



**Notice of
Funding
Availability**

2015

Gap Financing with Tax-Exempt Bonds



INTRODUCTION

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

To increase the use of tax-exempt bonds, private investment, and the overall production or rehabilitation of affordable rental housing, KHC is making available a combined total of \$19.5 million of KHC's Equity Bridge Loan (EBL), HOME Investment Partnerships (HOME Gap) and Affordable Housing Trust Fund (AHTF Gap) funds (collectively, the "Funds") to be exclusively utilized as described within this Notice of Funding Availability (NOFA).

In addition, the urban county governments of Louisville and Lexington have committed funds to be allocated via this NOFA. Louisville Metro Government (Louisville Metro) has committed \$2 million in HOME funds for projects in Jefferson County. Lexington-Fayette Urban County Government (LFUCG) has committed \$1 million in funds from HOME and/or its local Affordable Housing Fund for projects in Fayette County.

KHC, Louisville Metro, and LFUCG anticipate that Funds will be awarded in October 2015, and the selected projects will close on all funding sources by May 2016. This NOFA describes the types of eligible projects and the allocation process through which these funds will be awarded.

Purpose of this NOFA: This notice serves as a streamlined, initial announcement of funds available. Respondents will submit fewer up-front documents than required in standard KHC funding rounds. KHC, Louisville Metro, and LFUCG will review NOFA responses for threshold requirements and scoring, and successful respondents will be invited to complete KHC's formal uniform funding application and technical submission process. KHC, Louisville Metro, and LFUCG will then fully review and underwrite each project and make formal funding commitments.

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

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

Point of contact: Questions should be directed to Andrew Hawes, KHC's Managing Director of Multifamily Programs, toll-free at 800-633-8896 or 502-564-7630, extension 326; TTY 711; or email ahawes@kyhousing.org. NOFA responses should be submitted via email, flash drive, or Dropbox link.

SUMMARY OF FUNDS AVAILABLE

Source	Total Available via this NOFA	Maximum Per Project	Notes
KHC Sources[^]			
Tax Exempt Bonds	\$150 million	Limited to ≤100% total development costs	All projects must utilize tax-exempt bonds (conduit bonds with private placement)
4% LIHTC Equity	Limited by IRS	Based on eligible basis and investor interest	Accessed when 50% of eligible TDC is financed with tax-exempt bonds
Equity Bridge Loan (EBL)	\$12 million	Based on demand \$1 million - \$5million	Delays LIHTC equity, increasing pricing on credits
HOME Gap*	Approximately: Rural: \$4 million Urban: \$2 million	\$500,000 per property; \$1 million when 3+ properties are bundled into one project	If used in Louisville or Lexington, local PJ must match KHC's HOME dollar-for-dollar
AHTF Gap	\$1.5 million	\$500,000 per property	KHC will match local government contribution dollar-for-dollar
Non-KHC Sources			
Louisville Metro HOME	\$2 million	\$500,000 per property	Jefferson County only. Funds will be allocated via this NOFA but will be approved and disbursed by Louisville Metro.
LFUCG HOME/ Affordable Housing Fund	\$1 million	No Maximum	Fayette County only. Funds will be allocated via this NOFA but will be approved and disbursed by LFUCG.

*See urban & rural definitions in KHC's 2015 QAP.

[^]KHC reserves the right to alter funding amounts and/or mix funding sources..

KHC FUNDS AVAILABLE

EQUITY BRIDGE LOAN FUNDS (Urban and Rural) - \$12,000,000

Goals: Equity Bridge Loan (EBL) funds will be leveraged with KHC's HOME and/or AHTF funds to provide respondents with the needed capital to create or preserve affordable multifamily housing in Kentucky. KHC's goal is to finance 300 to 400 units with the EBL program.

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

HOME GAP (Rural - \$4,000,000; Urban - \$2,000,000)

Goals: Create or preserve affordable multifamily housing totaling 600 or more units (300 in rural areas and 300 in urban areas) of the Commonwealth.

Eligibility Criteria: Respondents requesting EBL funds may also request HOME Gap funds. To the extent that a respondent requests HOME Gap together with other Funds, there must be a clear demonstration that the HOME Gap is necessary for the viability of the project, as proposed. Respondents seeking

In addition to the foregoing:

- There is a maximum of \$500,000 HOME Gap per assisted project; \$1,000,000 for portfolio projects combining 3 or more affordable multifamily properties.
- Rate/Term: 0% interest, 30 years deferred, due at maturity.
- Lien Position: Subordinate to EBL; shared lien position with another PJ's HOME funds.
- HOME funds are recourse.
- HOME Gap may be used during construction
- HOME funds require a minimum 5% eligible matching funds as defined in 24 CFR 92.220; developers must identify the source of qualifying HOME match.
- When KHC HOME funds are utilized in a designated local participating jurisdiction (PJ) which receives a direct allocation of HOME funds from HUD, the PJ must make a dollar-for-dollar contribution from its HOME and/or Affordable Housing Trust Fund resources to the project. The following are local HUD PJs: LFUCG Louisville Metro, City of Owensboro, and the HOME Consortia of Bellevue, Covington, Ludlow, and Newport.
- KHC may charge up to \$20 per HOME unit for compliance and asset management. The fee will be in addition to the housing credit compliance fees associated with the housing credits.

AHTF GAP (Urban \$1,500,000)

Goals: Collaborate with and encourage HUD entitlement communities to invest resources to create or preserve 300 or more affordable multifamily units in urban areas of the Commonwealth.

Eligibility Criteria: AHTF Gap funds are available in areas that are designated as a HUD PJ, as identified above. Respondents requesting KHC EBL funds may also request AHTF Gap funds. AHTF Gap funds are available to developments that receive an award of HOME or AHTF funds administered from the applicable PJ. KHC will match the local entitlement community's HOME or AHTF funds dollar-for-dollar up to \$500,000 per applicant. When a project requests AHTF Gap together with other Funds, there must be a clear demonstration that AHTF Gap is necessary for the viability of the project.

In addition to the foregoing:

- Rate/Term: 0% interest, 30 years deferred, due at maturity.
- Lien Position: Subordinate to EBL and PJs' HOME/AHTF mortgage.
- AHTF funds are non-recourse.
- AHTF Gap may be used during construction.
- AHTF requires a minimum 5% matching funds; any non-KHC source may qualify, but the developer must identify the source of match.
- A qualified nonprofit **must** own at least 51% of the general partner interest and materially participate in the management or ownership of the development.

LOUISVILLE METRO FUNDS AVAILABLE **(HOME - \$2 MILLION)**

Goals: Participate in the creation and preservation of rental units with a variety of housing choices; a diverse blend of affordable housing types, supported by public facilities and other amenities. The goal of this NOFA is to finance 200 to 300 units.

Eligible Respondents: For-profit and nonprofit developers, certified Community Housing Development Organizations (CHDOs) and faith- and non-faith-based organizations.

Respondents must demonstrate housing development experience, financial capacity and availability to begin and complete the project in a timely manner. Respondents must take on the roles of developer, builder and property manager, or identify experienced partners/contractors who will serve in these roles. Respondents must be in good standing on current and past projects funded by Louisville Metro, e.g., no outstanding property taxes, no property code violations, consistent Metro payment history, current on Metro payable loans and in compliance with general funding regulations and requirements.

Respondents must share their project concept with Louisville Metro before requesting funds via this NOFA, and must secure a letter of interest from Louisville Metro. See the *Threshold Criteria* section of this NOFA.

Eligible Activities: Acquisition, Rehabilitation or New Construction

Projects in Jefferson County that are eligible for HOME funding. All respondents must comply with Louisville Metro's Funding Priorities and HUD regulations. More information may be obtained via [Louisville Metro's website](#).

In addition to the above:

- **Maximum Per Project:** There is a maximum of \$500,000 Metro HOME Gap per assisted project.
- **Compliance period:** Based on HOME-required period of affordability (typically 10-20 years).
- **Rate:** 1% -3.5% based on the project's ability to repay.
- **Lien Position:** Subordinate to Equity Bridge Loan; shared lien position with KHC HOME.
- HOME funds are recourse.
- HOME Gap may be used during construction and the interest may be deferred.
- HOME funds require a minimum of 5% eligible matching funds as defined in 24 CFR 92.220; developers must identify the source of qualifying HOME match.

Disclaimers:

- Louisville Metro reserves the right to allocate less than \$2 million via this NOFA, or to allocate no funds whatsoever, should no NOFA responses qualify for Louisville Metro HOME funds.
- Louisville Metro reserves the right to require documentation beyond that required by KHC if needed to make funding decisions.

LFUCG FUNDS AVAILABLE (HOME/AHF - \$1 MILLION)

Goals: To leverage public investment to preserve, produce, and provide safe, quality, affordable rental housing in Fayette County.

Eligibility Criteria: Projects in Fayette County that preserve and/or create affordable rental housing consistent and compliant with HUD’s HOME program and/or LFUCG’s local Affordable Housing Fund.

Additional program information and project criteria can be found at the following links on LFUCG’s website:

[Lexington-Fayette Urban County Government’s HOME program](#)

[The Affordable Housing Fund](#)

[Affordable Housing Fund Guidelines](#)

Respondents must share their project concept with LFUCG before requesting funds via this NOFA, and must secure a letter of interest from LFUCG. See the *Threshold Criteria* section of this NOFA.

Disclaimers:

- LFUCG reserves the right to allocate less than \$1 million via this NOFA, or to allocate no funds whatsoever, should no NOFA responses qualify for LFUCG funds.
- LFUCG reserves the right to require documentation beyond that required by KHC if needed to make funding decisions.

PROJECTED NOFA TIMELINE

July 2, 2015.KHC releases NOFA.

September 15, 2015. NOFA responses due.

October 15, 2015.Conditional awards announced.

November 15, 2015.Selected respondents proceed to completing KHC’s online application and technical submission process.

February 28, 2016. Deadline for inducement resolution approval by KHC’s board.

April 2016.Application and technical submission complete

May 2016.Deadline for closing. KHC may, at its discretion, provide one or more extensions consistent with the procedures set forth in the 2015 Qualified Allocation Plan (QAP). Extension fees apply.

July 31, 2016.No extensions beyond this date.

THRESHOLD CRITERIA FOR ALL PROJECTS

1. Respondents must utilize Tax Exempt Bonds for construction and/or permanent financing.
2. Respondents must utilize Equity Bridge Loan financing.
3. Respondents must present a project timeline demonstrating the ability to close on all funds requested in this NOFA—including the bond transaction—by the close of May 2016.
4. Respondents must meet the requirements of the [2015 Qualified Allocation Plan](#) (QAP) and [2015 Multifamily Guidelines](#). Respondents may request waivers of the requirements in the 2015 QAP; however, each waiver request must be supported with appropriate justification.
5. Respondents must achieve a minimum 60% on the KHC Capacity Scorecard.
6. The Funds will only be available to projects that have not yet received or applied for an allocation of Tax-Exempt Bonds.
7. Projects must be completed and placed in service no later than 36 months after the date of the award.
8. Respondents seeking gap subsidy from Louisville Metro or LFUCG must share their project concept with Louisville Metro and/or LFUCG, and must secure a letter of interest from Louisville Metro or LFUCG. The letter of interest should express the municipality's support of a NOFA response but need not express any firm commitment of funds.
9. New construction projects must clearly address one or more impediments to fair housing. Respondents must identify fair housing impediments in KHC's Analysis of Impediments to Fair Housing (AI). If the project is located in a HOME participating jurisdiction, the project must also address one or more impediments in the local jurisdiction's AI.

SCORING/SELECTION CRITERIA

PROJECT CHARACTERISTICS	50 points
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10 points will be awarded to projects that meet one of the following:

- Preservation of 3 or more existing affordable multifamily housing properties.
- Redevelopment of a vacant or foreclosed multifamily property.
- Adaptive reuse of a building.
- New construction projects that are part of a Community Revitalization Plan and the community has dedicated funding to support the plan.

20 points will be awarded to projects that have project-based Section 8 or other rental subsidy for at least 75% of units across the collective project.

Up to 20 points will be awarded to respondents assisting the greatest number of units:

- 75 – 100 units – *10 points*
- 101 – 150 units – *15 points*
- 150 – 200 units – *16 points*
- 200 or more units – *20 points*

FINANCIAL CHARACTERISTICS	45 Points
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Up to 20 points will be awarded based on the ability to repay the EBL loan in a short period of time:

- 5 years – *20 points*
- 6 years – *16 points*
- 7 years – *12 points*
- 8 years – *8 points*
- 9 years – *4 points*
- 10 years or more – *0 points*

Up to 25 points will be awarded to projects with commitments of gap funding sources outside of this NOFA:

- Up to \$250,000 – *10 points*
- \$250,001 - \$500,000 – *15 points*
- \$500,001 - \$750,000 – *20 points*
- >\$750,000 – *25 points*

DEVELOPER CAPACITY – SCORECARD RESULTS	4 Points
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Points will be awarded based on the percentile achieved above the minimum 60% required in the KHC Capacity Scorecard.

- 61-70% – *1 point*
- 71-80% – *2 points*
- 81-90% – *3 points*
- 91-100% – *4 points*

EXPERIENCE WITH 4% BOND PROJECTS

50 Points

KHC supports development teams that have experience with tax-exempt bonds. Because of the complicated nature of the 4%/Bond programs, KHC is seeking experienced partners/teams.

10 points will be awarded to respondents demonstrating substantial experience utilizing tax exempt bond financing for the development or preservation of affordable rental housing within the past five (5) years.

15 points will be awarded to respondents that provide a signed engagement letter with a placement agent or bond underwriter that has either participated in at least one tax-exempt bond issued by KHC within the previous two (2) years, and/or acted as a lender in connection with any KHC multifamily project within the previous two (2) years and such lender is able to act as an underwriter or placement agent in connection with the tax-exempt bonds.

Up to 25 points will be awarded to respondents that have engaged:

1. An attorney or attorneys that have acted as bond counsel or counsel for the bond trustee, bond purchaser, or the borrower in connection with at least one KHC multifamily bond issue within the previous three years **(10 points)**;
2. Attorneys that have demonstrated a comprehensive understanding of KHC's general bond resolution **(10 points)**;
3. Attorneys that have closed one or more KHC multifamily projects which included HOME or AHTF within the previous two (2) years **(5 points)**.

MARKET ABSORPTION REQUIREMENTS

KHC may require a project to recognize other funded projects in its market study review. In the event two or more projects are submitted from the same geographical region, KHC staff will determine, through market study reviews, that the targeted market for that particular region will be able to absorb each project. If the market review shows the target region cannot absorb multiple projects, then the highest scoring project will be approved. Market study considerations may cause a property or a project to be denied funding or have funding reduced during the application and technical submission phase.

LOUISVILLE METRO FUNDING PREFERENCES

- Rehabilitation of existing structures, particularly historic structures;
- Urban projects building on existing/emerging neighborhood anchors within a ¼ mile of a school, church, full-service grocery store, Metro park and/or safe route access to public transportation;
- Development that increases affordable housing choices for low- and moderate-income households in census tracts that are not predominantly low-income, thereby promoting mixed-income neighborhoods;
- Projects that leverage private funding and qualifies as HOME match to count toward Louisville Metro HOME match requirements; and
- Projects that do not permanently displace existing residents.

Community Impact. Louisville Metro will prioritize projects that speak to community impact, e.g., projects that leverage existing neighborhood development activity in a way that provides for visible impact. Louisville Metro is particularly interested in projects that will contribute to permanent revitalization of an area, repurposes vacant and abandoned real estate, and/or redevelops property currently owned by Louisville Metro.

Employment. Projects located in close proximity to employment centers.

NOFA RESPONSE DOCUMENTATION REQUIREMENTS

1. A résumé or qualifications package for each employee or partner who will be working on the project, including bond transaction history, if any.
2. Developer's current year financial statements and relevant references. If not available, explain why and provide previous year's statements.
3. Engagement Letter with the applicable underwriter, placement agent or bond purchaser, including bond transaction history.
4. Engagement Letter with the applicable bond counsel, including bond transaction history. Include the résumé or qualifications package of each attorney who will be working on the proposed financing, including a bond transaction history.
5. A letter from the project's Bond Underwriter that outlines the bond structure and all steps required, including a timeline, for closing the financing for the project.
6. Narrative describing the history of the project and properties (existing rental properties only).
7. Narrative and supporting documentation explaining the competitive points claimed by the applicant. If seeking points for a development which is part of a community revitalization plan, a copy of the revitalization plan must be provided and the page and paragraph within the plan which supports the need for the project must be identified.
8. Evidence of Site Control.
9. Rehabilitation scope of work (existing rental units only).
10. Full disclosure of any identities of interest.
11. Market Study (new rental units only).
12. Audited financials or rent rolls for the past five years evidencing occupancy (existing units only). A full market study for each property will be required, if funded, at the time the full application is submitted.
13. KHC underwriting models for each property included in the proposal, available format on [KHC's website](#). KHC requires individual project level underwriting models using the KHC-provided model.
14. If more than one property is included in the NOFA submission, respondents must complete a separate *TEB Portfolio Summary* spreadsheet, available on [KHC's website](#). In addition, a combined underwriting model showing the overall performance of the collective portfolio is required. The combined portfolio model may be on a developer-provided format.
15. KHC Capacity Scorecard, available on [KHC's website](#).
16. Documentation of commitments of other funding/financing sources. Conditional commitments will be accepted.

Send NOFA Response To:

Andrew Hawes
Managing Director, Multifamily Programs
Kentucky Housing Corporation
1231 Louisville Road
Frankfort, KY 40601
ahawes@kyhousing.org

NOFA responses should be directed Mr. Hawes via email, flash drive, or Dropbox link.

Public Records Acknowledgement:

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

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

NOFA ATTACHMENT A

EQUITY BRIDGE LOAN PROGRAM – TERM SHEET

The Equity Bridge Loan (EBL) program can provide a short-term loan to extend the schedule of the Low-Income Housing Tax Credit (LIHTC) investor’s equity payments to an affordable housing project (a Property). By deferring the investor’s equity installments, the LIHTC investor’s anticipated return on investment increases. As a result, investors are willing to pay a higher price for each LIHTC generated by a Property, thereby generating increased private sector capital available to fund construction and/or rehabilitation and allow certain projects to be financially feasible.

The intent of the EBL is to assist KHC in deploying its resources in an efficient and practical way and to meet the following objectives:

- 1) To increase KHC’s ability to support the construction or preservation of safe, decent, affordable housing within the Commonwealth of Kentucky;
- 2) To help increase the availability of tax-exempt bonds, LIHTC and private equity within the Commonwealth;
- 3) To maximize the impact of private sector capital in rural properties;
- 4) To complement and augment existing government loan programs;
- 5) To maintain the affordable rents for tenants; and
- 6) To provide for secure repayment of the loan to KHC and to permit KHC to quickly redeploy repaid loan proceeds to preserve additional properties.

I. Proposed Loan Terms

<i>Loan Amount</i>	\$1 million - \$5 million based upon demand.
<i>Term</i>	Maximum term of 11 years including a 12-month interest-only period and a 10-year amortization period. The interest-only period and the loan term are optional and may be extended for an additional six (6) months due to construction delays at KHC’s discretion.
<i>Amortization</i>	For the initial twelve (12) month period following loan closing, no payments will be due on the loan other than interest payments. KHC may, at its discretion, defer such interest payments until the placed-in-service date. Following the deferral period, principal on the loan will amortize with level annual payments over the remaining term. The EBL will fully amortize over the term of the loan with no balloon payments due at maturity.
<i>Interest Rate</i>	3.00% - 4.00%. The interest rate will be determined by KHC based on a Property’s needs and the ability to repay the loan with interest.

II. Loan Funding

The full amount of the EBL will be available for disbursement to the project owner to pay for eligible project costs at closing. To the extent that the full amount of the EBL is not funded at closing, the project owner may make subsequent draws on a monthly basis until the full amount of EBL is funded. Monthly interest will accrue on the funded loan balance.

III. Loan Repayment

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

The amortization of the EBL will commence on the first anniversary date of the loan closing and will consist of equal annual payments of principal and interest over the term of the loan. Annual payments for the full amount due in each year will be due on January 1 of each year following closing and will be calculated using a 30/360 accrual method. An alternate payment schedule may be approved by KHC. At closing, capitalized interest for the first twelve (12) months will be funded into a capitalized interest reserve.

IV. Security and Collateral

The EBL will be secured with a subordinate mortgage on the Property to secure the debt. In addition, the borrower shall provide additional security to KHC, which may take the form of any one of the following:

- During construction, the borrower will furnish either a 100% payment and performance bond or an irrevocable letter of credit equal to KHC's funds, excluding tax-exempt bonds, as construction security.
- The syndicator or investor will provide KHC with a collateral assignment of partnership interest in the Property.
- The equity investor will provide collateral to secure the full amount of the loan for both principal and interest for the entire term of the EBL in the form of one of the following:
 - 1) An unconditional promissory note from the investor or syndicator; or
 - 2) An unconditional payment guaranty from the corporate investor limited partner;
 - 3) Only if option 1 or 2 is not available, an irrevocable letter of credit from a bank equal to the unpaid principal balance of the EBL.

V. Associated Fees

Each successful applicant will be charged a commitment fee of one percent (1%) of the loan amount and a closing fee of \$5,000 per assisted property. The applicant is also responsible for closing costs, including recording fees, title insurance premium, all attorney fees, real estate transfer tax (if applicable), and other fees typically incurred in connection with the applicant's development.