Wisconsin 202~~5~~7-28~~6~~ Qualified Allocation Plan

Appendix D: Housing Tax Credit Application Underwriting Criteria

Revised ~~July 24~~ July 7, 2026~~5~~

The guidelines in this document are required for applications for Housing Tax Credits (HTC) in the 2027~~5~~ HTC cycle. WHEDA lending products have separate underwriting requirements and application and approval processes. Adherence to the HTC Underwriting Criteria does not indicate nor guarantee~~y~~ approval of WHEDA financing.

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 and/or scattered site projects must be 100% low-income. Properties with M~~m~~arket R~~r~~ate units will be required to select the 20% at~~@~~ 50% CMI or 40% at 60% CMI set-aside options.
- The distribution of units of various bedroom sizes ~~is required to~~ must 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~~low-income units plus the necessary utility allowances may not exceed the lesser of (i) IRS maximum household expense~~rent limits established by HUD~~ at the time the HTC application is submitted to WHEDA, (ii) market rents as determined by the market study, or (iii) the current HAP/RAP or other subsidy program rents committed to the project at the time of application.
  - Units with firm commitments of Project Based Rental Assistance ~~are permitted to~~ may 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~~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 R~~r~~ate 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 provide ~~evidence~~ support for the ~~amount of the~~ fee charged in the Market Study.
- WHEDA will not consider ~~C~~commercial ~~I~~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 7%~~5%~~ for new properties, unless the market study supports using 5%. ~~if the market study supports this projection, otherwise WHEDA will use a vacancy rage of 7%~~ WHEDA will allow ~~E~~existing properties with a vacancy rate of 5% or less in the three previous years ~~will be allowed~~ to ~~include~~ use a vacancy rate of 5%. ~~in t~~The application must include copies of operating statements for each of the three previous 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.

Operating Expenses & Reserves

Operating Expenses

- Projects with a combination of family and age-restricted units may use a weighted average approach (include a description of the calculation of the average).
- ~~Projects must be submitted with the~~ Applications must reflect 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.~~ DWHEDA may modify the operating expense assumptions submitted to align with its assumptions, which may result in a re-sizing of the amortizing debt and/or deferred developer fees and other negative consequences on financial feasibility.
- WHEDA may permit acquisition/rehab projects and Tribal projects to use expenses outside the posted ranges. Requests must be supported by submission of the last three years' revenue and expense~~s~~ statements for the rehab project or comparable Tribal new construction projects.

Replacement Reserves

- Projects are required to make a monthly deposit to fund a Replacement Reserve based on the project type in accordance with the minimum deposit requirements outlined in MFA Workbook Tab 2. This amount is included in the calculation of the Per Unit Per Month ranges.
    - Family/Other: $300 Per Unit Per ~~Month~~Year
    - Age -Restricted: $250 Per Unit Per ~~Month~~Year
    - Single Family Homes/Duplex: $400 Per Unit Per ~~Month~~Year
    - All Acquisition/Rehab Projects: $300 Per Unit Per ~~Month~~Year

~~If a pProjects will contain with a mix of unit types (combination of family and age restricted) the budget units may use a weighted average approach. I(include a description of the calculation of the average).~~

- ~~Situations where projects may deviate from the required operating expense ranges:WHEDA may permit Aacquisition/rehab projects and Tribal projects will be permitted to request a variance on use expenses outside the posted ranges. Requests must be supported by submission of the last three years' revenue and expenses statements for the rehab projects or comparable properties for Tribal new construction projects.~~

- ~~Requests are subject to approval at WHEDA's discretion.~~

Financing Sources

Threshold Requirement for Committed Sources

- ~~As a feasibility test, WHEDA will require that a~~ A minimum of 80% of projected funding sources be 'committed' at the time of 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~~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~~ any commercial space~~.~~ in the 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.~~
- WHEDA will calculate State of Wisconsin Housing Tax Credits ~~will be calculated~~ using a different credit percentage based on the application's set-aside:
  - ~~General Set-Aside~~Metro: ~~3~~4%
  - ~~Small Urban Set-Aside: 4%~~
  - ~~Rural Set-Aside~~Nonmetro: ~~8~~10%

Boost Policy

Projects may request QCT/DDA and HFA boosts as follows:

- HFA Boost:
  - 9% and State Nonmetro applications may request a 30% ~~agency~~HFA basis boost.
  - 9% and State Metro applications may request 15%.
  - Federal 4% applications cannot receive an HFA Boost.~~These percentages also apply to calculating State of Wisconsin Housing Tax Credits.~~
- QCT/DDA Boost:
  - State and/or Federal 4% applications may request a 30% QCT or DDA basis boost. The boost can be applied to the calculation for Federal and State tax credit equity.
  - No QCT/DDA boosts are permitted for 9% applications. ~~Boost policy~~

HTC Equity Pricing

- ~~The 2025-2026 Qualified Allocation Plan (QAP) refers to an annual publication of WHEDA's QCT, DDA and HFA basis boost policy.~~
- ~~9% 2025 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%.~~
- ~~4% applications may request a 30% QCT or DDA basis boost – the HFA basis boost is not available for 4% Housing Tax Credit applications.~~

- ~~QCT Boost be applied to the calculation of State Credits The same guidance defined in the Boost Policy above shall apply to the calculation of State Credits.~~

- ~~HTC Equity pricing The~~ 2027 applications must reflect the ranges below ~~should be used for 2025 applications~~:

- 4% and 9% ~~Metropolitan~~ Metro Counties: $0.~~78~~74- $0.~~88~~ 85
- 4% and 9% ~~Rural~~ Non-metro Counties: $0.~~74~~72- $0.~~86~~ 84
- 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 2025 cycle.~~
- Financing commitments must either use WHEDA's terms or meet the Non-WHEDA Financing Requirements outlined below.
  - ~~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~~ WHEDA's Financing ~~Rates as directed:~~Requirements
    - 9% Credit applications may utilize the ~~should use WHEDA's Permanent Financing for 9% Housing Tax Credit projects (~~"Tax Credit Development Financing" loan product~~)~~ with 35-year term & amortization and [TBA] interest rate published on WHEDA's website on the date the ~~2025~~ Application Cycle opens.
    - 4% Credit applications may utilize the ~~should use the~~ "Long-Term Tax-Exempt Financing" loan product with 35-year term & amortization and [TBA] interest rate (tied to that published on WHEDA's website on the date the Application Cycle opens) ~~rate and terms on the date the 2025 Application Cycle opens~~ ~~(~~or ~~on~~ the date the application is submitted for noncompetitive 4% applications~~)~~. Taxable bonds or other loan proceeds may be included if additional loan proceeds are needed above the maximum Tax-~~Exampt~~Exempt Bond limits. ~~Code requires that for projects using the 4% Credit, 50% or more of the aggregate basis of building(s) and land must be financed with Tax-Exempt bonds.~~
  - No WHEDA Subordinate Debt of any type may be assumed as a committed source.
    - ~~Tax-Exempt Bonds using new volume cap will be limited to the following sizing parameters per project:~~
- ~~WHEDA Tax-Exempt Bond Financing: The Volume cap allocation will be limited to 60% of the property's expected Net Eligible Basis.~~

- ~~Conduit Bond & Local Issuance: The Volume Cap allocation will be limited to 55% of the property's expected Net Eligible Basis.~~
- ~~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 f~~Non-WHEDA Financing Requirements~~Financing commitments must either use WHEDA's terms or~~ 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~~2028~~, the deadline for properties that receive 2025 Housing Tax Credit awards to start construction~~. ~~I~~
    - Fixed, actual interest rates, not ~~I~~indicative ~~interest~~ rates~~,~~ or ~~rates~~ those tied to a floating index ~~will not be accepted as committed sources~~.
    - Commitments may contain conditions or contingencies within the borrower's control or based on the borrower's performance.~~, 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~~Actual commitments, not those subject to final underwriting, loan committee approvals or other similar requirements ~~will not be accepted~~.
- Applications including Developer-Financed TIFs ~~should~~ must 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 d~~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 H~~ousing~~ T~~ax~~ C~~redit~~ 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~~ using 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.
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- WHEDA will not accept ~~D~~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~~ if supported by ~~copy~~ copies of last three years P&L (revenue and expenses) statements and a detailed calculation for the cash flow during operations~~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~~ may scrutinize the validity of financial commitments containing terms not consistent with the market.

Development Costs

- All projects are subject to the following limitations~~on fees and certain development costs~~:
  - Architectural fees included i~~o~~n ~~an~~ eligible basis (including both design and supervision) are limited to no more than 3.00%, calculated as follows: 3% x ~~of the total~~[~~of the~~ Project Cost tab "Subtotal Site Work" eligible basis + Project Cost tab "Subtotal Contractor Fees" eligible basis + (Project Cost tab "Subtotal New Construction/Rehabilitation" eligible basis - ~~and Site Work~~ Project Cost tab "Equipment & Furnishings" eligible basis – Project Cost tab "Personal Property/Furniture, Fixtures and Equipment" eligible basis - Construction Cost SOV tab "Demolition and Structure Moving" total cost)]~~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~~Project Cost tab Total New Construction Related line item~~,~~ should be at a minimum of 5% for new construction and 10% for adaptive reuse or acquisition rehab type projects,~~.~~ or ~~A~~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 overhea~~r~~d, and contractor profit are limited to 12% in aggregate, calculated as follows (all figures found on the Project Costs tab):~~.~~
    - General Requirements / ("Subtotal New Construction & Rehab" + "Subtotal Site-Work Costs" – "Personal Property / Furniture Fixtures, & Equipment" – "Landscaping")
    - Contractor Overhead / ("Subtotal New Construction & Rehab" + "Subtotal Site-Work Costs" – "Personal Property / Furniture Fixtures, & Equipment" – "Landscaping")

- 5% >= Contractor Profit / ("Subtotal New Construction & Rehab" + "Subtotal Site-Work Costs" – "Personal Property / Furniture Fixtures, & Equipment" – "Landscaping")

- When an Identity of Interest (as defined in HUD's Management Agent handbook (4381.5)) exists between the developer, owner and general contractor, and the auditor performing the cost certification determines that the general contractor entity is not a legitimate operating concern, the combined total of the general requirements, contractor's profit, contractor's overhead, consultant's fee, developer's fee, and developer's overhead will be limited to 17%.
- Applications are subject to Maximum Cost Limits as established in the Max Cost Model tab in MFA or in Appendix F.

Applications ~~should~~ must include an Operating Reserve funded with no less than 6 months of operating expenses and must pay debt service (not including TIF financing).

- ~~Applications are subject to Maximum Cost Limits as established in the Max Cost Model tab in MFA or in Appendix F.~~
- ~~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, or utilize the following calculation: the sum of the following for each construction period funding source (principal amount x [interest rate/12 x construction period in months] x .65).

Developer Fee

- WHEDA will allow up to the following for total developer fee:
  - $26,000 per HTC unit for new construction 9% HTC projects;
  - $28,000 per HTC unit for new construction TE Bond deals;
  - 30% of the "~~Hard/Construction Costs~~Total Construction Related" line item less "Construction Supervision" line item (Project Costs tab) for rehabilitation 9% HTC projects
  - 33% of the "Total Construction Related" line item less "Construction Supervision" ~~Hard/Construction Costs"~~ line item (Project Costs tab) for rehabilitation TE Bond deals.

  For purposes of this calculation, adaptive ~~re-use~~ reuse counts as new construction.

- Regardless of the calculation above, the maximum total developer fee allowed is:
  - $2,500,000 for 9% HTC projects, and
  - $3,000,000 for TE Bond deals.
  - ~~The minimum amount will be $1 million.~~
- Developer fee includes any amounts paid to application or development consultants, plus construction supervision and developer overhead.

Cash Flow Projections

- WHEDA will underwrite ~~A~~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~~ must demonstrate 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 fees 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.