

City of Dayton

HOME Project Underwriting and Subsidy Layering

For all HOME project applications, the City will require the submission of a professionally prepared market study from a provider on the Ohio Housing Finance Agency's list of approved market analysts. If more than 12 months old at the time of commitment, the City may require an updated market study. Proposed rent levels must be supported by the applicant's market study and within HOME regulatory limits, as applicable.

As documented in the City of Dayton's Rental Policies and Procedures manual, all HOME applications must include personal financial statements (audited if available) and the three most recent tax returns from all underlying developers, owners, and guarantors and will be subject to the City's evaluation of fiscal soundness as required by 24 CFR 92.250(b)(2).

Project Underwriting will also include:

- Vacancy factor of at least 7% for family developments and at least 5% for elderly developments, unless the market study indicates a higher vacancy factor is needed.
- City staff will use a maximum 2% inflation factor for all sources of income.
- All operating expenses will be underwritten with an inflation factor of at least 3%.
- All HOME projects must maintain a total project Debt Coverage Ratio (DCR) of at least 1.15 for the affordability period. Properties with a DCR that exceeds 1.25 may have rent increases reduced or denied.
- Proposals must include justification of operating costs that includes a comparison to similar projects in the local market. When possible, comparable properties should be operated by the proposed management company.
- At a minimum, projects must make replacement reserve deposits of \$300 per unit per year for family projects and \$250 per unit per year for elderly projects. The Replacement Reserve must be funded and maintained for the full affordability period and reflected in the operating expenses for the full 15-to-30-year projection of expenses, as applicable. Replacement Reserve deposits will be inflated at 3% annually.
- Projects must include a capitalized operating reserve equal to six (6) months of underwritten operating expenses, amortizing debt service, and required reserve deposits. If drawn, the operating reserve must be replenished prior to distributions of cash flow. The operating reserve is intended to protect against unplanned operating deficits. If the City's underwriting projections anticipate deficits within the applicable affordability period, a separate operating deficit reserve must be capitalized as well.
- To substantiate LIHTC equity pricing, if applicable, applicants must submit documentation indicating that a syndicator or investor has reviewed the proposal and indicated preliminary pricing along with their interest in the project.
- Applicant must provide the amounts and terms for the construction financing, permanent financing, and if applicable, owner equity information. ***Amortizing permanent financing that will be senior to the City's HOME loan may not mature prior to the expiration of the HOME affordability period.***

Steps to Complete Underwriting & Subsidy Layering for HOME Projects

1. Complete Step 1 – General Information;
2. Request the documents listed in Step 2 – Documentation Requested/Received;
3. Once the documentation is received, complete Step 3 – Market Assessment;
 - a. Any missing information or clarifications should be requested from the Developer;
 - b. A project's underwriting should not be considered complete until all information is provided and any concerns or questions are addressed;
4. Evaluate the Developer's experience and capacity in Step 4 – Developer Experience & Capacity
5. Utilize the requested sources & uses, operating pro forma, cash flow statements, subsidy layering, and existing rent roll (if applicable) to complete Step 5 – Project Review.
6. Once all questions are answered, complete Step 6 – Underwriting and Subsidy Layering Determination.

City of Dayton
HOME Project Underwriting and Subsidy Layering

1. General Information

Initial evaluation

Construction Update

Construction Completion/Final Draw

Project Name:

Date:

Developer:

Construction Start Date:

Construction Completion Date:

Anticipated Lease-Up/Sale Completion Date:

Underwriting Also Completed by Another Lender/Institution?

YES

NO

Notes:

Consolidated Plan Goal:

GOI met through this Proposed Project:

City of Dayton
HOME Project Underwriting and Subsidy Layering

2. Documentation Requested/Received – Submission Requirements

Documentation	Date Requested	Date Received
Market Assessment (completed by OHFA-approved market analyst)		
Subsidy Layering via HUD’s HOME Multifamily Underwriting Template		
<i>Sources & Uses</i>		
<i>Operating Pro Forma – Duration of the Affordability Period</i>		
Financial Capacity		
<i>Developer Financial Audit (including income statement & balance sheets – must be within the past 12 months)</i>		
<i>Cash Flow Statements for the Past 12 Months</i>		
<i>Documentation for Developer Cash & Cash-Equivalent Reserves</i>		
<i>Firm Letters of Commitment (including terms & conditions for all mortgages, grants, bridge loans, and investment tax credits)</i>		
<i>Three most recent tax returns from all underlying developers, owners, and guarantors</i>		
<i>A copy of the partnership agreement or operating agreement, indicating the cash contributions by partner(s)/member(s) (if the proposing organization is a partnership or LLC)</i>		
Entity Experience		
<i>Developer Entity UEI</i>		
<i>List of Developer’s Board of Directors/Trustees/etc</i>		
<i>Managing or General Partner</i>		
<i>List of Third Party Entities (contractors, subcontractors)</i>		
List of all of Developer’s projects (including all in development and all that are owned and managed)		
Sales Plan (Homebuyer Projects Only)		
Profit & Returns to Developer		
Existing Rent Roll (if applicable)		
Architectural Plans/Floor Plans		

Documentation submitted by:

Name	Title
------	-------

City of Dayton
HOME Project Underwriting and Subsidy Layering

3. Market Assessment (MA)

Project Description

Does the MA include a detailed description of the proposed unit mix, including:

Included	Number of Units	Bedrooms	Bathrooms	Square Footage	Utility Cost Estimate per Unit	Net Rent per Unit	Gross Rent per Unit
Yes							
No							

Building Information

Building Type (walk-up, single-story, mid-rise, high-rise, etc.)	Total number of Buildings per Type	Units per Building	Number of Stories	Does this Building Type Have an Elevator?

Does the MA provide information about common areas/building amenities? YES NO

Notes:

Utility Sources & Policy

Does the MA identify the proposed sources for all unit utilities? YES NO

Notes:

Does the MA provide the project's utility policy (are utilities included in the rent)? YES NO

Notes:

Tenancy & Accessibility

Does this project include any tenancy restrictions? Yes NO

If YES, please select: income restrictions age restrictions special needs restrictions

Notes:

Is the project accessible? YES NO

Geographic Location & Market Area

Geographic Information

Information	Included	Not Included
Site Pictures & Map		
Description & Visual Representation of Nearby Land Uses		
Amenity Proximity: (Location & Distance to Project)		

City of Dayton
HOME Project Underwriting and Subsidy Layering

Is the site located in an area of minority concentration?		
<i>If yes, are there sufficient, comparable opportunities for housing for minority families, in the income range to be served by the proposed project, outside of the area of minority concentration?</i>		
<i>If yes, is the proposed project necessary to override housing needs that cannot be met in the housing market area?</i>		
<i>Does the proposed project promote greater choice of housing opportunities and avoid undue concentration of assisted persons in areas with a high population of LMI households?</i>		
Is the location of the proposed project in a neighborhood where a majority of the structures are nuisance or blighted?		
<i>If yes, is there a concerted effort to encourage development and substantial investment to improve the surrounding neighborhood?</i>		

Notes:

Economic Conditions

Does the MA include analysis of the following economic factors?

Factor	Included	Not Included
At-Place Employment trends for the Past 10 Years		
At-Place Employment by Employment Sector		
Job Loss/Gain trends for the Past 10 Years		
Job Loss/Gain by Employment Sector		
Unemployment Rate for the Past 10 Years		
Major Employers in the Market Area & Region		
Discussion on Major Employment Changes (Recent or Anticipated Gains or Losses)		
Wage Discussion by Major Employment Sectors in Area		
Employment Commute Discussion		

Will Local Economic Conditions impact the ability to fulfill the affordability, lease-up, or other requirements set by the HOME Program? YES NO

Notes:

Demographic and Housing Conditions

Does the MA include analysis of the following demographic conditions for the population of the City of Dayton and the Market Area?

Factor	Included	Not Included
Population – Past, Current, and Future		
<i>Age</i>		
<i>Household Type</i>		
<i>Household Size</i>		
<i>Tenure</i>		
<i>Income & LMI Analysis</i>		
<i>Substandard Housing (overcrowding, lacking bathrooms/utilities, inadequate kitchen)</i>		

City of Dayton
HOME Project Underwriting and Subsidy Layering

<i>Cost Burden (cost burden – 30% of income; extreme cost burden – 50% of income; data for both owners and renters)</i>		
---	--	--

Does the MA include analysis of the following demographic conditions for the households of the City of Dayton and the Market Area?

Factor	Included	Not Included
Households – Past, Current, and Future		
<i>Age</i>		
<i>Household Type</i>		
<i>Household Size</i>		
<i>Tenure</i>		
<i>Income & LMI Analysis</i>		
<i>Substandard Housing (overcrowding, lacking bathrooms/utilities, inadequate kitchen)</i>		
<i>Cost Burden (cost burden – 30% of income; extreme cost burden – 50% of income; data for both owners and renters)</i>		

Does the MA include analysis of the following housing conditions for the housing stock in the City of Dayton and the Market Area?

Factor	Included	Not Included
Housing Stock – Past, Current, and Future		
<i>Age</i>		
<i>Condition</i>		
<i>Structure Type</i>		

Will Local Demographic and Housing Conditions impact the ability to fulfill the affordability, lease-up, or other requirements set by the HOME Program? YES NO

Notes:

Housing Market – Competition & Comparable Units

Does the MA include:

Factor	Included	Not Included
Analysis of Recent Housing Unit Development		
<i>Units Under Construction</i>		
<i>Units Planned for the Next ~5 Years</i>		
Proximity of Upcoming/New Units to Project		
Unit Composition/Mix (Bedrooms/Bathrooms)		
Unit Rent		
Analysis of Units or Projects that will Directly Compete with the Proposed Project		
Identification and Analysis of comparable affordable communities and market-rate communities to establish rent, occupancy, amenity, utility, and unit mix comparisons		

Market Assessment Summary

Does the Market Assessment (MA) document demand for all units within the project?

YES NO

Notes:

City of Dayton
HOME Project Underwriting and Subsidy Layering

Is there sufficient demand to ensure all units are rented or sold within the regulatory guidelines?

YES NO

Notes:

Does the market study include a vacancy factor of at least 7% for family developments and at least 5% for elderly developments? YES NO

Notes:

If no, does the market study indicate and justify that a higher vacancy factory is needed?

YES NO

Notes:

4. Developer Experience & Capacity

Developer Experience

Does the Developer have experience developing and owning a project of similar size, scope, tenure, scale, financial stack, and complexity? YES NO

Was this project completed within the past 5 years? YES NO

Notes:

Development Team

Did the Developer provide the names, resumes, and years of experience for the members of the Development Team working on the project? YES NO

Does the Development Team have sufficient experience and expertise to successfully complete the proposed project? YES NO

Notes:

Property Management Staff

Did the Developer identify the property management company and staff? YES NO

Has the Property Manager successfully managed a project of similar scope, size, and complexity? YES NO

Did this project come online and begin its management phase in the past 5 years?

YES NO

Notes:

Developer Financial Statements

Did the Developer provide a copy of its most recently completed audit, including audited income statements and balance sheets? YES NO

Are there any outstanding audit findings, comments, or concerns? YES NO

City of Dayton

HOME Project Underwriting and Subsidy Layering

Did the Developer provide cash flow statements for the prior 12-month period? YES NO

Do the Developer's audit and cash flow statements indicate:

	Yes	No
...financial weakness?		
...excessive debt or obligations?		
...a lack of financial liquidity?		
...an unstable or risky portfolio?		

Does the Developer's cash and cash-equivalent reserves (including available credit) indicate sufficient capital availability to cover existing obligations and commitments, completion of the proposed development, and known portfolio risks? YES NO

Does the Developer display financial stability? YES NO

Notes:

Current Projects & Holdings

Does the list of current projects include projects currently in development AND projects that are owned and managed by the Developer? YES NO

Has the Developer completed projects of similar scope, size, and complexity? YES NO

Has the Developer certified that its projects in operation for at least 3 years have maintained a positive operating cash flow from operating income? YES NO

Has the Developer certified that its projects in operation have fully funded reserves in accordance with the governing documents for each project (agreements, loans, etc.)? YES NO

Notes:

Debarment

HOME funding may not be used to directly or indirectly award contracts to, employ, or otherwise engage the services of any contractor or subrecipient that is debarred, suspended or in a status of ineligibility through the Federal Government. Prior to completion of the HOME project underwriting and subsidy layering and before executing any HUD-funded agreement, the City of Dayton must verify the status of all contractors, subcontractors and sub-tier contractors, consultants, and subrecipients through the System for Award Management (SAM) at <https://www.sam.gov> .

Developer:

Registered in SAM.gov? YES NO
Debarred, Suspended, Ineligible? YES NO

City of Dayton
HOME Project Underwriting and Subsidy Layering

Developer's Board:

Are any members debarred, suspended, or ineligible via SAM.gov? YES NO

Managing or General Partner:

Registered in SAM.gov? YES NO
Debarred, Suspended, Ineligible? YES NO

Third Party Entities:

Registered in SAM.gov? YES NO
Debarred, Suspended, Ineligible? YES NO

Notes:

5. Project Review

Cost Allocation

Under 24 CFR 92.205 (d) (1), the City is required to perform an evaluation of the cost allocation for the proposed project. While this is typically used for projects where fewer than 100% of the units are HOME-assisted, the City requires Community Development staff to complete the **Cost Allocation Tool** for all proposed HOME projects to confirm the maximum project subsidy and the minimum number of required HOME units.

Cost Eligibility

The cost allocation process should also include review and determination of the eligibility of all proposed project costs in accordance with 24 CFR 92.206. Any costs deemed ineligible must be excluded from the Cost Allocation Tool determination for project subsidy purposes.

Eligible Costs

Cost principles explained in 2 CFR 200 articulate the eligibility requirements for costs charged to Federal grants. Eligible costs must be allowable, reasonable, allocable, and applicable as defined in 2 CFR 200 Part E. This includes the requirements that costs must be necessary and reasonable to carry out the award; authorized under federal, state and local law; conform to OMB guidance; be consistent with state and local activities; treated consistently; allocable to the award-funded activity; consistent with GAAP; not used for matching or cost-sharing, and adequately documented.

In general, to be charged to HOME a cost must be consistent with the requirements of 2 CFR Part 200, Subpart E. For example, it must be reasonable and necessary and must be incurred for the specific benefit of an eligible HOME activity. Beyond the Federal Cost Principles, however, the cost must also be eligible within the requirements of the HOME Final Rule (Allowability and Allocability in HOME) §92.206-209 define eligible HOME costs. The HOME Final Rule also requires that when HOME funds are invested in a mixed-income project, one where some units are HOME-assisted and some units are not, a participating jurisdiction (PJ) must use cost allocation to ensure HOME is paying only for costs associated with the HOME-assisted units.

While any cost charged to HOME must be eligible, there are also requirements—both minimums and maximums—on how a PJ's annual allocation of HOME can be divided among various categories. When HUD executes the HOME Investment Partnerships Agreement each year, it automatically allocates the funds into three pots, known as subfunds. Ten percent of the

City of Dayton

HOME Project Underwriting and Subsidy Layering

funds are placed into the administration subfund, to be used by PJs and their subrecipients (if any) for expenses related to administering the HOME Program. This is a maximum amount from the annual allocation. However, PJs can increase their administration subfund by 10 percent of the program income received. Fifteen percent of the HOME allocation is placed into the Community Housing Development Organization (CHDO) Reserve subfund, for use in development activities by CHDOs. This is a minimum amount. PJs may increase this subfund for CHDO activities. The remainder of the HOME allocation is available for all other housing activities, programs, and projects. This pot of funds is known as the “Entitlement” subfund. Dayton may engage in three of the four basic types of activities can be funded from the Entitlement subfund:

- Rehabilitation of owner-occupied properties
- Assistance to homebuyers and homebuyer development projects
- Rental housing acquisition, rehabilitation, or construction

Both the CHDO Reserve and Entitlement funds must be used to provide low-income housing or assistance to low-income households.

PJs can also subgrant HOME funds, generally from the Entitlement portion of their award, to subrecipients who will administer any of these types of programs on behalf of the PJ. State recipients and subrecipients are also subject to the requirements at 24 CFR Part 92, as well as 2 CFR Part 200.

A PJ can only charge indirect costs to its HOME administration subfund based on its approved cost allocation plan or approved negotiated indirect cost rate. At most 10 percent of a PJ’s annual HOME allocation—and up to 10 percent of program income received—may be disbursed for administrative costs. A subrecipient can receive administrative funds from a PJ based on an approved indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the PJ and the subrecipient, or a de minimis indirect cost rate as defined in 2 CFR 200.414. These administrative funds that a subrecipient receives from a PJ must come from the PJ’s 10 percent administration subfund.

HOME funds may be used to pay the following eligible costs:

Acquisition Costs

- Includes costs of acquiring improved or unimproved real property
- Acquisition of vacant land or demolition can only be undertaken for particular housing project intended to provide affordable housing.
- Costs to make utility connections to an adjacent street or to make improvements to the project site, in accordance with the provisions of § 92.206(a)(3)(ii) and (iii) are also eligible in connection with acquisition of standard housing.

Refinancing Costs

- Includes costs to refinance existing debt secured by a housing project that is being rehabilitated with HOME funds
- For single-family (one- to four- family) owner-occupied housing, when loaning HOME funds to rehabilitate the housing, if the refinancing is necessary to reduce the overall housing costs to the borrower and make the housing more affordable and if the rehabilitation cost is greater than the amount of debt that is refinanced.

City of Dayton

HOME Project Underwriting and Subsidy Layering

- For single family or multifamily projects, when loaning HOME funds to rehabilitate the units if refinancing is necessary to permit or continue affordability under **§ 92.252**. The participating jurisdiction must establish refinancing guidelines and state them in its consolidated plan described in **24 CFR part 91**. Regardless of the amount of HOME funds invested, the minimum affordability period shall be 15 years. The guidelines shall describe the conditions under which the participating jurisdictions will refinance existing debt. At minimum, the guidelines must:
 - Demonstrate that rehabilitation is the primary eligible activity and ensure that this requirement is met by establishing a minimum level of rehabilitation per unit or a required ratio between rehabilitation and refinancing;
 - Require a review of management practices to demonstrate that disinvestment in the property has not occurred, that the long-term needs of the project can be met and that the feasibility of serving the targeted population over an extended affordability period can be demonstrated;
 - State whether the new investment is being made to maintain current affordable units, create additional affordable units, or both;
 - Specify the required period of affordability, whether it is the minimum 15 years or longer;
 - Specify whether the investment of HOME funds may be jurisdiction-wide or limited to a specific geographic area, such as a neighborhood identified in a neighborhood revitalization strategy under **24 CFR 91.215(e)(2)** or a Federally designated Empowerment Zone or Enterprise Community; and
 - State that HOME funds cannot be used to refinance single family or multifamily housing loans made or insured by any Federal program, including CDBG.

New Construction

- **Manufactured Housing:** HOME funds may be used to purchase manufactured housing units or purchase the land upon which a manufactured housing unit is located. City of Dayton HOME funds shall not be used to rehabilitate manufactured housing units. Any manufactured housing unit purchased with HOME funds must, at the time of project completion, be connected to permanent utility hook-ups and be located on land that is owned by the manufactured housing unit owner or land for which the manufactured housing owner has a lease for a period at least equal to the applicable period of affordability.

Development Hard Costs

- Includes the actual cost of constructing or rehabilitating housing.
- **New Construction:** Project costs must meet the City of Dayton Construction Standards.
 - Include costs to meet standards in 24 CFR 92.251
- **Rehabilitation:** Project costs must meet the City of Dayton Construction Standards
 - Include costs to meet standards in 24 CFR 92.251
- Demolition of Existing Structures (Remember that Uniform Relocation Act applies)
- Creation of utility connections including off-site connections from the property line to the adjacent street.
- Improvements to the project site (only property owned by the project owner, where the project is located) that is in keeping with improvements of surrounding, standard projects. Including:
 - On-site roads
 - Sewer Lines

City of Dayton

HOME Project Underwriting and Subsidy Layering

- Water lines
- *Costs must be necessary to the development of the project.
- Costs to construct or rehabilitate laundry and/or community facilities located in the same building as the housing for the use of project residents (only applicable to multi-unit RENTAL housing).

Related Soft Costs

- Related Soft Costs include other reasonable and necessary costs incurred by the owner and associated with the financing, or development (or both) of new construction, rehabilitation or acquisition of housing assisted with HOME funds.
- These costs include, but are not limited to:
 - Architectural Services;
 - Engineering Services;
 - Preparation of plans, drawings, specifications, or work write-ups;
 - Costs to process and settle the financing for a project;
 - Private lender origination fees;
 - Credit reports;
 - Fees for title evidence;
 - Fees for recordation;
 - Filing of legal documents;
 - Building permits;
 - Attorney's fees;
 - Private appraisal fees;
 - Fees for an independent cost estimate;
 - Builder's or developer's fees;
 - Costs of a project audit;
 - Affirmative marketing and fair housing information to prospective homeowners and tenants;
 - Staff and overhead costs directly related to carrying out the project, such as:
 - Work specifications preparation,
 - Loan processing inspections, and
 - Other services related to assisting potential owners, tenants, and homebuyers.
 - Housing counseling (only for individuals who ultimately occupy a HOME unit)
 - All costs must be reasonable and thoroughly documented (including timesheets detailing actual time worked on HOME activities).
 - For both new construction and rehabilitation, costs for the payment of impact fees that are charged for all projects within a jurisdiction.
 - Costs of environmental review and release of funds in accordance with 24 CFR Part 58 which are directly related to the project.
 - Cost of funding an initial operating deficit reserve, not to exceed 18 months (ONLY eligible for new construction or rehabilitation projects):
 - Only can be used to pay project operating expenses, scheduled payments to a replacement reserve, and debt service.
 - Any HOME funds placed in an operating deficit reserve that remains unexpended after the period of project rent-up may be retained for project reserves.

City of Dayton

HOME Project Underwriting and Subsidy Layering

- Relocation costs (for persons displaced by the project):
 - Replacement housing payments
 - Moving expenses
 - Other reasonable out-of-pocket costs incurred in the temporary relocation of persons.
 - Staff time associated with providing relocation to displaced persons (including referrals housing search assistance, property inspections, counseling, and other assistance necessary to minimize hardship).
- Payment of Construction Loan, Bridge Financing, or Guaranteed Loan (principle & interest), if: The Project meets all HOME requirements and the loan was used for eligible costs specified in HOME Regulations and this policies and procedures manual; and the HOME assistance is part of the original financing for the project.

Community Housing Development Organization (CHDO) Costs

- A CHDO is defined as a private, nonprofit organization that meets a series of qualifications prescribed in the HOME regulations at 24 CFR Part 92.2.
 - i.e. Organized under the Internal Revenue Code of 1986 (IRC) at 501(c)(3) or 501(c)(4); a subordinate of a central organization under IRC 905; or a wholly-owned entity that is regarded as an entity separate from its owner for tax purposes (e.g., a single member limited liability company that is wholly-owned by an organization that qualifies as tax-exempt), when the owner organization has a tax exemption ruling from the IRS under section 501(c)(3) or 501(c)(4) of the IRC. The nonprofit must meet the other qualifying criteria outlined in the CHDO definition.
 - The CHDO is not controlled by, or significantly influenced by, a for-profit entity. In addition to the pre-2013 requirements that remain unchanged, paragraph 3(iv) adds a new criterion that if a for-profit entity creates or sponsors a potential CHDO, while the officers and employees of the for-profit entity can serve as Board members of a CHDO (subject to the one-third appointment limitation), they cannot serve as officers or employees of the CHDO.
- The HOME New Rule requires that CHDO's have paid staff with demonstrated capacity appropriate to the CHDO's role (this requirement cannot be met through volunteer, donated staff, shared staff, or board members).
- CHDO status must be recertified regularly by the City of Dayton.
- In an owner or developer role, the CHDO must own the HOME-assisted housing in fee simple absolute or have a long-term ground lease.
- Costs include operating Expense and Capacity Building Costs for eligible CHDO's.
- Operating expenses means reasonable and necessary costs for the operation of the community housing development organization, such costs include:
 - Salaries, wages, and other employee compensation and benefits;
 - Employee education,
 - Training, and travel;
 - Rent;
 - Utilities;
 - Communication costs;
 - Taxes; insurance;
 - Equipment; and
 - Materials and supplies.

City of Dayton

HOME Project Underwriting and Subsidy Layering

- Costs DO NOT include operating expenses incurred by a CHDO acting as a subrecipient or contractor under the HOME Program.

Relocation Costs

The Uniform Relocation and Real Property Acquisition Policies Act (URA) and Section 104(d) of the Housing and Community Development Act of 1974 provide protection and equitable treatment of persons who are displaced due to actions connected to federally-funded projects. URA requirements may be triggered by acquisition, rehabilitation, and/or demolition activities, and URA applies when displacement occurs as a direct result of these activities.

Section 104(d) requirements may be triggered by the demolition or conversion of lower-income dwelling units, and the requirements apply when HOME or CDBG assistance is used for a project involving demolition or conversion.

Eligible relocation costs associated with homebuyer and rental activities include replacement housing, moving costs, and out-of-pocket expenses, advisory services, and staff and overhead related to relocation assistance and services.

Costs Relating to Payment of Loans

If the HOME funds are not used to directly pay a cost specified in this section, but are used to pay off a construction loan, bridge financing loan, or guaranteed loan, the payment of principal and interest for such loan is an eligible cost only if:

- The loan was used for eligible costs specified in this section, and
- The HOME assistance is part of the original financing for the project and the project meets the requirements of this part.

Planning and Administrative Costs

HOME funds can be used for planning and administrative eligible costs. Eligible planning and administrative costs are defined in the HOME regulation at §92.207 and include costs associated with the general management and oversight of a PJ's HOME Program, administration of TBRA programs, efforts to affirmatively further fair housing, preparation of the Consolidated Plan and Annual Action Plan, and compliance with other Federal requirements. Planning and administrative costs are capped at 10 percent of the annual HOME allocation received by the PJ.

Ineligible Activities & Costs

HOME funds may not be used to:

- Provide project reserve accounts, except as provided in **§ 92.206(d)(5)**, or operating subsidies;
- Provide tenant-based rental assistance for the special purposes of the existing section 8 program, in accordance with section 212(d) of the Act;
- Provide non-federal matching contributions required under any other Federal program;
- Provide assistance to public housing units;

City of Dayton HOME Project Underwriting and Subsidy Layering

- Aid with uses authorized under section 9 of the 1937 Act (Public Housing Capital and Operating Funds). HOME-assisted housing units may not receive Operating Fund or Capital Fund assistance as described in Section 9 of the 1937 Act;
- Provide assistance to eligible low-income housing under **24 CFR part 248** (Prepayment of Low Income Housing Mortgages), except that assistance may be provided to priority purchasers as defined in **24 CFR 248.101**;
- Provide assistance (other than tenant-based rental assistance, assistance to a homebuyer to acquire housing previously assisted with HOME funds, or assistance to preserve affordability of homeownership housing in accordance with **§92.254(a)(9)**) to a project previously assisted with HOME funds during the period of affordability established by the particular jurisdiction in the written agreement under **§ 92.504**. However, additional HOME funds may be committed to a project for up to one year after project completion (see **§ 92.502**), but the amount of HOME funds in the project may not exceed the maximum per-unit subsidy amount established under **§ 92.250**.
- Pay for the acquisition of property owned by the participating jurisdiction, except for property acquired by the participating jurisdiction with HOME funds, or property acquired in anticipation of carrying out a HOME project; or
- Pay delinquent taxes, fees or charges on properties to be assisted with HOME funds.
- Pay for any cost that is not eligible under **§ 92.206** through **92.209**.

Additionally,

- Participating jurisdictions may not charge (and must prohibit State recipients, subrecipients, and community housing development organizations from charging) servicing, origination, or other fees for the purpose of covering costs of administering the HOME program (e.g., fees on low-income families for construction management or for inspections for compliance with property standards) (see **§ 92.206(d)(6)** and **§ 92.207**), except that:
 - Participating jurisdictions and State recipients may charge owners of rental projects reasonable annual fees for compliance monitoring during the period of affordability. The fees must be based upon the average actual cost of performing the monitoring of HOME-assisted rental projects. The basis for determining the amount of for the fee amount must be documented and the fee must be included in the costs of the project as part of the project underwriting;
 - Participating jurisdictions, subrecipients and State recipients may charge nominal application fees (although these fees are not an eligible HOME cost) to project owners to discourage frivolous applications. The amount of application fees must be appropriate to the type of application and may not create an undue impediment to a low-income family's, subrecipient's, State recipient's, or other entity's participation in the participating jurisdiction's program; and
 - Participating jurisdictions, subrecipients and State recipients may charge homebuyers a fee for housing counseling.
- Eligible fees described above must be considered applicable credits
- The participating jurisdiction must prohibit project owners from charging fees that are not customarily charged in rental housing (e.g., laundry room access fees), except that rental project owners may charge:
 - Reasonable application fees to prospective tenants;

City of Dayton

HOME Project Underwriting and Subsidy Layering

- Parking fees to tenants only if such fees are customary for rental housing projects in the neighborhood; and
- Fees for services such as bus transportation or meals, as long as the services are voluntary and fees are charged for services provided.

Subsidy Layering

Under 24 CFR 92.250 (b), the City is required to complete underwriting and subsidy layering for proposed HOME projects.

When requesting HOME funding from the City of Dayton, the beneficiary (developer, owner, or sponsor) must submit sources and uses and an operating pro forma for review and approval. To streamline the underwriting process and ensure uniformity among submissions, the City requires beneficiaries (developers, owners, and/or sponsors) to submit underwriting documentation via **HUD's Multi-Family Underwriting Template**. Once submitted, the following must be true for the template information:

1. The Requirements and Rents and Income tabs/sheets must match the determinations and information provided in the Cost Allocation Tool.
2. The Development Costs tab/sheet must be substantiated with proper documentation and shall only include eligible HOME costs.
3. The remaining tabs must meet the requirements detailed in the sections below. Any deviations or inconsistencies must be addressed before the proposed project's underwriting is considered complete.
4. The template must be completed before entering into a development agreement, and before construction begins to ensure project viability.

Sources & Uses

Does the Sources & Uses documentation identify all sources of funding in the proposed project, including dollar amounts and timing of when funds will be available? YES NO

Notes:

Are total funding sources adequate and timely in their availability to cover development costs at all phases of the development – acquisition, construction/rehabilitation, and permanent loan?

YES NO

Notes:

Are the other funding sources compatible with HOME, or do they contain different requirements that affect the structure of the project, including unit mix, and are these differences accommodated in the project plan? YES NO

Notes:

Are the funding sources firmly committed? YES NO

Notes:

Does the Sources & Uses documentation identify all anticipated uses of funds in the proposed project, including acquisition costs, site preparation and infrastructure costs, rehabilitation/construction costs, financing costs, professional fees, developer fees, and other soft costs? YES NO

City of Dayton
HOME Project Underwriting and Subsidy Layering

Notes:

Additional documentation pertaining to line-item costs in the budget:

	Included/Provided		Costs Substantiated	
	Yes	No	Yes	No
Acquisition documentation (purchase agreement, option or closing statement and appraisal, etc.)				
Construction costs (estimate, contract, or preliminary bid(s))				
Key professional costs, estimated soft costs, capitalized reserves (contracts, quotes, or other agreements)				
Reserves (agreements governing reserves which are capitalize at closing/verifying the reserves cannot be withdrawn later as fees or distributions)				
Land & property value (third-party appraisal)				
LIHTC documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization/individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project				

Notes

Are all of the proposed costs of development “necessary and reasonable” in compliance with OMB cost principles contained in 2 CFR part 200? YES NO

Notes:

Are the proposed costs sufficient to achieve all program requirements, including property standards, to provide quality housing for at least the affordability period? YES
NO

Notes:

Are the costs proposed to be paid with HOME funds eligible under the HOME rule? YES
NO

Notes:

Does the Sources & Uses documentation meet the following requirements?

	Percentage of net or total development costs:	Meets Requirement	Does Not Meet Requirement
The maximum developer fee is 15% of net development costs approved by the City of Dayton.			
The maximum builder General Requirements			

City of Dayton
HOME Project Underwriting and Subsidy Layering

are 6%. (calculate using construction contract price, excluding construction contingency)			
The maximum Overhead is 2%. (calculate using construction contract price, excluding construction contingency)			
The maximum Profit is 6%. (calculate using construction contract price, excluding construction contingency)			
Architectural (including engineering) fees may not exceed 6% of total project hard costs.			
Acquisition costs may not exceed the lesser of the appraised value of a property, the purchase price negotiated with an arms-length seller, or the cost basis of an identity of interest seller.			
All HOME projects must maintain a total project Debt Coverage Ratio (DCR) of at least 1.15 for the affordability period. Properties with a DCR that exceeds 1.25 may have rent increases reduced or denied.			

Notes:

Operating Pro Forma

To ensure the viability of the proposed HOME project for the duration of the affordability period in its entirety, the City of Dayton requires submission of an operating pro forma that tracks the projected expenditures and cash flow for the assigned affordability period. As state in CPD Notice 15-11, “Long-term operating projections should be based on reasonable assumptions about how revenues and operating costs are expected to change over time, and demonstrate the project is expected to operate within normal operating parameters throughout the affordability period.”

Operating Revenue

Does the proposed pro forma include:

Factor	Included	Not Included
A reasonable vacancy factor		
<i>For family developments: A vacancy factor of at least 7%</i>		
<i>Vacancy Factor (percentage):</i>		
<i>For elderly developments: A vacancy factor of at least 5%</i>		
<i>Vacancy Factor (percentage):</i>		
An inflation factor that does not exceed 2% for all income sources		
<i>Inflation factor (percentage):</i>		

Operating Expenses

Does the proposed pro forma include:

Factor	Included	Not Included
An inflation factor at or above 3%		
<i>Inflation Factor (percentage):</i>		

City of Dayton
HOME Project Underwriting and Subsidy Layering

Justification for all operating costs that compare the costs to similar local projects		
Are the comparable projects operated by the same property management company?		
Replacement reserves that are funded and maintained for the full affordability period		
<i>An inflation factor of at least 3%</i>		
<i>Inflation Factor (percentage):</i>		
<i>Family Project: \$300 deposits per unit per year</i>		
<i>Elderly Project: \$250 deposits per unit per year</i>		
Capitalized operating reserve equal to six (6) months of underwritten operating expenses, amortizing debt service, and required reserve deposits		
If there are projected deficits during the affordability period, a capitalized operating deficit reserve is available		
Reasonable management and other fees to the owner		
Disclosed identify of interest relationships with contracted property management, repair/rehabilitation contractors, or other project vendors		
Debt service or other funding/reserve requirements related to "secondary" financing, if applicable		
Cash flow evaluation as a debt coverage ratio and as a percentage of operating costs and debt service		

City of Dayton

HOME Project Underwriting and Subsidy Layering

6. City of Dayton – Underwriting and Subsidy Layering Determination

Criteria	Eligibility/Viability Determination		
	Yes	No	N/A
The proposed project meets all of the RFP and Underwriting submission requirements.			
The proposed project meets a goal established by the City's Consolidated Plan.			
There is market demand for the proposed project.			
The proposed project conforms to applicable HOME requirements.			
The Development Team has the knowledge and capacity to complete the proposed project.			
Proposed development costs are allowable, allocable, and reasonable.			
Operational costs are necessary and reasonable.			
The operational costs for the proposed project are sustainable for the entirety of the affordability period.			
The Developer's sources & uses provide sufficient funding to complete the proposed project.			
The funding request is feasible.			
The total amount of government funding is reasonable – no more than necessary to complete the project.			
Homebuyer project: The proposed project includes a sales plan for all units.			
Overall Determination:			