Kentucky Housing Corporation

Notice of Funding Availability

GAP Financing with Tax Exempt Bonds

7/29/2014

INTRODUCTION

A core function of Kentucky Housing Corporation (KHC) is to provide quality, safe, and affordable rental housing for Kentucky's residents. Decreased pricing on 4% Low Income Housing Tax Credits (LIHTC) has curtailed the use of conduit tax-exempt private activity bonds (tax-exempt bonds) and thereby limited the amount of private equity that is invested in Kentucky's multifamily housing. In an effort to increase the use of tax-exempt bonds, private investment in affordable multifamily housing within the Commonwealth and the overall production or rehabilitation of quality, safe and affordable rental housing, KHC is making available a combined total of $10.1 million of KHC's Preservation Revolving Loan Funds (PRLF), KHC's Equity Bridge Loan (EBL), HOME Investment Partnerships (HOME Gap) and Affordable Housing Trust Fund (AHTF Gap) funds (collectively, the "Funds") to be exclusively utilized as described within this Notice of Funding Availability (NOFA).

KHC has determined that the Funds can be allocated most effectively through the issuance of this NOFA. It is anticipated that the Funds will be awarded prior to the 9% LIHTC application deadline and the selected projects will closed on all funding sources within 12 months from the date in which the Funds are awarded. This NOFA describes the types of eligible projects and the allocation process through which these funds will be awarded based on the requirements established in the 2014 Qualified Allocation Plan (QAP).

KHC specifically reserves the right to fund any application submitted under this NOFA with any of the sources of funding being made available. Accordingly, applicants should note that developments receiving federal funding will be required to comply with the applicable federal regulations.

If you have any questions regarding the NOFA, please contact KHC's Andrew Hawes, managing director of multifamily programs, toll-free at (800) 633-8896 or (502) 564-7630, extension 326; TTY 711; or e-mail ahawes@kyhousing.org.

FUNDS AVAILABLE

Preservation Revolving Loan Fund - $2,000,000

Eligibility Criteria

Multifamily projects with current Rural Development (RD) Section 515 funding may apply for funds for rehabilitation of existing housing units. All applications are subject to the requirements of the PRLF program and KHC's capacity and credit reviews.

Goals

KHC's PRLF program will be leveraged with other KHC programs to provide the ultimate recipients with the needed capital to preserve and rehabilitate existing RD multifamily housing units for long-term use as affordable rental housing for low-income, rural households. KHC's goal is to preserve 50 to 100 units with the PRLF funds from Rural Development.

Equity Bridge Loan Funds (Urban and Rural) - $6,000,000

Eligibility Criteria

EBL funds are available for both new construction and rehabilitation of existing multifamily structures throughout the Commonwealth of Kentucky. KHC reserves the right to limit the maximum award of EBL funds to $2,000,000. *See attached Equity Bridge Loan Program - Term Sheet*.

Goals

KHC's EBL funds will be leveraged with other KHC programs and affordable housing resources to provide program recipients the needed capital to create or preserve affordable multifamily housing in Kentucky. KHC's goal is to finance 100 to 200 units with the EBL program.

HOME – GAP (Rural) - $1,500,000

Eligibility Criteria

The following local jurisdictions are designated as a HUD Participating Jurisdiction (PJ) for the HOME program and receive a direct allocation of HOME funds. Projects located in these areas are not eligible to apply for KHC-administered state HOME funds and should apply to the applicable local jurisdiction for HOME funds.

- City of Owensboro
- Merged governments of Lexington/Fayette County
- Merged governments of Louisville/Jefferson County
- The consortia of the cities of Bellevue, Covington, Dayton, Ludlow and Newport.

Applicants requesting PRLF or EBL funds may also request HOME Gap funds. To the extent that an Applicant requests HOME Gap together with other Funds, there must be a clear demonstration that the HOME Gap is necessary for the viability of the project, as proposed. Applicants seeking HOME Gap must present an alternative plan of financing demonstrating the project can continue if KHC fully commits the available HOME Gap funding to other higher scoring projects. Developers must identify the source of qualifying HOME match.

In addition to the foregoing:

- There is a maximum of $500,000 HOME Gap per applicant;
- Term: 30 years;
- Rate: 1% - 3.5% based on the projects ability to repay;
- Lien Position: Subordinate to PRLF or EBL;
- HOME funds are recourse;
- HOME Gap may be used during construction and the interest may be deferred; and

- Annual debt service will be required in an amount equal to the greater of $1,000 per year or twenty-five percent (25%) of excess annual cash flow.

Goals

Create or preserve 300 or more affordable multifamily units in rural areas of the Commonwealth.

AHTF - GAP (Urban) - $600,000

Eligibility Criteria

AHTF Gap funds are available in areas that are designated as a PJ and are not eligible for HOME funds from KHC.

Applicants requesting PRLF or EBL funds for a project located in a PJ may request AHTF Gap funds. AHTF Gap funds are available to developments that receive an award of HOME funds from the applicable PJ. KHC will match the local PJ's HOME, or other affordable funding commitments dollar-for-dollar up to $300,000 per applicant. To the extent that an Applicant requests AHTF Gap together with other funds, there must be a clear demonstration that the AHTF Gap is necessary for the viability of the project, as proposed. Applicants seeking AHTF Gap must present an alternative plan of financing demonstrating the project can continue if KHC fully commits the available AHTF Gap funding to other higher scoring projects.

In addition to the foregoing:

- Term: 30 years, due at maturity;
- Rate: 1% – 3.5%, based on the project's ability to repay;
- Lien Position: Subordinate to PJ HOME mortgage;
- AHTF Gap may be used during construction and the interest may be deferred;
- Annual debt service will be required in an amount equal to the greater of $1,000 per year or twenty-five percent (25%) of excess annual cash flow;
- A qualified non-profit must own at least 51% of the general partner interest and materially participate in the management of the ownership of the development.

Goals

Collaborate with and encourage local PJ's to invest resources to create or preserve 300 or more affordable multifamily units in urban areas of the Commonwealth.

Associated Fees for PRLF or EBL funds

Each successful applicant will be charged a (i) commitment fee of two percent (2%) of the loan amount and (ii) a closing fee of $5,000. The applicant is also responsible for closing costs, including recording fees, title insurance premium, all attorney fees, real estate transfer tax, if applicable, and other fees typically incurred in connection with the applicant's development.

Projected Timeline

July 29, 2014:	Release NOFA;
September 25, 2014:	Commitment Review package due;
October 24, 2014:	Commitment Awards announced;
October 24, 2014:	KHC on-line application system will be available for selected applicants;
August 1, 2015:	Deadline for closing (KHC may, at its discretion, provide one or more extensions consistent with the procedures set forth in the 2014 Qualified Allocation Plan).

NOFA RESPONSES

Applicants must meet the requirements of the 2014 Qualified Allocation Plan (QAP) and 2014 Multifamily Guidelines.

In the event two or more projects are submitted from the same county, Kentucky Housing Corporation may require lower scoring projects to update the project's market study to recognize and take into account the other projects funded in that county and any impact on the market's need for the units proposed. If the market review shows the target region cannot absorb multiple projects, then only the highest scoring project will be approved.

The following exceptions will apply:

- The funds will only be available to projects that have not yet received or applied for an allocation of tax exempt bonds.
- Projects must be completed and placed in service no later than three years after the date of the conditional commitment of funding.

SELECTION CRITERIA

Project Characteristics - 40 points

10 points will be awarded to projects that meet one of the following:

- The development includes the preservation of three or more existing affordable multifamily housing projects.
- The development project includes the redevelopment of vacant or foreclosed multifamily building.
- The development consists of the adaptive reuse of a building, converting it into affordable multifamily housing.

10 points will be awarded to projects that meet one of the following:

- The development contains Project-Based Section 8 rental subsidy or other rental subsidy, for at least 25 percent of the units.
- The development contains RD financing under the USDA 515 program.

Up to 20 points will be awarded to applicants assisting the greatest number of units:

- 75 or fewer units – 5 points
- 76 – 100 units – 10 points
- 101 – 150 units – 15 points
- 150 – 200 units – 16 points
- 200 or more units – 20 points

<u>Financial Characteristics</u> - 40 Points

Up to 20 points will be awarded based on the applicant's ability to repay the EBL loan in a short period of time (5 years – 20 points; 6 years – 16 points; 7 years – 12 points; 8 years – 8 points; 9 years – 4 points; 10 years or more years – 0 points).

Up to 20 points will be awarded based on the applicant's ability to combine at-risk non-performing projects (projects with negative cash flow) with performing projects to balance the overall financing proposal.

- 3 - 4 non-performing projects are part of the development plan – 10 points;
- 5 - 6 non-performing projects are part of the development plan – 15 points; and
- 7+ non-performing projects are part of the development plan – 20 points.

<u>Experience with 4% Bond Projects</u> - 40 Points

KHC supports development <u>teams</u> that have experience with tax-exempt bonds. Because of the complicated process and requirements of the 4% bond programs, KHC is seeking experienced partners that can place developments into service in a timely manner.

- 15 points will be awarded to applicants that provide a signed engagement letter with a placement agent or bond underwriter that has either participated in at least one tax-exempt bond issued by KHC within the previous two (2) years, or acted as a lender in connection with any KHC multifamily project within the previous two (2) years and such lender is able to act as an underwriter or placement agent in connection with the tax-exempt bonds.
- Up to 25 points will be awarded to applicants that have:
    1. A signed engagement with a law firm with a physical office within the Commonwealth of Kentucky, and the attorney(s) responsible for the engagement are licensed in Kentucky, and such attorney(s) have acted as bond counsel in connection with at least one KHC multifamily bond issue within the previous three years (10 points);

2. Attorneys that have demonstrated a comprehensive understanding of KHC's general bond resolution (10 points);
3. Attorneys that have closed one or more KHC multifamily projects that included HOME or AHTF within the previous two (2) years (5 points).

Tie Breakers

1. Projects that assist the greatest number of units,
2. Projects that repay PRLF / EBL funds in the shortest amount of time,
3. Projects that request the least amount of PRLF / EBL funds per unit.

APPLICATION SUBMISSION DOCUMENTATION REQUIREMENTS

- A résumé or qualifications package for each employee or partner who will be working on the project, including bond transaction history, if any.
- Developer's current year financial statements and relevant references. If not available, explain why and provide previous year's statements.
- Engagement Letter with the applicable underwriter, placement agent or bond purchaser, including bond transaction history.
- Engagement Letter with the applicable bond counsel, including bond transaction history. Include the résumé or qualifications package of each attorney who will be working on the proposed financing, including a bond transaction history.
- A letter from the project's Bond Underwriter that outlines the bond structure and all steps required, including a timeline, for closing the financing for the project.
- Project History Narrative (existing rental units only).
- Narrative and supporting documentation explaining the competitive points claimed by the applicant.
- Evidence of Site Control.
- Scope of Work (existing rental units only).
- Full disclosure of any identity of interests.
- Market Study (new rental units only).
- Audited financials or rent rolls for the past five years evidencing occupancy (existing units only). A full market study for each property will be required, if funded, at the time the full application is submitted.
- KHC underwriting models for each project included in the proposal. KHC requires individual project level underwriting models using the KHC-provided model, as well as an overall underwriting model showing the overall performance of the combined portfolio. The overall underwriting model may be on a developer-provided model.

PRLF AND KHC EQUITY BRIDGE LOAN PROGRAM – TERM SHEET

The Equity Bridge Loan (EBL) program can provide a short-term loan to extend the schedule of the Low-Income Housing Tax Credit (LIHTC) investor's equity payments to an affordable housing project (a Property). By deferring the investor's equity installments, the LIHTC investor's anticipated return on investment increases, and as a result investors are willing to pay a higher price for each LIHTC generated by a property, thereby generating increased private sector capital available to fund renovations and allow certain projects to be financially feasible.

The intent of the EBL is to assist KHC in deploying its resources in an efficient and practical way and to meet the following objectives:

1. To increase KHC's ability to cause the construction or preservation of safe, decent, affordable housing within the Commonwealth of Kentucky;
2. To help increase the availability of tax-exempt bonds, LIHTC and private equity within the Commonwealth;
3. To maximize the impact of private sector capital in rural properties;
4. To complement and augment existing government loan programs;
5. To maintain the lowest possible rents for tenants; and
6. To provide for secure repayment of the loan to KHC and to permit KHC to quickly redeploy repaid loan proceeds to preserve additional properties.

I. Proposed Loan Terms

The following outlines the proposed terms for structuring an EBL for individual properties or for a portfolio of properties.

a) Loan Amount

The maximum loan amount of EBL that may be awarded to any one applicant will be $2,000,000. KHC reserves the discretion to increase the aforementioned maximum amount as necessary to achieve the goals stated within the NOFA.

b) Term

- A maximum term of 11 years, including a 12-month deferred payment period and a 10-year amortization period.
- The interest-only period and the loan term are optional and may be extended for an additional six (6) months due to construction delays at KHC's discretion.

c) Amortization

- For the initial twelve (12) month period following loan closing, no payments will be due on the loan other than interest payments. KHC may, at its discretion, defer such interest payments until the placed in service date.
- Following the deferral period, principal on the loan will amortize with level annual payments over the remaining term.

- The EBL will fully amortize over the term of the loan with no balloon payments due at maturity.

d) Interest Rate

The interest rate will be determined by KHC based on a property's needs and the ability to repay the loan with interest, but in no event will the interest rate be less than 3.00% nor more than 4.00%.

II. Loan Funding

The full amount of the EBL will be available for disbursement to the project owner to pay for eligible project costs at closing. To the extent that the full amount of the EBL is not funded at closing, the project owner may make subsequent draws on a monthly basis until the full amount of EBL is funded. Monthly interest will accrue on the funded loan balance from the date of disbursal.

III. Loan Repayment

Interest and principal for the EBL will be repaid from the LIHTC investor's equity payments contributed to the Property. KHC will require collateral and a pledge of the investor's interest and equity payments, as described in Section IV.

The amortization of the EBL will commence on the first anniversary date of the loan closing and will consist of equal payments of principal and interest over the term of the loan. Annual payments for the full amount due in each year will be due on the anniversary date and will be calculated using a 30/360 accrual method. At closing, capitalized interest for the first twelve (12) months will be funded into a capitalized interest reserve.

IV. Security and Collateral

The EBL will be secured with a subordinate mortgage on the Property to secure the debt. In addition, the borrower shall provide additional security to KHC, which may take the form of the following:

- During construction, the borrower will furnish either a 100% payment and performance bond or an irrevocable letter of credit equal to KHC's funds, excluding tax exempt bonds as construction security.
- The syndicator or investor will provide KHC with a collateral assignment of partnership interest in the Property.
- The equity investor will provide collateral to secure the full amount of the loan for both principal and interest for the entire term of the EBL in the form of one of the following:
  1. An unconditional promissory note from the investor or syndicator; or
  2. An unconditional payment guaranty from the corporate investor limited partner;
  3. Only if option 1 or 2 is not available, an irrevocable letter of credit from a bank equal to the unpaid principal balance of the EBL.