

Multifamily Rental Housing Program Guide – Proposed Revisions for CY 2011

I. Threshold Criteria:

3.2.1 Previous Project Performance

Current Standard: -- A member of the development team may not have participated as an owner or manager in a project that defaulted on a Department or other government or private loan in the last 5 years

Proposed Change: Maintain the current standard for Department loans but reduce the timeframe for defaults for other government or private loans to 3 years

3.6.4 Definition of Elderly Housing

Current Standard: at least one person in the HH is 62

Proposed Change: at least one person in the HH is 55

3.7.2 Rental Housing Fund – Maximum Loan Amounts and Cash Flow Splits

Current Standard: \$1.5M maximum loan amount with the ability to request an increase to \$2M. Cash Flow splits are permitted and capped at 25%.

Proposed Change: Maximum loan amount of \$2M or \$50,000 per unit, whichever is less. Cash flow splits permitted with borrowers and subordinate public lenders, specific cap is removed and review criteria are added, including but not limited to:

- the amount of the deferred development fee or developer equity in the budget;
- the developer's borrowing history or performance with the Department, including payment of cash flow or amortizing debt on other projects in the Department's portfolio;
- a subordinate public lender's commitment to affordable rental housing as evidenced by its adoption of affordable rental housing tools including inclusionary zoning, housing trust funds, preservation and homelessness prevention strategies, and policies that discourage discrimination based on source of income

3.7.3 Tax Credits: General

Current Standard: \$1.5M maximum

Proposed Change: Maintain \$1.5M cap and add a \$30,000 per unit cap

3.9 Limitation on Fees

Current Standard: Developer fee (10%) can be earned on acquisition costs; there is no overall cap on builders' fees; and the overall cap on developer fee is \$2.5M. Under an MOU, HUD accepts CDA standards for subsidy layering purposes.

Proposed Change: Eliminate the ability to earn fee on acquisition costs for related party transactions, add a 15% overall cap for builders fees, and add a separate civil engineer fee cap. Subsidy layering for projects with Section 8 project-based voucher assistance must comply with subsidy layering standards in HUD Administrative Guidelines published July 9, 2010 in the Federal Register. Some standards in these Guidelines differ from the CDA standards applicable under the MOU. Please note that a decision about whether

CDA or HUD will perform the subsidy layering review for projects with Section 8 project-based assistance is under discussion.

II. Scoring Criteria

Proposed Changes: Total points have been reduced from 325 to 305, with a resulting increased emphasis on Development Team Experience, Development Quality and Market Studies. General changes include:

- ability to deduct points for development team members with significant construction or project completion problems
- setting the Minimum Reserve for Replacement at \$300 per unit per year for all projects; currently senior projects have a \$250/unit/year minimum
- increasing the minimum Debt Service Ratio in the first year from 1.1 to 1 in the first year to 1.15 to 1. For all other amortizing debt the ratio was increased from 1 to 1 to 1.1 to 1.
- Clarifying and strengthening development quality standards related to green and energy efficiency.

4.1.3 Financial Capacity of Development Team

Current Standard: 20 points total with full points for net worth over 25% of total development costs (TDC) and liquid assets at 4% of TDC.

Proposed Change: 25 points total with the additional 5 points for liquid assets of 10% of TDC

4.1.4, Nonprofit, PHA and MBE/WBE Involvement

Current Standard: 15 points for Nonprofits or PHAs with controlling ownership interest, 10 points for controlling interest by M/WBE. 5 or 10 points for lesser involvement by any of the entities with incentives for using community-based nonprofits

Proposed Change: Total points for controlling ownership set at 10 for nonprofits, PHAs and M/WBE. 5 points for lesser involvement and elimination of incentives to use community-based nonprofits other than CHODOs.

4.2.2 Income Targeting

Current Standard: 25 points total with 5 bonus points for providing 10% of the units at 30% AMI and 20 points based on weighted average including 60% AMI and below.

Proposed Change: Reduce total points to 20 retaining the 5 bonus points for units at 30% AMI. The remaining 15 points are for income targeting based on a weighted average for unit at or below 50% AMI.

4.2.3 Housing for Individuals with Disabilities

Current Standard: 5 bonus points for projects that target up to 10% of the units to persons with disabilities.

Proposed Change: The disabled household must be at 50% AMI or below to receive the 5 bonus points. The market study must also show a demand for the 50% AMI disability units.

4.2.5 Tenant Services

Current Standard: 20 total points

Proposed Change: Reduce total points to 15 and add mandatory services that are targeted and designed to assist residents with housing stability, including counseling/training on maintaining successful tenancy, money management, financial literacy, basic household management, and access to social services and primary health care. Failure to provide the above mandatory services will result in zero points for this category regardless of the other serves provided.

4.4.2 Long Term Operating Subsidies

Current Standard: To receive full points (10), the property must have a per unit per year subsidy of \$400 for HOME participating jurisdictions and \$200 for HOME non-participating jurisdictions

Proposed Change: To receive full points, the per unit per year subsidy was increased to \$1,000 for HOME participating jurisdictions and \$500 for non-participating jurisdictions.

4.5 Construction or Rehabilitation Costs

Current Standard: Project lose 5 points for construction costs in excess of published gross square footage amounts

Proposed Change: Projects will lose 5 points for high construction costs based on either gross square footage or per unit. Construction costs in excess of \$250,000 per unit would result in a 5 point deduct.

III. Department Fees

Current Standard: Legal fees of \$20,000 for the first loan and \$1,000 for each additional loan. Tax Credit (TC) Compliance Monitoring fee set at \$25/unit/year. Application Fee \$1,000. Assumption Fee is 1%. TC Allocation Amendment Fee: \$1,000. Cost of Issuance (COI) capped at 2% of loan amount for the parity indenture.

Proposed Changes: Fees increased as follows: Legal fees: \$25,000 for first loan and \$5,000 for each additional loan; TC compliance monitoring fee \$35/unit/year; Application fee \$2,000; Assumption fee 1.5%; TC Amendment Fee \$4,000; COI – actual for all loans