

Supportive Housing Debt Program

The mission of the Maine State Housing Authority is to assist Maine people to obtain and maintain decent, safe, affordable housing and services suitable to their unique housing needs.

In carrying out this mission, the Maine State Housing Authority will provide leadership, maximize resources, and promote partnerships to develop and implement sound housing policy.

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Introduction

Section 1: Overview of Supportive Housing Resources

The Maine State Housing Authority (MSHA) is pleased to announce the availability of funding for supportive housing projects for calendar year 2002. MSHA is committed to the enhancement and creation of housing opportunities for people with special needs.

MSHA will provide two different Supportive Housing Program (SHP) options for non-profit developers to access funding for supportive housing projects:

- Below-market rate financing available at any time during 2002
- Subsidy funding available through requests for proposals

This guide describes the below-market rate financing option. MSHA will raise capital by issuing tax-exempt bonds and will pass the savings along to non-profit developers through low interest mortgage financing. Developers must demonstrate that their project is viable without additional MSHA subsidy beyond the low interest mortgage financing.

MSHA will offer a Supportive Housing Request for Proposals (RFP) in April. The RFP will offer subsidy funding on a competitive basis. The competitive criteria will be described in detail in the RFP. The deadline for applications will be June 7, 2002. Developers should contact MSHA to be placed on a mailing list to receive notification of the RFP.

MSHA will also be offering a request for proposals for transitional housing for Native Americans and a request for proposals for transitional housing for chronically homeless individuals with a mental illness diagnosis. Developers should contact MSHA to be placed on a mailing list to receive notification of these two requests for proposals.

Section 2: Background

The State of Maine Consolidated Housing and Community Development Plan identifies the need for a continuum of affordable and appropriate housing options for people with special needs. The Supportive Housing Debt Program addresses the need for both specialized and non-specialized rental housing for people with special needs.

The Supportive Housing Debt Program (Program) offers 7%, 30-year fixed rate financing to 501(c)(3) non-profit organizations developing housing for people with special needs. Eligible activities include, but are not limited to:

- transitional housing
- group homes
- emergency shelters
- single room occupancy (SRO) residences
- supported or independent apartments
- other group living facilities with residential programs

The proposed housing must be targeted to people with special needs. Examples of populations that may be served include:

- individuals with mental retardation
- victims of domestic violence
- frail elders
- foster children
- individuals with physical disabilities or AIDS
- individuals with substance abuse problems

MSHA will consider the following criteria in making financing decisions:

- Capacity of the developer to develop and operate the proposed project
- Demonstrated need for the proposed housing
- Commitments of additional development and operating capital as required by the needs of the project
- Developer creditworthiness
- Appropriate service delivery mechanism
- Affordability for people with the lowest incomes
- Source(s) of operating income
- Adequacy of collateral value

Section 3: Deadline

MSHA will accept applications under the Program until December 31, 2002. MSHA reserves the right to discontinue the Program before this date if resources cease to be available.

Eligibility

Section 1: Applicants

To be eligible under the Program, an applicant must:

1. Be a non-profit corporation duly organized in the State of Maine under Title 13-B of the Maine Revised Statutes Annotated or authorized to do business in the State of Maine, validly existing and in good standing under Maine law;
2. Qualify for tax exemption under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (Code)*;
3. Provide evidence that the proposed initiative is within the charitable and corporate purposes of the applicant;
4. Provide evidence of legal existence and authority to incur the liability of the financing;
5. Demonstrate capacity to deliver or ensure the delivery of appropriate services for the proposed resident population;
6. Demonstrate financial, organizational and development capacity to undertake the proposed initiative;
7. Provide evidence of a qualified development team;
8. Provide a letter of support from the appropriate State agency (i.e., Department of Human Services, Department of Behavioral and Developmental Services, Department of Corrections) which endorses the proposed housing, acknowledges the need in the geographic area, and approves the proposed service plan;
9. Depending on the proposed housing project, fulfill licensing requirements of applicable State agencies.

*An applicant may apply under the Program while in the process of applying for its 501(c)(3) exemption. The applicant must have applied for the exemption at the time the applicant submits an application under the Program. By loan closing, the applicant must provide a valid Internal Revenue Service (IRS) determination, which may be in the form of an advance ruling, that the applicant is exempt from taxation under Section 501(c)(3) of the Code and is not a private foundation under Section 509(a) of the Code. If the applicant has not been issued a final determination by the IRS by loan closing, the applicant must obtain a final determination before the end of the advance-ruling period. Further, if applicant is not the service provider or the

property manager, the applicant must provide evidence that the service provider or the property manager is exempt from taxation under Section 501(c)(3) of the Code and is not a private foundation under Section 509(a) of the Code or meets certain safe harbor requirements under the Code.

Developers and contractors must not be presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in federal housing programs.

MSHA will not accept or approve an application for financing if the applicant, or any entity controlled by the applicant, is 60 days or more delinquent on any loan with MSHA or is in default of any such loan, unless an approved payment or workout plan is in place and in good standing or has been in default of a MSHA loan which resulted in a foreclosure or transfer of a deed-in-lieu of foreclosure of the mortgage securing the MSHA loan.

MSHA's policy on conflicts of interest prohibits current employees or commissioners from working on certain transactions with applicants with whom they have a financial or personal relationship. To help ensure that this policy is carried out, applicants for loans under MSHA's programs are requested to disclose current or recent financial, business, professional or family relationships or associations with any MSHA employee or commissioner. MSHA will review these relationships for compliance with the policy. MSHA's Board of Commissioners will review potential or actual conflicts of interest for action or response on a case-by-case basis.

Section 2: Activities

Eligible activities include acquisition and rehabilitation, rehabilitation, and new construction. Applicants must create *new* special needs beds or units. Applicants may acquire existing housing, but the housing may not have been used as special needs housing.

Refinancing of existing debt is **not** an eligible activity. MSHA will examine the relationship of the buyer and seller of any property to ensure an "arm's length" transaction.

MSHA-financed projects are not eligible for funding under the Program with the following exception; projects that were financed by MSHA that will be utilizing currently vacant space or building new space that will provide either transitional housing or permanent housing beds or units.

MSHA may offer a program to assist MSHA-financed projects. Sponsors are encouraged to contact their MSHA Asset Manager to discuss this option. MSHA also offers a Subsequent Loan Program, which provides capital to make improvements to MSHA-financed projects. Please call MSHA to obtain a program guide.

The resources from this Program cannot be combined with any other financial resources available through MSHA, except the Pre-Development Loan Program.

Section 3: Non-Residential Activities

MSHA may limit the amount of space in a project that can be used for non-residential purposes. The non-residential use must be functionally related to and compatible with the residential component. Commercial uses and any activity that involves an unrelated trade or business income

or violates the corporate charitable purposes of the applicant are not eligible for MSHA financing. MSHA will evaluate the amount of commercial income that can be dedicated to support debt service and operating expenses on a case-by-case basis.

Financing / Underwriting Terms

Section 1: Available Funding

A total of \$6,000,000 of tax-exempt bond proceeds are available under the 2002 Program.

Section 2: Loan Terms

Minimum Amount \$25,000 per project

Maximum Amount \$500,000 per project

Interest Rate 7% per year

Term 30 years; full amortization with level debt payments. Applicants may elect to defer loan payments during the rehabilitation period. With this election, interest will accrue during the rehabilitation period and will be paid in one lump sum payment at the conclusion of the rehabilitation period.

Loan to Value Projects requesting \$125,000 or less in SHP debt may receive up to 100% of the total development cost. Projects requesting greater than \$125,000 in SHP debt may receive up to the greater of 125% of the project's appraised after-rehab, out-of-service value or 100% of the after-rehab, in-service value. The amount of the SHP debt will not exceed the total development costs of the project.

Late Charge 6% of any payment more than 15 days in arrears

Prepayment Penalty No prepayment without MSHA's consent; 2% penalty for prepayment during first 15 years and 1% during 16th through 20th years

Recourse Loans are fully recourse, i.e. in the event of a default, MSHA will look to other developer assets as needed to recover the full loan amount.

Section 3: Debt Service Coverage

The Program requires that debt service coverage be a minimum of 110%. The debt service coverage must be met by revenues that can be dedicated to real estate related expenses, i.e. not

dedicated to the costs of services. Therefore, the debt service coverage will be calculated by using gross rental income less vacancy and costs related to the operation of the real estate (management fee, administrative expenses, utilities, maintenance, taxes, insurance, reserves, etc.). The resulting net income is then divided by the debt service, the result of which must be a minimum of 110%.

Projects that are supported by State funding on a cost reimbursement basis are not subject to this requirement because the State does not recognize debt service coverage as a budget item.

Section 4: Security

Supportive housing loans must be secured by a first lien mortgage on the land and improvements, a general assignment of the project's leases, rents, contracts, accounts and a security interest in all fixtures and personal property of the project. In certain circumstances, MSHA may consider a shared first lien position; however, the total debt secured by the first lien mortgages may not exceed the loan-to-value limits described in Section 2. MSHA may require an inter-creditor agreement between the lender and MSHA which describes their relationship and their rights on terms and conditions acceptable to MSHA.

If the applicant is an instrumentality, subsidiary, or otherwise controlled by another non-profit corporation, MSHA reserves the right to require that the parent corporation guarantee the loan to its subsidiary.

The debt is not freely assumable. The developer may not transfer title to or any interest in the project or the developer or change the use of the project without MSHA's prior written consent subject to MSHA's Ownership Transfer Rule.

MSHA may cross-collateralize the supportive housing financing with other existing or future financing from MSHA to the developer or a related entity.

Section 5: Secondary Debt

No other liens, security interests or mortgages may encumber the project without MSHA's consent. Any person or entity with a mortgage subordinate to MSHA's mortgage and security interest may be required to enter into a subordination agreement with MSHA.

Section 6: Vacancy Rate

The application should provide support for the projected vacancy rate for the project, as applicable. The vacancy rate should be supported by either historical experience or industry standards.

Section 7: Review of Organizational Credit and Capacity

MSHA will evaluate the applicant's financial and organizational capacity to undertake the proposed project. The evaluation of credit capacity will include a review of the following:

- Positive annual cash flow/working capital position;
- Evidence of sufficient start-up capital;
- Adequacy of liquidity and net worth;
- Debt repayment history;
- Documentation supporting the reliability of income projections for the proposed project; and
- Size, scope and reliability of contracts by which organization is funded.

Section 8: Appraisals

If the amount of debt is equal to or less than \$125,000, MSHA will not require an appraisal of the project. These projects are eligible for debt financing up to 100% of the total development cost.

If the amount of debt is greater than \$125,000, MSHA will require an appraisal of the project. The appraisal must determine the project's after-rehab in-service and after-rehab out-of-service market values. These projects are eligible for debt financing up to the greater of 125% of the project's appraised after-rehab out-of-service value or 100% of the appraised after-rehab in-service value.

MSHA will commission the appraisals for all projects from a list of MSHA-approved appraisers after MSHA determines that the project is viable. Viability means a project is financially, legally and physically feasible. The developer will reimburse MSHA for the cost of the appraisal from loan closing proceeds, provided that the project is financed. Developers will not be required to repay the cost of the appraisal if the project is not financed. The cost of the appraisal is a mortgageable expense and should be included in the development budget. MSHA will notify the developer of the cost of the appraisal when it is commissioned.

Section 9: Replacement Reserve

The initial funding to the replacement reserve account is an amount equal to one percent of the *cost of structures*. For acquisition/rehabilitation projects, the *cost of structures* is defined as the percentage of the acquisition attributable to the cost of the building plus the cost of the rehabilitation (including contractor's overhead, profit, general requirements, and contingency). The percentage of the acquisition attributable to the building can be determined either by an appraisal or by applying the ratio in the tax assessment between land and building to the overall acquisition cost. For new construction projects, the *cost of structures* is defined as the total construction contract.

The developer must establish and deposit the initial funding amount in the replacement reserve account at the loan closing. This initial funding of the account is a mortgageable cost. The developer must establish the account at a financial institution approved by MSHA. The developer and MSHA must be “either/or” signatories on the account, i.e. both the developer and MSHA will be able to authorize transactions. The signatory card for the account must be delivered to MSHA at or prior to the loan closing. MSHA will review on-going funding requirements through an annual review process. MSHA reserves the right to require sole signatory control based on the annual reviews.

On the first day of each month after loan closing, the developer must make monthly deposits to the replacement reserve account in an amount equal to 1/12th of one percent (1%) of the *cost of structures*. Each year thereafter, funding to the Replacement Reserve Account will increase by 2% of the previous year’s funding, to account for inflation. All MSHA-financed projects are subject to this replacement reserve account-funding schedule.

Section 10: Real Estate Taxes and Insurance

Properties will be underwritten reflecting full tax liability. The tax amount will be based on certification by the local municipal tax assessor of the after-rehabilitation valuation and mil rate, unless the project is able to secure tax relief from the community. This may be in the form of an abatement or an agreement for a payment in lieu of taxes (PILOT). MSHA neither encourages nor discourages non-profit corporations from seeking exemptions from local taxes and will not take any position in negotiations between developers and municipalities regarding property tax liability.

The developer must provide evidence of acceptable property insurance in the form of a binder or certificate of insurance prior to loan closing. The developer must pay the first year’s property insurance premium in full at or before loan closing.

MSHA reserves the right to require a tax and insurance escrow account. If required, the developer must establish the escrow account at a financial institution acceptable to MSHA prior to the loan closing. The developer and MSHA must be “either/or” signatories on the account; i.e. both the developer and MSHA will be able to authorize transactions. The developer must deliver the signatory card for the account and pre-fund the account in an amount determined by MSHA at the time of the loan closing. The pre-funding requirement for property taxes will be the amount which, when combined with the monthly funding to the tax and insurance escrow account, will pay the next scheduled tax bill or to make the PILOT payment as applicable. Projects that will receive an exemption must prepay an amount that will adequately cover the tax obligation from the time of the closing to the commencement of the tax exemption.

Because taxes and insurance are operating expenses, not capital items, neither the cost of the first year’s insurance premium nor the pre-funding requirement for property taxes are mortgageable expenses. The developer must pay for these two items from other sources of capital or equity.

Section 11: Evidence of Other Funding - Capital & Operating

Applicants must demonstrate evidence of commitments for all other sources of project financing as necessary. Applicants should submit commitment letters, contracts, and other evidence of capital subsidies and operating subsidies with the application if they are available.

Section 12: Title Insurance

The developer must provide a lender's title insurance policy acceptable to MSHA insuring MSHA's first-lien mortgage position with mechanics lien and survey exceptions deleted prior to the loan closing.

Section 13: Construction Financing

For projects involving rehabilitation, MSHA will establish and administer a rehabilitation escrow account. For projects involving substantial rehabilitation or new construction, MSHA may require developers to secure construction financing from a construction lender.

For projects with a MSHA-administered rehabilitation or construction escrow account, the developer shall deposit all funds necessary for the rehabilitation or construction of the project in the account at the loan closing. MSHA will hold and administer the account in accordance with the terms of a Rehabilitation Escrow Agreement to be executed by the developer and MSHA at the loan closing. MSHA will disburse funds from the escrow following inspection and approval by MSHA. MSHA will provide the developer with the procedure for requesting disbursements at or following the loan closing. Payment from the escrow account will be in the form of two-party checks requiring both the developer and the contractor to endorse the check as payment is received.

Because MSHA does not charge a fee for administering the rehabilitation escrow, the rehabilitation escrow account will not pay any interest earnings to the developer.

The developer may elect to defer the payment of principal and interest on the loan during the rehabilitation period. However, the interest on the loan will continue to accrue during the rehabilitation period. The developer will pay the accrued interest in a lump sum at the conclusion of the rehabilitation. The regular principal and interest payments will then be due on the first day of the month following the completion of the rehabilitation. Developers electing this option should, therefore, reflect the total accrued interest anticipated during the rehabilitation period in their development budget.

Example:

The loan closes on January 1. The project has a 2-month rehabilitation period. The developer will not pay any principal and interest during January and February. On the first day of March, the developer will pay two months of accrued interest. On the first day of April, the developer will pay the normal principal and interest payment reflected in the amortization schedule for the loan. The development budget should include funding sufficient to pay the two months of accrued interest.

For developers that do not elect to defer principal and interest during the rehabilitation period, an interest-only payment will be due on the first day of the month following the MSHA loan closing. The first principal and interest payment will be due on the first day of the following month. With this arrangement, developers do not need to include rehab period accrued interest in their development budget.

Affordability

Section 1: Affordability and Use Requirements

The developer must make twenty (20%) percent of the beds/units available for individuals or families that are earning low income as determined by MSHA. For purposes of this program, individuals that are under the guardianship of the State of Maine will be determined to be earning low income. This affordability requirement will extend for a period of 30 years beginning on the date of loan closing.

The developer will enter into a Financial Assistance Agreement (FAA) with MSHA which obligates the developer to comply with the above affordability requirement and to maintain the proposed use for the project as housing for persons with special needs for 30 years. The FAA contains restrictive covenants that run with the land and bind all subsequent owners. The FAA will be recorded in the applicable registry of deeds upon loan closing.

Services

Section 1: Populations Served

The Supportive Housing Debt Program is intended to serve populations with special needs. Each project must offer significant services addressing the needs of the intended residents. The applicant must identify all the specific services that will be provided, the entity that will be responsible for each service, the budget for each service, and the source of funding for each service. The developer must submit the proposed service plan at the time of the application.

MSHA's loan documents will include an agreement by the developer to deliver the specified services as outlined in the service plan and to continue serving the target population that is identified in the original proposal.

Section 2: Marketing

Developers must provide acceptable evidence of the demand and need for the proposed housing project. Documentation should, at a minimum, demonstrate:

- the specific population which will be served;
- the size and location of this population;
- the unmet need in this population that is to be addressed by the developer's proposal;
- the length of time anticipated for the project to reach full occupancy;
and
- the overall market conditions relevant to the type of housing being proposed.

Process

Section 1: Application Processing

MSHA will notify developers whether MSHA will finance a project once a complete application is received and steps 1-7 below are complete. MSHA will issue a loan commitment letter if MSHA decides to provide financing for a project. MSHA will provide a closing agenda to the developer following the execution of a commitment letter. A MSHA loan closing will be scheduled by MSHA upon the satisfaction of the items in the closing agenda.

Following is the typical process for SHP loans:

1. MSHA receives an application for financing, including proposed scope of planned rehabilitation or new construction.
2. MSHA performs preliminary review for completeness and feasibility and notifies applicant of any additional required items.
3. MSHA processes the inducement resolution (See Section 2 below).
4. MSHA visits the site to determine completeness and feasibility of proposed scope of work.
5. MSHA commissions an appraisal (if applicable).
6. MSHA reviews final specifications and plans for construction; reviews contractor's contracts.
7. MSHA confirms availability of State development and operating subsidies (if applicable).
8. MSHA performs final underwriting and makes decision on complete loan application.
9. MSHA issues a commitment letter, if the financing decision is affirmative.
10. MSHA prepares loan documents.
11. Developer provides all items on the loan closing agenda acceptable to MSHA.

Section 2: Request for Inducement

An important part of the application for tax-exempt financing is the request for inducement. This form will enable MSHA to conduct the “Official Action” required by the Internal Revenue Code to issue tax-exempt financing. Costs incurred by the developer prior to this Official Action may not be reimbursed with tax-exempt proceeds. An Official Action is not a commitment to process a proposal or provide funding. It is important that the information provided be as accurate as possible regarding the site and the proposed ownership structure. To provide the greatest future flexibility, all current or potential partners, parent corporations, subsidiary corporations, etc. that may potentially participate in the ownership entity should be named. **After submitting the request for inducement, the applicant must notify MSHA immediately if there are any changes to the proposal which will affect the information contained in the Inducement Resolution.**

Section 3: Owner’s Tax Certification

MSHA will require the completion of an Owner’s Tax Certification at the time of the loan closing. MSHA will provide the form to the developer prior to the loan closing.

Site and Construction Standards

Section 1: Site Control

Applications for financing must include a signed purchase and sale or option agreement for the proposed site. Purchase and sale agreements should provide the developer with a minimum of 120 days to purchase the property. MSHA encourages applicants to secure agreements that credit option payments or earnest money deposits toward the reduction of the purchase price.

MSHA strongly encourages developers to secure contingencies in the purchase and sale agreements by which the earnest money deposit will be returned to the developer if certain requirements or standards cannot be met. Examples of these contingencies include without limitation:

- an acceptable survey;
- satisfactory inspection by the State Fire Marshal's Office (if applicable);
- receipt of 501(c)(3) determination;
- satisfaction of all relevant title and land use issues as evidenced in an attorney's title and land use opinion;
- standard contingencies, such as success in securing financing, satisfactory environmental assessment, etc.;
- presence of lead-based paint.

Purchase and sales agreements should allow access to the site for environmental reviews, architect's inspections, and contractor's estimates.

Developers must secure all required land use approvals and any and all federal, state and local permits and approvals required to proceed with acquisition, construction and/or rehab, and operation of the supportive housing project. The appeal period for all approvals must be expired without appeal as of the loan closing.

Section 2: Site Standards

MSHA will not approve a site if the surroundings will detract excessively from the quality of the development, or when the development has/will have an adverse effect on its surroundings. Existing neighborhood conditions must be free of physical deterioration severe enough to compromise the viability of a development, free of conditions which present visual blight, free of

nuisances from water pollution, noise and/or odor, and free of hazards from physical features which would detract from the development.

The project must comply with the requirements under 30-M.R.S.A. § 4349-A. Projects that involve new construction, the acquisition of newly-constructed buildings, or the development of multi-family residential rental property, must be located in a locally-designated growth area as identified in the applicable municipality's comprehensive plan. If a municipality has not designated growth areas in its comprehensive plan, the project must be located in an area that is served by a public sewer system with the existing capacity for the project, an area identified as a census-designated place in the latest Federal Decennial Census, or a compact area of an urban compact municipality as defined under 23 M.R.S.A. § 754. Projects that serve persons identified in 30-M.R.S.A. § 4349-A(1)(C)(7), including without limitation, persons with disabilities, persons who are homeless and persons who are wards of the State, are excluded from the requirements of M.R.S.A. § 4349-A.

MSHA may require a Phase I Environmental Site Assessment prepared by a qualified professional to evaluate potential hazards. The survey will be paid by the developer and is a mortgageable cost.

Section 3: Survey

MSHA requires a certified mortgage inspection plan for all projects. MSHA reserves the right to require a standard boundary survey. MSHA may require an as-built survey for rehabilitation projects involving a substantial change to the footprint of the building or for new construction. The plan or survey will need to be certified to the title insurer and MSHA in a manner acceptable to the title insurer. The plan or survey must be acceptable to the title insurer to delete the survey exception in the title insurance policy.

Section 4: General Building Standards

MSHA has adopted standards of design and construction to develop safe housing, which will serve the needs of its residents, with as much quality as the market place demands and resources permit.

All work undertaken must minimally comply with the *Building Officials and Code Administrators Standards* (BOCA Codes) and *National Fire Protection Association Codes* (NFPA). These codes are a series of standards to be applied according to building type, number of units, type of improvements, etc. and include, among others:

- BOCA National Building Code
- BOCA National Plumbing Code
- BOCA National Mechanical Code
- NFPA 13 Sprinkler Systems
- NFPA 70 the National Electrical Code
- NFPA 101 the Life Safety Code
- American National Standards Institute (ANSI) CABO/ANSI A117.1-92 which addresses Accessible and Usable Buildings and Facilities
- The Americans with Disabilities Act (ADA)

In addition, alterations of housing facilities that are to be made accessible pursuant to Section 504 of the Rehabilitation Act of 1973 must be done according to the Uniform Federal Accessibility Standards (UFAS). The Maine Human Rights Act applies to renovated buildings with rehabilitation costs over \$100,000. Pursuant to Maine law and applicable federal law, the project must meet all accessibility and adaptability requirements, and be reviewed for such compliance by the State Fire Marshal's Office.

MSHA requires that **all** projects be in compliance with ADA. Compliance with ADA may be documented by a certification by a Maine licensed architect or a barrier free construction permit from the State Fire Marshal Office.

For existing structures, MSHA will conduct an initial site visit to evaluate the proposed scope of work. A successful applicant must undertake all necessary maintenance, capital improvements and code compliance work required by MSHA. When the scope of building rehabilitation or construction is complex, or if required by State law, MSHA may require the applicant to retain a licensed architect to develop the plans and specifications for the project. MSHA will review and approve all plans and specifications.

All projects with a private water must satisfy the State Department of Health Engineering water quality test requirement. The developer must submit evidence of satisfaction of this test with the application.

The State of Maine has Energy Efficiency Building Standards applicable to all buildings that are financed under this program. The Department of Economic and Community Development, Energy and Conservation Division, has implemented rules to restrict the installation of electric resistance heating units in new, conditioned space. Details are available by calling 624-7495. MSHA will not accept any application to acquire or improve existing electrically heated units (electric

resistance heat) unless the application includes a plan for conversion to an alternatively fueled heating system.

State and Federal Requirements pertaining to the mitigation of lead based paint are applicable. Generally, rehabilitation activities and lead-based paint hazard reduction must conform to 24 CFR 35.

The State of Maine Water Conservation Rule must be incorporated into project design. Specific water flow restrictions and water conserving equipment must be installed pursuant to this rule.

MSHA will act as the final authority when interpreting any codes or standards for MSHA-financed properties.

Section 5: Habitability Standards

Projects must meet all State and Federal environmental, labor, civil rights, relocation and other requirements. In particular, MSHA will require owners to notify the occupants of housing built before 1978 of the hazards of lead poisoning. MSHA will require that, where they exist, potential lead-based paint and asbestos hazards be addressed according to Federal or State requirements. MSHA will require that for the purpose of protecting MSHA's security interest in the project, MSHA may impose additional requirements relative to the abatement or removal of lead-based paint surfaces and asbestos.

Section 6: Contractor Selection

Developers are responsible for securing a price from and engaging competent contractors to perform the work. MSHA will review all contractor(s) proposal(s) for cost reasonableness and completeness prior to issuing a funding commitment. MSHA reserves the right to require a competitive bidding process for a general contractor and/or sub-contractors and to require bonds.

MSHA will review the relationship of the developer and the suppliers of goods and/or services to confirm that there is no identity of interest. This means that no amount financed by MSHA should represent the cost of goods acquired from a party related to the developer, either by a family, partnership or corporate relationship.

MSHA strongly encourages the participation of minority and women's business enterprises.

The developer's responsibilities to promote the use of women-owned and minority-owned business enterprises include:

1. Placing qualified women-owned and minority-owned business enterprises on solicitation lists.
2. Assuring that women-owned and minority-owned business enterprises are solicited whenever they are potential sources.
3. Dividing total requirements, when economically feasible, into small tasks or quantities to permit maximum participation by women-owned and minority-owned business enterprises.
4. Maintaining records of advertising, telephone contacts, and other efforts used to encourage the use of and contracting with women-owned and minority-owned business enterprises.

Section 7: Bonding Guidelines

In the event MSHA provides financing for construction and rehabilitation activities, MSHA may require a payment and performance bond. MSHA will decide on a case-by-case basis using the following guidelines.

For conventional site built projects, decisions regarding "bonding" will be based, in part, on the following construction cost schedule:

- Less than \$100,000 – no bonds required
- \$100,000 to \$200,000 – MSHA may require bonds
- over \$200,000 – bonds required

For "modular" projects, decisions regarding "bonding" will be based, in part, on the following construction cost schedule:

- Less than \$200,000 – no bonds required
- \$200,000 to \$400,000 – MSHA may require bonds
- over \$400,000 – bonds required

For "Turn-Key" projects and projects completed without MSHA construction financing, if the construction lender does not require bonds, then MSHA may require a maintenance bond in an amount equal to 10% of the construction amount.

Project Management & Reporting Requirements

Section 1: Ongoing Reporting Requirements

The financial, physical and administrative management of projects financed through the SHP Debt program will be regularly reviewed by MSHA for the duration of the financing and required low-income benefit period. MSHA's procedures, as well as the financing commitment and mortgage loan documents, permit MSHA to monitor and preserve the financial viability of the project for the purpose of protecting its security interest and ensuring continued public benefit. For units (apartments), owners must provide initial and annual certifications and initial tenant income certifications. For group living arrangements (beds), owners must provide annual certification that the property continues to be operated in the manner required at permanent loan closing.

All marketing activities must be conducted in accordance with Federal and State laws on human rights, equal opportunity, and fair housing.

The project must continue to meet BOCA standards throughout the period in which MSHA's debt is outstanding. MSHA will periodically inspect all units, annually review project financial reports (MSHA reserves the right to require audited financial statements), and review the activities of the borrower to assess compliance with applicable regulations and mortgage requirements. The Developer shall furnish to MSHA within 60 days after the close of each fiscal year an annual financial statement showing all expenses and earnings or revenues of the project in reasonable detail. MSHA reserves the right to require a yearly budget at least 30 days prior to the beginning of Developer's fiscal year.

MSHA cautions applicants to be aware of the potential applicability of provisions of the Maine Human Rights and Federal Fair Housing legislation and Section 504 to any housing proposed for funding. Procedures for selection of residents, conditions of residency, and rules regarding termination may fall within the scope of this legislation. Providers must make reasonable accommodations of rules, policies and procedures, and may be required to allow reasonable structural modifications to buildings, if necessary to allow an individual with disabilities equal access to housing.

Displacement / Relocation Policy

Section 1: Tenant Relocation Policy

MSHA **strongly** discourages the development of projects that will require displacement of tenants. All projects financed with MSHA funds must comply with MSHA's Displacement and Relocation Policy. A summary of this policy is included in the Program application. Applicants may obtain a copy of the full policy upon request. Developers should be aware that displacement costs can be very significant and can result in projects being financially infeasible.

Funding for Pre-Development Activities

Section 1: Pre-Development Loan Program

Non-profit borrowers may apply for pre-development loans for \$10,000, plus \$10,000 per unit or bed, up to \$60,000 per project, subject to the availability of funds. Pre-development loans are interest-free loans to cover mortgageable pre-development costs of non-profit developers who are securing site control, applying for project approvals, and preparing financing applications for housing development projects which ensure affordability for lower income residents of Maine.

Applicants for pre-development loans are encouraged to contact MSHA's Development Division with questions concerning the requirements of the program and to discuss the proposed project **before** submitting a funding application.

Non-Discrimination Policy

Section 1: Fair Housing and Accessibility

The Maine State Housing Authority does not discriminate on the basis of race, color, religion, sex, national origin, ancestry, age, physical or mental disability, or familial status in the admission or access to, or treatment or employment in, its programs and activities. MSHA will provide special communication assistance to persons with vision or hearing impairments. MSHA has designated the following person responsible for coordinating compliance with applicable federal and state nondiscrimination requirements:

Jodie Stevens
Maine State Housing Authority
353 Water Street
Augusta, Maine 04330
Telephone Number (207) 626-4600 or 1-800-452-4668 (voice)
or 1-800-452-4603 (TTY)

Applicants are cautioned to be aware of the potential applicability of provisions of the Americans with Disabilities Act, the Maine Human Rights Act, federal Fair Housing legislation and Section 504 of the Rehabilitation Act of 1973 to any housing proposed for funding. Procedures for selection of residents, conditions of residency, and rules regarding termination may fall within the scope of this legislation. Providers must make reasonable accommodations of rules, policies, and procedures and may be required to allow reasonable structural modifications of buildings to be made, if necessary, to allow an individual with disabilities equal access to housing.

MSHA RESERVES THE RIGHT TO REJECT OR CEASE PROCESSING ANY OR ALL SUBMISSIONS OR APPLICATIONS PRIOR TO ISSUANCE OF A COMMITMENT FOR PERMANENT FINANCING. MSHA ACCEPTS NO OBLIGATION TO FINANCE ANY PROPOSAL UNTIL A PERMANENT FINANCING COMMITMENT HAS BEEN ISSUED AND ACCEPTED BY THE DEVELOPER IN ACCORDANCE WITH ITS TERMS.