# Evaluation of Plan of Action for Incentives to Extend Affordability

**U. S. Department of Housing and Urban Development**
Office of Housing
Federal Housing Commissioner

Loan Management staff will use the following guidelines to evaluate Plans of Action (POAs) for extension of affordability. The owner should have specified the incentives it wishes to receive. Loan Management staff will evaluate these incentives for acceptability. Any additional information submitted must also be evaluated to be certain that all components of the POA work together. Because each POA is unique and a variety of issues may need to be addressed, each POA must be assessed on a case-by-case basis.

Name of Project ______________________ Project No. ______________________

**I. General Project Finances** (Check the appropriate box)

| | Yes | No |
|---|---|---|
| A. Are all expenses accurately described? | ☐ | ☐ |
| B. Are all current debts and debt service accurately reflected? | ☐ | ☐ |
| 1. Outstanding project debt(s) $ ______________ | | |
| 2. Annual Debt Service at subsidized interest rate for Outstanding project debt(s) $ ______________ | | |
| C. Does Plan of Action adequately describe: | | |
| 1. All project funds (e.g. residual receipts, reserve accounts, income, utility allowance, etc.)? | ☐ | ☐ |
| 2. All funding to be received from all sources? | ☐ | ☐ |
| 3. Accurate cash flow analyses for three years after POA approval? | ☐ | ☐ |
| D. Is the use of all funds from all sources accounted for and are Low Income Housing Tax Credits addressed? | ☐ | ☐ |
| E. Does the Plan of Action accurately detail how all funds will be used? | ☐ | ☐ |
| F. Do requested funds appear to be either insufficient for or in excess of project needs? If so, how will the excess be used or how is the shortfall to be resolved? | ☐ | ☐ |
| G. Is there adequate documentation for the proposed utility allowance? | ☐ | ☐ |
| H. Is owner aware that 10% of the 241(f) will be withheld until the owner demonstrates maintenance of project at Housing Quality Standards or for five years or more? | ☐ | ☐ |

I. Comments:

**If the above questions are not satisfactorily answered, the POA should be returned for more information.**

Name of Project ______________________ Project No. ____________

## II. Annual Authorized Return on Investment and Equity Loan

A. Extension Preservation Equity

1. Extension Preservation Value (EPV) $ __________

2. EPV (line 1) minus unpaid balance of all Debt secured by the property $ __________

B. 1. Annual Authorized Return on Equity (line A.2. x 0.08) $ __________

2. B 1 x 0.95 = $ __________

C. Maximum Insured Equity Loan: A x 0.70 $ __________

D. 1. Amount of Equity Loan Requested $ __________

2. Allowable Equity Loan (lower of C or D 1) $ __________

3. Interest Rate for Equity Loan __________ %

4. Calculation of annual debt payment to support equity loan in D2 at interest rate shown in D3 for a 20-year amortization period $

E. Is B 2 greater than or equal to D 4? Yes ☐ No ☐

1. Yes.a. Equity Loan is amount shown in D 2 $ __________

b. Preliminary Debt Service for Equity Loan is amount shown in D 4 and preliminary amortization period is 20 years $ __________

c. In addition to the equity loan, the owner may receive a return to owner of B 1 minus D 4 $ __________

**If there is no 241(f) loan, B 1 represents the owner's annual authorized return.**

2. No. a. Given the amount of the equity loan shown in D 2, and the interest rate shown in D 3, what loan term will yield the debt service shown in B2? __________ years

b. Is a. less than or equal to 40 years?

☐ (1)Yes. (a) Equity loan, interest rate, loan term, and debt service are as described in 2a.

Amount of Equity loan $__________; Loan term__________ years; Debt Service $__________

(b.) In addition to the equity loan, the owner's additional return is B 1 minus B 2 $ __________

☐ (2.)No. Given the debt service in B 2, an amortization period of 40 years, and the interest rate shown in D 3, what is the largest loan which can be supported?

Amount of Equity loan $__________; Loan term__________ years; Debt Service $__________

**The POA may not be approved as written. It should be returned to the owner who should be advised to reduce the loan amount requested.**

Note: The combination of equity loan and return to owner may be varied at the owner's option. However, in no case may:
(1) the debt service on the loan exceed 95% of the Annual Authorized Return to Owner (Item II B 2);
(2) the debt service added to the Annual Return exceed the Annual Authorized Return to Owner (Item II B 1); nor
(3) the equity loan exceed 70% of extension preservation equity. (Item II C).

F. Comments:

Name of Project ______________________ Project No. __________

## III. Capital Improvement, Rehabilitation, and Repairs

| | Yes | No |
|---|---|---|
| A. Is there a list of all capital improvements and rehabilitation to be performed at the Project? | ☐ | ☐ |
| B. Does this list incorporate, at a minimum, all improvements noted by the Capital Needs Assessment? | ☐ | ☐ |
| C. Has the owner justified the need for improvements not required by the Capital Needs Assessment? | ☐ | ☐ |
| D. Are the costs for these improvements supported? | ☐ | ☐ |
| E. If there is no equity loan, is the owner contributing 10 percent of the cost of repairs? | ☐ | ☐ |

F. For each capital improvement, list the cost of the improvement or other expense.

| 1. Capital Improvement or other expense | 2. Cost |
|---|---|
| ______________________ | $ __________ |
| ______________________ | $ __________ |
| ______________________ | $ __________ |
| ______________________ | $ __________ |
| Soft Costs ______________________ | $ __________ |
| Initial Deposit to Reserve for replacement Account __________ | $ __________ |
| 3. Total | $ __________ |

G. 1. Owner's contribution

a. If there is no equity loan: F3 x 0.10 (This is a 241(a) loan) $ __________

b. If there is a Sec. 241(f) loan, enter 0 $ __________

2. Amount of HUD loan (F3 minus G1) $ __________

3. Anticipated Interest Rate (II D3) __________ %

4. Preliminary amortization period (as derived in IIE if there is an equity loan. If there is no equity loan, no more than that remaining in underlying loan plus 12 years.) __________ years

5. Preliminary annual debt service on rehabilitation loan $ __________

| | Yes | No |
|---|---|---|
| H. Is there a schedule for completion of rehabilitation? | ☐ | ☐ |
| I. Does the schedule comply with HUD's requirements? | ☐ | ☐ |

J. How will the contracts be awarded?

K. Comments:

Name of Project ______________________ Project No. __________

## IV. Debt and Debt Service

A. Preliminary Total Debt

1. Outstanding debt (from I B 1) $ __________

**Complete 2. if there is an equity loan and 3. if there is no equity loan.**

2. 241(f) loan
   a. Equity Loan (from II E, appropriate line) $ __________
   b. Rehabilitation (III G2) $ __________
   c. Total (a. plus b.) $ __________
3. 241(a) loan (III G2) $ __________
4. Total (1 plus 2c. or 3.) $ __________

B. Preliminary Annual Debt Service

1. Debt service on outstanding debt(s) (from I B 2) $ __________

**Complete 2. if there is an equity loan and 3. if there is no equity loan.**

2. 241(f) loan
   a. Equity Loan (from II E, appropriate line) $ __________
   b. Repair (III G5) $ __________
   c. Total (a. plus b.) $ __________
3. 241(a) loan (III G 5) $ __________
4. Total (1 plus 2c. or 3.) $ __________

**If there is a 241(a) loan, these amounts represent the final debt and final debt service for this POA.**

## V. Required Rents.

| A. Review of cash flow projections and projected budget. | Yes | No |
|---|---|---|
| 1. Are expenses for debt payment accurate, given calculations of rehabilitation loans, equity loan, and underlying project loan? | ☐ | ☐ |
| 2. Are projected operating expenses consistent with those determined by Valuation? | ☐ | ☐ |
| 3. Are reserve account deposits consistent with those required by Valuation? | ☐ | ☐ |
| 4. Are vacancy allowances consistent with historical data? | ☐ | ☐ |
| 5. Does the budgeted return to owner added to the debt service for the equity loan exceed the amount derived in Item II B1? | ☐ | ☐ |
| 6. Have on-going funding and abatements been subtracted? | ☐ | ☐ |
| 7. Are management fees the same as before POA approval? | ☐ | ☐ |
| 8. Does debt service coverage reflect: 0.95 for 241(f) loan? | ☐ | ☐ |
| 0.90 for 241(a) loan? | ☐ | ☐ |

Name of Project ______________________ Project No. ______________

V. (Con't).

B. Comparison of Gross Rent Potential and Federal Cost Limit

1. Gross Rent Potential: What is the total annual rent necessary to operate this project, based on projected expenses? (This would come from the budget submitted with the POA) $ ______________

2. Sum of tenant utility allowances:

| Type of Unit | a. Number of Units | b. Monthly utility allowance | c. Total (a. X b.) |
|---|---|---|---|
| One-bedroom | | $ | $ |
| Two-bedroom | | $ | $ |
| Three-bedroom | | $ | $ |
| Four-bedroom | | $ | $ |
| Other (specify) | | $ | $ |
| Total | | | d. $ |

e. What is the sum of the Annual utility allowances for all tenants? (d. X 12 months) $ ______________

3. Preservation Project Rent (sum of 1. plus 2e.) $ ______________

4. Federal Cost Limit

| Type of Unit | a. Number of Units | b. FMR (or PMR if applicable) | c. Total (a. X b.) |
|---|---|---|---|
| One-bedroom | | $ | $ |
| Two-bedroom | | $ | $ |
| Three-bedroom | | $ | $ |
| Four-bedroom | | $ | $ |
| Other (specify) | | $ | $ |
| Total | | | d. $ |

e. Federal Cost Limit equals d. times 1.20 times 12 equals $ ______________

## VI. Amortization Period for 241(f) Loan

A. VB3 minus VB4 $ ______________

1. If A is negative, go to VII. **The AAR and equity loan is acceptable as written.**
2. If A is positive, continue

B. Is there a 241(f) loan? Yes ☐ No ☐

☐ 1. No. **The POA cannot be approved as written. The owner must be advised that the annual authorized return must be reduced.**

☐ 2. Yes. Continue

Name of Project ______________________ Project No. ____________

VI. (Con't).

C. Is the term of the 241(f) loan shown in II E less than 40 years? Yes ☐ No ☐

☐ 1. No. **The POA cannot be approved as written. The owner must be advised that the annual authorized return and equity loan must be reduced.**

☐ 2. Yes. Continue

D. 1. Maximum debt service on the 241(f) loan (IV B 2c minus A) $ ____________

2. Given the amount of the 241(f) loan shown in IV A 2c and the interest rate shown in II D3, what loan term will yield the debt service shown in 1? This is the loan term which will be used. ____________ years

E. Is D2 equal to or less than 40 years? Yes ☐ No ☐

☐ 1. No. **The POA cannot be approved as written. The owner must be advised that the annual authorized return and equity loan must be reduced.**

☐ 2. Yes. Continue

F. Total debt service

1. Outstanding debt(s) (I B2) $ ____________

2. 241(f) loan (D1) $ ____________

3. Total $ ____________

## VII. Developing Section 8 Rents

A. Preservation Project Rent (lower of V B3 or V B4e.) $ ____________

B. Complete the table below for all units in the project. The number of families in each income category living in each size unit should be entered. If units are vacant, projected occupancy of each unit should be determined by the owner to meet the requirements of the applicable tenant profile.

| Type of Unit | Income Limit<br>Very-Low | Low | Moderate | Total |
|---|---|---|---|---|
| One-bedroom | | | | |
| Two-bedroom | | | | |
| Three-bedroom | | | | |
| Four-bedroom | | | | |
| Other (specify) | | | | |
| Total | | | | |

C. How many very low- and low-income tenants are shown in B in each unit size? Complete the calculations below for each of these units (which will all require Section 8).

| 1. Type of Unit | 2. FMR | x 3. No. of Section 8 Units | = 4. Total | |
|---|---|---|---|---|
| One-bedroom | $ | | $ | |
| Two-bedroom | $ | | $ | |
| Three-bedroom | $ | | $ | |
| Four-bedroom | $ | | $ | |
| Other (specify) | $ | | $ | |
| Total | | | 5.$ | 6. (5) X 12 months $ |

Name of Project ______________________ Project No. ______________

**VII. (Con't).**

D. Calculate the annual rent projected to be paid by the moderate-income tenants shown in B using the table below.

| 1. Type of Unit | 2. No. of Mod-Income Tenants | 3. Low-Income Limit for: | 4. Low-Income Limits | 5. Calculate (Col.4) x 0.025 | 6. FMR (PSR, if applicable) | 7. Lower of (Col.5) or (Col.6) | 8. Calculate (Col.2) X (Col.7) |
|---|---|---|---|---|---|---|---|
| Studio | | 1 person | $ | $ | $ | $ | $ |
| One-bedroom | | 2 persons | $ | $ | $ | $ | $ |
| Two-bedroom | | 4 persons | $ | $ | $ | $ | $ |
| Three-bedroom | | 6 persons | $ | $ | $ | $ | $ |
| Four-bedroom | | 8 persons | $ | $ | $ | $ | $ |
| Five-bedrooms + | | 10 persons | $ | $ | $ | $ | $ |
| 9. Totals | 10. | | | | | | 11. $ |

12. (11) times 12 months $

E. 1. Total amount which must be collected from the Section 8 Gross Rents: (A minus D12) $ ______________

2. Calculate E1 divided by C6 for appropriate Section 8 ratio to be entered on every line in 3C ______________

3. Calculate the Section 8 Gross Rents to be used by means of the table below.

| a. Type of Unit | b. FMR | x c. Ratio(E2) = | d. Gross Rent | x e. No. of Sec. 8 Units = | f. Total |
|---|---|---|---|---|---|
| One-bedroom | $ | | $ | | $ |
| Two-bedroom | $ | | $ | | $ |
| Three-bedroom | $ | | $ | | $ |
| Four-bedroom | $ | | $ | | $ |
| Other (specify) | $ | | $ | | $ |
| Total | | | | | g. $ |

4. Item (3g) x 12 months = $ ______________

5. Make any minor adjustments necessary to bring (4) equal to (1). (If the difference between (4) and (1) is greater than the difference due to rounding, check your calculations.)

**Note: If the Ratio(E2) used in Col. c. above exceeds 1.2, the Section 8 rents must be approved by Headquarters.**

| | Yes | No |
|---|---|---|
| F. Has provision been made to use Minimum Rents for moderate-income tenants? | ☐ | ☐ |
| G. (For Section 236 Projects) Has provision been made to return appropriate amounts of excess rents to HUD? | ☐ | ☐ |

Name of Project ______________________ Project No. ______________

VII. (Con't).

| | Yes | No |
|---|---|---|
| H. Are project specific rents (PSR) lower than FMR? | ☐ | ☐ |

If yes, what are they?

1 BR. $ ______________

2 BR. $ ______________

3 BR. $ ______________

Other (specify) $ ______________

I. Comments:

| | Yes | No |
|---|---|---|
| **VIII. Evaluation of additional incentives which the owner may request.** | | |
| Redirection of interest reduction payments? | ☐ | ☐ |
| **IX. Is the Management Plan acceptable?** | ☐ | ☐ |
| **X. Owner has provided assurances that:** | | |
| Project will remain affordable for remaining useful life? | ☐ | ☐ |
| Adequate expenditures will be made for maintenance and operation? | ☐ | ☐ |
| Tenant Profiles showing very low-, low- and moderate-income have been submitted for appropriate two periods? | ☐ | ☐ |
| Tenant Profile will remain at the same proportions of very low-, low-, and moderate-income tenants as were at the project on the date the POA was approved or earlier applicable date, whichever gives a greater proportion of very low-income tenants? | ☐ | ☐ |
| Future rent increases will be made via an operating cost adjustment factor or other required rent increase provisions in accordance with Chapter 11? | ☐ | ☐ |
| Owner can provide all applicable out-of-pocket expenses? | ☐ | ☐ |
| **XI. Section 241 or non-insured loan is acceptable?** | ☐ | ☐ |
| **XII. Are there outstandings findings of non-compliance with laws and regulatory requirements including Civil Rights laws and requirements?** | ☐ | ☐ |
| **XIII. Are all applicable financing commitments in place?** | ☐ | ☐ |
| **XIV. Does an analysis show that the POA represents the least cost to the government in accordance with paragraph 8-18 A1 of Handbook 4350.1?** | ☐ | ☐ |

**XV. Comments:** (attach separate page as needed)

POA reviewed by ______________________ Date ______________