PHFA Loan Program Guidelines
(Includes PennHOMES, Agency First Mortgages and PHARE)

### Property Eligibility Requirements

- Be located within the Commonwealth.
- Make all units available to the general public and allow units to be occupied in accordance with all federal, state and local laws, including fair housing and accessibility laws.
- Be suitable for occupancy and comply with all applicable federal, state, and local building and health codes.
- Shall consist of 24 or more units that are under common ownership, management, and financing as a single undertaking. (Preservation may be exempt from this unit minimum subject to Agency approval.)
- Shall not include more than 25% market rate units.
- Meet all requirements of the Internal Revenue Code and applicable federal laws relating to rental housing if utilizing Tax Credits, federal HOME Investment Partnerships Program, and/or tax exempt financing.
- Provide a permanent, decent, safe, and sanitary structure for year round residential use on a non-transient basis.
- Be located in a geographic area which does not have competing developments, including developments with rental assistance contracts resulting in an undue concentration of rent restricted or competing market units in a specific location.
- Provide new units, substantially improve the quality of or preserve existing units, or preserve existing federally assisted/subsidized housing units.
- Address a demonstrated housing need.
- Provide credit enhancement for any debt financing provided by the Agency. Credit enhancement is to provide financial security to ensure repayment on Agency financed developments. Examples include: letters of credit, Department of Housing and Urban Development, or Agency’s self-insurance program.
- Not displace existing tenants or result in an increase in rents greater than 7% of current rental payment for existing residents. Applicants proposing developments with existing tenants must comply with applicable relocation and displacement procedures.
- Comply with Agency design standards, local code and accessibility standards, environmental due diligence, Multifamily Loan Program Guidelines, the Housing Finance Agency Act, and marketing and underwriting standards.
- Expend a minimum of 25% of the replacement cost shown in the Multifamily Housing Application, in necessary development improvements as determined through the Agency’s underwriting process. Applicants for Preservation funding are exempt from this requirement.
- Limit commercial space 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.) All commercial tenants are subject to the Agency's approval. Additionally, program funds cannot be used in the development of commercial space.

- **Owner/Borrower** must be a single asset, single purpose Pennsylvania entity organized exclusively for the purpose of owning and operating the proposed development.
- Properties are encouraged to adopt smoke-free policies to protect residents from the dangers of second-hand smoke and to reduce property maintenance costs. HUD, HHS, the American Lung Association and the American Academy of Pediatrics have new toolkits to assist owners with instituting a smoke-free initiative. [http://portal.hud.gov/hudportal/documents/huddoc?id=pdfowners.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=pdfowners.pdf)
- **Refer to Architect’s Submission Guide on the Agency’s website for specific design requirements for each Agency Loan product.**

### Scattered Sites

The Agency encourages the development of properties that are comprised of self-contained contiguous units. However, exceptions may be made if conditions warrant. The Agency will consider the approval of a scattered site development if it satisfies all of the following requirements:

- The proposed development will be managed by a financially capable management agent with experience in managing scattered site developments.
- The developer has experience in the development area and is recognized locally as having an important role in the revitalization effort.
- The municipality or the developer has devised a long-range plan for the proposed area which includes a strategy for obtaining site control of selected properties.
- If in a significantly distressed area, as characterized by many vacant and vandalized properties, the following criteria must be met:
  1. All units of the development must be within one-half mile of each other.
  2. The development must be implemented in accordance with a current, measurable neighborhood strategic plan.
  3. There must be evidence of, acceptance of, and commitment to the neighborhood strategic plan from local providers of funds.
  4. The developer must be able to demonstrate the ability to raise funds for continued revitalization of the area.
  5. The Agency discourages placement of scattered site units adjacent to a vacant structure that is not part of the proposed application.
  6. If Tax Credit property, all units must be rent and income restricted.

The Agency recognizes that the concerns and issues of scattered site developments in rural areas may not be addressed by application of the above. The Agency will consider the processing of these developments on a case-by-case basis. Furthermore, it is sometimes the goal of developers of housing for special needs populations that such
housing be disbursed throughout the community rather than concentrated in one facility or one area. These scattered site requirements should not be interpreted to discourage those goals.

**Property Management**

The Agency will monitor the management, maintenance, and financial operations of the development on an ongoing basis, as the Agency deems necessary to comply with program requirements. The Agency may require annual audited financial statements, annual operating budgets, and quarterly operating reports for each development. Property site visits, review of tenant files, and annual financial reviews will be performed by Agency staff or by its agents as the Agency deems necessary to meet program requirements.

Additionally, the Agency's monitoring includes review of the occupancy of the developments accessible units. As part of its efforts to ensure that units with accessibility features are available for and occupied by persons needing such features, the Agency requires that owners and management agents notify local agencies working with persons with disabilities to market any available units and may require that owners agree to relocate existing residents in accessible units if someone needing the accessible features applies for occupancy.

In connection with the ongoing operation of the development, the Agency will require compliance with its policies and procedures, and with terms/conditions set forth in its loan documents and/or other regulatory documents.

**Universal Accessibility Standards**

All Agency developments shall comply with Title III of the Fair Housing Amendments Act of 1988 Accessibility Guidelines; American National Standards Institute, ANSI A117.1; the Pennsylvania Uniform Construction Code; Uniform Federal Accessibility Standards (‘UFAS’) as applies; Section 504 of the Rehabilitation Act of 1973, as amended; Americans with Disabilities Act Accessibility Guidelines (‘ADAAG’); the Pennsylvania Universal Accessibility Standard; and Local Codes.

As a reminder, the most restrictive requirements of any of these regulations regarding accessibility will apply.

**Preservation of Agricultural Land**

The Agency is committed to preservation of the Commonwealth's primary agricultural lands. Multifamily or single family housing developments proposed for certain priority agricultural lands as defined in Executive Order 2003-2 may not be eligible for Agency funding. Priority agricultural lands include lands that are currently in active non-timber agricultural use and that have been in such use for the preceding three years, lands that are subject to specific land use restrictions, and/or lands that are classified as unique or prime agricultural lands by applicable federal or state agencies.

The Agency will evaluate developments involving conversion of lands in these categories and may deny funding unless specific economic and environmental concerns support the conversion. The Agency will continue to actively encourage both single
family and multifamily housing development in rural communities as long as the affected lands meet all applicable program funding criteria.

**Equal Opportunity**

The equal opportunity policy adopted by the Board of the Agency is as follows:

It is the policy of the Agency to actively encourage and ensure minority and female participation in the ownership, development, design, financing, construction, and management of multifamily housing developments that receive funding from the Agency.

To further this policy, the Agency has developed technical assistance and outreach efforts to increase minority and women's business enterprise ("M/WBE") participation in Agency sponsored developments. The Agency will provide technical assistance to development owners and their development teams on how to identify and include minority and female vendors and establish ongoing working relationships with these enterprises. Agency staff will also coordinate efforts with state and local M/WBE technical assistance providers and certification offices to apprise M/WBE firms of opportunities available from Agency programs.

Agency staff will review this Equal Opportunity Policy with program applicants and will monitor MBE/WBE outreach activities of funding recipients.

**Sound Land Use and Planning**

The Agency is committed to the development of multifamily and single family developments which promote sound land use. PHFA will consider and may rely upon local comprehensive plans and zoning ordinances when reviewing applications for funding. The Department of Environmental Protection has the authority to rely on comprehensive plans and zoning ordinances when evaluating grant or funding applications for facilities or infrastructure projects in certain municipalities. (Refer to the Municipal Planning Code, including Section 619.2(a), for additional information. [www.landuselawinpa.com](http://www.landuselawinpa.com)).

A development will also be evaluated for its impact on sound land use practices, as outlined in www.oa.pa.gov/Policies/eo/Documents/1999_1.pdf.

A development that does not incorporate sound land use practices may not be eligible for Agency funding. Sound land use may include but not be limited to efforts to minimize urban sprawl, alleviate traffic congestion, promote efficiencies, reduce environmental degradation, or contribute to more efficient long-term economic growth while preserving Pennsylvania’s historical, cultural, and educational resources.

**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 scoring of the Application. An omission from the Application Checklist may result in the immediate rejection of the Application.
If the Applicant (or any related entity or material participant) is involved or has been involved in an Agency funded development (including Tax Credit properties) that is: delinquent in payments to the Agency, has materially defaulted on any of its obligations including, meeting required submissions and deadlines, or has misrepresented any material information on a previous applications, the Agency may reject 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 RD538 loan guarantee, which is completed by the lender and submitted to RD.

**Disbursement Guidelines**

- For developments funded with PennHOMES, PHARE or Capital Magnet Funds, the Agency will be the disbursement agent.
- In the event the Agency is providing a construction/permanent loan through its primary debt loan product, the Agency will be the disbursement agent.
**PennHOMES Program**

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.

**Minimum Number of Units**

A development seeking PennHOMES funding shall consist of 24 or more units that are under common ownership, management, and financing as a single undertaking. (Preservation may be exempt from this unit minimum subject to Agency approval.)

Note: Projects may have less than 12 units 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:

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. Additionally, developments sponsored by a Community Housing Development Organization (CHDO) in a Participating Jurisdiction or properties located in Participating Jurisdictions with an allocation of less than $500,000 in HOME funds may be eligible.

The Agency will permit specific units in a development to be designated as HOME assisted.

Any application seeking Agency HOME funding for a project 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://www.govinfo.gov/content/pkg/FR-2016-11-16/pdf/2016-25888.pdf](https://www.govinfo.gov/content/pkg/FR-2016-11-16/pdf/2016-25888.pdf).

**Interest Rate**

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

**Term of Loan**

The term of the PennHOMES loan is 40 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 fifteen years of project operations.

In the event the PennHOMES loan is used in conjunction with an amortizing primary loan, Confirm that the Debt Service Coverage Ratio is at least 1.15 in the initial stabilized operating period and is not less than 1.00 in years one through and including fifteen and no more than 1.20 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. 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**

Refer to the Development Cost Limits section of the guidelines for reserve requirements.

**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 development’s 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>
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<tr>
<th>Description</th>
<th>TOTAL DEVELOPMENT BUDGET</th>
<th>7% MBE GOAL</th>
<th>4% WMBE GOAL</th>
<th>4% WBE GOAL</th>
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<td>Engineering Fees</td>
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<td>$5,020</td>
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Construction (Less General Contractor’s overhead and profit) $1,000,000

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.