

## **Rental Rehab Deferred Loan Program – November 2011**

Please find questions listed below submitted from the Rental Rehab Deferred Loan Program webinar and other frequently asked questions. If you have further questions, please feel free to contact: [susan.haugen@state.mn.us](mailto:susan.haugen@state.mn.us) or [Lori.Speckmeier@state.mn.us](mailto:Lori.Speckmeier@state.mn.us)

### **ADMINISTRATOR RESPONSIBILITIES**

#### **What happens if I apply for funds and other funding sources falls through?**

The unused funds would be returned to Minnesota Housing and reallocated to another administrator after twelve months.

### **GENERAL APPLICATION**

#### **Will funding amounts per region be determined on the number of rental units within that region or on a competitive basis?**

The funds will be allocated on a competitive basis.

#### **Resolutions from city/county**

If you are completing a Program Application, you must obtain a resolution from the city or county that covers your proposed target area. For example, if you only want to administer the program model in the city that you are located you would obtain the resolution from the city. If you are interested in administering the program in several counties, then you would obtain the resolution from each of the counties.

#### **Are project management fees (such as inspections, work write ups, loan doc prep and recording, etc.) considered eligible soft costs or is that part of the rehab cost?**

These fees are considered soft costs. The Administrator will only be able to charge the Project Management fees that are included in Section E of the General Application.

### **FUNDING PRIORITIES AND SCORING**

**Will small communities compete with larger communities?** We are a rural area and do not have a lot of job opportunities, public transportation, retail stores, or health clubs, etc., like larger communities like Owatonna, Austin or Albert Lea.

The RRDL Program objective is assist owners of rental property in smaller communities; therefore, communities outside the HOME entitlement areas will receive priority. See HUD's list of participating jurisdictions on the RRDL Web Page.

#### **Quite a few of the rental properties in our rural area are owned by individuals ("Mom and Pop") and most likely are not federally-assisted properties, unless you would include Section 8 voucher properties. Does this make them ineligible?**

Preservation of federally assisted units is only one criterion for selection. The purpose of the program is to

preserve existing affordable rental housing whether or not the property is receiving project based assistance or other federal assistance.

**How do we demonstrate that we are providing extended affordability for these units?**

By agreeing to the loan terms of the RRDL program, you are providing proof of the affordability period. Applications proposing longer applicable affordability periods or targeting lower income rental households, will receive higher consideration.

**What do LIRC and PILOT stand for?**

Both are property tax classification rate for qualifying low-income rental properties. They provide a class rate reduction for qualifying units in some rent and income-restricted properties.

**LIRC - Low Income Rental Classification-** Applications must be made to Minnesota Housing for certification to the local assessor that a property qualifies for the reduced rate.

**PILOT – Payment in Lieu of Taxes** – This is determined by the local unit of government.

**What if you have a small rental unit where the owners have no operating budgets? What do you do for the 3 year operating budget requirement?**

In the absence of operating budgets, owners will need to create a budget for the past year based on utility bills etc. Cash flow projections must indicate a 1.0:1.0 debt coverage ratio for the term of the loan.

**Evidence of Title – says it has to be free of any liens, does that mean they have to own it free and clear or can they still have a mortgage against the property? What is considered as a lien?**

Properties may carry existing debt or mortgage as long as the maximum Loan to Value ratio (including ALL debt, whether amortizing or deferred) does not exceed 125% of appraisal, market analysis or property tax statement indicating the estimated value of the property.

**Does the RRDL Program have a leverage requirement?**

Since this is a Pilot Program, there is no leverage requirement, but we hope to see enough leverage on all properties to cover the funding gap and move a project to completion.

**If we have a project with an existing Minnesota Housing deferred loan that expires in 10-15 years, and funds are awarded under this program, will we have a 30-year term or a term that matches the initial Minnesota Housing loan?**

If the project is selected on the Specific Project criteria, then yes, a new 30 year term, or senior debt term if longer, will be applied. If funded under Program Model, the terms are more flexible, 10-30 years based on loan amount or senior debt term.

**Why was the 30 year term selected?**

The term was set after feedback from the stakeholder meetings that non-profits, local governments and some owners would prefer a longer term.

**Is there a matching requirement?**

There is no match required beyond the owner contribution of 5% of eligible soft cost, ineligible expenses, and anything over the \$300,000 loan limit.

**Would the property owner be responsible to pay for the lead risk assessment?**

The lead risk assessment is considered an eligible soft cost and could be included in the loan.

**If an administrator plans to submit an application for the multiple counties that we serve, how do they fill out the following forms as they are more city or project based?**

**Market qualification** –Complete these for each specific target area if smaller than a county.

Otherwise, please complete the Market Qualification form for each project selected for funding.

**Site Location Map** Complete one for your proposed service area. Otherwise, please complete the Site Location Map for each project selected for funding.

**Census tract map** –Are not required for multi county proposals.

**Community Profiles** – It is recommended that the applicant download all counties of their target area and begin by gathering only the data elements of interest, like household income, vacancy rates, age of rental housing, etc. Then summarize just the elements of interest for the RRDL application to provide a report that shows the range of data elements across the target area, e.g. low and high median family income. This will assist the applicant to target resources based on community needs. For very large service areas, the most helpful data may be found at the following community profile resources:

- State reference maps for data relevant to RRDL issues (Rent Burden, Median Income and Rent, Change in Jobs, Change in Households, Travel Time, Age of Housing Stock, etc.)-

[http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa\\_010811.pdf](http://www.mnhousing.gov/idc/groups/administration/documents/webcontent/mhfa_010811.pdf)

- the regional Community Profiles Presentations –

[http://www.mnhousing.gov/CommunityProfiles/MHFA\\_010869.aspx](http://www.mnhousing.gov/CommunityProfiles/MHFA_010869.aspx) or,

- the interactive maps of County Profiles- <http://www.mnhousing.gov/PolicyMap/index.aspx>

For Program Model proposing smaller service areas, applicants must provide community profiles which best reflect the target area. This may be best demonstrated by Community Profile data at the city, township, or county level.

Ultimately, the applicant’s selection criteria, marketing plan, and proposed activities, must reflect the needs of communities identified by the Community Profiles, in which a substantial portion of the properties are in need of rehabilitation and a demand for affordable workforce rental housing.

Please contact Jessica Deegan ([Jessica.deegan@state.mn.us](mailto:Jessica.deegan@state.mn.us)) for assistance or if you have any further questions.

**What is a Regulatory Incentive Commitment?**

Regulatory Incentives may include waivers or donations made by a local unit of government to reduce the overall construction cost or speed up the rehabilitation process. It may include, but is not limited to, fast-track permitting, donation/waiver of project specific assessments or other local building code or rehabilitation fees. Documentation of commitment must be provided by the contributor of the assistance in the form of a program or project specific letter of intent, city or council resolution, letter of approval, or similar documentation.

### **PROGRAM APPLICATION**

**On the program model: If a service area has a large amount of deteriorating single family rental properties, is this an eligible model?**

Yes, as long as you have four single family properties within your target area.

**Does the administrator in a program model need to develop the HTC 1 in order to determine feasibility?**

Yes, for each selected property in the Program Model, the administrator is required to complete and submit certain section of the HTC 1 to allow us to collect data needed to evaluate this pilot program. More training will be provided to the selected Administrators.

**What is the definition of a collaborative application for a Program Model proposal?**

An application where two or more entities will be directly administering CRV funds and the following principles are incorporated into the proposal:

- Clear definition of the role of collaborating partners;
- Identification of clear geographies served and housing activities initiated by the collaborating partners;
- Identification of complimentary activities or program design by the collaborative;
- Overall benefit to the community/region through the use of a collaborative planning process, proposal, application, funding and evaluation of how the housing needs were met.

### **PROJECT APPLICATION**

**Is an appraisal required for all RRDL project applications?**

No. Evidence of estimated value of the project may be in the form of property tax statement, market analysis, insurance value or appraisal if prepared less than 6 months ago. The original RRDL Help Text was unclear and was revised to clarify the requirements on November 7, 2011.

**Is a partially converted property (example - an old hotel partially converted into apartments) eligible for the RRDL program?**

Conversions are not acceptable projects. If the conversion was completed with units rented and these units need some additional rehab, some costs may be allowed. A final answer cannot be given without more information.

**Does Consolidated RFP 5 year rule go backwards as well if rehab items were cut out of projects that went through RFP round within last 5 years and if 5 years counts what does it go by (date of funding, 8609, etc)**

Yes. The restriction period would begin the date that the prior loan agreements were signed.

**How do we determine if the property has sufficient reserves (amount sufficient to cover the annual routine maintenance and repairs)?**

The Administrator is responsible for determining if the owner has sufficient reserves to finance the rehab and have enough left for the annual routine maintenance and repairs.

**LOAN TERMS:**

**The program model offers varying loan terms based on amount and senior debt. Will the property owners be able to dictate what they want loan terms to be and pick a 10 year term, 18 year term, etc?**

The loan term is based upon whether a loan is for a Specific Project or under a Program Model, the loan amount and the term of any senior debt. If the owner has mortgage debt that matures later than the applicable RRDL loan term, the owner can request that the loan be extended to the term of the first mortgage.

**Is there is a possibility of 25% of the loan amount being forgiven at the end of the term of the loan?**

Yes, if the owner stays in compliance for the term of the loan.

**Match requirement example: If the soft costs are \$3,000, the borrower would have to pay 5% of that towards the rehab cost (\$150 towards) the \$25,000 rehab cost. The loan would then be for \$24,850 with the owner paying \$150.**

The administrators or owner may decide more owner match is reasonable.

**Once a person is approved and in the program (loan closed) is there a way to exit the program?**

Under the Loss of Affordability Premium option, the owner may repay the loan plus pay a premium, to remove all restrictions.

**Are architect fees eligible soft costs?**

Yes. Architect fees are eligible soft costs.

**COMPLIANCE:**

**Is the compliance the same as the term of the loan?**

The income and occupancy conditions for the assisted units are in effect for the term of the loan. If the loan is paid in full early, the income and occupancy conditions will remain in place for the following minimum Effective Period:

- Loans with a 10 year term shall comply for a minimum 5 years
- Loans with a 15 year term shall comply for a minimum 10 years
- Loans with a longer term shall comply for a minimum 15 years

Each owner will submit an annual owner's certification. If they do not report or do not comply, Minnesota Housing will take all actions permitted per the loan documents.