

EXHIBIT "N"

Fort Smith Subrecipient HOME Project Evaluation and Underwriting

Step 1: Subrecipient Capacity and Fiscal Soundness

Topic/Question		Adequate	Deficiency
RT	Subrecipient Staff Experience and Organizational Capacity		
	<i>Subrecipient Staff & Experience</i> <i>See Notes</i>		
	Subrecipient has paid staff to manage development project 1		
	___ Paid full-time staff (payroll, w-2,w-4) 1a		
	___ Paid part-time staff (payroll, w-2,w-4) 1a		
	___ Contracted staff (contract, w-9, 1099) 1b		
	2		
	(Name and job title or development role) has experience in:		
	___ Homeownership development (resume, other) 2a		
	___ Rental development 2b		
	___ Other real estate development and management		
	___ Rehabilitation & other housing program administration		
	___ Other relevant experience _____		
	2		
	(Name and job title or development role) has experience in:		
	___ Homeownership development (resume, other) 2a		
	___ Rental development 2b		
	___ Other real estate development and management		
___ Rehabilitation & other housing program administration			
___ Other relevant experience _____			
Subrecipient Developer Capacity & Fiscal Soundness			
Past and Current Performance 3			
___ HOME project performance 3a			
___ Past development performance 3a			
___ Housing program & Federal grant management performance 3b			
Developer Capacity – Subrecipient 4			
___ Organizational structure to support development 4a			
___ Management structure to support development 4b			
___ Current pipeline/backlog 4c			
___ Staff capacity (or consultant contract/plan to train) 4d			
___ Board expertise/oversight 4e			
___ Skills/capacity to market units for sale 4f			
Developer Capacity – Development Team 5			
___ All development team roles filled with qualified firms/persons 5a			
___ Partners/consultants enhance SUBRECIPIENT capacity (if needed) 5b			
___ Prior experience – Team successfully developed similar projects 5c			
___ Team has demonstrated capacity to work together 5d			
Fiscal Soundness 6			
___ Financial Management 6a			
___ Financial Stability 6b			
___ Liquidity 6c			
___ Audit and reporting 6d			
___ Portfolio & corporate liabilities 6e			
Other Factors 7			
___ Community relations 7a			
___ PJ relations 7b			
___ Lender relations 7c			
___ Project –specific skills/capacity _____			
CERTIFICATION	SIGNATURE AND DATE		
The subrecipient has documented that it has staff with development experience and it has the organizational capacity and the development team to implement the proposed HOME project.			

Notes to the Staff Experience & Organizational Capacity Checklist

Staff Development Experience

1. Staff classification and documentation – To be counted as staff, the person must be employed by the Subrecipient, and documentation is needed.

- a. Full time or part time employment – This would be evidenced by a payroll report or a W-4 or a W-2.
- b. Contracted staff – This would be evidenced by a “contract” for employment and a W-9 and 1099 (at the end of a year).

2. Relevant development experience – Document the basis for answers to the applicable project type.

- a. Homeownership development – Has the staff person been involved in the acquisition, rehabilitation/construction and sale of homebuyer housing? Previous experience purely in counseling, marketing, or financing activities is not sufficient to be considered development experience.
- b. Rental development – Has the staff person been involved in the acquisition, rehabilitation/construction and/or ownership/operation of rental housing?

Developer Capacity & Fiscal Soundness

3. Past and current performance

- a. Has the SUBRECIPIENT performed adequately in the past in HOME, SUBRECIPIENT, and/or other real estate development activities?
- b. Is the SUBRECIPIENT currently in good standing on all its development and administrative activities? Does it show the capacity to take on this additional activity and continue to manage everything that it has ongoing?

4. Capacity – SUBRECIPIENT Organization

- a. Organizational structure – Can the current corporation structure support housing development activities, or is there a need for a subsidiary or other organizational structure for future development? Are there operations or activities that need to be organizationally separate from housing development activities and portfolios?
- b. Management structure/practices – Does the current management have the ability to manage additional development activities? Are the corporate lines of authority for development activities clear? Are policies & procedures in place governing development activities?
- c. Pipeline/portfolio – What does the SUBRECIPIENT have as its current project pipeline and program responsibilities? Will it be able to handle the additional project proposed? If the organization pursues housing development, what other activities are likely to suffer or not be able to be pursued due to the effort required for development activities? Does its portfolio of projects/properties evidence competent management and oversight? Do the properties appear to have adequate funding?
- d. Staff capacity – Do(es) the identified staff have the time to direct toward management of the proposed project? How strong are staff in the following areas: Legal/financial aspects of housing development? Management of real estate development? Oversight of design & construction management? Marketing & intake? Property management (if applicable)? Are staff encouraged to obtain training and develop new skills? What is their potential for learning skills that they currently do not have?
- e. Board expertise/skills – Do board members have professional skills directly relevant to housing development (e.g., real estate, legal, architecture, finance, management)? Has the board demonstrated the ability to make timely decisions? Is there a good relationship between board and staff? Does the board have a committee structure or other means of overseeing planning and development? Has there been stability/continuity of board members over the last several years?
- f. Project specific capacity for marketing & sale of homebuyer units or operation of rental units – If a homebuyer project, does the SUBRECIPIENT experience and capacity to market the units and counsel and qualify homebuyers? If a rental project, does the SUBRECIPIENT experience and capacity to oversee the marketing, management and ownership of the project?

5. Development Team Capacity

- a. Development team roles – Are all of the key development team roles filled with qualified individuals or firms?
- b. Partner/consultant – Does the SUBRECIPIENT have a need for a partner or a consultant to supplement its skills and help it to ensure success, while still maintaining development control?
- c. Prior experience – Do team members have prior experience directly relevant to the proposed project?
- d. Experience working together – Have the team members worked together before or demonstrated the ability to work effectively as a team?

6. Fiscal Soundness

- a. Financial management – Is there evidence that the SUBRECIPIENT meets the 84.21 standards? Does it do annual budgeting of its operations and all activities or programs? Does it track and report budget v. actual income and expenses? Does it have adequate internal controls to ensure separation of duties & safeguarding of corporate assets? Is there sufficient oversight of all financial activities? Is financial reporting regular, current, and sufficient for the board to forecast and monitor the financial status of the corporation?
- b. Financial stability – To what extent does the organization have a diversified and stable funding base for operations? How regularly does it experience cash flow problems?
- c. Liquidity – Does SUBRECIPIENT management know its current cash position and maintain controls over expenditures? Does the current balance sheet and budget indicate sufficient funds to support essential operations? Does it have funds available for pre-development expenses capital advances required for development?
- d. Audit – Does the SUBRECIPIENT have an annual audit? Is the most recent audit current? Were there management or compliance findings in the last two years? Are findings resolved?
- e. Portfolio & corporate liabilities – If it has a portfolio of properties, are they in stable physical and financial condition or are they a drain on corporate resources? Are there assets at risk of default? Does it collect adequate revenues and management fees from the properties? Does it maintain adequate insurance – liability, fidelity bond, workers comp, property hazard, & project?

7. Other Factors

- a. Community relations – How strong are the current reputation of the corporation and the relationship with the community? To what extent does NIMBY opposition exist to low income housing in the service area? To what extent do channels exist for the SUBRECIPIENT to negotiate with the community and potential opponents?
- b. Local government relations – How strong is the SUBRECIPIENT's relationship with the local government? How strongly does local government support its housing activities?
- c. Lender relations – Does the SUBRECIPIENT have good working relationships with lenders, especially those who might participate in the proposed project?

Step 2: HOME Compliance Thresholds

HOME Compliance Threshold		Eligible	Change Required	Ineligible
1	Project Eligibility <i>The project is ineligible if it is one of the following types of housing:</i> <ul style="list-style-type: none"> <input type="checkbox"/> Fed Public housing w/ operating subsidy <input type="checkbox"/> expiring use property covered by Title VI <input type="checkbox"/> a shelter <input type="checkbox"/> Rental Rehab Program under agreement <input type="checkbox"/> Multi-family housing 			
	<i>The project is an eligible SUBRECIPIENT activity (1 of the following)</i> <ul style="list-style-type: none"> <input type="checkbox"/> Homebuyer acquisition and/or rehab of units for sale to homebuyer <input type="checkbox"/> New construction of homebuyer properties <input type="checkbox"/> Financial assistance to purchasers of qualified SUBRECIPIENT homebuyer housing 			
	The SUBRECIPIENT has effective project control			
	All proposed HOME-funded costs are HOME eligible			
	All HOME funds will be used to assist eligible low-income units			
HOME Compliance Threshold		Eligible	Change Required	Ineligible
2	HOME-Assisted Units Occupancy: <ul style="list-style-type: none"> <input type="checkbox"/> All proposed assisted units will serve low-income 			
	Affordability: <ul style="list-style-type: none"> <input type="checkbox"/> If homebuyer, sales price is under the maximum limit established by HOME 			
	Property Standards: <ul style="list-style-type: none"> <input type="checkbox"/> Project will meet local property standards after completion <input type="checkbox"/> If pre-1978 building, project will comply with LBP requirements <input type="checkbox"/> If the Homebuyer is disabled, the project will comply with accessibility standards (Section 504 & FHAA) 			
	Compliance period - project will meet minimum compliance period: <ul style="list-style-type: none"> <input type="checkbox"/> Project will meet resale or recapture standards of ConPlan 			

HOME Compliance Threshold		Eligible	Change Required	Ineligible
3	Other Key Project Requirements Environmental Review: the project can achieve environmental review clearance: <input type="checkbox"/> Statutory Checklist applies: completed, or no problems anticipated <input type="checkbox"/> NEPA applies: assessment required and completed, or no problems anticipated And, the applicant has not undertaken any <i>“choice limiting actions”</i> such as acquisition, demolition or construction prior to environmental clearance			
	Labor Standards: if 12+ HOME-assisted units, project costs will include Davis-Bacon rates			
	Relocation: If occupied, URA/Section 104(d) relocation standards apply			
	Fair Housing: Project can and will comply with fair housing and nondiscrimination laws & regulations			
	Affirmative Marketing: If 5+ HAU's, affirmative marketing procedures apply			
	Conflict of Interest: The project will comply with conflict of interest provisions			
HOME Compliance Threshold				
4	Recommended Changes/Terms for Compliance Recommended conditions based on compliance changes indicated in Step 2: <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>			

Step 3: Underwriting Risk Assessment

Risk Category – Risk Factor		Acceptable Risk	Mitigatable Risk	Deal Killer
1	Market Risk Overall Rating: Market Trends: General market trends (vacancy levels, prices) support the development of the additional units at the proposed pricing; also refer to 5 Year Consolidated Plan			
	Neighborhood Market: Immediate project area market conditions are positive and support development of the units at the proposed pricing			
	Community Conditions: The immediate physical/social conditions support the development of housing			
	Target population pool: A sufficient pool of target households exists in the primary geographic market area to support the project; or sufficient primary data (waiting lists or client lists) is presented to support timely occupancy of the development upon completion			
	Affordability: The prices are affordable to a reasonable range of incomes (the range = minimum income required to afford: maximum eligibility income)			
	Needs: The project design (unit types, sizes, amenities, services) reflects the apparent needs & desires of the target population			
	Competition: The project price, location condition and amenities are reasonably attractive in comparison to other housing choices available.			
	If Homebuyer: Loan Availability – An adequate number of loan sources are available at competitive rates for buyers			
	Other market risk factors:			
Risk Category – Risk Factor		Acceptable Risk	Mitigatable Risk	Deal Killer
2	Project Risk Overall Rating: <u>Development budget cost reasonableness</u> <ul style="list-style-type: none"> ▪ Acquisition cost: The acquisition cost is supported by appraisal or by evidence of market value, and is reasonable given site remediation and prep costs ▪ Hard Cost: Construction/rehab costs meet the following: <ul style="list-style-type: none"> □ Does the design incorporate “green principles” for energy-efficiency; 			

Risk Category – Risk Factor Project Risk (Continued)	Acceptable Risk	Mitigatable Risk	Deal Killer
<ul style="list-style-type: none"> □ The scope will ensure property standards compliance and economic useful life for at least the compliance period; □ Costs are reasonably related to scope; □ Costs are final or based on detailed specifications to be considered reliable; and □ There is a reasonable contingency provision for construction costs ▪ Soft costs: All non-construction line items are reasonable and supported, and reflect all expected project-related costs ▪ Developer/consultant fees: Total fees (including other fees collected by the developer) are reasonable compared to market and costs of doing this project ▪ Homebuyer: Marketing/sales costs – Marketing and sales costs are reasonable and sufficient 			
<p><u>Readiness to proceed:</u> Project plans are sufficiently advanced to ensure timely expenditure of HOME funds upon award:</p> <ul style="list-style-type: none"> ▪ Site control: SUBRECIPIENT owns or controls the site ▪ Status of approvals: Community approvals are in place ▪ Commitment of funds (bank loan docs., letters of credit, etc.) ▪ Project designs are complete 			
<p><u>Completion risk:</u> Risk factors that might jeopardize completion of the project on time and within budgeted resources:</p> <ul style="list-style-type: none"> ▪ Site acquisition: The risk of not being able to complete acquisition of the site or required environmental remediation ▪ Likelihood of approvals: The risk of obtaining approval to develop the site ▪ Adequacy of funds: The risk of losing or not being able to finalize all critical funding commitments ▪ Firmness of budget: The risk that the budget estimates are insufficient to cover construction scope or unfunded cost overruns ▪ Realistic schedule: The risk of falling significantly behind on the implementation schedule ▪ Homebuyer: The Marketing/outreach plans are sufficient to deliver an adequate number of buyers by the time units are available 			

	Risk Category – Risk Factor Project Risk (Continued)	Acceptable Risk	Mitigatable Risk	Deal Killer
3	<p>Project Risk Overall Rating:</p> <p><u>Viability risk:</u> The risk that the project, upon completion, will not be able to be maintained as affordable housing for at least the compliance period:</p> <ul style="list-style-type: none"> ▪ Homebuyer housing: <ul style="list-style-type: none"> □ The project offers adequate homebuyer pre/post counseling ▪ Permanent financing is based on reasonable & affordable ratios 			
Overall Risk Rating:				
4	<p>Recommended Project Changes and conditions for SUBRECIPIENT commitment based on underwriting risk assessment:</p> <ul style="list-style-type: none"> □ □ □ 			

Step 4: Terms of Investment

	Risk Category – Risk Factor	Comments/Conclusion
1	<p>Pre-Gap Analysis Review: Questions to be reviewed prior to calculation of the gap to ensure that the gap is minimized</p> <p><u>Homebuyer:</u></p> <ul style="list-style-type: none"> ▪ Development costs: Do development costs reflect what is necessary, do they reflect competitive pricing, and are there sufficient controls on expenditure to ensure cost effective development? ▪ Price/Value relationship: Is the proposed sales price of the unit reflective of fair market value? ▪ Primary mortgage: Are first mortgage terms and commitments maximized to minimize the amount of subsidy required? ▪ Homebuyer subsidy: Does the proposed amount of HOME subsidy to the homebuyer reflect what is needed to make the home affordable? ▪ Resale/recapture: Do the proposed note/mortgage terms reflect HOME resale/recapture requirements? 	
2	<p>Layering Review</p> <p>If one or more public sources of subsidy are proposed for the project,</p> <ul style="list-style-type: none"> ▪ Identify & review the terms of each public source ▪ Consult with other public agencies if possible to confirm the terms and discuss possible changes ▪ Include all public subsidies in the gap analysis below ▪ Conduct a final pre-closing review to determine if any changes in sources 	
3	<p>Gap Analysis</p> <p><u>Homebuyer Development Subsidy:</u></p> <ul style="list-style-type: none"> ▪ Determine Total Development Cost (TDC) ▪ Determine average/total net sales proceeds (after sales costs) from sale of property(ies) at market value ▪ Determine Development Subsidy: <ul style="list-style-type: none"> □ TDC: net sales proceeds = the potential Development Subsidy amount; deduct other public development subsidies from difference to determine maximum HOME development subsidy. □ If net sales proceeds exceed TDC, determine if developer profits, repayable HOME subsidy, or SUBRECIPIENT proceeds (if SUBRECIPIENT project) <p><u>Homebuyer Subsidy:</u></p> <ul style="list-style-type: none"> ▪ Determine fair value sales price of property(ies) ▪ If buyers are known, compute maximum first mortgage amount per buyer; if buyers are not known, compute average and range of mortgage amounts for likely buyers 	

	<ul style="list-style-type: none"> ▪ Compute total amount of buyer price subsidy needed ▪ Add closing cost assistance proposed to determine total buyer subsidy amount ▪ Home-compliant note & mortgage will be used to cover this amount 	
	Risk Category – Risk Factor Terms of Investment (Continued)	Comments/Conclusion
4	<p>Investment Terms</p> <p><u>Subordination:</u> Determine what debt will be permitted to be senior to the HOME lien, and what inter-creditor arrangements will be required/permitted</p> <p><u>Deferred Forgivable Loan Term:</u> Length of the deferred forgivable loan term should reflect at least the minimum HOME compliance period and may also consider:</p> <ul style="list-style-type: none"> ▪ Useful life of HOME-funded improvements ▪ Term for expected repayment (if applicable) ▪ Other public subsidy compliance periods <p><u>Interest Rate:</u> Determine if interest will apply to loan principal, whether it will accrue/compound</p> <p><u>Amortization:</u> Determine whether loan payments are to be made initially or over the life of the loan</p> <p><u>Forgiveness:</u> Determine whether unamortized principal will be forgiven at the end of the loan term or will remain due & payable</p> <p><u>Legal mechanism:</u> Determine which of the following legal documents are required by HOME and are to be used:</p> <ul style="list-style-type: none"> ▪ Note & mortgage ▪ Deed covenant or restriction ▪ Right of first refusal or purchase option ▪ Other <p><u>Assignability:</u> Determine if there are any circumstances under which assignment might be permitted or required</p> <p><u>Use of SUBRECIPIENT Proceeds:</u> Determine whether any proceeds from the sale of properties or repayments of HOME notes/mortgages are to be repaid to the PJ or retained by the SUBRECIPIENT:</p> <ul style="list-style-type: none"> ▪ Repayment of homebuyer note/mortgage principal is considered “recaptured” funds and must be reinvested as HOME funds by the PJ ▪ If the SUBRECIPIENT is permitted to retain net sales proceeds from the initial sale of homebuyer properties, the PJ must specify the use of the SUBRECIPIENT 	

	<p>proceeds in the agreement</p> <p>Investment Terms (Continued)</p> <ul style="list-style-type: none"> ▪ Any proceeds returned to the PJ are subject to HOME program income requirements <p>Recaptured Funds: Terms include the accounting and reuse of recaptured funds under the terms of the rule and CPD-97-09</p>	
5	<p>Recommended Terms/Conditions</p> <p>Recommended provisions and conditions for commitment based on project analysis (in addition to risk factor changes indicated in Steps 3 & 4:</p> <ul style="list-style-type: none"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 	
CERTIFICATION		SIGNATURE AND DATE
<p>By my signature, I am certifying that I have completed the SUBRECIPIENT Project Evaluation and Underwriting for the proposed project.</p>		