HOUSING AND NEIGHBORHOOD SERVICES
AFFORDABLE HOUSING
Acquisition, Rehabilitation & Resale Revolving Loan Fund Guidelines

Program Description

The Acquisition, Rehabilitation & Resell (ARR) Revolving Loan Fund is designed to revitalize communities by providing financial assistance for the acquisition, rehabilitation, and resale of properties, with the aim of increasing the availability of affordable housing. The program targets properties that are vacant or underutilized, leveraging partnerships with developers to transform them into affordable homes for low to moderate-income individuals and families.

Through the ARR Revolving Loan Fund, the city aims to foster collaboration with partners to address the critical need for affordable housing, revitalizing neighborhoods and improving access to homeownership opportunities for low to moderate income residents.

Pool Membership Requirements

Participation is open to experienced developers or organizations with a proven track record in property development, rehabilitation, and resale. Partners must demonstrate a commitment to affordable housing and agree to adhere to program guidelines and regulations.

Funds are available to partners who meet the requirements outlined below. A partner that does not meet the requirements below does have the option to joint-venture with a developer that does meet the criteria.

Partners must demonstrate successful completion of no less than 15 rehabilitation projects for affordable housing within the last five years.

Partners must submit a portfolio detailing completed projects and include the following information;

- Number of units successfully rehabilitated and resold
- Total Development costs for each rehab project
- Dates of project starts and completions and household income levels served & AMI %
- Confirmation on whether each project was on time and in budget (relative to schedule and budget at the start of rehabilitation).
- Resumes of key staff who will be assigned to the proposed ARR project.
- For partners who do not meet the criteria and elect to partner with an experienced developer who does meet the criteria listed above. The city will review and approve all joint venture agreements.
- Articles of Incorporation, Articles of organization, Bylaws, Tax-Exempt determination from the IRS, List of Board members.
- Valid certificates of Insurance that meet city insurance requirements.

- Financial Statements for the past two years (ideally audited by certified public accountant)
- Current SAM.gov certificate of registration for the prospective borrower

If a partner is approved by the city program administrator to become an ARR pool member, the partner can apply to reserve ARR funds by providing the information requested in the *ARR Revolving Loan Fund Application process* set out below in this document.

Program & Financial Design

The program operates through a loan fund, providing financial assistance to cover acquisition, rehabilitation, resale and administrative costs. Funds are allocated based on project proposals submitted by partners. Partners can request funding by either or both of the following ways;

Project Reservations

Construction Loan

Partners can request acquisition and construction financing not to exceed $350,000 per property, with no more than $700,000 of cumulative open obligations at any one time. Partners will provide a complete budget in the City's preferred format of the transaction, including acquisition, rehabilitation, and resale costs. The partner will also set an estimated resale amount to arrive at a unit subsidy amount (or initial loan amount). Once the property is rehabilitated, the partner will list the home for sale. The initial loan amount must be repaid to the city at the point of sale/closing to an eligible homebuyer.

Alternatively, partners can elect to solely apply to reserve funding by subsidy contribution, detailed below.

Subsidy Contribution

Properties shall be sold to homebuyers at or below 80% AMI. The property shall be sold at fair market value. If total development cost exceeds fair market value, the city will make a subsidy contribution in the form of a direct project contribution or loan write off, depending on the partners requested project structure. When applying for subsidy contribution, partners should submit supporting evidence of estimated market value and projected total development costs. The soft second will mirror the subsidy amount requested in the ARR fund application.

Soft Second Financing

Partners can apply for secondary financing as a deferred forgivable loan if the buyer needs additional subsidy. Financial assistance through the ARR program can only be used for needed principal curtailment. The loan will be forgiven at the end of a 30-year affordability period and is conditional upon the buyer occupying the property. Additional downpayment may be secured through the North Carolina Housing Finance Agency and/or the House Charlotte Program.

Example

Total Development Cost	$345,000
Value	$325,000
Sales Price	$325,000
Direct Subsidy (ARR)	$20,000
Soft Second (ARR)	$20,000 (ARR Direct plus Soft Second must be less than $80,000)
Soft Second (HouseCharlotte)	$30,000
First Mortgage to Buyer	$275,000

Additional Program Requirements

Shared Equity

To encourage and increase the benefit of home equity for Low-and-Moderate-Income (LMI) households, this program includes a shared equity model that must be incorporated within the deed restrictions for each property sold. Deed restrictions for all sold properties must include the shared equity provision to reflect the shared appreciation ratios detailed in table 1.

Required Deed Restrictions

Deed restrictions are placed on all properties under this program and include clauses granting the city the right of first refusal, prohibiting a rental use of the property, and outlining shared appreciation arrangements.

Shared appreciation agreements must be included in each sales transaction and meet the minimum sharing ratios outlined in Table 1.

Table 1 - Shared Equity Ratios By Year

Years	**1-3**	**4-6**	**7-10**	**11+**
Owner Equity	0%	34%	66%	100%
Partner Equity	100%	66%	34%	0%

Reservation Limits

No loan pool partner may have more than $700,000 of open obligations at any one time with a maximum loan limit of $350,000 per unit.

Subsidies exceeding $80,000 will require authorization from the Assistant Director of Housing and Neighborhood Services.

Loan Disbursement

Funds will only be disbursed to the partner and can be disbursed either in full at loan closing with the city or on a reimbursement basis throughout the project.

Funds that are paid on a reimbursement basis will be disbursed to the partner only for costs incurred. Invoices or receipts must support all disbursement requests.

Loan Documentation and Security

Each loan shall be documented by a loan agreement, promissory note and recorded deed restrictions. Each loan will be secured in a manner that adequately protects the interest of the city. Security may include but is not limited to a deed of trust or other lien on the property.

At the rehabilitation stage, the city may agree to subordinate its deed of trust if it becomes necessary to do so for project feasibility. If a partner's application includes another source of funding for partial acquisition costs, the Assistant Director of Housing and Neighborhood Services may agree at their discretion to subordinate the City's deed of trust to this financing. The city will not subordinate its affordability agreement to private lenders.

Loan Termination

Loan commitments or agreements may be reduced or terminated by the city if staff determines any of the following:

1. One of more conditions of the commitment, agreement or disbursement terms have not been, or will not be met.
2. The borrower has violated program guidelines.
3. *Pr*ojected financing sources for the project are not awarded and there is no alternative financing plan in place.
4. In the event that acquisition, or rehabilitation expenses are less than anticipated, the loan amount will be reduced to an amount required to meet actual expenses.

Eligible Uses of Funds

General costs associated with the acquisition and rehabilitation of property are eligible uses of ARR program funds, including the following:

- Pre-acquisition due diligence costs.
- Holding costs associated with the property such as taxes, insurance and debt service.
- Due diligence reports, including environmental assessments and property inspections.
- Legal costs.
- Architectural and engineering expenses, as applicable.
- Appraisals.
- Hard construction costs associated with rehabilitation.
- Realtors fees not to exceed 6%

The city's project manager must preapprove additional costs.

Developer Fees

A developer fee is an eligible development expense. A partner may charge a fee of no more that 8% or $28,000, whichever is less.

Ineligible Use of Funds

Ineligible uses of funds include costs associated with new construction or legalizing any non-conforming uses.

Loan Terms

Acquisition, rehabilitation, and resale loans are to be repaid as soon as projects secure permanent financing, or one year from the date of loan closing, whichever is sooner. Loans carry a simple interest rate of zero percent (0%) per annum for a maximum amount of $350,000.

Deed restrictions will be recorded on the property at the time the loan is closed and will restrict the property to low-and-moderate-income homebuyers at certain income limits for a period of no less than thirty (30) years, regardless of whether the loan is repaid.

If the project is unsuccessful in securing financing or unable to make the full loan repayment within one year, the City program Administrator, or his or her designee, will determine if the property is likely to be developed and if so, may at his or her discretion, authorize an extension of the loan term.

Should the homeowner sell the rehabilitated property before the expiration of the 10-year shared equity restriction, any proceeds due to the Partner must be used for eligible affordable homeownership ARR purposes.

Property Requirements

Geography - All properties shall be located within the City of Charlotte "Corridors of Opportunity" areas of Influence. These areas are defined as Albermarle/Central, Beatties Ford/Rozzelles Ferry, Freedom/Wilkinson, West Sugar Creek, North Graham/North Tryon, and West Boulevard.

Unit Types - Single family dwellings with fee simple ownership are eligible for the program. Currently, units subject to condo associations are not eligible for participation.

Values - all homes must have a rehabilitated market value of $342,000 or less and sold at their market value.

All residential units must meet City's definition of 'dwelling unit' and fully conform to applicable City of Charlotte building codes. If a Project includes unpermitted or illegal units at time of acquisition, legalization and permitting of the units must be included in the Project scope. Program funds will not cover the cost of legalizing any non-conforming uses.

Units purchased to be included within the program must be unoccupied and vacant at the point of acquisition.

Rehabilitation Standards

All properties shall be fully inspected. Partners shall be responsible for developing a scope of work and overseeing repairs to home that meet the following standards;

- Homes shall not be in violation of city minimum housing code
- All home systems including all structural components, roofing, windows, doors, electrical, plumbing, and Heating Ventilation and Air Conditioning (HVAC) units shall be assessed to have a minimum remaining useful life of no less than 10 years. Supporting evidence of remaining life of structural components should be submitted to the program administrator.
- Partner to provide a one-year 2-10 home warranty to include appliance coverage. Home warranty must be transferrable to the homebuyer at closing of the sale of the property.
- Exterior properties shall be free of debris.
- Properties subject to Homeowners' Associations (HOA) shall meet any minimum physical requirements of the HOA covenants.

ARR Revolving Loan Fund Application Process

Applications for funds will only be accepted from approved pool members following the launch of the ARR program until funds are committed or exhausted.

Partners should submit applications for funding by including the following information:

- Cover letter with narrative describing basic information about the property to be acquired, rehabilitated and resold.
- Offer letter or Offer to purchase and contract.
- Property valuation, appraisal or a Comparative Market Analysis (CMA) conducted by a registered North Carolina Realtor.
- Property disclosure (Residential Property and Owners' Association Disclosure Statement) and associated reports (if applicable).
- Property survey.
- Lead based paint disclosure and inspection report with remedial requirements if property constructed before January 1, 1978.
- Preliminary report on title with narrative of plan and schedule to remove any liens.
- Evidence of compliance with environmental requirements. Narrative to remediate any known environmental concerns identified.
- Scope of work.
- Minimum of two cost estimates for rehabilitation works. If using internal labor costs, labor rates must be provided.
- Projected timescale for closing and rehabilitation.
- Marketing proposal for resale of property.
- Resale values (CMA as a minimum must be provided to support estimated resale value)
- Anticipated income levels to be served.
- Funding commitments from other (non-city) sources for the project or soft second financing request.
- Completed city subsidy analysis for each property where funds are requested with estimated costs and values applied.
- Funding requests for soft second financing must be supported by the homebuyers last two-years tax returns, 60-day paystub, any other income, SSN income and disability income.

Applications are reviewed by program administrators for alignment with program goals and feasibility. Approved projects are awarded funding from the revolving loan fund. A commitment letter will be issued with a maximum three-month reservation period.

Loan documents with be prepared by the city appointed attorney, city program administrator and the partner. Loan documents will be executed and recorded, as necessary.

Loan Disbursement

Site control is not required at the time of application, but funds will only be released at the time of or after fully documented site control. Site control should be anticipated to be achieved within three (3) months of funding commitment.

Unless funds are required solely for the acquisition of property, the loan funds will be disbursed on a reimbursement basis on receipt of invoices with supporting evidence of expenditure.

All invoices should be submitted through [City of Charlotte] Invoice Submission Form (seamlessdocs.com)
-or-
Mail invoices to the following:
Ruth Ippolito
Housing Program Manager
Housing & Neighborhood Services
600 E Trade St
Charlotte, NC 28202

Funding that is not utilized for the purpose of fulfilling this program must be returned to the city in full. Funding cannot be transferred to another project or property under this program.

Project Monitoring

City of Charlotte Rehabilitation specialists will inspect the progress of works throughout the rehabilitation process and certify that the works are complete.

Partners must provide the city with evidence of insurance coverage of the purchased property to be held for the duration of the period of property ownership by the partner. Please refer to the insurance requirements within the RFP.

Any properties acquired must be insured by the partner with the city named as a beneficiary at the point of closing on the acquisition and held until such time as the property is resold to an eligible homebuyer.

Partners are required to provide monthly progress reports on acquisition and rehabilitation and include notice of any slippage in rehabilitation and reforecast schedule of completion of acquisition and or works.

Monthly financial statements for the project should be submitted to program administrators for monitoring and evaluation purposes.

Program Documentation & Compliance Requirements

Partners must comply with all program regulations and requirements throughout the acquisition, rehabilitation, and resale process. Failure to adhere to these restrictions may result in penalties or disqualification from future participation in the program.

Upon completion of rehabilitation, properties must be resold to low-and-moderate income buyers with a maximum household income of 80% area median income (AMI), ensuring long-term affordability.

Documents required by the City are set out below:

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Resale

Partners must provide the city with the following prior to closing on the resale property:

- Valid appraisal of rehabilitated property.
- Marketing plan of property for sale as affordable homeownership
- Income eligibility determinations with supporting evidence for low0 households and confirmed AMI% levels must be submitted to the City prior to closing on the resale.
- Proof of any downpayment assistance or other funding assistance that the homebuyer has secured.
- Evidence of total development costs incurred.
- Purchaser terms of acquisition (sales price, Down Payment Assistance, anticipated closing date and deed restrictions)
- Evidence of 2-10 warranty coverage

Where funding has been requested for soft second financing, the following information must be provided:
- Funding Gap analysis (updated to reflect appraised market value)
- Homebuyers last two-year tax returns,
- 60-days of paystubs
- SSN income and disability income.
- any other sources of income

Project Completion
Upon closure of resale of rehabilitated properties, partners will be required to provide the following documentation:

- Property appraisal verifying market value
- Offer to Purchase from eligible homebuyer
- City budget/Subsidy Analysis updated at resale with actual costs incurred throughout project
- Closing Documents of resale property including title insurance and ALTA statement (or equivalent document)
- Deed Restrictions that comply with ARR program requirements on resale

A Pay-off statement will be prepared by the city. Depending on the loan structure the following amounts will be calculated:
- Acquisition and/or construction loan
- Unexpended loan funds due to the city
- Direct subsidy and/or soft second financing amounts

The payoff statement will be issued to the closing attorney with any repayments due to the city at the closing of the sale to the LMI homebuyer.

Renewal Process

The city may elect to renew the program at which time partners can apply to renew their membership to the ARR loan pool. Existing members will be required to submit updated certificates of insurance to meet the city requirements and the last years certified financial statements or CPA audited accounts.