

**MISSOURI HOUSING DEVELOPMENT COMMISSION**

**2011 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.

**TABLE OF CONTENTS**

---

APPLICATION INFORMATION.....4

    The NOFA ..... 4

    The Application ..... 4

    Submitting an Application ..... 5

    Public Hearings ..... 5

APPLICATION REVIEW.....5

    Initial Review ..... 6

    Primary Documentation Review ..... 7

    Secondary Documentation Review ..... 7

    Site Review ..... 8

    Competitive Review ..... 8

HOUSING PRIORITIES .....9

    Geographic Priority ..... 9

    Nonprofit Involvement Priority ..... 10

    Special Needs Housing Priority ..... 11

    Service-enriched Housing Priority ..... 11

    Preservation Priority ..... 15

    Property Disposition Priority ..... 16

SELECTION CRITERIA.....17

    Development Characteristics ..... 17

    Market Characteristics ..... 20

    Development Team Characteristics ..... 21

    Feasibility ..... 22

    Community Impact ..... 23

APPLICATION UNDERWITING STANDARDS .....24

    Sources ..... 24

    Uses ..... 30

    Income ..... 35

    Operating Expenses ..... 35

APPLICATION EXHIBITS.....36

APPLICATION APPROVAL.....55

    Code of Conduct ..... 55

    Commission Approval ..... 56

Exhibit 1 – Special Needs Housing Priority ..... 61

Exhibit 2 - Service-Enriched Housing Priority Minimum Requirements .....57

Exhibit 3 – Transit-Oriented Development Threshold.....61

Exhibit 4 - MHDC Site Control Requirements .....62  
Exhibit 5 - MHDC Guidelines for Preliminary Financing Commitments.....65  
Exhibit 6 -Homeownership Guide.....67

---

## **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 2011. 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 Senior 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 with the exception of applications from the Property Disposition Priority (see section C). 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.

An application checklist, application forms and program guides may be found at our web site [www.mhdc.com](http://www.mhdc.com) through the Rental Production link.

### **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 p.m. 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 Low Income Housing Tax Credit ("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 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.

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, fully executed and submitted by the application deadline. A missing primary document will result in the rejection of the application. Documents in draft form or missing signatures are not acceptable and will be considered a missing document. An exact list of the documents can be found on the FIN-125 application checklist 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 submitted in order for an application to receive further consideration. If six or more secondary review documents are missing or incomplete at the time the application is submitted, the application will be rejected. If five or fewer secondary documents are missing or incomplete at the time the application is submitted, the applicant will be notified in writing of deficient items and a date by which deficiencies must be cured ("Cure Date"). If the requested documents are not received by the Cure Date, the application will be rejected. The FIN-125 application checklist 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 requires applicants to place a sign on the property clearly 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, at the sole discretion of MHDC, 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

An attempt will be made to allocate the balance of the 9% federal credit ceiling remaining after the special needs housing allocation (as described in section 3 below) 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 "Targeted Areas," which could allow for funding of said development(s) without regard to the targeted geographic set-aside. Parts of the state officially declared a disaster area by the governor may be designated a Targeted Area as determined on a case-by-case basis by the commission in order to give special consideration to developments that assist in providing affordable housing to people affected by the disaster. In the event of such a determination by the commission, a notice

announcing the Targeted Area designation will be posted with the QAP and the NOFA at [www.mhdc.com](http://www.mhdc.com).

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. Nonprofit 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 nonprofit organization. This is commonly known as the “nonprofit set-aside” and applies only to the 9% LIHTC. MHDC will give priority to applications that involve a qualified nonprofit until the 10% requirement has been met. At its discretion, MHDC may continue to give priority to proposals that involve qualified nonprofits after the 10% requirement has been met.

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

- a. A 501(c)(3) or (c)(4) nonprofit 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 nonprofit organization to qualify for CHDO status (24 CFR Part 92.2). If the development is seeking HOME under the CHDO set-aside, the nonprofit entity must be the controlling general partner of the ownership entity to qualify.

Developments that wish to be considered for the nonprofit involvement priority under either the tax credit nonprofit 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. Nonprofit 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. An official certificate may be obtained from the Missouri Secretary of State web site for a nominal fee. A screen print of the search screen indicating the status of an entity is not a certification and therefore is not an acceptable demonstration of good standing.

iv. IRS Letter Evidencing Nonprofit Status; and

v. Nonprofit Questionnaire.

The nonprofit 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 nonprofit applicants requesting HOME funds from the CHDO set-aside. All the attachments requested in the R-100 must be included.

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

### **3. Special Needs Housing Priority**

Developments that provide housing opportunities for persons with special needs are strongly encouraged. Proposals that commit to a special needs set-aside of no less than 10% of total units up to a maximum of 100% of total units will receive priority consideration. A person with special needs is a person who is physically, emotionally or mentally impaired or suffers from mental illness; developmentally disabled; homeless; or a youth aging out of foster care. A development with a special needs set-aside may not give preference to potential residents based upon having a particular disability or condition to the exclusion of persons with other disabilities or conditions. Applicants

must submit documentation that demonstrates they have obtained commitments from a lead referral agency which will refer special needs households qualified to lease targeted units and from local service agencies which will provide a network of services capable of assisting each type of special needs population defined above.

MHDC will endeavor to approve up to two applications from the special needs housing priority for an allocation of 9% credits outside the geographic set-aside, subject to the quality of the special needs proposals received and their ability to meet selection criteria and underwriting requirements described in the QAP. Selection of the two qualified applications will be limited to one proposal which sets aside 100% of its units for persons with special needs and to a second proposal which sets aside at least 10% of its units for persons with special needs. The two special needs developments chosen outside the geographic set-aside will not exceed a cumulative total of 80 special needs and non-special needs units for both developments combined. MHDC may approve 9% credits for additional applications from the special needs housing priority within the limits of the geographic set-aside based upon their merits and ability to compete with other proposals.

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 draft referral and support agreement with the lead referral agency.
- ii. A description of the experience of the lead referral agency, their ability to provide access to support services, and their capacity to maintain relationships with the managing agent and community service providers throughout the compliance period.
- iii. A marketing plan demonstrating how the property will be affirmatively marketed to persons with special needs, the screening criteria that will be used, and the willingness of all parties to negotiate reasonable accommodations to facilitate the admittance of persons with disabilities into the property.
- iv. Documentation of supportive services appropriate to each type of special needs population.
- v. An affordability plan addressing the type of rental assistance or rent structure that may be utilized to make targeted units affordable to special needs households with extremely low income.

A detailed description of the special needs housing priority including MHDC's definition of special needs and explanation of roles, responsibilities, and programmatic requirements is addressed in Exhibit 1.

#### **4. Service-enriched Housing Priority**

Developments that offer more than housing are strongly encouraged. Proposals offering 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;
- d. Individuals with physical and/or developmental disabilities; or
- e. Individuals with mental illness.

The applicant should demonstrate 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 project-specific 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 2 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-enriched housing priority a proposal must have a defined population, demonstrate 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. If the owner determines a particular program offered as part of the committed services is not meeting the needs of the resident population, the owner must replace it with another more appropriate service.

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.

## **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 LIHTCs in which the first year of the credit period was 1996 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 encumbering the property, including any subsequent modifications;
- ii. A copy of any project-based income or operating subsidy agreements and rent schedules, including both original and modified subsidy agreements or contracts;
- iii. 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.

## **6. Property Disposition Priority**

Applicants may compete for the purchase of real estate owned by MHDC. The application must propose an acquisition/rehabilitation transaction that will be evaluated on its merits according to the selection criteria and its ability to demonstrate potential long-term success as an operating affordable housing property. The application serves as both the developer's competitive bid to purchase the asset and the developer's application for financing to fund the property's acquisition

and renovation. Therefore, multiple applications for the same property may be submitted by different development teams competing for the opportunity to purchase it.

To qualify for the property disposition priority the development must be listed publicly by MHDC as real estate owned and available for competitive bid. Application fees and market study requirements will be waived for applicants submitting proposals under this priority.

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

- i. A signed option contract representing the applicant's offer to purchase the MHDC-held property on the MHDC option contract form. The MHDC form will be made available on the MHDC website in conjunction with any real estate owned that is publicly posted.
- ii. Any other certifications or documents which may be required by MHDC and made available on the MHDC website in conjunction with the listing of any MHDC-owned real property.

## **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 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 underserved 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 with mental illness.
- iii. Individuals on public housing waiting lists.
- iv. Tenant populations of individuals with children.
- v. Youth aging out of foster care.
- vi. Developments serving the lowest-income tenants.
- vii. 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 2011 NOFA, the preference for developments intended for eventual tenant ownership applies exclusively to single-family homes.

Regardless of type, developments obligating 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. Site 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. Population-appropriate design features, 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;
- v. Infill of existing stable neighborhoods; or
- vi. Commission-designated Targeted Areas (see section C.1 above).

### **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.

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; and

vii. Performance regarding MHDC deadlines for previous funding awards.

The general partner, developer, and general contractor 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 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 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 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 and proposals utilizing historic tax credits, 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 exceeding 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.

- 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. MHDC will not accept permanent loan interest rates that float or are reset during the first sixteen years of operations.

- 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.

MHDC may require recourse on the entire construction loan during the construction period.

*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, it will have a 30-year term.

Non-MHDC debt will be underwritten with the term described in the preliminary commitment letter. MHDC will not accept any permanent loan term less than sixteen years.

- 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 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 developer 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 for developments placing in service prior to December 31, 2013. Use 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 an increase in qualified basis of up to 30%. Additionally, 42(d)(5)(B)(v) of the Internal Revenue Code allows MHDC to establish other areas or development types eligible for an increase in qualified basis. For 2011 MHDC has established the following as eligible for the increase in qualified basis:

- **Preservation Priority**: A 9% development that qualifies for the preservation priority is eligible for the basis 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.
- **Special Needs Housing Priority**: A 9% development that is determined by MHDC in its sole discretion to meet both of the following criteria:
  - The proposal must successfully meet the definitions and requirements of the special needs housing priority as described in Exhibit 1.

- The proposal must demonstrate the property will incur direct costs in addition to costs covered by third parties in the provision of services to enhance the residential stability and independence of special needs residents.
- 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 basis increase. The services provided must be significant and available for the entire compliance period. Threshold requirements for qualification under the service-enriched housing priority and source and use considerations are outlined in Exhibit 2.
- Workforce Housing in a County Below Statewide Median Income: Developments located in counties that have a median income less than the 2010 statewide median income as established and published by HUD are eligible for the basis 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. Please refer to Exhibit 3 for threshold criteria associated with the TOD designation.

MHDC will decide, in its sole discretion, what evidence and what types of development will qualify for the 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 the price reasonably reflects current market conditions. MHDC reserves the right to underwrite developments at credit prices different than outlined in the preliminary financing commitment.

A minimum of 10% of federal and state tax credit equity must be invested in the development at closing and again at 50% of construction completion if MHDC is providing a construction/permanent loan. If HUD is providing loan insurance, 20% of the total equity amount is required at construction closing. Investors taking more than a de minimis share of ownership interest must provide a capital contribution in exchange for their share of federal tax credits.

MHDC will underwrite with a price floor of \$0.40 per credit on the state LIHTC. Given the changing landscape of the federal LIHTC 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 providing 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. The pricing and amount of historic credit equity listed in the FIN-100 must be the net amount provided to the partnership, excluding

special reserves and costs taken from the gross price for put and call options, syndicator bridge financing, etc.

- 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. Developments that exceed the cost limits will be underwritten for MHDC tax credit and loan resources up to the amount necessary to finance 100% of the cost limits; filling the financing gap resulting from the excess costs is the responsibility of the developer.
- 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, permits, fees 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. The following expenses must be paid through the developer fee:

- Developer overhead, including but not limited to postage, copying costs, staff travel to site and meals;
- Developer profit;
- Costs incurred for the submission of applications in years prior to the round in which tax credits or loans were awarded;
- Development consultant and credit consultant fees (not including historic preservation, environmental, green building or syndication consultants);
- Real estate brokerage fees and loan brokerage fees paid to a related party; and
- Compensation for any construction management oversight provided by the developer.

Please note that the developer 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.

MHDC Fund Balance Loan Permanent Loan:	1% of principal amount
HOME Loans:	No fee is charged
Participation Loans - Construction:	0.5% of principal amount
Participation Loans - Permanent:	0.5% 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. The fee will be determined at firm commitment and will be due at closing. For application purposes, use the following guideline to budget the MHDC construction inspection fee:

<u>Construction Period</u>	<u>Estimated Fee</u>
1 – 12 months	\$ 7,500

13 months or more

10,000

- f. Appraisal Fee.** MHDC may require an appraisal to confirm the fair market value of the land and improvements transferred between parties with an identity of interest or to calculate loan-to-value ratios for developments receiving an MHDC loan. MHDC reserves the right to require an appraisal on other developments as needed. MHDC shall order the appraisal and assess a fee of \$5,000 from the development at Conditional Reservation. The development will be either further assessed or refunded the difference if the actual cost of the appraisal is more or less than the flat fee. The appraisal fee is non-refundable once the appraisal services have been provided.
- g. Construction Costs.** Owners are required to pay at least federal prevailing wage to all laborers and mechanics employed in the construction of the development as determined and posted by the United States Department of Labor for the locality of the site and current within ten days of construction closing. The application construction budget must utilize the appropriate Davis-Bacon wage determination in effect at the time of application. For properties with four or fewer floors, use the “residential” decision. For properties with five or more floors, use the “building” decision. Wage determinations may be found at <http://www.access.gpo.gov/davisbacon/>.
- h. 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.
- i. 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.
- j. Tax Credit Fee** - The fee will be equal to 7% of the annual federal tax credit amount awarded to the project.

- k. Tax Credit Monitoring Fee** - The fee is equal to \$300 per tax credit unit.
  
- l. AHAP Fee** - The AHAP fee is equal to 0.5% of the AHAP credit amount plus the \$100 application fee.
  
- m. 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.
  
- n. 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.
  
- o. Replacement Reserve** - The initial replacement reserve should be for \$600 dollars per unit. Any other amounts require an explanation.
  
- p. 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.
  
- q. 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. Any costs incurred for submission of tax credit applications in years prior to the development being awarded tax credits or loans shall be repayable to the developer only as part of the developer fee.

### 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 may 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 is the break-even vacancy rate.

### 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 demonstrating 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 all projects to 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 Senior Underwriter. Any item that may serve to satisfy the requirements of multiple exhibits should be copied and included in each applicable exhibit tab. For example, a letter of support from the city that also confirms the zoning for an application must be included both in exhibit tab 10 (Public Official Contact Verification and Support Letters) and exhibit tab 13 (Zoning Letter).

If an exhibit is required for your type of development, but you feel there is a reason 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.

Application exhibits 1-8 constitute the primary documentation and exhibits 9-20 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. FIN-100-Addendum: Include both an Excel version and a PDF version that includes the signatures.
- c. Development Narrative: A Word version of the narrative is required.
- d. Development Questionnaire: A Word version of the questionnaire is required.
- e. Development Location Maps: 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.
- f. Site Photographs: Pictures either as individual JPGs or a Word document with the pictures included must be submitted.
- g. Site Plan or Subdivision Map: A PDF of the appropriate Site Plan or Subdivision Map must be included.
- h. FEMA Flood Map: A PDF of the applicable FEMA flood map(s) is required.
- i. Market Study: A PDF copy of the market study must be on the CD-R.
- j. FIN-305: Seller Certification: If the FIN305 is required (see section F.9 below), a PDF copy of the executed form must be included.
- k. 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.
- l. Supportive Service Plan: A PDF copy of the supportive services plan, if applicable, is required.
- m. 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.
- n. Development Characteristics Worksheet: Both the Excel version and an executed PDF version are required.
- o. Relocation and Existing Multifamily Operations Data: PDF copies of the Current Tenant List, Relocation Plan, General Information Notice (GIN), executed Acceptance of MHDC Relocation Policy, and Annual Financial Statements must be provided.
- p. MHDC Form 2004-B: A PDF of the management profile must be included on the CD-R.
- q. Sample Lease: A PDF copy of the form of lease to be used during the operations of the development is required.

The required electronic documents are important for the site review portion of the application process and must be included at the time of application. Please test the CD-R after loading the

documents to ensure that the files open properly and every required document is included in the requested format.

## **2. Rental Housing Programs Application**

a. FIN-100 Application. The FIN-100 must be filled out completely, accurately and must be executed in the appropriate places:

- Tab VIII Development Budget: Contractor's/Mortgagor's Cost Breakdown – all applications
- Tab IX Tax Credit Addendum (tax credit applicants only)
- Tab XIX Application Certifications and Authorization – all applications.

The FIN-100 in the original binder must have original signatures. Please be sure to utilize the FIN-100 provided for the 2011 NOFA round, which is dated June 2010 at the bottom of each page. Submitting the application on a previous form of FIN-100 will not be acceptable, as changes are made from year-to-year to reflect QAP revisions and new MHDC requirements. If you have any questions when filling out the FIN-100, please contact MHDC.

b. FIN-100-Addendum. The FIN-100-Addendum must be filled out completely and accurately with the certification executed by all reporting parties. The FIN-100-Addendum in the original binder must have original signatures. If you have any questions when filling out the FIN-100-Addendum, 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. Nonprofit Priority Application Fee. Proposals that qualify for the Nonprofit Priority and request consideration under that priority owe a \$750 application fee. Bond developments requesting 4% credits, even if the owner is a qualified nonprofit, are not eligible for the nonprofit priority application fee.
- b. Standard Application Fee. All applications that do not pay the nonprofit priority application fee owe a \$1,500 application fee.

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

Exception: Applicants submitting proposals under the Property Disposition Priority for a property that is listed publicly by MHDC as real estate owned and available for public bid are not required to submit an application fee.

#### **4. Development Narrative and Questionnaire**

- 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 Maps: Two maps must be submitted: (i) a community-wide map that clearly identifies the site with respect to the town as a whole, or for large metropolitan areas, its proximity to the intersection of two major thoroughfares; (ii) a more detailed map showing the property within the context of a five- to ten-block area. Please provide an appropriate amount of information so that a person completely unfamiliar with the community can reasonably find the property based upon the maps provided. 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. FEMA Flood Map: Include a copy of the FEMA flood map panel that covers the application site, clearly marking the boundaries of the subject property. Please include the panel number if it is not printed on the maps. FEMA maps may be found at [www.msc.fema.gov](http://www.msc.fema.gov) (under "What are you looking for?" choose "Flood Maps").

## 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:

- a. Executed purchase option agreement;
- b. Executed purchase contract;
- c. Executed long-term land lease or option on a long-term lease; or
- d. 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. Please refer to Exhibit 4 for further details regarding site control documentation requirements.

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 6.d. above is highly advisable.

## 7. Market Study

- a. Form 1300-S: This form must be completed by the market analyst and included as both an exhibit on its own and as part of the full market study. Nonprofit entities applying for CHDO HOME funds to develop eight or fewer units may complete Form 1300-S in lieu of engaging a market analyst.
- 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](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.

Nonprofit entities applying for CHDO HOME funds to develop eight or fewer units may submit a self-prepared market analysis in lieu of engaging a market analyst to perform a full market study. Applicants seeking approval under the Property Disposition Priority are not required to submit a market study.

## **8. 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 in Exhibit 5 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 5.

- 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. Please refer to the requirements listed in Exhibit 5. If a loan is to be assumed by the applicant, a letter from that lender indicating 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.

## 9. 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 or between the seller and a member of the development team identified in the FIN-100 or FIN-100-Addendum, 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 on or after 1960. MHDC reserves the right to request last arm's length transaction information for pre-1960 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](http://www.mhdc.com). If no loan is requested, but MHDC awards a loan, the FIN-305 must be completed and submitted prior to the execution of any conditional reservation.

### 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 4 of this guide.

## **10. Public Official Contact Verification or Support Letters**

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)
- g. City Council or County Board Resolution of Support
- h. Other Letters of Support

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

You must submit either (a) a copy of the letter sent to the official *and* evidence that the letter was received **or** (b) a copy of a letter of support from the official. MHDC recommends using certified mail and obtaining the returned receipt card to prove that the letter was received, but other proof is acceptable if discussed in advance with MHDC. MHDC strongly encourages letters of support from the public officials that are required to be contacted. Letters should clearly reference the development being supported. Resolutions of support from municipal or county boards 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).

## **11. 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. This form is required for developer entities that have been in existence for at least twelve months or for the parent company of a developer that has been in existence for less than twelve months. Please refer to the sample IRS Form 8821 provided with the application forms and guidelines for tips on how to complete the document.

b. Missouri Form 8821 for Developer

Authorization for Release of Confidential Information for the Developer. This form is required for developer entities that have been in existence for at least twelve months or for the parent company of a developer that has been in existence for less than twelve months. Please fill out only the top section and sign the authorization below.

c. IRS Form 8821 for General Partner

Tax Information Authorization for all general partners that are not affiliates of the developer. If the general partner has not been in existence for twelve months, please provide the form for its parent company. Please refer to the sample IRS Form 8821 provided with the application forms and guidelines for tips on how to complete the document..

d. Missouri Form 8821 for General Partner

Authorization for Release of Confidential Information for all general partners that are not affiliates of the developer. If the general partner has not been in existence for twelve months, please provide the form for its parent company. Please fill out only the top section and sign the authorization below.

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.

## **12. 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 C 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.

## **13. 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 the time frame for achieving compliance.

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.

#### **14. 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 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. Applicants seeking to assume USDA-RD debt must follow the USDA requirements for an “as is” needs assessment and should contact the state USDA office for more details.

Developments that involve a gut rehab of the building are not required to provide a PNA, but an assessment of the structural condition of the building is required as detailed below.

g. Structural Letter

In lieu of a PNA, historic developments that involve a gut rehab of the building must submit a letter from a third-party structural engineer or equally qualified professional unrelated to the developer 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 information regarding the status of federal and state historic tax credit review for the property. Required information includes:

- i. Historic Designation: 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.
- ii. State Historic Tax Credit Approval: copy of correspondence or other documentation proving the developer has discussed with DED the submission of the development for approval of state historic tax credits.

Be advised that MHDC may contact DED regarding the status of historic tax credit applications.

**15. Sustainable Housing Information.** New construction proposals must utilize sustainable building techniques and materials to produce quality, affordable and healthy housing. All new construction applicants must provide documentation demonstrating how the development team and the property will achieve and maintain the green building standard to which they have committed. Green rating systems accepted by MHDC include Enterprise Green Communities, any of the current LEED rating systems and the NAHB National Green Building Standard. Any certification level of these systems is acceptable. The development team must indicate in the Development Characteristics Worksheet the rating system to which they are committing. New construction applications must also include:

- a. The scope of the criteria and features being incorporated from the chosen green building rating system accompanied by the applicable checklist:
  - i. Enterprise Green Communities – Green Communities Criteria Checklist;
  - ii. LEED – LEED Checklist;
  - iii. NAHB National Green Building Standard – Designer’s Report from the Green Building Scoring Tool;
- b. Resumes for development team members with sustainable development experience, proof that at least one team member is a LEED AP®, LEED Green Associate™ or a Certified Green Professional™, and a thorough description of the developments they have worked on and their role in the process; and
- c. A pre-development, development and operations plan explaining how sustainability will be achieved from design through construction and operations, including what education will be given to employees and residents of the development. The plan does not need to go into great detail, but it 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 developers 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. New construction developments must demonstrate at firm submission and at construction completion 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. Formal verification that the property meets the green building standard performed by a certified third-party reviewer is welcome but not required. The

development will be reviewed by MHDC inspectors to assure the development was constructed in accordance with the plans and specs as approved by MHDC. 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.

## **16. Relocation and Existing Multifamily Operations Data**

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 being renovated or demolished as a part of the proposed application. Also provide a breakdown of the relocation expenses expected to be incurred which reflect the number used in the development budget of the FIN-100. If an identity of interest exists between a member of the development team and the firm hired to perform the relocation planning and execution, the profit for relocating tenants will be limited to a maximum of 20% of the relocation costs.

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 as described above.

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](http://www.mhdc.com).

e. Annual Financial Statements

Provide a copy of the annual financial statements of the property for the most recent three years. If the applicant is related to the current ownership entity, any financial statements that are unaudited must be accompanied by a certification from an authorized representative of the owner that the information is true and accurate to the best of their knowledge.

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

## **17. 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 6- MHDC Homeownership Policy. The homeownership plan proposed by the applicant is expected to mirror the structures described in the Homeownership Policy.

## **18. 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 the included allowance is the most recent must be included.

## **19. 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.

c. Developer Financial Statements

Financial statements for the developer entity and its principals must be sent or delivered under separate cover to the attention of the Director of Rental Production prior to the application deadline. Submitted audited financial statements must have been issued in the last twelve months. If the document provided is not an audited financial statement, it must be dated within the past 90 days and must be accompanied by a certification executed by an authorized representative of the entity or the principal stating that the statement is true and correct to the best of their knowledge.

d. 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.

## **20. 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.

c. Sample Lease

Provide a copy of the sample form of lease intended to be utilized for the property and its residents.

## G. APPLICATION APPROVAL

### 1. Code of Conduct

The MHDC Standards of Conduct adopted on July 31, 2009, contains the following requirements concerning contact with commissioners and staff during the application process:

Definitions:

**Commissioner** – All appointed and ex officio members of MHDC, including all proper designees of any member which are authorized to vote on behalf of the member they represent.

**Competitive Matter** – Any matter which shall be put to the Commission for a vote where two or more Interested Parties could benefit from an outcome of the Vote, including, but not limited to the award of any MHDC controlled or administered resources and any Commission approved contracts for services.

**Director** – The executive director of MHDC.

**Disclosure Period** – The period of time after an Interested Party submits a proposal, application, bid or response in a Competitive Matter.

**Employee** – The Director and all employees of MHDC.

**Interested Party** – Any person or entity (or anyone acting at their direction or on their behalf) who submits a proposal, application, bid or response to a solicitation, request, notice or invitation to do so vis-à-vis a Competitive Matter.

**Quiet Period** – The period consisting of seven days prior to a scheduled MHDC decision on a Competitive Matter.

Commissioners and Employees may at any time and for any legal purpose initiate contact with anyone, including Interested Parties or agents of Interested Parties, in the course of investigating any Competitive Matter.

If an Interested Party initiates communication, in any form, with a Commissioner or Employee regarding a Competitive Matter following submission of the Interested Party's proposal, application, bid or response, the Interested Party shall follow the following disclosure procedure: 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 MHDC staff 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 Interested Party.

During the Quiet Period, Interested Parties shall not initiate contact with Commissioners or Employees.

Failure to honor the provisions set forth herein regarding the Disclosure Period and/or Quiet Period shall result in the disqualification of the Interested Party's proposal, application, bid or response.

The complete version of the Standards of Conduct may be found on the MHDC website at [http://www.mhdc.com/about/Standards\\_of\\_Conduct](http://www.mhdc.com/about/Standards_of_Conduct).

## **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 at which approvals will be made. Recommendations may include the revision of budgets, unit counts, rents, and 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 LIHTCs, 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**

### **Special Needs Housing Priority**

---

#### **A. Definitions**

Persons with special needs are those whose condition or circumstances qualify under one of the following categories:

- A person who has a physical, mental or emotional impairment which is expected to be of long-continued and indefinite duration; substantially impedes his or her ability to live independently; and is of such a nature that such ability could be improved by more suitable housing conditions.
- A person who suffers from mental illness.
- A person who has a developmental disability, which is a severe, chronic disability that—
  - Is attributable to a mental or physical impairment or combination of mental and physical impairments;
  - Is likely to continue indefinitely;
  - Results in substantial functional limitations in three or more of the following areas of a major life activity:
    - Self-care;
    - Receptive and expressive language;
    - Learning;
    - Mobility;
    - Self-direction;
    - Capacity for independent living; and
    - Economic self-sufficiency; and
  - Reflects the person's need for a combination and sequence of special, interdisciplinary, or generic care, treatment or other services which are of lifelong or extended duration and are individually planned and coordinated.
- A person who is homeless, defined as an individual or family who lacks a fixed, regular and adequate nighttime residence and is:

- An individual or family with a primary nighttime residence that is a public or private place not designed for or ordinarily used as a regular sleeping accommodation for human beings, including but not limited to a car, park, abandoned building, bus or train station, airport or camping ground;
- An individual or family living in a supervised publicly or privately operated shelter designated to provide temporary living arrangements (including hotels and motels paid for by federal, state or local government programs for low-income individuals or by charitable organizations, congregated shelters, and transitional housing); or
- An individual who is exiting an institution where he or she resided for 90 days or less and who resided in a shelter or place not meant for human habitation immediately before entering that institution.
- A youth aging out of foster care at the age of 18 or older when their foster care case closes. Foster care placements include:
  - Licensed foster family homes;
  - Relative provider homes;
  - Group homes;
  - Emergency shelters;
  - Residential facilities;
  - Child care institutions;
  - Pre-adoptive placements; or
  - Independent living placements.

Youth is defined as someone (between the ages of 18 and 24) or a legally emancipated minor. This includes youth that are homeless, have run away, aged out of the foster care system, and/or exited the juvenile justice system.

The special needs resident may be either an adult or youth who is a member of the household.

Targeted units are those units set aside for tenancy by persons with special needs. Targeted units must be rented to households referred to the development by the lead referral agency. In calculating the number of targeted units that must be made available, owners and managers must always round up to the next unit. Developers will submit a draft referral and support agreement with the application which declares the number of targeted units to which they commit and outlines the required responsibilities of the owner, property management company and lead referral agency in regard to the targeted units. Developments that receive a

conditional approval of the award of tax credits must submit and receive MHDC approval of a final referral and support agreement with the firm submission process.

The lead referral agency shall be an agency that coordinates a range of local disability and homeless services agencies to develop a collective process for referring and making their services available to qualified residents. A lead referral agency acts as the point of contact with property management over the life of a property and represents the local services system in dealings with management of the property. The lead referral agency might serve a particular disability group, but marketing and referrals must be inclusive of persons with all types of disabilities.

## **B. Roles**

A lead referral agency will:

- Designate a point of contact to receive notices from the property management company when a targeted unit is available.
- Receive and process referrals from service providers regarding their special needs consumers who are interested in and meet the requirements to apply for available targeted units.
- Maintain and regularly update a list of eligible special needs households interested in applying for targeted units.
- Help arrange tenant-based rental assistance for eligible special needs households who do not already have assistance through their case management services.
- Upon notification that a reserved unit is available, select the household at the top of the list waiting for that unit type and communicate to their service provider that a targeted unit is available.
- Coordinate with a household's original referral source to ensure that the original referral source: (a) contacts the property manager in a timely manner, (b) assists the household(s) during the application for tenancy process, including requesting and negotiating reasonable accommodations, if necessary, and (c) makes supportive services available to the household(s) and/or acts as referral agent for other community services needed.

- Submit a standard letter of referral to property management, which will then process the referred household's application for tenancy using the same screening criteria that is applied to all other residents of the development.
- Provide or ensure property management receives the household's required documentation pursuant to compliance requirements.
- Address appropriate application or tenancy issues or concerns by property management, the service provider(s) and/or household if they are not able to be adequately resolved or handled by the primary parties.
- Participate in the local continuum of care and report data through the HMIS database or ensure the household's service provider reports data in HMIS for residents who qualified under the definition of homeless at the time the referral was made.
- Monitor local housing authorities and notify local service providers when waiting lists are open.

The development's owner will:

- Agree that any special needs housing commitment will be established, implemented and kept in compliance with the Fair Housing Act, as amended; the Architectural Barriers Act of 1968; the Americans with Disabilities Act; and any other local, state and federal nondiscrimination or accessibility laws, regulations or requirements.
- Agree that the targeted units will not be segregated within the property and that the targeted unit mix will depend on the needs of referred households.
- Agree to provide reasonable accommodation for special needs households in the tenant application.
- Assure that the targeted units remain available to eligible special needs persons through the referral process for the entirety of the compliance period.

The development's property management company will:

- Notify the lead referral agency of available reserved units within a timely manner. At initial lease-up this notification must occur ninety days prior to the anticipated receipt of a certificate of occupancy or when marketing begins, whichever comes first. During ongoing operations, the manager will notify the lead referral agency upon receipt of notice of intent to vacate a targeted unit.
- Work with the lead referral agency to coordinate the first contact with the special needs household and their services provider to initiate the application process.

- Collaborate with the referred household's services provider, as appropriate and applicable, to address the household's needs for assistance at application, accessibility accommodations, or assistance during tenancy.
- Use the lead referral agency as their main point of contact to ensure that community supports are made available to tenants in the targeted units; however, tenancy will not be contingent upon participation in services.
- Notify the lead referral agency in a timely manner of issues or concerns that may adversely affect the tenancy of the household.
- Contact the lead referral agency if there are any issues or concerns that have not been satisfactorily resolved with the household and/or services provider.

Although the development's property manager may agree to assist the household in other ways, it is intended that the household renting a targeted unit has the same rights and responsibilities as every other resident in the development.

### **C. Programmatic Requirements**

Developments must meet the following criteria in order to be considered under the special needs housing priority during application evaluation and to maintain its commitment to special needs populations through the design, construction and operations process:

- The development may not give preference to potential residents based on having a particular disability or condition to the exclusion of persons with other disabilities or conditions.
- The development must meet the needs of targeted tenants through access to supportive services, transportation, proximity to community amenities, etc. If services are not provided on-site, transportation to off-site locations must be made available. Services must be provided and/or coordinated by local service agencies appropriate to the needs of persons with varied types of disabilities. Since service providers are often specialized, relationships should be cultivated with several types of agencies to ensure services will be available for the different types of special needs households that may reside at the property at one time. Service programs should be designed to stress residential stability and independence.
- Special needs residents must not be required to receive services from only one particular service provider nor must they be required to participate in supportive services as a condition of tenancy.
- Special needs properties that are operated as transient housing, nursing homes, life care facilities or dormitories are ineligible for consideration for tax credits.

- Developments meeting the criteria for the special needs housing priority may be given “difficult development” status allowing MHDC to increase the eligible tax credit allocation by up to 30% if the developer can demonstrate that the property will incur direct costs in addition to costs covered by third-party service providers in the provision of services to enhance the residential stability and independence of special needs residents. The determination of the application’s qualification to receive a boost will be determined in MHDC’s sole discretion. The amount of boost will be based upon the funding reasonably necessary to provide special needs services that are performed by project-based or third-party providers at a cost to the property.
- In mixed-population developments, targeted units cannot be segregated within the property or be distinguishable in any way from non-targeted units (beyond the presence of accessible features or assistive technology, if necessary).
- The development must include community space appropriate to the needs of the populations being served.
- Developments that target 100% of the units to special needs households must be designed and constructed in accordance Universal Design principles. Mixed-population developments must increase the number of units accessible to the mobility impaired from the general MHDC requirement of 5% to a percentage that matches the total number of targeted units.
- While the increased number of required accessible units for mixed-population developments equals the number of targeted units, accessible units are not necessarily the same as the targeted units. Some special needs households may have disabilities that require an accessible unit, while others may have disabilities that are not physical in nature. Similarly, some households who are independent and apply for non-targeted units may need an accessible unit. Therefore, accessible units are not required to be held open during lease-up in mixed-population developments but should be made available whenever possible to any household requiring accessibility.
- The roles of owner and property manager should be separated from the role of lead referral agency/primary service provider, as each type of entity has an expertise relative to the Low Income Housing Tax Credit program in the case of the former and to the service of special needs populations in the case of the latter. A depth of experience in both is rarely found within the same entity but is essential for the success of obtaining equity investment, navigating tax credit compliance rules with confidence, and providing the highest quality assessment and services for persons with special needs. However, entities that have an exemplary history of functioning in all three roles in the context of a similarly-situated LIHTC development may be considered by MHDC staff to have proven themselves to have the capacity to meet the challenges of successfully serving the residents while competently performing the ownership and management functions under the LIHTC program.

- Persons with special needs must be referred to the property by the lead referral agency in order to be eligible to be qualified for a targeted unit. Such persons must have a case manager at the time they apply for housing.
- Rents should be made as affordable as possible to special needs households. Affordability may be accomplished through project-based or tenant-based subsidies. The lead referral agency is responsible for coordinating tenant-based rental assistance with service providers or governmental agencies whenever necessary and possible. In the absence of project-based or tenant-based assistance, the owner may need to be prepared to consider other methods to ensure affordability of rent to special needs households below 40% AMI. The proposal must identify the strategies that will be pursued for obtaining assistance through the following means:
  - 30% AMI rents with no additional rental or operating subsidy;
  - Shelter Plus Care rental assistance;
  - HUD Supportive Housing Program (Continuum of Care funds);
  - Missouri Department of Mental Health Supported Community Living rental assistance;
  - Missouri Department of Mental Health Rental Assistance Program funds;
  - Project-based rental assistance established through an AHAP-related donation to a qualified non-profit;
  - Section 8 vouchers;
  - HUD project-based Section 8 rental assistance;
  - USDA project-based rental assistance; or
  - Other identified sources.
- A property with mixed populations must screen all referred special needs applicants using screening criteria established for all applicants at the development according to state and federal Fair Housing law.
- Leases for residents of tax credit properties must meet the minimum lease period and other requirements prescribed by the LIHTC program and any applicable federal or state funding programs. Leases for special needs residents in mixed-population developments cannot be more restrictive than leases executed with other residents of the same property.
- During and after lease-up, lead agency referrals must be moved in first regardless of chronological order of the general waiting list until all targeted units are occupied with referrals. Management may not have a preference for referrals with a Section 8 voucher.
- A mixed-population property must hold a targeted unit vacant for a qualified special needs household for a period of ninety days after certificate of occupancy during initial lease-up and for a period of thirty days after a unit becomes vacant during ongoing operations of the

development. For preservation properties and other developments that are occupied during construction, the owner will not be required to displace any current residents but shall be required to comply with the targeted unit commitment as units turn over and become available for vacancy so long as such compliance does not occasion an event of noncompliance under other applicable federal law or regulations under which a development is operated or is receiving federal subsidy.

- The LURA will incorporate the number of special needs units committed at application which will be reviewed for compliance throughout the 15-year compliance period.

Questions regarding a proposal's eligibility to be considered under the special needs housing priority should be directed prior to the application deadline to the MHDC director of rental production.

## **Exhibit 2**

### **Service-Enriched Housing Priority Minimum Requirements**

---

Applicants seeking designation under the Service-Enriched Housing Priority must provide substantial resident services appropriate to the population served by the development. The property must employ staff dedicated to providing social services (service coordinator) or contract with a service agency to provide a service coordinator. The purpose of the service coordinator is to direct the service program, provide coordination of services with agencies and other service providers, and work with residents to identify programmatic needs. The service coordinator must work at the property at least twenty hours a week for developments consisting of 40 units or less or forty hours a week for developments with more than 40 units.

The supportive service plan must demonstrate the applicant's commitment to provide a significant number of services and activities appropriate to the resident population. The services must be provided on site and on a regular schedule. Below is a menu of preferred services from which the developer may select. Developers may suggest alternative services which must be reviewed and approved by MHDC. The more services provided either from the preferred menu or substituted selections will reflect more favorably upon the application's supportive service commitment. MHDC in its sole discretion will determine whether the number and type of services proposed are significant enough for the application to meet the requirements of the service-enriched housing priority.

- Family properties – menu of preferred services:
  - regularly-held resident meetings;
  - after-school programs for children;
  - financial literacy courses for adults;
  - Parents as Teachers program offered through the local school district;
  - credit and/or budget counseling;
  - lifeskills or job application training,;
  - referrals to Angel Food Ministries or like agencies;
  - nutrition classes;
  - computer lab or computer check-out program;
  - food pantry;
  - clothes closet; and

- library.
- Senior properties – menu of preferred services:
  - regularly-held resident meetings;
  - transportation to shopping and medical visits;
  - nutrition classes;
  - enrichment classes such as seminars on health issues, prescription drugs, Medicare, the Internet;
  - coordination with an agency that provides assistance with paying bills and balancing checkbooks;
  - annual health screens;
  - assistance preparing a Vial of Life;
  - American Red Cross I'M OK program;
  - referrals to Angel Food Ministries or like agencies;
  - exercise program such as the Arthritis Foundation Exercise Program;
  - monthly community activities (i.e., pot luck dinners, holiday events, bingo);
  - access to fitness equipment;
  - food pantry or access to a mobile food pantry if available;
  - housekeeping; and
  - computer lab or check-out program.

Services provided to seniors must be mindful of the varied needs and desires of an independent senior population as compared to a more elderly and fragile population.

All services must have an identified service provider evidenced by a commitment letter from that provider and must demonstrate a source of funds to pay for the services similar to that mentioned above. All services must be free to the residents, completely voluntary to each individual and provided on site throughout the length of the 15-year compliance period. If a particular service offered is discontinued due to lack of interest from the residents or because it does not meet the needs of the resident population, the owner must be prepared to replace it with another more appropriate service.

Service-enriched housing developments may be qualified to receive a boost in eligible basis allowed for projects that meet MHDC's difficult-to-develop status as outlined in the QAP. In order to receive the boost, the property must establish a services escrow in the construction budget equal to two

years' worth of service program operating expenses. The budget must be approved by MHDC at firm commitment, and the escrow must be funded no later than conversion of the development from construction financing to permanent financing. The applicant must provide the proposed annual budget with the application, include the two-year total in the development budget in the FIN-100, and demonstrate how the property will continue to fund the service program from the third year of operations through the compliance period.

The percentage of basis boost allowed will be calculated as the amount of credits necessary to generate sufficient equity to fund the two-year services escrow, not to exceed 30% of eligible basis. Sources of funding in future years may include income from operations or verifiable public grants and funds.

### **Exhibit 3**

#### **Transit-Oriented Development Threshold**

---

MHDC in its sole discretion will determine whether an application meets the definition of a transit-oriented development (“TOD”) for the purposes of being eligible for the 30% boost available to Difficult Development Areas. The following criteria will be considered in the determination of a development’s ability to meet the definition of a TOD:

1. The development must be located within five blocks of a light rail transit stop.
2. The master development plan must include a balanced mix of uses, providing residents the ability to live, work and shop in the same neighborhood.
3. Transit service at the stop must be frequent (every 15-30 minutes).
4. The transit service must offer increased mobility choices and good transit connections.
5. The master development must include significant retail development.
6. The master development must include a mix of housing choices (rental and for-sale, affordable and market-rate).
7. The development must include a mix of transportation choices including biking and walking.

## **Exhibit 4**

### **MHDC Site Control Requirements**

---

A key component of the application process is establishing appropriate site control. For FY2011 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, the proposed ownership entity and/or a member of the applicant's development team 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.

An identity of interest occurs when: (a) the seller has any financial interest in the buyer or any member of the development team identified in the FIN-100 or FIN-100-Addendum (the "Development Team"); (b) the buyer or any member of the Development Team has any financial interest in the seller; or (c) the seller holds any principal in common with the buyer or any member of the Development Team. 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, 1960; 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 Bill Ulm at 816.759.6882 or wulm@mhdc.com prior to the application deadline.

## **Exhibit 5**

### **MHDC Guidelines for Preliminary Financial Commitments**

---

MHDC requires a preliminary commitment letter at the time of application for all non-MHDC sources of financing. Updated commitment letters are required at the time of firm submission for approved applications.

#### **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. The minimum acceptable term for permanent loans is sixteen years.
3. Interest rate. Permanent loans must have a fixed interest rate throughout the term of the loan.
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 that the loan can be assumed and details 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 is required that either acknowledges the funds have been applied for or verifies that a funding round is coming up and the applicant is eligible to apply. 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.

An updated commitment letter must be provided with the firm submission and should update the information from the commitment provided at application. Debt, except for assumed debt, must have a commitment letter at the time of firm submission. Assumed debt should include a letter from the lender indicating what needs to be done for the assumption to be finalized and when that is expected to occur.

### **Equity Commitments**

If all the various types of tax credit equity are to be provided by the same syndicator, one commitment letter meeting all the requirements below will be sufficient.

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

1. The ownership percentage and amount of annual credits to be purchased by the equity provider.
2. The price per dollar of annual credit purchased. Investors taking more than a de minimis share of ownership interest must provide a capital contribution in exchange for their share of federal tax credits.
3. The total amount of capital contributions.
4. The 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. For historic rehabilitation tax credit equity, the eligible basis calculated for both the state and federal historic credits.
8. For developments committing to special needs housing units, that the investor is aware of the special needs housing commitment being proposed by the developer and demonstrate that the investor has conducted a preliminary review of the special needs development.

9. Contact information for the person providing the commitment and to whom MHDC's questions can be directed.

At firm submission commitments for tax credit equity must include an update of all the information provided with the application and also include the following information:

1. Capital contribution timing and amounts including the dates or milestones when equity will be contributed to the partnership. Developments with a loan from MHDC must meet the MHDC required contribution of 10% of federal and state LIHTC equity invested at construction closing with another 10% invested at 50% construction completion.
2. Description of development costs attributed to limited partner, including syndication costs.

If a bridge loan is to be provided by the equity investor the terms and conditions of that loan can be included with the equity commitment and do not need to be presented in a separate commitment letter.

### **Timing Requirements**

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

## **Exhibit 6**

### **MHDC Homeownership Policy**

---

*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 Policy to guide 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 firm commitment, 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 15<sup>th</sup> 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 nonprofit 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 nonprofit 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 nonprofit 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.
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 5<sup>th</sup> 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 10<sup>th</sup> 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 14<sup>th</sup> 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 nonprofit partner at the end of the Initial Compliance Period, with the nonprofit 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 nonprofit partner or member;
  - b. The nonprofit entity is a qualified nonprofit 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 nonprofit has filed a Homeownership Commitment that has been approved by MHDC, recorded with the LURA, and attached to resident leases; and
  - d. The nonprofit 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 affect 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.
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.