SELECTION, UNDERWRITING & FINANCING GUIDELINES & POLICY

Special Needs Housing Subsidy Loan Program
(Construction and/or Permanent Financing)

Please Take Notice

These underwriting guidelines, policies, procedures, and forms may be amended from time to time due to changes in market conditions and/or changes in the New Jersey Housing and Mortgage Finance Agency ("HMFA") housing policies or initiatives. Such amendments may occur without notice and are applicable to all pending and future applications. Applicants are, therefore, responsible for contacting the HMFA to ascertain whether there have been any changes since the date of these guidelines and for complying with such changes.

Special Needs Housing Subsidy Loan Program Overview

The Special Needs Housing Subsidy Loan Program (the "Program") provides capital financing to create permanent supportive housing and community residences for individuals with special needs. The purpose of the Program is to provide special needs housing and residential opportunities as alternatives to institutionalization or homelessness for those who would benefit from these programs and to ensure the long-term viability of such housing. The monies in the Program will be used to enable persons with special needs to live with dignity and independence within communities of their choice by providing capital funding to increase the supply of affordable and quality housing with support services and other residential opportunities.

The Special Needs Housing Subsidy Loan Program provides capital financing in the form of loans to eligible not-for-profit and for-profit developers, as well as government entities at the State, county, and municipal levels, for new construction of or the rehabilitation of housing units for individuals with special needs.

Special Needs Housing Subsidy Loan Program Project ("Project") Sponsors proposing to apply for federal Low Income Housing Tax Credits, Tax Exempt financing under the Internal Revenue Code, or other HMFA financing must refer to the applicable program guidelines for such programs, which will take precedence in the case of a conflict with these guidelines.

Definitions

"Individuals with special needs" means:
- individuals with mental illness
- individuals with physical or developmental disabilities
- individuals in other emerging special needs groups identified by State agencies.
- victims of domestic violence
- ex-offenders and youth offenders

- youth aging out of foster care
- runaway and homeless youth
- individuals and families who are homeless
- disabled and homeless veterans
- individuals with AIDS/HIV
- individuals in treatment for substance abuse
- individuals 18 years and over coming out of nursing homes

  - "Individuals with mental illness" means individuals with a psychiatric disability or individuals with a mental illness eligible for housing or services funded by the Division of Mental Health and Addiction Services ("DMHAS") in the Department of Human Services.
  - "Individuals with a developmental disability" means an individual with a severe, chronic disability, which is attributable to a mental or physical impairment or combination of mental or physical impairments; is manifested before the person attains age 22 and is likely to continue indefinitely. The disability results in substantial functional limitations in three or more of the following areas of major life activity: self-care; receptive and expressive languages; learning; mobility; self-direction; capacity for independent living; and economic sufficiency; and reflects the person's need for a combination and sequence of special, interdisciplinary, or generic care, treatment or other services that are of lifelong or extended duration and are individually planned and coordinated.
  - Individuals with a physical disability who need affordable housing with supportive services, including assistance with 3 or more areas of activities of daily living, to live independently in community settings.
  - "Homeless individuals or families" includes the following:

    - Individuals coming out of a state or county psychiatric hospital, a transitional living program, half-way house, jail or correctional facility, with no place to live may be considered homeless;
    - people who lived in a shelter or a place not meant for human habitation prior to temporarily (30 days or more) residing in an institutional care setting:
    - people who will imminently lose their housing and lack the resources and support networks needed to find other housing, including those who are being evicted within 14 days, people living in a hotel or motel and who lack resources to stay for more than 14 days;
    - unaccompanied youth and homeless families who have not lived independently for a long time, have experienced persistent instability, and will continue to experience instability because of a disability, health problem, domestic violence, addiction, abuse, or multiple barriers to employment;
    - persons who are fleeing or attempting to flee domestic violence.

  - "Individuals in treatment for substance abuse" means individuals that are clients of programs funded and/or licensed by DMAHS.
  - "Individuals transitioning from nursing homes" means individuals aged 18 years and over who are living in nursing homes and have been assessed as being capable of living in the community with supportive services.

"Permanent supportive housing" means a range of permanent housing options such as apartments, condominiums, townhouses, single and multi-family homes, shared living and supportive living arrangements that provide access to on-site or off-site supportive services for individuals and families who can benefit from housing with services. Permanent supportive housing has as its primary purpose assisting the individual or family to live independently in the community and meet the obligations of tenancy. Tenants may have individual or shared apartments and there is no limitation for length of tenancy. Participation in services is not a condition of tenancy.

"Community residences" means group homes, supervised apartments, and other types of shared living environments that are primarily for occupancy by individuals with special needs who shall occupy such housing as their usual and permanent residence. Typically, community residences provide 24 hour/7 days a week on-site staffing and supervision. For purposes of the Special Needs Housing Subsidy Loan Program, community residences do not include treatment facilities, assisted living facilities, nursing homes, transitional housing facilities, half-way houses, boarding homes or shelters.

A Project may contain "units" and/or "beds". A unit refers to a single living unit/apartment in a rental property, condominium, townhouse or a multi-family or single-family home that contains at a minimum a bedroom with a bathroom and cooking facilities. A "unit' may contain one or more "beds". A "bed" is for a single individual receiving housing and services. Each unrelated adult must have his or her own bedroom with access to shared living space including kitchen facilities and leisure space.

Special Needs Housing Subsidy Loan Program Priorities

To ensure that the Program proceeds are expended in the most efficient manner that most positively impacts the intended beneficiaries, the HMFA has established the following priorities. Projects not meeting an appropriate number or combination of the following priorities may be rejected by the HMFA. The policy priorities are as follows:

1. Maximize long-term affordability. Projects shall demonstrate a financial and legal structure that ensures affordability for the intended population for at least thirty (30) years. The developer/sponsor may request a term of less than 30 years or may request a term of more than 30 years.

2. Minimize temporary or permanent displacement. Projects shall not displace one population with the proposed special needs population whereby causing zero net gain in affordable housing units.

3. Demonstrate good and appropriate Project location, siting and design. The following items will ensure that the Project is accepted by the community, has reduced operating and maintenance costs, and provides for a healthier environment for residents:

    a. Locate Projects near jobs, transportation, and community resources and services.
    b. Design the site and the building to be an appropriate and positive community asset.
    c. Design for passive solar gain, summer shading, and natural ventilation and light.
    d. Optimize the energy efficiency of the building and utilize energy generation where feasible.
    e. Use materials and finishes that require less maintenance.
    f. Use ceramic tile, wood, cork or other environmentally friendly alternatives to carpet.
    g. Maintain healthy indoor air quality by minimizing products and materials that release toxins, instead use: low VOC paints, adhesives, sealers and finishes; non-vinyl-based materials; formaldehyde free laminates and insulation products; automatic ventilation to each unit and common areas.
    h. Incorporate best practice building science and moisture management practices.
    i. Landscape with native plants and drip irrigation; use water catchments.
    j. Incorporate universal design and visibility features.
    k. Maximize the adaptive reuse of existing buildings and the use of existing infrastructure.
    l. Contain development costs. Sponsors shall strive to keep the Project cost per unit as low as possible while not compromising the quality and sustainability of the proposed housing.

Underwriting Guidelines and Financing Policy

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The HMFA shall approve Special Needs Housing Subsidy Loan Program loans in the form of cash flow loans as deemed financially feasible by the HMFA. Sponsors are expected to have a separate budget for social services pursuant to the Social Services Plan described in these guidelines. HMFA will require evidence of operating subsidy or rental assistance and services capacity before the Agency will provide a financing commitment. Any loan made for eligible program purposes is subject to deed restrictions as determined by the HMFA.

Eligible Sponsors/ Borrowers

Qualified housing sponsors are defined as qualified for-profit and non-profit housing sponsors, preferably with experience in providing housing; or, associations of persons organized under the New Jersey Statutes; or any corporation having for one of its purposes the improvement of realistic opportunities for low- and moderate-income housing by virtue of past activities, qualifications of staff or board, or other features, to develop and operate housing projects.

Eligible Projects Permanent supportive housing or community residences.

Eligible Uses Eligible uses include capital financing for the acquisition of land and/or building(s), rehabilitation of existing building (s) or new construction, conversion of building(s) as rental apartments/units and community residences for an identified target population(s). HMFA may, through the Agency, make acquisition loans, construction and permanent loans, and/or cash flow loans, to qualified Project Sponsors for the costs of Projects. Construction only loans are not eligible uses. All required approvals, licenses, or permits for a proposed Project must be obtained and maintained by the Project Sponsor. Rehabilitation or refinancing of existing special needs housing is not an eligible use.

Sponsors seeking construction-only, or construction and permanent financing shall not begin construction until closing on Agency financing. Sponsors seeking permanent-only financing are expected to begin construction after commitment on Agency financing. Should extraordinary circumstances occur the Sponsor must provide justification explaining why construction must begin prior to Agency commitment. The Sponsor will be required to notify the Agency immediately and provide additional documentation as requested at that time. The Agency reserves the right to require that the Borrower provide justification that is satisfactory to the Agency and failure to comply may result in the project becoming ineligible for HMFA financing.

Eligible Tenants/Residents Individuals with mental illness, individuals with physical or developmental disabilities, homeless individuals and families and individuals in other emerging special need groups identified by State agencies. (See under Definitions for "individuals with special needs") Written documentation from either a Commissioner of a State Department or the Executive Director of a State Agency identifying a special needs group or an emerging special needs group is acceptable.

Cash Flow Loans Program financing shall be in the form of a cash flow loan.

Repayment will be in an amount equal to 25 percent of the Project's available cash flow after the payment of operating expenses, as determined by the HMFA, but prior to the distribution of any profit. To the extent cash flow is insufficient to permit payment of interest and principal, the unpaid interest and principal shall be due as a balloon payment at the end of the mortgage term.

Project owners are required to submit annually within three (3) months of the end of the Project's fiscal year either an audit or a compilation report, as determined applicable by the Agency, prepared by an independent certified public accountant and in form and substance meeting Agency requirements covering such audits/compilation reports.

If after review of a final annual audit/compilation report submitted by the Borrower to the Agency, the Agency determines that the balance of the Mortgage Note cannot be repaid on the maturity date and provided all conditions of the original Loan Documents have been satisfied and maintained, the Agency may extend the term of the Mortgage Note or consent to a refinance of the Mortgage Loan in accordance with Agency policies and procedures. Extension or refinance of a Mortgage will require that all terms and conditions of the existing Mortgage Loan Documents continue through any new mortgage term.

Interest Rate

The Program loan provided during construction shall be at 0% interest rate. Program permanent loans shall be at a 1% interest rate. The mortgage interest rate is a fixed rate for the term of the mortgage.

Maximum Loan Amount

The Program cannot be used to fund non-special needs units. For Special Needs only projects, the maximum loan amount may not exceed $500,000 per project. For Multifamily projects, the maximum loan amount may not exceed $125,000 per unit, with a maximum of 5 units per Multifamily project. For all loans, the HMFA reserves the right to set the actual loan amount in accordance with the HMFA’s overall program goals, and determination of acceptable risk. Accordingly, the actual loan amount may be less than the maximum amount permitted above.

Determination of Project Cost

Subject to the maximum loan amounts set forth above, the HMFA may finance project costs as determined by the HMFA and as defined in N.J.S.A. 55:14K-3q. The HMFA must determine that all costs are reasonable and necessary. The HMFA will require the Developer/Sponsor to submit an annual audit of project costs or a compilation report.

Term

Standard term is 30 years. The developer/sponsor may request a term of less than 30 years or may request a term of more than 30 years.

At the end of the mortgage term, the Project Sponsor/Owner may repay the balance of the mortgage, may refinance the Project if it is financially feasible or request an extension of the mortgage term as long as the Project will continue to promote the purposes of the Program through any new mortgage term. Consideration of an extension of the mortgage term will include a review of the tenant records, annual financial statements, site inspections and Social Services Plan implementation. Extension or refinancing of the mortgage will require that all terms and conditions of the existing Mortgage Loan Documents continue through any new mortgage term.

Lien Status

All loans will be secured by a first mortgage lien on the land and improvements if the borrower owns both in fee simple. If the borrower occupies the property pursuant to a ground lease, the HMFA will require a first leasehold mortgage secured by the borrower's interest in the lease and the improvements. The term of the ground lease must at a minimum be for 7 years beyond the term of the HMFA's mortgage and affordability restrictions and will be in all respects satisfactory to the HMFA. To further protect the Agency's interests, the parties shall enter into a non-disturbance agreement with the HMFA wherein the lessor will agree, among other things, not to terminate the ground lease during the term of the Agency's mortgage(s) and affordability restrictions except by reason of default of the borrower, and in no event without first giving the Agency notice and opportunity to cure that default, and, if required by the HMFA and/or the Attorney General's Office, amending the ground lease when curing a default by the borrower. The form and substance of the non-disturbance agreement must be acceptable to the HMFA and the Attorney General's Office.

Whenever a first lien position is determined not to be available, e.g. federal regulations, the HMFA will allow its maximum loan amount to be in a lesser position.

Security/Collateral

HMFA loans are secured or collateralized by a lien on the land, improvements, Project revenues. There is generally no recourse to other assets of the borrower except in the case of fraud or other acts regarding the Project.

Commitment Term

Construction and permanent loan commitments will expire 90 days after the anticipated construction start date. In the case of permanent only loans, the commitment will expire 90 days after the anticipated construction completion date. The Executive Director is authorized to extend the commitment for two additional consecutive 90-day periods, subject to financial feasibility. Projects that do not close on the Agency loan before the second ninety-day extension expires will be re-underwritten to ensure financial feasibility and will require Board approval. A written request for extensions must be made to the Multifamily Supportive Housing and Lending Division.

Site Inspection and Acceptance

The HMFA will visit the Project site to determine if it is suitable for development purposes.

Tenant Relocation Plan

If a site is identified that has an existing tenant population and will result in the displacement of tenants, the applicant must submit a "Tenant Relocation Plan" as part of the application for Program financing. This Plan must provide a minimum amount of time that is given to the tenants to relocate. The Agency recommends a minimum time period of six (6) months for relocation from date of the notice provided by the property owner to the tenants. The Agency may request that the applicant submit proof of this notice by providing signed Certified Mail receipts to the affected tenants. In addition to the six months notice as outlined above, the Project sponsor is required to file a "Tenant Relocation Plan" which must be approved by the HMFA for Agency financing.

In addition to the notice as outlined above, the responsibilities of Project Sponsors who are applying for monies for relocation under the Program shall be as follows:

1) The applicant must certify and provide assurance that it will comply with the procedures under the Federal Uniform Relocation Act (the regulations at 49CFR part 24, subpart B) and must ensure such compliance notwithstanding any third party's contractual obligation with the Project Sponsor.

2) The Project Sponsor must maintain records in enough detail to demonstrate compliance with the Uniform Regulatory Agreement and these Guidelines.

Real Estate Valuation

The HMFA recognizes the lesser of the appraised value or the purchase price of the realty and any buildings and improvements thereon, in the most recent arm's length transaction as provided by a "Delineation of Title" history (completed by the appraiser) identifying each party associated with the conveyance for a maximum of 10 years. The appraised value of the real estate may be considered if the arm's length transaction exceeds 10 years.

The total purchase price may include documented carrying costs, expenditures to obtain zoning, environmental or other governmental approvals necessary or useful for the development of the Project, and the costs of improvements erected for the benefit of the Project.

Please Note: Arm's Length Transaction is defined as a transaction negotiated by unrelated parties, each acting in their own self-interest in arriving at a basis for a fair market value determination.

Appraisals

An independent, third-party appraisal that conforms to the Uniform Standards of Professional Appraisal Practice (USPAP), and in accordance with the HMFA standards, will be commissioned by the developer or other lending institution and submitted to HMFA to determine the as-is value of the site and/or building. Regardless of whether the Project has received a tax abatement, the appraisal should also provide the most recent tax assessment on the property.
Upon receipt of an appraisal the Agency will submit the report to one of three contracted third-party appraisers for review of accuracy and reasonableness. The cost of the appraisal review will be passed on to the developer and payment will be required prior to commencement of the review. ***For HUD 811 Supportive Housing Projects, HMFA will accept the HUD approved appraisal.

For a copy of Appraisal Standards please contact the Multifamily Supportive Housing and Lending Division.

Appraisal Updates

An appraisal completed for a Project is valid for one year (12 months) before requiring an update. If the Project is part of a larger Multifamily Project, the Multifamily Rental Financing Program Underwriting Guidelines prevail.

Marketing Plan

For all Projects receiving a Program commitment, depending on the size and scope of the project, the Project Sponsor and/or the Managing Agent may be required to provide a marketing plan for the HMFA's approval and acceptance. This plan must outline all the preliminary marketing to be accomplished prior to opening and thereafter. The plan must also provide for the ongoing marketing efforts that will be made to keep the Project fully occupied. The outline must provide a timeline for all anticipated activities and should be tied to benchmarks during construction.

Where the HMFA is making both the construction and permanent loan, the plan (if required) shall be submitted prior to closing on the construction loan. Where the HMFA is providing only the take-out financing, if required, the Project shall submit its marketing plan (if required) prior to construction start. In certain cases of rehabilitation where there is an existing occupancy, the Project Sponsor and/or the Managing Agent must submit documentation that a full marketing plan is not needed and give the reasons the HMFA should accept a lesser marketing analysis.

Building Design

The external and internal design of the building is important to meeting the goals of the Program as indicated in Priority Section of these Guidelines. The Project Developer/Sponsor is encouraged to review the Program Application Best Methods Design Questionnaire early in the development of the Project concept and preliminary design. The Design Questionnaire must be completed prior to HMFA review of final site plans. Evidence of design features for special needs units referenced in the Design Questionnaire submission must be documented on the Plans. HMFA Technical Services staff will review the construction document plans for consistency with the Design Questionnaire and are available to assist with meeting these priorities. Failure to meet these priorities may result in a Project not receiving financing.

The HMFA discourages the use of EIFS (Exterior Insulation Finish Systems such as DRYVIT) and electric heating systems. If the use of either of these systems is contemplated, it must be disclosed at the application stage and written authorization must be received from the HMFA before engaging professionals to produce Design Development drawings.

Developers are encouraged to make developments as energy efficient as possible by utilizing the standards provided in the DOE/EPA's Energy Star Program Guidelines. In addition, the HMFA strongly supports projects that incorporate "green" building concepts categorized as energy efficiency, renewable energy, and green building best practices. For more information please contact the Technical Services Division.

For **substantial and gut rehabilitation projects**, a structural engineering report on the existing structure, acceptable to the HMFA, must be submitted. All existing mechanical, plumbing and electric systems must be replaced.

If the degree of rehabilitation to be accomplished is **less than substantial**, an engineer's report describing the condition of these building systems, and listing their recommendations, may be required.

Definition of Rehabilitation

- Moderate Rehabilitation – replacement of interior finishes /components i.e. flooring, cabinets, etc. that does not impact any other component or system of the existing building.
- Substantial Rehabilitation – replacement of interior finishes /components that involves the removal of any constructed

finish i.e. gypsum wall board, subflooring, etc. or affects any system i.e. electrical, plumbing, structural, etc.

- HUD definition – two or more major building components (roof structure, wall/floor structure)
- Gut Rehabilitation – renovation that includes the removal of entire walls and/or interior systems or major portions thereof.
- HUD definition – total removal/replacement of all interior (nonstructural) systems, equipment, components, or features.

Construction Budget

The construction budget must be supported by a Summary Trade Payment Breakdown and the HMFA Residential Cost Analysis Form signed by the contractor. These documents and other supporting schedules such as the construction completion schedule and 100% complete drawings and specifications, must be submitted by the contractor and approved by the Director of Technical Services prior to mortgage commitment. Refer to the Technical Services Requirements document attached to the Document Checklist, for the timing of the submission of these documents.

Wage Rates

Prevailing wages are not applicable to projects solely comprised of special needs units, pursuant to N.J.A.C. 5:80-1.4(a)1v. However, if the HMFA is providing construction financing to a housing project also containing special needs units, prevailing wages are applicable to construction of the entire project. The contractor and subcontractors must pay prevailing wages as determined by the N.J. Department of Labor and Workforce Development except that prevailing wages determined by the U.S. Department of Labor under the Davis Bacon Act shall be used if the HMFA construction loan is subject to direct or indirect federal assistance.

Sales Tax Exemption

Sales of materials or supplies to housing sponsors utilizing HMFA construction financing are exempt from NJ State sales tax. Sales of materials or supplies to contractors for the purpose of erecting housing Projects which have received HMFA construction financing and other local, state or federal subsidies are exempt from NJ State sales tax. An exemption from sales tax is not available for permanent only financing.

Environmental Review

The HMFA requires the submission of a Phase I Environmental Assessment and a Phase II Environmental Assessment should the Phase I call for further investigations.

Should remediation be recommended, a Preliminary Assessment Report as described in N.J.A.C. 7:26E-3.2 is required. Additional assessments, such as a Site Investigation described in N.J.A.C.

7:26E-3.3 et seq., or Department of Environmental Protection ("DEP") remediation measures may also be warranted. Rehabilitation projects must provide a plan for asbestos removal and remediation of lead-based paint, radon, and underground storage tanks. A letter from the responsible environmental professional stating the outcome of any remedial action taken, in accordance with the applicable standards and regulations, may be required. A transaction update from the consultant, indicating that no further pollutants have been introduced to the site, will be required on all assessments or investigations prepared more than six months prior to construction start.

Insurance Requirements All projects must have insurance coverage that fully complies with applicable HMFA insurance requirements and which must be approved by the HMFA. The insurance specifications and minimum requirements for Special Needs projects can be found on the HMFA website at the Quicklinks section then scrolling down to the Insurance Resources.

General Contractor in Lieu of Architect For those projects that require moderate rehabilitation as determined by the HMFA, the HMFA may consider a general contractor's services instead of engaging an architect, so long as municipal requirements such as building permits, write-ups and costs estimates will be obtained from the general contractor in these instances.

Construction Completion Guarantees

Construction and Permanent Financing* Projects with construction costs over $100,000 shall provide the following construction guarantees: 100% Payment & Performance Bond naming Sponsor and NJHMFA as Obligees. Sponsor has the option of providing a 10% Letter of Credit. *Note, a 30% Warranty Bond guarantee or 10% Letter of Credit will be required to exist for a period of two years post construction completion, as determined by both the Certificate of Occupancy date and Architect's Certificate of Substantial Completion.* Projects with construction costs under $100,000 may be asked to provide one of the above construction guarantees at the discretion of the HMFA.

Permanent Financing* In the case of permanent only financing, the developer/sponsor must provide one of the following for a term of 2 years from the date of issuance of the Certificate of Occupancy and Architect's Certification of Substantial Completion: 1) Letter of Credit equal to 10% of the construction cost; 2) Warranty Bond equal to 30% of construction cost; or 3) another form of guarantee which is acceptable to the HMFA. The cost of a bond construction guarantee is an allowable project cost.

Construction Contingency The contingency may be used to cover increases in both hard and soft costs.

The budgeted contingency for new construction projects is 5% of the construction costs.

The contingency for rehabilitation projects is 10% of the construction costs. This may be adjusted based upon an acceptable engineering report submitted to the HMFA. The budgeted contingency for soft costs must be at a minimum of 1% of the budgeted expenses.

Developer's Fee The amount of the developer's fee allowed for Program financing is limited to up to 8% of total development cost excluding working capital, marketing expenses, and operating deficit reserves. The developer’s fee for federal Low Income Housing Tax Credit projects is determined by the Qualified Allocation Plan and for bond financed projects it is determined by the Multifamily Underwriting Guidelines.

The deferred portion of the developer fee shall be achieved from cash flow by way of annual distributions of profit but after payment of debt service, and operating expenses.

The developer fee does not include fees paid to the architect, engineer, lawyer, accountant, surveyor, appraiser, professional planner, historical consultant, and environmental consultant. Executed contracts for these professionals shall be submitted to the HMFA before being recognized as a separate line item expense. Certain fees are subsumed within the developer fee – such as acquisition fees, compensation to the general partner, financial consultants, employees of the developer, construction managers/monitors, clerk of the works and syndicator-required consultants.

Operating Account An owner must establish and maintain a separate operating account for all income and expenses specific to each Project funded by the Agency. Sponsors may not transfer funds from one Agency Project for the use of another housing project or to an umbrella account that may cover many projects or other initiatives of the Sponsor.

Vacancy Rate The vacancy rate used for each Project will be determined by the demand analysis and appraisal. At initial application, a minimum of a 5% vacancy rate may be used.

Acceptable Housing Quality Standard At a minimum, units must meet the State Uniform Construction Code, certificate of occupancy requirements, as well as zoning requirements and are subject to review and approval by HMFA's Technical Services Division.

Income Targeting

Very-low and Low Income

HMFA will underwrite very-low and low-income rents at 20% and 47.5% of area median income, respectively.

Rents

To the maximum extent economically feasible, the rents will be set at a level affordable to the targeted income and special needs group(s) to be served and will be determined by a demand analysis or experience and the need to serve very-low income households.

The restrictions on tenant income and on rents shall be enforced through a deed restriction on the Project and land for the term of the HMFA's mortgage. Projects receiving federal low income housing tax credits shall also be subject to a deed restriction pursuant to the Internal Revenue Code.

Persons with special needs who require twenty-four (24) hour assistance may occupy the home/unit with appropriate caregivers. Parents and/or legal guardians of the resident's property may sign the rental lease agreement on behalf of the eligible resident applicant and may provide security deposits if necessary. The lease agreement shall be in a form acceptable to the appropriate State Agency having oversight of the special needs population. Initial rents as well as future rental increases should not create a rent burden for tenants. Rents will be reviewed by HMFA and must be acceptable to HMFA and the appropriate State Agency.

Changes to Project and Sponsor/Ownership

If the sponsor/owner wishes to change the social services provider or the property management company or if any changes in ownership are needed, permission must first be obtained from the Agency. Please contact the Division of Multifamily/Supportive Housing and Lending. Please see Appendix A attached hereto and made a part hereof for changes in ownership and prepayment requirements.

Social Services Plan

Developers/Sponsors proposing a Project must identify the target population and a service provider agency for the Project. In addition, the service provider must provide a Social Services Plan that addresses the needs of the target population and the plan components outlined below. The Social Services Plan must meet the guidelines listed below unless it has been developed and approved in accordance with criteria established by either the Department of Human Services or the Department of Children and Families.

In the event that a Project Owner wishes to transfer to a new service provider, the owner must submit a request for transfer in writing, including the reasons for the request, to the Multifamily

Supportive Housing and Lending Division with a revised Social Services Plan. All transfers must be approved by HMFA. Social Services Plans are subject to the HMFA's approval. If the service provider is receiving funding from a State Agency, the appropriate State Department, Division or Agency funding the services must approve the Social Services Plan, any requested transfer of service provider, or comparable requirements, to the satisfaction of the State funding entity and provide evidence of approval to HMFA.

The Social Services Plan must include a description of the scope of social and support services to be provided for supportive housing projects, including a staffing plan and how the services will be delivered and funded. The services must be affordable and appropriate to the target population to the satisfaction of HMFA, available and accessible to the Project's tenants and the social service provider must have the capacity to perform such services. The social services plan must address the target populations' support service needs and may include a range of services across a wide continuum of care and intensity appropriate to the target population(s). Appropriate and needed services must be supported by evidence-based practice, research and/or direct practice experience. A description of the required elements of a Social Service Plan are set forth in Appendix B.

Fees and Charges

Application Fee	Developer/sponsors will be responsible for payment of a non-refundable application fee of $ 1,000 due at the time of the initial application.
Re-Commitment Fee (non-refundable)	A $500 Program re-commitment fee will be charged. This fee is due prior to the Board issuance of a re-commitment.
Pass Through Costs	<u>Upon receipt of an appraisal, the Agency will submit the report to one of three contracted third-party appraisers for review of accuracy and reasonableness. The cost of the appraisal review will be passed onto the developer and payment will be required prior to commencement of the review.</u>
One-Time Financing Fee	A three (3%) percent up-front financing fee based on the total amount of HMFA financing will be payable at the time of Project financing closing.
Processing and Review Fee	An additional processing and review fee of $2,000 will be charged at time of application, to any Project sponsor, which seeks Agency financing to be secured by a leasehold mortgage.

THESE SPECIAL NEEDS HOUSING SUBSIDY LOAN PROGRAM GUIDELINES ARE INTENDED TO AND SHALL SPECIFICALLY SURVIVE THE CLOSING OF THE LOAN, AS APPLICABLE.

APPENDIX A

TO

SPECIAL NEEDS HOUSING SUBSIDY LOAN PROGRAM

UNDERWRITING FINANCING GUIDELINES AND FINANCING POLICY

MULTIFAMILY SUPPORTIVE HOUSING LENDING PROGRAMS

Transfer of Ownership and Prepayment

The HMFA prohibits the sale of the Project or any interest therein without prior HMFA approval. Any sale or prepayment not authorized by the HMFA will result in a default under the mortgage loan.

Any proposed refinancing of the Project for a permitted prepayment of the Special Needs Housing Subsidy Loan Program ("Program") financing or to refinance a Project following a prior prepayment but during the remaining regulatory oversight period shall require Agency review and approval of the new financing to assure the continuing financial feasibility of the Project during the remaining term of the HMFA regulatory oversight.

Secondary financing, representing a portion of the purchase price of the Project or interest therein, may be permitted by the HMFA in accordance with the Sale or Prepayment section of these guidelines. Such secondary financing shall be subject to the HMFA's standard affordability requirements and limitations pursuant to these guidelines.

<u>General Policy</u>

a. To be effective, all proposed changes in ownership interest of any Agency-financed housing project must receive prior review and written approval of the Executive Director, Chief of Programs, Chief of Legal and Regulatory Affairs or Chief Financial Officer.

b. Changes in ownership processed under these guidelines shall not result in a modification of the statutory, regulatory or contractual requirements governing the sponsor and project.

c. The proposed buyer must provide evidence satisfactory to the Agency that they have the organizational capabilities, background and previous housing experience that will help ensure that the buyer/new owner will be capable of operating the Project. The Agency is under no obligation to approve the transfer or resale if these evidences are not provided.

d. The nonrefundable fee for any transfers of ownership interest with or without a permitted prepayment for projects financed under these guidelines shall be $500.00 paid to the Agency for its administrative costs in processing the request to transfer ownership of the Project or any interest therein. A nonrefundable fee of $500 shall be due with any request for a permitted prepayment of Program financing without an accompanying transfer of ownership.

e. Projects receiving financing from another Agency program in addition to the Program financing may also be subject to transfer of ownership or prepayment requirements and fees under N.J.A.C. 5:80-5.1 et seq.

Required Documentation for Transfer of Ownership

The Agency will require the following documents for review in connection with any proposed transfer of ownership interest:

1) Complete description as to the nature of the transfer of ownership interest;

2) Administrative questionnaire for buyer (company and personal as necessary) and its general partner or managing member and officers, directors and persons owning 10% or more interest in the buyer or exercising managerial control thereover; and criminal background check for all those completing personal questionnaires;

3) Copy of buyer's Operations Agreement and/or Project owner's Operations Agreement with proposed revisions, as applicable.

4) Copies of filed formation documents for the buyer and certificate of good standing from the state of formation.

5) Experience questionnaire of buyer;

6) Legal opinion from seller's attorney;

7) Physical inspection report approved by the Agency;

8) Sponsor/owner's compilation report(s) or annual audit(s) that are due or past due as of the date of the proposed transfer.

9) Any other document determined by the Agency to be necessary.

Additionally, the payment of any arrears in any mortgage payments shall be required.

Prepayment of Mortgage

Prepayment of the Program mortgage loan will be permitted only with the prior written approval of the Agency provided the following conditions are met:

a. Sponsors of projects financed by the Program may prepay the mortgage at any time following the 15-year period following the date of the mortgage closing. However, any such prepayment shall be conditioned upon the housing sponsor's agreement that: submission of annual audits or compilation reports, as applicable, and the corresponding rules under these guidelines regarding targeted population, affordability controls, transfers of ownership and all Program related restrictions on the Project as stated in the original loan documents shall continue to be applicable in their entirety to the sponsor, Project and tenants residing therein until the original expiration date of the original mortgage loan. The sponsor/owner shall also be required to submit any past due compilation report(s) or audit(s), as applicable, prior to the prepayment. The Agency may require sponsors to execute a deed restriction or other appropriate agreement upon prepayment whereby the sponsor acknowledges the continuing statutory and regulatory control of the Agency and the sponsor's continuing obligations under the Program and these Guidelines.

b. Upon prepayment of the Agency mortgage as provided above, the Agency will endorse the mortgage for cancellation so the sponsor may cancel it of record at sponsor's cost and expense.

APPENDIX B

TO

SPECIAL NEEDS HOUSING SUBSIDY LOAN PROGRAM

UNDERWRITING FINANCING GUIDELINES AND FINANCING POLICY

MULTIFAMILY SUPPORTED HOUSING LENDING PROGRAMS

Social Services Plan

Developers/Sponsors proposing a special needs housing project must identify the target population and a service provider agency for the Project. In addition, the service provider must provide a Social Services Plan that addresses the needs of the target population and the plan components outlined below. The Social Services Plan must meet the guidelines listed below unless it has been developed and approved in accordance with criteria established by either the Department of Human Services or the Department of Children and Families.

In the event that a Project owner wishes to transfer to a new service provider, the owner must submit a request for transfer in writing, including the reasons for the request, to the Multifamily Supportive Housing and Lending Division with a revised Social Services Plan. All transfers must be approved by HMFA.

Social Services Plans are subject to the HMFA's approval. If the service provider is receiving funding from a State Agency, the appropriate State Department, Division or Agency funding the services must approve the Social Services Plan, any requested transfer of service provider, or comparable requirements, to the satisfaction of the State funding entity and provide evidence of approval to HMFA.

Social Services Plan The Social Services Plan must include a description of the scope of social and support services to be provided for supportive housing projects, including a staffing plan and how the services will be delivered and funded. The services must be affordable and appropriate to the target population to the satisfaction of HMFA, available and accessible to the project's tenants and the social service provider must have the capacity to perform such services. The social services plan must address the target populations' support service needs and may include a range of services across a wide continuum of care and intensity appropriate to the target population(s). Appropriate and needed services must be supported by evidence-based practice, research and/or direct practice experience. Each special needs tenant does not have to utilize all of the services provided by the Project; however, the services must be available. The social services plan includeshall address, but are is not limited to, the following items:

i. A description of the targeted population(s), including criteria which will qualify proposed tenants for the supportive housing units and expected support services that are likely to be required.

ii. A description of the proposed services, including how services respond to need areas of tenants, how services will be funded, and service location (on site or in the community).

iii. The plan must describe the scope of services for the tenants/residents of the Project, including how the supportive and/or treatment services will be funded, the staffing plan, and a plan for how the services will be delivered. The plan must address how the Project will promote residential opportunities that are integrated into the neighborhood or the community. The plan must include, at a minimum, the following three services: 1) service coordination/case management; 2) linkages to mainstream resources including entitlement programs; and 3) linkages to health care and treatment programs as needed. Services should be designed to assist individuals and families to maintain their housing and/or residential opportunity. A description must include how services will be coordinated or made available to all special need tenants, including a listing of referral sources.

Tenant Selection The plan must describe the population to be served and how the population will benefit from the Project. The tenant selection policy must be described and referral sources identified. If the plan proposes to restrict occupancy to any group, an explanation of why it is necessary for the restriction(s) must be provided. A description of tenant/landlord relationships, including roles of the service provider and developer in tenant/landlord relationships, how prospective tenants will be recruited, screened, and selected, and the plan for problem resolution to minimize evictions for supportive housing tenants.

Service Needs Assessment The plan must indicate how the housing and supportive service needs of the tenants will be assessed, including the relevant assessment tools, and how these needs will be addressed. The services provided must be appropriate to the needs of the target population. Appropriate and needed services may be supported by evidence-based practice, research and/or direct practice experience.

Capacity

The plan must describe and demonstrate capability and experience of the social service provider in providing housing and/or supportive and social services to the target population or a relevant special needs population.

Performance Measures

The plan must include performance measures (including quality of life, consumer satisfaction, employment and education, and ability to live independently) and methodology for evaluation of tenant/resident housing and service outcomes being addressed.

Note: For any project that serves a homeless population the Sponsor/Owner must comply with the requirement that the project reports in the New Jersey Statewide Homeless Management Information System ("HMIS") administered by the HMFA.

Accessibility

The plan shall include a description of the service provider's capacity and planned activities to address bi-lingual needs, cultural competency, and other special needs accommodations, including accessibility features for the tenants/residents of the Project.

Consumer Choice

The social services plan shall demonstrate how tenants will have the opportunity to participate in their individualized services plan, service goals and/or choice of services.

Executed Service Agreements

If the Project sponsor is not providing the social services, the sponsor must provide evidence of executed service provider agreement(s) and evidence of committed funding sources or documentation of how and by whom the supportive and/or treatment services will be paid.

Either party may terminate an executed Social Services Agreement with prior notice to the affected party and the HMFA. It is the responsibility of both the owner, in conjunction with the social services provider, to identify a new service provider, with the understanding that the Social Services Agreement will not terminate between either party until such time as a replacement provider is identified, established under an agreement and approved by the Agency. The HMFA, Supported Housing and Special Needs Division must be notified immediately of intent to terminate a Social Services Agreement between an owner and service provider and the new Social Service Agreement must be approved by the HMFA.

Service Fees

For Projects targeting people who are very-low or low income, services included in the Social Services Plan must be provided at no out-of-pocket cost to the tenants/residents. This does not restrict third-party reimbursement, such as Medicaid. In the event the service fees differ from the above-mentioned requirement, HMFA reserves the right to determine if the proposed service fee requirement is acceptable and in accordance with the HMFA's overall program goals.

Community Residences

Applicants proposing to create a residential program that will be a licensed group home(s) to serve a client population of the Department of Human Services ("DHS") and/or the Department of Children and Families ("DCF") must provide evidence that the project will be able to meet all appropriate DHS or DCF licensing requirements. Additionally, the applicant will be required to provide a letter of support from the appropriate DHS Division indicating that the project will have the necessary funding sources for building operations and the provision of services.

Other Housing Opportunities

Applicants proposing to create other housing or residential projects that will be licensed by the Department of Community Affairs or the Department of Health must provide evidence that the project will be in compliance with all appropriate licensing requirements.