

Commonwealth of Massachusetts
HOUSING STABILIZATION FUND (HSF)
Rental Application Guidelines

A. Overview

Thousands of residential properties requiring moderate or substantial rehabilitation are located in communities throughout Massachusetts. In addition, many Massachusetts communities are burdened by the existence of distressed, foreclosed, or abandoned properties. Wherever they are located, these properties symbolize failure and blight. The Director of DHCD has set aside Housing Stabilization Fund (HSF) monies to support the acquisition, preservation, new construction, rehabilitation and re-use of properties as affordable housing.

Developers and municipalities are encouraged to work together to package distressed, foreclosed, or abandoned properties for rehabilitation and re-use as affordable rental housing, including new construction. Developers and municipalities also may work together to package other properties in need of rehabilitation, but priority for funding through this initiative will be given to distressed, foreclosed, or abandoned properties. Each application should include a description of the proposed work in the context of the particular community's broader affordable housing needs and goals.

Eligible applicants for HSF funds are for-profit or non-profit developers, local housing authorities and municipalities in cooperation with for-profit or non-profit developers. Each application for HSF funds must be signed by the chief elected local official.

B. Eligible and Ineligible Property Types

HSF rental housing funds may be used for the following types of properties:

- One or more building on a single site that are under common ownership, management, and financing; and/or
- Scattered-site properties that are under common ownership, management, and financing; and are seeking HSF assistance as part of a single project.

Rental applications for projects must contain a minimum of 5 HSF-assisted units. In addition, DHCD encourages HSF applications for projects containing no more than 50 units.

C. Forms of assistance

HSF loans are secured by loan documents running between the Massachusetts Housing Partnership Fund, acting as DHCD's financial intermediary for the HSF program, and the borrower. In general, the loans are secured by zero-interest, deferred payment junior mortgage notes. HSF rental loans carry a statutorily-required 50-year term, during which time the affordability restrictions apply.

The loan interest terms may vary if the borrower is seeking an allocation of Low-Income Housing Tax Credits, as well as HSF funds, to support the rehabilitation of a particular project. Upon request, DHCD may approve a rate of interest greater than zero for a HSF loan. However, since such loans are made with the proceeds of Commonwealth general obligation bonds, the interest rate may not exceed by more than one and one-half percentage points the yield on the bonds, actual or anticipated, as determined by the State Treasurer. To ensure long-term affordability, all HSF funded rental units will remain subject to certain tenant income and rent

restrictions. The affordability restrictions remain in effect for the stated term of the loan, even if the project is sold or the loan is repaid.

At the end of the HSF loan term, the borrower has the option of requesting an extension of the affordability period and further deferring payment on the mortgage note. For eligible projects funded through HSF, DHCD shall be granted a purchase option and/or a first refusal option to purchase the project.

D. Eligible and Ineligible Rental Housing Costs

HSF funds for rental housing may be used for development hard costs and soft costs.

Eligible hard costs include:

- Cost of rehabilitating/constructing housing;
- Cost of acquiring property;
- Cost of essential improvements including energy-related repairs or improvements, improvements to permit use by persons with disabilities, abatement of lead-based paint hazards, and repair or replacement of major housing systems in danger of failure;
- Cost of making utility connections;
- Cost of site improvements such as on-site roads and sewer and water lines; and,
- Cost to demolish existing structures.

Eligible related soft costs include:

- Financing costs, such as building permits, legal fees, property appraisals, credit and title costs, etc.;
- Engineering, architectural, and related professional services;
- Project audit and cost certification costs;
- Relocation costs, affirmative marketing, and fair housing information/education; and,
- Developer's fee, developer's overhead directly related to carrying out the project, and development consultant's fees, the sum total of which may not exceed 12.5% of the sum of acquisition, hard and soft costs.

DHCD requires that all rehabilitation/construction costs are reasonable, with no unusual or excessive amenities proposed; and that project soft costs are "reasonable and necessary." Acquisition costs for properties should not exceed the value determined by as-is fair market appraisals.

HSF rental housing funds may not be used to:

- Provide project reserve accounts, or operating subsidies;
- Project project-based rental assistance;
- Provide non-federal matching contributions required under any other federal program;
- Provide public housing operating subsidies;
- Provide compensation for a project's delinquent taxes, fees or charges, or
- Acquire property owned by the Commonwealth of Massachusetts, unless the property is acquired in anticipation of carrying out a HSF project.

All costs included in a One Stop Housing Application for HSF funding should be consistent with costs allowed through other DHCD housing programs, such as the Low-Income Housing Tax Credits program and the HOME program. Information on these costs is available through DHCD's Division of Housing Development.

Please note: applicants who receive HSF funding will be required to submit a full cost certification prepared by a Certified Public Account at project completion.

E. Property Standards

Housing that is rehabilitated with HSF funds must meet all applicable state and local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. In addition, substantial rehabilitation and new construction projects that consist of structures that are three-stories or less must secure Energy Star Certificates of Compliance. In general, all HSF rental projects must demonstrate affirmative efforts to improve energy efficiency.

All HSF assisted housing also must meet the accessibility requirements of MAAB, the Americans with Disabilities Act, Fair Housing Act at CFR 100.205 and Section 504 of the Rehabilitation Act of 1973.

Please note: Applicants should consult the most current Tax Credit QAP and DHCD HOME/HSF/CATNHP design guidelines for guidance with respect to general design, “green design”, accessibility, and building wiring. All applications should include a completed Appendix G, found in the 2009 Tax Credit QAP, whether or not a project is seeking Low Income Housing Tax Credits.

F. Expenditure Limits for Rental Housing

The maximum amount of HFS funding available per application is **\$1,000,000**. The maximum amount available per assisted unit is **\$50,000** in HOME entitlement/consortium communities and **\$65,000** per assisted unit in non-entitlement communities. HSF funding is awarded competitively and the highest-scoring applications are selected for funding. Applications seeking smaller amounts are strongly encouraged and may be more competitive.

Applicants may seek HSF funds either as a single public source or in combination with other public funds, such as Low-Income Housing Tax Credits, Community Development Block Grant funds, local HOME funds, etc. If HSF funds are sought in combination with other state subsidies, certain limits will apply.

G. Affordability Requirements

All units receiving HSF assistance must be occupied by households earning no more than 80% of the area median income during the first 40 years. During years 41-50, HSF units may be occupied by households earning no more than 100% of the area median income. In addition, HSF has a program wide goal that at least twenty-five (25) percent of households occupying HSF assisted units have incomes at or below 30% of median income. Rents in HSF projects must conform to the high HOME rent schedule, HUD Section 8 or other DHCD program rental rates. Please contact DHCD for a list of maximum rents and household incomes for your community.

Please note: If the units receive federal or state project-based rental subsidies then the maximum rent (i.e. tenant contribution plus the project-based subsidy) is the rent allowable under the project-based subsidy program.

H. Eligible Occupants of Rental Units

At the time the HSF funds are invested or at the time of occupancy, whichever is later, all HSF-assisted units must be occupied by households whose annual incomes are at or below 80% of the area median income. HSF also has a program wide rule that at least 25% of the HSF units be occupied by households with annual incomes at or below 30% of the area median income. In addition, HSF has a program rule that requires that 50% of the households in a U. S. Department of HUD 202 to be occupied by households within incomes at or below 30% of area median income.

At the time of initial rent up and on an annual basis thereafter, project sponsors must certify tenant incomes, rents, and utility allowances in accordance with HUD's Technical Guide for Determining Income and Allowances for the HOME Program (the Part 5 Definition) and present findings to DHCD and its monitoring contractor.

I. DHCD Funding Priorities

DHCD has established funding priorities for applications seeking DHCD rental loan funds. The funding priorities have been established to support projects with the following special characteristics:

- Official local support;
- Part of a comprehensive neighborhood planning effort;
- Inclusion of Minority and Women Business Enterprises (M/WBE) members on the development team;
- Inclusion of Section-3 eligible members on the development team;
- Development teams that have demonstrated efficiency in completing past projects;
- Low total development costs;
- Low soft costs and developer's fee;
- Minimal request for DHCD assistance;
- Demonstration of strong need and marketability for all types of units in the project;
- Demonstration of site control;
- Demonstration of zoning;
- Homeless families and individuals as intended beneficiaries;
- Special needs groups as intended beneficiaries;
- Commitment to extended term of affordability;
- Utilization of HSF funds in "non-entitlement" communities;
- Projects that include the principles and characteristics of sustainable development; and,
- Design that exceeds minimum standards for energy efficiency and healthy homes principles.

Also, DHCD encourages projects that have non-profit sponsorship, including Community Housing Development Organizations (CHDOs). Additional information on preferences for per-unit costs is available from DHCD.

In addition to the priorities listed above, applicants for DHCD HSF rental funds should note the following:

- If an application is submitted for a project located in a HOME entitlement or consortium community, the application must include a commitment of local funds. If an application is submitted without a full match, it may not be scored. In general, preference will be given to applications with full match commitments.
- In general, applications seeking a commitment of more than **\$1,000,000** in DHCD HSF funds for one project will not meet threshold requirements.
- In general, applications seeking a commitment of more than **\$50,000** or **\$65,000**, as applicable, in DHCD HSF funds per unit will not meet threshold requirements.

- Project teams including a development team member which has been debarred will not meet threshold requirements.
- In general, applications seeking a commitment of more than \$100,000 per unit in DHCD subsidy, not including LIHTC (i.e. HOME/HSF/AHTF/CATNHP/CIPF/HIF), will not meet threshold requirements.

All applicants should note that priority is given to rental projects that are ready to proceed. Evidence of site control, zoning and other funding commitments should be included in the application submission.

J. Resident Selection

Applications for HSF funds must include a detailed description of the process that will be used to select tenants and also must include a detailed description of affirmative fair housing marketing efforts. Applicants must incorporate DHCD's most current Fair Housing Mission Statement and Principles including changes enacted by HR 3221, into project marketing. Additionally, please note the following:

1. A tenant selection plan may not have the effect of excluding non-residents from a project.
2. Only if an applicant can clearly demonstrate local need for the proposed units, and that such preference will not be a violation of duty to affirmatively further fair housing or will not have disparate impact on protected classes, will local preference be considered. Under no circumstances will local preference be afforded to more than 70% of the units. If the percentage calculation of local preference units does not produce a whole number, DHCD will *round down*. There shall not be any durational limits on residency or employment in any plan; any proposed tenant selection plan that includes local preference shall define local affiliation in accordance with DHCD's 40B Guidelines (Part III, Affirmative Fair Housing Marketing Plan) (2008). Affirmative Fair Housing marketing shall extend to both the local community and surrounding metro area.
3. When scoring applications, DHCD will give higher consideration to projects with wider applicant pools.

K. Annual Data Collection

In order to help DHCD assess the impacts of local preference on affirmative marketing goals and compliance with applicable civil rights laws, all applicants who receive HSF funding will be required to report household characteristic data for all HSF-assisted units at the time of final rent-up and on an annual basis from that point forward. The report will include but may not be limited to the following data points: capital subsidies restricting the unit, size of the tenant household, income level of the tenant household, race and ethnicity of the head of household (to the extent available), number of children under the age of six, number of children under the age of 18, and type of rental assistance if any. Project owners or their specified designees will be required to report using the web-based data collection system developed by DHCD.

L. Readiness to Proceed & Application Consideration

In order to demonstrate readiness to proceed and ensure maximum project competitiveness, the sponsor should be able to meet as many of the following criteria and submit as much of the following documentation as possible:

1. Narratives indicating that the proposed project is consistent with the principles of sustainable development;
2. Demonstrated need for project in the target neighborhood;

3. All other sources of funding must be committed and no project related demolition, remediation and/or construction begun prior to DHCD application submittal;
4. Evidence of as-of-right or zoning approvals and/or a completed 40B or Article 80 process;
5. Evidence of site control for all parcels and buildings (i.e., deed, purchase & sale agreement, purchase options or designated developer agreement);
6. Comprehensive Sources and Uses that addresses such areas as bonding, clerk of works, security, etc.;
7. Reasonable developer fees with projects that include market rate units;
8. 'Draft' plans & specifications for design of the site and building(s);
9. Estimates for construction from a general contractor or professional cost estimator;
10. ASTM Phase I environmental report completed within the last twelve months, lead paint report for both structures and soil, and radon tests for all structures (if any of the reports recommend remediation, the sponsor must submit a soil remediation plan);
11. Submission of as-is appraisal;
12. Sign-off from Massachusetts Historic Commission (this is required for all projects including new construction);
13. Detailed resident selection plan;
14. Detailed marketing plan, including detail on affirmative fair housing marketing;
15. Narrative describing how the marketing, resident selection and other applicable policies will incorporate the Department's Fair Housing Principles, including outreach to households least likely to apply;
16. Detailed market study prepared by a qualified professional acceptable to DHCD, demonstrating marketability for the affordable and market rate units (including comps, demographic data, and property management information);
17. Evidence of neighborhood processing & support; and,
18. Photographs of the buildings or parcels.

In making funding determinations, the agency also reserves the right to consider project location, since it is DHCD's intention to provide assistance to projects located throughout the state. While the maximum amount per project has been established at \$1,000,000, and the maximum per affordable unit at \$50,000 in HOME entitlement/consortium communities and \$65,000 in non-entitlement communities, DHCD is strongly encouraging municipalities or developers to apply for less than the maximum amount available in either category. The agency's goal is to support the rehabilitation of the greatest number of affordable units possible with the least amount of HSF funding.

M. Application process

Project sponsors seeking HSF funds must submit applications using the latest version of the One-Stop Affordable Housing Finance Application. Only One-Stop disks and forms will be accepted by DHCD. An application for HSF, as a source exclusive of additional DHCD sources, consists of four hard copies, 1 disk, and 1 set of plans. To cover part of the cost of underwriting the project, an application fee also must be submitted. The fee for non-profit sponsors is \$450 per project; the fee for for-profit sponsors is \$1,250 per project. Checks should be made out to the **Massachusetts Housing Partnership Fund**. If you are seeking multiple DHCD resources, or if you wish to confirm application fee requirements, please refer to the current NOFA for specific submission information.

Although most development projects change over time, and some projects change substantially, DHCD must evaluate all project applications in a fair and equitable way. The One-Stop application essentially is a "snapshot" of a project on the day of submission. For purposes of threshold review and competitive evaluation, DHCD will not accept the submission of additional documentation after the application deadline. Each project will be reviewed

based on the materials contained in the One-Stop on the deadline for all submissions. Please note: The One-Stop Affordable Housing Finance Application is available online at: <http://mhic.com/zonestop.cfm?page>

Applications should be submitted to: **Housing Stabilization Fund Program**
Department of Housing & Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114