

Welcome!

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Consolidated and Further Continuing Appropriations Act of 2012: Required Underwriting & Developer Capacity for HOME Rental Projects

June 28, 2012

Office of Affordable Housing Programs, HUD



FY 2012 HOME Appropriations Law Requirement Series

Posted Online	Overview of the FY 2012 Appropriations Law Requirements
Mon. June 4 th	Recent IDIS Changes Affecting HOME PJs
Mon. June 11 th	Market Analysis
Thur. June 14 th	Underwriting & Developer Capacity for Homebuyer Projects
Mon. June 18 th	Deadline for Sale of Homebuyer Units
Thur. June 28th	Underwriting & Developer Capacity for <u>Rental</u> Projects
Tue. July 10 th	For PJs: Assessing CHDO Development Capacity
Thur. July 12 th	For CHDOs: Understanding the CHDO Development Capacity Requirement

Welcome & Introductions

- HUD welcome
 - Ginny Sardone, OAHP
 - Marcia Sigal, OAHP
 - Earl Cook, OAHP
- Trainer introductions
 - Anker Heegaard, The Compass Group, LLC
 - Marsha Tonkovich, ICF

Q & A Format

- Break for questions at middle and end
- How to ask questions
 - Change status in Live Meeting from **green** to **purple**
 - Press *1 to ask a question through Premiere Conference
 - Provide Name and Organization
 - If question already answered, press *2 to remove from queue
 - Change status back to **green** after question answered
 - Can also use Live Meeting written question function
- Limit questions to topics covered during this webinar
- There will not be enough time to address every question
- FAQ document to be issued later

Webinar Scope and Approach

- Agenda:
 - Overview of 2012 project assessment requirement
 - Developer capacity and fiscal soundness
 - Underwriting theory and practice
 - Sample transaction
- 2 hour presentation, questions at midpoint and at the end

Legislative & Regulatory Context

- FY 2012 HOME Appropriation Law requirements
 - Imposed by the *Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55)*
 - Applies to activities identified as 2012 Consolidated Plan/Annual Action Plan projects in IDIS
 - CPD Notice 12-007 provides operating guidance
- Different than proposed HOME Rule

Project Assessment Requirement

- Must conduct assessment before entering into legally binding agreement for project
 - Establish market need (separate webinar)
 - Evaluate the developer's capacity and fiscal soundness
 - Underwrite or evaluate the underwriting of another party
- Policies and procedures required
- Applies to rental projects where development is occurring
 - Includes acquisition, rehabilitation, new construction
- 3rd party assessments OK, but PJ remains accountable
- PJ must certify to compliance via IDIS

IDIS Certification

(iv)...the PJ has conducted an underwriting review, assessed developer capacity and fiscal soundness, and examined neighborhood market conditions to ensure adequate need for the project...

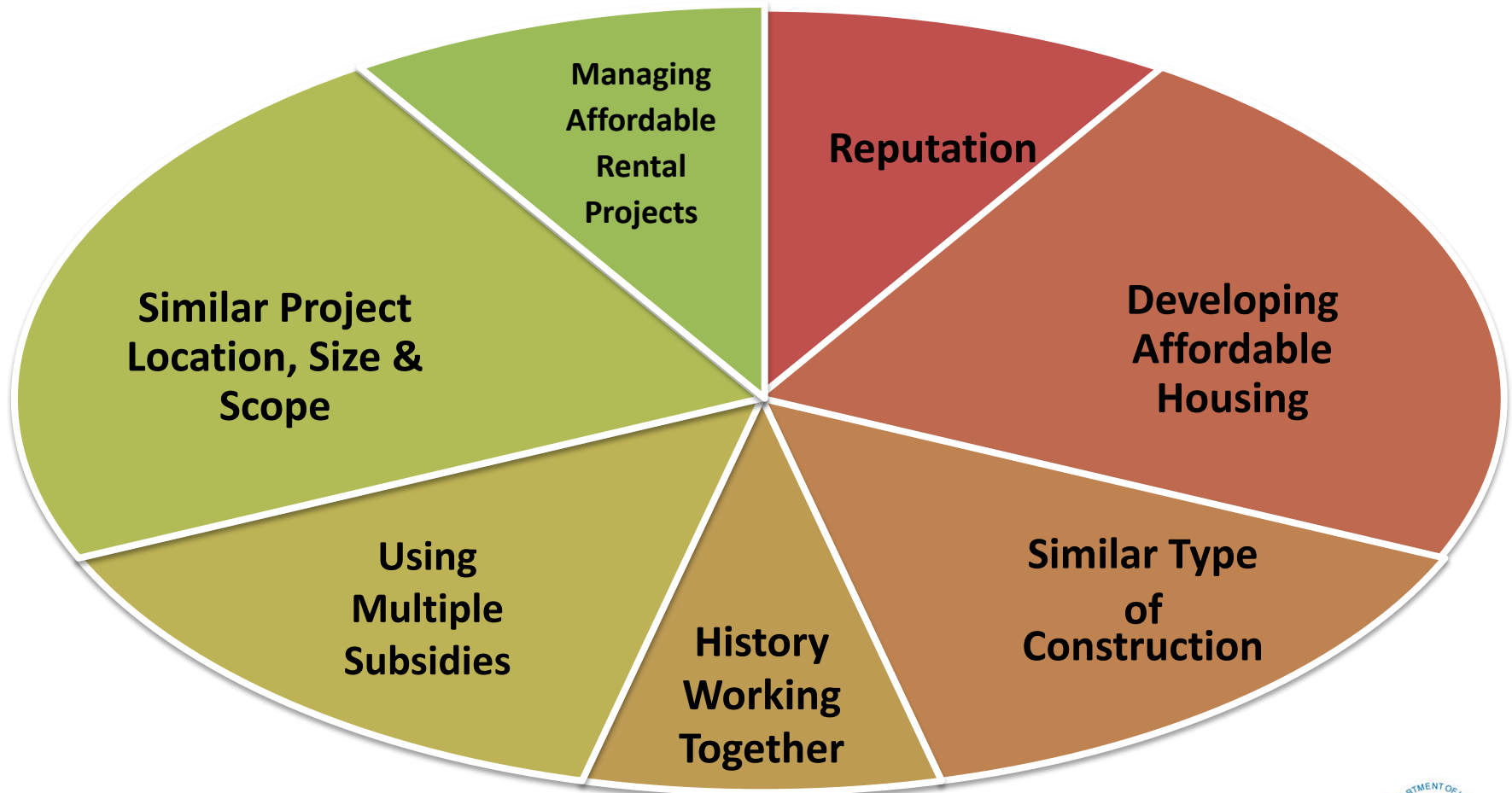
- A revision to the existing “HOME Activity Funding Certification” that PJs complete when committing funds to HOME activities in IDIS
- Certification appears for all IDIS activities; it is not applicable to IDIS activities that are not 2012 activities
- Name of person responsible for ensuring compliance with these requirements

Assessing Rental Developer Capacity & Fiscal Soundness

- Key questions in assessing developers
 - Assessment varies by project size, scope, complexity
 - Type of development entity (CHDO, nonprofit, for-profit)
 - New entities v. established developers
 - Current workload
- Areas to assess:
 - Recent, relevant experience & skills
 - Strength: financial and organizational

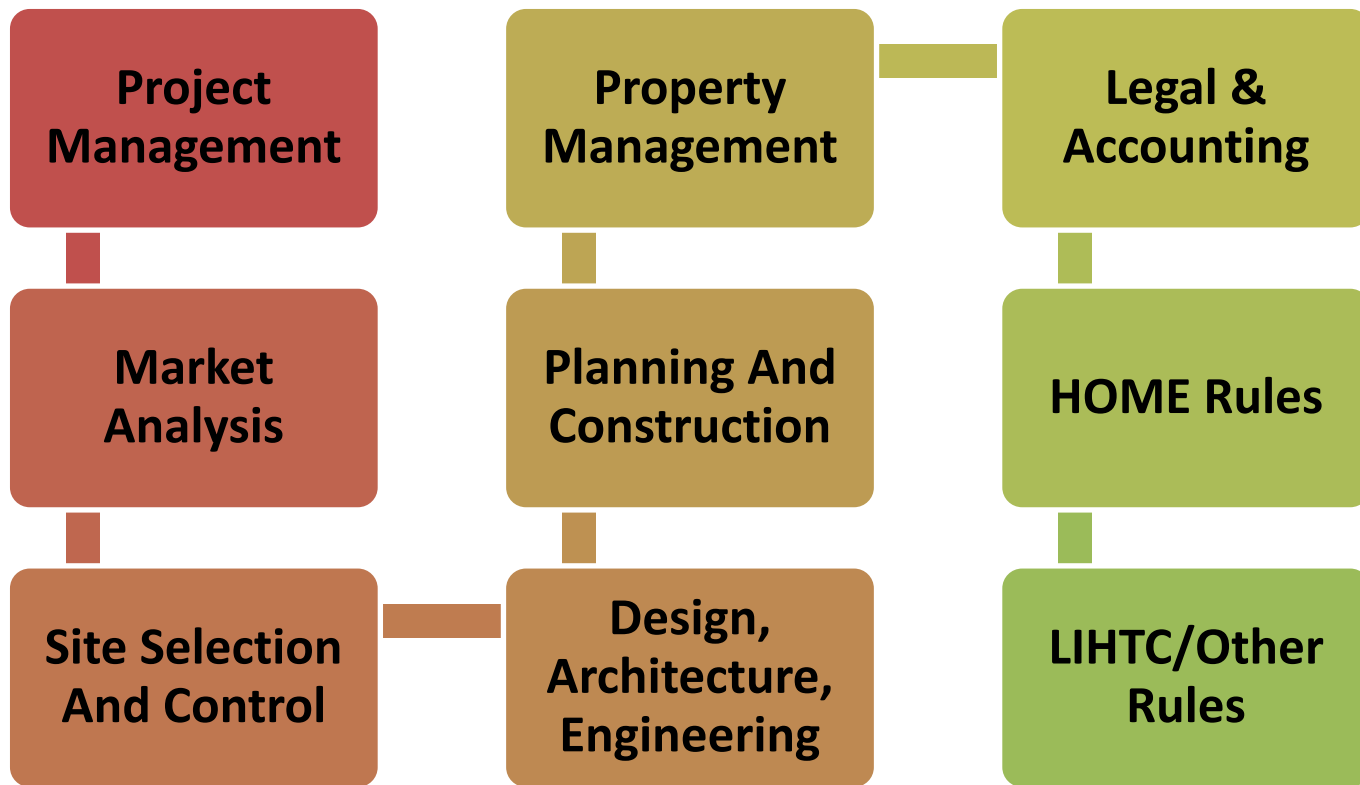
Rental Developer Capacity

- ***Experience -- consider:***



Rental Developer Capacity (cont)

- ***Skills -- consider:***



Development Team Fiscal Soundness

- Must assess team's financial ability to complete project (development) and support project (operations)
- Available capital
 - Request current financial statements with current valuation
 - Need sufficient reserves/LOC to complete project
 - Depends upon other obligations
 - Depends upon size / risk factors of project
- Ensure stability for *this* project through pro-forma

Assessing New Developers

- Common when working with CHDOs, CDCs
- Evaluate:
 - Capacity of staff
 - Use of experts
 - Capacity of contractor
 - Other team members
- Note: HOME rental housing development is very complex – appropriate for new developer????

Key Elements of Underwriting

- Meta level considerations. Understand your...
 - Community's housing needs
 - Developer community
 - Market
 - Tolerance for risk

Developing an Underwriting Policy: Risks and Outcomes

- Intentional Underwriting
- Risk Level overall
 - Trade off between volume and quality
 - Foreclosure-proof Use Agreement
- Shade of ‘Green’
- Preservation vs. new development
- Targeting: geography and project type
- Targeting: income levels / mixed-income

Underwriting to Risk Areas

- Sponsor Risk
- Market Risk
- HOME Compliance Risk
- Design Risk
- Environmental Risk

Underwriting to Risk Areas (cont)

- Revenue Risk
- Operating Expense Risk
- Capital Needs Risk
- Cash Flow Risk

Underwriting to Risk Areas (cont)

- Risk of Inadequate Sources
 - Subsidy Layering
- Risk of Additional Uses

Underwriting to Risk Areas (cont)

- Construction Risk
 - Developer capacity to manage process
 - Risk of Source and Use Timing problems
- Lease-Up Risk

Reviewing Others' Underwriting

- 'Review' does not mean 'Substitute'
 - PJ must have its own standards and apply them consistently
 - PJ must review others' underwriting against its own standards
 - PJ must document that it has done this review, what it has found, and what it has done about it

Process

- RFP Considerations
 - Threshold Criteria
 - Limits, standards
- Application Intake
 - Initial Review
 - Threshold requirements checklist
- Deficiency Process
- Final Review/Decision-making

Midpoint Q & A

Questions?

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'Loan Committee Memo' Exercise

- Presentation now shifts to a 'deal memo' example to illustrate how underwriting principles are applied to a transaction in practice.

Endpoint Q & A

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Final Thoughts

- Develop an approach to underwriting based on your housing goals, resources, and risk factors
- Ensure that you have addressed developer capacity within that framework
- Have a process for reviewing transactions and awarding funds
- Understand that all theory can be grounded in practical application – the Memo illustrates this.

Resources

- Multifamily Underwriting Overview:
<http://www.hud.gov/offices/cpd/affordablehousing/training/web/underwriting/overview/multifamily.cfm>
- The Underwriting Template and Your Project:
<http://www.hud.gov/offices/cpd/affordablehousing/training/web/underwriting/overview/project.cfm>
- “Operating Guidance for Implementing FY 2012 HOME Appropriation Requirements” (CPD Notice 12-007):
<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/notices/#2012>
- For information on upcoming webinars, visit the HOME TA website:
<https://www.hometa.info/>
- Background on HOME program requirements:
<http://www.hud.gov/offices/cpd/affordablehousing/training/materials/building/index.cfm>

Your Feedback

Please answer a few short questions:

http://www.surveymonkey.com/s/Underwriting_Rental

