

Underwriting Affordable Transactions

Moderator: Quinn Nakano, Underwriter,
Berkadia

Panelists: Kara Hall, Underwriter,
Berkadia

Kellen Polan, Underwriter, Berkadia



The Affordable Housing Crisis

Shortage of approximately 7 million affordable and available rental homes.

75% of extremely low-income households are severely housing-cost burdened (paying 50% or more of income on rent)

The average asking rent for a new property (built between June 2018 and June 2019) is \$1,620. Only 32% of all renters could afford this.

Nationally, a worker must earn \$24.90 to be able to afford a modest 2BR unit and not pay more than 30% of income on rent. The must earn wage is over \$30 in CA, NY, NJ, and MA. This compares to the federal minimum wage of \$7.25.



Why is there not enough affordable housing?

Limited housing supply

NIMBY-ism

Insufficient financial motivation for developers

Too complex, too difficult

Loss due to demolition and deterioration (public housing)

Opting out of programs and expiring affordability restrictions

Rents increasing at a greater rate than wages

“Affordable” rents do not support continually rising construction costs

Not enough government support



Introduction to LIHTCs

Created under Tax Reform Act of 1986 and made permanent in 1993.

Dollar for dollar reduction in tax liability in exchange for providing equity to develop affordable rental housing.

Units must remain affordable (20% at 50% AMI, 40% at 60% AMI, or income averaging at 60% AMI) for a certain period of time.

Between 1986 and 2019, the LIHTC program has financed 3.6MM units.



Market Rate vs. Affordable Differences

MIP Types and Sizing Parameters

Varying affordability metrics

Tranche loans

Fund flows and their importance

Fund Flows

ABC Apartments Flow of Funds																			
	Total	Closing					Construction Draws					Final Endorsement							
		7/1/2022	8/1/2022	9/1/2022	10/1/2022	11/1/2022	12/1/2022	1/1/2023	2/1/2023	3/1/2023	4/1/2023	5/1/2023	6/1/2023	7/1/2023	8/1/2023	9/1/2023	10/1/2023		
	Month %	0.00%	4%	3%	8%	9%	10%	11%	10%	10%	9%	8%	8%	10%	9%	10%			
	Cumulative %	4%	7%	15%	24%	34%	45%	55%	65%	74%	82%	90%	100%						
Sources																			
FHA Mortgage	7,267,000	6,579,391	141,597	96,432	-	-	-	-	-	-	-	-	-	211,424	-	238,256	7,267,000		
LIHTC Equity	4,971,391	820,279	-	-	-	-	-	-	-	-	-	-	-	-	-	3,738,654	4,971,391		
GP Equity	100	100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100		
Construction period income	368,349	-	22,403	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	23,429	24,102	34,223	368,349		
Equity Bridge Loan	-	173,999	1,247	10,794	283,163	320,204	357,494	394,041	392,174	366,948	334,627	302,033	304,225	376,534	27,120	73,064	(3,719,667)		
GP Loan	985,000	985,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	985,000		
Deferred Developer Fee	1,670,084	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,670,084		
Total Sources	15,261,924	8,558,669	165,247	129,950	305,887	342,928	380,218	418,765	414,898	389,672	357,351	324,757	326,949	399,258	261,973	97,166	281,467	436,681	15,261,924
Uses																			
Uses - Mortgageable																			
Acquisition Price	\$7,000,000	\$7,000,000																\$7,000,000	
Land	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Hard Costs	\$3,506,792	\$0	\$140,272	\$105,204	\$280,543	\$315,611	\$350,679	\$385,747	\$350,679	\$350,679	\$315,611	\$280,543	\$280,543	\$350,679				\$3,506,792	
Owner's HC Contingency	\$358,337	\$0	\$14,333	\$10,750	\$28,667	\$32,250	\$35,834	\$39,417	\$35,834	\$35,834	\$32,250	\$28,667	\$28,667	\$35,834				\$358,337	
Retainage (10%)	\$0	\$0	(\$15,461)	(\$11,595)	(\$30,921)	(\$34,786)	(\$38,651)	(\$42,516)	(\$38,651)	(\$38,651)	(\$34,786)	(\$30,921)	(\$30,921)	(\$38,651)	\$193,256		\$193,256	\$0	
GC Bond Premium	\$41,354	\$41,354																\$41,354	
Borrower and GC Other Fees - GC Insurance, Permits, Survey, Misc.	\$136,227	\$48,391	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$45,587	\$136,227	
Architect Fees - B108 Design and Construction	\$93,150	\$74,520	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553	\$1,553				\$93,150	
HUD MIP (0.50%)	\$36,335	\$18,168													\$18,168			\$36,335	
HUD Application Fee	\$21,801	\$21,801																\$21,801	
HUD Inspection Fee	\$18,888	\$18,888																\$18,888	
Lender Financing and Placement Fee	\$135,070	\$135,070														\$10,000		\$135,070	
Title Fees - Title Insurance	\$72,514	\$71,614	\$900															\$72,514	
Insurance Paid at Closing	\$70,000	\$42,037						\$27,963										\$70,000	
Legal Fees - Borrower	\$140,000	\$105,000																\$140,000	
FHA Construction Interest	\$168,349	\$0	22,403	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	22,724	23,429	24,102	34,223	\$168,349	
Organizational Fees	\$49,045	\$47,545															\$1,500	\$49,045	
Bond Cost of Insurance, Bond Counsel, Bond UW and UW Counsel, Trustee	\$167,560	\$167,560																\$167,560	
Relocation Escrow	\$346,986	\$346,986																\$346,986	
	\$0	\$0																\$0	
Total Mortgageable	\$12,562,408	\$8,128,933	\$164,000	\$128,635	\$302,566	\$337,352	\$372,139	\$406,925	\$400,102	\$372,139	\$337,352	\$302,566	\$302,566	\$372,139	\$234,853	\$69,689	\$263,980	\$66,472	\$12,562,408
Uses - Non-Mortgageable																			
LIHTC Investor Reserve	\$227,105	\$227,105																\$227,105	
LIHTC Operating Reserve	\$209,660	\$0														\$209,660		\$209,660	
LIHTC Costs and Fees	\$34,505	\$27,305														\$7,200		\$34,505	
Bridge Loan Fees - Commitment Fee and Legal	\$34,693	\$34,693																\$34,693	
Legal Fees - Borrower (includes Local Counsel)	\$53,105	\$53,105																\$53,105	
Third Party Reports and SOS	\$19,929	\$19,929																\$19,929	
Bridge Loan Interest	\$242,920	\$0	\$1,247	\$1,315	\$3,320	\$5,575	\$8,079	\$11,841	\$14,797	\$17,534	\$19,998	\$22,190	\$24,383	\$27,120	\$27,120	\$27,477	\$30,924	\$242,920	
LIHTC Cost Certification	\$35,000	\$35,000															\$35,000	\$35,000	
Non-mortgageable Bond Costs (Excess)	\$22,517	\$22,517																\$22,517	
Cash Developer Fee	\$140,999	\$67,599																\$140,999	
Deferred Developer Fee	\$1,670,084	\$0																\$1,670,084	
Total Non-Mortgageable	\$2,699,516	\$429,736	\$1,247	\$1,315	\$3,320	\$5,575	\$8,079	\$11,841	\$14,797	\$17,534	\$19,998	\$22,190	\$24,383	\$27,120	\$27,120	\$27,477	\$30,924	\$356,777	\$2,699,516
Total Uses	\$15,261,924	\$8,558,669	\$165,247	\$129,950	\$305,887	\$342,928	\$380,218	\$418,765	\$414,898	\$389,672	\$357,351	\$324,757	\$326,949	\$399,258	\$261,973	\$97,166	\$284,904	\$423,249	\$15,261,924



LIHTC Underwriting

Underwriting to LIHTC parameters

Developer Fee

Different approaches to value and operating expenses

Eligible and ineligible basis

Installment schedules, yield, and funding gaps

Equity bridge loans



Important Affordable Underwriting Considerations



Timing



Understanding underwriting
parameters of other sources of
funds



Do not underestimate the
complexity – but you can do it!

Timing

Multiple Pathways to Closing

Time Period	Property Path	TE Bond Path	FHA Path	LIHTC Path	HAP Path	Sub Debt/PILOT/Ground Lease/RAD
1 - 6 mos.	Initial Due Diligence/Feasibility/PSA	Submit for Inducement TEFRA Hearing				
		Receive Inducement Resolution			Begin HAP Assignment & MUTM Process	Letter of Intent
3 mos.	Property Due Diligence, Testing, Reports	Submit Bond Application	Lender Letter for Bond Application	Equity Letter for Bond Application	Submit HAP Package	
	Hire Architect, Plans & Specs		Lender Underwriting	Investor Underwriting		
	Hire GC, Contract Bidding		FHA Application Submitted		MUTM Rents Approved	Commitment Letter/Interim Approval
3 mos.		Begin Weekly All Hands Call	Closing Kick Off Call			
		Bond Documents Drafted	HUD Commitment Received	Equity Approval Received		Final Approval(s)
4 weeks			Special/Additional Conditions Cleared All Necessary Approval Received Rate Lock			
		Bond Documents Substantially Completed	Closing Package Submitted	LPA Substantially Completed		Documents Completed
4 weeks			Review Comments Addressed Closing Date Set			
"Closing" Day 1	Permits Pulled	Bonds Marketed & Priced (~2 weeks needed)				
"Closing" Day 2		Bond Pre-Closing/Docs Signed	HUD Pre-Closing/Document Passing			
"Closing" Day 3	All Funds Received from All Funding Sources, HAP Contract Received					
	HUD-Endorsed Note Released					
	Funds Released from Escrow - Close					



Affordable Case Study #1

221(d)(4) New Construction
(Redevelopment)

9% LIHTC Equity

TPV to AHAP to HAP

Ground Lease Structure

Partnership with Housing Authority

Affordable Case Study #2

9% LIHTC Equity

Federal Historic Tax Credit Equity

State Donation Tax Credits

FHLB AHP

Energy Grant

Seller Financing

Contributions/Grants

Project Based Vouchers

RAD Conversion



Advice for Emerging Underwriters

Mentorship

Industry Involvement

MBA Courses

Network

Ask Questions





Questions?