

Rental Revolving Loan Fund (RRLF) Post-Closing Compliance

July 2024

Closing Documentation

At closing, project sponsors will execute 1.) a loan note, and 2.) a Subsidy Covenant and Use Agreement. The loan note will set the requirements of repayment for each RRLF loan. The Subsidy Covenant and Use Agreement will detail the affordability and ongoing reporting requirements necessary to demonstrate compliance with this program.

Please note that while the Subsidy Covenant and Use Agreement outlines the requirements at the time of closing, the document will also reference the RRLF Program Guidelines and Post-Closing Compliance Requirements. The process related to demonstrating ongoing compliance and the naming convention used to describe the program may change from time to time.

Property and Unit Physical Inspections

VHFA staff or a third party approved by VHFA will perform physical inspections on properties for the term of the RRLF investment and the extended affordability period. The inspections will take place for the minimum affordability period (the greater of seven years, loan repayment, or the term of the loan), as well as for the additional three-year rent increase restriction period. The frequency of inspections, and their components will be as follows:

Project Status	Frequency of Inspections	Components of Inspection
In Good Standing	Once every 3 years	Exterior, Interior Common Elements and Systems, 20% of units
Properties with ongoing financial or physical deficiency concerns	Once every year	Exterior, Interior Common Elements and Systems, a percentage of units determined by the agency based on the level of concern

Upon notifying the sponsor that a property inspection is pending, VHFA will require the owner/manager to complete a Physical Inspection Questionnaire that describes any ongoing challenges with the building or summarize any major repairs/improvements that have occurred. The Questionnaire will also require the owner/manager to disclose any findings from local/state inspections and remedies to comply with local/state physical inspections.

Affordability and Financial Review

VHFA will perform an affordability and financial review annually to ensure compliance with program affordability requirements. Affordability and financial reviews will be conducted on **three key programmatic aspects**:

1) Rents and Affordability:

The rent levels for each designated program unit must be set in accordance with the Sponsor's approved application. The RRLF Subsidy Covenant and Use Agreement will outline the number of units that are "program units," and the maximum Area Median Income rents that may be charged for each unit. **Annually**, the sponsor must provide VHFA with rent rolls that demonstrate rents meet program requirements and reflect the rent levels approved for the project. Rent and affordability levels

will be memorialized in the Subsidy Covenant and Use Agreement. VHFA will analyze year-to-year increases to ensure rents have not increased more than 3% as directed by the RRLF Program Guidelines. Rents may increase a maximum of 3% annually, as long as they are still within the VHFA Affordability Matrix for the current year and AMI served.

Owners/managers must maintain **annual** rent records that detail the full rent (including utilities and any other fees) paid by each program unit. Owners/managers may submit the rent schedule in VHFA's RRLF pro forma format, or another format agreed upon by VHFA and the owner/manager.

2) Household Income Compliance:

Household incomes may not exceed the unit income designation outlined in the Subsidy Covenant and Use Agreement **at the time of move-in**. RRLF Program Guidelines allow units to serve households with incomes up to 25% above the rent AMI level. For example, units with rents set at 65% AMI could serve households with incomes up to 90% AMI. Owners/Managers are not required to review income after the initial lease-up.

Owners/Managers shall maintain tenant files that demonstrate income levels were verified for eligibility prior to move-in. Move-in files for program units will be reviewed annually by the agency. At minimum, those files shall include the following:

- Tenant's Application
- Verification of personal identification (could include driver's license, or other forms of government-issued documentation)
- Income qualification materials: paystubs, benefit statements, tax/or tax-returns, asset valuation (checking account, savings account, earned income from assets)

For guidance on how to complete income certification, please [see this PDF](#).

3) Project Financial Health Review:

Annually the owner/manager must submit documentation that demonstrates that the project is performing financially and is adequately insured. VHFA will determine the required submissions based on the term of RRLF investment, the size of the project, and the capacity of the owner/manager. VHFA will seek the following documentation at minimum:

- Overall project cashflow, including a profit and loss statement that is reviewed by a third-party certified IRS agent or certified public accountant. The statements should document projected versus actual rent collections, realized vacancies, and operating expenses.
- Evidence of insurance.
- Reserve and capital needs summary.

VHFA will perform a financial performance review for each project, which will include analyzing the net operating income, project cashflow, and debt service coverage ratio.