

THE NORTH CAROLINA HOUSING FINANCE AGENCY

Rental Preservation Loan Program

2024 Initial Funding Cycle

Application Instructions

Program & Underwriting Guidelines

PROJECT DESCRIPTION & QUESTIONNAIRE DUE: FEBRUARY 9, 2024 5:00PM

FULL APPLICATIONS DUE: MARCH 25, 2024, 5:00PM

For information, please contact: RPLP@nchfa.com

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Version History

Version history includes notes regarding the date of revision (as indicated on the title page) and a description of the changes made. Non-substantive changes such as formatting will not be reflected in the table below.

Version History:

Date Revised (as indicated on the title page)	Description of Revision
02/01/2024	Corrected language in Section 1.4 to say “Notice of an Allocation” instead of “Final Commitment Letter” when referring to awarded LIHTCs. Updated language in Section 1.14 to clarify that projects must demonstrate a minimum cash-flow of \$500 per unit per year during underwriting, which can include the Agency capitalized operating subsidy reserve or the operating deficit reserve payment plan.

Introduction

The North Carolina Housing Finance Agency (“NCHFA” or “the Agency”) announces the availability of funding for the Rental Preservation Loan Program (RPLP).

The North Carolina Housing Finance Agency Rental Preservation Loan Program (RPLP) is intended to preserve existing affordable rental housing in North Carolina by providing financing for the acquisition and rehabilitation needs of affordable rental properties currently in the Agency’s rental investment portfolio.

The primary goal of RPLP is the **preservation of affordable housing stock in North Carolina**. The Agency anticipates assisting properties that are facing one or more of the following characteristics:

- Approaching or already passed expirations of affordability requirements and/or a maturing Agency loan
- A need for debt restructuring that strengthens project sustainability and increases project affordability
- Located in areas without external investor appeal to maintain housing quality and/or affordability restrictions
- Located in areas in the state that are experiencing displacement, gentrification, or exclusion of low-income households

RPLP will utilize primarily HOME Investment Partnerships Program (HOME) and National Housing Trust Fund (NHTF) dollars, as well as other sources of funds at the disposal of the Agency, based on availability. Regardless of project ranking, awards are contingent on the project meeting the requirements of the available funding source.

RPLP will provide long-term financing, in the form of a 0% interest, permanent mortgage loan, which can be forgiven upon request by the Applicant but at the Agency’s sole discretion. The goal is to preserve

existing affordable housing for households earning up to 80% of area median income (“AMI”), with a priority on preserving and/or creating units affordable for households earning up to 30% of AMI.

In addition, the Agency may use an operating subsidy reserve to allow for income targeting and unit affordability at or below 30% AMI, when project-based rental assistance is not available.

In the process of administering this program, the Agency will make decisions and interpretations regarding project applications. Unless otherwise stated, the Agency is entitled to the full discretion allowed by law in making all such decisions and interpretations. The Agency reserves the right to amend, modify, or withdraw provisions contained in the application that are inconsistent or in conflict with state or federal laws or regulations. All applications for program funding become the property of the Agency.

Section 1. RPLP Requirements

These program requirements are made available to ensure that applicants have a full understanding of the program requirements in order to make an informed decision regarding applying for the program funds and to help applicants prepare and submit accurate information for complete and compliant applications.

1.1. Eligible & Ineligible Uses of RPLP Funding

Eligible Uses of Funds

RPLP funds must be used for the primary purpose of the rehabilitation of housing units. In addition, projects may also include the following or a combination of the following:

- Rehabilitation of the project’s common areas, community buildings, utility spaces, and amenities related to the operation and function of the housing units
- Project acquisition that ensures long-term affordability of the project
- Replacement/restructuring of existing debt that strengthens project sustainability and increases project affordability
- Establishment of an operating subsidy reserve to allow for income targeting and unit affordability at or below 30% AMI, when project-based rental assistance is not available
- Relocation costs

Ineligible Uses of Funds

- New construction and adaptive reuse are ineligible construction types
- Any activity not in conjunction with the primary purpose of rehabilitating residential housing units
- Any activity not expressly described, agreed upon, and approved in writing by the Agency

1.2 Project Eligibility Criteria

Eligible properties within the geographic boundaries of North Carolina that demonstrate a need for RPLP funds based on a project budget and projected cash flow must meet the following criteria:

- Projects that have a matured Agency loan or has an existing Agency loan that is within 1 year of the loan maturity date, and the project is subject to Agency deed restrictions and is currently being monitored by the Agency.
- Projects with a property owner in good standing with the Agency and eligible to apply for Agency programs.
- Projects that have a demonstrated need for rehabilitation. The goal of rehabilitation is to ensure the project be fully functioning by addressing all **critical building components*** (see below) that are likely to need replacement or substantial repair within 10 years of project approval, as well as **health and safety needs**** (see below).
- Projects located in or site contains a floodplain, must meet the criteria outlined in Section 1.17 Federal Requirements.

***Critical building components include:**

1. Exterior Finishes (siding, masonry, etc.)
2. Doors and Windows
3. Roofing
4. Electrical System (supply, branch wiring, GFCI's, panel box, controls)
5. Plumbing System (main valve, supply lines, drain lines, fixtures, water heater)
6. Heating and Cooling System (HVAC, Furnace, Controls)
7. Foundation and Structural Supports
8. Bathrooms
9. Bedrooms
10. Kitchens (food refrigeration, food heating, sanitary storage, separation of chemicals and waste from food prep areas)
11. Walkways
12. Fair Housing and ADA compliant access to facilities and office on property and within housing units and common areas, if applicable.

****Health and Safety Needs** in rehabilitation requires applicants to address all deficiencies that could directly impact the ability to safely occupy the facility or housing or use it for its intended purpose. Actions must be taken to identify, evaluate, and adequately address issues related to occupancy, including (but not limited to):

1. Ingress/egress (doors, windows, emergency exits, emergency lighting)
2. Known imminent threats to safety (holes in roof, storm/fire damage)
3. Hazards (trip, shock, fall, puncture, cut, drowning, asphyxiation, fire safety, etc.)
4. Air quality or inadequate ventilation (noxious fumes, harmful mold, carbon monoxide, consistent elevated moisture levels)
5. Toxic substances including lead-based paint and friable asbestos
6. Presence of vermin or pests
7. Disease prevention through equipment and redesign of space (appropriate spacing of clients, automation of high touch fixtures, filtration, UV treatment, etc.)
8. Structural failure
9. Non-function items (building features that are present must work appropriately and as an occupant would expect)
10. Harmful levels of noise from traffic, trains, or other sources
11. Issues related to accessibility deficiencies and incorporation of universal design features, when applicable

1.3 Program Threshold Requirements

The following program thresholds must be met in addition to any other eligibility requirements described in sections 1.2 in order to have an application eligible for consideration for funding, unless waived by the Agency:

- The project must already have or will establish at least 10% of units affordable to and set-aside for households earning at or below 30% of AMI or, for those projects receiving National Housing Trust Fund dollars, at or below the federal poverty line (whichever is greater).
- The project must already, or agree to, participate in the Targeting Program, setting aside at least 10% of the total number of project units for occupancy by households containing persons with disabilities who will be referred to the property manager by DHHS. This includes entering into a Targeting Unit Agreement (TUA), utilizing the Agency's Vacancy and Referral System, and accepting DHHS referrals. This 10% of total units for the Targeting Program does not include those units in the previous bullet.
 - The Owner will notify DHHS or their designee of vacancies in the set-aside units through the Vacancy & Referral (V&R) system and give preference to those applicants. The units must be held vacant for 90 days at initial rent-up and 30 days on unit turn-over for a referral from DHHS, unless DHHS or their designee releases the unit earlier.
- The project's Tenant Selection Plan (TSP) must meet the Agency published TSP requirements criteria and be approved by the Agency, as a condition of funding. The TSP must be updated from time to time to conform with Agency published updates to the criteria.
- The project must accept Key assistance or HUD 811 PRA as a rental assistance source for Targeting Program units, if said assistance is determined to be needed and is offered by the Agency. The project may not refuse tenants with a tenant-based voucher on the basis of being a voucher holder, regardless of whether Key or HUD 811 PRA is made available to the project.
- Applicants must demonstrate financial capacity to obtain any necessary permanent or construction financing necessary to successfully rehabilitate and stabilize the project, to the satisfaction of the Agency.

1.4 RPLP Eligible Applicants

In addition to the project eligibility criteria outlined in sections 1.2 and 1.3, eligible Applicants include:

- Project owners that are for-profit, nonprofit, or units of local government in North Carolina (i.e., City, County, Public Housing Authority, Community Development Corporation, Council of Government) are eligible to apply.
- The Applicant must have successfully owned and operated multifamily rental housing for a minimum of three years with no material or uncorrected noncompliance issues unless there is a plan of action to address the issue(s) that has been accepted by the Agency.
- Contractors, borrowers, developers and their subcontractors, or subsequent recipients must be in good standing with the federal and state government during the construction process. Therefore, evidence of a current, valid registration with the federal System for Awards Management (SAM.gov) (<https://www.sam.gov/portal/SAM>) is required for all applicants, borrowers, borrowing entity principals and General Contractors. Additionally, no entity or

person receiving the benefit of the loan funds may be included on North Carolina's State Debarred Vendors Listing (<https://ncadmin.nc.gov/documents/nc-debarred-vendors>). The federal and state systems may be checked multiple times from time of application through the later of approval of final cost certification or receipt of final payment.

- If an applicant applies and is awarded RPLP for the *same project* that is awarded Low-Income Housing Tax Credits and has not received the Notice of an Allocation for LIHTCs, the applicant will have to determine which award will be kept and which will be forfeited. One project cannot keep awards from both RPLP and LIHTCs. In the event an applicant is awarded RPLP and is later awarded LIHTCs for the same project, the applicant organization has 10 business days to decide which funding award will be forfeited.

The Applicant must:

1. Demonstrate sound business practices, including submission of the two most current financial audits/certified financial statement that include an opinion from a certified public accounting firm unless the applicant requests and the Agency agrees to waive the requirement, based on facts and circumstances.
2. Demonstrate successful previous experience that includes the following:
 - a. Must have no unresolved audit or monitoring findings and must be in good standing with the Agency's Asset Management, as well as other lenders on existing projects;
 - b. If the applicant has no prior development experience with the Agency, the applicant must disclose all prior projects attempted or completed with details, including current compliance status, all unresolved findings, etc.
3. Demonstrate team capacity to develop the project scope, project plan, financing plan, construction budget, manage the construction phase, obtain permanent financing, bring the project into service, manage the on-going operations of the project, and ensure the ongoing compliance of the project.
4. Submit an operating budget for the project for the current year that will be the basis for a new operating budget based on updated assumptions.
5. Provide financial information related to the applicant that must demonstrate that the applicant has a strong financial position. The Agency will consider financial information from numerous sources to assess the likely stability of the applicant for the length of the loan term.
6. Comply with the following restrictions on religious influence. Participating organizations:
 - a. May not discriminate against any employee or applicant for employment on the basis of religion;
 - b. May not discriminate against any person applying for housing on the basis of religion;
 - c. May not require religious instruction or counseling; and
 - d. May not require attendance at religious services or worship, engage in religious proselytizing or other religious influence in the provision of housing.

1.5 Project Rehabilitation Team Capacity

In addition to the requirements in Section 1.4 Eligible Applicants, the Application must demonstrate the capacity of the project team to successfully undertake the proposed renovation of the project. The following requirements must be met:

- All roles and responsibilities needed to renovate and operate the project must be identified and assigned to qualified team members. At a minimum, furnish the following as applicable:
 - Name, license status (if required by the state), brief summary of previous experience working on similar rehabilitation projects, especially, those financed by the Agency, for:
 - Project Owner/Developer
 - Application/Project Consultant, if any
 - Project Architect
 - Project Contractors
 - All project teams must include a licensed general contractor, unless the applicant requests and the Agency agrees to waive the requirement, based on facts and circumstances.
 - Project Property Management Company
 - Because the rehabilitation may be financed using federal funds, the Property Management Company must have experience managing affordable rental housing that is regulated by HUD, the Agency, USDA-RD, or other equivalent program, as approved by the Agency, within the last 7 years.
 - Name only:
 - CPA (that will complete the Project Cost Certification)
 - Attorney (that will close the Rehabilitation loan)
- Additional requirements for the project rehabilitation team include:
 - Property Management Company:
 - The management company must:
 - a) Have at least one similar rental housing project in their current portfolio,
 - b) Have a valid North Carolina real estate license and be registered with the North Carolina Secretary of State as of the full application deadline (excluding public housing authorities),
 - c) Request Key assistance timely and accurately (if applicable),
 - d) Report in the Agency's Rental Compliance Reporting System (RCRS) timely and accurately (if applicable),
 - e) Have at least one staff person in a supervisory capacity with regard to the project who has attended or will attend at least three Agency sponsored trainings within the past 12 months (currently named Compliance 101, Advanced Compliance and DHHS Targeting and Key) prior to the issuance of the final commitment letter, and
 - f) Have at least one staff person serving in a supervisory capacity with regard to the project who has been certified as a tax credit compliance specialist. Such certification must be from an organization approved by the Agency (if applicable).

- None of the persons or entities serving as management agent may have in their portfolio a project with material or uncorrected noncompliance beyond the cure period unless there is an Agency-approved plan of action to address the issue(s).
- Any management agent found to have implemented a rent increase on an existing tax credit project without the required Agency approval may be prohibited from serving as management agent for an application.

1.6 Income, Rent, & Population Restrictions

All restricted units within the project (income, rent, or population restricted) float. Unit restrictions are not fixed to specific units, in order to ensure applicant choice in units that best suit their household needs. The final number of required units for each restriction/restriction level will be determined by the Agency.

The restrictions are in place for the term of the loan and are governed by the applicable regulatory agreements. The project cannot change the aggregate number of units for each restriction/restriction level during the term of the regulatory agreement, unless approved in writing by the Agency.

Income Restrictions

RPLP funded projects must maximize the number of units available to households at or below 30% AMI, as feasible, based on Agency underwriting criteria. The final number of required units at each income restriction level will be determined by the Agency.

RPLP income-restricted projects may contain some units for households up to 80% of area median income (AMI), should contain units for households at or below 50% of AMI, with the maximum number of deeply affordable units that the project can financially support. Deeply affordable units are at or below 30% of AMI or, for those projects receiving National Housing Trust Fund dollars, at or below the federal poverty line (whichever is greater).

Rent Restrictions

RPLP funded projects may contain some units affordable to households up to 80% of AMI, should contain units affordable to residents at or below 50% of AMI, with the maximum number of units feasible affordable to residents at or below 30% of AMI, that the project can financially support. The final number of required units at each rent restriction will be determined by the Agency.

Population Restrictions

RPLP funded projects must be available to all populations allowed by each regulatory agreement the project is subject to.

Additionally, the project must enter into and comply with a Targeting Unit Agreement (TUA) with the Agency for at least 10% of the total project units and accept applicant referrals from NCDHHS. A TUA is an agreement drafted and pre-populated by the Agency outlining the participation requirements and Owner's obligations for the Targeting Program. This document must be executed by an owner's representative as well as the management agent. The management agent execution assures the Agency that the management company is aware of the Owner's obligations as they relate to the Targeting

Program. The TUA will be available to the Owner for download and signature in the Rental Compliance Reporting System (RCRS). If the Agency has not made the prepopulated TUA available prior to preleasing, the Owner is obligated to contact the Agency to request the TUA before preleasing begins.

An applicant is deemed Targeting Program eligible if referred to the project by DHHS. No further due diligence is required or allowed by the Targeting Program in the determination of eligibility as it relates to disability. However, the project owner/management agent must verify and document income-related Targeting eligibility. Additionally, the project owner/management agent must make a separate determination to assess the applicant's eligibility to meet the requirements of other funding sources/regulatory agreements, and document appropriately.

The project owner/management agent must have an Agency-approved Tenant Selection Plan and screen applicants in accordance with that plan.

Referrals for Targeting units will come through the Agency Vacancy & Referral on-line system (V&R), and Targeting set-aside units must be rented in accordance with the Targeting Program Manual and TUA. Targeting units must be held during rent-up for a minimum period of 90 days and 30 days at turn-over to give DHHS the opportunity to refer a Targeting Program eligible applicant to the project. See the Targeting Program Manual (last updated June 2023) for additional requirements and explanations: https://www.nchfa.com/sites/default/files/page_attachments/TargetingProgramManual.pdf.

1.7 Site and Neighborhood Eligibility Requirements

Applicants must:

- Be the current owner of record, or
- Have site control of the proposed project property at the time of application. Site control can be documented with an option to purchase, a purchase contract, an executed deed, or an Agency-approved lease of at least as long as the Agency loan term.

Additionally:

- The site will be subject to an Environmental Review. At a minimum, we will require a Phase I Environmental Review. In the event the project is awarded federal funds, the project will be subject to a higher level of Environmental Review. See Section 1.17 Federal Requirements for more information.
- The applicant must furnish updated/current documentation of whether the project is located in a flood plain.
- The Agency reserves the right to reject a funding application if the site or neighborhood is:
 - In such a condition of decline or disinvestment, the funding of the application is deemed not in the best interest of the State.
 - There are inadequate/deteriorated infrastructure/utilities serving the site with no funded plan/commitment by responsible parties to address the infrastructure/utility deficiencies.

- There are incompatible uses of adjacent properties or within the neighborhood/vicinity that create conditions which cannot be overcome to ensure the health and safety of the residents of the project.

1.8 Rehabilitation Requirements, Specifications and Standards

Rehabilitation must adhere to:

- The Agency's Multi-family Rehabilitation Standards found in Appendix D.
- Accessibility Requirements - RPLP projects must ensure they meet the current requirements to comply with the Americans with Disabilities Act, Title VIII of the Civil Rights Act of 1968 (commonly known as the Fair Housing Act), and the design and construction requirements for handicap accessibility as described by the Fair Housing Amendments Act of 1988. In addition, the plans and specifications must have been prepared in accordance with and meet or exceed the Architectural Barriers Act (1968), Section 504 of the Rehabilitation Act (1973), the Americans with Disabilities Act (1990), and all applicable state and local building codes. Such design and accessibility laws and codes may be based in part or in whole on the specifications contained in the major national building standards such as ANSI and UFAS.

Specifications for replacements should:

- Specify durable, sustainable/green materials wherever possible and feasible.
- Incorporate Universal Design features whenever possible and feasible.

Additionally:

- For multifamily projects of 26 or more units, the applicant must determine all work that will be performed in the rehabilitation of the housing and long-term physical needs of the project through a Capital Needs Assessment (CNA)/Physical Needs Analysis (PNA), as defined by the Agency in Appendix D.
- Plans and specifications must be reviewed and approved by the Agency, prior to starting construction.
- Construction or rehabilitation work should not begin until a Final Commitment Letter is issued, unless approved in writing by the Agency.

At all times after an award the owner is responsible for promptly informing the Agency of any changes or alterations which deviate from the final plans and specifications approved by the Agency. In particular, owners must not take action on any material change in the site layout, floor plan, elevations, or amenities without written authorization from the Agency. This includes changes required by local governments to receive building permits.

1.9 Energy Efficiency Requirements

RPLP projects that include significant replacement of HVAC systems, as determined by the Agency, must comply with the Agency's Energy Standards described in Appendix E, as well comply with the applicable QAP minimum energy efficiency standards.

Additionally, if the scope of the rehabilitation includes significant replacements of HVAC equipment, applicants may be required to enter into a contract with a qualified energy consultant of their choice to ensure energy efficiency and building durability.

Specifications for replacements should maximize energy efficiency wherever possible and feasible.

Projects using non-commercial grade HVAC systems must use one of the four Agency-approved HVAC systems, which are described in Appendix E, unless an alternative strategy is designed by an energy consultant and approved by the Agency.

1.10 Rehabilitation Funding Cap & Award Limits

The maximum RPLP award amount is a **total of \$4,000,000** per development for total rehabilitation costs. Capitalized operating subsidy reserves, acquisition costs, and refinancing does not apply to the per development cap. The maximum award to any one Principal will be two projects per funding cycle. The Agency reserves the right to waive this requirement in the event that the application pool includes a limited number of developers and there are enough funds to fund each developer at least one award.

1.11 Operating Subsidy Reserves

CAPITALIZED OPERATING SUBSIDY RESERVE

RPLP applicants with projects that do not have project-based rental assistance, may request a capitalized operating subsidy reserve, if they can demonstrate a financial need in order to have rents affordable to households earning at or below 30% of AMI or, for those projects receiving National Housing Trust Fund dollars, at or below the federal poverty line (whichever is greater). The Agency will evaluate the need for a capitalized operating reserve during underwriting of the application.

Applicants can only apply for the establishment and use of a capitalized operating subsidy reserve if they are also seeking an RPLP loan for rehabilitation.

Capitalized operating subsidy reserves will be a separate award from the rehabilitation award. The awarded funds will be held in an interest-bearing capitalized reserve account, to be held by the Agency acting as the financial institution. Requests from the reserve account will be made by the owner in a manner and frequency approved by the Agency. Full instructions and agreements will be provided post award. The total capitalized operating subsidy reserve may be reduced in the event there is a substantial change in the income of populations being served or a substantial change in operating costs themselves, as approved by the Agency. Projects requesting a capitalized operating subsidy reserve must provide documentation from the local Public Housing Authority that no project-based vouchers are available for the proposed project.

Any unused funds at the end of the compliance period will be handled in a manner consistent with HUD regulations and guidance, if applicable, and Agency policy.

OPERATING DEFICIT RESERVE

The Agency may require participation in an operating deficit reserve payment plan. The operating deficit reserve payment plan will be funded monthly through a portion of the project's mortgage payment to the Agency in early years to be used in later years where a deficit is anticipated. This operating reserve will be held in an interest-bearing account, to be held by Agency acting as the financial institution. Requests from the reserve account will be made by the owner in a manner and frequency approved by the Agency. Full instructions and agreements will be provided post award.

1.12 Debt Refinancing/Restructuring Requirements

- Refinancing of existing long-term debt shall only be permitted in connection with a project involving a rehabilitation contract and only to the extent necessary to reduce debt service to a level consistent with the provision of affordable rents in assisted units and with the fiscal integrity of the project.
- If a project has existing private debt that has a balloon payment during the RPLP loan term and/or has a variable interest rate, the Agency will require the owner to refinance or restructure the private debt into a fully amortizing, fixed-interest rate loan product that meets the underwriting criteria of RPLP prior to, or at the time of, RPLP loan closing. This may be accomplished through a combination of private and public funding.
- The applicant shall not encumber, pledge, or hypothecate the rental housing development, or any interest therein or portion thereof, or allow any lien, charge, or assessment against the rental housing development without the prior written approval of the Agency.
- The Agency will not permit refinancing of existing liens or additional financing secured by the rental housing development except to the extent necessary to maintain or improve the fiscal integrity of the project, as well as the Agency's investment in the project; to maintain affordable rents; to decrease rents; and/or to provide or ensure the preservation of the affordable housing units.
- In no event will the pro-rated portion of the refinance proceeds exceed the pro-rated portion of the rehabilitation costs.

1.13 Acquisition Requirements

Projects with property acquisition must meet the following requirements:

- Acquisitions must be made through a bona fide sale or transfer from the existing ownership entity to the new ownership entity comprised of a completely disparate ownership structure, which contains no common entity interest at any level of the organizational structure. In the event that the applicant requests the Agency to allow a common entity of interest in the new ownership structure, all members must be in good standing and must be approved by the Agency.

In addition:

- Standard closing costs from the acquisition may be included in the project budget. Applicants who purchased the property prior to submitting an RPLP application, or following environmental

releases under the National Environmental Policy Act (NEPA) but prior to closing, may not charge or include financing costs associated with interim financing, whether from third-party or related lenders.

1.14 Loan Underwriting Requirements

The Agency will review the RPLP application and conduct underwriting for the potential RPLP loan. RPLP requirements are outlined below and must be met to be considered for RPLP funding.

Projects must meet the following requirements:

- The Agency requires an appraisal by an independent qualified appraiser, furnished at full application for all development proposals. The appraisal must meet the following criteria:
 - The purchase price must be supported by an “as-is” appraisal issued no more than six months prior to the date the RPLP application.
 - Appraisers must be independent and licensed by the North Carolina Appraisal Board on a permanent, non-temporary basis.
 - Appraisers must identify the Agency as an authorized user of the appraisal, noting that the Agency may rely on the representations made therein. Additionally, the Agency reserves the right to convey a copy of the appraisal to third parties, assigns and pertinent parties involved in the contemplated allocation of RPLP funds.
 - Appraisals must be prepared in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation and with title XI of the Federal Finance Reform, Recovery and Enforcement Act of 1989 (FIRREA).
 - Comparable properties should be located in the proposal’s sub-market. If an appraiser chooses comparable properties outside of the sub-market, the appraiser must also include a detailed description of every comparable located closer to the proposal and a list detailing why each was not chosen as a comparable. Regardless, comparable must be located in the proposal’s home county or in extreme instances, an adjacent county. Comparable sales may not include land owned by the applicant or any of its principals or related entities and may not be exclusive to previous LIHTC or Agency-funded developments.
 - If the appraisal does not substantiate the purchase price submitted in the RPLP application, the lesser of the purchase price or the appraised value will be used in the Agency project development budget.
 - Any detrimental, harmful, or damaging site, physical feature, or characteristic located adjacent or in close proximity to the development being appraised that would negatively affect the valuation must be disclosed in the appraisal. The appraiser should quantify the valuation loss attributable to that site, physical feature, or characteristic.
 - If the Agency deems the appraised value of a proposal to be unusual, excessive or utilized comparables that are not acceptable under this section, a separate appraiser will be hired by the Agency, at the Applicant’s expense, to prepare a second appraisal. All questions and concerns regarding the appraisal must be resolved to the Agency’s satisfaction. An application could be disqualified should a second appraisal not resolve the valuation issues.

- If there is any debt service on the proposed project, the project’s operating proforma should show a debt coverage ratio of approximately 1.15 for the duration of the loan, based on underwriting assumptions identified in the application. All underwriting assumptions must be agreeable to the Agency. Underwriting assumptions are 7% vacancy rate, 2% escalation of income, and 3% escalation of expenses.
- The Agency prefers projects to have a construction loan for the rehabilitation work. If the project provides documentation that the project cannot secure a construction lender, the Agency will offer construction financing.
- Project must provide commitment letters for all other financing.
- Project rehabilitation and operating costs must be reasonable, as determined by the Agency, when compared to other similar projects financed by the Agency.
- Projects should include a contingency of up to 10% of hard costs; the Agency may consider a higher contingency based on the size and complexity of the rehabilitation.
 - A higher contingency may be permitted based on identified risk factors such as the known need for environmental remediation or poor subsurface soils. The Agency does permit a contingency to be included within a project’s construction estimate, but not included in the construction contract itself, unless such contingency is required in writing by HUD, another governmental agency, or an independent third party.
- The two most current project audited financial statement must be provided as support for the proposed project operating budget.
- The Agency expects projects to maintain a minimum cash-flow of \$500 per unit per year (“Minimum Cash-Flow”) for the duration of the loan period. Projects that cannot maintain Minimum Cash-Flow will be evaluated by the Agency during underwriting for the addition of either a capitalized operating reserve and/or an operating deficit reserve payment plan to help meet the Minimum Cash-Flow requirements. The Agency, in its sole discretion, will size any required capitalized operating reserve and/or an operating deficit reserve payment plan. See Section 1.11 for additional information on operating reserves.
- Projects must either already have, or fund at time of loan closing, an Operating Reserve with a minimum of 6 months of operating expenses.
- Properties must fund a Replacement Reserve from cash flow at \$350 per unit per year, with the deposit amount increasing each year by 4%. In addition, applicants must demonstrate replacement reserve is adequate to maintain and replace any existing systems and conditions not being replaced or addressed during rehabilitation.
- The Agency reserves the right to use portions of existing operating or replacement reserves to pay for project rehabilitation expenses.
- If the project has project-based rent assistance or has obtained project-based rent assistance, then a letter from the applicable rental assistance administrator must be provided describing the conditions of the commitment. See Appendix C for a sample letter.
- Developer fees shall not exceed 13% of rehabilitation costs, as determined by the Agency at award.
 - For those projects receiving federal funds, applicants who meet or exceed Section 3 benchmarks will be eligible for a developer fee that shall not exceed 15% of rehabilitation costs, as determined by the Agency at award.

1.15 Financing Commitment

Projects awarded for loan financing will receive a Conditional Commitment Letter from the Agency. Applicants with a conditional commitment for financing will have 12 months from the issuance of the Conditional Commitment Letter, to fulfill the terms, prior to the issuance of a Final Commitment Letter. This includes final written commitments for the balance of construction and permanent financing from other sources, and submit the due-diligence checklist items to the Agency for approval. Please see Appendix H for the full list of requirements to obtain the Final Commitment Letter. RPLP financing is permanent, thus will be available at the end of project completion and final cost certification.

1.16 Loan Terms

All RPLP financing will be in the form of a 0% interest, permanent mortgage loan, which can be forgiven upon request by the Applicant but at the Agency's sole discretion. Additional terms include:

- The maximum loan term, and corresponding compliance period, is 30 years.
- **All loans will include a Loan Agreement, Promissory Note, Deed of Trust, Declaration of Deed Restrictions, and, in projects receiving federal funds, a Written Agreement.**
- Sale of the property prior to the end of the loan may trigger full repayment of the Rental Preservation Loan Program loan. The loan may be assumable upon Agency approval.

1.17 Federal Regulations

All RPLP awarded projects receiving federally-funded loans must comply with all pertinent state laws and federal regulatory and statutory requirements of the project's funding source(s). **See Appendix A for additional information.**

Federal requirements could include, but are not limited to:

- Environmental Review [24 CFR Part 58](#) or [24 CFR 93.301\(f\)](#), as applicable, must be completed.
 - No choice limiting action may be made prior to receiving environmental clearance from the Agency to move forward with a project if receiving HOME dollars.
- Applicants receiving federal funds must meet federal environmental provisions, as outlined in [24 CFR Part 92](#), [24 CFR Part 93](#), and/or [24 CFR Part 58](#).
- All federally funded programs and projects that require the acquisition of real property (real estate) or displace persons from their homes, businesses, or farms are subject to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 as amended ([49 CFR Part 24](#)) and Section 104(d) of the Housing and Community Project Act of 1974 as amended. For those projects receiving federal funds, [24 CFR 92.353](#) (HOME) or [24 CFR 93.352](#) (National Housing Trust Fund) must also be followed, as applicable.
- All projects consisting of 12 or more units with funding that requires Davis-Bacon compliance must incorporate Davis-Bacon [24 CFR 92.354](#) wage rates and labor standards monitoring in the development budget. Federal Labor Standards must be included in project-related procurement. If an RPLP project receives HUD funds which trigger Davis-Bacon (for example, HOME, CDBG, HOME-ARP) from a local participating jurisdiction, the Agency will require the local PJ to conduct the Davis Bacon monitoring for the project.

- Section 3 [24 CFR Part 75](#) requirements must be included in any project-related procurement that includes more than \$200,000 of covered federal financial assistance.
- Contracting and procurement activities must be in compliance with Minority & Women Business Enterprises (MWBE) requirements, as outlined in [24 CFR 92.351](#). Procurement must also comply with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at [2 CFR 200](#). All procurement must incorporate federal labor standards.
- All projects and project sites must meet accessibility requirements in 24 CFR Part 8, which implements Section 504 of the Rehabilitation Act, the design and construction requirements of 24 CFR §100.205, as well as comply with the Americans with Disabilities Act, Title VIII of the Civil Rights Act of 1968 (commonly known as the Fair Housing Act), the Fair Housing Amendments Act of 1988, Architectural Barriers Act (1968), the Americans with Disabilities Act (1990), and all applicable state and local building codes.
- All projects must have an [Affirmative Fair Housing Marketing Plan](#) (AFHMP) that complies with 24 CFR §92.351 or 24 CFR §93.350, as applicable, and has been accepted and approved by the Agency.
- All projects must comply with lead-based paint regulations - [24 CFR part 35, subparts A, B, J, K, M and R](#):
 - Lead-Based Paint Poisoning Prevention Act (LBPPPA)
 - Residential Lead Based Paint Reduction Act
 - State lead-based paint requirement
- All persons must adhere to requirements in [Conflict of Interest](#) requirements, 24 CFR §92.356 or 24 CFR §93.353 as applicable.
- All projects must comply with federal [Fair Housing statutes, regulations, and guidance](#) to prohibit discrimination in housing, including but not limited to, the Fair Housing Act, Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, and the American with Disabilities Act.
- All projects must comply with the [National Standards for the Physical Inspection of Real Estate \(NSPIRE\)](#), the physical inspection model designed to promote HUD’s goal of reducing health and safety hazards in the home.
- All projects must comply with the [Violence Against Women Reauthorization Act \(VAWA\)](#), which provides housing protections for people applying for or living in units subsidized by the federal government and who have experienced domestic violence, dating violence, sexual assault, or stalking.

1.18 Tenant Selection Plan (TSP) Requirements

All properties must have an Agency-approved TSP that is no more restrictive than the Agency’s most current Tenant Selection Policy located on the Agency’s website. Properties must update the TSP, in a timely manner, from time to time based on the Agency updates to the Policy. A copy of the Tenant Selection Policy must be made available to all applicants at the time of application.

1.19 Use of Online Reporting Systems

The project owner or management company is required to use the following online systems, their successors, and additional systems as specified and updated from time to time by the Agency, to timely report data and upload documentation in a manner prescribed by the Agency for the use of the Agency and DHHS (See Targeting Program Guidelines for specific requirements):

- Rental Compliance Reporting system (RCRS)
- Vacancy and Referral System (V&R)

1.20 Targeting Program Referral Process

Targeting units must follow the Referral Process as described in detail in the current Targeting Unit Agreement, and applicable Program Guidelines, as updated from time to time. Generally, this includes:

- 120 days prior to the certificate of occupancy (CO) for each building, if applicable, the owner/management company must provide email notice to the Agency and DHHS of the estimated date of the project's first building CO, and must enter vacant units into the V&R system to notify DHHS to start processing applicants for referral – unless instructed otherwise in writing by DHHS.
 - In the event that there is no certificate of occupancy, the owner/management company must provide email notice to the Agency and DHHS of the estimated date of the unit's availability at least 90 days prior to the availability date. The owner/management company must enter vacant units into the V&R system to notify DHHS to start processing applicants for referral – unless instructed otherwise in writing by DHHS.
- DHHS will start processing Targeting eligible applicants and entering them into V&R so the project owner/management agent can begin the screening process.
- The project owner/management agent will enter updates, as required in V&R, timely, for each referral entered into V&R by DHHS, from initial application through final disposition of the application – approval or denial (and any request for reasonable accommodation), so DHHS can monitor progress of the application process and troubleshoot as necessary.
- Until the Targeting set-aside is filled with Targeting eligible households, each vacant unit must be held:
 - Upon unit turn-over of a previously occupied unit: a minimum of 30 days from the date the unit is returned to the owner/project agent's possession (properly noticed to DHHS using V&R), in order to give DHHS the opportunity to fill the unit with a Targeting Program eligible household.
 - Unless DHHS releases the unit in the V&R system before the 30-day requirement.

1.21 Rental Assistance for Targeting Units

The Agency, at its sole discretion, will make a determination based on the project underwriting and affordability of the project's units, whether to offer a source of additional rental assistance for use strictly by households participating in the Targeting Program.

If the Agency determines that the project does not have an adequate number of units with rent restrictions at or below 30% AMI to serve Targeting Program Households, and the project owner does not have a commitment for a non-Agency administered project-based rental assistance source, the owner has two options:

- Accept the rental assistance source offered by the Agency, if any, or
- Charge the Targeting eligible DHHS referral no more than the tenant portion of rent as calculated following the Key Rental Assistance methodology, unless the tenant obtains a tenant-based voucher.

If the Agency determines that the project has an adequate number of units with rent restrictions affordable to Targeting households without the need for additional rental assistance, then the project can charge the Targeting household the gross rent for the unit affordable to 30% AMI or below, approved by the Agency, adjusted to a net rent taking into consideration the utility allowance.

If the owner has a commitment for a non-Agency administered project-based rental assistance and intends for that source of rental assistance to be used on units with households participating in the Targeting program, the project owner must provide a written agreement between the project owner and the rental assistance administrator that clearly states that Targeting applicants will have access to the rental assistance without regard to the rental assistance administrator's established waiting list requirements, or have waiting list requirements that give Targeting eligible applicants a preference/priority to receive rental assistance, in order to not hinder the renting of required Targeting units. If this is not possible, the project owner must accept for Targeting applicants a source of rental assistance as described below, or charge the Targeting household no more tenant portion of rent than as described above for the tenant rent and forgo rent assistance on the unit.

The Agency, at its sole discretion, will endeavor to provide a source of rental assistance strictly for use by Targeting Program participants, project-based or tenant-based, in the event the project has a Targeting program obligation, but has not obtained a commitment for a non-Agency administered source of project-based rental assistance, and the Agency determines there are not units sufficiently affordable without rental assistance at the project for Targeting Program participants. The options include, but are not limited to:

- HUD Section 811 Project Rental Assistance
- Transitions to Community Living Voucher
- Key Rental Assistance

1.22 Ongoing Requirements, Asset Management, Compliance Monitoring, Training, & Reporting

Monitoring will be conducted by the Agency to ensure that RPLP program requirements and goals, deed restrictions, loan agreements, and regulatory requirements are met.

Ongoing requirements, for which the Agency will be monitoring include:

- Compliance with loan documents (final commitment letter, loan agreement, deed of trust, and deed restrictions) and the Targeting Program Manual

- The owner's proper operation and maintenance of the project
- Timely updates and proper use of the V&R system and the Agency's reporting systems (e.g., RCRS)
- The timely processing and disposition of Targeting Program applications and proper utilization of Targeting units
- Tenant incomes and eligibility criteria
- Rent affordability, as reflected in the Rent Table of the Deed Restrictions, if applicable, as well as the Agency approval of changes in the project rent structure (such as rent increases) during the compliance period
- Written leases
- Proper calculation of tenant portion of rent on Targeting units
- Adherence to the Tenant Selection Plan
- Management Agent must attend all three Agency compliance trainings annually, which include Compliance 101, Advanced Compliance, and Targeting Program and Key Assistance training
- Management Agent must attend additional training deemed necessary by the Agency (e.g., Section 3, Violence Against Women Act (VAWA), etc.)
- Project owner must attend annually one of the three compliance trainings listed in the previous bullet
- Operating reserve and replacement reserve balances, and operating assistance (if applicable), as described herein, are properly funded and maintained. The Agency must be notified of and approve reserve withdrawals. In addition, the Agency reserves the right to increase the required amount of annual replacement reserves if the Agency determines such an increase is warranted
- Property insurance requirements are met annually. The insured amount must be greater than or equal to the amount of the RPLP loan amount. For policies less than or equal to \$5,000,000 the deductible should be no more than \$15,000. For policies greater than \$5,000,000 the deductible should be no greater than \$25,000. If this type policy cannot be obtained or afforded, an insurance reserve may be substituted with approval from the Agency staff. These amounts may be updated by the Agency from time to time and the project will need to make coverage adjustments accordingly.
- Audited project financial statements must be submitted annually for review
- Changes in ownership, which must be reviewed and approved by the Agency
- Project owner or designated management agent must periodically report timely on unit utilization and household information with data elements determined by the Agency in a manner and frequency established by the Agency, and as updated or revised from time to time. Information on all units must be entered in a timely manner into the Agency's most current reporting system (e.g., as of 2023, this is the Agency's Rental Compliance Reporting System (RCRS)), and Targeting units must additionally be entered in a timely manner into the V&R system, as specified by the Agency.
- Should a management agent fail to comply with the requirements outlined throughout this document, and the issue is not resolved following an opportunity to cure, the Agency reserves the right to require a change in management agent.

The Agency provides compliance training several times a year to assist owners and property managers to meet the Agency requirements, a schedule of training times and locations can be found at:

<https://www.nchfa.com/rental-housing-partners/rental-owners-managers/train-us>

Section 2. RPLP Application Instructions

2.1 Application Steps

Applicants for the 2024 RPLP initial funding cycle must:

1. Submit the Project Description and Questionnaire Form (Appendix B)
 - **Deadline to submit form: February 9, 2024 at 5:00 PM.**
 - Submit to RPLP@nchfa.com.

Applicants are encouraged to submit this form **as soon as possible** so Agency staff can review the proposed project to determine if it is suitable for RPLP funding. Submission of the Project Description and Questionnaire Form does not serve to reserve any funds or commit the applicant or Agency in any way.

2. Notice to Proceed with Full Application/Notice of Failure to Meet Threshold
 - After the Project Description and Questionnaire Form has been submitted and reviewed, Agency staff will send a notice to proceed with full application or a notice of failure to meet threshold requirements.
 - If a notice to proceed with full application is received, applicant must complete the full 2024 RPLP Application Part 1 and Part 2, by the March 25, 2024 deadline.
 - If the project is denied, Agency staff will provide reasons for the project's denial.
3. Submit a full application (Part 1 & Part 2) electronically **by March 25, 2024 at 5:00 PM** to RPLP@nchfa.com.
 - There are two parts to the full application:
 - Part 1 includes a narrative, project description and preliminary rehabilitation scope, and exhibits.
 - Part 2 includes the full development budget, sources of funds, income/expenses, and pro forma.
 - Both Part 1 and Part 2 must be submitted to have a complete application. Applications may be accepted earlier than the deadline.
 - The Agency reserves the right to require the submission of additional information and documentation as part of the application in order to complete the Agency's evaluation. Failure to submit this additional information may result in the denial of funding for the project.

Section 3. Full Application Review Process

3.1 Review & Selection Procedures

As part of its due diligence, the Agency reserves the right to independently verify any information submitted as part of an application under the Program. Applications for RPLP financing will be reviewed and selected through the following process:

- Threshold review
- Site review (if applicable)
- Additional selection criteria (if applicable)
- The Agency Board of Directors approval
- Loan award

3.2 Threshold Requirements

Projects must meet the following threshold criteria to be considered for RPLP financing:

- All requirements under Section 1 – including eligibility criteria in 1.2 and 1.3 – of the Program Guidelines must be met.
- Part 1 and Part 2 of the application must be complete, including all required exhibits.

The Agency reserves the right to contact other potential funders, interested parties, and service providers during the application review process to verify information in the application.

3.3 Additional Selection Criteria

In the event that there are more eligible applicants than funding available, the Agency will use the following selection criteria to determine RPLP awards. All applications will be scored against each other.

- **Ability to serve households at or below 30% AMI (up to 25 points).** Priority will be given to projects in which the applicant proposes to serve the highest percentage or number of households earning at or below 30% AMI, provided the Agency determines through project underwriting that the proposal is feasible and is not predicated on displacement of existing tenants that exceed 30% AMI. See Section 1.11: Capitalized Operating Subsidy Reserve for more information about eligibility to receive operating assistance from the Agency to support the project.
 - 0-25 points depending on the percentage of Low-Income Units available for tenants with incomes at or below 30% AMI and with rents restricted on those units accordingly. For example, if a project is proposing to designate 40% of units for households earning at or below 30% AMI, they would receive 10 points in this category ($0.4 \times 25 = 10$ points). Likewise, if a project is proposing to designate 50% of units for households earning at or below 30% AMI, they

would receive 12.5 points in this category (0.5 x 25 = 12.5 points).

- **County income designation (up to 25 points).** Priority will be given to projects located in a Low-Income County (see Appendix F).
 - 25 points: Project located in a Low-Income County
 - 15 points: Project located in a Moderate-Income County
 - 10 points: Project located in a High-Income County
- **New Below Market Loans and/or Support (1 point).** Priority will be given to projects in which the applicant secures at least one new below market loan or other financial support to the project (other than from the Agency). Applicants must submit proof of the loans and/or support in the form of an official document from the loan or support provider. Sources of the following will qualify:
 - HOME (local jurisdictions);
 - Community Development Block Grant;
 - Federal Home Loan Bank Affordable Housing Program;
 - Evidence of awarded Inflation Reduction Act rebates or multi-family energy related funding;
 - Other Federal, State or local housing resources;
 - Public housing authority resources;
 - Grants from nonprofit charitable or community development organizations registered in North Carolina; and
 - Evidence of real estate tax abatement, exemption, or 95% rebate for a period of at least 10 years.
- **Construction Loan (1 point).** Priority will be given to projects in which the applicant secures a construction loan. Applicants must submit an official preliminary commitment letter from the construction lender documenting the loan amount, interest rate, and any origination fees.

The Agency reserves the right, in its sole discretion, to further prioritize projects that meet the requirements of the available funding source(s) and promote the mission of the Agency.

3.4 Curable Deficiencies

A curable deficiency is a missing, incorrect, or incomplete exhibit or worksheet not listed above as threshold items.

Applications that are found to have curable deficiencies (either by the applicant or the Agency) will be permitted to submit the missing information within a time period specified by the Agency.

3.5 Approval of RPLP Loan Awards

The applications ranked the highest, and are within the funding sources and amounts available to the Program, will be recommended to NCHFA's Board of Directors for financing approval. NCHFA's Board of Directors makes the final decision on which projects are funded.

3.6 Project Award Notification

Upon the NCHFA's Board of Directors approval of RPLP project loan awards, Agency staff will contact applicants and issue RPLP conditional commitment letters to begin the commitment process. If projects are not awarded, Agency staff will issue a letter notifying the applicant their application was not awarded.