APPENDIX G

Rental Production Program Guidelines

A. Program Description

Projects requesting Rental Production Program (RPP) loan funds and low-income housing tax credits (tax credits) will be rated and competitively ranked based upon the point rating system in the Qualified Application Plan (QAP). Projects with both RPP and tax credits are required to meet all QAP requirements.

RPP loan funds come from federal and/or state programs, each with a separate set of regulations. The Agency uses the most restrictive limitations from each program to ensure that all program requirements are satisfied. These guidelines are to assist Applicants and owners understand the program. Please refer to the documents cited herein for project requirements.

Sources of RPP loan funds include:

- HOME Investment Partnership Act funds (HOME Program). The regulations for the HOME Program can be found at 24 CFR Part 92 within the Act.
- National Housing Trust Fund
- North Carolina Housing Trust Fund funds
- State appropriated HOME Match funds

B. Eligibility Requirements

All projects applying for RPP funds must submit the Notice of Real Property Acquisition form with the preliminary application and be eligible for and receive a tax credit allocation. The Agency may make an exception to this rule in its sole discretion. Projects proposing a federally insured loan or a loan requiring the RPP loan to have a term longer than 20 years or a loan which limits RPP repayment or requesting tax-exempt bonds are ineligible to apply for RPP funds.

C. Underwriting Requirements/Assumptions

Projects that cannot meet the minimum requirements below, as determined by the Agency, will be ineligible for RPP funds.

1. At least forty percent (40%) of qualified units in a project must be affordable to and occupied by households with incomes at or below fifty percent (50%) of median income. This requirement applies to all projects with RPP loans regardless of the funding source.

2. All RPP loans will be underwritten using a two percent (2%) interest rate and a term not to exceed twenty (20) years. The Agency may reduce this interest rate to ensure project feasibility. Projects financed with funds from USDA-Rural Development (RD) will incorporate the requirements of that program, including a thirty (30) year fully amortizing term and a zero percent (0%) interest rate.

3. All projects will be underwritten assuming a constant seven percent (7%) vacancy, except those financed with USDA-RD 515, which will be underwritten using vacancies proposed in RD's budget.

4. RPP loans will be underwritten with the assumption that rents will escalate at two percent (2%) per year and expenses will escalate at three percent (3%) per year with the exception of replacement reserves which will trend at four percent (4%) per year. Projects with HOME funds will have HOME Assisted Units that may be underwritten with rents escalating at one and a half percent (1.5%) and expenses escalating at three percent (3%).

5. New construction projects (excluding adaptive re-use) must budget a minimum of $3,800 per unit per year in operating expenses, not including taxes, reserves and resident support services. Renovation projects (includes preservation, rehabilitation and adaptive re-use) must budget a minimum of $4,000 per unit per year not including taxes, reserves, and resident support services

6. The RPP loan amount may be reduced or the terms may be revised based on the Agency's underwriting and/or changes in any underlying assumption after issuance of the conditional commitment. The Agency will re-underwrite all loans prior to loan closing. All projects must demonstrate an ability to repay at least a portion of the RPP loan. The Agency will set the RPP principal and interest payments such that the project will maintain a DCR of 1.15, inclusive of the monthly RPP payments but excluding deferred developer fee payments or any amounts paid to members or partners of the ownership entity (such as investor services fees). This may result in a balloon payment due at maturity.

   RPP Repayment = (Net Operating Income/1.15) - All other Debt Service.

7. The Agency must approve any additional debt on the project any time after award.

8. All projects requesting RPP funds must use current Low HOME rents for 15% of the total units spread proportionally through all bedroom types. For projects that receive HOME funds, the borrower must comply with the HOME Program regulations. These regulations include, but are not limited to, property standards, environmental compliance, tenant protections, affordability periods and rent and occupancy requirements. Borrowers should review the terms of their commitment letters carefully and discuss any requirements with the Agency.

9. The Agency must approve all rent increases. Refer to Section G of these Guidelines for more information on rents and rent increases.

10. Costs incurred pre-award are ineligible for RPP funds and must be covered by another source.

D. Reserve Accounts

On or before the closing of the RPP loan, borrower will establish reserve accounts (Accounts) set forth below. Borrower must fund the Accounts at an amount determined by the Agency. Unless otherwise approved by the Agency, the Accounts will be established from sources other than the RPP loan. All Accounts will be established with and held by the Agency or a third party (such as a nationally chartered bank) approved or required by the Agency. Unless otherwise specified herein or approved by the Agency, the Accounts will be interest-bearing and all interest earned will accrue in such Account for the benefit of the project.

Borrower will not withdraw any funds from an Account without the prior written approval from the Agency and only for the purposes for which such Account was specifically established. At any time during the term of the RPP loan, borrower will, upon request, provide the Agency with evidence of the existence of and amounts deposited in an Account and/or an accounting of any disbursements made from an Account. Any funds remaining in any Account at the end of the RPP Loan term must be used for project maintenance costs approved by the Agency or applied against the outstanding balance of the RPP Loan, at the Agency's discretion.

1. **Operating Reserve**: The operating reserve must be funded in an amount equal to the greater of a) $1,500 per unit or b) six month's debt service and operating expenses for the project, and must be maintained for the duration of the low-income use period. Funds in this account will only be used by borrower to cover the project's operating deficits. This account must be capitalized prior to RPP loan closing. The operating reserve can be funded by deferring the developer's fees of the project. If this method is utilized, the deferred amounts owed to the developer can only be repaid from cash flow if all required replacement reserve deposits have been made. The Agency, at its discretion, may make disbursement directly to or direct that such disbursement be made directly to the contractor/vendor. This account is not required for projects financed with funds from RD.

2. **Replacement Reserve**: All new construction projects must budget replacement reserves in the amount of $250 per unit per year for the first year. All rehabilitation and adaptive re-use projects must budget replacement reserves in the amount of $350 per unit per year. This amount will increase by four percent (4%) annually each year thereafter. On the first day of each month borrower will make installments equal to one-twelfth (1/12) of the annual replacement reserve deposit requirement for such year. These installments will begin the first month the project is eligible to close the RPP loan. Funds in this account may only be used as needed to cover the project's capital improvement needs. The Agency reserves the right to increase the required amount of annual replacement reserves if the Agency determines such an increase is warranted after a detailed review of the project's physical needs assessment. For projects with RD financing, the required funding of the replacement reserve will be established, administered and approved by RD.

E. Conditional Loan Approval

After publication of awards, the Agency will issue a conditional commitment letter for the project. Accompanying the conditional commitment letter will be a checklist of items to be submitted by the borrower prior to issuance of the final commitment letter. Failure to satisfy any of the conditions listed in the checklist will be considered as a failure to meet the Agency's requirements. Projects with HOME funds must submit an environmental review after award to receive a conditional commitment letter. The Agency may treat any promise, representation or other statement in the Application as material to its obligation under the conditional commitment.

F. Final Commitment Letter

Once the conditions listed in the conditional commitment letter have been satisfied, the Agency will issue a final commitment letter. Seventy-five percent (75%) of the RPP loan will be disbursed when the first-tier construction loan equals or exceeds seventy-five percent (75%) of the RPP loan amount and after disbursement of the Workforce Housing Loan Program funds (if any). The remaining twenty-five percent (25%) of RPP funds will be disbursed after issuance of 8609's, having ninety percent (90%) occupancy for a minimum of three (3) consecutive months and meeting any other requirements of the final commitment letter.

G. Changes in Rents and Utilities

Initial gross rents may not exceed the limits in the final commitment letter. The Agency reserves the right to reduce net rents in the event of a reduction in the HOME rent limits set by the Department of Housing and Urban Development.

After issuance of a project's final commitment letter, but prior to the conversion of the RPP loan to the permanent phase, any proposed rent increase must be submitted to the project's Housing Development Analyst for approval. After the RPP loan has converted to the permanent phase, all proposed rent increases must be submitted to the Agency's Asset Management staff. Submissions will be reviewed on an “as needed” basis, preferably once each calendar year.

Increases in estimated utility expenses will affect any request for a rent increase and must be implemented in accordance with the tenants’ lease provisions. The Agency will require documentation as it deems necessary. Any changes to the utility allowances must be sent in writing to the Agency’s Development Analyst by the earlier of 1) the first building to receive a Certificate of Occupancy or 2) when the first tenant applications are received.