

## **PHFA Section 8 Preservation Guidelines**

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The Pennsylvania Housing Finance Agency (“PHFA” or “Agency”) has long recognized the importance of preserving the affordable rental housing stock in Pennsylvania. With a number of federally assisted Section 8 program developments in our portfolio coming to the end of their mortgage terms and with the ever increasing demand on our resources, the following guidelines are intended to assist with the preservation and refinancing of these important assets. These guidelines provide the standard process and considerations to be followed in considering project restructurings and refinancing. Changes, exceptions and adjustments to these guidelines may be made, as the Agency deems necessary, to best achieve the affordable housing goals and opportunities in the Commonwealth.

### **Conditions for Agency Approval of Prepayment of Existing Loans:**

1. The owner must agree to a 30 year extension of affordability restrictions and must actively approve and accept the continuation of the Section 8 HAP Contract during the 30 year period.
2. The prepayment of Agency financing and subsequent refinancing by the Agency or an approved third party must not have an adverse impact on tenants. (This will generally be evidenced by a complete review of any refinancing terms and conditions and a review of loan documents. In addition, staff will look for an operating budget with positive cash flow and reasonable assumptions for income/expenses.) Existing tenants may not be displaced and generally the tenant composition of the existing property must be maintained (i.e., elderly or general occupancy.)
3. PHFA will remain contract administrator for the remaining term of the existing HAP contract.
4. PHFA requires that it be given the opportunity to provide any new debt or may approve another lender if refinancing loan terms are superior to those offered by PHFA.
5. The Agency must not incur any economic loss through the prepayment of the outstanding loan. The owner will be required to provide PHFA with an economic loss payment, as determined by the Agency.
6. In the event the property is not already compliant with the Americans with Disability Act (due to existing grandfather provisions), the property will be required to achieve A.D.A. compliance (i.e. 5 percent of the units must be made accessible and an additional 2 percent of the units must be equipped for hearing and vision impairment.) All public

space must be completely accessible. The owner may seek a waiver from PHFA for some of these requirements if compliance is physically or economically infeasible.

7. The owner agrees to have an energy audit performed by a PHFA approved auditor conforming to the Preservation through Smart Rehab Program standards and further agrees to install those improvements recommended by PHFA.
8. The Agency will require a physical needs assessment to be completed by a third party vendor acceptable to PHFA. The study should identify the needs of the property for the period of any new debt but not less than 20 years. In addition, any items mentioned as immediate or critical needs in the study must be addressed. Finally, the owner agrees to retain an initial Replacement Reserve balance equal to or greater than an amount, as determined by the Agency, sufficient to meet the needs of the project.
9. Owner must have a Phase I Environmental Site Assessment performed in accordance with the most current ASTM Standard plus actual testing for the presence of lead in the domestic water, radon, asbestos and lead-based paint (elderly 62+ occupancies and buildings built after 1978 are exempt from lead based paint testing). A minimum of 10% or 5 of the dwelling units (whichever is greater) must be tested. All adverse findings must be remediated. In certain circumstances, the Agency may require additional testing and certifications for properties which may have been grandfathered from a portion of the lead paint regulations.

Testing for lead in the domestic water supply shall be based on two samples from each location; an initial draw sample taken after a period of no water use, and a sample taken after thoroughly flushing the system.

Radon must be tested at the lowest floor level containing dwelling units or the lowest level of the building containing community space.

A survey of the building shall be performed to identify suspect asbestos containing materials. All such materials shall be tested under polarized light microscopy (PLM).

Lead based paint testing shall be performed using X-Ray Fluorescence (XRF) spectrum analyzer in accordance with HUD's "Final Rule", 24 CFR Part 35, as amended June 21, 2004 (or with subsequent methodologies established by HUD rules).

10. The Agency will require that an escrow, to be held by PHFA, be established to pay for the work required by items 6, 7, 8, and 9 above. The work will be approved and monitored by PHFA's Technical Services Division. A Construction Completion Certificate

for all required work must be issued within 12 months of the refinancing or the escrow funds will be forfeited to PHFA.

11. Owner agrees to continue to provide supportive services to the residents, and shall continue to comply with PAHousingSearch.com registration and data collection required by the Agency.
12. Subsequent to the refinancing, the development will not be eligible to seek further Agency assistance (LIHTC, Taxable or Tax Exempt Bond, Preservation through Smart Rehab, etc.) for a period of ten years from the date of refinancing by PHFA or other lender.
13. Owners must have financial capacity, as evidenced by audited financial statements.
14. HUD 2530 clearance shall be required for the new owner and management agent prior to Agency approval.
15. Materials must be submitted for Agency Board approval (at least sixty days in advance of the expected Board meeting date.)

#### **PHFA Financing Terms and Conditions**

1. Loan may not exceed 80 percent of appraised value. The appraisal must be dated no more than six months prior to the submission date.
2. Loan will be sized using a debt service coverage ratio of 115 percent of PHFA's approved net operating income in the initial stabilized operating period, unless a higher initial ratio is needed to meet the requirements that the debt service coverage ratio not fall below 100 percent through the final year of the loan.
3. Loan terms will not exceed the remaining term of the Section 8 HAP contract plus 20 years.
4. The new loan may not be prepaid during the loan term without the written consent of PHFA.
5. The loan must be credit enhanced in a manner acceptable to PHFA.

#### **Owner Distribution**

Subject to the terms of the HAP Contract, the owner may be limited to the sellers previously approved annual return on equity amount for distribution of the original property owner.