Urban Redevelopment Authority of Pittsburgh

Affordable Housing Preservation Program Guidelines

I. Program Objective

The **Housing Preservation Program (HPP)** will be used to help fund the acquisition of existing subsidized or naturally occurring affordable rental units. HPP is intended to quickly deploy funding to development partners looking to acquire affordable rental property portfolios that come on the market, preventing the loss of existing affordable housing stock that is at risk of turning market rate. HPP is intended to assist non-profit and for-profit developers that seek to keep properties affordable instead of transitioning the units to market rate.

1. Preserve affordable housing units that are at risk of being turned into market rate rental units. As used herein, "affordable" shall mean rent that is no more than 30% of a household's annual income for households at or below the applicable area median income (**AMI**).
2. Preserve affordable housing portfolios that are currently affordable or were affordable within the last five years and/or preserve project-based subsidies that are at risk of being lost due to poor housing conditions or expiration of project-based rental subsidies.
3. Encourage preservation by affordable housing development entities, including but not limited to, partnerships between community development corporations and housing developers.
4. Encourage developers to create or preserve affordable housing units by financing property acquisition.
5. Provide short-term financing to encourage more dynamic recapitalization strategies.
6. Encourage community stewardship and permanent preservation of affordable housing assets.

II. Program Funding

HPP funding will be sourced by the American Rescue Plan Act (**ARPA**), and other potential funds received by the Urban Redevelopment Authority of Pittsburgh (**URA**) from the Commonwealth of Pennsylvania, City of Pittsburgh, U.S. Department of Housing and Urban Development (**HUD**), Pennsylvania Housing Finance Agency, foundations, institutions, or private corporations designated for the acquisition and preservation of affordable rental housing.

III. Eligible Borrowers

Eligible borrowers are limited to the following:

1. Non-profit development organizations
2. For-profit development organizations with a documented letter of community and/or tenant support

To be an eligible borrower, the following requirements must be met:

1. Eligible borrowers are members of development teams with demonstrated development and property management experience.
2. Borrower must be tax compliant, disclose all conflicts of interest, and be current on all URA loans related to existing projects undertaken by the borrower and/or any related entity of the borrower.
3. Possess all necessary legal and corporate authorization to incur the obligations of HPP financing.
4. When applicable, agree in writing to assist with the relocation of tenants displaced as a result of the rehabilitation in accordance with the Uniform Relocation Act.
5. When applicable, agree in writing to pay prevailing wages to the extent required by the Federal Government and/or the Commonwealth of Pennsylvania, as well as agree in writing to comply with the PA Steel Products Act.

IV. Eligible Projects / Properties

Eligible projects are limited to the following:

1. Projects of at least five total units, wherein no fewer than 50% of total project units are affordable for renters at or below 80% of AMI.
    a. HPP funds may only be utilized on the affordable units to be included in the completed project.
    b. Funds may also be accessed to complete acquisitions that reposition or apply federal, state, or local project-based housing subsidies to a new property (such as a HUD Section 8(bb) transfer).

V. Eligible Activities

HPP funds may be used for the following activities:

1. Acquisition of housing portfolios that either consist of affordable housing rental units or previously consisted of affordable rental housing rental units within the last five years and for which the HPP funds will be used to return the units to affordable rental housing.
2. Preservation of properties with project-based subsidies that are at risk of being lost due to poor housing conditions or contract expiration.
    a. Capital needs assessment, physical remediation plan, and management strategy will be required.
3. Operating expenses to stabilize currently affordable properties.
    a. Detailed description of operating shortfalls and plans for financial stabilization of project will be required.
4. Emergency stabilization activities including but not limited to: roof repair, mold remediation or other physical needs that could impact the health of current residents, or compromise the building structure.

VI. Program Requirements

1. Eligible borrowers must contribute no less than $3,000/unit in equity to an eligible project.
2. Borrowers must submit an Affirmative Fair Housing Market Plan.
3. All affordable units assisted through HPP shall remain affordable for a minimum period of 40 years.
4. All affordable units shall comply with the resident income restrictions, affordability and related covenant requirements for assisted units, tenant protections, and housing quality standards of the HOME Investments Partnership Program (**hereinafter called the "Federal Program Requirements"**).
5. Eligible projects should not result in a net decrease of affordable housing units or project-based subsidies.
6. If the project involves the conversion of non-affordable housing units to affordable housing units, the developer must convert the units to be affordable to households at or below 80% of AMI and comply with the Federal Program Requirements.
7. No project receiving HPP financing may deny housing to a Housing Choice Voucher holder solely because they are a voucher holder. The URA reserves the right to request denied tenant applications for HPP supported projects.

VII. Funding Terms, Limits & Requirements

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

1. <u>Maximum Loan Amounts</u>
    a. Loan amount is determined by the number of affordable units, up to $50,000 per unit, dependent on program funding availability.
    b. Maximum loan amount is set at $1,500,000 per project.
        i. Requests above the maximum loan amount will be entertained based on program funding availability and portfolio unit count.

2. <u>Loan Term</u>
    a. 20 to 40 years
        i. HPP financing shall not mature prior to senior debt on the participating property.

3. <u>Interest Rate</u>
    a. Loans may carry an interest determined appropriate through URA Staff underwriting as well as requirements of equity investors.

4. <u>Collateral</u>
    a. A recorded mortgage on the participating property.

5. <u>Other Loan Requirements for Low Income Housing Tax Credit Projects</u>
    a. For loans to finance projects expected to be eligible for the low-income housing tax credit under section 42 of the Internal Revenue Code of 1986 (**the "Code"**):
        i. The project owner must agree, as a condition of accepting such loan, to waive any right to request a qualified contract (as defined in Section 42(h)(6)(F) of the Code); and
        ii. The project owner must agree to repay any loaned funds to the entity that originated the loan at the time the project becomes non-compliant, including if such project ceases to satisfy the requirements to be a qualified low-income housing project (as defined in section 42(g) of the Code) or a qualified residential rental project (as defined in section 142(d) of the Code), or if such project fails to comply with any of the requirements of the extended low-income housing commitment that are described in section 42(h)(6)(B)(i)-(iv) of the Code.

6. <u>Loan Repayment</u>
    a. 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.
    b. The repayment schedule may be either:
        i. Annual cashflow repayment;
        ii. Monthly principal and interest payments;
        iii. Monthly interest only payments; or
        iv. Deferred loan repayment due upon sale or at maturity date.
    c. For deferred loans, a balloon payment of principal and interest, will be due on the maturity date of the loan.

7. <u>Rent Limits and the Affordability Period</u>
    a. All loans shall have a Declaration and Agreement of Restrictive Covenants recorded on the property to ensure affordability throughout the affordability period.
    b. The borrower must agree to comply with the specified income and rent limits and the Federal Program Requirements for at least 40 years. Priority will be given to projects that have permanent affordability (99 years). The gross rent for units to be occupied by households who earn at or below 80% of AMI may not exceed 30% of the monthly income for a household at or below 80% of AMI. Priority will be given to projects that are affordable for households at or below 50% of AMI.
    c. If a property does not maintain compliance with affordability or the Federal Program Requirements, the loan will be in default. URA will conduct annual tenant income verification audits on properties which receive HPP funding to ensure compliance with affordability covenants.

8. <u>Fair Housing and Accessibility Principals</u>
    a. All units shall meet visitability standards to the greatest extent feasible.
        i. Basic requirements for visitability include: one zero-step entrance to the unit/building, doors with 32 inches of clear passage space, and one wheelchair accessible bathroom.
    b. All projects shall, to the best of their ability, maximize adherence to Universal Design standards.
        i. Universal Design standards include: Equitable use, flexibility in use, simple and intuitive use, perceptible information, tolerance for error, low physical effort, size and space for approach and use.
    c. Priority will be given to borrowers making a documented effort to go above and beyond to affirmatively further fair housing rental practices, including but not limited to: modified criminal

history screenings for potential tenants; reporting rental payments to credit bureaus, with the consent of the prospective tenant; allow security deposits to be paid in installments; provide preference for an agreed upon percentage of units to families that are currently rent-burdened, have experienced a no-fault eviction, or have experienced eviction but now display the ability to pay; and develop marketing and tenant selection policies and procedures that are less likely to exclude preferred tenants.

9. Loan Delinquency and Default
    a. Loans shall be deemed delinquent if payment is not received within 15 days of the payment due date. Delinquent loans may be subject to late charges.
    b. Loans shall be deemed in default to the extent that:
        i. Any payment required by the documents evidencing the loan is 30 days delinquent.
        ii. There is a default in any other term or condition of the loan documents, including but not limited to the loan agreement.
        iii. 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.
    c. In the event of any borrower default, the URA may, after giving the required notice to the borrower:
        i. Recast the loan at an interest rate not exceeding prevailing conventional interestrates.
        ii. Accelerate the loan to maturity.
        iii. Foreclose on the property.

10. Refinancing
    a. Refinancing of existing debt on a property with a URA loan is not permitted unless approved in writing by the URA Board of Directors.

11. Change of Ownership
    a. Borrower may not sell, lease to own, assign, transfer, dispose of or master lease all or any part of the property or the borrower’s interest in it during the loan term without the prior written consent of the URA.

12. Insurance
    a. 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.
    b. For properties located in a floodplain, the borrower must maintain special flood insurancein an amount not less than the sum of the URA loan and any prior indebtedness secured by the property.
    c. All required insurance policies shall:
        i. Be written by a company authorized to transact business in the Commonwealth of Pennsylvania
        ii. Be written by a company which is reputable and financially sound as determinedby the URA.
        iii. Be in force at the time of loan closing.
        iv. Name the URA as loss payee in a standard mortgage clause attached to or printed in the policy.
        v. Contain terms and coverage satisfactory to the URA.

13. Title Insurance
    a. 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 URA 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.

14. Appraisals
    a. 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 URA-approved format.

VIII. Loan Application Processing

1. URA will issue a rolling Request for Proposals in accordance with these program guidelines.
2. All responses to the Request for Proposals will be evaluated in accordance with the criteria identified in the RFP, these guidelines, federal guidance regarding use of ARPA funds, and the Coronavirus Local Fiscal Recovery Fund Recipient Agreement by and between the URA and the City of Pittsburgh related to HPP.

IX. Loan Approval

1. Authority to Approve
    a. All HPP financing is subject to review by URA Staff, the URA Real Estate Loan Review Committee, the City of Pittsburgh Office of Management and Budget, and the City of Pittsburgh Law Department. All HPP financing must be approved by the URA Board of Directors and the City of Pittsburgh.
    b. In emergency situations where timing is a restricting factor, the Housing Lending Director can provide a Letter of Intent, based on review of the application meeting these program guidelines. The applicant can use the Letter of Intent to submit an offer on eligible properties listed for sale. The Letter of Intent will state that funding is contingent upon final approval by the URA Board and the City of Pittsburgh.
    c. Approval of HPP financing shall be evidenced by a written commitment to the borrower. Further action may not be taken toward closing on a loan until the applicant executes and returns a copy of the commitment letter.
    d. The loan closing will be scheduled at a time acceptable to the borrower and the URA.

X. Loan Closing

The URA may charge the borrower for the following items, which may be financed by the HPP loan:

1. Recording fees and taxes or other charges incidental to recordation.
2. Required survey charges and appraisal fees, if applicable.
3. Title examination and title insurance.
4. A construction inspection fee, if applicable, of $500 per project unit, with a maximum fee of $15,000 per project.
5. Other reasonable and customary charges or fees authorized by the URA which are disclosed to the borrower in the commitment letter.

XI. Payment Procedures

1. Loan proceeds funding acquisition will be disbursed at the acquisition closing. Loan proceeds will be released to a third-party title company administering the closing.
2. Loan proceeds funding stabilization costs will be reimbursed on the basis of work completed.

XII. 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.