Urban Redevelopment Authority of Pittsburgh

HOUSING OPPORTUNITY FUND

RENTAL GAP PROGRAM

Program Guidelines

10/11/ 2018

Housing Opportunity Fund
Rental Gap Program Guidelines

I. Program Objective

The Housing Opportunity Fund (HOF) Rental Gap Program (RGP) will be used to help fund the creation of new affordable housing and/or preserve existing affordable housing in the City of Pittsburgh. The HOF RGP provides loans to developers for the creation and/or preservation of affordable units. The HOF RGP is designed to increase the supply of decent affordable housing and to eliminate health, safety and property maintenance deficiencies as well as to ensure compliance with applicable codes and standards.

The new creation of affordable housing will generally be defined as one of the following:
(1) the new construction of housing units which will be rented to households at or below 50% of area median income (AMI);
(2) the new construction of housing units which will be rented to households at or below 30% of AMI;
(3) the rehabilitation of existing rental units to be rented to households at or below 50% of the area median income;
(4) the rehabilitation of existing rental units to be rented to households at or below 30% of AMI.

Priority will be given to projects that:

1) bring new affordable units to market quickly and /or preserve existing affordable units
2) are “shovel-ready”
3) provide social services to the residents including health and wellness services, eviction prevention, and/or job training.

II. Program Funding

The HOF RGP will be sourced by the following the Housing Opportunity Fund which is a locally funded housing trust fund in the City of Pittsburgh. The funds are from the City’s operating budget. An Allocation Plan is created each year. An Advisory Board of 17 people recommends approval of the annual allocation plan to the URA Board of Directors, the Governing Board. Once approved by the URA Board of Directors, City Council also reviews and approves that Annual Allocation Plan. The RGP program is one of several programs operated by the HOF.

III. Eligible Borrowers

Eligible borrowers are members of development teams with demonstrated development and property management experience. All development teams must include a Non-Profit applicant. The Advisory Board and Governing Board will give added weight to projects where a Neighborhood-Based Non-Profit Organization is a partner with the ability to approve major project decisions and acquire the property.

In accordance with City Council Bill No: 2016-0602 which created the Housing Opportunity Fund, “Non-Profit” means a non-profit organization that (i) is exempt from taxation under Section 501©(3) of the Internal Revenue Code and (ii) has providing affordable housing or combating community deterioration among its tax exempt purposes. The term shall not include a non-profit organization which is controlled by a for-profit or public entity. The term “Neighborhood-Based Non-Profit” means (1) a Non-Profit that has a substantial base of operations within the neighborhood where the housing to be funded by the Housing Opportunity Fund is located, or (2) a Tenant Association that represents the tenants in the housing to be funded by the Housing Opportunity Fund.

IV. Eligible Projects / Properties

To be eligible for the HOF RGP, the following requirements must be met:

1. The property must be located in the City of Pittsburgh.
2. The property must comply with zoning requirements.
3. The borrower may not occupy the property to be constructed or rehabilitated.
4. The borrower must own the property prior to or at the HOF RGP closing.
5. The property must comply with Environmental and Historic Review requirements to the extent required by the Federal Government, the Commonwealth of Pennsylvania, and the City of Pittsburgh.
6. The property must contain at least 4 units.
7. The URA staff must deem the project to be a feasible residential project, based upon established project underwriting processes.
8. Minimum Affordability Requirements:

Number of Rental Units	Affordable Unit Requirements*
4 – 40	4 units Units may be any mix of ≤30% or ≤50% AMI
41+	10% of all units must be affordable. Affordability mix will be chosen by developer based on formula below.

*If applied percentage is not an integer, minimum number of affordable units to be rounded up to the next whole number.

Affordability Mix for 41+ Units:

1. 10% of all units must be affordable, rounded up to nearest whole unit.
2. The first 4 affordable units may be met with any mix of 30% AMI and 50% AMI units.
3. Every additional unit (above 4) must be affordable at 30% AMI. Alternatively, the developer may choose to trade one or more 30% AMI units for 50% AMI units at the rate of one unit at 30% AMI for two units at 50% AMI.

V. Eligible Activities

Funds under the program may be used for the following three activities:

1. For hard costs and related soft costs associated with rehabilitation and / or new construction of residential affordable housing units.
2. For costs, up to $10,000 per unit and a total project cap of $200,000, associated with providing supportive services appropriate to the residents of the HOF funded units in the

proposed project. Such supportive services may include, but are not limited to, health and wellness services, eviction prevention, and job training.

3. Non-profit applicants may apply for predevelopment financing to acquire and/or stabilize vacant and abandoned property to be rehabbed/constructed to provide affordable housing in accordance with the program guidelines. The predevelopment loan will be secured by a lien on the project property. The funding may be used for costs including, but not limited to, acquisition, design development, geotechnical analysis, environmental analysis, engineering, and reasonable costs of obtaining additional sources of pre-development financing. The amount of the URA pre-development loan cannot exceed 50 percent of the total predevelopment funding and is capped at $200,000.

VI. Funding Terms, Limits and Requirements

All loans for property development shall be made in conformance with the requirements set forth below:

A. Maximum Loan Amounts

Maximum loan amount is determined by the number of affordable units, the level of affordability, and whether services are provided.

Unit Affordability	Maximum Loan
30% AMI	$60,000 per unit
50% AMI	$30,000 per unit
Additional funding for services	$10,000 per unit, up to $200,000
Total HOF Funding	$1,000,000 (typically $400,000 - $600,000)

B. Equity

The borrower is required to provide equity equal to or exceeding 10 percent of the total development cost. If the non-profit borrower does not have a for-profit partner, this requirement might be waived or reduced with Advisory Board and URA Board of Directors approval.

C. Rent Limits and the Affordability Period

1. For requirements concerning the number of affordable units in developments to be rented affordably, see the Eligible Projects / Properties section.
2. The borrower must agree to comply with the specified income and rent limits for at least thirty (30) years. Priority will be given to projects that have permanent affordability (99 years).
3. The gross rent for units to be occupied by households who earn at or below 50% AMI may not exceed 30% of 50% AMI. The gross rent for units to be occupied by households who earn at or below 30% AMI may not exceed 30% of 30% AMI.

D. Interest Rate

1. The interest rate to be paid on HOF RGP loans will be a preferred rate set by the URA for each loan.
2. The interest rate will be established based upon the borrower's capacity to repay the HOF RGP loan through the project's operating income as determined by the URA.

E. Loan Term

The maximum term of each loan shall not exceed the remaining term of the first mortgage or 30 years from the date of completion of the rehabilitation or new construction funded by the HOF RGP loan, whichever is longer. The term of affordability requirements, however, may exceed the term of the loan.

F. Loan Repayment

1. The loan repayment schedule will be based upon the borrower's capacity to repay the loan through the project's operating income as determined by the URA, using the projected operating cashflow analysis.

2. The repayment schedule may be either:
   a. Annual based on cashflow; OR
   b. Monthly amortizing.

3. The repayment schedule may provide for a period of deferred payments.

4. All HOF RGP loan agreements will include a provision to enable the Authority to seek a pre-payment of the loan in the event that the Borrower's Net Operating Income (NOI) for the preceding year exceeds 130% of scheduled debt service payments. The NOI would be calculated based on a review of the Borrower's financing statement for the preceding year. NOI is defined as project income less operating expenses less a reasonable provision for Replacement Reserve. The amount of the pre-payment would be equal to the amount by which NOI exceeds 130% of debt service.

5. For projects financed with Low Income Housing Tax Credits or U.S. Department of Housing and Urban Development ("HUD") Section 811 or Section 202 funds, the full amount of the loan may continue to be deferred until the maturity date of the loan, at which time a balloon payment of principal and interest, if any, shall be due.

6. For amortizing loans, a monthly payment will be charged which shall be applied to interest and principal in that order.

7. For cashflow loans, a balloon payment of principal and interest, if any, will be due on the maturity date of the loan.

8. Late charges, as permitted by law, will be charged on delinquent loans.

G. Loan Security

1. All loans shall be secured by a mortgage in the form required by the URA, which shall be recorded in the Office of the Recorder of Deeds of Allegheny County.

2. All loans shall have a Declaration and Agreement of Restrictive Covenants recorded on the property to ensure affordability throughout the affordability period.

H. Fair Housing and Accessibility Requirements

1. All units in both rehabilitated and new projects shall meet visitability standards to the greatest extent feasible.

2. All projects shall maximize the number of units that meet Universal Design standards.

3. All new construction multifamily dwellings shall be designed and constructed to have at least one building entrance on an accessible route unless it is impractical to do so because of the unusual terrain or unusual characteristics of the site.

4. All new construction projects must meet the design standards most recently published by the American National Standards Institute (ANSI) for Accessible Units or for Units with Accessible Communication Features. Additionally, all new projects must have at least the following characteristics:

    a. The public and common use areas are readily accessible to and usable by handicapped persons;
    b. All the doors designed to allow passage into and within all premises are sufficiently wide to allow passage by disabled persons in wheelchairs;
    c. A minimum of 10% of units shall be accessible to individuals with mobility impairments and a minimum of 4% shall be accessible to individuals with sensory impairments.

I. Loan Delinquency and Default

1. Loans shall be deemed delinquent if payment is not received within fifteen (15) days of the payment due date. Delinquent loans may be subject to late charges.

2. Loans shall be deemed in default subject to the extent that:

    a. Any payment required by the documents evidencing the loan is thirty (30) days delinquent.
    b. There is a default in any other term or condition of the loan documents including the loan agreement.
    c. Any representation made in any document submitted to the URA in connection with the loan is determined to have been untrue when made or anytime thereafter.
3. In the event of any default by the borrower, the URA may, after giving the required notice to the borrower:

a. Recast the loan at an interest rate not exceeding prevailing conventional interest rates.
b. Accelerate the loan to maturity.
c. Foreclose on the property.

J. Loan Disbursement

1. All proceeds from the URA loan will be escrowed at the URA or URA approved financial institution.

2. The disbursement of loan proceeds will occur as follows:

   a. Borrower's cash equity shall be released initially.

   b. Borrower's conventional loan or revenue bond financing may be released prior to the URA's loan proceeds or in accordance with procedures established by the URA.

3. All proceeds shall be disbursed in accordance with a URA approved draw schedule. The draw schedule shall be based upon completion of specified work items or a percentage of construction completed. To disburse funds for non-construction costs (soft costs), invoices must be submitted to document the costs and must be approved.

   Loan funds may not be disbursed if there is a default on any term or condition of the loan documents.

K. Refinancing

Refinancing of existing debt on a property with a URA loan is not permitted.

L. Change of Ownership

Borrower may not sell, lease to own, assign, transfer, dispose of or master lease all or any part of the property or the borrowers interest in it during the loan term without the prior expressed written consent of the URA.

M. Insurance

1. The borrower shall maintain fire and extended coverage insurance at the borrower's expense in an amount not less than the sum of the URA loan and any prior indebtedness secured by the property.

2. For properties located in a floodplain, the borrower must maintain special flood insurance in an amount not less than the sum of the URA loan and any prior indebtedness secured by the property.

3. All required insurance policies shall:

a. Be written by a company authorized to transact business in the Commonwealth of Pennsylvania.

b. Be written by a company which is reputable and financially sound as determined by the URA.

c. Be in force at the time of loan closing.

d. Name the URA as loss payee in a standard mortgage clause attached to or printed in the policy.

e. Contain terms and coverage satisfactory to the URA.

N. <u>Title Insurance</u>

The borrower shall provide a policy issued by a title insurance company acceptable to the URA for an amount equal to the maximum principal amount of the loan. The title insurance policy must name the URA as mortgagee and must provide evidence that the title to the property on the date of closing is vested in the borrower and is free and clear of all liens and encumbrances, except to taxes not yet due and payable. Approved prior mortgages and any other items that are required by or specifically determined to be acceptable by the URA may be included.

O. <u>Appraisals</u>

The URA may require an appraisal of each property showing the value of the structure and/or land before and after the proposed construction. All appraisals shall be performed by appraisers acceptable to the URA and shall be in an approved format.

VII. <u>LOAN APPLICATION PROCESSING</u>

A. The Housing Opportunity Fund will issue a Request for Proposals (RFP) in accordance with each Annual Allocation Plan.

B. All Responses to the Request for Proposals will be evaluated in accordance with the criteria identified in the RFP.

C. URA staff will present application for funding to the HOF Advisory Board who will make funding recommendations to the URA Board.

D. The proposed borrower shall submit any information that the URA requires, including any documentation needed to establish the eligibility and credit worthiness to the borrower and the feasibility of the project.

VIII. <u>LOAN APPROVAL</u>

A. <u>Authority to Approve</u>

All loans in an amount less than $250,000 are subject to the review by the Housing Fund Advisory Board and the recommendation of the HOF Director to the URA Executive Director for approval. All loans equal to or greater than $250,000 and all loans for projects with a total development cost in excess of $2.0 million are also subject to the approval of the URA Board of Directors.

B. Authority to Increase

Any loan increase equal to 10 percent or less of the URA Board of Directors approved loan amount, upon review by the Housing Opportunity Fund Advisory Board and recommendation by the HOF Director, are subject to the approval of the URA Executive Director. Any loan increase in excess of 10 percent of the URA Board of Directors approved loan amount must be approved by the URA Board of Directors.

C. Guidelines

The URA Board of Directors may approve and disapprove loans in accordance with these guidelines and in accordance with the competitive process outlined in the RFP.

D. Deadlines

The borrower must meet URA deadlines for submission of documents at each stage of the application process. Failure to meet the deadlines may result in the cancellation of the application and/or applicant's loss of a priority position in loan processing.

E. Written Commitment Letter

Approval shall be evidenced by a written commitment to the applicant. Further action may not be taken toward closing on a loan until the applicant executes and returns a copy of the commitment letter. No construction activity may occur until after the loan has been closed.

F. Written Rejection Letter

If a loan application is disapproved, the URA shall notify the applicant in writing. The rejection letter shall state the reason for the rejection of the loan application.

G. Withdrawal of Application

An applicant may withdraw the loan application at any time before closing by giving written notice to the URA. The applicant shall bear any costs incurred for items including, but not limited to, title examinations, credit reports and appraisals. The application fee is not refundable.

H. Loan Closing

1. The loan closing will be scheduled at a time acceptable to the borrower and the URA.

2. The URA may charge the borrower for the following items which may be financed by the loan:

    a. Recording fees and recording taxes or other charges incidental to recordation;

    b. Required survey charges and appraisal fee, if applicable;

    c. Title examination and title insurance;

    d. A construction services fee based on the number of units to be constructed or rehabilitated.

    e. Other reasonable and customary charges or fees authorized by the URA.

    f. A loan commitment fee may be charged to the applicant on any HOF RGP loan.

I. <u>Taxes and Assessments</u>

All taxes and assessments against the property which are due and payable shall be paid before or at closing.

J. <u>Assumption</u>

Loans may be assumed with the prior written permission of the URA. An assumption fee may be charged. Loans that are not assumed are due on the sale of the property.

IX. CONSTRUCTION STANDARDS AND REQUIREMENTS

A. All properties constructed or rehabilitated under the HOF RGP must comply with all relevant codes of Allegheny County and the City of Pittsburgh. Additionally, all contractors shall:

    1. Meet all licensing requirements necessary to perform the construction.

    2. Be financially sound and fully qualified to perform the required work outlined in the work write-up as evidenced by previous professional construction experience.

    3. Provide insurance coverage for comprehensive public liability, property damage liability and worker's compensation in form and amounts required by the URA.

    4. Perform all work covered by the work write-up and drawings in conformance with the contract and all applicable laws, codes and URA construction standards, and in a competent, workmanlike manner equal to the standards of the industry.

5. Comply with all applicable laws, ordinances and regulations relating to the protection and safety of persons and property.

6. Comply with all applicable laws pertaining to the removal of lead based paint as required by 24 CFR Part 35.

7. Furnish all labor, materials and equipment and obtain and obtain all licenses, permits and privileges required to construct or rehabilitate the property in accordance with the contract documents.

8. Not assign the contract without the prior written consent of the borrower and approval of the URA.

9. Agree to complete construction according to the specifications of the URA approved work write-up within the completion date.

10. Agree not to begin any construction or rehabilitation activities prior to the closing of the URA loan.

11. Indemnify and hold the URA harmless from all liability and loss due to injury to or death of any person or damage to any property which may occur or be alleged to occur during performance of the contract as a direct or indirect result of any act or omission, whether intentional, negligent or otherwise, by the contractor, subcontractors or their agents, servants and employees. The contractor shall defend all suits or claims involving the above at his or her sole cost and expense.

B. Minority Contractors

The URA encourages the use of minority and women contractors in all projects and requires compliance with a Minority/Women Business Enterprise Plan approved by the URA for all projects with total development costs of $250,000 or more. Copies of the plan shall be made available to borrowers and contractors.

C. Identity of Interest

Borrowers may act as general contractors provided that they can meet the provisions of Section XI. of these guidelines and only with the prior written approval of the URA. All borrowers acting as the general contractor must provide cost certification within sixty (60) days after the date of the final stage payment.

X. PAYMENT PROCEDURES

A. Draw Schedule

Progress payments shall be made in accordance with a draw schedule approved by the URA.

B. Payment Eligibility

Payments shall be made on the basis of work completed. Payments may be made for materials delivered to the site with prior approval from the URA provided that:

1. Adequate anti-theft coverage is in place;
2. The storage area is located on the project site and is secured;
3. An invoice from the supplier is submitted; and
4. An inventory of the materials is submitted and verified.

C. Progress Payments

1. Progress payments shall be made in the name of both borrower and general contractor. Progress payments may not be made without on-site verification by the URA or its designated agent. If a request for payment is refused, the URA shall notify the borrower. The determination by the URA of the percentage of work completed shall be final.

2. Payment for 10 percent of the work determined to be in place will be withheld from each stage payment until the final payment is disbursed. Once 50 percent of the work is verified to be in place, the retainage amount may be reduced.

D. Final Payment

Final payment shall be made as follows:

1. The borrower shall submit to URA a final request for payment.

2. Upon final inspection, the final payment will be processed.

3. The borrower must submit proof that the Bureau of Building Inspection, the Allegheny County Department of Health and any other appropriate agencies have approved the work performed.

4. If, in the opinion of the URA, the contractor has satisfied the contract and the borrower refuses to request or release the final payment, the URA may require the borrower to explain in writing within ten (10) days why the URA should not make direct payment to the contractor. The URA shall refer the case to the governing body responsible for arbitrating construction disputes.

E. Retainage

If the borrower or the URA is given notice that subcontractors, materialmen or suppliers have not been paid for work completed or for material supplied to the project, the URA shall retain amounts sufficient to satisfy the claims until acceptable evidence of satisfaction and release by the subcontractors, materialmen or suppliers is presented. The contractor shall promptly pay or bond any liens established.

F. Changes

Changes in the scope of work covered by the contract must be made prior to the implementation of the changes and only by written change order signed by the borrower, contractor and architect, if any, and approved by the URA. Changes which result in cost increases will be approved only if the borrower escrows funds in the amount of the increase with the URA or URA approved financial institutional or the URA approves a loan increase.

G. Closeout Procedures

After final payment is made, the URA shall reconcile all receipts and disbursements. Any funds remaining in the loan account shall be applied to the principal balance of the loan or placed in an escrow account for the benefit of the project as determined at the discretion of the URA.

XI. MONITORING

The program will establish policies and procedures to monitor the incomes of households residing in RHDIP financed properties.

XII. APPEALS

Any appeals or exceptions to these guidelines must be submitted in writing to the URA and are subject to review and approval by the URA Board of Directors.

XIII. CERTIFICATIONS

In accordance with 24 CFR Part 8, the Authority certifies its compliance with the provisions of Section 504 of the Rehabilitation Act of 1973, as amended on June 2, 1988.

XIV. NON-DISCRIMINATION CERTIFICATION

The Urban Redevelopment Authority of Pittsburgh abides by all applicable laws and regulations regarding nondiscrimination and refrains from discriminating on the basis of age, race, color, religious creed, ancestry, national origin, sex, sexual orientation, gender identity, gender expression, political or union affiliation, and/or disability. No person shall be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination solely on the basis of any of the above factors under the loan and grant programs operated by the Urban Redevelopment Authority of Pittsburgh.