

2025 COSCDA Program Managers Conference

Successful Underwriting for HOME-ARP

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Presenter

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- ICF
- 20+ years including project financing and oversight



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Agenda



HOME-ARP RENTAL
DEVELOPMENT
OVERVIEW



UNDERWRITING AND
SUBSIDY LAYERING
CONSIDERATIONS



LEVERAGING OTHER
RESOURCES (HOME,
HTF, LIHTC)



ADDITIONAL GUIDANCE

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HOME-ARP Rental Development Overview

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HOME-ARP Basics

American Rescue Plan includes \$5 billion of supplemental HOME funds to provide housing, shelter, and supportive services “qualifying populations”

Funds allocated via HOME formula to all FY 2021 HOME PJs

Funds available to PJs for expenditure until September 2030

Implemented by CPD Notice 21-10 and Waiver Appendix

- CPD Notice 22-13 revised the implementing notice to establish plan submission deadline and procedures for HUD reallocation of funds

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HOME-ARP Basics

QPs:

1. Homeless (McKinney Act definition at 24 CFR 91.5)
 2. At-risk of homelessness (McKinney Act definition at 24 CFR 91.5)
 3. Fleeing/Attempting to Flee Domestic Violence, Dating Violence, Sexual Assault, Stalking, or Human Trafficking
 - Definitions from VAWA regulation at 24 CFR 5.2003, except
 - Human trafficking definition from Trafficking Victims Protection Act of 2000
 4. Other Populations where assistance would:
 - Prevent the family's homelessness; or
 - Serve those with the greatest risk of housing instability
- Veterans and families including veteran member that meet one of preceding criteria

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HOME-ARP Rental Development Overview



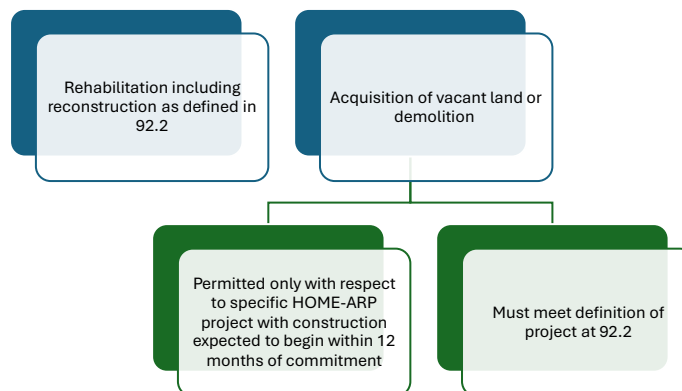
Acquire, construct, and rehabilitate rental housing for occupancy by individuals and families that meet one of the Qualifying Populations (QP)



May include single family or multifamily housing, transitional or permanent housing, group homes, single room occupancy (SRO) units, and manufactured housing

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HOME-ARP Rental Development Overview



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HOME-ARP Rental Development Overview



≥ 70% total HOME-ARP rental units must be restricted for occupancy by qualifying households



≤ 30% total HOME-ARP rental units may be restricted for occupancy by low-income households



Proportions in individual projects may vary, but LI units are only allowed in projects that also have QP units restricted for qualifying households

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HOME-ARP Rental Development Overview

- Assist 1+ units in a project
 - Costs associated with HOME-ARP units and proportionate share of common areas
 - Underwriting/subsidy layering required
 - Cost allocation required if assisted/unassisted units are **not** comparable
- After project completion, number of HOME-ARP units **cannot** decrease
- Additional HOME-ARP investment for operating cost assistance is **permitted**
 - Only during compliance period and prior to the end of HOME-ARP budget period
 - Can capitalize an operating reserve for longer term operating assistance
- Additional HOME-ARP investment for capital costs is **prohibited**
 - Except within 12 months of project completion

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HOME-ARP Rental Development Overview

Eligible

- Development hard costs
- Acquisition costs of improved or unimproved real property
- Refinancing of existing debt secured by rental project rehabilitated with HOME-ARP
- Soft costs
- Relocation
- Costs relating to payment of loans
- Operating cost assistance

Ineligible

- As defined in 24 CFR 92.214
- Except, prohibition of operating cost assistance is waived for HOME-ARP

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HOME-ARP Rental Development Overview

Eligible forms of assistance include:

- Equity investments
- Interest/non-interest-bearing loans or advances
- Interest subsidies
- Deferred payment loans
- Grants
- Other forms approved by HUD

Minimum amount of assistance

- \$1,000 x number of HOME-ARP assisted units in the project

Maximum subsidy

- HOME-ARP suspended the maximum per-unit subsidy

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HOME-ARP Rental Development Overview

- HOME commitment requirements apply including:
 - Executed legally-binding written agreement between PJ and project owner
 - HOME-ARP assistance must be provided for a specific HOME-ARP project
 - All necessary financing secured
 - Budget and schedule have been established
 - Underwriting is complete
 - Construction is scheduled to start within 12 months of the date of the written agreement

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Operating Cost Assistance

- Covers any deficits remaining after rental revenue applied to project operating costs
 - Reserve must be appropriately sized
 - Income from unit rents must be accounted for prior to drawing from the reserve
- Eligible only for QP units
- Amount of assistance based on project underwriting
- Must be reasonable and appropriate for the area, size, and population served

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Operating Cost Assistance

- Operating costs include reasonable and necessary:
 - Administrative expenses
 - Payroll
 - Employee education, training, and travel
 - Housing administration goods and services
 - Property management fees
 - Day-to-day management of HOME-ARP QP units
 - Maintenance
 - Including ongoing payments or capitalization of replacement reserve
 - Based on useful life of major systems

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Operating Cost Assistance



If providing operating cost assistance, it can be in the form of ONE of the following:

Ongoing operating cost assistance

Capitalized operating cost assistance reserve

- Separate interest-bearing account
- Sized based on analysis of project operating deficits after anticipated rents from QP units are applied



Ongoing operating cost assistance cannot be provided beyond the end of the HOME-ARP budget period (9/30/30)



Any balance remaining in the capitalized operating cost assistance reserve at the end of the 15-year minimum compliance period must be returned to the PJ and booked as HOME Program Income, unless the project will continue to serve QPs

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Underwriting and Subsidy Layering Considerations

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UW and SL Considerations

- PJ responsible for financial viability of project through affordability/compliance period
 - Ensure sufficient assistance
 - Prevent over-subsidization
- Evaluation against written standards
- Cannot accept underwriting done for LIHTC or by other lenders (but can review)
- PJ must make and document its determination

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UW and SL Considerations

What does it assess at a high level?

- Applicant capacity
- Project readiness and feasibility
- Market demand
- Cost reasonableness

What else does it take into account?

- Limits and allowances
- Affordability, compliance periods

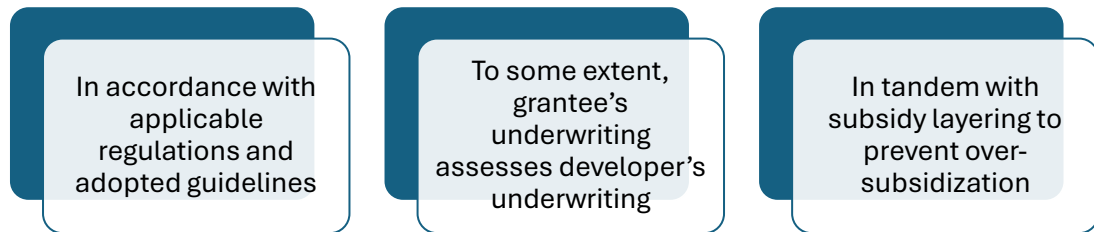
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Why Do We Underwrite?

- Ensure the deal “pencils out”
 - What are the total and per unit costs?
 - Can revenues and reserves cover expenses over compliance period?
 - Are costs eligible?
 - Are costs reasonable?
 - What financing structure is supportable?
 - Can the project weather moderate operational and financial fluctuations (i.e. market changes, operating cost changes)?

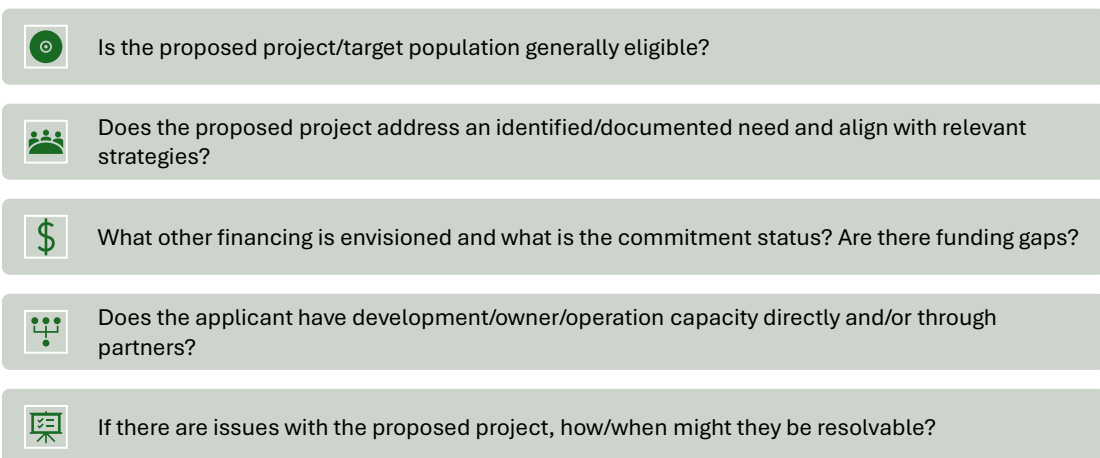
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How Do We Underwrite?



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General Project Review



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Key Considerations



REQUIREMENTS

FEDERAL
REGULATIONS,
FEDERAL/LOCAL
PER UNIT SUBSIDY
LIMITS, LOCAL
UNDERWRITING
STANDARDS



FINANCIAL

PROPOSED
DEVELOPMENT
BUDGET,
PROPOSED
OPERATING
BUDGET
INCLUDING
RESERVES



COROLLARY

APPRAISAL, MARKET
STUDY,
ENVIRONMENTAL
STUDY, RELOCATION
PLAN, PHYSICAL OR
CAPITAL NEEDS
ASSESSMENT



OTHER DATA

VACANCY RATES,
UTILITY COSTS,
CONSTRUCTION
MATERIAL AND
LABOR COSTS, REAL
ESTATE TAX RATES

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Common Challenges

- Assembling financing takes time, sometimes years
- Deals can come apart and together several times before finally proceeding
- Financing can change up to the time of closing (sources/uses/structures)
- Each funding source has its own compliance requirements, and some supersede others
- Public funders need to coordinate to avoid conflicts
- No funder wants to be the first to commit but want to see other commitments

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Common Challenges

- Applicants may submit before they/the project are truly ready
- Applicants often have development capacity or owner/operator capacity but not both in house; can supplement via partners or consultants or hire
- Federal funds are complex and generally not a good test case for a novice developer/owner/operator
- Applicants and funders are often more focused on initial development than long-term compliance
- Some pre-development expenses that demonstrate project readiness are costly and may be borne out of pocket by the developer or postponed

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Cost to Build

- Development Budget
 - Covers Pre-Development and Construction
 - Sources and Uses Statement
 - Various Financing Structures (Equity, Grants, Loans, Rental Subsidy)
 - Hard and Soft Costs (Acquisition, Environmental, Relocation, Architectural, Engineering, Appraisal, Reserves, Developer Fees, etc.)

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Cost to Operate

- Operating Budget
 - Also called a proforma
 - Outlines anticipated income and expenses
 - Projects cashflow over compliance term
 - Considers impacts of rental/fee income, operating cost assistance, rental subsidies, reserves, utilities, taxes, insurance, property mgmt. fee, etc.

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HOME-ARP Specific Challenges



Estimating rent revenues for QP households



Insufficient income based on QP, LI households

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HOME-ARP Specific Opportunities

Flexibility to cover full
project costs, as
eligible

Offering operating cost
assistance

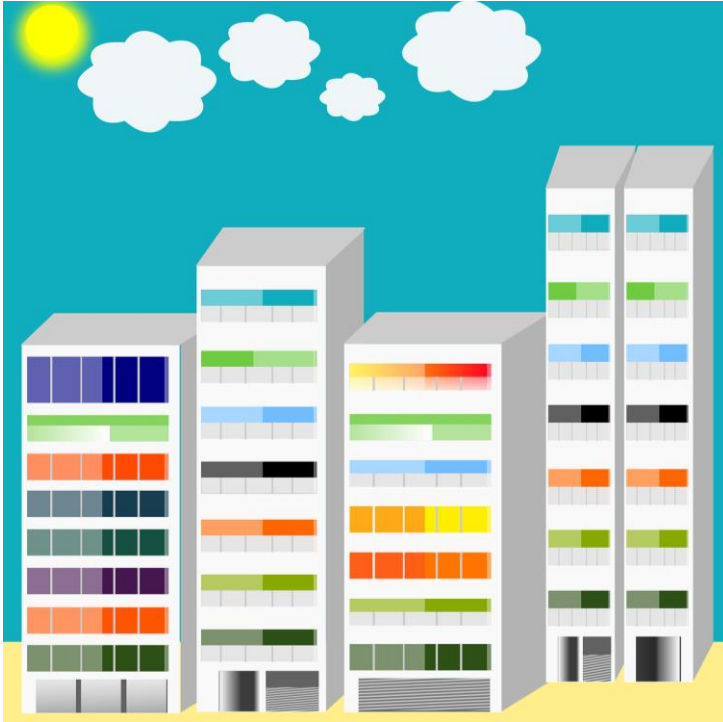
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Potential Adjustments to Fill Gaps

Seek project-based
vouchers and/or
referrals of tenants
with rental
assistance vouchers

Add market rate units

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Practical Example – Operating Proforma Analysis

HOME-ARP Rental Rehab Project **50 Units; All 1 Bedroom**

7 x HOME-ARP QP units @
\$50/month

3 x HOME-ARP LI units @
\$750/month

40 x 60% AMI units @
\$700/month

Per Unit Per Annum (PUPA)
Operating Expenses: \$5,800

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Income Projection

Unit Type	A. Monthly Rent	B. # of Units	C. Potential Annual Rent (A*B*12 Months)	D. Deductions (C - Vacancy & Bad Debt from Proforma)	E. Assumed Annual Rent Income (C- D)
HOME-ARP QP	\$50	7	\$4,200	\$(294)	\$3,906
HOME-ARP LI	\$750	3	\$27,000	\$(1,890)	\$25,110
60% AMI	\$700	40	\$336,000	\$(23,520)	\$312,480
Total					\$341,496

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Comparing First-Year Income and Expenses

Unit Type	A. # of Units	B. Assumed Annual Rent Income	C. PUPA	D. Total Operating Costs (A*C)	E. Replacement Reserve Deposit	F. Net Operating Income (B-D-E)
HOME-ARP QP	7	\$3,906	\$5,800	\$(40,600)	\$(2,100)	-\$38,794
HOME-ARP LI	3	\$25,110	\$5,800	\$(17,400)	\$(900)	\$6,810
60% AMI	40	\$312,480	\$5,800	\$(232,000)	\$(12,000)	\$68,480
Total	50	\$341,496		\$(290,000)	\$(15,000)	\$36,496

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The Bigger Picture

At 100% Occupancy:

QP units operate at an annual loss of at least \$38,794

The project operates with a net operating income of \$36,496

Project cannot support further debt

Over Time:

If occupancy decreases and/or operating costs increase (which is common), NOI will decrease (higher losses, fewer gains)

Based on rent increases (2%) and expense growth (3%), NOI would be negative in year 13 of the 15-year compliance period

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Leveraging Other Resources

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Key Considerations

LIHTC

HOME

HTF

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Additional Guidance

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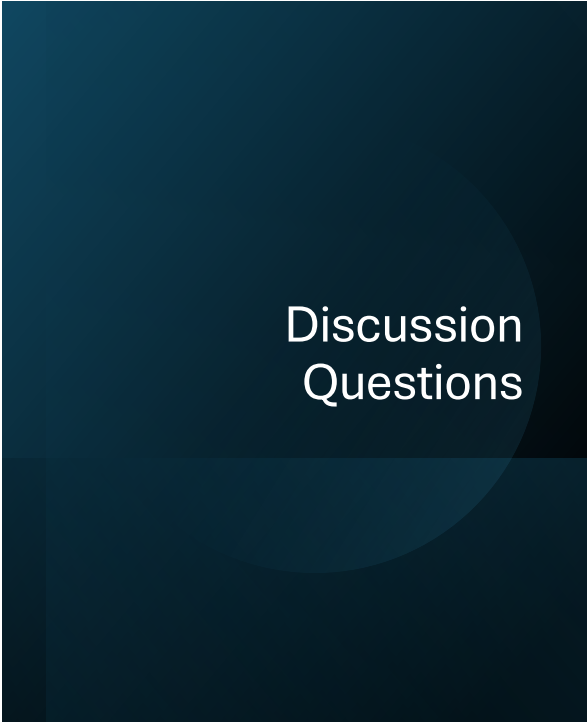
[HOME-ARP Program | HUD.gov / U.S. Department of Housing and Urban Development \(HUD\)](#)

[HOME-ARP FAQs | HUD.gov / U.S. Department of Housing and Urban Development \(HUD\)](#)

[HOME-ARP Program - HUD Exchange](#)

[HOME-ARP-Rental-Fact-Sheet091321.pdf](#)

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Discussion Questions

THANK YOU!