applications should involve a team of individuals providing input on various parts and issues within a proposal. The result of the review should be an overall determination of a project's ability to proceed and meet funding requirements. The phrase "ability to proceed" or "project readiness" addresses the question: if the project received funding today, would it be able to proceed to construction tomorrow?

Potential members of the review team include:

- Housing Staff – the primary reviewers; determining the proposal meets all funding requirements, meets local requirements, and has the ability to succeed with the Florida Housing Finance Corporation RFA process
- Social Services Staff – review the proposed provision of services; of particular importance to projects serving high-need populations
- Planning Staff – ensure the proposal can be executed under the zoning code and comprehensive plan; or if changes and amendments are needed
- Building Department – determine the proper permits needed and that the cost and timing of such are accurately represented in the proposal
- Economic Development – determine that the proposal supports economic development plans
- Legal – determine legal use, consistency with program rules, and involved with drafting and negotiating legal documents related to funding awards

Site Evaluation

The following lists outline elements of evaluating the site of the proposal and will involve several members of the review team.

Housing, Economic and Social Services focus

- Location of proposed development
- Desirability of neighborhood (considering access to jobs, transportation, schools, shopping, healthcare, access to other service providers)
- Location within geography for local initiatives
- Location in relation to similar developments

Planning and Building Focus

- Proper zoning and future land use
- Adequate utilities
- Other infrastructure needs, such as road improvements and sidewalks
- Required permits, such as environmental
- Impact fees that must be paid
- Other planning/zoning costs

Environmental focus

- Previous and current use
- Existing buildings/structures (age, type, will they be demolished or incorporated)
- Any environmental constraints (wetlands, endangered species, brownfields, hazardous materials)

Legal focus

- Confirm the borrower has adequate site control
- Confirm no issues with land ownership (title history, easements, encumbrances)
- Confirm legal use is proposed

Project Feasibility Evaluation

The following lists outline elements of evaluating project feasibility from the local government perspective.

Market Analysis

Complete an informal market analysis by:

- Speaking with contacts and obtaining/analyzing easily accessible market data (census data, other market reports)
- Looking at occupancy of similar developments
- Observing the current condition and trajectory of the neighborhood of the proposed development
- Comparing the proposed development to like developments (unit mix, amenities, location, etc.)

If a formal market study is already complete, focus on these key items:

- Anticipated absorption rate – how quickly the project can expect to lease up
- Market rents or sales prices – what the project can expect to demand

Compare both to the borrower's projections and determine if they are reasonable.

Financial Analysis

Development Budget

Evaluation of development budget should start with understanding the uses of funds. Big items to examine in terms of uses:

- Acquisition/land costs
- Hard (construction) costs and contingencies
- Architectural design and supervision
- Financing costs
- Permitting and zoning
- Insurance
- Relocation (if acquisition/rehab)
- Reserves
- Developer fees

Then moving on to examine the sources of funds, considerations include:

- Are anticipated sources adequate to cover costs?
- What percentage of costs will local funding cover?
- Are other anticipated sources reasonable/probable?
- Are there commitments from other sources?

A Note on Developer Fees

Developer Fees are compensation to the developer for the time and risk involved to develop the project. The fee is based on the type of the project, the total cost and the risk associated with the project. Developer fees include all amounts received for project management and overhead, including consulting fees. The maximum aggregated amount for developer and consultant fees is calculated as a percentage of total project costs excluding land, project reserves, and the developer fee cost category (generally capped at 16% of project budget for family projects, 18% for special needs housing projects, and up to 21% to allow for an operating reserve).

Operating Budget

Revenue analysis:

- Are rents in line with SHIP or other funding source requirements?
- Are other sources of revenue reliable?

Operating expense analysis:

- Are operating expenses reasonable, considering the market analysis, appraisal, and knowledge of other developments?
- Is Net Operating Income sufficient to meet reserves and debt service coverage requirements?

Borrower Evaluation

Evaluate threshold requirements:

- Does the borrower meet the minimum threshold requirements of local funding?
- Does the borrower meet the minimum threshold requirements of other proposed funding sources?

Evaluate staff capacity:

- Does key staff have the qualifications needed to carry out the project?
- Does the organizational chart indicate additional staff and report chain for key contacts?

Evaluate Board capacity:

- Does the expertise of Board members augment the knowledge and skills of staff?

Evaluate the partnership/joint venture structure:

- Understand split in ownership and/or division of responsibilities
- Determine if it will facilitate effective execution of the project

Evaluate financial capacity

- Review audited financial statements and the auditor's management letter to determine whether there are stable finances with strong internal cotrols
- Review the current income statement and balance sheet for strength and stability

APPENDIX D

Brief Guide to Financial Statements

Explanation of Selected Financial Statements to Determine Borrower Capacity and Credit Worthiness

During the underwriting process the borrower will be asked to provide financial statements for review. This purpose is to determine the financial capacity of the borrower. Results may determine the type of collateral that might be required to secure the debt. Selected financial statements are reviewed below.

- Balance Sheet
- Audited Income and Expenses statement
- Statement of cash flows
- Statement of contingent liabilities
- Real estate holdings
- Bank statements (for the past 6 months)
- Tax returns (for the past 2 years)
- Credit report (for example Experian Business Credit Report) or business report from Dunn and Bradstreet

STATEMENT	QUESTIONS TO ANSWER	BASIC FORMULAS AND EXPLANATIONS
Balance Sheet Assets include cash, accounts receivable, investments, property, etc. Liabilities include accrued expenses, notes payable, taxes due, etc. The difference between assets and liabilities is net worth (or equity).	What is the borrowers' financial capital and creditworthiness? How likely is the borrower to repay the loan? Does the borrower have a positive net worth? How liquid are their assets? Are there past due accounts? Does the borrower have sufficient operating capital?	Assets – Liabilities = Net Worth Operating Capital = Current Assets – Current Liabilities Current Ratio = Current Assets/ Current Liabilities Debt to Equity Ratio = Total Liabilities/ Owners Equity Liquid assets in the amount of 10% of funding request is a general standard.
Audited Income and Expense Statement Revenues include rental income and other income Expenses include operating expenses, taxes In addition, the footnotes to the financial statements disclose short-term debt and contractual obligations.	Does the borrower have a track record of generating sufficient and steady income to meet its financial obligations? How well do principals manage cash to meet financial obligations? Are borrowers' future projections logical and reasonable based on historical trends?	Revenues – Expenses = Profit

STATEMENT	QUESTIONS TO ANSWER	BASIC FORMULAS AND EXPLANATIONS
Bank Statements	Do these documents confirm the numbers in the financial statements?	A measure of cash on hand
Cash Flow Statement	The amount of net cash received after expenses, debt service and taxes are excluded.	Reports generated include operating activities within income statement, as well as investing activities such as purchase or sale of assets
Contingent Liabilities Statement	What potential liabilities could affect the borrowers' capacity to carry out the project or repay the loan?	Statement should include: • Outstanding lawsuits • Claims against company not acknowledged as debts • Legal Liability • Guarantees • Disputed taxes
Real Estate Owned	Do other real estate holdings undermine the strength of the borrower or bolster it?	Consider: • Value • Contingent liabilities • Liquidity
Tax Returns	Does information on tax returns confirm numbers on financial statements?	If these do not match, borrower should provide an explanation.
Credit Worthiness	• Credit reports should be run on all principals • Credit reports should be no more than 120 days • Check public records for bankruptcies and judgments	• Seek scores of 700+ and no bankruptcies in past • Check business credit history through Dunn and Bradstreet

THE FIVE C'S OF CREDIT

1. **Capacity:** Cash to pay the loan as agreed
2. **Capital:** Borrower's investment in the project
3. **Collateral:** Real estate and/or other assets and guarantees to pay the loan if project cannot
4. **Character:** Experience and track record of performance of borrower and its team
5. **Compliance:** Program compliance and the ability of the development team to meet all objectives

APPENDIX E

Brief Guide to Selected Terms

The guide below provides an explanation of terms that may be used during the underwriting process. Basic formulas are provided as needed.

TERMS	EXPLANATION	FORMULA (IF APPROPRIATE)
Annual Income & Operating Expense Growth	The 15-year pro forma projects income and expenses on an annual basis. Generally, income may be increased by 2% per year and expenses by 3% per year.	Annual operating expenses may be capped. A typical amount may be between $3,600 and $3,900 per year per unit and up to $5,000 per year per unit for units assisted with project- based housing vouchers.
Collateral	Property pledged as security for a debt.	Collateral examples: • Real property • Personal property • Debt service reserve • Personal and/or corporate guarantee (need to underwrite the guarantee source as rigorously as property collateral)
Debt Service	The periodic payments, generally principal and interest, on a loan. Debt service is usually calculated on an annual basis.	
Debt Service Coverage Ratio (DSCR) or (DCR)	The relationship between Net Operating Income (NOI) and Annual Debt Service. Generally, the acceptable DCR for affordable housing projects is no less than 1.15 and no more than 1.3.	NOI/DS = DSCR $100,000/90,000 = 1.11 $100,000/85,000 = 1.25 $100,000/75,000 = 1.33
Intercreditor Agreement	If there are multiple sources of financing, collateral and loan repayment guarantees, lender may require agreement that establishes restrictions on subordinate lenders.	
Loan to Value Ratio	The relationship between the appraised value of the total project and the loan. Generally, lenders will not exceed 100% of appraised value.	**First Position Loans:** LTV = Loan Amount / Fair Market Value **Example:** LTV = $100,000 / $140,000 = 71% Loan Amount = 80% = $112,000 / $140,000

TERMS	EXPLANATION	FORMULA (IF APPROPRIATE)
Loan Sizing (Two Methods): Based on Loan to Value Ratio (LTV) Based on Debt Coverage Ratio (DCR)	The lender uses the lesser result of LTV or DCR methods Lenders use LTV based on real estate appraised value Lenders use DCR to determine amount available for debt services	**Standards Example:** LTV < 80% DCR < 1.25 **Example Using LTV:** Appraised Value = $5,000,000 LTV = 80% Maximum Loan Amount = $5,000,000 x .80% = $4,000,000 **Example Using DCR:** NOI = $400,000 Maximum Loan Amount = $400,000/1.25*12 = $3,722,000
Occupancy Rate	Percentage of currently rented units in a project	O = Occupied Units T = Total Units R = Occupancy Rate O/T = R 95/100 = 95%
Operating Reserve	An account maintained to provide funds for general operations that may be required to offset a gap in revenue over expenses. Generally operating reserves should be maintained to cover at least 3 months of debt service and operating costs.	
Replacement Reserve	An amount set aside from net operating income to pay for the eventual wearing out of short-lived assets such as carpets, HVAC equipment, appliances, or roofing.	
Reserve Fund	An account maintained to provide funds for anticipated expenditures needed to maintain or operate a building. A reserve may be required by a lender in the form of escrow to pay upcoming taxes and insurance.	**New Construction Seniors:** $250 per unit per year **New Construction Other:** $300 per unit per year **Existing Buildings:** Determined by Capital Needs Assessment
Vacancy Rate	Percentage of vacant units in a project. Pro Forma projection should use 7%	V = Vacant Units T = Total Units R = Vacancy Rate V/T = R 7/100 = 7%

APPENDIX F

Subsidy Layering

Projects financed with HOME funds must be evaluated in part by a subsidy layering test. Subsidy layering is required by 24 CFR Part 92 to assure that Federal resources are neither duplicative nor wasteful when used for affordable rental housing. Subsidy layering is a tool used to ensure that the amount of public funds, particularly HOME funds, are the least required. HUD establishes the amount of HOME funds that can be invested on a per unit basis. The borrower is expected to "layer" funds committed to a project so that HOME funds are used only to fill a gap in sources and that the amount of HOME investment does not exceed the maximum subsidy amount.

SPONSORED BY:

THE FLORIDA HOUSING FINANCE CORPORATION

ACCESS AN ELECTRONIC VERSION OF THE

CREDIT UNDERWRITING GUIDE

FOR MULTI-FAMILY AFFORDABLE HOUSING IN FLORIDA

AND OTHER VALUABLE RESOURCES UNDER THE PUBLICATIONS TAB

ON THE FLORIDA HOUSING COALITION'S WEBSITE AT:

www.Flhousing.org