

Urban Redevelopment Authority of Pittsburgh

**SMALL LANDLORD FUND**

**Program Guidelines**

7/12/2023

**A. Program Objective**

The Small Landlord Fund (SLF) will be used to help fund the preservation of existing affordable rental housing and / or the conversion of market/vacant housing to affordable housing in the City of Pittsburgh by providing financing to landlords of 1 to 10-units. The SLF 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.

For the SLF, affordable housing is defined as housing that will be rented to households at or below 80% of area median income (AMI).

The Housing Authority of the City of Pittsburgh (HACP) administers a Housing Choice Voucher (HCV) program (also known as Section 8). Through the HCV program, HACP provides low-income households housing assistance vouchers. These households can utilize these vouchers to rent privately owned rental units. The households pay 30% of their monthly income for rent and utilities. HACP pays the difference between the monthly rent and the 30% of the household's income to the landlord, ensuring that the landlord receives the entire month's rent for the subsidized unit. A primary objective of SLF is to increase the availability of affordable units utilizing HCV. Borrowers will be encouraged to accept Housing Choice Vouchers. Should a Borrower choose not to accept Housing Choice Vouchers, their units will be subject to a predetermined schedule of maximum rent limits during the term of the loan to prevent the displacement of existing residents.

**Program Funding**

The SLF will be sourced by private and public sources of loan and/or grant financing.

**B. Eligible Borrowers**

1. SLF borrow must own ten (10) or fewer units in total
2. SLF Borrower must own the property in which an application is being made for at the time of application or provide sufficient evidence of an option agreement for purchase expiring no later than 90-days from the date of application.
3. SLF Borrower whose property is located in a neighborhood that is eligible for HACP's Alternative Payment Standard must agree to rent completed units to HCV holders and comply with HCV contract requirements. HACP Alternative Payment Standards provides opportunities for low-income households to live in areas with lower concentrations of poverty. In 2020, the neighborhoods that qualify for HACP Alternative Payment Standards are:
  - A. Shadyside (Zip codes 15206,15213, and 15232)
  - B. Lower Lawrenceville (Zip codes 15201, 15213, and 15224)
  - C. Strip District (Zip codes 15201)
  - D. Southside Flats (Zip code 15203)
  - E. Downtown (Zip codes 15219 and 15222)

F. Squirrel Hill (Zip codes 15213, 15217, and 15232)

4. SLF Borrower whose property is not located in a neighborhood that is eligible for HACP's Alternative Payment Standard must agree to rent completed units to HCV holders and comply with HCV contract requirements or agree to rent to households earning at or below 80% AMI for the term of the loan as a means of preserving/creating naturally occurring affordable housing.
5. SLF Borrower must not have any outstanding City, School, and County real estate taxes or the Borrower must be on a payment plan for at least two months.
6. SLF Borrower must have a current homeowner insurance policy for the property.
7. Borrower must have minimum credit score of 580.
8. Borrower must not have a judgement against him or her in a housing discrimination case filed within the last five years.
9. Borrower must have no outstanding code violations on other rental properties owned by Borrower.

**C. Eligible Properties**

To be eligible for the SLF, 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 must own the property prior to or at the SLF closing.
4. 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.
5. The project must contain no more than 10 residential dwelling units.
6. The borrower and/or any relatives of the borrower may not live in the units to be rehabilitated using SLF; however, the non-occupied side of duplexes are eligible.

**D. Eligible Activities**

SLF moneys may be used for the following activities:

- Sidewalk upgrades and repair
- Fire alarm upgrades and repair
- Electrical upgrades and repair
- Roof & gutter upgrades and repair
- Plumbing upgrades and repair
- Window upgrades and repair
- Door upgrades and repair
- Flooring upgrades and repair
- Appliance upgrades and repair
- Painting and dry wall upgrades and repair
- Accessibility enhancements
- Building envelope upgrades and repair
- HVAC and furnace upgrades and repair
- Structural repair (footers, retaining walls)
- Miscellaneous code or other necessary Items
- Cosmetic upgrades

Borrower must hire a licensed contractor and provide proof of permits, as necessary.

Priority use of loan funds will be initial code violations. Work started prior to URA approval and inspection may not be eligible for loan funds. Work must be completed within 60 days of loan closing.

**E. Inspection Procedures**

Prior to the closing of the SLF loan, a URA Construction Advisor will review the Borrower's written Scope of Work and visit the property in order to verify the legitimacy of the intended improvements. A URA-approved Scope of Work, including final costs, must be in place before loan closing may occur. If the Borrower is participating in the HCV Program, HACP may give the Borrower a list of necessary improvements that need included in the Scope of Work.

After loan closing, work on the property may commence. The URA Construction Advisor will conduct on-site stage inspection at the time the Borrower requests payment for work completed. The URA will make payments directly to the Borrower based on work completed and an approval by the URA Construction Advisor. The URA reserves the right to pay the contractors / vendors directly from loan proceeds.

At the time work is completed, a final inspection is made by the URA Construction Advisor. If necessary, a City Department of Permits, Licenses, and Inspections advisor shall also perform an inspection of the completed work.

**F. Funding Terms, Limits, and Requirements**

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

- A. Maximum Loan Amount – The maximum SLF loan amount is \$20,000 per unit with a per property/project maximum of \$100,000.
  - a. Landlords willing to rent to HCV holders or households at 30% or 50% AMI or below will be eligible for a \$5,000 grant per unit. Grant may only apply to units rented to HCV holders or households at 30% or 50% AMI or below.
  - b. Total maximum per unit is \$20,000 (\$5,000 grant; \$15,000 loan).
- B. Equity Requirement – The Borrower's equity requirement is 20% of the total project costs to rehabilitate/renovate the SLF units. Equity already invested in the property is allowable.
- C. Maximum Loan Term – 10 year loan term
  - a. Waivers will be considered for a term up to 15 years. Factors for consideration include: scale and scope of project, amount of total financing required, and

repayment terms of other financing sources.

- D. Interest rate – The interest rate will be 0%.
- E. Debt Coverage Ratio – The Borrower must have at least a 1.2 debt coverage ratio at time of closing, including the anticipated monthly payments for the SLF loan.
- F. Lien position: The URA will record a lien (mortgage) on the property. The lien may be in a subordinate position to an existing mortgage.
- G. Rent Limits and Affordability Period – SLF participation mandates that the Borrower participate in the HACP HCV program, or provide evidence to the URA that the SLF assisted unit(s) are being rented to households who earn at or below 80% AMI (gross monthly rent may not be more than 30% of 80% AMI). The Borrower must agree to comply with specified income and rent limits for period concurrent with the term of their SLF loan.
  - a. The affordability period shall remain in effect should the principle of the loan be paid off prior to the loan expiration date.
  - b. Gross income for each SLF-assisted unit cannot exceed 80% of the area median income, as determined by HUD, and must meet one of the following tests:
    - i. pay as a contribution toward rent and an allowance for tenant-furnished utilities (excluding any federal or state rental subsidy provided on behalf of the household) is not more than 30% of the household's annual adjusted gross income, or
    - ii. whose rent plus an allowance for tenant-furnished utilities does not exceed 30% of the area median income, provided however, in no event shall the rent paid by any household exceed the amount of rent permitted under Section 42(g) of the Internal Revenue Code of 1986, as amended.
  - c. The AMI, adjusted income, and Fair Market Rent are determined annually in accordance with regulations issued by HUD. Maximum monthly rent for each SLF-assisted unit must be determined in accordance with 24 CFR 92.252.
  - d. The borrower is required to verify the tenant's income annually with sourced documents and be able to provide those documents to the URA upon request. The URA must determine that the borrower is compliant with the income and rent restrictions by annually reviewing documentation evidencing tenant income eligibility, including but not limited to:
    - i. Information on household size and other criteria for eligibility.
    - ii. Rent rolls.
    - iii. Income calculations and documentation
    - iv. Tenant leases

#### H. Loan Repayment

- a. Loan repayment schedule will be a 6 month period of interest only payments, principal and interest due beginning in month 7.
  - b. A monthly payment will be charged which shall be applied to interest and principle in that order.
  - c. Late charges, as permitted by law, will be charged on delinquent loans.
  - d. Borrowers participating in the HCV program may elect to have their monthly loan repayment deducted directly from the subsidy payment provided by HACP.
- I. Loan Security
- a. 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.
  - b. All loans shall have a Declaration and Agreement of Restrictive Covenants recorded on the property to ensure affordability throughout the affordability period.
- J. 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 subject to the extent that:
    - i. Any payment required by the documents evidencing the loans is 60 days delinquent.
    - ii. There is a default in any other term or condition of the loan documents.
    - 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 default by the Borrower, the URA may, after giving the required notice to the Borrower:
    - i. Recast the loan at an interest rate not exceeding prevailing conventional interest rates.
    - ii. Accelerate the loan to maturity.
    - iii. Foreclose on the property.
- K. Refinancing
- Refinancing of existing debt on a property with a URA loan is not permitted. The URA loan must be repaid at the time of the refinancing.
- 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 Borrower's interest in it during the loan term without the prior expressed written consent of the URA.

#### M. 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 insurance in 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 determined by 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.

#### N. Title Insurance

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. Appraisals

The URA will 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. The URA loan plus all other additional debt must not exceed 125% of appraised value.

#### **G. Loan Application Processing**

SLF loan applications will be made available online at URA.ORG. Upon receipt of an application, URA staff will review and reach out to clarify any outstanding questions about the content of the application. URA staff may set up an inspection by a URA Construction Advisor to verify the Scope of Work included in the application.

#### **H. Loan Approval Process and Fees**

- A. All loans within program guidelines will be subject to approval by the Director of Housing Lending & Investments and the URA Executive Director.
- B. 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.
- C. 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.
- D. 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.
- E. An application fee of \$100 is due at the time of application.
- F. A Due Diligence Fee of 2% of the loan amount is due at closing.
- G. 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.
- H. An applicant that has been turned down may submit an appeal and request a waiver of program guidelines in writing to the address listed on the letter informing them of their application's rejection.
- I. If a loan is recommended for approval but needs a waiver of program guidelines, the loan will be presented to the URA Board of Directors.
- J. Loan Closing
  - a. The loan closing will be scheduled at a time acceptable to the borrower and the URA.
  - b. The URA may charge the borrower for the following items which may be financed by the loan:
    - i. Recording fees and recording taxes or other charges incidental to recordation;
    - ii. Required survey charges and appraisal fee, if applicable;
    - iii. Title examination and title insurance;
    - iv. The due diligence fee in the amount of 2% of the loan amount;
    - v. Other reasonable and customary charges or fees authorized by the URA.

**I. Construction Standards**



All properties constructed or rehabilitated under the SLF must comply with all relevant codes of Allegheny County and the City of Pittsburgh.

#### **J. Monitoring**

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

- a. Tenant income verification is conducted during the Spring season of each year, with the initial process beginning the first week of April and the document review and completion reports being finalized by June 31<sup>st</sup>.
- b. Once the correct contact person, phone number, and e-mail for each project are verified, the Lending Compliance Analyst will send a letter which outlines all the documents needed for the review to the Borrower via e-mail. Monitoring information sent to each Borrower includes:
  - i. Request for documents needed for review, with provided deadlines of 14 days for document submission.
    1. Rental Application
    2. Copy of tenant lease agreement.
    3. Tenant Income Certifications (TIC)
    4. Insurance certificates
    5. Third-party verifications and source documentation (when applicable)
- c. The Borrower must be provided with a 14-day deadline from when the monitoring letter was issued for the documents requested to be submitted.
- d. The Lending Compliance Analyst must also confirm that all requested documents are received by the deadline date as outlined in the notice and must follow up with the Borrower regarding outstanding files or documents that the property owner still needs to submit.
- e. The Lending Compliance Analyst is required to review the documents submitted and disclose any deficiencies identified during the file review to the Borrower. Non-compliance issues identified must be resolved within 30 days by the borrower. The Lending Compliance Analyst must follow up with the owner to resolve any non-compliance at the end of the 30 days and request documentation showing that the Borrower addressed the issues identified.

#### **K. 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.

#### **L. 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.