2018 HOME and Housing Trust Fund

Fall NOFA

FAQ

1. **Question:** I have identified a 4-unit residential property in Baker LA. It needs substantial repairs and the purchase price is $85K. If I were to make an offer, it sounds like I need to make it a purchase option for a period of time since I would hope to have the purchase funded by the program. Assuming that is correct, approximately how long would it take for approval from the time I submit the application?

   Answer: Application are due to LHC on December 14, 2018 and awards will be made in February 2019.

2. **Question:** I would want to borrow $200K for the acquisition and rehab. Would I be able to borrow 100% of the acquisition and rehab expense?

   Answer: While it is not prohibited keep in mind that this is a competitive application and projects that are 100% awarded funded will not score well.

3. **Question:** I know I am limited in what I can charge for rent. Do you know the max I can charge for a 2 bed 1 bath unit?

   Answer: That depends of several factors such as location and utility allowance. For example, HOME Rents for the Baton Rouge Market range from $842 (Low HOME Rent) to $906 (High HOME Rent). Projects that are more than 5 assisted units required at least 20% of the units to be at Low HOME Rents. These rents include utilities so if the tenant will pay all or a part of the utility costs a Utility Allowance must be taken out of the rents. Utilities allowances can be significant impact the amount of rent that can be charged. It is common for them to range somewhere between $100 - $200.

4. **Question:** If I decide to do a project utilizing Housing Trust Fund financing I know I can only charge a rent that is affordable to a 30% AMI household. Will funding also be given to help with the rent?

   Answer: No. The 2018 HOME and HTF Fall NOFA does not have any project based vouchers tied to it. There may be vouchers available from a Housing

Authority including the LHA but you would have to inquire and obtain those independent from this application. If you do receive (or currently have) an allocation of project based vouchers you must include a firm commitment for the vouchers with your application.

5. **Question:** The NOFA pages 1, 4. The NOFA suggests "234 limits established by HUD for the." Did it mean to suggest the 234 limits established by LHC, which are 221% to 229% higher than the HUD 234 limits, are applicable?

   Answer: HUD publishes both base limits and the methodology for determining a higher limit. Therefore, the limit referred to is a HUD established limit even if not published as such. The limits that may be used are those that LHC has posted on its website.

Given that HTF units must be affordable to 30% or less AMI households:

6. **Question:** Given LHC Underwriting assumptions, in practical effect does this mean that HTF resources are only available for units with PBRA or PSH Rental Assistance?

   Answer: Not necessarily. While a project is more feasible with PBRA or PSH Rental Assistance it may also be large enough that it could sustain a small number of 30% AMI rental units without such assistance.

7. **Question:** Will this 30% AMI restriction be lifted if Congress were to no longer appropriate HUD Section 8 PBRA or PSH Rental Assistance?

   Answer: No. The requirement for 30% AMI benefit is a requirement of the National Housing Trust Fund legislation and is not linked to any other program.

8. **Question:** Given $200,000 per unit limits on HTF assisted rental units, can a portion of the$200,000 be set aside for Operating Reserves and drawn against to the extent required for the 30 Year Compliance period?

   Answer: No. Funds will only be made available for the development of rental units.

9. **Question:** Do HTF units also require a 15% minimum non-LHC contribution requirement even though rents must be set so low to accommodate 30% AMI or less households?

   Answer: There is no required minimum non-LHC contribution. This is a competitive NOFA and only the highest scoring proposals will be funded. Since Match and Leverage or both considered as scoring items it is unlikely that a 100% NOFA funded project will be awarded.

10. **Question:** Can 30% AMI affordable HTF projects charge Low HOME Rents?

Answer: No. HTF is not a part of the HOME program. It is, rather a separate program with its own requirements. Low HOME rents are rents that are affordable to households at 50% of AMI. 30% AMI household must not be charged a rent that is not affordable to a household that is at the 30% AMI level. The HTF rents and Income are posted on the LHC website at: https://www.lhc.la.gov/page/home

11. **Question:** Please explain what you mean by suggesting that "Rental projects must have a minimum of 90% of tenants in HOME assisted units at no more than 60% of AMI for the first year." (e.g., Does this mean that HOME projects compelled to charge higher rents long-term in order to produce a project that is feasible and viable are required to start with one year leases affordable at 60% AMI, then not renew them for residents unable to pay higher rents at Year 2 and beyond?

Answer: This is a requirement from the HOME program regulations at 24 CFR 92.216. The rent that can be charged to a 60% AMI household is the High HOME rent. High HOME rents are charged for all HOME assisted units in a project with less than 5 HOME assisted units while Low HOME rents must be charge in at least 20% of the HOME assisted units in projects with 5 or more HOME assisted units. So for example is a project has 5 HOME assisted units High HOME rent (or less) can be charged in 4 of the HOME assisted units while the Low HOME rent (or less) must be charged in 1 HOME assisted units. Remember there is a difference between allowable rents and the income of the tenants. Tenants may choose to rent units that are at a different level than their income. In HOME assisted projects the developer does not need to individually calculate rents for different households. Rents can be raised during the affordability period but not above those published by HUD for the HOME program and all HUD published rents include utilities. If utilities are to be paid by the tenant, then a Utility Allowance must be deducted from the maximum allowed rent.

12. **Question:** The NOFA mentions that Davis-Bacon Wage Rates apply to all HOME assisted projects with 12 or more HOME assisted units. Does Davis-Bacon also apply to the HTF projects.

Answer: That would depend on if the project was going to blend HOME and NTF to such a degree that the same unit could be identified as HOME and NTF assisted. If the units are the same then Davis-Bacon would be triggered at the HOME level. If the project involves HOME and any other funding source the HOME regulations trigger Davis-Bacon at 12 HOME assisted units and will apply to the entirety of the project. If the project only involves HTF Davis-Bacon does not apply.

13. **Question:** As I reviewed the Fall NOFA it mentions MBE/WBE. MBE/WBE certifications are no longer available to nonprofit organizations. It is my understanding that these certifications are for for-profit businesses only. Can you be please advise? Will this be updated as something no longer related to nonprofits to receiving credit in that area?

    Answer: Yes. MBE/WBE are certifications that are only available to for profit entities. This is due to the fact that non-profits do have owners. The points however are not just available to for-profit applicants. Points can be received by non-profit applicants if certain members of the development team qualify as an MBE/WBE. Members of the development team which may qualify for MBE/WBE status include: Architect, Engineer, Construction Lender, Potential Mortgage Lender(s), Management Company, Attorney, Accountant, General Contractor, Consultant (if applicable), Marketing Agent or Realtor. Points are only awarded for the first occurrence of an MBE/WBE team member.

14. **Question:** Is being within 300 feet of a railroad a disqualifier for both sources of rental funds?

    Answer: Yes.

15. **Question:** For Trust Fund projects does the 30% AMI rental requirement need to be applied to the entire project or is there an affordable income mix allowed which includes 30% AMI which can still receive the 1.5MM funds.

    Answer: The requirement that the unit benefit households at or below 30% of AMI is applicable only to the HTF assisted units. If $1.5million if trust fund is awarded then there must be at least 8 units that are considered as HTF assisted. If HTF is the only funding source, then all units are HTF assisted regardless of the per unit subsidy.

16. **Question:** Did you say EBR parish doesn't qualify for home ownership program through the HOME funds only the Housing Trust?

    Answer: An area that is a Participating Jurisdiction is not eligible to receive the HOME funds under this NOFA. For East Baton Rouge the Participating Jurisdiction is made up of the City of Baton Rouge and the unincorporated areas of East Baton Rouge Parish. The Cities of Baker, Zachary and Central are eligible areas for project to receive HOME funding.

17. **Question:** Is the debt truly cash flow contingent? Are there any repayment requirements?

    Answer: The funding for rental project is a Cash Flow note that is dependent on available cash flow. The loan is, however, not forgiven if there is no cash flow to repay during any one or accumulation of years. All funds are due to LHC at the maturity of the loan so if the cash flow payments have not been sufficient to repay the loan all outstanding debt is due at the maturity.

18. **Question:** In many areas, the HOME rents and the 30% rents do not allow for positive cash flows at the expense level indicated in the underwriting section of the NOFA. If no audit is available, can the minimum expenses be underwritten at a lower amount if a detailed case is made of the property's ability to operate at lower costs?

    Answer: No.

19. **Question:** Are Community Land Trust homeownership development projects eligible for these funds?

    Answer: No.

20. **Question:** Is green building required for a trust fund application?

    Answer: No.

21. **Question:** In the past those projects located in a PJ were at a disadvantage but could still apply and could possibly still be funded if all funds were not distributed to projects outside of the PJ. Is that the case here or will you be essentially 'disqualified' if you are located in a PJ?

    Answer: Projects located in a PJ are not eligible to receive HOME funds under this NOFA.

22. **Question:** So for $2MM in HTF, does that mean we need 10 units at 30% AMI (rental)? Can the rest be at 60% AMI?

    Answer: To receive $2,000,000 in HTF funding there would have to be at least 10 HTF assisted units depending on the actual cost to develop the units. The other units, providing no additional governmental assistance, could be at any AMI. If there is no other source of funding then all units would be considered as HTF assisted units.

23. **Question:** May we provide data evidencing the 2010-2014 American Community Survey 5-Year Profiles from the factfinder.census.gov site if we are unable to pull the data from the census.gov/quickfacts site due to size of city? QuickFacts provides statistics for cities and towns with a population of 5,000 or more.

    Answer: Yes. As mentioned in the webinar the process for determining if an area meets the requirements to be considered an Area of Demonstrated Need is described in detail in the script for the previous Homebuyer application training webinar that was done on June 14, 2018. For simplicitys sake that process is reprinted below. This process will allow for areas smaller than 5,000 to provide the information.

a. *To check to see if your project is in an Area of Demonstrated Need first go to the HUD website that list the qualified census tracts:*
b. *https://www.huduser.gov/qct/qctmap.html*
c. *Enter the City and State of your project (for example Kentwood) in the address box and press GO.*
d. *Click the Click Here for Full Screen Map*
e. *You can now enlarge your view by using the + sign on the map*
f. *In this case you will notice that the entire City of Kentwood is located in Census Tract 9533.00 and that it is green.*
g. *Double Click anywhere in the Census Tract.*
h. *This brings up a status table.*
i. *As long as the tract shows as "Qualified" for any year you may proceed to the next step. If it does not show as "Qualified" then your project is not in an Area of Demonstrated Need.*
j. *Next logon to the Census Bureau American Community Survey site:*
k. https://www.census.gov/acs/www/data/data-tables-and-tools/data-profiles/2015/
l. *Scroll down and click the factfinder link.*
m. https://factfinder.census.gov/bkmk/navigation/1.0/en/d_dataset:ACS_15_5YR/d_product_type:DATA_PROFILE/
n. *Click the link.*
o. *In the State County Place box enter Louisiana and click GO.*
p. *In the State County Place box enter the town your project is located in and click GO.*
q. *Click on Selected Housing Characteristics.*
r. *Scroll down to VALUE and look at the Median for Louisiana and Your Town. If your town median value is 50% or less than the Louisiana number, you meet this criterion.*
s. *Click the Back Button*
t. *Click SELECTED ECONOMIC CHARACTERISTICS*
u. *Scroll to INCOME AND BENEFITS (IN 2015 INFLATION-ADJUSTED DOLLARS) and check Median Household Income for Louisiana and your town. If your towns number is 65% or less of the State number, then you meet this criterion.*
v. *Now scroll to PERCENTAGE OF FAMILIES AND PEOPLE WHOSE INCOME IN THE PAST 12 MONTHS IS BELOW THE POVERTY LEVEL and check the All Families line. If your towns number is 1.5 times greater than the State number, you meet this criterion.*
w. *Remember to qualify you must be in a non-entitlement area, be in a Qualified Census Tract and meet two of the three criteria.*

24. **Question:** I have provided a snippet of the Demonstrated Need section as it is stated in the 2018 Fall HOME/HTF NOFA. Please advise whether the 3rd item listed below is intended to say "Median Household Income at or below 65% of the State Average."

    Answer: Yes. It should read "Median Household Income at or below 65% the State Average."

25. **Question:** DSCR – the NOFA states that rental projects must have a debt coverage ratio of not less than 1.10 and not more than 1.40. The excel application, under the eligibility tab states that the minimum is 1.15. Could you please clarify which is correct?

    Answer: The NOFA is correct the required minimum DCR is 1.10.

26. **Question:** An Appraisal is listed in the checklist of the excel application. Is an appraisal required for a new construction rental project?

    Answer: No. An appraisal is not required unless acquisition costs are a part of the request or if the value of the land is to be used as any form of leverage.

27. **Question:** In the webinar you mentioned that you would like to see draws monthly through construction. How long do you anticipate it will take for the agency to process draws once submitted?

    Answer: The length of time between submission and payment of a draw request depends on the accuracy and complexness of the draw request. If a request is complete and accurate it should take no more than 2 weeks to complete the process.

28. **Question:** There seems to be no selection criteria in the excel application. Will this be added?

    Answer: No.

29. **Question:** Page 21 of the NOFA has a section labeled "Service Priority" and this states that projects that wish to claim Service Priority points will need to underwrite operating expenses at $4,500 per unit per year. I'm not seeing any selection criteria that is labeled "Service Priority". Could you clarify which points you are referencing? Also, is the $4,500 inclusive of replacement reserves?

    Answer: This is referring to the different AMI groups that may be served by the project. Limiting a project to a lower AMI group for a rental activity will get higher points but the project must still be able to meet all of its financial obligations to pass underwriting. Limiting a project to 50% or

30% AMI households (and their associated affordable rents) may limit the potential income to the extent that the project is not feasible. The $4,500 does includes Reserves for Replacement.

30. **Question:** My question is in reaction to number 7 under Ineligible Applications on page 17. Why have LIHTC and bond financed deals been barred from applying in the Fall NOFA? It is a known fact that 4% bond deals depend on soft funds such as HOME and HTF to make a project feasible. The opportunities to apply for these funds are limited. By restricting the applicant pool in this way, the LHC has reduced its ability to leverage its resources and in turn limited its capacity to expand the supply of affordable units.

    Answer: LHC understands this position, however, the decision was made that for this NOFA LIHTC and Bonds project would be excluded and this decision is firm. LHC is will release a NOFA, tentatively scheduled for December 2018, that will be coupled with 4% LIHTC and Bonds.

31. **Question:** Pg 29, Section VII Demonstrated Need, lists 4 points for projects "located in a City or Town where the median Housing value is at or below 50% of the State average" two times. Is this a mistake?

    Answer: Yes. The second scoring criteria should be: The project is located in a Non-Entitlement city/town where household median income, as listed in the 2010-2014 American Community Survey 5-Year Profiles, is at or below 65% of the State Average.

32. **Question:** Pg 31, Affordability for Rental Development section, doesn't award any points for housing for families below 40% AMI. Given that HTF funding can only go to units housing 30% AMI and below families, projects seeking HTF funding are necessarily excluded from receiving any points in this category. Is this LHC's intent?

    Answer: Yes. HTF require that all units produce benefit those at or below 30% AMI. This is therefore a threshold item and no points are awarded for meeting threshold items.

33. **Question:** Question pertains to a Nonprofit planning to acquire and rehab a 15-unit multifamily project that was sold at Sheriff's Sale. 10 units are occupied, and 5 are being cleaned and prepared for renovation. 14 units are 1BR, and 1 unit is 2BR. Sponsor hopes to use HOME funds for the acquisition/rehab. Is this an eligible HOME project?

    Answer: As presented this scenario has several problems. You indicate the intent to apply for federal funds to assist in the rehabilitation of the property and yet you are actively engaged in the cleaning and prep work. These activities could be considered as a choice limiting activities and potentially make the project ineligible for HOME assistance. The regulations require that work stop once it has been determined that federal assistance is going to be applied for. Second you indicate that the property was acquired at a Sheriff's Sale and funds are to be requested for the acquisition. HOME funds may not be used to pay for back taxes so if the requested funds would be used to reimburse an entity with an Identity of Interest in the application it may not be allowed. Projects must conform with HOME regulations once a decision has been made by a potential developer to seek HOME assistance with the project.

34. **Question:** If the Nonprofit applicant is successful in its 15-unit multifamily acquisition/rehab application to be submitted, the Nonprofit Sponsor would like to budget monthly Operating Expenses of $300 per unit in its pro forma, rather than $375 ($4,500/year, NOFA page 21) in light of the following circumstances: unlike the current owner, the new Nonprofit Owner will not need to pay income or property taxes. 14 of the 15 units are less costly 1BR units. (The 15th unit is 2BR.) Under these circumstances, can the Nonprofit use $300/month/unit Operating Expenses in its Pro Forma?

    Answer: No. All projects must utilize the $4,500 per unit per year anticipated operating costs "unless the applicant has turned in audits (required if another rental project has been funded by LHC) in which case LHC will utilize the average operating costs of the applicants' previous developments."

35. **Question:** Can a Nonprofit Sponsor use a development's last 2 years actual operating expenses to establish its Operating Costs for Pro Forma underwriting purposes in an Acquisition/Rehab application, with documentation to be submitted in the application?

    Answer: No. As stated above "All projects must utilize the $4,500 per unit per year anticipated operating costs "unless the applicant has turned in audits (required if another rental project has been funded by LHC) in which case LHC will utilize the average operating costs of the applicants' previous developments.""

36. **Question:** NOFA page 32. The NOFA awards 20 Points for Rental Activity that restricts all units to 60% AMI, but does not say whether 60% AMI is a floor or a ceiling. Please confirm that applications setting aside all apartments at 50% AMI or less, or Low HOME Rents, qualify for these 20 Points, and that applications setting aside all units at 61% or 80% AMI don't.

    Answer: You are correct that projects that restrict units to 60% AMI *or less* will receive the points associated with this item.

37. **Question:** Can an Applicant use HOME funds to pay for only Preservation Rehab related Hard and Soft costs?

Answer: All funded projects must meet the requirements of the HOME program as well as all State and local codes. The total development costs associated with the development are generally eligible costs to the HOME program. Projects with multiple sources of funding may use whatever source of funding is the most appropriate for any particular item. It should be noted that if this method is used to allocate costs that all units will be considered as HOME assisted units even with multiple sources of funding. Likewise, if HTF funds are used in this manner that all units will be considered as HTF assisted units. In the case where this method of cost allocation is used and both HOME and HTF funds are used all units will be considered as both HOME and HTF assisted units and the most stringent regulation will apply to all units. For example, this would mean that all units in a project above 12 total units would be subject to Davis-Bacon and all units would have to benefit households at or below 30% AMI.

38. **Question:** Over what projection period are projects underwritten? (e.g., LIHTC uses a 15-year projection period to determine viability.)

Answer: LHC uses a 20-year period to underwrite HOME projects. Projects that include HTF funding will be underwritten for a 30-year period.

39. **Question:** Is the $4,500/unit operating expense inclusive of the reserve for replacement contribution requirement or in addition to that requirement?

Answer: The $4,500 per unit operating expense is inclusive of the reserve for replacement contribution requirement.

40. **Question:** Is the $4,500/unit a minimum or an absolute value at which property expenses will be underwritten? Our experience in an urban market with a small unit-count property suggests expenses could be as high as $6,300/unit/year. Would this pass underwriting?

Answer: The $4,500 is a minimum, a higher number would be acceptable. If it would “pass underwriting” is a matter of whether or not the project is still economically viable at the higher per unit number.

41. **Question:** Can projects request both HOME and HTF resources for the same unit in a project? That is, if a project has ten rental units, all of which are eligible for HOME funds and sets two of those units aside at 30% rents, can the project request the maximum

HOME award for all ten units PLUS the maximum HTF award for the two of those units that are below 30% AMI?

Answer: A project can combine HOME an HTF in the same project. Doing so would require the project to meet both the criteria of the HOME program and the HTF. To meet both criteria the most stringent rules would apply on the units. Combining the maximum assistance for both the HOME and HTF into one unit would make the unit exceed the per unit subsidy limits and would therefore not be eligible. To receive the maximum award for both HOME and HTF would require a minimum of 30 units with 20 HOME assisted units and 10 HTF units. In a project in which HOME and HTF are both used and costs of both programs allocated to the same units all of the units must be for the benefit of households at or below 30% of AMI.

42. **Question:** For projects unable to support permanent hard debt throughout the underwriting period without exhibiting negative cash flow, how will the debt-service-coverage requirement of 1.10-1.40 be underwritten? Would an income to operating expense ratio be utilized instead?

Answer: The project would likely not be funded. Since the LHC debt is structured as a "soft cash flow" note it is not considered in the computation of the DCR. A project that does not meet the requirement would therefore not be funded. If the question is relative to only LHC funding then LHC will review the adjusted net operating income to operating expense ratio to determine long term viability. You should note that this will be done in the comments section on either the rental income tab or the cover tab.

43. Question: The formula in Cell F8 on the Sources and Uses tab references a range of cells and does not pull the amount of HTF entered on the Primary Input tab. The formula should be "='Primary Input'!E32".

Answer: LHC is familiar with the error in the formula. This can be corrected one of two ways. You can email your application to LHC at the email address given in the NOFA and we will correct the formula and email it back to you. Or you can indicate that there is an issue with the formula on the cover sheet in the green comments section and LHC will correct the formula during our review.

44. Question: There is no HTF Eligibility Issues section of the Eligibility Tab of the Application. Should applicants fill out the HOME FUNDS Eligibility Issues even if they are not applying for HOME funds?

    Answer: Yes. Since the criteria are somewhat different you should in this case ignore any error messages that may pop up.

45. Question: Please confirm that Selection Criteria Sections, II a. Leveraging, II b. Match, and IV. Average Home Subsidy Per Unit do not apply to Housing Trust Fund projects.

    Answer: Leveraging and Match are scoring criteria and apply to all applications to receive points. Average per unit subsidy is a requirement that does apply to all applications. HOME and HTF have different LHC limits ($100,000 and $200,000) that apply to most projects. Projects located in an Area of Demonstrated Need will use the 234 per unit subsidy limits. Projects that combine both programs in funding the same units will have the funding provided added together to determine if it is consistent with the applicable limit. The per unit limits are not added together.

46. Question: If a project includes both residential and commercial space, how will operating expenses related to the commercial space be underwritten? Understanding that the commercial component will collect higher rents and function to subsidize the residential component, what guidelines will LHC utilize to assess the reasonableness of the commercial operating expenses?

    Answer: This NOFA does not provide any funding for the development of commercial space. The development will be underwritten strictly on the income and expenses associated with the housing component.

47. **Question:** Can owner-provided operating subsidy necessary to generate break-even operations in later years be funded by early-year operating cash flows? For instance, if a project is unable to stay positive in cash flow throughout 15-years, the QAP provides the

option for early year cash flows to be placed in an operating reserve in order to make up for those later year shortfalls. Is this a permissible approach to projects that are unable to stay cash-flow positive through the required projection period?

a. If an owner is providing a reserve to subsidize operations so that the project remains cash flow positive throughout the underwriting period, how would that subsidy be reflected in the Pro Forma tab of the Excel workbook?

Answer: Yes, an owner may provide the necessary funds to generate a break-even in later years. To do so it would be required that the deposit be made at closing to an escrow account, that would be under the control of LHC, for the expected shortfall. The owner would show a single initial deposit to an operating reserve on the uses section of the application and a corresponding source of Owner Equity contribution on the sources section of the application. The funding source for an operating shortfall may not be financed.