

**DHCD Project-Based Homeownership
Guidelines and Notice of Funding Availability
January 31, 2014**

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I. Introduction:

Supporting affordable homeownership is a critical component of DHCD's mission and work. Over the years, the Department typically has provided support in two ways: direct assistance to eligible buyers through funding mechanisms such as the Soft Second Loan Program and/or project-based subsidy for new construction or rehabilitation projects.

The national recession from 2007 through 2009 altered DHCD's ability to support project-based homeownership. As the recession and the related foreclosure crisis became widespread, a number of DHCD-assisted homeownership projects – particularly outside the metropolitan area – stalled. In some cases, sponsors were able to complete construction on DHCD-assisted units, but the units stood vacant and unsold for as long as three years. Ultimately, these units either were converted to rental housing or were sold at unsustainably low prices – deeply discounted from the original projected sales prices. This was particularly true of condominium units in softer markets outside metropolitan Boston. During this challenging period, DHCD stopped providing funds in support of new homeownership projects.

However, the Department and its quasi-public affiliates continued to provide direct assistance to eligible buyers, who were able to qualify for mortgages at historically low interest rates. The direct assistance to buyers through the Soft Second Loan Program and other homeownership initiatives offered by MassHousing were successful and are ongoing.

In 2013, as the Massachusetts economy continues its recovery from the deep recession years, many housing markets within the state – especially in metropolitan Boston – are in full recovery. In many metropolitan communities with high-performing school systems and strong municipal services, housing prices and sales volume are back to pre-2008 levels. Real estate brokers indicate that open houses again are attracting dozens of buyers – sometimes hundreds of buyers – and that some buyers are making immediate offers, including cash offers, above list prices.

But in too many communities – particularly outside the metropolitan area – the effects of the long recession and foreclosure crisis are still being felt. The housing markets in these communities have not rebounded strongly, and the condominium markets have not rebounded at all. Home prices remain low, and, despite the historically low interest rates, sales volume has not returned to pre-2008 levels. Some sponsors have made good use of the federal Neighborhood Stabilization Program (NSP) in these markets and have developed small-scale scattered-site homeownership units – both new construction and acquisition/rehabilitation units. But these markets continue to be affected by vacant properties and sites and properties in foreclosure.

As the Department decides how best to support affordable homeownership in the immediate future, it has reached the following conclusions:

DHCD remains committed to direct buyer assistance through initiatives such as the Soft Second Loan Program, now modified as the One Mortgage program. One Mortgage and other initiatives are available on an ongoing basis. In addition, the Department strongly supports the recent agreement among numerous private lenders called the Homeownership Compact.

DHCD is prepared to offer a limited amount of funding, on a competitive basis, to support project-based homeownership assistance. The Department will provide limited funds to strong market and weaker market projects, with funding guidelines and restrictions appropriate to market conditions. Sponsor/developers who believe they have appropriate projects – highly ready to proceed – can submit pre-applications for evaluation by DHCD. The pre-applications for highly-ready projects with local matching funds will be due on March 7, 2014. On an invitation-only basis, the Department then will accept full funding applications on April 17, 2014.

Finally, the Department intends to support several large-scale, high-impact homeownership or mixed-tenure projects with affordable components that are moving rapidly through pre-development stages. In an effort to support homeownership at scale, DHCD will consider such projects, but only if there is very significant local match and clear evidence that market conditions are favorable. At this time, depending on resource availability, DHCD is prepared to accept one or two large-scale, high-impact applications each year on a rolling basis. The projects must contain certain characteristics described in a later section of these guidelines.

Sponsor/developers who are interested in seeking project-based homeownership assistance should review the following thresholds and conditions for funding.

II. DHCD Project-Based Homeownership Assistance: Guidelines for April 2014 Funding Competition

The Department of Housing and Community Development (DHCD) intends to accept a limited number of applications for project-based homeownership assistance through a funding competition to begin on April 17, 2014. DHCD anticipates setting aside a total of \$4 million in Affordable Housing Trust Funds (the Trust) and Housing Stabilization Funds (HSF) for this purpose. The funds will be made available subject to approval from the Executive Offices of Administration and Finance of annual spending authority for both sources.

A. Funding Categories:

DHCD has established two funding categories for possible homeownership projects to be submitted to the April 17, 2014 funding competition:

- Applications for new construction family housing projects for first-time buyers to be located in “areas of opportunity”. The definition of “areas of opportunity” is consistent with the definition included in the Department’s annual Qualified Allocation Plan for the low-income housing tax credit (available on DHCD’s website). Matching funds from the local community are a threshold requirement for all homeownership applications.
- Applications for acquisition/rehabilitation or new construction family housing projects for first-time buyers to be located in Gateway cities or in distressed neighborhoods in other smaller municipalities. These applications will be considered if the project sponsor can demonstrate marketability of the project in a location within a well-defined neighborhood redevelopment plan. Matching funds are a threshold requirement for all homeownership applications. Either local funds or Neighborhood Stabilization Funds (NSF) from the Massachusetts Housing Investment Corporation (MHIC) will be accepted as match.

Applications for project-based homeownership assistance during the April 2014 competition must conform to one of these two funding categories. Applications that do not conform will not be accepted during this competition.

All applications must represent family housing projects serving first-time homebuyers, as defined by DHCD funding programs such as the Housing Stabilization Fund (HSF) or the Local Initiative Program (LIP). No applications for 55-and-older housing will be accepted during the April competition.

B. Pre-Application Process:

The April 2014 funding competition will be invitation-only. All sponsors will submit a pre-application to DHCD no later than March 7, 2014. DHCD will provide interested sponsors with the pre-application form and, during February 2014, will host an information session on the pre-application process. DHCD will evaluate the pre-applications for project feasibility, local funding match, readiness to proceed, marketability of the units, and other industry-standard criteria. Following the pre-application review process, expected to take approximately three weeks, DHCD will invite certain sponsors to apply to the April 2014 funding competition.

C. Threshold Requirements:

A threshold requirement for all projects at pre-application and in April 2014 will be local match. Each host community must provide written confirmation that it will help fund the proposed project, or the project will not be considered by DHCD at pre-application. Sponsors of projects located in Gateway cities may submit a written confirmation of

NSP match from the Massachusetts Housing Investment Corporation, which has its own NSP funds.

A threshold requirement for all projects will be zoning in place at the time of pre-application. If zoning relief includes an appeals period, the project must have cleared the appeals period by the time of pre-application.

All project sponsors must conform to fair housing policies and practices in marketing homeownership projects funded through DHCD. Each project sponsor must submit an affirmative fair housing marketing plan during the April 2014 funding competition. That plan must be approved by DHCD as part of its evaluation process.

It is DHCD's expectation that projects to be developed in areas of opportunity will be production projects – i.e., new construction on a single site. (In certain limited cases, a sponsor may propose adaptive reuse on a single site.) Scattered-site projects in areas of opportunity will not be accepted at pre-application.

Sponsors of projects in areas of opportunity must present evidence of site control at the time of pre-application.

It is DHCD's expectation that projects proposed for Gateway cities or other smaller municipalities will be located on scattered sites in a single neighborhood, covered by a well-defined neighborhood redevelopment plan. Existing units are likely to require rehabilitation prior to purchase by a first-time homebuyer. Sponsor/developers are expected to follow the successful NSP acquisition/rehabilitation or new construction model in structuring their applications. (Information on NSP programs and requirements is broadly available on various websites as well as from staff at DHCD, MHIC, and the Gateway cities.)

D. Development Team Qualifications:

Sponsor/developers seeking DHCD funding through the April 2014 competition must have completed at least one successful homeownership project of similar type and scale, with assistance from DHCD, within recent years.

All members of the development team must be in good standing with DHCD and its quasi-public affiliates.

If the sponsor/developer has secured a recent funding award from DHCD, the sponsor/developer must have made substantial progress on the rental project in order to be eligible to apply for project-based homeownership funding.

As part of the April 2014 application process, sponsor/developers must demonstrate to DHCD's satisfaction that they have the financial capacity to undertake a homeownership project of the size proposed.

E. Funding Category: Family Homeownership Housing in Areas of Opportunity

The location of projects to be considered in this funding category must meet the definition of "Areas of Opportunity" included in the Department's 2013 and 2014 Low Income Housing Tax Credits Qualified Allocation Plans (QAPs). The definition is as follows:

Areas of Opportunity are neighborhoods and communities that provide access to opportunities, including, but not limited to, jobs, transportation, education, and public amenities. Access to opportunity locations will be defined by publicly-available data.

Project Types: New construction on a single site; single family or duplex homes. Adaptive re-use will be considered in limited markets. DHCD will only evaluate condominium projects if market conditions indicate significant demand and a significant price differential between market rate and affordable condominiums.

Minimum Project Size: 10 total units

Minimum Affordability Requirement: 25% of total units

Maximum Amount of DHCD Assistance per Project: \$500,000

Maximum Amount of DHCD Assistance per Affordable Unit: \$75,000

Total Development Cost per Unit: No more than \$300,000 attributable to affordable units. The TDC per unit must be lower than the median sales price for project type in the host community at the time of pre-application and at full application.

Maximum Amount of Developer Overhead/Fee per Project: 15%

Maximum Sales Prices for Affordable Units: Affordable to first-time buyers earning no more than 70% of AMI and qualifying at industry standard interest rates; no more than 5% downpayment and closing costs; industry standard debt ratios

Price Differential between Market Units and Affordable Units: At least 1.25 to 1 sales price differential

Matching Funds Requirement: At least equal to request for DHCD subsidy per unit and per project

Matching Fund Sources: CPA; local housing trust, local HOME or CDBG; other local funding sources if acceptable to DHCD

Other Funding Requirement: Hard letters of interest from construction lenders and mortgage loan originators

Design/Scope Requirements: Sponsor/developers should review guidelines for existing DHCD programs including the Affordable Housing Trust Fund, the Housing Stabilization Fund, and HOME. Post-construction, all units must meet state and local building codes. Sponsor/developers must conform to all statutes governing the provision of housing for persons with disabilities.

Market Study Requirement: Sponsor/developer must submit sound market data at the time of pre-application. Market study prepared by experienced third-party consultant must be submitted to DHCD at the time of full application.

Readiness Requirements: Zoning in place by pre-application; no permitting delays; no environmental or historic delays; architectural drawings (including site drawings) in process.

Mandatory Buyer Requirements: First-time buyers only (sponsor/developers must follow HSF definitions); buyers may not own another home at the time of purchase; buyers must have completed homeownership counseling by the time of purchase; buyers must be required to participate in post-closing counseling; buyer must obtain fixed-rate financing with industry standard interest rates and closing points and debt ratios acceptable to DHCD; buyers must execute a standard-form mortgage and covenant issued by DHCD.

F. Funding Category: Family Homeownership Housing in Gateway Cities or Other Smaller Communities with Well-Defined Neighborhood Redevelopment Plans

Given funding constraints, it is DHCD's position that it can only support limited project-based homeownership in these markets, which have not fully rebounded from the recession. If sponsor/developers are able to structure projects using the successful NSP model, the Department is willing to contemplate providing a limited amount of project-based assistance to their projects. To date, NSP has provided funding for over 500 project-based homeownership units in weaker-market communities, both through acquisition/rehabilitation of distressed or foreclosed properties and through limited new construction on in-fill sites. Despite the constrained resource environment – heavily impacted by the significant cuts to the federal HOME program – DHCD is willing to make a limited amount of NSP-like assistance available to support project-based assistance in weaker real estate markets. **Sponsor/developers should note the following: DHCD will give priority in the April 2014 funding competition to applications that will continue the sponsor/developer's successful recent homeownership work in certain neighborhoods in the Gateway cities and other smaller communities.**

Project types: acquisition/rehabilitation or new construction based on the NSP model; single family or duplex; triple deckers (rehabilitation only); single site preferred, but scattered-site permissible, if approved by DHCD; location(s) must be covered by well-defined neighborhood redevelopment plan; condominiums not allowed

Minimum Project Size: 6 units

Minimum Affordability Requirement: 25% of total units

Maximum Amount of DHCD Assistance per Project: \$500,000

Maximum Amount of DHCD Assistance per Affordable Unit: \$75,000

Total Development Cost per Unit: No more than \$250,000 attributable to affordable units

Maximum Amount of Developer Overhead/Fee per Project: 15%

Matching Funds Requirement: At least equal to one-half of the request for DHCD subsidy per unit and per project

Matching Fund Sources: CPA; local housing trust, local HOME or CDBG; other local funding sources if acceptable to DHCD; NSP from the Massachusetts Housing Investment Corporation

Other Funding Requirements: Hard letters of interest from construction lenders and mortgage loan originators

Design/Scope Requirements: Sponsor/developers should follow the design/scope guidelines established for NSP by DHCD or MHIC. At the time of application, the properties and sites to be developed must be identified. Within four months of a DHCD award, sponsor/developer must submit evidence of site control and a detailed scope of work per unit prepared by a qualified rehabilitation/construction specialist. The proposed scope must be acceptable to DHCD. Post-rehabilitation or construction, all units must meet state and local building codes. Sponsor/developers must conform with all statutes governing the provision of housing for persons with disabilities.

Market Study Requirement: Sponsor/developer must submit sound market data at the time of pre-application. Sponsor/developer must submit full market study prepared by experienced third-party consultant at the time of full application.

Readiness Requirements: Zoning in place by pre-application; no permitting delays; no environmental or historic delays; architectural documents in process.

Mandatory Buyer Requirements: First-time buyers only (sponsor/developers must follow HSF definitions); buyers may not own another home at the time of purchase; buyers must have completed homeownership counseling by the time of purchase; buyers must participate in post-closing counseling; buyer must obtain fixed-rate financing with industry standard interest rates and closing points and debt ratios acceptable to DHCD. In addition, buyers must execute a promissory note and mortgage issued by DHCD; the length and affordability will conform to the least restrictive period of time permitted by the DHCD funding source or sources.

III. DHCD Rolling Applications for High Impact Homeownership:

As the housing market recovers, several sponsors and communities are working together on large-scale, high-impact projects with special characteristics. Typically, these projects are both mixed-income and mixed-tenure and are larger than 100 total units. In addition, these projects have significant levels of local match. DHCD reserves the right to accept one or two high-impact applications per year on a rolling basis. DHCD will set aside \$1.5 million to \$2 million in Affordable Housing Trust funds to support these applications.

Each high-impact application must be part of a large-scale project with at least 100 total housing units. The overall project must include both affordable and market rate units. Each application must be supported by a significant commitment of local funds and/or private grant funds. It is DHCD's expectation that the total amount of local or private funds will be equal to or greater than the award sought from DHCD. Architectural drawings and scope must be at an advanced stage. Each application must represent a project that is zoned and permitted (with the exception of building permits). Market information must clearly demonstrate the feasibility of the project. These applications must represent projects that are highly ready to proceed. These projects, because of their size, must have the potential to create significant positive neighborhood impacts upon completion.

Prior to preparing an application, sponsor/developers of large-scale, high-impact projects must meet with DHCD staff to present their projects. Full funding applications will be accepted on an invitation-only basis from sponsor/developers whose projects are highly ready to proceed.

IV. Additional Information and Sponsor/Developer Question and Answer Session:

DHCD will host a question-and-answer session for sponsor/developers who wish to submit homeownership pre-applications. The session will be held on February 18, 2014, at 10:30 AM at DHCD. Sponsor/developers who are interested in attending must RSVP to bertha.borin@state.ma.us.

For further information on these guidelines and the funding application process, please contact Kate Racer or Jo Ann McGuirk at the Department of Housing and Community Development at 617-573-1322 or 1301.