



# DEVELOPER'S GUIDE

2026

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## Introduction

This Developer's Guide to MHDC Multifamily Programs ("Developer's Guide") is a reference document for developers, owners, and all development team members. Missouri Housing Development Commission ("MHDC") staff has compiled general and administrative guidance on MHDC's multifamily programs throughout the application, reservation/commitment, construction loan closing, construction, carryover allocation, final allocation, permanent loan closing, and operational stages. The Developer's Guide is a complement to the Qualified Allocation Plan ("QAP") and may be updated from time-to-time, at MHDC's discretion. Any term not defined herein shall have the definition given in the QAP.

MHDC's Affordable Housing Division Rental Production Multifamily Programs encompass financing tools for the development of affordable housing which include federal low-income housing tax credit ("Federal LIHTC") and state low-income housing tax credits ("State LIHTC" and, collectively with the Federal LIHTC, "LIHTC"), HOME Investment Partnership Act ("HOME") loan and grant funds, HOME American Rescue Plan ("HOME-ARP") loan and grant funds, National Housing Trust Fund ("NHTF") loan and grant funds, MHDC Fund Balance loans, and Risk Share Insurance coupled with tax exempt bonds. The Notice of Funding Availability ("NOFA") will describe what, if any, State LIHTC is authorized to be allocated for the 2026 funding round.

All MHDC forms or documents referenced in this Developer's Guide can be accessed at [www.mhdc.com](http://www.mhdc.com).

## Affordable Housing Rental Production Cycle

Affordable Housing Multifamily Programs follow an annual funding cycle which starts with the issuance of the QAP. The QAP sets forth the program guidelines concerning the application review and approval process and the reservation and allocation of LIHTC. Following public hearings, the QAP is presented to MHDC's Board of Commissioners (the "Commission") for approval with a NOFA which establishes the approximate amount of funding available for each program and the deadline for applications for such funding.

Applications received prior to the NOFA deadline are reviewed according to Threshold and Secondary document reviews, scoring phases, and selection criteria, as described in the QAP. Staff invite comments on each application through the notification of officials soon after application receipt. Public hearings are held remotely. Evaluation criteria and underwriting review are utilized by staff to formulate a list of recommended applications. The Commission then reviews and approves a final list of proposals for funding.

Following Commission approval, an underwriter is assigned to each development, and a Conditional Reservation for financing is issued approximately eight weeks after Commission approval ("Conditional Reservation") to establish the documentation required and timeline to proceed toward Firm Commitment. During this time, developers submit environmental reviews, finalize plans and specifications/scopes of work, receive construction bids, and prepare due diligence for MHDC staff's review and approval. Developers are encouraged to complete the Firm Submission process as early as possible to minimize the effects of unforeseen delays. MHDC staff establishes a deadline for Firm Submission to ensure the approved funding is being utilized and accessed in an expeditious manner. Various MHDC departments examine the information submitted with Firm Submission and consolidate comments and requirements. Once a development has demonstrated firm and appropriate budgets, supplied all required documentation, showed a readiness to proceed, and received approval from each reviewing

department, the underwriter issues a Firm Commitment. Once the Firm Commitment is fully executed, the development can proceed to closing. If 9% Credits as defined herein were awarded, the development will be issued a Federal Carryover Allocation Agreement and State Carryover Allocation Agreement (if applicable). Pre-closing documentation is prepared and submitted by the development team. Upon the satisfaction of all MHDC closing requirements, the loan, tax credit, grant, and/or Risk Share Insurance documents, as applicable, are executed and the financing is closed.

During the construction phase, MHDC staff monitors construction progress through on-site reviews, the receipt of architect field reports, and the processing of draw requests from developments receiving MHDC construction loan financing.

Developments receiving 9% Credits must complete certain steps to demonstrate progress and compliance with Internal Revenue Service ("IRS") required deadlines. The Federal Carryover Allocation process confirms the development continues to satisfy the requirements of 26 U.S.C. § 42 (the "Code") and can retain the reservation of 9% Credits. At least ten percent (10%) of reasonably anticipated costs of the project must be incurred by the end of twelve (12) months from the executed Carryover Allocation Agreement. MHDC's verification of this regulation ("10% Test") requires that developments submit 10% Test materials within thirteen (13) months from the executed Carryover Allocation Agreement. At the end of construction, all developments must file a developer and contractor cost certification with MHDC, which certifies the actual costs of the development according to specific program guidelines. The certification is necessary to determine the final approved amounts of the Federal LIHTC, State LIHTC, and/or permanent MHDC financing. Developments with construction/permanent financing must submit final documentation to convert the loan from the construction phase to the permanent phase. Developments with a commitment for MHDC permanent-only financing must submit final documentation for approval and proceed to close on the permanent loan. Developments that received an allocation of tax credits must submit final documentation for approval to receive IRS Form 8609: Low-Income Housing Credit Allocation and Certification(s) (the "8609(s)").

As lease-up commences and the construction phase transitions to the operating phase, each development begins to work with MHDC Asset Management. Critical to the long-term viability of a development is its success in leasing and retaining residents and complying with the various restrictions imposed by each financing program. At this point in the development stage, the Rental Production teams pass the oversight of the development to the Asset Management teams.

## MHDC Funding Sources

### Low Income Housing Tax Credits

The state of Missouri allocates two sources of LIHTC, State and Federal. There are two types of State LIHTC and Federal LIHTC available in Missouri, the "9% Credit" and the "4% Credit" (defined hereinafter).

#### 9% Credit

For purposes of this Developer's Guide and the QAP, the cumulative amount of both State and Federal 9% Credits MHDC can allocate for any calendar year shall be known as the "Annual 9% Credit Authority." Developments applying for an allocation under the Annual 9% Credit Authority receive what is commonly known as the 9% Credit. The 9% Credit includes any seventy percent (70%) present value credit and any thirty percent (30%) present value credit for qualified existing buildings, which also will use the seventy percent (70%) present value credit.

The total amount of Federal 9% Credit available in any one year is specified by the Code in § 42(h)(3)(C) and is known as the “State Housing Credit Ceiling.” The State Housing Credit Ceiling is generally equal to the sum of the following:

1. Per Capita Credits: Calculated based on the state population and the per capita rate set by the IRS.
2. Carry Forward Credits: Should MHDC be unable to allocate all allotted 9% Credits in any one year, the unused credits will be carried forward for allocation in the succeeding year.
3. Returned Credits: Credits that are returned from developments that received an allocation in previous years may be made available for allocation in the year the credits are returned or the succeeding year.
4. National Pool Credits: If MHDC is able to allocate the entire amount of Federal 9% Credits available in any one year, Missouri may receive additional credits from the pool of credits returned by other states (“National Pool”), if available.

The State LIHTC was established by Mo. Rev. Stat. § 135.350-363 (the “State Act”), which provides that any development eligible for a Federal LIHTC allocation is eligible for a State LIHTC allocation. State LIHTC up to an amount equal to seventy percent (70%) of the available and authorized Federal LIHTC allocation amount may be authorized under the QAP. The amount of State LIHTC authorized for a development cannot exceed the Federal LIHTC amount authorized. For any given development, MHDC shall determine, in its sole discretion, the amount of State LIHTC (if any) necessary for the financial feasibility of the development and shall make allocations of State LIHTC based on that determination.

The anticipated amount of the Annual 9% Credit Authority for Missouri will be announced in the NOFA to precede the application round.

### **4% Credit**

Under § 42(h)(4) of the Code, developments financed with tax-exempt private activity bond volume cap (“Bond Developments”) may be eligible to receive the “4% Credit.” The 4% Credit includes the thirty percent (30%) present value credit for federally subsidized buildings that feature eligible basis financed by any obligation, the interest on which is exempt from federal tax and any thirty percent (30%) present value credit for the qualified existing buildings of Bond Developments. For any given development, MHDC shall determine, in its sole discretion, the amount of State LIHTC (if any) necessary for the financial feasibility of the development and shall make allocations of State LIHTC based on that determination.

While the NOFA will not establish a ceiling or annual authority for the Federal 4% Credit, the amount of State 4% Credits available for Bond Developments is statutorily capped at \$6 million per fiscal year. The amount of State 4% Credits may be reduced by the state legislature, making any allocation subject to change in the authorizing statute. MHDC, in its sole discretion, may choose to allocate no State 4% Credits or may choose to allocate State 4% Credits in an amount up to the imposed statutory limit, as it deems necessary for the financial feasibility of the development.

MHDC may elect to accept applications for 4% Credits that do not include a request for other MHDC-administered funds in subsequent application rounds. Should MHDC elect to accept any applications in subsequent rounds, such election will be set forth in the NOFA. Please note that MHDC-administered funds include State LIHTC. MHDC reserves the right to establish subsequent NOFAs and application rounds as it determines necessary.

### **State LIHTC Accelerated Redemption Pilot Program**

MHDC has established a pilot program for developments that wish to accelerate redemption of State

LIHTC ("AR Applications"). Up to fifty percent (50%) of the total credits recommended by staff and approved by the MHDC Board may be selected for this pilot program, which shall only be open to developments that elect in their application to participate in this accelerated redemption pilot. AR Applications are subject to the same review as general pool standard redemption applications, including, but not limited to, all four phases of the reservation process as set out in the QAP. Developers applying for the accelerated redemption pilot program must include a Letter of Intent (LOI) for both accelerated and non-accelerated pricing. The FIN-100 submitted with accelerated credit applications should use regular credit pricing. For this purpose, only one application and one application fee are required.

State LIHTC for developments selected for this accelerated redemption pilot program will be issued so that the annual State LIHTC amount available for redemption in the first five (5) years of the tax credit redemption period will be equal to the annual issuance amount of the allocated Federal LIHTC. The remainder of State LIHTC will be issued where the remaining balance of State LIHTC will be equally distributed annually over the remaining years of the tax credit redemption period.

### HOME Loans and Grants

Each year, MHDC receives an allocation of federally funded HOME Funds, which provides a financing source for several eligible activities that increase the supply of affordable housing for low and very low-income persons. These activities include the acquisition and rehabilitation or new construction of rental housing. As the administrator of HOME Funds for the state of Missouri, MHDC uses a portion of its annual HOME Funds allocation to finance rental production at a very low interest rate, which results in rents that are affordable to low-income families.

The amount of HOME Funds available for financing each year will be reflected in the NOFA that accompanies the QAP. Funding from the HOME Program is subject to the requirements of the Build America, Buy America Act.

Information on HOME Funds can be found at: <https://www.hudexchange.info/programs/home/>. Additional guidance is available on the MHDC website.

### HOME-ARP Loans

HOME-ARP funding is made available by the American Rescue Plan Act of 2021. HOME-ARP funding will be used for development and support of affordable housing, as currently permitted and administered through the HOME-ARP Notice Investment Partnership Program. To qualify for this MHDC, developments must commit to setting aside fifteen percent (15%) or more of the units for the following tenant population:

- Homeless;
- At-risk of homelessness (as defined by the McKinney-Vento Homeless Assistance Act);
- Fleeing or attempting to flee domestic violence, dating violence, sexual assault, stalking, or human trafficking;
- Individuals for whom provision of supportive services or assistance herein would prevent homelessness or who are at the greatest risk of housing instability; or
- Veterans and their families that meet any of the preceding criteria.

HOME-ARP funding will be used for development and support of affordable rental housing, as currently permitted under the HOME Program.

Information on HOME-ARP can be found at: <https://www.hudexchange.info/programs/home-arp/>. Additional guidance is available on the MHDC website.

## National Housing Trust Fund Loans

National Housing Trust Fund (“NHTF”) will provide a financing source for several eligible activities that increase the supply of affordable housing for extremely low-income households. These activities include the acquisition and rehabilitation and/or new construction of rental housing. Funding from NHTF is subject to the requirements of the Build America, Buy America Act.

The amount of NHTF funds available for financing will be reflected in the NOFA that accompanies the QAP.

Information on the Housing Trust Fund can be found at: <https://www.hudexchange.info/programs/htf/>. Additional guidance is available on the MHDC website.

## Fund Balance Loans

MHDC, as part of its annual budgeting process, may allocate a portion of its Fund Balance to provide construction and/or permanent financing on tax credit developments (“Fund Balance”). The amount of Fund Balance available is determined annually and will be reflected in the NOFA that accompanies the QAP.

If Fund Balance is used as a loan, it must always be in a first position, have a minimum interest rate as reflected in the MHDC Loan Term Sheet and a one percent (1%) loan origination fee will be charged and must be amortizing.

If Fund Balance is requested during construction for an Affordable Housing Rental Production application, the applicant must supply an additional LOI for construction funds from a non-MHDC financing entity in case MHDC is unable to allocate Fund Balance during construction.

## Risk Share Insurance

Section 542(c) of the Housing and Community Development Act of 1992 (as codified by 24 CFR § 266) offers a partnership between the U.S. Department of Housing and Urban Development (“HUD”) and Housing Finance Agencies (“HFAs”) to provide affordable housing opportunities for the housing needs of various communities (“Risk-Share Insurance”). This program provides new independent insurance authority that is not under the National Housing Act.

Under this program, the HFA enters into a Risk Sharing Agreement with HUD by contracting to reimburse HUD for a portion of the loss from any defaults that occur while HUD insurance is in force.

As codified in 24 CFR § 266.100(b), there are three levels of HUD approvals for Risk-Sharing commitments.

### Level I

Approval to originate, service, and dispose of multifamily mortgages where the HFA uses its own underwriting standards, loan terms and conditions and assumes fifty percent (50%) to ninety percent (90%) of the risk (increments of ten percent (10%)).

### Level II

Approval to originate, service, and dispose of multifamily mortgages where the HFA uses underwriting standards and loan terms and conditions approved by HUD. There are two sub-levels under this level: one where the HFA assumes at least twenty-five percent (25%) of the risk, the other where the HFA assumes ten percent (10%) or twenty-five percent (25%), at the HFA’s option, of the risk.

### Combined Levels I/II

For HFAs that plan to use Level I and Level II processing, the underwriting standards and loan terms and conditions to be used on Level II loans must be approved by HUD, as described above.

MHDC has been approved by HUD at Level I with a 50/50 split of risk-sharing for loss from any default.

The Risk-Share Insurance program provides credit enhancement to development proposals in a timelier manner than the regular Federal Housing Administration ("FHA") multifamily insurance programs. MHDC provides this program to Bond Development proposals, upon request, on a case-by-case basis after a review is made to determine the proposal's long term financial viability, among other salient factors.

If Risk-Share Insurance is used, such loan must always be in the first position. MHDC will charge a one percent (1%) loan origination fee on the entire construction loan amount and another one percent (1%) for the permanent loan amount. An upfront annual one-half percent ( $\frac{1}{2}\%$ ) Mortgage Insurance Premium ("MIP") per twelve (12) months of construction is due at initial loan closing. A one-half percent ( $\frac{1}{2}\%$ ) MIP is due on the outstanding mortgage balance after conversion and continuing throughout the term of the loan.

### Tax-Exempt Bonds

Under § 42(h)(4) of the Code, Bond Developments may be eligible to receive the 4% Credit. The development must have received an allocation of private activity bond cap pursuant to 26 U.S.C. § 146 and principal payments on the bonds must be applied within a reasonable period to redeem the bonds. 4% Credits are allowed for that portion of a development's eligible basis financed with tax-exempt bonds. If fifty percent (25%) or more of a development's aggregate basis is so financed, the development is entitled to 4% Credits for up to the full amount of the qualified basis.

There is no minimum or maximum amount of Federal 4% Credits available each year. However, Bond Developments are required by the Code to apply through the Housing Credit Agency, in this case MHDC, for an allocation of 4% Credits and for a determination that the development satisfies the requirements of the QAP. Although the proposal does not have to compete for credits from the State Housing Credit Ceiling, applicants must submit an application during the posted NOFA period, are required by § 42(m)(1)(D) of the Code to satisfy the requirements for an allocation of Federal LIHTCs under the QAP and are also subject to MHDC's compliance monitoring requirements.

MHDC staff will review the application, determine whether the development is eligible and meets the requirements of the QAP, and make an initial determination of the development's 4% Credit amount. At the close of the NOFA period, the Commission will approve the recommendation and ranking of successful applications for priority in the consideration for a private activity bond allocation by the Missouri Department of Economic Development ("DED").

### 811 Project Rental Assistance (PRA)

HUD awarded MHDC FY2019 811 Project Rental Assistance ("811 PRA") funds. MHDC will administer the Missouri 811 PRA ("MO 811 PRA") Program through an Interagency Partnership Agreement (IPA) between MHDC, the Missouri Department of Social Services ("DSS") and the Missouri Department of Mental Health ("DMH"). The MO 811 PRA Program will provide rental assistance to MHDC LIHTC-financed properties through a Rental Assistance Contract ("RAC"). MHDC will make MO 811 PRA available for approximately eighteen (18) units through the QAP.

Eligible individuals will be directly referred to properties by the DSS via the state's Show Me Home

Program. DSS and DMH will coordinate to identify Missourians who qualify for MO 811 PRA, screen them for all program eligibility requirements, and place them on a statewide waitlist until a MO 811 PRA unit becomes available. Once an eligible individual applies and is accepted at the property level, all tenants will enter into a Model Lease provided by HUD.

To be eligible for rental assistance through the MO 811 PRA Program at least one adult member in the household between the ages of eighteen (18) and sixty-one (61) (at the time of admission) must have a disability, be Medicaid eligible, and meet extremely low-income guidelines. Participants must have an income at or below 30 percent (30%) of the Area Median Income (AMI) as determined by HUD.

The MO 811 PRA Program will function within the MHDC LIHTC program and incorporate projects that choose the special needs, vulnerable populations, or independence enabling housing priorities. This is a rental assistance program, not a loan program. Eligible properties will receive an award through the MO 811 PRA Program for the first five (5) years of the RAC, with subsequent annual renewals throughout the term of the RAC. The MO 811 PRA units will then be rented to persons with disabilities referred by DSS and DMH.

1. MO 811 PRA funds must be jointly applied for with federal multifamily LIHTC projects for new construction or substantial rehabilitation for the same development and receive an award of federal LIHTC.
2. The property must apply and qualify for Service Enriched Priority in the QAP under which the applicant is awarded LIHTC funding. Developer must have the capacity to serve the targeted population through history and partnerships with service agencies. Services must be provided by property but are voluntary for eligible tenants. MHDC maintains the authority to approve service providers.
3. The property must be multifamily and not be restricted to elderly residents (age sixty-two (62) and over).
4. The property must not have occupancy preference for persons with disabilities or more than twenty-five percent (25%) of the total units used for supportive housing for persons with disabilities.
5. Units must meet the program criteria for unit integration and accessibility.
6. The MO 811 PRA Program is targeting persons recently released from an institution or that are at risk of being institutionalized. This includes being housed in an institutional or segregated nursing, hospital, or long-term care setting for the previous ninety (90) days or being at imminent danger of becoming institutionalized within the next ninety (90) days. The target population also includes persons currently experiencing homelessness or in imminent danger of becoming homeless. Developer must be willing to coordinate with DSS and DMH to identify eligible tenants from the MO 811 PRA waiting list.
7. Owner/Property Manager, and affiliates must be in good standing with MHDC.
8. Initial contract rents will be proposed at the time of application. During underwriting, rents will be underwritten to ensure they do not exceed MO 811 PRA income limits, Fair Market Rent ("FMR"), and any other applicable program restrictions.
9. The property must be actively fulfilling all requirements mandated by qualifying for one or more of the aforementioned QAP priorities.

To accept MO 811 PRA, owners must enter into a thirty (30)-year Use Agreement for extremely low-income persons with disabilities and a twenty (20)-year RAC. MO 811 PRA funds are available for the first five (5) years of a RAC and subsequent funding will be made available based on congressional appropriations. If Congress fails to appropriate funds adequate to meet future renewal needs, HUD will

not enforce any use agreements on properties that have been funded under such agreement and will allow state grantees to continue to enforce or terminate such use agreements at their discretion.

Eligible multi-family properties may only receive MO 811 PRA funds if the housing assisted does not currently have an existing use restriction or a contractual obligation to serve persons with disabilities. Units already receiving any form of federal or state housing operating assistance (such as project-based) are ineligible to receive MO 811 PRA assistance, unless the MO 811 PRA funds are being used to support other units in the building without such restrictions. Existing units receiving any form of long-term operating housing subsidy within a six (6)-month period prior to receiving MO 811 PRA funds, such as assistance under project-based Section 8, are ineligible to receive this assistance. Please note that LIHTC is not considered a long-term operating subsidy.

## Application Information

This section explains the application process for MHDC funding, including MHDC's review process, application of underwriting standards, and priorities for funding. This section should be reviewed closely when considering or completing an application for funding.

### Notice of Funding Availability

There will be, at a minimum, one NOFA for 2026. Any NOFA will indicate the funding types, funding amounts, and application deadlines for that particular round. The NOFA, the QAP, and this Developer's Guide describe and clarify the procedures, priorities, and expectations for each application and applicant for MHDC funding.

### The Application

An "Application" for purposes of this Developer's Guide is defined as all required application materials as outlined in the applicable QAP.

Applicants requesting tax credits must indicate whether they are seeking the 9% Credit or the 4% Credit (for Bond Developments). MHDC reserves 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 and also reserves the right to evaluate a 9% Credit Application for 4% Credits. If you wish to have a proposal considered for both 9% Credits and 4% Credits, you must provide complete and separate Applications for each credit type, structured appropriately ("Dual Proposal"). A Dual Proposal is a submission of two Applications by an applicant for the same site(s). MHDC will not accept more than one Application for any site(s) utilizing the same type of tax credit. For example, a 9% Credit family proposal and a 9% Credit senior proposal for the same site(s) will not be considered. A 9% Credit senior proposal and a 4% Credit family proposal (or vice versa) will be considered. If more than one Application is received by an applicant for a site or a collection of sites utilizing the same type of credit, the first Application received will be accepted and any subsequent applications will be rejected. For senior proposals, the application must present a development that at all times complies with the requirements set forth under 42 U.S.C. § 3607 for housing intended for either (i) households where all residents are persons who are sixty-two (62) years of age or older ("62+ Developments") or (ii) households where at least one resident is a person who is fifty-five (55) years of age or older ("55+ Developments"). Applicants must select one test for a senior development. MHDC will not accept separate proposals for the same site to be utilized as a 55+ Development and a 62+ Development.

### Minimum Set-Aside Election

Each development receiving 9% or 4% Federal LIHTC must make a minimum set-aside election. The Applicant must make an election in the initial application of one of the following set-aside elections:

1. **20/50:** At least twenty percent (20%) of its total residential units must be both rent-restricted and occupied by qualified low-income households who earn less than fifty percent (50%) of the area median gross income (AMGI) for that household size.
2. **40/60:** At least forty percent (40%) of its total residential units must be both rent-restricted and occupied by qualified low-income households who earn less than sixty percent (60%) of the AMGI for that household size.
3. **Average Income:** At least forty percent (40%) of its total residential units must be both rent-restricted and occupied by qualified low-income households whose income does not exceed the income limitation designated for the respective unit, where the average of the income-designated units may not exceed sixty percent (60%) AMGI. The unit designations will be made in ten percent (10%) percent increments. Units may be designated at 30, 40, 50, 60, 70, or 80 percent AMGI.

Please note the following, for applicants, which elect Average Income:

- Applicants will elect that all buildings in the development are part of a multiple building project on the 8609.
- If the unit mix includes market rate units, additional documentation is required to be submitted including an approved waiver to permit market rate units in the unit mix for the proposed development.
- For tax credit resyndication developments, the original LURA restrictions must be followed for the original LURA term.
- Applicants shall submit a statement from the proposed property management company acknowledging the intent of the proposed development to operate under the Average Income Minimum Set-Aside.
- The market study submitted as a part of the Application must affirmatively support the demand for a development's units under the Average Income Minimum Set-Aside. The Market Study must establish estimated LIHTC rents for all proposed unit types and rents at all Average Income Minimum Set-Aside levels. For example, if the proposal has two and three bedroom units, the market study must provide rents for the two bedroom units at 30, 40, 50, 60, 70, and 80 percent levels and rents for the three bedroom units at 30, 40, 50, 60, 70, and 80 percent levels, even if the application only proposes rents at the 30, 40, 50, 60, 70, and 80 percent AMI rent levels.
- Developments which elect the Average Income Minimum Set-Aside may be subject to an increased per-unit compliance monitoring fee, as identified in the QAP.
- The management company for developments which will operate under the Average Income Minimum Set-Aside will be required to provide certification of training on the Average Income Minimum Set-Aside prior to the lease-up of the development.
- The unit designations will be allowed to float throughout the project. AMI designations and bedroom sizes can also float, but MHDC reserves the right to enforce a remediation plan if MHDC determines that the development has deviated from the approved development plan. At minimum, MHDC will review the AMI designations and bedroom sizes annually.
- Skewing the unit configuration, where unit AMI designations are not reasonably distributed throughout the development, will not be allowed in the initial unit designations and throughout the affordability period.

- While the law did not change the Minimum Set-Aside for Bond Developments, the Average Income Minimum Set-Aside election is permissible to use with Bond Developments. The development must meet both the bond and the LIHTC requirements. Minimum Set-Aside requirements for Bond Developments remain 40/60 or 20/50.
- The MHDC Form 3345: Plan Review Worksheet ("3345") will determine the baseline for unit deviations.
- The calculation method for determining income/rent limits for LIHTC units may not align with other programs, specifically HOME and NHTF. MHDC will monitor those designated units for the most restrictive applicable funding source.

### Application Scoring Model

As an additional aid in awarding 9% and 4% LIHTCs, MHDC will use an evaluation rubric against which applications shall be scored. The model is described in detail within the applicable QAP.

### 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 a reasonable opportunity to comment on the proposed development. MHDC staff will consider the comments and may contact the local jurisdiction for additional information.

MHDC staff will publish a notice requesting public comment on each application and make a list of all applications will be available online through [www.mhdc.com](http://www.mhdc.com) for review and comment. Public hearings will be held to afford the public an opportunity to comment on proposed developments throughout the state. Specific dates and times for such public hearings will be published on the MHDC website.

To be included in the evaluation process, all communication from the public should be received no later than the last day of the comment period as stated in public notices.

### Program Fees

- **Tax Credit Fee:** A fee equal to seven percent (7%) of the approved annual Federal LIHTC amount is due at construction closing ("Tax Credit Fee"). The amount of the Tax Credit Fee is to be rounded up to the next dollar. The fee is non-refundable and will not be reduced or refunded if the Tax Credit Issuance amount is reduced or if the tax credits are returned or recaptured. If the Tax Credit Issuance amount is increased, the increased amount is subject to the fee and must be received prior to the issuance of 8609(s) and Missouri Eligibility Statement(s). The Tax Credit Fee cannot be included in eligible basis.
- **Appraisal Fee:** MHDC may order an appraisal from an independent third party to provide an appraisal for developments approved for MHDC loan resources. If MHDC orders an appraisal, a fee of \$6,500 will be assessed, to be paid with the execution of the Conditional Reservation ("Appraisal Fee"). The Appraisal Fee is non-refundable.
- **Construction Cost Analysis Fee:** MHDC may order and assess a fee of \$5,000 for an independent third-party report to provide an upfront construction cost analysis for approved developments in excess of six (6) units ("Cost Analysis Fee"). The Cost Analysis Fee would be due with the Conditional Reservation. If a third-party analysis is also required by the lender or investor on the property, MHDC will endeavor to work with that party to avoid duplicate costs.
- **Construction Inspection Fee:** A minimum fee of \$13,500 will be assessed to compensate either

MHDC or a third-party inspector hired by MHDC staff for construction inspections ("Construction Inspection Fee"). The amount of the Construction Inspection Fee will be based on the estimated length of the construction period. See the Developer's Guide for guidance on estimated fees for budgeting purposes.

- LIHTC LURA Recording Fee: The owner will be responsible for the fee charged for recording the LIHTC LURA with the county in which the development is located. If MHDC records the LURA, the fee is \$160.
- Compliance Monitoring Fee: A compliance monitoring fee will be assessed to cover the costs of the IRS-required compliance monitoring program ("Compliance Monitoring Fee"). The fee is \$300 per low-income unit (including employee use units) and workforce housing unit (occupied by households between sixty percent (60%) and eighty percent (80%) AMI) 60% and 80% of the area median income). The Compliance Monitoring Fee must be paid once the last building in the development is placed in service. 8609(s) and Missouri Eligibility Statement(s) will not be issued until MHDC receives the Compliance Monitoring Fee. The Compliance Monitoring Fee cannot be included in eligible basis.
- Document Revision Fee: A fee of \$100 per form may be charged for revisions to an 8609, or Missouri Eligibility Statement, or LIHTC LURA for (i) any corrections requested that were the result of incorrect information provided to MHDC staff by the owner, and (ii) any corrections requested more than ten (10) days after owner's receipt of the 8609, Missouri Eligibility Statement, or LIHTC LURA, as applicable.
- Plan Review Worksheet Revision Fee: A \$25 per unit fee may be charged if a revision of the unit number assignments is required after the submission of the fully executed Cost Certification.

## Housing Priorities

MHDC has created housing priorities 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 approval. 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 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 housing priorities 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 such housing priority.

Applications seeking a priority under one or more of the priorities listed below must still satisfy all other selection criteria and successfully compete against other Applications. An Application seeking a boost up to thirty percent (30%) in tax credits must explain the need for the additional tax credits in the FIN-100 and Exhibit A to the 2013.

### Nonprofit Involvement Set-Aside Priority (9% Applications)

Under § 42(h)(5)(A) of the Code, not more than ninety percent (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% Credit. MHDC will give priority to Applications that involve a qualified nonprofit until the ten percent (10%) requirement has been met ("LIHTC Nonprofit Priority"). At its discretion, MHDC may continue to give priority to proposals that involve

qualified nonprofits after the ten percent (10%) requirement has been met. Pursuant to the Code, 4% TE Bond applications do not qualify for the Nonprofit Involvement Set-Aside.

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

1. A 501(c)(3) or (c)(4) nonprofit organization;
2. Having an expressed purpose of fostering low-income housing (this purpose must be expressed in the organization's articles of incorporation and bylaws; if it is not, the Application will not be considered for this priority);
3. One that will own an interest in the development and materially participate (as defined in 26 U.S.C. § 469(h) and discussed hereinafter) in the development and operation of the development throughout the Compliance Period; and
4. Is not affiliated with, nor controlled by, a for-profit organization.

Developments wanting to be considered for the LIHTC Nonprofit Priority must fully complete the applicable Application sections and the FIN-100-Addendum and provide the following items with the Application:

1. MHDC Nonprofit Questionnaire completed;
2. Nonprofit organization's Certificate of Incorporation;
3. Articles of Incorporation and Bylaws, including all amendments (must describe the organization's purpose of fostering low-income housing);
4. Missouri Certificate of Good Standing dated within thirty (30) days of the application due date. An official certificate may be obtained from the Missouri Secretary of State website for a nominal fee. A screen print of the search screen indicating the status of an entity is not a certification and is not an acceptable demonstration of good standing;
5. IRS letter evidencing nonprofit status;
6. A current list of board members; and
7. Most recent audited financial statement.

### Material Participation

The nonprofit must be involved in the ownership as either a general partner or co-general partner and must materially participate (as defined in 26 U.S.C. § 469(h) and discussed below) in the development and operation of the housing development throughout the tax credit compliance period. The nonprofit entity will also need to be incorporated into the final signature block for the owner entity. Failure of the nonprofit to materially participate is a reportable noncompliance event on IRS Form 8823: Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition (the "8823").

Material participation is only present if the nonprofit is "involved in the operations of the activity on a basis which is regular, continuous, and substantial," (26 U.S.C. § 469(h)). Taking into account 26 U.S.C. § 42, 26 U.S.C. § 469, IRS Publication 5913: Guide for Completing Form 8823, treasury regulations, and input from the IRS LIHTC Program, the following indicators or factors should be assessed on a case-by-case basis when determining the status of the nonprofit in question:

Material Participation may be present if Nonprofit:

1. Has a general partner or co-general partner interest, or managing member interest in a limited liability company (LLC);
2. Is involved in day-to-day activities, or on a regular, not sporadic basis;
3. Involved in regular activities throughout the year; and
4. Is onsite regularly; and/or
5. Hires third-party management but pays the management company and management

- company reports to nonprofit, involving the nonprofit in regular decision making;
- 6. Is involved more than 500 hours a year; or
- 7. Is involved more than 100 hours a year and this participation is not less than any other owner.

Material Participation is not likely to be present or not present if Nonprofit:

- 1. Only has a limited partner role or investor member role;
- 2. Participates only sporadically;
- 3. Only passively consents to decisions by the management;
- 4. Is involved less than 100 hours a year;
- 5. Is not onsite regularly; or
- 6. Third-party management is supervised by for-profit entity.

For further discussion and guidance on material participation, please refer to MHDC's Guidance on Low Income Housing Tax Credit (LIHTC) Nonprofit Material Participation at [www.mhdc.com](http://www.mhdc.com).

### HOME CHDO Set-Aside

MHDC will endeavor to set-aside fifteen percent (15%) of HOME Funds to be loaned or granted to Community Housing Development Organizations ("CHDO") as CHDO Set-Aside. 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 Funds under the CHDO Set-Aside, the CHDO must be the sole general partner (in the case of a limited partnership) or sole managing member (in the case of a LLC) of the ownership entity to qualify.

Developments wanting to be considered for the HOME CHDO Set-Aside must fully complete the applicable Application sections, the FIN-100 Addendum, the MHDC CHDO Certification, and all required supporting documentation.

In the event the nonprofit has received HOME Funds under the CHDO Set-Aside and will receive an allocation of tax credits, then the HOME Funds should be provided in the form of a loan rather than a grant.

### Set-Aside Preferences

#### **(9% Applications eligible for up to 30% boost in eligible basis)**

MHDC will endeavor to set aside thirty-three percent (33%) of Federal LIHTC and State LIHTC (4% Credit and 9% Credit) for developments containing units qualifying under the Set-Aside Preferences (defined hereinafter) outside the geographic set-aside, subject to the quality of the applications received under the Set-Aside Preferences and their ability to meet selection criteria and underwriting standards described in the QAP. The Set-Aside Preferences shall consist of two separate and distinct priorities: Permanent Supportive Housing and Vulnerable Persons, as defined and set forth in more detail below. Developments applying under the Set-Aside Preferences must select either the Permanent Supportive Housing Priority or the Vulnerable Persons Priority, but not both.

The Set-Aside Preference is an incentive for developers to develop housing that is safe, decent, affordable, and targeted to identified individuals and families at high risk of housing instability with the partnership of an experienced Lead Referral Agency (defined hereinafter). This is accomplished by providing housing options, combined with social services to stabilize them once in place. The desired outcomes of the Set-Aside Preference are for tenants to stay housed, have social and community connections, improve their physical and mental health, increase their income and employment, and to be satisfied with the services and developments providing housing opportunities for persons in need of permanent supportive housing.

or vulnerable persons are strongly encouraged. Proposals committing to a set-aside of at least fifteen percent (15%) of total units will receive a preference in funding ("Set-Aside Preference"). Please note that federal law requires that individuals with disabilities have access to housing that is truly integrated. This is of particular concern with respect to those developments electing a set-aside of one hundred percent (100%) of total units in a proposed development, but may also impact those developments electing a smaller set-aside of Set-Aside Preference units. Developers are responsible for ensuring that any proposal complies with all applicable federal and state laws and regulations, particularly with respect to providing meaningful choice for individuals with disabilities. Developers with questions as to whether a proposal complies with applicable regulations are advised to seek independent counsel when preparing an application to MHDC.

All applications submitted under the Set-Aside Preferences must include \$1,000 per set-aside unit as a payment to the Set-Aside Preferences Housing Reserve Fund (formerly the Special Needs Housing Reserve Fund) which has been established by MHDC. Each development approved pursuant to the Set-Aside Preferences must contribute to this reserve. Such contribution must be made no later than construction completion when other reserves are normally funded. These funds will be held by MHDC and used, as necessary, to temporarily assist developments funded under the Set-Aside Preferences that have experienced unforeseen operational issues (for example, the loss of rental assistance). Deposits to the Set-Aside Preferences Housing Reserve Fund are intended for use for all developments approved under the Set-Aside Preference, commencing with 2014 approvals, and all developments funded under the Set-Aside Preferences commencing with 2018 approvals, and are intended to replace the need for each property to establish a separate reserve for unexpected costs specifically related to developments funded under the Set-Aside Preferences or the former Reserve.

Developments funded under the Set-Aside Preference cannot 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 demonstrating they have obtained commitments from a Lead Referral Agency which will refer Set-Aside preference households qualified to lease identified units and from local service agencies, which will provide a network of services capable of assisting each type of Set-Aside Preference population defined above. For purposes of the Set-Aside Preference, a "Lead Referral Agency" is a service provider agency that will provide tenants and services to the community through the later of (i) the completion of the Compliance Period, or (ii) the completion of the affordability period connected to any MHDC loan on the development. The Lead Referral Agency should demonstrate the ability to serve identified populations. MHDC acknowledges that circumstances may require a change in the Lead Referral Agency during the life of the development, but the developer must contact MHDC's Director of Asset Management in the event a change is necessary.

Developments wanting to be considered under the Set-Aside Preference must fully complete the applicable Application sections and attach the following supplemental documentation with their Application:

1. Set-Aside Priority Questionnaire
2. A Referral and Support Agreement with the Lead Referral Agency, Property Management Company, and Owner. The agreement must include:
  - a. number of identified units
  - b. responsibilities of the owner property manager, and Lead Referral Agency
  - c. duration of the agreement
  - d. signatures of all parties involved in the agreement
  - e. language stating that all parties to the agreement will, at all times, comply with all applicable

fair housing and disability laws

3. Set-Aside Preference Marketing Plan Exhibit which includes the experience of Lead Referral Agency
4. Rental assistance commitment letters. This is not required, but strongly encouraged. Letters must include:
  - a. type of rental assistance or voucher
  - b. number of vouchers or number of units to be subsidized by assistance
  - c. duration of the commitment
  - d. signature of authorizing official for agency

### Set-Aside Preference Definition

Persons targeted for the Set-Aside Preference must qualify under one of the two following priority categories:

1. Permanent Supportive Housing
  - a. A person who has a physical, mental, or emotional disability, 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.
  - b. A person who is experiencing, or being treated for or has a diagnosis of, or a history of, a mental health condition.
  - c. A person who has a developmental disability, which is a severe, chronic disability that:
    - i. Is attributable to a mental or physical impairment or combination of mental and physical disability;
    - ii. Is likely to continue indefinitely;
    - iii. 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
    - iv. 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 of extended duration and are individually planned and coordinated.
2. Vulnerable Populations (The vulnerable population resident can be either an adult or youth who is a member of the household)
  - a. A person who meets the HUD definition of homeless, including survivors of domestic violence and human or sex trafficking, which can be found on HUD's Homeless Assistance website: <https://hudexchange.info/resource/1928/hearth-defining-homeless-final-rule/>.
  - b. A youth transitioning out of foster care at the age of eighteen (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, childcare institutions, pre-adoptive placements, or independent living placements. "Youth" is defined as someone between the ages of eighteen (18) and twenty-four (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.

### Identified Units

Identified units are those units set aside for tenancy by Set-Aside Preference populations. Identified units must be rented to households referred to the development by the Lead Referral Agency. In calculating the number of identified units that must be made available, owners and managers must always round up to the next unit. Developments receiving a Conditional Reservation must submit and receive MHDC staff's

approval of a final referral and support agreement and the Set- Aside Preference Marketing Plan with the Firm Submission process.

The Lead Referral Agency must be an agency that coordinates with a range of local social service 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 through the later of (i) the completion of the Compliance Period or (ii) the completion of the affordability period connected to any MHDC loan on the development and represents the local services system in dealings with management of the development. The Lead Referral Agency might serve a particular group that qualifies under the Set-Aside Preference, but marketing and referrals must be inclusive of persons within all groups included within the Set-Aside Preference. The referral process must include soliciting and accepting referrals from service agencies that serve all types of the identified populations.

### **Lead Referral Agency Role**

A Lead Referral Agency will:

- Designate a point of contact to receive notices from the property management company when an identified unit is available.
- Maintain a level of communication with other service providers and property management to ensure that tenancy issues are handled and supportive services are available to tenants.
- Maintain and regularly update a list of eligible households interested in applying for identified units.
- Help arrange tenant-based rental assistance for eligible Set-Aside Preference households who do not already have assistance through their case management services.
- Upon notification, 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 an identified unit is available.
- 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 applied to all other residents of the development.
- Comply with all applicable fair housing laws.

### **Development Owner Role**

The development owner will:

- Agree that any Set-Aside Preference 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 identified units will not be segregated within the property and that the identified unit mix will depend on the needs of referred households.
- Agree to provide reasonable accommodation for Set-Aside Preference households in the tenant application.
- Assure that the identified units remain available to eligible Set-Aside Preference households through the referral process for the entirety of the compliance period.
- Comply with all applicable fair housing laws.

### **Property Management Company Role**

The property management company will:

- Notify the Lead Referral Agency of available identified units within a timely manner. At initial lease-up, this notification must occur the earlier of ninety (90) days prior to certificate of occupancy or when marketing begins. During ongoing operations, the manager will notify the Lead Referral Agency upon receipt of notice of intent to vacate an identified unit.
- Work with the Lead Referral Agency to coordinate the first contact with the Set-Aside Preference 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 community supports are made available to tenants in the identified units, however, tenancy will not be contingent on 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.
- Comply with all applicable fair housing laws.
- Although the development's property manager may agree to assist the household in other ways, it is intended that the household renting an identified unit has the same rights and responsibilities as every other resident in the development.

### Programmatic Requirements

Developments must meet specific criteria to be considered under the Set-Aside Preference during Application evaluation and to maintain their commitment to the populations served by the selected priority under the Set-Aside Preference through the design, construction, and operations process.

The development cannot 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 identified 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 populations served pursuant to the Set-Aside Preferences. Since service providers are often specialized, relationships should be cultivated with several types of agencies to ensure services will be available for the different populations comprising the Set-Aside Preference that may reside at the property at one time. Service programs should be designed to stress residential stability and independence.

Set-Aside Preference residents cannot be required to receive services from only one particular service provider nor can they be required to participate in supportive services as a condition of tenancy.

Set-Aside Preference properties operated as transitional housing, nursing homes, life care facilities, or dormitories are not eligible for tax credits.

In mixed-population developments, identified units cannot be segregated within the property or be distinguishable in any way from non-identified units (beyond the presence of accessible features or assistive technology, if necessary).

The development is encouraged to include community space appropriate to the needs of the populations

being served.

In rehabilitation developments with Permanent Supportive Housing Priority units under the Set-Aside Preference, the number of units designed and in accordance with universal design principles must be equal to or greater than the percentage of the Permanent Supportive Housing Priority units under the Set-Aside Preference.

In order for Rehabilitation developments with services already in place to qualify as Set-Aside Preference developments, the proposal must either demonstrate how services will be expanded and promote residential stability and independence or how the current services meet the needs of tenants included in the priority selected under the Set-Aside Preference.

Some Set-Aside Preference households may have disabilities that require an accessible unit, while others may have disabilities that are not physical in nature, and others may not have any disabilities. Similarly, some households that are independent and apply for non-identified 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 LIHTC program in the case of the former and to the service of Set-Aside Preference populations in the case of the latter. 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 in its sole discretion.

Set-Aside Preference households must be referred to the property by the Lead Referral Agency to be eligible to be qualified for an identified unit. Such persons must have a relationship with the Lead Referral Agency at the time they apply for housing.

Rents should be as affordable as possible to Set-Aside Preference households. Affordability can 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 should consider other methods to ensure rents are affordable to Set-Aside Preference households below fifty percent (50%) AMI. If proposed rents for Set-Aside Preference units are above thirty percent (30%) AMI, the applicant must provide evidence that Set-Aside Preference tenants will qualify at thirty percent (30%) of their income for the Set-Aside Preference unit proposed rents. In no circumstances should a Set-Aside Preference tenant pay more than, the greater of thirty percent (30%) AMI unit rents, or thirty percent (30%) of the tenant's income.

Below are examples where rent is proposed/set at \$300 per month for a Set-Aside Preference unit and \$500 per month for all other affordable units (sixty percent (60%) LIHTC units):

- The Set-Aside Preference tenant makes \$10,000 per year. Rent is set at thirty percent (30%) AMI (\$300 per month). Thirty percent (30%) of the tenant's income is \$250 per month. The tenant would pay the thirty percent (30%) AMI rent of \$300 per month.
- The Set-Aside Preference tenant makes \$15,000 per year. Rent is set at thirty percent (30%) AMI (\$300 per month). Thirty percent (30%) of the tenant's income is \$375 per month. The tenant would pay up to thirty percent (30%) of their income or \$375 per month.

- The Set-Aside Preference tenant makes \$25,000 per year. Rent is set at thirty percent (30%) AMI (\$300 per month). Thirty percent (30%) of the tenant's income is \$625 per month. The tenant would pay up to the maximum MHDC Schedule II approved rent of \$500 per month.

A property with mixed populations must screen all referred Set-Aside Preference applicants using screening criteria established for all applicants at the development according to state and federal fair housing laws.

Leases for residents of LIHTC developments must meet the minimum lease period and other requirements prescribed by the LIHTC program and any other applicable federal or state funding programs. Leases for Set-Aside Preference 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 Referral Agency referrals must be moved in first regardless of chronological order of the general waiting list until all identified units are occupied with referrals. Management cannot have a preference for referrals with a Section 8 voucher. During lease-up, properties which are not one hundred percent (100%) Set-Aside Preference are required to hold the number of designated Set-Aside Preference units for a period of ninety (90) days for leases to Set-Aside Preference tenants. After the ninety (90) day period, these units can be leased to the general population meeting the properties leasing criteria. If a property is having difficulty leasing Set-Aside Preference units, then the property should contact MHDC staff immediately so MHDC staff may assist as needed. If there is a Set-Aside Preference unit that becomes vacant and there are no Set-Aside Preference applicants on the waiting list, the vacant Set-Aside Preference unit may be immediately leased to a tenant that does not satisfy all the criteria for a Set-Aside Preference unit following confirmation with the Lead Referral Agency that there are not Set-Aside Preference tenants to be referred to the property. MHDC will look for documentation of regular and frequent (ongoing) correspondence between the management company and the Lead Referral Agency documenting that either (i) there have been no tenants on the Set-Aside Preference waiting list, or (ii) that if there were Set-Aside Preference tenants on the list within a reasonable time prior to unit vacancy (e.g., sixty (60) days), those tenants are no longer actively seeking housing at the property.

For preservation properties and other developments occupied during construction, the owner is not required to displace any current residents but is required to comply with the identified Set-Aside Preference unit commitment as units turn over and become available for vacancy, so long as such compliance does not cause an event of noncompliance under other applicable laws or regulations under which a development is operated or is receiving federal subsidy.

The LIHTC LURA will incorporate the number of Set-Aside Preference units committed at application, and the development will be reviewed for compliance throughout the later of (i) the completion of the Compliance Period, (ii) the completion of the affordability period connected to any MHDC loan on the development, (iii) the completion of the HOME affordability period (if applicable), or (iv) the completion of the NHTF affordability period (if applicable). Questions regarding a proposal's eligibility under the Set-Aside Preference should be directed to the Permanent Supportive Housing Coordinator prior to the application deadline.

## Service-Enriched Housing Priority

### (9% Developments eligible for up to 30% boost in eligible basis)

Service-Enriched Housing enhances the connection between affordable housing and supportive services. MHDC recognizes the advantages of supportive housing to individuals, communities, and public resources. To encourage more comprehensive housing environments for vulnerable populations, proposals offering significant services tailored to the tenant population will receive a preference in funding ("Service-Enriched Priority"). Developments that offer service-enrichment activities can improve the lives of tenants by focusing services to address five (5) program outcomes. Desired outcomes of the Service-Enriched Priority are for tenants to:

1. Stay housed, and break the cycle of housing instability by remaining in permanent housing;
2. Have social and community connections to build a personal support network and be active community members who choose to participate in organizations such as peer associations, faith communities, volunteer activities, and community gardens;
3. Improve their physical and mental health with access to needed physical and mental health care, preventative care, recovery services, and mental health screenings;
4. Increase their income and employment by obtaining benefits and/or employment services, training, or connections to educational programs; and
5. Be satisfied with services and housing which ultimately affects the quality of life for tenants and their ability to maintain stable housing.

In order for developments to measure program success, baseline measurements should be set to compare data at specific intervals throughout the service-enrichment program.

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

- Senior households;
- Individuals with children;
- Formerly homeless individuals and families;
- Individuals with disabling conditions
- Children of tenants; and/or
- Veterans.

The applicant should demonstrate it has extensive experience with providing social services for the population in question. If the applicant does not have experience with the specified population, it should have commitment(s) from a service provider(s) that does have the necessary experience. Although MHDC expects applicants that have elected the service-enriched priority to provide services for the full term of the MHDC imposed affordability period, MHDC will accept service commitments for renewable three (3)-year terms. MHDC acknowledges that circumstances may require a change in service provider during the life of the development. Failure to deliver on expectations will impact future funding decisions and could result in termination of reservations or commitments. If the owner determines a program offered as part of the committed services is not meeting the needs of the resident population, the owner must replace it with another appropriate service.

Developments wanting to be considered under this priority must fully complete the applicable Application sections in the FIN-100 and attach the following supplemental documents with the Application:

1. Service Enriched Questionnaire
2. Letters of intent from service providers anticipated to participate in the development's services

program. Letters should include:

- a. Name of the service or program;
  - b. The nature of the services or program that will be offered;
  - c. Service delivery plan;
  - d. Duration of commitment; and
  - e. Primary contact person with signature.
3. Service Coordinator job description
  4. A detailed Supportive Services Plan explaining the type of services to be provided, who will provide them, where they will be provided, how they will be accessed by tenants, and how they will be funded, signature of representative for primary service provider. The plan should also include, but is not limited to, a description of how the development will meet the needs of the tenants, including assessments, access to supportive services, transportation, and proximity to community amenities. MHDC prefers the services to be onsite or near the proposed development.

Depending on the population served, additional information may be required. MHDC reserves the right to request further documentation before determining if a particular application qualifies for the Service-Enriched Priority.

To qualify for the Service-Enriched 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, a senior development which offers transportation to residents for shopping once a week and a monthly potluck dinner is encouraged, but it is not sufficient to qualify for the priority. Proposals will be looked at more favorably if they offer an extensive menu of services that address the desired program outcomes previously mentioned.

The Service-Enriched Priority designation will be determined in the sole discretion 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.

All 9% Credit developments that qualify for the Service-Enriched Priority are eligible for designation as a difficult-to-develop area. This designation allows an increase in eligible basis of up to thirty percent (30%). The designation will only be made if necessary for financial feasibility and within all requirements of the QAP and the Code.

Applicants seeking designation under the Service-Enriched 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. MHDC looks favorably at service coordinators that work at the property and have office hours available to meet the needs of the residents.

The supportive service plan, application, and supplemental documentation must demonstrate the applicant's commitment to provide a significant number of services and activities appropriate to the resident population. The supportive service plan must detail the service delivery plan to specifically address how the applicant plans to engage the resident population in support services for the duration of the compliance period. All services must have an identified service provider evidenced by a commitment letter from that provider and must demonstrate how the property will continue to fund the service program through the Service-Enriched Priority Term. Sources of funding in future years may include income from operations or verifiable public grants and funds. The services must be provided on site and on a regular schedule. Below are examples of services from which the developer can select. Services

provided that are tailored to the needs of the target population will reflect more favorably on 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 Priority. Proposed services should address physical, mental, social, and overall well-being.

Examples of services for family properties include, but are not limited to:

- 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;
- Life skills and employment services;
- Nutrition and cooking classes;
- Domestic violence survivor, including human or sex trafficking, support and counseling;
- Computer lab or computer check-out program;
- Food pantry;
- Childcare services;
- College preparation counseling;
- Clothes closet;
- Library services;
- Back to school programs;
- Youth sports activities;
- Teen support groups;
- Good neighbor and tenant rights classes;
- Job training and job placement services; and
- Reentry programs for ex-persons with prior justice system involvement.

Examples of services for senior properties include, but are not limited to:

- Regularly held resident meetings;
- Transportation to shopping and medical appointments;
- Tenant rights and good neighbor classes;
- Nutrition and cooking classes;
- Enrichment classes such as seminars on health issues, prescription drugs, Medicare, and the internet;
- Coordination with an agency that provides assistance with paying bills and balancing checkbooks;
- Monthly or annual health screenings;
- Assistance preparing a Vial of Life;
- Exercise program such as the Arthritis Foundation Exercise Program;
- Monthly community activities (i.e., potluck dinners, holiday events, bingo);
- Access to fitness equipment;
- Food pantry or access to a mobile food pantry if available;
- Housekeeping;
- Grand parenting classes;
- Volunteer opportunities; 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. Such services should also be tailored to reflect whether the senior development is intended to be a 55+ Development or a 62+ Development. Service providers should plan to evaluate tenant needs and interests on a regular basis as well as have a process in place to measure the impacts of the supportive service plan.

### CDBG-DR

Applications that include Community Development Block Grant Disaster Recovery ("CDBG-DR") funds as a source are strongly encouraged. CDBG-DR funding is authorized under Title I of the Housing and Community Development Act of 1974, as amended.

Missouri's Community Development Block Grant Program currently has one active DR program covering Cole County Missouri (CDBG-DR 4451).

Applicants proposing to utilize CDBG-DR 4451 funding must obtain a LOI from the lead applicant, Jefferson City. Projects must be located within the DR-4451 Most Impacted and Distressed County of Cole.

### Veteran's Housing

#### (9% Developments eligible for up to 30% boost in eligible basis)

**Veteran's Housing applicants must apply under the Service-Enriched Priority.**

Applicants developing Service-Enriched Housing targeting Veterans are eligible for this priority. Developments must offer significant services tailored to the Veteran tenant population. Provided services should enhance Veteran tenant housing stability and independence. A substance abuse program must be included in the proposal.

At time of application, LOI(s) for service commitment(s) shall be in-place with a provider(s) who specialize in, or have substantial experience in, providing services to Veteran populations. If the applicant does not engage with a third-party service provider, support must be provided in the application which demonstrates the substantial experience the applicant has with providing services to Veteran populations.

Developments applying under the Veteran's Housing Priority are subject to any and all requirements of the Service-Enriched Priority in addition to any specific requirements that are set forth for the Veteran's Housing Priority.

Developments wanting to be considered under the Veteran's Housing Priority must fully complete the applicable sections of the application including, but not limited to, all sections required by the Service-Enriched Priority.

In addition, applicants must provide the following with their application:

1. Service Enriched Questionnaire.
2. A detailed supportive services plan explaining the type of services to be provided, who will provide them, where they will be provided, how they will be accessed by tenants, and how they will be funded. The plan must also include the signature of representative for primary service provider. The plan should also include, but is not limited to, a description of how the development will meet the needs of the tenants, including assessments, access to supportive services, transportation, and proximity to community amenities. It is preferable services be onsite or near the proposed development.
3. LOI from those service providers associated with the development's Veterans programs. Letters should include:
  - a. Name of the service or program;

- b. The nature of the services or program that will be offered;
  - c. Service delivery plan;
  - d. Duration of commitment; and
  - e. Primary contact person with signature.
4. Service Coordinator job description.

## Preservation Priority

### (9% developments eligible for up to 30% boost in eligible basis)

The preservation of existing affordable housing will receive a preference in funding ("Preservation Priority").

To qualify for the Preservation Priority a development must meet at least one of the following and, if receiving Federal Historic Credits and/or State Historic Credits, must waive the right to opt out of the LIHTC program for an additional fifteen (15) years beyond the Compliance Period.

1. Have and continue to use, if possible, project-based rental assistance and/or operating subsidy;
2. 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;
3. Participate in HUD's Mark-to-Market restructuring program; or
4. Have a previous allocation of LIHTCs in which the first year of the Credit Period (as defined in §42(f)(1) of the Code) was 2006 or earlier, be in or have completed the final year of the Compliance Period for all buildings in the development, and be willing to maintain requirements of the existing LIHTC LURA throughout that LURA's remaining affordability period.

To be considered under the Preservation Priority, the following must be included with the Application:

1. Copies of all loan notes and regulatory agreements encumbering the property, including any modifications thereto;
2. A copy of any project-based income or operating subsidy agreements and rent schedules, including both original and modified subsidy agreements or contracts;
3. Audited financial statements for the development covering the three most recent years;
4. If the development subject to a LIHTC LURA or an MHDC Regulatory Agreement, a letter from MHDC indicating the need for preservation. Requests to for MHDC preservation letters must be submitted to the Director of Asset Management no later than thirty (30) days prior to application submission deadline;
5. If the development has HUD financing a letter from indicating the need for preservation (If the proposed preservation development has a RD loan;
6. If the proposed development includes U.S. Department of Agriculture Rural Development ("USDA RD") financing, the application must include a letter addressed to MHDC from USDA Rural Development indicating (i) RD support for the application, and (ii) that the applicant has met with either the USDA Rural Development prior to preparing/submitting the application to MHDC. The purpose of the meeting is to go over the entire structure of the proposal with RD, including, but not limited to, a discussion of the proposed scope of work, Capital Needs Assessment ("CNA"), financing structure, rents charged, operating budget, the potential amount of additional RD required Replacement Reserves, and any other unique feature or complexities pertaining to the development proposal. It is recommended that applicants supply RD with a copy of the "as-is" CNA prior to this meeting; and
7. For developments with HUD or MHDC financing, A Physical Needs Assessment ("PNA");
8. For RD proposals, an "as-is" CNA that meets USDA RD requirements;

9. A document detailing current rents and projected rents for all units within the development. All efforts must be made to keep from permanently displacing tenants.

In addition to working with MHDC's Asset Management Department, developers seeking the Preservation Priority are highly encouraged to meet with the Affordable Housing Division prior to application submission.

### Workforce Housing

#### **(9% developments eligible for 30% boost in eligible basis)**

Developments in counties with a median income less than the most recent statewide median income (as established and published by HUD) are eligible for the basis increase, provided that fifteen percent (15%) to twenty-five percent (25%) of the total units in the development are set aside for households earning between sixty percent (60%) and eighty percent (80%) AMI (workforce units). Rents in the sixty percent (60%) to eighty percent (80%) AMI units should be different than the rents in the development that are at or below sixty percent (60%) AMI. The published income limits for each development's county still apply and must be used for determining resident eligibility.

### Opportunity Area

MHDC encourages affordable housing developments in opportunity areas by targeting communities that meet the following criteria: access to high-performing school systems, transportation and employment; as well as being located in a census tract with fifteen percent (15%) or lower poverty rate. Family developments that meet these criteria will receive a preference in funding. Family developments proposed in opportunity areas are required to include an affirmative marketing plan that proactively reaches out to families currently living in census tracts where the poverty rate exceeds forty percent (40%). The plan must include a Special Marketing Reserve to assist in initial relocation expenses for families with children. Note that the minimum unit size for a family development in an opportunity area is two-bedroom. Developments that apply under this priority must also apply under the Service-Enriched Priority. MHDC will, on a case-by-case basis with reasonable and well documented justification, allow flexibility for meeting all four criteria for qualification. Please refer to the Market Study Guidelines which specifies how data on each of these criteria is to be collected. Below are examples of services for this type of family development:

- Regularly held resident meetings
- After-school programs for children
- Financial literacy courses for adults
- Credit and/or budget counseling
- Life skills and employment services
- Computer lab or computer check-out program
- Daycare services
- College preparation counseling
- Library
- Back to school programs
- Youth sports activities
- Teen support groups
- Good neighbor and tenant rights classes

## Underwriting Standards

While the housing priorities above list the types of developments that receive extra consideration, the selection criteria below indicate the standards used in making funding recommendations. The Underwriting Standards incorporate both MHDC priorities and the federal preferences and selection criteria described in §42(m)(1)(B)(ii) and §42(m)(1)(C) of the Code. Because not every development fits into the same category or serves the same population, certain characteristics have different effects and 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.

### Sources

All sources of funding for a development must be identified in the application; this includes sources that will be contributed outside of the typical timeline of a project. When reviewing the sources contemplated by any application, MHDC will apply the following standards:

### Debt

All sources of debt, with the exception of MHDC debt, must have a commitment letter. Please see the Application Forms and Exhibits section below for more information on what is required in the commitment letters.

1. **Debt Service Coverage:** Development proposals must show stabilized debt service coverage ("DSC") between 1.20 and 1.50 throughout the term of the permanent loan(s). MHDC staff will not recommend a development for funding if the DSC is below 1.00 at any point during the Compliance Period. If the DSC falls below 1.15 during the Compliance Period, the applicant must explain how deficits will be dealt with. If no explanation is provided for DSC ratios below the standards listed above, MHDC may 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 Compliance Period.
2. **Interest Rate:** For MHDC debt, the appropriate rate for the applicable funding source will be used. Please consult the latest MHDC Loan Term Worksheet 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 at any point during the first eighteen (18) years of operations.

MHDC debt terms may be changed during underwriting to better suit the needs of the development and MHDC.

### Construction Loans

If the loan is an MHDC HOME Funds loan in second position during construction, the term will be equal to that of the first position construction loan. If the MHDC HOME Funds loan is the only construction loan, the term will be determined at Firm Commitment but will generally not exceed eighteen (18) months. Additional affordability requirements may apply and will be included in the HOME regulatory agreement. HOME affordability period may be longer than the loan term.

Applications must clearly state whether or not they are requesting a participation loan. Developments requesting MHDC Fund Balance participation loans must provide a completed Request for MHDC Participation Loan and a preliminary commitment letter from the applicant's preferred lender which

states (i) the lender is willing to take a co-first lien position with MHDC, and (ii) the lender is willing to accept the MHDC Participation Agreement in the form required by MHDC. Applicants seeking participation loans should inform their preferred lenders that MHDC will not accept significant revisions to the MHDC Participation Agreement from participating lenders. Otherwise, MHDC reserves the right to determine appropriate loan financing for the proposal. If the loan is an MHDC participation construction loan, the construction loan term will be eighteen (18) months. An application may request a participation construction loan term of twenty-four (24) months; provided, however, a twenty-four (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 questionnaire.

MHDC will require recourse on the entire construction loan during the construction period. Exceptions to this recourse may be granted for Nonprofit and CHDO applicants.

If using tax-exempt bonds, the applicant must specify if they are draw down bonds.

### **Permanent Loans**

MHDC hard permanent loans will feature a twenty (20)-year term, with the exception of loans for single-family homeownership developments, which will feature an eighteen (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 thirty (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 eighteen (18) years.

### **Amortization**

Hard permanent loans from MHDC will amortize over thirty (30) years for all developments 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 fifty percent (50%) of available cash flow unless MHDC staff determines there is not sufficient cash-flow available. The definition of "cash flow" and the priority of payment will be set forth in the Firm Commitment. Non-MHDC loans will be underwritten with the amortization described in the lender's preliminary commitment letter.

### **Deferred Developer Fee**

In cases where MHDC is providing a loan dependent on cash flow for repayment, deferred developer fee should be structured as a note and its position in the distribution of cash flow clearly indicated in the owner's partnership agreement or operating agreement, as applicable. MHDC reserves the right to create, eliminate, or adjust the deferred developer fee to efficiently utilize resources and appropriately underwrite each deal. Deferred developer fee in excess of fifty percent (50%) of the total developer fee should be avoided and will be allowed only in rare circumstances. It must be demonstrated that the deferred developer fee can be paid back from cash flow. Preferably, this repayment will take place within the first ten (10) years.

### **Income from Operations during Construction**

Income from operations during construction must be included as a source of funds. The MHDC Income During Construction Worksheet must be submitted with the initial application.

### **Tax Credit Amount**

Certain basis-eligible line items of the development budget may not be underwritten as one hundred

percent (100%) eligible. These line items include construction loan interest and bond-related costs. If one hundred percent (100%) of these line items are included in eligible basis, a reason why or a calculation of how you arrived at one hundred percent (100%) of the cost being eligible must be provided.

To calculate the maximum amount of credits for which the proposed development is eligible use the applicable percentage as detailed below:

- **9% Credit – New and Rehabilitation** – nine percent (9%) fixed applicable percentage.
- **9% Credit – Acquisition** – four percent (4%) fixed applicable percentage.
- **4% Credit – New, Rehabilitation and Acquisition** - four percent (4%) fixed applicable percentage.

Please note that MHDC will allocate the credit amount based on the need of the project and not on eligible basis.

Developments located in a Qualified Census Tract or in a Difficult Development Area, as defined below, may be eligible to increase eligible basis by thirty percent (30%).

- Qualified Census Tract. Developments located in areas designated by HUD as Qualified Census Tracts.
- Difficult Development Areas. Developments located in areas designated by HUD to be difficult to develop.
- State Designated Difficult Development Areas. Pursuant to §42(d)(5)(B)(v) of the Code, MHDC may establish criteria to designate additional properties approved for 9% Credits to be treated as located in a Difficult Development Area.

For purposes of the QAP, to qualify for such an increase, properties must elect at application and be determined to meet at least one (1) of the following priorities or preferences:

- Preservation Priority;
- Set-Aside Preference:
  - Permanent Supportive Housing; or
  - Vulnerable Persons;
- Service-Enriched Priority;
- Veteran's Housing; or
- Workforce Housing.

### Credit Pricing

MHDC staff may use the price outlined in the preliminary financial commitment to underwrite the development, provided the price reasonably reflects current market conditions. However, MHDC staff reserves the right to underwrite developments at credit prices different than outlined in the preliminary financing commitment(s).

All developments must meet the MHDC-required minimum contribution of twenty percent (20%) of Federal LIHTC and State LIHTC equity invested during the construction period, with ten percent (10%) invested at construction closing and at least another ten percent (10%) of Federal LIHTC and State LIHTC equity invested at or before fifty percent (50%) construction completion. These thresholds must be met by both Federal and State LIHTC equity investors independently unless the Federal LIHTC investor and State LIHTC investor are the same entity or are controlled by the same entity. Only if the Federal LIHTC investor and State LIHTC investor are the same entity (or controlled by the same entity) will the equity be considered in the aggregate. If HUD is providing loan insurance, equity contributions must meet or exceed current HUD guidelines. Investors taking more than a de minimis share (i.e., one percent (1%) or greater) of ownership interest must provide a capital contribution (at the same price as the primary investor) in

exchange for their share of Federal LIHTC and State LIHTC.

MHDC will determine a reasonable net price floor for the Federal LIHTC and State LIHTC at the time of application review using the Interquartile Range ("IQR") method. MHDC reserves the right to adjust and update how equity pricing is underwritten.

MHDC staff may contact any person or entity providing a preliminary financing commitment for tax credit equity to discuss the development and/or its level of activity and/or interest in investing in Missouri.

### Historic Credits

Please indicate in the application whether a master tenant/lease pass-through structure will be utilized on historic developments. Failure to indicate such will result in MHDC staff assuming 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 application must be the net amount provided to the ownership entity, excluding special reserves and costs taken from the gross price for put and call options, syndicator bridge financing, etc. Developments receiving federal historic tax credits are eligible for both federal and state LIHTC. Developments receiving federal and state historic tax credits are eligible for federal LIHTC.

### Uses

The standards listed below should be used when determining appropriate numbers for development budget line items.

### Construction Inspection Fee

MHDC will charge at a minimum a fee of \$13,500 to perform, or hire a third-party to perform, periodic inspections of the construction progress for all developments ("Construction Inspection Fee").

### Appraisal

MHDC may order an appraisal on developments approved for MHDC loan resources to confirm, at a minimum, the market value of the land and improvements at acquisition (without consideration of any value contribution that may be created by the proposed tax credits or favorable financing); the market value at project completion and stabilization using both market rents and restricted rents; and the contributory value of the proposed LIHTCs, if any. If the proposed purchase price is not supported by the MHDC appraisal, the purchase price will be reduced to the appraised value. If MHDC orders an appraisal, a fee of \$6,500 will be assessed, to be paid with the execution of the Conditional Reservation. The appraisal fee is non-refundable. The intended users of the appraisal will be MHDC, the sponsors of the development and their investors and any potential mortgagees.

### Construction Cost Analysis

MHDC may assess a fee of \$5,000 for an independent third-party report to provide an upfront construction cost analysis for all approved developments in excess of six units. This fee will be due with the Firm Submission. If a third-party analysis is also required by a lender or investor on the property, MHDC staff will endeavor to work with that party to avoid duplicate costs.

If applicable, this analysis would be performed after the Firm Submission documents (plans and specs) have been submitted. The purpose of any such analysis would be to have a third-party review the proposed costs and the plans and specs. If it is determined the costs submitted are either excessive or deficient, MHDC may adjust the amount of LIHTCs or loan funds allocated to the development. This review would also include a replacement reserve analysis for all proposed rehab, preservation, or conversions

(except for RD properties).

### **MHDC Loan Fees**

MHDC fees vary by the type of loan being issued. Please refer to the latest MHDC Loan Term Worksheet for updated loan fees. These loan fees are subject to change at MHDC's reasonable discretion.

### **MHDC Legal Fees**

Legal fees incurred on behalf of MHDC by outside counsel may be billed to the development.

### **Construction Labor Costs**

For developments with twelve (12) or more HOME units, 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 U.S. Department of Labor ("DOL") for the locality of the site and current within ten (10) days of construction closing. The construction budget submitted with the Application must utilize the appropriate Davis-Bacon wage determination in effect at the time of the Application. For properties with four (4) or fewer floors, use the "residential" decision. For properties with five or more floors, use the "building" decision.

### **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 each amount. MHDC staff may underwrite a reasonable construction loan into any application that shows LIHTC equity as its only significant source during construction.

### **Bridge or Pre-Development Loans**

Pre-development or bridge financing loan fees and interest should not be reflected in the development budget and is not a reimbursable expense. Pre-development financing or any financing secured prior to firm commitment and closing is done at the risk of the owner.

### **Sustainable Housing Fee**

Developments that elect to be green certified through a third-party will be allowed a fee up to \$20,000. Developments that do not certify through a third-party will be allowed a fee up to \$7,500. MHDC reserves the right to allow exceptions to the allowable fee on a case-by-case basis if unique development characteristics are incorporated into the proposal.

### **Contingency**

Contingency should be four percent (4%) to seven and a half percent (7.5%) of the total construction costs for new construction and six and a half percent (6.5%) to ten percent (10%) for acquisition/rehabs. Numbers outside of those ranges require an explanation. MHDC does not distinguish between hard cost contingency and soft cost contingency.

### **Tax Credit Fee**

The fee will be equal to seven percent (7%) of the annual Federal LIHTC amount awarded to the development.

### **Compliance Monitoring Fee**

A compliance monitoring fee will be assessed to cover the costs of the IRS-required compliance

monitoring program ("Compliance Monitoring Fee"). The fee is \$10 per low-income unit (including employee use units) multiplied by thirty (30) years (the extended-use period), or \$300 per unit.

### **Syndication Costs**

The fees paid by the developer for syndication-related expenses will be reviewed for competitiveness. Investor due diligence including architectural review, bridge loan fees, and interest should not be reflected in the development budget. Syndication cost must be explained in the Application.

### **Operating Reserve**

The operating reserve must reflect at least six (6) months of operating expenses and debt service. Amounts less than or more than six months must be accompanied by an explanation on the Exhibit A to the 2013. Reserves cannot be funded with Fund Balance, HOME Funds, or NHTF Funds.

### **Replacement Reserve**

The initial replacement reserve should be \$600 per unit. Any other amount will require an explanation. Reserves cannot be funded with Fund Balance, HOME Funds, or NHTF Funds.

### **Debt-Service Reserve**

If the development cannot maintain the DSC guidelines, a debt-service reserve, in addition to the operating reserve, may be required. Reserves cannot be funded with Fund Balance, HOME Funds, or NHTF Funds.

### **Service-Enriched Reserve**

If the developer proposes an escrow for services, and that escrow is not funded by a grant specific to the development services, the developer must contribute at least fifteen percent (15%) of the escrow amount from the developer fee. Developments requesting the Service-Enriched Priority designation will be reviewed on a case-by-case basis and extensive services will be taken into consideration. Developments offering services but not selecting the priority and not receiving a services grant, will be one hundred percent (100%) developer -funded and should be deducted from the developer fee. This reserve should be noted in the FIN-100 budget as a separate line item. Reserves cannot be funded with Fund Balance, HOME Funds, or NHTF Funds.

### **Set-Aside Reserve**

All applications submitted under the Set-Aside Preferences must include \$1,000 per set-aside unit as a payment to the Set-Aside Preferences Housing Reserve Fund (formerly the Special Needs Housing Reserve Fund) which has been established by MHDC. Each development approved pursuant to the Set-Aside Preferences must contribute to this reserve. Such contribution must be made no later than construction completion when other reserves are normally funded. These funds will be held by MHDC and used, as necessary, to temporarily assist developments funded under the Set-Aside Preferences that have experienced unforeseen operational issues (for example, the loss of rental assistance). Reserves cannot be funded with Fund Balance, HOME Funds, or NHTF Funds.

### **Rental Assistance Reserve**

Developer-funded Rental Assistance is calculated as the difference between net rent (proposed sixty percent (60%) AMI rents in the application) and thirty percent (30%) AMI rents. The minimum amount of available rental assistance per assisted unit must be at least fifteen percent (15%) of net rent for a

minimum of five (5) years. Self-funded rental assistance reserves must be one hundred percent (100%) developer-funded and should be deducted from the developer fee. Reserves cannot be funded with Fund Balance, HOME Funds, or NHTF Funds.

### **Tax and Insurance Reserve**

Developments with a MHDC permanent loan will be required to fund a tax and insurance reserve prior to loan conversion and/or 8609 issuance. The reserve will be funded in an amount appropriate for annual tax and insurance expenses as determined by MHDC.

### **Other Uses**

All uses will be examined for their competitiveness and reasonableness and may be questioned during the Application review. Developers should be able to explain how they 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 applications in years prior to the development being awarded MHDC funds shall be repayable to the developer only as part of the developer fee.

## **Project Income**

The following standards should be considered when structuring the development and completing the Application.

### **Rents**

The proposed rents must not exceed the rent maximums set by funding sources utilized in the application. Proposed rents must meet all underwriting standards for applicable funding sources and present achievable rents as supported by the market study. All efforts must be made to keep from permanently displacing tenants. Set-Aside Preference housing properties and different funding such as HOME, NHTF, and Project Based Section 8 may dictate different rents.

### **Other/Commercial Income**

All other income must be fully explained. MHDC staff, in 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 LIHTC amount and/or loan sizing purposes.

### **Income Trending**

For purposes of the fifteen (15)-year pro forma, MHDC staff will use a 2% inflation factor for all sources of income.

### **Vacancy**

Family developments will be underwritten with a rental income vacancy factor of seven percent (7%). Both 55+ Developments and 62+ Developments will use a rental income vacancy factor of five percent (5%). Recognized commercial income may use a lower or higher vacancy rate depending on the type of income. MHDC staff will also look at how higher vacancy rates affect the development and what is the break-even vacancy rate. MHDC staff reserves the right to use different vacancy rates than those shown above based on actual vacancy rates in the market.

## **Maximum Income / Maximum Rents**

The proposed rents must not exceed the rent maximums set by funding sources utilized in the

development. Proposed rents must meet all underwriting standards for applicable funding sources and present achievable rents. Income limits and maximum rent levels can be determined by accessing Novogradac & Company LLP's Rent & Income Limit Calculator©. The Rent & Income Limit Calculator© will calculate 26 U.S.C. § 42(i)(3)(A) LIHTC rent and income limits for every Missouri county and MSA. The determination of maximum income and rent limits is complex and the use of a compliance professional is highly recommended.

### Operating Expenses

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

### Expense Trending

For the purposes of the fifteen (15)-year pro forma, MHDC staff will use a three percent (3%) inflation factor for annual increases in operating expenses.

### Replacement Reserves

MHDC requires all developments to fund an annual replacement reserve equal to \$300 per unit, increased annually by three percent (3%). If a different amount is required by a lender or syndicator, please clearly indicate that in the Application. However, such indication will not necessarily result in MHDC waiving its stated policy.

### Security

For development proposals in areas where the market study reports a crime index above two (2) times the current state index as reported in data, such proposals must address security needs in the development and operating budgets or provide a detailed explanation why such measures will not be necessary. The index ratings are violent crimes per 100,000 persons statewide.

**NOTE:** The state and local factors from [areavibes.com](http://areavibes.com) change annually in the late fall of each year; therefore, any market study update submitted for consideration must include updated crime statistics.

### Property Disposition

MHDC encourages applicants to purchase real estate owned and listed publicly by MHDC ("Property Disposition"). 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 affordable housing development. The application serves as both the competitive bid to purchase the asset and the 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. Application fees and market study requirements will be waived for Property Disposition applications. The following must be included with the application:

- 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 MHDC-owned real property that is publicly posted.

- Any other certifications or documents required by MHDC and made available on the MHDC website in conjunction with the listing of any MHDC-owned real property.

## Application Forms and Exhibits

Each applicant is required to submit the exhibits applicable to the type of development it is proposing. Questions as to whether an exhibit is applicable to a specific Application must be asked prior to the applicable NOFA deadline.

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 the Public Official Contact Verification and Support Letters exhibit and the Zoning Letter exhibit.

If an exhibit is required but you feel there is a reason it should not be applicable for your application, you may request a waiver of that exhibit requirement. Please note, 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.

A completed and executed FIN-100 with appropriate certifications and elections made, application fee, development questionnaire, financing commitments, and evidence that the Chief Elected Official of the local jurisdiction has been contacted constitute the Threshold Documentation. All remaining exhibits listed on the FIN-125 constitute the Secondary Documentation. MHDC staff may contact applicants for clarification or questions regarding any submitted exhibit. However, such contact does not indicate anything other than a request for information.

## Application Documents

### FIN-100

The FIN-100 must be filled out completely, accurately, and both an excel version and signed PDF version must be provided. Please utilize the FIN-100 provided for the applicable NOFA round. Submitting the application on a previous FIN-100 form will not be acceptable, as changes are made from year to year to reflect QAP revisions and new MHDC requirements.

### FIN-100 Addendum

The FIN-100 Addendum must be filled out completely, accurately, and with the certification executed by all reporting parties. Both an excel version and signed PDF version must be provided.

### Identity of Parties

Identity of Parties must be filled out with contact information for the listed members of the development team and must be as accurate as possible.

### Developer Fee Structure Addendum

List all parties that will be paid from the project's developer and/or consultant fees. Identify each party, the fee to be paid, percentage of fee to be paid, description of work provided, and whether the fees will be paid during construction. For guarantees, describe what is being guaranteed and for how long. Note any terms for deferred fees. The total amount entered on the form should match the total of the developer fee before completion, developer fee at/after completion, consultant fee before completion and consultant fee at/after completion in the FIN-100. Percentages should total 100.

### Application Self-Scoring Form

Each applicant will complete a MHDC Self-Scoring form.

### Application Fee

The application fee must be paid electronically through the payment link provided when the applicant requests an application submission link. The application fee is non-refundable and if any application fee is returned for any reason, the application will be rejected.

## Project Description

### Development Questionnaire

The questionnaire description should present any information you feel is necessary to understand your development and is not adequately described in the rest of the Application. The questionnaire is your opportunity to argue for and convince MHDC why your development is important and why it should be funded. The questionnaire must, at a minimum, address the following items in the order listed:

- **Development Characteristics:** describe the type of development, population served, design, amenities, services, and whether this project will be part of a phased development.
- **Financial Feasibility:** provide a description of anything unusual regarding feasibility that may not be obvious from looking at the rest of the submitted information. Provide any unusual milestones or approval processes that will need to be reached in order to proceed to firm commitment and closing in a timely manner. Also describe the level of contact you have had with the syndicator or investor providing the equity letter supplied with the application. If requested MHDC loan resource, provide alternate financing or development plan adjustments if MHDC loan resources are unavailable or reduced. For rehabilitation proposals, explain current debt and reserves, identify yearly unit turnover rate, and explain anticipated changes to existing rents. Also provide detail on income during construction and any changes to operating expenses.
- **Site Control and Identity of Interest:** describe the timeline for site control and explain if the acquisition is an Arm's Length Transaction or Identify of Interest Transaction.
- **Market Characteristics:** describe the rent structure and how those rents compare with other affordable and market rate properties in the area. Also discuss how the application will address the relevant housing needs and what this development brings to the market that the comparable properties do not.
- **Community Impact:** explain the level of local support/opposition, catalytic effect and how the Application will address the needs of the community.
- **Broadband Requirements:** specifically address compliance with the HUD Broadband Rule and how the development will comply with the Rule. Applications for MHDC funding must establish that the development will include sufficient broadband infrastructure in accordance with Narrowing the Digital Divide Through Installation of Broadband Infrastructure in New Construction and Substantial Rehabilitation of Multifamily Rental Housing, 81 FR 92626 (the "HUD Broadband Rule"). Applicants are encouraged to review the HUD Broadband Rule and to seek the advice of counsel to determine compliance. The application should specifically address compliance with the HUD Broadband Rule in the questionnaire and should describe in sufficient detail how the particular development will comply with the HUD Broadband Rule.
- **Development Team Characteristics:** explain the key development team members and highlight experience with similar development types.
- **Other Salient Information:** provide any information or description of the development that

explains any unique or important characteristics that would help MHDC better understand what you are trying to accomplish.

- Furniture, Fixtures & Equipment (FF&E): If costs in excess of \$30,000 have been submitted for the FF&E line item, a breakout of the items and costs that comprise the FF&E must be provided in Exhibit A to Form 2013.

30% Basis Boost: If applicant will be utilizing a basis boost, an explanation on why the additional tax credits are necessary should be included.

The development questionnaire is intended to be the applicant's chance to address MHDC's selection criteria. Any information that can help illuminate and distinguish an application is encouraged. Please be clear and concise when creating the questionnaire and keep the stated purpose in mind. Applicants should use the development questionnaire to provide more information on costs or circumstances related to the project that is important to evaluation of the project, which is not otherwise captured in the Application.

### Site Review Information

MHDC's utilizes the information in the site review documents to properly evaluate the proposed site and proposal. The following site review information must be included in the Application:

#### Development Location Maps

Two maps must be submitted: (i) a community-wide map clearly identifying the site with respect to the town as a whole or, for large metropolitan areas, its proximity to the intersection of two major thoroughfares; and (ii) a more detailed map showing the property within the context of a five- to ten-block area with site boundaries clearly demarcated. Please provide an appropriate amount of information so a person completely unfamiliar with the community can find the property based on the maps provided, including clearly marked street names. Detailed directions are welcome, especially with respect to vacant ground.

#### Site Photographs

Color photos of the site, including landmarks and surrounding properties.

#### Site Plan or Subdivision Map

If a proposal is for single-family homes in a subdivision, a subdivision map with the lots outlined must be included in the application. 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.

#### FEMA Flood Map

A copy of the current FEMA flood map panel that covers the application site. Clearly mark the subject property boundaries. Include the panel number and map date if it is not printed on the maps. FEMA maps can be found at: <https://msc.fema.gov/portal>.

### 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:

1. Executed purchase option agreement. MHDC will not accept a purchase contract;

2. Executed long-term land lease or option on a long-term lease; or
3. Other commitments/agreements approved by staff prior to the Application deadline.

Applicants that already own the ground as evidenced by a vesting deed need only provide a copy of that recorded deed for the applicant site control. Applicants will also need to provide the identity of interest transaction information in the seller site control section described above. Due to certain restrictions ("Choice Limiting Actions") imposed by HUD on all developments requesting HOME Funds or other HUD financing, all applications requesting HOME Funds must have 100% site control of all application sites and the form of site control document must be a purchase option, not a real estate contract. All developments not requesting HOME Funds or other HUD financing must demonstrate proper site control for at least 50% of the sites listed in the Application. 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 Application rejection. 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. Applicants who do not clearly have acceptable site control should contact MHDC prior to the Application deadline. MHDC approval of site control prior to the Application is advisable.

### MHDC Scattered Site Addendum

The MHDC form is required for proposed developments that include multiple sites. Applicants should clearly detail each site included in the proposal.

## Market Study

### Existing Reports

The market study must be dated within six months of the application due date and address the property in question. If the market study is dated within twenty-four (24) months of the application due date, an update letter must be provided. The update letter must contain changes to the development as shown on the latest FIN-100, including the list of update items shown in the Market Study Guidelines.

### Market Study Narrative

A favorable statement of conclusions about the strength of the market for the proposed development does not vest in an applicant or development any right to a reservation or an allocation of MHDC financing (including, but not limited to, LIHTC) in any amount.

The market study must:

1. Be prepared by an experienced market analyst shown on MHDC's approved provider list (not an affiliated company), who is an independent third-party and completely unaffiliated with the developer and/or owner of the proposed development. Extension waivers requesting submission of a Market Study after the deadline will not be granted.
2. 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 [www.mhdc.com](http://www.mhdc.com).
  - b. The information included is accurate and the report can be relied on by MHDC as a true assessment of the affordable housing rental market for 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 the market study will be shared with other parties that will

- assist MHDC in the analysis of the market study.
- e. Lists the support, if any, that may justify the need for the proposed units by type, size, number, and location.
- f. The analyst has compared the proposed rents to those found in the subject's PMA, and
- g. The analyst's opinion of the market's need, if any, for the proposed development.

For applicants that elect the Average-Income Minimum Set-Aside, the market study must affirmatively support the proposed operation of the development under the minimum set-aside election.

The market study must provide LIHTC rents for all proposed unit types and rents at all AI minimum set-aside levels. For example, if the proposal has two and three bedroom units, the market study must provide rents for two bedroom units at 30, 40, 50, 60, 70, and 80% levels and rents for three bedroom units at 30, 40, 50, 60, 70 and 80% levels, even if the application only proposes rents at the 30%, 50%, 60%, and 80% AMI rent levels.

Nonprofit entities applying for HOME CHDO funds to develop eight or fewer units can 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.

### Form 1300

This must be completed by the market analyst. This form must be a separate document and is to be submitted as part of the application.

## Preliminary Financing Commitments

All non-MHDC sources of debt and equity must be evidenced by 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 which can be found at [www.mhdc.com](http://www.mhdc.com). At a minimum, there should be commitments for the following types of funds, where applicable:

- Federal and State LIHTC Equity. If one syndicator/investor is purchasing all housing and historic tax credits, one commitment meeting 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 if it contains all of the terms of the bridge loan.
- Federal Historic Rehab Credit Equity
- State Historic Rehab Credit Equity
- MHDC Participation Loan
- Other Non-MHDC Financing. All debt and grant financing must have a commitment letter included with the application, including any construction loans.

If the application involves rehabilitation with existing tenants, include an income from operations during construction calculation. Applicants must include the "MHDC Income During Construction Calculator" workbook.

If the application involves rehabilitation, identify whether the seller or buyer receives the replacement reserve balance at closing.

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

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 part of the development's financing must have a commitment letter or a letter stating an application has been received for the source in question. Commitment letters must indicate the following:

- Loan or grant amount. If using tax-exempt bonds, specify if bonds are draw down bonds.
- Loan term and amortization. The minimum acceptable term for permanent loans is eighteen (18) years.
- Interest rate. Permanent loans must have a fixed interest rate throughout the loan term.
- Fees associated with the loan or grant.
- Reserve requirements.
- Lien position of the loan.
- Relevant requirements that may affect other financing sources or the operations of the property.
- 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, include a copy of the note, current note balance, and a letter from the lender stating the loan can be assumed and details of the terms and conditions of any assumed or restructured note. This is of particular applicability to HUD- and RD-financed developments 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 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 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 any commitment(s) provided at Application.

### 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 stating:

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 (at the same price as the primary investor) in exchange for their share of Federal LIHTC.
3. The total amount of capital contributions.
4. The amount of equity paid during the construction period.
5. Any fees, such as an asset management fee, that must be paid during 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 Tax Credits.
8. For developments committing to Set-Aside Preference housing units, evidence the investor(s) is aware of the Set-Aside Preference housing commitment being proposed.
9. Contact information for the person providing the commitment and to whom MHDC's questions can be directed.

At Firm Submission (defined hereinafter), commitments for tax credit equity must update all the information provided with the Application and also include the following:

1. Capital contribution timing and amounts, including the dates or milestones when equity will be contributed to the partnership. MHDC requires a minimum contribution of 20% of Federal and State LIHTC equity to be invested during the construction period, with 10% invested at construction closing and at least another 10% of Federal and State LIHTC equity invested by 50% construction completion.
2. Description of development costs attributed to the 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 forty-five (45) days of the Application deadline or Firm Submission date, as applicable.

### **MHDC Financing Fee Addendum**

Use the document to detail complicated loan fee structures and identify fees included as development cost line items.

### **Income During Construction Calculator**

Use calculator to show anticipated income from operations during construction.

### **Current Rent Roll**

Required if development has existing tenants.

### **Rental Assistance Commitment Letters**

Required for proposals requesting Rental Assistance points.

### **Rental Assistance Calculator**

Required for Developer Funded Rental Assistance to identify required amount for reserve.

## **Site Control**

### **Seller Site Control**

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

1. A vesting deed (e.g., a warranty deed); or
2. 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, the applicant must include a copy of the seller's contract or settlement statement from the last arm's length transaction if the transaction took place within the last fifty (50) years. If an identity of interest relationship exists between the buyer and seller of real estate a limitation of developer fee will result.

### **FIN 305: Seller Certification**

The FIN-305: Seller Certification ("FIN-305") is required for every application with existing tenants and/or requesting a loan from MHDC. If no loan is requested but MHDC ultimately awards a loan, the

FIN-305 must be completed and submitted prior to the execution of any Conditional Reservation.

### **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 site control section. If the site(s) being purchased is larger than the development site(s), 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.

### **Previous Environmental Phase I or Phase II Report**

If development has had a previous Environmental Phase I or Phase II report completed in the past, it should be provided with the application.

### **Public Official Contact Verification**

Chief Executives of the local jurisdiction within which the building is located should be contacted via certified mail or some other manner that can be proven to have been received by the official. Contact letters must include the population being served, the number of units proposed, and any other relevant information demonstrating the official has received a sufficient description of the proposed development. For the purpose of the LIHTC application, the following must be contacted prior to Application submission:

1. Chief Elected Official. Provide evidence the local legislative body (for example, city council members) and chief elected official of the local jurisdiction (for example, mayor) have been informed the applicant is submitting an application to MHDC.
2. State Senator
3. State Representative
4. City Councilperson or Alderman
5. Public Housing Authority Executive Director or local Community Action Agency (if applicable)
6. School Superintendent (new construction and historic conversion family developments only)
7. Head of Local Law Enforcement

Scattered site developments must contact a Chief Elected Official for each locality/jurisdiction in which the sites are located.

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

Letters from the officials contacted should clearly reference the proposed development. All letters and

resolutions secured by the developer should be included; subsequent support/opposition letters will be recorded with the appropriate application and considered by MHDC during the review process.

Emails may serve as contact verification if the email describes the proposed development as detailed above. The documentation of contact verification must be an email chain showing the initial email to the contact and the email responses from the contact. It must be obvious from the email reply the name and position of the contact.

In municipalities and counties from which MHDC has received multiple applications, staff reserves the right to contact mayors and county executives to request 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 Affordable Housing).

### **Statutorily Required Documentation**

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

#### **IRS Form 8821**

In accordance with the IRS MOU, IRS Form 8821, Tax Information Authorization, must be submitted for the developer, all key principals of the developer and ownership entity, and all general partners that are not affiliates of the developer. Please fill out only Section 1 and sign Section 7. Information contained within IRS Form 8821 submitted with application is not subject to public records request.

#### **Missouri Form 8821**

In accordance with the Tax Credit Accountability Act, MDOR Form 8821, Authorization for Release of Confidential Information, must be submitted for the developer, all key principals of the developer and ownership entity, and all general partners that are not affiliates of the developer. Please fill out only the top section and sign the authorization below. Information contained within Missouri Form 8821 submitted with application is not subject to public records request.

#### **FIN-109: Legal Employment Practices Certification**

In accordance with Mo. Rev. Stat. § 285.025, MHDC requires all applicants to certify they do not employ illegal aliens/undocumented workers in compliance with federal, state, and local hiring laws.

#### **Evidence of Consistency with Consolidated Plan or Comprehensive Plan**

Developments requesting financing from MHDC and located in a jurisdiction with a consolidated plan filed with HUD are required to provide certification the proposed development is in compliance with such plan. If a jurisdiction does not have a consolidated plan, a certification the proposed development is consistent with the comprehensive plan must be submitted.

#### **Certification Regarding Debarment, Suspension & Other Responsibility Matters**

Developments will submit a signed copy certifying it and its principals are not presently debarred, suspended, or meeting other criteria outlined in the form. If the information cannot be certified an explanation must be provided.

## Housing Priority Documentation

Applications requesting consideration under one or more of the established Housing Priorities must include the applicable required documentation with the Application (please see the discussion of the required documentation in the Housing Priorities section above). If the required documentation is missing or does not fulfill the applicable requirement(s), the Application will not be considered for the desired priority, but it will still be considered for funding.

## Zoning Letter

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

1. The zoning designation with a brief description of such designation;
2. Density requirements/limits; and
3. 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 describing what needs to be done to be in compliance and the time frame for achieving such 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.

## 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 when possible. The following architectural items must be included with each Application:

### Elevations (new construction) or Photos (rehabilitation/conversion)

You must provide color photos instead of schematic elevations for existing buildings being rehabbed or converted.

### Floor Plans

You must provide floor plans 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.

### Unit Plans

You must provide 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 total square footage for the unit listed, as well as the square footage for each bedroom.

## Development Characteristics Worksheet

The Development Characteristics Worksheet must be filled out and fully 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.

### Scope of Work

For rehabilitation developments, provide a detailed scope of work describing what is being contemplated/completed by the project architect or general contractor. The scope of work should be in narrative form or a list broken down by Construction Specification Institute (CSI) divisions or another easily understood indexing system for organizing construction data with sufficient detail to comprehend what will be done.

In all rehabilitation proposals, the scope of work shall address work to be done in all units within the development. Should any unit not require work, documentation as such must be noted in the scope of work. No units shall be left unaddressed.

### Physical Needs Assessment or Capital Needs Assessment

For rehabilitation developments, provide a PNA. The PNA must follow the requirements found in MHDC Form 1201, Physical Needs Assessment Guidelines. The Assessment should not be performed by an entity that has an Identity of Interest with the developer or contractor.

For applications that include both MHDC and USDA-RD financing, a CNA prepared within six months of the application deadline according to USDA guidelines is required. Applicants must follow the USDA requirements for an “as-is” CNA and should contact the state USDA office for more details.

Applicants proposing a gut rehab of the building(s) are not required to provide a PNA but an assessment of the structural condition of the building is required, as detailed below.

### Structural Letter

For rehabilitation developments, a letter from a third-party structural engineer or equally qualified professional unrelated to the developer certifying the building has been inspected and is structurally sound for the intended use must be submitted.

### Historic Approval

For proposals structured with historic tax credits, include the status of the Federal and State Historic Tax Credit review. Required information includes:

1. Historic Designation. Either (i) the Federal Register publication demonstrating the property is listed individually on the National Register of Historic Places, (ii) 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 (iii) 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.
2. State Historic Tax Credit Approval. A copy of correspondence or other documentation showing the developer has discussed with DED the submission of the development for approval of state historic tax credits.

MHDC reserves the right to contact the DED regarding the status of historic tax credit applications.

### Sustainable Housing Information

All new construction proposals must meet the current standards for the certification level of choice for one of the following green building rating systems: Enterprise Green Communities, any of the LEED rating systems, or the National Green Building Standard. Any certification level of these systems is acceptable,

but the development team must indicate in the Development Characteristics Worksheet the rating system and certification level to which they are committing. All new construction Applications must provide documentation demonstrating how the development team and property will achieve and maintain the selected green building standard. New construction applications must also include:

1. The criteria and features being incorporated from the chosen green building rating system accompanied by the applicable checklist:
  - a. Enterprise Green Communities – Green Communities Criteria Checklist;
  - b. LEED – LEED Checklist;
  - c. National Green Building Standard – Designer's Report from the Green Building Scoring Tool;
2. Resumes for development team members with sustainable development experience, proof at least one team member is a LEED AP®, LEED Green Associate™ or a Certified Green Professional™, and a description of the development(s) they have worked on and their role in the process. If the development is not being formally certified, the development team member must document the pledged green building standards with pictures, a signed and scored scoring tool, and brief narrative during the construction process; and
3. Pre-Development, Development and Operations Plans.

New construction developments must demonstrate at Application, Firm Submission, and construction completion that the development has been designed and built to meet certification under the chosen system. Formal certification by a certified third-party is welcome but not required. 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. For rehabilitation proposals, the green building requirement is highly encouraged but optional; however, rehabilitation developments that will achieve and maintain a green building standard should also provide the aforementioned documentation.

For all rehabilitation developments, applicants are required to conduct pre-development testing and energy audits of existing buildings to identify energy savings opportunities. The minimum standard for energy audits is ASHRAE Level 1. The analysis can be a stand-alone document or incorporated in either the Physical or Capital Needs Assessment reports provided it is in a separate section by itself, and must be prepared by an assessor/rater certified through the Building Performance Institute (BPI), Residential Energy Services Network Home Energy Ratings Systems (RESNET), or ENERGY STAR. The energy audit will be submitted with the initial application for the project.

## Relocation and Existing Multifamily Operations Data

For developments requesting HOME Funds or NHTF 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, as amended ("URA"). For developments requesting all other types of MHDC financing and requiring temporary and permanent relocation of existing residential or commercial tenants, the owner must comply with the requirements of Mo. Rev. Stat. § 523.205. Each of the exhibits below is required, regardless of the type of financing.

For applications involving relocation, permanent displacement of tenants is strongly discouraged. The applicant must take all reasonable steps to minimize the displacement of existing tenants.

### Current Tenant List

Tenant list must include the names of the leaseholder(s), the number of persons in each household, the start date of each lease, the amount of rent charged, the amount of rent paid, income of each household,

and race/ethnicity information for each household. Subsidies being provided to residents should be noted. 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. The tenant list must be no older than 30 days from the date an application for funding is submitted.

### **Relocation Plan**

The relocation plan must include the following: (i) a detailed description of the type of relocation anticipated and how it will be handled, (ii) a list of all buildings (with addresses) currently occupied by renters or owner-occupants of residential or commercial buildings being renovated or demolished as a part of the proposed development, (iii) a breakdown of the relocation expenses expected to be incurred (which reflect the number used in the development budget), (iv) a description of services to be provided to tenants during the relocation period, (v) a description of how records will be maintained, (vi) a description of available resources to be used, (vii) a description of last resort housing measures to be taken should any permanent tenant displacement become necessary, (viii) organization name and contact person for relocation process, and (ix) copies of sample notices to be used for 90 and 30 day tenant notices, and a relocation timeline. 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 development that has a relocation expense. MHDC is likely to exercise this right when an identity of interest exists, as described above.

### **General Information Notice (GIN)**

A copy of the General Information Notice (GIN) required by the Uniform Relocation Act (URA) for application purposes must be provided. At minimum, this must include a copy of the proposed GIN to be distributed to all tenants if application is approved.

### **Acceptance of MHDC Relocation Policy**

You must provide a signed statement acknowledging you have read and accepted the MHDC Relocation Policy (available at [www.mhdc.com](http://www.mhdc.com)).

### **Annual Financial Statements**

You must provide a copy of the property's annual financial statements for the last three years. If the applicant is related to the current ownership entity.

### **Homeownership Plan**

For developers proposing the construction of single-family homes and duplexes for purchase by the residents following the completion of the Compliance Period, a homeownership plan detailing the timeline, proposed sale prices, tenant discounts, and resident homeownership training must be provided. Duplexes, with fire separation walls, may also be proposed as homes for purchase by the residents following the completion of the Compliance Period. The proposed homeownership plan is expected to mirror the structures described in the MHDC Homeownership Policy (available at [www.mhdc.com](http://www.mhdc.com)). Developers proposing homeownership are required to waive the right to opt out after the Compliance Period for an additional fifteen (15) years.

## Utility Allowance Letter

Provide the most current utility allowance schedule from the local public housing authority (PHA) or the HUD Utility Schedule Model (HUSM). The utility allowance used in the application should match the approved allowance for the property type. If using less than or more than the approved amount, an explanation of the difference must be provided. On the utility allowance schedule circle or highlight the appropriate utility amounts. The utility allowance schedule must be dated within twelve (12) months of the applicable NOFA deadline. If the provided schedule is more than twelve (12) months old, a letter from the issuing authority stating the included allowance is the most recent must be included.

## 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, information for each entity 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.

### Developer Qualifications FIN-107

The purpose of this form is to illustrate the financial and operational capacity of the developer. Information on proposed guarantors must be provided.

### Experience Summary for Developer(s), Ownership(s), and Management Company

If the developer/applicant wishes to utilize a form different than the FIN-105: Experience Summary ("FIN-105"), the report provided must, at a minimum, include all the information requested on the FIN-105. If there is a general partner that is not an affiliate of the developer, a FIN-105 for that entity is required.

### Developer Financial Statements

Financial statements, prepared in accordance with generally accepted accounting principles by a certified public accountant, must be provided for the developer entity, its principals and all guarantors listed in the FIN-107: Developer Qualifications ("FIN-107") must be provided. Submitted financial statements must have been prepared in the last twelve (12) months.

## Management Company Information

FIN-105: Experience Summary for Management Company. If the management company chooses 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.

### Management Company Certification

Management Company Certification Process:

All existing and/or new management companies seeking to manage properties in Missouri are required to submit an application to be approved as a "Certified Property Management Agent." The application addresses a number of items relative to the management agent, its principals, the company's operations, the qualifications of its management staff; and agent's performance in managing multifamily properties.

Once a management company is approved as an MHDC "Certified Management Agent," MHDC staff will indicate the length of time for the certification, and will place the property on an approved "Certified Property Management Agent" list that will be made available on MHDC's website at [www.mhdc.com](http://www.mhdc.com). Certifications will be valid for up to a three (3)-year period. Actual certification period length will be

determined by MHDC's Asset Management Committee. Certified Agents must reapply prior to their existing agreement expiring to be considered and approved for re-certification.

All management companies applying to manage properties in Missouri for the first time will be restricted to a one (1)-year certification. After the first year, the management company must reapply prior to their existing agreement expiring to be considered and approved for re-certification; and if approved, approval is conditional annually for the next year. The management company will receive full certification of one, two or three years after its second conditional year.

All properties must be managed by an agent listed on MHDC's Certified Property Management Agent Listing. A full description of the management certification process and relevant forms are located at [www.mhdc.com](http://www.mhdc.com).

## Application Review

For more detail on the phases and scoring of applications, please refer to the applicable QAP.

## Development Characteristics

The following characteristics will be reviewed closely:

### Tenant Population

It is important MHDC fund developments offering 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:

- Tenant populations with special housing needs, such as persons with physical and/or developmental disabilities, homeless individuals and families, seniors, and other under-served and/or at-risk populations. This list is not an exhaustive list of populations with special housing needs. Applicants that feel they are serving a special tenant population should explain so in the development questionnaire;
- Individuals diagnosed with mental illness;
- Individuals on public housing waiting lists;
- Individuals with children;
- Youth transitioning out of foster care;
- Developments serving the lowest-income tenants; and
- 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 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.

### Development Size

All applications submitted for consideration are limited to sixty (60) affordable units in a proposal. Exceptions may include, but are not limited to, applications proposing a:

- Mixed-income development;
- Development selecting average income as its tax credit set-aside where at least 10% of the units

- are designated as 80% AMI units;
- Development to replace existing public housing and/or subsidized housing;
- Development where at least 25% of the units are set aside as Set-Aside Preference housing units;
- Development that includes serviced enriched housing features;
- Development that preserves existing affordable housing;
- Development that is part of a municipal redevelopment plan; or
- Senior housing development (both 55+ Developments and 62+ Developments).

### 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:

1. New construction;
2. 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;
3. Acquisition/rehabilitation of existing housing. Acquisition/rehabilitation includes both preservation developments and any other housing development that features existing tenants; or
4. Developments intended for homeownership. For the purposes of this Developer's Guide and the 2020 NOFA, developments intended for eventual tenant ownership applies to single-family homes and duplexes with fire separation walls. Homeownership must apply to the entire development.

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

### 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:

- Marketability, or the likelihood that the site and improvements will be accepted by the target population, including proximity to other affordable housing developments;
- Presence of environmental issues and concerns, including but not limited to habitat and wetland preservation, noise, proximity to floodplains, and proximity to other potentially hazardous land uses;
- Neighborhood characteristics and land uses;
- Proximity to appropriate amenities and services;
- Need for rehabilitation, if applicable; and
- Access into and out of the site and parking.

A development may include multiple buildings if it has similarly constructed units, is located on the same or contiguous tracts of land, is owned by the same federal taxpayer and is financed pursuant to a common plan of financing. A development with multiple buildings that is proposing a mixed income structure must have low-income units in each building of the development. Scattered site buildings on noncontiguous

tracts of land may also qualify if the development meets all of the other requirements described above and the development is 100 percent rent and income restricted, however, costs associated with the development of a separate community building may not be eligible for tax credits unless the building contains a residential rental unit.

These site considerations are not a substitute for an environmental review but are meant to alert MHDC staff to potential concerns and the results play an important role in the Competitive Review. If the application is approved, it will undergo a more in-depth environmental review. Refer to the Environmental Review Section of this Developer's Guide for the complete process.

### 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:

- Placement of buildings on the site;
- Development amenities, including but not limited to Wi-Fi access, community space, proximity to services, health and fitness space, playgrounds, picnic shelters, community gardens, trails, proximity to transit options;
- Type and quality of materials;
- Energy efficiency and overall sustainability;
- Condition and suitability of structures being reused;
- Scope of work for rehabilitation or renovation;
- Population appropriate design features (for example, interior and exterior common spaces, storage space, accessibility, adaptability, etc.);
- Accessibility requirements;
- Exterior design aesthetics that blend well with the surrounding area; and
- Universal Design Features.

### Unit Configuration

All units in the development will be assigned unit designations at application. Those designations will be updated and kept current throughout the life of the development including at conditional reservation, firm commitment, cost certification, and during the affordability period. The unit designation categories are as follows:

**Primary Unit Designation.** Each unit can only be assigned one primary unit designation. The primary unit designations are:

1. LIHTC
2. Market
3. Employee

**Secondary Unit Designation.** Each unit may have zero, one, or more secondary unit designations. The secondary unit designations are:

1. HOME
2. NHTF
3. AHAP
4. Set-Aside – Vulnerable Populations
5. Set Aside – Permanent Supportive Housing

6. Workforce
7. Section 8
8. Accessible

**MHDC Program Unit Designations.** Each unit in a development will have an AMGI designation. MHDC-Program units will have designations from 20% AMGI – 80% AMGI. Employee and Market units will not be designated with a specified AMGI, but as “Employee” or “Market” respectively. All MHDC- Program designations will be at Federal LIHTC rent and income restrictions. The MHDC Program Unit Designations will be allowed to float throughout the project, once the development is in operation, as permitted by other funding source restrictions.

**HUD Unit Designations.** Each unit in the development that is designated with a HUD program (HOME and/or NHTF) must also make a HUD Unit Designation. Identifying what HUD rent and income levels that unit will comply with.

**NOTE:** HUD rent and income limits **are not equal** to LIHTC rent and income limits at each AMGI level. If a unit has both MHDC Program Unit Designation and a HUD Unit Designation, MHDC will monitor the unit as the most restrictive level.

### Skewed Unit Configuration

Specially designated units such as HOME, NHTF, SA-Vulnerable Populations, SA- Permanent Supportive Housing, , and AMGI designated units should be reasonably distributed throughout the development.

Skewing of the unit configuration of specially designated units and AMGI designated units, will not be allowed. The unit configuration will be reviewed at each stage of the development process and will be monitored throughout the compliance period.

Skewed unit configurations that raise fair housing concerns will require corrective action.

## Market Characteristics

It is important that the development's characteristics are appropriate for the market in which it is located. Please refer to the Market Study Guidelines for further guidance. The following will be analyzed for each proposal:

### Development Location

Where a development is located affects almost all of the other selection criteria. Important considerations for location include, but are not limited to:

- New construction and conversion criteria:
  - The development should not be located where the total of publicly subsidized housing units (as defined in the Market Study Guidelines) equal more than 20% of all units located in the census tract where the development will be located. The proposed units are not included in the 20% threshold only the units that presently exist.
  - If the proposed development is a new construction phased development, the previously approved development (i.e., Phase I or Phase II) must be at 50% construction before the subsequent phased proposal can be submitted for consideration for funding.
  - Notwithstanding the competitive scores of applications in a Geographic Region, MHDC may in its sole discretion, limit the number of developments in a specific market or city if MHDC determines that there is insufficient demand or that a particular development would have adverse impact on low-income housing developments existing in a given

market area. In the event that multiple applications are submitted for a given market area that cannot support all of the developments that would have received recommendation for Commission approval in a Geographic Region, MHDC may select one (1) or more that will best serve the market demand for the area.

- If the proposed development is located in the Kansas City or St. Louis Region, it shall not be located within a one (1) mile radius of any development that: (i) has been approved for State LIHTC, Federal LIHTC, HOME, or Fund Balance funding through MHDC within the previous two (2) fiscal-year funding cycles; and (ii) is less than 90% leased-up at the time of application submission. MHDC may consider exceptions to the previous two criteria including, but not limited to, applications proposing a:
  - Mixed-income development;
  - Development to replace existing public housing and/or subsidized housing;
  - Development where at least 25% of the units are set aside as Set-Aside Preference housing units;
  - Development that includes serviced enriched housing features;
  - Development that preserves existing affordable housing;
  - Development that is part of a municipal redevelopment plan; or
  - Senior housing development.
- Location in a qualified census tract only if it will contribute to a concerted community revitalization plan that includes components beyond the proposed development and that is in-place at time of application;
- Whether existing housing is used as part of a community revitalization plan;
- Location in a community with demonstrated new employment opportunities and a proven need for workforce housing;
- Infill of stable neighborhoods (a stable neighborhood is a stage in a neighborhood's life cycle in which the neighborhood experiences equilibrium without marked gains or losses); and
- Commission-designated Targeted Areas (historical examples: Joplin MSA and the City of Berkeley LIHTC set-aside in 2012 in response to natural disaster).

### Housing Needs

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

1. Number and growth of the population and intended tenant population in the market area;
2. Comparability, condition, rents, and occupancy of other affordable housing developments in the market area;
3. Comparability, condition, rents, and occupancy, of market rate housing in the market area;
4. Capture rate for the proposed development, calculated by dividing the number of proposed units by the number of qualified households; and
5. Housing needs of the selected priority under the Set-Aside Preference population.

No application proposing the delivery of new units will be approved if it is deemed by MHDC to adversely impact any existing MHDC development(s), exist in a questionable market, or create excessive concentration of multifamily units.

### Development Team Characteristics

A development team's experience with affordable housing, MHDC, and the type of development being

proposed are important. The following development team members will be evaluated: developer(s), general partner(s), management agent, syndicator(s)/investor(s), contractor, architect, sustainable design team, consultant(s), Lead Referral Agency for Set-Aside Preference housing, and service provider for service-enriched housing.

Evaluations will assess the experience, performance, financial strength, and capacity to complete the proposed development in a timely and efficient manner. Evaluation subjects can include significant cost increases, significant additional funding requests, responsiveness, timeliness, compliance with MHDC's Asset Management Division, and consistency over time.

Items considered will include, but are not limited to:

1. Number of affordable developments completed;
2. Occupancy of developments owned and/or managed;
3. Number of developments in the planning and development stages;
4. Performance, quality, and condition of previously-completed developments; and
5. Previous and outstanding compliance issues.
6. Performance regarding MHDC deadlines for previous funding awards including significant cost increases, additional funding requests, responsiveness, and timeliness and adherence to MHDC requirements.

The proposed general partner, developer, and general contractor will 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 not in good standing with MHDC or its programs will not be approved for funding. 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, subcontractor(s), attorney(s), management agent, etc.

## Financial Feasibility

Applications will be evaluated to determine financial feasibility and viability throughout the Compliance Period using the assumptions provided by the applicant ("Feasibility and Viability Determination"). MHDC will evaluate:

### Sources

All developments must demonstrate sufficient sources are available to assure feasibility. For non-MHDC sources, a commitment letter from the proposed provider indicating the amount and terms of financing must be included with the application. The type of financing and the source of all financing will be taken into consideration.

### Uses

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

### Income

Rents must be appropriate for the market and affordable for the intended population. Rents must meet the requirements of the various financing sources proposed in the application and, at a minimum, must

meet the requirements of the Code to be eligible for a LIHTC allocation under the QAP. The proposed rents must not exceed the rent maximums set by funding sources utilized in the application. Proposed rents must meet all underwriting standards for applicable funding sources and be supported by the market study.

### **Expenses**

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

### **Long-Term Viability**

Operating projections must indicate the development is viable for the greater of (i) the entire Compliance Period, or (ii) the term of any MHDC financing.

### **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 time-frame consistent with the requirements of the Code or, for Bond Developments, the allocation process established by DED.

### **Investment Potential**

Proposals will be evaluated for their potential to attract investors to the Federal LIHTC and State LIHTC, based on:

- The potential amount of Federal LIHTC;
- The potential amount of State LIHTC;
- 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 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.

## **Community Impact**

MHDC seeks to allocate funding to developments that appropriately and efficiently improve their communities. Impact may be weighed using:

### **Local Jurisdiction and Community Comments**

Comments from the local jurisdiction, including but not limited to chief executive officers and community members.

### **Catalytic Effect**

Developments that will successfully encourage further development or redevelopment in the community are encouraged. This includes developments that are part of a larger community redevelopment effort or

part of a concerted community revitalization plan.

### Community Needs

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

### Redevelopment Plan

Applications which are a part of a redevelopment plan which has been approved/adopted by a local government will receive a preference in funding. The application must include a letter from the local authorizing official that development in the application is a part of the redevelopment plan. The application should also include a detailed description of the redevelopment plan. A redevelopment plan should do the following:

- Identify planned public and private development in the community;
- Identify any resources committed to development;
- Set clear geographic boundaries for the community;
- Describe the community;
- Address housing and non-housing development, including infrastructure, amenities, and/or services beyond credit development;
- Identify goals and action steps; and
- Identify community partners.

### Economic Impact

The economic impact to Missouri of a proposed development is an important factor. MHDC will evaluate the Missouri economic impact of each proposal using information within the application (FIN-100), items to be measured include but are not limited to:

- A description of the proposed services that will be performed and/or proposed products that will be provided by Missourians;
- The number of employees in Missouri if the developer has existing operations in Missouri;
- The percent of hard and soft costs expected to be paid to Missouri-based firms, vendors and/or suppliers
- The total number of months between initial construction closing and construction completion; and,
- For senior and permanent supportive housing development proposals, projected Missouri savings in Medicaid expenses. Permanent supportive housing combines and links permanent, affordable housing with flexible, voluntary services designed to help the tenants stay housed and build the necessary skills to live as independently as possible.

### Site Review

During the application review process, MHDC staff will conduct a limited review of each proposed site(s). Each proposed site location must have a sign posted on it. The sign must be at least 2' X 3', include the developer's name, and state it is a MHDC proposed project. The sign must face a road surrounding the site and the font size must be easily readable from the road. The sign should be posted from the time MHDC receives the application until the Commission votes to approve or not approve the application. At a minimum, the sign must identify the developer and have a contact name, phone number and contact

email address. The MHDC Site Review will consist of a determination regarding the feasibility, marketability, appropriateness of the site(s) for the intended population, and assessment of any perceived environmental issues. The site selected for the development is a critical component of the application. Below is a list of issues that includes, but is not limited to, potential problems MHDC will review during the site review:

1. Ingress and egress;
2. Visibility for marketing purposes;
3. Proximity to groceries, pharmacies, restaurants, public parks, etc.;
4. Potential noise concerns from nearby highways, airports, etc.;
5. Potential flood plain issues;
6. Existence of wetlands areas;
7. Potential hazards and nuisances;
8. Competition with other housing developments in the immediate area; and
9. Need for rehabilitation, if applicable.

These site considerations are not a substitute for an environmental report or environmental review but are meant to alert MHDC staff to potential concerns, and the results play an important role in the Competitive Review.

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

If a rehabilitation proposal, MHDC staff expects to be able to enter existing buildings to inspect proposed scope of work.

## Application Approval

### Standards of Conduct

The MHDC Standards of Conduct, adopted on July 31, 2009, and as amended, 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) whom 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 vote by the Commission 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 twenty-four (24) hours of contacting a Commissioner or Employee, the Interested Party must file a written notice of the contact with MHDC staff. 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 twenty-four (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.

## **Disclosure**

All Interested Parties shall, as part of a response to any Competitive Matter, disclose the name of any former Commissioner or Employee whom they employ or with whom they have a contractual relationship.

The complete version of the Standards of Conduct may be found on the MHDC website.

## **Commission Approval**

Staff will provide the Commissioners with available application data, staff review comments, and public hearing results. Staff will 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 are

scheduled to 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 the Commission's approval of the final list of applications for LIHTCs, HOME Funds, and/or other MHDC administered financing, staff will proceed with the Conditional Reservation process.

When the potential for a conflict of interest or the appearance of a conflict of interest exists, MHDC Commissioners and staff will 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.

## Pre-Conditional Reservation

Approval letters are generally sent to developers of all approved proposals the week after Commission approval. The approval letter identifies the stages of underwriting from environmental submission/review through Firm Commitment and identifies the underwriter assigned to each development. Attached to the letter, and provided below, is a generic checklist of documents needed to prepare the Conditional Reservation Agreement ("Pre- Conditional Reservation Items").

### Ownership Entity Organizational Documents:

1. A copy of the letter from the U.S. Department of the Treasury ("Treasury") or other documentation demonstrating the Employee Identification Number assigned to the ownership entity.
2. A copy of the Articles of Organization or Incorporation.
3. A copy of the certificate of limited partnership, certificate of organization, or certificate of incorporation, as applicable, from the Missouri Secretary of State's office. NOTE: The owner entity must be organized in the state of Missouri. The only instance in which MHDC will consider a waiver of this requirement is if the owner entity has presented a compelling reason that precludes it from being organized in Missouri and only when the owner entity is receiving only low-income housing tax credits and no loan funds from MHDC. Any such waiver request will be considered on a case-by-case basis.
4. A copy of the initial limited partnership agreement or operating agreement, or for nonprofit organizations, a copy of the bylaws.
5. A Missouri certificate of good standing for the entity if it has been in existence for more than one year. A certificate may be obtained electronically at the Secretary of State's website for a nominal fee. A screen print of the search screen with a description of the entity's standing is not acceptable.
6. A draft of the signature block for the ownership entity. Please note, if the development was approved for 9% Credits from the Nonprofit Set-Aside, the nonprofit entity must be one of the signers, even if it is not the sole general partner or member.
7. A resolution authorizing the individual, general partner, manager, or managing member to sign on behalf of the owner entity.

### General Partner/Member Organizational Documents

Please provide for every tier of the general partner or member entities that are not individuals.

1. A copy of the letter from the Treasury or other documentation demonstrating the Employee

- Identification Number assigned to the general partner/member entity(ies).
2. A copy of the Articles of Organization or Incorporation (as applicable).
  3. A copy of the certificate of limited partnership, certificate and articles of organization, or certificate and articles of incorporation from the Missouri Secretary of State's office. If the general partner entity is not a Missouri entity, MHDC staff will also require a certificate of foreign registration evidencing that the general partner is registered to do business in Missouri.
  4. A copy of the initial limited partnership agreement, operating agreement, or bylaws.
  5. A properly executed and valid resolution authorizing the individual to sign on behalf of the general partner or member entity(ies).
  6. A Missouri certificate of good standing for the entity if it has been in existence for more than one year. A certificate may be obtained electronically at the Secretary of State's website for a nominal fee. A screen print of the search screen with a description of the entity's standing is not acceptable.

## Conditional Reservation

All applications receiving approval from the Commission will be awarded a conditional reservation agreement ("Conditional Reservation") shortly after MHDC staff receives, reviews, and approves the Pre-Conditional Reservation Items. The Conditional Reservation will describe the type, amount(s), terms, and requirements applicable to the development. Conditional Reservations will be subject to the requirements MHDC staff determines necessary or appropriate.

All approved developments will receive an Exhibit B Environmental General Requirements memo. This document is tailored to each development and is a general list of items needed to begin the environmental review process.

All developments receiving a Conditional Reservation must submit a Firm Submission package no later than the date established in the Conditional Reservation.

A Conditional Reservation is subject to rescission should the development fail to comply in a timely manner with the conditions thereof. This includes, but is not limited to, failure to provide evidence satisfactory to MHDC staff of financial feasibility or sufficient progress toward Firm Submission, closing, and placement in service.

## Firm Commitment

All applications awarded a Conditional Reservation must be issued an MHDC Firm Commitment ("Firm Commitment") for construction closing to occur. The Conditional Reservation includes a deadline for submission of the Firm Commitment review checklist items and this deadline must be met to receive a Firm Commitment. All Firm Submission items must be sent to the attention of the assigned underwriter.

### Firm Commitment Exhibits

Each approved development is required to submit a firm submission package ("Firm Submission"). Depending on the type of financing, some individual exhibits may not be applicable, but all developments must submit a Firm Submission package. Questions as to whether an exhibit is applicable to a specific development must be asked prior to the Firm Submission deadline.

If you have questions about Firm Submission exhibits, especially if you are not sure whether an exhibit applies to your particular development, please contact the Director of Affordable Housing or the Rental Production Manager. Any item that may serve to satisfy the requirements of multiple exhibits should be copied and included in each applicable exhibit tab.

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

A Firm Commitment will be issued after a review of the Firm Submission package has been completed and it is clear to MHDC staff all MHDC requirements have been or will be met prior to closing. Developments with reservations of HOME Funds or Risk Share Insurance will not receive a Firm Commitment until HUD's Authorization to Release Grant Funds has been received by MHDC staff. MHDC will endeavor to issue the Firm Commitment within 6 weeks of a complete Firm Submission package having been received.

If the Firm Submission package reflects changes to the numbers and assumptions from what was in the Conditional Reservation, the amount of financing committed to the development may change. MHDC staff reserves the right to terminate any Conditional Reservation and/or require a development to go back before the Commission for reconsideration at a regularly- scheduled meeting if the changes presented materially affect MHDC's understanding of the development.

The Firm Submission checklist will identify exhibits to be submitted. Each document should be properly labeled and should be checked to make sure it opens properly.

### **FIN-101: Identity of Parties**

The FIN-101: Identity of Parties ("FIN-101") must be filled out with contact information for the listed members of the development team. The FIN-101 will be an exhibit to the Firm Commitment and must be as accurate as possible.

### **Signature Blocks**

Signature blocks must be provided for the architect, general contractor, Title Company, and Federal LIHTC and State LIHTC investors in the forms in which they should appear in any MHDC legal documents. If there has been any change to the ownership entity signature block since Conditional Reservation, an updated version must be submitted. It is highly recommended that the developer's attorney help prepare and/or review the signature blocks before sending them to MHDC staff.

If the project does not have an MHDC loan, only the signature block for the ownership entity must be provided.

For projects, with a nonprofit set aside, the nonprofit entity will need to be incorporated in the signature block.

### **Ownership Entity:**

Provide a Certificate of Limited Partnership or Certificate of Limited Liability Company, as applicable (must be a Missouri entity, unless there is no MHDC loan and the development has obtained a waiver from MHDC);

Provide a draft Amended and Restated Limited Partnership Agreement (including MHDC-required limited partnership agreement language) or Amended and Restated Operating Agreement (including MHDC-required operating agreement language), as appropriate for the owner entity's type of legal structure. The most current Partnership/Operating Agreement language required by MHDC may be obtained at [www.mhdc.com](http://www.mhdc.com).

### **General Partner(s) or Managing Member:**

Provide a Certificate of Incorporation or Certificate of Limited Liability Company, as applicable;

Provide an Operating Agreement or Articles of Incorporation and Bylaws, as appropriate for the type of legal structure.

### **Federal and State LIHTC Syndicator or Investor:**

Provide a Certificate of Incorporation or Certificate of Limited Liability Company;

Provide a Limited Partnership Agreement, Operating Agreement, or Articles of Incorporation and Bylaws, as appropriate for the type of legal structure.

### **Financial Statements**

Audited financial statements prepared in accordance with generally accepted accounting principles by a certified public accountant must be provided for the below entities. Audited financial statements submitted must have been issued in the last twelve (12) months. If the entity is a newly-created and/or single-purpose entity, the financial statement for the parent company is also required.

1. Developer entity
2. General partner/member entity (unless it is the same entity as the developer). If the entity is a newly-created and/or single-purpose entity, the financial statement for the parent company is also required.
3. Federal LIHTC and State LIHTC syndicator and investor entity(ies).

Financial statements for all entities/individuals must contain a complete listing of all contingent liabilities.

### **Certificates of Good Standing**

A Missouri certificate of good standing must be provided for the following development team entities: architect, general contractor, title company, management company, surveyor, and environmental firm. A certificate may be obtained electronically at the Missouri Secretary of State's website for a nominal fee. A screen print of the search screen with a description of the entity's standing is not acceptable.

### **Site Control**

Evidence of valid site control by the ownership entity must be included. Any initial options and all subsequent amendments or extensions, if applicable, must be provided. A purchase option will not provide sufficient evidence of site control if the date by which the option must be exercised, or by which the closing must occur, has already lapsed or will lapse on a date before which a closing can realistically be expected to occur. Therefore, all such documentation for site control provided with the Firm Submission must allow for at least sixty days to close from the date the Firm Submission is submitted to MHDC staff.

### **Title Commitment**

A lender's title commitment is required to be provided for every development. The commitment must be on form 2021 ALTA Loan Policy (7/01/21) and MHDC must appear as the proposed insured, with the amount of the MHDC loan, if any, on Schedule A. All title commitments and pro forma title policies must be signed by a representative of the title company (electronic signatures are acceptable with the electronic signature endorsement) and the legal description must be identical to the legal description shown on the survey. Full and complete guidance regarding MHDC's policies on acceptable title insurers, title commitments and pro forma title policy requirements may be accessed on MHDC's website. Each developer is encouraged to access and share this information with its respective title company in order to adequately ensure that all MHDC title policy requirements are satisfied. This is particularly important if the title company is new to MHDC's requirements, as failure to comply with MHDC requirements may

delay closing.

For developments requesting a loan from MHDC, copies of exception documents relating to all exceptions reflected on Schedule B of the title commitment must also be provided.

### Survey

A full-size draft of the survey and surveyor's report using MHDC's Surveyor's Report Form must be submitted. Although a draft survey is required for Firm Commitment consideration, the final survey must be updated within ninety (90) days of closing and the surveyor's report must be updated within thirty (30) days of the closing. The legal description must be identical to the legal description shown in the title commitment/pro forma policy. Full and complete guidance regarding MHDC's policies for surveys and survey reports may be accessed on MHDC's website. Each developer is strongly encouraged to access and share this information with its respective surveyor in order to adequately ensure that all MHDC survey requirements are satisfied.

### MHDC Form 3345: Plan Review Worksheet

An updated executed plan review worksheet that breaks down the unit information by building must be submitted. The unit and square footage data must agree with the firm submission and the plans and specifications. Please provide both the Excel workbook and a PDF copy with signatures on the digital media.

### Site Plan

A site plan accurately identifying the land which comprises the development which includes the following detail:

- Each building numbered (1, 2, 3, etc.). MHDC staff will utilize the numbers to create the building identification numbers.
- The names of the streets which border the property.
- The boundaries of the property clearly marked.
- Market single-family homes labeled "MKT" if applicable.

### Plans and Specifications

A complete set of construction drawings and specifications (or project manual) must be provided. For detailed requirements, see MHDC Form 1200, Design/Construction Compliance Guidelines dated August 1, 2009, as may be amended from time-to-time.

#### Plans

An e-file of permit-ready architectural/engineering drawings, including a schedule of units and square footage must be included.

#### Specifications:

An e-file, permit-ready, must be submitted. Please note, (i) HOME-financed developments with twelve (12) or more HOME-assisted units must include the current edition of the "General Conditions of the Contract for Construction" (AIA Document A201-2017), as amended, and the "Federal Labor Standards Provisions" (form HUD-4010); and (ii) developments receiving Risk Share Insurance must include the current edition of the "General Conditions of the Contract for Construction" (AIA Document A201-2017), as amended, and the "Supplementary Conditions of the Contract for Construction" (form HUD-2554).

### **Development Characteristics Worksheet**

A new Development Characteristics Worksheet with original signatures from the developer, owner, and architect must be provided. If no information has changed since the original submitted with the Application, reprint the original Excel file and execute with updated signatures. This worksheet codifies the development team's commitment to provide the amenities described. Any revisions during the design and construction process must receive the approval of MHDC staff.

### **Sustainable Housing Documentation**

All new construction developments must provide detailed information regarding what features and techniques have been incorporated into the design of the development. This information should be in the form of the checklist or scoring system associated with the chosen green building program. Rehabilitation developments obtaining green building certification must submit the documents listed in the Sustainable Housing Information section above.

### **Termite Inspection Report or MHDC Termite Certification**

If the development consists of existing buildings, a termite inspection report must be provided by a licensed Pest Control Company. If termite infestation is found in the report, the scope of work must include what steps will be taken to eliminate the problem. The scope of work must be updated during construction if additional damage is found.

All developments must execute and submit the MHDC Termite Certification form.

### **Owner-Architect Agreement**

A copy of the Owner-Architect Agreement (AIA B108-2009 with executed MHDC Amendment indicating the number of site visits per month) must be submitted. If this agreement does not include all required architectural and engineering disciplines, then copies of all consulting contracts should also be included. All amendments to the standard AIA form must be clearly and conspicuously reflected within the body of the agreement and will be subject to approval by MHDC staff. An Additions and Deletions Report should also be submitted.

### **Contractor Due Diligence**

The following contractor due diligence items must be provided:

1. Contractor's Qualification Statement (AIA A305);
2. Contractor's Audited Financial Statement;
3. FIN-116: Credit Summary ("FIN-116") with contractor's tax I.D. number;
4. FIN-105 and a company resume; and
5. Construction Contract (if MHDC is not the first lien position lender). If using the AIA form of construction contract, you must use the AIA A102. The A102 must be amended to incorporate all MHDC required language for the construction contract. This required language may be obtained from MHDC's website or is available from your assigned closing attorney. Further, all amendments to the standard AIA form must be clearly and conspicuously reflected within the body of the agreement and will be subject to approval by MHDC staff. If MHDC is the first lien position lender, the MHDC form construction contract must be used, and will be circulated with the MHDC loan documents.

### **Equal Employment Certification (HUD Form 92010)**

Include an executed Equal Employment Opportunity Certification (HUD Form 92010) for the owner (for

developments with HOME Funds) or the general contractor (other financing).

This exhibit is not required for tax-credit only developments.

### **FIN-115: Contractor's/Mortgagor's Cost Breakdown**

The cost breakdown properly completed with the division of labor and materials on form FIN-115: Contractor's/Mortgagor's Cost Breakdown ("FIN-115"), executed by both the owner and contractor, must be provided.

### **Updated Financing Commitments Debt/Grant Commitments**

All construction and permanent debt/grant sources of financing listed in the Firm Submission, other than those provided by MHDC, must have a commitment letter from the financing provider. If a commitment letter was previously provided, an updated letter must be given at Firm Submission. The commitment letter(s) must include the terms and fees associated with the financing. Permanent loan terms must be at least eighteen (18) years. If reserves are being assumed, a letter from the current lender must be provided indicating the reserves can be assumed by the new ownership entity. MHDC also requires a statement indicating the current balance of such reserves. For acquisition/rehabilitation proposals with existing tenants, construction period income must be included as a source and a calculation of construction period income should also be included.

### **Equity Commitments**

All sources of tax-credit equity listed must have a commitment letter. If a commitment letter was previously provided, an updated letter must be given at Firm Submission.

The commitment letter(s) must include the amounts, timing of capital contributions, reserve requirements, terms, and fees associated with equity contributions. MHDC requires a minimum of 10% of Federal LIHTC equity and State LIHTC be invested in the development at closing and again by 50% of construction completion.

### **Management Agent Documentation**

All properties must be managed by an agent listed on MHDC's Certified Property Management Agent Listing. A full description of the management certification process and relevant forms are located MHDC's website.

Interested parties are encouraged to review the list to ensure that the chosen management agent is included, as the list may change periodically.

If you are unable to fill out all the documents in their entirety for a new construction development, please indicate that. Any incomplete or missing documents will be required to be submitted to MHDC Asset Management immediately once the management company and site staff are in place. The following management company documentation must be submitted.

1. Articles of incorporation.
2. FIN-116 including tax I.D. number.
3. Audited financial statement.
4. FIN-105 and company resume. If the development will receive Risk Share Insurance, also include Form HUD-2530, as filed electronically with HUD.
5. Exhibit A-2: Project Owner's Management Agent Certification.
6. Exhibit A-5, Certified Property Management Application. If a management company is an MHDC certified management company, a copy of the approval letter will suffice.

7. Exhibit J, Authorized Representative Designation.
8. Exhibit J-1, Management Authorized Representative Designation.
9. Exhibit L, Property Information Sheet.

### **Affirmative Fair Housing Marketing Plan**

Provide an executed and complete HUD Form 935.2A (Multifamily)/ HUD Form 935.2B (Single Family) Affirmative Fair Housing Marketing Plan. In addition, the management company must identify how it intends to comply with the HUD requirements to Affirmatively Further Fair Housing beyond what may be included in the Affirmative Fair Housing Marketing Plan.

### **Approved Utility Allowance Information**

Provide the most current utility allowance schedule from the local public housing authority (PHA) or the HUD Utility Schedule Model (HUSM). On the utility allowance schedule, circle or highlight the appropriate utility amounts. If the schedule provided has an effective date that does not use the current year, a statement from the housing authority which says the estimate is still valid must be provided.

Under the HOME Rule, PJs are no longer permitted to use the utility allowance established by the local Public Housing Authority (PHA) for HOME-assisted rental projects for which HOME funds were committed on or after August 23, 2013. (HOME Guide 3.3 D; 24 CFR 92.252 (d) (2013) CPD HOME FAQ 11-13, Homefires Vol. 13 No. 2 HTF 24 CFR 93.302 (c)).

### **Management/Maintenance Plan**

A management/maintenance plan that describes, in detail, the operation, management, and maintenance of the development must be submitted. The management/maintenance plan should be customized to meet the needs of the development. Please refer to the current MHDC Exhibit A-1: Management Plan Outline and Checklist for required language when applicable.

Following the 8609 election for average income and before the first unit is leased, a property owner must submit their average income internal compliance monitoring policy and procedures to the Agency.

All MHDC properties must submit their Property policy and procedures. Property policy and procedures must include internal compliance monitoring processes for:

- Tenant Selection Criteria
- Inform applicants of set-asides the development offers
- How units will be leased
- Property waitlist
- Transfer requests
- Recertifications
- Marketing plan
- Vacancy tracking (with designation information)
- Relocation Plan
- AFHMP
- VAWA Transfer Plan (VET)
- On-going training
- How units will be designated and recorded in the property books and records. How designations will be managed, and due diligence measures taken to protect against human error.
- How marketing is affected by different targeted demographics.

- How income minimums are affected by lower and higher designations.
- How waitlist procedures are implemented.
- Designations will be treated as:
  - Fixed (as much as possible) OR
  - Allowed to float.
- How adding and subtracting household members will be addressed.
  - How a remaining member who is not part of the original household will be assessed for potential re-designation.
- How transfers will be handled.
  - If requested
  - If required (accommodations, VAWA, acquisition/rehab, under/over utilization)

All approved applications for MHDC funding must establish an Infectious Disease Management Plan (“ID Plan”) to be adopted and followed by the property management agent in response to an outbreak of COVID-19, other infectious disease, or comparable circumstances. The ID Plan should be prepared in accordance with guidance from the Centers for Disease Control (CDC) or other appropriate local health authorities. The ID Plan must address, at minimum, the following:

- Plan for addressing an outbreak of infectious disease at the property including but not limited to communication standards for informing stakeholders.
- Methods of preventing or reducing infection rates including how processes normally involving person-to-person contact will be handled. Such processes include, but are not limited to interactions in the leasing office, use of community space or common amenities, resident events, deliveries, service or maintenance calls, collection of rent, interaction with third-party vendors and marketing or showing of property to prospective tenants.
- Processes or procedures addressing high risk tenants such as elderly, permanent supportive housing or vulnerable populations.
- Cleaning and sanitization protocols for all units and common areas.
- Any COVID-19 or other related services that will be provided.

### **Proposed Lease Agreement**

A copy of the proposed lease agreement to be used by the development, accompanied by the appropriate HOME and/or LIHTC lease addendum must be provided.

### **Lease-Up Narrative and Budget Narrative**

A lease-up narrative describing, in detail, the marketing plan and lease-up projections for the development must be provided.

MHDC Form FIN-117 should be used to show occupancy and expense projections for the lease-up period.

### **Service-Enriched Housing Documentation**

If you indicated you would be providing social services in the Application or if you plan to include them as the development goes forward, an executed supportive services plan and finalized service provider letters of intent must be submitted for approval.

### **Set-Aside Preference Housing Documentation**

If you indicated you would be providing housing opportunities for Set-Aside Preference tenants, an executed referral and support agreement, marketing plan and final rental assistance commitment letters

must be submitted for approval.

### **Relocation Documents**

All developments subject to MHDC's Relocation Policy are required to submit the stage 2 documentation. An itemized checklist of required relocation documents for all stages is available at [www.mhdc.com](http://www.mhdc.com).

### **Section 3 Plan**

Developments subject to the Section 3 Requirement are required to provide a signed Section 3 plan for their development. Please see the Section 3 guidelines below for details.

### **Tax Abatement/PILOT Information**

Any development receiving tax abatement or entering into a PILOT agreement must provide a detailed description of the percentage, length, and terms granted to the development. A copy of any agreement or ordinance granting the tax relief must be included. If that document covers more than the development in question, a description of what is applicable to the MHDC-financed development is required. If the tax relief does not cover the entire Compliance Period, a description of what steps will be taken to cover the cost of full taxes must be provided.

### **Homeownership Plan**

Developments that have indicated they will offer single-family homes for sale to qualified residents at the end of the Compliance Period must provide a homeownership plan that details such intent. The homeownership plan must reflect the structure required in the MHDC Homeownership Policy (available on the MHDC website). Developments must waive the right to opt out of the LIHTC program for an additional fifteen (15) years beyond the Compliance Period.

### **Legal Description**

Provide the legal description in Microsoft Word format.

## **Allocation of Low-Income Housing Tax Credits (LIHTC)**

### **Carryover Allocation Agreement (9% Credit Developments)**

9% Credit developments that receive reservation of Federal LIHTC, must sign a Federal Carryover Allocation Agreement ("Federal Carryover Allocation"). The Federal Carryover Allocation defines the amount of Federal LIHTC allocated and authorized to the development, the low-income unit set-asides, the percentages of median income to be served, the special housing needs or vulnerable persons units committed to, if any, the Building Identification Number(s) (BINs), the compliance period, and any other such requirements as MHDC may choose to include.

The Federal Carryover Allocation allows the development an additional two years to complete construction and/or rehab and place the development in service, otherwise the development must be completed, placed in service, and receive 8609s no later than December 31 of the year of reservation. The Federal Carryover Allocation may be issued simultaneously with the Firm Commitment, according to the deadlines established in the Conditional Reservation and no later than December 31 of the year of reservation. As a requirement of the Federal Carryover Allocation, a 10% Test (as defined below) must be completed and submitted to MHDC staff. For developments with 9% Credit reservations which are receiving an allocation of State LIHTC, a State Allocation Agreement will be issued. The State Allocation Agreement may be issued simultaneously with the Firm Commitment, according to the deadlines

established in the Conditional Reservation and no later than the month of June in the year of reservation

The owner should carefully review the Federal Carryover Allocation and State Allocation Agreement. The Federal Carryover Allocation must be signed in blue ink, notarized, and mailed to MHDC.

### **Tax Credit Authorization Agreement for 4% Credit Developments**

4% Credit developments that receive a reservation of Federal LIHTC must sign a Federal 4% Tax Credit Authorization Agreement ("Federal 4% Authorization"). The Federal 4% Authorization defines the estimated amount of Federal LIHTC that will be allocated at 8609 issuance and authorized to the development, the low-income unit set-asides, the percentages of median income to be served, the special housing needs or vulnerable persons units committed to, if any, the Building Identification Number(s) (BINs), and any other such requirements as MHDC may choose to include.

For developments with 4% Credit reservations which are receiving an allocation of State LIHTC, a State 4% Authorization will be issued for developments that qualify to receive a Federal 4% Authorization.

### **42(m) Letter (4% Credit Developments)**

If MHDC is not the bond issuer, the owner must provide an original letter from the bond issuing agency requesting MHDC make a determination of credits pursuant to 26 U.S.C. § 42(m). The request letter must be received by MHDC at least five (5) business days prior to the construction closing and must be on the issuer's letterhead and include the bond amount being issued, the correct mailing address of the issuer, and the printed name of the letter's signatory.

Once the request letter is received, MHDC will issue the 42(m) letter to the bond issuer.

### **Applicable Credit Percentage**

#### **9% Credit Developments**

The applicable credit percentage for New Construction and Rehabilitation credits is a permanently fixed floor of 9%.

The applicable credit percentage for Acquisition credits is a permanently fixed floor of 4%.

#### **4% Tax-Exempt Bond Developments**

The applicable credit percentage for Acquisition credits is a permanently fixed floor of 4%.

### **Building Identification Number (BIN)**

Each building in a project will be assigned a unique building identification number or BIN. For 9% Credit Developments the BINs are assigned in the Federal Carryover Allocation Agreement. The BINs are assigned in the Tax Credit Authorization Agreement for 4% Credit Developments. Once assigned, the BINs are to be used on all applicable documentation that references the buildings in a project.

### **Acquisition Credits – Claiming Requirements**

If you intend to claim the acquisition credit, you must provide an opinion letter from an attorney regarding the development's eligibility to receive such credit before construction closing. The letter can be addressed only to MHDC or it can be addressed to the partners in the ownership entity and to MHDC. The opinion must state the attorney has reviewed the circumstances surrounding the property for the ten

(10)-year period prior to its acquisition and must give specific and detailed reasons why the property will qualify for the acquisition credit pursuant to requirements of 26 U.S.C. § 42, as amended, including:

- The existing building(s) must be acquired by purchase, as defined in 26 U.S.C. § 179(d)(2);
- There must be a period of at least ten years between the date of acquisition and the date the building(s) was/were last placed in service (26 U.S.C. § 42(d)(2)(B)) unless the property meets other requirements that exempt it from the ten (10)-year rule (26 U.S.C. § 42(d)(6));
- The acquisition must meet rules regarding transfers to related parties (26 U.S.C. § 42(d)(2)(D)); The existing building(s) must qualify for rehabilitation credits 26 U.S.C. § 42(e));
- Any exceptions described in detail that allow acquisition credits.

### 10% Test

The owner must complete the 10% test no later than twelve (12) months after the effective date of the Federal Carryover Allocation or the LIHTCs will be recaptured by MHDC. The 10% Test should be submitted as soon as the test has been met. The 10% Test is not required if a development is able to place the development in service, provide the cost certification to MHDC, and receive 8609(s) in the same year the Conditional Reservation is received.

#### 10% Test Required Documentation

- MHDC Form 3343 Carryover Allocation 10% Letter – PDF
- 10% Test - Excel and PDF
  - MHDC Form 3342 Exhibit B

Email the above to [lihtc@mhdc.com](mailto:lihtc@mhdc.com).

#### 10% Test Deadline

The 10% Test must be met no later than twelve (12) months after the effective date of the Federal Carryover Allocation. All documentation evidencing the 10% Test has been met must be submitted to MHDC staff by the end of the 13th month after the Federal Carryover Allocation effective date. Early submission is encouraged.

## Construction Loan Closing

MHDC's legal department is charged with the role of overseeing and coordinating closings on all developments receiving loan funds and/or LIHTCs from MHDC. This process includes the receipt and review of all required due diligence items, drafting and negotiation of all MHDC loan and/or tax credit documents, review of all loan documents from other lenders, if any, providing loan funds to the transaction, as well as reviewing and approving all other collateral documentation germane to the development. This section provides an overview of MHDC's construction loan closing process, including certain specific requirements to be fulfilled and key timing issues relevant to the process.

### Key Milestones in the Construction Loan Closing Process

Within MHDC's construction loan closing process there are eight notable stages.

#### Firm Submission

While there are multiple steps that occur with regards to underwriting and environmental requirements prior to a borrower providing a Firm Submission to MHDC staff, the Firm Submission itself is the first key

milestone in the loan closing process. When the Firm Submission documentation is provided to MHDC staff, MHDC's legal department will assign a closing attorney to spearhead the transaction on behalf of MHDC. This is the initial point at which MHDC's legal department generally becomes involved in a development. Once MHDC's legal department has assigned a closing attorney, the borrower should begin including MHDC's attorney in all conference calls and correspondence related to the development.

### **Review of Firm Submission Due Diligence**

All appropriate departments within MHDC involved in the Firm Submission review process will conduct reviews of their respective due diligence items from the Firm Submission. Upon completion of their respective reviews, each department will identify all comments or concerns related to its respective items from the Firm Submission due diligence items and will prepare a memorandum to MHDC's underwriting department listing all issues each respective department has identified in the Firm Submission materials which must be addressed by the developer. The Firm Commitment cannot be issued until all reviewing departments are satisfied with the Firm Submission materials. The lone exception is the MHDC legal department, which will provide its comments in the form of a closing due diligence checklist which will be circulated to the developer under separate cover.

### **Firm Submission Comments and Closing Checklist Circulated**

Upon completion of all departmental reviews, the Firm Submission review memorandums will be compiled by the MHDC underwriter and attached to the firm commitment. In addition, with respect to the MHDC legal department review, the closing attorney will circulate comments to pertinent Firm Submission items, along with MHDC's complete construction loan closing due diligence checklist. This checklist provides a projected comprehensive list of all items which the borrower will be required to submit and which MHDC staff will have to approve before the construction loan closing can occur. However, the content of the loan closing due diligence checklist is subject to change throughout the course of the due diligence process as facts and circumstances evolve which may require the addition or modification of requirements reflected on the initial closing checklist. If the borrower has not already started including the MHDC closing attorney on all conference calls and correspondence prior to this stage, it is imperative that the borrower immediately begin including MHDC's attorney at this point. Failure to do so is likely to cause several issues which will inevitably slow down the closing process, such as failure to properly submit or correct issues with required items on MHDC's loan closing checklist.

### **On-Going Loan Closing Due Diligence Submission and Review**

Once all MHDC departments have circulated comments to the Firm Submission items and a copy of MHDC's closing checklist has been sent out, it is incumbent upon the borrower to work diligently to submit all items on the closing checklist for MHDC staff's review and approval. As items are received, MHDC staff will review due diligence and provide comments on any deficiencies, as necessary. It is the borrower's responsibility to address such deficiencies in a timely manner.

### **Issuance of Firm Commitment**

The Firm Commitment issued to the owner by MHDC staff contains all of the key terms of the business deal being agreed to between MHDC and the owner as it pertains to the loan funds and/or tax credits being issued by MHDC. Once the Firm Commitment is issued, MHDC's closing attorney can begin drafting MHDC documents and working with the owner to establish a closing timeline and projected closing date.

### **Draft and Circulation of MHDC Loan Documents**

After the Firm Commitment has been issued, MHDC's closing attorney will draft proposed documents and

will then circulate draft documents to all necessary parties for review.

### **Finalization of Loan Closing Due Diligence and MHDC Loan Documents**

Subsequent to the MHDC documents being circulated, in addition to continuing to receive and review due diligence items from MHDC's closing checklist, MHDC's closing attorney will field and review any comments to MHDC's documents. It is important to note that, while MHDC attempts to be reasonable in addressing legitimate concerns or requested changes to MHDC's documents to properly and accurately reflect the business deal MHDC has agreed to, MHDC generally will not make material changes to its documents.

### **Execution of MHDC Documents and Release of Funds**

Once all items on MHDC's closing checklist have been submitted to MHDC staff and approved by the appropriate parties, and all parties to the transaction have approved the MHDC documents, the transaction will be cleared to close and fund. MHDC staff generally requires all due diligence be submitted in final form and approved by MHDC staff at least seven days prior to the scheduled closing date. Likewise, MHDC staff generally requires all MHDC documents be fully negotiated and agreed to at least three days prior to the scheduled closing date. Unless MHDC's closing attorney specifically approves an alternative arrangement, MHDC will require the closing of an MHDC loan take place in MHDC's Kansas City office.

### **Loan Closing Checklist Due Diligence Requirements**

All MHDC legal and closing forms can be accessed on MHDC's website.

MHDC's closing checklist indicates all due diligence which must be submitted to and approved by MHDC staff before closing on an MHDC loan. MHDC will not close on or fund a construction loan prior to the satisfaction of all items on the MHDC loan closing checklist. The purpose of this section is to highlight some of the key due diligence issues which should be top of mind to all borrowers when working toward a closing on an MHDC loan. However, please note this is not an all-inclusive list of required items. Also, in reviewing that checklist, please keep in mind every loan closing involves a unique set of facts and circumstances. Therefore, depending on the specifics of a given development, some items noted on the form checklist may be rendered inapplicable and additional items not shown on the checklist may be added.

### **Title Insurance Requirements**

For all developments receiving an MHDC loan, MHDC will require a lender's title insurance policy be provided. The title insurer issuing the lender's policy must have an acceptable A.M. Best or Demotech rating for the policy to be acceptable. MHDC requires the title insurer issue to MHDC a pro forma lender's title policy prior to the closing date. This pro forma policy should be in a final form, acceptable to MHDC staff at least seven days prior to the date on which the MHDC loan is scheduled to close. A full explanation of MHDC's title insurance requirements may be obtained at [www.mhdc.com](http://www.mhdc.com).

### **Organizational Documents**

MHDC requires all pertinent organizational documents to be submitted to MHDC staff for each tier of the ownership entity. Among the pertinent organizational documents which must be submitted are all documents required to be filed with the Missouri Secretary of State to validly organize the entity, any governing documents of the entity which may not be filed with the Secretary of State (e.g., Operating Agreements, Partnership Agreements, Bylaws, etc.), and a Certificate of Good Standing for each entity dated within thirty (30) days of the date of closing the MHDC loan.

In order to ensure project closing is not unduly delayed, MHDC recommends including your MHDC closing attorney in all discussions and negotiations regarding the ownership entity's Amended and Restated Limited Partnership/Operating Agreement at the earliest possible juncture. MHDC staff reviews this document in depth to ensure the business agreement between the general partner/manager and the investors comports with the business terms as underwritten by MHDC staff. Among the specific requirements MHDC imposes on the Amended and Restated Limited Partnership/Operating Agreement ("A&R LPA/OA") are the following:

- All equity pricing and pay in amounts must match the amounts set out in MHDC's Firm Commitment.
- In the event that more credits are delivered than amount set forth in MHDC's Firm Commitment, the pricing on the upward adjuster must be greater than or equal the credit pricing at Firm Commitment.
- For all developments, each investor must contribute at least twenty percent of said investor's Federal LIHTC and State LIHTC equity during the construction period, with ten percent at closing and at least an additional ten percent paid in by fifty percent completion of the development. These amounts may be aggregated only if the investors are related entities.
- The amounts and timing of all equity installments must be sufficient to adequately fund all escrows/reserves and pay down all construction loan debt when due.
- MHDC's required language must be incorporated into the A&R LPA/OA verbatim, along with the partner/member information schedule (this language may be obtained on MHDC's website).

### Survey Requirements

All developments receiving a MHDC loan are required to submit a survey in form and substance acceptable to MHDC staff. Each survey must follow the ALTA/NSPS 2021 Minimum Standard Detail Requirements and must further comport with all MHDC survey requirements as detailed in its survey guidelines, which may be updated from time to time. In addition, the surveyor must provide a completed Surveyor's Report on MHDC's Surveyor's Report Form. The full explanation of MHDC's survey and survey report requirements can be found on MHDC's website.

### Site Control Documents

The site control documents provided to MHDC staff must adequately document the transfer of the development from the current owner of record to the anticipated ownership entity. The conveyance documents must convey an unencumbered fee or leasehold estate. No reversionary interests or reverter clauses contained in the conveyance documents will be acceptable. To the extent any such clauses exist, they must be expressly subordinate to any MHDC loans on the property. In the event the estate being conveyed to the MHDC LIHTC/loan recipient is a leasehold estate, the lease (ground lease or other lease) between fee owner and the MHDC LIHTC/loan recipient (this entity is also frequently referred to as the "ownership entity" for MHDC purposes) must be for a term of at least fifty-five (55) years and must meet all MHDC requirements.

### Completion Assurance Requirements

As a condition of providing loan funds to a development, MHDC requires the general contractor to provide adequate completion assurance. The completion assurance is allowed to take one of two forms: (i) the general contractor can provide a deposit in the form of cash or an unconditional, irrevocable, non-documentary letter of credit for an amount equal to 15% of the value of the construction contract, or (ii) the general contractor may provide a performance and payment bond for 100% of the value of the construction contract. If using a letter of credit, the expiration date must be no less than 18 months from

date of loan closing. If the construction period exceeds 18 months, the expiration date must be no less than the construction period.

### Construction Insurance Requirements

For all developments receiving an MHDC loan, concurrently with or prior to the construction loan closing by MHDC for construction of the property, the Mortgagor and/or Property Management Company shall have in its possession or control and in full force and effect, the following types of insurance:

Blanket fidelity bond and crime coverage as part of general liability insurance covering all officials and employees of the owner and/or property management company, as applicable, including non-compensated officers, in an amount equal to the average anticipated loan disbursements during the construction period. The minimum limit shall be the lesser of \$50,000 or the total MHDC mortgage amount divided by the estimated number of months in the construction period, plus two (2), and rounding the quotient to the nearest \$50,000.00.

Standard form of Builder's Risk Insurance policy or policies, written upon the standard Builder's Risk Completed Value form, for Fire, Extended Coverage and Vandalism and Malicious Mischief Insurance, in an aggregate amount equal to 100 percent of the Insurable Value of the completed building or buildings. In the case of loans issued by MHDC for rehabilitation of an existing structure, the Builder's Risk Insurance policy shall contain a special endorsement insuring building coverage for the existing structure, in an aggregate amount equal to the greater of 100% of the Insurable Value of the existing structure or the cost of acquisition of the existing structure, whichever sum is greater.

The Builder's Risk Insurance policy or policies shall show the Mortgagor as the Insured and may also show as additional insured's the general contractor and other contractors and subcontractors, as their interest may appear.

Each policy shall carry the standard form of Non-Contribution Mortgage or Mortgagee Clause showing loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut Street, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. A signed Certificate of Insurance, in a form approved by MHDC, showing the nature and limits of such insurance and evidencing such insurance to be in full force and effect, shall be provided to MHDC, who shall hold such policy until the earlier of the date the policy becomes ineffective, or the loan shall be paid in full. Mortgagor shall assure the insurance remains in full force and effect for so long as any mortgage upon the property is held by MHDC. Upon cancellation of the Builder's Risk Insurance or any portion thereof, Permanent Insurance shall be effected.

The following liability coverages are to be provided by the Mortgagor and the Contractor:

- Worker's Compensation and Employers' Liability Insurance (statutory or voluntary) covering all employees of the Mortgagor and the Contractor and any other facilities, the revenues of which are pledged to project operations; and
- Public Liability Insurance on a Comprehensive General Liability form with limits of not less than \$1,00,000.00 per occurrence to protect the Mortgagor during the construction phase from claims involving bodily injury and/or death and damage to the property of others. In the case of loans issued by MHDC for the rehabilitation of an existing structure, the general liability policy shall include coverage for underground explosion and collapse hazard; and
- Vehicle Liability Insurance with limits of not less than \$1,000,000.00 per accident to protect the

Contractor and Mortgagor from claims from bodily and/or death and against claims for damage to property of others arising from the Contractors' and/or the Mortgagors' operations of vehicles. Such insurance shall include coverage for employers' owned, non-owned and/or hired vehicles, where applicable.

Flood insurance is required whenever the property is located in an area of special flood hazards in which flood insurance is available under the National Flood Insurance Act. It is the responsibility of the mortgagee to notify MHDC if such insurance is required. Required flood insurance shall be provided for the subject property during the term of the mortgage loan. The insurance shall be in an amount at least equal to the outstanding principal balance of the loan or the maximum amount of insurance available with respect to the project under the National Flood Insurance Act, whichever is less. The policy shall show the Mortgagor as the Insured and shall show loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. A Binder or Endorsement of such insurance, showing the nature and limits of such policy and evidencing such insurance to be in full force and effect, shall be delivered to MHDC at or prior to the time of the issuance by MHDC of any loan proceeds. The original policy, when issued, shall be delivered to MHDC to be retained in its possession. Mortgagor shall assure that such insurance coverage remains in full force and effect for so long as any mortgage on the property is held by MHDC.

All of the insurance coverages required herein during construction and subsequent to construction shall contain an endorsement which insures against loss caused by earthquakes so long as such endorsement is commercially available, in the City of St. Louis, and in the counties of St. Louis, Jefferson, Butler, Cape Girardeau, Carter, Dunklin, Iron, Madison, Mississippi, New Madrid, Pemiscot, Perry, Reynolds, Ripley, St. Francois, St. Genevieve, Scott, Stoddard, Washington, and Wayne, Missouri, during the term of the mortgage loan. It is the responsibility of the mortgagee to notify MHDC if such insurance is required.

The policy shall show the Mortgagor as the Insured and shall show loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. A Binder or Endorsement of such Insurance, showing the nature and limits of such policy and evidencing such insurance to be paid in full force and effect, shall be delivered to MHDC at or prior to the time of the issuance by MHDC of any loan proceeds. The original policy, when issued, shall be delivered to MHDC to be retained in its possession. Mortgagor shall assure that such insurance coverage remains in full force and effect for so long as any mortgage on the property is held by MHDC.

All insurance carriers shall have a "Best Rating" of B+ or better; and shall be a licensed, admitted carrier in the state of Missouri or an eligible surplus lines insurer in the state of Missouri.

## MHDC Loan Documents

MHDC generally requires the same set of loan documents for all developments in which it holds a loan (though the contents of the documents may vary depending on the type of loan funds involved). However, in instances where MHDC is to hold a first position loan during the construction phase of the development, there are certain notable documents which MHDC requires, including:

1. MHDC form Construction Contract-Cost Plus (in lieu of the AIA A102 form construction contract);
2. If a payment and performance bond is being used for completion assurance, MHDC form Performance and Payment Bond (in lieu of the AIA form of bond); and

### 3. Assignment of Capital Contributions.

The Assignment of Capital Contributions is intended to secure MHDC's ability to enforce the investor partners'/members' obligations to make capital contributions when due to the extent necessary to pay down the MHDC construction loan to the permanent loan amount. This requirement is imposed on all investors and cannot be waived. However, in the event an investor prefers not to execute the assignment document, MHDC will accept alternative security in the form of an unencumbered first position security interest in the investor's interest in the owner entity, including its interest in the LIHTCs to be generated by the development.

Where MHDC is in a subordinate loan position during the construction phase of the development, the Assignment of Capital Contributions is not required and MHDC will allow the owner entity to utilize the standard AIA forms for construction contracts and performance and payment bonds provided that all MHDC requirements with regards to the content in each of these documents are met. Outside of these exceptions, all other MHDC loan documents are required regardless of the priority of MHDC's loan.

In all instances where MHDC is providing a loan to a development (other than a risk share loan), the developer and the general partner entity together with their respective underlying principals will be required to execute a Guaranty Agreement to MHDC in relation to such loan personally guaranteeing the repayment of the loan during the construction phase of the development. This Guaranty Agreement will only be in effect during the construction phase, with such guaranty terminating and the MHDC loan shifting to a non-recourse loan upon conversion of the MHDC loan to a permanent loan. In instances where the borrower is utilizing Risk Share Insurance with MHDC as the bond issuer, an unconditional, irrevocable, non-documentary letter of credit for the full amount of the buy down amount of the bonds at conversion is required in lieu of a guaranty.

With the exception of changes to MHDC's loan documents necessary to adequately reflect the deal terms agreed to by MHDC staff and the ownership entity, MHDC generally will not make material changes to its form loan documents. However, MHDC staff will attempt to accommodate reasonable requests where possible, provided the MHDC loan documents should be in final form and not subject to any further comment (outside of corrections for errors) at least three days prior to the scheduled closing date of the MHDC loan.

## Construction Phase

The Construction Phase of a property development begins with a Notice to Proceed, issued by the architect to the general contractor, indicating all the pre-construction requirements have been met by the development team. A copy of the properly executed Notice to Proceed must be provided to the MHDC-designated construction inspector.

Construction shall be in accordance with the approved drawings and specifications which have been prepared by the development's architect of record and approved by MHDC staff and any local governing agencies. The drawings and specifications and subsequent work must always comply with local building codes, zoning ordinances, and other government regulations. Copies of permits the contractor has obtained must be provided to MHDC staff.

Any changes in the construction requirements of these documents must be presented for consideration on an AIA Document G701 ("Change Order"). After review of the proposed changes, this Change Order must be signed by the architect, the contractor, and the owner before it will be considered a Contract Change in Cost or Time. Absolutely no work to which a Change Order pertains will be allowed to begin prior to the proper execution and approval of that particular Change Order.

Any changes in the line items of the schedule of values as they appear on FIN 115 must also be accompanied by a properly executed Change Order, showing how each and every line item will be changed if the Change Order is approved. Because this type of Change Order does not affect the total cost of the project, it is referred to as a "Zero Cost Change Order." This request may be submitted as a part of any other Change Order or as a standalone document, but it must be approved and executed by the four parties as with a Change Order for cost increases/decrease or time increases/decreases.

During the course of construction, everyone entering or working on the development work site must strictly adhere to the standards set by the Occupational Safety and Health Act ("OSHA") and its latest revisions (see section "Worksite Safety and OSHA Training" below). Everyone performing work on the job must have an OSHA-10 card showing successful completion of a ten (10)-hour training program.

### **Pre-Construction Conferences**

Before any actual physical work can be performed on the development, MHDC requires a Pre-Construction Conference take place no sooner than twenty-four (24) hours after funding for construction loan closing occurs. Although certain elements of the construction phase are requirements of MHDC and should be included on the agenda, Pre-Construction Conferences are guided and scheduled by the general contractor with MHDC staff in attendance.

## **Construction Loan Disbursements**

### **Requesting the Initial Advance of Mortgage Proceeds**

The initial Advance of Mortgage Proceeds must be submitted to the MHDC Construction Disbursement Department at least seven working days prior to the date of the initial loan closing, and should include the following:

1. Application for Advance of Mortgage Proceeds (MHDC Form 2420);
2. Disbursement Schedule (MHDC Form 2430);
3. Application and Certification for Payment (AIA Document G702-1992™);
4. Continuation Sheet (AIA Document G703-1992™) which must match the FIN-115 submitted with firm submission;
5. copies of all paid receipts and/or invoices to support the request.

All documentation to support the requested disbursement must be included. All documents must be complete. Incomplete documents may be returned to the mortgagor for completion.

### **Requesting Advance of Mortgage Proceeds during Construction**

The Advance of Mortgage Proceeds must be submitted to the MHDC Construction Disbursement department through the email [draws@mhdc.com](mailto:draws@mhdc.com) and should include the following:

1. Application for Advance of Mortgage Proceeds (MHDC Form 2420);
2. Updated construction Disbursement Schedule (MHDC Form 2430) reflecting the current actual costs along with any revised projects of future payment requests, including the architect fee for supervision;
3. Contractor's Advance (MHDC Form 2440) reflecting the builder's overhead, general conditions, and profit in an amount not to exceed the percentage of completion;
4. Application and Certification for Payment (AIA Document G702-1992™);
5. Continuation Sheet (AIA Document G703-1992™) which must match the Contractor's/Mortgagor's Cost Breakdown (MHDC Form FIN-115) submitted with Firm Submission;

6. Change Order (AIA Document G701-2001™);
7. copies of all paid receipts and/or invoices to support the request;
8. contractor's Prevailing Wage Certificate, if applicable (MHDC Form 2450)\*;

*\*For projects with 12 or more HOME units*

All documents must be complete. Incomplete documents may be returned to the mortgagor for completion. MHDC will not release any funds until the MHDC construction inspector has approved the request.

### Processing the Advance of Mortgage Proceeds during Construction

If the draw request and all supporting documentation are complete, MHDC staff will begin its review. Once MHDC staff approves the draw request, it will fund the draw. MHDC staff strives to disburse all draws within five working days from the date the complete request package is received. In the event HOME Funds or loan funds from a participating lender are being disbursed, it could take up to seven to ten working days to complete the disbursement. MHDC staff will send the disbursement package to the title company which will include the following:

1. Letter of instructions;
2. Application of Mortgage Proceeds (Form 2420) approved by MHDC staff;
3. Disbursement Schedule (Form 2430) approved by MHDC staff;
4. Contractor's Advance (Form 2440) approved by MHDC staff;
5. Supporting documentation; and
6. MHDC's funding check or documentation showing information for a wire transfer of funds.

MHDC staff will also send a copy of items 1-4 above to the owner, general contractor, and the architect. Within seven (7) business days after disbursement, the Title Insurer must provide MHDC an updated endorsement policy increasing the liability amounts and extending the date of MHDC's mortgagee title policy, along with copies of any intervening matters that were discovered of record since the date of the last endorsement for all MHDC loans. Endorsements for non-MHDC loans or other record showing the amounts disbursed must be provided within seven (7) business days after disbursement.

### Construction Retainage

Subject to the approval of MHDC staff, the contractor shall be entitled to payment of an amount equal to the total value of classes of work acceptably completed, plus, the value of materials and equipment incorporated in the work, less a 5% holdback or "retainage" (or acceptable substitute security, as required by [Mo. Rev. Stat. § 436.306-309](#)) and less prior payments. MHDC may elect to withhold ten percent of the construction/rehabilitation costs and may reduce the retainage amount at 50 percent completion to five percent of the construction cost if approved by the Owner and MHDC. The Contractor's retainage will be released upon submission and approval by MHDC of the required Contractor's due diligence for conversion of the construction loan to permanent status.

### Stored Materials

Stored materials must be approved by MHDC staff. Stored materials must be stored in a secure, bonded warehouse or on-site trailer within a twenty-five (25) mile radius of the development. The stored materials must have the appropriate insurance and security. A copy of the material invoices and the Certificate of Insurance shall be provided.

### Change Orders

Any adjustments made to previously approved Contractor's/Mortgagor's Cost Breakdown (Form 115), the construction contract, or line items must be made by a Change Order. Two change orders with original signatures electronically signed and verified, along with electronic copies of drawings, specifications or other supporting documentation must be submitted to MHDC staff.

Savings in line items after the final advance of mortgage proceeds is calculated will not be advanced to the owner. At the discretion of MHDC staff, any savings in line items may result in a reduction of LIHTCs or the mortgage note amount. HOME program regulations require any undisbursed funds be returned to HUD.

### Escrows

Releases from escrows held by MHDC require the submission of a Request for Release of Escrow Funds (MHDC Form 2460). Please submit MHDC Form 2460 with any supporting documentation to substantiate release from the escrow.

### Requesting the Final Advance of Mortgage Proceeds

The final Advance of Mortgage Proceeds must be submitted to the MHDC Construction Disbursement department and should include the following:

1. Application for Advance of Mortgage Proceeds (MHDC Form 2420);
2. Disbursement Schedule (MHDC Form 2430)
3. Contractor's Advance (Form 2440)
4. Application and Certification for Payment (AIA Document G702-1992™);
5. Continuation Sheet (AIA Document G703-1992™);
6. copies of all paid receipts and/or invoices to support the request; and
7. Escrow funds.

Please include all documentation to support the requested disbursement. All documents must be complete. Incomplete documents may be returned to the mortgagor for completion.

### Latent Defects

In the first nine (9) months of the fifteen (15) month period, an MHDC inspector will visit the property, and any findings will be reported in writing. A fee of \$50/hour will be charged if the inspector must return to verify unrepaired deficiencies discovered during a Latent Defect Inspection. Please refer to the Design/Construction Compliance Guidelines (MHDC Form 1200, Exhibit F) for additional information pertaining to the latent defect period.

### Latent Defect Inspections

Each new construction and substantial rehabilitation development with an MHDC construction loan is subject to Latent Defect Inspection ("LDI") upon completion of construction. MHDC staff will establish an LDI date and notify all parties. The LDI will be performed by MHDC representatives in conjunction with the architect, general contractor, and property manager. The owner/management agent entity will be responsible for notifying residents with the proper inspection notifications, per program guidelines. The LDI inspection has the specific parameters as set forth below.

### Timeframe for LDI Inspections

Each development must be inspected for latent defects within nine months from the reported final

construction date. Any alterations to this date must be properly reported to MHDC so alterations in the LDI timeframes can equally reflect those changes. Failure to report and verify changes are the responsibility of the owner/agent and their general contractor. Prior to a representative's visit, MHDC staff will provide official notice of the LDI via the Latent Defect Inspection Appointment Letter (Exhibit D).

### **Deficiency Resolutions and Penalties for Non-Compliance**

The LDI will be conducted with respect to the scope of the project and all construction rehabilitation requirements established in the original Application. Any defects observed during the LDI will be reported in detail and supported by photographs by the architect and provided to the owner/agent of record, with copies provided to the general contractor, as applicable. From the date of the inspection report, the owner/agent or designated representative has forty-five (45) days to return certification and documentation supporting the mitigation of the deficient items or conditions cited in the LDI report. Failure to submit proper documentation supporting correction of each item cited will result in the issuance of an 8823 to the IRS reporting an action of non-compliance by the owner/agent in question.

## **Conversion/Permanent Loan Closing**

All of the forms and documents referenced in this section can be accessed on MHDC's website.

Just as MHDC's legal department is in charge of overseeing and coordinating MHDC construction closings on all developments receiving construction loans and/or tax credits from MHDC, it is equally responsible for overseeing and coordinating the conversion of all MHDC construction loans to permanent status and the closing of all permanent MHDC loan financing. This section provides an overview of the requirements which must be met to convert an MHDC construction loan to permanent status. In addition, this section provides an overview of the permanent loan closing process, including certain specific requirements to be fulfilled and key timing issues relevant to the process.

For developments receiving only tax credits and no loan funds from MHDC, MHDC's legal department is not involved in the conversion of those developments. As such, the conversion of tax credit only developments is not covered in this section.

### **Conversion Requirements**

MHDC requires all of its construction loans be converted to permanent status by the date specified in the MHDC loan documents. In order to convert a construction loan to permanent status, the owner must fulfill all requirements set forth on MHDC's conversion checklist. The purpose of this section is to highlight some of the key requirements which must be fulfilled prior to MHDC staff approving final conversion of its construction loan. However, please note that this is not an all-inclusive list of required items.

In reviewing that checklist, please keep in mind, that every loan closing involves a unique set of facts and circumstances. In any given construction loan closing, there may be outstanding issues which cannot be addressed prior to the beginning of construction (e.g., relocation of easements based on movement of utility lines, removal of existing encroachments, etc.). All such items of this nature will be required to be completed as part of the conversion checklist upon closing the MHDC construction loan and must be finalized in order for conversion to occur and 8609s to be issued, if applicable. In addition, all reserves will be funded before conversion can occur and 8609s can be issued.

If the loan conversion occurs after September 1st, the property taxes will not be escrowed for that year and is the responsibility of the development. A tax receipt and proof of payment must be submitted to the Construction Disbursement department to complete the conversion checklist.

There are key due diligence items which all ownership entities receiving MHDC construction loans should be mindful of when working toward the conversion of the construction loan to permanent status. Please note that a revised Development Characteristics Worksheet may be required as part of the conversion process if MHDC grants a development permission to deviate from the Development Characteristics Worksheet.

Before an MHDC construction loan can be converted to permanent status, the title insurer must provide MHDC staff with a final original date-down endorsement, increasing the insured amount under MHDC's lender policy to the full amount of MHDC's construction loan, evidencing that no unapproved exceptions have been added to MHDC's lender policy, and otherwise meeting all requirements for MHDC title policies. In the event the MHDC construction loan was fully disbursed prior to the final disbursement of funds for construction, MHDC will still require a date down endorsement to the date of the final disbursement evidencing that no unapproved exceptions have been added to MHDC's lender policy since the date of the last disbursement of MHDC loan funds. In addition, the title insurer must provide the final ALTA 3.1 endorsement to MHDC's lender policy. MHDC staff must be provided with a final ALTA/NSPS survey meeting all MHDC requirements.

If the development is a rehab of an existing development, an "as-built" survey may be provided in lieu of an ALTA survey provided (i) the building footprint has not changed, and (ii) no new easements need to be shown on the survey. The survey should be a full-size copy; submitting a pdf may delay review of the survey by MHDC staff, and consequently, may delay conversion of the loan. Finally, the cost certification documenting the actual costs of construction of the development must be fully completed and approved by MHDC staff.

### **Permanent Insurance Requirements**

The requirements for this type of insurance are applicable when MHDC has extended a loan, which has not been paid in full at the time of completion of construction and/or cancellation of the Builders' Risk Policy or any portion thereof. The Mortgagor shall, in all cases, assure MHDC that there is no gap period in insurance protection during the transition from the Builder's Risk Insurance to Permanent Insurance. Permanent Insurance requirements shall include all the following types of coverages, unless MHDC shall specifically waive, in writing, any one or more of the coverages described below:

Blanket Fidelity Bond covering all officials and employees, including non-compensated officers of the Management Company, in an amount equal to two months' gross revenues or \$50,000.00, whichever is greater, unless greater amounts are required by the Mortgagor. Where the gross revenues for a project are substantially below the minimum \$50,000.00 bonding requirements for operation, the bond shall be reduced to that sufficient to cover two months' gross revenues. The cost of the Fidelity Bond is not an allowable project expense.

Public Liability Insurance on a Comprehensive General form with limits of not less than \$1,000,000.00 per occurrence to protect the Mortgagor from claims involving bodily injury and/or death and property damage which may arise from the Mortgagor's operation, including any use or occupancy of its facilities, grounds, and structures, and shall include independent contractor's coverage, where applicable.

Vehicle Liability Insurance. If the Mortgagor owns or operates a vehicle in the operation of the project, including non-owned and/or hired vehicles operated for the benefit of the Mortgagor, the Mortgagor shall procure and maintain Vehicle Liability Insurance. Vehicle Liability Insurance with limits of not less than \$1,000,000.00 per accident to protect the Contractor and Mortgagor from claims from bodily and/or death and against claims for damage to property of others arising from the Contractors' and/or the

Mortgagors' operations of vehicles. Such insurance shall include coverage for employers' owned, non-owned and/or hired vehicles, where applicable.

Workers Compensation and Employers Liability Insurance (statutory or voluntary) for all employees of the Mortgagor or Management Company, as applicable, and other facilities, the revenues of which are pledged to project operations.

Property, Fire and Extended Coverage Insurance shall be provided for the subject property and may be either blanket coverage or by specific allocations to individual structures. Such insurance shall be evidenced by standard Property, Fire and Extended Coverage Insurance policy or policies, in an amount not less than necessary to comply with the applicable Co-insurance Clause percentage, but in no event shall the amounts of coverage be less than 80% if the Insurable Values or not less than the unpaid balance of the insured mortgage, whichever is the lesser. The Permanent Insurance policy shall show the Mortgagor as the Insured and shall carry the standard form of Non-Contribution Mortgage or Mortgagee Clause, showing loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut Street, Suite 1800, Kansas City, Missouri 64106 its successors or assigns, as its interest may appear.

Signed Certificates of Insurance in a form acceptable to MHDC showing the nature and limits of all insurance described in 2(a) through 2(e) above and evidencing such insurance to be in full force and effect, shall be delivered to MHDC at or prior to the time such insurance takes effect. MHDC shall hold in its possession the original policies evidencing the insurance coverages described in 2(b) and 2(e) above. Mortgagor shall assure that all insurance coverages described above remain in full force and effect for so long as any mortgage upon the property is held by MHDC.

Boiler Explosion Insurance. If the boiler or boilers located in the subject property are other than steam boilers, specific Boiler Explosion Insurance generally is not required. If there is a steam boiler or boilers in operation in connection with the subject property, specific Boiler Explosion Insurance is required. In determining the adequacy of the amount or amounts of this coverage there must be careful review and consideration of all the facts and exposures for the purpose of estimating the maximum possible amount of a single loss by steam boiler explosion. The minimum limit of Boiler Explosion Insurance, when required, is \$100,000.00 per accident, per location. After due examination of all the related information in any given case, it may be determined this required minimum limit of \$100,000.00 is inadequate. In that event, a greater amount of coverage should be provided.

Boiler Explosion Insurance, as herein required, shall be evidenced by standard form of Boiler and Machinery policy or policies showing the Mortgagor as the Insured and shall have attached standard Mortgage Interest Endorsement, showing loss, if any, on the property of the Insured, to be adjusted with and payable to the Insured and Missouri Housing Development Commission, 1201 Walnut Street, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. It is the responsibility of the mortgagee to notify MHDC if such insurance is required and to provide a Certificate of Insurance, showing the nature and limits of such policy and evidencing such insurance to be paid in full force and effect, to MHDC at or prior to the time the policy takes effect. The original policy, when issued, shall be delivered to MHDC to be retained in its possession. Mortgagor shall assure that such insurance coverage remains in full force and effect for so long as any mortgage on the property is held by MHDC.

All insurance carriers shall have a "Best Rating" of B+ or better; and shall be a licensed, admitted carrier in the state of Missouri or an eligible surplus lines insurer in the state of Missouri.

## Permanent Loan Closing Process and Requirements

Where MHDC is providing only permanent financing to a development and no construction period financing, the MHDC loan is closed subsequent to completion of the development. However, while the MHDC staff loan closing itself does not take place until after construction completion, MHDC must be included in the construction loan closing process. MHDC staff must review and approve much of the same due diligence prior to the closing of the construction loan closing as it would were providing the construction financing itself. The due diligence items MHDC staff must review and approve prior to the closing of the construction loan include, but are not limited to, the status of the title, all conveyance documents, and the construction contract.

## Final Allocation/Cost Certification

For any development receiving funding from Missouri Housing Development Commission ("MHDC"), the owner must complete the Development and Contractor's Cost Certification ("Cost Certification") as detailed below (Funding means any loan or LIHTC). MHDC must review and approve the Cost Certification prior to:

- Loan conversion;
- Permanent loan closing; and/or

MHDC will evaluate all funding sources and costs and determine the maximum mortgage amount (if receiving an MHDC mortgage) and will evaluate the reasonableness of costs and uses before determining the final amount of LIHTCs, if applicable. MHDC reserves the right to ask for additional information to provide clarification to the Cost Certification submitted.

Please refer to the QAP in the fiscal year the development was approved in for limits on contractor fees, developer fees, or other requirements.

The forms posted on MHDC's website are the most up-to-date forms. A revision may be made to correct any errors in the form or to make changes to comply with regulatory, statutory, or any other necessary changes. Any forms revised will be posted with a revision date. Developments are required to use the most up-to-date version when preparing the Cost Certification.

## Required Final Allocation Documentation

Developments with MHDC Loan only (no LIHTC), provide the following to [lihtc@mhdc.com](mailto:lihtc@mhdc.com):

- Contractor Cost Certification
  - Contractor's Certificate of Actual Cost Independent Auditor's Report (PDF)
  - Contractor's Cost Certification Workbook (PDF and Excel):
    - 3320, Contractor's Certificate of Actual Costs
    - 3320-I, Itemized List of all Contractor's cost with subtotals
    - 3320-A, Identity of Interest Worksheet
    - 3320-II, Itemized List of Contractor with Identity of Interest
- Development Cost Certification
  - Development Cost Certification Independent Auditor's Report – MHDC Loan (PDF)
  - Development Cost Certification Workbook (PDF and Excel):
    - 3335, Development Cost Certification
    - 3335-A, Itemized Cost Detail
    - 3335-E, Owner Certification

○ Financial Statements (compilation acceptable) Balance Sheet and Income Statement  
Developments with LIHTC provide the following to [lihtc@mhdc.com](mailto:lihtc@mhdc.com):

- Contractor Cost Certification
  - Contractor's Certificate of Actual Cost Independent Auditor's Report (PDF)
  - Contractors Cost Certification Workbook (Excel and PDF):
    - 3320, Contractor's Certificate of Actual Costs
    - 3320-I, Itemized List of all Contractor's cost with subtotals
    - 3320-A, Identity of Interest Worksheet
    - 3320-II, Itemized List of Contractor with Identity of Interest
- Development Cost
  - Development Cost Certification Independent Auditor's Report – Tax Credit (PDF)
  - Development Cost Certification Workbook (PDF and Excel):
    - 3335, Development Cost Certification
    - 3335-A, Itemized Cost Detail
    - 3335-B, Applicable Fraction – Building Detail
    - 3335-C, Qualified Basis and Maximum Credit Calculation
    - 3335-C Supplement, Allocated Credit Amount Basis Reduction
    - 3335-D, Contact Information
    - 3335-E, Owner Certification
    - 3341, Low-Income Housing Tax Credit Development Financing Certification
- MHDC Form 3345: Plan Review Worksheet – Updated (PDF and Excel)
- HTC-E (two copies) If development is receiving historic tax credits in addition to LIHTCs
- Recorded Warranty Deeds
- Note(s) and recorded Deed(s) of Trust for non-MHDC loans
- Attorney opinion letter for acquisition credits and/or relocation costs

### When to submit

The cost certification should be submitted to MHDC no later than the last day of the second full month following the date of substantial completion for the last building in the development. For example, if substantial completion of the last building is May 15, the cost certification should be submitted no later than July 31.

### MHDC Form 3345: Plan Review Worksheet

This document is due at firm submission and with the cost certification packet. This document details the building and unit information in the project. It is very important the building information and unit designation totals on the MHDC Form 3345: Plan Review Worksheet matches the information reflected in the Form 2013 attached to the Firm Commitment. Any changes must be approved by MHDC.

The Plan Review Worksheet is used to determine the applicable fraction for each building in the project. The applicable fraction determined in this form is used in the Federal Carryover Allocation Agreement or 42(m) Letter, Land Use Restriction Agreement as well as the 8609s.

To reflect any changes that have been made during the construction period, an updated version of this document is required to be submitted with the cost certification package. If a revision of the unit numbers is required after the signed Cost Certification version is submitted, MHDC may assess a fee of \$25 per unit number change for incorrect information.

The most updated version of the Plan Review Worksheet is available on MHDC's website. The current version of the document must be submitted.

## Workforce Eligibility

### Policy

The MHDC Workforce Eligibility policy was adopted by the Board of Commissioners on September 17, 2010, and reads as follows:

The Missouri Housing Development Commission ("MHDC") hereby establishes a workforce eligibility policy. This policy replaces any and all prior MHDC policies regarding workforce eligibility, including the Workforce Eligibility Policy (passed on March 17, 2006), the Policy for Bond Financed Multifamily Developments (passed on May 2, 2006), the Workforce Eligibility Policy clarification memorandum (passed on November 17, 2007) and all Workforce Compliance Handbooks.

This policy is applicable to all business entities who receive funding from the MHDC in the form of a grant, tax-credit(s) or loan(s) for the purpose of developing rental housing developments (collectively "Resources"). This policy does not extend to the Missouri Housing Trust Fund, any single-family program and the affordable housing assistance program.

Any Business Entity receiving Resources shall:

- Provide MHDC with an original sworn affidavit (E-Verify Memorandum of Understanding) which affirms, under penalty of perjury, that the Business Entity is enrolled and actively participating in E-Verify and that the Business Entity does not knowingly employ any person who is an Unauthorized Alien in connection with the contracted services;
- Require their General Contractor to provide MHDC with an original sworn affidavit (MHDC Workforce Eligibility Affidavit) which affirms, under penalty of perjury, that the General Contractor is enrolled and actively participating in E-Verify, that the General Contractor does not knowingly employ any person who is an Unauthorized Alien in connection with the contracted services, and that the General Contractor's employees are lawfully present in the United States;
- Require that their General Contractor obtain, and submit to MHDC, from each subcontractor of any tier, an original sworn affidavit which affirms, under penalty of perjury, that the subcontractor is enrolled and actively participating in a federal work authorization program, that the subcontractor does not knowingly employ any person who is an Unauthorized Alien in connection with the contracted services, and that the subcontractor's employees are lawfully present in the United States;
- Provide MHDC with documentation which shows to the satisfaction of MHDC that the Business Entity and their General Contractor have enrolled in E-Verify. Documentation which meets this requirement is a copy of the E-Verify memorandum of understanding;
- Require their General Contractor to obtain, and submit to MHDC, from each subcontractor of any tier, documentation which shows to the satisfaction of MHDC that the subcontractor has enrolled in a Federal Work Authorization program;
- The above required documentation shall be submitted to MHDC before beginning work on the site;
- Require a provision which stipulates that "the Contractor shall comply with all applicable Federal, State, and local labor laws and is not knowingly in violation of Mo. Rev. Stat. § 285.530(1), and shall not henceforth be in such violation" to appear in its contract with the general contractor, in contracts between the general contractor and subcontractors, and contracts between subcontractors of any tier;
- Require a provision which stipulates that the Contractor shall comply with Mo. Rev. Stat. § 285.230, Mo. Rev. Stat. § 285.233-234, Mo. Rev. Stat. § 285.500-515, and Mo. Rev. Stat. § 285.550;
- Require a provision which stipulates that the Contractor for the purposes of construction of an

MHDC project and any subcontractor to such contractor shall provide a ten-hour Occupational Safety and Health Administration (OSHA) construction safety program for their on-site employees which includes a course in construction safety and health approved by OSHA or a similar program approved by the department which is at least as stringent as an approved OSHA program, unless such employees have previously completed the required program. All employees who have not previously completed the program are required to complete the program within sixty (60) days of beginning work on such construction project.

The terms capitalized herein shall have the following meaning:

**Business Entity** - any person or group of persons performing or engaging in any activity, enterprise, profession, or occupation for gain, benefit, advantage, or livelihood. The term "business entity" shall include but not be limited to self-employed individuals, partnerships, corporations, contractors, and subcontractors. The term "business entity" shall include any business entity that possesses a business permit, license, or tax certificate issued by the state, any business entity that is exempt by law from obtaining such a business permit, and any business entity that is operating unlawfully without such a business permit. The term "business entity" shall not include a self-employed individual with no employees or entities utilizing the services of "direct sellers" (as defined in Mo. Rev. Stat. § 288.034(12)(17)).

**Contractor** - a person, employer, or business entity that enters into an agreement to perform any service or work or to provide a certain product in exchange for valuable consideration. This definition shall include but not be limited to a general contractor, subcontractor, independent contractor, contract employee, project manager, or a recruiting or staffing entity.

**Employees** - any person performing work or service of any kind or character for hire within the state of Missouri.

**Federal Work Authorization Program** - any of the electronic verification of work authorization programs operated by the U.S. Department of Homeland Security ("DHS") or an equivalent federal work authorization program operated by DHS to verify information of newly hired employees, under the Immigration Reform and Control Act of 1986 (IRCA), P.L.99-603.

**Knowingly** - a person acts knowingly or with knowledge.

**Unauthorized Alien** - an alien who does not have the legal right or authorization under federal law to work in the United States, as defined in 8 U.S.C. § 1324a(h)(3).

## Compliance Guidance

On September 17, 2010, MHDC passed a Workforce Eligibility policy. The purpose of the Workforce Eligibility Compliance Handbook (WECH) is to provide guidance for Contracting Parties in connection with MHDC funded developments.

MHDC requires that all Contracting Parties adhere to all applicable labor laws and specifically prohibits the use of undocumented workers in the construction of any MHDC-approved Development. In addition, MHDC requires that all Contracting Parties compel all subcontractors, mechanics, third-party contractors, agents or other parties providing construction related labor on a development to likewise adhere to all applicable labor laws and requirements set forth by MHDC. Noncompliance with the requirements set forth may result in sanctions including but not limited to suspension and revocation of funding, rescission of tax credits, and suspension and debarment from MHDC programs.

MHDC encourages the submission of required documentation in an electronic format via email. All documentation should be in PDF format. The emailed files should be clearly labeled with the development name and development number assigned by MHDC. Email submissions should be sent to [lauren.guminger@mhdc.com](mailto:lauren.guminger@mhdc.com).

Audits of construction sites will be conducted on a periodic basis. Each construction site must have present at all times an individual designated to assist with the audit process.

## Compliance Requirements

### Contract Language Required

Specific language is required for all construction contracts executed in conjunction with MHDC-approved developments. The specific language required is included in the following section and is available in electronic Word or PDF format. The required language must be included verbatim in every contract with Contracting Parties.

### Use of E-Verify

Each Contracting Party who has or will have employees that perform labor on site must enroll and actively participate in E-Verify.

### Workforce Eligibility Affidavit

Prior to commencing work or providing labor in connection with any MHDC-approved Development, each contracting party must complete and submit Form MHDC-2507, Workforce Eligibility Affidavit. The Affidavit and proof of E-Verify are submitted with the certified payrolls on an ongoing basis throughout the construction phase.

### Proof of Using E-Verify

All employers must submit a copy of the employer's DHS Memorandum of Understanding as proof of enrollment in E-Verify.

### Compliance with Missouri Statutes and Transient Employers.

Each contracting party must comply with all applicable Federal, State, and local labor laws including but not limited to Mo. Rev. Stat. § 285.530(1), Mo. Rev. Stat. § 285.233, Mo. Rev. Stat. § 285.234, Mo. Rev. Stat. § 285.500 – 285.515, and Mo. Rev. Stat. § 285.550.

### OSHA training.

Within sixty (60) days of commencing work, any person performing construction labor on any MHDC-approved Development must have completed an OSHA construction safety training program or the equivalent of such program as detailed in the Workforce Eligibility Policy. Proof of completion of such training must be made available on site during periodic audits conducted by MHDC.

### Contract Language

The following language shall be included in all construction contracts and subcontracts including, but not limited to, those between the Owners, Contractors, Subcontractors, or independent contractors in conjunction with projects which benefit from any Missouri Housing Development Commission (MHDC) administered funding sources including, but not limited to, loans, MHDC issued bonds, and Low Income Housing Tax Credits:

“The contracting parties acknowledge and agree to be bound by the MHDC Workforce Eligibility Policy. If there is a violation of the MHDC Workforce Eligibility Policy, as may be amended from time to time, the contracting parties are subject to sanctions by MHDC. The imposition of sanctions will include, but is not limited to, suspension or revocation of funding provided by MHDC, rescission of credits, and suspension and debarment of the contracting parties.

The contracting parties agree that in order to adhere to the MHDC Workforce Eligibility Policy, each party to this agreement shall comply with the following:

The contracting parties agree that all contracts and subcontracts and down the line contracts and subcontracts entered into as a part of this development shall include the language of this Exhibit 1 verbatim.

The contracting parties agree to enroll and actively participate in the DHS's E-Verify program (E-Verify) for the purpose of verifying the workforce eligibility of employees and to provide a sworn affidavit affirming that the party is enrolled in and actively participating in E-Verify, that the party's employees are lawfully present in the United States, and that the party does not knowingly employ any person who is an unauthorized alien. The parties further agree to provide written documentation showing proof of enrollment in E-Verify in a form acceptable to MHDC such as a copy of the Memorandum of Understanding entered into with DHS. In the event a contracting party is not an employer and is therefore unable to use E-Verify, such party, in lieu of enrolling and participating in E-Verify and providing the above listed documentation, shall provide a sworn affidavit stating that the party is unable to participate in E-Verify because the party is not an employer and does not have employees, that all independent contractors paid by such party are properly classified as independent contractors and should not be classified as employees, that all such independent contractors are lawfully present in the United States, and that any such independent contractors are not unauthorized aliens.

The contracting parties shall comply with all applicable federal, state and local laws, including but not limited to, Mo. Rev. Stat. § 285.530(1), Mo. Rev. Stat. § 285.230, Mo. Rev. Stat. § 285.233, Mo. Rev. Stat. § 285.234, Mo. Rev. Stat. § 285.500-285.515, and Mo. Rev. Stat. § 285.550.

The contracting parties shall require participation in or provide a ten-hour Occupational Safety and Health Administration (OSHA) construction safety program for their on-site employees and independent contractors which includes a course in construction safety and health approved by OSHA or a similar program approved by the department which is at least as stringent as an approved OSHA program, unless such employees have previously completed the required program. All employees and independent contractors are required to complete the program within sixty (60) days of beginning work and shall make documentation proving completion of the program available for inspection.

The contracting parties agree to permit site access to MHDC for the purpose of conducting Workforce Eligibility Policy compliance reviews and shall cooperate in providing requested documentation congruent with the terms of this agreement.

A copy of this entire agreement shall be made available to MHDC prior to beginning the scope of work contemplated herein.

All capitalized terms in this section have the same meaning as defined in the MHDC Workforce Eligibility Policy.

## Worksite Safety and OSHA Training

Safety on construction sites is of the utmost importance. Management commitment is the key factor to

success of any safety program and adherence to safety standards must be modeled and enforced by the general contractor.

Pursuant to the Workforce Eligibility policy, any person performing construction labor on any MHDC-approved development must have completed an OSHA construction safety training program or the equivalent of such program within sixty (60) days of commencing work. Proof of completion of such training must be made available on site during periodic audits conducted by MHDC.

MHDC staff provides periodic OSHA training. MHDC provided training is available to any person who is or will be performing labor on an MHDC-approved development free of charge, except for a nominal charge for training materials. The cost of materials may be waived for nonprofit organizations and small emerging businesses including Section 3 businesses. Contact MHDC staff to request a waiver of the materials fee.

### Transient Employer Requirements

MHDC's Workforce Eligibility policy requires compliance with transient employer laws. Transient employer means an out-of-state employer, as defined by the Missouri statutes. Out-of-state employers who temporarily transact any business within the state of Missouri are defined as transient employers and are required to register, file a bond, and remit withholding tax to DOR.

Some out-of-state employers are exempt from the transient employer bonding requirement. Employers who meet all three of the following criteria are not required to file a bond with DOR:

1. The principal place of business of the out-of-state employer must be in a county which borders the state of Missouri; and
2. The employer must have been under contract to perform work in the state of Missouri for at least sixty (60) days each year for the past two calendar years; and
3. The employer must obtain a tax clearance issued by the department stating that the employer has complied with the tax laws of this state and with the provisions.

Employers required to comply with the transient employer bond requirements must submit proof of compliance prior to commencing work on an MHDC approved development.

### Loan Program Requirements

Developments receiving loan funds from MHDC may be subject to additional program requirements as outlined below.

### Prevailing Wage

The Davis-Bacon Act of 1931 and additional laws known as the Related Acts are a collection of United States federal laws which established the requirement for paying prevailing wage on certain public works or publicly funded projects. These laws require all contractors and subcontractors pay some of their employees particular wage rates depending on the type of work each employee performs.

Certain circumstances will trigger the applicability of Davis-Bacon such as developments with twelve (12) or more HOME assisted units, CHOICE Neighborhood funds, Housing Choice Vouchers, Rental Assistance Demonstration (RAD) or CDBG/CDBG-DR (used for construction). Developers should check with all funding sources to verify that Davis-Bacon is not required.

Additional guidance is available on the MHDC website.

## Section 3

Section 3 of the Housing and Urban Development Act of 1968 was established to ensure employment and other economic opportunities generated by certain HUD assistance goes to the “greatest extent feasible” to Low and Very low-income persons and businesses. It applies to Public Housing and HUD-provided housing and community development assistance.

Section 3 is required for developments awarded MHDC HOME, HOME ARP and National Housing Trust Funds (NHTF) of \$200,000.

The Section 3 Act was enacted by HUD (12 U.S.C. § 1701u), as amended, to ensure certain employment and economic opportunities generated by certain HUD-funded Section 3 Covered Assistance are, to the greatest extent feasible, directed to Section 3 Residents and Section 3 Business Concerns. Therefore, upon receipt of the requisite amount of Section 3 Covered Assistance and awards of Section 3 Covered Contracts, the Developer, General Contractor and Subcontractor must comply with Section 3 Requirements.

Additional guidance is available on the MHDC website.

## Homeownership

MHDC is dedicated to strengthening communities and the lives of Missourians through the financing, development, and preservation of affordable housing. 26 U.S.C. § 42 supports homeownership opportunities for residents of single-family homes and duplexes with a fire separation wall developments by allowing the owners to sell the homes to the residents following the completion of the Compliance Period. Converting LIHTC 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 (“Homeownership Policy”).

This section details the rules that must be adhered to when converting LIHTC rental properties into single family homeownership properties at the end of the Compliance Period. Additional restrictions may apply depending on what other type(s) of financing is involved in the development. Developers and owners of affordable, single-family and duplex rental developments who want 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 Compliance Period (“Homeownership Commitment”). Every Homeownership Commitment will differ. MHDC realizes there are many options for determining the sales price besides what are outlined in this section and encourages the use of creativity within the Homeownership Commitment. Above all, a Homeownership Commitment must remain true to the LIHTC program by ensuring 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 staff at Firm Commitment, and attached to each resident lease.

The following issues apply to and must be addressed in each Homeownership Commitment, in the implementation of the conversion for all single-family and duplex rental/homeownership developments proposed with the FY2020 NOFA and thereafter, and all Homeownership Commitments filed.

Any development submitted to MHDC and reviewed as a single family and duplex homeownership development must waive the right to opt out of the LIHTC program for an additional fifteen (15) years

beyond the Compliance Period. In other words, the owner will not be allowed to “opt-out” of the LIHTC program at the end of the Compliance Period. This period is assigned on a building-by-building basis and begins with the first year that the credits are claimed. The LIHTC Initial Compliance Period ends on December 31 of the 15th year of the period for that particular building.

Before offering a Right of First Refusal (“RFR”) to any resident, the development must have fully completed the Compliance Period on ALL units. This will avoid confusion by allowing the owner, residents, and MHDC staff to all be on the same time table.

Owners must ensure the purchase price of each home complies with the minimum purchase price required in § 42(i)(7)(B) of the Code (“Minimum Price”). This is 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 five (5)-year period ending on the date of the sale to the residents) and all federal, state, and local taxes attributable to such sale.

To preserve affordability, MHDC sets the maximum sales price at 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 on bedroom size (assuming a 95% mortgage, thirty (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”).

The sales price can 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 not less than the Minimum Price and not more than the Maximum Price. Several illustrative methods for setting the sales price are described below.

The owner will offer the RFR within twelve (12) months of the end of the Compliance Period. This will be a set date and cannot 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.”

Each lease will contain an addendum which contains a copy of the Homeownership Commitment. Because it is important for the residents to be aware of the Conversion Date so they know when the houses will be offered for sale to them, the Conversion Date must be referenced in the lease addendum. The Homeownership Commitment should also define the term “Right of First Refusal” and 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 the plan for pricing the homes. The addendum should also state the homes cannot be sold at a price lower than the minimum sales price as set forth in § 42(i)(7)(B) of the Code.

The owner must provide information about homeownership training to the resident by way of a notice or a brochure five (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 five (5) years prior to the Conversion Date.

The owner should address the issue of how potential homeowners will be educated concerning home maintenance. Some suggestions are to have the property maintenance person work with potential homeowners while doing routine maintenance and minor repairs to units and enlist the help of nonprofit organizations which promote homeownership opportunities.

One year before the offering of the RFR, the owner must distribute to all residents information detailing the dates, timeline, and information contained within the Homeownership Commitment.

Each resident will be given up to six (6) months after the Conversion Date to decide whether 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 its RFR by tendering an offer to buy the property. Within this offer there should be a date set for closing.

After the six-month period mentioned above, the owner has several options in reference to any unsold units:

- The owner can choose to sell the remaining units in the development to a nonprofit partner or another entity that will continue to operate the units as affordable housing in accordance with the LIHTC LURA. The sale must include 100% of the remaining rental units, not a portion thereof.
- The owner can choose to maintain the remaining units in the development as rental units, adhering to all MHDC Extended Use Period guidelines. The remaining units after this initial six-month selling period may at any time be offered for sale to the current or subsequent qualified residents.
- The owner can offer vacant units for sale to a buyer whose household income does not exceed 80% of the area median income. At the sale of each home, MHDC staff will execute a partial release of the LIHTC LURA for that particular unit.

If MHDC holds a mortgage on the development, the owner must 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 development to accelerate the pay down and potentially ease the burden on any remaining unsold homes. The owner can then utilize this figure in calculating the Minimum Price of the home.

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 development. 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 pay down. An example would be:

The principal balance of a loan on the Conversion Date of a development is

- \$500,000. There are thirty (30) homes in the development. The required payoff per home sold would be \$22,222.22 ( $\$500,000 / .75 / 30$ ). If the owner sells and closes on 12 homes in the 5th month following the initial RFR, MHDC will receive a total pay down 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 pay down. If then in the 10th month following the initial RFR, the owner closes on 3 more homes, MHDC shall receive a total pay down 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 pay down of the mortgage, MHDC staff 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.

Each house to be sold to a resident under the RFR must pass an American Society of Home Inspectors (ASHI) 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.

The owner should address the issue of replacement reserves in the Homeownership Commitment. 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 development and the new homeowner. Some suggestions are to 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, and establish a reserve account for the new homeowner from the pro rata portion of the reserve amount.

The purchaser must agree to occupy the home as their principal residence.

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 the lease.

A resident in good standing cannot be relocated or evicted to expedite the sale of a unit. When renting a unit, a potential resident may not be discriminated against because they do not wish to purchase the unit they are requesting tenancy in.

If a household has had an increase in income since moving into the development, this will not disqualify them from buying the property. 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).

To ensure all parties are prepared to begin selling the homes as outlined in the Homeownership Commitment, the owner will meet with staff at MHDC in the 14th compliance year to discuss the above items along with any other topics deemed necessary. The owner must contact MHDC's Asset Management department to begin this process.

The ownership entity may offer the first right of refusal to the nonprofit partner at the end of the Compliance Period, with the nonprofit commencing sales of the units to the residents and qualified buyers thereafter if the following requirements have been met:

- The limited partnership agreement or operating agreement, as applicable, governing the ownership entity has granted a first right of refusal to the nonprofit partner or member;
- The nonprofit entity is a qualified nonprofit for purposes of the LIHTC. 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;
- The nonprofit has filed a Homeownership Commitment that has been approved by MHDC staff and attached to resident leases; and
- 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

To extend the opportunity for homeownership to existing LIHTC 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 replace their rent payment with a house payment 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 fifteen (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.

Discussed below are three possible options for determining the sales price of the property at the Conversion Date.

### Existing Obligation plus Profit

§ 42(i)(7)(B) of the Code defines the minimum purchase price for a LIHTC property at the end of its Compliance Period to be the sum of (i) the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the five (5)-year period ending on the date of sale), and (ii) all federal, state, and local taxes attributable to such sale. We also understand 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 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 the property within the development, specified by the owner.

Sample assumptions:

- Fifteen (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 ninety-five percent (95%) mortgage, thirty (30)-year amortization, and an interest rate equal to that used by the MHDC First Place program. Existing residents are offered a one percent (1%) discount for each year of tenancy.

- Current monthly rent = \$550
- Insurance and taxes = \$150 per month
- Mortgage payment = \$400 per month
- Using an estimated MHDC MRB interest rate = 6.3%, the mortgage amount would be \$64,623
- Assuming a ninety-five percent (95%) mortgage, the sales price would be \$68,024
- If the resident leased the unit for four (4) years, a four percent (4%) discount would reduce the sales price to \$65,303

### Maximum Price Approach

The following application of the Maximum Price calculation will be based on the maximum LIHTC rent in

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

An example would be:

- Current maximum LIHTC rent for a three (3)-bedroom house in Springfield = \$801
- For argument's sake, insurance and taxes = \$150.00 per month; tenant-paid utilities = \$125 per month
- This allows for a total of \$526 P&I that this family can afford/qualify per month for a house payment with a thirty (30)-year term
- First place program MRB rate is 6.3%
- The maximum loan amount would then be \$84,980
- Assuming a 95% mortgage, the sales price would be \$89,452
- If the buyer happens to be a resident who has lived in the project for four (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 twenty (20) years ("HOME Affordability Period"). The HOME Affordability Period includes income and rent restrictions set forth in the HOME Regulatory Agreement encumbering the development ("HOME Regulatory Agreement"). HOME regulations allow for rental units to be sold during the HOME Affordability Period, but the following rules apply for units designated as HOME-assisted units. These are in addition to the homeownership rules described above.

During the HOME Affordability Period, all purchasers of HOME-assisted units must have a household income 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.

For the term of the HOME Affordability Period, some type of deed restriction will need to be recorded against the property to help assure the new homeowner adheres to HOME rules throughout the HOME Affordability Period. This will be put in place by the original owner. This document will expire on the date the original HOME Affordability Period for the development ends. This deed restriction should address resale provisions associated with the unit(s). 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.

The owner must be involved with future resale 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 HOME Affordability Period.

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.

The sales price must be affordable to the purchaser. MHDC defines affordability as a transaction in which no more than 35% of the purchaser's income can be used to pay monthly PITI payments.

The initial homeowner who sells the unit during the HOME Affordability Period must receive a "fair return" which is defined by MHDC as the return of the homeowner's initial investment.

The buyer(s) must occupy the property as its principal residence and must occupy such property as its principal residence for no less than eleven (11) months of each calendar year. The property cannot be rented during the HOME Affordability Period.

The only exception to the twenty (20)-year term of the HOME 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 twenty (20)-year period associated with the development subsidy (from the initial construction of the property) is terminated. MHDC does not currently offer HOME Funds 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 to ease the restrictions on the homebuyer, but the availability of funds in the future cannot be completely assured.

## Community Housing Development Organizations

Pursuant to 24 C.F.R. § 92.2, HUD has established specific criteria an entity must satisfy to qualify as a Community Housing Development Organization ("CHDO"). These criteria generally fall into three categories: (i) the entity's formation and structure, (ii) the entity's relationship (if any) to for-profit entities, and (iii) the entity's capacity to comply with and perform under HUD's HOME program for the duration of the HOME affordability period.

### Formation and Structure

In order to qualify for CHDO status, (i) an entity must be validly incorporated under applicable state and/or local laws, and (ii) must be a nonprofit corporation holding a tax exemption ruling from the Internal Revenue Service pursuant to either Section 501(c)(3) or (4) of the Internal Revenue Code. In addition, it must meet all of the following requirements, all of which must be clearly set forth in the entity's organizational documents:

- No part of the nonprofit corporation's net earnings may inure to the benefit of any of its members, founders, contributors, or individuals related to the nonprofit corporation.
- The nonprofit corporation must have among its stated purposes set forth in its Articles of Incorporation the "provision of safe, decent, affordable housing to low- income and moderate-income persons."
- The CHDO cannot be a government entity nor controlled by a government entity.
- At least 1/3 of the nonprofit corporation's Board of Directors must be comprised of residents of low-income neighborhoods, low-income beneficiaries of HUD programs, other low-income community residents, elected representatives of low-income neighborhood organizations, or designees of nonprofit organizations in the community that address the housing or supportive service needs of low-income residents or residents of low-income neighborhoods, including homeless providers, Fair Housing Initiatives Program providers, Legal Aid, disability rights organizations, and victim service providers.
- No more than 1/3 of the nonprofit corporation's Board of Directors may be comprised of public sector officials/employees and/or appointed by board members who are public sector

officials/employees.

- The nonprofit corporation must provide a formal process which allows low- income program beneficiaries to advise the CHDO on its decisions regarding the design, siting, development, and management of affordable housing projects. The nonprofit corporation's organizational documents should not only note the existence of such a process but also provide a description of the process itself.

### Relationship to For-Profit Entities

A CHDO may be sponsored or created by a for-profit entity. However, HUD places certain restrictions on the relationship that can exist between the nonprofit corporation and the related for-profit entity. Specifically, the following restrictions apply:

- The nonprofit corporation must not be controlled by, nor under the direction of, any individual or entity that seeks to attain monetary profit or any other gain from the nonprofit corporation.
- The officers and employees of the for-profit entity cannot be officers nor employees of the CHDO entity.
- The for-profit entity must not have among its stated purposes the development or management of housing. Therefore, nonprofit corporations sponsored or created by entities such as contractors, housing developers, and real estate management firms would not qualify for CHDO status.
- The for-profit entity cannot have the power to appoint more than 1/3 of the nonprofit corporation's Board of Directors and the directors appointed by the for-profit entity are prohibited from having the authority to appoint any of the directors comprising the other 2/3 of the board of the nonprofit corporation.
- The nonprofit corporation must be completely free to contract for goods and services from vendors of its own choosing.

### Capacity/Compliance

To qualify as a CHDO, the nonprofit corporation must be able to demonstrate its ability to comply with all HOME rules, as well as the capacity to successfully develop low- income housing. Specifically, there are three components each nonprofit corporation must be able to demonstrate:

#### **Demonstrated capacity**

- The nonprofit corporation must be able to demonstrate a general capacity to carry out activities for which the HOME program was created. Under the FY 2013 HUD Appropriations Law, CHDO's must have staff with demonstrated development experience. The experience of staff may be supplemented by the board members or officers of the organization that are volunteers.
- For its first year of funding as a community housing development organization, an organization may satisfy this requirement through a contract with a consultant who has housing development experience to train appropriate key staff of the organization.

#### **History of Serving the Community**

- The nonprofit corporation must demonstrate has a history of serving the community in which it intends to develop housing. Usually, the nonprofit corporation must show it has served the community in question for at least one year before HOME Funds will be allocated to it.

#### **Financial accountability**

- The nonprofit corporation must demonstrate it utilizes appropriate accounting methods and controls. Specifically, the non-profit corporation's standards of financial accountability must conform to those set forth in 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the "Uniform Guidance").

### MHDC Certification Requirements

In order to obtain certification as a CHDO from MHDC, a non-profit corporation must submit a CHDO application to MHDC staff for review. The application package must include a completed original of the MHDC CHDO Certification/Recertification Form (Form CHDO R100) with all of the following supporting documentation:

1. A copy of the Articles of Incorporation for the nonprofit corporation. The copy provided should be a copy of the fully executed Articles filed with the Missouri Secretary of State.
2. A copy of the nonprofit corporation's bylaws. The copy provided should be signed by the nonprofit corporation's Secretary and certified as being the most current version of the bylaws approved by the nonprofit corporation's Board of Directors.
3. A Certificate of Good Standing from the Missouri Secretary of State for the nonprofit corporation. The Certificate of Good Standing must be dated within thirty (30) days of the date the CHDO application was submitted to MHDC staff.
4. A copy of the nonprofit corporation's tax exemption ruling from the IRS (i.e., letter from the IRS evidencing the nonprofit's 501(c)(3) or 501(c)(4) status).
5. Copies of the nonprofit corporation's most current financial documentation, including:
  - a. Its current annual operating and capital budget;
  - b. Its current statement of income and expenses;
  - c. Its current budget variance report; and
  - d. Its most current annual audit(s) (if the nonprofit applying for CHDO status is a first time applicant or more than two years has lapsed since the nonprofit last applied for and received CHDO designation, the nonprofit must provide copies of its most recent three (3) years of annual audits; however, if the nonprofit has applied for and received CHDO status from MHDC within the last two fiscal years, the nonprofit need only supply its most recent annual audit).
6. Evidence the nonprofit corporation's accounting processes and procedures maintain compliance with the requirements set forth under the Uniform Guidance. The evidence of such compliance may consist of either of the following:
  - a. A letter from the Certified Public Accountant performing the nonprofit corporation's audit which certifies the nonprofit corporation is in compliance with the Uniform Guidance; or
  - b. A signed and notarized statement from the President, Executive Director, or Chief Financial Officer of the nonprofit corporation attesting his/her belief the nonprofit corporation complies with the rules and requirements of the Uniform Guidance, and a completed financial questionnaire in the form required by MHDC. If this form of evidencing compliance with the Uniform Guidance is utilized, MHDC staff will review the questionnaire and all supporting documentation and will determine, in its sole discretion, whether the nonprofit corporation has adequately evidenced its compliance with the Uniform Guidance.
7. A copy of the nonprofit corporation's current organizational chart.
8. A copy of the nonprofit corporation's current list of Board Members (clearly noting the sector each Board Member represents).
9. A list of all paid staff members and/or volunteers of the nonprofit corporation.

10. Copies of resumes and job descriptions describing the experience of all key members of the nonprofit corporation.
11. A copy of the nonprofit corporation's most recent strategic plan.

Once MHDC staff has reviewed all required documentation, the applying nonprofit corporation will be notified by MHDC staff as to whether it has successfully qualified for CHDO designation or whether there are inadequacies in its application. No loans or LIHTCs allocated by MHDC to a development, which allocation is predicated on the nonprofit corporation's ability to qualify as a CHDO, may be closed or funded until MHDC staff has designated the nonprofit corporation as a valid CHDO.

## Environmental Review

### Preliminary Review: (all applications)

A preliminary environmental review is performed by MHDC on all applications received to assist in the evaluation of project recommendations to MHDC's Board of Commissioners. Preliminary analysis is per 24 CFR § 58 guidelines for the following:

1. Noise analysis (roadways, railroads, airports, other)
2. Floodplains
3. Wetlands
4. Other - Anything else observed on or around the site or in application information. For example, tank farms, consolidated animal feeding operations (CAFO), sewage areas, dumps, explosive and flammable, quarries, and landmarks.

Recommendation of a site's appropriateness for approval takes into consideration other factors such as, the amount of potential mitigation / abatement, location of amenities (grocery, post office, police / fire departments, transportation, shopping and so forth), and general neighborhood characteristics.

### Secondary Review:

*Approved applications with HOME, HTF, HUD/MHDC Risk Sharing, or other federal funds:*

Approved developments with federal funding requires review per regulation 24 CFR part 58 which implements the National Environmental Policy Act (NEPA). Form 1400 provides general guidance and direction to obtain in-depth compliance requirements for submissions to MHDC. ALL documentation pertaining to the environmental review process (including pre and post construction) for approved developments with MHDC authorized federal funds are required to be uploaded into the Department of Housing and Urban Development Environmental Review Online System (HEROS). MHDC will provide developers with the Environmental Review Checklist (Exhibit B to the Commission Approval Letter) which provides specific details of the level of review and required submissions for each development. MHDC will engage third-party environmental firms (MHDC Environmental Consultants) to review environmental submissions from each developer's Environmental Analyst for compliance with state, federal, HUD and MHDC regulatory requirements. Developers will be responsible for completing and submitting required documentation to MHDC and the MHDC Environmental Consultant. Completed reviews will then be uploaded into HEROS. Non-federally funded developments will not be subject to the MHDC Environmental Consultant review process.

### Choice Limiting Actions (Federal funding)

[24 CFR part 58.22 Limitations on activities pending clearance]

1. Neither a recipient nor any participant in the development process, including public or private

nonprofit or for-profit entities, or any of their contractors, may commit HUD assistance under a program listed in (24 CFR 58.1(b)) on an activity or project until HUD or the state has approved the recipient's Request for Release of Funds (RROF) and the related certification from the responsible entity (the state of Missouri). In addition, until the RROF and the related certification have been approved, neither a recipient nor any participant in the development process may commit HUD funds on or undertake an activity or project under a program listed in (24 CFR 58.1(b)) if the activity or project would have an adverse environmental impact or limit the choice of reasonable alternatives.

2. If a recipient is considering an application from a prospective sub recipient or beneficiary and is aware that the prospective sub recipient or beneficiary is about to take an action within the jurisdiction that is a Choice Limiting Action, the recipient will take appropriate action to ensure the objectives and procedures of NEPA are achieved.
3. An option agreement on a proposed site or property is allowable prior to the completion of the environmental review if the option agreement is subject to a determination by the recipient on the desirability of the property for the project as a result of the completion of the environmental review in accordance with this part and the cost of the option is minimal portion of the purchase price. There is no constraint on the purchase of an option by third parties that have not been selected for HUD funding, have no responsibility for the environmental review and have no say in the approval or disapproval of the project.

Environmental testing is allowed. This includes noninvasive and invasive testing, but no abatement, mitigation, or modification of any kind. Examples include testing for lead, asbestos, and radon.

To summarize, no action concerning the proposal shall be taken prior to completion of the environmental review which would (i) have an adverse environmental impact; (ii) limit the choice of reasonable alternatives; and (iii) prejudice the ultimate decision on the proposal.

MHDC issues a Firm Commitment Memo once all issues have been resolved, and missing documentation has been submitted. This memo will indicate items that will be necessary at a later date; usually prior to closing or after completion of construction to bring environmental compliance to a close. This memo becomes part of the legal documents for the project; and any outstanding issues on the memo are addressed by the legal department and environmental department through the legal department's initial closing and final closing / conversion checklists.

Distribution of the Firm Commitment Memo (to developer and MHDC underwriter) initiates the HUD Release of Funds process if federal funding is involved. Regardless of the funding the developer is directed to contact the MHDC underwriter before moving forward.

### **Approved applications with no federal funds**

Approved developments with no federal funding will undergo an environmental review closely based upon the federal environmental regulations 24 CFR part 58 and part 50 as appropriate. The developer will be provided with Exhibit B which lists items to be addressed to begin the environmental review. The differences between the non-federal review and federal review include:

- The peer review process required for federally funded developments is not required. The environmental submissions provided by the developer per Exhibit B document will be reviewed by MHDC. MHDC will conduct the environmental review.
- Noise level is evaluated in the same manner as federally funded developments using the HUD guidelines and tools. However, MHDC, in its sole discretion, may require remediation.

- Wetland / Floodplain issues do not require the HUD 8 Step Process. MHDC sets out basic requirements for floodplains. MHDC may consider proposals to construct, restore or renovate affordable housing in 100-year and 500-year floodplains. Such proposals shall include flood mitigation components, including but not limited to:
- Whenever possible the design should place all building improvements, ingress and egress outside of the floodplain.
- Construction design flood mitigation features
- Flood insurance
- An emergency plan to evacuate and re-locate residents, including a; proposal to fund such evacuation and re-location.
- Prior to lease signing, written and acknowledged notice to prospective residents that the development is in a floodplain.
- Developments receiving HOME funds or Risk Share insurance shall be required to proceed through the eight-step environmental review process in accordance with the federal requirements as they may be amended from time to time (currently HUD regulations 24 CFR part 55.20)
- Historical Review is not required.
- Evaluation and remediation for radon, asbestos, lead-based paint / soils, Phase I and II ESA's, and vapor encroachment are per the HUD regulations.
- Non-federally funded reviews are not entered into the HEROS system.
- All state and local regulations apply.