

MISSOURI HOUSING DEVELOPMENT COMMISSION

**2010 Developer's Guide to MHDC
Multifamily Programs**

NOFA Application

Rental Production Department

This guide explains the application process for MHDC funding, including MHDC's review process, underwriting standards, and priorities for funding. Please review this guide closely when considering or completing an application for funding.

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A. APPLICATION INFORMATION

1. The NOFA

MHDC will from time to time issue a Notice of Funding Availability (“NOFA”). There will be at a minimum one NOFA for 2010. Any NOFA will indicate the funding types, funding amounts, and application deadlines for that particular round. The NOFA, the Qualified Allocation Plan (“QAP”), and this Developer’s Guide to MHDC Multifamily Programs (“Developer’s Guide”) describe and clarify the procedures, priorities and expectations for each application and applicant for MHDC funding. Should a question arise that cannot be answered by the NOFA, QAP or Developer’s Guide, please contact MHDC’s Director of Rental Production or Chief Underwriter at your convenience.

2. The Application

In response to any NOFA, an entity requesting funds from MHDC’s rental production programs must submit an application. An application is defined as two tabbed three-ring binders with exhibits (one with originals, one with copies), one CD-R with required electronic exhibits, and one check for the application fee. Failure to submit an application, as defined, prior to the deadline established in the NOFA will result in rejection of what is submitted.

Applicants requesting tax credits must indicate whether they are seeking the 9% credit (competitive credit) or the 4% credit (for tax-exempt bond developments). MHDC shall have the right to consider any application for 4% credits for a potential allocation of 9% credits if the proposal meets the requirements and competes successfully with other 9% credit applications in the evaluation process. Additionally, MHDC reserves the right to consider any application of 9% credits for 4% credits if determined to be necessary or feasible in MHDC’s sole opinion. MHDC will accept only one application for any site(s) that make up a development. If more than one application is received for a site or collection of sites, the first application received will be accepted and any subsequent applications will be rejected.

3. Submitting an Application

All applications in response to any NOFA must be physically received at MHDC’s Kansas City office-located at 3435 Broadway, Kansas City, MO 64111 by 4:30 pm Central on the deadline established in the NOFA. There are no exceptions to this requirement. Due to the competitive nature of the funding

programs, it is in the applicant's best interest to provide as complete and accurate documentation as possible. The application gives staff a first impression of a proposed site. Poorly-prepared applications will not demonstrate a strong competitive proposal and may give staff reason to question the capacity or ability of the developer and its consultant, if applicable. Early submittals are encouraged but do not receive preferential treatment.

4. Public Hearings

In compliance with program requirements, MHDC staff will send notification to the chief executive officer of the local jurisdiction, the state senator and state representative for the district of the proposed development, and the executive director of the local public housing authority for all applications. Those notified will be given an opportunity to comment on the proposed development. MHDC will consider the comments and may contact the local jurisdiction for additional information.

MHDC will also publish a notice in a regional newspaper requesting public comment on each application. Public hearings will be held in St. Louis, Kansas City, Springfield, and Columbia, according to a schedule yet to be determined, to afford the public an opportunity to comment on developments proposed in a given region. Specific dates and times will be published in regional newspapers and on the MHDC website.

All communication from the public must be received no later than the date of the final public hearing to be included in the evaluation process.

B. APPLICATION REVIEW

All applications submitted in response to a NOFA will undergo each of the five staff review stages described below, unless the application is rejected during one of the stages. If an application is rejected during the Initial, Primary Documentation or Secondary Documentation Reviews, a written explanation will be provided to the applicant.

1. Initial Review.

The Initial Review will be conducted to determine if the applicant and their application meet the following requirements:

- a. **Organized Application.** Applications must be submitted in three-ring binders and organized with tabs according to the FIN-125 checklist. An application that is not organized in the manner described above will be rejected.
- b. **Good Standing with MHDC.** Any member of the development team that is the owner or general partner of a Section 42 development that is currently in noncompliance due to site audits or a failure to comply with the owner's reporting requirements will be denied participation in the NOFA. In addition, any development team member that is not in compliance or good standing with any other MHDC program will be similarly denied participation. If MHDC learns that any principal involved with a proposed development has serious and/or repeated non-performance or non-compliance issues in Missouri or any other state before or after the time of application, the application will be rejected. Prior performance considered might include, but is not limited to, progress made with previous tax credit reservations, development compliance and payment of fees, and/or violation of the MHDC Workforce Eligibility Policy.

Please contact MHDC prior to submittal if you plan to apply and you are unsure whether you or your development team members are in good standing.

- c. **Consistent with Section 42 Requirements.** The proposal must meet all the requirements set forth in the Code and all relevant U.S. Treasury regulations, notices and rulings.
- d. **Consistent with Fair Housing Requirements.** The submitted proposal must meet all the requirements of The Fair Housing Act of 1968, as amended.
- e. **Consistent with Internal Revenue Service Memorandum of Understanding.** MHDC and the IRS may execute a Memorandum of Understanding ("MOU") to improve the administration of the federal LIHTC. Under the terms of this MOU, all developers must complete IRS Form 8821 (Rev. 8-2008), Tax Information Authorization, as a condition of consideration for an allocation of 9% Credit or 4% Credit. An executed IRS Form 8821 for the developer, owner and general partner entity must be included as part of the application.
- f. **Consistent with Tax Credit Accountability Act.** Under the provisions of the Tax Credit Accountability Act (R.S.Mo. sections 135.800 to 135.830) all developers/applicants must complete all necessary forms and reporting requirements during the reservation process, the allocation process and for a period of three years following the issuance of credits by MHDC, as the administering agent for the state LIHTC, to comply with the provisions of the act. All developers must complete MDOR Form 8821 (Rev. 11-2007), Missouri Department of Revenue Authorization For Release of Confidential Information, as a consideration for the allocation of the state LIHTC. MHDC will obtain tax clearance regarding the developer/applicant from the

Missouri Department of Revenue at the time of application. A state tax delinquency may result in an application being rejected.

The Initial Review will be performed in conjunction with the documentation review (described below). If at a later date it is discovered that an application does not meet one of the Initial Review requirements it will be rejected, or if funds have been reserved, that reservation may be terminated.

2. **Primary Documentation Review.**

All primary documents must be complete and submitted by the application deadline. A missing primary document will result in the rejection of the application. An exact list of the documents can be found on the FIN-125 and in the application exhibit discussion below.

MHDC may be forced to allow corrections to primary documentation, but this will be allowed only in rare circumstances. Any opportunity for correction will be afforded to all applicants, but applicants should expect that if they turn in an application missing primary documentation it will be rejected.

3. **Secondary Documentation Review.**

All secondary documentation must be received in order for an application to receive further consideration. If secondary documentation is missing at the time the application is submitted, the applicant will be notified in writing of missing items and a date by which deficiencies must be cured ("Cure Date"). If there are missing or incomplete secondary exhibits, a fee of \$50 per incomplete/missing exhibit will be assessed. If there are six or more incomplete or missing secondary exhibits the application will be rejected. If the incomplete or missing secondary documentation and the fees for deficient items are not received by the Cure Date, the application will be rejected. The FIN-125 contains an exact list of the secondary documentation required and the application exhibit discussion below further explains the requirements.

It is expected, but not guaranteed, that notification regarding secondary documentation deficiencies and the Cure Date will be mailed within 10 business days of the application due date established in the NOFA.

If the Initial, Primary Documentation and Secondary Documentation reviews are successfully passed, an application is deemed complete and will be considered for further review.

4. **Site Review.**

During the course of the application review process MHDC will conduct a review of the site(s) chosen for each proposal. The review will consist of a staff site visit and a determination regarding the feasibility, marketability, appropriateness of the site(s) for the intended population, and assessment of any perceived environmental issues. The results of the site review play an important role in the Competitive Review.

Vacant land presents a challenge in correctly identifying the location of a proposed site, particularly in rural areas and pre-construction phase subdivisions. MHDC encourages applicants to place a sign marking the location. Staff reserves the right to contact applicants to meet them at the site for a physical inspection subject to timing and availability. Contact with the applicant does not indicate either a favorable or negative response to the application or choice of a site.

5. **Competitive Review.**

Once an application has gone through an Initial, Primary Documentation, Secondary Documentation and Site Review and is considered complete to MHDC's satisfaction, it will undergo a Competitive Review. The Competitive Review uses the established housing priorities, selection criteria, and underwriting standards to determine recommendations for funding. All factors are considered and those applications deemed to best meet the goals of MHDC will be recommended to the commission for formal approval.

C. HOUSING PRIORITIES

MHDC has created the housing priorities found below to highlight and encourage the types of development that will best meet the commission's mission. The priorities are not a substitute for the selection criteria, and applications that qualify for one or more of the priorities are not assured funding. Applications are reviewed as a complete package and all selection criteria and review stages are considered. Applications that meet one or more of the housing priorities will be given extra

consideration and are encouraged, but qualifying for a housing priority cannot overcome other deficiencies in the application, such as a weak market or poor feasibility.

Qualification for any of the priorities, except the Geographic Priority, is at the sole discretion of MHDC. Submitting the proper documentation will qualify an application for consideration for priority; however, the quality of that documentation will determine if the application meets one of the housing priorities.

1. Geographic Priority

- a. Disaster Housing Credits shall be allocated only to proposals located in the Midwestern Disaster Area which meet MHDC's standards and are deemed worthy following evaluation according to the selection criteria outlined in section III.B of the QAP. The Midwestern Disaster Area is defined as the counties designated by the Act to be eligible for Disaster Housing Credits, said counties being Adair, Andrew, Barry, Callaway, Cass, Chariton, Clark, Gentry, Greene, Harrison, Holt, Jasper, Johnson, Lewis, Lincoln, Linn, Livingston, Macon, Marion, Monroe, Newton, Nodaway, Pike, Putnam, Ralls, St. Charles, Stone, Taney, Vernon, and Webster.
- b. An attempt will be made to allocate the 9% credit across the state on a population proportionate basis adjusted annually, with the state divided into the following areas:
 - i. **St. Louis Region - 34%:** Franklin, Jefferson, St. Charles, St. Louis City and St. Louis counties.
 - ii. **Kansas City Region - 19%:** Cass, Clay, Jackson, Platte, and Ray counties.
 - iii. **Out State Region - 47%:** All other counties.

MHDC will make its best effort to reserve credits in the above listed manner, but given the needs of individual deals and the strength of applications in each region it may not be feasible for final approvals to achieve the exact geographic distribution listed. MHDC is not obligated to approve 100% of the federal credits available if it deems there are not enough worthy applications competing for the credits. In addition, the commission reserves the right to classify specific developments as serving "Special Needs Areas," which could allow for funding of said development(s) without regard to the targeted geographic set-aside. For example, any developments in the Midwestern Disaster Area may qualify as being in a Special Needs Area.

The above percentages do not apply to bond developments seeking the 4% credit; however, MHDC does encourage and will give extra consideration to bond developments in the out state region that meet all the other requirements.

2. Non-Profit Involvement Priority

Section 42(h)(5)(A) states that not more than 90% of the state housing credit ceiling can be allocated to developments that do not involve a qualified non-profit organization. This is commonly known as the “non-profit set-aside” and applies only to the 9% low-income housing tax credit. MHDC will give priority to applications that involve a qualified non-profit until the 10% requirement has been met. At its discretion, MHDC may continue to give priority to proposals that involve qualified non-profits after the 10% requirement has been met.

Section 42(h)(5)(C) of the Code defines a qualified non-profit organization as:

- a. A 501(c)(3) or (c)(4) non-profit organization; and
- b. Having an expressed purpose of fostering low-income housing; (This purpose must be expressed in the organization’s by-laws, if they are not, the development will not be considered for this priority.) and
- c. One that will own an interest in the development and materially participate in the development and operation of the development throughout the compliance period; (Material participation is defined in Section 469(h) of the Code as “involved in the operations of the activity on a basis which is regular, continuous and substantial.”) and
- d. Is not affiliated with, nor controlled by, a for-profit organization.

HOME regulations dictate that 15% of HOME funds be loaned or granted to qualified Community Housing Development Organizations (“CHDO”). Certain legal, organizational, and other requirements apply for a non-profit organization to qualify for CHDO status (24 CFR Part 92.2). If the development is seeking HOME under the CHDO set-aside the non-profit entity must be the controlling general partner of the ownership entity to qualify.

Developments that wish to be considered for the non-profit involvement priority under either the tax credit non-profit set-aside or the CHDO set-aside must fully complete the applicable sections of the FIN-100 and provide the following items with their application:

- i. Non-Profit Organization's Certificate of Incorporation;
- ii. Articles of Incorporation and By-Laws;

The articles of incorporation and by-laws must include any and all amendments and should have the portion describing the organization's purpose of fostering low-income housing highlighted.

- iii. Certificate of Good Standing;

The certificate of good standing must be dated within 30 days of the application due date.

- iv. IRS Letter Evidencing Non-Profit Status; and

- v. Non-Profit Questionnaire. The non-profit questionnaire must be completed, executed and include all relevant attachments, such as a list of the board members and the most recent audited financial statement.

- vi. CHDO Recertification Form R-100. The CHDO recertification form is required for all non-profit applicants requesting HOME funds from the CHDO set-aside. All the attachments requested in the R-100 must be included.

The non-profit must be involved in the ownership as either a general partner or co-general partner.

3. Service-enriched Housing Priority

Developments that offer more than housing are strongly encouraged. Proposals that offer significant services tailored to the tenant population are a priority for MHDC.

To be considered under this priority a development must target a specific population. Examples include but are not limited to:

- a. Elderly households;
- b. Individuals with children;
- c. Formerly homeless individuals and families; or
- d. Individuals with physical and/or developmental disabilities.

The applicant should demonstrate that they have experience with the population in question. If the applicant does not have experience with the specified population, they should have a commitment(s) from a service provider(s) who does have the necessary experience. Any commitments should be for the entire 15-year compliance period.

Developments that wish to be considered under this priority must fully complete the applicable sections of the FIN-100 and provide the following with their application:

- i. A detailed supportive services plan which explains the type of services that will be provided, who will provide them, how they will be provided and how they will be funded;
- ii. A services budget which includes a breakdown of both sources and uses; and
- iii. Letters of intent from service providers anticipated to participate in the development's services program.

Depending on the population served, additional information will be required. Please see Exhibit 1 of this guide which shows further requirements for certain population types. MHDC reserves the right to request further documentation before determining if a particular application qualifies for the service-enriched housing priority.

To qualify for the service priority a proposal must have a defined population, demonstrate that the services are adequate for the population and have a source of funding. Services need to be substantial and not typical of a standard development. For example, an elderly development which offers transportation to residents for shopping once a week is encouraged, but it is not sufficient to qualify for the priority if it is the only service offered.

The service-enriched housing priority designation will be determined by the sole opinion of MHDC. The expectations and level of services necessary for qualification for the priority are high. However, MHDC encourages services be provided to tenants of all developments. Population appropriate services indicate a commitment by the owner to the tenants that is viewed favorably.

Developments that are recommended because they qualify as service-enriched housing will be required to demonstrate that the services promised are delivered throughout the compliance period. Failure to deliver upon expectations will impact future funding decisions and could result in termination of reservations or commitments.

9% developments that qualify for the service-enriched housing priority are eligible for designation as a difficult-to-develop area. This designation allows an increase in qualified basis up to 30%. Please see the discussion of difficult development areas below. The designation will only be made if necessary for financial feasibility and within all requirements of the QAP and Section 42 of the Internal Revenue Code.

4. Sustainable Housing Priority

MHDC encourages developments that use sustainable building techniques and materials to produce quality affordable and healthy housing for both tenants and the community.

To be considered for this priority a development must:

- a. Utilize one of the following green building rating systems: Enterprise Green Communities, any of the current LEED rating systems, Green Globes, or the NAHB National Green Building Program. Please note that becoming Energy Star certified no longer qualifies for the sustainable housing priority, but is given extra consideration in the review process.
- b. Have at least one development team member who is an accredited green building professional with proven experience in sustainable design and/or construction. To qualify the team member must be a LEED AP®, LEED Green Associate™ or a Certified Green Professional™.
- c. Demonstrate how sustainability will be achieved from the pre-development period through development operations.

Developments that wish to be considered for this priority must include the following with their application:

- i. A description of the rating system to be utilized and a thorough explanation of the features of that rating system that are going to be utilized in the design of the development. If the system you have chosen has a checklist it should be included;
- ii. A resume for development team members with sustainable development experience and a thorough description of the developments they have worked on and their role in the process; and

- iii. A pre-development, development and operations plan that explains how sustainability will be addressed and what education will be given to employees and residents of the development. The plan does not need to go into great detail, but should make it clear that thought has been given to how sustainability will be addressed at each stage of the development process.

Successful cost-effective sustainable development requires considerable expertise and planning from the earliest stages of the development process. MHDC encourages developments interested in pursuing this priority to talk with the appropriate design professionals prior to submitting their application.

MHDC will verify at certain stages of the application and development process that any sustainable housing features promised are delivered. Failure to provide the sustainable housing promised at the time of application, may result in the recapture of funding and will reflect poorly on future applications.

9% developments that are certified by one of the rating systems mentioned above are eligible for designation as a difficult-to-develop area. This designation allows an increase in qualified basis up to 30%. Please see the discussion of difficult development areas below. The designation will only be made if necessary for financial feasibility and within all requirements of the QAP and Section 42 of the Internal Revenue Code.

Certification generally requires third-party verification, which can be time consuming and costly. If an applicant is interested in getting the 30% increase in qualified basis, they should look into the requirements and costs of certification before submitting an application. Failure to receive certification may result in disqualification for the 30% increase. A development can receive the priority without certification but cannot receive the qualified basis increase. A development just looking for the priority, but not the qualified basis increase, must demonstrate that the development has been designed to meet certification under the chosen system, and should it continue with all the requirements for certification, could be certified. The development will also be reviewed to assure that the development was constructed in accordance with the plans and specs as approved by MHDC. Failure to do so may result in recapture of any funding or cause the development team members to lose their status of good standing with MHDC.

5. Preservation Priority

The preservation of existing affordable housing is strongly encouraged by MHDC.

To qualify for the preservation priority a development must meet at least one of the following:

- a. Have, and continue to use if possible, project-based rental assistance and/or operating subsidy;
- b. Have a loan made prior to 1985 from any of the following loan programs: HUD 202/811, 221(d)3 or (d)4, 236 or USDA RD 515;
- c. Participate in HUD's Mark-to-Market restructuring program; or
- d. Have a previous allocation of low-income housing tax credits in which the first year of the credit period was 1995 or earlier.

To be considered under this priority the following must be included with the application:

- i. Copies of all loan notes and regulatory agreements that encumber the property;
- ii. A copy of any project-based income or operating subsidy agreements and rent schedules;
- iii. The most recent audited financial statement for the development; and
- iv. A letter from HUD, RD or MHDC (for developments without HUD or RD financing) indicating the need for preservation.

If a development does not have a HUD or RD loan or project-based rental assistance and requires a letter from MHDC indicating the need for preservation, a letter will be granted only after an inspection of the property by MHDC. Requests for the letter and inspection must be made to the Director of Asset Management.

Developments that are not considered for the preservation priority, but that do contemplate the acquisition and rehabilitation of existing housing are encouraged and given extra consideration.

D. SELECTION CRITERIA

While the housing priorities above list the types of housing that are of the most importance to MHDC, the selection criteria below indicate what factors are used in making funding recommendations for each application. The selection criteria incorporate both MHDC preferences and the federal preferences and selection criteria described in Section 42(m)(1)(B)(ii) and 42(m)(1)(C) of the Internal Revenue Code. Because not every development fits into the same category or serves the same population, certain characteristics have different meanings and have different influence on the overall evaluation of each proposal. Despite this inherent difficulty presented by the varied applications received, MHDC strives to apply the selection criteria in the most consistent and rational way possible.

1. Development Characteristics

The following characteristics will be reviewed closely:

a. Tenant Population

It is important that MHDC fund developments that offer quality affordable housing to the populations that need it in the locations where it is needed. Items that will be given consideration with regard to the intended tenants include:

- i. Tenant populations with special housing needs such as persons with physical and/or developmental disabilities, homeless individuals and families, the elderly and other under-served and/or at-risk populations.

This is by no means an exhaustive list of special needs populations. Applicants that feel they are serving a tenant population that is special should explain so in their development narrative.

- ii. Individuals on public housing waiting lists.
- iii. Tenant populations of individuals with children.
- iv. Developments that serve the lowest income tenants.
- v. The quantity, quality and suitability of services provided or offered to the tenants.

Services need to be population-appropriate and applicants should make clear what services will be offered.

It is important that the rest of the development's characteristics are appropriate for the intended tenant population. The intended population will impact how the other selection criteria are evaluated and should always be kept in mind when structuring any MHDC development.

b. Type

The type of development being proposed is an important characteristic and affects how the other selection criteria are applied. Developments will be evaluated on how they contribute to the goal of the QAP and the mission of MHDC. Developments fall into at least one of the following types:

- i. New construction
- ii. Historic rehabilitation/adaptive reuse

Any development that will utilize the federal and/or state historic rehabilitation credit will be considered to be a historic deal. Developments that will use the historic credit and are currently being used as housing will be considered both historic deals and acquisition/rehabs. Developments that feature historic rehabilitation and some additional new construction will generally be considered historic deals but will be evaluated on a case-by-case basis.

- iii. Acquisition/rehabilitation of existing housing

Acquisition/rehabilitation includes both preservation developments and any other housing development that features existing tenants.

- iv. Developments intended for eventual tenant ownership

For the purposes of this guide and the 2010 NOFA, the preference for developments intended for eventual tenant ownership applies exclusively to single-family homes.

Regardless of type, developments that obligate themselves to serve qualified tenants for the longest period are given extra consideration.

c. Site

Each site will be reviewed by MHDC staff to determine the overall suitability of the site for affordable housing and for the intended population. Sites reviews will consider:

- i. Marketability;
- ii. Presence of environmental issues and concerns;
- iii. Neighborhood characteristics and land uses; and
- iv. Proximity to appropriate amenities and services.

d. Design

The design of each development will be examined closely to assess its appropriateness for the site, the market and the population being served. The following will be taken into account when evaluating the application:

- i. Access into and out of the site and parking for residents and employees;
- ii. Placement of buildings on the site;
- iii. Development amenities;
- iv. Type and quality of materials to be used;
- v. Energy efficiency and overall sustainability;
- vi. Condition and suitability of structures being reused;
- vii. Scope of work for rehabilitation or renovation; and
- viii. Design features that are population-appropriate, for example, universal design features, common space, storage space, accessibility, adaptability, etc.

2. Market Characteristics

The following will be analyzed for each proposal:

a. Development Location

Where a development is located affects almost all of the other selection criteria. Important considerations for location include:

- i. Location in a qualified census tract that will contribute to a concerted community revitalization plan;
- ii. Whether existing housing is used as part of a community revitalization plan;
- iii. Location in a community with demonstrated new employment opportunities and a proven need for workforce housing;
- iv. An area designated as a DREAM Initiative community; or
- v. Infill of existing stable neighborhoods.
- vi. A county designated as part of the Midwestern Disaster Area.

b. Housing Needs

Developments must address the affordable housing needs of the state, region and locality where they will be located. Important considerations regarding market need include:

- i. Number and growth of the intended tenant population in the market area;
- ii. Presence, condition, occupancy and comparability of other affordable housing developments in the market area;
- iii. Presence, condition, occupancy and comparability of market rate housing in the market area; and
- iv. Capture rates for the proposed development.

Regardless of a proposal's eligibility to be considered for Disaster Housing Credits due to its location in the Midwestern Disaster Area, no application proposing the delivery of new units will be approved if it is deemed by MHDC to adversely impact any existing MHDC developments, exist in a questionable market, or create excessive concentration of multifamily units.

3. Development Team Characteristics

The following development team members will be evaluated:

- a. Developer
- b. General Partner(s)
- c. Management Agent
- d. Syndicator(s)/Investor(s)
- e. Contractor
- f. Architect
- g. Consultants

Evaluations will assess the experience, performance, financial strength and capacity to complete the proposed development in a timely and efficient manner. A development team's experience with affordable housing, MHDC and the type of development being proposed is important.

Items considered will include, but are not limited to:

- i. Number of affordable developments completed;
- ii. Occupancy of developments owned and/or managed;
- iii. Number of developments in the planning and development stages;
- iv. Quality and condition of previously-completed developments;
- v. Previous and outstanding compliance issues;
- vi. Performance of previously-completed developments;
- vii. Performance regarding MHDC deadlines for previous funding awards; and
- viii. Performance of investor limited partners on their previous MHDC developments.

The general partner, developer, and general contractor that are proposed as the development team shall be assessed for their capacity to successfully manage the predevelopment, closing, construction, and lease-up of the proposed development in addition to previously-approved developments that are currently in those stages of development.

Development team members that are not in good standing with MHDC or its programs will not be approved for funding or will not be allowed to participate on a funded development. All identities of interest between members of the development team must be documented to MHDC's satisfaction. This includes, but is not limited to, identities of interest between any two or more development team members such as developer, general partner(s), syndicator(s), investor(s), lender(s), architect(s), general contractor, sub contractor(s), attorney(s), management agent, etc.

4. Feasibility

Applications will be evaluated to determine feasibility and viability throughout the credit period using the assumptions provided by the applicant. MHDC will evaluate:

a. Sources

All developments must demonstrate that sufficient sources are available to the project to assure feasibility. Non-MHDC sources must have a commitment letter from the proposed provider included with the application. The type of financing and the source of all financing will be taken into consideration.

b. Uses

Development costs must be reasonable for the type of development and location being proposed. Sources must equal uses.

c. Income

Rents should be appropriate for the market and affordable for the intended population. Other sources of income that are undocumented will not be used to determine feasibility or the size of MHDC debt.

d. Expenses

Operating expenses must be adequate, reasonable and appropriate for the market and type of development being proposed.

e. Long-Term Viability

Operating projections must indicate that the development is viable for the greater of the entire credit period or the term of any MHDC financing.

f. Timing

The timing of due diligence, financing commitments and regulatory approvals will be considered when assessing an applicant's ability to proceed. Consideration will be given to applicants that demonstrate they can proceed in a timeframe consistent with the requirements of the Code or, for tax-exempt bond-financed proposals, the allocation process established by the Department of Economic Development.

g. Investment Potential

Proposals will be evaluated for their potential to attract investors for the federal tax credit based upon the potential amount of federal credits, the size of the proposed development, the market, the experience and strength of the development team, and financial feasibility. The strength and previous performance of all limited partner investors will be taken into consideration during the feasibility review.

MHDC will not allocate a credit amount that exceeds the amount necessary to assure development feasibility. Guidance for what may be considered appropriate can be found in the underwriting standards below.

5. Community Impact

MHDC seeks to allocate funding to developments that appropriately and efficiently improve their communities. Impact will be influenced by:

a. Community Support

Support from elected officials and community members is important. Community support should highlight the importance of the development to the community and the impact it will have.

b. Catalytic Effect

There is a preference for developments that will successfully encourage further development or redevelopment in the community. Developments that are part of a larger community redevelopment effort or part of a concerted community revitalization plan will also receive extra consideration.

c. Community Needs

How a proposal will address the needs of the population it intends to serve and the community it will serve is important. The existing stock of affordable housing and demographic trends in the area will influence the needs of the community and the ability of the proposal to meet those needs. Applications that most clearly and adequately meet those needs will receive preference.

E. APPLICATION UNDERWRITING STANDARDS

In order to conduct the feasibility evaluation described above and in accordance with the QAP, Section 42 of the Internal Revenue Code, Missouri state law and other applicable federal laws, MHDC has created the underwriting standards listed below. The standards are based upon recognized underwriting practices and MHDC's own experience with the various affordable housing programs and developments. Due to the changing economic and market dynamics of the affordable housing industry, MHDC reserves the right to deviate from these standards when appropriate and reasonable. MHDC recognizes the unique nature of each application and will consider a development's individual situation but will not apply the standards in a capricious manner.

1. Sources

When reviewing the sources contemplated by any application MHDC will compare to or apply the following standards:

a. Debt

All sources of debt, with the exception of MHDC debt, must have a commitment letter. Please see the application exhibit section below for more information. Due to the fluid availability and types of resources offered by MHDC, we will post term sheets for all available MHDC resources on our website. Please consult www.mhdc.com for the latest information.

- i. Debt Service Coverage: All hard MHDC debt must show initial debt service coverage (DSC) between **1.20** and **2.00**. If the DSC falls below 1.15 during the 15 year compliance period, the applicant must explain how deficits will be dealt with. For projects utilizing non-MHDC debt, MHDC will use the DSC ratio indicated by the lender in their preliminary financial commitment. If the DSC falls below their standard during the

compliance period, the applicant, or their lender, must explain how deficits will be dealt with. MHDC reserves the right to underwrite to the standard for MHDC debt regardless of source. If no explanation is provided for DSC ratios below the standards listed, MHDC will underwrite a debt-service reserve into the development.

If a development does not have a loan or only has cash-flow contingent loans, the development must demonstrate that the ratio between income and expenses is greater than 1.00 for the entire 15 year compliance period. If the development does not meet the 1.00 standard an explanation is required or an increased operating reserve will be required.

- ii. Interest Rate: For MHDC debt the appropriate rate for the applicable funding source will be used. Please consult the latest MHDC term sheets for the appropriate rates on MHDC debt.

For non-MHDC debt the interest rate described in the lender's preliminary commitment will be used.

- iii. Term: For MHDC debt the following terms will be used. Terms may be changed during underwriting to better suit the needs of the development and MHDC.

Construction Loans:

If the loan is a HOME loan in second position during construction, the term will be equal to that of the first position construction loan. If the HOME loan is the only construction loan, the term will be determined at firm commitment, but will not exceed 18 months.

If the loan is a participation loan the loan term will be 18 months. A development may request in their application a construction loan term of 24 months for participation loans. A 24 month term will increase the construction period interest rate. Such a request must be made in writing, and is most appropriately made in the development's narrative.

Permanent Loans:

Hard permanent loans will feature a 20-year term, with the exception of loans for single-family homeownership projects which will feature an 18-year term. Soft loans from MHDC will generally have the same term as the hard first mortgage; if there is no hard first mortgage, they will have a 30-year term.

Non-MHDC debt will be underwritten with the term described in the preliminary commitment letter.

- iv. Amortization: Hard permanent loans from MHDC will amortize over thirty (30) years for all deals except single-family homeownership developments, which will amortize over twenty-five (25) years. Soft loans will not amortize but will require an annual payment equal to 50% of available cash-flow. MHDC considers annual payments on cash-flow notes to take priority over the payment of deferred developer fee. The definition of "cash-flow" and the priority of payment will be determined in the firm commitment. Non-MHDC loans will be underwritten with the amortization described in the preliminary commitment letter.
- v. Deferred Developer Fee: In cases where MHDC is providing a loan that is dependent upon cash flow for repayment, deferred developer fee should be structured as a note and its position in the distribution of cash flow clearly indicated. MHDC reserves the right to create, eliminate or adjust deferred developer fee in order to efficiently utilize resources and appropriately underwrite each deal. Deferred developer fee in excess of 50% of the total developer fee should be avoided, and will be allowed only in rare circumstances. It must be demonstrated that any developer fee can be paid back from cash-flow. Preferably this repayment will take place within the first 10 years, but in no event can the repayment projection take longer than 15 years. MHDC reserves the right to reduce developer fee in order to facilitate development fee repayment.

b. Equity

- i. Eligible Basis: It is important to note that certain basis-eligible line items of the development budget may not be underwritten as 100% eligible. These line items include construction loan interest, relocation and bond related costs. If you include

100% of these line items in eligible basis, you must provide a reason why, or a calculation of how, you arrived at 100% of the cost being eligible.

To calculate the maximum amount of credits for which the proposed development is eligible, utilize 9.00% for the 9% credit and the IRS-issued applicable percentage in effect at the time of application for the 4% credit. MHDC staff has the right to adjust the applicable percentage to a rate in effect for subsequent months during the underwriting process.

Developments located in a qualified census tract or difficult development area, as defined by HUD, are eligible for a 30% increase in qualified basis. Additionally, 42(d)(5)(B)(v) of the Internal Revenue Code allows MHDC to establish other areas or development types eligible for a 30% increase in qualified basis. For 2010 MHDC has established the following as eligible for the increase in qualified basis:

- **Midwestern Disaster Area:** A 9% development located in one of the disaster counties listed above in (C)(1)(a) is eligible for the 30% increase.
- **Preservation Priority:** A 9% development that qualifies for the preservation priority is eligible for the 30% increase. This increase should facilitate better rehab in both scope and quality than what could be accomplished without the increase. The increase is not intended to result in a higher acquisition cost. All acquisitions will be required to submit an appraisal with their firm submission package.
- **Service-Enriched Housing Priority:** A 9% development that is deemed to meet the requirements of the service-enriched housing priority, in the sole opinion of MHDC, is eligible for the 30% increase. The services provided must be significant and available for the entire compliance period.
- **Green Building Certification:** A development that receives certification from one of the rating systems indicated in the sustainable housing priority is eligible for the 30% increase. Evidence of the certification will be required prior to issuance of the 8609s. You do not need certification for the sustainable housing priority, but you do for the 30% increase. The intention is that the increased equity generated will cover the additional cost of certification, such as commissioning and application fees. If you plan to achieve certification you should engage professionals who are

experienced in the rating system you have chosen and who have successfully certified projects in the past.

- **Below Statewide Median Income County:** Developments located in counties that have a median income less than the statewide median income of \$58,300 are eligible for the 30% increase, provided that 20% of the total units in the development are set-aside for households between 60% and 80% of the area median income. The rents in the 60%-80% units should not be different than similar tax credit units in the development. The intent is to capture the households that are just over the tax credit income limits, but who still have a need for quality affordable housing. The increase in qualified basis should off-set the reduced eligible basis generated by fewer tax credit units. The published income limits for each development's county still apply and must be used for determining resident eligibility.
- **Mixed-Use Economic Development Area:** The development must be part of a larger mixed-use economic development area. For a development to qualify as part of a mixed-use economic development area, it must:

Be part of a mixed-use economic development area that includes different housing types for different household income levels, new retail/office/light industrial space that creates new permanent jobs, and new public space or activity centers designed for users of the area; or

Be part of a Transit Oriented Development ("TOD") plan. The TOD plan must be centered around and integrated with a transit stop. The plan must be mixed-use, mixed-income, pedestrian friendly and of appropriate density for a TOD.

MHDC will decide, in its sole discretion, what evidence and what types of development will qualify for the 30% increase in qualified basis for mixed-use economic development areas. An important factor is that the MHDC development is not the only development taking place and that it will enhance the overall plan, rather than be the overall plan. It is expected that the plan, of which the MHDC development is a part, contemplates the development of multiple buildings over an area of reasonable size. This will not apply to a singular structure, regardless of location.

- ii. **Credit Pricing:** MHDC may use the price outlined in the preliminary financial commitment, provided that price reasonably reflects current market conditions. MHDC

reserves the right to underwrite developments at credit prices different than outlined in the preliminary financing commitment.

MHDC will underwrite with a price floor of \$0.38 per credit on the state low-income housing tax credit. Given the changing landscape of the federal low-income housing tax credit equity market, MHDC will determine a reasonable floor for the federal tax credit at the time of application review. MHDC reserves the right to adjust and update how equity pricing is underwritten.

MHDC reserves the right to contact any person or entity that has provided a preliminary financing commitment for tax credit equity to discuss your development and/or their level of activity and/or interest in investing in Missouri.

- iii. Historic Credits: Please indicate on the FIN-100 whether a master tenant/lease pass-through structure will be utilized on historic developments. Failure to indicate such will result in MHDC assuming that no such structure is being utilized and the historic credit will be deducted from eligible basis.
- iv. AHAP Credits: If an applicant is planning to use the AHAP credit, be sure to indicate whether the donation will be structured as a loan, an equity contribution or some other method. If it will be a loan, the terms must be spelled out in the commitment letter.

2. Uses

When determining appropriate numbers for development budget line items please refer to the standards listed below.

- a. **Total Replacement Cost** - The maximum total replacement cost for a development cannot exceed the total replacement cost calculated using the most recent HUD 221(d)(3) limits. A variance of 125% is allowed for the eight Missouri Metropolitan Statistical Areas (MSA) (Jefferson City MO, Columbia MO, St. Louis MO-IL, Springfield MO, Fayetteville-Springdale-Rogers AR-MO (McDonald County), Kansas City MO-KS, St. Joseph MO-KS, Joplin MO) and for all historic rehabilitation developments. Historic rehabilitation developments are also allowed to add the residential portion of the federal historic rehabilitation credit to the

125% 221(d)(3) limit calculated. The total replacement cost for historic deals cannot exceed this sum. MHDC reserves the right to, on rare occasion, allow exceptions to the cost limit on a case-by-case basis if unique development characteristics that meet or exceed the standards and goals of the QAP are to be incorporated into the proposal.

b. Contractor Fees - MHDC will limit contractor fees to the following:

- i. Aggregate Contractor Fees (defined as builder's profit, builder's overhead and general requirements) may not exceed 16% of total construction contract costs minus builder's profit, overhead, and general requirements. General requirements must include the cost of builder's risk insurance and all bonding costs.
- ii. Builder's profit may not exceed 8% of total construction contract costs minus builder's profit, overhead, and general requirements.

c. Developer + Consultant Fees - MHDC will limit the fee to the developer and to consultants performing work typically completed by the developer.

Please note that the development fee approved at the time of conditional reservation will not be increased without commission approval.

- i. New Construction Developments: are limited to the lesser of: (a) 15% of the first \$4,000,000 of total replacement costs plus 10% of any total replacement costs over \$4,000,000; or (b) the per-unit calculation from the chart below.
- ii. Acquisition/Rehab and Historic Preservation Developments: are limited to the lesser of: (a) the sum of 8% of acquisition costs for the first \$2,000,000 of acquisition costs, 6% of any additional acquisition costs, 15% of the first \$4,000,000 of non-acquisition total replacement costs and 10% of any additional non-acquisition total replacement costs, or (b) the per-unit calculation from the chart below.

Per Unit Developer Fee Maximum	
Total Units	Per Unit Limit
First 40 Units	\$20,000
Units 41-100	\$17,500
Units 101-150	\$15,000
Units 151+	\$12,500

Example 1:

A 50 unit new construction deal with total replacement costs of \$8,250,000 would be eligible for the lesser of:

$$\text{Per Unit} = (40 \times \$20,000) + (10 \times \$17,500) = \$975,000$$

$$\text{Cost Calculation} = \$4,000,000 \times 15\% = \$600,000 + (\$4,250,000 \times 10\% = \$425,000) = \$1,025,000$$

Therefore, the maximum allowable developer + consulting fee = **\$975,000**

Example 2:

A 120 unit rehab deal with acquisition costs of \$3,000,000 and non-acquisition total replacement costs of \$4,200,000 would be eligible for the lesser of:

$$\text{Per Unit} = (40 \times \$20,000) + (60 \times \$17,500) + (20 \times \$15,000) = \$2,150,000$$

$$\text{Cost Calculation} = (\$2,000,000 \times 8\%) + (\$1,000,000 \times 6\%) + (\$4,000,000 \times 15\%) + (\$200,000 \times 10\%) = \$840,000$$

Therefore, the maximum eligible developer + consulting fee = **\$840,000**

- d. MHDC Loan Fees** - MHDC fees vary by the type of loan being issued; the following is a rough estimate, subject to change. Please consult the latest MHDC term sheet for fee amounts and resource availability:

MHDC Fund Balance Loan Permanent Loan:	1% of principal amount
HOME Loans:	No fee is charged
Participation Loans Construction:	.5% of principal amount
Participation Loans Permanent:	.5% of principal amount
Risk Share (Tax-Exempt Bonds Only)	1% of principal amount

- e. **Construction Inspection Fee** - MHDC will charge a fee to perform, or hire a third-party to perform, periodic inspections of the construction progress for all MHDC developments. The fee may vary depending on the length of the construction period, but in almost all cases the fee will be \$7,500. The fee will be determined at firm commitment and will be due at closing. For application purposes all developments should use \$7,500.

- f. **Construction Loan Interest**- The amount of construction loan interest calculated and the amount included in eligible basis should be carefully considered, and you should be able to explain how you arrived at it. MHDC will underwrite a reasonable construction loan into any application that shows tax credit equity as its only significant source during construction.

- g. **Contingency** - Contingency should be 5%-7.5% of the total construction costs for new construction and 7.5% to 10% for acquisition/rehabs. Numbers outside of those ranges require an explanation for the variance. MHDC does not distinguish between hard cost contingency and soft cost contingency. If you have soft cost contingency that you feel does not belong in eligible basis, please make sure you show it that way on your FIN-100.

- h. **Tax Credit Fee** - The fee will be equal to 7% of the annual federal tax credit amount awarded to the project.

- i. **Tax Credit Monitoring Fee** - The fee is equal to \$300 per tax credit unit.

- j. **AHAP Fee** - The AHAP fee is equal to 0.5% of the AHAP credit amount plus the \$100 application fee.

- k. **Syndication Costs** - The fees paid by the developer for syndication related expenses will be reviewed for reasonableness. Investor due diligence, including architectural review, and fund bridge loan fees and interest should not be reflected in the development budget. An explanation of the nature of the syndication costs is required to be completed on the FIN-100.

- l. Operating Reserve** - The operating reserve must reflect at least six months of operating expenses and debt service. Amounts less than six months must be accompanied by an explanation.

- m. Replacement Reserve** - The initial replacement reserve should be for \$600 dollars per unit. Any other amounts require an explanation.

- n. Debt-Service Reserve** - If the development cannot maintain the debt-service requirements described above, a debt-service reserve in addition to the operating reserve will be required.

- o. Other Uses** - All uses will be examined for their reasonableness and may be questioned during the review of the application. You should be able to explain how you arrived at any particular line item, but it will be in the sole discretion of MHDC whether to accept an explanation or the cost for any line item.

3. Income

The following standards should be considered when structuring the project and completing the application.

- a. Rents** - Rents must be at or below the rents contemplated by the market study. Rents must be appropriate for the project area, project type and population being served. Rents must meet all applicable IRS, HUD, USDA and State of Missouri requirements.

- b. Other/Commercial Income** - All other income must be fully explained. MHDC, at its sole discretion, will determine the amount of other/commercial income that will be recognized. Other/commercial income may or not be recognized for tax credit amount and/or loan sizing purposes.

- c. Income Trending** - For purposes of the 15-year pro forma MHDC will use a 2% inflation factor for all sources of income.

- d. **Vacancy-** Family developments will be underwritten with a rental income vacancy factor of 7%. Elderly developments will use a rental income vacancy factor of 5%. Recognized commercial income may use a lower vacancy rate depending on the type of income. MHDC will also look at how higher vacancy rates affect the development and what the break-even vacancy rate is.

4. Operating Expenses

Due to the different types of projects and the variances in operating costs found in the different regions of the state, MHDC will not provide minimum or maximum operating expense requirements, with the exception of replacement reserves. Each project will undergo a detailed review and will be compared with existing properties of similar type, location, and design. MHDC is interested in funding proposals that demonstrate feasible, yet reasonable, expenses that will assure long-term operating stability and quality. The presence of a full-time manager is strongly encouraged.

- a. **Expense Trending** – For purposes of the 15-year pro forma MHDC will use a 3% inflation factor for annual increases in operating expenses.
- b. **Replacement Reserves** - MHDC requires that all projects fund an annual replacement reserve equal to \$300 per unit, increased annually by 3%. If a different amount is required by a lender or syndicator, please clearly indicate so in your application. Such indication will not necessarily result in MHDC waiving its stated policy.

F. APPLICATION EXHIBITS

Each applicant is required to submit the exhibits applicable to the type of development they are proposing. Questions as to whether an exhibit is applicable to a specific application must be asked prior to the application deadline. MHDC-required forms may be found at <http://www.mhdc.com>.

If you have questions about the application exhibits, especially if you are not sure whether an exhibit applies to your particular development, please contact the Director of Rental Production or the Chief Underwriter.

If an exhibit is required for your type of development, but you feel that there is a reason for why it should not be applicable for your application, you may request a waiver of that exhibit. Please note that waiver requests must be submitted on the MHDC waiver form and submitted and approved prior to the application due date. Waivers will only be granted in rare circumstances with a rational explanation and proper justification.

Exhibits 1-7 constitute the primary documentation and exhibits 8-20 constitute the secondary documentation. MHDC staff may contact applicants for clarification or questions regarding any submitted exhibit; such contact does not indicate anything other than a request for information.

1. CD-R

The CD-R must include the required electronic documents in the proper format. Each document on the disc should be properly labeled and should be checked to make sure it opens properly. Only **one** disc needs to be included; therefore, the copy binder does not need to have anything in the tab for exhibit 1. The required electronic documents include:

- a. FIN-100: Include both an Excel version and a PDF version that includes the signatures.
- b. Development Narrative: A Word version of the narrative is required.
- c. Development Questionnaire: A Word version of the questionnaire is required.
- d. Development Location Map: A PDF version of a map must include the site location and sufficient detail to understand the location in regards to cross streets and the general area.
- e. Site Photographs: Pictures either as individual JPGs or a Word document with the pictures included must be submitted.
- f. Site Plan or Subdivision Map: A PDF of the appropriate Site Plan or Subdivision Map must be included.
- g. Executed Form 1302: A PDF of the executed site evaluation form is required.
- h. Market Study: A PDF copy of the market study must be on the CD-R.
- i. School Superintendent Contact: For family new construction and family historic renovation developments a PDF of either a response from the school superintendent or the letter contacting the superintendent is required.
- j. FIN-305: Seller Certification: If the FIN305 is required, a PDF copy of the executed form must be included.
- k. Supportive Service Plan: A PDF copy of the supportive services plan, if applicable, is required.
- l. Elevations/Photos: For existing buildings individual JPGs or a Word document with pictures will

- qualify. For new construction developments a PDF of the building elevations needs to be included.
- m. Development Characteristics Worksheet: Both the word version and an executed PDF version are required.
 - n. Relocation Documents: PDF copies of the Current Tenant List, Relocation Plan, General Information Notice (GIN), and executed Acceptance of MHDC Relocation Policy must be provided.
 - o. MHDC Form 2004-B: A PDF of the management profile must be included on the CD-R.

The required electronic documents are important for the site review portion of the application process and must be included at the time of application.

2. FIN-100

The FIN-100 must be filled out completely, accurately and must be executed in the appropriate places. The FIN-100 in the original binder must have original signatures. If you have any questions when filling out the FIN-100, please contact MHDC.

3. Application Fee

The check for the applicable application fee must be included with the original binder. The copy binder must have a copy of the check in exhibit 3. The applicable application fees are:

- a. Non-Profit Priority Application Fee. Proposals that qualify for the Non-Profit Priority and request consideration under that priority owe a \$750 application fee. Bond developments requesting 4% credits, even if the owner is a qualified non-profit, are not eligible for the non-profit priority application fee.
- b. Standard Application Fee. All applications that do not pay the non-profit priority application fee owe a \$1,500 application fee.

It is important that the development name be written on the check submitted.

4. Development Narrative

- a. Narrative Description: The narrative description should present any information you feel is necessary to understand your development. It is your opportunity to argue for and convince MHDC why your development is important and why it should be funded. Anything that you feel is not adequately described in the rest of the application should be covered in the narrative description.
- b. Development Questionnaire: The questionnaire must be completed as accurately and completely as possible. The questionnaire is a complement to the narrative description and the description need not cover items already covered in the questionnaire.

5. Site Review Information

MHDC's site reviewers use the information in the site review exhibit to properly evaluate the proposed site and proposal. The site review information consists of:

- a. Development Location Map: Map must clearly identify site address and location. Detailed directions are welcome, especially with respect to vacant ground.
- b. Site Photographs: Photos of the site, including landmarks and surrounding properties need to be included. Please include color photos in both the original and copy binders.
- c. Site Plan or Subdivision Map: If a proposal is for single-family homes in a subdivision, a subdivision map with the lots for the application must be included. All other proposals are required to provide a site plan that identifies the footprint of the building(s) and site amenities. Please include distances from the property perimeter to the building locations or other references that will assist site inspectors in identifying the proposed footprint on vacant ground.
- d. MHDC Form 1302 Site Evaluation: The form should be filled out completely and as accurately as possible and must be signed by the person who filled it out.

6. Applicant Site Control

Evidence of applicant site control must clearly link the current owner to the eventual ownership entity and be in the form of:

- i. Executed purchase option agreement;
- ii. Executed purchase contract;
- iii. Executed long-term land lease or option on a long-term lease; or
- iv. Other commitments / agreements *approved by staff prior to application.*

Applicants that already own the ground as evidenced by a vesting deed need only provide a copy of that deed for the applicant site control. You will also need to provide the identity of interest transaction information in the seller site control section described below.

All applicants must demonstrate proper site control for at least 50% of the sites listed in the FIN-100 as being a part of the development. For developments that do not evidence 100% site control, a description of how site control will be obtained is mandatory. Failure to provide such description will result in rejection of the application. The use of eminent domain to obtain site control of any sites not under control at the time of application may be deemed acceptable by MHDC if at least 50% of the total parcels making up the development site are under control at the time of application. In any event, applicants who do not clearly have acceptable site control should contact MHDC prior to the application deadline. Approval of site control prior to the application and pursuant to iv. above is highly advisable.

7. Market Study

- a. Form 1300-S: Completed by the market analyst and included as both an exhibit on its own and as part of the full market study.
- b. Full Market Study: The market study must be dated within six months of application and address specifically the property in question. If the market study is dated between six months and 18 months of the application due date, an update letter must be provided. No market study older than 18 months will be accepted. A favorable statement of conclusions about the strength of the market for the proposed development does not operate to vest in an applicant or

development any right to a reservation or an allocation of tax credits in any amount. The market study must:

- i. Be prepared by an experienced market analyst who is an independent third party, completely unaffiliated with the developer and/or owner of the proposed development.
- ii. Contain a statement by the analyst that:
 - (A) The report is in full compliance with MHDC's Market Study Guidelines. The MHDC Market Study Guidelines can be found at the MHDC website http://www.mhdc.com/rental_production/market_study/index.htm.
 - (B) The information included is accurate and that the report can be relied upon by MHDC as a true assessment of the low-income housing rental market in the area of the proposed development.
 - (C) The document is assignable to lenders and/or syndicators that are parties to the development's financial structure.
 - (D) Acknowledges and agrees that the market study will be shared with other parties that will assist MHDC in the analysis of the market study.
 - (E) Justifies the need for the type of rental housing and the number and size of units proposed.

8. Site Control

a. Seller Site Control

The applicant must demonstrate seller site control in the form of:

- i. A vesting deed (e.g. a warranty deed); or
- ii. Title policy that clearly indicates the current owner.

For transactions in which there is an identity of interest between the seller and the buyer, the applicant *must include* a copy of the seller's contract or settlement statement for each property transfer from the purchase of the site back to the last arm's length transaction, if the last arm's length transaction took place after 1959. MHDC reserves the right to request last arm's length transaction information for pre-1959 transfers.

b. FIN-305: Seller Certification

The FIN-305 is required for every application requesting a loan from MHDC. The form is available on our website at www.mhdc.com. If no loan is requested, but MHDC awards a loan, the FIN-305 must be completed and submitted prior to any conditional reservation is executed.

c. Legal Description

A legal description of the proposed development site must be included as a separate exhibit. The legal description must match what is included in the applicant's site control. If the site(s) being purchased is larger than the site(s) for the development, a narrative description of how much of the site is for the development and a breakdown of the costs attributable to the development's site is required. For multiple-parcel single-family proposals, clearly label the legal descriptions, contracts/options, and any other documentation related to the various sites so staff can match the documentation to the proposed parcels.

Further information regarding site control information can be found in the MHDC Site Control Requirements attached as Exhibit 2 of this guide.

9. Public Official Contact Verification

The public officials listed below must be contacted prior to the submission of the application. Officials should be contacted via certified mail or some other manner that can be shown to have been received by the official. Contact letters must address the population being served, the number of units proposed, and any other relevant information that demonstrates the official has received a sufficient description of the proposed development.

a. Chief Elected Official Contact

b. State Senator Contact

- c. State Representative Contact
- d. City Councilperson or Alderman Contact
- e. Public Housing Authority Executive Director Contact
- f. School Superintendent Contact (New Construction and Historic Conversion Family Developments only)

You must submit a copy of the letter sent to the official *and* evidence that the letter was received or a copy of a letter of support from the official. MHDC recommends using certified mail and getting the returned receipt card to prove that the letter was received, but other proof is acceptable if discussed in advance with MHDC.

Scattered site developments must contact public officials for each locality/jurisdiction in which their sites are located.

10. Statutorily Required Documentation

Various federal and state regulations require that applicants provide certain information at the time of application. The following required documents must be filled out properly and executed.

- a. IRS Form 8821 for Developer
Tax Information Authorization for the Developer. Please fill out Section 1 and sign Section 7. You must also include an 8821 for each principal of the developer.
- b. Missouri Form 8821 for Developer
Authorization for Release of Confidential Information for the Developer. Please fill out only the top section and sign the authorization below. You must also include an 8821 for each principal of the developer.
- c. IRS Form 8821 for General Partner
Tax Information Authorization for all general partners that are not affiliates of the developer. Please fill out Section 1 and sign Section 7. You must also include an 8821 for each principal of the general partner.
- d. Missouri Form 8821 for General Partner
Authorization for Release of Confidential Information for all general partners that are not affiliates of the developer. Please fill out only the top section and sign the authorization below. You must also include an 8821 for each principal of the general partner.

e. FIN-109 Legal Employment Practices Certification

In accordance with RSMo 285.025, MHDC requires all applicants for financing under MHDC Rental Production programs to certify that they do not employ illegal aliens/undocumented workers in compliance with federal, state, and local hiring laws.

f. Evidence of Consistency with Consolidated Plan

Developments requesting a loan from MHDC and located in a jurisdiction with a consolidated plan filed with HUD are required to provide certification that the proposed development is in compliance with that plan. If there is no consolidated plan, but there is a comprehensive plan, please submit a letter indicating that the proposal complies with that plan. If there are neither, please provide a letter from the local government stating that there is no consolidated or comprehensive plan.

11. Housing Priority Documentation

For applications that are requesting consideration for one or more of the established Housing Priorities, the required documentation must be provided in the application binders. Please see the discussion of the required documentation under the Housing Priorities section above. If the required documentation is missing or does not fulfill the requirement, the application will not be considered for the desired priority, but it will still be considered for funding.

12. Zoning Letter

The zoning letter must be an original on the letterhead of the local governmental unit responsible for zoning and must clearly indicate:

- a. The zoning designation with a brief description of the designation;
- b. Density requirements/limits; and
- c. Description of any conditional use restrictions or overlay regulations that further restrict the property.

If the site is not properly zoned, include a letter from the appropriate governmental body that describes what needs to be done to be in compliance and what the time frame for achieving compliance is.

If there is no zoning in a jurisdiction, a letter from the locality stating no zoning exists is acceptable in lieu of a zoning letter.

13. Architectural Items

Elevations, floor and unit plans included as exhibits in the application cannot be larger than 11" x 17" and must be drawn to scale.

a. Elevations (new construction) or Photos (rehabilitation/conversion)

Include color photos instead of schematic elevations for existing buildings that are being rehabbed or converted.

b. Floor Plans

Floor plans should be provided for each floor; if one or more floors have identical plans, it is acceptable to show one plan with the number of each floor with that plan highlighted.

c. Unit Plans

Include a plan for each unit type being proposed. In the case of historic conversions, at a minimum one plan for each bedroom number category being proposed is required. If there are large square footage differences within a bedroom number category include an example near the extremes and a typical unit in that category. Unit plans must have the square footage for the unit listed.

d. Development Characteristics Worksheet

The worksheet must be filled out and executed. The development characteristics described or chosen must be adhered to by the owner. Failure to do so may result in the termination of any conditional reservation or firm commitment

e. Scope of Work

Rehabilitation developments must include a detailed scope of work describing what is being contemplated and should be completed by the project architect or contractor. The scope of work should be in narrative form or a list broken down by CSI divisions or another easily understood format with sufficient detail to comprehend what will be done.

f. Physical Needs Assessment

All rehabilitation projects must provide a Physical Needs Assessment (“PNA”). The PNA must follow the requirements found in the MHDC Form 1201 “Physical Needs Assessment Guidelines.” A Capital Needs Assessment prepared within six months of the application deadline according to USDA guidelines will satisfy MHDC’s requirements for the PNA for applications that include both MHDC and USDA financing.

g. Structural Letter

In lieu of a PNA, historic developments that involve a gut rehab of the building must submit a letter from a structural engineer or equally qualified professional that certifies the building has been inspected and is structurally sound for the intended use.

h. Historic Approval

For proposals structured with historic tax credits, include either (a) the Federal Register publication demonstrating the property is listed individually on the National Register of Historic Places, (b) the Part 1 approval confirming the property continues to be certified as contributing to the significance of a certified historic district listed on the National Register of Historic Places, or (c) the Eligibility Assessment performed by the State Historic Preservation Officer accompanied by a timeline for the review and approval of the nomination for national register designation by the Missouri Advisory Council on Historic Preservation and the National Park Service.

14. Relocation

For developments requesting HOME funds and requiring temporary or permanent relocation of existing residential or commercial tenants, the owner must comply with the Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (“URA”); for developments requesting all other types of MHDC program financing and requiring permanent relocation of existing residential or commercial tenants, the owner must comply with the requirements of Missouri Revised Statute 523.205. Each of the exhibits below is required regardless of the type of financing.

a. Current Tenant List:

Tenant list must include the names of the leaseholder, the number of persons in each household, the start date of each lease, the amount of rent charged, and the amount of rent paid. Subsidies being provided to residents should be noted. The incomes of each household must be provided; for properties that are currently market-rate, if household income cannot be provided, indicate to the best of your knowledge which households may be permanently displaced by the proposed financing restrictions.

b. Relocation Plan

The plan must include a brief description of the type of relocation anticipated and how it will be handled. The plan must have a list of all buildings (with addresses) which are currently occupied by renters or owner-occupants of residential or commercial buildings that are being renovated or demolished as a part of the proposed application. Also provide a breakdown of the relocation expenses expected to be incurred and which reflect the number used in the development budget of the FIN-100.

c. GIN (General Information Notice)

Please provide a copy of the GIN required by the URA for application purposes. At the very least you must provide a copy of the proposed GIN to be distributed to tenants if funding is approved.

d. Acceptance of MHDC Relocation Policy

Include a signed statement that you have read and accepted the MHDC Relocation Policy located on our website at www.mhdc.com.

MHDC reserves the right to require a cost certification of relocation costs for any project that has a relocation expense. MHDC is likely to exercise this right when an identity of interest exists between a member of the development team and the firm hired to perform the relocation planning and execution.

See MHDC's Relocation Guidelines & Forms for a description of relocation requirements and procedures and all related forms.

15. Homeownership Plan

For developers proposing the construction of single-family homes for purchase by the residents following the completion of the compliance period, provide a homeownership plan detailing the timeline, proposed sale prices, tenant discounts, and resident homeownership training. Please refer to Exhibit 3- MHDC Homeownership Guide.

16. Preliminary Financing Commitments

All non-MHDC sources of debt and equity must evidence a commitment or acceptable documentation in lieu of a commitment. All preliminary commitment letters must include the information required by the MHDC Guidelines for Preliminary Financing Commitments found as Exhibit 4 of this guide. At a minimum there should be commitments for the following applicable types of funds:

a. Federal Housing Credit Equity:

If one syndicator/investor is purchasing all housing and historic tax credits, one commitment that meets the requirements for each type of credit is acceptable. If the syndicator/investor is also providing a bridge loan, that commitment can be included in the equity commitment so long as it meets the requirements described in Exhibit 4.

b. State Housing Credit Equity

c. Federal Historic Rehab Credit Equity

d. State Historic Rehab Credit Equity

e. Other Non-MHDC Financing: All debt and grant financing must have a commitment letter included with the application; this includes any construction loans shown in the FIN-100. If a loan is to be assumed by the applicant, a letter from that lender indicating that they are aware of the application and that assumption is possible if certain steps are followed is required. Copies of any notes for assumed sources, if not already provided under the Preservation Priority, are also required.

All commitment letters must include the contact information for the person writing the commitment. MHDC may contact the author of the commitment to discuss the development and their commitment.

17. PHA Approved Utility Allowances

Provide the most current utility allowance schedule from the local public housing authority. The utility allowance used in the FIN-100 should match the PHA approved allowance for your property type; if you are using less than or more than the PHA amount provide an explanation of the difference. The utility allowance schedule must be dated within 12 months of the application due date. If the provided schedule is more than 12 months old, a letter from the issuing authority stating that the included allowance is the most recent must be included.

18. Developer and General Partner Information

The following exhibits, if applicable, must be included for the developer. If the developer and general partner are unaffiliated entities, the information for each company must be provided. If a developer is a newly formed entity made up of principals from other companies/individuals with housing experience the information must be provided for each entity/individual.

a. FIN-105 Experience Summary for Developer(s)

If the developer/applicant wishes to utilize a form different than the FIN-105, the report provided must at a minimum include all the information requested on the FIN-105.

b. FIN-107 Developer Qualifications

The purpose of this form is to illustrate the financial and operational capacity of the developer. The financial statement of the developer must be included with the FIN-107. The financial statement for principals must also be provided.

c. FIN-105 Experience for General Partner(s)

If there is a general partner that is not an affiliate of the developer, a FIN-105 for that entity is required.

19. Management Company Information

a. Experience Summary (FIN-105)

If the management company wishes to utilize a form different than the FIN-105, the report provided must at a minimum include all the information requested on the FIN-105.

b. MHDC Form 2004-B Management Profile

The management profile must be completed for all management companies. It is important that the most recent Form 2004-B is used. The current 2004-B was modified May 1, 2009, and must be used for application purposes.

20. Letters of Support

MHDC strongly encourages letters of support from the public officials that are required to be contacted and from other interested community members. Letters should clearly reference the development being supported. Resolutions of support are not required, but are strongly encouraged. All letters and resolutions should be included in this exhibit.

The Commission places great importance on the demonstration of need for the proposed development in the community, and a key indicator of its potential and perception may be found in the opinions expressed by the public officials. In municipalities and counties from which MHDC has received multiple applications, staff reserves the right to contact mayors and county executives to request a prioritization of the applications.

While support letters are not required from other officials, community groups, neighborhood partners, current residents or citizens at the time of application, all correspondence is welcome. Letters may be included in the application or sent directly to MHDC (c/o Rental Production).

G. APPLICATION APPROVAL

1. Code of Conduct

MHDC has the following policy in place with respect to contact with commissioners and staff during the application process:

For noncompetitive matters pending before the commission, interested parties may have contact with the commissioners or employees, if necessary, without having to adhere to any formal MHDC

disclosure process. MHDC requests that such parties be cognizant and respectful of the limited resources, including time, available to the commissioners and MHDC's employees.

For any matter pending before MHDC, competitive or noncompetitive, commissioners and employees may contact anyone, including interested parties or agents of interested parties, in the course of investigating the matter for the purpose of either making a recommendation to the commission or gathering information in order to exercise their best judgment in voting on the matter.

However, if an interested party has submitted a proposal, application, bid or response to a solicitation, request, notice or invitation to do so, for a competitive matter pending before the commission, and that party desires to communicate with a commissioner or employee after the published response deadline for the purpose of lobbying the interested party's proposal, application, bid or response, the interested party or anyone acting at their direction or on their behalf (collectively or severally, the "interested party") may do so only by complying with the disclosure policy contained herein. Within 24 hours of contacting a commissioner or employee, the interested party must file a written notice of the contact with MHDC. The written notice will include a written description of any oral communication from the interested party to the commissioner or employee, and the written notice will include copies of any written or recorded materials provided to the commissioner or employee. In addition, within 24 hours of filing the notice of contact with MHDC, the interested party will deliver, either in person, by facsimile, or electronic mail or through overnight courier, a copy of the notice (including any attachments) to each and every other party whose proposal, application, bid or response competes with the interested party's proposal, application, bid or response. Failure to file the notice with MHDC or failure to provide a copy of the notice filed with MHDC to any competitor may result in the disqualification of the interested party's proposal, application, bid or response, at the discretion of the commission.

Furthermore, the period consisting of seven days prior to a commission decision on a competitive matter shall be deemed the "quiet period." During the quiet period, interested parties shall refrain from initiating contact with commissioners to lobby their proposal, application, bid or response. Failure to honor the quiet period may, at the commission's discretion, result in the disqualification of the interested party's proposal, application, bid or response.

2. Commission Approval

Staff will provide the commissioners with available application data, staff review comments, and public hearing results. Staff will then submit a list of applications recommended for approval to the commissioners no later than seven days prior to the regularly scheduled commission meeting where approvals will be made. Recommendations may include the revision of budgets, unit counts, rents, tax credit and loan amounts as a result of the underwriting process.

At the approval meeting, the commissioners have the right to inquire further about the applications, to approve the list as recommended, or to add applications to or delete applications from the list. Following their approval of the final list of applications for low-income housing tax credit, HOME, and/or other MHDC-administered financing, staff will proceed with the conditional reservation process.

When the potential for conflict of interest or the appearance of a conflict of interest exists, MHDC's commissioners and employees shall identify such situations, disclose the potential conflict, and take whatever steps may be warranted by the situation, up to and including recusing themselves from decision-making or action pertaining to the situation.

Exhibit 1

Service-Enriched Housing Priority Minimum Requirements

Coming soon to a Developer's Guide near you.

Exhibit 2

MHDC Site Control Requirements

A key component of the application process is establishing appropriate site control. For FY2010 MHDC is requiring evidence of buyer site control, evidence that the seller has ownership of the site, and, in certain contractual situations, documentation of the sales price. MHDC has requested site control documentation with two types of land and/or building purchase/lease transactions in mind: Arm's Length and Identity of Interest.

Arm's Length transactions are those for which the current owner contemplates selling, leasing or donating the site(s) to an entity in which they have no legal, business (other than the transaction itself) or other affiliation that creates, in the sole opinion of MHDC, an identity of interest between the parties.

Identity of Interest transactions are those in which the current owner of the site(s) has, in MHDC's sole opinion, a relationship with the applicant and/or proposed ownership entity which disqualifies the transaction from being considered Arm's Length.

Requested documentation for Arm's Length Transactions:

Buyer/Applicant

The buyer/applicant must evidence that they have control of at least 50% of the sites listed in the FIN-100 through at least the expected commission approval date. It is highly recommended that site control extend through a time period beyond the commission approval date. MHDC encourages the acquisition closing to take place simultaneously with construction loan and partnership closings. The practice of purchasing sites or buildings after approval, but prior to construction and partnership closings, is frowned upon and may impact future funding decisions. For the purposes of the application the ownership entity, any general partner of the ownership entity, the developer or any individual of each that is listed as a principal may enter into the agreements listed below to show valid buyer/applicant site control:

- a. Executed purchase option agreement;
- b. Executed purchase contract;
- c. Executed long-term land lease or option on a long-term land lease; or
- d. Other commitments/agreements approved by staff prior to application.

In order to be considered valid, all options and agreements must be fully executed and include all pages and exhibits referenced in the document. Only the items described above or an alternative form of documentation approved by staff prior to the application deadline will satisfy the buyer/applicant site control requirement for Arm's Length transactions.

If a buyer has valid site control as defined above for less than 100% of the sites listed in the FIN-100, the applicant must provide a thorough description of the process and timing for acquisition of the remaining sites.

Seller

The applicant must provide evidence that the seller who has entered into one of the approved forms of buyer/applicant site control is the current owner of the site(s) in question.

There are two and only two acceptable forms of seller site control:

- a. A warranty deed, quit claim deed, sheriff's deed or like recorded vesting document with the seller listed as grantee; or
- b. A title commitment or title policy that states who the current owner is.

Deeds of trust, redeveloper agreements, website print-outs, etc. do not qualify as either buyer and/or seller site control. Applicants must provide one of the two forms of seller control above with the application, to satisfy the seller site control requirement for Arm's Length transactions.

Requested Documentation for Identity of Interest Transactions:

Buyer/Applicant:

The buyer/applicant must evidence that they have control of at least 50% of the sites listed in the FIN-100 through at least the expected commission approval date. For the purposes of the application the ownership entity, any general partner of the ownership entity, the developer or any individual of each that is listed as a principal may enter into the agreements listed below to show valid buyer/applicant site control:

- a. Executed purchase option agreement;
- b. Executed purchase contract;
- c. Executed long-term land lease or option on a long-term land lease;
- d. Recorded warranty deed, quit claim deed, sheriff's deed or like recorded vesting document; or
- e. Other commitments/agreements approved by staff prior to application.

In order to be considered valid, all options and agreements must be fully executed and include all pages and exhibits referenced in the document. Only the items described above or an alternative form of documentation approved by staff prior to the application deadline will satisfy the buyer/applicant site control requirement for Identity of Interest transactions.

If a buyer has valid site control as defined above for less than 100% of the sites listed in the FIN-100, the applicant must provide a thorough description of the process and timing of acquisition for the remaining sites.

Seller:

The applicant must provide evidence that the seller who has entered into one of the approved forms of buyer/applicant site control is the current owner of the site(s) in question.

There are two and only two acceptable forms of seller site control:

- a. A warranty deed, quit claim deed, sheriff's deed or like recorded vesting document with the seller listed as grantee; or
- b. A title commitment or title policy that states who the current owner is.

If the buyer/applicant already has a warranty deed (or like instrument), it has demonstrated both buyer/applicant and seller site control. Regardless of who the grantor is on the deed, MHDC will consider this type of situation an identity of interest transaction and the identity of interest documentation below is required.

As part of seller site control for identity of interest transactions, the documentation listed below is required for each transfer of the property from the time the seller acquired it back to the last arm's length transaction:

- a. Copy of the executed contract; or
- b. Settlement statement for the transaction.

In order to be considered valid, all buyer/applicant, seller and identity of interest documents must be executed and must include all exhibits referenced in the document and all pages from the body of the document.

There are two exceptions for providing the identity of interest documentation with seller site control in identity of interest transactions:

1. When the last arm's length transaction took place prior to December 31st, 1958; and
2. The total purchase price or annual lease payment, as evidenced in the documents and the Fin-100, is less than \$100.00.

Any questions comments or concerns regarding site control and/or site control documentation should be directed to Janell Thome at 816.759.6862 or jthome@mhdc.com prior to the application deadline.

Exhibit 3

MHDC Homeownership Guide

The Commission is dedicated to strengthening communities and the lives of Missourians through the financing, development and preservation of affordable housing. It is through the combined efforts of the Commission and our numerous partners in housing that we are able to supply citizens of Missouri safe, decent, and affordable homes. Homeownership has long been considered the foundation of the house of financial stability as well as the most important achievement in the quest for the American dream. Section 42 of the IRS Code supports homeownership opportunities for residents of single-family low-income housing rental developments by allowing the owners to sell the homes to the residents following the completion of the IRS' initial compliance period. Converting Low Income Housing Tax Credit rental properties into single-family homeownership properties can prove to be beneficial to both resident and owner. The opportunity of homeownership has proven to be a major incentive to residents. This incentive allows the resident the potential of homeownership which might otherwise be out of reach, as well as encouraging them to remain in place, adhere to the lease, and care for the condition of their future home. MHDC has established the Homeownership Guide to assist developers and owners in the planning, development, and eventual conversion of rental/homeownership developments.

This guide details rules that must be adhered to when converting Low Income Housing Tax Credit ("LIHTC") rental properties into Single Family Homeownership properties at the end of the 15-year LIHTC Initial Compliance Period. Additional restrictions may apply depending upon what other type of financing is involved in the project. Developers and owners of affordable single-family rental developments who wish to convert the properties into homeownership opportunities for the residents must establish a plan for the timing and terms of sales to residents and qualified low-income households at the end of the Initial Compliance Period ("Homeownership Commitment"). Each and every Homeownership Commitment will differ. MHDC realizes that there are many options for determining the sales price besides what are outlined in this document and encourages the use of creativity within the Homeownership Commitment. Above all, a homeownership plan developed by an owner must remain true to the tax credit program by ensuring that the opportunity for homeownership is directed at low-income households at an affordable price. The Homeownership Commitment must be proposed at application, approved by MHDC at carryover allocation, recorded with the Land Use Restriction Agreement ("LURA"), and attached to each resident lease.

The following issues apply to and must be addressed in each Homeownership Commitment and in the implementation of the conversion for all single-family rental/homeownership developments proposed with the FY2008 NOFA and thereafter and all Homeownership Commitments filed after the date of this document.

1. Any project that is submitted and reviewed by the Commission as a Single Family Homeownership project is prohibited from requesting a qualified contract at the end of the initial compliance period. In other words, the owner will not be allowed to "opt-out" of the project at the end of the LIHTC Initial Compliance Period. This period is assigned on a building-by-building basis and begins with the first year that the credits are claimed. The LIHTC Initial Compliance Period ends on December 31 of the 15th year of the period for that particular building.
2. Before offering a Right of First Refusal ("RFR") to any resident, the project must have fully completed the LIHTC Initial Compliance Period on ALL units. This will avoid confusion by

allowing the owner, residents and MHDC to all be on the same time table.

3. Owners must ensure that the purchase price of each home complies with the minimum purchase price required in Section 42(i)(7)(B) of the Code ("Minimum Price") and defined as an amount equal to the sum of the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of the sale to the residents) and all Federal, State, and local taxes attributable to such sale.
4. To preserve affordability, MHDC is setting the maximum sales price to be an amount such that the monthly housing payment of principal, interest, property taxes, and property and mortgage insurance ("PITI") plus tenant-paid utilities does not exceed the maximum LIHTC rent based upon bedroom size [assuming a 95% mortgage, 30-year amortization, interest rate equivalent to MHDC's First Place loan program, and typical insurance premium available to low-income households] less a 1% discount for each year the resident has leased the unit ("Maximum Price").
5. The sales price may be determined by a number of methods, but it must be crafted with the intention of being affordable to low-income households at the time of conversion. A discount off the sales prices for years of tenancy is highly encouraged. The chosen method must be established in the Homeownership Commitment and must result in a sales price which is not less than the Minimum Price and not more than the Maximum Price. Several illustrative methods for setting the sales price are described below.
6. The owner will offer the RFR within 12 months of the end of their LIHTC Initial Compliance Period. This will be a set date and will not be able to be changed because of market conditions, high interest rates, or other factors which affect the salability of the houses. MHDC will call this date the "Conversion Date".
7. Each lease will contain an addendum to the lease. Within this addendum will be a copy of the Homeownership Commitment. Because it is important for the residents to be aware of the Conversion Date so that they know when the houses will be offered for sale to them, the Conversion Date must be referenced in this addendum to the lease. The Homeownership Commitment should also define the term "Right of First Refusal". Because homes will only be offered to residents in good standing, the Homeownership Commitment should also define the term "good standing". The owner does not have to outline specific discounts that will be offered to the resident as related to the sales price of the homes. However, they should in general terms indicate their plan for pricing the homes. The addendum should also state that the homes cannot be sold at a price lower than the minimum sales price as set forth in Section 42(i)(7)(B) of the Code.
8. The owner will provide information about homeownership training to the resident by way of a notice or a brochure. The owner will begin providing referral information about

homeownership training or actual training to residents 5 years before the Conversion Date. The developer will have an agent or plan with a homebuyer credit counselor (this will usually be in the form of a non-profit agency). This information must be provided to the resident in an addendum to the lease for all properties leased after the date which is 5 years prior to the Conversion Date.

9. The owner should address the issue of how potential homeowners will be educated concerning home maintenance. Several suggestions are: have the property maintenance person work with potential homeowners while doing routine maintenance and minor repairs to units; enlist the help of non-profit organizations which promote homeownership opportunities.
10. The owner must distribute to all residents, 1 year before the offering of the RFR, information detailing the dates, timeline and information that is contained within the Homeownership Agreement.
11. Each resident will be given up to 6 months after the Conversion Date to decide whether or not to accept the RFR offer from the owner. Any resident who is in “good standing” at the time of the offering of the RFR shall have the right to exercise the RFR. The resident will exercise their RFR by tendering an offer to buy the property. Within this offer there should be a date set for closing.
12. After this 6 month period mentioned in #11 above, the owner has several options in reference to any unsold units:
 - a. The owner can choose to sell the remaining units of the project to a non-profit partner or another entity that will continue to operate the units as affordable housing in accordance with the LURA. The sale must include 100% of the remaining rental units, not a portion thereof.
 - b. The owner can choose to maintain the remaining units of the project as rental units, adhering to all MHDC Extended Use Period guidelines. The remaining units after this initial 6 month selling period may at any time be offered for sale to the current or subsequent qualified residents.
 - c. The owner can offer vacant units for sale to a buyer whose household income does not exceed 80% of the area median income. A potential purchaser who qualifies under this income restriction is not required to lease the unit before they purchase it (an exception to this occurs if HOME funds are involved – see below).
13. At the sale of each home, MHDC will execute a partial release of the Low-Income Housing LURA for that property.
14. If MHDC holds the mortgage, the owner shall contact MHDC’s Loan Servicing department just prior to the Conversion Date to determine the payoff amount for the sale of each home. The

required payoff will be calculated over 75% of the homes in the project in order to accelerate the paydown and potentially ease the burden on any remaining unsold homes. The owner can then utilize this figure in calculating the minimum sales price of the home according to Section 42(i)(7)(B) of the Code.

The payoff amount for each home will be equal to the principal balance of the loan as of the conversion date divided by .75 divided by the number of homes in the project. The title company assisting in the transaction must contact MHDC's Loan Servicing department for the payoff prior to the sale of the home and transfer the payoff to MHDC as part of the closing transaction. The loan will be re-amortized following each paydown. An example would be:

The principal balance of a loan on the conversion date of a project is \$500,000. There are 30 homes in the project. The required payoff per home sold would be \$22,222.22 ($\$500,000 / .75 / 30$). If the owner sells and closes on 12 homes in the 5th month following the initial RFR, MHDC will receive a total paydown of \$266,666.64 ($12 \times \$22,222.22$) from the 12 closing transactions. The loan will then be re-amortized based upon the \$266,666.64 paydown. If then in the 10th month following the initial RFR, the owner closes on 3 more homes, MHDC shall receive a total paydown in the amount of \$66,666.66 ($3 \times \$22,222.22$) and re-amortize the mortgage accordingly.

As each home sells and contributes the required paydown of the mortgage, MHDC will execute a partial release of the deed of trust for that home. If full repayment of the loan occurs, the deed of trust will be released for all remaining unsold homes.

15. Each house that is to be sold to a resident under the RFR must pass a Housing Quality Standards ("HQS") inspection. It must also undergo a physical needs assessment performed by an MHDC approved inspector following MHDC prescribed standards. Any deficiencies described in the physical needs assessment must be addressed by the owner before the Conversion Date. The HQS inspection and/or physical needs assessment cannot be used in place of subsequent inspections.
16. The owner should address the issue of replacement reserves in the Homeownership Plan. MHDC intends that any excess reserves after repairs and replacements, as determined on a pro rata portion for the unit(s) at the time of sale, will benefit the project and the new homeowner. Several suggestions are: put the unused pro rata portion of the reserves into an account to be used by the neighborhood homeowner's association; use the unused pro rata portion of the reserves for additional down payment assistance to the homeowner; discount the sales price by an amount equal to the unused pro rata portion of the reserve amount; establish a reserve account for the new homeowner from the pro rata portion of the reserve amount.
17. The buyer must also agree to occupy the home as their principal residence.
18. If the current resident refuses to buy the property or is unable to buy the property, they cannot be asked at any time to vacate the property except for reasons specified in their lease.

19. A resident in good standing may not be relocated or evicted to expedite the sale of a unit. When renting a unit, a possible resident may not be discriminated against because they do not wish to purchase the unit they are requesting tenancy in.
20. If a household has had an increase in income since moving into the property, this will not disqualify them from buying the property. They will not be considered over income. If a household qualifies to move into the unit as a resident, they are income qualified as a potential buyer (an exception to this occurs if HOME funds are involved – see below).
21. In order to assure that all parties are prepared to begin selling the homes as outlined in the homeownership agreement, the owner will meet with staff at MHDC in the 14th compliance year to discuss the above items along with any other topics deemed necessary at the time. The owner must contact MHDC’s Asset Management department to begin this process.
22. The ownership entity may offer the first right of refusal to the non-profit partner at the end of the Initial Compliance Period, with the non-profit commencing sales of the units to the residents and qualified buyers thereafter if the following requirements have been met:
 - a. The limited partnership agreement or operating agreement governing the ownership entity has granted a first right of refusal to the non-profit partner or member;
 - b. The non-profit entity is a qualified non-profit for purposes of the LIHTC program, that is, it is a tax-exempt organization formed with the express purpose of fostering affordable housing, is not controlled by a for-profit entity or subsidiary, and has been materially involved in the operations of the development;
 - c. The non-profit has filed a Homeownership Commitment that has been approved by MHDC, recorded with the LURA, and attached to resident leases; and
 - d. The non-profit transacts the sales of the homes under the terms of the MHDC-approved Homeownership Commitment and follows all MHDC rules and guidelines applicable to homeownership conversion when the right of first refusal is offered to the residents.

Determining Sales Price

In order to extend the opportunity for homeownership to existing tax credit residents, the houses must be affordable for people who are at or below 60% of median income for the area.

Residents who buy the houses should be able to replace their rent payment with a house payment which is comparable to what they were paying in rent. This is considered the “Equivalency Principle”. To achieve maximum affordability, the monthly mortgage payment including principal, interest, property taxes, property and mortgage insurance (PITI) should not significantly exceed the monthly rents in Year 15. As stated previously, the sales price of the homes to existing residents or qualified buyers must fall between the Minimum Price and Maximum Price defined above.

Listed below and discussed are three possible options for determining the sales price of the property as of the Conversion Date.

Existing Obligation plus Profit

Section 42(i)(7)(B) of the Code defines the minimum purchase price for a LIHTC property at the end of its LIHTC Initial Compliance Period to be the sum of (i) the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of sale) and (ii) all Federal, State, and local taxes attributable to such sale. We also understand that the property will need to have repairs done to it before it is sold and the developer will desire a profit from each sale.

MHDC has taken the above into consideration and suggest the property may be sold for the following amount: [(((the payoff of the entire note) + Exit Taxes + Amount to make any and all repairs deemed necessary to bring the building up to excellent condition)/# of units in the project) + (An amount of profit the owner chooses to add for the sale of each home)]. The resident will then receive a discount off the sales price for each year they have occupied a property within the project, specified by the owner.

Sample assumptions:

15-home development

Remaining mortgage of \$200,000

Exit taxes estimated by limited partner at \$150,000

Repairs necessary = \$180,000 (in addition to replacement reserves)

Profit requested by owner = \$20,000/home

Resident discount = 1% per year of tenancy

A resident who has rented the home for 7 years would pay a purchase price of \$51,460 or $((\$200,000 + \$150,000 + \$180,000)/15) + \$20,000) \times 93\%$

Equivalency Principle Approach

The following procedure will occur on the Conversion Date and will be used to decide the sales price for the houses. This price will be used as the sales price for all the houses until all the houses are sold regardless of the income level of the buyer. The sales price will be determined using the following guidelines based on a monthly housing payment equal to the current rent being charged for the units assuming a 95% mortgage, 30-year amortization, and an interest rate equal to that used by the MHDC First Place program. Existing residents are offered a 1% discount for each year of tenancy.

1. Current monthly rent = \$550
2. For argument sake, insurance and taxes = \$150 per month
3. Mortgage payment is then = \$400 per month
4. Using an estimated MHDC MRB interest rate = 6.3%, the mortgage amount would be \$64,623
5. Assuming a 95% mortgage, the sales price would be \$68,024
6. If the resident leased the unit for four years, a 4% discount would reduce the sales price to \$65,303

Maximum Price Approach

The following application of the Maximum Price calculation will be based on the maximum LIHTC rent in effect at the time the home is sold regardless of the income level of the buyer. The sales price will be determined using an amount such that the monthly PITI payment plus tenant-paid utilities does not exceed the maximum LIHTC rent based upon bedroom size [assuming a 95% mortgage, 30-year amortization, interest rate equivalent to MHDC's First Place loan program, and typical insurance premium available to low-income households] less a 1% discount for each year the resident has leased the unit.

An example would be:

1. Current maximum LIHTC rent for a 3-bedroom house in Springfield = \$801
2. For argument sake, insurance and taxes = \$150.00 per month; tenant-paid utilities = \$125 per month
3. This allows for a total of \$526 P&I that this family can afford/qualify per month for a house payment with a 30-year term
4. First place program MRB rate is 6.3%
5. The maximum loan amount would then be \$84,980
6. Assuming a 95% mortgage, the sales price would be \$89,452
7. If the buyer happens to be a resident who has lived in the project for 4 years, they would receive a 4% discount off the \$89,452 figure for a sales price of \$85,874.

Additional HOME Rules

HOME funds utilized for new construction rental housing carry an affordability period of 20 years. The affordability period includes income and rent restrictions which are set forth in a Regulatory Agreement. HOME regulations allow for rental units to be sold during the affordability period, but the following rules apply for units that are designated as HOME-assisted units. These regulations are in addition to the rules listed at the beginning of this document:

1. During the affordability period, all purchasers of HOME-assisted units must have a household income that is at or below 80% of area median income. This includes both resident purchasers and any subsequent purchasers involved in a resale transaction. The actual income limit is dependent on the household size and the area in which the property is located. If the initial purchaser of the unit is not a current resident, they are required to lease the unit for a nominal period prior to purchase.
2. For the term of the affordability period, some type of deed restriction will need to be recorded against the property to help assure that the new homeowner adheres to HOME rules throughout the affordability period. This will be put in place by the original owner. This document will expire

on the date the original HOME compliance period for the project ends. This deed restriction should address resale provisions associated with the unit. Although the resident purchaser must adhere to these deed restrictions, the original owner is ultimately responsible for compliance with the HOME rules and regulations. The deed restrictions may outline repayment terms by the resident purchaser if the home is sold to someone who does not income qualify under HOME rules. Violations of affordability restrictions may result in recapture of a pro rata portion of the funds by HUD, at which time MHDC will look to the seller's repayment and the original owner to provide the amount of recapture requested.

3. The owner must be involved with future resales of the units, specifically, in qualifying the incomes of subsequent purchasers and reporting to MHDC compliance with regulations regarding the resale of units occurring during the 20-year affordability period.
4. The housing must be considered modest in that the purchase price for the type of single-family housing does not exceed 95% of the median purchase price for the area.
5. The sales price must be affordable to the purchaser. MHDC defines affordability as a transaction in which no more 35% of the purchaser's income may be used to pay monthly PITI payments.
6. The initial homeowner who sells the unit during the affordability period must receive a "fair return" defined by MHDC as the return of the homeowner's initial investment.
7. The buyer(s) must occupy the property as their principal residence and must occupy such property as their principal residence for no less than 11 months of each calendar year. It cannot be rented during the affordability period.
8. The only exception to the 20-year term of the affordability period is if the homebuyer receives HOME funds directly as down payment assistance or subordinate financing. In that case, the affordability period associated with the direct subsidy to the homebuyer commences and the 20-year period associated with the development subsidy (from the initial construction of the property) is terminated. MHDC does not currently offer HOME for purchase assistance, and if it did, it cannot be targeted only to residents of specific developments. The owner may wish to help its residents obtain direct HOME subsidies from Participating Jurisdictions in order to ease the restrictions on the homebuyer, but the availability of funds in the future is something that cannot be completely assured.

Exhibit 4

MHDC Guidelines for Preliminary Financial Commitments

MHDC requires a preliminary commitment letter at the time of application for all non-MHDC sources of financing.

Debt/Grant Commitments

Any debt or grant funds that will be a part of the development's financing must have a commitment letter or a letter stating that an application has been received for the source in question. Commitment letters must indicate the:

1. Loan or grant amount.
2. Loan term and amortization.
3. Interest rate.
4. Fees associated with the loan or grant.
5. Reserve requirements.
6. Lien position of the loan.
7. Relevant requirements that may affect other financing sources or the operations of the property.
8. Contact information for the person providing the commitment and to whom MHDC's questions can be directed.

Commitment letters are required for both construction and permanent sources.

If a loan is going to be assumed or an existing loan is to be restructured, you must provide a copy of the current note and a letter from the lender that states 1) that the loan can be assumed and 2) the terms and conditions of any assumed or restructured note. This is of particular applicability to HUD and RD financed developments that are being preserved.

If a loan/grant has been applied for, or will be applied for, from a competitive source (e.g. city funds, Federal Home Loan Bank), a letter of acknowledgement that the funds have been applied for or verification that a funding round is coming up and the applicant is eligible to apply is required. The letter should indicate the amount of funds requested and the timing for funding decisions. Applicants should be prepared to explain alternative plans if they are not successful in any non-MHDC competitive funding rounds.

Equity Commitments

Any development with tax credit equity listed as a source must include a preliminary commitment letter or letter of interest. The letter must indicate the:

1. Ownership percentage and amount of annual credits to be purchased by the equity provider.
2. Price paid per dollar of annual credit purchased.
3. Total amount of capital contributions.
4. Amount of equity paid in during the construction period.
5. Any fees, such as an asset management fee, that must be paid over the compliance period.
6. Any reserve requirements.
7. Contact information for the person providing the commitment and to whom MHDC's questions can be directed.

All equity commitments must be signed by the provider of the commitment and dated within 45 days of the application deadline.