



**Notice of
Funding
Availability**

2019

**Gap Financing Available for
Tax-Exempt Bond Transactions**

INTRODUCTION

A core function of Kentucky Housing Corporation (KHC) is to invest in quality, safe, and affordable rental housing throughout Kentucky. As demand grows for capital for the preservation and creation of affordable multifamily housing, KHC has sought ways to expand available funding and equity. One way to do this is by increasing the use of conduit tax-exempt private activity bonds (Tax-Exempt Bonds) which allow projects to access 4% Low-Income Housing Tax Credits. Four percent tax credits are not limited by Kentucky's annual credit allocation and may be accessed when at least 50% of eligible development costs are financed by tax-exempt bond proceeds.

To increase the use of Tax-Exempt Bonds, private investment, and the overall production or rehabilitation of affordable rental housing, KHC is making available a combined total of \$14.2 million of KHC's Equity Bridge Loan (EBL), HOME Investment Partnerships (HOME), Affordable Housing Trust Fund (AHTF), and National Housing Trust Fund (NHTF) funds (collectively, the "funds") to be exclusively utilized as described within this Notice of Funding Availability (NOFA). These KHC funds will be made available with applications due on or before August 30, 2018. **KHC reserves the right to fund any project, or no projects, at its sole discretion.**

Purpose of this NOFA: This notice serves as a streamlined, initial announcement of funds available. Respondents will submit applications through KHC's Universal Funding Application (UFA) system using the "2019 TEB NOFA" Application.

Project versus property: In this NOFA, "project" refers to the property or properties included in the NOFA response. "Property" refers to an individual multifamily property. Therefore, a "project" may include three or more "properties" bundled into a portfolio for an overall NOFA application.

Funding sources and regulations: KHC reserves the right to fund no responses or to fund any response submitted under this NOFA with any of the sources of funding being made available. Accordingly, respondents should note that developments receiving federal funding will be required to comply with the applicable federal regulations. HOME and/or NHTF funds may trigger Uniform Relocation Act requirements, and income restrictions may render current tenants ineligible for Tax Credit, HOME, and/or NHTF-assisted units.

Income averaging: Tax-Exempt Bond projects may elect the income averaging option for the purposes of the 4% credit allocation; however, they must still meet a 20/50 or 40/60 minimum set-aside. Therefore, a bond project with 4% credits can elect an income averaging set-aside for purposes of tax credit compliance, as long as the unit mix selected would also meet either a 20/50 or 40/60 minimum set-aside test for purposes of bond compliance.

Fees: Refer to KHC's [Multifamily Guidelines](#) for the applicable fee structure.

Point of contact: Questions should be directed to Tracy Thurston, KHC's Managing Director of Multifamily Programs, toll-free at 800-633-8896 or 502-564-7630, extension 218 or email tthurston@kyhousing.org.

SUMMARY OF NOFA FUNDS AVAILABLE

| Source | Total Available | Maximum Per Project | Notes |
|---------------------------------|---------------------------|--|--|
| KHC Sources* | | | |
| Tax-Exempt Bonds | \$100 million | Limited to ≤100% of total development costs | All projects must utilize tax-exempt bonds |
| 4% LIHTC Equity | Limited by IRS | Based on eligible basis and investor interest | Accessed when 50% of eligible TDC is financed with tax-exempt bonds. |
| Equity Bridge Loan (EBL) | \$5 million | Based on demand | Delays LIHTC equity for increased pricing on credits. |
| HOME | Approximately \$5 million | Non-Portfolio Project: \$1 million per project Portfolio Project: \$250,000 per property up to a total of \$2.5 million per project | |
| NHTF | \$2.7 million | Based on demand | Must be utilized to provide housing for those at 30% AMI or lower. |
| AHTF | \$1.5 million | \$500,000 per project | |

*KHC reserves the right to alter funding amounts and/or mix funding sources.

KHC FUNDS AVAILABLE*

*Pursuant to the national and state fair housing laws, KHC reserves the right to examine all applications in terms of any possible disparate impact which may present artificial, arbitrary, and unnecessary barriers to minorities as well as for any valid government interest which might be served. KHC reserves the right to administer and to modify and adjust any allocation as it deems appropriate to accomplish its housing goals, including its goal of creating and enhancing housing choices in areas of opportunity (maximizing leveraging of available program resources and encouraging geographic distribution).

EQUITY BRIDGE LOAN FUNDS

Goals: Equity Bridge Loan (EBL) funds will be leveraged with KHC’s HOME, AHTF and/or NHTF funds to provide respondents with the needed capital to create or preserve affordable multifamily housing in Kentucky.

Eligibility Criteria: EBL funds are available for both new construction and rehabilitation of existing multifamily structures throughout Kentucky. **See attached KHC Equity Bridge Loan Program Term Sheet.**

HOME Investment Partnerships Program (HOME)

Goals: Create or preserve affordable multifamily housing within the Commonwealth.

Eligibility Criteria: To the extent that a respondent requests HOME together with other funds, there must be a clear demonstration that the HOME is necessary for the viability of the project, as proposed.

In addition to the foregoing:

- There is a maximum of \$2,500,000 HOME per assisted Portfolio project (\$250,000 per property).
- There is a maximum of \$1,000,000 HOME per non-Portfolio projects.
- Rate/Term: 0% interest, 30 years deferred, due at maturity.
- Lien Position: Subordinate to EBL and other lenders where KHC HOME is 50% or less and superior to any local participating jurisdiction's (PJ) lien for HOME funds.
- HOME funds are recourse.
- HOME may be used during construction.

National Housing Trust Fund (NHTF)

Goals: Create or preserve affordable multifamily housing within the Commonwealth, serving tenants at 30% or lower AMI.

Eligibility Criteria: To the extent that a respondent requests NHTF together with other funds, there must be a clear demonstration that the NHTF is necessary for the viability of the project, as proposed.

In addition to the foregoing:

- KHC is making \$2,700,000 of NHTF available through this NOFA with no limit to the amount any one project may receive. If a project can demonstrate the necessity of the full amount of \$2,700,000, KHC may award the full amount to a single project.
- Rate/Term: 0% interest, 30 years deferred, due at maturity.
- Lien Position: Subordinate to EBL, if applicable, and superior to any local participating jurisdiction's (PJ) lien for HOME funds.
- NHTF funds are recourse.
- NHTF may be used during construction.
- NHTF funds must be used in conjunction with project-based rental assistance.

Affordable Housing Trust Fund (AHTF)

Goals: To create or preserve affordable multifamily units in the Commonwealth.

Eligibility Criteria: AHTF funds are available throughout the Commonwealth. AHTF may be used to match any local entitlement community's HOME or AHTF funds dollar-for-dollar up to \$500,000 per project. When a project requests AHTF together with other funds, there must be a clear demonstration that AHTF is necessary for the viability of the project.

In addition to the foregoing:

- Rate/Term: 0-2% interest, 30 years deferred, due at maturity.
- Lien Position: Subordinate to EBL, if applicable, and PJs' HOME/AHTF mortgage.
- AHTF funds are non-recourse.
- AHTF may be used during construction.
- A qualified nonprofit **must** own at least 51% of the general partner interest and materially participate in the management or ownership of the development.

PROJECTED NOFA TIMELINE

| | |
|------------------------|--|
| June 22, 2018 | KHC releases NOFA. |
| July 30, 2018 | Development Team Capacity applications due. |
| September 27, 2018 | Last date NOFA pre-applications may be submitted. KHC reserves the right to extend this deadline as needed to fully utilize resources. Should KHC elect to extend this deadline, announcements will be made via KHC's eGram notification system. |
| February 28, 2019 | Last date for full application submission. |
| May 31, 2019 | Technical submission complete. Extension requests may be made in accordance with 2019-2020 Qualified Allocation Plan (QAP) and Multifamily Guidelines via waiver. Extension fees apply. |
| December 19, 2019 | Deadline for closing. KHC may, at its discretion, provide one or more extensions consistent with the procedures set forth in the 2019-2020 QAP. Extension fees apply. |
| 24 Months From Closing | Projects must be completed and placed in service no later than 24 months after the date of the closing of all KHC funds. |

THRESHOLD CRITERIA FOR ALL PROJECTS

1. Applicants must utilize a minimum of \$5,000,000 in Tax-Exempt Bonds for construction and/or permanent financing.
2. Applicants must meet the requirements of the 2019-2020 Qualified Allocation Plan (QAP) and 2019 Multifamily Guidelines.
3. Applicants must engage an attorney or attorneys who: have acted as bond counsel or counsel for the bond trustee or bond purchaser in connection with two (2) or more KHC multifamily bond issue within the previous five (5) years; or can demonstrate a comprehensive understanding of KHC's general bond policies and procedures.
4. The funds will only be available to projects that have not yet received an allocation of Tax-Exempt Bonds or any other KHC-administered resources.
5. Applicants must provide a completed KHC NOFA Portfolio Summary.
6. All projects must clearly address one or more impediments to fair housing. Respondents must identify fair housing impediments in KHC's Analysis of Impediments to Fair Housing (AI).
7. Single-family projects are prohibited.
8. KHC may require a project to recognize other funded projects in its market study review. In the event two or more projects are submitted from the same geographical region, KHC staff will determine, based upon a market study review procured by KHC, whether the targeted market for that particular region will be able to absorb each project. If the market review shows the target region cannot absorb multiple projects, then the project meeting the most preferences will be approved. Market study considerations may cause a property or a project to be denied funding or have funding reduced during the application and technical submission phase.

KHC Funding Preferences:

- Projects with some form of project-based rental assistance;
- Rehabilitation projects consisting of three or more properties (portfolio projects);
- Projects serving elderly populations;
- Projects with an innovative approach to providing services that support an assisted living/aging-in-place environment;
- Projects coupled with services pursuant to a Medicaid waiver;
- Innovative projects addressing the affordable housing needs of the commonwealth, including projects offering services to youth aging out of foster care, workforce housing, etc.
- Equitable geographic distribution of KHC resources.

Portfolio Projects. If any preference is applicable to any one property within a portfolio project, the project will be treated as meeting that preference.

No Priority. There is no priority to the preferences and the preferences are listed in no particular order.

Submission of NOFA Response:

NOFA responses must be submitted to KHC via the Universal Funding Application (UFA) system.

Public Records Acknowledgement:

As part of its response to the NOFA, Applicant acknowledges that it is aware that its response and all materials submitted constitute public records within the meaning of the Kentucky Open Records Act (Kentucky Revised Statutes (KRS) §§ 61.870 to 61.884). Once respondents have been awarded funds through the NOFA selection process, KHC may be required to share submitted materials to satisfy an open records request.

Applicant must also acknowledge and agree that unless such material is segregated and clearly designated by Applicant in its response as eligible for an exemption pursuant to KRS § 61.878, KHC will comply with valid open record requests and make the response material available for inspection and/or copying. Applicant must further acknowledge and agree that even material which is so segregated and designated by the Applicant may become subject to release by KHC upon a successful challenge by a member of the public.

NOFA ATTACHMENT A
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. 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 construction and/or rehabilitation 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 support 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 affordable 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

| | |
|----------------------|--|
| <i>Loan Amount</i> | \$1 million - \$5 million per project, based upon demand. |
| <i>Term</i> | Maximum term of 11 years including a 12-month interest-only 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. |
| <i>Amortization</i> | 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. |
| <i>Interest Rate</i> | 3.00% - 3.50%. The interest rate will be determined by KHC based on a Property’s needs and the ability to repay the loan with interest. |

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.

III. Loan Repayment

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

The amortization of the EBL will commence on the first anniversary date of the loan closing and will consist of equal monthly 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 January 1 of each year following closing and will be calculated using a 30/360 accrual method. An alternate payment schedule may be approved by KHC. 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 any one of the following to be determined by KHC in its sole discretion:

- During construction, the borrower will furnish either a payment and performance bond or an irrevocable letter of credit equal to KHC's funds, meeting the requirements of the KHC Multifamily Guidelines.
- The syndicator or investor may 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.
 - 4) Any other form of security as determined by KHC, in its sole discretion.

V. Associated Fees

Each successful applicant will be charged a commitment fee of one percent (3%) of the loan amount and a closing fee of \$7,500 per assisted property. 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.