

ORAMENTA NEWSOME PREDEVELOPMENT LOAN PROGRAM

PROGRAM GUIDELINES AND LOAN APPLICATION PACKAGE

Issue Date: July 7, 2021

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I. BACKGROUND

The Oramenta Newsome Predevelopment Loan Program (“Predevelopment Loan” or “Program”) was created to assist Qualified Non-Profit Organizations (“Non-Profit”) that develop affordable housing and Limited Equity Cooperatives (“LEC” or “Cooperative”) in the District of Columbia by providing \$100,000 of funding per project to cover a portion of eligible predevelopment soft costs from the Housing Production Trust Fund.

The Predevelopment Loan Program has been established with funding from the Housing Production Trust Fund (“HPTF”) in the amount of one million dollars (\$1,000,000), with the expectation that up to ten 10 loans will be made. Additionally, one million dollars (\$1,000,000) from the DC Housing Finance Agency (“DCHFA funds”) is available to potentially serve as matching funds for qualified projects. HPTF statutorily requires that at least 90 percent of project delivery expenditures go to units for households earning no more than 50 percent of Median Family Income (MFI), including 50 percent for households earning no more than 30 percent of MFI. These program guidelines will apply to all sources of funds.

The primary purpose of this program is to assist Non-Profits and Cooperatives applying for DHCD funds to meet the application requirements of the DHCD Consolidated Request for Proposals (RFP). A secondary purpose is to help prospective projects move forward with predevelopment work cost-effectively such that those projects are in a position to close within 12 months of RFP award selection. DHCD recognizes that predevelopment activities have a substantial cost and this Program is intended to reduce this financial burden for borrowers with limited resources.

Predevelopment Loan funding will be available on a rolling basis in two phases. The first phase will begin on July 7, 2021 and will last eight weeks. Applications for Limited Equity Cooperatives and Qualified Non-Profit Organizations without for-profit development partners will be accepted during this time. The second phase will begin on September 1, 2021. This phase will allow all Qualified Non-Profit Organizations, including those with participating for-profit partners, to apply for funds. Applicants can submit requests for funding at any time, subject to the requirements of the two phases and the availability of funds. DHCD will evaluate each application according to the criteria in this guidebook. Non-Profit developers must prove their ability to develop and maintain affordable housing in Washington, DC. Applications will only be approved for entities that are registered with DCRA and OTR and that meet all of the application and eligibility requirements described herein. If demand for Predevelopment Loans exceeds funding availability, DHCD will prioritize the projects that demonstrate the most need and best meet the Department’s policy objectives. All application submissions and questions regarding the program should be directed to:

Predevelopment.funding@dc.gov
D.C. Department of Housing and Community and
Development
Development Finance Division
1800 Martin Luther King Junior Ave., S.E.
Washington, DC 20020
202-442-7200

II. ELIGIBLE BORROWERS

Qualified Non-Profit Organizations and Limited-Equity Cooperatives are eligible for the Predevelopment Loan funding. Priority will be given to non-profit organizations with a demonstrated need for predevelopment financing. These terms are defined below:

- **Qualified Non-Profit Organization:** Any organization if: (1) such organization is described in paragraph (3) or (4) of Internal Revenue Code Section 501(c) and is exempt from tax under section 501(a); (2) such organization is determined by the State housing credit agency not to be affiliated with or controlled by a for-profit organization; and (3) one of the exempt purposes of such organization includes the fostering of low-income housing.¹
- **Limited-Equity Cooperatives:** A limited equity cooperative can be defined as a housing cooperative in which low-income eligible members purchase shares at below market prices and are subject to limitations on the amount of equity or profit they can receive on their re-sale of their units.

Single purpose entities owned and controlled by Qualified Non-Profit Organizations may also be eligible for funding. The Qualified Non-Profit Organization is required to materially participate (that is, have an ownership interest and decision-making role) in the development and the operations of the project. The Qualified Non-Profit Organization, as a participating non-profit partner, must have effective project control and serve as the majority owner or as the managing member and 51 percent plus owner of a joint venture partnership.

Priority will be given to Limited Equity Cooperatives and Qualified Non-Profit Organizations without for-profit development partners, demonstrating a need for low-cost predevelopment financing. Applications accepted during the first eight-week phase of funding will be limited to this group of applicants. Starting September 1, 2021, applications can be accepted from all Limited Equity Cooperatives and Qualified Non-Profit Organizations, including those with participating for-profit partners. However, if demand exceeds funding availability, DHCD will prioritize the projects that demonstrate the most need and best meet the Department's policy objectives.

¹ IRC Section 42(h)(5)(c)

III. USE OF FUNDS

Allowable

- i. Architectural fees for architectural design work (site and floor plans, elevations, renderings).
- ii. Engineering fees.
- iii. Appraisal fees.
- iv. Market Study fees.
- v. Physical Needs Assessment/ Architectural Review fees.
- vi. Environmental Assessment fees.
- vii. Legal fees.
- viii. Title, recording and escrow charges associated with closing the Predevelopment Loan (if applicable) and other matching/additional sources of predevelopment funding.
- ix. Development Consultant fees related to predevelopment.
- x. Other costs as approved by DHCD.

Not Allowable

- i. Costs of property acquisition.
- ii. Costs related to displacement and relocation.
- iii. Refinancing of existing debt.
- iv. Site preparation, environmental clean-up or construction costs.
- v. Holding costs associated with the property, such as taxes, insurance and debt service.
- vi. Any loaning or transfer of funds to a for-profit entity
- vii. Any other costs deemed ineligible by DHCD.

**** Note:** All Predevelopment Loan funds **regardless of source** must be allocated to allowable predevelopment costs. Funds will not be counted as a predevelopment loan program match if they are not so allocated.

IV. LOAN RATES AND TERMS

The standard loan amount that can be requested is \$100,000 per project. All funds will be disbursed on a reimbursement basis as predevelopment milestones are achieved. Eligible Borrowers must provide at least a 50% funding match for Predevelopment Loan funds. The Eligible Borrower's funds must be expended *pari passu* with the funds drawn from the Predevelopment Loan or previously be expended.

Applicants may achieve the match requirement using grants, debt, or equity from any non-DHCD source.² Applications that demonstrate evidence of more than a 50% funding match are looked upon more favorably.

Predevelopment Loans are to be repaid upon closing on construction or permanent financing. Borrowers should ensure that their development budgets include an allowance for all costs paid with predevelopment loan funds.

- i. Loans will carry a simple interest rate of 0% per annum.
- ii. Loan term shall not exceed two (2) years. Borrowers may request an extension of the maturity date of the loan. Loan maturity may be extended up to two years in one year increments. Extensions will be approved on a case-by-case basis, depending on a project's progress towards meeting various milestones.
- iii. Repayment of principal will be deferred until the earliest of (1) receipt of construction or permanent project financing, or (2) the end of the loan term. Loans may be prepaid in whole or in part at any time with no penalty.
- iv. Borrowers are expected to repay the loan from other sources if the project is unsuccessful in obtaining construction or permanent financing.

V. LOAN DISBURSEMENTS

Loan funds will be disbursed to, or on behalf of, the borrower as the need for funds arises. Invoices or receipts must support disbursement requests. Disbursements are typically completed as follows:

1. Loan funds are disbursed to reimburse the Borrower for eligible costs incurred from the date of application until Predevelopment Loan closing. Borrower will be required to provide evidence of partial payment from another source.
2. Subsequent Disbursements: Loan funds are disbursed in tandem with the borrower's use of matching funds if the matching funds have not previously been expended. The ratio of

² The DC Housing Finance Agency (DCHFA) will make available \$1 million in matching funds through its McKinney Act loan program or other similar program as a potential source for Eligible Borrowers to use to meet Predevelopment Loan match requirement.

Newsome funds disbursed to matching funds expended by borrower may not exceed the ratio approved at the time the application was approved.

VI. LOAN UNDERWRITING REQUIREMENTS

Each loan will be underwritten in a manner that adequately protects the interest of DHCD. Loans will no longer be required to be secured by a deed of trust lien and/or a personal or corporate guarantor. However, the borrower's financial strength will be thoroughly evaluated to ensure the loan can be repaid if not taken out by construction or permanent financing before the end of the loan term.

The borrower's net worth, working capital, and liquidity ratio will be evaluated. In addition, DHCD will assess the availability of future revenue streams such as rental income, fundraising, operating grants, etc.

VII. LOAN TERMINATION

Loan commitments or loan agreements may be reduced or terminated at DHCD's discretion.

VIII. COMPLIANCE REQUIREMENTS

Affirmative Action Plan

An Affirmative Action Plan (AAP) must be submitted by the Borrower/ for review and approval by the District before approval of the Loan and the disbursement of any proceeds of the Loan.

The AAP will be in a form to be determined by the District and must:

- Detail the Borrower's efforts to comply with the District's goals for achieving equal employment in District government contracts; and
- Explain specific standards for the use of minorities in all job categories, as required in Mayor's Order 85-85 and District law.

The DC Office of Human Rights (OHR) requires applicants receiving financial assistance greater than \$25,000 to complete an AAP. Approval of this plan by OHR is a condition of DHCD's program monitoring review.

Non-Procurement Debarment (Vendor Eligibility List Verification)

The District government uses a list of "debarred" organizations that are ineligible to do business with the city. Organizations identified on this list cannot receive funding from DHCD. The Borrower must submit at the time of application an affidavit certifying that neither Borrower, nor its affiliates, nor any of its contractors or subcontractors at any tier are debarred or suspended or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549 or District assistance programs.

DHCD must verify that an organization is not on this list before approval of any project. DHCD will reference this list at the time of application and again before closing to ensure that no members of the project team are debarred.

Certificate of Clean Hands (Tax Verification)

The Tax Verification validates that a developer is in compliance with the District's license and tax requirements. Verifications are required from two city organizations: the Department of Employment Services (DOES) and the DC Office of Tax and Revenue (OTR). The results of the verifications will determine whether the requesting organization is eligible to receive funding from the program. The Borrower also must demonstrate that it is current on all federal tax payments.

Liability Insurance

Borrower must obtain and maintain at no expense to the Lender liability, casualty, all-risk, workers' compensation, builder's risk, contractor's liability and architect's professional liability insurance policies if applicable in accordance with the following requirements:

1. A commitment for title insurance to be issued at Loan Closing for the benefit of the Lender in the aggregate principal amount of the Loan, showing title to the property to be free and clear of all liens and encumbrances, except those encumbrances accepted in writing by the Lender.
2. Insurance binders for liability and casualty insurance prepaid for at least one year from the date of Loan Closing and listing the Lender as an additional insured and providing to Lender at least 30 days by written notice before cancellation. Casualty insurance must be for replacement costs of the property. Liability insurance may not be less than \$1 million per incident and \$3 million in the aggregate.

Current on District Obligations

Borrower and any other entity that comprises the Borrower's management or ownership structure must be current on all obligations outstanding to any District agency or entity, whether or not related to the proposed Loan. Borrower must provide to Lender satisfactory evidence indicating that it is in good standing on its obligations to the District. In addition, Borrower will be required to provide a Certificate of Clean Hands quarterly during the Predevelopment Loan period certifying it is remaining current on all obligations.

Predevelopment Loan Closing Costs

If applicable, Borrowers must pay for all title, recording and escrow costs associated with the closing of the Predevelopment Loan and any matching/additional funding sources. These fees may be paid with loan proceeds.

Legal Description and Land Survey

The Borrower must submit to Lender a legal description of the property from a land surveyor registered in the District and, if available, a current land survey. The survey, if available, is expected to clearly designate all improvements, encroachments, easements, rights-of-way, roads, alleys, ways, rivers, creeks, streams, paths, setbacks, and other matters revealed by inspection survey, as well as any portion of the property that may be covered by water.

IX. APPLICATION EVALUATION FACTORS

DHCD will consider the following factors when evaluating a Predevelopment Loan request:

- a. The borrower or principal entity responsible for repaying the loan must have been in existence for three (3) or more years as evidenced by three (3) years of audited financial statements, Articles of Incorporation, and By-Laws.
- b. Active oversight demonstrated by the developer/sponsor's Board of Directors, for non-profits only, as evidenced by the list of the board members, and a resolution approving submission of the application.
- c. Evidence of site control is provided (acceptable forms)
 - i. A deed evidencing fee simple ownership;
 - ii. A lease option;
 - iii. A purchase option;
 - iv. A land or property disposition agreement (LDA or PDA) executed with the District of Columbia; or
 - v. A contract of sale.
- d. A clear and concise project schedule including major predevelopment period milestones and indicating when and how the Loan will be repaid.
- e. Evidence of adequate financial capacity to repay debt, if not taken out by permanent financing before the end of the loan term (i.e. adequate working capital or revenue stream such as rental income, fundraising, operating grants, etc.).
- f. Evidence of ability to provide matching funds (debt or equity) equal to at least 50% of the amount of Predevelopment Loan funds requested.
- g. Other information as may be necessary to assess the borrower's track record and determine project readiness and viability (i.e., Commitments or letters of intent from other lenders) or eligibility.
- h. The overall quality and completeness of the application materials submitted and the borrower's responsiveness to additional requests for information that DHCD may have.

X. APPLICATION SUBMISSION MATERIALS

The application package to be submitted for review must include the following items. Each section should be clearly labeled.

1. Cover Letter/Project Summary:

The cover letter should provide a brief narrative description of the proposed project, including the location of the site, the number of units to be developed or rehabilitated, the scope of predevelopment work to be undertaken, and the requested loan amount. In addition, the letter should briefly describe the borrower's qualifications and experience in developing comparable projects or any mitigating circumstances (e.g., engagement of qualified consultant). The letter should be used to identify any special circumstances or conditions regarding the application.

2. Application Checklist:

The checklist should be attached to the front of the application form. Application materials should be clearly labeled and arranged in the order shown on the checklist.

3. Loan Application Form:

The loan application form requires information regarding the background and experience of the borrower, site information, a description of the proposed development, and proposed sources of permanent financing for the project. The application form should be completed in its entirety and signed by person(s) authorized to act on behalf of the applicant.

4. Attachments:

- A. Organizational/Ownership Chart
 - a. For borrowing entity
 - b. For owner of project, if different than borrowing entity.
- B. Copy of Applicant's Articles of Incorporation and Bylaws
- C. 501(c)(3) IRS Determination, if applicable
- D. IRS Form 990 for previous three years
- E. List of Members of Governing Body of Applicant
 - a. List should include a brief description of each member's background, experience and qualifications.
- F. Authorizing Resolution:
 - a. Resolution of applicant's governing body authorizing application for loan and execution of loan documents.
- G. Evidence of Required Insurance.
 - a. An insurance certificate or binder showing coverage in the required amounts.

H. Financial Statements:

- a. Financial statements for the three most recent fiscal years for the applicant organization should be submitted. If possible, financial statements should be audited by an independent or certified public accountant.

I. Site Plan (if available).

J. Preliminary Title Report (if available):

- a. Title reports must be dated not more than 60 days prior to the date of submission of the application.

K. Evidence of Site Control:

- a. Acceptable evidence includes a deed evidencing fee simple ownership, a signed purchase agreement, a signed lease or purchase option agreement, a land or property disposition agreement (LDA or PDA) executed with the District of Columbia, or a contract of sale. Purchase agreements and option agreements should have a term sufficient to allow adequate time to apply for and secure construction and permanent financing.

L. Total Development Budget and Description of Identified Funding Sources:

- a. Applicant must provide a budget that estimates the cost for the complete construction or rehabilitation of the proposed project. The budget must identify funding sources that will provide adequate funding for the total development costs for the entire project. The description of each source should include the amount expected to be provided, the terms and any other conditions likely to be attached to the funding. The description should indicate the status of any applications for funding that have already been submitted and the anticipated date of submittal for all applications which will be made in the future. **Applicant must use the Budget Form provided by DHCD.**

M. Predevelopment Budget with Identified Funding Sources

- a. Applicant must provide a detailed budget which includes all items to be paid from both the Predevelopment Loan, the matching funds, and any other predevelopment sources. **Applicant must use the Budget Form provided by DHCD.**

N. Evidence of Approval of Matching Funds:

- a. Borrowers must provide matching funds equal to 50% of the requested loan amount. For example, if a loan of \$100,000 is requested, the minimum matching funds required is \$50,000. Acceptable evidence includes executed loan documents or letters of commitment. Pro bono work by development team professionals is an acceptable program match. These donations must be evidenced by an itemized invoice from the donor with an indication that the service has been performed for the project at no charge.

XI. APPLICATION, REVIEW, AND DISBURSEMENT PROCESS

1. Applications will first be reviewed by DHCD staff for completeness. If the application is not complete, DHCD has the option to: 1) Reject the application, or 2) Request that the Borrower provide additional information.
2. Once complete, the application is reviewed for compliance with Program guidelines and an assessment of project feasibility.
3. If the applicant requested DCHFA funds as part of the application, the application package will be forwarded to DCHFA. DCHFA may have additional application requirements in accordance with its funding guidelines.
4. If an application is approved, the project will be assigned a Project Manager and enter DHCD's Development Pipeline
5. Loan documents will be drafted and presented to the Borrower for review.
6. Loan documents are executed as necessary.
7. Predevelopment activities commence.
8. Loan funds are disbursed on a reimbursement basis, upon presentation of satisfactory documentation. DHCD will provide instructions for submitting payment requests.
9. Principal is due and payable upon receipt of project construction or permanent financing.