TAX CREDIT APPLICATION PACKAGE SUPPLEMENT

HOUSING DEVELOPMENT FUND

- If applying for Low Income Housing Tax Credits **and** a Housing Development Fund Loan, please review the attached which describes the Housing Development Fund program.

- Please note, when there is a conflict between the Low Income Housing Tax Credit program and the Housing Development Fund program, the most restrictive rule, regulation, and/or requirement will apply.

- Any questions concerning the Housing Development Fund application process should be directed to Jerry W. Jones, Housing Finance/Development Administrator. He can be reached by phone at (302) 739-4263, by fax at (302) 739-1118, by mail at Delaware State Housing Authority, 18 The Green, Dover, Delaware 19901 or by e-mail, jerry@destatehousing.com.

TAX CREDIT APPLICATION PACKAGE SUPPLEMENT
HOUSING DEVELOPMENT FUND

Delaware State Housing Authority
State Of Delaware

PURPOSE

The purpose of the Housing Development Fund (HDF) is to provide affordable decent, safe and sanitary housing to responsible very low-, low- and moderate-income households.

PROGRAM DESCRIPTION

This program is designed to primarily provide multi-family rental financing. Types of developments that will be considered include, but are not limited to, the acquisition and/or rehabilitation of existing housing, the adaptive reuse of non-residential buildings, and new construction.

The Project and Neighborhood Standards (attached) provides guidance as to the level of detail required to demonstrate to the State that the proposed development meets the purpose of the HDF.

Because the HDF has limited funds, the developer must demonstrate that other potential sources of funding have been explored to ensure that the HDF is used only to the extent necessary.

ASSISTANCE AVAILABLE

Funds will be available for construction loans at 3% interest and permanent loans at 1% interest. Permanent loan interest may be deferred depending on the development's cash flow. Interest rates and repayment schedules of loans will be influenced by the income mix of the persons to be served, as well as the financial viability of the development.

CRITERIA FOR SELECTION

Major criteria, which will be considered in judging the soundness of a proposal and determining its merits are as, listed below and must be addressed in the application. A development must satisfy at least one of these criteria to be funded.

1. Priority will be placed on developments benefiting very low/low/moderate-income people, as defined from time to time by the Delaware State Housing Authority (DSHA). See income limits in this application. The period of time for which it is assured that the units will be inhabited by very low/low/moderate-income households is an important consideration in determining if this criteria is met, but in any event shall not be less than 20 years.

2. It is important to provide housing opportunities in neighborhoods where there is currently little very low/low/moderate-income housing.

3. Rehabilitation of substandard rental housing providing moderately priced units. The applicant must assure that the units will remain available and affordable to very low/low/moderate-income families for an extended period of time.

DETERMINATION FOR LOAN APPROVAL AND AMOUNT

The following specific items will be taken into consideration when determining the merits of an application:

Key Issues

1. Organization's past performance.
2. Community comments.
3. Demonstrated need for development.
4. Suitability of development location.
5. Cost efficiency of the development.
6. Amount of loan per unit serving very low/low/ moderate-income persons.
7. Length of payback period.
8. Position of the loan and how it is secured/length of repayment.
9. Source of permanent financing (if appropriate).
10. Percentage of total development cost funded by HDF.
11. Cash and noncash equity participation of developer.
12. Evidence that alternate sources of financing have been utilized/exhausted.
13. Evidence that housing will be provided in neighborhoods where there is little very low/low/moderate income housing available.
14. Extent to which proposal will assist in revitalization of deteriorating neighborhood.
15. Extent to which current Housing Development Fund loans are in good standing.

It will be the responsibility of the applicant to clearly address the above-stated criteria in order to be considered for a loan. The loan application includes further explanation of what must be addressed on these points. Developments that fail to adequately address these items will not be considered for funding.

MINIMUM ELIGIBILITY REQUIREMENTS

- For developments using Tax Credits, DSHA requires that a minimum amount of net equity raised be contributed to the development depending on current market conditions. However, DSHA reserves the right to deny DSHA financing where proposed net equity to the development is below current market standards. Net equity is defined as all equity raised for the development less syndication fees imposed by the syndicator and allowances by DSHA (see Note 2 on Page 6 for Tax Credit monitoring fee requirement and other allowances).

- It will be the responsibility of the developer when leasing units to very low/low/ moderate-income families to insure that the rents are approved by the Delaware State Housing Authority and that all rent increases during the period of the regulatory agreement also be so approved.

- Property owners on rental developments must agree to retain their housing as rental housing for at least 20 years or the duration of the loan(s), whichever is longer.

- The developer will be responsible for following the Department of Housing and Urban Development's guidelines as it relates to tenant relocation. If relocation is a part of the development, Developers must contact DSHA for consultation prior to application submission. DSHA will assist the developer in receiving all necessary relocation information.

- For developments involving Tax Credits and using HDF financing, DSHA requires a tenant income mix, with rents appropriately affordable, as follows: 20% of units rented to families at or below 50% of area median income at the published rent limits for 50% of median income tenants; and 80% of units rented to families at or below 60% of area median income at the published rent limits for 60% of median income tenants, unless otherwise approved by DSHA. Developments targeting lower tenant incomes, other than described above, must provide financing from other sources. NOTE: If a developer fee pledge is to be utilized to fill a funding gap, no more than 50% of the developer fee may be used. Developments using Rural Development project-based subsidies will be exempt from the above requirements.

- Developments proposed to be financed with tax-exempt mortgage revenue bonds (MRB) receiving Private Activity Volume Cap and requesting funding from the Housing Development Fund, must apply to DSHA during DSHA's annual Tax Credit application round for 9% credits. However, DSHA reserves the right to waive this requirement at its sole discretion. To the extent that such development does not receive 9% credits, DSHA will consider providing HDF funding under the following, but not limited to, conditions:

    1. DSHA will not provide funds for an MRB deal greater than DSHA otherwise would have provided if the development received 9% credits.

2. DSHA will fund no more than the proportionate amount of units below 60% of median income. In other words, if 30% of the units are at 60% of median income, DSHA will provide no more than 30% of the financing.

3. DSHA reserves the right, in all cases, to limit the amount of funds available from the HDF.

- If DSHA elects to use HOME Program funds in a development, it may be necessary to adjust development rents to meet the requirements of the HOME Program.

- DSHA will limit its total construction/permanent financing to $ 2.75 million.

APPLICATION PROCESS

- DSHA Tax Credit Applications may be used for Housing Development Fund requests and are available from and must be returned to: Delaware State Housing Authority, Development Section, 18 The Green, Dover, Delaware 19901. Three complete copies of all documents must be provided. All sets should have original signatures.

- The applicant must complete all applicable questions and supply all documents that are requested in the application form. All documents are required, even if applicants have submitted similar documents to DSHA in the past (i.e. financial statements). Failure to do so may result in the application form being returned to the applicant for completion. Final review of the application will occur only after the application is complete and all necessary documentation is provided. DSHA reserves the right to waive certain documentation it deems not of critical importance for loan approval.

- The application is designed to be sufficiently comprehensive and precise to address all information necessary for a responsible funding decision. However, the Delaware State Housing Authority and the Council on Housing reserve the right to ask for additional information during the review process should it be deemed necessary.

- DSHA staff will be available to assist the developer in the application process. Once it is determined that an application is complete, review, including action by the Council on Housing, will take approximately two months to four months, depending on the number of applications currently under review. Applicants will be notified of the date of Council review so that they may be present to answer questions that may arise during the review.

- An application fee and processing fee is required at the time of submission for all funding requests. The fee structure is as follows:

  Application Fee: $1,000 (Non-refundable)

Processing Fee: 1/2% of the greater amount requested if development has different construction and permanent loan amounts. Collected upon application submission, but may be financed as part of development costs upon loan approval.

Commitment Fee: 1/2% of the greater approved loan amount if development has different construction and permanent amounts (payable in full at loan closing). Such fee shall be deemed as earned by DSHA upon loan approval by the Council on Housing. This fee may also be financed as part of the development costs.

- Applicants will be notified in writing as to the disposition of their funding requests. In the case of funding awards, the commitment letters will enumerate the documents that will be required for the initial and final closings. Normally, initial closing can be scheduled within four to six weeks of the commitment letter, assuming all necessary documents of the applicant are provided.

NOTE 1: Should HDF funds be used in conjunction with HOME Investment Partnerships Program funding, DSHA will charge an additional fee of $1,000.00.

NOTE 2: DSHA charges a non-financeable $500 one-time per unit fee on all Tax Credit eligible units for performing the service of compliance monitoring. This fee must be paid prior to the Tax Credit allocation. DSHA will allow the fee to be funded from proceeds raised from the syndication of Tax Credits to the extent the proceeds exceed DSHA's minimum required net equity contribution for financing. Should equity raised exceed the combined: minimum equity requirement, investor legal/accounting fees, 1% allocation/carryover fees and monitoring fee amounts, such excess may be used to fund investor/DSHA-required operating reserves upon consent of DSHA. Equity available beyond the aforementioned uses must be contributed toward the DSHA-approved project costs of the development, which would reduce the amount of HDF financing. DSHA requires an operating reserve calculated at four months of operating expenses, including debt service. If acquisition/rehabilitation, operating reserve escrow is established at construction closing, DSHA requires 30% of net equity raised be contributed at construction closing.

Equity raised from the syndication of Tax Credits may <u>not</u> be used to target lower income households in the development's financing structure; however, other non-DSHA related financial sources may be used.

NOTE 3: DSHA requires that the following documents be submitted to its offices in Dover by the date established by the Council on Housing Resolution: (1) copy of title binder and copies of all listed restrictions or easements; additionally, any new easements with accompanying legal descriptions must be submitted; (2) land survey; (3) plans/specifications; (4) subdivision plan, if applicable; (5) site plan; (6) organizational documents of the ownership entity and the general partner or managing member, as appropriate; (7) identification of all members of the development team, i.e. bonding company, insurance company, architect, engineer, surveyor, attorneys, general contractor, management agent, consultant, etc. Failure to submit all documents may result in borrower using non-project resources to meet the IRS 10% expenditure requirement. Documents must be in a settlement ready format. Construction closing will not be scheduled until DSHA is satisfied with the completeness and accuracy of submitted documents.

NOTE 4: Payment and performance bonds are required for all construction activities. Letters of credit are not acceptable.

NOTE 5: A working capital letter of credit (LOC) or cash in the amount of 2 1/2% of the combined construction financing will be required at construction closing. This amount cannot be financed by any lending, equity or grant sources involved in the development. However, LOC fees may be paid from construction financing sources but not from development operational funds.

NOTE 6: Developer fee is defined as follows: 10% of total development cost excluding developer's fee, transferred reserves, bond prepayment penalty or other penalties and land cost. The developer fee cannot exceed $1,000,000. For identity of interest (related party) acquisitions of existing rental properties, the developer's fee is calculated at 8½ % of the Total Development Cost excluding developer's fee, transferred reserves, bond prepayment penalty or other penalties and land cost, and cannot exceed $1,000,000.

DSHA may consider an increase in the Developer's Fee at permanent loan closing in an amount up to 12.5% of the original Contingency line item as recorded in the DSHA Building Loan Agreement executed at construction closing (or in the absence of such document, as indicated in the DSHA approved proforma) provided that the following conditions are met:

1. There are sufficient unexpended funds in the contingency to reduce the DSHA permanent loan(s) by the same amount as being paid in additional developer's fee or if there are no DSHA permanent loan(s), to reduce the total development costs by the same amount as being paid in additional developer's fee; and

2. The original construction contract amount and increases in the construction contract amount required by approved change orders have been fully paid as indicated by the contractor's and mortgagor's cost certifications; and

3. The contingency funds are not otherwise required to fund approved development costs including but not limited to, required reserves or escrows; and

4. No funds have been transferred from other approved line items to the contingency; and

5. Payment of any additional developer fee and subsequent reduction in DSHA permanent loans or the total development costs will not result in a decrease in the annual amount of Tax Credits or decrease in the amount of LIHTC equity contributed to the development and

6. Any increase in developer fees will only be considered for HDF/HOME loans approved after January 1, 2010 or for developments making application for LIHTCs after January 1, 2010.

NOTE 7: DSHA requires the draft partnership agreement be submitted at least 15 working days before construction closing or closing will automatically be postponed.

NOTE 8: Borrowers will be charged a loan closing extension fee of $250 per day on any and all extensions requested once construction/permanent closing dates are agreed upon. Such fee may not be funded from the project's loan proceeds, equity or operating funds.

IMPORTANT HDF ADMINISTRATION POLICIES/CHANGES:

1. DSHA will return all incomplete draws and change orders and charge a minimum $250 fee for each draw/change order that must be reprocessed. This fee is not an eligible project cost.

2. DSHA will charge a $500 re-inspection fee after the first two inspections on a given area for each additional inspection required. This fee is not an eligible project cost and must be paid prior to re-inspection or issuance of approval to occupy the units by DSHA.

3. A cost certification will be due ninety (90) days after substantial completion. The substantial completion date is defined as the date DSHA acknowledges through written documentation that 100% of the units are completed and ready for occupancy or the date of certificate of occupancy for the last completed building, whichever is later. If the cost certification is submitted after the deadline date, a $5,000 penalty fee plus an additional $500 penalty fee for each additional week that the cost certification remains outstanding will be assessed to the Applicant. The penalty fee cannot be paid from loan(s) or equity proceeds.

4. Borrower shall obtain a minimum of three competitive sealed bids in accordance with Bidding Protocol contained in DSHA's Minimum Construction/Rehabilitation Standards. for the construction work on the development which are subject to review and approval of DSHA. Plans and specifications must be reviewed by DSHA prior to bidding to ensure DSHA minimum construction standards are met. The unaffiliated project architect of record must receive all bids at his offices and must forward copies of complete bids to DSHA upon receipt. The architect is required to review all construction bids to confirm that the bidders' proposals have included all prescribed construction activities and materials as contained in the plans and specifications.

PROJECT AND NEIGHBORHOOD STANDARDS
HOUSING DEVELOPMENT FUND
Delaware State Housing Authority
State Of Delaware

Proposed developments must meet the standards in this section.

1. The development shall be suitable from the standpoint of facilitating and furthering full compliance with the applicable provisions of Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, and Delaware Code Chapter 46, Title 6, The Equal Right To Housing provisions.

2. The development must promote greater choice of housing opportunities to, and avoid undue concentration of assisted persons in, areas containing a high proportion of low-income persons.

3. The site must be free from adverse environmental conditions, natural or manmade, such as instability, flooding, septic tank backups, sewage hazards, or mud slides; harmful air pollution, smoke or dust; excessive noise vibration or vehicular traffic; rodent or vermin infestation; or fire hazards. The neighborhood must not be one, which is seriously detrimental to family life or in which substandard dwellings, or other undesirable elements predominate, unless there is activity in progress to remedy the undesirable conditions. Phase I and Phase II environmental audits may be required.

4. The site must be adequate in size, exposure and contour to accommodate the number and type of units proposed and must conform to all local zoning ordinances/laws.

5. Adequate utilities (water, sewer, gas and electricity) and streets will be available to the site.

6. The housing must be accessible to social, recreational, educational, commercial and health facilities and services as well as other municipal facilities that are at least equivalent to those typically found in neighborhoods consisting largely of unassisted, standard housing of similar market rents/sale prices.

7. Travel time and cost via public transportation or private automobile from the neighborhood to places of employment providing a range of jobs for the targeted population must not be excessive. (While it is important that elderly housing not be totally isolated from employment opportunities, this requirement need not be adhered to rigidly for such developments.)

8. Developments that require permanent or temporary relocation of current tenants, homeowners, and/or businesses will be considered only if HUD relocation guidelines are followed.

9. The development may not be in an area that has been identified as having special flood hazards and in which the sale of flood insurance has been made available under the National Flood Insurance Act of 1968, unless the development is covered by Flood Disaster Protection of 1973, and it meets any relevant Department of Housing and Urban Development standards and local requirements.

10. The marketing survey, submitted in the application, must reflect a satisfactory unit absorption rate, as well as a demonstrated need for this development. Verification of market information must be a part of the application.

11. The repayment schedule of the Housing Development Fund loan proceeds will be taken into consideration when making a determination in the approval of the loan request. Applications that show a shorter loan period, and that do not jeopardize the integrity of the development, will be given a higher priority ranking when a final decision is made.

12. It will be the responsibility of the general contractor to supply references at the time that the application is submitted. If the general contractor is not selected at the time of application submission, references must be submitted at the time of selection, and DSHA reserves the right to reject the general contractor. The general contractor must provide payment and performance bonds from an approved bonding company prior to beginning work on a development.

13. A limited-profit or limited liability corporation applicant who is applying for HDF or conventional permanent financing will agree to limit the amount of profit/equity distributable per year to partners/equity holders to amounts not to exceed 10% of initial investment on the development. Applicants operating on this basis will be permitted to receive a return on their initial investment in accordance with the DSHA regulatory agreement, which will be executed at the time of final closing. In the regulatory agreement, the Applicant will legally obligate itself to regulate rents, charges, rates of return, and methods of operations. Initial investment is defined as total development costs less all permanent loans and grants, whether from DSHA or other sources. Where Low Income Housing Tax Credits are involved, the amount of annual equity distribution is limited to 1.5% of initial investment. DSHA reserves the right to adjust profit/equity distribution at its sole discretion. Developments that generate surplus of revenues over expenses (surplus cash as defined by DSHA) in any calendar year shall distribute 50% of the excess revenue to repay the HDF loan principal and accrued interest. The remaining 50% shall be used to pay the owner's return on equity.

jwj 3/2010