

Feasibility for AHP Rental and Tax Credit Disbursements

Presented by:
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Webinar Summary

- FHLB underwrites housing projects according to the Project Feasibility Guidelines contained in the AHP Implementation Plan.
- AHP Implementation Plan is available at www.fhlbcin.com.

Feasibility Report

Affordable Housing Program
Rental Feasibility Analysis

Application ID 27
Project Name 400 Dyer Street Apartments
Project Location Washington County, Johnson City, TN MSA
Sponsor Keystone Development, LLC
Member Bank of Tennessee, Johnson City TN
Submission ID 201301-0059

Criterion	Feasibility Ranges/Limits	Project Value	Alert
Total Project Costs per Unit	<= \$185,000	\$153,669.33	
Soft Costs as a percentage of Total Project Costs	<= 25%	13.43%	
Developer Fee as a percent of Total Development Cost	<= 15%	5.734%	
Developer Fee as a percent of Total Development Cost (if Sponsor is General Contractor)	<= 15%		
Total Contractor Costs	<= 14%	12.560%	
Capitalized Operating Reserves: Special Needs (Non-Elderly) OR Historic Downtown Rehab	<= 15 months of operating expenses, debt service, & replacement reserve pmts. \$38,526.25 Max	\$17,540.00	
Capitalized Operating Reserves: All other projects	<= 12 months of operating expenses, debt service, & replacement reserve pmts. \$30,821.00 Max		
Operating cost per Unit	<= \$5,000	\$4,803.50	
Vacancy Ratio	5% - 10%	5.06%	
Annual Replacement / Operating Reserves (per Unit per year)	<= \$400	\$333.33	
Management Fee	<= 10%	9.99%	
Debt Coverage Ratio	1.15 - 1.35	0.00	
Expense to Income Ratio Only for No Debt Projects	>= 80%	85.07%	
Net Cash Flow	10% - 30%	100.00%	(Alert! This guideline is only applicable to projects with debt. If your project does not have debt, please disregard. However, if your project has debt, please provide an explanation in Required Document Exhibit M.
Sale Price Per dollar of Tax credits	>= \$.80	\$0.00	
AHP Subsidy per Unit	<= \$50,000	\$50,000.00	
Total AHP Subsidy Requested	Lesser of <= 75% TPC or \$1,000,000	32.74% \$300,000	

Additional Alerts:
 N/A

119	FEASIBILITY REPORT				
121	Applicant	Example			
122	Sponsor	Example			
123	Project Name & Number	Example Project - 000000-0000			
124					
125	Criterion	Ranges - Limits	Project	Alert	
126	Project Cost/Unit (Total Project Cost/Units)	Guideline \$250,000 / DU \$70,000 / Bed	\$159,184.53		
128	Construction - Soft Cost (soft construction costs/total project cost)	Max. 25% - 30% of total dev. cost	30.27%	ALERT!	
129	Developer Fee (Dev. Fee &/or Overhead, Consultant, etc./TPC Net of Such Costs)	Max. 15% of TPC for Constr/Rehab OR 5% of TPC for Acq.	13.03%		
130	General Requirements & Contractor's OH & Profit (Total Fees/ Hard Construction Costs)	Max. 14%	13.98%		
131	Hard Cost Contingency (Hard Cost Contingency/Construction Costs)	Max. 10% for Constr 15% for Rehab/Adaptive Reuse 20% for Historic Rehab	0.00%		
132	Soft Cost Contingency (Soft cost contingency/total soft cost net of contingency)	Max. 10%	0.00%		
133	Capitalized Reserves Special Needs & Historic Downtown Rehab (15 mos.ds + 15 mos.oper. exp.)	Max. 15 months of OE + DS \$0.00	\$0		
135	Capitalized Reserves All other projects (12 mos.ds + 12 mos.oper. exp.)	Max. 12 months of OE + DS \$520,101.86	\$474,394		
137	Operating Cost/Unit (Operating Expense/# of units)	Max. \$4,100 / Shelter DU Max. \$5,600 / Family DU Max. \$6,100 / PSH DU	0 \$4,617.79		
140	Vacancy Ratio (Vacancy %/Gross Rents)	5% - 10%	7.00%		
141	Replacement Reserves (Replacement Reserves/# of units)	Max. \$400 Unit per year Max. \$200 Bed per year	\$0.00 \$0.00		
143	Management Fee (management expense/net rents)	Max. 10% of Net Rents	7.10%		
144	Debt Coverage Ratio (see A below)	1.50 maximum in year one and >=1.00 in year 15	1.26 1.14		
146	Operating Expense Ratio	>= 80% of net rents	93.91%		
147	Net Cash Flow	Must be positive through year 15	\$17,602.14		
148	Net Operating Income - Total Annual "Hard debt" Service				
149	LIHTC Sale Price/\$ (B)	Minimum \$.80	\$0.93		
150	*see B below		\$0.96		
151	AHP Subsidy/Unit	Max. \$50,000 Family DU Max. \$15,000 Shelter DU	\$9,375.00		
152	Max. AHP Subsidy/Project	Lesser of \$400,000 or 75% of Total Residential Costs	6.05%		
153	A. Net Income	- Operating Expenses	= Operating Income	(Rep. Res)	= NOI
154	\$553,815.00	\$369,423.00	\$184,392.00	\$22,000	\$162,392.00
155	1st mortgage P&I	+ 2nd mortgage P&I	+ 3rd mortgage P&I	= Debt Service	
156	\$128,678.86	\$0.00	\$0.00	\$128,678.86	
157	Net Operating Income	/ Debt Service	= Debt Coverage Ratio (1)	= Debt Coverage Ratio (2)	
158	\$184,392.00	\$128,678.86	1.43	1.26	
159	B. New Construction/Rehab Basis **	x Tax Credit %age (8.73%)	= Est. Annual Tax Credits	*10 = Est. LIHTC Award	
160	\$0	0.00%	\$472,091.00	\$4,720,910.00	
161	Acquisition Basis	x Tax Credit %age (3.61%)	= Est. Annual Tax Credits	*10 = Est. LIHTC Award	
162	\$0	0.00%	\$0.00	\$0.00	
163	Investor Equity-Bridge Loan Interest	/ Est. LIHTC Award	= LIHTC Sales Price/\$ (3)		
164	\$4,372,422.00	\$4,720,910.00	\$0.93		
165	Investor Equity	/ Est. LIHTC Award	= LIHTC Sales Price/\$ (4)		
166	\$4,508,761.00	\$4,720,910.00	\$0.96		
167	(3) LIHTC Price without Bridge Loan Interest				
168	(4) LIHTC Price with Bridge Loan Interest				
169	**Bridge loan interest is often deducted from Investor Equity prior to calculating Est. Annual Tax Credits.				
170					
171					

Justifying Feasibility Exceptions

- A project's values must fall within the range or limit of all FHLB feasibility parameters.
- Justify why FHLB should provide AHP funds to the project with values outside the guidelines.
- Exceptions to feasibility guidelines approved by at AHP award or modification are carried forward to disbursement.

Sources and Uses

- The cost certification or AHP Development Budget must categorize all project expenses and may not include costs not yet expended.
- The funding source listing must breakout all of the project's permanent funding sources by amount.
- The total of all development costs and the sum of all permanent funding sources must be equal.
- AHP will only cover the gap between the total eligible project costs and the sum of all funding sources besides AHP.

Total Project Cost per Unit

$$\frac{\text{Total Project Costs}}{\text{Total Number of Units or Beds}}$$

- Cannot exceed \$250,00 per traditional unit.
- Cannot exceed \$70,000 per bed for special purpose housing/group homes/shelters.
- Major costs increases from the approved AHP application require approval by FHLB.

Total Soft Cost Percentage

$$\frac{\text{Total Soft Costs}}{\text{Total Project Costs}}$$

- Should not be more than 30% for tax credit projects.
- Should not be more than 25% for rental projects not receiving tax credits.
- Explain and justify if project soft costs exceed parameter.

Total Contractor Costs

$$\frac{(\text{General Requirements} + \text{Construction Mgmt/Overhead} + \text{Contractor's Profit})}{\text{Total Hard Costs} - (\text{General Requirements} + \text{Construction Mgmt/Overhead} + \text{Contractor's Profit})}$$

- Maximum 14%.
- Does NOT include acquisition costs as a hard cost.
- FHLB does not make exceptions for this feasibility parameter; a violation results in an AHP grant reduction.

Developer Fee Percentage

$$\frac{(\text{Developer Fee} + \text{Consultant Fee})}{(\text{Total Project Cost} - \text{Developer Fee} - \text{Consultant Fee})}$$

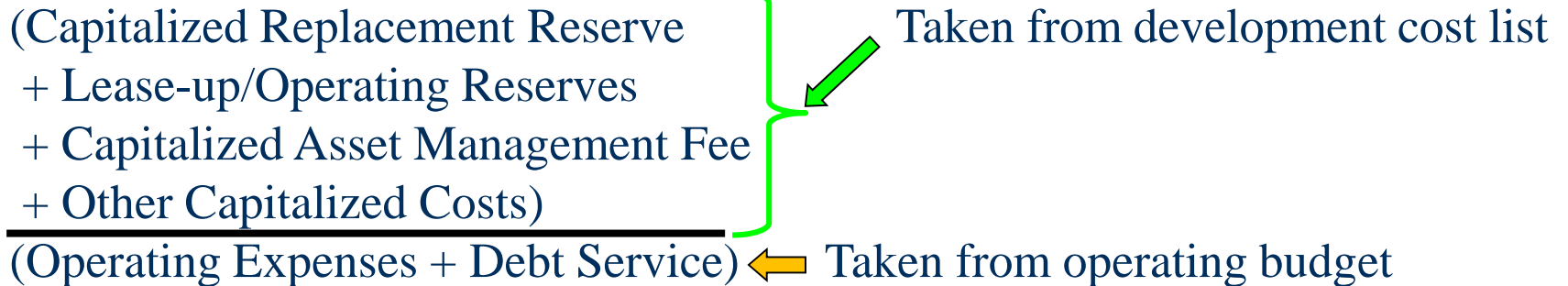
- Maximum is 5% for acquisition-only projects.
- Maximum is 15% for new construction/rehabilitation
- Maximum is 20% if owner equity/deferred developer fee exists to cover the amount above 15%.
- Acquisition costs are removed from the Total Project Cost if they do not represent costs paid to a third party.

AHP Subsidy per Unit

$$\frac{\text{Total AHP Subsidy Requested}}{\text{Number of AHP-assisted Units or Beds}}$$

- Cannot exceed \$50,000 for traditional rental projects.
- Cannot exceed \$15,000 for group home/special purpose housing/shelter beds.
- If the number of units in the project has changed, submit an AHP Modification Request Form, available at www.fhlbcin.com.

Capitalized Costs



- Cannot exceed 12 months of operating expenses plus debt service payments unless involves historic rehab or reserve at least 85% of units for households with special needs, then 15 months of costs as reserves is permissible.
- FHLB does not make exceptions.

Operating Cost per Unit

$$\frac{\text{Total Operating Expenses*}}{\text{Total Number of Units or Beds}}$$

- Maximum for traditional rental units is \$5,600.
- Maximum \$6,100 for permanent supportive housing.
- Maximum is \$4,100 for “Shelter,” “Group home,” or “Special purpose housing” beds.

*excluding annual replacement reserves

Annual Replacement Reserves

$$\frac{\text{Annual Replacement Reserves}}{\text{Total Number of Units or Beds}}$$

- Must be between \$1 and \$400 per unit per year for traditional rental units.
- Must be between \$1 and \$200 per bed per year for “Shelter,” “Group home,” or “Special purpose housing” projects.

Vacancy Ratio

$$\frac{\text{Annual Vacancy Loss}}{(\text{Gross Residential Rents} + \text{Subsidies})}$$

- Must be between 5% and 10% for traditional projects.
- Can be between 0% and 10% for “Shelter,” “Group home,” or “Special purpose housing” projects.

Management Fee Percentage

$$\frac{\text{Management Fee}}{\text{Net Income}}$$

- Cannot exceed 10% of net income.
- Must match the management fee identified in the project's partnership or operating agreement.

Debt Coverage Ratio

$$\frac{\text{Net Operating Income}}{\text{Total Annual Hard Debt Service}}$$

- Must be between 1.00 and 1.50 through Year 15
- Only applies to projects with permanent hard debt.
- Exceptions may be made solely at FHLB's discretion and require justification.

Expense to Income Ratio

$$\frac{\text{Total Operating Expenses}}{\text{Net Income}}$$

- Must be at least 80%.
- Only applies to projects without permanent hard debt
- If less than 80%, the project can afford to support debt, and FHLB may make adjustments to the AHP grant

Net Cash Flow

Net Operating Income - Total Annual Hard Debt Service

- Must be positive in all 15 years of operations.
- If Net Cash Flow will be negative in years 12 and later, project must demonstrate that sufficient reserves will be available to cover the shortfall.

Rent Affordability

$$\frac{(\text{Monthly Contract Rent Amount} * 12)}{\text{Annual Area Median Income}}$$

- Use the move-in year's MTSP limits from www.huduser.org.
- Assume one occupant per single-room occupancy (SRO) or efficiency unit and 1.5 persons per bedroom for all units with one bedroom or more.
- Contract rent must be less than 30% of AMI.

Tax Credit Sale Price per Dollar

For Low-Income Housing Tax Credits:

$$\frac{\text{Total Equity Investment}}{(\text{Annual Tax Credit Award} * 10)}$$

- Must be at least \$0.80.
- If sale price is below limit, provide evidence of market conditions at the time of the project's closing.

Reminders

- Be sure to assess the project's financials before submitting documentation to FHLB and provide justification for any project values outside of FHLB's ranges or limits.
- FHLB will not accept revised financial documentation once it has been submitted without back-up documentation.
- Request a formal modification to the project if it changes materially from what was submitted in the approved AHP application.

HCI resources

- Access resources on www.fhlbcin.com by clicking through the following links: “Housing Programs”, then “Affordable Housing Program”
- Once there, you can find additional resources such as the AHP Implementation Plan and the Income Eligibility Guide that will cover some of these topics in more detail than was covered in this webinar.
- Contact the FHLB staff if you have specific questions that are not answered in the materials available on the website.

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Let's celebrate together!

We encourage all FHLB members and housing sponsors to notify us of plans to celebrate or recognize any FHLB funded housing or community investment project. The FHLB is often available to participate and to offer public relations assistance for community events such as ribbon cuttings, groundbreakings, and dedications. Please contact FHLB Public Affairs at publicaffairs@fhlbcin.com.



Thank You

