**Saint Paul NOAH Preservation Fund Program Guidelines**

The Saint Paul NOAH Preservation Fund is established to preserve unsubsidized, "Naturally Occurring" Affordable Housing. This goal will be achieved by supporting acquisition of NOAH properties by a diverse range of preservation buyers. Successful projects will preserve the affordability of NOAH units, better connect those units to income eligible renters, continue to provide high quality housing opportunities to low-income renters, and mitigate displacement of low-income households, all without drawing from traditional affordable housing resources.

## DEFINITIONS

**Affordable Units:** rental housing units with rents and income restrictions at or below 60% AMI.

**Area Median Income ("AMI"):** the Median Family Income as most recently established by U.S. Department of Housing and Urban Development for the Minneapolis/St. Paul standard metropolitan statistical area, as adjusted for family size.

**Capital Needs Assessment ("CNA"):** a systematic assessment to determine a property's physical capital needs over the next 20 years based upon the observed current physical conditions of the property.

**Eligible Borrower:** Non-profit or for-profit housing owner operators, public agencies, land banks, or cooperatives with a mission to provide long term affordable housing opportunities. Eligible borrowers must demonstrate 1) capacity to own and operate high quality, well managed affordable housing and 2) sufficient financing to address maintenance issues as described in a CNA of the property.

**Eligible Property:** NOAH Properties located within the City of Saint Paul with at least three housing units are eligible. Single family rental properties or duplex properties cannot be acquired through this program.

**HRA:** the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota.

**Multifamily Tax Subsidy Projects (MTSP) maximum rents**: the maximum rents allowed for Low-Income Housing Tax Credits (LIHTC), Tax-Exempt Bonds and the Low and Moderate Income Rental Program (LMIR) as published annually by Minnesota Housing for the Minneapolis/St. Paul standard metropolitan statistical area.

**Naturally Occurring Affordable Housing ("NOAH") Properties:** Rental housing with affordable rents that does not currently receive public subsidy and has not received public subsidies in the past. Properties must have at least 80% of the units affordable at 60% AMI or below to be eligible for funding under the St. Paul NOAH fund. Housing with existing affordability restrictions that was built or constructed with public subsidies or with low-income housing tax credits (LIHTC) is not eligible for NOAH financing; however, properties in the Saint Paul 4d program, or that have received Rental Rehab loans from the City of Saint Paul are eligible.

As a clarification (2/23/2024) - borrowers may also utilize other sources of public financing in addition to Saint Paul NOAH funds (e.g. utilizing Ramsey County or state funds to cover rehab costs after initial acquisition) as long as NOAH funds are used for acquisition, and the property was not initially built or substantially rehabbed using LIHTC or similar sources.

## APPLICATION AND APPROVAL PROCESS

### Application:

Applicants are to fill out and submit the HRA the NOAH Preservation Fund application form, a purchase agreement or option to purchase for the property, and a real estate financial proforma.

**Underwriting:** accepted applicants will be required to complete a capital needs assessment (CNA) or, for 3-4 unit properties if a CNA is unavailable, a property inspection, as well as all other applicable items identified in the "Underwriting Guidelines" within this document..

An application may include one Eligible Property or a portfolio of multiple Eligible Properties which are all owned by the same entity and are acquired through a single closing.

### Compliance with Development and Procurement Policies:

HRA staff will notify applicant if any compliance requirements apply upon application review.

### Receipt and Review of Applications

Applications will be received through a semi-annual application process, and proposals will be evaluated for consistency with the requirements and priorities included in these Guidelines. If proposals submitted within a 30 day period exceed funding availability, staff will competitively evaluate proposals based on the Preservation Priorities outlined in this document.

### Authority to Approve Loans

The HRA Executive Director or their designee may choose to administratively approve loans that meet the criteria established in these Guidelines without further HRA approval. In general, applications will be reviewed competitively and if multiple applications meet the threshold criteria for approval, applications will be prioritized for funding based on the closest alignment with the Affordable Housing Preservation Priorities outlined in this document. Staff may deny applications administratively.

### Process After Approval

Upon approval by the HRA Executive Director or their designee, the appropriate HRA staff will be authorized to execute loan documents prepared by the City Attorney's Office consistent with the requirements of these Guidelines. A Declaration will be recorded against the property in order to ensure affordability of the property.

## TERMS OF FUNDING

### Amount

The loan amount(s) to Eligible Borrower(s) will be determined on a case-by-case basis based on the overall availability of funds, project underwriting, and an application's alignment with the HRA's preservation priorities as described in these Guidelines.

Applications should include specific and immediate plans to address the CNA through financing, upfront capital escrows, deposits to reserves, or ongoing cashflow from operations. This should be reflected on a real estate proforma and shared with the HRA.

Maximum loan amounts per unit for Eligible NOAH properties are described below. Funding per unit/project is also subject to availability and targeting of funds, and the project's funding gap.

- Properties or portfolios with 200 or more units
  - up to $35,000 per 30% AMI unit
  - up to $20,000 per 50% AMI unit
  - up to $15,000 per 60% AMI unit
- Properties or portfolios with 50-199 or more units
  - up to $40,000 per 30% AMI unit
  - up to $30,000 per 50% AMI unit
  - up to $20,000 per 60% AMI unit
- Properties or portfolios with less than 49 units
  - up to $60,000 per 30% AMI unit
  - up to $45,000 per 50% AMI unit
  - up to $25,000 per 60% AMI unit

**Loan Type and Terms**

All loans shall be non-recourse loans secured solely by a subordinate mortgage. Generally the loan will be structured as deferred loan, with 0% interest, with a term of at least 20 and up to 30 years. Final terms of the loan are to be decided during loan underwriting and to include language to ensure applicant's adherence to HRA's Preservation Priorities described below. The HRA Executive Director or their designee shall make the final determination of all loan terms.

**Underwriting Guidelines**

1. DCR: Debt service coverage ratio: 1.11 minimum for year 1 and a minimum of 1.00 for years 2-20. 1.25 maximum DCR in year 1. The DCR may increase in future years depending on cash flow. Proposals with higher amounts of cash flow potential should maximize the first mortgage and reduce HRA subsidy and/or should budget for additional rehab using private capital. Should the project reflect negative cash flow, an operating deficit reserve account will be required to be capitalized at the initial closing to satisfy any deficit through year 20. Interest must also be included.

2. Income and expense trend factor on cash flow proforma: Expense inflator should be at least 1% higher than the revenue inflator (e.g. 2% income and 3% expense inflator)

3. Maximum rents: The project rents for affordable units should not exceed the most recent applicable Multifamily Tax Subsidy Projects (MTSP) rent limit.

4. Management and Operating Expenses (excluding real estate taxes and reserves): Expenses must be underwritten based on three years of previous operating expenses at the property or based on operating expenses at one or more comparable properties. Anticipated expenses should include the following expense categories, as well as any other property-specific expenses:

A) General Administrative expenses (including marketing and leasing) as applicable

B) Payroll salaries, payroll taxes, fringe benefits as applicable
C) Utilities
D) Maintenance and Repair (including turnover costs)
E) Property Management Fees for 3rd party management
F) all other relevant operating and management expenses

Three years of comparable property audits or previous operating expenses audits shall be included to support operating expense budgets.

5. Replacement Reserves: initial and annual reserve deposit of at least $250 per unit unless an independent CNA is completed that supports a smaller amount of replacement reserves. Properties with significant capital needs within the first few years of acquisition may require additional reserves.

6. Operating Reserves: If the project has negative cash flow, the project will be required to capitalize an operating reserve account at closing with no less than six months of management and operating expenses and debt service.

7. Vacancy Rate: 5% minimum for residential/20% for Commercial. Project should be underwritten based on historic operations of the existing property, but the 5% minimum vacancy rate still applies.

8. Rent roll: a copy of the existing rent roll must be submitted. If current vacancy rate exceeds the proforma vacancy rate, a written marketing plan to achieve proforma vacancy should be provided.

9. Sources and Uses Analysis; the application shall:

A) Identify all sources (both private and public) of funds with dollar amounts and timing of availability of each source:

B) Identify all uses of funds associated with the project:

i. Acquisition documentation, such as purchase agreement, option and appraisal or other documentation of value;
ii. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
iii. A third-party appraisal to substantiate the value of the property

10. Subsidy Layering Review: Staff will conduct an analysis of investment funding needed to make a project feasible. Also known as a 'gap analysis.- In assessing the need for subsidy, HRA staff will also require that the first mortgage lender maximize the first mortgage in cases where the debt coverage ratio exceeds 1.25. If a project has a debt coverage ratio above 1.25, this indicates excess cash flow to the project and the borrower and lender should work to maximize the first mortgage.

11. Property Management Experience and Performance: The management company must have

experience managing properties that are reasonably comparable to the subject property. Comparable properties include:

i. Similar number of units and type of buildings
ii. Similar financially (revenues, expenses, size of mortgage)
iii. Similar operationally (tenant population, type of subsidy)

If the owner plans to self-manage, and does not have experience managing a comparable property or portfolio, they must provide a written explanation of alternative experiences that will prepare them to own and manage the property and provide high quality housing.

**Origination Fees**
Borrowers shall pay the HRA an origination fee equal to 1% of the loan amount.

**Eligible Expenses**
Property acquisition expenses are limited to:

- Acquisition of real property, including acquisition costs only and excluding any repairs or renovations; repairs and renovations should be addressed based on needs identified in an independent capital needs assessment (CNA) or property inspection, using senior lender financing, equity, or future cash flow.
- Takeout financing for bridge loans (i.e. if a NOAH property is purchased using a bridge loan from a CDFI or private lender, Saint Paul NOAH funds can be used as permanent financing to pay off the bridge loan)
    - Staff clarification 2.16.2024: a bridge loan includes all types of temporary financing with a term of 18 months or less, including bank financing or private party financing including contract for deed arrangements. If paying off a Bridge loan or a contract for deed, the NOAH loan and a permanent loan should pay off the bridge loan or contract for deed arrangement in full.
- Establishment of a Replacement Reserve for the property as determined appropriate by the HRA, or the first mortgage lender. Repairs or renovations should be paid for with other financing or other borrower funds.
- Senior lender origination fees as determined appropriate by HRA staff

**Cash Flow**
Eligible Properties must demonstrate positive cash flow (defined as net cash flow after debt service) based on a three-year pro forma that meets these Guidelines.

**Borrower Contribution and Fees**

- Minimum 3% of Total Development Cost contribution by the Eligible Borrower or member of the borrower entity. Contribution could include equity contribution, or personal guarantee to the project, or a combination of a cash equity contribution and a guarantee for the remaining amount up to the 3% minimum. The personal guarantee is limited to 2% of the project cost, i.e. at least a 1% cash equity contribution is required.
- Developer fee or “acquisition fee” claimed by the borrower at closing is limited to 2% or less of the acquisition costs.

## AFFORDABILITY AND TENANT PROTECTION REQUIREMENTS

### Affordability Requirements

For twenty (20) to thirty (30) years from the date of the closing on the loan (as determined by the Underwriting Guidelines), the following affordability requirements apply:

- 80% or more of units must serve households at 60% AMI or less including 20% of such units which must be affordable to and occupied by households at or below 50% AMI, and all such units shall bear rents no greater than the most recent applicable Multifamily Tax Subsidy Projects (MTSP) maximum rents for the Minneapolis/St. Paul metropolitan statistical area, as evidenced by the rent roll
- As units turn over, new tenants must verify incomes at the time of move-in. Existing residents are exempt from verifying their incomes
- Up to 20% or less of units may have no rent restrictions

### Limits on Rent-Restricted Units

- Lease-compliant residents will not be involuntarily displaced (no lease terminations without cause)
- Rent for rent and income restricted units may not be raised by more than 3% during a calendar year, unless the unit is turning over to a new tenant and the previous lease ended with a voluntary move out, or a just cause lease termination. Property owners are not required to seek permission to raise rents at the time of unit turnover. Rent increases related to a just cause lease termination should be reported to the appropriate program staff contact at least once per year. A list of just causes for lease terminations can be found within the Saint Paul 4d program guidelines.

### Additional Requirements

- Affordability requirements and tenant protections must be secured with a Declaration of Covenants and Restrictions recorded against the property
- The property must accept participants in Section 8 Housing Choice Voucher Program.
- Units that become available must be advertised on www.HousingLink.org
- Applicant must provide Tenant Selection Plan and should refer to the HRA's Tenant Selection Plan Guidance.
- Whenever local, state, or federal funding or loan requirements conflict with any portion of these Guidelines, those funding or loan requirements will take precedence over only those portions in conflict. This subsection shall not be read to exempt properties from the requirements of these Guidelines based on funding source alone.
- Tenant protections, including compliance with Violence Against Women Act, shall be included in the Declarations and all tenant leases.

### Displacement of Existing Low-Income Tenants

The HRA strongly discourages displacement of existing tenants in projects seeking financing for acquisition of occupied properties.

Applicants seeking Saint Paul NOAH Preservation Fund financing for acquisition of occupied properties must submit a Relocation Plan that addresses both temporary relocation (including in-place displacement) and permanent displacement, if any. Relocation Plans that reflect permanent displacement of tenants may result in rejection of the application. Where permanent displacement was not anticipated and/or disclosed at the time of application, and displacement is later discovered, subsequent applications for Saint Paul NOAH Preservation Fund or other HRA financing submitted by the applicant may result in rejection of the application.

If any tenants are displaced the State relocation assistance requirements set forth in Minn. Stat. 117.52 shall be followed.

**4(d) Participation**
The fund can be used to purchase properties already in the 4d program or Rental Rehab program. However, participation in 4d is not necessary as a Declaration will be recorded as part of the terms of the NOAH fund. If there is an existing Declaration related to the 4d program or the Rental Rehab program, that declaration will be released at the time of the closing on a NOAH preservation loan, and will be replaced with a new NOAH preservation fund declaration of covenants.

## AFFORDABLE HOUSING PRESERVATION PRIORITIES

The HRA supports innovative approaches to NOAH preservation that leverage private capital, include traditional and non-traditional buyers, and preserve affordability without displacing existing residents. Gap financing needs will vary across preservation buyers depending on organization capacity, model, and *acquisition product type*. As such, the Saint Paul NOAH Preservation Fund is flexibly structured to support these activities. Loans will be awarded through a semi annual application process, and staff will select proposals based on alignment with the program's minimum requirements, and with the following Affordable Housing Preservation Priorities. When evaluating projects, a mix of multiple priorities will be considered when determining the overall merit of proposals, including:

- Properties with a greater number of units in a building or assembled in a portfolio available for sale through a single closing
- Properties with a feasible plan for a limited equity cooperative or other form of community ownership as described by the applicant
- Acquisition of properties by small and emerging developers and owner/operators. Developers who participated in the City's Emerging and BIPOC Developer Training and Engagement Initiative, or in other community initiatives for emerging developers, such as the Urban Land Institute (ULI) Real Estate Diversity Initiative (ReDI), LISC Developers of Color Cohort, Greater Minnesota Housing Fund Emerging Developers program, etc. are encouraged to apply for funding.
- Deeper commitment to restricted rent requirements, either through longer period of affordability (e.g. 30 years) or more deeply affordable units, i.e. 30% AMI or 50% AMI units
- Applications that maximize outside leverage such as mortgage financing, equity, or philanthropic sources and have lower subsidy per unit
- Participation in other programs which provide housing opportunities to individuals with housing barriers such as criminal history.