

Developer Guidance for KHC Underwriting Model Review

Revised February 2012

Kentucky Housing Corporation developed the criteria below, which is used by the underwriters in reviewing a project's financial strength and adherence to program underwriting guidelines. This document should be used by applicants as a tool for completing the underwriting model and is for guidance purposes only. The underwriting review criteria are provided for your benefit and in no way imply a guarantee your project will be awarded funding. Please upload a completed copy along with any other application attachments.

NOTE: Please use the "Applicant Underwriting Notes to KHC" section on the underwriting model to provide any additional information or explanations that may assist the underwriter reviewing your project. If there are variances or discrepancies beyond your control, please identify those in this section.

1. Was the most current utility chart used (from KHC's Web site, local housing authority, HUD, or RD, as applicable) and do the amounts on the Income Tab match the chart? If the project has project-based rental assistance, do the utility allowances match those in the most recent approved contract?

Yes N/A

2. Are the correct rents shown for each type of funding source requested? (Rent charts can be found on KHC's Web site. For tax credit rents, use KHC's link to the Novogradac rent calculator.)

Yes

Note: Please provide a copy of the completed Novogradac rent calculation.

3. Do the rents entered on the Income Tab meet the requirements of the income to be served, elected in the application? (The information provided in the market study should be used to determine the reasonable rents and whether the rents are competitive with those of other rental property in the area.)

Yes

4. Do the rents entered on the Income Tab match the most current approved rents as established by the rental assistance provider (KHC, HUD, RD, etc.), **if applicable?**

Yes N/A

Note: Please provide a copy of the current rent renewal letter or contract from the rental assistance provider that establishes current rents and utility allowances. If proposing post-rehab rents, please provide written documentation as justification for your projected rent and utility amounts.

5. On the Income Tab, is the required number of HOME, AHTF, and/or SMAL units from the unit distribution section accounted for in the breakdown section for the various unit type and sizes?

Yes N/A

6. Are the low HOME units proportionately distributed, as shown on the Compliance Checks Tab?

Yes N/A

7. Has information been provided to justify the amount of "Other Income," i.e., laundry fees, vending, late fees, etc., shown on the Income Tab?

Yes N/A

8. Is the management fee shown on the Expenses Tab at or below 8.5 percent?
Yes No N/A

If no, have you provided information showing a higher management fee is justified?
Yes

9. Are the total expenses shown between \$2,500 and \$4,500?
Yes No

If "No," have you provided an explanation for the variance?
Yes

10. Is the Operating Deficit Reserve (ODR) amount equal to or greater than the minimum amount of ODR shown on the Sources & Uses Tab? Has the source of funding for the ODR been identified on the Sources & Uses Tab?
Yes

11. If an equity provider or other funder is requiring an asset management fee, has it been shown on the Expenses Tab (if a guaranteed annual expense) or shown on the operating proforma as a cash flow expense, as applicable?
Yes No N/A

12. Has KHC's compliance monitoring fee been budgeted on the Expenses tab? (Refer to KHC's Web site www.kyhousing.org, under *Housing Production > Asset Management Compliance Monitoring*. The fee schedule is the third bullet under the "Housing Credit Program" heading).
Yes No N/A

13. If requesting SMAL, is the interest rate shown at or above 3.5 percent and the amount no more than 90 percent of the lesser of total development cost or appraised value? (Value is defined as the total of appraised value at restricted rents and the value of preferred financing.)
Yes

14. If requesting SMAL funds, has the 1 percent origination fee been included on the Construction Financing or Permanent Financing line on the Sources & Uses Tab?
Yes N/A

15. If a project is requesting KHC funds and can support an amortizing KHC loan of at least \$50,000 while maintaining a positive cash flow for 15 years, any request for grant or deferred loan on the underwriting model will be changed reflect the amount of amortizing loan the project can support. Have you checked to see if your project can support an amortizing loan of at least \$50,000? If it can, have you shown this loan on the Sources & Uses Tab?
Yes N/A

16. Do the non-KHC funds require a rent restriction? If so, are the rents within the required limits?
Yes N/A

17. Do the amount, interest rate and term shown for any non-KHC loans match those shown on the commitment letters?
Yes N/A

18. Does the amount shown for acquisition on the Sources & Uses match what is shown in the site control documentation provided?
Yes N/A

19. If requesting housing credits, are the total KHC funds requested and the amount of equity funds paid in during construction equal to the total project costs? (Refer to the pay-in schedule from the equity provider; note: equity paid in at construction completion may not be considered as a construction source if multiple conditions apply.)
Yes No N/A

If no, you have a construction gap. Have you provided a copy of your bridge loan commitment?
Yes N/A

20. Has the appropriate amount of match (5 percent) been provided for all KHC funds you are requesting?
Yes

21. Is the HOME match from an eligible source? (Refer to rental guidelines.)
Yes N/A

22. If using AHTF funds as a source of match for the HOME funds, is there also a minimum of 5 percent of non-KHC funds in the project?
Yes N/A

23. Is the project located in a QCT and providing a Community Service Facility (CSF)?
Yes N/A

Note: If yes, one additional unit may be given on the per-unit test on the Housing Credit Tab for the CSF **or** the ratio of the square footage of the CSF to the total residential square footage is used to calculate the percentage of additional credit allowed, but it may not exceed 25 percent.

24. If the project is requesting the 30 percent boost in Housing Credits, have you provided proof the boost is needed?
Yes N/A

25. On the Housing Credit Tab have you shown the correct per-unit limit in the Housing Credit Per Unit Test section? (\$15,000 for urban counties, \$16,500 for rural counties, **or** if requesting the 30 percent boost, \$19,500 for urban counties or \$21,450 for rural counties)
Yes N/A

26. Is the total amount of housing credits requested less than or equal to the maximum eligible amount allowed per the calculation on the Housing Credits Tab?
Yes N/A

27. If the project is deferring developer fee, can the project pay it back within 10 years?
Yes No N/A

If no, have you shown the remaining unpaid developer fee on the Sources & Uses Tab as "excluded from basis"?
Yes N/A

28. Have all the soft costs been budgeted for, i.e., construction interest, insurances, appraisal, architect fees, legal fees, market study fees, property taxes, survey, title, and recording?
Yes

29. Have project costs listed on "other" line items in the Sources & Uses been identified and have you ensured that there isn't a designated line item already provided for it?
Yes No N/A

Are "other" costs shown correctly as being excluded or included in eligible basis?
Yes No N/A

30. If requesting Housing Credits, have the reservation fee, application fee and inspection fee been included on the appropriate KHC Tax Credit lines on the Sources & Uses?
Yes N/A

31. Is the Reserve for Replacement calculation correct?
Yes N/A

32. Does the amount of Housing Credit equity shown on the Sources & Uses Tab match the amount shown in the equity commitment letter?
Yes N/A

33. Is the combined HOME and AHTF amount equal to or less than \$850,000?
Yes N/A

34. Is the amount of AHTF requested \$300,000 or less?
Yes N/A

35. Is the amount of HOME requested equal to or less than the 221(d)(3) limits (see HOME 221(d)(3) chart on KHC's Web site) multiplied by four?
Yes N/A

36. If the project is utilizing federal historic rehab credits, has the amount of the credit (not the equity) been shown in the "reductions to eligible basis" section on the Sources & Uses?
Yes No N/A

37. Is the total project cost within the appropriate cost containment limits?
Yes N/A

38. Is the Year 1 DCR at least 1.25?
Yes

39. Does the project's DCR and cash flow remain positive through year 15?
Yes No N/A

If no, or if the DCR is declining and approaching the breakeven point (1.0 DCR) or the project shows a negative cash flow, have you provided an explanation and documentation that sufficient funds will be available to support the project through year 15?
Yes

Note: Projects requesting Housing Credits only must adhere to the requirements established by the investor.

40. If the project has expenses that are only payable from available cash flow (loans, fees, etc. – refer to the equity or funding commitment), have those been shown and identified on the operating proforma? Cash flow loans must also be shown on the Sources & Uses tab.
Yes No N/A