

# Rental Revolving Loan Fund (RRLF) Guidelines

## Purpose and Program Overview

The Rental Revolving Loan Program (RRLF) is administered by the Vermont Housing Finance Agency (VHFA) to increase the supply and preservation of housing affordable to households with incomes up to 100% of Area Median Income (AMI). The Program offers low-interest, subordinate loans to eligible projects that demonstrate long-term financial feasibility, affordability, and a meaningful community impact.

VHFA will distribute investment statewide according to priorities that include geographic distribution, community size, community economic need, and whether an application has already received an investment or is from an applicant in a community that has already received program funding.

Application materials can be found on VHFA's website: <https://vhfa.org/developers/programs/rRLF>

## Eligible Applicants, Owners, and Managers

**Eligible Applicants:** For-profit or non-profit builders, developers, limited partnerships, joint ventures, or LLCs responsible for the proposed housing.

**Project Team Requirements:** Applications must include a list of key development team members (developer, architect, engineer, general contractor, attorney, property manager).

**Developer Capacity Requirements:** VHFA will evaluate portfolio size, past performance, financial stability, and staff resources. The applicant must demonstrate the capacity to undertake the proposed development, either through their own experience and qualifications or by engaging experienced consultants and technical assistance.

The applicant must also possess knowledge of residential development in Vermont. If the applicant has multiple projects under construction in any given year, the organization must have the professional capacity to oversee all proposed developments.

**Management Requirements:** Property managers must demonstrate prior experience successfully managing income- and rent-restricted housing and agree to complete VHFA compliance training prior to lease-up.

## Technical Assistance

Projects may be eligible to apply for technical assistance funding after VHFA board approval, provided that technical assistance funds are available at the time of application. VHFA will connect projects with an approved technical assistance provider and pay that provider directly up to \$15,000 per project. For information on what can be covered by the VHFA technical assistance funding, please see VHFA's website: <https://vhfa.org/developers/programs/rRLF>.

## Eligible Projects

Projects must create four or more new rental units.

### Eligible activities include:

- New Construction
- Acquisition/rehabilitation of vacant or uninhabitable units.
- Preservation of Naturally Occurring Affordable Housing (NOAH) where existing units affordable at  $\leq 80\%$  AMI are at risk of speculative investment. Income surveys will be required, and no tenant displacement will be permitted.

### Additional parameters:

- Mixed-use developments may be eligible if at least 75% of the square footage and income is residential.
- At least 25% of units must meet program affordability requirements and be RRLF units.
- Projects already under construction before RRLF approval are not recommended to apply and may not be approved.
- Projects must comply with applicable zoning, permitting, and fair housing laws.

## Affordability Restrictions – Renter Income Limits and Maximum Rent Levels

- **Allowable Rents:** Rents for assisted units must be affordable for households with incomes at or below 100% of Area Median Income as set forth in VHFA's Affordability Matrix as updated from time to time. Exceptions to the rent affordability may be requested and approved up to a maximum of 150% AMI at VHFA's discretion based on community needs and market conditions.
  - The RRLF Affordability Matrix rents are the maximum rents; rents also need to be supported by market data and appraisal, so they may need to be lower than the Affordability Matrix rents.
  - For currently occupied units in rehabilitation projects, rent increases are capped at 3% per year for existing residents, subject to demonstrating that any increases are in line with the market.
  - The rents in VHFA's Affordability Matrix include utilities. For any utilities that will be tenant-paid, applicants should use the utility allowances published by the Vermont State Housing Authority to back out utilities from the net rents charged to the tenant.
- **Tenant Income Limits:** Income banding allows developers to set rents at a minimum AMI (see section above) and serve households at incomes up to 25% above the rent AMI level. For example, rents set at 65% AMI could serve households with incomes up to 90% AMI.
- **Period of Affordability:** The minimum affordability period is the greater of: i) 7 years from the closing date of the loan, or ii) full repayment of the loan plus three years. Compliance with income and rent restrictions is required during the affordability period, whether or not there is any outstanding loan balance.

## Program Subsidy

Below are the maximum amounts of subsidy a project can apply for; final amounts will be subject to project need and priorities that the project meets:

**Per Project Limits:**

- \$2 million maximum per RRLF project

**Per Unit Limits:**

- The Lesser of 35% of the RRLF unit total development costs or
  - \$125,000/unit (Unit rents affordable to households up to 80% AMI)
  - \$100,000/unit (Unit rents affordable to households between 85–100% AMI)

**Subsidy Priority:** Projects meeting any of the following will be given priority for the maximum subsidies to the extent required to fill project funding gaps:

- The project receives 5% or more of the total funding from an employer or employer-capitalized loan or grant.
- The project receives 5% or more of the total funding from a municipal or regional housing fund, local fiscal recovery fund, or other form of community investment.
- The project utilizes tax-exempt bond funding or federal low-income housing tax credits for at least 20 percent of the project's total units.
- The project is small in scale and provides infill development within a historic settlement pattern.

## Loan Structure and Key Underwriting Assumptions

All projects will be subject to financial feasibility analysis by VHFA. The following benchmarks should be used by projects in their initial proposal stages. These assumptions will be reviewed on a project-by-project basis:

**Interest Rate/Term:** 2.0% interest, 7–10-year term, 30-year amortization. Variations (e.g., interest-only or deferred payments) may be considered for high-priority projects. Projects should apply at 2% amortizing, and Staff will work with the applicant if other variations are allowed.

**Construction-to-Permanent:** Projects may request that RRLF funds be disbursed during construction; however, VHFA may impose other requirements, terms, and fees for the construction phase financing at its discretion. If construction financing is approved, VHFA will require additional items for these projects, including but not limited to:

- Construction Inspections for a VHFA-hired construction inspector
  - Initial Plan Reviews are usually between \$675-\$1,000, and monthly inspections are usually between \$500-\$1,000 per month of construction; these amounts need to be included in the project budget.
- Construction completion guarantees

**Underwriting Benchmarks:**

- DSCR: 1.20 minimum (exceptions may be reviewed)
- Vacancy: 5%
- Income growth: 3%
- Expense growth: 4%
- Replacement reserves: minimum \$400/unit/year (adjusted for project type), one year reserves upfront

- Operating reserves: minimum 4 months debt service and operating expenses.

**First Mortgage Requirements:** If a senior lender imposes stricter requirements, those terms will apply.

**Developer Equity:** Developers must provide a minimum 5% equity contribution to total development costs.

**Developer Fee:** Applicants may not assume a developer fee in their application budget.

**Appraisals:** Independent third-party appraisals acceptable to VHFA are required. The senior lender should order the appraisal with VHFA listed as an intended user. Please have the appraiser reference VHFA's appraisal standards, located here: <https://vhfa.org/developers/underwriting-standards-design-elements>.

**Loan-to-Value (LTV):** All loans for the project must be below 100% combined LTV (CLTV). For example, if the project has a first-position lender, that loan plus the RRLF loan would need to be at or below 100% CLTV.

## Design, Building, and Construction Review

**Plan Review:** VHFA will review plans, specifications, and cost estimates at the time of application and again prior to closing for adequacy, meeting of program requirements, and cost reasonableness.

**Professional Standards:** Vermont law requires a Licensed Design Professional for all commercial building projects. Commercial building projects include any residential building with more than four units. Therefore, all projects are encouraged to engage licensed architects, and those of 5 units or more must be designed by licensed architects/engineers and built by qualified contractors. AIA Contracts are preferred for projects requiring licensed architects.

VHFA will review each development team, and at the discretion of the agency, may approve owner/developers to act as General Contractor. In cases where the owner/developer is acting as General Contractor, there should be clear agreements with all subcontractors that detail the work to be performed and the agreed-upon pricing.

**Energy Efficiency:** Projects must meet or exceed Vermont's Energy Code (Residential Building Energy Standards or RBES) and are encouraged to pursue higher standards (e.g., ENERGY STAR, Passive House).

**Accessibility:** Compliance with ADA and Vermont Access Rules is required. Units not designed to ADA shall be Visitable by VHFA's Universal Design Policy and Vermont's Access Rules.

## Compliance Requirements and Restrictions

Please visit the VHFA website to access all of the program compliance details in the RRLF Compliance Guide and supporting documents: <https://vhfa.org/managing-agents/rRLF-compliance>.

## Closing and Loan Security

Investments through the RRLF will take the best obtainable lien position and may be subordinated to a primary loan. If VHFA is the primary lender, the project will be subject to VHFA’s underwriting standards, which are available on the VHFA website: <https://vhfa.org/developers/underwriting-standards-design-elements>.

The RRLF will be secured by a note, mortgage, and a recorded subsidy covenant. The subsidy covenant will define the project's affordability requirements.

## Program Fees

| Type of Application        | Application | Commitment* | Origination**          | Reservation | Compliance Monitoring***         | Documentation/Closing**** |
|----------------------------|-------------|-------------|------------------------|-------------|----------------------------------|---------------------------|
| Rental Revolving Loan Fund | \$300       | \$1,000     | 1% of RRLF Loan Amount | N/A         | Minimum \$50 per unit per year** | \$1,500                   |

\*Commitment Fee due when commitment is signed and credited to documentation/closing or reservation fees if the loan closes.

\*\*Origination fee will be the greater of \$1,500 or 1% of the RRLF loan amount.

\*\*\*The compliance monitoring fee will be charged for any unit with VHFA compliance.

\*\*\*\*Borrower shall pay for all third-party expenses and legal expenses related to the loan, regardless of whether the loan closes, including but not limited to, expenses related to construction oversight, inspections and appraisals, and legal fees for itself and for Lender (which may be provided by Lender’s in-house legal department) (“Lender’s Legal Expenses”). The amount of Lender’s Legal Expenses that will be charged to Borrower will be either those charged by a private law firm or based on the time and effort spent by personnel in Lender’s legal department and expenses incurred related to the closing of the loan. These expenses may be lower if the financing is less complicated or completed more quickly than expected, or higher if the financing is not completed in the amount of time estimated and/or requires greater participation by Lender’s legal department than anticipated.