**Alabama’s Housing Finance Authority**

**HOME Loan Restructuring Policy**

**A. Goals and Objectives**

This HOME Loan Restructuring Policy is intended to outline AHFA’s goals and objectives for addressing the loan maturity of projects allocated funds under AHFA’s HOME Program. The following are AHFA’s goals and objectives in order of priority:

1. Ensure that the maximum amount of the HOME loan due from borrowers, as originally agreed upon by the terms in the executed loan documents, is paid to AHFA by the stated maturity date of the HOME loan.

2. Motivate borrowers to be proactive toward seeking additional funding sources and incentives as available and to develop partnerships to assist in creating solutions for preserving affordable housing choices in their respective communities. Borrowers should enlist the assistance of all potential stakeholders such as city and county governments, banks and financial institutions, philanthropic organizations and non-profits.

3. Provide concise criteria and procedures for borrowers to follow in order to accurately evaluate and assess the condition of all projects with maturing HOME loans.

4. Outline specific criteria for projects based on the borrower’s plan to repay and restructure the HOME loan in order to ensure, when feasible, that projects continue to remain as affordable housing.

**B.** **Restructuring of Maturing HOME Loans**

AHFA will require the borrower to notify AHFA at least twelve (12) months prior to the maturity date of the HOME loan to indicate borrower’s a) intent to repay the loan in full, or b) intent to restructure the loan. If the borrower is unable to provide payment in full, the borrower will be required to apply for an extension of the HOME loan by completing the AHFA application for an extension. AHFA requires the borrower to submit an application for extension at least six (6) months prior to the maturity date of the HOME Loan.

Regardless of the amount of the HOME loan paid by the borrower, the applicable HOME rent and income restrictions will end. However, there will still remain ten (10) years of the extended-use period and restrictions required by Section 42 of the Internal Revenue Code, plus any additional extended use period originally elected by the borrower. The amount of HOME loan to be repaid will determine the length of the extension of maturity of any remaining balance and the amount of the AHFA-required extension fee. The extended (remaining) balance will be structured as a cash flow loan based on terms acceptable to AHFA. In any event all borrowers must elect to restructure their respective HOME loans based on the following two (2) options:

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| --- | --- |
| **Percent (%) of HOME Loan Balance (Principal and All Accrued Interest) Paid** | **Remaining Balance Extension Granted in Years** |
| **30% or more (Principal and All Accrued Interest)** | 15 |
| **Less than 30%****(Principal and All Accrued Interest) at Maturity** | 5 |

1. Borrowers paying thirty percent (30%) or more of the HOME loan (principal and all accrued interest) will be allowed to extend the remaining balance for fifteen (15) years. Borrowers will be required to reimburse to AHFA any third-party costs, including without limitation, legal fees, architect and engineer’s fees, consultant (construction or otherwise) fees, and environmental fees incurred by AHFA during the evaluation of extension request until completion and final approval. The remaining balance will be structured as a cash flow loan based on terms acceptable to AHFA. After the extension is approved by AHFA, the borrowers will be allowed to submit the applicable project (with no guarantee of approval for funding) to AHFA for additional funds under the applicable Housing Credit Qualified Allocation Plan or Multifamily Bond Policy.

2. Borrowers that do not elect to make a payment of thirty percent (30%) or more of the HOME loan (principal and all accrued interest) at maturity will be required to request an extension of the loan for a maximum of five (5) years. The extended balance will be structured as a cash flow loan based on terms acceptable to AHFA with scheduled loan payments for the length of extension period. At the end of the extension period the remaining balance (principal and all accrued interest) will be due. Borrowers that elect the five (5) year extension period will not be able to submit the applicable project during the extension period or at end of the extension period to AHFA for additional funds under the applicable Housing Credit Qualified Allocation Plan or Multifamily Bond Policy.

However, during the extension period or at the end of the extension period if the borrower pays down the outstanding balance of the loan (principal and all accrued interest) from scheduled cash flow payments, additional cash injection(s) by the borrower and/or secures a commitment for additional funds that (when combined) reduces the existing loan balance to 30% or more, the borrower will be allowed to request a fifteen (15) year extension of the remaining balance. The remaining balance will be structured as a cash flow loan based on terms acceptable to AHFA. Borrowers then will be allowed to submit the applicable project (with no guarantee of approval for funding) to AHFA for additional funds under the applicable Housing Credit Qualified Allocation Plan or Multifamily Bond Policy.

**C.** **Procedures and Criteria for Requesting an Extension of the HOME Loan.**

 AHFA’s application for extension will contain or require, at a minimum, the following documents:

1. A written narrative from the borrower which details the proposed plan for restructuring the maturing HOME loan.

 2. Complete ownership forms for the borrower and for each entity in the current and/or proposed ownership structure (e.g. transfer to non-profit).

3. Statement of Sources and Uses of Funds to evidence any additional (or new) sources of funding available to the project (e.g. conventional, AHP, local funding sources, CDBG or HOME.

 4. Detailed operating statements for the twelve (12) months preceding the application date, and the two (2) most recent years audited financial statements.

 5. Schedule of Current Rents as of the application date and Schedule of Proposed Rents (Please document any rent increase to Housing Credit rents, if achievable).

 6. Balances of all reserve accounts maintained for the project (including the general operating, tax and insurance, replacement and operating deficit reserve accounts) at time of application.

 7. Detailed Pro Forma operating budget for the initial twelve (12) month period after the proposed restructuring is closed (reflecting proposed rents and expenses).

 8. Annual rent rolls for the two (2) most recent calendar years, which must include average occupancy for the same period, current occupancy and annual income of the current tenants from the most recent Tenant Income Certification.

 9. Market assessment which, among other things, specifically addresses any potential rent increases (or change to higher tax credit rents) and includes comments regarding the future stability of the market. The assessment must be performed within ninety (90) days of the application date.

 10. Capital needs assessment (CNA) performed within six (6) months from the date of the application which, among other things, must address all items requiring replacement or rehabilitation for the project to remain viable in the current market.

 11. A construction budget (consistent with the CNA) and soft cost budget, if applicable.

 12. A current financial statement for all individual(s) and entities in the current and/or proposed ownership structure. A current financial statement is a statement less than 12 months old at the time of the application submission.

 13. Firm commitment (as defined by the current Multifamily Funding Application Instructions) for each proposed source of financing in form acceptable to AHFA.

**D.** **Other Options Prior to or at Maturity of the HOME Loan**

1. Borrowers may pay the HOME loan in full (principal and all accrued interest) prior to or at maturity. If the HOME loan is paid off prior to maturity, the applicable HOME rent and income restrictions will remain until the end of the required affordability period.

2. Borrower may request, in accordance with AHFA’s Qualified Contract Policies and Procedures, to remove the Housing Credit extended-use restrictions and convert the project to market rate. Under this option, the HOME loan (principal and all accrued interest) must be paid in full.

3. Borrowers that do not pay the HOME loan in full (principal and all accrued interest) or do not apply for an extension will be considered delinquent, and AHFA will pursue foreclosure on the property. The borrower will be permanently barred from participating in all programs administered by AHFA. If AHFA is forced to foreclose on the property, AHFA will make every effort to not displace the current tenants.

**E.** **Future Modifications and Other Considerations**

 AHFA reserves the right to make modifications to this HOME restructuring policy as required based on changes in current tax laws, the U. S. Department of Housing and Urban Development regulations and/or any other modifications deemed appropriate by AHFA necessary to maintain the stated goals and objectives of this restructuring policy. AHFA may include incentives in future allocation plans to encourage the preservation of these affordable housing units.