

SLIDE 1

Homeownership Development

Today's webinar will cover the homeownership development application.

We will not be going over the general policies such as Entitlement Area vs. Non-Entitlement area eligibility that were covered in the earlier webinar.

If you are interested in those issue they are covered in the script that has been posted to the LHC website.

We will, however, cover general topics that are not specifically addressed in the application such as Market and Affordability.

When considering undertaking a Homeownership development project there are certain factors that should be considered.

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1. Market

- a. Is there a market at all – Are there sufficient numbers of current renters with qualifying incomes to support the development of additional units.
- b. In your target area – Everyone know to old adage of real estate that the three primary factors are location, location, location. Are the sites being considered for the project in an area that is appealing. It does no good to establish that there is a need for affordable housing in a city or town if it is not desired at your potential location.

The Low Income Tax Credit program lists amenities that they give points for being near. While these HOME programs do not require or give points for these items they are things that should be considered. Is there a grocery store, school, police station, hospital, public transportation etc.? You are building permanent housing that the buyers will be committing to for an extended period of time. If a basic amenity is a considerable distance, then you may want to reconsider your potential site. Remember that a grocery store will only locate in a neighborhood that has sufficient income to make the store profitable.

Often new developers/CHDO want to use the cheapest property available such as adjudicated property. While the cost of these properties make them attractive, they may even be free, you should always ask yourself why the price is so low. Is crime a factor? Have jobs that the neighborhood supported moved away? Are the properties subject to flooding? Are they near a negative condition such as a sewer treatment plant. Be cautious and suspicious and critically evaluate the site. **You are responsible for the success of the project.**

- c. Your potential buyers – The programs we are discussing both get their funding through the HOME Investment Partnerships Program. As such there are income requirements for the potential homebuyer. What are the current and historical trends? Are you fighting a tide of exodus that that will doom your project? Are there sufficient eligible income homebuyers in the neighborhood or interested in moving to the neighborhood? You should look at census data to determine if the potential market in the neighborhood is sufficient to allow the units to be absorbed in less than nine months. Remember there is a federal requirement that all homebuyer units be sold to eligible buyers within 9 months of completion. If they are not, then they must become permanent rental properties or you must repay the funds.
- d. Existing Housing – Is there a sufficient supply of existing affordable standard housing? If so it may be that there is not a need new for new homeownership housing. Is there a supply of existing sub-standard housing that can be renovated? It is the mission of LHC to provide decent affordable housing to the citizens of Louisiana. This does not have to be new housing. It is frequently true that you can get more housing for your dollar with existing housing than with new construction. You should consider that you may be able to provide greater value to your client by acquiring and renovating than you can by building new.

You can determine if there is a market in your target area one of two ways. First through a formal Market Study which costs \$4,500 and is undertaken by a third party professional; or second through an Alternative Market Analysis. If the Alternative Market Analysis is used the applicant must submit the following information with the application:

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1. Number of prospective low income (80% of AMI and less) current rental households in the Market Area;
2. Household size of eligible prospective buyers;
3. Income Required of prospective buyers;

4. Average amount of direct homebuyer assistance required (if any) of prospective buyers;
5. Number of comparable units sold over the last year;
6. Sale price of comparable units sold in the last year;
7. Size of comparable units sold in the last year;
8. Square foot cost of comparable units sold in the last year;
9. Listing date of comparable units sold in the last year;
10. Sale date of comparable units sold in the last year;
11. Time on market (Average, Maximum, Minimum)
12. Absorption Rate

The first thing you need to include in the Alternative Market Analysis is the demographic information. This is available from the U.S. Census Bureau's American Community Survey (this is the same site that you use to prove-up being in an Area of Demonstrated Need).

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Click the link

Scroll to the bottom of the page and click the https link.

In the state, county or place (optional) box enter the name of the city or town where the project will take place. We will use Bogalusa.

Then click Go.

Click SELECTED HOUSING CHARACTERISTICS (Table DP04)

The basic information that you would need are:

SELECTED MONTHLY OWNER COSTS (SMOC) – This gives an idea of what the typical total cost of ownership is for the area. If your project exceeds the average you will have a hard time finding buyers.

VALUE – Remember you are building starter housing for low income households. If the value is much above the average then you may have trouble finding qualified buyers.

GROSS RENT AS A PERCENTAGE OF HOUSEHOLD INCOME (GRAPI) – This will show how many of your prospective buyers are rent burdened. Rent burden is defined as spending more than 30 percent of household income on rent. Notice that the final two lines in this category would be those that are rent burdened. In this case it is 62.8% (8.5 + 54.3) that are rent burdened. So you might be able to offer a home at less than what they are currently paying for rent.

GROSS RENT – This gives an idea of what you potential clients can pay. Remember they are already likely Rent Burdened so you must be able to keep PITI below this number to be able to attract many of your potential clients.

After you have gotten the information for your project you should put in into the format show in the next two slides.

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Other items on this table that you may consider are:

Housing Tenure – This shows how many households in the area are Owners and how many are renters. As a rule starter homes are sold to rents so the Renters number is your potential universe.

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Income Required of Prospective Buyers

SLIDE 8 Keep in mind at all times that you are building housing for HOME eligible households. That means that the incomes required to buy the homes you produce cannot exceed the income levels of Low Income households in the area.

This slide shows an outtake of the income tables for the State of Louisiana. The complete tables are available on the LHC website at the link on the slide. We will be going to that site a little later. The portion of the table shown is extracted from the PDF version of the table. The one provided at the LHC website is more comprehensive and is in excel format. Regardless of which version is used you should always use the figures provided for LOW INCOME. Low Income is HUD speak for the 80% AMI households.

For your house to be considered as affordable it should be affordable for the proper sized household on the Low Income line.

For example, if the project was being undertaken in Alexandria for a three bedroom house you would use the 4-person household income of \$44,300 and the home would have to be affordable to a household at this income.

In short you must build or renovate affordable housing not market rate housing that is made affordable by throwing subsidies at the project. This means that the first thing that you should and must do is determine the sale price of the home that can be afforded by your expected client. We will go into detail on how to do this shortly.

The Average Amount of Direct Subsidy. Once You know the sale price of your home you will be able to compute the necessary subsidy that the “typical” homebuyer will need.

The information that you would have gotten then from the American Community Survey and the Louisiana Income Tables would be sufficient to answer questions 1 – 4 of the Alternative Market Analysis. This is the demographic section.

What is now needed is the actual market data.

Actual market info is easily obtainable from the MLS Sold Listings Report. All realtors have access to this report. You should make friends with a local real estate agent and ask them to help you with this information. You can also get the information from online apps such as Trulia and Zillow:

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Trulia <https://www.trulia.com/>

And

Zillow <https://www.zillow.com/buy/>

Let’s take a look at Zillow.

Click the link

Enter the Name of the City the Project is to be located in.

We’ll use Bogalusa

Now what comes up are current listings and potential listings. This may be useful in checking the initial offering price for homes in the neighborhood.

Let’s change the view to Recently Sold.

Click on Listing Type.

Remove the checks from the For Sale and Potential Listing boxes.

Click on the Recently Sold box and then the map.

You can zoom by using the mouse wheel or the plus sign.

Enlarge so that you can see the street and separate the listing a little.

Select a site in the neighborhood where the project is to take place. As close as you can to the actual site and click the yellow dot.

Notice how you now have some basic info on the home.

Click See More Facts and Features and you get a more detailed report.

Now click See Data Sources.

You now get a Home Facts by Data Source report.

This report includes Beds, Baths, Square Feet and days on Zillow.

The number of days on Zillow will give an approximation of how long the property took to sell. If over 270 (9 months) this should be red flag.

Remember you are required to sell any homes built within 9 months.

When doing an Alternative Market Analysis, you should include as many comparables as possible ideally at least 10. Any fewer and it would appear that there is no market.

Your comparables should be only for units that are approximately the same size, in the same neighborhood, style and quality of construction.

SLIDE 10 The next slide shows what the comparables section of the alternative market analysis would look like.

Notice that the price of the subject in the brackets is \$132,540. This is the price to construct. The number that should go here will be the appraised value. In our case the appraised value is \$22,730.00.

When you turn in your application you are required to turn in an as built appraisal. The value as built listed on this appraisal should be the same number that you enter on this Alternative Market Study.

There is other information that is valuable for you on the Zillow site.

Look for example under HOME Value.

Notice the link to Zestimate history & details.

Click this link.

Now scroll down to the 10 year history of the value of this property. This will show the trend for this home. If you look at enough of these for your area you will have an overall trend.

Also notice that Zillow gives how they arrived at the estimated value. One way is through Comparable homes. If you click on this you will get a listing of Comparable homes in the area. This listing will help you with your Alternative Market Study. While the required Alternative Market Study data is listed in each funding mechanism you can include more information if it helps to tell your story and strengthens your market study.

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Don't forget that you will also have to provide a "Capture Rate" which for homeownership is actually the absorption rate.

The definition comes from Realtor.com but is applicable to your situation. Remember the best source for this information would be Realtor with access to the MLS Sold Listings but you may be able to gather the data from the Trulia and Zillow website.

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ABSORPTION RATE - Is the rate at which homes are selling in a specific area.

There are 3 pieces of information you will need to find absorption rate:

- 1.The specific time frame
- 2.The number of sold homes during that time frame
- 3.The number of active homes right now

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THE DATA:

- Time Frame =365 days (Should choose at least 1 year)
- Number of Sold Homes =95 (for the most recent 12 months)
- Number of Active Homes =77 (Remember to take of the 12 month qualifier you want all listed homes not just those listed 12 months)
- Remove and “Lot/Land” listings to get a true Active Homes for sale number. In our sample case the number of Lot/Land listing is 36 so the “true” Active Homes number is 41

CALCULATIONS:

- Rate of Home Sales = 3.842 - 1 home is sold every 3.842 days. This number is found by taking $365/95$ (Time Frame/Number of Sold Homes)
- Absorption Rate = 157.53 Days (5.25 Months). Found by taking 41×3.842 (Number of Active Homes x Rate of Home Sales)

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According to Realtor.com a balanced market's absorption rate is typically between 5 - 7 months.

If you are developing homeownership properties under any of the LHC/HOME funded activities, you only have 9 months to sell the property as per 24 CFR 92.254.

If the property is not sold in the 9 months, then it must become permanent affordable rental housing or the funds repaid.

So how is this information gotten from the Zillow site?

Back To Zillow

If you enter the name of the City or Town that your project is in Zillow will outline that are and give information only for the area.

Our example is Bogalusa.

So we type Bogalusa in the Search Box (the box with the magnifying glass icon).

Now notice there is a drop down box at the top of the screen for Listing Type.

Click the down arrow.

Click off For Sale and Potential Listings and click on Recently Sold.

You will notice that there are now 270 “Recently Sold” properties.

This number is not for a specified time period which we need.

Click “More” drop down box and then click the “Sold in Last” drop down box and select twelve months.

Click Apply.

The number of Sold properties now changed to 95.

Now Remove the 12 month criteria and set to any. And click apply.

Click the “Recently Sold” drop down and click “For Sale”; The remove the “Recently Sold” selection.

You should now have 77 for sale properties.

Now look at the Bogalusa LA Real Estate photos.

Scroll through the photos and count the number of Lot/Land for Sale listings.

Take the number of Lot/Land for Sale listing from the number (77) of for sale properties.

The resultant number is your active listing.

You now have the three pieces of information necessary to compute the Absorption Rate.

2. Affordability

a) Different Definitions – HUD defines an affordable homeownership property as

(1) The housing must be single family housing.

(2) The housing must be modest housing as follows:

a) The Value of the home cannot exceed the HUD established value/sale price limits.

b) The house must be acquired by a low income (80% or less of AMI) family and must be retained by the family as their principal residence throughout the period of affordability.

The Homeownership Application

We are now going to take a detailed look at homeownership development applications that LHC uses. While this webinar is concerned with the NOAH and CHAAP programs the application used for all HOME only funding is the same.

Cover – The Cover is exactly what its name implies. It is the cover for the hard printed application. The Cover only has two (2) input cells.

DATE OF APPLICATION: The First is the date of application. While both CHAAP and NOAH do not have a deadline and can be submitted at any time we would still like for you to put the date that you turn this application into LHC in this box. This will help us to better track the application's LHC related processing time.

Comments Box: The other user input box is the comments box. This box can be used by the applicant to tell the story of the application. Who are you proposing to serve? What are the special challenges? If you have any issues or special request for consideration the should be place in this box.

NON-User Boxes: In addition to the two use input boxes the Cover also has two boxes that will auto fill when the necessary information is enter later. These are the Project Name and Parish Location.

Primary Input Tab – Next we click on the Primary Input Tab. The Primary Input page is used to gather basic project. All information entered on this page unless specifically stated as otherwise should be project related. For example, Project Parish. For this item you should selected the Parish the project will be located in, not the Parish that is home to the applicant.

Most of the items on this page are self-explanatory there are, however, some terms that may not be clear to someone new that is considering submitting an application.

Taxpayer – As the LIHTC allocating entity for Louisiana we typically deal with taxpayers. For the purposes of this application the taxpayer is the owner of the development. If a CHDO is developing the project and will keep the ownership in the name of the CHDO then simply enter the name of the CHDO (non-profit etc.) on this line. If the Non-Profit or CHDO is going to create a wholly owned company to be the legal owner of this property, then enter the name of that entity here.

For example, if a CHDO named Apple Housing Development is going to develop a project called Walrus Heights I. Apple does not want the legal liability that could go along with the ownership. They therefore set up a wholly owned subsidiary called Walrus Heights I, L.L.C. to own and manage the property and would enter than name on this line. The contact info, officers etc. for the CHDO and the LLC can be the same.

Since were are currently discussing a homeownership application is it unlikely that you will feel the need to set up an LLC since the role of the homeownership developer is to

develop sell and then leave. In ownership development the developer generally does not have any long term compliance issues. This is not the case if the units are not sold within nine months. Remember that all homeownership units must be sold in nine months or converted to rental. If converted to rental you may at that time want to set up the LLC.

Qualified Non Profit – If the applicant is a non-profit just enter that name if there is no non-profit you may leave this line blank.

Maximum Tax Credits/LHC-CDBG – These are here to allow you to enter the information if you are applying for Tax Credits or CDBG through another offering or program. If not just leave these lines blank.

Set-Aside Percentage – Since this is a homeownership application you can leave this blank (all selection options have been deleted).

Appraisals – All homeownership activities need to have appraisals submitted with the application. The appraisals must include the current value of the land if it is to be acquired with HOME funds and the As Built Value. To get the As Built Value you must give copies of your plans to a certified appraiser and have them do a determination of the fair market value of the property once construction is completed. The As Built Values help in determining if and how much of a development subsidy may be necessary and to ensure compliance with the HUD approved Maximum Value requirement. Application will not be processed without the As Built Value.

Limits Tab – The Limits tab is strictly an FYI tab.

234 Limits -- On this tab once you have entered the Project Parish you will have access to the HUD approved 234 Limits (the maximum amount of HOME funds that can be invested in a HOME assisted unit. This is HOME from all sources so if this were a funding round in which projects in Entitlement Communities were allowed it would be the limit for the LHC and other PJ funds added together.

Sales Price/Value Limits – These are the HUD maximum limits that at which a home can be valued.

The limits on this page are those established by HUD and cannot be exceeded under any circumstance. LHC may have imposed stricter limits that are not reflected here so you should always consult the funding announcement.

Properties Tab – This tab gathers information on the physical location of the properties where the project will (or may) take place. You should enter the required information for each lot that is being considered for inclusion with the application.

If for example you are planning on building a total of four (4) homeowner units but have not decided on which of ten (10) sites that you own will be utilized, you should enter the information for all ten sites. These sites should all also go into your environmental review process. This way if one lot is deemed unsuitable due to some environmental condition you can still proceed by dropping that lot and utilizing another of the lots that was included. Potential sites not included can significantly delay a project if it is later decided that they are more suitable for the project and then have to begin the ER process all over.

Do not, however, include a large tract of land or lots that cannot realistically be expected to be utilized.

Development Budget Tab – This is where you will enter the costs to develop your project. The costs entered on this page should be real costs that are obtained from source documents. As the applicant you should not be estimating any of these costs. Let's now look at the general headings:

Acquisition – There are only two types of acquisition land and buildings. Regardless of the type the cost figured to be entered here is either the appraised value of the property, if you already own the land or the negotiated sale price.

If you are using the appraised value, you must include a copy of the appraisal with your application. The value indicated for the property is considered as a development cost and counts toward any required leverage. We will come back to this leverage requirement and the percentage of HOME costs shortly.

If you are going to purchase the property after funding by LHC is obtained. You cannot pay more than the appraised value for the property here you will enter the total sale price. We will go over a wrinkle that is beneficial when we talk about leverage in a minute.

Unit Construction Cost – This is the actual hard cost of constructing your units.

You will notice that this line is greened out. That means that it is a calculated field. Scroll to the bottom of this page. At the bottom you see a table where you will provide the information necessary for the line above to calculate the hard cost of the units. The square feet would come from your plans that have been designed by your architect. The price per square foot from your

builder from either your construction contract or at least a bid proposal. Your number of units is dependent on how many units your market can absorb and the requirements of your funding mechanism. Since we are talking about the NOAH program the maximum number for here would be four (4). The sale price will be the lesser of the as built appraised value or the HUD approved Value Limits for the area.

Other Construction – These soft costs can be estimated by your builder or architect. The tap and utility connection fees are available from your local utility company (which may be a municipality).

Infrastructure – As a rule infrastructure is not an eligible HOME cost. That should be kept in mind when determining your percentages of cost to each funder on the Cash Flow tab and in determining the HOME percentage and leverage. These costs can be estimated by your architect or builder. Impact fees can be obtained from building & Permitting or Public Works departments.

Professional Fees – These are negotiated with the professional performing the work. You should price these prior to submitting your application and input the quotes for each here. Even if the services are to be donated include them here so that they will count toward your TDC and your contribution to the project.

Finance Cost – This is the cost of financing the construction of the units. If you are borrowing any funds the cost for each item, it entered. The interest will be computed from information entered elsewhere.

Soft Costs – These costs may be \$0.00. If you have contracted with a professional that is not included above include their cost here. Keep in mind that the costs must be related to the construction of the homes.

Developer Fee – Developer fees generally run between 12% - 15%. You earn the developer fee for the work you do in undertaking the project. Keep in mind that this will add to the TDC and that it will not increase your LHC award above whatever the per project limit is. For NOAH the limit is \$400,000. So if your HOME costs are going to above \$400,000 you may not be able to claim the Developer Fee.

Before we move on the Cash Flow Tab let discuss further your required leverage.

Leverage: The NOAH Program requires a 15% leverage. The typical NOAH assistance is the full \$400,000 maximum award. This means that you must have some source other than LHC for a 15% of the TDC. Therefore, to receive the full \$400,000 your project must have a TDC

of \$470,588.24. This is determined by dividing the desired HOME award by 85% (0.85) since there is a required 15% leverage.

If you own the land at the time of application, you can count the full appraised value toward your \$70,588.24 required leverage. This is regardless of what you actually paid for the property when you acquired it.

For example, if you acquired the property for \$20,000 ten years earlier and it just appraised for \$45,000 you can still get the full \$45,000 appraised value on your development budget and leverage reports. Conversely if you acquired the property during a boom time and paid \$60,000 you can still only claim the current appraised value. Your appraisal must be no more than six (6) months old at the time of application.

If you do not currently own the land but are going to acquire it with a part of your NOAH award you will not get credit for leverage unless you receive part of the value as a gift. For example if you negotiate a sale that is less than the appraised value you can agree with the seller that the sale price will be the full appraised value with part of the sale being paid in cash and part of the sale being a donation to affordable housing. This donation must be referenced in the sale documents. So now when you fill in the Acquisition line on this page you would indicate that the cost was the full appraised value. The difference between what you actually paid in cash (\$45,000) and the appraised value, let say \$60,000 would then be counted as both leverage and match. This would give you \$15,000 toward your required match with no cost to you.

Now that you have your TDC you can accurately compute your leverage ratio. The TDC of this project is indicated on line 42. The HOME percentage is determined by Dividing the HOME Assistance (\$400,000) by the TDC. $\$400,000/\$630,400 = 63.45\%$ This is less than 85% so you have met the requirement but you must come up with a total of \$230,400 of other sources to complete the project.

Development Subsidy – Before we leave the development budget tab we need to briefly discuss the computation of the development subsidy. A development subsidy is necessary when the appraised value of the homes produced does not equal or exceed the TDC. LHC generally has a limit of \$10,000 per unit for the development subsidy. This limit is waived for homeownership projects that take place in an LHC defined Area of Demonstrated Need. For our sample project the TDC is locate on line 42 of the Development Budget. The appraised value of the property was entered in cell 47H. The per unit appraised value (sale cost) is \$108,000 so the total appraised value of the project is \$432,000 ($108,000 \times 4 = 432,000$). The TDC is \$630,400. The necessary development subsidy for this project would be \$198,400 ($630,400 - 432,000 = 198,400$) or \$49,600 per unit. So unless this project was in an Area of Demonstrated Need it would have to come up with \$39,600 of other funding to pay the excess Development Subsidy.

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Area of Demonstrated Need -- An Area of Demonstrated Need is one that is located in a Qualified Census Tract, has a shortage of standard affordable housing units available for 80% AMI households and meets at least two of the following three criteria:

1. Housing value at or below 50% of the State average. The State Average is currently \$144,100 (2015 ACS 5-Year Estimates, Table B25077)
2. Median Household Income at or below 65% of the State Average. The State Average is currently \$45,047.00 (2015 ACS 5-Year Estimates, Table B19013).
3. A Poverty Rate at or above 1.5 times the state average. The State Average is currently 0.20197615 as computed from Poverty Status in the Past 12 Months By Sex and Age Table B17001 (2015 ACS 5-Year Estimates).

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: Let's go back for a minute

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Enter the City and State of your project in the address box and press GO.

Click the Click Here for Full Screen Map

You can now enlarge your view by using the + sign on the map

In this case you will notice that the entire City of Kentwood is located in Census Tract 9533.00 and that it is green.

Double Click anywhere in the Census Tract.

This bring up a status table.

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.

Next logon to the Census Bureau American Community Survey site:

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Scroll down and click the factfinder link.

In the State County Place box enter Louisiana and click GO.

In the State County Place box enter the town your project is located in and click GO.

Click on Selected Housing Characteristics.

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.

Click the Back Button

Click SELECTED ECONOMIC CHARACTERISTICS

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.

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.

Remember to qualify you must be in a non-entitlement area, be in a Qualified Census Tract and meet two of the three criteria.

Back to the Spreadsheet Application

Cash Flow Tab – The Cash Flow tab for a homeownership project is fundamentally different from the idea of cash flow when talking about a rental project. For rental cash flow are the funds left over after expenses. Here cash flow refers to the timing of the use of your cash. This is one of the most useful and informative documents that you will have. Most of the fields on the Cash Flow tab are calculated but let's review those that are not:

Sales Expense – Enter the cost of closing the home sale here. This is the general closing costs as a percentage of the sale price.

Construction Interest Rate – If you are borrowing part of the project cost to construct the units enter the interest rate of that loan here.

Months to Construct – This is the total number of months that it will take you to build one (1) house.

Months to Sell – Enter the total months that it is reasonably expected that it will take to sell one (1) home. Remember the number you enter in this cell cannot exceed 9.

Percentage of Funding Table -- Scrolling over to Column G you will notice that there are headings that match the budget categories in Column B. The entry cells in Columns I & J allow you to allocate the cost of your project amount the Bank Loan, the LHC Loan and Owner Equity. You remember that we calculated that the LHC loan would be equal to

63.45% of the TDC. This can be distributed evenly across all budget items if you want and if the cost is an eligible HOME cost (remember Infrastructure is generally not HOME eligible). You can also break up the cost in any other manner that you wish provided that you show that the total of other sources is equal to at least the required other (non-HOME) percentage. The NOAH program require at least 15% but your application requires 36.55% due to the TDC and the limit on the HOME assistance being set at \$400,000. So you should allocate whatever percentage will in total account for \$400,000 being attributable to the LHC loan. Owner equity is a computed column and is any cost not assigned to either the bank loan or LHC. Therefore, if you have donated professional service as part of you sources then they should not be part of what you allocated to LHC or the Bank. This also includes and donation made with regard to acquisition below appraised value or the current market value of the property that who already own.

Line 15 Housing Starts – on line 15 column D you will see a red number or an error message. If the number of homes that you indicated in the development budget (F47) does not equal the number of housing starts line 15 beginning in column G you will get the error message “# Must Equal Budget”. On this line you will enter when in the process you expect to start each home that is to be constructed. It is unlikely that you will start the construction during the first couple months of the process that are normally set-aside for clearing leveling demolition etc. Additionally, you may not have enough man power to start all the units at the same time so you (or your contractor) should estimate how many and when each house will begin construction. Enter the number of house started each month on this line.

Line 17 Project Expenses – Beginning on line 18 you will enter the expected monthly expenses for each item of cost. This is you phasing of the project. If you have a pre-paid cost such as accounting for the acquisition of land that was bought prior to your application, then those number would go in the first month.

Unit Construction -- This is a calculated field that is based on the number of starts and the number of months to construct that you indicated above.

All Other Costs except Construction Interest – All other cost except construction interest may be paid at one time or throughout the process depending on what it is. Determine when a cost will be due and enter the amount in each cell as appropriate.

Construction Interest -- Construction interest is a computed cell that is determined based on how you have allocated costs between Bank LHC and Equity and the interest rate entered earlier.

Time to Scan Your Cash Flow – Look at the project revenue line. You notice that there is no income for the first six months. This is because of the time needed to construct and sale your properties.

Next look at the construction interest line (line 23). It starts at \$0.00 builds and then decreases as units are sold and the construction loan is paid off. This is the case with a construction loan. Keep in mind that the LHC funds will generally be part or even all of the construction financing needed. What may be necessary is that you have a line of credit to cover the time lag between when you invoice LHC and when LHC releases the HOME funds to you.

LHC tries to releases funds as soon as possible. Typically, if all is in order with your draw request that means about 7 – 14 days.

In this time frame there are three days over which LHC has no control.

This is the amount of time it takes LHC to receive funds from HUD once they are invoiced.

It generally takes LHC Program staff 1 day to review your draw request after it has been received.

The draw then goes to LHC accounting where it will take a day or two to be processed.

If there are problems with your draw you will be contacted by the program staff assigned to the project, you will work with you to correct the draw request. If after a period of time, there remains a problem the request will be sent back to you until it is straightened out.

You should only have a construction loan for costs not covered by LHC assistance. Hoping that I am not being too redundant, cost that are to be reimbursed by LHC should be covered by a line of credit.

Now look at the Cumulative Grants Invested line.

Unless you have other grants in your project such as Federal Home Loan Bank AHP this will be the LHC funding, even though the LHC funds are not technically a grant. LHC funding must be paid back unless you have submitted and LHC has approved a CHDO Proceeds Reuse Plan.

Under NOAH you would have requested a budget of up to \$400,000. Notice that during the course of construction that only \$300,000.00 was needed to construct the units but your remaining balance is only \$84,512.00.

This is because the model assumes that the proceeds of the sale will be utilized.

Now play with the number of starts per month and average time to sale. If you start all four units at the same time and nothing else changes then you will utilize the full \$400,000 but you will have a balance of \$185,303 when the project is completed in 8 months.

If you start 1 unit a month but the time to sell is increased to 8 months, you will have utilized the full \$400,000 in LHC funding and you will have a balance of \$180,413 when the project is completed in 16 months.

Home Buyer Mortgage Analysis Tab – This is a useful tab in two ways. First it can help you determine what the sale price/value of the home you are building should be. And second it will determine if your buyers will need a subsidy.

As mentioned earlier that LHC expects you to build affordable housing and that LHC has defined that to not only include the HUD limits but to include the cost to the potential eligible buyer. To use this for to determine what is affordable to your potential eligible buyer you should obtain the low HOME income for a household that would be typically interested in the size of unit you are planning to construct. For example, if you are building a 3-bedroom unit use the 4-person low-income limit. The Limits are re-published annually on the LHC website as soon after they are released as is possible.

SLIDE 20

So go to the LHC website and click on Partners.

Then click on HOME Program.

Scroll to the bottom of the page and click on HOME Income Limits.

The HUD Income Limits Spreadsheet should open up.

The titles across the top tell you what each column is.

Find you parish under area name (for 2017 column E).

If you do not see your Parish listed that is because it is included in a metropolitan area. If you are in a metro area any line with that metro name will be the same and can be utilized. The next set of columns have headings such as Lim30_17p1. This is the income level that is represented in this column. Lim30_17p1 would be the 30% income in 2017 for a 1-person household. You want to place your cursor on the line that your area is and scroll across until you get to the 80% for the applicable household size (generally 3 for a 2-bedroom unit and 4 for a 3-bedroom unit). To expand the headings, click on the little triangle in the upper left hand corner, then double click one of the column separators. So for Acadia Parish the 80% Income for a 4-person household is \$37,750. (If you want to see your 80% 4-person household next to your parish you can hide the columns that do not apply. To do this:

Click the letter of the first column that you want to hide.

Then using the scroll bar on the spreadsheet scroll over to the last column before the one you want to keep.

Hold down the Shift Key and click the letters of the last column before the one you want to keep.
 Place your cursor anywhere on the highlighted portion of the spreadsheet and right click.
 Select hide.

You should now have the 4 person 80% household next to the Parish Name.

You can do the same thing to hide rows. (give quick example).

Take the appropriate income and enter it into the cell on the Home Buyer Mortgage Analysis Tab for Family Information Annual Income.

For our example we will use the following data for each of the items in real life use the information you get from the bank, your and client.

For Annual Taxes	\$600.00
Annual Insurance	\$750.00
Total Credit Card Debt	\$2,000.00

Bank Requirements

Bank Ratio

Front End	28%
Back End	41%
Annual Interest Rate	5%
Loan Term (Years)	30
Loan to Value	97%
Closing Costs	\$3,000

You will notice that line 40 Maximum loan is still blank. This is because the loan value that would go here is the lower of the front end/back end ratios and the LTV but we have not input a sale cost yet. Or proposed sale price listed earlier was \$108,000.00. Let's now enter the \$108,000.00 in both the purchase price and appraised value cells. We see now that the buyer would qualify for \$104,760. In this case the lesser value is the LTV. You will also notice that the max loan based on the front/back end is \$143,126. Now let's look back at the development budget tab. The cost to build was \$116,250 but the project appraised only for the \$108,000. The TDC was actually \$630,400 or \$157,600. Let's assume that the project actually appraised for the \$157,600. Would this be considered an affordable housing development?

The answer is no. The project is not an affordable housing development because the appraised value is greater than the potential clients can afford. (The front end/back end ratio). If the project appraised for \$143,000. Would this be considered an affordable housing development?

What is the required homebuyer subsidy?

Answer \$7,290.00.

Please keep in mind that the numbers for the ratios 28 – 31 front end and 39 – 41 back end should be used to determine the normal maximum loan. We do not mind that for the purpose of providing additional affordability that the front end ratio is reduced BUT it cannot be less than 20 AND it cannot result in a homebuyer subsidy of greater than \$40,000 to the buyer. With a sale cost of 143,000 what is the lowest front end ratio that would still meet LHC underwriting standards?

Answer 21.

Schedule Tab – Self-explanatory. Enter the required information in the white boxes.

Development Team Tab – Self-Explanatory.

Sources and Uses Tab – Enter information as required. If not a loan to the project leave the term and interest rate fields blank. Under Owner Equity include the value of any non-cash contribution, such as land. In the Uses section there is a listing for Predevelopment costs. You should only put in costs that are eligible HOME expenses and were incurred within the last 24 months.

Match Tab – This is Match and not leverage. Please refer to 24 CFR 92.220 for a complete list of eligible Match. Generally, match is a contribution to the project that does not have to be repaid and does not come from government sources or the owner. Examples include waived permit fees, waived tap or impact fees, donated materials or labor, nonfederal grants or below market loans (the difference between the market rate loan and the below market rate loan), etc. To receive credit, you must provide the backup for the match. During the application process you may estimate the contribution but during the construction you will have to prove the contribution using the same form.

Checklist – Check to make sure that you have included all the items listed on the checklist. Do not use an old checklist or one from a different funding mechanism as the checklist is specific to the application.