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7800 Harkins Road
Lanham, Maryland 20706

301-429-7852

800-638-7781

Maryland Relay for the Deaf:

800-735-2258

Larry Hogan
Governor

Boyd K. Rutherford
Lieutenant Governor

Kenneth C. Holt
Secretary, DHCD

<http://www.mmp.maryland.gov>



Group Home Financing Program

Policy Manual



The Maryland Department of Housing and Community Development (DHCD) pledges to foster the letter and spirit of the law for achieving equal housing opportunity in Maryland.

GROUP HOME FINANCING PROGRAM POLICY MANUAL

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ACRONYMS

CDA	Community Development Administration
CDBG	Community Development Block Grant Program
CHDO	Community Housing Development Organization
DHCD	Maryland Department of Housing and Community Development, also known as The Department
D&B	Dun & Bradstreet Report
GBRF	General Bond Reserve Fund
GHFP	Group Home Financing Program
HFRC	Housing Finance Review Committee
HOME	HOME Investment Partnership Program
HUD	Department of Housing and Urban Development
MDE	Maryland Department of Environment
MHF	Maryland Housing Fund
MHT	Maryland Historical Trust
MIP	Mortgage Insurance Premium
OAG	Office of the Attorney General
PFA	Priority Funding Area
RFR	Reserve for Replacements
SFH	Single Family Housing
SHOP	Special Housing Opportunity Program
SLP	Special Loan Program
TEFRA	Tax Equity and Fiscal Responsibility Act

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Information – Websites

Group Home Financing Program:

<http://www.dhcd.state.md.us/Website/Programs/GHFP/Default.aspx>

DDA Contact Information:

<http://dda.dhmh.maryland.gov/SitePages/contactdda.aspx>

DDA FAQs

<http://dda.dhmh.maryland.gov/SitePages/faq.aspx>

DDA/Information, Forms, and Resources for DDA Providers

<http://dda.dhmh.maryland.gov/SitePages/providers.aspx>

GROUP HOME PROGRAM POLICY MANUAL

INTRODUCTION

OVERVIEW

This Policy Manual (Manual) contains procedures for underwriting, processing and closing Group Home Financing Program (GHFP) loans originated under programs administered by the Community Development Administration's (CDA) Single Family Housing (SFH) of the Maryland Department of Housing and Community Development (The Department). This GHFP Program is authorized pursuant to the Housing and Community Development Article and the applicable sections are:

Sections

Group Home Financing Program	Sections 4-601 through 4-612
Housing Finance Review Committee	Sections 4-208 through 4-412
Maryland Housing Fund	Sections 3-201 through 3-208

The objective of the GHFP is to provide loans to sponsors to finance or refinance the costs of acquiring, constructing and modifying buildings which will provide group homes for low income, elderly, handicapped, disabled, and other citizens of the State with special housing needs. This is deemed to also include housing for homeless persons and victims of sex trafficking.

This Manual is intended for use by CDA/SFH staff. Sponsors applying for GHFP loans may also refer to this Manual. The Manual and updates to the Manual will be uploaded to RELATED LINKS on The Department's Group Home Financing Program website.

The procedures or policies in this Manual do not legally bind CDA and this Manual does not create any rights of legal entitlements of an applicant to these procedures. The general requirements in this Manual are intended to provide guidance to qualified Sponsors and program staff and may be varied or made more restrictive for any specific loan.

CHAPTER 1 - APPLICATION PROCESS

1.0 APPLICATION FORM

Requests for GHFP loans shall be made on the most current application which can be downloaded from the GHFP website under “RELATED LINKS”. Applications will be accepted from Sponsors of group homes for low-income, elderly, developmentally and/or mentally disabled and other citizens of the State with special housing needs. This is deemed to also include housing for homeless persons and victims of sex trafficking. Sponsors may include non-profit organizations, individuals, and limited partnerships where each general partner qualifies as a non-profit organization and is eligible in whole or in part for federal housing programs or incentives including low-income housing credits.

Sponsors must complete the application in its entirety and provide all supporting documentation required by the program to evaluate the eligibility of the Sponsor and the project. Each Sponsor must submit the application and all supporting documentation (refer to RELATED LINKS on GHFP website) in order for SFH to make a feasibility determination.

If a Sponsor was previously approved by CDA as an eligible Sponsor, only updates of financial statements, articles of incorporation and by-laws (if applicable) are required.

1.1 FEES

1.1.1 For a **GHFP** loan the applicant will pay a total of \$800 in fees to the Department:

- a. \$400 for the Department’s costs associated with the loan request
 - (1) amount subject to change;
 - (2) paid at time of settlement;
 - (3) nonrefundable; and
 - (4) will include cost of credit report and processing fee.
- b. \$400 as the Department’s legal fee
 - (1) amount subject to change;
 - (2) due at settlement.

1.2 INITIAL MEETING

Sponsors who have not previously used the GHFP are encouraged to contact the program and arrange an initial meeting with the GHFP MANAGER. The initial meeting is an appropriate forum for discussing the proposed project and reviewing general program requirements and processing procedures. If it is determined at the initial meeting that the

proposal is not sufficiently formalized to make an application, the Sponsor may be referred to other technical assistance resources.

1.3 APPLICATION - WHERE TO SUBMIT

Completed loan applications are to be submitted to the following address for processing:

Department of Housing and Community Development
7800 Harkins Road, 369B
Lanham, Maryland 20706

ATTN: Group Home Financing Program

1.4 PRELIMINARY PROCESSING

Upon receipt by the Program, the application will be date stamped and set up in a file folder. Application receipt is handled by the administrative assistant.

a. Case number

Each application for a loan is assigned a case number, which is an eight-digit number for **GHFP**. The initial two digits represent the funding source. They are currently as follows:

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The next two digits represent a code for the county in which the project is located. The county codes are as follows:

01	Allegany County	13	Harford County
02	Anne Arundel County	14	Howard County
03	Baltimore City	15	Kent County
04	Baltimore County	16	Montgomery County
05	Calvert County	17	Prince George's County
06	Caroline County	18	Queen Anne's County
07	Carroll County	19	St. Mary's County
08	Cecil County	20	Somerset County
09	Charles County	21	Talbot County
10	Dorchester County	22	Washington County
11	Frederick County	23	Wicomico County
12	Garrett County	24	Worcester County

The last four digits represent the sequential order of applications received on properties in the applicable jurisdiction (for example, 0001, 0002, 0003...).

- b. At a minimum, the following information is entered into the database by the GHFP MANAGER:
- (1) Name and address of the project;
 - (2) Name of the Sponsor;
 - (3) Name of the underwriter (GHFP MANAGER);
 - (4) Type of project;
 - (5) Number of clients served;
 - (6) Amount of the loan request; and
 - (7) Date the application was received
- c. A letter is sent to the Sponsor acknowledging receipt of the application, identifying required documentation that was not included with the initial application, and specifying a time frame for submitting the missing documentation. The program generally allows a 30-day period for Sponsors to submit missing documentation. If the program does not receive missing documentation within the time period specified in the acknowledgement letter, the program may withdraw the application and provide the Sponsor with a formal written notice of the withdrawal.
- d. The Department will no longer send notification letters to the licensing agency for the project or the local housing contact at the jurisdiction in which the project is located.
- e. Dunn and Bradstreet (D&B) credit reports are obtained for organizations and consumer credit reports are obtained for individual Sponsors. The current Credit Report fee is \$100 – included within the initial application fee – or the actual cost of the report if higher. These fees are subject to change without notice. The applicable fee is netted out of the proceeds check for the **GHFP** loan. The Department may elect – in its sole discretion – to require another credit firm, rather than D&B.
- f. Pursuant to a Memorandum of Agreement between the Maryland Historical Trust (MHT) and CDA, the program will determine if the project is of historical significance. If the project involves substantial rehabilitation and the property is over 50 years old, photographs and information regarding the scope of the work will be sent to the MHT for review. If the building is historically significant, the Program may require that any proposed rehabilitation comply with standards for historic renovation.
- g. Evidence of the Maryland Department of Environment (MDE) Lead Rental Property Registration (MDE/LMA/CER.029) is required for all residential rental properties built prior to 1978 that are currently owned by the Sponsor.

- h. A lead paint risk assessment is currently required for all properties built prior to 1978. A lead paint risk assessment will allow CDA to confirm the existence of any lead paint hazards in the property. If a lead hazard exists, the Sponsor will be required to obtain a bid from a certified and accredited lead paint contractor to reduce the hazard as part of the renovation work.

CHAPTER 2 - INITIAL APPLICATION REVIEW AND ELIGIBILITY DETERMINATION

2.0 COMPILATION OF INFORMATION

After the credit report is received, the file is then reviewed by the GHFP MANAGER for an initial evaluation to determine the eligibility of the Sponsor and the project.

2.1 ELIGIBILITY REVIEW

2.1.1 Eligible Sponsors must be licensed to operate the project by the appropriate state agency, to the extent required by State law; and have a contract, acceptable to CDA, with a State agency or county government which provides operating income and/or grant funds for the project.

a. **GHFP** Sponsors must be:

- (1) non-profit organizations;
- (2) individuals; or
- (3) limited partnerships, if:
 - (i) each of the general partners qualifies as a non-profit organization; or
 - (ii) it is a wholly owned subsidiary of a non-profit organization; and
 - (iii) it is formed for the purpose of undertaking a group home project that is eligible in whole or in part for federal programs or incentives, including low income housing tax credits; and
 - (iv) it is organized so that the non-profit organization is managing the project or will be the recipient of net cash flow or residual sale proceeds upon sale of the group home.

GHFP Sponsors without prior group home experience may be approved for loans if they can demonstrate capacity based on other business endeavors and prior satisfactory financial and credit management.

2.1.2. Sponsor Review

- a. Operation of the project – eligible group home sponsors may agree in writing to:
 - (1) operate the project directly, or
 - (2) operate the project indirectly - by entering into a management agreement, in a form acceptable to the Department, with a manager acceptable to the Department.

- b. Certification files are established for Sponsors who are regular users of these programs and the documentation will be evaluated in accordance with the criteria in Chapter 2.
 - (1) When a Sponsor reapplies for another loan, the organizational documents and financial statements only need to be updated with current information.
 - (2) For non-profit corporations, a list of the current members of the board of directors is required.

- c. Review of Organizational Documents. All Sponsors must demonstrate they have the legal capacity to incur the obligations of the loan. The program and the Office of the Attorney General will review the organizational documents of the Sponsor to determine that the entity:
 - (1) is authorized to conduct business in Maryland;
 - (2) Is authorized to incur debt to acquire, rehabilitate or construct housing for special needs populations;
 - (3) has a purpose consistent with the proposed financing and the project use;
 - (4) has an estimated life at least as long as the proposed term of the loan;

- (5) has provisions in its organizational documents prohibiting discrimination on the basis of race, color, religion, national origin, sex, age, disability or familial status
 - (6) has not defaulted on a Department or other government loan; and
 - (7) is not on the Department's or other government debarred list.
- d. Review of Credit and Financial Management. The GHFP MANAGER will review credit reports and financial statements of the Sponsor and, if applicable, the principals of the Sponsor to determine the Sponsor's eligibility in accordance with the criteria listed below.
- (1) Credit Reports are valid for only four months (age is measured from the date of the document to the Note date).
 - (2) Audited financial statements of the non-profit Sponsor for the prior three years will be reviewed along with the previous quarter's balance sheet and income statement if the most recent audited financial statement is older than six months.
 - (a) Financial Statements will be reviewed to determine and confirm the non-profit's solvency and to measure financial soundness.
 - (b) The GHFP MANAGER will review and document any changes in cash flow.
 - (c) In general, a Sponsor's financial statement must show the Sponsor's fund balance to be positive and stable and have no open liens, judgments or bankruptcies.
 - (d) The Sponsor's Statement of Activity or Analysis of Cash Flow must show the Sponsor's support and revenue to be stable.
 - (e) The ***Current Assets to Current Liabilities [CA/CL] Ratio or Current Ratio*** is an indication of a Sponsor's market liquidity and ability to meet creditor's demands and should generally be 1.10 or greater.

- (g) The **Total Liabilities to Total Assets Ratio or Debt Ratio** shows assets financed through debt and indicates the borrowing capacity of a Sponsor. A higher Debt Ratio indicates a low borrowing capacity for a Sponsor and this will lower the Sponsor's financial flexibility. This ratio should be evaluated.
 - (h) The **Net Worth to Total Assets Ratio or Equity Ratio** measures the relative proportion of the net worth used to finance a Sponsor's assets and a higher equity ratio indicates a Sponsor's better long-term solvency position. This ratio should be evaluated.
- e. Compensating Factors. It is the Program's intent to allow ratios to be exceeded when significant compensating factors exist. The underwriter must judge the overall merits of the loan and the borrower to determine what compensating factors apply and the extent to which ratios may be exceeded. Compensating factors may include, but are not limited to, the following:
 - (1) expansion of services or recent changes to the special need population being served;
 - (2) stability of management of the non-profit;
 - (3) the age of the organization;
 - (4) changes in the procedures of the state payment system or exceptionally high fund balances.

Compensating factors will be discussed by the GHFP MANAGER with the Deputy Director of Single Family Housing and the Director of Single Family Housing before submitting the project for approval.
- f. Individual Sponsors must submit copies of their federal income tax statements (990's) for the most recent three years. Copies of 990's can also be pulled from Guidestar at <http://www2.guidestar.org/Home.aspx>. Federal income tax statements must be complete and include all attachments. Individual Sponsors will also be required to submit personal financial statements.
 - (1) D&B credit reports must demonstrate that the Sponsor and principals have a history of meeting both long- and short-

term credit obligations. Sponsors may not be eligible for financing if:

- (a) their financial risk score and/or credit score is higher than “3”; they have past due accounts, a history of prior past due accounts, open liens or judgments or prior foreclosures or bankruptcy filings; or
- (b) they have an unsatisfied state or federal tax lien.

The Sponsor's financial statements must demonstrate the Sponsor has sufficient resources to pay the costs associated with the financing and provide for unforeseen contingencies through completion of the rehabilitation and during start-up of the project. If a guaranty is required, the financial statements must demonstrate the Sponsor has sufficient net worth to support the guaranty.

- (2) Individual Sponsors must demonstrate satisfactory management of their finances. Applicants who historically increase debts and periodically refinance or consolidate debts must provide explanations satisfactory to the Program to qualify for a loan. Applicants who have suffered financial setbacks in the past but have recovered and demonstrated over a three year period that they are capable of managing their finances by reestablishing favorable credit records may be eligible for a loan.

g. Review of Management Experience and Capacity

- (1) The Sponsor must demonstrate prior group home experience with comparable size and type projects. The experience must evidence the Sponsor's capability to plan, construct, and manage a group home.

If the Sponsor does not have prior group home experience with CDA, the GHFP MANAGER may contact the Sponsor's references to document prior acceptable experience. The GHFP MANAGER may also elect to visit projects developed by the Sponsor to evaluate the acceptability of completed projects.

- (a) **GHFP** Sponsors without prior group home experience may be approved for loans if they can demonstrate capacity

based on other related business endeavors and prior satisfactory financial and credit management.

- (2) If a project provides specialized services in conjunction with the housing such as sheltered care for the elderly, congregate meals, or counseling services for shelters, the Sponsor must demonstrate the ability to secure support for the services from public and/or private agencies.
- (3) A review and confirmation of each non-profit Sponsor's 501(c) (3) status will be checked with the Internal Revenue Service (IRS) by accessing the Exempt Organizations Select Check Tool at <http://apps.irs.gov/app/eos>.

2.1.3 Property

a. General Requirements. The GHFP MANAGER will evaluate the application to determine that the property meets the following requirements:

- (1) is located in Maryland;
- (2) is now, or upon completion, will be in compliance with local zoning requirements for the property use;
- (3) is in good repair and in compliance with applicable State and local housing and occupancy codes, or is able to be made so with the proceeds of the loan or through other sources of funds, which may be a subordinate loan with terms and conditions acceptable to the Department;
- (4) is subject to the approval and permitted procedures of the local zoning authority, a group home that will house four or more individuals may provide 10 percent of the building's space, for nonresidential uses, which is in conformance with local zoning requirements, that may not be directly related to the home, but which offers goods or services that benefit lower income or otherwise disadvantaged persons;
- (5) Appraisals may be obtained from any approved appraiser on the Department's website list and are ordered and paid for by the applicant. When projects are submitted without an appraisal, the loan processor will arrange an appraisal. Refer to Section 4.1.3 "Expiration of an Appraisal" for requirements when appraisal will be more than 120

days old but less than one year old on the date of the Note. If rehabilitation work is anticipated, an “after-rehab” appraisal is required;

- (6) must have a home inspection report acceptable to the Department, which cannot be more than 120 days old at the time of approval;
- (7) All properties built prior to 1978 (effective January 1, 2015) will require a lead paint risk assessment prepared by a certified and accredited lead paint testing company. A lead paint risk assessment will allow the Department to confirm the existence of any lead paint hazards in the property. If a lead hazard exists, the Sponsor will have to obtain a bid from a certified and accredited lead paint contractor;
- (8) All projects will be checked against the Priority Funding Area (PFA) maps that are accessible on the Department of Planning’s website located at:

<http://mdpgis.mdp.state.md.us/PFA/publicinfotemplate/index.html>

b. Types of Projects

- (1) Projects may be a home offering common, shared or independent living, dining, kitchen, and sleeping facilities and supportive services or supervisory personnel to persons with special needs where the individuals are not related to the group home Sponsor.
- (2) Projects may be emergency and temporary housing facilities for homeless persons. Facilities of this type need not provide all of the services listed in (1) above.

2.2 GROUP HOME FUNDING SOURCE

Each application will be reviewed by the GHFP MANAGER to determine the appropriate funding for the loan. At this time only State funds, which are funded annually by State appropriations, loan repayments and prepayments, are the source of funds for GHFP.

The Program reserves the right to determine the most appropriate funding source for the project.

2.2.1. GHFP loans:

- a. Interest Rate: GHFP loans will carry an interest rate from zero (0%) to seven (7%) percent, which is based on the cash flow of the project. The interest rate shall be established after taking into consideration the annual income of the individuals or families expected to reside in the property and the amount of net operating income and payment of (any) prior debt service. Four percent is the current target interest rate. The interest rate may be as low as 0% in exceptional circumstances, as determined by the Department;
- b. Deferral: GHFP loans may contain provisions for deferral of interest and/or principal (generally deferrals are not permitted for more than a two-year period);
- c. Term: The maximum term is 40 years though generally the term does not extend beyond 30 years. The construction term may not exceed one year;
- d. Security Position: The loan will be secured by either a first or second mortgage;
- e. Grants: Projects may be eligible for grants, but they would be funded through Emergency Shelter and Transitional Housing Grants; in which case the project must be able to support the State-financing rate in order to leverage these funds.

2.3 NOTIFICATION OF ELIGIBILITY AND FUNDING SOURCE

Upon completion of the eligibility review and determination of the funding source, the Sponsor may be notified in writing of the determination. The notification will indicate the estimated amount of the loan CDA will process and provide some general guidance on expected loan terms. CDA will also advise the Sponsor if a loan is eligible but there is not sufficient funding for the loan. CDA's notification will include a projection of the date funds will be available.

If CDA determines the loan is not eligible for funding, a rejection letter will specify each reason for the determination of ineligibility and, when appropriate, include procedures for requesting reconsideration of the decision.

The eligibility review will generally be completed within 90-120 days of receiving a complete application (30 days to approve or deny an applicant, 30 days to allow additional information to be provided. 30 days to seek HFRC approval. 30 days to close). For new borrowers, meetings with the GHFP MANAGER, and/or the Assistant Director are strongly encouraged. New borrowers should submit their organizational documents in advance of application for review.

2.4 INELIGIBLE LOANS

Loans may also not be made to fund construction or rehabilitation which has been undertaken prior to approval of the loan by CDA or prior to CDA approval to initiate the work as evidenced by an early start letter from CDA to the Sponsor.

2.5 FUND LIMITATIONS

- a. The Maximum Loan Amount for a **GHFP** loan is \$125,000 per bedroom, which may include the residents and the caretaker's bedrooms. High housing cost areas (defined to be Montgomery, Prince Georges, and Howard Counties) may increase this bedroom allotment of \$125,000 by fifteen percent (15%).
- b. If insufficient funds are available to fund projects in the **GHFP** pipeline and the Sponsor, the Program may in its sole discretion approve the loan, but delay funding until the next fiscal year. After approval, the Sponsor may secure short term bridge financing to acquire and/or rehabilitate the project in anticipation of closing the **GHFP** loan.

2.6 REFINANCE LOANS

- a. GHFP loans may be used to finance the amount of existing debt on the property up to 100% of the appraised value for a first lien position and 95% for a second lien position.
- b. A Developer who has an existing GHFP loan may not "cash out" in a refinance with a new loan from the Department.

Interim financing that was obtained after a loan application was submitted to the Department is not eligible to be refinanced.

CHAPTER 3 - FEASIBILITY ANALYSIS

3.0 OVERVIEW

The purpose of the feasibility analysis is to determine the viability of the project, acceptability of the group home Sponsor and, if applicable, other members of the development team, and establish the expected loan structure and terms. Many of the analyses and reviews related to the feasibility analysis are undertaken concurrently. The reviews and procedures described in this Chapter are not necessarily undertaken in the order listed.

3.1 MINORITY BUSINESS PARTICIPATION REQUIREMENTS

3.1.1 Minority Business Enterprise Program

The Department of Housing and Community Development has a Minority Business Enterprise Program (MBE Program) which actively promotes utilization of minority businesses in projects financed by CDA. The MBE Program establishes a goal for minority business participation of not less than 29 percent of the contract costs of a project. The MBE Program applies to projects where the total construction or rehabilitation costs are \$250,000 or more (rehab only loans are originated and underwritten by Special Loans); however CDA encourages use of minority businesses for all CDA projects. If the MBE Program is applicable to a project, the Sponsor must submit an MBE Plan for approval by the Department.

3.1.2 MBE Meeting

For projects that are required to be included in the MBE Program, it is important that the Sponsor and general contractor be advised of the requirements in the early stages of loan processing. As soon as possible after a determination of eligibility is made, the GHFP MANAGER must arrange a meeting to inform the Sponsor of MBE requirements. The meeting will include the Sponsor, general contractor, if selected, and GHFP MANAGER. If a project involves funding from a local government administered program, the GHFP MANAGER should notify the local government representative of the MBE meeting and give them the opportunity to attend. Many local governments also have MBE

requirements and conflicts can be avoided if the Sponsor is made aware of all such requirements at one time. The GHFP MANAGER will provide the Sponsor with a copy of the MBE Program Guidelines and Register of Minority Businesses with the meeting notification sent to the Sponsor. A copy of the MBE Program Guidelines and Register of Minority Businesses is on the GHFP website (refer to RELATED LINKS on the GHFP website). At the meeting, the GHFP MANAGER will review the requirements of the MBE Program with the Sponsor, provide copies of sample MBE Plans and answer any questions the Sponsor or general contractor may have. The Sponsor must submit an MBE Plan to the GHFP MANAGER for approval. Special Loan Programs (SLP) may not close any loan until the MBE Plan, if required, has been approved.

3.2 SITE EVALUATION

3.2.1 General

Site evaluation is an important step in analyzing a loan application. The feasibility of the project is conditioned in part upon the location and demographics of the site. Accordingly a site visit must be scheduled early in the feasibility review process and prior to the Pre-Housing Finance Review Committee (Pre-HFRC) and Housing Finance Review Committee (HFRC) meetings. The GHFP MANAGER will coordinate the site visit with the Sponsor and the Rehabilitation Officer, if substantial rehabilitation, also coordinate with the Maryland Housing Fund (MHF) Review Appraiser. A home inspection report (not more than 120 days old at the time of approval), prepared by a third party inspector, will be required with each application that involves little or no rehabilitation.

3.2.2 Evaluation Criteria

Factors, which will be evaluated on the site visit, are described below. Using these factors as a guideline, the GHFP MANAGER will make a determination of the acceptability of the site for the proposed project.

- (a) accessibility of the site to schools, shopping, health, recreation and social facilities and employment opportunities. This criteria will be evaluated for each project based on the nature and proposed

occupants of the project, such as elderly, disabled housing, or transitional housing for families with children;

- (b) availability of public transportation to residents of the project;
- (c) availability or acceptability of sewer and water facilities, public utilities and other services, such as rubbish removal;
- (d) apparent absence of adverse environmental and site conditions;
- (e) for rehabilitation projects, the condition of the project and the potential for rehabilitating the property at reasonable costs;
- (f) type and costs of other housing in the project's market area; and
- (g) condition of the neighborhood and general trends towards gentrification

3.2.3 Acceptability of Sites

Based upon factors reviewed on the site visit and documentation provided with the application, the GHFP MANAGER must assess the acceptability of the site in accordance with the following criteria:

- (a) The site must be properly zoned for the proposed use. Proof of zoning compliance will be waived when the project involves individuals who are within the scope of developmentally disabled. Both Maryland and Federal law require acceptance by jurisdiction of Group Homes for the disabled population. As a result, restrictive zoning may not be used. Developmentally disabled includes, but may not be limited to: seniors, juveniles, homeless, and other special needs populations as defined by the Department. We understand that persons afflicted with addiction and victims of sex trafficking will likely fall within the scope of a special needs population.
- (b) The Sponsor must have acceptable control of the site. Acceptable site control includes a contract of sale or an option agreement or contract. Generally, contracts of sales should have a minimum remaining term of six (6) months to provide adequate time for processing and closing a loan.

(c) General site factors, such as location, transportation, proximity to necessary services or facilities and availability of needed utilities and services, must be evaluated for acceptability. For rehabilitation projects, the physical characteristics of the site must be evaluated. The GHFP MANAGER will analyze these factors to make these determinations.

3.2.4 Historical Requirements

Prior to the site visit and if the project involves rehabilitation, the Program will determine if the project is located in a historic district or has an impact on existing historic structures. This determination will be made by MHT.

3.3 EVALUATION OF THE DEVELOPMENT TEAM

3.3.1 Development Team

Generally, the development team consists of the Sponsor, the management entity, the contractor and the attorney depending on the size and the type of group home proposed. The members of the development team may vary depending on the type of project. The GHFP MANAGER will review and coordinate review of the development team with other in-house technicians as needed. Loans will be approved for projects only if the development team evidences the capability or experience necessary as determined by CDA to be needed to successfully undertake, complete and operate the project. If any of the development team has been suspended or debarred from participation in the Department's programs pursuant to COMAR 05.01.05 or if any member of the development team is on the Department of Housing and Urban Development's List of Debarred and Suspended Contractors they will not be approved to participate in the loan. These lists can be accessed on line

https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp and

<http://bpw.maryland.gov/Pages/Debarments.aspx>

3.3.2 Sponsor

The Sponsor is financially responsible for the project and is generally responsible for coordinating the activities of the project. The primary criteria for evaluating the Sponsor are described in Chapter 2, Section 2.1.2.

3.3.3 Management Agent

The Management agent is responsible for managing the marketing, occupancy, administration and maintenance of the project. The management agent shall be a business entity and will be approved based upon demonstrated capability to manage comparable type and size group homes. Reasonable management fees and staffing expenses will be permitted in the income projections of the project.

3.4 ANALYSIS OF CONSTRUCTION/REHABILITATION

3.4.1 General

The Department's staff reviews plans and specifications and evaluates the property to ensure the adequacy of the proposed work. Minor renovation projects (under \$10,000) generally are not subject to review by the rehabilitation staff. CDA's reviews are not intended to substitute for or ensure compliance with appropriate state and local building codes and standards. The purpose of CDA's reviews is to ensure the project provides decent, safe and sanitary housing which is appropriately designed. Although this review is initiated during the feasibility stage, it is a continuing process through completion of the rehabilitation.

3.4.2 Inspection

The GHFP MANAGER will inspect all properties. If a project involves rehabilitation over \$10,000, the Department's Rehabilitation Officer will also inspect to determine the extent of rehabilitation required for the building. If needed, the Rehabilitation Officer will prepare a work write-up, which outlines the scope of work. The final plans and specifications

must address all rehabilitation identified in the inspection report. Sponsors must address all issues of the home inspection report before loan closing.

3.4.3 Submissions

- (a) The extent of documentation required varies for each loan depending upon the nature of the loan (for example, moderate rehabilitation or minor renovation). Generally, CDA requires sufficient information to document the acceptability of work in accordance with the objectives stated in section 3.4.1 and evaluate the reasonableness of proposed costs.
- (b) The following submissions must be received and reviewed by CDA for each loan:
 - (i) For moderate rehabilitation projects or substantial rehabilitation projects which may require major structural work, a detailed write-up of the proposed rehabilitation is required. The proposed work should be organized by rooms and detailed and priced by work item.
 - (ii) For turnkey new construction projects, CDA will require a description of the project which may include drawings, buyer brochures, plans, etc.

3.4.4 Construction Management Report

Each funding request will be made in accordance with the funding procedures for Special Loans within the Department. In general, the Department's Rehabilitation Officer will generate a written report on the acceptability and percentage complete of the construction. The report will identify all recommendations for changes or revisions to the plans and specifications, as submitted by the Sponsor. The GHFP MANAGER will provide a copy of this report to the Sponsor. If the report is extensive and involves major staff recommendations, a meeting will be scheduled among the GHFP MANAGER, Rehabilitation Officer, Sponsor and general contractor, as appropriate.

3.5 OCCUPANCY AND INCOME ANALYSIS

3.5.1 General

CDA makes financing available to group homes, which provide affordable housing to low income persons and families with special housing needs. The GHFP MANAGER must evaluate the income levels of existing tenants for eligibility under the program regulations and the rents for affordability by existing or proposed tenants.

3.5.2 Occupancy

Projects financed by the **GHFP** may be occupied by individuals with disabilities or special housing needs including those who are developmentally or mentally disabled, elderly or juveniles in need of direct supervision or otherwise in need of assistance due to special personal characteristics or circumstances such as victims of sex trafficking or homeless individuals. All residents with the exception of live-in staff must meet some definition of special need. Sponsors may not discriminate in selecting tenants on the basis of race, color, religion, national origin, sex, age, marital status, sexual orientation or developmental or mental disability

3.5.3 Income Eligibility

Income limits are updated annually. Refer to RELATED LINKS on the GHFP website for the income limits for the programs included in this Handbook. For projects that are occupied at the time of loan application, the Sponsor must provide a schedule showing the income of each client and the current and proposed rent. The client's income must be verified prior to commitment of the loan. Generally the verification must be on SFH's **Certification/Recertification of Tenant Eligibility** form signed by the Sponsor (Refer to RELATED LINKS on the GHFP website). It is not necessary to verify the income of individuals who are participants in a federal program such as Section 8 or has been prequalified by the licensing agency such as DHMH. Juveniles are presumed to have no income. The GHFP MANAGER must analyze the income for each

household to insure that the annual income of each tenant in occupancy is within the income limits required for the Group Home Program.

For GHFP loans, income limits are based on **60 percent** of the Area Median Income adjusted for household size

For new construction or rehabilitation of vacant buildings, compliance with the income requirements must be evaluated in relation to the proposed rents and population served. Generally CDA will assume the income limitations can be met if the proposed rents are affordable to households with incomes below the 60 percent income limit.

3.6 DEVELOPMENT BUDGET

3.6.1 Overview

An accurate and reasonable development budget is crucial to the success of a group home project. An underestimated development budget can affect the successful completion of the project. An inflated development budget causes unnecessary financial burdens for the project. The GHFP MANAGER and staff must thoroughly review the development budget for accuracy and reasonableness.

3.6.2 Rehabilitation Costs

The cost of rehabilitating a group home will be reviewed by the Rehabilitation Inspector assigned to the loan. The costs must be comparable to costs for recently approved group homes of the same type and must be adequate, in CDA's determination, to fund the proposed work. CDA will advise the Sponsor in a letter of any discrepancies between the staff's cost estimate and the contract price. CDA will require adjustments be made in accordance with the independent cost estimator's analysis.

3.6.3 Fees

Eligible fees include architect's fees, legal fees, processing agent fees, surveys and soil borings and appraisals. The fees must be related to the

construction or rehabilitation. Fees related to the acquisition may be included in the development budget only as acquisition costs. General standards for fees are as follows:

(a) Architect's Fee - Design

Fees from 4.5 percent to 6 percent of the construction contract may be approved for architect's design costs.

(b) Architect's Fee - Supervision

Fees from 1.5 percent to 4 percent of the construction contract may be approved for architect's supervision costs. These costs are approvable only if an architect's services are required during construction. Generally this cost will be approved only for new construction or substantial rehabilitation which involves structural work. Sponsors may substitute the costs of a supervising engineer or construction manager, if an engineer or construction manager is required to oversee a portion of the work. Fees for these latter services will be reduced proportionately to the level of services and generally may not exceed two percent of the construction contract.

(c) Legal Fees

Legal fees up to one percent of the first \$1,000,000 of development costs, plus five-eighths percent of the balance of development costs are permitted.

(d) Appraisal

These costs must be supported by an independent fee appraisal obtained by The Department or the Sponsor. The appraiser must be on Department's Approved Appraiser List. The appraisal should indicate the Department as an "intended user."

3.6.5 Acquisition Costs

Acquisition costs include all costs, fees and charges related to acquisition of the land and buildings. Eligible costs include carrying costs, real estate taxes, sewer and water tap fees, surveys and soil borings, title and recording, off-site improvements and special assessments.

3.7 OPERATING BUDGET

3.7.1 General

The operating budget must be reviewed by the GHFP MANAGER for reasonableness.

3.7.2 Project Income

Project income consists of income from client rents, Medicare and Medicaid insurance, entitlement programs or subsidies, and private contributions. Each source of income must be evaluated for amount and stability.

3.7.3 Project Expenses

- (a) For occupied projects, the operating budget will be reviewed in relation to the actual operating experience of the project for the prior three years. Projected budgets may be less than current expenses if the rehabilitation provides for correction of previously high maintenance costs or energy conservation improvements designed to reduce utility costs. For new projects, operating costs will be evaluated in relation to actual operating costs for comparable projects in the market area which have been financed by CDA and for which operating costs are available for review.
- (b) For certain group home projects, management fees are acceptable. CDA limits the amount of management fees that may be charged for CDA- financed projects to fees ranging from three to seven percent of gross income. CDA evaluates management fees on an annual basis and may from time to time revise the management fee scale.

3.8 SOURCES OF FINANCING

3.8.1 General

- (a) CDA encourages additional sources of financing in addition to and **GHFP** financing;

- (b) **GHFP** loans may be subordinate or superior to other financing and may not exceed either 95% or 100% (of the appraised value (“after rehabilitation” value should be used if the project involves modifications) of the property. Refer to 3.8.3 and 3.8.4 below for further detail;

3.8.2 Minimum Equity Contribution

- (a) Non-profit Sponsors are required to make a 5% equity contribution to the project.
- (b) Individuals must make a 10% equity contribution.
- (c) Exceptions to the minimum equity contributions may be considered on a case-by-case basis.

3.8.3 First Lien Position GHFP Loans

- (a) Generally, GHFP loans will be in a first lien position.
- (b) The loans may not exceed 100% of the appraised value of the property. If the project involves modifications, the “after rehabilitation” value should be used.

3.8.4 Subordinate GHFP Loans

GHFP loans secured by mortgages that are subordinate to other mortgages may be approved if:

- (a) the Sponsor obtains private financing or;
- (b) the Sponsor uses a federal program which requires a first mortgage.

The sum of the GHFP loan and the principal balance of all prior, third- party secured debt must not exceed 95 percent of the “after-rehabilitation” value of the group home or 100 percent of the appraised value of the property after modification for loans secured by a mortgage that is subordinate to other mortgages made or insured by the Department.

Generally CDA will not approve GHFP loans which are subordinate to funding from other State or local programs. This condition may be waived or modified, if necessary, to comply with legal requirements of the other State or local programs or if the other State or local funding is in the amount which is significantly greater than the amount of the GHFP loan.

3.9 PROFORMA ANALYSIS AND DETERMINATION OF LOAN TERMS

3.9.1 General

The GHFP MANAGER must prepare a Program analysis of income, expenses and debt service to determine the financial viability of the project and the interest rate and loan term for the loan(s).

3.9.2 Income Adjustment Factors

Income is generally adjusted upward over the life of the loan. For Group Home Program loans, operating income will be adjusted annually at a rate of three percent.

3.9.3 Expense Adjustment Factors

Expenses are generally adjusted upward over the life of the loan. For Group Home Program loans, expenses will also be adjusted annually at a rate of three percent.

3.9.4. Reserve for Replacement

Allowances for reserve for replacement are required for all loans. Reserve for replacement (RFR) deposits are calculated as the greater of \$1,500 per year; or, \$125 per bedroom (including caretaker's) per year. RFR allowances remain constant over the term of the loan. Escrows are collected and maintained by the servicer unless the loan is a 0% deferred HOME loan, in which case the reserves may be collected and held by the Borrower.

3.9.5 Determining the Amount of the GHFP Loan

The maximum loan amount may not exceed the lesser of:

- (a) the sum of acquisition, rehabilitation (or construction) and closing costs;
- (b) for loans in first lien position, 100 percent of the value or “after rehabilitation” value of the project;
- (c) for loans in subordinate lien position, the amount when added to any prior, third-party secured debt does not exceed 95 percent of the value or “after-rehabilitation” value of the project;
- (c) the geographical maximum house price set periodically by the program for the region where the property is located, unless the Department’s HFRC approves an exception on the following basis:
 - (a) there are no other reasonably acceptable properties available within the cost limit; or
 - (b) the property is larger than the usual group home financed by the program and will serve more than three individuals with special housing needs.

3.9.7 Geographical Maximum Loan Amounts

- (a) CDA has a policy that establishes Maximum Loan Amounts for GHFP loans. Refer to RELATED LINKS on the GHFP website for the current GHFP Maximum Loan Amounts for geographical areas of the State.
- (b) The Department’s Housing Finance Review Committee must approve exceptions to the GHFP Maximum Loan Amounts. Exceptions may be granted for loans on properties serving more than 3 clients and the property is larger than those usually financed and where the Sponsor could not reasonably finance an acceptable property within the GHFP Maximum Loan Amount.

3.9.8 Interest Rates

- (a) The GHFP Interest rate is based upon the cash flow of the project. In general, CDA will attempt to recover the maximum return on its loans, using a 1.05 debt service ratio, without affecting the feasibility of a project.

3.9.9 Terms

Loan terms are as follows:

- (a) Rehabilitation Terms

Terms for the construction period range from 6 months to 24 months. The length of the term is based on the projected term of construction. The longer terms generally apply to substantial rehabilitation projects. Terms of 12 months are generally standard for moderate size loans and lesser terms are approved for small loans or moderate rehabilitation projects.

- (b) Permanent (Acquisition/Refinance) Terms

Terms are typically 30 years but may range from 15 to 30 years. Terms may be as long as 40 years for **GHFP** loans. If the subject **GHFP** loan is a second mortgage, its term must not exceed that of the first mortgage (reflective of any call provision).

3.9.10 Feasibility Letters

Once the GHFP MANAGER, working with the Sponsors, determines the feasibility of the project, a feasibility letter is prepared by the GHFP MANAGER and issued by the Assistant Director, stating the terms of the loan and listing the items needed from the Sponsor to proceed to the Housing Finance Review Committee for loan approval. A Pro Forma is included with the feasibility letter.

CHAPTER 4 - COMMITMENT ANALYSIS

4.0 OVERVIEW

The purpose of the commitment analysis is to determine the final loan terms and conditions. The GHFP MANAGER will evaluate information and distribute information to other Department staff for review as it is received. All documentation required for commitment must be submitted to CDA within the time frames specified by SFH.

4.1 APPRAISAL

4.1.1 Criteria for Appraisers

Appraisers experienced in valuating single family, multifamily and commercial properties, as determined by the Department, must prepare appraisals. CDA maintains an approved appraisers list; appraisers must come from the list, or satisfactorily complete the forms and be added to the list. Appraisers must also be licensed by the State of Maryland.

4.1.2 Criteria for Appraisals

The appraisal must be evaluated by the GHFP MANAGER to determine compliance with any required loan to value ratios for the program. All appraisals must include the market data approach and may include the income approach where that information is available or the cost approach, particularly when the appraisal relates to new construction or substantial rehabilitation. The appraisal must include explanations and justifications of data used in developing all three approaches to value including the market, cost and income approach to value, if used.

4.1.3 Expiration of an Appraisal

When the appraisal will be more than 120 days old but less than one year old on the date of the Note, the appraiser must inspect the exterior of the

property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

- (a) If the appraiser indicates that the property has declined in value, a new appraisal must be obtained; or
- (b) If the appraiser indicates that the property has not declined in value, the appraiser must provide a certification to that effect, based upon an exterior inspection of the property and knowledge of current market conditions. The inspection and the certification must occur within the 120 days that precedes the date of the Note.
- (c) In no case may the appraisal be dated more than one year prior to the date of the Note.

4.2 PLANS AND SPECIFICATIONS REVIEW

All drawings, plans and specifications will be given to the Rehabilitation Specialist for review. This review is not intended to supersede local code, fire marshals or professional architectural reviews. The purpose of the review is to determine that the room sizes are functional, that appropriate amenities are provided, that environmental issues such as lead paint abatement are addressed and that the costs are reasonable for the proposed scope of work in relation to costs for comparable projects previously financed by CDA.

4.2.1 If Project Subject to Historic Rehabilitation Standards

If the project is subject to review for compliance with historic rehabilitation standards, the plans and specifications will be reviewed for conformance with the Maryland Historical Trust standards. Any requirements of the Maryland Historical Trust must be agreed to by the Sponsor before the loan is approved for commitment.

4.2.2 Other Financing

The GHFP MANAGER must document that all other financing proposed in conjunction with the loan has been approved. A copy of a commitment

letter from the lender is the preferred form of documentation. If a commitment letter is not available, the GHFP MANAGER may document the commitment by calling the lender. The commitment must be contingent only upon approval of the loan and normal loan terms and conditions.

4.3 LOAN TERMS

To determine loan terms, the following steps must be taken:

4.3.1 Maximum Loan Amount

The maximum loan amount is determined by total cost of acquisition, development and eligible loan financing costs. The loan amount must be determined in accordance with 3.9.5 and 3.9.6. The maximum loan amount for a GHFP loan is \$125,000 per bedroom, which may include the residents and the caretaker's bedrooms. High housing cost areas (defined to be Montgomery, Prince Georges, and Howard Counties) may increase this bedroom allotment of \$125,000 by fifteen percent (15%).

4.3.2 Term and Interest Rate

(a) Determination of net operating income for debt service

The net operating income available for debt service is determined by subtracting the project operating expenses from the gross annual income after adjusting for vacancy loss. The **GHFP** requirement for net operating income available for debt service is 1.05 or higher.

(b) Amortizing GHFP Loans

To determine the interest rate for the GHFP loan, an **HP 12c financial calculator** must be used. The annual income available for debt service established in paragraph (i) is divided by 12 and entered as PMT. The loan amount determined in paragraph (i) is entered as PV and the loan term of 360 is entered as N. Compute (%i) and multiply by 12 to arrive at the interest rate. The calculated interest rate is rounded off to two decimal places. If the calculated interest rate is greater than 7 percent,

the rate is set at 7 percent, and the term is reduced to the minimum term amortized at a rate of 7 percent.

4.4 ESTABLISHING MORTGAGE AMOUNT, RATE, AND TERM

All revised and updated development costs, income and operating costs must be evaluated and the data used to establish the loan amount, rate and term in accordance with the procedures specified in Chapter 3 and 4.

4.5 EMERGENCY COMMITMENT APPROVAL

Occasionally situations occur where an emergency situation necessitates submitting a loan to the Secretary for approval prior to a recommendation from the Housing Finance Review Committee. CDA uses discretion in approving loans in this manner and only in the most unusual of circumstances are loans not submitted to the Housing Finance Review Committee.

4.6 COMMITMENT APPROVAL

After the GHFP MANAGER has completed all the reviews and secured all documentation and external approvals, a recommendation to approve the loan is made to the Director of Single Family Housing and CDA Director. After the Director has signed off, loans are then submitted on a bi-weekly basis to the Department's Housing Finance Review Committee as follows:

4.6.1 Project Report List

For loans, where the aggregate amount does not exceed \$250,000, the Director of Single Family Housing Programs recommends approval of the loan to the CDA Director. All loans approved by the CDA Director are included on a Project Report List which is submitted to the Housing Finance Review Committee (HFRC) members each month for their information. The Project Report List includes the name of the Sponsor, name and location of the project, loan program, loan amount, mortgage

rate and term, number of units, rents, incomes served and any other pertinent information about the project.

4.6.2 Project Consent List

For loans, where the aggregate amount is greater than \$250,000 but less than \$500,000, are submitted to the Housing Finance Review Committee for action on the Project Consent List. The Project Consent List includes the same information as the Project Report List. The Housing Finance Review Committee has the right to act on any loan on the Project Consent List.

4.6.3 Project Presentations

For loans, where the aggregate amount is \$500,000 or more or loans where the aggregate amount is less but the loan has policy issues, such as nonconformance with CDA's standard loan terms or unique or unusual terms must be presented individually to the Housing Finance Review Committee for action. The GHFP MANAGER must prepare a detailed summary of the loan and project for presentation to the Housing Finance Review Committee.

4.7 SHOP Disclaimer

If SHOP funds are used, please refer to the guidelines on the DHCD share drive.

CHAPTER 5 - PROCEDURES FOR ISSUING COMMITMENT LETTERS

5.0 OVERVIEW

The commitment letter sets forth all the terms and conditions of the loan and details the criteria which must be met to close the loan. When a commitment is prepared, all major terms and conditions of the loan must have been negotiated and resolved. The Assistant Attorney General assigned to the Program is responsible for preparing the final commitment letter and all loan documents.

5.1 PROCEDURES

A separate commitment letter is issued for each loan. The GHFP MANAGER prepares an Interoffice Checklist for each loan and forwards to the Program Attorney for preparation of the commitment letters. The letters are prepared and signed off for legal sufficiency and returned to the GHFP MANAGER.

The final commitment letter is signed by the Director of the Community Development Administration.

5.1.1 Coordinating with the Maryland Housing Fund- Not Applicable

5.1.2 Distribution of the Commitment

The GHFP MANAGER sends two original signed commitment letters for each loan with exhibits to the borrower by Fed Ex. The Exhibits that accompany the Commitment letters are an integral part of the Commitment and are sent with the Commitment.

The GHFP MANAGER will issue two signed copies to the Sponsor for each loan with the attached documents. One photocopy will be placed in the case file, and, if the loan is insured, one copy will be provided to the mortgage insurer. All commitment letters will be issued simultaneously. Each commitment letter includes a Closing Checklist which discloses all documentation which must be submitted and approved prior to loan closing. The GHFP MANAGER must review the checklist and delete any items which are not required. The GHFP MANAGER must also add any

specific documentation required for the loan which are not standard checklist items.

CHAPTER 6 - LOAN CLOSING

6.0 OVERVIEW

Loan closing involves finalizing all documentation for the loan. The GHFP MANAGER is the primary liaison with the Sponsor for the transmittal and preliminary review of documents and requests for additional information or documentation. An Assistant Attorney General will be assigned to each loan to conduct the closing or review documentation. Preparation for loan closing begins when the Sponsor returns the signed commitment letter to the GHFP MANAGER.

6.1 DOCUMENTS

6.1.1 Closing Documents

Closing documents consist of form documents which support the eligibility of the Sponsor and project for the loan and substantiate compliance with the terms and conditions of the commitment. Closing documents will be prepared by the Attorney General's Office.

The primary closing documents are described below. This is a general list and all items may not be required for each loan. Certain loans may also have requirements for specific closing documents which are not normally required. Closing documents of this nature are not included on the list below.

(a) ***Commitment.*** The CDA commitment sets forth all the terms and conditions under which the loan will be made, including the condition that the loan must close within 60 days of issuance of the commitment. The closing transcript must include fully executed originals of the commitment letter. If for any reason, material terms of the loan differ from the terms of the commitment letter, an amended commitment letter must be obtained prior to closing.

(b) ***Evidence of Organization of the Mortgagor.*** CDA must receive

evidence of the organization of the Mortgagor which includes the following:

- (1) For limited partnerships, a Limited Partnership Agreement, Certificate of Limited Partnership and all amendments.
- (2) For corporations, Articles of Incorporation, Bylaws, and any and all amendments.

Additionally, CDA must receive Certificates of Good Standing for the mortgagor from the State of Maryland Department of Assessments and Taxation and from the mortgagor's state of organization, if out of State. Certificates of Good Standing must be dated within the 30 days prior to closing.

Prior to closing, the organizational documents of the mortgagor must be reviewed and approved by the attorney representing CDA in the closing.

- (c) **Financial Statements.** Certified copies of the mortgagor's financial statements must be included in the closing file. Financial Statements are required for loan processing.
- (d) **Evidence of Land Control.** Land ownership through the anticipated closing period must be substantiated by a purchase agreement, option or letter of intent. These documents are required for processing and unless revised copies are required, CDA will provide copies of land control at closing.
- (e) **Title Commitment.** A title commitment, including copies of exceptions, which is prepared by a title attorney or company must be reviewed and approved prior to closing. The GHFP MANAGER will transmit the title binder to CDA's closing attorney for approval prior to closing.
- (f) **Survey.** A house location survey with surveyor's certificate and surveyor's report is required for all loans involving newly acquired or constructed properties. Surveys and title binders must be reviewed and approved by the Program Attorney.
- (g) **Evidence of Zoning Compliance.** Evidence of the project's compliance with zoning requirements for the existing or proposed use is required. Acceptable forms of evidence of zoning compliance include letter or certification from the local zoning office.

- (h) **Construction Documents.** The construction documents include building permits, plans and specifications or scope of work, and construction contracts. All of this documentation is not required for each loan. The level of documentation varies depending upon the size and type of loan. Required construction documents are specified in each commitment letter. Generally, the construction documents must be reviewed and approved by the Housing Rehabilitation Officer.

- (i) **Insurance Policies.** Insurance policies for Contractor's Comprehensive General Liability, Builder's Risk and Hazard and Liability Insurance are required for projects involving substantial rehabilitation. Refer to RELATED LINKS on the GHFP website for the CDA insurance requirements. If complete insurance policies are not available, CDA will accept binders at initial closing where the form of policy to be issued is attached. CDA will not accept Certificates as evidence of insurance. .

- (j) **Minority Business Enterprise Plan.** A Minority Business Enterprise Plan (MBE Plan) is required for each loan for which the total construction costs exceed \$250,000. The MBE Plan must be approved by the Department's Equal Opportunity Officer prior to initial closing. The MBE Plan describes the Sponsor's and contractor's efforts to solicit and utilize minority businesses in the construction of the project. An MBE Plan must be in place before issuance of an early start letter.

6.1.2 Closing Documents

The closing documents are form legal documents prepared and approved by the Assistant Attorney General's Office. In extenuating circumstances CDA may agree to changes in the documents. All changes must be approved by the SFH Director and the Assistant Attorney General closing the loan.

Typical closing documents are described below.

- (a) **Deed of Trust Note.** The Deed of Trust Note is the agreement to repay the loan. It sets forth all repayment requirements and dates for repayment. Recourse notes are required for mortgagors who are not

local governments, limited partnerships or corporations. Recourse note means that each party who signs the note is personally obligated to repay the loan. Notes for local governments, limited partnerships and corporations are called non-recourse notes, which means CDA may only look to the property and not the individuals or local government to pay back the loan. The Note is retained by CDA for **GHFP** loans.

- (b) **Deed of Trust.** The Deed of Trust secures repayment of the loan, sets forth the requirements of the loan, identifies events of default, and specifies actions and remedies which may be taken by the mortgagor or CDA in conjunction with the loan. The Deed of Trust must be recorded in the land records of the jurisdiction in which the project is located. The Deed of Trust must include an exhibit which provides a legal description of the property which will secure the loan.

- (c) **Financing Statements.** Financing Statements are required for loans over \$250,000. Financing statements secure CDA's interest in certain fixtures, equipment and accounts related to the property. The Financial statement includes Exhibit A, legal description of the property. Financing statements are recorded in the land records or the jurisdiction in which the project is located and with the Department of Assessments and Taxation.

- (d) **Title Policy.** CDA requires an American Land Title Association Loan Policy for title insurance in the amount of the mortgage loan insuring that the deed of trust constitutes a valid lien on the property in the lien position approved by CDA. Any title exceptions must be approved by CDA prior to initial closing. The policy must be issued at initial closing. The title policy shall contain such endorsements as are required by CDA and the Office of the Attorney General.

- (e) **Mortgagor's Attorney's Opinion.** The Mortgagor's Attorney's opinion certifies the legality of the mortgagor to make the loan and sign all the documents evidencing the loan. This is required on GHFP loans over a certain amount determined by CDA (\$250,000) CDA provides the form of Mortgagor's Attorney's Opinion which must be typed on the letterhead of the mortgagor's attorney and signed by the mortgagor's attorney. Any opinion not conforming to the form opinion must be negotiated with the Assistant Attorney General.

- (f) **First Mortgagee's Agreement.** This document is used when the CDA loan is subordinate to other mortgages or deeds of trust. The agreement is between CDA and the superior mortgagee and provides CDA certain rights and protections in the event the mortgagor defaults on the first mortgage or deed of trust.
- (g) **Regulatory Agreement.** This document outlines the use restrictions on the property including the income restrictions for the occupants and the reserve for replacement to be collected.
- (h) **Equity Participation Agreement** for **GHFP** loans. The Equity Participation Agreement grants the right of equity sharing upon sale, transfer, exchange, maturity of the loan or other disposition of the project by the borrower to CDA based upon a predetermined percentage. By regulation, the sharing ratio must be at least 25% to the Department. However, if the Department provides less than ½ of the total financing for the project, the percentage to be applied shall be the percentage of the total financing provided by the Department.

6.2 CLOSING PROCEDURES

The GHFP MANAGER reviews the Title Policy and all exceptions, survey, insurance documents, Incumbency and Resolution to ensure that they have been properly completed. Incomplete packages will not be processed. A letter will be sent to the Sponsor outlining any deficiencies and the timeframe to return the information.

The GHFP Manager forwards the closing package to the Program Attorney for final review.

The Program Attorney reviews the documents and prepares the attorney closing instruction letter.

The attorney's closing instruction letter is signed by the Assistant Director. It is mailed to the Sponsor's closing attorney with the GHFP settlement check and all applicable closing documents.

6.2.1 Setting the Closing Date

After all business and legal issues have been resolved, the GHFP MANAGER will advise the Sponsor and/or the title attorney of all closing requirements. A settlement date will be set by CDA after satisfactory completion of all closing requirements by the Sponsor. Once a settlement date has been determined, the GHFP MANAGER will request a check for settlement.

6.2.2 Loan Servicing Information

Within 48 hours of settlement, the title attorney shall send copies of all closing documents to the Program. The GHFP MANAGER will prepare a Loan Servicing Information Form. This form contains information about the project, Sponsor, management agent, disbursement procedures, billing procedures and other information required by the mortgage servicer. This form will be distributed to the servicer, the CDA Finance Accountant, the DCA/MHF Fiscal Clerk and the DCA Asset Management Officer and Rental Service Programs to monitor for the income requirements of the loan.

The servicer will also need to receive copies of the following documents: commitment letters, Deed of Trust Note, Deed of Trust, Regulatory Agreement, Equity Participation Agreement and settlement sheet.

CHAPTER 7 – CONSTRUCTION PERIOD PROCEDURES

7.0 OVERVIEW

The Housing Rehabilitation Officer is responsible for oversight and monitoring of projects during the construction period. Activities during this period include inspection requirements and procedures, draw request procedures, and change orders.

All issues and questions related to construction should be coordinated through the Housing Rehabilitation Officer.

7.1 COMMENCEMENT OF CONSTRUCTION

7.1.1 Requirements

Generally, rehabilitation of a project may not begin prior to the closing of the CDA loan or approval of an early start of construction by CDA. Under no circumstances will CDA approve commencement of rehabilitation prior to approval of a loan.

7.1.2 Construction Documents

Construction documents consist of the following which must be submitted to and approved by CDA prior to commencement of construction:

- (a) Final plans and specifications or, if acceptable to CDA, a detailed write-up of the proposed work for rehabilitation projects;
- (b) Construction contract.

7.1.4 Pre-Construction Conference

A pre-construction conference including the Sponsor and the Housing Rehabilitation Officer may be conducted prior to the commencement of construction. The purpose of the pre-construction conference is to review inspection procedures, draw requisition and payment procedures, change order procedures, and dispute procedures.

Equal opportunity, equal employment requirements and minority business reporting procedures will also be discussed at the pre-construction conference. Pre-construction conferences will be conducted at CDA's offices unless another location is agreed upon by all parties.

7.2 CONSTRUCTION PHASE

7.2.1 General

This section describes the roles of the Sponsor and CDA during the rehabilitation of the project. The Sponsor is required to commence and complete construction of the project within the number of days for completion specified in the Rehabilitation Loan Agreement.

7.2.2 Construction Inspections

The Housing Rehabilitation Officer is responsible for assuring CDA's loan funds are used to rehabilitate the project in conformance with the contract documents. These responsibilities include the following:

- (a) Determine whether rehabilitation is performed in accordance with the contract documents, including approved change orders;
- (b) Review the drawings, specifications, or scope of work and inspect the site. If discrepancies or site conditions which have not been considered in the original scope of work are revealed after construction commences, the Rehabilitation Specialist will notify the GHFP Manager and Assistant Director. All site inspections will be documented on The Department Progress Inspection Report;
- (c) Report any apparent errors, omissions, and unsatisfactory rehabilitation to the Assistant Director;

- (d) Prepare construction inspection reports in support of each requisition on the The Department Payment Inspection Report for Loan and Grant Programs;
- (e) Review change orders and recommend approval or disapproval to the Assistant Director;
- (f) Notify the GHFP Manager and Assistant Director of any variations in the cost of the work in place or materials stored on-site;

7.2.3 Payment Requests

Rehabilitation payment requests are processed on a schedule agreed to prior to closing. Payment requests will be processed by CDA, only upon submission by the Sponsor. Requests for payment from general contractors will not be recognized by CDA.

The steps for processing payment requests are as follows:

- (a) Inspection. Prior to the submission of a payment request to CDA an inspection of work is completed. The payment inspection will be documented on the The Department Payment Inspection Report for Loan and Grant Programs. At the payment inspection, the parties will review the proposed payment request and conduct a walk-through inspection of the site. The Department Payment Inspection Report will serve to document that the construction costs are acceptable.
- (b) Retention. Ten percent of rehabilitation costs may be retained from each draw. CDA may pay only 90 percent of the sum of completed work. The retainage is released upon substantial completion of the total project. Retention may be considered on a case-by-case basis.
- (c) Payment Procedures. Upon receipt of a draw request, the GHFP Manager will review and approve the Inspection Report. The approved payment request package will be signed by the Assistant Director and submitted to the Department's Finance Office for processing. Checks are mailed from the Comptroller's Office to the Sponsor. The expected turnaround time for receipt of the checks is 10 business days.
- (d) Final Payment.

- (i) Final Payment for loans may be made only upon receipt of a Certificate of Completion signed by the Sponsor, contractor, and Housing Rehabilitation Officer. The check for final payment will not be requested until the Program receives a Certificate of Completion signed by the Sponsor and contractor, except as otherwise provided in this Section.
- (ii) The Program may require an independent final payment inspection prior to release of the payment. The second inspection is intended to prevent undisclosed collusion between contractors and Housing Rehabilitation Officers and to ensure quality work by the Housing Rehabilitation Officer.
- (iii) For newly constructed projects, final payment will not be processed until a certificate of use and occupancy and executed mechanic lien waivers from the general contractor and all sub-contractors, suppliers and material men.

7.2.4 Change Orders

- (a) General. Change orders must be submitted on CDA forms and approved in writing by CDA prior to execution of the work. Evidence of available funding for cost increase change orders is required prior to approval of any change order. Change orders involving cost increases will be approved only if the Sponsor escrows funds with CDA in an amount equal to the change order. If a change specification or scope of work and the loan includes a rehabilitation contingency, the increase may be funded from the rehabilitation contingency if the change order is approved.
- (b) General Procedures. All change orders must have CDA's prior written approval. The Sponsor and general contractor are responsible for submitting to CDA a completed, detailed description of the work and a cost breakdown of the proposed work. All forms must be executed by the Sponsor and the general contractor. The documentation for the change order will be provided to the Housing Rehabilitation Officer. The Housing Rehabilitation Officer will recommend approval or disapproval to the Assistant Director only if costs exceed 10% of the rehab budget.
- (b) CDA Initiated Change Orders. CDA may, at its own discretion, request the Sponsor to initiate a change order if CDA and the general contractor

determine that a change is necessary for the viability and successful completion of the project.

7.2.5 Permission to Occupy

Securing permission to occupy is required for all buildings which are not occupied through the rehabilitation phase. This requirement includes a use and occupancy certificate if required by the local government or the issuance of a license, if any applicable license is required.

CHAPTER 8 - LOAN SERVICING

8.0 OVERVIEW

This chapter describes procedures for servicing the loan once it closes. The Department's Division of Credit Assurance (DCA) is responsible for loan servicing. The procedures in this Chapter are very general and may be supplemented by handbooks, procedures and policies developed by DCA.

8.1 LOAN SERVICERS

Presently, all GHFP are serviced by Bogman, Inc. They will handle all billings, collection and maintenance of escrow accounts. The Department reserves the right to change the servicer in its sole discretion.

8.2 REQUESTS FOR SUBORDINATION, ASSUMPTION OR PREPAYMENT

Requests for subordination, assumption or prepayment are handled by DCA. If SFH receives a request for subordination, assumption or prepayment, the Program staff will notify DCA and require the Sponsor to contact DCA for further instructions.

8.3 WORKOUTS

From time to time projects financed by CDA loans may experience difficulties in meeting the terms and conditions of loans. When this occurs, DCA may elect to work with the applicant to undertake workouts to correct the problems. DCA is responsible for coordinating all workouts. Project workouts which involve new loans or restructured loans will be coordinated with SFH. Workouts which do not involve new loans or restructuring of existing loans will generally be handled entirely by DCA staff.

CHAPTER 9 - ADMINISTRATIVE PROCEDURES

9.0 OVERVIEW

This chapter outlines the administrative procedures for activities relating to loans by SFH.

9.1 HANDLING OF CHECKS

9.1.1 General

SFH occasionally receives checks for application fees and miscellaneous other items.

9.1.2 Check Handling Procedures

Checks for fees are to be mailed to:

Maryland Department of Housing and Community Development
PO Box 2521
Lanham, MD 20706

9.2 CHECK OR WIRE REQUEST PROCEDURE

9.2.1 GHFP Loans

GHFP check requests are processed by the administrative assistant and then submitted to the loan processor for coding. The forms are reviewed by the GHFP MANAGER for accuracy and then submitted to the Deputy Director for approval. After the check request has been signed, it is submitted to DHCD Finance. Checks needed for settlement are processed as 24-hour specials.

The GHFP MANAGER prepares the settlement package and places it in an overnight package addressed to the closing attorney. This package is given to DHCD Finance who will include the check in the package and mail it.

9.2.3 Draw Requests

Check requests for rehabilitation draws will be prepared by the administrative assistant and reviewed by the GHFP MANAGER who processed the loan. Rehabilitation draw requests must be supported by a Request and Authorization for Payment prepared by the Program after a site inspection.

Loan checks will be coded based upon the appropriation fund the loan is charged to. The loan processor is responsible for coding the loan.

9.3 REPORTS DURING REHABILITATION

Detailed records for each Loan must be maintained during the rehabilitation phase to insure that applicants are properly billed for interest.

9.4 CLOSEOUT PROCEDURES

When all funds have been disbursed from the loan's account, a closeout statement must be prepared. The closeout is a summary of all deposits to and disbursements from the loan escrow account. If there are funds remaining in the account after completion of rehabilitation, they are to be disbursed as follows:

- \$50.00 or less may be disbursed directly to the borrower.
- Over \$50.00 must be disbursed into the borrower's account to reduce the principal balance.

Copies of all closeouts must be sent to the servicer and DHCD Finance. Closeouts should be prepared within 10 days of final disbursement. The

closeout is the point at which the servicer transfers loans from construction status (interest only billed) to permanent status (amortization begins).

9.5 MONTHLY REPORTS

9.5.1 General

SFH provides a number of regular monthly reports for internal and external distribution. These reports are intended to provide data about the programs and provide a means of evaluating performance and operation.

9.5.2 Loan Servicer Reports

- (a) General. SFH uses a private servicer for the billing and collections of all CDA bond- and State-funded loans. The servicer for all loans is currently:

Bogman, Inc.
12301 Old Columbia Pike
Silver Spring, Maryland 2090
240-482-1050

- (b) Interest Billing Reports. The program must provide a report on loan disbursements each month. The purpose of this report is to provide the servicer(s) with information on which interest during construction is billed to mortgagors. The report must list each loan disbursement made during the month and provide the name of the mortgagor, loan number, date of disbursement and amount of disbursement. This report is due to the servicer by the tenth working day following the end of the reporting month. The report is transmitted by a cover letter which authorizes the servicer to bill for interest in accordance with the information and provides any special billing instructions applicable for any loans. The loan processor prepares the report for approval by the Assistant Director.
- (c) Transfer of Loans to Permanent Servicing. Upon final closing or the date in the Note on which amortization is to begin, loans must be transferred from construction status to permanent status.
- (d) Trial Balance. The servicer provides SFH with a monthly trial

balance for each program. The trial balance provides the name of the mortgagor, loan number, current principal balance, date of last payment and balance of escrow accounts. Each month the loan processor is responsible for checking the principal balance of all loans in construction to make sure the balance agrees with the program's principal balance and checking to ensure that all loans for which amortization is scheduled to begin are transferred from construction status to permanent status. Any differences between Program and servicing records must be reconciled and adjusted.

9.5.3 State Stat Report

- (a) This Report tracks the general flow of applications from receipt through closing. The report summarizes for each program activity related to new applications, withdrawals, cancellations and rejections, commitments issued and loans closed. The report also provides a summary of the number of loans in each major category of processing. The GHFP Manager is responsible for preparing this report by the seventh working day of each month.
- (b) This Report lists all GHFP loans committed and closed by SFH.
- (c) Production vs. Goals. This report provides a cumulative report of activities which have been accomplished toward meeting Program goals established at the beginning of each fiscal year. The report is prepared by the GHFP Manager and is part of this Report.

9.5.4 Report to DHCD Finance

- (a) DHCD Finance maintains the accounting records for all State-funded programs. In order to maintain accurate financial records, SFH is responsible for providing certain information to DHCD Finance each month. The information provided to DHCD Finance is as follows: all loans encumbered during the month including date of encumbrance, project name, source of funds, loan number and amount encumbered.
- (b) At least once a quarter, the loan processor will reconcile SFH's financial records including loan ledger sheets with DHCD Finance's records.

9.6 PROCEDURES FOR WAIVERS

9.6.1 General

From time to time, waivers of regulations or policies may be necessary. Waivers occur very rarely and should be proposed only when absolutely necessary and when there are sound business reasons and strong public purpose.

9.6.2 Procedure

- (a) Evaluation. Situations involving waivers should be evaluated very thoroughly. Fully explore the option of using another program for which a waiver may not be required. If the problem cannot be solved, the situation should be discussed with the SFH Director to ensure it is consistent with policy and precedent.
- (b) Authority. In consultation with the SFH Director and, if necessary, an Assistant Attorney General, check the regulations or policy to make sure there is a provision which permits waivers and under what circumstances waivers are justifiable. Review the governing statute to make sure the proposed waiver does not violate or contradict any requirements of the law.
- (c) Preparation. The Assistant Attorney General is responsible for preparing the initial draft of the waiver. The waiver must clearly and fully explain the nature of the waiver, the reasons for considering the waiver and consistency of the waiver in accordance with waiver provisions in the regulations or policy. Submit the waiver to the Assistant Director for processing.
- (d) Legal Approval. All waivers must be approved by the Office of the Attorney General for form and legal sufficiency. Waivers will not be granted unless approved by the Office of the Attorney General
- (e) Approval. Waivers must be approved by the Secretary. After the waiver is approved for form and legal sufficiency by the Office of the Attorney General, it is sent to the Secretary through the SFH Director and CDA Director. The transmittal memorandum should summarize the nature of the waiver and the reasons for requesting the waiver.

- (f) Distribution. A copy of the waiver must be placed in the closing transcript for the loan and in the central waiver file which contains copies of all Program waivers.