# Attachment B: Feasibility Guidelines

*Note:* The Federal Home Loan Bank of Indianapolis ("FHLBank Indianapolis" or the "Bank") will generally use the feasibility guidelines established by the State Housing Finance Agency (HFAs) as the primary standard for projects utilizing Federal Housing Finance Agency ("Finance Agency") financing. The feasibility analysis for competitive AHP consists of the following parts:

- Financial feasibility
- Bank compliance experience with sponsor and Member
- Sponsor capacity and development team experience
- Project readiness
- Market demand for proposed project

## Financial Feasibility

The financial feasibility assessment will include a review of sources, uses, project costs, and operational feasibility, and need for the subsidy as outlined in §1291.24(a)(3). The application will require the sponsor to provide information regarding loans, grants, equity contributions, the anticipated value received from syndicators, equity contributions, or private funding sources for the tax credits and any other financing that is necessary for the financial feasibility of the project. The Bank recognizes that all projects are different; for example, some have debt, and others are not able to support debt in order to serve very low- income households. The financial feasibility standards are not used to automatically "disqualify" projects that fall outside the boundaries. These are evaluated on a case-by-case basis and should be clearly explained in the application. The Bank uses the feasibility guidelines as measures of "reasonableness." In addition, depending upon project location and type, the Bank may request additional information for items that do not fall within appropriate ranges. The financial feasibility/need for subsidy analysis is part of the disbursement review and the initial monitoring review.

The analysis described above is undertaken to ensure the following:

- Estimated sources equal estimated uses – cash basis;
- Project costs are reasonable and customary in light of industry standards for the location and the long-term financial needs of the project;
- Operating pro-forma demonstrates reasonableness and the likelihood of operating as projected; and
- The AHP subsidy requested is necessary for the financial feasibility of the project.

*Note:* It is the responsibility of the Member financial institution to independently underwrite the submitted projects for the AHP subsidy requested in addition to any proposed financing of interim or permanent debt obligation. Part of the Member's review should include evaluation of the development for the readiness of the proposal to use AHP funds. Generally, this readiness threshold is demonstrated with the commitment of 70% of the sources of funds (excluding AHP) at the time of application. Additionally, review of all threshold benchmarks should be considered in assessing the overall readiness of the development to proceed as presented in the application. Member underwriting is required on all AHP applications. It is expected that senior management of the Member will review and approve all applications. The Bank's feasibility analysis is not meant to meet lending underwriting criteria. Therefore, the Bank's acceptance of the project should not be relied upon for lending purposes.

## Homeownership Project Development Budget & Homeownership Initiatives Households

TABLE 1. FEASIBILITY GUIDELINES FOR HOMEOWNERSHIP PROJECT CRITERIA

| Criterion | Feasibility Guidelines (TARGETS ARE MAXIMUMS) |
|---|---|
| Cost per unit – rehabilitation (competitive AHP only) | 75% of the floor FHA single-family mortgage limit for area. Current mortgage limits can be found at: *FHA Mortgage limits*. |
| Cost per unit – new construction (excluding land costs and nonprofessional volunteer labor) (competitive AHP only) | 75% of the floor FHA single-family mortgage limit for area. Current mortgage limits can be found at: *FHA Mortgage limits*. |
| Household's monthly housing expense, including principal, interest, taxes, insurance and homeowner's dues as % of gross income at application | May not exceed 40% |
| Mortgage Loan rate (Homeownership Initiatives only) | Market rates for loans of similar maturity, terms and risk |
| Mortgage Loan term/amortization (Homeownership Initiatives only) | Minimum 5-year mortgage term/15-year amortization |
| Developer fee (competitive AHP only)<br>Payment to the sponsor of developer fee is an eligible use of AHP; however, developer fee may be disbursed only at the conclusion of the development when all homes have been sold and total development costs have been validated. Developer fee may not exceed 15%. | New Construction and Rehab – 15% based on calculation:<br>Developer fee + consultant fee ÷ (Total development costs – developer fee – consultant fee – and and/or building acquisition) |
| Construction contingency (competitive AHP only) | New construction: 10% of hard costs<br>Rehabilitation: 20% of hard costs |
| Construction – hard costs (% of total development costs) (competitive AHP only) | 70% minimum |

### *Use of AHP Subsidy for Rehabilitation of Existing Owner-Occupied Housing:*

Conditions and Requirements:

- To determine cost reasonableness, a project must complete one of the following:
- Obtain at least two independent, third-party bids;
- Where the sponsor, co-sponsor, developer, or an affiliate thereof acts as the general contractor, the rehabilitation costs must be validated by an independent third party, which may include but is not limited to, the project's architect or engineer.
- The maximum allowable AHP subsidy per house is $25,000.
- The demand for the proposed owner-occupied rehabilitation units will be demonstrated through a waiting list of qualified homeowners and a detailed narrative of the process to identify qualified homeowners.
- Permitted rehabilitation/replacement items are restricted to those specified in the Revive Home Repair Grant as detailed in *Attachment H* of this 2025 Implementation Plan, as well as flooring, foundation, plumbing, and electrical repairs.
- Ineligible rehabilitation/replacement items include luxury items, room additions, general cosmetic or remodeling type improvements, and improvements that do not become a permanent part of the property.
- If homeowners are going to be temporarily displaced from housing, provisions must be made for housing accommodation during the work.

### *Use of AHP Subsidy for Down Payment Assistance and Closing Costs:*

Conditions and Requirements:

- AHP subsidy per household may not exceed 20% of the purchase price of the proposed property.
- Purchase price must be supported by an appraisal completed not more than 90 days in advance of closing.

In cases where a loan is extended by a member, sponsor, or other party to the project, and the AHP subsidy provided to that project is to write down the interest rate on the loan extended, the net present value of the interest foregone from making the loan below the lender's market interest rate shall be calculated as of the date the application for AHP is submitted to the Bank.

## Rental Project Development Budget

TABLE 2. FEASIBILITY GUIDELINES FOR RENTAL PROJECT CRITERIA

| Criterion | Feasibility Guidelines<br>(TARGETS ARE MAXIMUMS EXCEPT FOR LIHTC EQUITY) |
|---|---|
| Rental per unit development cost – New Construction Any line-item cost or total unit costs exceeding a range of reasonableness for the project scope may be disqualified at the sole discretion of the Bank. Considerations will be made for scope and location of the development. Additional documentation and information, verified by the Bank, may be required to substantiate reasonableness of costs.<br><br>Per unit development costs more than $399,999 require third- party documentation support and justification for higher costs with the application. | Maximum established by state HFA in which the development is located if the development qualifies for any state-administered program OR HUD 221(d)(4) mortgage limits found at: *221 d 4 Limits*.<br><br>Architect Fees, including design and supervision fees, must be limited to 4% of the total hard costs plus site work, general requirements/profit/overhead, and hard construction contingency. |
| Rental per unit development – acquisition/ rehabilitation<br><br>Any line-item cost or total unit costs exceeding or lacking a range of reasonableness for the project scope may be disqualified at the sole discretion of the Bank. Considerations will be made for scope and location of the development.<br><br>Per unit development costs more than $399,999 require third-party documentation support and justification for higher costs with the application. | Maximum established by state HFA in which the development is located if the development qualifies for state-administered program OR HUD 221(d)(4) mortgage limits found at: *221 d 4 Limits*.<br><br>Architect Fees, including design and supervision fees must be limited to 4% of the total hard costs plus site work, general requirements/profit/overhead and hard construction contingency. |
| Developer fee<br><br>Only LIHTC and HUD 202/811* financed developments may use deferred fee as a source of funds. Any deferred fee loan must be repaid from cash flow by year 15. (See additional notation below)<br><br>**Requires written approval from HUD to defer any portion of the developer fee.* | New construction and rehab – 15% based on calculation: (Developer fee + consultant fee) / (total development costs – developer fee – consultant fee – land acquisition costs –operating/supportive service reserves)<br><br>Total developer, guaranty, and consultant fees may not exceed $1,800,000 OR maximum established by state HFA in which the development is located if the development qualifies for state-administered program.<br><br>Maximum of 60% of the developer fee can be deferred. |
| Contractor cost limits<br><br>(See notation below regarding Construction Management) | The combined total of contractor profit, overhead, and general requirements shall be limited to 14% of hard construction costs.<br><br>Calculation: Total Contractor Profit / (Total construction cost – contractor profit, overhead and general requirements) |

| Criterion | Feasibility Guidelines<br>(TARGETS ARE MAXIMUMS EXCEPT FOR LIHTC EQUITY) |
|---|---|
| Hard Cost Construction contingencies<br>*Note: The Bank has no soft cost contingency allowance.* | New construction: 10% of hard construction costs<br>Rehabilitation: 15% of hard construction costs<br>Historic rehabilitation and/or adaptive reuse: 20%<br>*Or consistent with the state HFA, USDA, or HUD guidelines in which the development is located.* |
| Tax credit proceeds | $0.80 minimum |
| Operating reserves (capitalized) (Requires non-AHP funding sources) | The greater of (1) four months of project expenses including operating expenses, debt service payments, and replacement reserve payments or (2)<br>$1,500 per unit.<br>The Bank will consider exceptions to these guidelines on a case-by-case basis to include: 1) Another funding source has affordability restrictions that extend beyond the AHP 15-year retention period; 2) Higher level of reserves required by another funder who is providing financial sources to the deal; or 3) Based on certain elements of a deal such as a project reserving 51% or more of the units to households at or below 30% of AMI. |
| Supportive Services Reserves (capitalized) | Recommended (but not required) for projects that provide 80% or more of the units with extensive supportive services to special needs consumers. (Note: AHP subsidy may not be used to fund project debt service, operating, replacement, or supportive services reserves.) |
| Construction – hard costs (% of total development costs)<br>*Note: If project involves acquisition with little or no rehabilitation, acquisition costs may be considered hard costs.* | 70% minimum |

## Related Parties

The Applicant/Sponsor, Owner, Developer, and Consultant must disclose all Related Party Fees submitted within the initial application budget. Fees may include, but are not limited to, developer fee, consultant fee, architect fee, guaranty fee, owner's representative fee, broker fee, document review fee, supervision fee, contractor fee etc. See "related party" definition in *Attachment A, Definitions*.

## Developer Fee/Deferred Developer Fee

Applicant/Sponsor must include a statement disclosing each entity/individual receiving a portion of the Development Fee along with the percentage or amount of the total fee each entity/individual will receive.

Projects funded with Low-Income Housing Tax Credit (LIHTC) may defer developer fee as a source of funds. On a case-by-case basis with the written approval by HUD, a HUD financed project (HUD 202/811) may defer a portion of the developer fee as a source of funds.

Applicant/Sponsor must describe the terms of the deferred repayment obligation to the development, including the interest rate proposed and the source of repayment.

Non-profit organizations shall include a resolution from the Board allowing such a deferred payment and interest obligation to the Development. A deferred Developer Fee Agreement evidencing the principal amount and terms of interest and repayment of any deferred repayment obligation must be submitted at project completion.

## Construction Management/Contractor Fees

If a construction manager is not included in the construction contract, then any construction management consulting fee must be included in and paid from the developer's fee. If a construction management fee (paid to a related or unrelated third party) is included in the construction contract, it must be included in and subject to the above fee limits relating to General Requirements, Profit and Overhead. Excess fees will be deducted from total development cost when performing the need for subsidy analysis.

## Sponsor Loans to Development (LIHTC Funded)

The Bank allows the AHP subsidy to be loaned by the sponsor to ownership entity. Terms of such loans are generally subject to available cash flow and in an equivalent amount of the AHP subsidy. The terms of such loans may not exceed the applicable AFR in effect at the time the note is executed (generally not more than 3%). Further, interest on the note shall accrue throughout the term, but neither principal or interest may be paid, in whole or part, prior to the fulfillment of the 15-year AHP retention period. Such loan does not supersede repayment requirements detailed in the AHP Agreement.

## Rental Project Operating Pro-Forma

TABLE 3. CRITERIA AND RANGES FOR RENTAL PROJECTS OPERATING PRO- FORMA

| Criterion | Range<br>(Targets are maximums for years 1–15 of pro-forma) |
|---|---|
| First year rents must equal total rents from the Rental Project Worksheet (at application); rents may not exceed 30% of the targeted area median income | Must be equal |
| Property Management fees | Up to 10% of effective gross income or consistent with the state HFA, USDA or HUD guidelines in which the development is located for projects receiving that funding. |
| Replacement reserves | Minimum contribution requirements are as follows:<br>Rehabilitation: $300 per unit/year<br>New Construction: $250 per unit/year<br>Historic Rehabilitation: $240 per unit/year<br>Single Family Units: $420 per unit/year OR consistent with state HFA, USDA or HUD guidelines where applicable |
| Inflation factors | Income up to 2% annually<br>Expenses 1–3% annually or 1–2% faster than income |

| Criterion | Range<br>(Targets are maximums for years 1–15 of pro-forma) |
|---|---|
| Vacancy rate | Up to 8% of total gross rents<br>Up to 10% of effective gross income if supportive housing |
| Total annual operating expense per unit<br>Includes replacement reserve contributions but excludes debt service.<br>See additional comments below | At least $4,500 per unit/year, OR consistent with the state HFA, USDA or HUD guidelines in which the development is located, where applicable |
| Debt coverage ratio (DCR)<br>Debt obligations that are subject to repayment based on available cash flow are considered soft loans and may not be included in the Debt Service line item of the 15-year Pro-forma | Projects with hard debt: Minimum 1.15 up to 1.45 maximum<br>Projects without hard debt will not have a DCR. This will be calculated by a ratio of Effective Gross Income to Total Annual Expenses (excluding reserve for replacement)<br>All projects require a minimum of 1.15 ratio every year (1–15) to be considered feasible by the Bank.<br>*Note: Tax abatement may cause the debt coverage ratio to be higher than these guidelines.* |
| Exceptions will be considered on a well-documented, case-by-case basis. | |

## Other Project Feasibility Issues

## Shelter-Type Projects/Supportive Housing

Projects that rely on donations for the support of the operating pro-forma must be able to demonstrate they have a track record of raising funds necessary to support the project. It is vital that the owner is able to demonstrate the financial capacity to retain the project as affordable housing for the retention period. Financial capacity is demonstrated by both a track record of raising adequate funds as well as having a balance sheet that reflects good fiscal management. It will be difficult to fund projects in which the owner's financials demonstrate year-to-year shortfalls in raising adequate funds for operating. In these cases, the Member or sponsor/owner should include information indicating it has raised similar amounts of monies in the past and can demonstrate fundraising capacity.

Projects charging little or no rent or operating as "shelters" must be able to provide verifications of tenant income. For "shelters" the income verifications may consist of intake forms, zero income affidavits, or similar client certification as little or no third-party verifications can be obtained.

Projects involving service-enriched housing, housing for persons with special needs, and housing for the homeless will complete the supportive services section of the 15-year operating proforma in *FHLBI.GIVES*. The supportive service proforma should relate specifically to the proposed project and should not reflect broader organization or agency income/expenses. Sources of funds and expenses related directly to the supportive services spaces may be reflected in the overall sources and uses of the project. The overall supportive service expenses should be reflected in the Total Commercial Development costs portion of the development budget. Since AHP cannot pay for supportive service expenses Bank staff will review the funding stack for eligible sources of funds to cover overall supportive service expenses listed.

For projects that rely on fundraising or equity for development sources, evidence of banked activities held in a separate capital account is required. Generally, a minimum of 70% of funding should be demonstrated as committed at time of application and 100% funding achieved by completion of the project.

## Mixed Use Developments

For projects which involve the blending of commercial, office, or retail space, a separate 15-year operating pro-forma is required to detail expected income and operating expenses associated with the operation of the non-housing spaces. Sources and uses for the development costs are reflected in the financial workbook to reflect the total scope of the project. Readiness to proceed may be measured by the funding committed to the non-housing portion of the project at the time of application. The method of cost allocation for development costs for common building areas and building mechanics is required as may be indicated by the project design. The ownership and operational structure of the non-housing areas of the project should be detailed. A project that depends on commercial income to meet the minimum feasibility guidelines will not be considered financially feasible.

## Debt Coverage Ratios

FHLBank Indianapolis recognizes that all rental projects are different; for example, some have debt, and others are not able to support debt in order to serve very low-income households. Developments without hard debt are allowed but will be subject to additional scrutiny from the Bank. In general, projects with a debt coverage ratio (DCR) above 1.45 demonstrate adequate cash flow to seek additional financing from private resources. Conversely, projects with a debt coverage ratio (DCR) below 1.15 demonstrate inadequate cash flow to seek additional financing from private resources and may not be sustainable.

Projects with debt coverage ratios exceeding 1.45 or less than 1.15 will need to provide reasonable justification and will be evaluated on a case-by-case basis. For example, exceptions may be made for projects that the Bank determines, in its sole discretion, will need higher DCR to be feasible or have such a small amount of cash flow that any significant amount of financing cannot be reasonably supported. The Bank recognizes that smaller or rural developments may have higher debt coverage at the beginning of the compliance period to remain feasible over the 15 years.

## Per-Unit Operating Costs

FHLBank Indianapolis recognizes that per unit operating costs can vary based upon geography, number of units in a project, population being served, utility expenses and inflationary rate compounding. Projects with per unit operating expenses in excess of the feasibility guideline will be evaluated for reasonableness and considered on a case-by-case basis by the Bank. Operating expenses must be indicative of costs associated with the operation of the housing only and may not include costs associated with the delivery of services required to sustain a special needs or homeless population. Supportiveservices income and expenses must be reflected in a separate pro-forma. Operating expenses are evaluated net of operating reserves and real estate taxes.

## Cash Flow

All developments will be required to have a positive cash flow without having an undue profit (unless operating reserves are adequate to offset negative cash flow). The Bank will evaluate the income and expense assumptions for reasonableness.