

**FINANCING UNDERWRITING GUIDELINES**  
 (as of October 2008)

**THIS FINANCING UNDERWRITING GUIDELINE IS ONLY A GUIDE AND NOT A FIXED STANDARD.** This may be used as a “cheat sheet” to give you a better sense of line item cost for development budgets and operating budgets. This form may be revised from time to time. Please provide suggestions for future updates.

**HOME OWNERSHIP PROJECTS**

<b>Item</b>	<b>Amounts</b>	<b>Notes</b>
Affordability term	Industry: 45 yrs (up to 100% AMI) HOME: 30 years (up to 80% AMI) CDBG: 30 yrs (51% at 80% AMI)	Loan term is 30 years; minimum 20% of total units (or 5 units) at or below 50% AMI. Loan term for HOME or CDBG loan is 45 years if coupled with Industry.
Accessibility	<u>Design</u> : units must be made accessible upon request and design must be able to accommodate such a request. <u>Marketing</u> : info must be disseminated in a manner accessible to persons with disabilities & sales office must be made accessible to persons with physical disabilities.	Sec 504 of the Rehab Act of 1973 is violated if design of unit precludes making requested changes.
Attached Condominiums		2 BR units permitted but only up to 40% of total assisted units; OCIP coverage required; Developer will indemnify CDC/HACOLA from defects.
Civil Engineering	Up to \$ 90,000 – Depending on size of development	For Subdividing, mapping, grading, processing approvals.
Cost Certification	Audited cost certification after construction is completed	To verify that Developer Fee did not exceed 15% and to see if there is sharing of upside appreciation/profit because of increase in sales price, larger first trust deed loan or decrease in mortgage interest.
Cost Increase	Responsibility of Developer	
Developer Fee	<u>1 House on a Lot</u> : no more than \$20,000  <u>All Other Properties</u> : Up to 15% of TDC (excluding land)	TDC will excl land if CDC owns site & is providing land as part of subsidy pkg. Any cost savings will be shared on sliding scale basis.
Homeowners Association (HOA) Fees	1-10 units: min \$6,000 capitalization of HOA 11+ units: greater of \$6,000 or (mthly fee X total units X 6 mos);  HOA fees approx \$125/month	CDC consultant to review HOA structures for all projects & consult with HOA until stabilized. Consultant cost is set aside in each proj's admin.
Homeowners Association Education	Up to \$5,000 as line item in development budget	HOA training must be provided by Developer and must utilize the California Condominium Association if experience is lacking.
Marketing (all inclusive of broker's fee,	4% of Sales Price; 6% of sales price on 4 or less units	See Affirmative Marketing Guidelines in the NOFA; must demonstrate basis for cost

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advertising, models cost, etc.)		
ProForma	Underwriting must be based on HCD Maximum Monthly Housing cost if only Industry funds are used.	
Sales Price	HOME/FHA: max \$493,000/u or \$394,250 for attached condo;  Industry & Tax Increment: max \$467,200/u or CAR's median home price for L.A. County at date of execution.	Industry & Tax Increment: Check CAR website ( <a href="http://www.car.org">www.car.org</a> ). Note that maximum affordable mortgage amount may further restrict sales price. Refer to HCD guidelines.
Square feet per unit	See Design Guidelines	Where projects have both affordable & market rate units, ensure that affordable units are dispersed geographically and among all sizes & number of bedrooms.
TDC (Total Development Cost)	\$332,000/ unit (for approx 1,600 sf unit) without land	HC + SC + land = TDC HC: 60-70% of Dev't Budget; *Developers play w/ this cost area. SC: 25-30% of Dev't Budget

**RENTAL PROJECTS**

Many of these line item fees could apply to **home ownership** as well. However, differences may cause variances. For example, assuming non-Davis Bacon, hard cost for rental on a per SF basis would cost more than hard cost for single family homes on a per SF basis. This variance may be due to additional structural cost (i.e. concrete structural slab, steel beams), semi-subterranean parking requirements, etc. However, items such as architect's fee may be about the same.

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Accessibility	<u>Design</u> : min 5% (not less than one unit) must be physically accessible and an additional 2% (not less than one unit) must be accessible to persons with sensory impairments. <u>Rehab</u> : above is required where rehab of 15+ units & cost is at least 75% of replacement cost. <u>Marketing</u> : Must list unit on the LA County Housing Resource Center web-site ( <a href="http://housing.lacounty.gov">housing.lacounty.gov</a> ) (see "Lease-up and Marketing - Housing Resource Center" guideline below) and utilize other means to assure information about vacancies reaches eligible individuals with disabilities. Note that vacant accessible unit must be offered first to a current occupant requiring accessibility and, second,	Applicable to all units and funding sources (per Calif Fair Employment & Housing Act)

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	to eligible qualified person on waiting listing requiring accessible features.	
Affordability	Industry: 55 years (50%AMI) HOME: 55 years (50% AMI) HUD 202 – 40 years OK CHFA bonds – 35 years OK 4% tax credits/bonds combined with HOME will increase the number of 50% AMI units to a min. of 30%.	Loan term is 55 years; minimum 20% of total units (or 5 units) at or below 50% AMI
Appraisal	\$15,000	\$5,000 for acquisition \$10,000 for construction loan appraisal Appraisal submitted must be within last 6 months  See NOFA for revised requirements.
Architect's Fee	Varies between 4% to 10% of HC: Sm: 1-15 units: 7-10% Med: 16-50 units: 5-7% Lg: 50+ units: 4-6%	
Attorney – Bank	\$30,000 avg	
Attorney - Developer	\$50,000	Cost varies depending on complexity of deal and Tax Opinion Letter requirements.  Real estate attorney reviews acquisition and loan documents, and other business issues.
Attorney - Syndication	\$0	Syndication Attorney represents the tax credit investor. Should be included in gross equity number.
Attorney(s) - Bond deals	\$40,000 - \$50,000	This applies to total bond legal cost
Audit / Accounting Fees by Accountant - Capitalized	Tax Credit Projects: \$5,000 to \$10,000 Other Projects: \$3,000	Line item includes the cost certification, organization accounting and other accounting needs.
Audit / Accounting Fees by Accountant - Operating	\$7,500 to \$12,000	Audits are required for all properties. Therefore, all operating budgets must include an Audit Fee.  Line item includes both the annual audit and tax returns.
Bond deals cost of issuance	Min: \$300,000 Max: 4-6% of bond amt	
Building Permit	\$8,000 /u	Excluding School Fees  Note that the Building Permit Fees for CDC funded projects in unincorporated areas can be waived but may trigger prev wage. An exemption may be granted if only Tax Increment funds used.
Cash flow	30 yrs (or term of loan)	
Consultant	See Developer Fee	Disallow cost of in-house person

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Construction Manager Fee	\$50,000 to \$80,000;	CM is consultant who is not part of GC's contract. If CM is part of Developer's staff, then this cost is part of Developer Fee.
Davis Bacon	20%-more than non Davis Bacon [as applied to the overall construction cost (includes labor and materials)].	
Davis Bacon Triggers (CDBG)		DB is triggered when CDBG is used for offsites in excess of \$2,000. CDBG can be used for onsite construction only if done by a CBDO. In this case, DB is triggered if the pro-rated CDBG expenditures results in 8 or more units.  Uses that <b>will not</b> Trigger DB: -Using CDBG to buy land. -Using CDBG to pay for permits or relocation. -Using CDBG to pay sole source utilities (i.e., Edison)  (Note: CDBG funds are only available on a limited basis.)
Davis Bacon Triggers (HOME)		Using HOME funds for <u>12 or more units</u> will trigger DB. (Section 92.354 Labor section of HOME Regulations)
Davis Bacon Triggers (HUD 202/811 & SRO Mod Rehab vouchers)		Use of these funds trigger D-B but compliance is HUD responsibility.
Debt Coverage Ratio	Yr 1: <u>Maximum</u> DCR of 1.15 Remaining Years: 1.15 <u>minimum</u> DCR	
Developer Fee - Capitalized As defined per TCAC (Sec. 10302) to include: all development consultant fees, processing agent fees, developer overhead and profit, construction mgt oversight fees if provided by developer, personal guarantee fees, syndicator consulting fees, & reserves in excess of those customarily req'd by lenders.	Lesser of  (1) max allowed in elig basis,  or  (2) as calculated: <u>New Const &amp; Substantial Rehab</u> a. Multi-Family developments: First 30 u's - \$24,000/unit 31+ u's - \$9,000/unit  b. Seniors & SRO's: First 30 u's - \$18,000/unit 31-100 u's - \$6,000/unit 101+ u's - \$4,200/unit  <b>Total Fee:</b> 9% credits per TCAC (Sec. 10327.c.2.):	Net dev fee means total dev fee minus deferred dev fee & any other contribution toward costs and is applicable to LIHTC projects only.  Common pay-in schedule: <ul style="list-style-type: none"> <li>• 25% at Construction Start</li> <li>• 25% during Construction</li> <li>• 50% after 6 months of stabilized occupancy</li> </ul> For all projects, may allow 20% increase in Developer Fee to compensate for providing physical amenities beyond the norm (i.e., mixed use, child care facility, etc.)

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	<ul style="list-style-type: none"> <li>• Max included in proj costs: lesser of 15% of elig basis or \$2m; or</li> <li>• Max included in elig basis: lesser of 15% of projects elig basis or \$1.4m</li> </ul> <p>4% credits per TCAC (Sec 10327.c.2.B):</p> <ul style="list-style-type: none"> <li>• lesser of 15% of basis or \$2.5m</li> </ul>	
Developer Fee – Special Needs	<p>The developer fee may be capitalized up to the TCAC limits for:</p> <ul style="list-style-type: none"> <li>• Special Needs Projects that provide a minimum of 35% special needs units , or</li> <li>• Non Special Needs projects that include between 25% and 34.9% of the project’s total units as special needs units</li> </ul>	
Developer Fee - Deferred	<p>Developer Fee (only for tax credit proj) can be deferred for the purpose of paying other development costs.</p> <ul style="list-style-type: none"> <li>- 10 years is the maximum deferral period. In year 11, residual receipt payments will take priority over any remaining deferred fee.</li> <li>- No interest allowed on the deferred fee.</li> </ul>	<p>Only applies to Tax Credit Projects</p> <p>Example of fee:  40 family units (based on formula above):  30 u's @ \$24,000=\$720,000  10 u's @ \$9,000 = \$90,000  Total Developer fee: \$810,000</p> <p>If max allowed by TCAC = \$1,400,000  Then \$590,000 will be deferred.</p>
Development Consultant- Outside (incl but not limited to financial consultant, project mgt, entitlement consultant, brokerage fee for site acq.)	\$75,000 to \$100,000	<p>Consultants who are not part of Developer’s in-house staff (incl but not limited to financial consultant, project mgt, entitlement consultant, brokerage fee for site acq.); otherwise, consultant fees must be paid from the project’s Developer Fee.</p> <p>The sum of the Development Consultant Fee + the Developer Fee must be less than the Developer Fee cap per TCAC.</p>
Disbursement	Approx 1-2% of Construction	

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<b>Item</b>	<b>Amount</b>	<b>Notes</b>
Service	contract	
Fees	Reservation Deposit: \$5,000 nonrefundable (applied to Compliance Fee)  One-time Compliance fee: \$410 per unit or min \$5,000	For all projects and can be paid from escrow.
General Conditions + Overhead + Profit	14%	These combined line items should not exceed more than 14% of cost of construction (site work & structures) per TCAC (Sec. 10327.c.1).  At project completion, the overhead and profit % must reflect the % agreed to / allowed at underwriting.
Hard Cost Contingency	New Construction: 5% - 10% (40+ units) or 10% (less than 40 units)  Rehab: 10% to 15%	Depends on size of project and whether site has environmental remediation issues.
Hard Cost for Rehab	The min rehab cost must be at least 15% of TDC (excl land) devoted to rehab.	Rehab work must incl replacement of at least two major bldg sys (e.g. roof, plumbing, HVAC, elec., etc.)
Holding Cost	\$5,000-\$10,000/yr for vacant bldg	includes security cost & insurance.
Income – Rent / Unit Mix / Income Restrictions	<u>Rent</u> : For units assisted by County funds, applicable HOME and/or COI rents apply, as published annually.  Note: - If there are other funding sources assisting the County-assisted units, the most restrictive rent applies. - If there are HOME or CDBG funds in the project, HOME rents take precedence over COI rents (see <u>HOME-based Rent schedule</u> prepared by the County). - In the Unincorporated area, if the project is receiving a density bonus, only the density bonus units are exclusively governed by COI rents.	Developer is expected to construct the project and restrict the tenant incomes as presented in the Unit Mix and Rents section of the application.
Income Escalation	2.5%/yr	Commonly underwriters assume a 1% spread between Income Escalation Factor and Expense Escalation Factor.
Lease-Up and Marketing	\$160 - \$180/u	Depending on number of units  The Marketing expense should be broken out separately from the Lease-Up expense. Further, the Marketing expense should reflect the cost savings from utilizing the LA County Housing Resource Center web-site (housing.lacounty.gov).

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Lease-up and Marketing - Housing Resource Center		<p>Borrowers are required to register projects and list vacant units (at initial lease-up and in the future) on the LA County Housing Resource Center web-site (housing.lacounty.gov).</p> <p>Borrowers are also required to register all properties and advertise all available units and open waiting lists for rental property in which:</p> <ul style="list-style-type: none"> <li>- Borrower or any of its general partners has any ownership interest, and</li> <li>- The Public Agencies have provided any financing or the rental property has received a density bonus or any other public incentive from the County.</li> </ul> <p>- NOTE: Borrowers may submit for waivers of this requirement, which will be issued at the Commission's sole discretion.</p>
Management Fees (Property)	<p>\$50 pupm max to Property Management Co.</p> <p>6% of effective gross income is max Total Management Cost.</p>	Item should not include On-site Manager salary or unit rent.
Manager's Unit	<p>HOME funded projects:</p> <ol style="list-style-type: none"> <li>1. Accurate project description: 100 units (99 rentals and 1 Manager) – in CC&amp;R's, ProForma, Loan docs;</li> <li>2. Do not include mgr's unit as HOME-assisted unit or in calculating Max Per Unit subsidy.</li> </ol>	Calif. Law requires an on-site manager when there are 16 or more units in a rental project.
Off-site Improvements	\$10,000/u in unincorporated County; otherwise max \$5,000/unit for proj in other jurisdictions.	
Operating Expense	Must meet TCAC minimum requirements.	<p>If expense is below the CDC's Portfolio (data published separately), then Developer needs to justify expense. Justification must at least include audited financials of 2 other properties owned / operated by the Developer and similar in size and location to the subject property.</p> <p>Note that CDC's Portfolio expenses do not included the following expense:</p> <ul style="list-style-type: none"> <li>- replacement/operating reserves</li> <li>- debt service</li> <li>- supportive / social service coordinator</li> <li>- partnership management fees</li> <li>- deferred developer fee</li> </ul> <p>However, unlike TCAC, CDC's Portfolio expenses do include property taxes.</p>

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Operating Expense Escalation	3.5%/yr	
Operating Reserves - Capitalized	For all projects: 3 months of operating expenses and 3 months of debt service.  Projects with project-based rental assistance: transition reserve up to 2 years (may be capitalized or funded through cash flow)	May be subject to the requirements of other lenders.
Partnership Management Fees (includes Asset Management Fee)	\$ 15,000/yr max before residual receipts. This fee may escalate at 3.5% per year.	Only applies to Tax Credit Projects  Fee should only be taken during the Tax Credit Compliance period (generally years 1-15).  Payments above \$15,000 must either be made out of cash flow after residual receipts or from Developer's 50% of residual receipts.
Phase I	Approximately \$2,500- \$3,000	
Prevailing Wage	20% more than non-prevailing wage. Exceptions: tax credits awarded before end of 2003.	Industry funds not subject to prev wage if sole public source.
Property tax expense	1 ¼% of acquisition cost; any tax refunds must go into reserves.	Property taxes should be greatly reduced after receiving exemption and should be reflected in cash flow.
Relocation	Benefits: \$20,000 - \$25,000/u per household Consultant: \$2,500/u	
Replacement Reserve	Greater of:  CDC's requirement of: MF & Sp Needs: Min \$300/u/yr - new; Min \$350/u/yr – rehab Seniors & SRO Min \$250/u/yr - new Min \$300/u/yr - rehab  Or  A senior lender's requirement	Developer should not deposit any more or less in the replacement reserve than what is allowed based on the greater of the County requirement or the senior lender.
Residual Receipts	50-50 split on 9% deals and 4% bond deals less than 50 units; 70-30 split on deals over 50 units and where we are sole local jurisdiction lender (excluding MHP).	Our 50% is split proportionately and shared with other public lenders.

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School Fees	LAUSD lowers fee to \$2.14/sf for 100% affordable developments and waives it for seniors. If mixed income, \$3.60/sf is charged -no pro-ration; 34 cents/sf for commercial	Fees will vary with different school districts. School fees must be paid to Building and Safety prior to pulling building permit.
Square Footage for units	See Design Guidelines	
Soft Cost contingency	2% of soft cost	
Subordination	Will subordinate, with right to cure, to construction loans and other public lenders with larger loan amounts. Will subordinate to MHP.	
Supportive Services Coordinator – Salary	<u>Special Needs:</u> maximum of \$40,000 annually allowed as an operating expense before the payment of residual receipts. CDC reserves the right to reduce this amount.  <u>Non-special needs:</u> maximum of \$15,000 regardless of project size.	Salary allowed to increase 3.5% per yr.  Developer's portion of residual receipts may be utilized to pay Salary amounts above the noted maximums.
Tax Credit - Price	Must comply with California Tax Credit Allocation Committee's (CTCAC) minimum tax credit factor requirements. Depends largely on pay-in, anticipated depreciation and exit strategy.	CTCAC Minimum Tax Credit Factor (as of 3-31-08): Projects using Federal & State Tax Credits - \$0.80 Projects using only Federal Credits - \$0.83
Vacancy Rate	Family & Senior: 5% /yr Special Needs & SRO: min 10% /yr	

**SUBSIDIES**

Note that these average subsidy amounts are guidelines. In many cases, we have gone below and above the suggested amounts for HOME and CDBG.

Item	Single Family Homes	Rental
CDBG: unincorporated area	Special occasions	Special occasions
HOME Unincorporated area or HOME participating city	80% AMI = \$150,000/unit	Seniors: \$40,000/unit Family: \$60,000/unit SpN & special circumstances = HOME max
Industry Funds	80% AMI – up to \$150,000/unit 90% AMI – up to \$125,000/unit 100% AMI – up to \$100,000/unit 110% AMI – up to \$75,000/unit 120% AMI – up to \$50,000/unit	Up to \$60,000/u (with a maximum of \$2 million per project) Special Needs: max per unit based on HOME limits

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**Key Issues for Funding Source**

<b>HOME</b>	<p>a. 11 units or less may be appropriate for single family or small Special Needs projects</p> <p>b. HOME limits for subsidies</p> <p>c. HOME rent max for a minimum affordability period.</p> <p>d. Proportionality test</p> <p>e. Income restrictions: up to 80% of AMI for single family; up to 50% AMI for rentals</p> <p>g. 5 years from commitment to close out project and report tenant ethnicity/rent level for federal IDIS completion.</p>
<b>CDBG</b>	<p>Meet a national objective: benefit low/mod income households; prevention or elimination of slum/blight; and community development needs having a particular urgency.</p> <p>Eligible activities include: Acquisition, offsite hard and soft costs; if used for anything onsite must only be done by CBDO and 51% of units must be for no greater than 80% AMI; may be used for Countywide needs (i.e., homeless, catastrophes, etc.)</p> <p>Must budget annually</p>
<b>Industry</b>	<p>Any changes from the application submitted may result in re-scoring</p> <p>Income restrictions: 50% of AMI - rentals; 100% of AMI – single family for-sale.</p> <p>One year from commitment to begin disbursement; 6 month extensions needed thereafter.</p> <p>No increases to allocation above application amount.</p>
<b>Other</b>	<p>The Infill Sites Program has been suspended.</p>