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Dear Steve

Following our last meeting regarding the Homeless set aside, we would like to summarize the key points of the discussion.

- Homeless developments are not feasible without a substantial Operational Deficit Reserve.
- FHFC will allow sources other than SAIL to fund the required reserve.
- New guidelines are required to properly underwrite Homeless developments.

Here are our recommendations for discussion:

Sizing of Operational Deficit reserve:

- Sizing of the Reserve should be calculated using **1.10** Debt Service Coverage (DSC). This is the standard DSC used by the FHFC for SAIL and HOME loans
- Included on the analysis of operating expenses, the management fee should be calculated using a flat fee of the equivalent of the maximum potential income, at 95% occupancy, with 80% of the units at 60% AMI and 20% of the units at ELI rents. There is not reason to penalize the property management agent for the substantially reduced gross rents generated in the typical homeless development. These developments normally have lower “other income” (laundry, late fees etc) for which the management agent collects fees as well.
- Consideration should be given to the payment of utilities as well. It is very unlikely that the homeless population can afford all utilities (maybe electricity but not water and sewer), to be treated on a case by case basis.

Proposed modifications to the current draft of Rule 67-48 for the 2008 Cycle.

- Section 67-48.0072 (19) Credit Underwriting and Loan Procedures.
“Contingency Reserves which total no more than 5 percent of hard and soft costs for new construction and no more than 15 percent of hard and soft cost for Rehabilitation or Substantial Rehabilitation may be included within the Total Development Cost for Application and underwriting purposes. Contingency reserves shall not be paid from SAIL or HOME funds.”

We are proposing adding the following language:

“For developments that selected and qualified under the Homeless Designation (Part V.A.3.d) and for the Homeless Demographic Commitment (Part III.D.3), Contingency Reserves and operating reserves which total no more than 15 percent of hard and soft costs for new construction and no more than 25 percent of hard and soft cost for Rehabilitation or Substantial Rehabilitation may be included within the Total Development Cost for Application and underwriting purposes. Contingency reserves shall not be paid from SAIL or HOME funds.”

In addition,

- Section 67-48.0075 (3)(i) Miscellaneous Criteria
“Allowance for contingency reserves and reserves for any anticipated operating deficits during the first two (2) years after completion of the Development”

We are proposing adding the following language:

“Allowance for contingency reserves and reserves for any anticipated operating deficits during the first *fifteen (15)* years after completion of the Development”

Proposed modifications to be included to the draft Rule 67-48 for the 2008 Cycle.

In addition to the proposed modifications to the current draft, we would like to suggest the following program modifications.

- In Part V.A.c SAIL. Reduce the Maximum SAIL request Amount for SAIL with Competitive HC for the Homeless Demographic Commitment to the lesser of \$70,000 per unit or \$2 million.

Together with:

- In part V.A. 2 Supplemental Loan Amount. Add a new paragraph on section (a) that reads:
“For developments that selected and qualified under the Homeless Designation (Part V.A.3.d) and for the Homeless Demographic Commitment (Part III.D.3), the Supplemental Loan Amount will be based on: (i) \$85,000 for each of the required ELI set-aside units (10% of the total units); and (ii) \$75,000 for each additional ELI set-aside unit, up to a maximum of 30% additional ELI units.

Maximum Supplemental loan, for an 80 unit homeless development will be as follows

$$8 \times \$85,000 = \$680,000$$

$$24 \times \$75,000 = \$1,800,000$$