

Developer Guidance for KHC Underwriting Model (UM) Review

Revised April 2025

KHC has developed the criteria below, which can assist the applicant in preparing the KHC underwriting model (UM) and ensure adherence to program underwriting guidelines. This document is not intended to be an all-inclusive list of all the underwriting criteria considered by KHC. The underwriting review criteria are provided for your benefit and does not imply a guarantee your project will be awarded funding or that KHC's underwriter will not detect other issues or concerns within the project's UM.

Applicants who have not had a KHC multifamily project funded in the last three years must upload a copy of this completed checklist with the other application attachments.

NOTE: Please use the "Applicant Underwriting Notes to KHC" section on the UM to provide any additional information or explanations that may assist the KHC underwriter. If there are variances or discrepancies beyond your control, please identify those in that section as well.

Project Name: _____ **Completed By:** _____

Sources and Uses Tab:

1. Has a commitment letter been provided for **ALL non-KHC funding sources** shown on the UM and application, except for deferred developer fee? Yes
2. Have all project costs been itemized, regardless of how they are paid? Yes
Note: project costs should not be grouped together unless there is no other place on the Sources & Uses to show the cost; then an explanation must be provided. Hard costs should match the detailed final cost estimate that will be required at technical submission.
3. Do the amount and terms for any non-KHC loans and Housing Credit equity shown on the Sources & Uses tab and application agree with the commitment letters? Yes N/A
4. Does the equity commitment contain all required provisions? (see Guidelines) Yes N/A
5. Has the set-aside (20/50, 40/60, Average Income) been elected for Housing Credit projects and does the equity commitment confirm the set-aside election? Yes No N/A
6. If the project has a loan that requires a mortgage insurance premium (MIP), has the amount of the MIP been included in the calculated loan payment? (required) Yes N/A
7. If requesting Housing Credits, are the total construction sources and the amount of equity paid in during construction equal to the total project costs? Yes No N/A
(Refer to the pay-in schedule from the equity provider; note: equity paid in at construction completion may not be considered as a construction source if multiple conditions apply.)
If no, you have a construction gap. Have you provided a copy of your bridge or construction loan commitment? Yes N/A
8. For KHC funds used during construction, is the appropriate 10% retainage excluded from the construction sources? Yes No N/A

9. Do the “total permanent sources” and “construction financing sources” on the Sources & Uses both balance to zero as compared to the total development cost? Yes No

If no, then you must adjust funding sources and/or project costs accordingly until it balances.

10. For Housing Credit projects that are also requesting KHC funds, have you applied the maximum 30% basis boost AND requested the maximum amount of credit for which the project is eligible to determine the project’s need for KHC gap funds? Yes N/A

Note: KHC’s underwriter will analyze the project to ensure it is not over-subsidized – applicants should utilize the full amount of credit available to the project before requesting KHC gap funds.

11. If requesting SMAL, is the interest rate shown at or above 3.5% and the amount no more than 90% of the lesser of total development cost or appraised value? Yes N/A

12. If requesting SMAL funds, has the 1% origination fee been budgeted? Yes N/A

13. Is the amount of SMAL requested equal to or greater than the amount of HOME, NHTF, and/or AHTF requested (if applicable)? Yes N/A

14. If requesting Risk-Sharing, is the loan amount \$2,000,000 or less? Yes N/A

15. If requesting Risk-Sharing, have all the appropriate fees been included in the “KHC Risk-Sharing Fees” section on the Sources & Uses page? Yes N/A

16. Is the amount of Risk-Sharing funds requested shown only as a permanent debt source on the Sources & Uses and not as a construction source? (*Risk-Sharing is perm debt only*) Yes N/A

17. If a project is requesting KHC funds and can support an amortizing KHC loan of at least \$50,000 while meeting KHC’s minimum DCR for the required affordability period, any request for deferred loan will be changed to reflect the amount of amortizing loan the project can support. Can your project support an amortizing loan of at least \$50,000? Yes N/A

18. For Housing Credit projects, is the combined HOME and AHTF request equal to or less than \$750,000 or \$50,000 per unit, whichever is less? Yes N/A

19. For non-Housing Credit projects, is the HOME request equal to the lesser of 85% of the applicable HOME maximum subsidy limit, or \$1 million? Yes N/A

20. For all projects, is the amount of AHTF requested \$300,000 or less? Yes N/A

21. Is the combined loan-to-value for **all** permanent loans less than 100%? Yes N/A

22. Has a minimum of 5% match from appropriate non-KHC sources been provided for all HOME or AHTF funds requested? Yes N/A

23. Is the HOME match from an eligible source (permanent, non-federal, not from the owner or related entity)? Refer to the Multifamily Guidelines for more info. Yes N/A

24. If the match is non-cash, such as volunteer labor, donated materials or waived fees or taxes, has documentation been provided that supports the value of the match? Yes N/A

25. If the match is donated/reduced sale land or reduced/waived fees or taxes, has the amount claimed as match been correctly offset in the project uses? Yes N/A

Note: The value of future waived or reduced taxes cannot be claimed in the construction budget. Donated land value plus actual acquisition cost (if any) must equal the value shown in the Uses.

26. Does the amount shown for acquisition on the Sources & Uses match what is shown in the site control documentation provided? Yes N/A

If the project is a rehab, has the land value been itemized separately and excluded from eligible basis? Yes N/A

Note: For rehab projects, if the existing R4R is being transferred to the new owner, it should not be included in the acquisition cost, but instead shown as a deposit to the R4R account. For all projects, acquisition cost cannot exceed appraised value.

27. Is the Operating Deficit Reserve (ODR) amount equal to or greater than the minimum amount of ODR calculated on the Sources & Uses tab? Has the source of funding for the ODR been identified? Yes

28. Is the Reserve for Replacement (R4R) amount at least \$400 PUPA or the amount required in the PCNA (rehab projects) or Capital Reserve Replacement Schedule? Yes

If an upfront deposit to the R4R is required to fully fund the capital needs of the project through the applicable term, has the deposit been budgeted on the Sources & Uses? Yes N/A

29. Are the project fees budgeted within KHC's max limits (developer fee, general requirements [6%], builder's profit [2%], builder's overhead [6%], management fee [8.5%], etc.)? Yes

30. Has a construction contingency been budgeted? Yes No

If no, has an explanation been provided? Yes

31. Have all typical hard costs been budgeted for, e.g., appliances, new construction/rehab costs, earth work, lawns & plantings, roads/walks, site utilities, P&P bond, general requirements, builder's overhead & profit, construction insurances, and contingency? Yes

32. Have all typical soft costs been budgeted for, e.g., construction interest, insurances, appraisal, architect fees, legal fees, market study, appraisal, capital needs assessment, environmental, relocation, property taxes, survey, title, and recording? Yes

33. If the project is a rehab, have PCNA and relocation expenses been budgeted? Yes N/A

34. Have project costs listed on "other" line items in the Sources & Uses been identified and have you ensured that there isn't a designated line item already provided for it? Yes N/A

Are "other" costs shown correctly as being excluded or included in eligible basis?

Yes N/A

35. If requesting Housing Credits, are the KHC fees (application, reservation, market analysis, and construction inspection) included on the correct lines on the Sources & Uses? Yes N/A

36. Has the initial inspection fee (rehab) or site review fee (new construction) been included on the Sources & Uses? Yes

37. Is the amount of developer fee budgeted less than or equal to the amount calculated on the Underwriting Criteria tab, dependent on the type of construction and number of units? Yes

Note: Total developer fee (incl. consulting fees) cannot exceed the **lesser of the per-unit calculation or a max of \$1.2 million. Tax-Exempt Bond projects are limited to 20% of TDC, minus applicable deductions.**

38. For AHTF projects, is the amount of developer fee paid from AHTF no more than 7.5% of the total AHTF request? Yes N/A

39. If requesting Housing Credits with HOME, NHTF, and/or AHTF funds, is at least 25% of the developer fee deferred? Yes N/A ****THIS POLICY TEMPORARILY SUSPENDED****

40. For Housing Credit projects, if the project is deferring developer fee, can the project pay it back within 10 years? Yes N/A

Note: KHC may consider, on a case-by-case basis, allowing projects to extend the repayment period for deferred developer fee up to the maximum 15 years allowed by the IRS. Applicant must seek a waiver for this exception prior to application submission.

41. If the project is utilizing federal historic rehab credits, has the amount of the credit (not the equity) been shown in the “reductions to eligible basis” section on the Sources & Uses? Yes N/A

42. If the project is requesting a basis boost in Housing Credits (up to 30%), have you provided justification that the boost is needed? Yes N/A

Note: Housing Credit projects that are also requesting KHC funds must apply the full 30% basis boost.

Income Tab:

43. Was the most current utility chart used (from KHC’s website, local housing authority, HUD, or RD, as applicable) and do the amounts on the Income tab match the chart? If the project has project-based rental assistance, do the utility allowances match those in the most recent approved contract? Yes N/A

Note: Alternative utility allowance calculation methods may be considered with submission of a pre-application waiver request; otherwise, one of the above methods must be utilized.

44. Are the correct rents shown for each type of funding requested? Yes

Note: Rent charts can be found on KHC’s website. For Housing Credit rents, use KHC’s link to the Novogradac rent calculator. Please provide a copy of the completed Novogradac rent calculation.

45. For Housing Credit projects, was the correct income restriction (AMI) used according to the set-aside election that was chosen? (Projects not requesting the average income option can only utilize 30%, 50%, or 60% AMI.) Yes

46. Do the rents meet the requirements of the income to be served elected in the application? The information provided in the market study should be used to determine the reasonable rents and whether the rents are competitive with those of other rental property in the area. Yes

If average income has been selected, the market study must address the need for the additional income restrictions listed.

47. Do the rents entered on the Income tab match the most current approved rents as established by the rental assistance provider (KHC, HUD, RD, etc.), **if applicable?** Yes N/A

Note: Please provide a copy of the current rent renewal letter or contract from the rental assistance provider that establishes current rents and utility allowances. If proposing post-rehab rents, please provide written documentation as justification for your projected rent and utility amounts. See Guidelines.

48. Do the non-KHC funds require a rent restriction? If so, are the rents within the required limits? Yes N/A

49. Is the required number of HOME, NHTF, AHTF, and/or SMAL units from the unit distribution section accounted for in the breakdown for the various unit types and sizes? Yes N/A

50. Are the HOME/NHTF units proportionately distributed, as shown on the Compliance Checks tab? Yes N/A

51. Has information been provided to justify the amount of "Other Income," i.e., laundry fees, vending, late fees, etc., as shown on the Income tab? Yes N/A

Expenses Tab:

52. Is the management fee at or below 8.5 percent? Yes No N/A (If no, you must provide justification for the higher management fee)

53. Are the total expenses shown within +/- \$1,000 of the most current historical expense data for the county where the project is located? (refer to KHC's website for [historical expense data](#)). Yes No

If "No," have you provided an explanation for the variance? Yes

54. If an equity provider or other funder is requiring an asset management fee, has it been shown on the Expenses tab (if a guaranteed annual expense) or shown on the operating proforma as a cash flow expense, as applicable? Yes No N/A

55. Has KHC's compliance monitoring fee been budgeted on the Expenses tab? (Refer to KHC's website for the fee schedule). Yes No N/A

56. Has at least \$250 per unit been budgeted for property insurance? Yes No N/A

Housing Credit Tab:

57. If the project is requesting both 4% acquisition credit and 9% rehabilitation/new construction credit, are these amounts itemized separately both on the underwriting model and in the application? Yes N/A

58. Have you shown the correct per-unit limit in the Housing Credit Per Unit Test section? (\$15,000 for urban sites, \$17,000 for balance-of-state sites, **or** if requesting the 30 percent boost, \$19,500 for urban sites or \$22,000 for balance-of-state sites) Yes N/A

Note: a. "Urban" is defined as Fayette, Jefferson, Boone, Campbell, and Kenton Counties.
b. The project must need a basis boost to be eligible to use the higher per-unit limits.

59. Is the total amount of Housing Credits requested less than or equal to the maximum eligible amount allowed per the calculation on the Housing Credits tab? The maximum allowed is the lesser of the equity gap test, the credit per unit test, or the eligible basis test. Yes N/A

60. If requesting KHC funds, have you applied the 30% basis boost AND maximized the amount of credit available to the project, based on the credit tests and the project's eligible basis?
 Yes N/A

Note: KHC's underwriter will analyze the project to ensure it is not over-subsidized – applicants should utilize the full amount of credit available to the project before requesting KHC gap funds.

Operating Proforma Tab:

61. Has the appropriate vacancy rate been applied, dependent on the funds requested from KHC or the more stringent vacancy requirement of another funding partner? Yes

If using a vacancy rate other than KHC's recommended rates, have you provided the appropriate justification for the proposed vacancy rate? Yes N/A

62. Is the Year 1 DCR at least 1.20 (or 1.25 for Risk-Sharing)? Yes

63. Does the project's DCR and cash flow remain at or above 1.10 through year 15?
 Yes No N/A

If no, or if the DCR is declining and approaching a 1.10 DCR, or the project shows a negative cash flow, have you provided an explanation and documentation that sufficient funds will be available to support the project through year 15 (or year 20)? Yes N/A

If the project is requesting KHC funds, does the cash flow remain positive through the applicable term of affordability? Yes N/A

Note: Projects requesting Housing Credits only must adhere to the requirements set forth by the investor.

64. If the project has expenses that are payable from available cash flow (loans, fees, etc. – refer to the equity or funding commitment), have those been shown on the operating proforma? Cash flow loans must also be shown on the Sources & Uses tab. Yes No N/A

65. Have the project's total annual capital needs (from the Capital Reserve Replacement Schedule) been entered on the bottom of the proforma? (*Housing Credit projects only*) Yes N/A

66. Is there an amount needed to balance the replacement reserve to the start of year 15 (Housing Credit only) or year 20 (Housing Credit with KHC funds)? Yes No N/A

If yes, has that amount been included on the Replacement Reserve Deposit line on the Sources & Uses? Yes No N/A

Compliance Checks Tab:

67. Is the maximum HOME/NHTF subsidy per unit within the appropriate limits? (*Be sure to enter the current year's HOME/NHTF subsidy limits – found on KHC's website*). Yes No N/A

68. Is the total development cost within the cost containment limit? (*Be sure to enter the current year's cost containment limits – found on KHC's website*). Yes No N/A

69. For Housing Credit projects, is the project located in a QCT and providing a Community Service Facility (CSF)? Yes No N/A

Notes:

- *If yes, the eligible basis attributed to the CSF cannot exceed 25% of the project's total eligible basis before any basis boost and the total development cost cannot exceed \$15 million dollars.*
- *The uses of funds attributable to the CSF must be itemized on the Community Service Facility tab of the UM to determine the CSF eligible basis and are also included in the project's total Sources & Uses.*

70. For projects subject to HUD subsidy layering requirements, are **ALL** the project's numbers within the HUD safe harbor limits? Yes N/A *Refer to Compliance Checks tab of the UM.*

Note: HUD will not accept a subsidy layering review with any projections outside of the safe harbor limits.