HOME AMERICAN RESCUE PLAN PROGRAM UNDERWRITING STANDARDS

1. **DCR:** The project's debt service coverage/expense coverage ratio should meet the requirements described below. Note that these thresholds apply to the project as a whole, and the calculations should include any expected operating cost assistance for HOME-ARP units.

A) 1.15 minimum for year 1 and a minimum of 1.00 for years 2 – 20.

B) 1.05 ECR minimum for 10 years, 1.02 for years 11 - 20.

DCR/ECR below the minimum thresholds during years 16-20 (i.e. after the end of the HOME-ARP Compliance Period) may be allowed at CPED's discretion. In such instances, applicants should provide a narrative on how appropriate operating revenue will be secured, and how the project will be successfully operated, in that period.

A HOME-ARP Operating Cost Assistance reserve may, at the discretion of the City, be capitalized at the initial closing if, in any given year during the 15-year HOME-ARP Compliance Period:

- The expected rental income generated by the units reserved for occupancy by qualifying populations (the 'QP units') is less than the share of projected operating expenses attributable to those QP units,
- Any cross-subsidy allocated during underwriting from rental revenue generated by non-QP units is not sufficient to cover the resulting operating deficit of QP units, and
- The QP units are not subsidized through project-based rental assistance.

The Operating Cost Assistance must be sized to offset operating deficit costs associated with QP units only.

2. **Developer Fee:** Defined in Part I, Section VIII P of the RFP.

3. **Income and expense trend factor over 20-year cash flow:** Expense inflator should be 1% higher than the revenue inflator.

4. **Maximum rents:** The project rents for affordable units should fall at or below the maximum rent allowed for the targeted income level. The maximum rents for HOME-ARP assisted QP units are the Low HOME rents, except for QP units that receive rental assistance (either project- or tenant-based), in which case the maximum rent is that allowable under the rental assistance program. The maximum rent for HOME-ARP Low Income units is the High HOME rent, with the exception of units that receive tenant-based rental assistance, in which case the maximum rent is allowable under the tenant-based rental assistance program.

However, for QP units, the household's contribution to rent at initial occupancy must be determined to be affordable based on an income verification, and most HOME-ARP qualifying households will be unable to pay a rent that covers allocated debt service or operating costs. Other strategies will be necessary to ensure HOME-ARP units are affordable and HOME-ARP projects are sustainable. Assumptions of rent to be collected from QP units should be reasonable and realistic based on anticipated resources available to qualifying households.

5. **Management and Operating Expenses (excluding real estate taxes and reserves):** Based on expected stabilized operating expenses occurring after the development is placed in service or upon full occupancy, management and operating expenses include:

   A) General Administrative expenses (including marketing and leasing)
   B) Payroll (salaries, payroll taxes, fringe benefits)
   C) Utilities
   D) Maintenance and Repair (including turnover costs)
   E) Property Management Fee: Up to $75 per unit per month, minimum of $5,000 annually provided that a higher fee may be permitted if funded by MHFA and allowed by MHFA's underwriting for the project. This fee should be the last operating expense paid after debt service.

   Please include three years of comparable property audits or previous operating expenses audits to support operating expense budgets.

6. **Replacement Reserves:** Reserves for replacement shall be budgeted at no less than $300 per unit per year for senior housing and $450 per unit per year for all other housing.

7. **Vacancy Rate:** 5% - 7% for residential/ 20% for Commercial. For any residential vacancy rate less than 7%, supporting information must be included in the market study.

8. **Sources and Uses Analysis:**

   A) Identify all sources (both private and public) of funds with dollar amounts and timing of availability of each source:
      i. Firm commitment letters with all terms and conditions for all mortgages, grants, bridge (interim) loans and investment tax credits (historical, low-income, if applicable);
      ii. If the applicant is a partnership or limited liability corporation, a copy of the partnership agreement or operating agreement, which will indicate the cash

contributions by the partner(s) or member(s); and

iii. If equity is committed by the developer or owner(s}, evidence of available equity funds.
iv. Letter of commitment from agency/organization providing project-based rental assistance, clearing stating the number of units receiving subsidies, and the amount and duration of the subsidy.

B) Identify all uses of funds associated with the project:

i. Acquisition documentation, such as purchase agreement, option or closing statement and appraisal or other documentation of value;
ii. Construction cost estimate, construction contract or preliminary bid(s);
iii. Contracts, quotes or other agreements substantiating key professional costs and the basis for estimating other soft costs and working capital items, including capitalized reserves;
iv. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
v. A third-party appraisal (to substantiate the value of the land and the value of the property after rehabilitation or the structure being built);
vi. If LIHTC are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization/individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project.

9. **Market Assessment:** As defined in the HOME-ARP Program Policies and Procedures.

10. **Subsidy Layering Review:** Analysis and certification of investment funding needed to make a project feasible. Also known as a 'gap analysis'. Will also include Cost Allocation for HOME-ARP units in accordance with 24 CFR 92.205(d)(1).

11. **Minimum per Unit Subsidy:** The minimum per unit subsidy for HOME-ARP is $1,000 (applies only to HOME-ARP units).

12. **Maximum per Unit Subsidy:** The City anticipates the average HOME-ARP subsidy per unit to be $30,000 - $50,000. Projects with estimated funding needs outside of this range would be considered on a case-by-case basis. Funding awards may be less or more than this amount per unit depending on project need.