

**Loan Guidelines for the  
Rehabilitation Program For Small Rental Properties**

<b>Outcomes of This Program</b>	<ul style="list-style-type: none"> <li>• Well-managed and maintained rental properties</li> <li>• Affordable housing for low and moderate income households in compliance with County codes</li> <li>• Enhanced neighborhood appearance</li> <li>• Sound, secure loans</li> </ul>
<b>Eligible Projects</b>	Rental housing with affordable rents with no fewer than two and no more than 40 units in target areas. Rents are considered affordable if they are at or below market for the target area.
<b>Eligible Activities</b>	Rehabilitation work that does not require permanent tenant displacement.
<b>Ineligible Activities</b>	The following activities are ineligible: (1) converting a property from non-residential to residential use; (2) upgrades considered to be expensive or unnecessary at the sole discretion of the County; (3) rehabilitation that requires tenant displacement; and (4) work begun prior to the loan closing.
<b>Cash Flow Requirement</b>	The subject property must have a positive cash flow over and above all operating expenses and debt service. In calculating cash flow, the County will compare the property's actual expenses to typical average expenses for small apartment properties in the area. If the property's actual expenses are low, perhaps due to the above-average efficiency of the owner or to the owner's use of his own unpaid labor, the County may assume a higher level of expenses in underwriting the property. The County will require the applicant to provide the relevant schedule for the subject property from the previous year's tax return.
<b>Equity Requirement</b>	The owner must have a minimum of 1 percent equity in the property. An appraisal may be required at the owner's expense.
<b>Creditworthiness Requirement</b>	Loans are non-recourse. County will require owners to provide information about the finances of the property, including other loans on the property, and authorize a credit report on the applicant and owner(s) if different. Though the loans are non-recourse, the County will review the creditworthiness of the applicant as part of the underwriting process.
<b>Liability Insurance Requirements</b>	<p>Owners are required to have adequate Comprehensive Liability Insurance Coverage. The County's Risk Management Office has established the following Liability Insurance requirements:</p> <p>2 to 10 Units – Comprehensive General Liability insurance against claims for bodily injury, including personal injury or death, occurring upon or in the Mortgaged Premises and on or in the streets adjoining the Mortgaged Premises, to afford protection to the limit of not less than <b><i>One Million Dollars (\$1,000,000) per occurrence.</i></b> The Grantor shall be named insured and Beneficiary shall be named additional insured and certificate holder as its interests may appear.</p> <p>11 Units or more – Comprehensive General Liability insurance</p>

	against claims for bodily injury, including personal injury or death, occurring upon or in the Mortgaged Premises and on or in the streets adjoining the Mortgaged Premises, to afford protection to the limit of not less than <b><i>Two Million Dollars (\$2,000,000) per occurrence.</i></b> The Grantor shall be named insured and Beneficiary shall be named additional insured and certificate holder as its interests may appear
<b>Requirements Related to Housing Code</b>	Any housing code violations must be fixed as part of the scope of work.
<b>Requirements Regarding Owner's Management Capacity</b>	Owner currently manages the property well or has the capacity to manage the property well after training. The County will consider the applicant's history of landlord-tenant complaints, housing code violations, and the applicant's efforts to resolve complaints and cure violations.
<b>Construction Standards</b>	All work financed by the loan must be professionally done, by workers with the required licenses, accreditations, or other credentials for the particular work to be done. All work must be permitted and inspected as required by law. Third party contractors with the required licenses, accreditations, and/or other credentials will be presumed competent to do the work. Owners who wish to perform work themselves must furnish the County material evidence of their professional competence and ability to complete the job. The County's rehabilitation consultant will inspect all work before loan proceeds are dispersed. Owners who perform work themselves will only be eligible for a loan to cover materials and not their own labor.
<b>Requirements Regarding Lead-Based Paint</b>	If the property was constructed prior to 1950, the owner must submit with the loan application the report from an accredited inspector who has conducted a detailed survey of the property, usually with an XRF machine, to determine whether or not the property contains any lead-based paint. The owner must pay for the cost of testing but may apply separately for partial reimbursement for the testing costs under the Grant Program for Lead-Based Paint Testing in Small Rental Properties. The owner <u>is not required</u> to abate the lead-based paint in the property. However, if the owner wants to abate the lead-based paint, the cost of abatement may be included in the loan request. In addition, the owner must have been or must begin complying with any applicable State and federal laws regarding lead-based paint.
<b>Loan Term and Amortization</b>	20 years. Under rare and exceptional circumstances, payments may be deferred for up to two years, if the property needs substantial repairs but does not have sufficient cash flow to support the loan in the first years of the loan. If payments are deferred, the amortization period will be the length of time remaining on the loan when payments start. [E.g., If payments are deferred for two years, the amortization period will be 18 years.] Interest will not accrue during the time payments are deferred.
<b>Interest Rate</b>	One-half of the prime rate at the time of loan approval.
<b>Fees</b>	No servicing, closing, or other fees. DHCA pays for the cost of the title search. An appraisal may be required at the owner's expense.
<b>Maximum Loan Amounts</b>	Maximum loan to value: 99%. Total debt on the property, including the County's loan, may not exceed 99% of the value of the property.

<b>Affordability Restrictions</b>	As a condition of each loan, the owner will agree to limit rent increases on 20 percent of the total units in the property to the County Executive’s voluntary rent guideline. If the property has fewer than five units, the owner will restrict the rent increases on 1 unit. Which units are considered restricted units may change and need not be the same units, as long as the building contains the determined number of units by bedroom size at the required rent level. An owner may satisfy this affordability requirement by renting all or a portion of the restricted units to households with Section 8 vouchers or certificates, under the guidelines of the Section 8 program. In underwriting the loan and determining the loan amount, DHCA will assume only reasonable rent increases on ALL units in order to ensure that the County’s loan will not be responsible for large increases and tenant displacement. The unrestricted units will be totally unrestricted and the owner will be free to raise rents as the market will allow.
<b>Length of Affordability Requirements</b>	The borrower must comply with the affordability requirements for the full term of the loan or a minimum of five years even if the loan is prepaid before five years. If the loan runs its full term then the affordability requirements will last for 20 years.
<b>Enforcement of Affordability Requirements</b>	Owners will provide the County with annual information on the rent levels charged on the 20 percent of the units that the owner determines meet the program requirements on restricted rent increases. Owners that fail to provide this information or to maintain the correct number of restricted units will be considered in default of their loans.
<b>Maintenance Requirements</b>	The property must be well maintained. All code violations must be cured in a timely fashion or the loan shall be considered in default.
<b>Application and Underwriting Process</b>	To apply, an applicant must complete and submit an application using the program application form. Details of the application and underwriting process and application forms are available from the Department. The Department will order title work upon approval of the loan by the Department’s Director.
<b>Payments</b>	There are no prepayment penalties. The borrower must comply with the affordability requirements for a minimum of five years even if the loan is prepaid before five years. The loans are assumable but the new purchaser of the property must apply to DHCA to be approved to assume the loan. The loans are not forgivable. Under rare and exceptional circumstances, payments may be deferred for up to 2 years, if the property needs substantial repairs but does not have sufficient cash flow to support the loan in the first years of the loan.
<b>Disbursement of Loan Proceeds</b>	Generally, borrowers will draw down loan proceeds to pay for finished work (that was begun subsequent to the loan agreement), after inspection by a County inspector. Loan proceeds may be used for a deposit for materials that are to be specifically made for the subject property. The County will disburse loan funds directly to the manufacturer upon request from the borrower. The borrower must submit to the County the original invoice from the manufacturer requesting the deposit.

Note: These guidelines may be waived at the discretion of the Director of DHCA.