

FINANCING UNDERWRITING GUIDELINES
 (as of October 2009)

THIS FINANCING UNDERWRITING GUIDELINE IS ONLY A GUIDE AND NOT A FIXED STANDARD. This may be used as a “cheat sheet” to give you a better sense of line item cost for development budgets and operating budgets. This form may be revised from time to time. Please provide suggestions for future updates.

HOME OWNERSHIP PROJECTS

Item	Amounts	Notes
Affordability term	Industry: 45 yrs (up to 100% AMI) HOME: 30 years (up to 80% AMI) CDBG: 30 yrs (51% at 80% AMI)	Loan term is 30 years; minimum 20% of total units (or 5 units) at or below 50% AMI. Loan term for HOME or CDBG loan is 45 years if coupled with Industry.
Accessibility	<u>Design</u> : units must be made accessible upon request and design must be able to accommodate such a request. <u>Sales Office</u> : ADA requires that the sales office is made accessible to persons with physical disabilities. <u>Marketing</u> : info must be disseminated in a manner accessible to persons with disabilities.	
Attached Condominiums		2 BR units permitted but only up to 40% of total assisted units; OCIP insurance coverage required; Developer will indemnify CDC/HACOLA from defects.
Civil Engineering	Up to \$ 90,000 – Depending on size of development	For Subdividing, mapping, grading, processing approvals.
Cost Certification	Audited cost certification after construction is completed	To verify that Developer Fee did not exceed 15% of TDC and to see if there is sharing of upside appreciation/profit because of increase in sales price, larger first trust deed loan or decrease in mortgage interest.
Cost Increase	Responsibility of Developer	
Developer Fee	<u>1 House on a Lot</u> : no more than \$20,000 <u>All Other Properties</u> : Up to 15% of TDC (excluding land)	TDC will excl land if CDC owns site & is providing land as part of subsidy pkg. Any cost savings will be shared on sliding scale basis.
Homeowners Association (HOA) Fees	1-10 units: min \$6,000 capitalization of HOA 11+ units: greater of \$6,000 or (mthly fee X total units X 6 mos); HOA fees approx \$125/month	CDC consultant to review HOA structures for all projects & consult with HOA until stabilized. Consultant cost is set aside in each proj's admin.
Homeowners Association Education	Up to \$5,000 as line item in development budget	HOA training must be provided by Developer and must utilize the California Condominium Association if experience is lacking.

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Marketing (all inclusive of broker's fee, advertising, models cost, etc.)	4% of Sales Price; 6% of sales price on 4 or less units	See Affirmative Marketing Guidelines in the NOFA; must demonstrate basis for cost
ProForma	Underwriting must be based on HCD Maximum Monthly Housing cost if only Industry funds are used.	
Sales Price	HOME/FHA: max \$493,000/u or \$394,250 for attached condo; Industry & Tax Increment: max \$467,200/u or CAR's median home price for L.A. County at date of execution.	Industry & Tax Increment: Check CAR website (www.car.org). Note that maximum affordable mortgage amount may further restrict sales price. Refer to HCD guidelines.
Square feet per unit	See Design Guidelines	Where projects have both affordable & market rate units, ensure that affordable units are dispersed geographically and among all sizes & number of bedrooms.
TDC (Total Development Cost)	\$332,000/ unit (for approx 1,600 sf unit) without land	HC + SC + land = TDC HC: 60-70% of Dev't Budget; *Developers play w/ this cost area. SC: 25-30% of Dev't Budget

RENTAL PROJECTS

Many of these line item fees could apply to **home ownership** as well. However, differences may cause variances. For example, assuming non-Davis Bacon, hard cost for rental on a per SF basis would cost more than hard cost for single family homes on a per SF basis. This variance may be due to additional structural cost (i.e. concrete structural slab, steel beams), semi-subterranean parking requirements, etc. However, items such as architect's fee may be about the same.

Item	Amount	Notes
Accessibility	<u>Design:</u> - <u>New Const:</u> min 5% (not less than one unit) must be physically accessible and an additional 2% (not less than one unit) must be accessible to persons with sensory impairments. - <u>Rehab:</u> above is required where rehab of 15+ units & cost is at least 75% of replacement cost. <u>Marketing:</u> Must list unit on the LA County Housing Resource Center web-site (housing.lacounty.gov) (see "Marketing - Housing Resource Center" guideline below)	Applicable to all units and funding sources (per Calif Fair Employment & Housing Act and Section 504 of the Rehab Act of 1973)

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	and utilize other means to assure information about vacancies reaches eligible individuals with disabilities. Note that vacant accessible unit must be offered first to a current occupant requiring accessibility and, second, to eligible qualified person on waiting listing requiring accessible features.	
Accounting / Audit Fees by Accountant - Capitalized	Tax Credit Projects: \$15,000 to \$25,000 Other Projects: \$3,000	Line item includes the cost certification, organization accounting and other accounting needs (i.e., interim financial and tax return preparation).
Accounting / Audit Fees by Accountant - Operating	\$7,500 to \$12,000	Audits are required for all properties. Therefore, all operating budgets must include an Audit Fee. Line item includes both the annual audit and tax returns.
Administrative Fee – Moderate Rehab Projects (COI)	Maximum: 5 units or 5 beds: \$10,000 6 – 15 units: \$20,000 16 units or more: \$35,000	An Administrative Fee is permitted in lieu of a Developer Fee.
Affordability	Industry: 55 years (50%AMI) HOME: 55 years (50% AMI) HUD 202 – 40 years OK CHFA bonds – 35 years OK 4% tax credits/bonds combined with HOME will increase the number of 50% AMI units to a min. of 30%.	Loan term is 55 years; minimum 20% of total units (or 5 units) at or below 50% AMI
Appraisal	\$15,000	\$5,000 for acquisition \$10,000 for construction loan appraisal Appraisal submitted must be within last 6 months See NOFA for revised requirements.
Architect's Fee	Varies between 4% to 10% of HC: Sm: 1-15 units: 7-10% Med: 16-50 units: 5-7% Lg: 50+ units: 4-6%	
Attorney – Bank (Lender Legal Paid by Applicant)	\$30,000 - \$50,000	
Attorney - Developer	\$50,000 - \$100,000	Developer's Bond attorney costs are included here. Cost varies depending on complexity of deal and Tax Opinion Letter requirements. Developer's attorney reviews acquisition, loan, tax credit investment / syndication and partnership

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		documents, bond documents and other business issues.
Attorney - Syndication	\$35,000 - \$45,000	Syndication Attorney represents the tax credit investor. Should be included in gross equity number.
Attorney(s) - Bond deals	\$40,000 - \$50,000	This applies to total bond legal cost
Bond deals cost of issuance	Min: \$300,000 Max: 4-6% of bond amt	
Building Permit	\$8,000 /u	Excluding School Fees Note that the Building Permit Fees for CDC funded projects in unincorporated areas can be waived but may trigger prev wage. An exemption may be granted if only Tax Increment funds used.
Cash flow	30 yrs (or term of loan)	
Consultant	See Developer Fee	Disallow cost of in-house person
Construction Period Financing – Use of HACOLA Funds		The preferred usage of funds is during the construction period.
Construction Manager Fee	\$50,000 to \$80,000;	CM is consultant who is not part of GC's contract. If CM is part of Developer's staff, then this cost is part of Developer Fee.
Davis Bacon	20%-more than non Davis Bacon [as applied to the overall construction cost (includes labor and materials)].	
Davis Bacon Triggers (CDBG)		DB is triggered when CDBG is used for offsites in excess of \$2,000. CDBG can be used for onsite construction only if done by a CBDO. In this case, DB is triggered if the pro-rated CDBG expenditures results in 8 or more units. Uses that will not Trigger DB: -Using CDBG to buy land. -Using CDBG to pay for permits or relocation. -Using CDBG to pay sole source utilities (i.e., Edison) (Note: CDBG funds are only available on a limited basis.)
Davis Bacon Triggers (HOME)		Using HOME funds for <u>12 or more units</u> will trigger DB. (Section 92.354 Labor section of HOME Regulations)
Davis Bacon Triggers		Use of these funds trigger D-B but compliance is HUD responsibility.

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(HUD 202/811 & SRO Mod Rehab vouchers)		
Debt Coverage Ratio	Yr 1: <u>Maximum</u> DCR of 1.15 Remaining Years: 1.15 <u>minimum</u> DCR	
<p>Developer Fee - Capitalized</p> <p>As defined per TCAC (Sec. 10302) to include: all development consultant fees, processing agent fees, developer overhead and profit, construction mgt oversight fees if provided by developer, personal guarantee fees, syndicator consulting fees, & reserves in excess of those customarily req'd by lenders.</p>	<p>Lesser of</p> <p>(1) max allowed in elig basis,</p> <p>or</p> <p>(2) as calculated:</p> <p><u>New Const & Substantial Rehab</u></p> <p>a. Multi-Family developments: First 30 u's - \$24,000/unit 31+ u's - \$9,000/unit</p> <p>b. Seniors & SRO's: First 30 u's - \$18,000/unit 31-100 u's - \$6,000/unit 101+ u's - \$4,200/unit</p> <p>Total Fee: 9% credits per TCAC (Sec. 10327.c.2.):</p> <ul style="list-style-type: none"> • Max included in proj costs: lesser of 15% of elig basis or \$2m; or • Max included in elig basis: lesser of 15% of projects elig basis or \$1.4m <p>4% credits per TCAC (Sec 10327.c.2.B):</p> <ul style="list-style-type: none"> • lesser of 15% of basis or \$2.5m 	<p>Net dev fee means total dev fee minus deferred dev fee & any other contribution toward costs and is applicable to LIHTC projects only.</p> <p>Common pay-in schedule:</p> <ul style="list-style-type: none"> • 25% at Construction Start • 25% during Construction • 50% after 6 months of stabilized occupancy <p>For all projects, may allow 20% increase in Developer Fee to compensate for providing physical amenities beyond the norm (i.e., mixed use, child care facility, etc.)</p>
Developer Fee – Special Needs	<p>The developer fee may be capitalized up to the TCAC limits for:</p> <ul style="list-style-type: none"> • Special Needs Projects that provide a minimum of 35% special needs units , or • Non Special Needs projects that include between 25% and 34.9% of the project's total units as special needs units 	
Developer Fee -	Developer Fee (only for tax credit	Only applies to Tax Credit Projects

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Deferred	<p>proj) can be deferred for the purpose of paying other development costs.</p> <ul style="list-style-type: none"> - 10 years is the maximum deferral period, unless a longer period is allowed in the partnership agreement. If that is the case, the PM will review to determine the maximum pay-off period that will be granted to the project. Once the pay-off period is expired, residual receipt payments will take priority over any remaining deferred fee. - No interest allowed on the deferred fee. <p>TCAC limits deferred costs to 7.5% of unadjusted eligible basis and, unless required by a State or local public funding source, deferred development costs may not be in excess of 50% of the developer fee [CTCAC Regs – Sec 10327(d)(2)]</p>	<p>Example of fee: 40 family units (based on formula above): 30 u's @ \$24,000=\$720,000 10 u's @ \$9,000 = \$90,000 Total Developer fee: \$810,000</p> <p>If max allowed by TCAC = \$1,400,000 Then \$590,000 will be deferred.</p>
Development Consultant-Outside (incl but not limited to financial consultant, project mgt, entitlement consultant, brokerage fee for site acq.)	\$75,000 to \$100,000	<p>Consultants who are not part of Developer's in-house staff (incl but not limited to financial consultant, project mgt, entitlement consultant, brokerage fee for site acq.); otherwise, consultant fees must be paid from the project's Developer Fee.</p> <p>The sum of the Development Consultant Fee + the Developer Fee must be less than the Developer Fee cap per TCAC.</p>
Disbursement Agents / Service	Cost of service is approx 1-2% of Construction contract	
Fees	<p>Reservation Deposit: \$5,000 nonrefundable (applied to Compliance Fee)</p> <p>One-time Compliance fee: \$480 per assisted unit or min \$5,000 (fee applicable to a particular project at the time of loan closing may be changed based on an annual Consumer Price Index adjustment)</p>	For all projects and can be paid from escrow.
General Conditions + Overhead + Profit	14%	These combined line items should not exceed more than 14% of cost of construction (site work & structures) per TCAC (Sec. 10327.c.1).

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		At project completion, the overhead and profit % must reflect the % agreed to / allowed at underwriting.
Hard Cost Contingency	New Construction: 5% - 10% (40+ units) or 10% (less than 40 units) Rehab: 10% to 15%	Depends on size of project and whether site has environmental remediation issues.
Hard Cost for Rehab	The min rehab cost must be at least 15% of TDC (excl land) devoted to rehab.	Rehab work must incl replacement of at least two major bldg sys (e.g. roof, plumbing, HVAC, elec., etc.)
Holding Cost	\$5,000-\$10,000/yr for vacant bldg	includes security cost & insurance.
Income – Rent / Unit Mix / Income Restrictions	<u>Rent</u> : For units assisted by County funds, applicable HOME and/or COI rents apply, as published annually. Note: - If there are other funding sources assisting the County-assisted units, the most restrictive rent applies. - If there are HOME or CDBG funds in the project, HOME rents take precedence over COI rents (see <u>HOME-based Rent schedule</u> prepared by the County). - In the Unincorporated area, if the project is receiving a density bonus, only the density bonus units are exclusively governed by COI rents.	Developer is expected to construct the project and restrict the tenant incomes as presented in the Unit Mix and Rents section of the application.
Income Escalation	2.5%/yr	Commonly underwriters assume a 1% spread between Income Escalation Factor and Expense Escalation Factor.
Leasing (Lease-Up) Expense	Equates to the negative cash flow during the lease-up period	The lease-up time period assumption should be noted in the “Development Budget Notes & Assumptions” page included in the application. Marketing expenses are not included here, but broken out separately, by CDC policy.
Leasing (Lease-Up) Fee		THIS IS NOT A BONUS OR INCENTIVE FEE This is the fee for actual third party costs paid to a property manager or direct costs for tenant screening. If this expense is included in your budget, the fee must be explained in the “Development Budget

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		Notes & Assumptions" page included in the application.
Management Fees (Property)	\$50 pupm max to Property Management Co. 6% of effective gross income is max Total Management Cost.	Item should not include On-site Manager salary or unit rent.
Manager's Unit	HOME funded projects: 1. Accurate project description: 100 units (99 rentals and 1 Manager) – in CC&R's, ProForma, Loan docs; 2. Do not include mgr's unit as HOME-assisted unit or in calculating Max Per Unit subsidy.	Calif. Law requires an on-site manager when there are 16 or more units in a rental project.
Marketing	\$10,000 max	Expenses such as advertising and promotion incurred during the Lease-Up period in order to attract tenants. The Marketing expense should reflect the cost savings from utilizing the LA County Housing Resource Center web-site (housing.lacounty.gov).
Marketing - Housing Resource Center		Borrowers are required to register projects and list vacant units (at initial lease-up and in the future) on the LA County Housing Resource Center web-site (housing.lacounty.gov). Borrowers are also required to register all properties and advertise all available units and open waiting lists for rental property in which: - Borrower or any of its general partners has any ownership interest, and - The Public Agencies have provided any financing or the rental property has received a density bonus or any other public incentive from the County. - NOTE: Borrowers may submit for waivers of this requirement, which will be issued at the Commission's sole discretion.
Offsite Improvements	\$10,000/u in unincorporated County; otherwise max \$5,000/unit for proj in other jurisdictions.	
Operating Expense	Must meet TCAC minimum requirements. CDC's Portfolio Expenses Type - Family - 1-15 Units: \$5,100 - 16-40 Units: \$6,300 - 41+ Units: \$4,900	If expense is below the CDC's Portfolio, then Developer needs to justify expense. Justification must at least include audited financials of 2 other properties owned / operated by the Developer and similar in size, location and scope to the subject property. Note that CDC's Portfolio expenses do not include the following expense:

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	Type – Senior - 1-15 Units: \$5,000 - 16-40 Units: \$4,800 - 41+ Units: \$4,000 Type – Special Needs - 1-15 Units: \$6,100 - 16-40 Units: \$6,000 - 41+ Units: \$5,900	<ul style="list-style-type: none"> - replacement/operating reserves - debt service - supportive / social service coordinator - partnership management fees - deferred developer fee However, unlike TCAC, CDC's Portfolio expenses do include property taxes.
Operating Expense Escalation	3.5%/yr	
Operating Reserves - Capitalized	For all projects: 3 months of operating expenses and 3 months of debt service. Projects with project-based rental assistance: transition reserve up to 2 years (may be capitalized or funded through cash flow)	May be subject to the requirements of other lenders.
Partnership Management Fees (includes Asset Management Fee)	\$ 15,000/yr max before residual receipts. This fee may escalate at 3.5% per year.	Only applies to Tax Credit Projects Fee should only be taken during the Tax Credit Compliance period (generally years 1-15). Payments above \$15,000 must either be made out of cash flow after residual receipts or from Developer's 50% of residual receipts.
Phase I	Approximately \$2,500- \$3,000	
Prevailing Wage	20% more than non-prevailing wage. Exceptions: tax credits awarded before end of 2003.	Industry funds not subject to prev wage if sole public source.
Property tax expense	1 ¼% of acquisition cost; any tax refunds must go into reserves.	Property taxes should be greatly reduced after receiving exemption and should be reflected in cash flow.
Relocation	Benefits: \$20,000 - \$25,000/u per household Consultant: \$2,500/u	
Replacement Reserve	Greater of: CDC's requirement of: MF & Sp Needs: Min \$300/u/yr - new; Min \$350/u/yr – rehab Seniors & SRO Min \$250/u/yr - new Min \$300/u/yr - rehab Or	Developer should not deposit any more or less in the replacement reserve than what is allowed based on the greater of the County requirement or the senior lender.

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	A senior lender's requirement	
Residual Receipts	<p>Projects in the Incorporated Cities:</p> <ul style="list-style-type: none"> - 50-50 split between the Borrower and the other public lenders. - If there are no other public lenders, 70-30 (County-Borrower) split required. <p>Projects in the Unincorporated Area: 70-30 (County-Borrower) split on deals over 50 units and where the County is the sole local jurisdiction lender (except when MHP and State Transit-Oriented District funds are included, the County receives their 70% split after these two funders are paid).</p>	In Incorporated Cities, the 50% public lender portion is split proportionately and shared between the public lenders.
School Fees		Some school districts waive or assess lower fees for 100% affordable and/or senior developments. Fees will vary between different school districts. School fees must be paid to Building and Safety prior to pulling building permit.
Square Footage for units	See Design Guidelines	
Soft Cost contingency	2% of soft cost	
Subordination	Will subordinate, with right to cure, to construction loans and other public lenders with larger loan amounts. Will subordinate to MHP.	
Supportive Services Coordinator – Role / Duties		<p><u>Roles / Duties:</u> The Services Coordinator functions in a unique role in that, in addition to coordinating service provision for the building's residents, they interface with the building owner, property manager, and third-party service providers to ensure that tenants' needs are met and do not compromise their ability to remain housed. The services coordinator can occupy a variety of roles and responsibilities, including the following:</p> <ul style="list-style-type: none"> ▪ Orienting and connecting new residents to services and activities available within the community; ▪ Developing and maintaining resource guides for use by residents; ▪ Developing and coordinating on- and off-site programs and activities for residents and their children; ▪ Cultivating and nurturing relationships with third-party service providers, such as those

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		<p>oriented towards employment, mental health, substance abuse, physical health, education, and transportation;</p> <ul style="list-style-type: none"> ▪ Coordinating with the property owner and management on issues related to health and safety and building maintenance; ▪ Maintaining confidential records of all resident transactions; and ▪ Facilitating and supporting tenant self-governance activities, such as tenant councils or resident management committees. <p><u>NOTE:</u> This service is distinct from and should not be utilized in lieu of case management, which is typically responsible for individual client assessment and service plan development, counseling, assisting residents to apply for and obtain social services and other public benefits, monitoring progress, etc.</p>
Supportive Services Coordinator – Salary	<p><u>Special Needs:</u> maximum of \$40,000 annually allowed as an operating expense before the payment of residual receipts.</p> <p><u>Non-special needs:</u> maximum of \$15,000 annually regardless of project size.</p> <p><u>Seniors:</u> maximum of \$35,000 annually.</p>	<p>CDC reserves the right to reduce the noted maximum amounts.</p> <p>Salary allowed to increase 3.5% per yr.</p> <p>Developer's portion of residual receipts may be utilized to pay Salary amounts above the noted maximums.</p>
Tax Credit - Price	<p>Maximum:</p> <ul style="list-style-type: none"> - 9% Credits: \$0.70 per credit - 4% Credits: \$0.72 per credit 	
Vacancy Rate	<p>Family & Senior: 5% /yr Special Needs & SRO: min 10% /yr</p>	

SUBSIDIES

Note that these average subsidy amounts are guidelines. In many cases, development costs are below and above the suggested amounts for HOME and CDBG.

Item	Single Family Homes	Rental
CDBG: unincorporated area	Special occasions	Special occasions
HOME Unincorporated area or HOME participating city	80% AMI = \$150,000/unit	<p>Average:</p> <p>Seniors: \$40,000/unit Family: \$60,000/unit SpN & special circumstances = HOME max</p>
Industry Funds	<p>80% AMI – up to \$150,000/unit 90% AMI – up to \$125,000/unit 100% AMI – up to \$100,000/unit</p>	Up to \$60,000/u (with a maximum of \$2 million per project)

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Item	Single Family Homes	Rental
	110% AMI – up to \$75,000/unit 120% AMI – up to \$50,000/unit	Special Needs: max per unit based on HOME limits

Key Issues for Funding Source

HOME	<ul style="list-style-type: none"> a. 11 units or less may be appropriate for single family or small Special Needs projects b. HOME limits for subsidies c. HOME rent max for a minimum affordability period. d. Proportionality test e. Income restrictions: up to 80% of AMI for single family; up to 50% AMI for rentals g. 5 years from commitment to close out project and report tenant ethnicity/rent level for federal IDIS completion.
CDBG	<p>Meet a national objective: benefit low/mod income households; prevention or elimination of slum/blight; and community development needs having a particular urgency.</p> <p>Eligible activities include: Acquisition, offsite hard and soft costs; if used for anything onsite must only be done by CBDO and 51% of units must be for no greater than 80% AMI; may be used for Countywide needs (i.e., homeless, catastrophes, etc.)</p> <p>Must budget annually</p>
Industry	<p>Any changes from the application submitted may result in re-scoring</p> <p>Income restrictions: 50% of AMI - rentals; 100% of AMI – single family for-sale.</p> <p>One year from commitment to begin disbursement; one year extensions needed thereafter.</p> <p>No increases to allocation above application amount.</p>
Other	<p>The Infill Sites Utilization Program is currently implementing the Neighborhood Stabilization Program funds.</p>