

NICHE UNDERWRITING / BORROWER FIELD GUIDE

Affordable and income-restricted housing

Which restricted rents and continuing compliance obligations belong in the financing case?

Create a unit-by-unit restriction map before combining rents into a financing case. Income-restricted housing may involve different agreements with different administrators, dates and consent rights. The preparation task is to identify which documents control the proposed transaction and translate their actual terms into the cash-flow and closing file. Do not infer unrestricted market rent from a neighborhood rent survey.

Distinguish rent limits from collected rent

Internal Revenue Code section 42(g)(2) defines gross rent for LIHTC purposes and includes a utility allowance. That statutory calculation is different from the cash actually collected. Keep the permitted charge, lease charge, subsidy and tenant receipts in separate fields.

Read the continuing agreement

Section 42(h)(6) addresses extended low-income housing commitments. The controlling recorded agreement and other financing documents still need transaction-specific review. Build a schedule of restrictions, approvals and dates instead of assuming one tax-credit milestone removes every obligation.

Track the allowance methodology

The IRS's 2015 audit guide explains several utility-allowance approaches. It is dated explanatory material, not confirmation of today's applicable allowance. Request the actual approved method, effective schedule and implementing agency instructions before changing modeled rent.

Use with the dedicated Excel model for this niche. All numerical scenarios are hypothetical. Research and calculation scope are separated throughout this guide.

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What lenders want to understand

These are preparation questions. The actual lender determines required evidence, accepted cash flow and approval conditions.

01 / Which rents can be charged and which are being collected?

Prepare a unit crosswalk with restriction type, household certification status, permitted charge, utility allowance, lease rent and collections; flag unresolved inconsistencies.

02 / Whose consent is needed for this transaction?

Ask counsel to map recorded agreements, public debt, subsidy contracts and partnership documents to refinance, transfer and distribution provisions.

03 / What cash is unavailable for ordinary debt service?

Separate funded reserves, rehabilitation commitments, restricted accounts and potential repayment obligations from unrestricted operating cash.

Turn questions into an evidence ledger

For each answer, record the document date, responsible person, unresolved issue and lender response. Distinguish requested, received, reconciled and accepted. A document upload does not establish acceptance.

Hypothetical: a refinance with a rent increase

A sponsor expects higher restricted rents and wants to refinance before the next compliance review.

Separate already permitted and collectible increases from proposed changes. Reconcile utility allowances, administrative approvals, open compliance items and any public-debt consent before comparing proceeds.

A higher published income limit does not by itself establish the amount or timing of cash available to this borrower.

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Document checklist

Use a common financial cutoff date. Record gaps and discrepancies alongside the documents.

Document and purpose	Status / owner
Recorded restriction and financing agreements - Identify the actual duration, affected units, administering parties and transaction consent provisions.	☐ Received ☐ Reconciled Owner: _____
Unit compliance and rent-limit crosswalk - Show how each proposed rent input was derived and who verified the applicable schedule.	☐ Received ☐ Reconciled Owner: _____
Current utility-allowance evidence - Retain the dated method and calculation used for the property, rather than an unrelated project's allowance.	☐ Received ☐ Reconciled Owner: _____
Subsidy, public-debt and reserve schedules - Reconcile receipts and obligations by legal source and account restriction.	☐ Received ☐ Reconciled Owner: _____
Compliance findings and correction status - Explain open issues, remediation costs, responsible parties and proposed closing treatment.	☐ Received ☐ Reconciled Owner: _____

Attach the financing and cash evidence

Include a signed sources-and-uses reconciliation, existing debt and equipment obligations, proposed term sheet, available equity evidence, and a dated explanation for every material model assumption. Separate restricted balances from spendable cash.

Keep personal and customer records private

Use aggregate operating evidence in this educational workbook. Share sensitive supporting documents only through the lender or advisor's appropriate secure process. The workbook contains no upload connection.

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Use your dedicated Excel model

Restricted Rent and Subsidy -> Operations -> Debt and Funding -> Summary

01 / Select a case

Save an untouched copy. In Assumptions D5 select 1 for Base or 2 for Downside. Both cases feed one monthly calculation; changing the selector recalculates the workbook.

02 / Populate the niche schedule

Replace blue input cells in Restricted Rent and Subsidy!D10:M21 with dated source evidence. Retain formula cells. Source columns are: Occupied restricted units; Tenant obligation / unit / month; Tenant collection fraction; Assistance billed / unit / month; Current assistance collected; Prior assistance receivable collected; Prior assistance receivable write-off; Monthly service cost / occupied unit; Compliance and administration cash; Property capital.

03 / Replace scenario assumptions

Replace illustrative scenario drivers, property value, acquisition uses, available equity and financing terms in Assumptions. These examples are not market benchmarks or lender requirements.

04 / Reconcile cash and financing

Trace monthly Operations into Debt and Funding. The signed funding surplus deducts closing equity and additional operating cash need; a negative result is an unfunded requirement.

05 / Resolve missing inputs

Inspect the Review checks and every unavailable result. Missing or invalid selected data is n.a.; a valid zero remains zero. Do not replace missing records with zeros.

06 / Confirm the transaction scope

Reconcile the chosen case to lender definitions and actual documents. The model covers twelve operating months and a contractual principal calculation at maturity; it does not forecast future refinancing approval.

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Calculation scope and conventions

Read these alongside the visible formulas. The source schedule is dedicated to this niche; contractual and eligibility decisions remain outside the model.

Tenant obligation is the supported tenant-paid amount after applicable utility treatment. Assistance is a separate payer obligation. Enter zero assistance for an income-restricted property without rental assistance.

The workbook tracks assistance billed, current cash, prior cash, write-offs and ending receivables. Prior collections and write-offs cannot exceed opening receivables. Uncollected assistance is not spendable cash.

Price sensitivity changes tenant obligations only as a hypothetical stress; it does not establish a lawful rent increase. Rent limits, utility allowances, household certification, assistance eligibility and agreement term must be verified separately.

Operating revenue and sizing use cash collections, including entered prior-period collections. One-time arrears recovery may require an offsetting lender NCF adjustment. Write-offs reduce receivables without a second cash expense; no tenant-receivable rollforward or tax-credit valuation is included.

Sizing cash equals modeled annual cash NCF plus the entered lender adjustment. The adjustment does not create spendable cash.

Coverage size uses amortizing annual service. The loan is the minimum of coverage, LTV, debt yield and the requested ceiling.

The three sizing thresholds are illustrative editable inputs. Negative NCF produces zero income-supported capacity, never a negative loan.

Monthly payments use annual rate/12; IO principal is unchanged. After IO the original principal amortizes over the entered period.

Closing cash and later operating shortfalls are reconciled without counting the same cash reserve twice.

All numerical values are illustrative; no market facts or lender approval are asserted.

The twelve-month operating model omits taxes on investor returns and future refinancing costs except expressly entered items.

Author verification uses Artifact Tool recalculation, saved-XLSX reimport and separate JS arithmetic; independent application verification is recorded separately.

Legal, licensing, environmental, engineering and lender-specific recognition require actual diligence.

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A reconciled hypothetical example

Base and Downside are separate recalculations of the same model. Displayed dollars are rounded; Excel retains unrounded values.

Illustrative result	Base	Downside
Modeled revenue / contribution	\$1,020,204	\$909,639
NCF after reserve	\$674,158	\$530,800
NCF used for sizing	\$674,158	\$505,800
Modeled loan	\$5,000,000	\$4,200,880
Binding sizing constraint	Requested ceiling	DSCR
First-year debt service	\$365,062	\$362,574
Required closing equity	\$3,000,000	\$3,799,120
Equity left / (closing gap)	\$1,000,000	\$200,880
Additional operating cash need	\$0	\$0
Equity left / (combined gap)	\$1,000,000	\$200,880
Principal at modeled maturity	\$4,582,472	\$3,914,898

Base NCF used for sizing is \$674,158. The modeled loan is \$5,000,000, with Requested ceiling binding. Closing uses of \$8,000,000 less that loan require \$3,000,000 of equity. Available equity is \$4,000,000; the signed combined surplus/gap is \$1,000,000 after any additional operating cash need. Downside changes the loan to \$4,200,880 and the combined result to \$200,880.

Illustrative Base / Downside inputs: Property value \$8,200,000 / \$7,400,000; Annual note rate 6.50% / 8.00%; Maximum LTV 65.00% / 60.00%; Minimum sizing DSCR 1.25 / 1.3; Minimum debt yield 9.00% / 10.00%; Amortization after IO (years) 25 / 25; Initial interest-only months 6 / 6.

Change the case and trace the result

Compare the binding sizing constraint, closing equity, monthly cash low point and maturity principal. A smaller modeled loan can increase the sponsor funding need even if the property remains cash-positive. The lender may use different income adjustments, payment conventions or collateral limits.

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Sources, limits and next steps

Sources below support identified research claims. They do not validate the fictional numerical inputs or represent a financing commitment.

U.S. Code - 26 U.S.C. §42, Low-income housing credit

Subsections (g)(2) and (h)(6); displayed text through Public Law 119-120, October 7, 2026

Federal LIHTC context; other affordability programs and actual agreements may impose different or additional obligations.

<https://uscode.house.gov/us/usc/119-118/t26/s42/>

Source checked: 2026-10-21

IRS - IRC §42 audit guide, Part IV

Chapter 12, Rent Restrictions / Utility Allowance; revision August 11, 2015

Dated audit explanation, not a current allowance table or substitute for controlling law and agency guidance.

https://www.irs.gov/pub/irs-utl/irc42_low_income_housing_credit_atg_part_4.pdf

Source checked: 2026-10-21

About this educational model

Prepared with AI assistance and independently checked against the published example. Artifact Tool recalculation and saved-file checks are recorded in the release evidence. Native Microsoft Excel recalculation has not been independently verified. Verify your edited scenario in your spreadsheet application before using its results.

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Start a commercial financing request

Online niche guide, matching downloads and related research

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