

## **POLICIES FOR THE USE OF STATE HOME FUNDS FFY 2011**

The State of Maryland will receive a total of \$ 7,100,628 in federal HOME funds for federal fiscal year 2011 (FFY 2011).

These policies govern the use of the HOME funds to be administered by the Maryland Department of Housing and Community Development (DHCD).

### **Income Levels to be Served**

HOME funds will be used to increase the number of housing units for very low income individuals and households. HOME funds will be targeted for the lowest income households as follows:

For rental housing projects, HOME funds will be targeted to serve households at or below 60 percent of the area or non-metro median income, whichever is greater.

For homeownership projects, HOME funds will be targeted to serve households at or below 80 percent of Statewide median income for a four-person household.

### **Terms of HOME Funds**

Under federal regulations, HOME funds can be used flexibly by the State, structured as loans with or without interest, or with other flexible terms. HOME funds generally will be provided as non-interest bearing deferred loans or as grants. HOME funds also may be provided as amortizing loans or as recoverable grants which require repayment of the principal amount of the HOME funds at such time as the property is sold or discontinued for use as low income housing. In addition, equity sharing for rental projects may be required when low income usage is discontinued, with the State sharing in proportion to the amount of HOME funds involved in the project financing. Federal regulations set forth equity restrictions for use of HOME funds for homeownership which will govern use of these funds.

### **Use of HOME Funds**

HOME funds will be used for projects in conjunction with the existing housing programs of DHCD as well as for projects without other State financing. Through the HOME Initiatives Program, HOME funds will be used to fill a need not met by existing housing programs.

1. HOME Initiatives Program

The HOME Initiatives Program will be used to finance programs, projects and activities that fill a need not met by other DHCD housing programs, but which promote the development and rehabilitation of housing for homeowners, renters, and special populations.

Local governments, non-profit sponsors and developers may propose projects or programs for the use of these funds or DHCD may have projects and program concepts it may wish to test. Any proposals submitted by DHCD will be considered along with other applications to the HOME Initiatives Program.

Funds in the HOME Initiatives Program will be allocated competitively, with awards recommended to the Director of the Community Development Administration and HFRC for approval. Applications from Community Housing Development Organizations (CHDOs) and non-profit organizations as well as local governments applying in conjunction with non-profits will be given priority. Other rating criteria will be readiness to proceed, demonstrated ability, matching contributions, geographic distribution and performance and disbursements on prior HOME awards

The HOME Initiatives Program will be allocated \$ 500,000 from FFY 2011 funding. At least one round of competition for HOME Initiatives funds will be held each calendar year. It is anticipated that the entire allocation will be awarded in a single round of competition. If all HOME Initiatives funds are not awarded initially, a second round of competition may be held.

2. Other DHCD Programs

FFY 2011 HOME funds in the amount of 5,535,532 will be used in conjunction with on-going DHCD housing programs to fill gaps in funding, make projects feasible and increase the number of low income persons able to be served in State-funded projects.

The following is the proposed allocation of the HOME funds among the two general DHCD program areas:

Multifamily Housing Programs	\$ 3,300,000
Single Family Programs	\$ 2,235,532

The HOME funds will be allocated to these uses for up to eight months. After that time, unencumbered funds may be moved to any other HOME uses to meet additional demand for funds or for special projects, including the Community Legacy Program.

#### A. Multifamily Housing Programs

Rental housing projects will use HOME funds in conjunction with the Rental Housing Fund. HOME funds will be used in projects utilizing any combination of State funds, bond funds, or low income tax credits administered by DHCD or may be used with no other State funds. HOME funds may be requested by sponsors and/or local governments as part of the project application or DHCD staff may, in consultation with sponsors and local governments, propose the use of HOME funds during project evaluation. HOME and any other DHCD funds will be awarded to projects at the time of reservation of Rental Housing Funds.

HOME funds may be used as broadly and flexibly as is permitted by federal regulations to address the unique underwriting needs of each project and the number of very low income tenants to be served. The ratio of HOME units to total units will generally be proportional to the ratio of HOME funds used in a project to total costs. However, in some cases proportionality may not be feasible, such as when there are high development costs or an area with low median incomes. In these cases, HOME funds will be used to produce the maximum number of lower income units that are feasible.

#### B. Single Family Programs

HOME funds will be used in conjunction with DHCD's forward reservation programs for home ownership projects as well as for home ownership projects with no other State financing. HOME funds may be used for "soft seconds" to reduce the cost of the home to the borrower, for land or for other development costs, and for construction financing. Just as with rental housing projects, project applications may include requests for HOME funds or DHCD staff may propose the use of HOME funds during underwriting. Projects with HOME requests will be presented to the Housing Finance Review Committee (HFRC) along with the approvals for other State home ownership resources to be awarded to the project.

HOME funds may also be used for the development of group home projects that assist income-eligible persons with special housing needs. The HOME funds may be used in conjunction with State funds, or bond-funded group homes made under the Special Housing Opportunity Program (SHOP). HOME funds will help ensure that group home projects, with their limited repayment ability, are made feasible.

In addition, HOME funds will be used in conjunction with the Single Family Programs' rehabilitation and special purpose programs. Although these programs, Maryland Housing Rehabilitation Program (MHRP) and Indoor Plumbing Program (IPP) have flexible loan terms, there are still applicants who are not able to be served due to underwriting requirements associated with those programs. In some cases, combining HOME with these programs could make assistance possible by providing more favorable

financing terms than permitted by State-funded programs. HOME funds may also be used for replacement house projects in cases where rehabilitation is not possible or cost effective.

The State of Maryland may use HOME funds for tenant based rental assistance on a limited basis, including using HOME funds for security deposit assistance and to help victims of disaster.

### 3. Administrative Fees and CHDO Operating Assistance

The balance of the HOME funds (\$ 1,065,096) will be allocated as follows:

- \$ 710,064 will be used by DHCD for administrative expenses associated with administering the HOME program. The amount set-aside for administrative expenses includes 10% of the FFY2011 regular HOME allocation.

\$ 355,032 will be set-aside for CHDO operating assistance. Guidelines for awarding HOME operating assistance to certified CHDOs conducting business in communities designated as HOME non-Participating Jurisdictions (non-PJs) are outlined in Attachment I. Under federal law, a CHDO may not receive HOME support that provides more than 50% of its operating budget in any fiscal year, or \$50,000, whichever is greater. Under DHCD policy, operating assistance funds available to CHDOs in any fiscal year will be capped at \$50,000. This amount does not include funds for operating expenses and pass-through funds provided through intermediary organizations exclusive of the State of Maryland selected by HUD.

### **HOME Funds as Grants**

Certain types of financial assistance may be offered as grant assistance and not as a loan. DHCD may offer HOME financial assistance as grants for the following purposes: (1) HOME Initiatives Program projects sponsored by non-profit organizations, local governments, or State agencies; (2) projects for which federal or other funding agencies do not permit loans subordinate to their funds; (3) rehabilitation of owner-occupied housing; (4) activities which have a high public purpose, but do not result in an appreciably higher value in the property after the improvements, i.e., lead paint hazard reduction or abatement, modifications required by the Maryland Historical Trust, accessibility modifications, or furnace and roof replacement; or (5) other eligible projects, activities or costs as approved by DHCD including operating assistance to CHDOs. In determining whether to provide HOME financial assistance as grants, DHCD will reserve the right to make a conditional grant providing for repayment if there is a reasonable expectation of repayment.

## **Required Set Asides**

Under federal law at least 15 percent of the State's HOME formula allocation, or \$ 1,065,094 must be reserved for use by CHDOs. Included within that amount, up to 10 percent or \$ 106,509 may be used for predevelopment costs for CHDOs. CHDO pre-development funds will be administered as outlined in Attachment II.

The required set aside will be met within the HOME program uses described in the previous section as part of the existing programs of DHCD or with the HOME Initiatives Program. If set asides are being committed more slowly than necessary to use the required annual amount, extra measures will be taken. The measures may include aggressive marketing, expedited processing and ultimately, if need be, reservation of the balance of uncommitted HOME funds to be used only to meet the required set-asides.

## **Geographic Areas for Use of State HOME Funds**

HOME funds will be used primarily in jurisdictions throughout the State which are not Participating Jurisdictions. Non-Participating Jurisdictions include the entire State except for Baltimore City and Anne Arundel (except for the City of Annapolis), Baltimore, Harford, Howard, Montgomery, and Prince George's counties. These jurisdictions receive a direct allocation of HOME funds.

## **Monitoring Responsibilities**

The federal requirements for the HOME program establish an extensive set of monitoring and reporting requirements, including site inspections and tenant certifications. When HOME funds are used in conjunction with other State resources, DHCD already has oversight and monitoring responsibilities for the State resources. When HOME funds are used without other State funds, with the exception of the HOME Initiatives Fund, DHCD will ensure that all HOME administrative and monitoring requirements are met in accordance with the HOME Monitoring Plan.

## Attachment I

### **POLICIES FOR ADMINISTERING CHDO OPERATING ASSISTANCE**

The Department of Housing and Community Development is setting aside funds from its federal HOME allocation to be used as operating assistance for Community Housing Development Organizations (CHDOs). The Department recognizes the importance of building the capacity of community-based nonprofit groups to produce housing and the valuable contribution made to housing by nonprofit organizations throughout the State.

**PURPOSES:** (1) Develop the capacity of State designated CHDOs to undertake the development of affordable housing and, (2) sustain the capacity of active CHDOs in the effective leveraging of capital and operational resources.

**ELIGIBLE RECIPIENTS:** All CHDOs certified by the State may be eligible. Certification is obtained through an application process in which the nonprofit provides an organizational profile and planning information. The State will normally provide funds for operating expenses only to CHDOs that are receiving HOME funds to own, develop or sponsor affordable housing. However, in recognition of the need to support and build capacity of new or expanding CHDOs, CPD Notice 96-9 also allows the State to provide operating funds to CHDOs who are not yet receiving set-aside funds when there is a written agreement between the State and the CHDO. A CHDO that has been certified for more than two years must have produced HOME eligible housing within that period in order to remain eligible.

**DISTRIBUTION OF FUNDS:** Up to five percent of the State's HOME allocation may be used to provide general operating assistance to CHDOs that are receiving set-aside funds for an activity (or activities) or are under a written agreement to receive set-aside funds within 24 months of the date of the agreement. Two-thirds of the total allocation will be divided equally among all eligible CHDOs. The remaining one-third will be awarded to CHDOs who have produced HOME projects. A "project" is any HOME-funded project or program approved by DHCD. The amount awarded for production will be based on the ratio of individual CHDO-approved projects to the total number of HOME projects approved for all CHDOs in the fiscal year.

**MAXIMUM GRANT AWARD:** Up to \$50,000 per year for existing CHDOs. An award of up to a maximum of \$30,000 per year for newly formed CHDOs who have not produced an approved HOME eligible project. The amounts above do not include funds for operating expenses and pass-through funds provided through intermediary organizations exclusive of the State of Maryland selected by HUD.

**FORM OF ASSISTANCE:** All CHDO operating funds will be awarded as grants.

**DISBURSEMENT OF FUNDS:** Operating Assistance funds will be distributed quarterly to pay eligible costs incurred by the CHDO in the previous quarter.

**GENERAL CONDITIONS:**

1. Conditions of the agreement require the CHDO to provide its most recent financial statements showing its yearly operating expenses along with evidence of good standing within the State.
2. The CHDO must enter into a written agreement providing that within 24 months, the CHDO expects to receive project development funding from the CHDO set-aside for HOME-assisted housing owned, developed or sponsored by the CHDO.
3. A CHDO may not receive HOME funding for any fiscal year in an amount that provides more than 50 percent of the CHDO's total operating expenses in that fiscal year, up to a maximum of \$50,000. This amount does not include funds for operating expenses and pass-through funds provided through intermediary organizations exclusive of the State of Maryland selected by HUD.
4. Any organization certified as a CHDO after the beginning of any State fiscal year will not be eligible for operating assistance until the next fiscal year.

## **Attachment II**

### **CHDO PREDEVELOPMENT FUNDS**

Up to ten percent of the CHDO set-aside will be available as predevelopment loans to provide project specific assistance to qualifying nonprofit organizations. CHDO may request predevelopment loans for up to \$50,000. These funds:

- (1) can be used for either project feasibility costs or site control costs;
- (2) will be loaned to the nonprofit specifically for projects that qualify for HOME funding.
- (3) are expected to be repaid through project financing, however, the Department will have the authority to waive repayment if the project, through no fault of the borrower, cannot support the cost;
- (4) are non-amortizing, principal only with repayment due at settlement.

The nonprofit will be required to meet the qualifying criteria for Community Housing Development Organizations (CHDOs) established by HUD in the regulations.

Funding will be awarded on a first-come, first-serve basis and preference will be given to applications that provide a match.