MFA 2011 LIHTC Initial Application Underwriting Supplement

This underwriting supplement outlines the standards that MFA will use when underwriting Initial Applications submitted for consideration in the 2011 LIHTC competitive allocation round. MFA underwrites Initial Applications for two purposes: 1) to determine the amount of credits that may be allocated to each proposed Project and 2) to determine the financial feasibility of each proposed Project.

MFA will use the more conservative of the financing terms listed in this underwriting supplement, the 2011 QAP, or the proposed Project's Financing Commitment(s) or letters of interest.

Credit Pricing

MFA will not use a single credit pricing factor for 2011 Initial Applications. MFA has established a floor of .72 and a ceiling of .80 for the credit pricing factor and will underwrite the project using the factor contained in the letter of interest from the proposed credit syndicator or investor as long as it is with in this range. In no case will MFA underwrite using a credit pricing factor outside of this range.

Debt Financing Terms & Minimum Debt Service Coverage

Commercial permanent debt will be underwritten using an interest rate of 7.5% with an amortization of 30 years. 542(c) Risk Sharing loans will be underwritten at 7.5% with an amortization of 40 years (new construction) or 35 years (rehabilitation). Federal financing provided by USDA Rural Development or HUD, including HOME funds, will be underwritten as stated in the Financing Commitment or letter of interest provided.

Proformas must reflect the ability to repay the senior and subordinate debt with an aggregate minimum debt service ratio of 1.15. Projects that have debt service ratios higher than 1.30 may receive smaller Tax Credit awards, smaller subsidized loans, or higher HOME loan rates than requested in the application. MFA will consider total annual cash flow as well as debt service ratio when making this determination.

Project Operating Assumptions

Proposed Project operating expenses (excluding reserves and resident social service expenses) should be between $3,200 per unit and $4,500 per unit. Applicants proposing operating expenses below $3,200 must provide documentation supporting their ability to successfully operate and LIHCT Projects at that level. Applicants proposing operating costs above $4,500 per unit must provide documentation justifying additional expenses.

All projects shall be underwritten using a maximum rent inflation factor of 2% and minimum expense inflation factor of 3%. A vacancy factor of 7% will be applied to all residential related income unless a higher vacancy factor is suggested by a market study.

Operating Reserves

Operating reserves should be a minimum of six months operating expenses (including replacement reserve payments and social service delivery costs) and all hard debt service.

Construction Contingency

New construction costs will be underwritten to include minimum construction contingency of 5% of hard construction costs. Adaptive Reuse and rehabilitation construction costs will be written to include a minimum construction contingency of 10% of hard construction costs. Builder's fees and gross receipt taxes are not included in hard construction costs for the purpose of calculating minimum required construction contingency.

Acquisition/Rehabilitation Developer Fee Split

The amount of developer fee included to 30% basis will be proportional to total development cost divided by acquisition cost. For example, if acquisition costs are ¼ of TDC, ¼ of developer fee will be included in 30% basis. No deductions are made from TDC for the purpose of calculating the developer fee split.