APPENDIX E
UNDERWRITING STANDARDS – NHTF RENTAL

The applicant must demonstrate that the project is financially feasible and viable using the least amount of NHTF funds. Underwriting will be completed by the IFA staff during the review of the application. IFA may adjust the amount of the requested NHTF award based on the underwriting. Underwriting shall be completed for a project prior to the time NHTF funds are awarded, and prior to close out of the project. The pro forma is part of the application.

The applicant must supply sufficient information to allow IFA staff to determine whether the project is financially feasible during the construction and operational phases of the project and if the project will demonstrate a need for ongoing NHTF subsidy assistance. The applicant must provide information regarding loans, grants, equity contributions, property tax abatements, tax increment financing, enterprise zone benefits, and any other type of financing or contributions that are relevant to the economic feasibility of the project and are available to the project.

The following **minimum** financial underwriting requirements (1 through #6) apply to all NHTF rental projects.

NOTE: Projects that cannot meet the minimum requirements, as determined by IFA, will not receive NHTF funds.

1. **Escalation of Income & Operating Expenses** - Projects will be underwritten with escalating income and operating expenses. A minimum spread of one percent (1%) is required between the income and expense escalators (expenses must increase at least 1% more than income annually.) For example, if income increases by 2% annually, then expenses must escalate by 3%.

2. **Vacancy Rate** - Projects will be underwritten assuming the following vacancy rate:

12 or greater total units	8% to 10%
Less than 12 total units	8% to 15%

3. **Operating Expenses** - The proforma must reflect minimum operating expenses of $4,000 per unit per year, not including taxes, reserves, and resident support services.

4. **Reserves**

   A. **Replacement Reserve** - An initial deposit of at least $800 per unit will be required to establish the replacement reserve account at construction completion. Annual deposits of at least $400 per unit will be required throughout the NHTF compliance period. The reserve shall only be used to cover capital expenditures and are subject to IFA consent for withdrawals exceeding levels established in the contract. Evidence of the replacement reserve account transactions and the balance must be provided to IFA annually throughout the compliance period.

   B. **Operating Reserve** - The project must establish an operating reserve account upon construction completion. The initial operating reserve is an eligible NHTF project cost and may be established with NHTF funding. The calculation for the minimum operating reserve is:

Gross monthly rent amount for all units x 6 months

The reserve shall only be used to cover operating deficits with prior written consent from IFA. The operating reserve requirement may be met by the provision of an irrevocable line of credit. Evidence of the operating reserve account transactions and balance or proof of the ongoing line of credit must be provided to IFA annually throughout the compliance period.

5. **Financing Commitment**

   A. **Lending Institution** -For projects proposing private construction and permanent financing, a letter of intent from the lending institution on their letterhead is required. This letter must clearly state the term of the permanent loan, how the interest rate will be indexed and the current rate at the time of the letter, the amortization period, fees, any prepayment penalties, anticipated security interest in the Property, and lien position. The letter of intent must extend at least 6 months beyond the Application date due at IFA.

   B. **Funding Sources** -For all other sources, except IFA NHTF funds, a commitment for funding to the proposed project must be submitted with the application. Documentation that specifies the value of the commitment, the purpose the funds can be used for and time limitations related to the commitment must be provided by the entity making the commitment.

6. **Limitations**

   A. **Developer Fees** - Developer fees (including overhead, profit, and consultant fees) shall not exceed 15% of Site Work, Construction, and Soft Costs items on the Budget Tab.

   B. **Construction Contingency Funding** - All projects shall have a hard cost construction contingency line item of at least seven percent (7%) but no more than fifteen percent (15%) of Site Work and Construction items on the Budget Tab.

   C. **Subsidy Layering Review** - IFA is required to undertake subsidy layering reviews of each project receiving HUD housing assistance to ensure that the applicant does not receive an excessive government subsidy by combining HUD housing assistance with other forms of federal, state, or local assistance.

   D. **Unit Cost Cap** – A project must not exceed the HUD Maximum Per-Unit Subsidy Limit. IFA shall not award NHTF funds to a project where the Total Development Costs per assisted unit exceed the NHTF Maximum Per-Unit Subsidy Limit, as established and published by HUD yearly. Ongoing operating subsidy funds are not counted toward the Total Development Cost.

NOTE: Projects that cannot meet the minimum requirements, as determined by IFA, will not receive NHTF funds.

The following financial underwriting standard will be taken into account by IFA when determining the financial feasibility of the proposed project. If the project does not have any hard debt, the DSCR requirements will not apply.

Debt Service Coverage Ratio (DSCR) – A DSCR greater than 1.00 for the entire NHTF compliance period is required. There are no DSCR requirements for projects that do not have debt payments.