

Memorandum



To: 2009 Competitive Credit Projects

From: Sean Thomas, Director
Office of Planning, Preservation, & Development

Date: August 19, 2009

Re: Step 1 ARRA Application Results and NSP/HDAP Reservations

Enclosed is a copy of your Step 1 ARRA Underwriting Report. These reports are being sent to all 2009 applicants today. In addition to the report, a modified version of the AHFA is being sent to the primary contact's e-mail address. Use this AHFA for the Step 2 application.

Please carefully review the report and modified AHFA. Include any comments or questions with your Step 2 submission, which is due no later than October 19th. Applicants will also have until this date to address any conditions or deficiencies raised in the Step 1 report. For more information regarding the application process, please refer to the [ARRA 2009 Application Procedures and Underwriting Guidelines](#).

The amount of ARRA funds requested by all 38 projects was much greater than what was available. Therefore, OHFA utilized industry knowledge and historical data to create underwriting assumptions to reasonably and effectively reserve the available resources. Listed below are the underwriting assumptions that were applied consistently to all the projects.

- Projects were underwritten at \$0.65 per credit and were considered Category 1 projects at this step.
- The credit amount reserved for each project was reduced by up to 10%. This credit amount was exchanged at \$0.85 per credit and given back to the project as a grant (if needed). If this additional subsidy was not needed, it was allocated to other projects.
- Projects were limited to the costs listed in the original May 2009 application. Costs in some cases were not considered for purposes of sizing the respective project ARRA/NSP/HDAP funding based on the experience of the ARRA Underwriting Team. Such cost reductions are not excluded from being considered eligible project costs in the final cost certification. OHFA ARRA Underwriting Guidelines used in the analysis of costs were:
 - "Other soft costs" line items were deleted for underwriting purposes
 - Projects above the HUD 221(d)3 cost limits were first reduced to the HUD 221(d)3 cost limits presented in March, and then the assumptions were applied for underwriting purposes
 - New construction cost contingencies were capped at 5% of total hard costs and site work; rehabilitation cost contingencies were capped at 10% of same for underwriting purposes
 - Taxes (in capital budget) were deleted for underwriting at this time
 - Rent up and marketing (in capital budget) was zeroed out for underwriting since they may be captured in the lease up reserves
 - Construction loan fees were capped at 1.25% of the loan amount
 - Permanent loan fees were set at 1% of the permanent loan amount or \$10,000
 - Construction interest was calculated at 4.75% or the stated interest rate if substantiated for a full year on the total amount of the construction loan
 - Lease up reserves were sized to the amount of cash shortfall plus any debt service identified in year 3 in the "UW! tab" of the AHFA
 - Architectural fee: maximum of 1.5% of total project cost
 - Engineering fee: maximum of 1% of total project cost

- Legal fees: maximum of \$75,000 for standard projects (includes any organization costs) and \$100,000 for complex HOPE VI or preservation projects
- In some cases the permanent loan was recommended to be increased or decreased. This recommendation was based upon review of audited per unit operating expense data, developer historical operating expense data, or current industry operating expense data categorized by project type and pool.
- Total Developer fee was reduced by 15%. Then 30% of the adjusted developer fee was deferred. The deferred developer fee cannot be less in the final cost certification than the amount shown in the Step 1 report.
- The total subsidy (TCE, TCAP, and HDAP) as a percentage of total project cost cannot exceed 25%. Applicants will need a plan to address the financing gaps by the Step 2 application deadline. Possible sources include increasing the price for the credits, increasing the first mortgage (if allowed for under ARRA underwriting criteria), deferring additional developer fee, obtaining local or other soft sources, and/or reducing project costs/fees further. Reducing the number of units, reducing project quality, increasing proposed rents, changing the project scope of work, and/or reducing project amenities will **not** be allowed.
- HDAP-HOME awards were reserved in large lump sums in order to meet the CHDO set-aside requirements. Another \$3.5 million in HDAP-OHTF was reserved among rural (Non-PJ projects), non-profit projects. The total amount of HDAP-OHTF available this year was lower due to reduction in the total amount of OHTF available this year. OHFA assumed that the HDL program (Unclaimed Funds) will **not** be available. All applicants will be notified if any additional funds do become available. For projects with no or minimal permanent debt, the HDAP loans may be structured to capture a greater (than standard HDAP rules) amount of available cash flow after payment of the deferred developer's fee.
- If any market concerns have been identified by the ARRA Underwriting Team, these concerns were described in the Step 1 report. If an applicant seeks to become a Category 2 project in the Step 2 process, then these issues must be resolved or the applicant may be at risk of the 2009 HTC award being rescinded. For Category 1 projects, if the syndicator/investor is committed and willing to proceed regardless of the market concerns raised by the ARRA Underwriting Team, OHFA may consider the recommendation of the syndicator/investor.

Staff will be contacting you within two weeks regarding the environmental process required for the TCAP.

If you have not already done so, you must submit a corresponding expression of interest in applying for recovery funds on the State of Ohio Federal Stimulus Initiative website at <http://www.recovery.ohio.gov/opportunities/state/>. When submitting a proposal on the Federal Stimulus Initiative website, applicants must select the Tax Credit Assistance Program and/or Tax Credit Exchange Program listed under the "Poverty, Work, and Opportunity" programs list. **Applicants that do not submit an expression of interest on this website by 5:00 p.m., October 14, 2009 shall not be awarded ARRA funds.**

If you have any questions, please contact me at stthomas@ohiohome.org.