



Pre-Development Loan Program Guide and Application

The mission of the Maine State Housing Authority is to assist Maine people to obtain and maintain decent, safe, affordable housing and services suitable to their unique housing needs.

In carrying out this mission, the Maine State Housing Authority will provide leadership, maximize resources, and promote partnerships to develop and implement sound housing policy.

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Maine State Housing Authority
353 Water Street, Augusta, Maine 04330
207/626-4600 VOICE 207/626-4678 FAX

Program

Section 1: Purpose

The purpose of MSHA's Pre-Development Loan Program (PDL) is to provide interest-free capital to cover mortgageable pre-development costs incurred by nonprofit borrowers who are developing affordable housing projects.

Section 2: Eligible Sponsors

Sponsors eligible for PDLs include any non-profit corporation which has either filed for or has received 501(c)(3) tax-exempt status from the U.S. Internal Revenue Service, and is registered to do business in the State of Maine.

Section 3: Eligible Projects

Any project which meets the following minimum affordability levels may be considered for a PDL:

Rental/Cooperative proposals: At least 20% of the housing units must be affordable to households with an income at or below 50% of the area median income.

Homeownership proposals: At least 30% of the homes must be affordable to a 4-person household with an income at or below 80% of the area median income; and 10% of the homes must be affordable to a 4-person household with an income at or below 50% of the area median income.

Project types may include, but are not limited to: multifamily rental projects; emergency shelters; single family subdivisions; supportive apartments; transitional housing; therapeutic group homes; mobile home parks; land trusts; limited equity cooperatives; and single room occupancy (SRO) housing.

Section 4: Eligible Uses

Eligible uses of PDL proceeds include any expense related to the project including, but not limited to:

- option or earnest money payments on a purchase and sale contract
- environmental testing
- legal services (e.g., to ensure clear title)
- architectural services
- engineer's assessment
- appraisal services
- consulting fees or staff time devoted to project management

Organizational overhead and staff costs directly attributable to pre-development activities are eligible for pre-development funding up to a maximum of \$7,500 per pre-development loan application. Construction and infrastructure costs are ineligible.

To be eligible for reimbursement by the PDL, development consultants must be qualified and charge competitive rates. Reimbursement for development consultants will not exceed more than \$15,000 per pre-development application.

Each applicant will be limited to a maximum of three PDLs at any one point in time.

Section 5: Loan Terms

Loans are 0% interest.

Repayment is deferred until the earlier of the end of the PDL term or the initial project loan closing (construction loan closing or permanent loan closing as applicable).

Term is 18 months or 30 months, depending upon the complexity of the project.

Applicants may apply for up to \$10,000 per project plus \$10,000 for each bed or unit in the proposed project, with a maximum of \$60,000 per project.

In the event that the PDL work plan is not accomplished within the schedule agreed to by the parties in the PDL Agreement, or at the expiration of the PDL term, MSHA reserves the right to commence the assessment of interest on the outstanding principal at MSHA's current cost of capital. MSHA may also forgive the outstanding principal if the project does not go forward for reasons which, in the sole opinion of MSHA, are beyond the control of the borrower. MSHA will

not unreasonably withhold forgiveness if the sponsor has demonstrated a good faith effort to bring the project to completion. Sponsors must request forgiveness in writing to MSHA. MSHA reserves the right to require written reports and other documentation evidencing the reason for projects not proceeding to completion.

Pre-development costs incurred by the borrower before the execution of the PDL Agreement are ineligible for reimbursement unless MSHA agrees in writing to reimburse those costs.

Section 6: Eligibility Requirements

Each application will need to be complete, demonstrate a need for funding, and demonstrate preliminary project feasibility. The eligibility requirements are described in greater detail in Chapter 2.

Section 7: Reporting

No written reports will be required of the sponsor during the term of the loan. The sponsor will be expected to communicate periodically with the assigned MSHA loan officer concerning the status of its projects.

Section 8: Application Process

All applicants for the PDL must submit a completed MSHA Pre-Development Loan Application. Contingent on the availability of funds, applications will be reviewed as they are received. Applicants are asked to be as thorough as possible in filling out the application. **A PDL commitment carries no entitlement or assurance of a commitment for the same project through other MSHA financing programs.**

Section 9: Disbursement Process

Once a PDL Agreement is executed, MSHA will disburse funds in accordance with a workplan and budget mutually agreed to by the borrower and MSHA. The amount of the loan will be set aside in an escrow account at MSHA. Upon receipt and approval of evidence of borrower's having paid an eligible expense, MSHA will reimburse the borrower. MSHA may limit the frequency of requests for reimbursement. MSHA will write a two-party check to the borrower and second payee upon receipt and approval of invoices for eligible services rendered to the borrower. MSHA reserves the right to review any and all of the expenses being paid for by the PDL.

Section 10: Modification, Reduction, or Acceleration of Loan

If MSHA determines that the sponsor has failed to meet one or more of the obligations of the loan agreement, MSHA will notify the sponsor and give it an opportunity within a prescribed time to show that it has taken curative action. If the sponsor fails to do so, MSHA may modify, reduce, or accelerate the loan, or take other appropriate action.

Section 11: Questions?

Applicants are encouraged to contact MSHA's Development Division at 207/626-4600 or 1-800-452-4668 (voice) or 1-800-452-4603 (TDD) to discuss any questions about the PDL.

Eligibility Requirements

Section 1: Complete Application

An application must be complete and provide all required information in the application checklist in order to be accepted. Applications that are unsigned or otherwise substantially incomplete will be returned to the applicants.

Section 2: Evidence of Funding Need

Borrowers must demonstrate the need for PDL funds to achieve their affordable housing objectives. Projects that in the sole judgment of the Authority do not require MSHA PDL funds or could proceed with other available sources of funding will not be considered.

Section 3: Project Feasibility

MSHA will conduct a preliminary physical, legal, and financial feasibility analysis of all proposals. MSHA will only provide PDL funding for projects that have been determined to be preliminarily feasible. The analysis of feasibility will include a review of the following issues:

- Can the proposed development be physically accomplished?
- Do applicable zoning and land use laws allow the proposed use?
- Are there any obvious barriers to the sponsor's securing clear title to the property?
- Do the development costs projected by the sponsor appear reasonable?
- Is the sponsor likely to secure permanent financing?
- Is the sponsor likely to complete the proposed project?
- Do the proposed operating expenses for the project appear reasonable?
- Is the sponsor likely to secure the operating subsidies (if any) identified in the operating budget?

Section 4: Funding Limits

Applicants may have limits set on the amount of PDL funding that can be accessed prior to the completion of specific tasks or milestones. These limits will be set forth in the PDL Agreement between the applicant and MSHA. In addition, there are specific limits that will apply in all cases. Those limits are:

- For projects seeking an allocation of low income housing tax credits, no more than \$20,000 of PDL funds will be disbursed prior to MSHA's issuance of a notice to proceed
- For projects that will be applying under MSHA Request for Proposals programs, sponsors may receive up to \$10,000 of PDL funding prior to MSHA's issuance of an award letter
- For all projects, there is a maximum of \$5,000 of PDL funding for non-refundable earnest money deposits for site control

Section 1: Fair Housing and Accessibility

The Maine State Housing Authority does not discriminate on the basis of race, color, religion, sex, national origin, ancestry, age, physical or mental disability, or familial status in the admission or access to, or treatment or employment in, its programs and activities. MSHA will provide special communication assistance to persons with vision or hearing impairments. MSHA has designated the following person responsible for coordinating compliance with applicable federal and state nondiscrimination requirements:

Jodie Stevens
Maine State Housing Authority
353 Water Street
Augusta, Maine 04330
Telephone Number (207) 626-4600 or 1-800-452-4668 (voice)
or 1-800-452-4603 (TTY)

Applicants are cautioned to be aware of the potential applicability of provisions of the Americans with Disabilities Act, the Maine Human Rights Act, federal Fair Housing legislation and Section 504 of the Rehabilitation Act of 1973 to any housing proposed for funding. Procedures for selection of residents, conditions of residency, and rules regarding termination may fall within the scope of this legislation. Providers must make reasonable accommodations of rules, policies, and procedures and may be required to allow reasonable structural modifications of buildings to be made, if necessary, to allow an individual with disabilities equal access to housing.

MSHA RESERVES THE RIGHT TO REJECT OR CEASE PROCESSING ANY OR ALL SUBMISSIONS OR APPLICATIONS PRIOR TO ISSUANCE OF A COMMITMENT FOR PERMANENT FINANCING. MSHA ACCEPTS NO OBLIGATION TO FINANCE ANY PROPOSAL UNTIL A PERMANENT FINANCING COMMITMENT HAS BEEN ISSUED AND ACCEPTED BY THE DEVELOPER IN ACCORDANCE WITH ITS TERMS.

Attachments Follow:

Loan Application

Proforma #1: Estimated Development Costs

Proforma #2: Sources of Funds Schedule

Proforma #3: Estimated Operating Income and Expense Schedule

Proforma #4: Year One Rental Income

Proforma #5: Workplan and Budget

MAINE STATE HOUSING AUTHORITY

Pre-Development Loan Application

Name of Applicant: _____

Contact Person: _____ Title: _____

Mailing Address: _____

Telephone Number: _____ FAX: _____

TOTAL PRE-DEVELOPMENT FUNDING REQUESTED: \$ _____

Applicant Information

1. Please briefly describe the history and mission of your organization. (attach separate sheets as needed)

2. What affordable housing problem does the proposed project seek to address? (attach separate sheets as needed)

Project Information

3. Please describe the proposed site (being sure to include site size; amount of road frontage; and existing improvements on the site) and the factors which led you to choose it.

4. How is the site zoned? Does the zoning allow for the use you plan? Have you spoken with a local zoning or code enforcement officer?

5. Please check the following that are applicable:

- | | |
|--|---|
| <input type="checkbox"/> municipal water | <input type="checkbox"/> 100 year flood zone |
| <input type="checkbox"/> municipal sewer | <input type="checkbox"/> underground storage tanks |
| <input type="checkbox"/> electricity to site | <input type="checkbox"/> hazardous waste site within 1 mile |
| <input type="checkbox"/> wetlands | <input type="checkbox"/> drainage/soil problems |
| <input type="checkbox"/> ledge formations | <input type="checkbox"/> active train line within 300 feet |
| <input type="checkbox"/> electric transmission lines | <input type="checkbox"/> unusual topography features |

Proformas

The following pages provide proformas that must be completed for all PDL applications. Several proformas have detailed explanations of the various line items on the facing pages. If project type (single family subdivision, cooperative, etc.) does not conform to the attached proformas, please call MSHA before submission of application.

Certification

I certify that the information contained herein is accurate to the best of my knowledge. I authorize the Maine State Housing Authority to verify all information relevant to this request for a Pre-Development Loan.

Signature of Authorized Signatory

Title

Date

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Proforma #1 - Estimated Development Costs

1. Acquisition - Land: Value of land and site improvements (e.g. utilities, roads, walkways, etc.) as determined by town tax assessment.
2. Acquisition - Buildings: Value of buildings as determined by town tax assessment.
4. Site Improvements: Site preparation such as fill, grading, on-site utilities, driveways, walkways, and landscaping.
6. Overhead and Profit: General contractor's or construction manager's overhead costs and profit. Overhead includes such items as office rent, fuel, lights, supplies, insurance and office supplies, etc. (See Program Guide for maximum amount allowed.)
7. General Requirements: Allowances for items required for the construction of a specific project - such as site phone, temporary sheds, toilets, building permits, temporary power, equipment rental, insurance for the job, etc.
9. Construction Contingency: Insert percentage. Multiply times the sum of lines (4) through (7).
11. Architectural: For design and supervision of construction. This should represent the typical fees paid for projects of similar design and services rendered. Include quotation of services and rates or attach a copy of Standard AIA Form Owner/Architect Agreement
12. Engineering: Fees for engineering (soil, environmental, hydrological, etc.) that are not part of the architect's fee. Please include contract or proposal quotation.
14. Legal and Recording: Those legal expenses incurred including services: (A) in connection with organizing the ownership entity; (B) in connection with preliminary title and land use opinions; and (C) in connection with initial and final closings.
16. Appraisal: As required by funding sources.
17. Survey: As required by funding sources.
18. Taxes and Permits: Taxes which accrue during the construction period estimated on a prorata basis for the period. Permits include all other land use or regulatory permits other than those in line 7.
19. Insurance: Insurance includes cost of Builder's All Risk. It does not include worker's compensation which is a Contractor's cost included in Line 7.
24. Construction Period Loan Interest: The interest estimated to accrue during construction consists of: ESTIMATED MORTGAGE multiplied by 50%, then multiplied by the CONSTRUCTION LENDER'S INTEREST RATE (___%), then divided by 12, and finally multiplied by the number of months expected to be under construction, plus 2 months.

(\$ x 50% x ___% / 12 x ___# months) + 2 months = est. construction period interest

Estimated Development Costs

1	Acquisition: Land	_____	
2	Acquisition: Buildings	_____	
3	Subtotal: Acquisition		
4	Site Improvements	_____	
5	Building Improvements	_____	
6	Contractor's Overhead/Profit	_____	
7	General Requirements	_____	
8	Bond Premium	_____	
9	Construction Contingency @ ____%	_____	
10	Subtotal: Improvements		
11	Architectural	_____	
12	Engineering	_____	
13	Accounting/Cost Certification	_____	
14	Legal/recording	_____	
15	Marketing	_____	
16	Appraisal	_____	
17	Survey	_____	
18	Taxes/Permits	_____	
19	Insurance	_____	
20	Other	_____	
21	Subtotal: Soft Costs		
22	Commitment Fee(s)	_____	
23	Construction Loan Origination Fee	_____	
24	Construction Period Loan Interest	_____	
25	Letter of Credit Fees	_____	
26	Subtotal: Financing Fees		
27	Operating Escrow	_____	
28	Replacement Reserve	_____	
29	Consultant's Fee	_____	
30	Developer Fee	_____	
31	Other:	_____	
32	Subtotal: Fees and Reserves		
33	TOTAL ESTIMATED DEVELOPMENT COST		

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Proforma #2 - Sources of Funds Schedule

General: Attach commitment or interest letters from all sources, if available. Applicants should also attach copies of financing applications that are pending and indicate when decisions are expected from other sources. List all debt sources in the order of their lien position

Monthly Payment column: Provide figures in this column only in Debt sources section; do not fill in shaded areas.

Special terms/Conditions column: Insert explanation of special terms and conditions of each source (e.g. deferral, balloon, roll-over from construction to permanent sources, adjustable rate or non-conventional amortization, etc.).

Equity Sources: Include all sources of equity such as grants, borrower equity, etc.

Debt Sources: Include all loans and non-equity permanent sources of funds.

Total Annual Debt Service: Calculate by multiplying monthly payment subtotal times 12.

Sources of Funds

	AMOUNT	% RATE	TERM	MONTHLY PAYMENT	SPECIAL TERMS/CONDITIONS (deferrals, balloons, adjustable rate, etc.)
Pre-Development Funding					
1					
2					
3					
Pre-Development Subtotal					
Construction Funding					
1					
2					
3					
Construction Funding Subtotal					
Permanent Funding					
<i>Equity</i>					
1					
2					
3					
<i>Debt</i>					
1					
2					
3					
Permanent Funding Subtotal					
				x 12	Multiply by 12 months
					TOTAL ANNUAL DEBT SERVICE

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Proforma #3 - Estimated Operating Income and Expense Schedule

General: Expenses should reflect operating costs for a full twelve month period in full occupancy. Costs should be trended for inflation to the date that units will be occupied. Whenever possible documentation of estimates should be provided in the form of proposals from contract, comparable building experience, or similar data.

1. Gross Rental Income: Insert Income from Proforma #4.
2. Vacancy Loss: Insert appropriate percentage (generally no less than 5%) for the project. Multiply percentage times line 1 and insert.
3. Other Income: Specify.
6. Management Fee: Insert percentage for calculation of fee based on projected total project income. Includes the cost of a project manager (part or full time), office salaries, telephone travel, office supplies, site office costs, postage, printing, etc.
7. Legal: Legal fees relating to evictions, etc.
8. Accounting: Accounting fees for preparation of year-end financial report. Does not include routine bookkeeping.
16. Water and Sewer: If available, include rate information from local utility and consumption estimates from engineering professional.
19. Contract Building Systems: Include contractual services relating to elevator, plumbing, electrical, heating, ventilation, air conditioning, groundskeeping, shoveling walks, performing minor repairs to building exterior, common areas, and rental units.
21. Real Estate Taxes: As provided by Municipal assessor.
22. Property and Liability Insurance: Estimated cost of owner's property and liability insurance; loss of rents coverage; and flood insurance (if applicable).
23. Replacement Reserve: As required by funding sources.

Estimated Operating Income and Expenses

1	Gross Rental Income (see Proforma #4)		
2	Less: Vacancy Loss @ _____%		
3	Other: _____		
4	Other: _____		
5	TOTAL ANNUAL OPERATING INCOME		
6	Management Fee @ _____%		
7	Legal/Recording		
8	Accounting		
9	Advertising		
10	Common Area Electric/Lights		
11	Common Area Heat		
12	Common Area Hot Water		
13	Unit (Paid by Owner) Electric/Lights		
14	Unit (Paid by Owner) Heat		
15	Unit (Paid by Owner) Hot Water		
16	Water and Sewer		
17	Garbage, Trash, Exterminating		
18	Building Maintenance		
19	Contract Building Systems		
20	Grounds Maintenance		
21	Real Estate Taxes		
22	Propety and Liability Insurance		
23	Replacement Reserve		
24	Other: _____		
25	Other: _____		
26	TOTAL ANNUAL OPERATING EXPENSES		
27	Net Operating Income (income minus expenses)		
28	Total Debt Service (from Proforma #2)		
29	ANNUAL CASH FLOW (net operating income minus debt service)		

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Year One Rental Income

A	B	C	D			
# of Units	# of Bedrooms	Monthly Rent to Owner	Owner's Monthly Income (A x C)	Tenant Pays Utilities (yes/no)	Describe Utilities	Proposed Income Targeting as a % of Area Median Income
		TOTAL				

Annual Gross Rental Income
x 12

Workplan and Budget

Activity/Objective	Date for Start of Work	Date for Completion	Pre-Development Loan Amount	Other Sources	Total Cost Prior to Closing
Site Control					
Zoning					
Legal					
Architectural					
Engineering					
Appraisal					
Survey					
Market Study					
Application Fees					
Financing					
Consultant Fee					
Developer's Overhead					
Other					
Other					