

# FHLBank Indianapolis

UNDERWRITING AFFORDABLE  
HOUSING WORKSHOP

## Presented by:

Mike Recker, AHP Portfolio Manger, FHLBank Indianapolis

Erica Petty-Saunders, Senior Compliance Analyst, FHLBank Indianapolis

Wendy Carty-Saxon, Director of Real Estate Development, Avalon  
Housing

Jim Wolfington, Vice President, Chelsea State Bank

**FHLBank**  
INDIANAPOLIS

BUILDING PARTNERSHIPS.  
SERVING COMMUNITIES.

October 28, 2021

# Underwriting Affordable Housing

## AGENDA



- Introduction/Purpose
- Sponsor/Member perspective
  - Wendy Carty-Saxon, Director of Real Estate Development, Avalon Housing
  - Jim Wolfington, Vice President, Chelsea State Bank
- FHLBank Indianapolis perspective
  - Erica Petty-Saunders, Senior Compliance Analyst



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FHLBI Underwriting Affordable Housing Workshop



“

*Avalon's mission is  
to build healthy, safe and inclusive  
supportive housing communities as a  
**long-term** solution to homelessness.*

# Avalon background

- Started in 1992
- Built and developed properties in Ann Arbor and Chelsea – 328 units on-line, 27 properties
- Partner with private landlords throughout Washtenaw County
- Public housing partnership in Ann Arbor
- Serve 800 people, including 200 children
- 10 LIHTCs
- 28 FHLBI AHPs



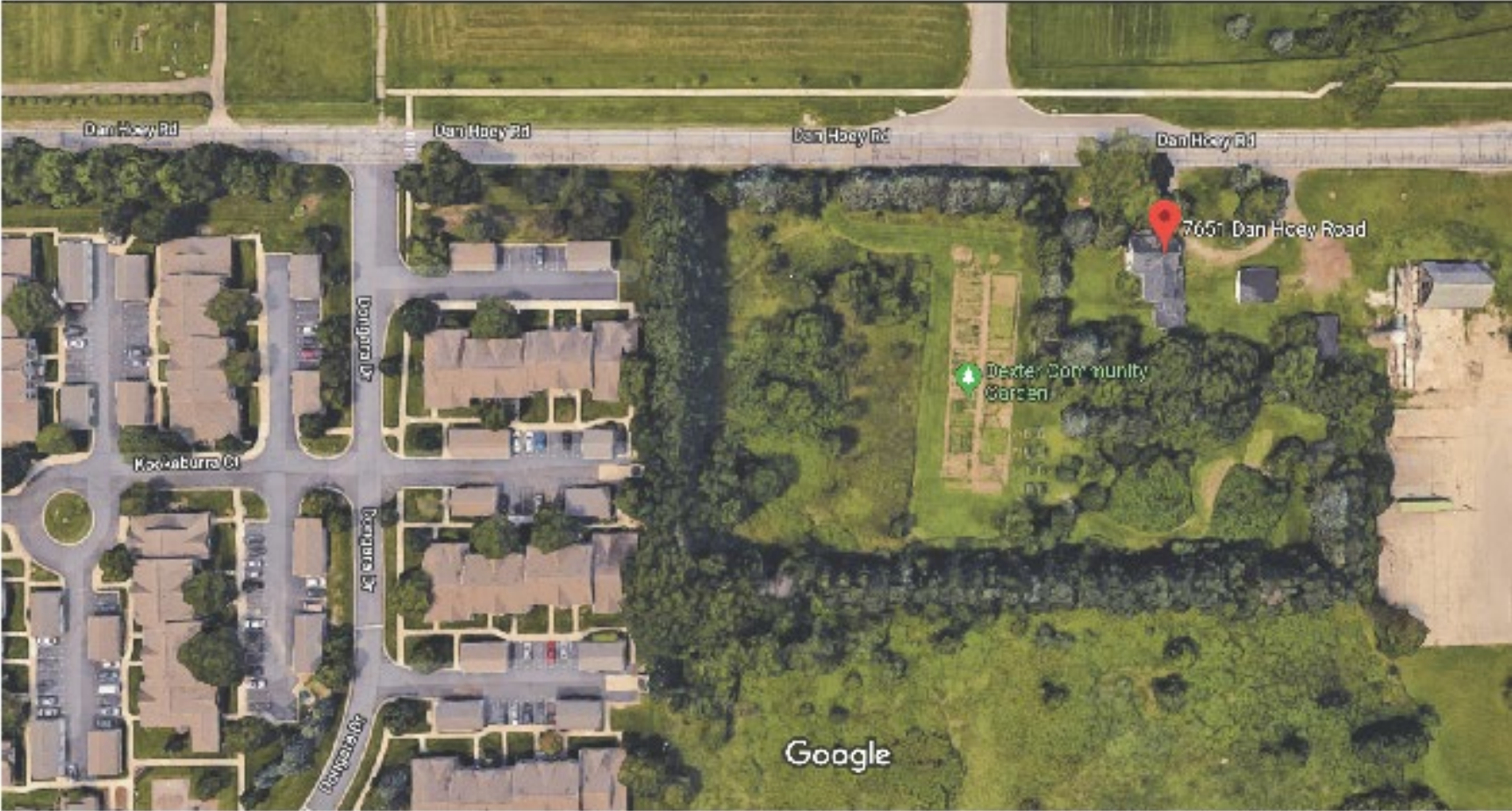
# Our Properties



# More Properties



# Hilltop View Apartments Site



Imagery ©2018 Google, Map data ©2018 Google 100 ft



# Hilltop View Apartments



# Site Selection and Design





Accessibility,  
Visitability,  
No-Step Entries



## Making the Numbers Work

- Who are we planning to house?
- What can they afford?
- What is considered an affordable rent
- How much money do we need to make this happen?



# Affordable Rent: The BIG Challenge

| Income                                    | Household Size | Area Median Income % | Affordable Rent | Wash County Fair Market Rent |
|---|----------------|----------------------|-----------------|------------------------------|
| SSI<br>\$10,092/year                      | 1              | 14%                  | \$252           | \$1029<br>(efficiency)       |
| \$9.65/hour<br>Min. Wage<br>(\$20,072/yr) | 1              | 27%                  | \$502           | \$1043<br>(1 bedroom)        |
| \$15/hour<br>(\$31,200/yr)                | 2              | 37%                  | \$780           | \$1264<br>(2 bedroom)        |
| \$42,600/yr<br>(\$20.48/hr)               | 2              | 50%                  | \$1065          | \$1264<br>(2 bedroom)        |
| \$63,900/yr<br>(\$30.72/hr)               | 4              | 60%                  | \$1598          | \$1593<br>(3 bedroom)        |

100% of Area Median Income in Washtenaw County in 2021 is \$74,600 for a 1-person household and \$106,500 for a 4-person household.

Affordable Rent is defined as 30% of household income.



## Strategies for Affordability

- Project-Based Vouchers
- Capital Subsidies/Equity
- Low or no debt service payments
- Local PILOT



# Real Estate Proformas

## Development

- What will it cost to build HTV?
- What are our sources of funding?

## Operating

- What will it cost to manage and maintain the property for the next 15+ years?
- What is our income?



# Development Uses

Total: \$8.7 million at Closing

|                          | <u>Hilltop View</u> |
|--------------------------|---------------------|
| ■ Acquisition            | \$187,500           |
| ■ Construction           | \$6.86 million      |
| ■ Developer Fee          | \$550,000           |
| ■ Soft Costs (loan fees, | \$1.1 million       |

interest, legal, arch, enviro  
title, eng, reserves)





# Hilltop View Apartments

24 units; \$8.7 Million Total Development Costs

- \$7,609,616 Tax Credit Equity (National Equity Fund-Syndicator)
- \$400,000 FHLBI AHP
- \$290,000 Washtenaw County HOME
- \$320,000 Perm Loan from Member Bank
- \$ 50,000 Sponsor Loan
- \$ 20,100 GP Capital

\$5,550,000 Construction Loan, Member Bank and Equity Investor



## Typical Funding Sources

- MSHDA Low Income Housing Tax Credits
- Washtenaw Urban County HOME/CDBG
- Federal Home Loan Bank AHP
- Other State/Local Sources
- Permanent Loan with debt service
- Construction Loan
- Project-based vouchers
- Predevelopment Loan
- Services funding



# Operating Proforma

## Income

- Rents (tenant paid and subsidy)
- Misc (Laundry)

## Expenses

- Mgt salaries
- Mnt salaries
- Supplies
- Contractual work
- Insurance/legal/audits/taxes/PILOT
- Replacement reserve



# Link between Development and Operating

- **Impact of Rents/Number and Size of Units**
- **Impact of Setting the Rent Level**
  - Who are we housing?
  - Benefit from Avalon as property manager
- **Debt Service/Loan Amount**
- **Operating Costs/Operating Reserve**



## Working with Member Banks

- Early Outreach
- Familiarity with AHP
- Capacity
- Community Involvement
- Commitment to the Housing
- Communication
- Perm/Construction/Equity
- Increase business relationships
- From Chelsea State Bank



## Considerations with overlapping sources

- Consistency among applications
- AMI commitments
- Tenancy Commitments
- Who can pay for what
- Underwriting

Developer Fee Max

Architectural Fees

Maximum per unit costs

Operating Costs per unit



# Challenges with overlapping sources

- Covid Cost and Timing impacts
- Liens
- Permanent loan considerations if there are LIHTC
  - Non-recourse
  - 15+ year term
  - Rate fixed at construction loan closing
- Timing of pay-out
- Relationship of Lenders/Syndicators
- Flexibility
- CSB's Perspective



Success (in just a few months, we hope)!  
And on-going operations . . . .



- 15 years of reporting
- On-going tracking of income and tenancy commitments





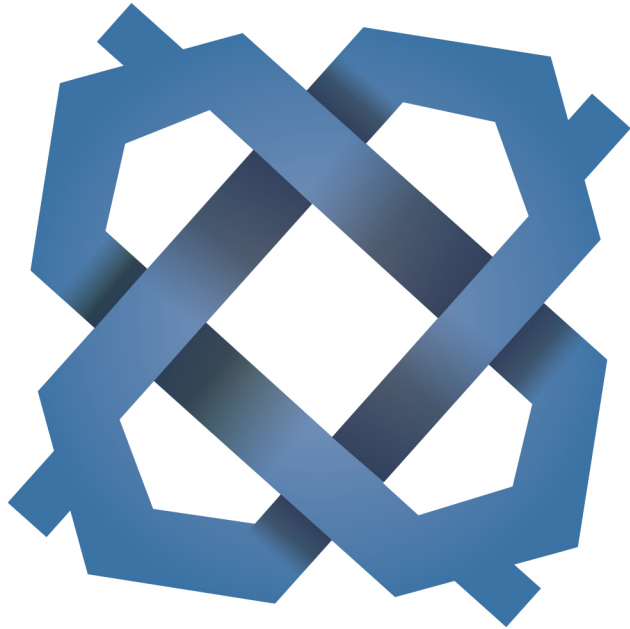
AVALON HOUSING

Questions???

Thank you!

Wendy Carty-Saxon, Director of Real Estate Development

[wcarty-saxon@avalonhousing.org](mailto:wcarty-saxon@avalonhousing.org)



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**Presented by:**

Erica Petty-Saunders, AHP SR Compliance Analyst

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# Underwriting Affordable Housing

## NEED FOR SUBSIDY



- The project's estimated sources of funds shall equal its estimated uses of funds, as reflected in the project's development budget. The difference between the projects' sources of funds and uses of funds is the project's need for AHP subsidy, which is the maximum amount of AHP subsidy the project may receive. §1291.5(c)(2)(i)

# Underwriting Affordable Housing

## NEED FOR SUBSIDY



- Timing of evaluation
  - Application review
  - Disbursement request
  - Completion of project
- Analysis items
  - AHP financial workbook
  - Funding source documentation
  - Cost documentation
  - Operational income/expenses
  - Use of AHP



# Underwriting Affordable Housing

## FINANCIAL FEASIBILITY



- Feasibility Analysis
  - Total development cost
  - Per unit development cost
    - Requires 3<sup>rd</sup> party documentation if it exceeds \$250,000
  - Hard costs vs. soft costs
    - Hard cost should be at least 70% of TDC
  - Contingencies
    - NC – Not to exceed 10% of hard costs
    - Rehab – Not to exceed 20% of hard costs



# Underwriting Affordable Housing

## FINANCIAL FEASIBILITY



### – Fees

- Developer/Consultant
  - Not to exceed 15% of TDC less DF, consultant fee, land acquisition, operating/supportive service reserves
  - Total fees can't exceed \$1,380,000 or max established by State HFA
- Deferred Developer Fee
  - AHP may be applied toward the reduction of deferred developer fee in an amount not to exceed 50%.
- Construction Management/Contractor Fees (GR, P, & O)
  - Not to exceed 14% of hard costs



# Underwriting Affordable Housing

## FINANCIAL FEASIBILITY



### – Reserves

- Operating

- Up to 12 months operating expense plus 12 months of debt service or \$1,500/unit, whichever is greater

- Replacement

- Up to \$350/unit for rehab or new construction
- Up to \$420/unit for historic preservation or single family units

- Rent-up

- Supportive service

### – Rental income

- Tenant paid rents

- Cannot exceed 30% of targeted income level including tenant paid utilities

- Rent subsidies

# Underwriting Affordable Housing

## FINANCIAL FEASIBILITY



- Per unit operating cost
  - At least \$3,500 per unit/year
  - Yrs 1 – 5 - \$4,550 per unit/year
  - Yrs 6 – 10 - \$5,250 per unit/year
  - Yrs 11 – 15 - \$5,700 per unit/year
- Effective Gross Income to Total Annual Expenses Ratio
- Debt Coverage Ratio
  - 1.15 minimum – 1.40 maximum
- Debt service
- Cash flow





# Underwriting Affordable Housing

## FINANCIAL FEASIBILITY



- Other considerations
  - Mixed use developments
    - Requires separate commercial sources/uses and proforma
  - Supportive housing projects
    - Requires separate supportive services sources/uses and proforma
    - Banked funds for fundraising and equity activities
  - Market need
    - Should demonstrate sufficient demand in market
    - Should support income and rent levels identified
    - Should be relevant to the housing population served



# Underwriting Affordable Housing

## MEMBER CONSIDERATIONS



- Understanding the AHP requirements/expectations
- Community needs
- Member goals
- Partnering with sponsors
- Level of financing to the project
- Project oversight during construction and throughout the retention period



# Underwriting Affordable Housing

## RETENTION REQUIREMENTS



- AHP Retention Agreement
  - Legal mechanism recorded to ensure property is used for affordable housing during retention period
    - 15 years for rental, 5 years for homeownership (no retention agreement is needed for Owner Occupied Rehab)
    - Deed restriction
    - Specific language required by regulation
- Sponsor Loan to Project (LIHTC only)
  - May not exceed applicable AFR (generally not to exceed 3%) at the time the note is executed
  - Interest payments deferred until fulfillment of 15-year retention period

# Underwriting Affordable Housing

## WHEN TO APPLY



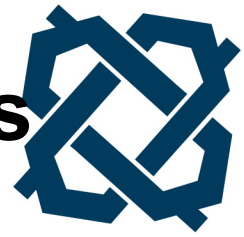
- When to apply
  - Site control/zoning
  - Funding commitments
  - Costs
  - Open awards
  - Project currently under construction



It's Time

# Federal Home Loan Bank of Indianapolis

(800) 442-2568 (toll free) [www.fhlbi.com](http://www.fhlbi.com)



## AFFORDABLE HOUSING PROGRAM STAFF

### AHP Portfolio Manager

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### Compliance Analysts

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# Q & A

PLEASE USE THE Q & A FEATURE AT THE TOP OR BOTTOM OF YOUR SCREEN

