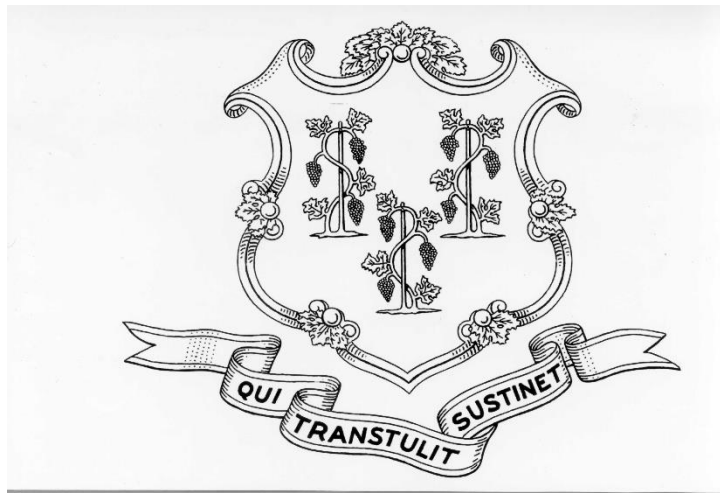

**** INTERIM ****

FOR USE EFFECTIVE APRIL 18, 2022

**DEPARTMENT OF HOUSING
HOUSING POLICIES**

For State Funded Development Programs



Policies Approved and Effective _____, 2022

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PREFACE

These Housing Policies were established by the Department of Housing for its Housing Development Programs funded with bonding authorizations of the State of Connecticut under various statutory authorizations and programs. The policies are a mix of stand-alone DOH policies as well as policies consistent with those of the Connecticut Housing Finance Authority (CHFA), some to ensure compliance with Connecticut General Statutes.

We have included rules from HUD's HOME Program, National Housing Trust Fund, and other programs of Federal Government. DOH reserves the flexibility to change the funding source of our assistance to any particular project until very late in the process. To ensure that flexibility, we expect early and basic project decisions to be compliant with Federal requirements, especially with regard to: relocation, environmental review, and procurement. A complete compilation of Federal requirements related to our Federal funding can be found in the State Connecticut HOME and NHTF Policies and Procedures March 2019.

Items of a technical nature subject to oversight by the DOH Architectural and Technical Support Unit are included here for convenience and are of a general information nature. Detailed policies and guidance, or confirmation that what is on our website is current, are available from Jacinta Frazier at Jacinta.Frazier@ct.gov. Where technical and financial underwriting and project management intersect, DOH Housing Policies prevail, subject to applicable codes and funding program regulation addressing technical matters. See the DOH website page for current details on the [Consolidated Application](#) page.

This Policies document is intended to be a comprehensive compilation of policies by DOH but may not be exhaustive. Interested parties should access and familiarize themselves with the following resources in the development of applications and the implementation of contracts for financial assistance, as applicable:

- State Connecticut HOME and NHTF Policies and Procedures Interim March 2019
- HOME Final Rule, as applicable
- Consolidated Plan and Action Plan of the State of Connecticut
- State Housing Trust Fund statute and regulations
- State Affordable Housing Program statute
- Regulations of both the State and Federal Universal Relocation Acts



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- State and Federal Labor and Wages regulations
- State and Federal Accessibility, Visitability and ADA regulations
- CEPA and NEPA regulations and resource material
- Department of Housing Procurement Requirements
- State and Federal Flood Management standards and permitting requirements
- DOH website application and underwriting resources
- CHFA Multifamily Design Standards
- CHFA Qualified Allocation Plan
- CHFA website application and underwriting resource
- Template Closing Documents: Assistance Agreement, Declaration of Land Use Restrictive Covenant, Mortgage and Note.

These documents are available on the DOH website page for [Consolidated Application](https://portal.ct.gov/DOH/DOH/Applications/Consolidated-Application) at this address: <https://portal.ct.gov/DOH/DOH/Applications/Consolidated-Application>

Also helpful as a resource to those who do not yet have a draft or signed document for their project, are our sample Term Sheet, Assistance Agreement and Declaration of Land Use Restrictive Covenant. Available on our website are samples shared publicly with the understanding that your DOH team will draft documents specific to your project's needs for review and approval by the Commissioner. Also, the sample may not reflect the exact current program requirements of the funding source DOH intends to use when assisting your project. Please contact your DOH representative with any questions or for any clarification.

Housing Development staff may, from time to time, manage state housing assistance activities that are outside of our mainstay of funding projects or programs for the new construction or renovation of permanent rental or ownership units. Examples of such activities include : a project that are primarily mixed use, public facility or commercial with a housing component, the renovation of shelter housing, any targeted initiative of the State conducted by DOH in response to a crisis, and others not specified here. These will be managed with fiduciary responsibility, but these Housing Policies would not necessarily apply and may be bypassed without explicit waivers.



GUIDING POLICIES

I. DEFERENCE TO OTHER FUNDERS

DOH maintains and publishes a full array of forms, exhibits, applications, and procedures to support the financial assistance of housing development projects and programs in Connecticut. However, at times, DOH may, in its sole discretion, choose to defer to another lender, investor or investment syndicator of a specific project or activity regarding forms, standards and procedures. Reasons to do this could include to relieve paperwork on the part of the Applicant or to better represent project information, and the option will be considered so long as the information represented is consistent with the information typically collected on DOH own forms and the lender forms will satisfy DOH upstream audit and reporting needs.

II. CONSOLIDATED APPLICATION

These policies provide guidance to applicants and should be referenced when completing the DOH & CHFA Consolidated Application (ConApp). Several policies herein refer to sections of or exhibits in the ConApp as “(ConApp Exhibit #)” which can be found in that document, not attached to these Policies.

III. AFFORDABILITY

For all projects, DOH shall give priority to projects that promote the goals of C.G.S. Sec. 8-37cc. Priority consideration for funding will also be given to those rental or homeownership projects that demonstrate the families to be served will pay no more than 30% of their monthly income for housing costs. The highest income tier accepted as affordable by DOH without specific Commissioner approval is 80% of Area Median Income. The standard Affordability Period for DOH rental development projects is 30 years from certificate of occupancy. *See further discussion below.*



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IV. INCOME CALCULATION

For State funded housing development, the DOH Income Calculation Policy is to follow the same definition and calculation procedures as for its Federal funding programs. DOH has chosen to use the Section 8 definition of annual income to satisfy requirements under Federal regulations (24 CFR Section 92.203 (b)). The Section 8 Method is defined, and procedures are established in applicable publications by HUD.

The Section 8 Method of income determination will be used by all sponsors in determining buyer eligibility, initial tenant eligibility, and annual recertification of tenant income during the affordability period under a DOH restriction as well as periodic monitoring by DOH.

V. COMMITMENT AND CLOSING

CONSISTENT WITH BOND COMMISSION ALLOCATION

DOH makes every effort to secure State Bond Commission approval prior to executing a Term Sheet that commits State funds. While this prior allocation is not Policy, it is preferred; and the financing terms specified in any Term Sheet executed before SBC approval should be consistent with the eventual authorization language. Once the State Bond Commission approves funding, the Term Sheet or Amended Term Sheet must be consistent with the State Bond Commission authorization to DOH and the eventual Allotment of funds.

COMMITMENT

The Commitment Policy is that no Term Sheet or Firm Commitment Letter (*) shall take place until DOH assesses the readiness of a project to proceed beyond underwriting. Prior to recommending the Commissioner execute a Term Sheet, Project Managers shall review the following as part of that assessment:

- Construction ready plans and specification are on file, or DOH has verification from the project architect of the anticipated number of weeks before delivery of 100% plans and specs.
- Status of any major permitting, such as: STC, DEEP, SHPO, or Municipality
- Any change or anticipated change to a major funding source
- Any change or anticipated change to the general contractor or construction manager or project architect



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- That all development costs are still within available sources, a Term Sheet should not be executed if there is a gap for which a source has not been identified or cannot be reliably expected to be committed by the projected Closing Date.
- Critical path items that need to be resolved before closing, and could obstruct a closing within 180 days
 - * While the Term Sheet is often referred to as a “Commitment”, it is an offer of funding, conditioned on an expression of intent and terms. Only a fully executed Assistance Agreement obligates commitment by the State.

CLOSING

Policy: The Closing Policy is that, unless directed by management, a Project Manager will not recommend Commissioner execution of an Assistance Agreement if one or more of these conditions are known to DOH:

- Sponsor or a parent organization is known to have an overdue and unresolved debt to any State or quasi-state agency or is not current on a payment plan with any state or quasi-state agency;
- Project requires and has not received final approval from a State agency for any regulated requirement such as but not limited to Flood Management Certification, State Traffic Commission approval, prerequisites for transfer under the State Properties Board, approved remedial action plan for existing environmental conditions, or pre-construction obligations to the State Historic Properties Office;
- US HUD, DOH, DECD, OPM, DEEP, DOT, DOL, DRS, CHFA or CT Green Bank have reported to DOH that there are unresolved liens, findings or administrative actions related to the project, the sponsor or the subject property, whether or not related to the reporting agency financing the project in question; and DOH informs the sponsor that resolution is a DOH closing requirement.

Recommendation: Assistance Agreements sent to the Commissioner for execution must be accompanied by a Recommendation that the documents are in good order, the project is ready for contract, other funders are also prepared to close and if outside counsel has been engaged, they too recommend DOH sign the documents. If there are deficiencies such as those listed in the Closing Policy, the Recommendation should disclose them and can include an explanation of the circumstances, temporary condition, mitigation steps being taken or other factors leading to the recommendation being made. The recommendation will typically originate with the Project Manager and be supported by their Manager.

Standard DOH preconditions to close are listed in the Assistance Agreement and some are discussed in the next section under Pre-Closing Due Diligence. Financial closings or final approval to close by DOH, DECD, OPM, CHFA and CT Green Bank are not required to be completed before DOH will close.



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VI. COMPLIANCE

While DOH establishes in this document its own Housing Policies, it is also responsible for following and causing project and program sponsors to follow Policies that are required specifically by other funding sources or investment entities. It is the Policy of DOH to continually evaluate proposals, applications, financial exhibits, construction documents, closing contracts and development reporting documents for the compliance of the project or program with all relevant Policies that DOH is responsible to enforce or follow. Compliance is an ongoing effort throughout the development cycle.

VII. DEVELOPMENT CYCLE MONITORING GUIDELINES

During all phases of the development cycle of a Project, the DOH Project Manager will adhere to the following monitoring guidelines, unless otherwise directed by Management:

PRE-CLOSING DUE DILIGENCE

After selection for DOH funding, but before beginning the contract closing phase, the Project Manager shall meet with the sponsor regarding the responsibilities and obligations of the sponsor during the development of a project. By this point all Waivers should have already been requested and addressed and no further Waiver requests should be necessary to complete this stage. Therefore, all anomalies should be discussed between sponsor and DOH. Many of the responsibilities and obligations of the Sponsor are documented in the DOH Supplemental General Conditions and the DOH Other Contracting Requirements. They include, but are not limited to:

- State Labor Requirements
- If applicable, Federal Davis Bacon Wage requirements
- If applicable, Federal Section 3 Hiring requirements
- The CHRO Affirmative Action Plan
- Fair Housing Requirements
- Property Acquisition and Relocation requirements
- Procurement requirements
- Drawdown procedures and requirements
- Rent or Sales Price Affordability



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PRE-CONSTRUCTION

At least 45 days prior to a likely construction start date, the Project Manager shall discuss the necessary level of construction observation monitoring by a DOH Construction Specialist with the DOH Supervisory Review Architect. The Project Manager will submit a form requesting appropriate construction oversight. The Sponsor and Project Manager will discuss plans for a Pre-Construction Meeting and recommend whether it should be attended by DOH. At times, a prior opportunity to have input to and the collection of attendance and minutes will be sufficient to establish the DOH construction file. DOH will monitor State funded projects and programs for housing development in accordance with its Assistance Agreement.

CONTRACT IMPLEMENTATION

The Project Manager shall monitor each contract for compliance on a regular basis and in a variety of ways during the development phase. “Desk Monitoring” would include thorough review of payment request submissions, quarterly development compliance reports, construction meeting minutes, third party construction monitoring reports and home sale records and home buyer files. One or more on-site visits and attendance in at least one construction job meeting is encouraged (required for Federal funded projects). The frequency, rigor and supplemental monitoring of State funded projects will be determined depending on results and ongoing risk analysis.

NOTICE OF FORMAL COMPLIANCE MONITORING

If the Project Manager or another representative in a compliance role for DOH is to make a formal “on-site” compliance monitoring visit other than a construction site or job meeting visit, it should be preceded at least five (5) business days by confirmed notification to the sponsor explaining the basis of the monitoring, what subject areas will be covered and what they are responsible for providing during the monitoring visit. Sample letters are available.

PRE-OCCUPANCY CONFERENCE

No less than 60 days prior to the expected project completion and rent up, the Project Manager shall request and review the updated marketing materials, methods of outreach and advertising, proposed lease, and the tenant selection process, including all Affirmative



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Fair Housing Marketing requirements. Each of these documents is likely to have been revised and updated since funding application. The Project Manager shall coordinate the Pre-Occupancy meeting with an Asset Management staff person and relevant representatives of the Sponsor and property management. This can be a conference call. This scope of the meeting can be scaled-back, or the requirement waived if DOH asset management determines that the developer/sponsor or their management company has recently successfully completed these steps for other development projects. The term of active involvement by the management company and the subsequent role of the owner should be considered in setting this meeting.

CONSTRUCTION CLOSE OUT

The Project Manager shall coordinate Construction Close Out compliance requirements and, together with the Construction Specialist, shall collect the responsive information. The completed file should include a site visit report of at least one DOH Construction Specialist field observation. Department of Housing list of construction documents to be collected by end of construction will be provided by the Construction Specialist.

FOLLOW UP TO COMPLIANCE MONITORING

Following every formal compliance monitoring, the Project Manager will promptly transmit to the sponsor a letter listing all **findings**, **deficiencies** and **concerns**, the action the Project Manager expects the sponsor to take to correct any problems, and a timeframe or specific date by when correction should be demonstrated to DOH. Sample letters are available from DOH.

- A **finding** is a violation of statute, regulation, or contract provisions. Each finding must be clearly described and documented and accompanied by date specific remedies.
- A **deficiency** is less serious than a finding. Like a finding, it should be clearly described, and the sponsor should be given a specified amount of time to correct the deficiency and report back to DOH.
- A **concern** is the least serious of the three categories. It is often used to “head off trouble”, alerting the sponsor that this is an area that should be given some attention.



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CLEARANCE OF MONITORING RESULTS

1. When all issues have been resolved, the Project Manager shall communicate in writing to the sponsor that final clearance has been achieved. Unresolved items will be addressed by DOH and may subject the sponsor to scrutiny with regard to other projects.

ADMINISTRATIVE PROJECT COMPLETION

2. The Department of Housing defines administrative completion of a development project or program, Project Completion, as having completed construction, expended all DOH funds, begun rent up and documented these in a quarterly report.

Specific steps to achieve project completion include:

- a. Physical work of all construction contracts is complete and accepted by the Owner and the Municipality
- b. Construction completion documents listed in (6) have been collected. Contractor's construction Cost Certification and Sponsor's final report of project costs have been accepted by DOH and forwarded to DECD Financial Review for issuance of a Certificate of Approved Program Costs. (An audit is not required but can be accepted for this item).
- c. Quarterly Report has been accepted by DOH as "Final" and includes relevant occupancy, subcontracting, labor and financial reporting.
- d. DOH has completed, or scheduled, its Compliance Monitoring process.
- e. Project beneficiary households (tenant occupancy) have been reported to DOH and the project has fully rented up or remaining vacancies have been discussed with DOH to the Project Manager's satisfaction.
- f. Sponsor has discussed Permanent Loan Conversion with DOH including the role of any DOH funds in payoff of construction financing.
- g. DOH Project Manager has transferred responsibility of the project to DOH Asset Management and notified sponsor or owner of the new DOH contact.

VIII. WAIVER OF POLICY

The Commissioner may waive any DOH policy not required by Connecticut General Statutes or Regulations including the Affordable Housing Program Sec 8-37pp or the Housing Trust Fund Sec. 8-336m, provided it is not in conflict with State statutes and regulations. The Commissioner will make such decisions only after also considering any applicable Federal regulation. Requests for waiver of policy must be in writing from the sponsor, are expected at the time of Application, and both the request and the waiver will be specific to the single project (contract) in question. An exception is



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the multi-phased project where each phase to receive a waiver is identified in the request and the granted waiver.

A waiver may ~~only~~ be granted if there is sufficient evidence that, taken in their entirety, **at least one of** the following conditions are largely met:

- The literal enforcement of such standards is likely to result in exceptional difficulty, cost, or unusual hardship upon the sponsor;
- The circumstances bringing about the need for the waiver are structural to the project or program and were not brought about by discretionary decisions of the sponsor or non-compliant timing (missed deadlines) of the sponsor;
- The public benefit to be gained by the project with the waiver clearly outweighs the detriment which will result from enforcement of the requirement in question;
- The waiver is in harmony with conserving public health, safety, and welfare;
- The waiver is not in conflict with the most recently published State Plan of Conservation and Development, DOH Consolidated Plan or DOH Action Plan as applicable to State funded projects;
- The waiver upholds the fiduciary responsibility of DOH; ~~and~~ **or**
- The waiver is in the best interest of the State.

Waiver requests by a Sponsor related to the requirements of the current DOH & CHFA Consolidated Application, or the requirement of the announced funding round being pursued, including design waivers, must be submitted with the application and by any relevant application deadline.

If during review, underwriting and up through closing DOH determines that an issue has arisen unrelated to specific application requirements that could be resolved by a Waiver, DOH may suggest that the Sponsor submit a request for consideration at that point in the process. Evaluation by DOH would include whether the circumstances requiring a waiver should have been identified prior to the Sponsor submitting the application.



GENERAL POLICIES

I. ENVIRONMENTAL – FEDERAL REVIEW AND CLEARANCE

See the DOH website page for current details on the [Consolidated Application](#) page.

FEDERAL NEPA (24 CFR Section 92.352)

[This Policies manual is directed toward State funded assistance, however the importance of Federal review requirements to any possible Federal funding such as HOME and National Housing Trust Fund warrants mention here.]

For more complete discussion see the separate “DOH HOME and NHTF Policy and Procedure Manual, DRAFT March 2019”]

The Environmental Review Process (ERP) and the compilation of the Environmental Review Record (ERR) must be started as soon as the sponsor has determined the scope of the proposed project. These will determine the review process to be followed.

Sponsors are to be reminded that they are prohibited from incurring any hard costs, entering into contracts, or acquiring property prior to HUD’s written approval of DOH’s Request for Release of Funds (RROF) as described below. Activities improperly incurring expenses prior to necessary approval may likely result in project ineligibility.

II. ENVIRONMENTAL – STATE CEPA

See the DOH website page for current details on the [Consolidated Application](#) page.

CONNECTICUT ENVIRONMENTAL POLICY ACT (CEPA)

DOH will adhere to the most recent CEPA review and approval process requirements released by OPM. *In March 2020 OPM updated its Connecticut Environmental Policy Act Overview webpage:*

portal.ct.gov/OPM/IGPP/ORG/CEPA/Overview-of-Connecticut-Environmental-Policy-Act

The DOH website has among its resources the CEPA Intake Form, Exhibit 4.5b to the Consolidated Application, which is to be submitted for review and DOH determination of the need for CEPA Scoping before an application for financial assistance is submitted. The only



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applications for which this form is not required are those that are not developing a new property and are not creating new residential bedrooms and are not changing the footprint or use of an existing property.

ENVIRONMENTAL SITE ASSESSMENT

Environmental Site Assessment (ESA) Phase I must be no older than 365 days on the date an application for financial assistance is submitted to DOH or CHFA. The agencies reserve the right to require delivery of an update to any environmental studies before scheduling the financial closing. At closing, the ESA or an update shall be no older than 180 days at closing.

III. INSURANCE REQUIREMENTS

See the DOH website page for current details on the [Consolidated Application](#) page.

A. DOH Insurance Requirements for Sponsor

Current insurance provisions and requirements are available upon request and are provided to the Sponsor as Attachment B of the Term Sheet for financial assistance. Before closing for DOH financial assistance, Sponsor shall provide the Agency with evidence of all required insurance in amounts, form, substance, and quality acceptable to the State. The term of the insurance policy in effect at closing should remain in effect until at least six months from the Assistance Agreement effective date (policies previously in effect but expiring within six months should be extended prior to closing). All insurance certificates must be endorsed to the State of Connecticut as “Additional Insured” or “As Their Interest May Appear” except as otherwise set forth in current Insurance Requirements.

B. Insurance Requirements for Contractor of the Sponsor

Contractors of the Sponsor, including professional services and construction trades shall also maintain insurance in accordance with the Attachment B Insurance Requirements. These include any insurance required to maintain their professional license or project related contracts in good standing.

C. Bonding Guidelines

1. Payment and Performance Bonding by a general contractor or construction manager should name DOH as additional obligee on the performance bond. An additional obligee rider that does not require Agency signature but is executed by the issuer of the bond is preferable. Otherwise, DOH can sign the rider identifying it as an additional obligee so long as the form does not impose significant obligations on DOH,



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such determination to be made by DOH or if necessary, in consultation with the Attorney General.

2. Bonds should be provided in amounts in accordance with commercial lending industry standards. Bonds in non-standard amounts accepted by CHFA for a co-funded project will be acceptable to DOH; otherwise, they are subject to DOH discretionary approval.
3. DOH will consider requests for Letter of Credit as a substitute for Payment and Performance Bond when the Sponsor can demonstrate that the LoC preserves the financial interests of the project and the State.

Note: These requirements apply to DOH funds only, and more stringent requirements of other funders should be met.

IV. MARKET ANALYSIS POLICY

In its application to DOH, to prove the need and marketability for a Project, a Sponsor may use one of the following three alternatives:

- A. Submit Waiting List showing a 3-1 demand ratio for its proposed development which shall include a copy of the sponsor's waiting list procedure and the date the list was purged within 100 days of submission, or
- B. Submit a completed DOH Market Analysis Checklist (a ConApp Exhibit). Critical on the Checklist is a statement of how the proposed project will be competitive in the market; or
- C. Submit a formal Market Study prepared by a third-party professional. Studies prepared for DOH application should be dated within 100 days of application date. If a study is available because it was prepared for application to another financial institution or governmental agency and such study is less than one year old, this study may be submitted. Studies over one year old require an update. Market Study Guidelines are available from DOH and should be followed.



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After review of the original submission, DOH might require additional information including updated material or one of the other two alternatives to prove need and marketability.

The Connecticut Housing Finance Authority may order a market study and appraisal at a point further along in the development finance cycle. Later delivery date by CHFA requirements do not relieve a Sponsor from demonstrating market viability to DOH at application.

V. SET-ASIDE POLICY

A. Set-Aside for Small and Minority Owned Business Enterprises

- 1) DOH contracts for financial assistance include provisions to enforce the Set-aside programs for small contractors and minority business enterprises, Section 4a-60(g) of the Connecticut General Statutes (CGS). Recipients of financial assistance shall make good faith efforts to contract with small and minority owned businesses for projects for which the financial assistance is awarded.
- 2) Recipient contracts funded under DOH assistance agreements are subject to regulation and oversight by the Commission on Human Rights and Opportunities (CHRO). Advertising, bid solicitation documents and bid evaluation may be subject to CHRO wording, content and criteria requirements.
- 3) Recipient good faith effort shall include:
 - a) to award contracts for at least twenty-five percent (25%) of the total financial assistance from DOH to Small Business Enterprises, as defined in Section 4a-60(g) of the Connecticut General Statutes.
 - b) to award twenty-five percent (25%) of the small business set-aside amount to minority owned business enterprises as defined in Section 32-9n of the CGS (note that this definition includes “women”); and
 - c) to award set-aside contracts through competitive solicitation in which only small business, minority, or women business enterprises may compete for the set-aside amount if there is no other way to feasibly demonstrate that a good faith effort has been made to contract with such firms.



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- d) This policy on set-aside contracts shall apply only when the Recipient enters into a contract or portions of contracts for costs pertaining to construction, rehabilitation, renovation or maintenance activities and the purchase of goods and services, including project planning costs. For purposes of this section, “goods and services” means the purchase of, and contracts for, supplies, materials, equipment, and contractual services, except gas, water, and electric light and power services.
3. Applicant shall file a report, in a form and manner prescribed by the Commissioner, prior to the expiration of the budget period, detailing its good faith efforts to comply with this policy and listing all small and minority/female owned businesses to which it awarded contracts and the mount of the contract award. (This requirement is satisfied by completion of relevant section(s) of the Quarterly Development Compliance Report)

VI. TEAM MEMBER NON-COMPLIANCE POLICY

The sponsor’s entire development team is critical to the success of DOH assisted projects. Team members include the owner, developer, architect, development consultant, environmental professional, structural or technical specialty engineer, general contractor or construction manager. All professionals comprising the development team are expected to be or become familiar and to adhere to the requirements of DOH and other project related authorities. If a team member demonstrates a pattern of non-compliance in at least two (2) prior DOH funded projects, DOH may determine the sponsor or other development team member ineligible to apply for any DOH program for up to two (2) years from the date of most recent project completion. Removal of a team member from projects under consideration or in contract will be subject to consultation by DOH with the Sponsor and other major funders. In some cases, DOH might not have the opportunity to provide prior notification to an applicant of the non-compliant status of a team member but would raise any question of ineligibility to a new applicant as soon as possible. Once notified and given an opportunity to address the make-up of the team, the sponsor’s use of an ineligible development team member may disqualify such application from consideration for funding.



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DOH notices of funding opportunity, application material and online guidance include published threshold capacity and performance requirements of team members.

Applicants whose team include a questionable professional firm may approach DOH at any time to discuss the value of that team member and mitigating circumstances.

VII. PROCUREMENT POLICY

See the DOH website page for current details on the [Consolidated Application](#) page.

Procurement Policy

It is the policy of DOH that all applicants who become funded sponsors will undertake or have undertaken an open and competitive procurement process for the housing development or tax credit consultant, project architect and project general contractor or construction manager. This includes reaching out to small, minority, and women owned businesses and business located in the neighborhood of the project. Regardless of the method of procurement, a full and completely documented procurement plan must be submitted with the initial application for financial assistance.

A contract entered with a consultant or contractor prior to DOH approval of a Procurement Plan or in noncompliance with that plan may either be invalidated and subject to new procurement or found ineligible for payment with DOH funds.

Applicants have the option of directly selecting, not procuring, consultants to be paid outside of the project budget and project financing resources, such as from the Developer Administrative Fee. This only applies for projects that have not and will not be federally funded.

Nevertheless, for State (non-Federal) funded projects, the following referenced Federal notices should be used by all sponsors as a guide even when Federal funds are not anticipated. In accordance with 24 CFR 92.505, recipients of HOME funds must comply with the Uniform Administrative Requirements of 24 CFR 84 or 85 depending on the legal status of the applicant pertaining to the Procurement of property and services. The application of the requirements to the procurement of professional service providers or consulting services is stipulated in the information and guidance provided in HUD's Notice CPD 96-05.

A. Methods of Procurement



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Sponsors are responsible for the satisfaction of all contractual issues arising out of procurements. This includes assuring that all contracts funded in whole or in part with DOH funds are awarded in accordance with federal law, contain all the necessary provisions for compliance with applicable regulations, and are executed in conformance with the regulations. Below are four types of procurement methods that can be used.

1. **Procurement by sealed bids (formal advertising, preferred for construction).** With the sealed bid method bids are publicly solicited and a firm-fixed-price contract is awarded to the responsible bidder whose bid is the lowest.

Sealed bids method is appropriate when a complete specification or purchase description is available, two or more suppliers and/or contractors are able to compete effectively, the procurement lends itself to a firm fixed-price contract, and selection of the successful bidder can be made principally on the basis of price.

Advertising of bids should be for no less than 14 days.

Response period for the bid should be no less than 14 days from the close of advertising.

Project Walkthrough if appropriate should be no less than 7 days before the close of bidding.

Questions and Answers should be in written form, provided to all who participate in a walkthrough or informational meeting, and available upon request until the bid period closes.

Bid Opening should be open with the time and place disclosed to bidders who are invited to be represented.

2. **Procurement by competitive proposal.** Competitive proposals in a method such as Request for Proposal (RFP) or Qualifications (RFQ) are generally used when conditions are not appropriate for the use of sealed bids. Competitive proposal may be used if the selection could be based on factors in addition to price. Procurement of architectural and engineering services falls under this category and only fixed price or cost reimbursement “not to exceed” contracts may be awarded. To be valid for common project services over \$100,000, this method requires more than one source submitting a responsive proposal. If the competition is for a specialized product or service for a segment of the project, one



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response would not invalidate the competition so long as the solicitation went to more than three vendors who could reasonably be expected to respond. See also non-competitive proposal. In procurement by competitive proposal:

Solicitation for Proposals should not be kept to a minimum number of parties but should be distributed liberally so as to improve the competitive nature of proposals.

Response period for the bid should be no less than 7 days from when the Solicitation was distributed to the last party.

Project Walkthrough if appropriate should be no less than 7 days before the close of bidding.

Questions and Answers should be in written form, provided to all who participate in a walkthrough or informational meeting, and available upon request until the bid period closes.

Bid Review Panel should be identified before bidding and available to be disclosed to potential bidders

Bid Review Criteria should be included in the bid package or available to be disclosed to potential bidders

3. **Procurement by small purchase procedures.** Small purchase procedures for State funded projects are relatively simple and informal procurement methods for securing services, supplies, or other property that do not exceed the cost of \$100,000. Price or rate quotations shall be obtained from three or more qualified sources if small purchase procedures are used.
4. **Procurement by noncompetitive proposals.** This method is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. Noncompetitive proposals method ***may only be used when*** the award of a contract is not feasible under the other three methods described above and when one of the following applies: competition is determined inadequate, the items or services required are available from only one source, or DOH authorizes noncompetitive proposals because of a public emergency is such that the urgency will not allow for any of the other three methods described above to be employed.



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VIII. STANDARDS OF BUILDING CODE AND DESIGN

See the DOH website page for current details on the [Consolidated Application](#) page.

REFERENCES

Single Family Homes (defined as homes with one through four dwelling units) for rental or homeownership must comply with current State and Local Building Codes, and if applicable, DOH Residential Rehabilitation Standards.

Multifamily Housing of 5 or more dwelling units per building must comply with current State and Local Building Codes and the following standards and guidelines of the Connecticut Housing Finance Authority:

- Multifamily Design, Construction and Sustainability Standards
- Construction Guidelines: Project Planning & Technical Services Review
- Construction Guidelines: Construction Costs
- Construction Guidelines: Environmental & Hazardous Materials
- Construction Guidelines: Energy Conservation
- Construction Guidelines: Technical Services / Asset Management (TSAM) and Capital Improvement Guide (CIG)
- CHFA Procedures
- CHFA Board Policy Statements as applicable including
- Multifamily Rental Housing Development Costs Policy Statement
- Preservation of Housing Affordability Policy Statement
- Program Eligibility Requirements: Delinquent or Non-Performing Applicants Policy Statement
- Very Low-Income Construction Employment Policy Statement

(the most recent versions are available at www.chfa.org)

Existing **Elderly Housing and Congregate Housing** shall maintain compliance with DOH Elderly & Congregate Design Standards under any new DOH financial assistance if the Standards were previously applicable. Individual standards that pose a hardship to the Sponsor may be appealed to DOH during project review prior to any commitment of funding.

Developers of new Senior and Elderly housing are advised to review and consider the DOH Elderly & Congregate Design Standards, with DOH reliance on them as Policy during design review to be tempered with an understanding of the age and independence of the intended population (but also considering aging in place) and the extent of financial involvement of DOH in the development. Housing financed by DOH should be safe and practical to its intended population for years to come.

Congregate

New congregate housing development financed with more than 50.0% DOH assistance or developed with the expectation of any DOH or State operating, services or rent subsidy



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support lasting more than 36 months must comply with the DOH Elderly & Congregate Design Standards.

Federal

All housing units assisted with DOH using Federal funds as a HUD Participating Jurisdiction must also adhere to the following for accessibility of federally assisted buildings, facilities and programs:

- **Americans with Disabilities Act** (42 U.S.C. 12131; 47 U.S.C. 155,201,218, and 226)
- **Accessibility Notice: Section 504 of the Rehabilitation Act of 1973 and The Fair Housing Act and their applicability to housing programs funded by the HOME Program** (CPD Notice 00-06)
- **Fair Housing Act** (42 U.S.C. 3601-19)
- **Section 504** (Section 504 of the Rehabilitation Act of 1973)

Subdivisions

For new construction of housing for rental or homeownership which total five or more units in five or more buildings (examples: six single unit houses, five three-family houses) DOH will apply all relevant Multifamily housing policies, including design standards. DOH recommends a pre-application conference that includes a design review architect to discuss relevance and applicability.

IX. REAL PROPERTY ACQUISITION POLICY

See the DOH website page for current details on the [Consolidated Application](#) page.

It is the practice of DOH that agency funds, whether Federal or State, not be used for the acquisition of real property in typical development projects. Should the agency agree, by necessity, to the use of State DOH funds for acquisition, then the following policies will apply. Although requirements are cited, it is DOH policy that Federal funds will not be used for acquisition.

A. Appraisals

The following appraisal process and standards will be used for all Projects:

1. **Number of Appraisals.** Whenever an acquisition involves real property (land, buildings, homes, etc.), one appraisal is required for Federal funds. If state bond funds are to fund acquisition, OPM requires (2) two appraisals and therefore this policy could not be waived by DOH.



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2. **Appraisals of Similar Properties.** Some projects will involve multiple acquisitions of similar properties; i.e. the acquisition of multiple vacant three family homes on the same block. In those projects, with prior DOH approval, the properties may be aggregated into a single contract with an appraisal firm with instructions to provide a single value that may be applied to all acquisitions.
3. **Type of Appraisal.** The appraisal should provide two fair market values—one "as is" and one "to be developed". Appraisers should appraise properties: "as is" - to determine value for the highest and best use under current zoning, and "to be developed" - to determine value after proposed renovations or construction.
4. **Retention of Appraisal Firm.** Appraisers chosen to appraise property under this section must be approved appraisers from the DOT appraiser list. The DOH reserves the right to review, analyze, and/or modify the appraisal and, if deemed necessary by DOH, to commission a review appraisal which would be paid for by the sponsor.
5. **Only Certified General Appraisers may be used; Conformance to USPAP.** The appraisal must conform to the Uniform Standards of Professional Appraisal Practice (USPAP). The appraisal must be signed and certified by the appraiser and should include the appraiser's state license number.
6. **Use of "Comparables".** A minimum of two-thirds of the properties used as comparisons must be non-government-assisted properties. Government-assisted property includes property acquisitions or improvements financed by HUD, USDA, CHFA, DOH and local governments where a deed covenant constrains the market.
7. **Sales History: Owner Affidavits.** As part of the acquisition file for each property acquired with State funds, the sponsor must secure from the seller an affidavit documenting the dates and terms (sales price) for the prior three sales of the property or the sales history for the prior five years, whichever is greater. A sponsor must also place in the acquisition file a certification that it has reviewed the affidavits and that it is not acquiring a property where any unusual sales activity has occurred and that the acquisition is an "arms-length" transaction. (See attached "Owner's Affidavit"). The appraiser will also be instructed to



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provide from the municipal land records the sales history for the subject property for the last three arms-length sales.

8. **Non-DOH Funded Acquisition.** When DOH funds will not be used for acquisition, then an appraisal secured by the primary lender may be substituted, provided the appraisal includes an "as developed" value and is reviewed and accepted by DOH.
9. **Records Retention.** Appraisers should be instructed to retain their files/records regarding a DOH appraisal for five years after acceptance by DOH.
10. **Scattered Site Program.** If a scattered site homebuyer program, a copy of the bank's appraisal and FHA eligibility must be obtained for the file.
11. **Subdivisions.** If the proposed project is for a to-be-developed subdivision, the sponsor is likely to seek an FHA endorsement for the subdivision so the buyers can secure FHA Mortgage Insurance. In those cases FHA will order a Master Appraisal Report that will set the Fair Market Value for each of the various style homes that are part of the development. Such an appraisal report is acceptable for underwriting DOH projects.
12. **Timeliness.** Unless it can be demonstrated to the satisfaction of the Commissioner that market conditions in a given locale have not changed appreciably, any appraisal that is more than six (6) months old must be updated. If, in the determination of the Commissioner, market conditions in a locale is being subjected to sudden negative influences, the Commissioner may require that an appraisal that is less than six months old be updated.

B. Notifications

- Agents purchasing real property intended to be part of a future state assisted project must notify the seller or potential seller in writing, by DOH form or equivalent, that the acquisition of the property is completely voluntary and that the agent does not have the power of Eminent Domain (condemnation). Occupants of such properties must also be fully informed of their relocation rights at that time.



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- When the agent makes an offer to acquire real property, the offer must be in writing and must include the basis upon which the offering price was determined, *i.e.* appraisal, market analysis, etc.

C. Sales History

- As part of the acquisition file for each property acquired as part of a proposed DOH assisted development, the sponsor must secure from the seller an affidavit documenting the dates and terms of the previous three sales of that property. A sponsor must also place in the acquisition file a certification that it has reviewed the affidavits and that it is not acquiring a property where any unusual sales activity has occurred and that the acquisition is an “arms-length” transaction.
- In addition to the Owner’s Affidavit, the appraiser must be instructed to provide the sales history for the property for the past five years as documented in the town’s land records.

XI. RELOCATION

See Chapter 135 of the CT General Statutes (Sec.8-266 et seq, CGS) and Regulations - - The Uniform Relocation Act

A. Policy Statement

It is the policy of DOH that the dislocation of existing tenants, homeowners, businesses and farms be avoided in any development in which DOH is involved. Exceptions to this policy are:

1. Projects where the current living conditions of the existing tenants clearly do not meet local codes or HUD’s Minimum Property Standards and the tenants’ relocation will clearly result in a better living condition for them;
2. Projects where, in the opinion of the Commissioner of DOH, improvements to the living conditions in the neighborhood clearly outweigh the negative impact of tenant relocation;
3. Projects where, in the opinion of the Commissioner of DOH, the need for the number and type of resulting housing units clearly outweighs the negative impact of tenant relocation.



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The above exceptions notwithstanding, the relocation of existing residents is a costly and time-consuming activity that may result in the project being found to be too expensive an undertaking.

B. Applicability of URA/The “GIN”

If a proposed federally assisted Project may result in the dislocation of any existing tenants, homeowners, businesses or farms, the relocation of those displaced must be done in accordance with the Federal Uniform Relocation Assistance and Property Acquisition Policies Act of 1970 (URA) or Chapter 135 of the CT General Statutes. The URA is a complex act that requires that various written notifications be sent to affect residents at differing milestones in the development process. Failure to notify the residents can significantly increase both the cost and processing time of DOH project.

The first of these notices, the General Information Notice (GIN), is vital to keeping project costs within reason. The requirement for issuance of the GIN can be triggered at pre-application stage to DOH if the applicant has already acquired, entered into an agreement to acquire, or begun negotiations to acquire a property. Therefore, applicants for projects that meet the conditions in the above paragraph must submit evidence concurrent with the submission of an application that required GIN notices have been sent to all affected residents.

Further guidance about compliance with Federal relocation is available in the State of Connecticut HOME and NHTF Policies and Procedures DRAFT March 2019

XI. COMPLETION AND CLOSEOUT OF ASSISTANCE AGREEMENTS

- A. The Completion Policy of DOH is that the Project Manager is responsible for documenting four areas of project close-out: Occupancy, Compliance, Financial, Construction; as well as the Transfer of the project to Asset Management.
- B. Under DOH Assistance Agreements and policies, Project and Program Closeout is a multifaceted multistep process described in detail in other documents.



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C. It is also Policy that the project is considered Open and the responsibility of the Project Manager until these are completed, and the Sponsor is notified of the Transfer.

D.

XII. RECORDS RETENTION

A sponsor must retain general project records for five (5) years after project completion. Project completion will be determined by DOH after milestones are achieved including the expenditure of all DOH funds and the occupancy of all DOH funded units.

A sponsor shall keep and maintain at its offices for a minimum period of five (5) complete fiscal years after the date of the expiration of the Affordability Period, complete and accurate records and other documents relating to its receipt and disbursement of the State funds and initial occupancy of DOH units and any other records and documents pertaining to the Project that DOH may be required to maintain or report under the Program or under the rules, regulations and policies now or hereafter applicable to the Program.

Guidance for compliance with Federal recordkeeping is available in the State of Connecticut HOME and NHTF Policies and Procedures DRAFT March 2019.



RENTAL HOUSING POLICIES

I. COMPARABILITY, UNIT DISTRIBUTION AND FLOATING UNITS

COMPARABILITY

For rental properties with both assisted and non-assisted units, the DOH policy is that all units be comparable in fit, finish, amenities. Those initially designated as DOH units will be proportionally distributed with non-DOH units throughout the floorplans of the development. Distribution includes level of floor, outside facing direction or view, and convenience to exits or elevators. Special necessity may justify a deviation from this, such as in a supportive housing development where assisted units are throughout the building, but the specially designed or accessible units are placed near staff locations. In multistory building without an elevator, physically accessible or adaptable units are expected to have safe ground floor egress.

FIXED AND FLOATING

When using the fixed unit process, the specific units that are DOH-assisted (and, therefore, subject to DOH rent and occupancy requirements) are designated and never change throughout the period of affordability. When units are floating, the units that are designated as DOH-assisted may change over time if the total number of DOH-assisted units in the project remains constant. In addition, the units must, at a minimum, be comparable in terms of size, features, and number of bedrooms to the originally designated affordable DOH units.

FLOATING POLICY

DOH policy is that units subject to our Declaration will be “floating” with the initial proposed list (to be attached to the Declaration at closing) of units by number locatable on floorplan available. The unit number may be temporary but if it changes, DOH must be informed. If the sponsor needs fixed units that should be specified prior to contracting, again, with a list of units attached.



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II. THIRTY PERCENT RULE

DOH expects proposed rental projects to provide affordable units that meet our 30% rule that their proposed rent schedule with a utility allowance will be affordable. Tenant paid contract rent plus utilities should not exceed 30% of the monthly income of a typical family in the applicant's targeted income group.

III. UTILITY ALLOWANCES POLICY

The calculation of all DOH rent limits rents and consideration of utility allowances are for the costs of: general electricity, fuel for heat, fuel for hot water, and fuel for cooking. External telecommunications services are not included.

When tenants pay some or all utilities, the maximum allowable rents are reduced by the appropriate utility allowance. In applying a utility allowance to the rent schedule, a sponsor may use the utility allowance schedule adopted and published by DOH, the utility allowances schedule prepared by the local public housing authority, or the sponsor may propose an allowance schedule specific to the project. If a specific allowance is proposed, it must be supported by documentation and approved by DOH.

IV. RENTAL AFFORDABILITY & ENFORCEMENT

Affordability of DOH rental projects are enforced by means of a Declaration of Land Use Restrictive Covenant (DLURC). The DLURC is typically recorded on the land records at the time of closing on the financial assistance contract.

A. Duration

The DOH standard affordability period for rental projects is thirty (30) years. Applicants have may establish longer periods based on other obligations, and if they do, DOH will determine whether to match that length. A sponsor may request a waiver of the standard thirty-year affordability at application under the Waiver Policy. In some cases, DOH may require a longer period, the reasons for which would be discussed with the sponsor.



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B. Enforcement of Restriction

Affordability and other restrictions on behalf of DOH are recorded on the land records of the municipality in the form of a Land Use Restrictive Covenant (DLURC). The DLURC will specify its term and the date it becomes effective, which is typically also when the affordability period begins. The term of the DLURC may extend to after the financial assistance contract has concluded and/or the loan note has matured.

C. Survivability

Financial assistance instruments may be subordinated, cancelled, transferred, otherwise altered, or they may mature. It is the policy of DOH that for the term of the DLURC any conveyance shall expressly provide that it is subject to the DLURC and further, that the covenants of the DLURC shall survive regardless of these whether instruments of conveyance do include these provisions.

D. Income Averaging

Projects for which CHFA has approved underwriting for Low Income Housing Tax Credits using the Income Averaging method of unit rent tiers, DOH has a specific requirement for rent limits in the 80% AMI tier. The maximum rent must be set at 15% below the 80% Market Rate Rent (LIHTC Rent at 80%) for the duration of the affordability restriction. Therefore, 80% AMI unit's rent limits will be 85% of the current published Market Rate Rent.

VII. ADMINISTRATIVE POLICIES

See the DOH website page for current details on the [Consolidated Application](#) page.

This section provides brief discussion of various policies related to DOH administration of financial assistance for housing development. For the most part these are satisfied through the DOH Project Manager and Sponsor working together.

ACKNOWLEDGEMENT TO OCCUPY Sponsors should not sign leases that include an effective date or move-in date and should not cede control of residential units to tenants (occupy) without DOH acknowledging acceptance of pre-occupancy documentation, DOH consultation with site manager and Sponsor progress toward construction close out acknowledged by DOH. This applies to all units in a project, but with prior approval from DOH this may be scaled back to building by building or DOH designated units only. Contact your project manager for specific conditions a written Acknowledgement to Occupy.



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EVENTS Events recognizing project milestones such as groundbreaking and ribbon cutting are not required by DOH. But if an event is to occur regardless of the Sponsor or partner leading it, then well in advance of setting the date the sponsor should coordinate with the DOH project manager, who will contact the Commissioner's Office. A guidance memo is available through your DOH project manager.

LEASE-UP Projects ready for lease up should contact their project manager 90 days before the earlier of marketing efforts or units being available to tenants. Project managers will arrange a conference call with asset management staff to go over requirements. This process will include making contact with the local Coordinated Access Network.

CT HOUSING SEARCH DOH funded projects are required to be listed prior to rent-up and continuously when units are available at www.cthousingsearch.org

AFFIRMATIVE FAIR MARKETING All projects shall be marketed to as large a population as possible to foster housing choice. Sponsors shall define their market area broadly and advertise creatively and repeatedly. These principles are in addition to the Fair Housing plans and pledges the project team is required to submit for approval and then to implement.

PER UNIT PER PROJECT SUBSIDY CAP DOH has established \$100,000 as the State funding subsidy limit per standard affordable unit, and \$125,000 as the State funding subsidy limit per deep income targeted affordable unit, for standard rental projects. Sponsors should limit their request for DOH State Bond funding subsidy accordingly.

Non-profit sponsors of projects that primarily or exclusively serve persons with disabilities, veterans, or homeless families or individuals should contact DOH staff directly to discuss the total subsidy required for their projects. Note that senior or elderly population is not listed.

The Department of Housing reserves the right to limit State Bond Fund project subsidy to the lesser of \$125,000 per unit and to a maximum of \$4,500,000 per project.

DEEP INCOME TARGETED units are those service individuals or households with incomes at or below 30% of the area median income.

PROTOCOL FOR DISBURSING DEVELOPER FEE See full policy in the Underwriting Standards section.

MINIMUM CONTINGENCY At application and in underwriting, DOH expects projects involving new construction and renovation of existing housing project to provide for 10% Hard Cost Contingency (HCC). The minimum acceptable HCC for closing without a waiver is 7%. The minimum for a revised HCC at the time of a budget revision is 7% of total remaining project hard costs. Projects that involve the conversion or adaptive re-use of a non-residential building or the renovation of a historic building without benefit of tax credits should be proposed with a minimum of 12% HCC. DOH may determine that at closing or at the time of a budget revision 9% contingency is acceptable. For Historic Rehabilitation projects receiving State and Federal historic tax credits, the minimum HCC acceptable to DOH is 15% at application and similarly DOH might determine that a minimum 10% would be acceptable at closing and for budget revisions. For projects with Guaranteed Maximum



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Price construction contracts the minimum contingencies are applied from application. See policy regarding contingent hold on Developer Administrative Fee in the Underwriting Standards section.

HERE IS THE PRECEDING DISPLAYED AS A TABLE:

<u>TYPE OF PROJECT</u>	<u>APPLICATION</u>	<u>CLOSING</u>	<u>REVISION</u>
NEW CONSTR / RENOV	10%	CONSIDER 7%	7% REMAINING
NON-HISTORIC CONVER	12%	CONSIDER 9%	9% REMAINING
HISTORIC TC REHAB	15%	CONSIDER 12%	10% REMAINING

ALLOWANCE: Work priced based on Allowances in Project Cost Summary, Exploded Trade Payment Breakdown, and Construction Contracts are not acceptable for broad use. Allowance in bidding offers and bids shall include unit pricing and quantity estimates, and DOH will review justification for using allowance. Inclusion of Allowances may be approved by DOH without formal Waiver request if it is determined by Architectural Review staff to be justified. Use of Allowance is subject to DOH monitoring and disposition of excess Allowance funds is subject to DOH approval.

COLLECTION OF PAY REQUISITIONS TO OTHER FUNDERS

For each month of construction where DOH funds are not drawn to pay construction costs, the DOH project manager is expected to collect from the sponsor the payment request package and contractor requisition as submitted to any other internal or external funder used to pay for that month of construction.

COLLECTION OF LIEN WAIVERS

Lien waivers are a required component of the DOH payment request process for construction costs. Include most recent lien waivers with the requisition package for any billing contractors or subcontractors.

COLLECTION OF 3RD PARTY CONSTRUCTION REPORTS

DOH Project Manager or Construction Specialist will request receipt of third-party construction inspection reports. This is to be requested and agreed to at or near closing, and any reliance clearance or fee adjustment discussed at that time. Fee is the responsibility of the lender or sponsor.

INTERLENDER (INTERCREDITOR) AGREEMENT – DOH may require, prior to closing on financial assistance, the execution of an interlender agreement by other senior and subordinate funders in the project. The form of agreement and which funders would need to sign will be determined with the guidance of Outside Counsel. There is no standard agreement at this time. The agreement may cover a variety of topics related to the administration of DOH funds into the project, DOH access to project information, and DOH rights to consultation on project related decisions. The agreement does not supersede any of the DOH contract documents but is intended to clarify and provide practical guidance to exercising of rights and contract implementation. In rare cases this agreement may require the use of unpaid Developer Fee or available future Net Cash Flow for certain purposes.

PRECONSTRUCTION MEETING Prior to the start of project construction, DOH will require through its project manager the scheduling of a preconstruction meeting to include



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representatives of the owner, developer if different, contractor and architect as well as other relevant key parties to the construction. If there would otherwise not be a meeting, DOH will provide the agenda and run the meeting. If the owner was already planning a similar meeting, DOH's Construction Specialist will contribute to the agenda and participate. The goal of this meeting is for DOH to convey the finer points of expectations for construction, payment requisitions, change orders and related compliance; and to answer questions.

CONSTRUCTION CLOSE OUT DOCUMENTS

The DOH Project Manager will work with the Construction Specialist to ensure completion of the Construction Close Out document collection and process by the Sponsor.

RECEIPT, REVIEW AND APPROVAL OF CHANGE ORDERS

See the DOH website page for current details on the [Consolidated Application](#) page.

Regardless of whether DOH is funding contingency costs, Project Managers should collect and review copies of all approved change orders and receive updates to the Change Order Log.

While the project Owner is obligated to manage funds so as to achieve project completion, the DOH project manager may ask for analysis of the impact of change orders and the funds available for completion.

COVID-19 PANDEMIC PRECAUTIONS For the duration of the State of Emergency and for the life of orders that extend beyond that declaration; Contractors and personnel shall comply with all applicable orders of the State of Connecticut and the Federal government, and shall follow protocols and mandates of the Connecticut Department of Health and the Federal Centers for Disease Control. Department of Housing personnel visiting project sites will behave in all manners to guard their own personal protection, to look out for the safety of others through observing the following of protocols, and to following up with project owners with regard to any concerns. Details are available from the DOH Construction Specialist.

INSURANCE COVERAGE FOR CONSTRUCTION WORKERS Contractors shall maintain insurance coverage for injury, liability and worker's compensation that covers all personnel in their service on the job site, regardless of the type of employment status.



DEFINITIONS, LOAN AND GRANT UNDERWRITING STANDARDS

The following Definitions and Underwriting Standards apply to DOH funded projects independent of funding source and to both Rental and Homeownership as DOH finds they are relevant. As with other policies, DOH may defer to the underwriting standards of other funders or consider a waiver of policy, as discussed above. Final definition of terms for assistance to an individual project or program are in the Assistance Agreement contract documents of that assistance.

Deferring underwriting standards to another funder or granting a waiver does not preclude DOH from performing a layering analysis for the project and requiring any underwriting standards it deems necessary on a project by project basis.

It is the policy of DOH to evaluate the underwriting of project financing whether our financing is a grant, a subordinate balloon payment loan, a deferred or cash flow loan or a fully amortized loan. In all these cases it is our fiduciary responsibility to evaluate the financial reasonableness and viability of the proposed project financing plan and the forecast ability of the project to meet all of its financial obligations, including non-DOH debt.

I. DEFINITIONS

A. Definitions of Commonly Used Terminology

[This is a general glossary, though individual items may have very specific definitions published elsewhere]

"Annual Debt Service" means all payments of principal and interest, or other charges, or any combination thereof, on loans secured by the project for a twelve (12) month period.

"Annual Loan Constant" means yearly fixed value of principal and interest payments on a specific loan.

"Applicable Federal Rate" means the interest rate issued monthly by the Internal Revenue Service for long-term government securities.



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“Applicant” is the organization under whose name the application for Department financial assistance is submitted. Often, the applicant is the parent of the sponsor. The DOH/CHFA Consolidated Application requires a Federal Employee Identification Number or Social Security Number. If the applicant is planning to form a single purpose entity to undertake the project, the applicant should not apply under the name of an organization that does not yet exist, but apply as itself and disclose its future plans. See also Developer, Owner, and Sponsor.

"Appraisal" means a report that sets forth the process of estimation and conclusion of value.

"Bridge Loan Financing" means a short- term loan made in anticipation of intermediate-term or long-term financing.

"CHFA" means the Connecticut Housing Finance Authority.

"Consumer Price Index" means a statistical measure of the change in price levels of a predetermined mix of consumer goods and services.

"Credit Enhancement" means an asset pledged as security.

"Cumulative Cash Return on Equity" means a gain on the equity in a project at the time of financing which is a non-compounding sum of cash generated from ordinary cash revenues, less cash expenses.

"Debt Service Coverage Ratio" (DSCR) In its basic meaning DSCR is a quotient that measures the number of times loan principal and interest are covered by net income. A higher ratio indicates a lower risk associated with the loan. In addition, DOH has included a specific definition in its Term Sheet of how that calculation is made:

DEBT SERVICE COVERAGE RATIO: Debt Service Coverage Ratio” shall mean the ratio of (i) the Net Operating Income derived from the Property plus applicable Reserves to (ii) the Borrower’s aggregate obligation to make payments of principal, interest, late fees, and other amounts with respect to all indebtedness relating to the Property; and as further defined in the Assistance Agreement.

See Policy II.2 below.

“Developer” is the individual or organization undertaking the construction project, engaging the licensed professionals and delivering the finished product. See also “Applicant”, “Owner” and “Sponsor”

"DOH Cost Guidelines" means total development cost for a typical dwelling unit based on DOH minimum design standards for unit types, sizes, common areas, location and construction types.



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"Equity" means the Owner's financial interest in real property above all claims and liens against it.

"Fair Market Value" (FMV) *is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. If you put a restriction on the use of the property you donate, the FMV must reflect that restriction. Internal Revenue Service Pub. 561*

"Forgivable Loan" is not a common term of DOH financing, but it is sometimes used by other funders in projects where DOH participates to indicate a subordinate loan that is expected to be forgiven if certain terms are met.

"Grant" means a contribution of funds that do not require repayment and are unsecured except to enforce compliance for use restrictions.

"Life Cycle Cost Analysis" means an evaluation of the capital and operational costs of a construction item or system during the estimated useful life of the project.

"Loan" means an interest free or interest-bearing obligation to repay principal.

"Loan to Value Ratio" means the ratio of the total amount of the secured loans to the appraised value of the property.

"Market Analysis" means a report that sets forth the process that analyzes the ability of a proposed use of an existing property to be absorbed, sold, or leased under current or anticipated market conditions.

"Market Study" means an in-depth report of market conditions and analysis of proposed use given those market conditions prepared by a third-party professional market analyst.

"Mortgage Insurance" means a policy to cover the lender in case of default.

"Net Operating Income" means earnings after deducting normal operating expenses, including applicable reserve deposits, but before deducting depreciation, federal taxes and extraordinary gains, losses and charge-offs.

"Nonprofit Entity" means a housing authority; a nonprofit corporation incorporated or authorized to do business pursuant to Chapter 600 of the Connecticut General Statutes, having as one of its purposes the construction, acquisition or related rehabilitation of affordable or assisted housing and having a certificate or articles of incorporation approved by the Commissioner; a quasi-public agency, as defined in Section 1-120 of the Connecticut General Statutes; a municipal developer; or a municipality or agency of a municipality; or a joint partnership where the nonprofit partner: (a) is materially



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participating in the development and operation of the development throughout the compliance period; (b) owns at least 51% of all general partnership interest in the development; (c) is not affiliated with or controlled by the for-profit organization; and (d) was not formed for the principal purpose of qualifying as a nonprofit organization to gain some advantage eligible to only nonprofit developers.

"Operating Deficit Letter of Credit" means a written document issued by a financial institution guaranteeing the payment of drafts up to a stated amount to cover operating losses.

"Owner" is the organization that owns or has leasehold of the land and owns the improvements at occupancy of the development. See also "Applicant", "Developer" and "Sponsor"

"Pari Passu" describes the sharing of risk or burden among two or more funders in proportion to their total financial interest in the project. See Interlender Agreement.

"Rent" means charges, excluding security deposits, down payments and membership fees, paid for occupancy of rental units or Limited Equity Cooperative / Mutual Housing units in housing developments that receive financial assistance from DOH. DOH would classify a recurring, monthly, or otherwise, "Pet Fee" as rent, discourages such fees and requires them to be included as rent in the calculation.

"Reserve for Replacement" means a regulatory or contractual requirement to set aside cash for the replacement of capital items; funding for major repairs; additions that improve the property; or betterments that replace existing assets with more modern or efficient versions.

"Return on Equity" means net income divided by total equity that represents a profit provided to the developer based on the amount contributed to the project.

"Sponsor" is the organization contracted with the Department for financial assistance and obligated to ensure completion of the project, the applicant or an affiliate of the applicant. In most cases the Sponsor will be the developer or will have the developer under contract and will be the owner or will be undertaking the project for the owner. See also Applicant, Developer and Owner.

"Stabilized Year" means the first 12 months after 100% occupancy.

"State Plan of Conservation and Development" means the most recent adopted five-year plan prepared by the Office of Policy and Management in accordance with Sections 16a-24 through 16a-33 of the Connecticut General Statutes, which provides the growth, resource management and public investment policies for the state.



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"**Subordinate Financing**" means a loan that is subordinate in order of repayment right or lien priority to one or more other financial instruments, existing or proposed, with repayment rights or a lien on the same property.

"**Syndication**" means the process of structuring financial arrangements and securing legal documents for investors to take advantage of any or all available tax benefits.

"**Total Development Cost (TDC)**" means all expenses incident to the creation of a project, including developer's fees.

"**Transit Oriented Development**" The Connecticut General Statutes in Sec. 13b-79o in a definition for certain purposes, states that "Transit-oriented development" means the development of residential, commercial and employment centers within one-half mile or walking distance of public transportation facilities, including rail and bus rapid transit and services, that meet transit supportive standards for land uses, built environment densities and walkable environments, in order to facilitate and encourage the use of those services.

II. UNDERWRITING STANDARDS: LOANS AND GRANTS - RENTAL

These are our accepted standards for the multifamily housing finance industry. DOH uses them to evaluate the degree of risk associated with providing permanent project financing. They are subject to DOH acceptance of temporary or permanent industry revision due to common practice or the dictates of market and economic conditions.

1. Maximum Loan Amount

Underwritten Maximum Loan Amount - The underwriting maximum permissible loan for all projects shall be equal to the lower of the following based on market, location, and other conditions. The underwriting maximum permissible loan amount is separate from any DOH policy on subsidy caps for State Bond Funds. Non-amortizing soft debt may exceed these limits if the underwriting demonstrates the necessity of a higher subsidy under the waiver policy.

- An amount based on applicable statutory limits;
- An amount based on the loan to value ratio;
- An amount based on the debt service coverage ratio; or
- The annual debt service divided by the applicable annual loan constant.



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2. Debt Service Coverage Ratio (DSCR) – At the time of project underwriting, the minimum coverage for all amortized debt should be 1.15:1.0 from the first year of stabilization through the fifteenth anniversary, and then 1.00:1.0 throughout the term of the promissory note evidencing the senior amortized loan.
 - a. If coverage is not sufficient at the time of project underwriting, DOH may require that the developer establish a debt service coverage reserve account to be funded at closing with non-DOH funds.
 - b. Following stabilization, DOH shall require that the project maintain a DSCR equal to the lesser of 1.00:1.0, or the comparable DSCR required by the terms of the senior amortizing loan.
 - c. The failure to maintain the DSCR at levels required by DOH financial assistance documents shall not be an Event of Default for DOH so long as such failure is not a default or an event of default in the senior loan and in any senior loan documents.
3. Excess Cash – At the time of project underwriting, the maximum projected annual DSCR should not exceed 1.25% in any year of the DOH affordability period and if it appears that it could, DOH may impose restrictions on the disposition of excess cash flow.
4. Interlender (Intercreditor) Agreement – DOH may require, prior to closing on financial assistance, the execution of an interlender agreement by other senior and subordinate funders in the project and if applicable, the Sponsor. There is currently no standard form of this agreement, and the specific content which funders would need to sign will be determined by DOH with the guidance of our closing counsel. An Interlender Agreement may cover a variety of topics related to the administration of DOH funds into the project, such as the specifics of the Pari Passu relationship for this project, DOH access to project information, and DOH rights to be consulted on project related decisions. The agreement does not supersede any of the DOH contract documents but is intended to clarify and provide practical guidance to exercising of rights and contract implementation.
5. Total Project Cost - The total project cost shall be evaluated based on the DOH Cost Guidelines, as adjusted from time to time. Adjustments due to extraordinary features,



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location, project type and time shall be given consideration. Environmental, unusual site and relocation costs must be included.

6. Loan Term – The standard Term of years of DOH Loan is thirty (30) years after stabilization (often, 32 years from loan effective date). Loan terms should not exceed 30 years after stabilization without a determination by DOH that this is necessary, such as for the financial viability of the project. When DOH and CHFA are both financing the project, a coterminous loan term shall be considered at DOH's discretion.

7. Loan Rate –
 - a. The interest rate shall be for simple interest, and the standard rate shall be 1%.
 - b. No interest, zero percent (0%) loans are acceptable.
 - c. The maximum interest standard interest rate to be charged in a DOH loan is the current Applicable Federal Rate (AFR) as of the effective date of the Term Sheet.
 - d. Prior to closing DOH may establish that, during the life of the loan, the Interest rate shall make one or more shifts at predetermined points of time (year anniversary from the effective date), if it is in the best interest of the state.
 - e. Rate shall be established based on cash flow projections and other project underwriting.

8. Developer's Equity – *(For projects not subject to owner equity requirements of other public financing programs such as Low Income Housing Tax Credits.)* An Owner shall have a minimum continued financial interest in the development of at least two (2%) percent of total development cost for no less than ten (10) years. This requirement may be modified or exempted if not supported by DOH underwriting.

9. Return on Equity -
 - Return on equity shall be subject to an agreement between the DOH and the Owner limiting the Owner, and its principals or stockholders to a return on the Owner's equity in any development assisted by DOH. To the extent economically feasible, the cumulative cash return on equity shall be no greater that 10% per annum.



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- To the extent economically feasible, the cumulative cash return on equity shall be increased by up to an additional 2% for developments in areas designated as urban centers and urban conservation areas as defined in the State Plan of Conservation and Development.
9. Developer's Fee – A developer's fee shall not exceed 15% of total development costs less the cost of land. DOH reserves the right to adjust the applicant's proposed Developer Fee. If a proposal is to be jointly funded with CHFA, then the developer fee shall comply with the CHFA developer fee policy and formula. When DOH is funding a developer fee, the following schedule applies:
- 25% of the fee shall be paid at construction contract.
 - 75% of fee shall be paid upon completion of initial rent-up in accordance with projections.

If actual total project costs exceed the budgeted TDC then the developer's fee must be used to defray the additional costs. Therefore, a healthy undistributed and undeferred developer fee is critical to project viability in case of unexpected events prior to project completion. DOH policy is for no less than 40% of the proposed Developer Fee to be available during construction for unexpected and otherwise unfunded project costs; so, the Developer Fee paid at construction closing plus the amount deferred may be no more than 60% of total Developer Fee.

10. General Contractor's Overhead, Profit and General Requirements

- a. Under no circumstances may the sum of Overhead, Profit and General Requirements exceed, when summed, 14% of the total construction cost.
- b. Together, Overhead and Profit are should not exceed eight percent (8%) of the total construction cost.
- c. General Requirements shall be part of the cost certification process and should not exceed six percent (6%) of the total construction cost. An additional percentage (1% for a total of 7%) may be permitted in the General Conditions share of splitting 14% under extraordinary circumstances as determined by DOH, however, part 10.a. above shall still apply.
- d. If the contractor is a related entity the entire profit rate will be reviewed.
- e. DOH reserves the right to require less than the maximum rates listed here.



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11. Bridge Loan Financing –

- All sources of funds shall be available to the development at the execution of a contract for DOH financial assistance. Funds derived from the syndication of Low Income Housing and/or Historic Tax Credits shall be available either from the syndication proceeds or bridge loan financing in an amount and manner satisfactory to the DOH. If there is an identity of interest between the lender and either the syndicate, the Owner, or the developer, the maximum rate shall be a consistent with the Applicable Federal Rate (AFR). The interest cost of financing the developer's fee shall not be recognized. Sponsors may use DOH funds to repay bridge loans that are from either State or Federal assistance sources so long as all program pre-commitment requirements are met. This intention must be fully disclosed in the initial application materials and approval by DOH must be granted before closing on DOH financing.

12. Syndication Costs - The costs of syndication shall not exceed a rate acceptable to DOH based on fees as a percentage of syndication proceeds. DOH will defer to the syndication cost standards used by CHFA for Low Income Housing Tax Credit funded projects and the Connecticut Historic Commission for Historic Tax Credit funded projects as long as such fees appear reasonable.

13. Rent Limitations - The purpose of rent limitations in DOH financed projects is to ensure that, in return for the large public subsidy invested into the project, income eligible tenant households of the deed restricted units will benefit from affordable housing opportunities according to their income tier. Accordingly:

- a. The maximum gross rents shall be set at a level affordable to the projected income ranges of the targeted income group(s) to be served.
- b. Program rents are published by DOH and updated annually.
- c. At application and in underwriting, the most recent limits available shall be used for the initial year of occupancy without projecting an increase.
- d. At the time of occupancy and rent up, the contemporary limits should be used.
- e. Owners would typically renew leases with consideration for the most recent rent schedule, but it is not required so long as those limits are not exceeded.
- f. All references to rent here must also take into consideration the applicable utility allowance.



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- g. See also “Pet Rent” under the definition of Rent above.
- h. Projects with rental assistance seeking a Waiver should discuss their proposed Tenant Paid rent and gross rent with DOH as underwriting consideration should be given to both the public development subsidy and the public rent subsidy.

Several of these points are based on the desire of DOH to maximize the ability of low and moderate income households to afford their total apartment living expenses through total rent and fees remaining below the current maximum rent limit.

- 14. Income Trends – DOH policy is that project income (rent) be trended at 2% annually.
- 15. Expense Trends - DOH policy is that project expenses be trended at 3% annually. Fixed expenses may be exempted.
- 16. Vacancy Assumptions –
 - For LIHTC projects and projects using permanent loan from CHFA, follow the vacancy assumptions published in their underwriting standards and consistent with the DOH CHFA Consolidated Application which are based on the percentage of the Area Median Income (AMI) of the intended tenant population as of the stabilized year (if multiple AMI, then blend rates).
 - For DOH assisted projects that are not strictly subject to CHFA underwriting, DOH will establish a vacancy rate.
 - The standard choice is between either a three percent (3%) vacancy rate or a six percent (6%) vacancy rate.
 - Vacancy rate for DOH final underwriting shall be coordinated with other lenders, if applicable.
 - The DOH project manager, informed by a market study, will review with the Sponsor the specifics of a project’s circumstances (in particular, how its rent structure fits into the immediate neighborhood market, and the market area where it is expected to pull tenants from) to select residential vacancy assumptions appropriate to the project.



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- The determined rate would apply to all units in a project, with consideration to make exceptions for units with a rent subsidy, supportive units with an established low rent, and other special cases.
 - Projects with a track record of low vacancy where an existing tenant population will remain or is expected to return for initial rent up would be considered for underwriting at a low vacancy rate, but not lower than 3%.
 - Non-residential Portion of Properties – The vacancy rate calculation for non-residential income will be evaluated by DOH on a case by case basis using current market conditions and the proposed commercial use. Unless binding pre-leasing of non-residential space is documented, DOH may require a vacancy rate of up to 100% of possible non-residential income for cash flow projections.
17. Reserve for Replacement –
- The project shall establish a reserve for replacement account that shall maintain an allowance sufficient for repair, replacement and maintenance depending on the type and location of housing in a form and manner acceptable to DOH. DOH may defer to the CHFA replacement reserve standard for either joint funded projects or DOH only projects on a case by case basis.
 - For subsequent years, rather than a fixed trend, the annual Replacement Reserve amount may be established based on a Life Cycle Cost Analysis of the useful life of all major building systems acceptable to DOH.
 - Reserve for Replacements plus any interest or other earnings thereon shall at all times remain with the project, even with changes in ownership.
 - After a project is placed into operation, a Capital Needs Assessment report may be required for DOH to entertain requests to deviate from these policies.
18. Cost Certification – For all DOH funded projects, the Owner's and the general contractor's cost certification is required within 60 days of the project's substantial completion date. DOH will accept cost certifications submitted to CHFA in relation to co-funded developments.



III. UNDERWRITING STANDARDS: MODIFICATIONS AND EXEMPTIONS

Request for a modification or exemption must be in writing from the Owner and are subject to Waiver of Policy provisions described above (page 10).



HOMEOWNERSHIP HOUSING POLICIES

NOTE: DOH funding program parameters to support Homeownership activities are under review and development. The following general policies may apply, but do not themselves represent complete policies of any funding program.

I. SELECT DEFINITIONS THAT RELATE TO POLICIES

DOH Programs permit both homebuyer and development subsidies. Developer and homebuyer subsidies are defined as follows:

A. Developer Subsidy

A developer's subsidy is equal to the difference between the total development cost and the home's Fair Market Value (FMV). This subsidy form recognizes that the cost of developing a homeownership unit frequently exceeds the unit's fair market value. Therefore, without a subsidy, developers will be unwilling to construct or rehabilitate needed ownership housing.

The amount of the developer's subsidy relies on two numbers – the unit's TDC and other related costs and the unit's appraised fair market value. To prevent undue enrichment of the developer, it is vital that both numbers be adequately supported; the TDC with an independent cost estimate and the fair market value with an approved appraisal.

DOH assistance during development, in the form of Developer Subsidy may be paid to the developer periodically during the development process, consistent with the DOH draw process, based on evidence of project invoices.

B. Homebuyer Subsidy

A Buyer's Subsidy must be secured through a second mortgage on the property. The buyer's subsidy subsidizes the difference between the units FMV and the price at which an income eligible family can afford to buy the home pursuant to DOH's affordability guidelines. The buyer's subsidy recognizes that even if the cost of a unit is subsidized down to its fair market value, it may still be too expensive for a low or moderate-income family to afford. While



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the buyer's subsidy may be determined at the time a buyer is selected, it may not be paid out until the buyer's closing

The amount of the buyer's subsidy is dependent on the sales price of the unit and the targeted income of the buyer. Some developers "back into" the unit's sales price by determining what a family of four with an income at 80% of area median income can afford to pay. The developer then prices all units at that same price. While this may be a valid method for *estimating* the potential total of buyer subsidies needed for a project, it does not allow for the differences in the finances of one individual from another.

Therefore, the developer must determine how much of a subsidy each family actually needs to buy the home based on the family's income at the time of the buyer's application for assistance. If the developer finds that the actual families selected have incomes that, on average, are lower than the targeted income used in the application, the developer may apply for additional Buyer Subsidies.

C. Sales Price

Often there is confusion between the sales price of a unit and the net cost of the unit to an eligible family. For the purpose of these policies, the sales price is the unit's fair market value according to a DOH approved appraisal. It is not the net price paid by an eligible family following the deduction of the buyer's subsidy. It is the fair market value that should be recorded on the land records. To record the net price would serve to lower the value of all homes in the neighborhood – a result that is contrary to the intent of the program.

D. Master Appraisal

If the proposed project is for a to-be-developed subdivision or condominium, the developer is likely to seek an FHA endorsement for the subdivision so the buyers can secure FHA Mortgage Insurance. In those cases, FHA will order a Master Appraisal Report that will set the Fair Market Value for each of the various style homes that are part of the development. The Master Appraisal is acceptable to DOH in lieu of a DOH appraisal and the values set in the Master Appraisal should be used to establish sales price of the units.



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E. Closing Files

Closing files for each home sale are to be submitted in electronic form to the DOH project manager in a manner to be agreed upon. The Closing File from the Sponsor shall include in a complete set: buyer application, eligibility and approval by the sponsor's governing body to make the sale; home closing documents including the Closing Statement, recorded mortgage if applicable, and recorded acknowledgement of DOH DLURC. Originals of documents recorded for the benefit of DOH should be forwarded to the DECD Librarian to become part of the Master File. The complete list of DOH home sale document requirements is available in checklist form from the Sponsor's DOH project manager.

HOMEOWNERSHIP POLICIES

The Policies DOH uses to implement State funded homeownership programs and development projects are being revamped. Further homeownership discussion, including per unit and total project subsidy maximums and required length of affordability, have been removed from this document and will be returned at a future time. Please contact the Director of the Office of Small Cities and Housing Development Miguel Rivera for further information. rivera.miguel@ct.gov or 860-270-8012