Application Processing Guide for Multifamily Rental Projects

About this Tool

Description:

This tool is intended for all grantees that are pursuing multifamily rental strategies. This combined tool will help grantees understand how to process project-specific proposals submitted by applicants in response to a project-specific RFP and how to process developer-specific proposals submitted in response to a non-project specific RFQ. The combined tool includes subsidy layering policies and procedures.

How to Adapt this Document:

This document outlines a standard recommended process and provides examples. Grantees should adapt this process to address its existing application processing documents and procedures.

Source of Document:

This document was developed by the Compass Group and draws from past technical assistance engagement and materials from the HUD Subsidy Layering training.

Disclaimer:

This document is not an official HUD document and has not been reviewed by HUD counsel. It is provided for informational purposes only. Any binding agreement should be reviewed by attorneys for the parties to the agreement and must conform to state and local laws.

This resource is part of the NSP Toolkits. Additional toolkit resources may be found at www.hud.gov/nspta

Overview

This Application Processing Guide is designed as an overview to assist grantees in developing and implementing a process for awarding funds to NSP-qualifying multifamily projects. It is intended to be used alongside other NSP Toolkit resources, including the Multifamily Rental RFQ, Legal Documents (including the sample Written Agreement), and the Underwriting Model Template. Together, these resources form the infrastructure of a Grantee's process for responsibly investing NSP funds in multifamily housing. Please see Exhibit A below for a summary of the various Toolkit elements, and how they interrelate to form a system for investing funds through the NSP Program. The RFP Template (see RFP §V) and the RFQ Template (see RFQ §IV.B) both include discussion on the application and award process. This Application Processing Guide incorporates and expands upon that discussion. The following phases and steps in the funding process will provide Grantees with a framework for successful funding of qualifying transactions (click on one of the six steps below to jump to that piece of the guidance document):

A Step-By-Step Guide to the Funding Process

Phase 1. Draft a Timeline for the Solicitation Process

The many steps of the following process take time, and time is of the essence. Careful planning is needed, as is disciplined project management. The following demonstrates an accelerated but reasonable timeline, although each Grantee's timeline will differ based on resources, the volume of applications, and the actual process that is followed (assuming a competitive funding round approach):

Step	Complete By
1. Begin Process	Day 0
2. Complete Program Design (8 days)	Day 8
3. Issue RFP and/or RFQ (4 days)	Day 12
4. Applications Due (21 days)	Day 33
5. Initial Review for Completeness/Score (4 days)	Day 37
6. Underwriting/Deficiencies (5 days)	Day 42
7. Deficiency Responses (5 days)	Day 47
8. Deficiency Response Review (5 days)	Day 52
9. Approval Committee (2 days)	Day 54
10. Written Agreements Issued (2 days)	Day 56

The above is not a required timetable, but illustrates that the full process generally takes a few months.

Phase 2. Program Design and Customization

2.a. Customizing the RFP and/or RFQ

The HUD Multifamily Rental Toolkit includes both a 'Project-Specific' RFP Template (proposals for NSP-eligible projects for which the sponsor has site control), and a 'Non-Project-Specific' RFQ Template (proposals from sponsors for predevelopment grants and reservations of NSP funding). For more on the Project-Specific (RFP) and Non-Project Specific (RFQ) distinctions, see the RFP and the RFQ. Once the Grantee has decided which of these programs to implement, the RFP and/or RFQ Template(s) should be customized to suit the Grantees environment and priorities. Both template documents include helpful guidance.

2.B. Define Structure of Funding Pools

The Project-Specific RFP Template (see RFP §IX) provides Grantees with options for reserving available funding within selected 'pools'. Pools may be based on geography, property type, developer type (i.e., non-profit vs. for-profit), or other factors that the Grantee wishes to look after in the funding process. In designing a program, a Grantee must consider whether pools are needed to engineer a desired outcome, or whether pools unnecessarily restrict the funding process. It would be a bad outcome—when considering the mandate to commit funding in the near term—to set aside funding into two pools, and have one undersubscribed and the other oversubscribed. In light of the compressed time frame for the commitment of NSP funds, Grantees should carefully consider whether pools are feasible as part of their RFP process.

Alternatively, Grantees should ensure that their published funding terms permit them sufficient flexibility to move funds from undersubscribed pools, to pools in which there is greater demand for the funding.

2.C. Define Selection Approach for Solicitation: Competitive vs. Open Window

The RFP Template (§V.B.5) and the RFQ Template (§I.G.) provide Grantees with the alternative of operating under a deadline-driven competitive funding round or a first-come, first-served 'open-window' approach. In a competitive funding round, all applications are due by a specific time, and all are processed together; the best applications are funded until the funds are exhausted. In an 'open window' approach, applications are processed in order based on the date they are received, and applications that meet minimum threshold criteria are funded, until all funds are exhausted. The two approaches each have benefits and disadvantages:

	Competitive Approach	**Open-Window Approach**
Pros	o Funds the best (relatively highest scoring) applications o Easier to operate fairly and consistently—easier to maintain program consistency over course of funding applications o No need to 'guess' at minimum score in program design phase o Competition dynamic encourages good program outcomes	o 'Continuous' workflow more manageable o Encourages immediate submissions o Funded transactions will meet minimum score threshold o Possibility of earlier awards, if qualifying applications are submitted quickly
Cons	o All applications arrive simultaneously; inevitable processing 'crunch' o Must wait until the deadline to know the number and nature of all applications o All applications could score poorly	o May have to fund *relatively* inferior application simply because it arrived first o Danger of processing inconsistencies o In program design, must 'guess' what minimum score requirement will balance quality and quantity of funding

If a Grantee thinks it will have more than enough qualifying applications to absorb the funding (i.e., 'oversubscription'), a competitive process is best because it ensures that the funding goes to the best applications overall. If a Grantee thinks that it will have fewer applications than funds (i.e., 'undersubscription') it should consider whether to reserve fewer funds, or improve the program so that it can select from the best overall, in a surplus of applications.
This Application Processing Guide is generally written to reflect the competitive funding approach. If an 'open window' approach is selected, Grantees should make adjustments to the process accordingly.

Phase 3: Open Application Period

3.A. Announce Program and Issue Solicitation

Once the program has been designed (through customization by the Grantee of the RFP and/or RFQ templates), and a timeline has been established, the Grantee should 'publish' the program by issuing the RFP and/or RFQ. Consider announcements in local newspapers, blast emails to development-community contacts, publication on your Web site, and other approaches. The wider the net is cast, the greater the response will be. Grantees may also consider issuing 'pre-announcements' of the funding availability, prior to program design. These would have limited information about the nature of projects that the program would fund, but may make the developer community more aware, and better prepared to respond when a program is defined and formally announced. Grantees should pay particular attention to the need for fairness in these announcements, and all announcements should be made to provide a reasonable assurance that all interested parties will hear the same information, at the same time.

Some funders maintain a registry of potential applicants, and can email program information and announcements directly to this list. Grantees might rely on a registry if the universe of applicants is known, and reliance on a list would not inadvertently disadvantage any potential bidders. Alternately, if Grantee staff discusses the funding program directly with prospective sponsors, it must be trained in the policies of the Grantee's Neighborhood Stabilization Program so that consistent information is provided to all potential applicants.

3.B. Respond to Questions

Sponsors and other funders will have questions, and it's important to have an approach for accepting and responding to them timely, consistently, and publicly. The RFP (see RFP §V.F.) and RFQ (see RFQ §I.F.) both envision and incorporate a process for fielding questions. Generally, it is a best practice to accept all questions by a deadline, then process them simultaneously, and issue a single Frequently Asked Questions, ('FAQ') type response formally and publicly. The FAQ should be issued sufficiently in advance of the deadline allow sponsors to ensure their applications conform to the FAQ document; this timing window may depend on the nature of the questions and answers themselves. Grantees are cautioned against verbally fielding questions, which may result in an unfair process, with inconsistent information.

3.C. Receive Applications and Enforce the Deadline

Careful scheduling of the deadlines for submission by applicants is necessary. Because these are competitive processes for public funds, fairness (and the appearance of fairness) is required. Grantees should stipulate a date, time and place for submissions, and must be prepared to refuse to accept applications that fail to arrive by the deadline; applications arriving after the deadline may be accused of having had an unfair advantage in the process (i.e., more time in which to apply). The processing of applications is challenge enough without having to manage concerns and claims of preferential treatment. Grantees should ensure that changes in or deviations from the published process do not provide any potential developers with the basis to for complaint. Changes to the rules or submission requirements should be carefully considered in light of how they might affect all applicants, as well as those who didn't apply, but might have under a revised set of requirements.

Experienced funders recommend applying the deadline uniformly, time-stamping the receipt of applications, and maintaining a log file that demonstrates when each application was received.

Phase 4: Evaluation

4.A. Assess Completeness of Applications by Minimum Standard Criteria

The day after the deadline, all applications should be triaged to determine whether they are sufficiently complete to be reviewed. For this reason, it is important to have—and to have published—minimum standards for accepting applications, or conversely, criteria for rejecting applications as incomplete or inadequate (see RFQ §IV.B.2. and RFP §V.B.2.). In general, items which are central to your ability to review the application should be required by the deadline, and items which are technical, such as missing signatures or clarifications, may be resolved through communication and follow-up with applicants. For example, a market study might be defined as a threshold submission requirement, but a need to clarify some aspect of a submitted market study would be deficiency that could be addressed in the review process (see §4.D. below).

If your application timeline is aggressive, and your application requirements are rigid, it is possible that too many applications will be rejected. When your program is undersubscribed—that is, when the total amount requested is less than the funding available—it's important not to create, or adhere unnecessarily to, application submission requirements that are an arbitrary barrier to funding potentially viable transactions. Leave sufficient room for flexibility in your program, while ensuring that your process is applied consistently and fairly to all.

A well organized and thorough application package is easier and less time-consuming to review. If your application requirements are specific about the format and arrangement of materials, you will be more likely to find what you need. Consider requiring a cover letter, table of contents, tabs, and other approaches that will better ensure you are able to quickly and accurately assess the submissions.

4.B. Calculate Initial Scores

The RFP (see RFP §X) includes a scoring framework that a Grantee can customize when it designs its program. Scores are generally not final until after the deficiency process is complete, but it's important to calculate the initial scores as applications are first processed. In a competitive program, Grantees sort applications received by score from best to worst, then follow the availability of funding down the list. In a competitive program, there may be a minimum point score, but one is not necessarily required. If there are more funds than eligible requests (undersubscription), all eligible transactions will be funded. If there are fewer funds than eligible requests (oversubscription), the highest scoring applications will be funded, until the funding is exhausted.

In an 'Open Window' program the Grantee agrees to fund eligible transactions that meet a threshold point score, in the order in which they are received, until funding is exhausted. Under both approaches, the Grantee must perform an initial scoring assessment.

The Multifamily Rental Toolkit includes a scoring tool and tracking sheet that Grantees may opt to use for calculating scores. This can be modified as needed, if Grantees adopt scoring criteria that differ from those in the Template RFP and RFQ.

4.C. Underwrite Projects

The RFP (see RFP §VIII) provides a basic framework for requiring financially viable transactions. The Multifamily Rental Toolkit includes an underwriting model which Grantees can require be used by applicants, or which can be used by Grantees in evaluating applications (see RFP §VI.A.). It may be a good approach to rely on the State Housing Credit Allocating Agency's format, because this is likely to be familiar to all parties, and sufficiently comprehensive. For each application, the following elements of the RFP's underwriting criteria should be assessed:

- <u>Minimum Rents</u>—experienced underwriters recommend restricting the rents used in underwriting to the lesser of (a) 95% of the maximum use-restricted rent level, or (b) 95% of the market rent identified in a market study or rent comparability study. Grantees should be alert to rents underwritten dramatically below these levels (escalating the amount of gap financing required) without corresponding restrictions on those rents. That is, if the maximum rent is $500, allowing a rent of $400 to be used in the underwriting will reduce the amount of mortgage proceeds and will in turn increase the amount of NSP gap funding required, without necessarily providing a guarantee that the rents will remain at the underwritten level.
- <u>Maximum Rents</u>—Rents should not exceed (a) the maximum use-restricted rent level, or (b) the market rent identified in a market study or rent comparability study.
- <u>Market Rents</u>—Disregard for market rents can lead to project failure, when rents (particularly for higher levels of area median income (AMI)) are underwritten without thought to whether they are achievable. Note that in underwriting units can be limited by market rents, while still set-aside at NSP-qualifying income levels. For example, an NSP unit is set aside for households at or below 120% of AMI and the 120% rent is $1,100. The market rent for this unit is $990. The rent would be underwritten at not more than $990, but the unit would be restricted to occupancy by qualifying (under 120% AMI) households.
- <u>Rent Loss</u>—Rent Loss includes both vacancy loss (rents not collected because there's no tenant) and collections loss (rents not collected because the tenant didn't pay). An industry rule-of-thumb is to underwrite rent loss at the greatest of the following: (a) 7%; (b) the property's recent actual rent loss experience; or, (c) the local market's recent, historical rent loss.
- <u>Operating Expenses</u>—The RFP is designed to permit the Grantee to specify low- and high amounts for various categories, with the range between these limits serving as a 'safe harbor'. Using this approach, applications which underwrite to expenses above the low safe harbor amount and below the high safe harbor amount would not need further review. Applications which fall outside the Grantee-specified range would need to provide 'adequate support' for those deviations.

- Replacement Reserve Deposit—The RFP stipulates that the proposed replacement reserve deposit must be not less than $300 per unit per year nor more than $500 per unit per year. Amounts below $300 can be more easily (less expensively) funded, but rarely have enough reserves to meet their long-term capital needs and require later intervention; amounts greater than $500 risk overfunding the reserves. Grantees may want to consider whether to permit initial deposits to reserves as a development expense and how these initial, one-time deposits offset or affect ongoing deposit requirements.
- Inflation—inflation assumptions for both revenues and expenses are essential to determining whether a property will—over time—witness its performance improve or deteriorate. Generally, underwriting relies on assumptions of 2% annually for revenue and 3% annually for expenses; these assumptions are generally reasonable and are consistent with the practice of many experienced underwriters and lenders. See the discussion below on debt service coverage ratio.
- First Mortgages—Grantees should ensure that the proposed 1st mortgage is viable. First, independently determine the debt service payment based on the principal, interest and amortization period in the application and lender commitment. Compare your calculated payment to the payment used in the applicant's underwriting. Second, ensure that the terms in the commitment correspond with those used in the underwriting. Ensure that the mortgage term (when it becomes due) does not jeopardize the period of affordability.
- Debt Service Coverage Ratio—a debt service coverage ratio ('DSCR', or 'debt service cover' or 'coverage', or 'debt cover') expresses the relationship between debt, and funds available (after operating expenses) to pay the debt. A debt cover of 1.0 (or 1:1) indicates that every dollar of funds available after paying operating expenses is needed to pay debt, with nothing left over. A debt cover of 1.20 (or 1.2:1) indicates that for every $1.20 of funds available, $1.00 pays debt, and $0.20 remains as cushion or cash flow. Lenders always require a certain amount of cushion, and the RFP Template stipulates that applications should have coverage between 1.15 and 1.40. However, in some cases (particularly on properties which have a small margin of rents over expenses), the relationship between income and expense inflation causes the coverage to diminish over time. When the proforma demonstrates a declining debt cover, it may be necessary to permit an initial debt service coverage ratio of greater than 1.40, so that at Year-20, the coverage is sufficient to pay debt service and maintain an adequate cushion.
- Operating Expense Coverage—while debt coverage looks at the relationship between funds available for debt service and debt service itself, another measure exists which may be more representative of a property's viability: the Operating Expense Cushion, or 'OpEx Cushion'. This measure expresses the relationship between cash flow and operating expenses. For example, if a property has operating expenses of $4,000 per unit per year, and cash flow of $400 per unit per year, cash flow is 10% of operating expenses, and it has a 10% Operating Expense Cushion. The RFP Template (§VIII.H.2.a.)

specifies an OpEx Cushion of at least 7%, when the NSP Gap Loan is in 2nd lien position. In some cases, the debt cover will have to be increased to permit a sufficient OpEx Cushion; in other cases, the OpEx Cushion will have to be increased to permit a sufficient debt cover. As a rule, underwriting should ensure that both of these thresholds are met.

- Developer Fee—Developer fees on multifamily properties are generally in the range of 10% to 15% of total development costs. This means, for a project that costs $1M to build (incorporating site acquisition, construction, and soft costs), the developer fee would be in the range of $100,000 to $150,000. This fee covers all of the developer's time, unreimbursable costs, and risk—of course, no developer fee is collected on failed attempts to develop projects. When sources are inadequate, developers will sometimes defer a portion of their fee, hoping to collect it from the future cash flow of the property. Experienced funders recommend structuring transactions to either pay the developer fee in full, or to permit only a small portion of the total fee to be deferred. Extensive fee deferral means the sponsor did not get paid, and a financially weak sponsor is a risky sponsor.
- Initial Reserves—some transactions will offset aggressive underwriting (i.e., low coverage and cushion) with generous reserves. In principle, coverage, cushion and reserves should be balanced against each other. The RFP Template outlines certain underwriting considerations that address the funding and use of reserve accounts, including the reserve for replacement, operating deficit reserve, and debt service reserve. Grantees should be alert to over- and under-funding of these accounts. The amount funded must match the amount in the application, or the Grantee should make adjustments to the NSP amount through the subsidy layering process.

4.D. Identify Deficiencies

At this point in the process, the Grantee has accomplished a great deal. It has already made all key decisions regarding the form and timing of its program; it has received applications, and performed an initial review for completeness and score. Based on its program design decisions, the Grantee should build a checklist of requirements for transactions. This can be created through a review of the RFP or RFQ, as well as any FAQ that was subsequently issued. Just as these source documents should be a basis for the requirements checklist, any new requirements should be grounded in these documents. It would be unfair to hold sponsors to requirements which have not been published.

Each application should be reviewed against the checklist. In this way the Grantee can systematically identify deficiencies in the applications which need to be resolved. Experienced funders have found that requiring responses, clarifications and concessions before awarding funds can be more effective than trying to resolve issues after award of funds, at closing, or after funding.

Based on the checklist, a letter should be drafted for each application. A good approach is to draft a single template deficiency letter, which contains all possible deficiencies, and then to individually edit the letters by deleting deficiencies which do not apply (and fine-tuning or customizing those that remain). This process can reduce the workload while better ensuring consistency in your treatment of applicants.

To ensure quality and consistency in the process, there should be a Quality Assurance (QA) review of the deficiency letters. This may take the form of a preliminary Approval Committee, or it may be less formal. When the deficiency letters are issued, they should include the preliminary score, a strict deadline for response to deficiencies, and a discussion of the deficiencies that is sufficiently detailed to allow the applicant to respond effectively. Any letters rejecting applications on the basis of incompleteness should be issued at the same time.

4.E. Resolve Deficiencies and Calculate Final Scores

With the arrival of deficiency responses, the Grantee should now have enough information to make final funding determinations. After reviewing the responses, create a summary for each application, distinguishing between three important categories:

- Deficiencies that have been resolved (effectively recording the resolution for the file);
- Deficiencies that have not been resolved, and which are the basis for ultimately rejecting the transaction; and,
- Deficiencies that are not fully resolved, but which can be converted into funding conditions in the Award.

If a deficiency response does not satisfy the Grantee on a substantive issue, and the issue cannot be addressed through a special condition in the Written Agreement, the Grantee may have no choice but to ultimately reject the application.

Phase 5: Awards

5.A. Presentation to the Approval Committee

Armed with a summary of each application and a breakdown of the deficiency responses, staff is prepared to present the matter before the Grantee's Approval Committee.

Approval Committee members are charged with making sure the process is fair, that any precedent-setting decisions are carefully considered, that the grantee's mission is served by the awards, and that the award process complies with the grantee's published materials.

Approval Committee members should represent diverse perspectives, should ask questions to ensure the program has been followed, and should vote to approve (or not) each individual application. Approval Committee members should not impose 'surprise' standards or requirements on transactions. In general, transactions that prove to conform to the program requirements are approved; and, Approval Committees often dictate additional funding conditions to better ensure the transactions make it through closing, and remain viable.

5.B. Issue Award Letters

Based on the approvals of Approval Committee, and on the funding conditions that have been identified, the Grantee can prepare and issue award letters. This Toolkit includes a template Written Agreement, and funding conditions should be articulated at Exhibit 1.

Phase 6: Post Award

6.A. Funding

Grantees can invest NSP funds either 'at completion' or 'pari passu'. It is not recommended that NSP funds be invested 'up-front', or otherwise in advance.

- At-Completion: The Grantee agrees that it will provide funds subject to the completion of the project. This provides the least risk for the Grantee (funds are not invested unless the property is built, occupied, and has successfully undergone development). However, when funds are invested at-completion, the developer must bridge them with short term money, and must pay interest on those funds. This cost increases the cost of the development, and increases the need for gap financing. Consequently the risk is less, but the cost is higher.
- Pari-Passu: This means 'equal footing', and refers to an approach in which all funders provide their funds in proportion. For example, if a transaction will have a $2M construction loan, and a $1M NSP loan, each construction draw would be paid 2/3 from the construction loan ($2M of $3M total) and 1/3 from NSP funds ($1M of $3M total). Pari Passu shares the risk, and decreases the amount of construction loan interest that the developer must pay, which decreases the total development cost.

6.B. Subsidy Layering

Subsidy layering is the process of ensuring that an asset ultimately received the amount of funding it needed, and not more. Underwriting—at the front end of the process—determines the *maximum* loan or grant amount, based on *projected* development costs. Subsidy layering—once the development is complete—looks at the *actual* costs that were incurred and determines whether the award should be reduced. The Grantee completes the Subsidy Layering Review (SLR) based on a post-completion Cost Certification from the sponsor's accountant. A post-completion SLR is not required, but it is a best practice. The following illustrates a simplified subsidy layering review:

Simplified Subsidy Layering Review (SLR)			
--- USES ---			
	Application (Projected Sources / Uses)	Cost Certification (Actual Sources / Uses)	Difference
Building Acquisition	$1,215,000	$1,215,000	$0
Hard Costs (Rehab)	$2,000,000	$1,932,441	($67,559)
Soft Costs	$290,350	$299,221	$8,871
Developer Fee	$235,000	$235,000	($0)
TOTAL USES	$3,740,350	$3,681,662	($58,668)
--- SOURCES ---			
First Mortgage	$1,800,000	$1,800,000	$0
HOME Funds	$990,000	$990,000	$0
Deferred Developer Fee	$50,000	$0	$50,000
Total 'non-NSP' Sources	$2,840,000	$2,790,000	$50,000
Gap (Source – Uses)	$900,350		
NSP Funds AWARDED	$900,350		
	NSP FUNDS NEEDED	$891,662	
		REDUCTION IN NSP AWARD (TO BALANCE)	($8,688)

In the scenario above, we used the following steps:

- Start with Uses, and establish the actual Uses by referring to the Cost Certification Audit. Actual Uses turned out to be $58,668 *lower* than projected.
- Add all Sources from the Cost Certification Audit, except yours (i.e, the Grantee's); we'll call these 'non-NSP sources' because they don't include funds from whoever is doing the subsidy layering (yet). You want to determine the *actual* Gap in financing.
- Subtract actual total Uses ($3,681,662) from actual non-NSP Sources ($2,790,000). In this example, the actual non-NSP Sources were $50,000 *lower* than projected, because the developer did not defer the fee it had projected would be necessary. In other words, the developer reduced fee deferral to absorb some of the cost savings.
- Final actual total Uses were $3,861,662, and final non-NSP Sources (before your funds) were $2,790,000. Thus, the project needed gap funding in the amount of $891,662, rather than the amount awarded of $900,350 (a difference of $8,688).
- The Grantee would reduce the final disbursement accordingly, or would require the developer to return $8,688.

The above simplified illustration does not explore the nuanced decisions and analysis that inevitably must go into determining 'Actual' Uses. Fortunately, Grantees can rely heavily (though not entirely) on the developer's Cost Certification Audit. Note, the template legal documents require a post-completion Cost Certification Audit; see Sample Loan Agreement §1.2(i). It is not uncommon for a funder to have questions about the Cost Certification, and getting answers is part of the Subsidy Layering Review process.

The Multifamily Toolkit Subsidy Layering Tool

HUD has provided Grantees with a tool that can be used in completing subsidy layering reviews. The NSP Subsidy Layering Worksheet should be completed by entering: (1) data on from the application and award of funds; (2) data from the Cost Certification Audit on actual development costs; and (3) the Grantee's determinations on these costs. Any necessary reduction in funding will be indicated on the Worksheet.

Exhibit A: NSP Multifamily Rental Toolkit--Overview of Guidance Documents and Templates

1. Application Processing Guide. An overview to assist grantees in developing and implementing a process for awarding funds to NSP-qualifying multifamily projects. This Guide Includes a Subsidy Layering Tool in MS Excel.
2. Creating an NSP-Eligible Rental Project. Guidance on packaging a rental project (whether 1-4 units or 5+ units) that meets NSP eligibility criteria. This includes a side by side chart comparing key requirements of NSP, HOME and (non-NSP) CDBG. This document will also be an attachment to the RFP/RFQ.
3. Basics of Rental Development. This document will educate grantees who desire to create a multifamily rental program under NSP but who are not experienced in the multifamily rental development process.
4. Multifamily Rental RFP (project-specific). RFP requesting submission of a specific project on one or more specific sites, for which the developer has site control, and for which the developer has secured (at least conditionally) all non-NSP funding. In this Toolkit, we call this the "RFP" or "Project Specific" approach.
5. Multifamily Rental RFQ (non-project-specific). This document solicits qualifications from developers to receive one or both of the following: a predevelopment grant, or a letter of intent earmarking funding for a specific project to be presented for grantee approval in the future.
6. Multifamily Underwriting Model Template. This is an Excel workbook that grantees and developers can use to evaluate the feasibility (sources and uses) and viability (cash flow) of a proposed NSP multifamily rental project. A sample of the template, including information for a hypothetical project, is also included (this sample is in PDF format).
7. Template Selection Criteria Worksheet (Scoring). This tool allows Grantees to score applications, and track and sort the scored applications.
8. Multifamily Rental Legal Documents. This includes the following template documents:

   a. Loan Agreement. This document discusses the requirements for advancing funds to reimburse eligible costs, the requirements for repayment, and the requirements for compliance.
   b. Note. This document discusses the requirements for repayment. Grantees should have counsel review the form of document and modify it to reflect applicable provisions of state and local laws.
   c. Mortgage. This document secures repayment of the loan. Grantees should have counsel review the form of document and modify it to reflect applicable provisions of state and local laws.
   d. NSP Regulatory Agreement. A use and affordability agreement, to ensure NSP compliance over the affordability period. The template document is designed to be foreclosure-proof (recommended practice but not an NSP requirement).
   e. Operating Deficit Guaranty. This document gives the grantee a guaranty (from a credit-worthy guarantor) that initial operating deficits will be funded. The term of the template guaranty expires once the project has produced positive Surplus Cash for two consecutive years.

f. Completion Guaranty. This document, designed to be used when the grantee will be advancing funds during construction, gives the grantee a guaranty (from a credit-worthy guarantor) that the project will be completed in lien-free condition, thereby mitigating the risk that NSP funds will be advanced without ultimately achieving an NSP Eligible Use.

g. Subordination Agreement. This document, modeled on the standard Fannie Mae subordination agreement, is intended to be offered by the grantee as a standard form of subordination agreement whenever a project has a standard commercial first mortgage loan (in which case the NSP soft loan will be a second mortgage).

h. Intercreditor Agreement. This document is intended for use when the grantee and a construction lender will both be advancing funds during construction. This document provides that each lender will fund a proportionate ("pari passu") share of each draw. The template intercreditor agreement also discusses inspections, draws, and how the lenders will work together in the event of a default.

i. Multifamily Rental Written Agreement (project-specific). We call this a Project-Specific "Award Acceptance Agreement". This document is basically a contract with a developer to deliver a specific project.

j. Two Multifamily Rental Written Agreements (non-project-specific). These are:
    i. Predevelopment Grant Agreement. The grantee agrees to reimburse certain third party due diligence costs that the developer incurs in the process of preparing a property-specific proposal.
    ii. Letter of Intent. The grantee agrees to conditionally reserve funding for a future property-specific proposal.