



Construction/Bridge Loan Program for Multifamily Housing Program Rules

Purpose

Kentucky Housing Corporation (KHC) has joined HOPE of Kentucky, LLC (HOPE), to leverage KHC's construction and bridge loan resources to assist projects in reducing potential financing gaps by offering reduced interest rates through blending KHC's low interest program funds with the pool of funds available from HOPE.

HOPE was established by the Kentucky Bankers Association to form a nonprofit consortium of banks to pool funds on affordable housing projects financed principally utilizing equity generated from the sale of federal low-income housing tax credits allocated to projects.

KHC and HOPE will provide construction loans and tax credit bridge loans to foster the production of affordable multifamily housing. Projects can be either new construction or an acquisition with substantial rehabilitation. Construction loans must have a permanent loan commitment from KHC or some other lender acceptable to KHC and HOPE. Construction loan guarantees will be required. Tax credit bridge loans are available on a case-by-case basis, depending on interest of credit worthy corporate investors.

Loan Requirements

The project must:

- Commit to meet the affordability requirements that accompany the particular permanent loan program(s) being used. This commitment will be formalized in a recorded Land Use Restriction Agreement, if one is not already being required.
- Comply with KHC's and HOPE's Underwriting and Development Policies. All construction and bridge loans must comply with the loan underwriting criteria outlined in Appendix A.
- Have a firm commitment for the permanent take-out financing from KHC or other lender acceptable to KHC, HOPE, and all equity sources.
- Have detailed plans and specifications that comply with current local, state, and federal building codes, and KHC's Design and Construction Standards (see KHC Multifamily Finance Guidelines).

Eligible Projects and Applicants

Applicants may be either nonprofit or for-profit entities, and must show evidence of competency, capacity, and experience. Current financial statements (audited if available) and tax returns must be submitted for the developer and contractor with the application.

Projects can be new construction, substantial rehabilitation (as defined in KHC's Qualified Allocation Plan for the Low Income Housing Tax Credit program), or acquisition with substantial rehabilitation. Project location and site are important considerations. KHC expects quality work and the use of quality materials. KHC prohibits involuntary relocation of tenants solely for the purpose of meeting loan eligibility requirements. If tenants must be relocated on a temporary basis to complete the proposed work, a written relocation plan must be approved, with details of relocation responsibilities and tenant compensation.

Eligible Uses and Disbursement Procedures

Any legitimate construction period development expense is an eligible use. KHC or its designee will conduct regular monitoring, and must approve all proposed disbursements with funding on a monthly percentage-of-completion basis.

Developer fee pay-outs cannot exceed one-third of the total budgeted developer fee amount (net of any planned developer fee loan) until completion of construction. Modifications to this payment schedule may be made on a case-by-case basis to reflect specific requirements of a project's equity investor provided that, at HOPE's discretion, sufficient performance based incentives are maintained to achieve timely construction completion, final closing, and rent-up of the project.

Maximum Loan Commitments

In general, the maximum loan amount will be limited by the availability of the funding sources available in the participation loan program plan. For the 2014 Housing Credit application round, up to \$36 million will be available for construction and bridge financing. KHC has committed up to \$12 million at 3.5 percent to be leveraged with up to \$24 million from HOPE.

General Contractor Requirements

Applicants are generally free to use any reasonable method for selection of contractors in accordance with KHC's Multifamily Finance Guidelines.

Construction Contract Requirements

HOPE must approve the construction contract. The construction contract must contain all of the requirements in KHC's Multifamily Finance Guidelines.

Bonding Requirements

All construction projects consisting of 11 or more units will require that the general contractor be backed by a 100 percent Payment and Performance Bond from a qualified bonding company, or a Letter of Credit (LOC) valued at 30 percent of the total construction loan. HOPE will determine if a bonding company is qualified or a LOC is satisfactory. The bond must include HOPE as a Joint Oblige. If a LOC is used, it must be kept in place for one year after substantial completion.

Interest Rate

The construction loan interest rate will be determined through a combination of KHC resources and HOPE resources to develop a blended interest rate. Rates shall be fixed for up to 12 months. Beyond 12 months, the rate may be re-set at the discretion of HOPE. Interest shall be billed monthly on the outstanding loan balance.

Application and Fees

Applications will be accepted as long as funds are available for commitment. Applicants must submit the checklist items identified on Appendix B to HOPE. Applications that do not include all of the required exhibits will be returned to the applicant.

- Commitment fee of 1 percent of the loan amount will be charged.
 - \$2,500 of the commitment fee will be due upon the return of the executed commitment letter to HOPE after the project is awarded, with the balance payable at loan closing.
- Underwriting fee: \$750.
- The applicant is also responsible for closing costs, including recording fees, title insurance premium, all attorney fees, real estate transfer tax if applicable, and any other fees relating to the loan.

KHC and HOPE reserve the right to reject any application that does not meet the requirements of these rules.

Approval Process

KHC and HOPE will underwrite the proposed loans, which must be approved by both KHC and HOPE.

Closing and Execution of Loan Documents

In addition to all of the items in Appendix A and Appendix B, KHC will assign responsibility for items on its closing agenda that will be circulated by HOPE's legal counsel prior to loan closing. The applicant shall be responsible for hiring its own attorney and be responsible for paying all legal costs of the transaction, including the fee of HOPE's legal counsel.

Upon approval from KHC and HOPE, HOPE will issue a firm commitment letter that, upon signing, will lead to final due diligence (primarily real estate and organizational document review) and drafting of loan documents.

For additional information on the construction bridge loan program, please contact either Billie Wade with HOPE, or Andrew Hawes with Kentucky Housing Corporation. Applicants must submit the checklist items identified on Appendix B, "Items needed for initial underwriting for Conditional Commitment" to HOPE of Kentucky by August 19, 2013 to obtain the Conditional Commitment prior to KHC's application submission deadline of September 3, 2013.

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APPENDIX A

Underwriting Criteria: Multifamily Construction and Bridge Loans

The following underwriting criteria are required for use when assessing construction and bridge loan applications. Tax credit bridge loans are available on a case-by-case basis, depending on interest of credit worthy corporate investors participating in the Federal Low Income Housing Tax Credit Program and availability of funds from KHC and HOPE. Additional underwriting criteria other than those described below may be considered on a loan-by-loan basis.

- Type of Loan:** Construction and/or bridge loans that are scheduled to be repaid in accordance with the capital contributions per the investor note and the permanent loan commitment for projects utilizing Federal Low Income Housing Tax Credits (Housing Credits).
- Eligible Projects:** Projects that have received a reservation or allocation of Housing Credits and have secured a permanent or construction/permanent loan commitment.
- Eligible Borrowers:** Project sponsors must be organized as a partnership or limited liability company with the general partner or managing member having commitments or letters of intent from each investor to contribute equity to the project in exchange for an ownership interest conveying the tax credits, losses, or other tax benefits that the project generates.
- Eligible Investors:** The syndicator/investor must demonstrate the financial and managerial resources to contribute the required equity to the project.
- Investor Note:** A promissory note executed by each investor in the project partnership in favor of the borrower partnership.
- Security:**
- (1) Assignment of the Investor Note provided by the tax credit investor(s);
 - (2) Collateral assignment of the project partnership's security interest in each investor's interest in the project partnership; and
 - (3) Assignment of Construction Contract. At its discretion, HOPE may request additional security or guarantees.

Loan Amounts:	No minimum. In general, the maximum loan amount will be limited by the availability of the funding sources available in the participation loan program plan. For the 2014 housing credit application round, up to \$36 million will be available for construction and bridge financing. KHC has committed up to \$12 million at 3.5 percent to be leveraged with up to \$24 million from HOPE.
Loan Terms:	Not to exceed four years.
Amortization:	Not to exceed four years. Interest payments will be required on a monthly basis. Principal repayments shall match the scheduled capital payments by investors.
Loan to Value:	Loan to appraised value generally shall not exceed 85 percent.
Initial Investor Payment:	Investors must provide at least 10 percent of the total scheduled investor contributions to the partnership at or prior to partnership closing, and at least 20 percent of the scheduled investor contributions must be paid in prior to construction completion. KHC and HOPE reserve the right to require higher contribution prior to construction completion.
Interest Rates:	The construction loan interest rate shall be determined in accordance with the KHC's and HOPE's interest rate setting policy and is subject to change at any time. Contact HOPE of Kentucky for applicable interest rates.
Servicing:	HOPE will be responsible for billing, collecting, and servicing of loan disbursements and loan payments.

APPENDIX B

KHC/HOPE Application Checklist

Items needed for initial underwriting for Conditional Commitment:

- Market study
- Project sources and uses
- 15-year operating proforma
- Current financial statement on developer and contractor
- Résumés of all development team members, including developer, consultant, architect, and contractor
- Letter of Intent or commitment letters from other funding sources
- Narrative of the project
- Physical needs assessment if rehab project

Additional Items Needed for Commitment Letter After an Award of Housing Credits:

- \$500 application fee payment
- \$2,500 of the commitment fee with the balance at closing.
- Tax returns for last two years for developer and any guarantors
- Appraisal (including value of tax credits and favorable financing).
***NOTE:** Appraisal must meet all KHC appraisal standards and must be ordered by HOPE from one of the KHC-approved appraisers after KHC's initial award of housing credit. Appraisal will name both HOPE and KHC as users.*
- Updated Letter of Intent or commitment letter from equity provider
- Construction contract
- Architect contract
- Copies of Rental Subsidy Agreements from HUD, Rural Housing, etc.
- Updated commitment from other funding sources, if applicable
- Building plans and specs
- Payment and performance bond or Letter of Credit commitment
- Survey
- Management agreement
- Form of rental agreement
- Tax credit allocation award from KHC
- Evidence of utilities availability to site

- Marketing plan
- Phase I environmental
- Ground leases (if applicable)
- Evidence of proper zoning
- Evidence of site control
- Supportive services plan (if applicable)
- Other items as requested by HOPE/KHC

NOTE: Final due diligence items related to organizational title, investor agreement, etc., will be needed prior to closing.

All applications for Construction Bridge Financing must be submitted to HOPE of Kentucky, LLC, to obtain letters of intent prior to submitting the 2014 Housing Credit application to KHC. The letter of intent must be submitted with the application as a commitment.

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