

Bringing Affordable Housing and New Housing Developers to Rural Maine

MaineHousing

Rental Housing: Encouraging New Construction

HFA Staff Contact

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To offer solutions to both the current affordable housing crisis, which disproportionately impacts low- and moderate-income Maine households, and the lack of federal resources directed at rental housing in rural areas, MaineHousing launched the Rural Affordable Rental Housing Program.

The program, which was first created in 2021 using pandemic relief funds, has twice now been refunded by the Maine Legislature and supported with state resources -- a testament to the program's ongoing success and effectiveness. The broad bipartisan support for this funding has also evidenced the confidence state elected officials have in MaineHousing and the agency's longstanding commitment to improving housing for all parts of the state.

Created to fund the development of affordable rental housing in areas and at a size where traditional federal Low Income Housing Tax Credit projects may not be the best solution, the program has led to a range of new housing opportunities for rural Maine. At the same time, it has served as an incubator for emerging developers as well as for construction and design innovations and techniques that are helping to accelerate the rate of housing production in Maine.

The [Rural Affordable Rental Housing Program](#) assists developers in creating affordable (workforce), rental housing projects of 5 to 18 units. All of the units must be leased to households making a maximum of 80% of the Area Median Income, and at not more than 80% Area Median Income rents.

All residents must inhabit the units as their primary, permanent residence. The Program may finance the acquisition and adaptive re-use of an existing building or buildings, the acquisition and substantial rehabilitation of existing non-rent restricted housing, or the creation of a newly constructed building or buildings.

A key goal of the Rural Affordable Rental Housing Program is to bring economic equity to rural areas of Maine, which are often left out of the Low-Income Housing Tax Credit program as the size, scale and lack of investor interest makes them all but unworkable. The program provides subsidies in the form of zero percent interest forgivable loans as well as paying debt for units developed under the program. It also requires all units developed under the program to remain affordable for 45 years.

Since its inception, the program has led to the financing of 230 units in 13 rural locations across nine of Maine's 16 counties -- locations where LIHTC projects would be difficult to develop.

First housing and federal funding in 2021 -- the success and demand for the program, which was converted to a competitive process in 2022, provides a simple and elegant solution for incenting affordable housing development at a scale that fits into the local community well, bolsters the opportunity for the area's older residents to right-size their housing, and provides affordable homes to younger households with workers at the start of their careers as well.

Peripheral benefits beyond increasing the supply of affordable homes in rural areas include the emergence of local housing leaders and the cultivation of new developers who are bringing scaled and scalable innovations. Examples of this exist in one of the first Rural Affordable Rental Housing developments to move towards occupancy. At 55 Weston, an 18-unit development in Madison, Maine – a rebounding mill town with a population of 4,700 – new developer Sam Hight and his partners have accelerated start-to-completion time by utilizing modular components custom-built for the development at an indoor manufacturing facility about 60 miles away in Paris, Maine.

In a June 2023 radio [interview with Maine Public](#), the state’s public radio service, MaineHousing Development Director Mark Wiesendanger said the program’s success is its overall simplicity. "It doesn't come with all the hoops that low-income housing tax programs come with," Wiesendanger said. "You don't have to be very experienced in working with federal or state programs to make this work." That simplicity includes between \$90,000 and \$200,000 in subsidy on each new unit that’s constructed under the program and a project subsidy cap of \$3.6 million.

"The biggest problem that people are having right now in creating housing, in general, is the cost of construction is so astronomically high; we've never seen an atmosphere like this before," Wiesendanger told the radio reporter. "So, people can't take out loans and construct properties and pay them back. There needs to be another resource, and when you can go up to \$200,000 a unit, people say they can make it work."

In the same 2023 radio broadcast, Genesis Community Fund Executive Director Liza Fleming-Ives told the station that the program is motivating a new generation of public-minded development in Maine.

In an adjacent program, Genesis Community Fund, under contract with MaineHousing, provides technical assistance to developers with a range of experience in an effort geared at expanding overall development capacity. "We're seeing new developers come forward and say I have this experience in developing market-rate housing, but I'm seeing the need in my community and all around me for affordable housing and I can put a project together too, but I need the help accessing the resources," Fleming-Ives said.

In April of 2024, the Maine Legislature again approved funding - another \$20 million - for the program and interest from developers remains high with demand for the program easily outstripping available funding in each subsequent round of awards.

Appendix A –

Map of the current Rural Affordable Rental Housing Program Units in development (pipeline.)

Rural Affordable Rental Housing Program - Units in Maine Housing Pipeline



Appendix B –

Rural Affordable Rental Housing Program spotlight in the 2023 MaineHousing Annual Report



RURAL AFFORDABLE RENTAL HOUSING PROGRAM WELL UNDERWAY

MaineHousing is providing funding to developers for the creation of smaller affordable rental housing projects, adding much-needed housing to rural Maine in places where the population might not be large enough to support large tax credit funded properties.

Primary funding for the Rural Affordable Rental Housing Program came from Governor Mills' Maine Jobs and Recovery Plan. This legislation will invest nearly \$1 billion in federal American Rescue Plan funds to improve the lives of Maine people and families, help businesses create good-paying jobs, and build an economy poised for future prosperity.

The program, now in its second iteration, celebrated its first ground-breaking event at 55 Weston Avenue in Madison in October. The development is an exciting first-of-its-kind under the program because it uses Maine-made, modular components.

The Madison development is also being lauded for the strong support and active collaboration it achieved with local residents. In a crowning bonus feature, much of the insulation used for the building will come from Madison's own TimberHP plant, which is among the industries adding jobs to the area's workforce.



“ THIS DEVELOPMENT HIGHLIGHTS WHAT CAN BE DONE WHEN PRACTICAL IDEAS ARE MATCHED WITH LOCAL ENTHUSIASM. IT CREATES A TYPE OF MUCH-NEEDED HOUSING THAT FITS WELL IN THE NEIGHBORHOOD AND WILL BE A VITAL ECONOMIC ASSET FOR THE PEOPLE OF MADISON FOR DECADES TO COME. ”

- Daniel Brennan, MaineHousing

Appendix C –

Rural Affordable Rental Housing Program Guide



2023

Rural Affordable Rental Housing Program

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MaineHousing

Rural Affordable Rental Housing Program Request for Proposals

Introduction

Maine State Housing Authority (“MaineHousing”) is pleased to announce the Rural Affordable Rental Housing Program (the “Rural Affordable Rental Housing Program” or the “Program”). This Program endeavors to bring economic equity to rural areas of Maine, which are often left out of the Low Income Housing Tax Credit program as the size, scale, and lack of investor interest make projects in these areas all but unworkable, and incent new developers to begin a relationship with MaineHousing.

MaineHousing is making funds available under this Program to assist developers in creating affordable, workforce, rental housing consisting of 5 to 18 units where 100% of the units are leased to households making no more than 80% of Area Median Income (“AMI”). Rents for these units will be the lesser of the market rents for the area, based on the required appraisal, or the 80% AMI rents. If market rents are used initially, rents may increase no more than the recognized percentage increase in the applicable U.S. Department of Housing and Urban Development published rent charts from one year to the next for the applicable county and may not, at any point, exceed the 80% AMI rents. If market rents are less than or equal to 60% AMI rents, the project rents will be limited to 60% AMI rents for the life of the project and will be underwritten as such. Income limits will remain at 80% AMI regardless of unit rents. The affordability will be required for a minimum of 45 years. All residents must inhabit the units as their primary, permanent residence.

The Program may finance (i) the acquisition and adaptive re-use of existing buildings, (ii) the acquisition and substantial rehabilitation of existing, non-rent restricted housing, or (iii) the creation of newly constructed buildings. For purposes of this Program, substantial rehabilitation is defined as the acquisition and rehabilitation of existing, non-rent restricted housing in which the cost of the rehabilitation (as deemed necessary by MaineHousing) averages at least \$50,000 per unit.

The Program provides subsidy in the form of zero interest deferred loans funded by the State of Maine’s Fiscal Year 2024/2025 budget. The Program also provides for paying debt financed by MaineHousing.

MaineHousing reserves the right to suspend or terminate the Program at any time and to cease processing any project application prior to issuing a term sheet. MaineHousing is under no obligation to finance a project until the project has been successfully underwritten and a loan closing has been approved.

Funding

Deferred Debt. The maximum zero interest deferred loan amount for a unit with separate bedroom(s) is \$115,000 per unit for acquisition rehab projects and \$200,000 per unit for adaptive re-use or new construction units. The maximum zero interest deferred loan amount for studio or efficiency units is \$90,000 per unit for acquisition rehab projects and \$153,750 per unit for adaptive re-use or new construction units. Zero interest deferred loans will be due on the earliest of (a) 45 years, (b) sale, transfer, or assignment of the Project, (c) the discontinuation of the intended public purpose, or (d) a default of the MaineHousing loan(s).

Paying Debt. Developers must accept 6% interest only, 30-year paying debt from MaineHousing in the amount MaineHousing determines can be supported by project cash flow. An award of funding will be contingent upon a successful appraisal to determine market rents and loan-to-value for paying debt. Paying

debt will be structured as interest only payments for 30 years with a final balloon payment of all amounts owed due at the end of 30 years. Paying debt may, through MaineHousing's Ownership Transfer approval process, be transferred or assigned to a new owner approved by MaineHousing.

At closing, all funding less approved closing costs will be deposited into a construction escrow account. Interest on paying debt will begin accruing as of the closing date. Developers will be required to submit requisitions for construction draws. Any funds not needed for the successful completion of the project will be returned to MaineHousing and the zero interest deferred loan amount will be reduced.

Developers participating in the Rural Affordable Rental Housing Program must comply with MaineHousing Rule, Chapter 29, Multi-family Mortgage Loans and any reporting or other requirements of the source of funds.

All developers must be willing to accept the Department of Housing and Urban Development ("HUD") Housing Choice Vouchers from qualified tenants unless the property's rents are above the voucher payment standard.

Application Process

Applications and completed exhibits should be submitted to MaineHousing by December 7, 2023.

Location

Rural means any part of the State of Maine that is deemed rural by the United States Department of Agriculture, Rural Development for multifamily housing. Please use the following link to determine if your property address is eligible:

<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=mfhc>

MaineHousing encourages developers to work with communities in designing and siting projects. It is our understanding that a number of communities in the State are eager for additional workforce housing. Communities can assist developers through pledging local funds, providing for density bonuses or other land use and zoning assistance, donating land or agreeing to favorable Payment In Lieu Of Taxes agreements to benefit the project.

Projects of 18 or fewer units approved by MaineHousing are exempt from the State's Growth Management Law, 30-A M.R.S.A. §4349-A, as amended. However, MaineHousing supports projects that are located as close as possible to downtowns or village centers and other areas that have activities of daily living. The concepts of smart growth and careful siting of projects will be considered as outlined in the scoring criteria.

Multiple MaineHousing-funded projects may not be constructed at the same location. Projects in areas that can support more than 18 units should apply for the Low Income Housing Tax Credit programs. Scattered site projects are not eligible.

Targeting

Projects developed under this Program must comply with the rent and income limits described under (1) and the affordability declaration described in (2):

- (1) Units developed under this Program must be rented to households with incomes equal to or less than 80% AMI. Rents are limited to 80% AMI rents as published here:

<https://www.mainehousing.org/charts/rent-income-charts>. If market rents are shown to be below 80% AMI rents in the required appraisal, initial rents will be set at market. Market rents may increase no more than the recognized percentage increase in the applicable U.S. Department of Housing and Urban Development published rent charts from one year to the next for the applicable county and may not, at any point, exceed the 80% AMI rents. If market rents are less than or equal to 60% AMI rents, the project rents will be limited to 60% AMI rents for the life of the project and will be underwritten as such. Income limits will remain at 80% AMI.

Displacing tenants in existing rental housing is prohibited. Existing tenants must be allowed to remain in their units. To facilitate this, MaineHousing will allow existing tenants to remain in their units even if their income is greater than allowed by this Program and MaineHousing will limit rent increases to existing tenants to no more than 5% annually for three (3) years from the date the project's rehabilitation/construction is complete as determined by MaineHousing. Upon unit turn-over, tenant incomes and rents will be limited as described herein.

- (2) Each zero interest deferred mortgage will be accompanied by a Declaration of Covenants and Restrictions, which will require, among other things, that the project maintain the affordability requirements of the property for a minimum of 45 years from the initial date of the mortgage.

Asset Management

MaineHousing will require income certification of all households at initial lease-up. Proof of income may be from the household's most recent tax return or, if on a fixed income, a letter from the United States Social Security Administration or six (6) weeks of pay stubs. Once a household is deemed eligible, no on-going income certifications will be necessary. Occupancy reports, in a form prescribed by MaineHousing, will be submitted annually.

MaineHousing reserves the right to request Audited Financial Reports at any time.

Replacement Reserves must be funded at 1% of cost of structures at loan closing. Annual funding of Replacement Reserves will be in the amount of \$600 per unit. A taxes and insurance reserve will also be required. All reserves will be held by MaineHousing.

MaineHousing will inspect properties at least every three (3) years to ensure properties meet HUD's Minimum Property Standards. Any deficiencies will need to be addressed. MaineHousing will work with owners to address capital needs from the Replacement Reserves.

Eligible Developers

Developers and the members of the development team (contractors, engineers, architects, etc.) must be in good standing with MaineHousing, the State of Maine, and the federal government. New developers are encouraged to apply.

Developer Fees

The maximum developer fee, including all overhead and profit, is \$15,000 per unit.

Construction Standards

The site development and construction shall comply with:

- (1) Federal, State, and Local Laws including accessibility requirements,
- (2) Maine Uniform Building and Energy Code (MUBEC) 2015, or the newest MUBEC in effect at the time of permitting, and
- (3) All applicable local and state codes, ordinances, and standards as evidenced by inspection reports and/or written approval from local code enforcement officials (this applies to all municipalities within the State of Maine regardless of population size).

All projects developed under the Program must:

- (1) Include electrical raceways/conduits from the electrical panel to terminal units at the parking area for the future installation of Level 2 electric vehicle chargers and have an electrical panel that is adequately sized to provide for the future installation of Level 2 electric vehicle chargers.
- (2) Include electrical raceways/conduits from the electrical panel to terminal units at the roof for the future installation of PV solar panels and provide an electrical panel that is adequately sized to provide for the future installation of PV solar panels.
- (3) Include an internet connection in every unit and each unit must have access to internet service.

In addition, all new construction projects must utilize all electric equipment and systems such as heat pump(s), resistance heat, variable refrigerant flow, variable frequency drives, or other non-fossil fuel systems for heating, domestic hot water, cooking, and any cooling needs.

MaineHousing Construction Services will review plans for code and accessibility law compliance. MaineHousing reserves the right to inspect all phases of construction to determine compliance with its standards. Developers, design professionals, and contractors can view more detailed information on the design process, IBC, ASHRAE, and NFP codes, the construction process, and close-out process at <https://mainehousing.org/docs/default-source/development/rural--affordable-housing-program/rural-program-design-and-construction-requirements-and-process.pdf>.

Security

In order to obtain a zero interest deferred loan for projects, the developer will execute a 45-year deferred promissory note without interest, a mortgage and security agreement in favor of MaineHousing, a declaration of affordability covenants to be recorded at the applicable registry of deeds, and other documents and due diligence items as may be required by MaineHousing to secure the developer's obligations under the note and the Program.

In order to obtain a 6% interest only paying loan for projects, the developer will execute a 30-year promissory note, a mortgage and security agreement in favor of MaineHousing, a declaration of affordability covenants to be recorded at the applicable registry of deeds, and other documents and due diligence items as may be required by MaineHousing to secure the developer's obligations under the note and Program.

Generally, MaineHousing financing must be secured by a first lien mortgage and security interest in the land and improvements, a general assignment of leases, rents and contracts, a UCC security interest in all fixtures

and personal property of the development, a security interest in all accounts, reserves and escrows, established in connection with the development, indemnifications and other collateral required by MaineHousing in its sole discretion.

Projects will be required to comply with affordability and other requirements for the 45-year term. The loan may not be prepaid.

Application Requirements

For MaineHousing to accept and process an application under the Program the following will be required:

- (1) Application – **Exhibit A**
- (2) IRS 501(c)(3) tax-exemption determination letter (if applicable)
- (3) Corporate resolution demonstrating authority to undertake the project and incur the liability of financing
- (4) Completed MaineHousing pro forma available at: mainehousing-pro-forma.xls (live.com)
- (5) Evidence of site control (such as a deed, purchase and sale agreement, or an option);
- (6) Evidence that the project fits within existing zoning rules or final planning board approval if any variances were granted;
- (7) A narrative that addresses each of the following items concerning the *developer*.
 - a. Legal name;
 - b. Contact person, mailing address, phone and email address;
 - c. Current legal status;
 - d. Brief history, staffing levels, primary activities, geographic area of operations, prior experience with MaineHousing and the constituency or clientele to be served;
 - e. Qualifications and experience of developer’s proposed project team including any consultants, architects, site planners and/or engineer and contractors.
 - f. Financial statements for the most recent fiscal year;
 - g. Taxpayer Identification Number (“TIN”); and
 - h. A description of any real estate assets that are in default or foreclosure with a lending institution of that are otherwise at risk of substantive financial problems.
- (8) A narrative that addresses each of the following items concerning the project:
 - a. Project Name
 - b. Legal address;
 - c. Detailed description of any existing structures, including size, design, construction materials, foundation, condition, estimated age, utilities, historic use(s), accessibility, parking, and observable environmental concerns;
 - d. The planned number of total units;
 - e. Any non-residential space;
 - f. Scope of expected rehabilitation or construction;
 - g. Development timeline;

- h. Total funding requested from MaineHousing in the form of a zero interest deferred loan (subsidy);
 - i. Total funding requested from MaineHousing in the form of a paying loan (debt); and
 - j. Total funding from other sources (describe and include copies of commitment letters for all other sources required for the project)
- (9) A certification that if the developer receives funding, the developer will comply with all reporting requirements as determined by MaineHousing.

Scoring Criteria

MaineHousing will score applications based on the following criteria. Developers must complete all information and submit all documentation to be eligible for points.

Readiness. **Up to 20 points**

1. The project and any related developments have all municipal land use approvals (except building and other permits customarily issued during construction) and state land use approvals (such as site plan, subdivision, storm water, or wetlands approvals) required to proceed with and complete construction. **10 points**
2. If the timeframe to appeal all such approvals has expired with appellate action taken or all appeals have been resolved project is eligible for an additional **2 points**
3. Design and engineering documents have been prepared showing preliminary design, proposed scopes of work, conceptual site plans, floor plans, and cost estimates and are submitted as part of the application. **8 points**

Developer Capacity. **Up to 12 points**

1. Developer has previously developed multifamily rental housing in Maine or is directly engaged with a technical assistance provider or consultant that is clearly identified as part of the development team and who has worked with MaineHousing to develop multifamily rental housing in the past.

Financial Characteristics. **Up to 3 points**

1. Developer brings additional financial resources from a source other than MaineHousing to the project. Evidence of commitment including the source and timing for all additional funding is required.

Rehabilitation or Reuse of Existing Housing, Structure or Site. **Up to 5 Points**

1. The Project site exhibits one or more of the following characteristics:

Rehabilitation, remediation, or reuse of an existing building or structure that has a current use other than multifamily rental housing;

One or more buildings or structures used for purposes other than single family residential housing or agriculture purposes, have been or will be demolished or removed for purposes of redeveloping the site;

Left vacant or nearly vacant in the development of a downtown or other city or town center, such as vacant lots or parking lots abutting commercial buildings and/or multifamily rental housing; or

Specifically designated by a municipality for redevelopment to renew a blighted area or remediate environmental risks to the occupants.

Vacant lots in single-family residential areas are not eligible for points under this subsection. Undeveloped portions of existing sites are not eligible for points unless the existing project on the site previously satisfied one of the above criteria.

If final scoring results in a tie, MaineHousing may award additional points to (1) projects that are located in a community that has not had a MaineHousing-financed rental property in the past five years and (2) projects proposed by a developer that has not worked with MaineHousing in the past five years.

Submission and Contact Information

Please contact Kelly Purington at kpurington@mainehousing.org to submit an application.

Any questions about the Rural Affordable Rental Housing Program must be directed to:
MFDev@mainehousing.org

MaineHousing Non-Discrimination Policy

Maine State Housing Authority does not discriminate on the basis of race, color, religion, sex, sexual orientation, gender identity or expression, marital status, national origin, ancestry, physical or mental disability, age, familial status or receipt of public assistance in the admission or access to or treatment in its programs and activities. In employment, MaineHousing does not discriminate on the basis of race, color, religion, sex, sexual orientation, gender identity or expression, national origin, ancestry, age, physical or mental disability or genetic information. MaineHousing will provide appropriate communication auxiliary aids and services upon sufficient notice. MaineHousing will also provide this document in alternative formats upon sufficient notice. MaineHousing has designated the following person responsible for coordinating compliance with applicable federal and state nondiscrimination requirements and addressing grievances:

Lauren Bustard

Maine State Housing Authority

26 Edison Dr.

Augusta, Maine 04330-4633

Telephone Numbers:

1-800-452-4668 (voice in state only)

(207) 626-4600 (voice)

Maine Relay 711.

Approved:



Daniel E. Brennan

Director

September 5, 2023

Exhibit A Application

I am aware that this Application must be signed and complete, including required exhibits and attachments as noted.

To the best of my knowledge, all information contained in this application and its supporting exhibits and attachments is true and correct. I also hereby authorize the Maine State Housing Authority (“MaineHousing”) to evaluate the application in such manner as MaineHousing deems necessary, including discussing this application with any lender, municipal official, vendor, or other party with an interest in this property or project.

I hereby authorize MaineHousing to verify any bank or other fund balance indicated on any personal or organizational financial exhibit, to investigate credit, employment or business standing of that or any related party, to disclose any aspect of the financial information to any person but only for the purpose of determining the accuracy of the information or otherwise investigate and evaluate the application in such manner as MaineHousing deems necessary.

I certify that neither the owner/developer, its principals or partners is presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in any HUD programs.

Neither the developer, nor any principal or affiliate of the developer, nor anyone who will be paid for work on the program has business ties, familial relationships, or other close personal relationships with a current MaineHousing employee or commissioner or anyone who was a MaineHousing employee or commissioner within the past year except as follows:

Applications must be signed by all principals (Individual, Partner, or Corporate representative authorized to bind the company) in the developer entity.

NAME of DEVELOPER [if applicable]

By: _____

Printed Name: _____

Its: _____

No application for financing will be accepted or approved by MaineHousing if the developer, or any entity controlled by the developer, is more than 60 days delinquent on any loan with MaineHousing, or has been declared in default of such loan, unless either an approved payment or workout plan is in place and in good standing.

UNSIGNED APPLICATIONS WILL NOT BE ACCEPTED