Schedule D, Section 3

501(c)(3) Tax-Exempt Bond Financing ("Bonds") Requirements

Qualified 501(c)(3) organizations may use 501(c)(3) tax-exempt bonds as a means of financing the acquisition and/or rehabilitation of multifamily housing. Organizations using this financing tool should first look to their local Unit of Government to be the bond issuer, whenever possible. In those instances where the local Unit of Government is unable or unwilling to issue the bonds, the Authority in its sole discretion pursuant to the Code may elect to issue the bonds. Developers may formally apply to the Authority to serve as a conduit issuer of the bonds. No direct allocation of 501(c)(3) tax-exempt bonds is required from the Authority. Applications are reviewed on an on-going basis by Finance staff at the Authority and may be submitted at any time throughout the year.

The Authority's primary criteria for evaluating tax-exempt multifamily bond financed Developments include: 1) state and local market conditions related to housing; 2) the physical features of a Development; 3) financing structure of the deal; and 4) Development, financial, and management team qualifications. Proposals will be evaluated based upon those factors, as well as the criteria detailed below. Proposed Developments *must* meet all of the following requirements in order to be eligible for 501(c)(3)-bond financing. **The Authority reserves the right to NOT award bonds to a proposed development for any reason.**

A. Organizational Requirements

1. The organization requesting bond issuance from the Authority must be a qualified 501(c)(3) organization created for charitable purposes.

2. A primary purpose of the 501(c)(3) organization must include the promotion and provision of housing for low and moderate-income persons and families.

3. The 501(c)(3) organization must be in existence at least three (3) years at the time the bonds are issued.

4. The 501(c)(3) organization's charitable purpose must be furthered by the bond-financed Development.

5. Any private or for-profit involvement in the Development must be in compliance with applicable provisions of the Internal Revenue Code, regulations, rulings and other Internal Revenue Service guidance, including the following:

   a. The 501(c)(3) organization cannot be created or controlled by a for-profit developer, manager, or other private party;

b. The costs of organizing and pursuing tax-exempt financing cannot be paid for or loaned by a for-profit entity involved in the bond financed Development;

c. Bank lenders, third-party guarantors, and other lending institutions that have a business relationship with the 501(c)(3) organization cannot have the Authority or influence over the organization's budget, fees, policies, or procedures;

d. The 501(c)(3) organization cannot enter into a management contract with a for-profit manager providing for the sharing of net profits or including penalties if the 501(c)(3) organization terminates the contract;

B. Use of Proceeds

1. Affordability Requirements
    a. Developments must comply with the applicable provisions of the Internal Revenue Code and meet the federally regulated affordability requirements for 501(c)(3) bond financed Developments.

    b. Bond-financed multifamily Developments must set-aside at least 75% of the units for "low-income" households with annual incomes below 80% of area median income (adjusted for family size). Of those low-income units, at least 20% must be made available to households with annual incomes below 50% of the area median income, or at least 40% must be made available to households with annual incomes below 60% of the area median income.

    c. Once the low-income percentage is established, it must remain in place for 20 years, or the term of the bonds, whichever is greater.

2. Bond requirements
    a. All properties to be financed must be 100% owned by a 501(c)(3) organization or governmental unit;

    b. For bond financed Development providing residential rental property, the Development must either be new construction, must be a "qualified residential rental Development," (as defined in IRS Code Section 142d) or must be substantially rehabilitated (rehabilitation expenditures must equal at least the adjusted basis of the property acquired and be made within the two-year period ending one year after the date of acquisition of such property);

    c. The weighted average maturity of the bonds cannot exceed 120% of the weighted average life of the facilities financed;

    d. No more than 2% of the proceeds of the bonds may be used to pay costs of issuance;

e. Bonds are subject to general arbitrage investment and rebate rules.

f. The Authority requires debt service reserve, repair and replacement reserve, compliance monitoring, and/or other security measures.

g. All bond-financed Developments must comply with the provisions of the Internal Revenue Code, regulations, rulings and Internal Revenue Service guidance.

h. For acquisitions of property, the Authority will require at a minimum, the items in the Capital Needs Assessment to be rectified and may require additional items to be completed based off of the Authority's review of the development.

C. Other Requirements

1. In a given calendar year, each 501(c)(3) organization will be limited to $40 million in bond issuance unless it is a multi-county transaction. In addition, The Authority will review and consider each organization's total funding awards from the Authority for the year. This includes allocations of other IHCDA resources.

2. The Authority will not issue unrated or unenhanced bonds. Therefore, the Authority requires some form of credit enhancement or insurance beyond the credit of the housing Development and the mortgage. The bonds issued by The Authority must also receive an investment grade rating from one or more nationally recognized rating agencies (exceptions will be reviewed on a case-by-case basis).

3. The 501(c)(3) organization will be required to provide opinion of outside counsel acceptable to the Authority regarding the organizations 501(c)(3) status and the impact of the bond financing thereon.

4. Bond proceeds can be used to finance up to a maximum of 95% of total estimated Development costs. Borrowers are required to make a minimum 5% cash equity contribution to the transaction.

5. The 501(c)(3) organization will be required to pay all costs of issuance, including the Authority's up-front issuance fee of 1 point of the total bond proceeds, as well as the costs of issuers counsel and financial advisory services to the Authority (if necessary). Organizations will also provide broad indemnification of the Authority for any costs, expenses or liabilities incurred in connection with the bond financing.

6. The 501(c)(3) organization will be required to pay trustee fees throughout the life of the transaction.

7. Underwriting is subject to final review and approval by the Authority. At a minimum, the underwriting must meet the RHTC underwriting criteria standards and requirements pursuant to the Plan.

8. A market study, financial feasibility analysis, capital needs assessment, and appraisal of the proposed bond-financed Development is required. Such reports must adhere to -RHTC guidelines and standards. See Schedule C for the specific Market Study and Fair Market Appraisal requirements.

9. The borrower is required to enter into a regulatory agreement with the Authority at the time of loan closing. This is a recorded document in place for the term of the loan. The regulatory agreement will set forth the sponsor's responsibilities and obligations relating to such issues as affordability requirements and use restrictions, management of Development reserves, and financial reporting.

10. The Authority may require evidence of local community support for bond-financed Developments.

11. Bond counsel must be an Indiana firm with experience in these types of transactions.

D. Loan Application and Approval Process

1. Preliminary Conference – borrowers are encouraged to meet with the Authority Finance staff to discuss the Development proposal, objectives, and Development team and to review the Authority's 501(c)(3) bond financing policies and requirements.

2. Loan Application – developers must complete the Multi-Family Housing Finance Application that is part of this Plan. Applications may be submitted at anytime throughout the year. The Authority may contact the sponsor for additional information or clarification as needed. The sponsor must have site control in order for the Authority to consider an application. The following *must* also be submitted at the time of application: 1) Articles of Incorporation and Bylaws; 2) IRS Determination Letter; 3) Not-for-Profit Eligibility Questionnaire; 4) market study; 5) tenant profiles and/or rent roll; and 6) upfront nonrefundable application fee equal to 1 basis point of the total requested bond proceeds (e.g. if requesting $15,000,000 in bond issuance, the application fee equals $1,500).

3. Site Review – to determine general site and surrounding area suitability and identify possible environmental hazards. If the proposal is for acquisition and rehabilitation of an existing property, the review may require the submission of a preliminary inspection report in order to familiarize the Authority with the sponsor's plans.

4. Preliminary Resolution– the application will be reviewed and analyzed by the Authority Finance staff before submission to the Authority's Executive Director and presentation for approval by the Authority's Board of Directors. The Authority may take up to 60 business days to review and analyze an application. The applications should be submitted and received at least 120 days prior to the date of the monthly board meeting at which it may be presented. If the board approves the proposed

Development, this serves as an inducement for the borrower and Development team to proceed, at their own risk, with developing final plans and costs.

5. Final Resolution - once the borrower and the Authority Finance staff determine that the proposed Development meets the conditions and requirements of the 501(c)(3) bond program, and the deal structure has been firmly established, the borrower may request a final board resolution. Staff will present the proposal to the Board of Directors for final approval and arrange a mutually acceptable schedule for the bond issuance, pricing, and closing date.