

APPENDIX 1
AFFORDABLE HOUSING PROGRAM
2013 PROJECT FINANCIAL FEASIBILITY ANALYSIS GUIDELINES

Development Budget Costs for Projects Involving Rehabilitation and/or Construction

1. Developer's Retention

Fees that exceed 15% of Total Development Costs (net of developer's retention) for newly constructed and substantially rehabilitated projects will require further explanation. Developer fees should be established at time of application to the AHP and may not routinely escalate, notwithstanding any subsequent increases to the development budget that may subsequently occur during the construction and/or rehabilitation phase. With the exception of projects that are being funded under the U.S. Department of Housing and Urban Development's ("HUD") Section 202 or 811 programs, fees (including any additional fees for consultants) that are less than 5% of Total Development Costs (net of developer's retention and any consulting fees) for newly constructed and substantially rehabilitated projects will require further explanation.

Sponsors of projects that involve the resale of properties to first-time homebuyers on the open market will be limited to a \$500 credit counseling or financial literacy education fee if they provide such services. Sponsors of other homeownership projects whose roles are limited to homebuyer screening, mortgage application preparation, marketing, or other administrative functions will not be entitled to any developer fee. Sponsors of projects that involve the rehabilitation of existing owner-occupied dwellings will be permitted a 15% developer fee (which may not be charged in addition to related salary or administrative expenses).

2. Construction and Renovation Costs

- a) Any project that involves the new construction or substantial rehabilitation of multi-family rental housing or single-family dwellings built on infill developments will be evaluated in accordance with Marshall & Swift, RS Means and/or other industry construction cost data to determine whether the construction or rehabilitation costs appear reasonable on a cost per square foot basis, including remaining useful life, or other basis of measurement as determined by the FHLB-NY.
- b) Any project that involves the moderate rehabilitation of multi-family rental housing will be evaluated in accordance with Marshall & Swift, RS Means and/or other industry construction cost data to determine whether the rehabilitation costs appear reasonable, including remaining useful life, as determined by the FHLB-NY.
- c) Any project that involves the new construction or substantial rehabilitation of group homes will be evaluated in accordance with Marshall & Swift, RS Means and/or other industry construction cost data to determine whether the rehabilitation costs appear reasonable, including remaining useful life, as determined by the FHLB-NY.
- d) Any project that involves the new construction or substantial rehabilitation of 1-to-4-family dwellings will be evaluated in accordance with Marshall & Swift, RS Means and/or other industry construction cost data to determine whether the rehabilitation costs appear reasonable, including remaining useful life, as determined by the FHLB-NY.
- e) Any project that involves the moderate rehabilitation of or emergency repairs to existing owner-occupied 1-to-4-family dwellings will be evaluated in accordance with Marshall & Swift, RS Means and/or other industry construction cost data to determine whether the rehabilitation costs appear reasonable, including remaining useful life, as determined by the FHLB-NY.

Rehabilitation must be done in compliance with applicable health, fire prevention, building, and housing codes and standards. At completion of rehabilitation, each AHP-assisted unit or dwelling must meet HUD minimum habitability standards.

A sponsor or developer of a project that presents hard costs that exceed the customary limits as determined by the applicable standard (see above) must provide a valid explanation, including supporting documentation or a formal opinion letter from a qualified third-party professional. Any project that presents hard costs that exceed the customary limits by 25% will be deemed ineligible for AHP assistance. For projects that involve the rehabilitation of existing owner-occupied dwellings and proposed hard costs exceed the customary limits as determined by the applicable standard (see above), a qualified rehabilitation specialist (who is employed by the sponsor) or a qualified third-party professional must explain the bidding process that was used to select the project contractor(s). Such professionals must also certify that the quality of the completed work is in conformity with the contract documents and they have determined that the amount to be paid is reasonable.

3. Architectural Fees

Architectural Fees that exceed 9% of total construction costs will require further explanation. Conversely, expenses that are less than 3% of total construction costs will require further explanation.

Any project that involves the new construction or rehabilitation of rental units or the development of homes to be sold to qualified purchasers must have a qualified third-party professional certify that the quality of the completed work is in accordance with the contract documents and that the amount to be paid is reasonable.

Any project that involves the rehabilitation of existing owner-occupied dwellings must have a qualified rehabilitation specialist who is employed by the sponsor or a qualified third-party professional to certify that the quality of the completed work is in conformity with the contract documents and that the amount to be paid is reasonable.

4. Contingencies

Hard cost contingency expenses for newly constructed projects that exceed 10% of hard costs will require further explanation. Hard cost contingency expenses for projects being renovated or rehabilitated that exceed 15% of hard costs will require further explanation. Soft cost contingency expenses that exceed 5% of total soft development costs will require further explanation unless, when combined with the hard cost contingency guideline, are within an acceptable range (i.e., 10% for newly constructed projects and 15% for rehabilitated projects). Conversely, the combined hard and soft cost contingency expenses for any project that is less than 5% of total construction and soft costs will require further explanation.

5. Builder's Profit, Overhead, and General Requirements ("POGR")

Projects with POGR expenses that exceed 16% net of total construction costs (i.e., an average of 7% builder's profit, 3% overhead, and 6% general requirements) will require further explanation. Conversely, projects with POGR expenses that are less than 10% net of total construction costs will require further explanation.

6. Soft Costs

- a) Rental projects in New York located within the counties that comprise the New York metropolitan region (i.e., Manhattan, Bronx, Kings, Queens, Richmond, Nassau, Suffolk, Westchester, Rockland, and Putnam) with total soft cost expenses (i.e., all costs other than acquisition and direct construction expenses) that do not exceed 12% of total development costs will be deemed acceptable. Such projects with soft costs that exceed 12% to a maximum of 25% of total development costs will require an explanation from a third-party (e.g., architect, attorney, insurance agent, lender, assessor, etc.). Projects with soft costs that exceed 25% of total development costs will not be considered reasonable and will be eliminated for consideration.
- b) Rental projects located in New Jersey with total soft cost expenses (i.e., all costs other than acquisition and direct construction expenses) that do not exceed 12% of total development costs will be deemed acceptable. Such projects with soft costs that exceed 12% to a maximum of 20% of total development costs will require an explanation from a third-party (e.g., architect, attorney, insurance agent, lender, assessor, etc.). Projects with soft costs that exceed 20% of total development costs will not be considered reasonable and will be eliminated for consideration.

- c) Rental projects located in all other areas within the FHLB-NY District, including those outside the District, with total soft cost expenses (i.e., all costs other than acquisition and direct construction expenses) that do not exceed 10% of total development costs will be deemed acceptable. Such projects with soft costs that exceed 10% to a maximum of 20% of total development costs will require an explanation from a third-party (e.g., architect, attorney, insurance agent, lender, assessor, etc.). Projects with soft costs that exceed 20% of total development costs will not be considered reasonable and will be eliminated for consideration.
- d) Projects that involve the construction or rehabilitation of homeownership units with total soft cost expenses (i.e., all costs other than direct construction expenses and acquisition, if applicable) that do not exceed 10% of the total development cost for each unit will be deemed acceptable. Such projects with soft costs that exceed 10% to a maximum of 15% of total development costs will require an explanation from a third-party (e.g., architect, attorney, insurance agent, lender, assessor, etc.). Projects with soft costs that exceed 15% of total development costs will not be considered reasonable and will be eliminated for consideration.

7. Initial Operating Deficit Reserve

A proposed reserve that exceeds six months of the first year's forecasted operating expenses plus debt service will require further explanation and must include supporting documentation from another lender or funding provider that substantiates the proposed reserve requirement.

Development and Operating Costs related to Rental Projects

1. Vacancy Rates

Rates that exceed 5% of Annual Gross Rent will require further explanation. Conversely, rates that are less than 2% of Annual Gross Rent will require further explanation.

2. Management Fees

Fees that exceed the greater of 8% of Total Effective income or \$53 per unit per month will require further explanation. Operating budgets for projects that are not charging a management fee and do not contain a line item expense for a property manager's salary will require further explanation.

3. Operating Expense per Unit per year

The FHLB-NY will assess neither maximum nor minimum per unit operating expenses for projects that receive HUD Section 811 or 202 program funds. Rather, the FHLB-NY will rely on the limits that the local HUD office has established for the project. Expenses for all other projects that exceed the following guidelines will require further explanation:

For projects that are located in either New York City (i.e., the five boroughs), Nassau, Suffolk, Westchester, Rockland, or Putnam County, first-year operating expenses should range between a minimum of \$4,000 to a maximum of \$7,890 per unit per year (exclusive of real estate taxes and full-time security staff, if applicable). For projects located in all other counties within New York State, first-year operating expenses should range between a minimum of \$3,500 to a maximum of \$6,960 per unit per year (exclusive of real estate taxes and full-time security staff, if applicable).

For projects located in Sussex, Passaic, Bergen, Hudson, Essex, Morris, Somerset, Union, or Middlesex County, first-year operating expenses should range between a minimum of \$3,800 to a maximum of \$7,580 per unit per year (exclusive of real estate taxes and full-time security staff, if applicable) for projects located in the following counties.. For projects located in all other counties within New Jersey, first-year operating expenses should range between a minimum of \$3,500 to a maximum of \$6,960 per unit per year (exclusive of real estate taxes and full-time security staff, if applicable).

For projects located in Puerto Rico or the U.S. Virgin Islands, first-year operating expenses should range between a minimum of \$3,500 to a maximum of \$6,960 per unit per year (exclusive of real estate taxes and full-time security staff, if applicable).

For projects that are located outside of the FHLB-NY's geographical District, the FHLB-NY will rely upon the reasonable and customary operating costs that the respective FHLB District (within which the project is located) has determined and published in their annual *AHP Implementation Plan* or guidelines that are comparable to the HUD and/or respective state housing agency standards.

4. Expense Increases per Year

Percentage increases greater than 3% per annum will require further explanation. Conversely, projects with operating percentage increases of less than 1% per annum will require further explanation, unless the project has qualified for funding under HUD Section 202 or 811 programs.

5. Tax Credit Sale Price

Projects that receive less than 92¢ per \$1 of federal low-income housing tax credit allocation will require further explanation. Projects that receive less than 62¢ per \$1 of state low-income housing tax credit allocation will require further explanation.

6. Debt Coverage Ratio

Projects with a debt service coverage ratio exceeding 1.3 in the first year of operation will require further explanation. Conversely, Projects with a debt service coverage ratio less than 1.1 in the first year of operation will require further explanation. Debt ratios beyond the first year must reflect a reasonable trending pattern. For projects with no debt service payments, the cash flow will be analyzed to assess if it is insufficient to support debt and/or will be deposited in an operating reserve to offset future operating deficits.

7. Replacement Reserves

With the exception of projects that are financed under HUD Section 202 or 811 programs or projects that are funded through programs offered by the United States Department of Agriculture (USDA), annual contributions to the replacement reserve that exceed the greater of \$400 per unit or .50% of the total development cost (less the cost of land acquisition) will require further explanation. Where applicable, annual contributions to the operating reserve that exceed 3% of a project's gross rents will require further explanation. Conversely, with the exception of projects that are financed under HUD Section 202 or 811 programs or projects that are funded through programs offered by the USDA, annual contributions to the replacement reserve that are less than \$200 per unit or .25% of the total development cost (less the cost of land acquisition) will require further explanation, unless the project has a capitalized replacement reserve.

In cases where AHP subsidy is requested to finance capital improvements or other rehabilitation costs related to a project that has already been placed into operation, the FHLB-NY will verify existing replacement reserve balances and expects surplus reserves be used as a potential source of funds, subject to the requirements of the lender or agency that primarily monitors these reserves.