



Note: The FHLBI will generally use the feasibility guidelines established by the State Housing Finance Agency (HFAs) as the primary standard for projects utilizing HFA financing. The feasibility analysis consists of four parts:

- 1) Financial feasibility
- 2) FHLBI compliance experience with sponsor and member
- 3) Sponsor capacity and development team experience
- 4) Project readiness

### Financial feasibility

The financial feasibility will include a review of sources, uses, project costs and operational feasibility, and need for the subsidy as outlined in §1291.5. The application will require the sponsor to provide information regarding loans, grants, equity contributions, the anticipated value received from syndicators, equity contributions or private funding sources for the tax credits and any other financing that is necessary for the financial feasibility of the project. FHLBI recognizes that all rental projects are different; for example, some have debt, and others are not able to support debt in order to serve very low-income households. The financial feasibility standards are not used to automatically “disqualify” projects that fall outside the boundaries. These are evaluated on a case-by-case basis and should be clearly explained in the application. The FHLBI uses the feasibility guidelines as measures of “reasonableness.” In addition, depending upon project location and type, the FHLBI may request additional information for items that fall within appropriate ranges. The analysis described above is undertaken to ensure the following:

- Estimated sources equal estimated uses.
- Project costs are reasonable and customary in light of industry standards for the location and the long-term financial needs of the project.
- Operating proforma demonstrates reasonableness and the likelihood of operating as projected.
- The AHP subsidy requested is necessary for the financial feasibility of the project.

*Note: It is the responsibility of the member financial institution to underwrite the submitted projects and to review the readiness of the proposals to use AHP funds. Member underwriting is required on all AHP applications. It is expected that senior management of the member will review and approve all applications. The FHLBI's feasibility analysis is not meant to meet lending underwriting criteria. Therefore, the FHLBI's acceptance of the project should not be relied upon for lending purposes.*

## Homeownership project development budget

Criterion	Feasibility Guidelines (Targets are maximums)
Cost per unit – rehabilitation	75% of the floor FHA single-family mortgage limit for area
Cost per unit – new construction (excluding land costs and nonprofessional volunteer labor)	75% of the floor FHA single-family mortgage limit for area
Owner's monthly housing expense, including principal, interest, taxes, insurance, and homeowner's dues as % of gross income at application	May not exceed 35%
Owner's total monthly expenses, including housing costs (principal, interest, taxes, insurance, and homeowner's dues) plus all other installment debt as % of gross income at application FHLBI prefers that student loans in deferment have a minimum 2 year deferment from the date of mortgage application	May not exceed 45%
Mortgage rate	Market rates for loans of similar maturity, terms and risk
Mortgage term	Minimum 15 year mortgage term for homeowner
Developer fee	Calculation: $\text{Developer fee} + \text{consultant fee} \div (\text{Total development costs} - \text{developer fee} - \text{consultant fee} - \text{land and/or building acquisition})$  For projects with 50 or more units: 15% For projects with 49 or fewer units: 20%
Construction contingency	New construction: 10% of hard costs Rehabilitation: 20% of hard costs Calculation: $\text{Construction Contingencies} \div (\text{construction/rehab costs} + \text{infrastructure} + \text{hazardous materials} + \text{general requirements, profits \& overhead})$
Construction – hard costs (% of total development costs)	65% minimum

Rental project development budget

Criterion	Feasibility Guidelines (Targets are maximums except for LIHTC Equity)
Rental per unit development cost--new construction	HUD 221(d)(3) limits average of total per bedroom units using the 200% multiplier <b>OR</b> maximum established by state HFA if project qualifies for state-administered program
Rental per unit development--acquisition/rehabilitation	HUD 221(d)(3) limits average of total per bedroom units using the 200% multiplier <b>OR</b> maximum established by state HFA if project qualifies for state-administered program
Developer fee	<p>Calculation: (Developer fee + consultant fee) / (total development costs – developer fee – consultant fee-land acquisition costs)</p> <p>For projects with 50 or more units: 15% For projects with 49 or less units: 20%</p> <p>Maximum of 65% of the developer fee can be deferred.</p>
Contractor cost limits	<p>The combined total of contractor profit, overhead, and general requirements shall be limited to 14% of hard construction costs <i>or consistent with State Housing Finance Agency, USDA or HUD guidelines</i></p> <p>Calculation: Total Contractor Profit / (Total construction cost - contractor profit, overhead and general requirements)</p>
<p>Hard Cost Construction contingencies</p> <p>Note: the FHLBI has no soft cost contingency allowance</p>	<p>New construction: 10% of hard construction costs Rehabilitation: 20% of hard construction costs</p> <p><i>or consistent with State Housing Finance Agency, USDA or HUD guidelines</i></p>
Tax credit proceeds	\$0.55 minimum

**Rental project development budget, continued**

Criterion	Feasibility Guidelines (Targets are maximums except for LIHTC Equity)
<p>Operating reserves (capitalized)</p> <p>Supportive Services Reserves</p>	<p>Up to 6 months' operating expense plus 6 months of debt service <i>or consistent with State Housing Finance Agency, USDA, or HUD guidelines</i></p> <p>Recommended (but not required) for projects that provide 100% of the units with extensive supportive services to special needs customers. Note: AHP subsidy may not be used to fund project, operating, replacement, or supportive services reserves.</p>
<p>Construction – hard costs (% of total development costs)</p> <p>Note: if project involves acquisition with little or no rehabilitation, acquisition costs may be considered hard costs.</p>	<p>65% minimum</p>

**Rental project operating proforma**

Criterion	Range (Targets are maximums for yrs 1-15 of proforma)
<p>First year rents must equal total rents from the Rental Project Worksheet (at application), rents may not exceed 30% of the targeted area median income</p>	<p>Must be equal</p>
<p>Management fees</p>	<p>Up to 7% of effective gross income <i>or consistent with State Housing Finance Agency, USDA or HUD guidelines for projects receiving that funding</i></p>
<p>Replacement reserves</p>	<p>Up to \$350 per unit per year <i>or consistent with State Housing Finance Agency, USDA or HUD guidelines for projects receiving that funding</i></p>
<p>Inflation factors</p>	<p>Income up to 2% annually Expenses increase 1-2% faster than income</p>
<p>Vacancy rate</p>	<p>Up to 8% of total gross rents Up to 10% of effective gross income if supportive housing</p>
<p>Total annual operating expense per unit <i>Net of operating and replacement reserves and real estate taxes</i></p>	<p>Years 1-5: \$2,850 per unit/year Years 6-10: \$3,350 per unit/year Years 11-15: \$3,850 per unit/year <i>or consistent with State Housing Finance Agency, USDA, or HUD guidelines for projects receiving that funding</i></p>

Debt coverage ratio (DCR)	Minimum 1.10 up to 1.40 maximum
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### **FHLBI member compliance experience with sponsor**

The sponsor must have a demonstrated ability to provide timely monitoring information and to complete projects on a timely basis. The FHLBI will review past projects as an indication of performance on new applications. If the sponsor history is unsatisfactory, which includes failure to utilize previous AHP awards, inability to complete previous projects in required time frames, repeated failure to submit required documentation or serious and repeated violations of the program, the project may be excluded from the scoring process. The FHLBI will rely on the member's willingness to submit the application as an indication of its own satisfactory history with the project sponsor and support of the application.

### **Sponsor capacity/development team experience**

The AHP application must demonstrate that the developer/sponsor has the ability, experience and capacity to complete and manage the property for the retention period and that it has developed projects of comparable size and financing complexity. For new organizations, board members and/or staff members must be experienced in providing or developing the type of housing outlined in the application or the sponsor may contract with an experienced developer. Applications that fail to indicate adequate sponsor/development team capacity and support will be excluded from the scoring process. The FHLBI will rely on the member's willingness to submit the application as an indication of its comfort with sponsor capacity/development experience and support of the application.

### **Project readiness to proceed**

The FHLBI requires that funding of AHP subsidies commence within 12 months of approval. The Implementation Plan further stipulates requirements that the AHP subsidy be completely used within two years of date of award. Projects that have not been able to procure site locations, or that have not clearly identified stable development funding at the time of application, may not be able to meet the time limit requirements.

Only projects that are considered to meet the "readiness test" will be included in the scoring process. In general, to determine project "readiness," the FHLBI will examine the following documentation for overall readiness to proceed, including but not limited to, the following:

- Site control - Current, verifiable evidence from a third-party source (e.g., a copy of an executed deed, purchase option, sales agreement, long-term lease, ordinance) that control of the proposed project site has been obtained or is projected to be obtained within six months following the approval of the application.
- Financing commitments - Current, verifiable evidence that the project has identified its permanent finance structure and that interim, bridge and permanent financing can be secured in order to maintain the FHLBI timelines.
- Required approvals - Verifiable evidence (e.g., copies of building permits, planning board ordinance, judicial decree) that the project has acquired zoning, environmental, and other municipal, state or federal approvals or that such approvals are pending and/or likely to be approved in the very near future.

- Other such documentation that can be provided to verify that project will be ready to proceed and be completed within the 36 month requirement.
- The FHLBI, in its sole discretion, reserves the right to disqualify a project when it determines that the project does not meet the readiness test.

## **Other Project Feasibility Issues**

### **Shelter-type projects/supportive housing**

Projects that rely on donations for the support of the operating proforma must be able to demonstrate they have a track record of raising funds necessary to support the project. It is vital that the owner is able to demonstrate the financial capacity to retain the project as affordable housing for the retention period. Financial capacity is demonstrated by both a track record of raising adequate funds as well as having a balance sheet that reflects good fiscal management. It will be difficult to fund projects in which the owner's financials demonstrate year-to-year shortfalls in raising adequate funds for operating. In these cases, the member or sponsor/owner should include information indicating it has raised similar amounts of monies in the past and can demonstrate fundraising capacity.

Projects charging little or no rent or operating as "shelters" must be able to provide verifications of tenant income. For "shelters" the income verifications may consist of intake forms, zero income affidavits or similar client certification as little or no third party verifications can be obtained.

The evaluation of AHP subsidy requests for projects involving service-enriched housing, housing for persons with special needs, housing for the homeless, assisted living, and other forms of non-traditional rental housing will be completed on a case-by-case basis. The FHLBI may request historical financial statements, fundraising information, historical data relative to special needs population served and other such information as needed to determine financial feasibility and application commitments.

### **Debt coverage ratios**

FHLBI recognizes that all rental projects are different; for example, some have debt, and others are not able to support debt in order to serve very low-income households. In general, projects with a debt coverage ratio (DCR) above 1.40 demonstrate adequate cash flow to seek additional financing from private resources. Projects with debt coverage ratios exceeding 1.40 will need to provide reasonable justification and will be evaluated on a case by case basis. For example, exceptions may be made for projects that the FHLBI determines, in its sole discretion, will need higher DCR to be feasible or have such a small amount of cash flow that any significant amount of financing cannot be reasonably supported.

### **Per unit operating costs**

FHLBI recognizes that per unit operating costs can vary based upon geography, number of units in a project, population being served, utility expenses and inflationary rate compounding. Projects with per unit operating expenses in excess of the feasibility guideline will be evaluated for reasonableness and considered on a case by case basis by the FHLBI. Operating expenses must be indicative of costs associated with the operation of the housing only and may not include costs

associated with the delivery of services required to sustain a special needs population or empowerment initiatives. Supportive services income and expenses must be reflected in a separate proforma. Operating expenses are evaluated net of operating reserves and real estate taxes.