

## Underwriting and Subsidy Layering Guidelines

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### HOME Consortium

#### Purpose of the Guidelines

- These guidelines are established to ensure that the level of HOME subsidy is limited to the assistance required for the provision of affordable housing, and to determine a reasonable level of return to the owner/developer/sponsor for the size, type and complexity of the project.
- HOME PJs are required to adopt written underwriting and subsidy layering guidelines for all HOME activities to determine the appropriate HOME investment, with guidance provided through Notice CPD-15-11 issued December 22, 2015.

#### Projects Subject to These Guidelines

- These guidelines apply to new construction of owner-occupied homes and rental units, and to acquisition and rehabilitation of rental units.
- These guidelines do not apply to direct homebuyer assistance which is not part of a development activity. The Charlottesville HOME Consortium adopted Underwriting Guidelines for Homebuyer projects in July 2014.
- These guidelines do not apply to homeowner rehabilitation assistance. Underwriting the homeowner's ability to make mortgage payments is only required if the HOME-funded rehabilitation loan is an amortizing loan.

#### Other Applicable Requirements

- Market Analysis: The Charlottesville HOME Consortium adopted Market Analysis Guidelines in July 2014. These apply to development projects that are subject to these Underwriting and Subsidy Layering Guidelines.
- Maximum per unit subsidy limits: These limits apply, as defined in CPD Notice 15-003.
- Written Agreement: A written agreement between the Charlottesville HOME Consortium and the CHDO (Owner, Developer or Sponsor with effective project control of a housing development) must be in place prior to setting up the project in IDIS or disbursing funds. The written agreement must capture the project and financing terms that result from the underwriting process.
- Commitment of Funds: Before HOME funds can be committed to a project, a written agreement must be in place, all financing must be secured, the underwriting and subsidy layering analysis must be completed, and construction can be expected to begin within 12 months. All HOME funds must be committed within 24 months of the grant award.
- HOME Deadlines: The project must be complete within four years of the date funds are committed to the project. Lease up should occur within 6 months; if a unit is unoccupied at 18 months after completion, HOME funds must be repaid to HUD. New homes that are not sold (ratified sales contract) within 9 months of the Certificate of Occupancy must be converted to HOME-assisted rental housing.
- Property Standards: Construction and rehabilitation must result in units that meet minimum property standards at the time of completion. Rental projects are subject to property standards throughout the affordability period.

- **Rents/Utility Allowance:** HUD published the maximum rent that may be charged in HOME-assisted units, depending on the number of bedrooms and project location. HOME rent limits include with actual utilities or a utility allowance. The underwriting process must cap HOME-assisted units at these rent limits and demonstrate that the project will be financially viable on this basis.
- **Affordability Period:** All HOME-assisted rental and homebuyer projects are subject to an affordability period, depending on the type and amount of investment. Projects must remain financially viable throughout the affordability period. The period of affordability for new construction of rental housing is 20 years.

**Development Entities:** The Charlottesville HOME Consortium carries out its work through sub-recipients who have been designated by their respective localities. The following sub-recipients are also Certified Housing Development Organizations (CHDOs): Piedmont Housing Alliance (PHA), the Fluvanna/Louisa Housing Foundation (F/LHF), the Nelson County Community Development Foundation (NCCDF), and Skyline Community Action Partnership (Skyline CAP). The HOME Consortium carries out the development of new housing for sale or rental and the acquisition and rehabilitation of rental units through these CHDOs. It is the Consortium’s intent to continue to use these CHDOs for housing development, with “effective project control” in the role of Owner, Sponsor or Developer of rental housing, or as Developer of ownership housing. The HOME Consortium reserves the right to consider using a private developer as a contractor for the development of affordable housing for a particular project, recognizing that these guidelines will require modification in that event.

### **Underwriting and Subsidy Layering**

- The HOME Consortium will evaluate each development project to determine the amount of HOME funds necessary, alone or in combination with other governmental assistance, to provide quality affordable housing that is financially viable throughout the affordability period. This analysis will also determine the amount of return to the CHDO that is reasonable, based on the size, type, and complexity of the project. Governmental assistance includes any loan, grant, guarantee, insurance, payment, rebate, subsidy, credit, tax benefit, or any other form of direct or indirect assistance from the Federal, State, or local government for use, or in connection with, a specific project.
- The HOME Consortium’s analysis will include:
  - An examination of the sources and uses of funds for the proposed project and a determination that all project costs are reasonable.
  - An assessment of the current market demand in the area where the project will be located (see the HOME Consortium’s Market Analysis Guidelines).
  - An assessment of the experience and financial capacity of the developer or rental project owner.
  - An assessment of the firm written financial commitments for the project.
- The analysis will be maintained in the project file. The Consortium will certify that it has followed its underwriting and subsidy layering standards before making a commitment of HOME funds. The Consortium will re-check and update the project underwriting when actual construction costs are determined, before any additional HOME funds are committed to the project, and at the completion of construction when the final draw is requested.

- The subsidy analysis for homebuyers will be based on the Charlottesville HOME Consortium's Underwriting Guidelines for Homebuyer projects.
- The Consortium's subsidy analysis will be based on the submission by the CHDO, which shall include:
  - Development Budget: A detailed development budget for the project, showing the total funds needed to complete the project, and a table listing the sources and uses of funds.
  - Operating Budget and Pro-forma: A long term operating budget, identifying the assumptions (e.g. escalation of rents, expenses, vacancy rate) and pro-forma showing long-term payback. At a minimum the operating budgets and pro-forma shall include: projected income and vacancies, operating expenses, contribution to reserves, debt service (if any), cash flow and payments of deferred fees. All cash expenses shall be shown. The operating budget shall reflect the type and location of the project, number of units, physical characteristics of the property, and the cost environment for the project. Expense trends shall be based on the actual history of the CHDO.
- The Consortium recognizes that rental income is an important source of revenue for the sustainability of the non-profit housing foundations serving as CHDOs. Income should be sufficient to cover expenses for all years of the affordability period and generate adequate cash flow to cover staff costs for property management, advertising, property taxes, plus a reasonable return on investment. CHDOs should track staff time and direct expenses by rental project to accurately capture actual costs for property management.
- The review will consider the sources and uses of funds proposed for a project, the reasonableness of project development costs, the proposed project operating costs, and the amount of cash flow generated over time. The layering review will determine if excess HOME funds are being requested based on an evaluation of cash-on-cash return on equity.