

HOME Investment Partnerships Program FAQs

Last Updated: December 30, 2015

Description:

This document contains the HOME Investment Partnerships Program FAQs posted on the HUD Exchange website (<https://www.hudexchange.info/home/>). The FAQs are organized by topic.

Underwriting and Project Selection

Underwriting and Subsidy Layering

What are the HOME Program subsidy layering and underwriting requirements? Is underwriting required for both homebuyer and rental activities?

Updated: January 27, 2014

PJs are required to undertake a subsidy layering and underwriting analysis of all development projects to which they provide HOME funds, rental and homeownership alike, with some exceptions described below. These specific requirements described below are in the 2013 Rule, and apply to projects with HOME funds committed on or after August 23, 2013. HUD also plans to issue additional guidance in this area.

- **Subsidy layering and underwriting requirements for rental and homebuyer *development* projects (§92.250).** The PJ must adopt subsidy layering and underwriting guidelines to ensure that it does not invest any more HOME funds (alone or in combination with other funds) than are necessary to the project and to ensure that the owner's/developer's profit or return on his/her investment is appropriate and reasonable, given the size, type and complexity of the project.

When selecting projects to receive HOME funds, the PJ must then use these guidelines to evaluate all proposed HOME-assisted projects **prior to committing its HOME funds**. These guidelines must state how the PJ will:

- Examine the sources and uses of funds for the project to determine that the costs are reasonable to provide quality affordable housing throughout the affordability period. This is often referred to as “sustainable underwriting.”
 - Assess, at minimum, the current market demand in the neighborhood in which the project will be located. The level of review in the market assessment may vary, depending on project scale and complexity.
 - Evaluate the qualifications of the developer, including experience and financial capacity.
 - Verify that there are firm written financial commitments for the project.
- **Exceptions to the above.** The subsidy layering and underwriting requirements do not apply as follows:
 - For owner-occupied housing rehabilitation projects, PJs are not required to conduct an underwriting review unless the HOME funds are provided in the form of an amortizing loan. Further, a market analysis and evaluation of developer capacity is not required. An assessment that the anticipated project costs are reasonable is required.
 - For downpayment assistance projects that do not involve development activity, a market analysis or evaluation of developer capacity is not required. Note, there are additional requirements in §92.254(f) for PJs to establish underwriting criteria for the purpose of determining a buyer's financial qualifications prior to providing HOME assistance to a buyer.

The PJ must conduct project underwriting **before** committing HOME funds to a project.