

Underwriting is the process of identifying, evaluating and mitigating project risks. The goal of underwriting is to ensure both project feasibility (the project will be completed) and project viability (the project will remain viable throughout the minimum compliance period or restricted use period). The Consortium recognizes that there are inherent risks in every project. Underwriting may result in the imposition of requirements to balance inherent and identified risks with the goal of producing and sustaining safe, decent, and affordable housing.

Full underwriting will occur:

1. Prior to making a commitment of HOME-ARP funds to a project.
2. At the time of final draw when final sources and uses can be verified.

Technical reviews may also be conducted at initial closing or construction / rehabilitation start or at any time there is a material change. Material changes may also require an updated market assessment and/or project application.

The Consortium may choose to review the underwriting of other lenders, including financial institutions, subrecipients, federal, state or local government agencies, and underwriting contractors. When doing so, the Consortium will document, based on these underwriting guidelines, the determination that the project meets program requirements, is compliant with the Consortium written underwriting and subsidy layering standards, is a reasonable investment, and is likely to remain financially viable throughout the compliance period. The Consortium may discuss the project with other funding sources and mutually disclose known information. For administrative ease, the Consortium may align underwriting standards with other public funders, particularly if those standards are more restrictive or conservative.

EXCEPTIONS AND INTERPRETATION

The Consortium has developed these underwriting guidelines to comply with requirements of awarding federal assistance and to provide clarity to applicants on expectations. However, the Consortium cannot identify every possible special circumstance that may warrant an exception to these guidelines. Likewise, the Consortium cannot identify every possible work-around that might be creatively identified by an applicant. Consequently, the Consortium reserves the right to waive specific underwriting criteria for specific projects when, in its judgment, the purposes of the federal assistance can be better achieved without taking on undue risk. When waiving any given requirement, the Consortium may impose additional special conditions or business terms that are not otherwise typically applied to projects.

The Consortium reserves the right to reject any element of a transaction that, despite not being specifically prohibited, was not anticipated by these guidelines, specifically those that otherwise create unacceptable risks, excessive returns to the Subrecipient, or undermine the public purposes of the federal assistance.

UNDERWRITING FRAMEWORK

The Consortium underwriting framework includes complying with program rules and regulations and reasonable business practices, including but not limited to evaluation of:

- Regulatory requirements applicable to the project, including occupancy by and affordability to the target population, compliance with rental housing minimum compliance periods, property

standards, and cross-cutting federal requirements.

- For rental housing projects and NCS conversions to rental housing, market risk, including whether sufficient demand exists for the project, the anticipated lease-up period, how the project compares to the competition, and whether general economic conditions support ongoing viability.
- Subrecipient risk, including whether the has the capacity to develop and operate the project based on a history of experience or team members with experience.
- Project risk, including sources and uses, ongoing operating assumptions, and the development schedule. This includes confirming that all sources of project financing are available and committed to the project.
- Subsidy layering analysis to determine the actual amount of program funds required for project feasibility and viability.

MARKET ASSESSMENT

All applications for HOME-ARP rental housing funds must demonstrate demand for the proposed housing. All market assessments, regardless of project size or type must:

- Not be more than six months old at the time of application or reapplication.
- Utilize current US Census, Claritas, ESRI, primary data, or document the reliability of other data, if used.
- Assess and document the demand for the type and number of all housing units being developed, not just those designated as HOME-ARP assisted.

SUBRECIPIENT ASSESSMENT

The Consortium will consider specific skills and experience with development, including but not limited to property management, asset management, public financing, and service provision, including:

- Recent, ongoing, and successful experience with development of similarly sized and regulated housing.
- The presence of adequate staff with specific skills and experience appropriate to their roles in the project.
- The financial capacity of the Subrecipient to meet its financial obligations and risks of the project.

To evaluate the Subrecipient, the Consortium requires that applicants submit:

- The name(s) and role(s) of staff and consultants principally responsible for project management during the construction phase (the development team) and operating phase (the property management team), a list of similar projects completed by the project team, or if the project team has not completed similar projects, a list of projects completed by individual team members. The project(s) list must include:
 - Name and location of similar projects.
 - Type(s) of project funding used.
 - Number of units and affordable units.
 - On-site and/or off-site services provided for people experiencing homelessness.

The Consortium may require and review a list of real estate owned or underway (including partnership/membership interests). This review may include project performance, and financial factors such as net occupancy, actual DCR, cash flow, outstanding loan balances, net equity of individual projects, and the overall portfolio.

IDENTITY OF INTEREST RELATIONSHIPS AND COSTS

Applicants must disclose all identity of interest relationships / contracts and/or costs involved in a transaction during the development period and following completion of the project. An identity of interest is any relationship based on family ties or financial interests between or among two or more entities involved in a project-related transaction that could reasonably give rise to a presumption that the entities may not operate at arms-length.

TECHNICAL / PROFESSIONAL CAPACITY

The Consortium will review the collective capacity of the development team including, but not limited to, the general contractor, architect, engineer, market analyst, management company or property manager, accountant, attorney, and any other specialized professionals or consultants, and the individual experience of team members. As a whole, the development team must have the skills and expertise necessary to successfully complete and operate the development. The Consortium will examine whether the team members have worked together successfully in the past. The Consortium will also consider prior experience with the development team.

In no case may any member of the development team be a suspended, debarred, or otherwise excluded party. New entities, new development team members, and new staff will be considered higher risk than those with successful past experience working together.

FINANCIAL CAPACITY

Developers must demonstrate financial capacity to support the proposed project during construction, lease-up, and ongoing operations. The CONSORTIUM will not fund a project where cash needs exceed the developer's net or liquid assets. The CONSORTIUM will identify financial capacity risks by requiring the applicant submit:

- The applicant's most recent audit.
- Current fiscal year-to-date income and expense statement.
- Current balance sheet showing all assets and liabilities, including contingent liabilities (e.g., construction loans or operating deficit guarantees).
- Income and expense statements and balance sheets for the two previous fiscal years, unless an audit is submitted.
- A list of any litigation, pending judgments, bankruptcies with the past seven years that apply to the applicant, any principals or officers, or any affiliated entities. Any litigation and pending judgments must be described.

The Consortium will review the submitted documentation to determine:

- If the financial management system complies with Generally Accepted Accounting Principles.
- If there are any material weaknesses in the entity's financial management system or internal controls.

- If the developer is a nonprofit organization, it's audit evidences that it meets the financial accountability standards of 2 CFR 200.302 regarding financial management and 2 CFR 200.303 regarding internal controls.
- That sufficient financial resources are available to cover any shortfalls during both the construction and operating periods, except for any shortfall that is planned for funding with HOME-ARP operating cost assistance. This will include an analysis of the developer's net worth, portfolio risk, litigation, pending judgments and bankruptcies, pre-development funding and liquidity.

DISQUALIFICATION

The Consortium may disqualify an application based on substantive evidence connecting a development team member to any of the following:

- Making a misrepresentation or providing materially false information in an application.
- Involvement in any project awarded LIHTCs where there has been a material change (including in general partners or managing members) that the Consortium did not approve in writing beforehand.
- Allowing a shelter or affordable rental housing property to enter into foreclosure.
- Being removed from a shelter or rental housing ownership entity by an equity investor or the Consortium.
- Not being in good standing with any affordable rental housing program administrator or the State of Washington.
- Has been a debtor in a bankruptcy within the past five (5) years.
- Has been a party in a civil, administrative or criminal matter which resulted in an adverse fair housing settlement, an adverse civil rights settlement, or an adverse federal or state government proceeding and settlement against that party or a pattern of adverse civil proceeding and judgments against that party as evidenced by three (3) or more adverse judgments within the previous five (5) years.
- Has been found to be directly or indirectly responsible for any other project within the past five (5) years in which there is or was uncorrected noncompliance with state or federal rules, regulations or standards.
- Has outstanding compliance issues with HUD or the Consortium.
- Has a loan payment that is due and remains unpaid without a pending deferral request at the time of application.
- Being debarred, suspended, or otherwise excluded from any federal contract.

PROJECT ASSESSMENT

To identify project risks, the Consortium will evaluate sources and uses, ongoing operating assumptions, the development schedule, and profit and returns to the developer. To ensure adequate information is available to assess project risk, the Consortium will require applicants submit:

- Firm commitment letters for all permanent financing sources (loans, grants) that include:
 - Amount
 - Term and amortization (not less than the minimum HOME-ARP restricted use period)
 - Fixed interest rate
 - Fees charged

- Reserve requirements
 - Anticipated lien position
 - Acceptance of the HOME-ARP covenants, conditions and restrictions for rental housing.
- If the applicant is a partnership or limited liability corporation, a copy of the partnership agreement or operating agreement, which must indicate the cash contributions by the partner(s) or member(s).
- If equity is committed by the developer or owner(s), evidence of available equity funds.
- Acquisition documents, such as the purchase or lease agreement, option or closing statement, and appraisal or other documentation of value. An appraisal must be performed by a state-licensed appraiser. Closing costs must be documented.
- Construction and other cost estimates (e.g., professional services, soft costs, capitalized reserves) based on the scope of work.
- Agreements governing capitalized reserves.
- A third-party appraisal to substantiate the value of the property after rehabilitation or construction, if applicable.
- A capital needs assessment for all acquisition and/or rehabilitation projects.
- An operating proforma (project income and expense statement) encompassing not less than the minimum 15-year/20-year HOME-ARP compliance period and including:
 - Projected residential revenue (rents)
 - Projected non-residential revenue
 - Vacancy rates that do not exceed 10%

 - Operating expenses, including but not limited to development-paid utilities, management fees, reserves, and debt service. Supportive services are accounted for separately in HOME-ARP projects.

SOURCES AND USES

The Consortium will review the sources and uses statement, development budget, timeline and supporting documentation. The Consortium may adjust any factor during the underwriting analysis to adjust for known conditions not accounted for in the development budget. Sources and uses underwriting will ensure:

- Proposed uses of program funds are eligible.
- All funds are firmly committed to the project or are contingent only upon the receipt of program funds and environmental clearance.
- Total funding sources are adequate and timely in their availability to cover development costs at all phases of the project.
- All senior mortgage debt bears a fixed interest rate, has a term equal to or longer than the required minimum compliance period, and allows for the recording of covenants, conditions and restrictions imposing federal requirements senior to all other financing documents.
- Development costs, including those paid with other sources, are reasonable, necessary and customary both on a line item and total project basis.
- The cost of land and/or buildings acquired does not exceed the as-is market value of the property based on the submitted appraisal, plus documented closing costs.
- The contingency does not exceed 10% of project hard costs, unless the project is an acquisition or rehabilitation project and documentation identifying risk factors is included with the application.

- The timing of program funds and the items for which program funds will be used coincides with the project schedule.
- Any conditions of other funders on drawing funds will not have a negative impact on project feasibility and/or viability.
- Permanent funding repayment terms are incorporated into long-term operating projections.
- All funding sources' requirements are incorporated into the project structure.
- No other funding sources have requirements that conflict with Consortium funds requirements.
- Capitalized reserves cannot be withdrawn as fees or distributions.
- The budget is adequate to meet and maintain property standards throughout the minimum compliance period.
- The costs associated with cross-cutting regulation (environmental review, URA, Davis-Bacon) compliance are included in the budget.
- The total amount of program funds requested is reasonable and necessary considering all funding available to the project (subsidy layering review).

The Consortium will not make a firm commitment of funds to any project that does not evidence all financing sources are in place to complete and operate the project. For LIHTC projects, this includes a confirmed reservation from the Consortium and a good faith offer of equity investment from an investor. When all financing sources are not in place to complete and operate the project, the Consortium may make a conditional commitment of funds to a project. When a funding source is contingent upon receipt of HOME-ARP funds from the Consortium, contingencies may not include automatic self-expiring clauses or highly conditioned language.

FINAL UNDERWRITING

Final underwriting takes place at project completion. If the project costs are lower than originally underwritten, the Consortium may reduce the HOME-ARP assistance provided to the project.