

Due Diligence Criteria

Criterion	Information required	Scope of review
Sound financial situation	<ol style="list-style-type: none"> 1. What the entity does– key activities and sources of revenue and expenditure (useful background to contextualise the financial statements) 2. Annual financial statements, profit and loss and balance sheet for last 2 years. We would request the same information of any 3rd party guarantor if the entity is less than 5 years old. 	<p>Use financial performance tool to prepare basis financial ratios such as:</p> <ul style="list-style-type: none"> • profitability ratios, i.e. Return of Capital Employed, Net profit, gross profit • liquidity ratios, i.e. Current ratio, Quick ratio • solvency ratios, i.e. Debt-to-Equity ratio, Interest coverage ratio <p>If the financial ratios give cause for concern, this will influence and inform the adequacy of the security the entity is proposing.</p>
Good governance practice	<ol style="list-style-type: none"> 1. Copy of incorporation documents, eg. company constitution, trust deed 2. Names of all current board members/trustees and CEO, CFO, COO. 3. Details of what PHO related decisions need board/trustee approval & what oversight role the board/trustees play in the operation of the provider's PHO product. This is for information only, and allows us understand where key decisions and accountabilities/responsibilities lie. 	<p>Checks for the following:</p> <ul style="list-style-type: none"> • any stated purpose for which the entity was incorporated to ensure that the entity can (from a constitutional perspective) undertake the PHO activities it proposes in its application • the entity has the power to borrow and give security, including any guarantees (if relevant) • due diligence on board and key executive officers • information on issues that would raise red flags around the potential for for-profit providers to enter voluntary liquidation / bankruptcy (eg previous voluntary liquidations) • information about who are all other secured creditors against all of the organisation's other activities • financial control does not sit with one individual.
Sound organisational processes	<ol style="list-style-type: none"> 1. Details of how the Crown PHO funding will be separately accounted for by the entity 2. Details about how the entity will operate its PHO product, for example: <ul style="list-style-type: none"> • how it finds and prioritises eligible persons • if operating a waiting list of eligible persons, how it determines who gets offered a PHO product and eligible home first • how the entity assesses the household income of the eligible person • what support services it offers (either itself or through 3rd parties) including capacity of the entity or 3rd party to service the number of eligible persons it is proposing to support. 	<p>We want separate accounting for PHO funds, so there is no co-mingling of funding between PHO funding and the entity's other revenue sources</p> <p>We want to ensure that the entity has fair and transparent processes for identifying and selecting eligible persons. If we want the ability to reject an entity based on its operating policies and procedures, we will need to be clear about what would be unacceptable, or alternatively note that we will review these documents, and provide feedback that the entity is encouraged to follow before HUD will accept their application</p> <p>Getting information about how the entity operates its waitlist (if relevant), and how it assesses household income and the support services it offers also supports our assessment of whether the entity can work with households – see separate item below.</p>
PHO Product designed	<ol style="list-style-type: none"> 1. An explanation of the entity's PHO product, including: <ul style="list-style-type: none"> • whether it is a shared equity, rent-to-buy, leasehold or other product • when the applicant becomes a legal owner of the eligible home: <ul style="list-style-type: none"> ○ on settlement of the acquisition of the eligible home (shared equity and leasehold) ○ on possession, i.e. when the eligible person moves into the eligible home (rent-to-buy) • the estimated timeframe for when the applicant becomes the sole legal owner of the eligible home, and the entity no longer has any legal ownership of that eligible home. 2. Acceptance of the legal documents for the PHO product. We will require each entity to provide a letter from its solicitor (who prepared the PHO documents) confirming that the entity's PHO product contract has been certified as not oppressive as defined in the CCCFA 2003 and legally compliant (creating a legal, valid and binding contract between the provider and the eligible person) in all respects by the Borrower's solicitors 	<p>This information is needed to ensure that we understand whether the entity will be getting most of the PHO funding it invests with eligible persons back before or after the 15-year timeframe when the loan to Crown needs to be repaid. That will influence and inform the adequacy of the security the entity is proposing, and whether a 3rd party guarantee is required.</p> <p>Acceptance of the legal documents is important to ensure that the entity's PHO documents are lawful and not oppressive. Note that we rely on the entity's solicitor to certify to this effect when the entity submits its application.</p> <p>HUD also needs to assess whether the product is fit for purpose (ie leads to PHO Policy outcomes).</p> <p>Note that the willingness of lenders to provide loans to eligible persons works as a cross check of whether the PHO product is satisfactorily designed, because we have been advised that lenders will not lend against poorly drafted and unreasonable PHO products</p>
Financial institutions willing to work with the product	<ol style="list-style-type: none"> 1. We require a letter from a lender confirming that the lender is willing to provide finance directly to eligible persons who want to use the entity's PHO product. If there are: <ul style="list-style-type: none"> • <50 builds per development or funding round then the provider needs to have at least one bank on board. • >50 builds per development or funding round then the provider must have at least 3 banks on board. 	<p>This ensures that there are lenders that support the use of the entity's PHO product, because without that, the eligible persons will not be able to secure the necessary loans to make the entity's PHO product work.</p>
Ability of provider to work with households	<p>Evidence or explanation of whether the entity has prior experience:</p> <ul style="list-style-type: none"> • working with the eligible persons it is targeting for its PHO product; and • whether its experience extends to providing or facilitating positive housing outcomes for the eligible persons it is targeting. <p>Where the entity does not have that prior experience, HUD would then need proof that there is an established contractual relationship between the entity and a third party. Such proof would include evidence:</p> <ul style="list-style-type: none"> • of how it will engage with eligible persons • of what engagement it has had to date with eligible persons that it wants to move into the dwellings it wants funded • that it has identified what wraparound support is required for the households it has engaged with, and that they have those support services ready for delivery to those households – ie can evidence resource (internal or third party) • that the third party knows of and is able to cope with the demand for its services. 	<p>This information allows us to check whether the entity has experience working with the targeted household, and the extent of any third party relationships they need to deliver their PHO product. This helps mitigate any risk that households are attracted to an entity that cannot deliver the necessary PHO and associated services required to transition each eligible person into home ownership.</p>