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# Multifamily Rental Housing Program Guideline

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2020

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## Table of Contents

I.	Preface.....	4
II.	Background.....	4
III.	Pre-Application.....	4
IV.	Application Submission, Fees and Eligibility.....	4
V.	Developer Fee.....	5
VI.	Operating Expense Analysis.....	5
VII.	Site Evaluation and Environmental Assessment.....	6
VIII.	Construction Cost Evaluation.....	6
IX.	Qualified Development Team.....	6
X.	Credit Evaluation.....	6
XI.	Affirmative Action.....	7
XII.	Assurance of Completion/Letter of Credit.....	7
XIII.	Operating Reserves.....	7
XIV.	Return on Equity.....	7
XV.	Market Study and Appraisal.....	8
XVI.	Rates and Fees.....	8
XVII.	Board Approval and Issuance of a Loan Commitment.....	9
XVIII.	Initial Closing.....	9
XIX.	Construction Period.....	9
XX.	Substantial Completion/Permission to Occupy.....	10
XXI.	Cost Certification.....	10
XXII.	Final Closing.....	11
XXIII.	Post-Final Closing.....	11

## CHFA MULTIFAMILY UNDERWRITING STANDARDS SUMMARY

Debt Service Coverage Ratio	1.15 standard for all amortizing and payable debt, but may be adjusted depending on market conditions, operations or public policy considerations												
Loan-To-Value	The LTV may not exceed 80% of the appraised prospective value or CHFA's estimated total lending cost.												
Vacancy Rates	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Income Type</th> <th style="text-align: center; border-bottom: 1px solid black;">Underwriting Vacancy Assumptions</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Up to 30% Area Median Income (AMI)</td> <td style="text-align: center;">2.5 - 5.0%</td> </tr> <tr> <td style="text-align: center;">&gt; 30% up to 60% AMI</td> <td style="text-align: center;">5.0 - 10.0%</td> </tr> <tr> <td style="text-align: center;">&gt; 60 % up to 80% AMI</td> <td style="text-align: center;">7.0 - 10.0 %</td> </tr> <tr> <td style="text-align: center;">&gt; 80% AMI and Market Rate</td> <td style="text-align: center;">10.0 - 15.0%</td> </tr> <tr> <td style="text-align: center;">Commercial Income</td> <td style="text-align: center;">Minimum 50%</td> </tr> </tbody> </table> <p>CHFA reserves the right not to rely on the commercial income to size its mortgage loan.</p>	Income Type	Underwriting Vacancy Assumptions	Up to 30% Area Median Income (AMI)	2.5 - 5.0%	> 30% up to 60% AMI	5.0 - 10.0%	> 60 % up to 80% AMI	7.0 - 10.0 %	> 80% AMI and Market Rate	10.0 - 15.0%	Commercial Income	Minimum 50%
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Commercial Income	Minimum 50%												
Proforma Trending Assumptions	Typically Income: 2%; Expenses and Taxes: 3%												
Per Unit Operating Expense Range Guideline	<p style="text-align: center;"><u>Proforma Stabilized Year</u></p> <p>The following amounts must be escalated by 3% compounded annually to derive expense ranges for future stabilized years and in all cases <i>Excludes Replacement Reserves and Real Estate Taxes</i></p> <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="text-align: center;">101 units or more</td> <td style="text-align: center;">\$5,500-\$8,500 per unit per year</td> </tr> <tr> <td style="text-align: center;">31 - 100 units</td> <td style="text-align: center;">\$6,000-\$9,000 per unit per year</td> </tr> <tr> <td style="text-align: center;">30 units or less</td> <td style="text-align: center;">\$6,000-\$9,000 per unit per year</td> </tr> <tr> <td style="text-align: center;">Supportive Housing</td> <td style="text-align: center;">\$10,000-\$13,000 per unit per year</td> </tr> </tbody> </table> <p>It is expected that any applicant will ensure that the operating proforma included in its application will contain per unit expenses that fall within the ranges provided above. Should there be compelling reasons to submit operating expenses that fall outside the range, the applicant is expected to provide complete written justification as part of its application</p>	101 units or more	\$5,500-\$8,500 per unit per year	31 - 100 units	\$6,000-\$9,000 per unit per year	30 units or less	\$6,000-\$9,000 per unit per year	Supportive Housing	\$10,000-\$13,000 per unit per year				
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Operating Reserves	Cash deposit of up to 6 months of scheduled debt service and 6 months of estimated annual operating expenses inclusive of replacement reserves and real estate taxes. Additional funds may be required by CHFA to maintain 1.15 debt service coverage ratio for a minimum of 15 years or in an amount and term to be determined by CHFA												
Developer Allowance/Fee	Up to 15.0% of TDC on a sliding scale; for more information please see the CHFA Procedures												
General Contractor Overhead & Profit and General Requirements	Overhead should not exceed 2%, Profit should not exceed 6% (Divisions 2 through 16), and General Requirements should not to exceed 6%. Cumulative total of all three not to exceed 14%												
Loan Term	Up to 40 years, fully amortizing (terms may vary depending on the product)												
Interest Rates and Fees	Please refer to the <a href="#">Multifamily Financing Program Parameters and Fees</a> on the CHFA website												
Market Study/Appraisal	Contracted by CHFA but paid for by the applicant in advance												
Application Fees	<table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="text-align: right; vertical-align: top;">Financing:</td> <td>Please refer to the <a href="#">Multifamily Financing Program Parameters and Fees</a> on the CHFA website</td> </tr> <tr> <td style="text-align: right; vertical-align: top;">LIHTC:</td> <td>For-profit applicants: \$1,000, for-profit applicants (less than 20-units): \$500, and not-for profit applicants \$250. Non-refundable fee to be paid at submission of either a 4% or 9% LIHTC application</td> </tr> </tbody> </table>	Financing:	Please refer to the <a href="#">Multifamily Financing Program Parameters and Fees</a> on the CHFA website	LIHTC:	For-profit applicants: \$1,000, for-profit applicants (less than 20-units): \$500, and not-for profit applicants \$250. Non-refundable fee to be paid at submission of either a 4% or 9% LIHTC application								
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Other Fees/Reimbursables	Appraisal, market study, environmental review, construction observation, CHFA third-party legal fees are all the responsibility of the mortgagor/applicant. However, these are all reimbursable in the development budget												
Cost Certifications	Please refer to the <a href="#">CHFA Cost Certification Preparation Guideline and Workbook</a>												

## **I. Preface**

This Guideline is to be used by developers/applicants interested in applying for funding through the CHFA Multifamily Rental Housing Program. This Guideline supplements the existing laws and rules prescribed by the Internal Revenue Service (IRS) in Section 42 of the Internal Revenue Code (Code) and related regulations. Applicants are advised to review the Governing Authority section of the QAP. If any statements in these documents conflict with the laws governing the CHFA Multifamily Rental Housing Program those laws take precedence. These materials should not be relied upon solely or as a substitute for an applicant's own tax or legal counsel or interpretation of laws related to the CHFA Multifamily Rental Housing Program. Applicants are ultimately responsible for providing the information necessary for the determination of the projects eligibility and compliance under the Multifamily Rental Housing Program. Related or referenced documents can be found on CHFA's website.

## **II. Background**

CHFA administers programs that support developers of affordable rental housing in Connecticut with financing to develop affordable or mixed-income housing throughout the state. These programs offer mortgages at below market interest rates as well as federal and state tax credits to developments that meet the state's affordable housing goals. CHFA also has the statutory authority to finance market rate units in urban areas.

CHFA may also provide financing for related facilities such as commercial, office, health, welfare, administrative, recreational, community, and service facilities incidental and pertinent to multifamily rental housing as determined by CHFA. CHFA reserves the right to deny any financing application if more than twenty percent (25%) of the gross square footage will be for non-residential use. If any related facility is to be leased, then CHFA shall have the right to disapprove any proposed use, tenant, or provision of the lease.

Notwithstanding this Guideline, CHFA reserves the right to request change(s) to the applicant's submission in a manner that promotes CHFA's housing goals, specific market needs and/or program objectives. CHFA may make adjustment(s), with notification to the applicant, to carry out the housing goals of CHFA.

## **III. Pre-Application**

CHFA requires a pre-application meeting between CHFA, Connecticut Department of Housing (DOH) (if necessary) and any member(s) of the development team who wishes to participate. The intention of this meeting is to discuss the overall structuring of the financing, including but not limited to existing CHFA and/or DOH debt, prepayment, waivers, statutory requirements, etc.

All requests to set up a pre-application meeting should be sent to [multifamilydevelopment@chfa.org](mailto:multifamilydevelopment@chfa.org).

## **IV. Application Submission, Fees and Eligibility**

Each applicant shall submit to CHFA a complete Consolidated Application (ConApp) package, which includes a completed current ConApp, all required attachments, and application fee(s) as reflected at the beginning of this document. Application due dates will be posted on CHFA's website as well as other media. While there is no deficiency period, CHFA reserves the right to contact applicants for clarifying information and items not found or omitted in error. Applicants must make every effort to submit a complete and accurate application along with all supporting documentation at the time of application. Applications will be evaluated based on financial feasibility, development team capacity, demonstration of need, readiness and any other programmatic requirements. Prior to determining whether a mortgage loan should be recommended for consideration by CHFA's Board of Directors, CHFA requires an applicant to provide all documentation required in the ConApp under the applicable program.

Applicants are eligible to apply if they meet the CHFA requirements as specified in CHFA's Program Eligibility Requirements: Delinquent or Non-Performing Applicants. Please refer to the CHFA website for requirements noted in CHFA's Board of Directors Policy Statements, CHFA Procedures, and Multifamily Rental Housing Program Guideline.

For a proposed development that is occupied or partially occupied during the construction period, there may be net operating income (NOI) (or operating cash flow) generated during the construction period. This NOI must be calculated and made available as a funding source to fund CHFA Recognized Costs, initial operating deficits and escrows. Generally, the estimated NOI shall be based on historical NOI for the property and the level of occupancy during the construction period.

The NOI shall be reflected as a source of funds and mortgage interest during construction should be reflected as a use of funds. Operationally, occupied developments shall be billed monthly for construction period interest rather than having interest payments funded through the disbursement process.

## **V. Developer Fee**

Generally, to the extent economically feasible, the Developer Allowance/Fee (DAF) shall be comprised of the paid portion plus the deferred portion and the total shall not exceed 15% of Total Development Costs (TDC). The paid portion of the DAF shall be calculated based on a sliding scale as shown in the Rental Housing section of the CHFA Procedures.

Payment of the DAF shall be approved by CHFA based on a predetermined schedule, which will be reflected in the Development Cash Flow projection. Generally, CHFA will approve payment of the paid portion of the DAF according to the following schedule:

- 1) No more than 25% of the paid portion of the DAF at initial closing or when construction is 25% complete.
- 2) Up to 50% of the total paid portion of the DAF (including any previous installments) when construction is 50% complete.
- 3) Up to 80% of the total paid portion of the DAF (including any previous installments) when construction is 100% complete.
- 4) 10% of the paid portion of the DAF when Part I of the Form(s) 8609 is issued by CHFA.
- 5) The remaining 10% at final closing.

After the initial advance of the DAF, the percentage of the DAF to be approved by CHFA will not exceed the percentage of completion of construction.

If the LIHTC syndicator's schedule for the approval/payment of the developer fee is more restrictive, CHFA will follow the syndicator's schedule.

The DAF amount shall be finalized during CHFA's review of cost certifications. CHFA will appropriately size the paid portion of the developer fee based on the sliding scale mentioned above.

## **VI. Operating Expense Analysis**

Underwriters will analyze operating expenses of a proposed development by category. Categories include administration, utilities, operating/maintenance and insurance/other. Underwriters will analyze the proposed expenses to ensure they fall within the ranges found in the CHFA Multifamily Underwriting Standards summarized on page 5 of this Guideline.

## **VII. Site Evaluation and Environmental Assessment**

CHFA will perform a site evaluation to determine whether the site is acceptable and meets goals with respect to land use, zoning, proximity to community facilities and services, transportation, utility services and topography.

Applicants shall provide environmental assessments and hazardous materials reports prepared by a qualified independent environmental firm licensed in Connecticut. Environmental assessments provided shall be in conformance with the CHFA Construction Guideline: Environmental & Hazardous Materials Review. In its discretion, CHFA may commission a qualified environmental professional, selected by CHFA from an approved list developed and maintained by CHFA, to evaluate an applicant-provided environmental assessment(s). An applicant shall make full non-refundable payment, in advance, for each CHFA-commissioned environmental review/evaluation.

## **VIII. Construction Cost Evaluation**

CHFA strongly encourages maximizing the overall cost effectiveness of multifamily rental developments, including but not limited to construction costs. The Construction Guideline: Construction Costs outlines the CHFA construction cost review process.

CHFA funds may not be used to pay for the subdivision or fit-out of any commercial space. Please refer to the Construction Guideline: Construction Costs for detailed information regarding costs related to commercial space.

## **IX. Qualified Development Team**

Each applicant shall submit, for CHFA's review, its certificate of incorporation and bylaws, partnership agreement, operating agreement and/or other basic organizational documents, as applicable. Such documents shall comply with the provisions of Section 8-250(29) of the Connecticut General Statutes and other legal requirements.

The qualified development team requirements contained in each application shall identify all potential team members and set forth minimum standards and documentation necessary for CHFA to determine if team members are qualified. CHFA prefers to have the following members of the development team selected through an open and competitive process: housing consultants, general contractor, architect, syndicator, resident training consultant and property management agent. If any information was previously submitted in a prior application it may not be necessary to re-submit. An applicant should contact CHFA for further information.

For more information on qualified development team requirements refer to the ConApp, LIHTC Guidelines, and Construction Guideline: Project Planning & Technical Services Review and the Management Agent Approval Requirements.

## **X. Credit Evaluation**

An applicant may be required to provide financial statements, prepared or audited by an independent Certified Public Accountant, in a form and content acceptable to CHFA, along with appropriate supporting

information. CHFA may order business credit report(s) to assist CHFA in evaluating the applicant's past and current financial condition, liquidity and future financial capacity.

## **XI. Affirmative Action**

In accordance with Connecticut General Statutes §8-265c, each applicant/mortgagor and its contractors, subcontractors and management agents shall agree to comply with federal and state executive orders, statutes, regulations, CHFA Procedures, Policies and other requirements of law relating to affirmative action and equal employment opportunity.

## **XII. Assurance of Completion/Letter of Credit**

CHFA shall require a mortgagor or its contractor to provide:

- 1) A 100% Performance Bond and 100% Labor and Material Bond – bonds (bid, performance and payment) from a surety company with a B+ or better rating by AM Best (or a similar rating agency) and licensed to do business in the State of Connecticut, and the owner and CHFA shall be named as obligees; or
- 2) Letter(s) of Credit (LOC) acceptable to CHFA; or other security including, without limitation, escrow arrangements, satisfactory to CHFA to ensure completion of the multifamily rental housing development. If an LOC is provided, the issuer must be licensed in the state of Connecticut and have at the time of issuance, replacement, substitution or renewal, a rating acceptable to CHFA in its discretion. Except as otherwise agreed by CHFA, the LOC shall be unconditional, irrevocable and transferable by CHFA at no cost to CHFA; name CHFA as beneficiary; permit multiple draws; and be governed by Connecticut law and subject to Uniform Customs and Practices for Documentary Credits.

## **XIII. Operating Reserves**

In general, a mortgagor shall fund an Operating Reserve held by CHFA in an amount equal to up to six months of all scheduled debt service and six (6) months of estimated annual operating expenses inclusive of reserves and real estate taxes. This deposit is expected to be funded in cash and may be paid in part at initial closing with the remaining part paid at final closing. Any amount used during the Compliance Period must be replenished from the development surplus cash. CHFA reserves the right to modify these requirements, in its sole discretion. For any capitalized reserves proposed by the applicant in excess of those required by CHFA, the applicant should provide further detail on the party requiring it, its purpose, how the amount was determined, who will be holding it, and the terms of its release.

The Operating Reserve shall be held in escrow by CHFA and shall be disbursed at the sole discretion of CHFA. The permissible use or application of the funds will be detailed in the Construction Loan and General Escrow Agreement loan document, which is executed at initial closing. If CHFA is not the lender, or CHFA is the construction only lender, reserves may be released upon final closing if held by CHFA.

If the proposed development requires an amount necessary to maintain 1.15 debt service coverage ratio for a minimum of 15 years, the present value of this amount should be included for operating reserves calculation beyond the six (6) months of debt service and operating expenses.

## **XIV. Return on Equity**

For any loan to a mortgagor, return on equity shall be available to the mortgagor subject to an agreement with CHFA. For non-HUD transactions, non-cumulative cash return on equity shall be determined at CHFA's

discretion or where economically feasible. An adjustment in the return on equity may be requested in writing by a mortgagor for consideration by CHFA no earlier than ten (10) years from the date of the permanent loan closing and thereafter no more frequently than once every five (5) years, subject to CHFA's agreement. The initial adjustment may be implemented concurrent with the first annual budget and financial statement review after such tenth (10<sup>th</sup>) anniversary. No such adjustment shall result in an adjustment of a mortgagor's equity greater than the rate of inflation, as indicated by the increase in the Consumer Price Index since the date of final closing or the last adjustment to the cumulative cash return on equity, as applicable, as determined by CHFA.

CHFA may approve such adjustment(s) periodically in its sole determination that the development is in good standing measured by the following criteria:

- 1) the multifamily rental housing development is operated in compliance with CHFA's financing and property management documents;
- 2) the mortgagor is meeting all its financial obligations including the funding of replacement reserves in accordance with an CHFA-approved Capital Needs Assessment (CNA), if applicable, and funding schedule acceptable to CHFA;
- 3) the multifamily rental housing development is maintained in good physical condition based on CHFA's observation and management reviews;
- 4) the multifamily rental housing development meets all low-income tenant profile requirements delineated in the regulatory agreement and the extended low-income housing commitment, if applicable;
- 5) the development's annual audited financial statement and the multifamily rental housing development's current year operating budget reflect a projected net operating income and future cash flow which provides a minimum debt service coverage ratio of 1.15; and
- 6) the mortgagor is not in default, financial or otherwise, under the terms and conditions of any other financing or assistance provided by CHFA or the State of Connecticut.

## **XV. Market Study and Appraisal**

CHFA commissions independent, professional market study(ies) and appraisal(s), from an approved list maintained by CHFA, for all multifamily rental housing developments being considered for CHFA mortgage financing. For developments funded with LIHTCs (without TEBs), only a market study is required prior to a tax credit allocation (issuance of the 42(m) letter for 4% LIHTCs and issuance of the reservation letter for 9% LIHTCs). CHFA reserves the right to require an appraisal and/or modify its appraisal requirements as may be practical given the circumstances of each transaction. Applicants shall make full non-refundable payment in advance.

## **XVI. Rates and Fees**

CHFA provides developers (both not-for-profit and for-profit) a loan program that features an interest rate cap referred to as Rate Lock. Upon adoption of the Loan Resolution, CHFA will commit to a "not-to-exceed" interest rate, allowing developers to benefit from the potential shift in a rising interest rate market. The actual permanent interest rate (exclusive of any bond cost of issuance fee) will be locked in 30-days prior to Initial Closing, and will not be higher than this "not-to-exceed" rate. For further information on this program refer to CHFA's Multifamily Program Parameters and Fees on the CHFA website.



## **XVII. Board Approval and Issuance of a Loan Commitment**

CHFA has established underwriting standards in its Procedures. If CHFA determines that an applicant has satisfied all of the underwriting standards and the multifamily rental housing development is financially feasible, CHFA will submit the development proposal to its Board of Directors for its consideration.

For CHFA construction loans, financial feasibility includes sufficiently available funding sources to ensure the paydown of CHFA construction loans by the end of the construction loan term (a.k.a. Final Closing). Where there is paydown risk for a CHFA construction loan from potential availability and timing delays associated with developer performance requirements (e.g., lease-up, occupancy and/or debt service coverage (DSC) requirements) imposed by LIHTC syndicator/investor(s), CHFA may investigate underwriting alternatives with the applicant to mitigate the construction loan paydown risk, such as:

- 1) a more front-loaded LIHTC equity contribution schedule;
- 2) a lease-up reserve to be held by CHFA to fund potential/anticipated DSC shortfalls during the construction term (and early permanent term, if needed);
- 3) the availability of outside bridge financing beyond the CHFA construction loan term; and/or
- 4) a longer construction term.

Upon consideration by the CHFA Board of Directors' Mortgage Committee, a financing proposal may be referred to the full Board of Directors for its consideration. If a financing resolution is adopted by the full Board of Directors then a loan commitment is issued. The terms and conditions upon which CHFA will make its mortgage loan shall be contained in the loan commitment. The loan commitment shall be effective for a period set forth therein.

## **XVIII. Initial Closing**

Prior to scheduling an initial closing, the applicant shall submit all documentation required by CHFA. Refer to the CHFA website for a sample initial closing checklist and standard closing requirements. If necessary and beneficial, CHFA may hold weekly conference calls during the initial closing process to ensure the timely receipt of all required documentation with the participation of appropriate development team members. If CHFA elects to retain external, third-party legal services to assist with the initial closing, the cost for such services may be included in the development budget.

Prior to commencement of construction, CHFA shall conduct a pre-construction meeting with the applicant/mortgagor and other applicable members of the development team. For more information on the pre-construction meeting or the initial closing process refer to the Construction Guideline: Project Planning & Technical Services Review and the Pre-Construction Meeting Agenda on the CHFA website.

## **XIX. Construction Period**

CHFA shall retain a third-party, independent field observer at the mortgagor's expense, for developments funded with CHFA funds. The field observer shall monitor the progress and attend development job meetings, on a schedule determined by CHFA. The cost of the field observer's services is a mortgageable expense and may be included in the development budget.

CHFA will process and fund one (1) request for advance of mortgage proceeds per month. CHFA will advance and disburse mortgage loan proceeds to the mortgagor as the construction or renovation progresses, the time and amount of each disbursement will be at the sole discretion and upon the estimation of CHFA

in relation to the percentage of work in place, subject to conditions described by CHFA. When the CHFA Permanent Only product is utilized, monthly construction progress reports from the project architect shall be required and CHFA Technical Services staff will conduct periodic site visits of the properties to verify construction progress.

Depending on the type of construction and other varying factors (e.g. weather), it may take up to 24-months to complete a development. It is anticipated that construction will take no longer than 24-months. A longer construction term may be available on a case by case basis.

## **XX. Substantial Completion/Permission to Occupy**

The mortgagor shall notify CHFA in writing when the mortgagor's supervising architect determines that substantial completion of the multifamily rental housing development has been achieved. The mortgagor shall prepare the permission to occupy form available on the CHFA website and submit to CHFA along with the supervising architect's punch list and a copy of the certificate of occupancy. For more information on substantial completion/permission to occupy, please refer to the Pre-Construction Meeting Agenda on the CHFA website.

## **XXI. Cost Certification**

CHFA will utilize cost certifications to make a final allocation of resources to a development and a disposition of all remaining resources for final closing. For more information and requirements for a cost certification, please refer to the Cost Certification Preparation Guideline and Workbook on the CHFA website.

### Savings Allocation:

After receipt of the Mortgagor's-LIHTC Cost Certification, CHFA shall perform the final evaluation of the financing including a review of the development budget, operating projection, capitalized reserves, and balanced sources and uses of funds. CHFA shall ensure these are accurately reflected in the underwriting for the development.

CHFA shall notify the mortgagor to correct any identified shortfall of sources. It is the responsibility of the mortgagor to confirm that it has alternative sources with terms and conditions satisfactory to CHFA and provide evidence of commitment(s) of such funds, to evidence balanced sources and uses of funds.

Unless otherwise directed in the loan documents, any net overall savings recognized by CHFA from the cost certification review process, as compared with costs in the most recent development budget approved by CHFA, shall be applied in the order set forth below to the extent permitted by applicable federal and/or state law:

- 1) If a surplus of funds exists due to an overall cost savings, CHFA will first reduce the deferred developer fee.
- 2) After the reduction of the deferred developer fee, any remaining balance will be applied to reduce the tax credit allocation amount.
- 3) Any excess syndication proceeds to the multifamily rental housing development above the amount reflected in the development budget approved at the time of initial closing shall be applied, as determined by CHFA, one hundred percent (100%) to benefit the multifamily rental housing development or to CHFA and/or any governmental agency to reduce the principal amounts of their respective mortgage loans as their interests may appear.

## **XXII. Final Closing**

All CHFA-financed transactions are required to achieve a final closing after the completion of the development. The deadline for achieving a final closing is stated in the CHFA loan agreement; failure to achieve this closing date may result in a fee. Prior to scheduling a final closing, a mortgagor shall submit all documents required by CHFA. Refer to the CHFA website for a sample final closing list. When all such documentation has been accepted by CHFA, a final closing will be scheduled, which may take place by correspondence or at the offices of CHFA.

## **XXIII. Post-Final Closing**

Items to be completed subsequent to final closing shall be completed by the mortgagor within the date recited in the escrow agreement. After the final closing is achieved, the multifamily rental housing development is transferred to CHFA's Asset Management Department for compliance monitoring.

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For additional information please refer to the LIHTC - Glossary of Terms. Any questions may be sent via email to: [multifamilydevelopment@chfa.org](mailto:multifamilydevelopment@chfa.org).