

APPENDIX C

UNDERWRITING STANDARDS RENTAL WITHOUT TAX CREDITS

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

The application will require the applicant to supply sufficient information to allow IFA to determine whether the project is financially feasible during the construction phase and the operational phase of the project. The application will require the applicant to 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 apply to all HOME rental without tax credit projects. Projects that cannot meet the minimum requirements, as determined by IFA, will not receive HOME funds.

1. Escalation of Income & Operating Expenses - Projects will be underwritten with income and operating expenses escalating, with a minimum spread of one percent (1%) 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 \$2,750 per unit per year, not including taxes, reserves and resident support services.
4. Reserves
 - A. Replacement Reserve - An initial deposit of \$700 per unit will be required to establish the replacement reserve account at construction completion. Annual deposits of \$350 per unit will be required throughout the HOME 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 balance must be provided to IFA annually throughout the compliance period.
 - B. Operating Reserve - The project must establish an operating reserve account within one year of construction completion. The initial operating reserve is an eligible HOME project

