



Appraisal Gap Pilot Program Guide

December 2018
(Revised June 2019)

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SECTION 1: THDA

1.1 THE GUIDE

The Appraisal Gap Pilot Program (“Gap Program”) is implemented by the Tennessee Housing Development Agency (“THDA”) and funded by THDA. This Appraisal Gap Pilot Program Guide (“Program Guide”), together with all subsequent revisions, modifications or updates provided by THDA, contains information about the Gap Program and specific requirements for program participant applications and for Gap Program applications submitted to THDA for funding (“Gap Program Subsidy”).

THDA may revise, modify or update this Program Guide from time to time and will notify the Gap Participants of such changes via email or by posting such changes to the THDA web site at www.THDA.org.

1.2 HOURS OF OPERATION AND HOLIDAY SCHEDULE

The Single Family Special Programs Division hours of operation are 7:30 a.m. until 4:30 p.m. Central Time, Monday through Friday. The Division will be closed on official State holidays which are as follows:

New Year’s Day

Martin Luther King Day

Presidents’ Day

Good Friday

Memorial Day

Independence Day

Labor Day

Columbus Day*

Veteran’s Day

Thanksgiving Day

Christmas Day**

* This holiday may be exchanged for a holiday on the Friday after Thanksgiving.

**Other holidays around Christmas may be announced later

1.3 SINGLE FAMILY SPECIAL PROGRAMS DIVISION STAFF DIRECTORY

The Single Family Special Programs Division has day-to-day operational responsibility over the processing, underwriting, and closing of the Appraisal Gap Program Subsidy. All correspondence should be directed to:

Single Family Special Programs
Tennessee Housing Development Agency
502 Deaderick Street, Third Floor
Nashville, Tennessee 37243

Special Programs General Information 615-815-2100

Toll-Free Voice Mail 1-800-228-8432

Fax (24 hours a day, 7 days a week) 615-649-3153

Via Email..... SFSPAsk@thda.org

Any interested person may receive a packet of general information concerning THDA programs by leaving their name and address on the Special Programs General Information line (see below) or on the THDA toll-free (TN) message line: 1-800-228-8432.

Information is also available on the THDA website at www.THDA.org.

Name and Title	Telephone	Email Address
Lindsay Hall, Chief Operations Officer	615-815-2080	LHall@thda.org
Cynthia Peraza, Director of Special Programs	615-815-2112	CPeraza@thda.org
Donna Neal, Program Administrative Coordinator	615-815-2085	DNeal@thda.org
Kathleen Norkus, Program Development Coordinator	615-815-2117	KNorkus@thda.org
Denise Hutchinson, Manager	615-815-2104	DHutchinson@thda.org
Theresa Smith, Processor	615-815-2113	TSmith@thda.org
Larisa Stout, Underwriter	615-815-2093	LStout@thda.org
Teresa Luckey, Payments	615-815-2074	TLuckey@thda.org
Evelyn Finch, Closings	615-815-2109	EFinch@thda.org
Eric Hall, Property Condition Coordinator	615-815-2076	EHall@thda.org

SECTION 2. PROGRAM OVERVIEW

2.1 GAP PROGRAM OVERVIEW

The Appraisal Gap Pilot Program (“Gap Program”) is a pilot program designed to provide a subsidy to eligible nonprofit entities, based on the difference or gap between the costs to build new homes or to substantially rehabilitate homes and the appraised value of the home that the nonprofit will sell to an eligible buyer. The Gap Program Subsidy may not fill the entire gap. The Gap Program’s goal is to expand the availability of affordable housing in areas of the state where property values have not fully recovered from the mortgage crisis.

2.2 GAP PROGRAM ELIGIBLE AREAS

The Gap Program is only available in the cities of Chattanooga, Memphis, and Oak Ridge. THDA may, in its sole discretion, add, delete or otherwise modify these eligible areas.

2.3 GAP PROGRAM TERMS

Certain Gap Program terms are as follows:

SUMMARY OF TERMS *	
Maximum Subsidy Amount	\$20,000.00
Minimum Subsidy Amount	\$ 1,000.00
Interest Rate	No Interest Rate
Repayable	No
Eligible Activities	New Construction or Rehabilitation of Existing Home
Eligible Property Types	Single Family 1-4 unit dwellings
Eligible Buyer	Meets income limits listed in Section 6.7
Eligible Cities	Chattanooga, Memphis, or Oak Ridge

* Other terms and requirements, as specified in this Program Guide, apply.

2.4 PROGRAM DURATION

The Gap Program begins on December 1, 2018 and will last until December 31, 2020 or when the full program allocation of \$500,000 is committed, whichever comes first.

SECTION 3. PROGRAM PARTICIPANTS

3.1 GAP PARTICIPANT ELIGIBILITY

To be an eligible Gap Participant, (“Gap Participant”), an applicant must be a local nonprofit organization that meets the following requirements:

- Be organized as a nonprofit under Tennessee law with 501(c)(3) status from the IRS for at least two years prior to the date of an application;
- Be engaged in affordable housing construction, rehabilitation, and/or development activities in at least one of the cities within which the Gap Program operates for at least two years prior to the date of an application; and
- Demonstrate sufficient capacity and experience to carry out the required activities; and
- Be in good standing with all THDA programs.

All materials submitted to THDA by an applicant must be satisfactory to THDA, in its sole discretion.

3.2 GAP PARTICIPANT APPLICATION

To apply to participate in the Gap Program, an applicant must take the following actions:

- Create a login and account in THDA’s Participant Information Management System (PIMS);
- Provide the required documents through PIMS;
- Complete the threshold questions required for the Appraisal Gap Pilot Program; and

Submit the Appraisal Gap Pilot Program Participant Application and all of the required documentation as specified on the Appraisal Gap Pilot Program Participant Application Checklist to THDA for review.

THDA reserves the right to request additional information prior to determining whether any materials submitted are satisfactory and whether an organization qualifies to become or remain a Gap Participant.

Once an applicant is approved to participate, has executed an Appraisal Gap Pilot Program Participant Working Agreement and returned it to THDA, THDA will provide the new Gap Participant with access to THDA’s management portal that will allow the Gap Participant to submit applications for the Gap Program subsidy.

THDA’s Participant Information Management System is located at <https://thda.org/business-partners/pims>. The Appraisal Gap Pilot Program Participant Application and the Appraisal Gap Pilot Program Participant Application Checklist are located at <https://thda.org/business-partners/gap>.

3.3 GAP PARTICIPANT SELECTION PROCESS

THDA will evaluate each application and will select Gap Participants in THDA’s sole discretion. Each applicant will be informed of THDA’s decision via email.

SECTION 4. PARTICIPANT OBLIGATIONS

4.1 GAP PARTICIPANT OBLIGATIONS

Gap Participants shall identify the lots or properties, build or rehab the homes, and identify an eligible buyer for the homes strictly in accordance with the requirements set forth in this Program Guide. THDA will review the Gap Program Subsidy Application requests to determine if they meet the Gap Program requirements and will issue all approvals or denials, in THDA's sole discretion.

1. The Gap Participant shall:

- a. Maintain no more than 10 active Gap Program Subsidy requests at one time;
- b. Provide THDA with required documentation, as THDA may require;
- c. Identify eligible lots to build affordable housing or homes requiring rehabilitation;
- d. Obtain a "Subject-To" appraisal of the property and Plans and Specs for new construction;
- e. Perform a physical inspection of the home that requires repairs;
- f. Obtain at least two bids for the proposed eligible activities, each of which must specify a dollar amount for 100% completion of the proposed eligible activities;
- g. Ensure all proposed eligible activities are included on the bids;
- h. Include locally owned business enterprises as contractors;
- i. Include minority and female contractors in solicitations for bids;
- j. Follow all federal, state, and local laws around asbestos requirements and all other applicable federal, state, and local laws, regulations and ordinances, environmental review, lead-based paint;
- k. List and sell the newly constructed or rehabilitated home at a reasonable sales price, using comparable sales;
- l. Sell the home to eligible buyers; and
- m. Obtain and provide the required documentation to THDA to verify buyer's eligibility.

SECTION 5. PROGRAM PROCEDURES

5.1 GAP PROGRAM PROCESS

Once approved, a Gap Participant will be authorized to submit an application for a Gap Program Subsidy for each property they plan to build or rehabilitate for affordable housing.

A Gap Participant may have a maximum of 10 active applications for a Gap Program Subsidy at one time. After disbursement of a Gap Program Subsidy, the Gap Participant may submit another application for a Gap Program Subsidy to maintain the 10 active subsidy maximum. THDA, at its sole discretion, has the right to lower a Gap Participant's maximum.

A Gap Program Subsidy must be for a specific property and may not be transferred to a different property. To be eligible for a Gap Program Subsidy, a Gap Participant must submit each of the following items to THDA within the timeline each is due, prior to full approval and or receipt of the Gap Program Subsidy.

1. Gap Program Subsidy Application:

At submission, the following items shall be delivered to THDA for review:

- a) A complete Gap Program Subsidy Application;
- b) Proof of Ownership;
- c) Proof the property is not in a historic area or Approval from State Historic Preservation Office;
- d) "Subject-To" Appraisal or Plans and Specifications for new construction;
- e) Rehab Inspection Report with color pictures of property, if applicable;
- f) Project Bids; and
- g) Projected Gap Worksheet.

After review of a Gap Program Subsidy Application, if the property meets THDA requirements, THDA will issue a Prior to Disbursement - Conditional Approval Letter ("Commitment") to the Gap Participant. The conditions listed on the Commitment must be satisfied by the Gap Participant within 9 months from the date of issuance.

2. 90 Day Gap Submission:

On or before 90 days from the date of Commitment, the Gap Participant shall submit the following documents to THDA:

- a) Building Permits, if applicable
- b) Progress Report or Project Update
- c) New Timeline or Estimated Date of Completion for Project

3. 180 Day Gap Submission:

On or before 180 days from the date of Commitment, the Gap Participant shall submit the following documents to THDA:

- a) Progress Report or Project Update
- b) New Timeline or Estimated Date of Completion for Project

4. Final Submission:

To obtain the Gap Program Subsidy, the Gap Participant shall submit the following documents to THDA on or before the earlier of the sale of the property or nine months from the Commitment Date:

- a) Certificate of Occupancy
- b) Final Inspection Report
- c) Buyer's Appraisal
- d) Buyer's 1003
- e) Buyer's Household Income (Paystubs, SSI, Retirement, etc.)
- f) Buyer's Third Party Authorization
- g) Copy of Executed Purchase Contract
- h) Copy of Final Closing Disclosure

Failure to provide the required documentation or any other documents requested by THDA, shall cause the property to be ineligible for a Gap Program Subsidy, as determined by THDA in its sole discretion. THDA reserves the right to request additional documentation to determining approval of the Gap Program Subsidy.

Once the Final Submission is received and the Commitment conditions are satisfied, THDA will determine if the Gap Program Subsidy Application will be fully approved and the amount of the Gap Program Subsidy, if any. If approved, the Gap Program Subsidy amount determined by THDA will be paid to the Gap Participant.

5.2 BUILDING PERMIT

Gap Participants shall obtain the required building permits as required by local regulations. The permits must be submitted to THDA in the 90 Day Gap Submission by Gap Participants.

5.3 ENVIRONMENTAL REVIEW AND LEAD-BASED PAINT

Gap Participants shall comply with all applicable federal, state and local regulations, laws, and policies in effect regarding environmental reviews and lead-based paint testing.

5.4 ASBESTOS REQUIREMENT

Gap Participants shall comply with all applicable federal, state and local regulations, laws, and policies required for asbestos removal and disposal. Given the health hazards associated with asbestos, adequate measures should be taken to minimize exposure to such material from the rehabilitation of buildings. All Gap Participants and their contractors should adhere to the following guidance in order to comply with federal and state regulations around building or rehabilitating dwellings. Federal asbestos regulations are contained in 40 CFR sections 61.140 through 61.160. Additional guidance may be obtained at Tennessee Department of Environment and Conservation Division's website:

<https://www.tn.gov/environment/permit-permits/permits-air/permit-air-notification-of-asbestos-demolition-or-renovation.html>

5.5 BIDS FOR PROFESSIONAL SERVICE

A Gap Participant who contracts for services (e.g. general contracting) should develop qualifying criteria and periodically advertise for contractors that meet those criteria. Advertising can be through newspapers, electronically or by mailing to at least two firms offering the desired services. Advertising communication must be retained on file for auditing purposes.

1. A list of the eligible contractors should be maintained and used to obtain the required services.
2. The purchase should be made from the lowest and best bidder whenever possible. If the lowest bid is not accepted, written justification for selecting a higher bid must be provided.
3. If two bids cannot be obtained, appropriate file documentation must be retained for auditing purposes and provided to THDA upon request

5.6 SCREENING/SELECTION OF CONTRACTORS/VENDORS

A Gap Participant that contracts for services (e.g. general contracting) should develop qualifying criteria and periodically advertise for contractors that meet those criteria. Advertising can be through newspapers, electronically, or by mailing to at least three firms offering the desired services. Advertising communication must be retained on file for auditing purposes. A list of the eligible contractors should be maintained and used to obtain the required services.

Gap Participants shall screen and select contractors who will perform the work and other vendors as needed to perform approved Gap Program activities. Screening/selection requirements should be rigorous enough to screen out unqualified or unstable contractors, but not so stringent as to prevent the participation of an adequate number of competent contractors. Gap Participants shall submit its contractor/vendor screening/selection policy at the request of THDA. Gap Participants shall maintain documentation to show that selected contractors meet the minimum requirements listed below and all other requirements contained in the Gap Participant's contractor screening and selection policy.

The following minimum requirements apply to the screening of contractors/vendors carrying out Gap Program activities:

1. Liability insurance: Private contractors must have adequate liability and property damage insurance;
2. Workers compensation: Private contractors must, at a minimum, be paying into the Tennessee Workers' Compensation Program. Private contractors operating a sole proprietorship and who have no employees are exempt from this requirement; however, they must have proof of adequate private medical insurance coverage;
3. Debarment: No private contractor or any of its personnel may be debarred or suspended by THDA or any Federal or State program;
4. Performance: Gap Participants must identify and document policies and procedures for barring poor performing contractors from initially participating or continuing to participate in the Gap Program;
5. Certifications: Private contractors must have written policies regarding a Drug Free Workplace and Equal Employment Opportunity; and
6. Conflicts of Interest/Code of Conduct: There must be no conflict of interest or code of conduct violation involving any person (volunteer or paid staff or Board member) associated with the Gap Participant and any private contractor personnel.

Gap Participants may elect to use contractors previously approved by the local city jurisdiction within which the rehabilitation or building activities will be carried out, so long as there is no conflict of interest.

5.7 MINORITY AND FEMALE VENDOR SELECTION

Documentation must show efforts to solicit minority and or female vendor participation. A list of minority/female contractors and businesses must be maintained. A statewide directory for local minority and female owned businesses is available on the State of Tennessee's website.

<https://www.tn.gov/generalservices/procurement/central-procurement-office--cpo-/governor-s-office-of-diversity-business-enterprise--godbe--/diversity-business-enterprise-directory.html>

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SECTION 6. PROPERTY ELIGIBILITY

6.1 PROPERTY OWNERSHIP

Gap Participant must own the property submitted for a Gap Program Subsidy. Proof of ownership shall be submitted to THDA with the Gap Program Subsidy Application.

6.2 PROPERTY ELIGIBILITY CRITERIA

THDA will determine property eligibility based on documentation provided by the Gap Participant. For a property to be eligible for the Gap Program, it must be residential property that meets the following criteria:

- Be a single family (1-4 unit) existing or new construction structure;
- Be located wholly within the city limits of Chattanooga, Memphis, or Oak Ridge; and
- Be owned by the Gap Participant.

6.3 PROPERTY EXCLUSIONS

The following types of properties will not be eligible for Gap Program:

- Commercial properties, multifamily properties, and manufactured homes.
- Properties not meeting THDA’s property eligibility criteria or otherwise not meeting the Gap Program requirements.

6.4 PROPERTY APPRAISALS FOR REHAB

THDA will require one “Subject-To” appraisal in connection with each application for Gap Program Subsidy. A final appraisal with final inspection by an appraiser verifying value based on completion, per plans and specs, will be due prior to the disbursement of the Gap Program Subsidy.

6.5 PROPERTY APPRAISALS FOR NEW CONSTRUCTION

THDA will require one New Construction Plans & Specs in connection with each application for Gap Program Subsidy. A final appraisal with final inspection by an appraiser verifying value based on completion, per plans and specs, will be due prior to the disbursement of the Gap Program Subsidy.

6.6 PROPERTY ACQUISITION LIMITS

Approved City	Maximum Acquisition Limit *
Chattanooga	\$250,000
Memphis	\$250,000
Oak Ridge	\$250,000

*These limits are the maximum sales price for the finished home.

6.7 BUYER INCOME LIMITS

Approved City	Maximum Household Income **	
	Household size: 1-2	3-4
Chattanooga	\$ 62,566	\$ 71,951
Memphis	\$ 64,200	\$ 73,830
Oak Ridge	\$ 66,600	\$ 76,590

**These limits apply to the buyer purchasing the completed home.

SECTION 7. SUBMITTING A GAP PROGRAM SUBSIDY APPLICATION

7.1 SUBMITTING A GAP PROGRAM SUBSIDY APPLICATION

An approved Gap Participant must submit a Gap Program Subsidy Application and all required documentation electronically through THDA’s secure portal. No originals will be accepted. Access to THDA’s portal will be provided upon approval of a Gap Participant.

The Gap Program Subsidy Application, Gap Program Subsidy Application Checklist and other required documentation are located at <https://thda.org/business-partners/gap>.

7.2 GAP PROGRAM STAGES AND REQUIRED DOCUMENTS

The Gap Program requires documentation at different stages of the 9 month period from initial application to Gap Program Subsidy disbursement. THDA, in its sole discretion, may request additional documentation to verify completion of each stage.

Stages of Program	New Construction:	Rehabilitation of Existing Home:
Gap Program Subsidy Application	<ul style="list-style-type: none"> • Proof of Ownership • New Construction Plans & Specs. • Proof Property is not on historical registry or approval from State Historic Preservation, if applicable • Projected Gap Worksheet • Bids for construction 	<ul style="list-style-type: none"> • Proof of Ownership • “Subject-To” Appraisal • Rehab Inspection Report with color pictures of property • Bids for Repairs • Proof Property is not on historical registry or approval from State Historic Preservation, if applicable • Projected Gap Worksheet
90 day Gap Submission	<ul style="list-style-type: none"> • Building Permit • Progress Report or Project Update • New Timeline or Estimated Date of Completion for Project 	<ul style="list-style-type: none"> • Building Permit, if applicable • Progress Report or Project Update • New Timeline or Estimated Date of Completion for Project
180 day Gap Submission	<ul style="list-style-type: none"> • Progress Report or Project Update • New Timeline or Estimated Date of Completion for Project 	<ul style="list-style-type: none"> • Progress Report or Project Update • New Timeline or Estimated Date of Completion for Project
Final Submission	<ul style="list-style-type: none"> • Certificate of Occupancy • Final Inspection Report • Buyer’s Appraisal • Buyer’s 1003 • Buyer’s Household Income • Buyer’s Third Party Authorization • Copy of Executed Purchase Contract • Copy of Final Closing Disclosure 	<ul style="list-style-type: none"> • Certificate of Occupancy • Final Inspection Report • Buyer’s Appraisal • Buyer’s 1003 • Buyer’s Household Income • Buyer’s Third Party Authorization • Copy of Executed Purchase Contract • Copy of Final Closing Disclosure

SECTION 8. GAP PROGRAM SUBSIDY

8.1 ELIGIBLE ACTIVITIES

The Gap Program may provide a subsidy of \$1,000 to \$20,000 to Gap Participants to cover the difference or gap between the cost to build a new home or substantially rehabilitate a home to encourage affordable housing. If the difference or gap is less than \$1,000, no Gap Program Subsidy will be provided. The Gap Participant must be rehabilitating an existing single family home or building a new single family home to be eligible for a Gap Program subsidy.

8.2 GAP PROGRAM SUBSIDY DISBURSEMENTS

All Gap Program Subsidy disbursements must have the documentation required for the approved rehabilitation or new construction activity. The Gap Participant shall provide an itemized list of all expenditures that are reasonable and customary in connection with the completion of the approved activity. THDA, at its sole discretion, will review, approve, or decline the documentation and costs within 15 business days from the date of receipt.

8.3 DOCUMENT RETENTION

Gap Participants shall retain all data, books, reports, documents, audit logs and records, including electronic records, or copies thereof, related to the Gap Program (“Records”) for a period of three (3) years from the date the Gap Program Subsidy is disbursed (“Retention Period”). Upon expiration of the Retention Period, Gap Participants may dispose of its Records, provided that, it has electronically submitted all Records to THDA and has received confirmation by THDA of the receipt of said Records.

8.4 DATA

The Gap Participant shall provide all data and documentation as may be required by THDA in its sole discretion.

END OF PROGRAM GUIDE