City of Quincy

Department of Planning & Community Development

Underwriting Policies and Procedures for Multi-Family Housing

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I) OVERVIEW / MISSION STATEMENT

The following policies and procedures have been established by the City of Quincy Department of Planning Community Development (PCD) to ensure that acceptable underwriting standards are adhered to in order to be in compliance with federal grant rules and regulations. These procedures incorporate the requirements and regulation that have to be followed in order to minimize risk and to determine if the proposed project is viable, feasible and will address an identified housing need in the community.

II) RISK ASSESSMENT

A) MARKET RISK

1) *Market Trends*
   In order to assess market risk an evaluation of general market trends, (vacancy levels, prices) must be conducted to support the development of the additional units at the propose pricing and must address an identified housing need in the community.
2) *Neighborhood Market*

The immediate project area market conditions are positive and support development of the units at the proposed pricing.

3) *Community Conditions*
   The physical and social conditions in the immediate environmental surrounding the proposed project are suitable for the target audience.
4) *Target population pool*
   A sufficient pool of target households exists in the primary geographic market area to support the project: or sufficient primary data (waiting lists or client lists) is presented to support timely occupancy of the development upon completion.
5) *Affordability*
   The prices are affordable to a reasonable range of incomes levels (the range+ minimum income required to afford: maximum eligibility income).
6) *Needs*
   The project design (unit types, sizes, amenities, services) reflects the apparent needs & desires of the target population.
7) *Competition*
   The project's price, location, condition and amenities are reasonably attractive in comparison to other housing choices available to low-income area households
8) Other market risk factors.

B) BORROW RISK

1) *Compatibility*
   The project is compatible with the mission and strategic focus of the applicant.
2) *Board capacity*
   The board (if a nonprofit) is stable and has the skills and experience to oversee development.
3) *Staff development capacity*
   The applicant's staff and development team have the required skills to undertake and complete the project. *(Capacity cannot be demonstrated by use of a consultant, except in the first year that a CHDO becomes certified (CFR 92.2 Community Housing Development Organization).*
4) *Past Performance*
   The applicant has performed adequately on previous projects of a similar nature (CFR 92.300 (a)).
5) *Backlog/current projects*
   The current workload will not affect the ability of the applicant to complete this project.
6) *Equity/pre-development funds availability*
   The applicant has the cash needed for its equity contributions, pre-development advances, and organizational overhead to support the project during planning and implementation (Rule of thumb 5-10% of TDC).
7) *Liquidity/financial ability to absorb overruns/delays*
   The applicant has sufficient financial strength to absorb reasonable project delays and cost overruns (check current ratio and liquidity of current assets)
8) *Opportunity costs*

The applicant will not be prevented from accomplishing its other key activities as a result of undertaking this development project.

9) *Contingent/portfolio liabilities*
   The financial obligations of the organization with respect to its portfolio or other programs present no significant risks to the proposed project.
10) *Ongoing management capacity*
    The applicant (or its identified management agent) has the capacity to manage the ongoing real estate, and to provide services as proposed
11) *Other borrower risk factors*

C) PROJECT RISK

Development budget cost reasonableness:

- Acquisition cost- the acquisition cost is supported by appraisal or other evidence of market value, and is reasonable given site remediation, infrastructure and prep costs.

- Hard Cost – Construction/rehab costs:
    - The design incorporates "Green principles" for energy-efficiency
    - The scope will ensure property standards compliance & economic useful life for at least the compliance period;
    - Costs are reasonably related to scope:
    - Costs are final or based on detailed specifications to be considered reliable;
    - There is a reasonable contingency provision for construction costs.
- Soft Costs All non-construction line items are reasonable and supported, and reflect all expected project-related costs.
- Developer/consultant fees – Total fees (including other fees collected by the developer or related parties) are reasonable and supported, and reflect all expected project-related costs.
- Reserves The project has adequate provisions for operating and replacement reserves: (utilize LCYCLE cost modeling)
    - Capitalization of initial operating deficit is sufficient to reflect a reasonable rent-up period; and
    - Reserves are capitalized or reasonable
    - Annual contributions are in the operating budget.
    -
- **VII) OPERATING EXPENSES**

- Operating budget cost reasonableness
    - Rental revenue – rents comply with HOME limits and are reasonable compared to market rents; vacancy/collection loss allowance is adequate.
    - Operating Expenses – Total operating expenses (per unit per annum (PUPA) or month (PUM) are reasonable for this type of project; all individual line items are reasonable.
    - Management Expenses – Sufficient allowance for management costs for this type of project.
    - Reserve contributions – Reasonable contributions to operating and replacement reserves (taking into account capitalized contributions to reserves – see above)
    - Net Operating Income – NOI and net available for debt service are reasonable or reflects lender requirements
    - Cash flow – Cash flow projections are reasonable and not excessive for equity invested (if any)
    - Services – Adequate provision for services to reflect the target population's needs; service revenue sources identified sufficient to cover services expenses (separate from real estate operations).

  Readiness to proceed – Project plans are sufficiently advanced to ensure timely commencement of project upon award:
    - Site control – applicant owns or controls the site

- Status of approvals – local approvals are in place or strong support is in evidence
- Funds are committed
- Project designs are completed

Completion risk – Completion of the project on time and within budgeted resources is likely, taking into account the following risk factors:

- Site acquisition The risk of not being able to complete acquisition of the site or require environmental remediation
- Likelihood of approvals – The risk of obtaining all required approvals to develop the site
- Adequacy of funds – The risk of losing or not being able to finalize all critical funding commitments
- Firmness of budget- The risk that budget estimates are insufficient to cover construction scope or unfunded cost overruns
- Realistic schedule – The risk of failing significantly behind on the proposed implementation schedule.

Viability risk - The risk that the project, upon completion, will not be able to be maintained as affordable housing for at least the compliance period:

- Long-term operating projections (based on reasonable year-to-year rent and expense increases) provide adequate reserve contributions and positive cash flow;
- Management & maintenance plans are sufficient to protect physical property long-term.

4. Overall Risk Rating & Project Changes –

Recommended project changes and conditions for commitment based on risk factors identified:

III) REVIEW OF HOME COMPLIANCE

THRESHOLDS REQUIREMENTS

1. Project Eligibility

A) The project is HOME-eligible as low-income housing & is not one of the ineligible types of housing:
   - Fed public housing w/operating subsidy.
   - Expiring use property covered by Title VI.
   - A shelter
   - Rental Rehab Program under agreement.

B) All proposed HOME-funded costs are HOME eligible.

C) All HOME funds will be used to assist eligible low-income units.

2. HOME-Assisted Units

A) Occupancy:
- All proposed HOME assisted units will serve Low-income (HHs (80%).
- The project complies with 90% @ 60% PJ program initial occupancy requirement.
- If the project has HAUs>5 units, at least 20% @ 50%.

B) Affordability:
- Rent will meet HOME limits, adjusted for tenant-paid utilities.

C) Property Standards:
- Project will meet local property standards after completion
- If pre-1978 building, project will comply with LBP requirements.
- Project will comply with accessibility standards (Section 504 &FHAA).

D) Compliance Period:
- The project will maintain occupancy, rent and property standards for a minimum compliance period.

3. Other Key Project Requirements

A) Environmental Review: The project can achieve environmental clearance.
- Statutory checklist applies completed or no problems anticipated
- NEPA applies: Phase 1 required & Completed or no problems anticipated
- No NEPA or other statues apply

B) Labor Standards:
- If there will be 12+ HOME-Assisted units, project costs include Davis-Bacon rates.

C) Relocation:
- If occupied, URA/Section (d) relocation standards apply.

D) **Rental new construction only**:
- Site & neighborhood standards apply.

E) Fair Housing
- Project can and will comply with fair housing & nondiscrimination laws & regulations

F) Affirmative Marketing –
- If five (5) + HAUs, affirmative marketing procedures apply.

G) Conflict of Interest -
- The project will comply with conflict of interest provisions.

4. **Recommended Changes/Terms for Compliance**
    - Recommended conditions for commitment based on any compliance changes indicated in Step 2 above.

IV) HOME INVESTMENT TERMS

A) **Pre-Gap Analysis Review**: Questions to be reviewed prior to calculation of the gap to ensure that the gap is minimized.
- Rents – Are rents maximized to market conditions yet affordable to the target households?
- Operating costs – Do operating expenses reflecting full yet efficient operation of the property?
- Development costs – Do development costs reflect what is necessary to ensure viability, do they reflect competitive pricing and are there sufficient controls on expenditure to ensure cost effective development?
- Primary mortgage(s) terms- Are the first and any other junior lien terms the best available to maximize other borrowings?
- Other subsidies – Has the applicant identified all possible other public subsidies for the project?

B) **Layering Review** If one or more public sources of subsidy are proposed for the project:
- Identify and review the terms of each public source.
- Consult with other public agencies if possible to confirm the terms and discuss possible changes and
- Include all public subsidies in the gap analysis to be conducted.

C) Gap Analysis
- Compute maximum debt- divide the approved Net Operating Income (NOI) by approved debt service coverage factor for senior debt; use mortgage factor to capitalize monthly available for debt services into maximum borrowing amount.
- Subtract all identified sources (Equity, maximum loan and other public subsidies) from approved Total Development Cost (TDC) to determine the gap.
- Compute the subsidy per HOME-assisted unit.

D) Investment Terms
- Loan Term – Length of the loan should reflect at least the minimum HOME compliance period, and may also consider:
    - Useful life of HOME-funded improvements.

    - Term for expected repayment or due on sale provision (if applicable).
    - Other public subsidy compliance periods.
- Interest Rate – Determine if interest will apply to the loan principal, whether it will accrue/compound.
- Amortization – Determine whether loan payments are to be made initially or phased in over the life of the loan.
- Forgiveness – Determine whether unamortized principal will be forgiven at the end of the loan term/compliance period or will remain due and payable.
- Legal Mechanism: determine which of the follow legal documents are required by HOME and are to be used:
    - Note and mortgage,
    - Deed covenant or restriction,
    - Right of first refusal or purchase option,
    - Other
- Repayment of Proceeds: Identify any proceeds from the mortgages or sale of properties or repayments of HOME notes/mortgages that are to be repaid to the PJ (or permitted to be retained if the applicant is a CHDO).

5. Recommended Terms/Conditions

Recommended loan provisions and conditions for commitment based on project analysis (in addition to risk factor changes and compliance changes indicted previously in the review process.