

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 for competitive AHP consists of the following parts:

- 1) Financial feasibility
- 2) FHLBI compliance experience with sponsor and member
- 3) Sponsor capacity and development team experience
- 4) Project readiness
- 5) Market demand for proposed project

Financial feasibility

The financial feasibility assessment 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 do not fall within appropriate ranges. The analysis described above is undertaken to ensure the following:

- Estimated sources equal estimated uses – cash basis
- Project costs are reasonable and customary in light of industry standards for the location and the long-term financial needs of the project
- Operating pro-forma 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 independently underwrite the submitted projects for the AHP subsidy requested in addition to any proposed financing of interim or permanent debt obligation. Part of the Member’s review should include evaluation of the development for the readiness of the proposal to use AHP funds. Generally, this readiness threshold is demonstrated with the commitment of 70% of the sources of funds (excluding AHP) at the time of application. Additionally, review of all threshold benchmarks should be considered in assessing the overall readiness of the development to proceed as presented in the application. 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 and Homeownership Initiatives Households

Criterion	Feasibility Guidelines (Targets are maximums)
Cost per unit – rehabilitation (competitive AHP only)	75% of the floor FHA single-family mortgage limit for area
Cost per unit – new construction (excluding land costs and nonprofessional volunteer labor) (competitive AHP only)	75% of the floor FHA single-family mortgage limit for area
Household’s monthly housing expense, including principal, interest, taxes, insurance, and homeowner’s dues as % of gross income at application	May not exceed 35%
Mortgage Loan rate (Homeownership Initiatives only)	Market rates for loans of similar maturity, terms and risk
Mortgage Loan term/amortization (Homeownership Initiatives only)	Minimum 5 year mortgage term / 15 year amortization
Developer fee (competitive AHP only) Payment to the sponsor of developer fee is an eligible use of AHP; however, developer fee may be disbursed only at the conclusion of the development when all homes have been sold and total development costs have been validated. Developer fee may not exceed 15%.	New Construction and Rehab – 15% based on calculation: Developer fee + consultant fee ÷ (Total development costs – developer fee – consultant fee – land and/or building acquisition)
Construction contingency (competitive AHP only)	New construction: 10% of hard costs Rehabilitation: 20% of hard costs
Construction – hard costs (% of total development costs) (competitive AHP only)	70% minimum

AHP Household Subsidy Guidelines (competitive AHP only):

AHP Household Subsidy Calculation – AHP subsidy per household may not exceed 20% of the purchase price of the proposed property. Subsidy awarded on a per household basis may be adjusted pursuant to the FHLBI’s individual household subsidy need calculation.

Purchase price must be supported by an appraisal completed not more than 90 days in advance of closing.

Household maximum loan calculation uses the lower of: Loan to Value and Housing Debt to Income.

Homebuyer must have a cash down payment based on household income as follows:

- <30% AMI – the lesser of 1% of the purchase price or \$1,000
- <31-50% AMI – 2% of purchase price
- <51-60% AMI - 2.5% of purchase price
- <61-80% AMI - 3% of purchase price

Subsidies from non-AHP sources and sweat equity are not eligible substitutes for buyer cash down payments. Sweat equity is valued at an average of \$15/hour and is applied to reduce the purchase

price from the appraised valuation. In cases where sweat equity is not applicable, the purchase price shall be the appraised value. Allowable sweat equity hours are those completed by the household members on the subject property only. Buyer’s cash down payment and AHP subsidy must be reflected on the HUD-1 Settlement Statement/Closing Disclosure prepared for the transfer of ownership.

Rental project development budget

Criterion	Feasibility Guidelines (Targets are maximums Except for LIHTC Equity)
<p>Rental per unit development cost – new Construction</p> <p>Any line item cost or total unit costs exceeding a range of reasonableness for the project scope may be disqualified at the sole discretion of FHLBI. Considerations will be made for scope and location of the development. Additional documentation and information, verified by the FHLBI, may be required to substantiate reasonableness of costs. Per unit development costs in excess of \$250,000 require third party documentation support and justification for higher costs with the application.</p>	<p>Maximum established by state HFA in which the development is located if the development qualifies for any state-administered program.</p> <p>Per unit total development costs in excess of \$155,000/unit require explanation justifying a higher cost in the application financial workbook</p> <p>Architect Fees, including design and supervision fees, must be limited to 4% of the total hard costs plus site work, general requirements/profit/overhead and hard construction contingency.</p>
<p>Rental per unit development--acquisition/rehabilitation</p> <p>Any line item cost or total unit costs exceeding or lacking a range of reasonableness for the project scope may be disqualified at the sole discretion of FHLBI. Considerations will be made for scope and location of the development.</p> <p>Developments that involve any rehabilitation costs require an independent Capital Needs Assessment dated within one year of the application submittal. Such assessment must detail the scope of work required to sustain the property without additional capital expenditure after the completion of the proposed project that is in excess of the projected replacement reserve balance. An independent itemization of trades breakdown by an individual qualified to make such estimates of repair is required. Per unit development costs in excess of \$250,000 require third</p>	<p>Maximum established by state HFA in which the development is located if the development qualifies for state-administered program</p> <p>Per unit total development costs in excess of \$155,000/unit require explanation justifying a higher cost in the application financial workbook</p> <p>Architect Fees, including design and supervision fees must be limited to 4% of the total hard costs plus site work, general requirements/profit/overhead and hard construction contingency.</p>

<p>party documentation support and justification for higher costs with the application.</p>	
<p>Developer fee</p> <p>Only LIHTC financed developments may use deferred fee as a source of funds. Any deferred fee loan must be repaid from cash flow by year 15. (see additional notation below)</p>	<p>New construction and rehab – 15% based on calculation: (Developer fee + consultant fee) / (total development costs – developer fee – consultant fee-land acquisition costs-operating/supportive service reserves)</p> <p>Total developer, guaranty, and consultant fees may not exceed \$1,200,000 OR maximum established by state HFA in which the development is located if the development qualifies for state-administered program</p> <p>Maximum of 50% of the developer fee can be deferred.</p>
<p>Contractor cost limits</p> <p>See notation below regarding Construction Management</p>	<p>The combined total of contractor profit, overhead, and general requirements shall be limited to 14% of hard construction costs.</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 the state HFA, USDA or HUD guidelines in which the development is located.</i></p>
<p>Tax credit proceeds</p>	<p>\$0.85 minimum</p>
<p>Operating reserves (capitalized) (Requires non-AHP funding sources)</p> <p>Supportive Services Reserves(capitalized)</p>	<p>Up to 12 months' operating expense (excluding replacement reserves) plus 12 months of debt service or \$1,500 per unit whichever is greater.</p> <p>Recommended (but not required) for projects that provide 80% or more of the units with extensive supportive services to special needs consumers. (Note: AHP subsidy may not be used to fund project debt service, 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>70% minimum</p>

Related Parties:

The Applicant/Sponsor, Owner, Developer, and Consultant must disclose all Related Party Fees submitted within the initial application budget. Fees may include, but are not limited to, developer fee, consultant fee, architect fee, guaranty fee, owner's representative fee, broker fee, document review fee, supervision fee, contractor fee etc. See related party definition in Attachment A – Definitions.

Developer fee:

Applicant/Sponsor must include a statement 1) disclosing each entity/individual receiving a portion of the Development Fee along with the percentage or amount of the total fee each entity/individual will receive and 2) describing the terms of the deferred repayment obligation to the development including the interest rate proposed and the source of repayment. Non-profit organizations shall include a resolution from the Board allowing such a deferred payment and interest obligation to the Development.

Deferred Developer fee:

Only those projects funded with Low Income Housing Tax Credit (LIHTC) may defer developer fee as a source of funds. The amount of the deferred fee may not exceed the maximum amount detailed in the partnership agreement once executed. The AHP subsidy may be applied toward the reduction of the deferred fee, subject to the disbursement policies, in an amount not to exceed 50% of the maximum deferral amount specified; and at least 25% of the developer fee shall remain deferred. If new or additional sources are added to the project after financing has closed without a corresponding increase in costs, the new sources may be applied on a pro-rata basis to reduce the deferred fee (or other subordinate funding source such as owner equity) resulting in a reduction of the AHP award.

Construction Management / Contractor Fees:

If a construction manager is not included in the construction contract, then any construction management consulting fee must be included in and paid from the developer's fee. If a construction management fee (paid to a related or unrelated third party) is included in the construction contract, it must be included in and subject to the above fee limits relating to General Requirements, Profit and Overhead. Excess fees will be deducted from total development cost when performing the need for subsidy analysis.

Sponsor Loans to Development: (LIHTC funded)

The FHLBI allows the AHP subsidy to be loaned by the sponsor to ownership entity. Terms of such loans are generally subject to available cash flow and in an equivalent amount of the AHP subsidy. The terms of such loans may not exceed the applicable AFR in effect at the time the note is executed (generally not in excess of 3%). Further, interest on the note shall accrue throughout the term, but may not be paid, in whole or part, prior to the fulfillment of the 15 year AHP retention period. Such loan does not supersede repayment requirements detailed in the AHP Agreement.

Rental project operating pro-forma

Criterion	Range (Targets are maximums for yrs. 1-15 of pro-forma)
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	Must be equal
Property Management fees	Up to 10% of effective gross income <i>or consistent with the state HFA, USDA or HUD guidelines in which the development is located for projects receiving that funding</i>
Replacement reserves	Up to \$350 per unit per year for rehabilitation or new construction Up to \$420 per unit per year for historic preservation or single family units <i>OR consistent with State Housing Finance Agency, USDA or HUD guidelines where applicable</i>
Inflation factors	Income up to 0-2% annually Expenses 1-3% annually or 1-2% faster than income
Vacancy rate	Up to 8% of total gross rents Up to 10% of effective gross income if supportive housing
Total annual operating expense per unit <i>Net of operating and replacement reserves and real estate taxes</i> See additional comments below	At least \$3,500 per unit/year and not more than: Years 1-5: \$4,250 per unit/year Years 6-10: \$5,000 per unit/year Years 11-15: \$5,500 per unit/year <i>OR consistent with the state HFA, USDA or HUD guidelines in which the development is located where applicable.</i>
Debt coverage ratio (DCR)	Projects with hard debt: Minimum 1.15 up to 1.40 maximum Projects without hard debt will not have a DCR. This will be calculated by a ratio of Effective Gross Income to Total Annual Expenses (excluding reserve for replacement) All projects require a minimum of 1.15 ratio every year (1-15) to be considered feasible by the FHLBI.
	Note: Tax abatement may cause the debt coverage ratio to be higher than these guidelines. Exceptions will be considered on a well-documented case by case basis.

Other Project Feasibility Issues

Shelter-type projects/supportive housing

Projects that rely on donations for the support of the operating pro-forma 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, and other forms of non-traditional rental housing will be completed on a case-by-case basis. A 15 year supportive service proforma outlining the source of funds dedicated to program/support delivery and expenses associated with the delivery of these programs is required for projects serving homeless or special needs populations. The supportive service proforma should relate specifically to the proposed project and should not reflect broader organization or agency income/expenses. For projects serving an aging population wherein services are engaged on a pay for service basis by the consumer, a supportive service proforma may not be indicated. 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. For projects that rely on fundraising or equity for development sources, evidence of banked activities held in a separate capital account is required. Generally, a minimum of 70% of funding should be demonstrated as committed at time of application and 100% funding achieved by completion of the project.

Mixed Use developments

For projects which involve the blending of commercial, office or retail space, a separate 15 year operating proforma is required to detail expected income and operating expenses associated with the operation of the non-housing spaces. Sources and uses for the development costs are reflected in the financial workbook so as to reflect the total scope of the project. Readiness to proceed may be measured by the funding committed to the non-housing portion of the project at the time of application. The method of cost allocation for development costs for common building areas and building mechanics is required as may be indicated by the project design. The ownership and operational structure of the non-housing areas of the project should be detailed. A project that depends on commercial income to meet the minimum feasibility guidelines will not be considered financially feasible.

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. Developments without hard debt are allowed but will be subject to additional scrutiny from the FHLBI. In general, projects with a debt

coverage ratio (DCR) above 1.40 demonstrate adequate cash flow to seek additional financing from private resources. Conversely, projects with a debt coverage ratio (DCR) below 1.15 demonstrate inadequate cash flow to seek additional financing from private resources and may not be sustainable. Projects with debt coverage ratios exceeding 1.40 or less than 1.15 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. The FHLBI recognizes that smaller or rural developments may have higher debt coverage at the beginning of the compliance period in order to remain feasible over the 15 years.

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 pro-forma. Operating expenses are evaluated net of operating reserves and real estate taxes.

Required Documentation:

- 1) Documentation of estimated property taxes and insurance
- AND
- 2) If per unit costs are outside the guidelines, written detailed explanation
third-party documentation supporting the explanation may be required

Cash Flow

All developments will be required to have a positive cash flow without having an undue profit (unless operating reserves are adequate to offset negative cash flow). The FHLBI will evaluate the income and expense assumptions for reasonableness. The need for AHP subsidy analysis includes an analysis of the project cash flow and hard debt, if applicable. The FHLBI, in its sole discretion, may determine that additional hard debt may substitute some or the entire AHP subsidy requested.