About this Tool

Description:

This tool provides tab-by-tab instructions for using the NSP Project Feasibility Analysis Template, a workbook composed of seven worksheets to answer the following questions:

Tab 1: Program Guidelines: What policies and regulations impact your project?

Tab 2: Project Description and Compliance: Is your targeted property eligible for NSP?

Tab 3: Homebuyer Affordability Analysis: Who do you seek to serve and what can they afford?

Tab 4: Development Budget: What is the total cost of the proposed project?

Tab 5: Rehabilitation or New Construction: What is the proposed scope of work of the property and how much will it cost?

Tab 6: Sources & Uses: What is the amount of NSP subsidy needed to complete your proposed deal? Does it make sense?

Tab 7: Funds Management: What is the summary of funds management and breakdown to report to the Disaster Recovery Grants Reporting (DRGR) System?

Source of Document:

This document was developed by consultants affiliated with the consulting firm Capital Access, Inc., and practitioners and consultants implementing NSP 1 in Bridgeport, Connecticut.

Disclaimer:

This document is not an official HUD document. It is shown only as an example for informational purposes, which should only be adapted as described above. 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

NSP PROJECT FEASIBILITY ANALYSIS TEMPLATE: INSTRUCTION MANUAL

I. INTRODUCTION

Many NSP Grantees and Sub-recipients are using NSP funds to purchase and rehabilitate foreclosed and abandoned homes to sell via a developer-driven program. It is important that grantees conduct an analysis of their prospective projects:

- To ensure that they can comply with NSP requirements and local program guidelines; and

- To determine a reasonable but not excessive level of subsidy is provided to achieve affordability for the targeted households.

Capital Access, Inc. (CAI) developed the "NSP Project Feasibility Analysis Template" to help NSP participants:

- Utilize NSP Funds to maximize their impact in blocks targeted for stabilization.
- Analyze the feasibility of potential projects prior to acquiring properties.
- Develop systems to generate scopes of work that integrate code compliance, energy efficiency & marketability.
- Comply with HUD and State/Local Program Rules and Requirements.
- Track the flow of NSP Funds in a project to see the impact of the funds as short-term financing and long-term subsidy.
- Identify affordability gaps within target markets for prospective home sales.

II. INSTRUCTIONS

The Project Feasibility Analysis Template is a workbook composed of seven tabbed worksheets programmed in MS Excel. The seven tabs provide worksheets to answer the following questions:

1. **Tab 1: Program Guidelines**: What policies and regulations impact your project?

2. **Tab 2: Project Description and Compliance**: Is your targeted property eligible for NSP?

3. **Tab 3: Homebuyer Affordability Analysis**: Who do you seek to serve and what can they afford?

4. **Tab 4: Development Budget**: What is the total cost of the proposed project?

5. **Tab 5: Rehabilitation or New Construction**: What is the proposed scope of work of the property and how much will it cost?

6. **Tab 6: Sources & Uses**: What is the amount of NSP subsidy needed to complete your proposed deal? Does it make sense?

7. **Tab 7: Funds Management**: What is the summary of funds management and breakdown to report to the Disaster Recovery Grants Reporting (DRGR) System?

To use the Template, enter data about your project in each of the tabbed worksheets as described in this Instruction Manual. The Instruction Manual provides separate instructions for each of the seven worksheets. The workbook is not write-protected so you can customize each worksheet as needed. So be careful. Formulas can mistakenly be altered or overwritten if the worksheets are not saved.

Remember to save a copy before making any changes to any of the worksheets in the Template.

Another feature of the Template is that the spreadsheets are linked with cell values that reference other worksheets in each of the 7 tabs. This facilitates much faster "What If" analysis. This workbook is set up to be as linear as possible and may to be filled out in order with little flipping between tabs.

Note: Enter data only in the **beige** shaded cells of each of the spreadsheets in the 7 tabs. Data entries required for these cells are noted in the instructions for each tab with a check mark (√).

TAB 1: PROGRAM GUIDELINES

The Program Guidelines worksheet in Tab 1 is designed for you to enter the key criteria you have established to underwrite and evaluate your NSP homebuyer projects. The worksheet is divided into two sections:

- Underwriting Criteria, and

- Program Guidelines.

The data you enter in Tab 1 will help you determine the requirements of your NSP policies. These policies will then be reflected in the remaining six tabbed worksheets.

As you determine your underwriting criteria and program guidelines, remember that HUD does not specify per unit subsidy limits for NSP grantees.   However, the OMB cost principles of Circulars A-87 and A-122 require NSP grantees and their Sub-recipients to ensure that all costs incurred are **reasonable and necessary,** and that homebuyers and developers do not receive undue enrichment.

As you start this Template, remember to enter data only in the **beige** shaded cells of each spreadsheet. The data you enter in Tab 1 will populate cells in Tabs 2 through 7. Data should be entered in cells that are noted with a check mark (√).

Section 1: Underwriting Criteria

This section of the worksheet sets the underwriting criteria you are using for your analysis of the homebuyer's ability to afford the new or rehabilitated NSP home.

Mortgage Term Requirements:

Data you enter in Line 7 sets the range for monthly mortgage payments based on household income.   Community development mortgage underwriting typically sets housing to income ratios at a minimum of no less than 25% and a maximum of no more than 33%.

- ✓ In **cell D7,** enter the minimum percentage of gross household income desired for the monthly mortgage payment, principal, interest, taxes and insurance (PITI), commonly called the "front end ratio".

- ✓ In **cell F7,** enter the maximum percentage of gross household income desired for the monthly mortgage payment.

- ✓ In **cell F8**, enter the maximum percentage of the consumer debt to income ratio for the mortgage term requirement. This is the housing payment of principal, interest, taxes, and insurance (PITI) plus other consumer debt, and is commonly called the "back end ratio."

Section 2: Program Guidelines

This section of the spreadsheet sets the two key components of your homebuyer program guidelines. These two components are 1) the type of assistance you will offer NSP developers and homebuyers, and 2) the amount of professional fees you will provide to participants in your NSP program.

Forms of Assistance

As you determine the forms of assistance you will provide in your NSP program, remember that the policy you set regarding the per unit subsidy limits is a local decision that should be a function of:

- The local real estate market conditions.
- The types of improvements you need to make so that the home you build or rehabilitate complies with health and safety building codes.
- The number of energy efficiencies you add in your new or rehabilitated home.
- The number of comparable properties for sale that are attractive to homebuyers who earn up to 120% AMI. These buyers have choices about the homes they may buy.
- The price of your home compared to the prices of homes your target homebuyers can afford.

Line 12 of this worksheet lists the headings for information on the type of subsidy, the subsidy limit, and the subsidy uses in your homebuyer program. The information you enter in this section will populate cells in the tabs of the other 6 worksheets.

- ✓ In **cell C13,** in the <u>Final Development</u> line, enter the per unit subsidy limit for the (Development) Appraisal Gap. This will be the difference between the sales price (appraised value) and the cost to develop the home.

- ✓ In **cell C14,** in the <u>Final Affordability Homebuyer</u> line, enter the per unit subsidy limit for the (Homebuyer) Affordability Gap. This will be the difference between what the target homebuyer can afford and the sale price of the home. The Appraisal and Affordability Gap analysis compares the cost to develop and the market value with what the targeted household can afford.

- ✓ In **cell C15,** in the <u>Maximum </u>line, enter the maximum per unit subsidy limit.

Professional Fees

Your program should have guidelines or caps for fees paid to developers and realtors. This section of the worksheet is where you establish the fees you will allow in your program.

- ✓ In **cell C17,** enter the <u>Developer Fee</u>. This is the fee you allow a developer to earn and should be enough to cover the developer's investment in terms of capital and staff time as well as provide enough incentive for the developer to work in a difficult market.   It should not be so high that it creates temptation for

undue enrichment.   A developer fee between 10% and 20% should be a sufficient range, depending on market conditions, developer risks and the amount of work required by the developer.

- ✓ In **cell C18,** enter the <u>Sales Referral Fee</u> as a percent of the sales price.

- ✓ In **cell E18,** enter the <u>Commission</u> that is consistent with the standards used by your local board of realtors. Some communities may offer to pay a flat "floor" fee that exceeds the percent of the sales price of the home to incentivize realtors to sell NSP-assisted homes. This fee will be paid at settlement (the sale of the property). The Template is programmed to use the *greater* of these two cells.

  Many developers falsely assume they can sell a house on their own in this economy without a licensed real estate agent. However, in the current real estate environment, real estate marketing and sales professionals will assist you in listing, marketing, and selling your NSP properties so that your homes sell as quickly as possible.

- ✓ In **cell C20,** enter the amount allotted for <u>Homebuyer Education</u>.   Homebuyer education might include credit counseling and advocacy services that go beyond the 8 hours of homebuyer assistance. HUD is flexible on the amount paid for counseling services, but a fee of more than $1,500 may be viewed as undue enrichment unless justified.

By completing the Program Guidelines worksheet, you have established the basic policy and subsidy limits that will be embedded throughout your project feasibility analysis.

TAB2: PROJECT DESCRIPTION AND COMPLIANCE

This worksheet is designed to contain the key information about your project so you can analyze and verify that the proposed project and prospective homebuyer are in compliance with NSP regulations.

Remember to enter data only in the **beige** shaded cells. The data you enter will populate other cells in Tabs 3 through 7 in this workbook. Data should be entered into cells with a check mark (√).

General Information

- ✓ In **cell B7 and B8,** enter the property address and developer.

- ✓ In **cell G7**, enter the census tract number where the property is located to verify that your property is located in an eligible census tract as defined in your Annual Action Plan Amendment.

Developer

- ✓ In **cell G1**, enter "yes" or "no" to the question, "Is the Developer a Local Government or Sub-recipient?"

    If yes, the grantee does not receive a developer fee. Instead, the agency will receive administrative and activity delivery costs based on the hours and costs they put into developing the project.

Property

There are three sections under the Property section of this worksheet.

Section A. Property Description is divided into two columns: 'As Is' and 'As Improved'. Information filled out under the 'As Is' column describes the current condition of the property prior to any rehabilitation activities. The 'As Improved' column describes the improvements and value added to the property after rehabilitation or construction has been completed.

- ✓ In **cells C18, C19, and C20,** <u>As Is</u>**,** enter the current number of bedrooms, number of bathrooms, and square feet in the property.

- ✓ In **cells D18, D19, and D20,** <u>As Improved</u>, enter the number of bedrooms, number of bathrooms, and square feet in the property after rehabilitation is completed.

✓ In **cell C21,** enter the year the home was built. Environmental risk assessment and abatement for lead paint will be required on any home built on or before1978 because lead-based paint was often used in the interior of homes.

✓ In **cell D23,** enter the as-improved sales price. Keep in mind this is an estimate. You may want to engage a realtor or order an as-improved appraisal at the same time you obtain the as-is appraisal. The appraiser performing the as-improved appraisal will review the proposed scope of work and provide you with a second appraisal of the potential sales price. By obtaining an as-improved appraisal, you will also have an estimate from the appraiser of his or her valuation of the property after you have completed the rehabilitation activities. This estimate valuation will give you an idea of the possible listing price of the property after it is completed.

Section B. Purchase Price and Appraisal triggers the policy and compliance issues you developed earlier and that are carried throughout the workbook.

✓ In **cells H17, H18, H19, and H20**, enter the information required.

Once populated, the fifth line item in cell H21 will calculate the purchase price discount amount. Cell H22 will clearly state if the NSP discount requirement has been met. Cell H23 will indicate if the appraisal was completed no more than 60 days from the final purchase agreement. If you or a developer is purchasing the property at the minimum discount of 1% of the appraised fair market value, cell H22 will say 'YES'.

Section C. Property Type is the analysis of NSP eligible uses.

✓ In cells **F27, F28, and F29**, enter "yes" or "no" to questions 1 through 3.

Once answered, the NSP Eligible Use box in cells H27-H33 will illustrate the eligible uses for the investment of NSP funds that will later be submitted to DRGR.

Income Targeting

✓ In **cell G37,** enter "yes" or "no" to the question, "Will you serve households earning at or below 50% AMI?" It is important to determine if the home will be designated to meet the NSP low income set-aside requirement to serve households earning less than 50% AMI. If it does, you have justification to offer a higher amount of subsidy based on the lower income level of the target homebuyers.

✓ In **cell A39,** enter the year of the HUD income limits being used.

✓ In **cell B39,** enter the City or MSA the HUD income limits represent.

Income limits can be found on the HUD website at: http://www.huduser.org/portal/datasets/il/il10/index.html. The HUD income limits table in this section of the worksheet have been set up to automatically calculate

the rest of the information in the worksheet based on the data you have entered in the cells listed above.

Once you have completed the Program Guidelines worksheet, you should be able to determine if the property is eligible for NSP investment. You can also determine whether or not this house will be designated to help you meet the NSP 25% Low Income Set-Aside requirement.

The Homebuyer Affordability Analysis worksheet allows you to analyze the affordability of your project by addressing:

- The income levels of the homebuyers you seek to serve; and
- The level of assistance they need to afford the home.

This worksheet will enable you to analyze different levels and types of subsidies to offer to homebuyers at different income levels.   Column E of the worksheet represents the lowest qualifying income for a potential homebuyer at the estimated purchase price. Columns F, G, and H are used as a reference and represent homebuyers with low, moderate, and middle incomes.

While completing this worksheet, keep in mind that the homebuyer is ultimately interested in two key questions:

- How much do I need to put down?
- What is my monthly mortgage payment?

Remember to enter data only in the **beige** shaded cells. The data you entered in Tabs 1 and 2 will automatically be transferred to this worksheet, and will populate Tabs 4 through 7 in this workbook. Data should be entered into cells with a check mark ($\sqrt{}$).

Household Size and Income

$\checkmark$ In **cell D15,** enter the reasonable average family household size.

$\checkmark$ In **cell E15,** enter 100% of the AMI from Tab 2, Income Targeting section, based on the household size you selected in cell D15 above. For example, if you enter "3" in cell D15, then refer to the income amount in cell F42 in the Income Targeting section on Tab 2. Cell F42 on Tab 2 will represent 100% of the AMI for a family of three, or $51,200.

$\checkmark$ In **cells F17, G17 and H17**, indicate the percentage of AMI for Low (50%), Moderate (80%), and Middle (120%) income homebuyers, as applicable.

Average Sales Price

$\checkmark$ In **cell D24**, enter the minimum down payment amount required by the first mortgage lender.

$\checkmark$ In **cell D25**, enter any other down payment assistance offered to the homebuyer, if applicable.

$\checkmark$ In **cells E26 through H26**, enter any Amortizing Subordinate Mortgage other than the first mortgage. Although it is uncommon to see this type of mortgage in

the current market environment, you can enter any other subordinate financing in these cells. Leave these cells blank if none is provided to the homebuyer.

✓ In **cells E27 through H27**, enter any Deferred 2nd Mortgage you will provide with NSP or other funding. This type of subordinate mortgage is the most popular method of providing a homebuyer subsidy. It reduces the first mortgage amount by subsidizing it with NSP funds based on the prospective homebuyer's income.

✓ In **cells E31 and H31**, enter the anticipated mortgage rates for low income and middle income homebuyers.   You may choose to set the interest rate one half to three quarters of a percent higher than the current market interest rate as a more conservative approach to allow for interest rate increases during the implementation of your project.

✓ In **cell E32**, enter the term of the first mortgage. The standard repayment term for a mortgage is 30 years. NSP homebuyers should not have a balloon payment that is due prior to 15 years or prior to the termination of the maximum number of years in the affordability period as stated in the Annual Action Plan Amendment.

✓ In **rows 35 and 36,** enter the terms for an amortizing Second Mortgage, if applicable, and if entered above in row 27.

✓ In **cell D38**, enter the annual real estate taxes based on the anticipated improved value of house.   In communities with higher real estate taxes, NSP funded homes and income eligible homebuyers may qualify for local tax abatement programs. Enter the tax based on this abatement, if applicable.

✓ In **cell D39**, enter the annual amount for homeowner's insurance based on the anticipated sales price. In areas prone to flood or other hazardous disasters you may want to include supplemental coverage. Flood insurance is required for federal assistance in flood zones.

✓ In **cell D41**, enter homeowner association fees, if applicable.

Once all the appropriate beige shaded cells have been filled out, cell E42 will illustrate the monthly mortgage payment and take into account the principal, interest, taxes and insurance (PITI) for homebuyers with the lowest qualifying income as well as for homebuyers with low, moderate, and middle incomes.   Line 40 will automatically include payments of private mortgage insurance premiums if the loan to value is greater than 80%.

Total Monthly Mortgage Payment

This row will calculate the total monthly mortgage payment based on the data you entered above. Note that this analysis assumes a fixed interest rate mortgage. NSP homebuyers should benefit from long term fixed and affordable interest rates. NSP guidelines state that adjustable rate mortgages are not recommended for low income homebuyers and grantees are cautioned against providing or permitting homebuyers to obtain subprime mortgages.

Schedule of Closing Costs Table

A separate box allows you to calculate by line item the estimated closing costs of your transaction.

- ✓ In **cells I55 through I60**, enter the estimated closing costs for the homebuyer. After you have calculated the closing costs, the total closing cost amount you enter into cell I65 will populate the cells in the Cash Requirements table below, and will be used to calculate Cash to Close.

- ✓ In **cells I61 and I62**, enter the amount of taxes and insurance required to be escrowed by the first mortgage lender. These cells are populated with one year of taxes and insurance based on your entry above, but you should adjust them according to the number of months required by the lender if one year of escrowed taxes and insurance does not meet the lender's requirement.

- ✓ In **cells H63 and H64**, enter the loan origination fee as a percentage of the loan amount and/ or the loan guarantee fee for the expected first mortgage.

Cash Requirements Table

Consistent with CDBG standards, the homebuyer must bring at least 50% of the down payment required by the lender to the table at closing. The Cash Requirements table calculates the amount of cash required for the borrower to enter by adding the down payment with the closing costs.

Down Payment + Closing Costs = Cash to Enter

Affordability Subsidy Sources Table

The Affordability Subsidy Sources table summarizes the type of affordability subsidy, the subsidy uses, and the cost per unit of the project. These are the sources that make the home affordable to the target homebuyer.

Homebuyer subsidy as a percent of sales prices is automatically calculated in cell E61. This number should be reviewed and used along with the income required in lines 44 and 45 to determine if the total amount of subsidy is reasonable given the income of the homebuyer to avoid undue enrichment to the homebuyer.

There are three essential questions to ask as you analyze the results of this worksheet:

- • *Is this proposed subsidy consistent with your program guidelines?*
  In Tab 1, Program Guidelines, you set a maximum subsidy amount in cell C15. Your analysis in this worksheet, cells C61 through E65, will confirm your maximum NSP Homebuyer Gap Subsidy, the requested NSP Affordability Gap

Funds, the balance (difference) between the two amounts based on the limit you have set, and whether to "PROCEED" or whether the project is "TOO HIGH".

- ***Is the minimum income required sufficient to ensure enough homebuyers will qualify?***
  From a marketing perspective, it is important that the subsidy be sufficient to serve prospective homebuyers with a reasonable range of incomes so that you have a large enough pool of potential homebuyers. Examine the minimum income levels in lines 44 and 45 and compare them to the maximum income your program will permit. Is this a broad enough range, or is the range too narrow?

- ***Is the amount of assistance by income level excessive or resulting in undue enrichment?***
  Generally, programs try to keep the homebuyer subsidy near or below 20% or 25% for most homebuyers, but deeper subsidies may be justified or required to reach families with lower income levels.

TAB 4: DEVELOPMENT BUDGET

The Development Budget worksheet estimates the development cost to build a new home or rehabilitate an existing property, and then calculates the Development Appraisal Gap based on the development budget and the as-improved value of the home.

Remember that the goal of NSP is to return foreclosed and abandoned housing to productive use.   In analyzing projects, review the development budget for the properties you assist to ensure the homes will be marketable and will contribute to stabilizing your target areas. NSP permits homebuyers who earn up to 120% AMI to buy new and renovated properties. The program encourages you to make improvements that will make the homes marketable. NSP does not have subsidy limits or a leverage requirement like HOME.

Use the Development Budget worksheet as a "work in progress." Start out by using your best estimate for line items and, as you receive more information, update your spreadsheet in Tab 4 with more detailed estimates.

Remember to enter data only in the **beige** shaded cells. The data you entered in the previous tabs will automatically be transferred to this worksheet, and will populate the remaining tabs. Data should be entered into cells with a check mark (√).

Uses

The items in the section are organized on a per unit basis.   You can add or subtract line items to meet your individual needs.

  ✓ In **cells F14 – F25**, Predevelopment, enter estimated predevelopment costs.

  ✓ In **cell B29**, Building and Property Acquisition, enter any temporary relocation costs estimated, if the household will require relocation.

  ✓ In **cells F34 through F37**, Construction, enter the construction costs indicated. F30 is populated with the construction costs from Tab 5, the Construction Budget worksheet.   In **cells D38** and **D39**, enter percentages for estimated contractor fees and contingency amounts.

  ✓ In **cells F42 through F50**, Carrying Costs and Professional Services, enter the estimated carrying costs for the project (costs that will be incurred during the time you or the developer own and develop the project.)

  ✓ In **cells B63 and B65**, Seller's Closing Costs, enter the estimated seller's closing costs and transfer taxes as percentages of the sales price.

Once you have entered this data, the worksheet provides several conclusions:

- Cell F66 shows the Development Appraisal Gap after Tab 4, the Development Budget tab, and Tab 5, the Construction Budget tab, are completed.

- Cell C71 will disclose if the prospective development is in compliance with the sales price. With NSP, the sales price is the total development cost or the fair market value, whichever is less.

- Cell F71 will disclose if the subsidy limits have been met and will state "PROCEED" if the project is within the Development Appraisal Gap limit. It will state "TOO HIGH" if the Development Appraisal Gap is too large.

If the project exceeds subsidy limits, the property may be over-improved or the rehabilitation costs may be too high.   This does not mean the project should be rejected. Instead, review items in the development budget to determine if your assumptions can be adjusted so your project will be feasible. Strategies to help reduce the Development Appraisal Gap include:

- Renegotiate the acquisition price with seller.
- Adjust the sales price.
- Revise the scope of work by value engineering the proposed construction to reduce development costs.
- Increase the development subsidy amounts.

TAB 5: CONSTRUCTION BUDGET

The Construction worksheet will populate information on the Development Budget tab and assist you in determining the Development Appraisal Gap and the construction costs of your project.

Remember to enter data only in the **beige** shaded cells. The data you entered in the previous tabs will automatically be transferred to this worksheet. Data should be entered into cells with a check mark (√).

- ✓ In **lines 11 – 28 and lines 31 – 44**, <u>Construction</u>, enter the cost data from your cost estimate. Line items can be budgeted in linear feet, square feet, or units. Use whatever unit of measurement that best suits the budget line item.   Only enter those line items that pertain to your project. (Lines 29 and 30 in the construction budget are populated through the Energy Efficiency Improvements table and the Appliance Allowances table at the bottom of the page.)

- ✓ In **lines 48 – 61**, <u>Energy Efficiency Improvements</u>, enter the units and unit costs of any energy improvements you want to include in the budget.

- ✓ In **lines 65 -73**, <u>Appliance Allowance</u>, enter the unit and unit prices for any appliance allowances or purchases you want to include in the budget.

Energy efficient improvements are practical, help the environment, increase affordability, and are promoted by HUD through NSP. Examples of ways to make energy efficiencies in your project include:

- Exterior Siding
- HVAC
- Insulation
- Roof
- Windows and Doors
- Appliances

Any upgrade you make to the development will help you market your property. In addition to making energy efficiency improvements, other examples of upgrades that can increase the marketability of your home and attract homebuyers include:

- Add a covered porch.
- Add a bathroom to make it a 2-bathroom home.
- Upgrade exterior finishes, add new siding, fencing and install a new front door.
- Install new landscaping.
- Install new Energy Star-rated kitchen appliances.
- Upgrading the quality of kitchen and bathroom counters and cabinets.
- Install new interior finishes and finished carpentry such as baseboard molding.
- Install hardwood floors instead of carpeting, and tile instead of linoleum.
- Install new Energy Star-rated washer and dryer (now an NSP-eligible cost).

TAB 6: SOURCES AND USES

Sources and Uses worksheet provides a summary of the subsidy in proposed project.

The cells in this worksheet are populated by the information you entered in Tabs 1 through 5 so you do not need to enter any data in the cells in this worksheet.

Sources and Uses worksheet calculates Total NSP Interim Loan for Total Development, and Final Combined NSP Subsidy amount, and calculated in the following items:

- Interim NSP-funded Development Financing Section assumes that NSP provides 100% of the construction financing. Lines 14 through 24 itemize the development costs required to make the house "the nicest home on the block."

- Total NSP Interim Loan for TDC: Cell I26 provides the total amount of NSP funds needed to finance the deal. By providing 100% financing to developers, you facilitate the timely expenditure of NSP funds.

- Rehabilitation Development Subsidy calculates the Development "Appraisal Gap" Subsidy which is total development costs less sales price. The Development Appraisal Gap Subsidy is the subsidy needed to make the home marketable and to stabilize surrounding home values on blocks impacted by foreclosure and abandonment In weak and low value markets, Development Appraisal Gap Subsidy is high and Homebuyer Affordability Subsidy is low. The opposite is true is stronger or high value markets.

- Homebuyer Affordability calculates the Homebuyer "Affordability Gap" Subsidy needed to make the monthly mortgage payment affordable to target homebuyers. In this example, NSP not only assists with down payment and mortgage buy down, but also with assistance in paying for closing costs. Therefore, the Total Sales Transaction Costs (cell I39) is the Estimated As-Improved Sales Price plus Closing Costs.

- First Mortgage Amount describes the mortgage amount that the targeted homebuyer can afford based on a 30-year, fixed rate mortgage and the underwriting criteria found on the "Homebuyer Affordability" tab.

- Down Payment/Principal Buy Down summarizes the NSP funds to incentivize homebuyers to purchase an NSP home. These incentives usually are down payment and closing cost assistance because they lower the cash the homebuyer needs "to enter" and purchase the home.

- Affordability Buy Down of Mortgage is the amount of NSP funds needed to buy down the principal of a mortgage to make the home affordable to target homebuyers. The Affordability Sales price less the amount of a mortgage the homebuyer can afford

equals buy down. The amount the homebuyer can afford is a function of the housing cost-to-income and total debt-to-income ratios and related underwriting.

- <u>Cash from Homebuyer</u> is the amount of money the homebuyer needs to bring to the closing to purchase the home. For the purposes of NSP, it is 50% of the lender-required down payment. For example, 3% of the sales price is the down payment is required by the lender. The homebuyer will have to provide 1.5% of the down payment and NSP will finance the other 1.5%.

- <u>NSP Homebuyer Subsidy Analysis</u> summarizes the NSP funds to make the home marketable and affordable to the targeted homebuyer.

- <u>Final Combined NSP Subsidy</u> is the NSP Rehabilitation Developer Subsidy, cell I31, plus the NSP Homebuyer Affordability Subsidy, cell I56. This amount is the long-term financing that remains in the project and is needed by a sustainable homeowner to purchase the home. The new or rehabilitated home assists you achieve your NSP goals to stabilize the market values of the surrounding homes.

TAB 7: FUNDS MANAGEMENT

The Funds Management worksheet summarizes your proposed commitment of NSP funds and assists you with entering information into the DRGR System.

This worksheet is populated with information entered on previous tabs so you do not need to enter any information on this worksheet.

The Funds Management tab calculates:

- Total Development Cost, cell E14, is the total development cost (TDC) of project.

- Developer Subsidy, cells E14 throughE16 is the amount the developer's subsidy.

- Homebuyer Subsidy, cells E18 throughE20 is the amount of the homebuyer's subsidy.

- NSP Obligation Amount, cell E22, is the TDC plus Closing Cost Assistance. Down payment and Mortgage Buy Down are covered through TDC and do not affect the Obligation Amount, and is Program Income returned to Grantee.

- NSP Program Income, cell E26, is the Homebuyer Purchase Power (First Mortgage plus the "Cash to Enter" Down Payment).

- Final NSP Subsidy, cell E24, is the total of Developer and Homebuyer subsidies.

- Subsidy Limit Analysis, cells E30 through E34, determines if the project fits within the Subsidy Limit Program Guidelines from Tab 1, the Program Guidelines tab.

- DRGR Reporting Amount is the amount you report to the DRGR System and is based on the NSP Eligible Use and Eligible CDBG Activity.

After you have completed this workbook, you will be able to document how your marketability upgrades comply with NSP while staying within the realm of what is "reasonable and necessary" for local market conditions. The data you enter in this Template helps you demonstrate how a concentrated, scattered-site rehabilitation program maximizes impact and contributes to stabilizing neighborhoods. The tool provides the methods to:

- Determine what property to acquire;
- Develop a rehabilitation scope of work based on code compliance, marketability and energy efficiency;
- Analyze the best end use as either a homebuyer or rental unit; and
- Conduct a financial analysis to structure the use of NSP funds in a project.