# Rental Revolving Loan Fund (RRLF) Guidelines

## Eligible Applicants, Owners, and Managers

Eligible applicants include for-profit or non-profit builders and developers responsible for the creation of the proposed housing units. As part of the applications, applicants will need to submit a project team list that includes key team members and professional services providers.

Development Capacity

Eligible applicants must meet one of the following criteria to demonstrate capacity:

- Demonstrate the ability to undertake the development as proposed through a combination of their own recent experience, qualifications, and financial assets; or
- Demonstrate that they are a new and emerging developer with compelling related experience, and/or a plan to partner with a development consultant, and/or Technical Assistance provider who has experience executing similar proposed projects. "New and emerging developers" are those who do not have a demonstrated track record of accessing housing financing. VHFA will consider the following, among other qualifications: size of existing portfolio, scale of projects previously developed, number of employees, and overall financial/resource capacity.

Management Capacity

Applicants must demonstrate capacity, experience, or sufficient professional support to operate the property and comply with the reporting requirements of RRLF and other funding sources after it is placed in service.

## Eligible Projects

To be eligible for a subsidized loan through RRLF, projects must create two or more new rental housing units to serve middle-income renters. Projects that are eligible to apply for RRLF are:

- **New construction or acquisition and rehabilitation of existing, unoccupied units**. Projects may designate entire projects for the program or a percentage of units. At least 25% of a project's proposed units must meet program affordability restrictions and be affordable to middle-income households.
- **Preservation of Naturally Occurring Affordable Housing (NOAH**). Existing properties that currently serve households with incomes of 80% AMI or lower that face risk of speculative investments. Projects will require an income survey. Households will not be displaced. Owner must propose maintaining or lowering rent levels following RRLF investment.

## Prioritization of Awards

Applicants will receive a priority for each of the following criteria:

Upper tier priorities:

- Projects that obtain direct or in-kind financial investment from area employers or municipalities.
  - The highest priority will be for direct or in-kind investment of 5% of total project costs (see "Employer or Municipal Investment" section).
- Projects that are located in underserved and rural communities. VHFA will consider the following, among other factors in identifying underserved rural communities: communities

where there is a demonstrated lack of new units being added to the market; and whether the community received state/federal funding from the past 3 years of major state/federal housing funding award rounds.
- Project applicant being a new and emerging developer (see “Eligible Applicants, Owners, and Managers” section).
- Projects that are not eligible for other sources of state and federal funding.

Lower tier priorities:
- Projects that utilize 4% Low-Income Housing Tax Credits and limited other traditional and scarce Affordable Housing development resources. The Rental Revolving Loan Fund should not be used to replace traditional state or federal funding for Low-Income Housing Tax Credit projects.
- Projects that are affordable to households earning between 65% and 80% AMI with maximum rent amounts set at 80% AMI rent levels. These proposals will be eligible to receive a higher subsidy than units affordable to 90-120% AMI (described in “Program Subsidy” section).

## Affordability Restrictions - Program Eligible Income Limits and Maximum Rental Levels

Program eligible rents must be affordable for households that earn between 65% and 150% Area Median Income. Sponsors may use “income banding” when setting maximum rents. The rents must align with the rents in VHFA’s Affordability Matrix (linked to at: https://vhfa.org/rentalhousing/developers/rrlf).

Income banding allows for developers to set rents at a minimum AMI, and serve households at incomes up to 25% above the rent AMI level. For example, rents set at 65% AMI could serve up to 90% AMI households. In some cases, depending on market conditions, VHFA may approve larger bands than 25%.

Rent AMI levels must be justified by market information and employer surveys.

## Program Subsidy

Maximum RRLF investment in a single project shall not exceed $2 million. The amount of subsidy will be calculated on a per-unit basis. Maximum subsidy per unit shall be the lesser of the following:

- No more than 35% of the Total Development Cost of program eligible units

**Or**

- For units affordable to households between 65%-80% AMI: $125,000 per unit
- For units affordable to households between 90%-120% AMI: $100,000 per unit

## Loan Structure and Key Underwriting Assumptions

All projects will be subject to financial feasibility analysis by VHFA. If there is a first-place lender (bank, credit union, or other lending institution) with more restrictive requirements, developers shall meet the more restrictive requirement.

The following are benchmarks projects should use in their initial proposal stages. These assumptions will be reviewed on a project-by-project basis:

- Term/Rate Assumption for Rental Revolving Loan Fund should start at a 7-10 year term, with a 30-year amortization, though terms may be longer in consultation with VHFA staff. Projects should use an initial interest rate assumption of 2.0% with amortizing payments. Interest only and deferred interest payment structures may be considered for high-priority projects in consultation with VHFA staff.
- RRLF funds may come in during construction and convert to permanent.
- Debt Service Coverage Ratio (DSCR) for projects with 50% or more of units with rents at or above 80% AMI shall use at 1.20 minimum DSCR. Projects with deeper affordability or long-term operating subsidies may request a review by VHFA to consider a lower DSCR.
- Vacancy rates for program units shall be between 2.5-5% depending on market factors.
- Year-over-year income trending will be 3.0% for all program units. Non-program units may carry a 4.5% year-over-year income trend.
- Year over-year expense trending will be 2% for all units.
- Developer shall establish a per-unit replacement and repair reserve budget as part of the project's operating budget. Amount may vary based on construction type and building design/mechanicals.

## Employer Outreach and Engagement

All projects must demonstrate engagement with employers to meet local/regional employment needs. At minimum, developers must complete the following:

- Developers are required to survey local employers to demonstrate how rent levels are compatible with local wages with a focus on vacant positions. Surveys may be completed by the owner/administration of an employer. VHFA provides an example survey that can be customized to meet local/regional needs (available at: https://vhfa.org/rentalhousing/developers/rrlf). Developers should return the completed surveys to VHFA as part of the application materials.
    - The survey should be distributed to at least three large employers in the area, although with approval from VHFA the developer may target the survey to smaller businesses that have a well-defined need.
- Developers are required to demonstrate direct outreach efforts to employers to learn about their needs. Examples could include the surveys described above, a list of one-on-one meetings with local employers, or focus group meetings with multiple employers.
- Developers may provide letters of support from local employers, in addition to the required employer surveys, with the application.

Developers must demonstrate how they respond to the needs and feedback from employer outreach and engagement. Examples include targeting rent levels to vacant or difficult-to-retain jobs, setting up direct employer vacancy marketing, and considering employer feedback on amenities like access to work-from-home spaces.

## Employer or Municipal Investment

Projects that obtain direct financial investment or in-kind from employers or municipalities will be prioritized for funding and preferred terms. Projects that can demonstrate direct or in-kind employer or municipal investment up to 5% of total project costs will receive the highest program priority. For a municipality, eligible investment sources can include those from a municipal or regional housing fund, local fiscal recovery find, or other form of community investment. Examples of employer or municipal investment include:

- Create a local or regional investment pool with other employers.
- Identify individual projects and provide direct, indirect, or in-kind financial investment.
- Participate in land acquisition.
- Host homebuyer education classes at workplace at no cost to employees.

Employer investment may not have a requirement that placement of residents is contingent on their employment.

## Design, Building, and Construction Review

Prior to closing and funding, VHFA will require full site/building plans and specifications for review in order to determine if the development budget is sufficient to construct the planned project, the project meets the intended energy goals stated, there are no excessive or unreasonable costs.

Projects must be designed by licensed professionals. VHFA will review project plans to ensure design, architectural, and engineering professionals supported the building and site design.

## Program Compliance Requirements and Restrictions

- Minimum Affordability Period: Greater of 7 Years, Loan Repayment, or Term of the Loan if it is a non-amortizing loan.
- Rent increases must follow the annual affordability matrix published by Vermont Housing Finance Agency. Rent increases are capped at 3% annually.
- Rents may not increase more than 3% for 3 years after property exits the program.
- Income certification is required only at move-in, and tenants may not be displaced for income eligibility reasons.
- Owners/Managers are required to provide rent rolls on an annual basis, demonstrating that rents comply with program requirements for 3 years beyond the project exiting the program.
- All units in a project funded through the RRLF, including non-program eligible units, must remain full-time year around permanent residences.
- Owners/Managers are required to demonstrate continued relationships with local employers through an annual market plan. VHFA Asset Management and Compliance Staff will request a summary of an owner's efforts to meet local employer needs.

## Right of First Refusal

Vermont Housing Finance Agency will require a Right of First Refusal on each project. The Right of First Refusal will give VHFA, or its assigns, the ability to purchase the property at the appraised value at the time of sale. The Right of First Refusal will be in place for the term of the RRLF loan, plus the 3-year affordability period after the property exits the program.

## Closing and Loan Security

Investments through the RRLF will take a best obtainable lien position and may be subordinated to a primary loan. The RRLF will be secured by a note, and recorded subsidy covenant. The subsidy covenant will define the affordability requirements for the project and memorialize VHFA's right of first refusal.

## Developer Fees

Projects that have at least 50% of units serving households at or above 80% AMI may assume a maximum developer fee of 5% of the total development costs. Projects that have at least 50% of units serving households at or below 80% AMI may assume a maximum developer fee of 10% of total development costs.

## Program Fees

| Type of Application | Application | Commitment* | Origination | Reservation | Compliance Monitoring | Documentation/ Closing |
|---|---|---|---|---|---|---|
| Rental Revolving Loan Fund | $300 | $1,000 | $1,000 | N/A | Minimum $50 per unit per year | $1,500 |

**Commitment Fee due when commitment is signed and credited to documentation/closing or reservation fees if the loan closes.*