

**Wisconsin 2025-26 Qualified Allocation Plan**  
**Appendix D: Housing Tax Credit Application Underwriting Criteria**  
**Revised September 2025**

The guidelines in this document are required for applications for Housing Tax Credits (HTC) in the 2026 HTC cycle. WHEDA lending products have separate underwriting requirements and application and approval processes. Adherence to the HTC Underwriting Criteria does not indicate nor guaranty approval of WHEDA financing.

**A. Project Income**

**- Unit Mix/Set-Asides**

- Properties using any type of Housing Tax Credit (HTC) are required to meet one of three requirements established in the Internal Revenue Code:
  - a minimum of 20% of units for households at or below 50% of County Median Income,
  - a minimum of 40% of units for households at or below 60% of County Median Income,
  - or a minimum of 40% of units for households with an average income of no more than 60% of CMI (Average Income Test).
- Projects electing the Average Income Test may include households as high as 80% CMI to qualify as a low-income household. WHEDA will accept HTC applications that include low-income units from 20% CMI to 80% CMI, provided that the average does not exceed 60% of CMI.
- Applications electing the Average Income Test option must be 100% low-income. Properties with market rate units will be required to select the 20% @ 50% CMI or 40% at 60% CMI set-aside options.
- The distribution of low-income units of various bedroom sizes is required to be proportionate to the distribution of units at various income limits such that within each income band that the project will serve, no fewer than 10% of each bedroom size provided within the project may be designated at that income band.
  - Market Rate and Employee units are not subject to this requirement
  - This requirement may be waived for projects consisting of rehab of existing multifamily housing if not achievable, subject to WHEDA's discretion
  - Subject to WHEDA's approval, if the only solution to an individual unit type falling below the 10% target results in a reduction of affordability or number of bedrooms in the project, the requirement may be waived for that individual unit type. Any deviations must be pre-approved by WHEDA in advance of the application submission.
    - Example: If the 80% 1-BR units represent 9% of the property's 1-BR units and the solution to meeting the proportionate distribution policy should be to move a 60% unit to 80% income band, the 9% would be acceptable.
  - See the Unit Mix Distribution Analysis tool in the Multifamily Application (MFA) Tab 2 – Project Summary for support in evaluating an individual project's unit mix conformance to this policy.

- **Rent Limits**
  - Rents of low income units plus the necessary utility allowances may not exceed lesser of the rent limits established by HUD at the time the HTC application is submitted to WHEDA or the achievable market rents as established in the Market Study.
    - Units with firm commitments of Project Based Rental Assistance are permitted to exceed the rent limits with documentation of the amount of rental assistance to be paid.
    - See Appendix I – Utility Allowance for more guidance on this requirement.
  - Low Income units at or above 60% of CMI in any Set-Aside may not exceed the lesser of:
    - 95% of the HTC gross rent limit.
    - 90% of estimated achievable market rent as established in the Market Study.
  - Market rate units may not exceed the achievable market rent as established in the Market Study.
- **Parking Income**
  - Projects that will charge a fee to residents for use of parking facilities must evidence support for the amount of the fee charged in the Market Study.
- **Commercial Income** will not be considered when determining the Debt Coverage Ratio at initial HTC application.
- **Inclusion of “Other Income”**
  - Income generated separately from rental revenue such as laundry, tenant fees, etc must be itemized in the application and may not exceed 2% of the total rental revenue of the project. Parking income is not included in this limit.
- **Operating Vacancy Rate:**
  - WHEDA will use a vacancy rate of 5% for new properties if the market study supports this projection, otherwise WHEDA will use a vacancy rate of 7% Existing properties with a vacancy rate of 5% or less in the three previous years will be allowed to include a vacancy rate of 5% in the application - copies of operating statements for each of the three years noted above must be included with the tax credit application. In the absence of those operating statements, a vacancy rate of 5% will be used by WHEDA only if the market study supports it. The vacancy rate will be applied to all projected revenue.

## **B. Operating Expenses**

- Projects must be submitted with the operating expenses within the defined ranges outlined in MFA Workbook Tab 2, Financial Feasibility section, based on project type.
  - Required ranges:
    - Family/Other: \$618 - \$747 Per Unit Per Month
    - Age Restricted: \$566 - \$695 Per Unit Per Month

- Single Family Homes/Duplex: \$644 - \$773 Per Unit Per Month
- Projects including Supportive Housing units must also budget sufficiently for delivery of services at a level above the minimum operating expenses unless the project has a firm commitment for an external source of funding supportive services. Supportive Service expenses are excluded from the required Per Unit Per Month ranges.
- Projects are required to make a monthly deposit to fund a Replacement Reserve based on the project type. This amount is included in the calculation of the Per Unit Per Month ranges.
  - Family/Other: \$300 Per Unit Per Month
  - Age Restricted: \$250 Per Unit Per Month
  - Single Family Homes/Duplex: \$400 Per Unit Per Month
  - All Acquisition/Rehab Projects: \$300 Per Unit Per Month
- If a project will contain a mix of unit types (combination of family and age restricted) the budget may use a weighted average approach. Include a description of the calculation of the average.
- Situations where projects may deviate from the required operating expense ranges:
  - Acquisition/rehab projects and Tribal projects will be permitted to request a variance on the posted ranges. Requests must be supported by submission of the last three years' revenue and expenses statements for rehab projects or comparable properties for Tribal new construction projects.
  - Requests are subject to approval at WHEDA's discretion.

## **C. Financing Sources**

- **Threshold Requirement for Committed Sources:**
  - As a feasibility test, WHEDA will require that a minimum of 80% of projected funding sources be 'committed' at the time of initial HTC application. For the purposes of this requirement, 'committed' funding sources include the following:
    - Equity derived from Housing Tax Credits calculated in accordance with the requirements herein.
    - The permanent loan amount based on WHEDA's loan terms posted to the website on the date that the HTC application is submitted.
    - Other loans or grants with a firm commitment from the lender/grantor/government entity – identifying amount, interest rate, term, and amortization as described herein.
- **Calculation of Housing Tax Credits and Equity:**
  - Housing Tax Credit Eligible Basis calculations
    - Applicants are responsible for identifying and excluding any development costs that are not eligible to be included in the calculation of HTC eligible basis including but not limited to the following costs:
      - An amenity for which there will be an additional fee for the resident must have its corresponding capital cost excluded from eligible basis.
        - Parking: deduct from basis a minimum of \$7,500 per underground space or \$2,000 per above ground surface lot space. Other types of parking construction may use an alternative deduction if applicants include a description and support for the projected cost.

- Laundry or other fee-based amenities: deduct from basis the actual cost of constructing the amenity. Applicants must include a description and support for the projected costs for the amenities.
  - Projects that will include construction of commercial space within an HTC property must identify the costs attributed to this in the commercial building costs column of the Project Cost tab in the Multifamily Application
  - If the construction lender and permanent lender are the same entity, the construction loan origination fee is not allowed in eligible basis.
  - Refer to a qualified CPA for final determination on all eligible basis questions.
- State of Wisconsin Housing Tax Credits will be calculated using a different credit percentage based on the application's set-aside:
  - General Set-Aside: 3%
  - Small Urban Set-Aside: 4%
  - Rural Set-Aside: 8%
- Boost policy
  - The 2025-2026 Qualified Allocation Plan (QAP) refers to an annual publication of WHEDA's QCT, DDA and HFA basis boost policy.
    - 9% 2026 applications in the Rural Set Aside may request a 30% HFA basis boost. For all other set-asides, the HFA basis boost will be limited to 15%.
    - State and/or Federal 4% applications may request a 30% QCT or DDA basis boost – the HFA basis boost is not available for 4% Housing Tax Credit applications.
- HTC Equity pricing
  - The ranges below should be used for 2026 applications:
    - 4% and 9% Metropolitan Counties: \$0.76 - \$0.86
    - 4% and 9% Rural Counties: \$0.72 - \$0.85
    - State Credits: \$0.65 - \$0.73
  - For the purposes of Tax Credit pricing ranges, Wisconsin Metropolitan Counties are listed below. All other Wisconsin counties are considered Rural for the purposes of tax credit pricing.
    - Wisconsin Metropolitan Counties:  
Brown, Eau Claire, Calumet, Kenosha, Chippewa, La Crosse, Dane, Douglas, Marathon, Milwaukee, Outagamie, Ozaukee, Pierce, Racine, Rock, Sheboygan, St. Croix, Washington, Waukesha, Winnebago
  - Applicants may use pricing assumptions outside of the range if a Letter of Intent supporting the assumed credit pricing is included with the HTC application.
- **Construction and Permanent Debt**
  - **No WHEDA Subordinate Debt of any type may be assumed as a committed source in the 2026 cycle.**
  - **Use of WHEDA Loan Terms for Purpose of HTC Applications:** In the absence of a firm commitment of financing from another lender, applicants should use the WHEDAs Financing Rates as directed:

- **9% Credit applications** should use WHEDA's Permanent Financing for 9% Housing Tax Credit projects ("Tax Credit Development Financing" loan product) with 35-year term & amortization and interest rate published on WHEDA's website on the date the 2026 Application Cycle opens.
- **4% Credit applications** should use the Long-Term Tax-Exempt Financing rate and terms on the date the 2026 Application Cycle opens (or on the date the application is submitted for noncompetitive 4% applications). Code requires that for projects using the 4% Credit, 25% or more of the aggregate basis of building(s) and land must be financed with Tax-Exempt bonds. Tax-Exempt Bonds using new volume cap will be limited to the sizing parameters per project to be defined in Modification #3 of the 2025-26 Qualified Allocation Plan.
  - Taxable bonds or other loan proceeds may be included if additional loan proceeds are needed above the maximum Tax-Exempt Bond limits.
  - WHEDA will use the following methodology below to calculate the maximum Tax-Exempt Bond Volume Cap and will not accept alternatively calculated requests:
    - Total Tax-Exempt Bond Amount divided by the sum of Total Eligible Basis and Land Cost. If applicable, total Historic Tax Credit Basis will be deducted from the Total Eligible Basis amount.
- **Commitments from lenders/grantors other than WHEDA:** For those applicants utilizing a commitment with other terms other than those provided by WHEDA (lower interest rate, longer amortizations, etc.), WHEDA will require that those financing commitments meet the following requirements:
  - Fully executed including signatures from both the lender and the borrower.
  - Minimum term of 10 years.
  - The interest rate must be locked through July 31, 2026, the deadline for properties that receive 2026 Housing Tax Credit awards to start construction.
  - Indicative interest rates, or rates tied to a floating index will not be accepted as committed sources. Commitments may contain conditions or contingencies, but only those that are within control of the borrower, or those that are based upon the performance of the borrower.
    - Example: receipt of Housing Tax Credits
  - Commitments that are subject to final underwriting, loan committee approvals or other similar requirements will not be accepted.
- **Applications including Developer-Financed TIFs** should include the following documentation:
  - Evidence of firm commitment from the Municipality, Developer Agreement, or Common Council approval
  - Evidence of Annualized TIF Increment sizing methodology not limited to: Baseline Property Value, Forecasted Stabilized Property Value, Municipal Taxing Rate
  - The developer-financed TIF loan amount should be calculated based on the following items:
    - Term and amortization not to exceed the Municipal TIF Developer Agreement term and amortization.

- Interest rate equal to WHEDA's Permanent Financing rate for the WHEDA senior debt associated with Housing Tax Credit projects on the date of application.
- Loan sizing not to exceed 90% of net present value of the annual tax reimbursement, discounted by the current WHEDA posted financing rate that matches the WHEDA senior debt for the duration of the property tax reimbursement.
- **Other Financing Sources**
  - Applications assuming inclusion of Federal and State Historic Tax Credit equity must include a Letter of Intent from the Syndicator/Investor and evidence of submission of a Part 1 Approval.
  - Developer secured self-financing commitments will not be accepted. Exceptions to this may be granted for Public Housing Authorities/Community Development Authorities that evidence Board Approval or other firm documentation of the availability and commitments of funds to the project.
  - Income from Operations may be allowed as a revenue source during the construction period only for acquisition/rehab projects. Income must be supported by copy of last three years P&L (revenue and expenses) statements for the property.
  - Applications including Seller Financing must include documentation of the value supported by an appraisal and note or other commitment provided (or language included in offer/option).
- **WHEDA reserves the right to scrutinize the validity of all submitted financial commitments containing terms not consistent with the market.**

## D. Development Costs

- **Maximum Development Cost Limits:** All projects are subject to limitations on fees and certain development costs:
  - Architectural fees on an eligible basis (including both design and supervision) are limited to no more than 3.00% of the total of the New Construction/Rehabilitation and Site Work categories from the Project Cost tab of the MFA excluding costs associated with demolition and Furniture, Fixtures and Equipment.
  - Budgeted construction contingency, based on the subtotal of new construction/rehabilitation, should be at a minimum of 5% for new construction and 10% for adaptive reuse or acquisition rehab type projects. A weighted average should be used for projects with both new construction and adaptive reuse or acquisition rehab units.
  - Developer Costs including construction supervision, consultant fees, developer fees, and developer overhead are subject to the limits defined in Appendix J – WHEDA's Developer Fee Policy for Housing Tax Credit Developments.
  - Applications that contain an identity of interest between the buyer and seller of real estate or between the developer, owner, and general contractor should refer to Appendix Q for guidance on allowable fees.
  - General requirements, contractor overhead, and contractor profit are limited to 12% in aggregate.

- Applications are subject to Maximum Cost Limits as established in the Max Cost Model tab in MFA or in Appendix F
- **Other Development Cost Requirements:**
  - Applications should include an Operating Reserve funded with no less than 6 months of operating expenses and debt service
  - Sources & Uses must balance. WHEDA will permit an immaterial discrepancy between sources & uses that does not exceed \$100 over/under sourced.
  - Construction Period Interest must be sufficiently budgeted for based on the projected construction financing rates and timeline represented in the application. Applicants can complete the optional Construction Draw Schedule table in the Multifamily Application (MFA) or submit an alternatively prepared analysis to document the projected cost

## **E. Cash Flow Projections**

- Applications will be underwritten to a trend of 2% annual escalation of projected revenue and 3% annual escalation of projected expenses.
- Applications will be required to maintain a Debt Coverage Ratio on all hard debt of 1.15 to 1.40 during years 1 – 15.
  - If a project has a declining DCR it may be permitted to exceed the maximum DCR only to the extent necessary to maintain the minimum required.
  - At the time of initial application for Housing Tax Credits, all deferred fee must be projected to be repaid within the 15 year compliance period. Noncompetitive Federal 4% Applications only may be permitted to project deferred fee to be outstanding after year 15 if the project's equity investor provides written approval of the amount of the remaining fee.
- Both Revenue and Debt Service from TIF loans must be evaluated separately from the project's cash flow projections using the TIF Payment Calculation section on the Cash Flow and Reserves Tab of the MFA. Revenue projected from TIF increments may not be used to size non-TIF loans or to project repayment of deferred developer fee.