2027-28 Qualified Allocation Plan for the State of Wisconsin

Appendix D:
Housing Tax Credit Application Underwriting Criteria

Revised August 27, 2026

The guidelines in this document are required for applications for Housing Tax Credits (HTC) in the 2027 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 approval of WHEDA financing.

Income

Unit Mix/Set-Asides

- Applications electing the Average Income Test option and/or scattered site projects must be 100% low-income. Properties with Market Rate units must select the 20% at 50% CMI or 40% at 60% CMI set-aside options.
- The distribution of units of various bedroom sizes 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.
    - WHEDA may waive this requirement 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, WHEDA may waive the requirement 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 the lesser of (i) IRS maximum household expense 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 may exceed the 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.
- Projects that will charge a fee to residents for use of parking facilities must provide support for the fee charged in the Market Study.
- WHEDA will not consider commercial income when determining the Debt Coverage Ratio at initial HTC application.
- Income generated separately from 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.
- WHEDA will use a vacancy rate of 7% for new properties, unless the market study supports using 5%. WHEDA will allow existing properties with a vacancy rate of 5% or less in the three previous years to use a vacancy rate of 5%. The application must include copies of operating statements for each of the three previous years. The vacancy rate will apply 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).
- 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
- WHEDA 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 include the last three years' revenue and expense statements for the rehab project or comparable Tribal new construction projects.

Replacement Reserves

- Projects must 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 Year
    - Age -Restricted: $250 Per Unit Per Year
    - Single Family Homes/Duplex: $400 Per Unit Per Year
    - All Acquisition/Rehab Projects: $300 Per Unit Per Year

Financing Sources

Threshold Requirement for Committed Sources

- A minimum of 80% of projected funding sources must 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

- 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:
    - 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.
    - Projects must identify the costs attributed to 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.

- WHEDA will calculate State of Wisconsin Housing Tax Credits using a different credit percentage based on the application's set-aside:
    - Metro: 4%
    - Nonmetro: 10%

Boost Policy

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

- HFA Boost:
    - 9% and State Nonmetro applications may request a 30% HFA basis boost.
    - 9% and State Metro applications may request 15%.
    - Federal 4% applications cannot receive an HFA Boost.
- 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.

HTC Equity Pricing

2027 applications must reflect the ranges below:

- 4% and 9% Metro Counties: $0.74 - $0.85
- 4% and 9% Non-metro Counties: $0.72 - $0.84
- State Credits: $0.65 - $0.73

Construction and Permanent Debt

- Financing commitments must either use WHEDA's terms or meet the Non-WHEDA Financing Requirements outlined below.
    - WHEDA's Financing Requirements
        - 9% Credit applications may use the "Tax Credit Development Financing" loan product with a 35-year term & amortization and [TBA] interest rate published on WHEDA's website on the date the Application Cycle opens.
        - 4% Credit applications may use the "Long-Term Tax-Exempt Financing" loan product with a 35-year term & amortization and [TBA] interest rate (tied to that published on WHEDA's website on the date the Application Cycle opens) or 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-Exempt Bond limits.

      No WHEDA Subordinate Debt of any type may be assumed as a committed source.
    - Non-WHEDA Financing 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, 2028.
- Fixed, actual interest rates, not indicative rates or those tied to a floating index.
- Commitments may contain conditions or contingencies within the borrower's control or based on the borrower's performance. Actual commitments, not those subject to final underwriting, loan committee approvals or other similar requirements.

- Applications including Developer-Financed TIFs must include the following:
  - 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.
- 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 HTC 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 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.
- WHEDA will not accept developer secured self-financing commitments. WHEDA may grant exceptions 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 a source during the construction period only for acquisition/rehab projects if supported by copies of last three years P&L (revenue and expenses) statements and a detailed calculation for the cash flow during operations.
- 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 may scrutinize the validity of financial commitments containing terms not consistent with the market.

Development Costs

- All projects are subject to the following limitations:
  - Architectural fees included in eligible basis (including both design and supervision) are limited to no more than 3.00%, calculated as follows: 3% x [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 - 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)].

- Budgeted construction contingency based on 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 weighted average for projects with both.
- General requirements, contractor overhead, 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 must include an Operating Reserve funded with no less than 6 months of operating expenses and must pay debt service (not including TIF financing).
- 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), submit an alternatively prepared analysis to document the projected cost, or use 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:
    - 9% Transactions:
        - $25,000 per HTC unit for new construction projects;
        - 25% of the "Total Construction Related" line item less "Construction Supervision" line item (Project Costs tab) for rehabilitation projects.

    Regardless of the calculation above, the maximum total developer fee allowed is $2,000,000 for 9% HTC projects.
    - State Tax Credit Transactions:
        - $25,000 per HTC unit for new construction projects;

  - 35% of the “Total Construction Related” line item less the “Construction Supervision” line item (Project Costs tab) for rehabilitation projects.

  Developments meeting the Requirements for Additional Fees may increase the fee to the lesser of:
  - $45,000 per HTC unit for new construction projects in 2027 and $40,000 in 2028;
  - 45% of the “Total Construction Related” line item less the “Construction Supervision” line item (Project Costs tab) for rehabilitation projects in 2027 and 40% in 2028.
- Federal 4% Transactions
  - $30,000 per HTC unit for new construction projects;
  - 30% of the “Total Construction Related” line item less “Construction Supervision” line item (Project Costs tab) for rehabilitation deals.

  Developments meeting the Requirements for Additional Fees may increase the fee to the lesser of:
  - $45,000 per HTC unit for new construction projects in 2027 and $40,000 in 2028;
  - 33% of the “Total Construction Related” line item less the “Construction Supervision” line item (Project Costs tab) for rehabilitation projects in 2027 and 31% in 2028.

For purposes of this calculation, adaptive reuse counts as new construction.

Developer fee includes any amounts paid to application or development consultants, plus construction supervision and developer overhead.

Requirements for Additional Fee Calculation

- To qualify for the Additional Fee allowed above, an application must show at least 50% of the entire developer fee as deferred at both award and the Form 8609 application. Failure to meet the latter may result in penalties.
- The application must demonstrate the deferred fee can be repaid through future cash flows within the 15-year HTC compliance period.
- Applications in the ~~Rural~~ Nonmetro Set-Aside may qualify based on deferring the ~~greater~~ lesser of either 50% or the amount able to be repaid in 15 years, subject to WHEDA underwriting.

Cash Flow Projections

- WHEDA will underwrite applications to a trend of 2% annual escalation of projected revenue and 3% annual escalation of projected expenses.
- Applications 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 exceed the maximum DCR only to the extent necessary to maintain the minimum required.
- At the time of initial application, 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.