

**Rental Housing – Preservation and Rehabilitation**  
**MassHousing’s Critical Capital Needs Loan Program – 504/ADA Compliance Loan Program**

It is a well known tenet in the affordable housing industry that maintaining properties adequately is critical to ensuring that residents are housed in a decent, safe and affordable environment. This is generally accomplished by sound day to day maintenance, as well as the establishment of forward looking preventive maintenance programs.

However, as housing communities age, particularly interest subsidy developments (whether federal or state supported), funding is not always available to address these needs in any significant way, thus jeopardizing their continued viability. MassHousing realized that it was imperative to devise a vehicle to begin to address the capital needs of these properties or face the prospect of losing these greatly needed and hard to replace affordable units. The Agency’s Critical Capital Needs and 504/ADA Compliance Loan Programs provide funds to MassHousing-financed developments which face challenges related to needed capital improvements but have inadequate funds to address those needs.

***Background***

In 2008, MassHousing’s then Chairman of the Board “challenged” the leadership of the Agency to embark on a comprehensive effort to examine MassHousing’s way of doing business in the rental area. That examination – known as the “Chairman’s Challenge” – has resulted in new policies and procedures that have made MassHousing more responsive to the demands of modern day rental lending.

The recommendations from the Chairman’s Challenge were grouped into six categories: Streamline, Simplify, Preserve, Innovate, Engage, and Partner. The Innovate section charged the Agency with examining the feasibility of providing several “soft-money” loan programs to foster improvements at some of Agency’s older developments and to improve ADA accessibility at non-compliant MassHousing-financed developments. This was the spark that would ultimately lead to MassHousing’s new loan program.

***Critical Capital Needs Loan Program***

In August, 2009, MassHousing’s Board of Directors approved a soft-money loan commitment to fund the Critical Capital Needs Loan Program, an innovative approach to begin to address some of the vexing issues at MassHousing’s older rental housing developments. While it was acknowledged that the program would not be able cure all the capital needs of a property, the goal was to identify and resolve some of the more pressing needs quickly, with the potential for future rounds as additional funding became available.

The program worked to identify properties which had the greatest need and then set-aside working capital funds in order to provide 0% interest loans to MassHousing financed developments to address those critical capital needs. Even in these difficult economic times, MassHousing was able to set aside \$1,790,275 for this initiative.

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An invitation was then extended to all MassHousing financed developments. Twenty-seven developments responded by submitting proposals totaling \$4,941,000 which was far more than the available funds and a clear indication of the pressing need for this program. After a thorough review by Rental Management staff, twelve developments were selected for funding. The sites selected demonstrated the greatest needs based on proposed capital improvements of an immediate and critical nature, coupled with inadequate funds to address these needs. Immediate needs included, among other items, roofs, elevators and heating systems. The selected developments and their respective loan requests were presented to the MassHousing Board of Directors and approved unanimously.

As for the terms, the loans are due and payable upon the maturity of the existing mortgage loan, or upon the sale or refinancing of the development, whichever occurs first. The interest rate, as mentioned, will be 0%. In addition, participating developments will be subject to the statutory use restriction of 15 years from the loan closing; and they will be required to rent at least 20% of the units to persons with income at or below 80% of area median income.

Through this loan program, MassHousing is able not only to assist in addressing critical capital needs, but also to achieve its strategic objective of maintaining existing affordable units while simultaneously extending affordability into the future.

As the Critical Capital Needs Loan Program was under development, MassHousing's Board of Directors also authorized Rental Management to create and implement a soft-money 504/ADA Compliance Loan Program.

Much like the Critical Capital Needs Loan Program, there are numerous developments throughout the Commonwealth that do not have the necessary funding to bring themselves into compliance with the 504/ADA program. To assist in this effort, Rental Management drew \$209,725 from working capital to provide 0% interest loans to MassHousing financed developments which demonstrate non-compliance with 504/ADA program requirements and a shortage of funds to address the non-compliance issues. Invitations were sent to all MassHousing financed developments. Two developments submitted requests for funding. Upon review of the submitted applications, it was determined that the two respondents qualified for the 504/ADA Compliance Loan Program. The work proposed included the conversion of two 2-bedroom units into fully accessible units, the conversion of three 3-bedroom units into fully accessible units and making two laundry rooms fully accessible.

As a result of the financing, the participating developments will be subject to the statutory use restriction of fifteen years from the loan closing and they will be required to rent at least 20% of the units to persons with income at or below 80% of area median income. This is another example of a creative, replicable solution to ensure current and future compliance with federal and state programs that was established to meet the needs of MassHousing's client population while at the same time extending affordability and improving quality of life.

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The following rental developments, located in communities throughout the Commonwealth of Massachusetts, received funding through the Critical Capital Needs Program:

<b>Project Name</b>	<b>Community</b>	<b>Units</b>	<b>Proposed Work</b>	<b>Funding</b>
Brooks School	Dorchester	56	Heating System	\$122,400
Brookside Terrace	Southbridge	168	Roofs	\$200,000
Chestnut Park	Springfield	489	Elevators	\$200,000
Haynes House	Roxbury	131	Elevators	\$121,705
Leeds Village	Northampton	22	Windows and Roof	\$100,000
Louis Barrett Residences	Lynn	145	Elevator	\$300,000
Majestic Apts.	Peabody	34	Elevator	\$95,000
Mass Mills I	Lowell	160	Exterior Painting	\$193,800
Mass Mills II	Lowell	121	Exterio Painting	\$146,200
Northeast Apts.	Holyoke	69	Windows	\$75,000
Pine Grove Village	Lexington	16	Repaving & Bath Repair	\$39,670
South Canal Apts.	Holyoke	127	Roofs and Elevators	\$196,500
	<b>TOTALS</b>	<b>1,538</b>		<b>\$1,790,275</b>

Over the years, MassHousing's preservation programs have been tailored to the varied needs of the rental housing developments within its portfolio. In recognizing the challenges facing older rental housing developments, MassHousing has been successful in improving the quality of life for residents, and safeguarding the affordable component at many of these older developments. The Critical Capital Needs Program is another tool that MassHousing has developed to maintain the viability and success of its aging affordable housing portfolio in Massachusetts.