

Mississippi Development Authority
Small Rental Assistance Program
Substantial Modification Two to Amendment One
CDBG Disaster Recovery Action Plan
Neighborhood Rental Restoration Project

I. Background and Scope

The Mississippi Development Authority (MDA) submits this Substantial Modification Two to the CDBG Disaster Recovery Action Plan Amendment One as approved by the Department of Housing and Urban Development. This Substantial Modification is submitted to implement the Neighborhood Rental Restoration Project of Round Two of the Small Rental Assistance Program which replaces the existing four program options with a single program option that will focus upon the repair and reconstruction of properties for rental by very low income tenants.

The Neighborhood Rental Restoration Project will provide an additional compliance amount to applicants and modifies the action plan to further facilitate the repair, rehabilitation and reconstruction of affordable rental housing that was built prior to August 29, 2005, by specifically targeting very low income tenants (50% AMI or below) at significantly lower 50% rental rates. These properties did not have to be rental stock at the time of the storm.

In order to facilitate the timely and efficient processing of applications, all applicants must own their property and must be current on all *ad valorem* taxes prior to the end of the application period. All repairs must be completed within twelve (12) months of the date of the first disbursement of funds.

These modifications shall have no force or effect upon those applications that were received prior to August 2009. The Mississippi Development Authority will continue to perform duplication of benefits checks upon these applications which will be identical to those checks performed upon Option B and C applications in previous rounds of the program. This Substantial Modification adopts and incorporates Section I of Technical Modification Number 01 and Sections II(C), II(E) and II(F) of Substantial Modification One so that they apply to this Program. All other provisions of CDBG Disaster Recovery Action Plan Amendment 1 apply to the extent that they do not conflict with this modification.

II. Substantial Modifications

MDA makes the following modifications to Amendment 1 of the Small Rental Assistance Program Action Plan.

A. Allocation of Funding per Option

In regards to the allocation of funding per Program Option, Amendment 1 states the following:

Each Program Option is funded at \$40,000,000. Each includes a nonprofit set-aside of \$5,000,000, which will be awarded for use in any of the four eligible counties. The remaining \$35,000,000 is earmarked for use in the specified counties – Hancock, Harrison, and Jackson Counties have been allocated \$10,000,000 each, and Pearl River County has been allocated \$5,000,000. Schedule I reflects the breakdown.

MDA, in its sole discretion, reserves the right to adjust the funding pools for Round 1.

MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that all funds available to the Small Rental Assistance Program may be utilized to encourage the rental of affordable units to very low income individuals in the three coastal counties of Hancock, Harrison and Jackson Counties, without individual allocations to those counties. MDA reserves the right to target specific geographic areas and locations that have a need for affordable rental housing. MDA, in its sole discretion, reserves the right to allocate funding to the Neighborhood Rental Restoration Project as it sees fit.

B. Plan Details

In regards to the Plan Details, Amendment 1 states the following:

For purposes of this amendment, small rental property is defined as properties with four (4) or fewer rental units.

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

For the Neighborhood Rental Restoration Project, applicants are only allowed to apply for “stand alone” single family homes that contain one, two, three or more bedrooms with the minimum square footage stated in Amendment 1 to the Action Plan. A property may not contain more than four units of any type.

C. Plan Overview

In regards to the Plan Overview, Amendment 1 states the following:

Owners of the rental properties and units will commit to renting the units to eligible applicants with incomes not to exceed 80% or 120% of the area median income (AMI) depending on the number of units per property. Owners are also restricted in the rents that can be charged to each tenant based on the tenant’s income. The commitment to the program is for 5 years.

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

Owners of the rental properties and units participating in the Neighborhood Rental Restoration Project will commit to renting the units to eligible applicants with incomes not to exceed 50% of the area median income (AMI). Owners are also restricted in the rents that can be charged to each tenant based on the tenant’s income. The commitment to the program is for 10 years.

D. Eligibility

In regards to eligibility, Amendment 1 states the following:

All rental properties must contain between one and four units.

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

For the Neighborhood Rental Restoration Project, applicants are only allowed to apply for “stand alone” single family homes that contain one, two, three or more bedrooms with the minimum square footage stated in Amendment 1 to the Action Plan. A property may not contain more than four units of any type.

Town homes, condominiums, units that share common walls with other units, duplexes, triplexes and fourplexes will not be eligible. In order for a unit to be eligible for the very low income Neighborhood Rental Restoration Project, construction must be completed within twelve (12) months of the first disbursement of funds. The unit did not have to be rental stock at the time of the storm in order to qualify.

In regards to eligibility, Amendment 1 states the following:

The program is open to repair, rehabilitation and new construction.

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

The Neighborhood Rental Restoration Project is only open only to repair, rehabilitation or reconstruction. In order to be eligible, applicants must prove that the property contains or did contain a structure that was built prior to August 29, 2005.

In regards to eligibility, Amendment 1 states the following:

Applicant must show evidence of site control at the time of application.

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

Applicants must provide proof that they owned the property on or before the date designated by MDA in order to participate in the Neighborhood Rental Restoration Project. Ownership shall be evidenced by fee simple ownership of the property. It is the responsibility of the applicant to provide this information to MDA within the time period designated by MDA.

In regards to eligibility, Amendment 1 states the following:

MDA reserves the right to limit or adjust the limit on the number of cumulative properties developed by any one applicant, non-profit organization, corporation, or other ownership group. The current limit is set at 25 properties with a maximum of four units per entity for rental subsidy and/or rehab and repair applicants (for a total of 100 units). New construction projects are limited to 5 properties with a maximum of four units per property units per ownership entity (for a total of 20 total units).

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

MDA reserves the right to limit or adjust the limit on the number of cumulative properties developed by any one applicant, non-profit organization, corporation, or other ownership group. New construction projects shall not be considered for the Neighborhood Rental Restoration Project.

E. Assistance and Requirements

In regards to assistance and requirements, Amendment 1 states the following:

Each eligible applicant may receive up to a total of \$30,000 per unit as a forgivable loan. An additional completion bonus is also offered for construction and rehab programs. Schedules of income limits, rental rates, and minimum unit square footage are attached for each eligible county. The loan will be interest-free and the principal will be forgiven if certain conditions are met. If conditions are not met, penalties will be applied and the loan will convert to an interest-bearing demand note. In exchange for the loan, each small rental property owner must agree to the following for a period of 5 years:

- The State will require the small rental property owners receiving funds under this amendment enter into certain agreements, among which will be a restrictive covenant that will be recorded and run with the land. The covenant will expire at the end of the 5 year rental period. Among other provisions, these agreements will require regular progress reports and permit MDA and its agent access to rent records and to perform site inspections.*
- For properties with multiple rental units, 100% of the units must be rented to tenants with income at 120% or less of Area Median Income (AMI).*
- For properties with multiple rental units, 51% of the available rental units in each property must be rented to tenants with income at 80% or less of AMI. For two-unit structures, one unit must be rented to tenants with income at 80% or less of AMI.*

- *The principal of the loan will be fully forgiven for those landlords whose units are rented to tenants meeting the AMI criteria for a minimum of 5 years. The loan will be forgiven starting after the completion of years 3, 4 and 5 of the rental period and on a prorated basis of 33.3% each year.*
- *Rental rates will be affordable as defined by HUD and/or MDA. Property management and oversight will also require compliance with HUD affordable housing standards and as such rate compliance and property management compliance must be met and maintained as plan defined affordable units for 5 years.*
- *If the owner of the rental unit pays all utilities, the owner may charge the tenant the full listed gross rent according to Schedule D. If the tenant is required to pay utilities, the owner must subtract the utility allowance listed.*

(Section language not listed herein shall not be changed.)

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

Each eligible Neighborhood Rental Restoration Project applicant may receive the funding detailed in the attached schedule as a forgivable loan. There shall be no completion bonuses for the Neighborhood Rental Restoration Project. Schedules of income limits, rental rates, and minimum unit square footage are attached for each eligible county. The loan will be interest-free and the principal will be forgiven if certain conditions are met. If conditions are not met, penalties will be applied and the loan will convert to an interest-bearing demand note. In exchange for the loan, each Neighborhood Rental Restoration Project small rental property owner must agree to the following for a period of 10 years.

- *The State will require that the small rental property owners receiving funds under this amendment enter into certain agreements, among which will be a restrictive covenant that will be recorded and run with the land. For the Neighborhood Rental Restoration Project, the covenant will expire at the end of the 10 year rental period. Among other provisions, these agreements will require regular progress reports and permit MDA and its agent access to rent records and to perform site inspections.*
- *For the Neighborhood Rental Restoration Project, all units must be rented to tenants with incomes at 50% or less of Area Median Income (AMI).*
- *For the Neighborhood Rental Restoration Project, the principal of the loan will be fully forgiven for those landlords whose units are rented to tenants meeting the AMI criteria for a minimum of 10 years. The loan will be forgiven starting after the completion of years 8, 9 and 10 of the rental period and on a prorated basis of 33.3% each year.*

• *Rental rates will be affordable as defined by HUD and/or MDA. Property management and oversight will also require compliance with HUD affordable housing standards and as such rate compliance and property management compliance must be met and maintained as plan defined affordable units for 10 years for the Neighborhood Rental Restoration Project.*

• *If the owner of the rental unit pays all utilities, the owner may charge the tenant the full listed gross rent according to Neighborhood Rental Restoration Project schedule below. If the tenant is required to pay utilities, the owner must subtract the utility allowance listed.*

(Section language not listed herein shall not be changed and shall still apply.)

F. Application Process and Program Options

In regards to application process and program options, Amendment 1 states the following:

MDA will accept applications for the Forgivable Loan through a series of open application periods. An application is required for each property. A total of up to \$160 million will be available in Round 1. Round 1 will include a \$20 million set aside (\$5 million for each Program Option) for nonprofit organizations. MDA may restrict the total number of property/unit awards to any one entity or owner. Round 1 will be open to owners of existing rental properties, same-site redevelopment or repair, or proposed new construction.

Each applicant may choose one of four Program Options as part of the application. Applicants may only choose one Primary Program Option per property. The program options are:

A. Rental income subsidy assistance

B. Repair, rehabilitation, or reconstruction reimbursement for Katrina-damaged property

C. Rehabilitation or conversion reimbursement for existing property to rental

D. New construction reimbursement.

Each Program Option is funded at \$40,000,000. Each includes a nonprofit set-aside of \$5,000,000, which will be awarded for use in any of the four eligible counties. The remaining \$35,000,000 is earmarked for use in specified counties—Hancock, Harrison, and Jackson Counties have been allocated \$10,000,000 each, and Pearl River County has been allocated \$5,000,000. Schedule I reflects the breakdown.

MDA, in its sole discretion, reserves the right to adjust the funding pools for Round 1.

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

MDA will accept applications for the Forgivable Loan through one or more open application periods. An application is required for each property. MDA may restrict the total number of property/unit awards to any one entity or owner.

There shall only be one option available for the Neighborhood Rental Restoration Project.

MDA, in its sole discretion, reserves the right to adjust the funding pools.

G. Scoring

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that all applications shall be processed on a “first come, first served” basis until available funds are exhausted. Applicants that provide all required documents shall be processed first in the order that the required documents are received. It is the responsibility of applicants to provide the required documents so that application processing can begin. Accordingly, priority scoring will not be required.

H. Disbursement of Funds

In regards to disbursement of funds, Amendment 1 states the following:

Funds will be made available to the small rental property owners in partial payments. Funds will be paid up to \$30,000 per unit as a forgivable loan. The loan will be disbursed subsequent to a formal closing.

Disbursement of funds for applicants choosing rental income subsidy assistance (Program Option A) will be based on the following schedule:

On inspection of the property: one-third

End of Year 1: one-third

End of Year 2: one-third

Disbursement of funds for applicants choosing Repair, rehabilitation, or reconstruction reimbursement for Katrina-damaged property (Program Option B), Rehabilitation or conversion reimbursement for existing property to rental (Program Option C), or new construction reimbursement (Program Option D) will be based on the following schedule:

On receipt of building permit: one-half

On certificate of occupancy: one-half

Any applicant in Program Option B or C may also participate in Program Option A. Applicants under Options B and C are eligible to receive rental income subsidies under Option A if the amount of damage to an individual unit is less than that unit's maximum loan amount. The excess loan amount can then be taken as rental income subsidy, up to the per-unit loan cap.

Award recipients under all program options must obtain a Certificate of Occupancy for each unit that receives Small Rental Assistance within 24 months of the date of the original disbursement. Failure to obtain a Certificate of Occupancy within 24 months will trigger default and repayment of the loan.

A tiered completion bonus is available under Program Options B, C, and D. Units with a Certificate of Occupancy dated within 6 months of first disbursement receive the full completion bonus. Units with a Certificate of Occupancy dated within 9 months of the date of first disbursement receive two-thirds (2/3) of the full bonus. Units with a Certificate of Occupancy dated within 12 months of the date of first disbursement receive one-third (1/3) of the full bonus. All bonus amounts will be rounded to the nearest \$100. Schedule G shows the range of completion bonuses.

Units with a Certificate of Occupancy dated between 12 and 24 months of the date of first disbursement receive no completion bonus.

(Section language not listed herein shall not be changed.)

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language is replaced with:

Funds will be made available to Neighborhood Rental Restoration Project small rental property owners in partial payments as shown in the attached schedule. The loan will be disbursed subsequent to a formal closing. Award recipients must obtain a Certificate of Occupancy or its equivalent for each unit that receives Small Rental Assistance within 12 months of the date of the first disbursement. Failure to obtain a Certificate of Occupancy within 12 months of the first disbursement of funds will trigger default and repayment of the loan.

(Section language not listed herein shall not be changed and shall still apply.)

I. Section 8 Rental Rates

For the purposes of the Neighborhood Rental Restoration Project, MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 and adds the following new provision:

If a Neighborhood Rental Restoration Project applicant chooses to participate in HUD's Section 8 Rental Voucher Program, said applicant cannot receive rental payments from any source or combination of sources that exceeds the Mississippi

Development Authority's published very low income rental rate. The Mississippi Development Authority shall continue to provide a list of applicants to the relevant Public Housing Authority and applicable rental rates for their review. It shall remain the responsibility of the relevant Public Housing Authority to perform all Section 8 duplication of benefits checks.

Neighborhood Rental Restoration Project applicants who participate in the Section 8 Rental Voucher Program are allowed to use a HUD approved Section 8 lease instead of the MDA lease for those units which are participating in the Section 8 Rental Voucher Program. All other applicants must continue to use the required MDA lease and rental rates which are posted on www.msdisasterrecovery.com.

J. Interest Rates

In regards to application process and program options, Amendment 1 states the following:

Interest will be calculated using prime rate at the time of noncompliance.

MDA modifies CDBG Disaster Recovery Action Plan Amendment 1 such that the cited language now reads as:

Interest will be calculated using LIBOR rate plus 1% at the time of noncompliance. This shall apply to all program rounds.

III. Substantial Modification

MDA has determined that this represents a major modification to the plan requiring submission for public comment and formal submission to HUD.

IV. Public Comments

The State of Mississippi is publishing this draft modification to solicit public comment. The draft plan will be available at county courthouses, administrative offices, and city halls. The draft modification is also available on the Internet at www.msdisasterrecovery.com. Comments may be emailed to disasterrecoverycomments@mississippi.org. Comments can be faxed to 601-359-4004. Additionally, comments will be accepted by postal mail sent to the following address: Post Office Box 849, Jackson, MS 39205, Attention: Disaster Recovery. Comments that are received by August 7, 2009 will be considered. Changes may be made at that time and then the final modification will be submitted to HUD for approval.

The comment period for this amendment ended on August 7, 2009 and as required by regulations, below is a summary of the comments or views received and MDA's response:

Comments:

1) Will Pearl River County be included?

- **Response: No**

2) What is the completion bonus?

- **Response: There will not be a completion bonus.**

3) When will applications be taken?

- **Response: September 1, 2009 to November 16, 2009**

4) A comment to expand the Neighborhood Rental Restoration Project to more than stand alone single family homes.

- **Response: No changes will be made to the eligible unit type.**

5) A comment to reconsider increasing the amount from \$70K to \$100K to cover the 10 year commitment period to cover the owner's recurring expenses since the rent will be drastically lower than the average market rent.

- **Response: No changes will be made to the loan amounts.**

6) A couple of comments to reconsider reducing the commitment period from 10 years to 5 years, reducing the low rent obligation from 10 years to 7 years with the loan forgiveness in thirds beginning in year 5 instead of year 8.

- **Response: No changes will be made to the commitment period or loan forgiveness period.**

7) A comment to open up to previous 80% AMI tenant criteria and increase the rent level.

- **Response: The low rent criteria will remain for tenants with incomes of 50% or lower of AMI and the rent levels will remain as stated.**

8) A comment to reduce the 10-year obligation due to the added cost of insurance and building to current codes. A comment to cut the commitment to 6 years with the forgiveness starting at year 3.

- **Response: No changes will be made to the commitment period or loan forgiveness period.**

V. Waivers

All waivers received from the original action plan are considered to be effective for this modification.

Neighborhood Rental Restoration Project Schedule

2009 Income Limits

	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Harrison/Hancock 50% AMI	\$18,150	\$20,700	\$23,300	\$25,900	\$27,950	\$30,050	\$32,100	\$34,200
Jackson 50% AMI	\$19,250	\$22,000	\$24,750	\$27,500	\$29,700	\$31,900	\$34,100	\$36,300

2009 Rental Rates

	One Bedroom	Two Bedrooms	Three or More Bedrooms
Harrison/Hancock 50% AMI	\$361	\$422	\$550
Jackson 50% AMI	\$335	\$402	\$554

Loan Amount Schedule by Unit Size

	One Bedroom	Two Bedrooms	Three or More Bedrooms
Total Loan Amount	\$50,000	\$60,000	\$70,000

Loan Amount Payment Schedule

	Payment After Closing	Payment After Certificate of Occupancy	Year One	Year Two	Year Three	Year Four	Total Loan Amount
One Bedroom	\$15,000	\$15,000	\$5,000	\$5,000	\$5,000	\$5,000	\$50,000
Two Bedrooms	\$20,000	\$20,000	\$5,000	\$5,000	\$5,000	\$5,000	\$60,000
Three or More Bedrooms	\$25,000	\$25,000	\$5,000	\$5,000	\$5,000	\$5,000	\$70,000

Utility Allowances by Unit Size

	1 Bedroom	2 Bedroom	3 Bedroom
Allowance	\$75.00	\$85.00	\$100.00

Minimum Unit Square Footage

Unit Size	Minimum Sq. Footage
1 Bedroom	660 Sq. Feet
2 Bedrooms	880 Sq. Feet
3 or More Bedrooms	990 Sq. Feet