LOAN PROGRAM GUIDELINES
(INCLUDES PENNHOMES)

The Agency's PennHOMES Program offers zero percent (0%) interest, deferred payment loans that can be used to support the development of lower income rental housing. PennHOMES funds may be structured as primary or secondary mortgage loans.

The funding for the PennHOMES Program is a combination of resources from the Agency's unrestricted reserves and federal HOME funds. The Agency's unrestricted reserves are available for developments located within Participating Jurisdictions and the HOME funds are used for developments located within Nonparticipating Jurisdictions.

PennHOMES funds are limited. Therefore, applicants are strongly encouraged to make maximum use of other financial resources and to create public/private partnerships. The presence of non-Agency support funds is essential to the successful development and operation of properties. Evidence of support funds will be a significant factor used in the selection process among competing Applications. Examples of other financial resources and support funds include owner equity, equity from the sale of Tax Credits, private or public grant monies or low interest loans, and donated real estate.

The Agency has set aside a portion of HOME funds for developments located in Nonparticipating Jurisdictions that will be developed, owned, or sponsored by Community Housing Development Organizations ('CHDOs') that are certified by the Department of Community and Economic Development ('DCED'). Potential ‘CHDOs’ should reference the 2013 HOME Final Rule: Subpart G – Community Housing Development Organizations, Section 92.300

Financially infeasible Applications that do not demonstrate long term viability may be returned to the applicant at any time and will not be reconsidered.

All applicants must comply with the following Agency requirements, as well as other requirements the Agency may develop from time to time.

Review Process

An Application, once received by the Agency, may not be altered, amended or modified except as approved by staff during underwriting and program review. If a discrepancy is found in an Application during the review process, the applicant may be given five business days to respond to the request for clarification. Corrections allowed by staff may not include replacement, substitution, or amendment of material items used in the ranking of the Application. An omission from the Application Checklist may result in the immediate rejection of the Application.

Fees and Cost Limitations

The Agency has developed a Development Cost Limits Schedule and a Fee Schedule. These schedules, included in the Application Instructions, are an applicant's guide for the fees and expenses that are normally incurred in developing a property. The fees and expenses outlined in these two schedules are the maximum amounts that may be included in the total development cost and, if applicable, the eligible basis of the development. Any cost, whether developmental or operational, that is deemed unreasonable may be adjusted by the Agency.
Rural Development Section 515
For developments financed through the Rural Development Section 515 program, the Agency will recognize only those costs that have been approved by Rural Development (with the exception of the developer’s fee). The Agency has entered into a Memorandum of Understanding with Rural Development (RD) regarding agreed upon procedures for processing developments involving both Rural Development funds and Tax Credits. These procedures will be applied when processing a Tax Credit request for a development with Rural Development funding and are available upon request.

USDA Rural Development 538 Guaranteed Rural Rental Housing Program
The Guaranteed Rural Rental Housing Program (RD 538) allows developers of affordable housing to get a loan guarantee for the debt used to finance a project. USDA RD can guarantee:
- Up to 90% of the loan amount for for-profit entities; and
- Up to 97% of the loan amount for non-profit entities.

Rents cannot exceed 30% of 115% of the Area Median Income at initial occupancy, and units must be occupied by households that do not exceed this limit. Any rural area with a population of up to 20,000 is eligible for the program.

The Agency does not administer the RD 538 program, but is an RD-approved lender and has utilized this program in the past. Developers interested in this program should first contact RD at (717) 237-2186. They can then meet with the Agency or another approved lender and work jointly on an application for RD 538 funds, which is completed by the lender and submitted to RD.

Multifamily Accelerated Processing (MAP) Lending
The Agency is an approved MAP Lender. Please contact the Agency for additional information on this program.

HUD-FHA mortgage insurance for loans used to create, acquire or rehabilitate multifamily rental housing can be accessed by pre-approved lenders using HUD’s MAP Program. Section 223(f) and Section 221(d)(4) are the most commonly used mortgage insurance programs. The 223(f) program insures loans to acquire or refinance existing developments with identified repairs costing less than $17,550 per unit. The 221(d)(4) program insures loans for developments with rehabilitation costs greater than $17,550 per unit.

Small Mortgage Assistance Program (SMAP)
SMAP is designed to provide first mortgage financing to assist in the acquisition, preservation and development of existing or new construction small multifamily developments consisting of more than twenty units. The maximum loan under this Program is $750,000, and the minimum loan is $200,000.

The interest rate for this program will be 250 basis points over the US 10-year Treasury Rate, and an origination fee of 0.5% or $1,500, whichever is greater, will be charged. The loan must be sized using a minimum debt service coverage ratio of 115% in the base year, and must not fall below breakeven throughout the initial 15 years of project operations. With the exception of the credit enhancement provision, all projects
requesting financing under SMAP must adhere to the property eligibility requirements outlined under the PHFA Loan Program Requirements section of the Program Guide.

PennHOMES Program Highlights

Minimum Number of Units

A development seeking PennHOMES funding must consist of 10 or more units that are under common ownership, management, and financing as a single undertaking. Developments located in the City of Philadelphia or Allegheny County must consist of at least 15 units, except for special needs housing. In Nonparticipating Jurisdictions, the Agency may accept applications for less than 10 units.

Note that for larger projects, less than 12 units may be HOME-assisted.

Commercial space is limited in a development to 25% of gross income and/or gross area of the development. (However, it is recommended that commercial income not constitute more than 10% of the effective gross income. An exception would apply if the proposed owner guarantees the income for the tax credit compliance period via cash or a letter of credit.) Throughout the compliance period, all commercial tenants are subject to the Agency's approval. Additionally, PennHOMES funds cannot be used for the development or operational support of commercial space.

Maximum Income of Tenants

Applicants must comply with the Agency's Maximum Income/Rent Chart (as may be adjusted from time to time by the Agency). A minimum of 50% of the units assisted by the PennHOMES Program must be rented to households whose incomes do not exceed 50% of the area median income, adjusted for family size. The remaining number of the units assisted by the PennHOMES Program must be rented to families whose incomes do not exceed 60% of the area median income, adjusted for family size. Developments may still house residents with incomes over 60% of median income, but only those units serving households at or below 50% and 60% of median income for the term of the PennHOMES loan are eligible for PennHOMES funding.

Maximum Rents

All HOME-assisted units must comply with the Agency's Maximum Income/Rent Chart (as may be adjusted from time to time by the Agency). A minimum of 50% of the units must be affordable to households at 50% of the median income and may not exceed the applicable Fair Market Rents established by HUD. Any additional units anticipating PennHOMES funds must be affordable to households at or below 60% of the median income and may not exceed the applicable Fair Market Rents established by HUD. PHFA encourages a 5-10% pricing advantage on proposed rental units to existing rental comparables in the primary market.

Per Unit Funding Limitations

PennHOMES funds are limited and there are certain restrictions as to where and how the funding sources may be used. The Agency has established per-unit funding limitations to allow for an equitable method of distributing funds to more developments. The per-unit limitations for various areas of the Commonwealth are set forth below:
**Participating Jurisdictions**

Developments located in Participating Jurisdictions are limited to $30,000 per-unit with a per-development maximum of $1,500,000. (PennHOMES funding is not available for projects located in Participating Jurisdictions.)

**Nonparticipating Jurisdictions**

Developments located in communities that do not receive entitlement allocations under the HOME Program (Nonparticipating Jurisdictions) are limited on a per-unit basis to the Maximum PennHOMES Limits found in the Multifamily Application Instructions.

As a change from prior policy, the Agency will no longer treat 100% of the units as HOME assisted and will permit specific units in a development to be designated as HOME assisted.

New proposals of HOPE VI, Comprehensive Grant Funds, Section 202, and Section 811 developments, and developments going through the mark-to-market process are not eligible for PennHOMES funding. Existing Section 202 and Section 811 developments are eligible to apply for PennHOMES funding only if the applications request Agency refinancing of the Section 202 and Section 811 program debts.

Any application seeking Agency HOME funding for a project located in a Nonparticipating Jurisdiction is required to follow 24 CFR 58.22. This Code of Federal Regulation states that no participant in the proposed development may commit any HUD or non-HUD funds to the project or take on any activity that would have an adverse environmental impact or be considered a choice limiting action. This means that if an applicant is considering submitting an application to the Agency, 24 CFR 58.22 is in effect and no participant in that proposed development may undertake activities such as purchasing the site, clearing timber, demolishing unwanted buildings, etc. These activities are just examples of what would be considered choice limiting actions and they may not be carried out at any point between the time a funding application is submitted to the Agency and a Request for Release of Funds (RROF) is approved by HUD. Receiving a RROF is the final step of the Agency’s Environmental Review process under 24 CFR 58 and NEPA. This Environmental Review is not performed until after the application is given feasibility approval from the Agency. Applicants seeking Agency HOME funds should review the entire “Section 58.22 Limitations on activities pending clearance” at [https://edocket.access.gpo.gov/cfr_2008/aprqtr/24cfr58.22.htm](https://edocket.access.gpo.gov/cfr_2008/aprqtr/24cfr58.22.htm).

**Interest Rate**

The annual interest rate on a PennHOMES loan is zero percent (0%).

**Term of Loan**

The term of the PennHOMES loan is 30 years.

In the event the loan is prepaid, however, restrictive covenants and other federal requirements relating to the affordability period may continue for the minimum affordability period required by the HOME Program, Tax Credit Program, or other funding program, as applicable.
**Equity Funding Requirements**

Proceeds from a PennHOMES loan may only be used to pay Agency-approved Replacement Cost items. The PennHOMES loan is generally disbursed proportionally with owner's equity only after all other subordinate financing has been disbursed. Owners must demonstrate the availability of a cash equity contribution to be disbursed during construction as required by the Agency at initial loan closing.

**Return on Equity**

Distribution to for-profit owners from excess revenue of a development will be limited to an annual return of fifteen percent (15%) of the owner's equity in the development. The right to receive the return on equity is cumulative after payment of debt service on the PennHOMES loan. The equity in the development shall be determined at final closing based on the cost certification. The stated owner's equity in the development may be adjusted annually to reflect increases in the Consumer Price Index.

**PennHOMES Repayment Terms**

Developments that generate a surplus of revenues over expenses in any calendar year shall distribute 50% of the excess revenue to repay the PennHOMES loan principal and 50% to pay the owner's return on equity after allowing for one month's debt service to be retained in the Project Operating Account. If the Agency has provided a primary loan with fixed debt service in addition to the PennHOMES loan, the amount retained in the Operating Account is based upon the debt service of the loan that is greater.

**Primary Mortgage Requirements**

If the development can support debt, applicants shall incorporate permanent Agency financing as part of the financing plan unless another primary lender can offer significantly better financing terms than available through the Agency (as determined by the Agency).

**Debt Service Coverage Ratio**

If PennHOMES is secured as the first mortgage, the development must be projected to achieve and maintain breakeven cash flow for the first five years of project operations.

In the event the PennHOMES loan is used in conjunction with an amortizing primary loan, the debt service coverage ratio should be between 1.15 and 1.25 in the initial stabilized operating period and not drop below 1.00 through and including year 15, but be no higher than 1.2 in year 15. Certain Rural Development projects or developments utilizing a HUD MAP insured loan may have a debt service coverage ratio as low as 110% in the first operating period but must maintain a ratio of 100% through year 15.

**Loan to Value Ratio/Equity Requirement**

Loan underwriting and first mortgage credit enhancement requirements determine maximum loan to value ratio for an Agency development that includes an amortizing permanent loan in its financing plan. Usually, the ratio does not exceed 80 percent of replacement value and/or appraised value. In no event may the ratio exceed 90 percent of development cost for for-profit developers or 100 percent of development cost for nonprofit developers. The Agency may require an "as built" appraisal to determine market/development replacement value. The Agency's underwriting does not use a loan to value ratio to size the PennHOMES loan.
**Affordability Period**

The affordability period is the time period during which the development must comply with maximum rent and tenant income restrictions, and will not be less than the term of the PennHOMES loan. The Agency will determine the appropriate affordability period based on funding sources.

**Environmental Checklist**

All PennHOMES applicants must complete and submit the PennHOMES Environmental Checklist found in the instructions for Tab 17, along with any additional documentation required in the checklist.

**Reserves**

Generally, PHFA will require that all reserve and escrow accounts be maintained and held by the Agency.

**HOME Program**

**Match Requirements**

The Agency must meet certain funding match requirements of the HOME Program. Non-federal public and private funds included in a developments financing plan will assist the Agency in meeting its HOME Program match requirements. HOME-assisted, HOME-eligible, and partially-assisted HOME Program developments will be reviewed to determine the amount of match contribution earned.

The Agency will use PennHOMES loans as match under the HOME Program. For developments receiving an award of HOME Program funds from a local jurisdiction, unless claimed by that local Participating Jurisdiction, the Agency will also use all other eligible sources of match contributed to the PennHOMES development as HOME Program match.

**MBE/WMBE/WBE and Section 3**

In addition to the Agency’s equal opportunity policy, developments located in Nonparticipating Jurisdictions must also meet certain MBE/MWBE/WBE and Section 3 requirements.

The definition of an MBE is a “certified minority business enterprise,” an MWBE is a “certified minority women’s business enterprise,” and a WBE is a “certified women’s business enterprise.”

Where applicable, owners and their development teams must conduct outreach to seek participation by MBE/MWBE/WBE professional services providers, Section 3 material and equipment suppliers, manufacturers, and subcontractors. The HOME Program requires that the owner must establish minimum participation goals of 7% for MBEs, 4% for MWBEs, and 4% for WBEs when contracting for professional services, construction and materials.
Section 3 of the Housing and Urban Development Act of 1968, as amended, establishes certain goals to enhance the economic opportunity to be afforded to local residents in the neighborhood of federally assisted developments. Section 3 seeks to ensure that employment and other economic opportunities generated by the HOME Program shall, to the greatest extent feasible, be directed to low and very low-income persons.

A Section 3 business is a business that is fifty-one percent (51%) or more owned by Section 3 residents; or commits to subcontract more than twenty-five percent (25%) of its contract to Section 3 businesses; or whose permanent, full-time workforce consists of at least thirty percent (30%) Section 3 residents. Section 3 residents are public housing residents or low-income individuals who reside in the metropolitan area or non-metropolitan County where the development is located.

The HOME Program requires that the owner must establish the following minimum participation levels for Section 3 participation:

- 10 percent of the total dollar amount of all building trades work contracts, and
- 3 percent of all non-building trade contracts, and
- 30 percent of all new hires generated (at all job levels)

As an example, the MBE/WBE goals would be calculated as follows:

<table>
<thead>
<tr>
<th>Service Description</th>
<th>TOTAL DEVELOPMENT BUDGET</th>
<th>7%</th>
<th>4% WMBE Goal</th>
<th>4% WBE Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Architectural Fees</td>
<td>$50,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering Fees</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental Audit</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furnishings &amp; Equipment</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Legal Fees</td>
<td>20,000</td>
<td></td>
<td></td>
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<tr>
<td>Accounting Fees</td>
<td>5,000</td>
<td></td>
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</tr>
<tr>
<td>Survey</td>
<td>500</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Title Insurance</td>
<td>5,000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Property Insurance</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Marketing/Rent-Up</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consultant</td>
<td>15,000</td>
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<tr>
<td></td>
<td>$125,500</td>
<td>8,785</td>
<td>5,020</td>
<td>5,020</td>
</tr>
<tr>
<td>Construction (Less General Contractor’s overhead and profit)</td>
<td>$1,000,000</td>
<td>70,000</td>
<td>40,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

If the owner has contracted with businesses for services and/or material prior to the date of the Application submission, outreach will not be required for those contracts.

The Agency currently keeps a database of qualified MBE/WBE. For more information on this database contact the Agency’s Compliance Officer at 717-780-1847.
Residential/Non-residential Anti-displacement and Relocation Requirements

All developments located in Nonparticipating Jurisdictions must comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 ("URA"). A summary of these requirements is set forth in the Summary of the Federal Displacement, Relocation and Acquisition Requirements. Various sample reports, plans, and notices, as presented in the HOME Program regulations at 24 CFR 92.353 may be found under Tabs 25 and 26.

All owners of developments in Nonparticipating Jurisdictions (except vacant land developments where no demolition has occurred within the last 12 months) must prepare and adopt a Residential/Non-residential Anti-displacement and Relocation Assistance Plan. Owners of occupied developments must provide the Plan along with the Application submission. Owners of unoccupied developments that receive a preliminary funding award from the Agency must prepare and adopt the Plan within 90 days of the award notification.