

Commonwealth of Massachusetts
HOME Investment Partnerships Program (HOME) and
Housing Stabilization Fund (HSF)
Rental Housing Programs Application Guidelines

A. Overview

The Department of Housing and Community Development (DHCD) uses HOME Investment Partnerships Program (HOME) and Housing Stabilization Fund (HSF) funds to support the acquisition and/or rehabilitation of existing structures, including distressed or failed properties, for rental use. DHCD also uses HOME and HSF funds to support the new construction of rental projects.

The U.S. Department of Housing and Urban Development has promulgated regulations and issued guidelines governing the use of HOME funds for rental housing. All applications to DHCD for HOME rental housing must conform in every respect to HUD's requirements. Rental projects seeking HSF funds must comply with the HOME guidelines in almost all respects.

Applicants for HOME or HSF rental housing funds may seek any of the distribution forms allowed by HUD regulations (i.e., low-interest loans, zero-interest loans, deferred-payment loans, etc.). Priority for funding will be given to projects that meet the criteria included in these guidelines on pages 4-5.

B. Eligible and Ineligible Property Types

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

- One or more buildings 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 HOME or HSF assistance as part of a single project.

Rental applications for projects must contain a minimum of 5 HOME- or HSF-assisted units. In addition, HOME and HSF encourages applications for projects containing no more than 50 units. **Please note that projects containing twelve or more HOME units must conform to all provisions of the Davis-Bacon Act.**

Also note, HOME project sponsors must comply in all respects with 24 CFR Part 58 and associated environmental requirements.

In general, HUD regulations and DHCD policy prohibits the use of HOME or HSF funds for rental housing for the following types of properties:

- Public Housing modernization projects;
- Projects assisted under 24 CFR Part 248 (Prepayment of Low-Income Housing Mortgages) unless assistance is provided to 'priority purchasers,' as defined in 24 CFR Part 248.101;

Please Note: Projects previously funded with HOME may not seek additional HOME funding except during the first year following project completion. However, HSF may be requested to assist projects previously funded with HOME.

C. Eligible and Ineligible Rental Housing Costs

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

Eligible hard costs include:

- Cost of constructing or rehabilitating housing;
- Cost of acquiring property or vacant land;
- 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 and developer fees, property appraisals, credit and title costs, etc.;
- Engineering, architectural, or related professional services;
- Initial 18 month operating deficit reserves for new construction or rehabilitation projects;
- Project audit 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 fee, the sum total of which may not exceed 12.5% of the sum of acquisition, hard and soft costs.

1. DHCD requires that all rehabilitation 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.

State HOME and HSF rental program funds may not be used to:

- Provide project reserve accounts (except for initial 18 month operating deficit reserves as described above), or operating subsidies;
- Provide 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 HOME or HSF project.

All costs included in a One Stop Housing Application for HSF funding should be consistent with costs allowed through other DHCD programs, such as the Low-Income Housing Tax Credits 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 Accountant at project completion.

D. Property Standards

Housing that is constructed or rehabilitated with HOME or HSF funds must meet all applicable state and local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. All other HOME- or HSF-assisted housing must meet all applicable State and local housing quality standards and code requirements but at a minimum, Section 8 Housing Quality Standards (HQS).

In addition, new construction must meet the model energy code, as published by the Council of American Building Officials and must be built to appropriate Energy Star standards. All new construction or substantial rehabilitation in structures that are three-stories or less must secure Energy Star Certificates of Compliance. In general, rehabilitation projects must demonstrate affirmative efforts to improve energy efficiency.

All 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. And, new construction of rental housing must meet site and neighborhood standards at 24CFR 893.6(b).

Please note: Applicants should consult the most recent 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 Appendices G & H, found in the most recent Tax Credit QAP whether or not a project is seeking Low Income Housing Tax Credits. Additionally, HUD federal lead-based paint regulations at 24 CFR Part 35 apply to all projects that are awarded HOME monies and must meet State lead requirements, whether or not children under age 6 will be occupants.

E. Expenditure Limits for Rental Production

At present, DHCD will not review applications for projects located in HOME entitlement/consortium communities requesting more than **\$50,000** per HOME- or HSF-assisted unit or projects located in non-entitlement communities requesting more than **\$65,000** per HOME- or HSF-assisted unit. In addition, the per project request for each program (HOME and HSF) is limited to **\$750,000-\$1,000,000**.

DHCD requires that all HOME assisted rental units be affordable to households at or below 60% of the area median income. HSF-assisted units must be affordable to households at or below 80% of area median income

At least 20% of HOME-assisted units must be leased to very low-income families at the “low” HOME rent that is either:

1. A rental rate not greater than 30% of the gross annual income of a family whose income equals 50% of the area median income, minus tenant-paid utilities, or
2. A rental rate not greater than 30% of the individual or family’s adjusted income, minus tenant-paid utilities.

HSF has a program wide goal that at least 25% of households occupying HSF assisted units have incomes at or below 30% of area median income. Rents on HSF assisted units must conform to applicable HOME rent schedule, HUD Section 8, or other DHCD program rents.

Please Note: If the units receive federal or state project-based rental subsidies and are occupied by very low-income families paying no more than 30% of their monthly adjusted income toward rent, then the maximum rent (i.e., tenant contribution plus project-based subsidy) is the rent allowable under the project-based subsidy program.

Remaining HOME- and/or HSF-assisted units may be leased at the “high” HOME rent, being the lesser of either:

1. The Section 8 Fair Market Rent (FMR) or area-wide exemption for existing rental units, minus tenant paid utilities, or
2. A rental rate equal to or less than 30% of adjusted income for individuals or households at 65% of median, minus tenant-paid utilities. HSF-assisted units must also comply with this requirement unless there is a clearly demonstrated need.

Please Note: For all HUD 202 projects, it is DHCD’s policy that 50% of the total units be set-aside for households at or below 30% of area median income.

To ensure long-term affordability, all HOME and HSF funded rental units will remain subject to certain tenant income and rent restrictions. The affordability restrictions remain in effect for the stated term, even if the project is sold or the loan is repaid. DHCD’s HOME rental loans carry a 30-year term from project completion, during which time the HUD HOME affordability restrictions apply for up to 20 years from project completion and for any remaining term, most affordability requirements will remain. HSF rental loans carry a statutorily-required 50-year term, during which time the affordability restrictions apply. If a loan is extended by mutual agreement of the owner and DHCD, the affordability restrictions will be extended accordingly.

F. Eligible Occupants of Rental Units

At the time the HOME or HSF funds are invested or at the time of occupancy, whichever is later, all HOME- or HSF-assisted units must be occupied by households whose annual incomes are at or below 60% of the area median income. At least 20% of the HOME units must be occupied by households with annual incomes at or below 50% of the area median income. In cases where there is a clearly documented need, project sponsors may request a formal waiver to permit HSF-assisted units to be occupied by households with annual incomes at or below 80% of the 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.

G. 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 HOME and 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. All new construction must be built to appropriate Energy Star standards.

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 rental loan 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 *\$750,000 to \$1,000,000* in DHCD HOME or 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 HOME or 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), 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.

H. Resident Selection

Applications for DHCD HOME and/or 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 Appendix I of the most recent Qualified Allocation Plan. 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.

I. 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 HOME/HSF funding will be required to report household characteristic data for all HOME/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.

J. Readiness to Proceed & Application Considerations

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. All other sources of funding must be committed and no project related demolition, remediation and/or construction begun prior to DHCD application submittal;
3. Evidence of as-of-right or zoning approvals and/or a completed 40B or Article 80 process;
4. Evidence of site control for all parcels and buildings (i.e., deed, purchase & sale agreement, purchase options or designated developer agreement);
5. Comprehensive Sources and Uses that addresses such areas as bonding, clerk of works, security, etc.;
6. Reasonable developer fees with projects that include market rate units;
7. 'Draft' plans & specifications for design of the site and building(s);
8. Estimates for construction from a general contractor or professional cost estimator;

9. 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);
10. Submission of as-is appraisal;
11. Sign-off from Massachusetts Historic Commission (this is required for all projects including new construction);
12. Detailed resident selection plan
13. Detailed marketing plan, including detail on affirmative fair housing marketing;
14. 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;
15. Marketability data demonstrating marketability for the affordable and market rate units (including comps, demographic data, and property management information);
16. Evidence of neighborhood processing & support; and,
17. Photographs of the buildings or parcels.

K. Application Process for HOME and HSF Rental Funds

Project sponsors seeking HOME or 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. In general, an application consists of three hard copies, 1 disk, and 1 set of plans. 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. 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://www.mhic.com/xonestop.cfm?page>

Applications should be sent or delivered to:

**Housing Development Division
Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114**

