Indiana Affordable Housing & Community Development Fund

Application Process, Underwriting Guidelines & Compliance Requirements

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**Exhibit A: Summary of Loan Products and Terms**
The Indiana Affordable Housing and Community Development Fund (“Development Fund”) was established in 1989 to provide financing options for the creation of safe, decent, and affordable housing and for economic development projects in Indiana communities. Development Fund regulations may be found in Indiana Code 5-20-4. Developments also involving federal funding (e.g. HOME Investment Partnership Program (“HOME”) or Community Development Block Grant (“CDBG”)), tax-exempt bonds, or Low-Income Housing Tax Credits (“LIHTC”) must comply with the requirements of those programs.

The Development Fund provides a loan of up to $500,000 (or a grant in very limited special circumstances) for eligible activities as defined within this policy.

Section 1: Application Process, Eligible Activities, and Eligible Costs

1.1 How to Apply
Development Fund awards are approved through Indiana Housing and Community Development Authority’s (“IHCDA”) Development Fund Application or in conjunction with LIHTC applications through the Qualified Allocation Plan (“QAP”), with HOME applications through the HOME funding round, or with CDBG applications through the CDBG funding round.

Development Fund requests that are not in conjunction with another funding application are accepted year-round. The development must be discussed with IHCDA’s Director of Real Estate Lending prior to application submission. Applications must be submitted through the Development Fund e-mail/mailbox at developmentfundapplication@ihcda.in.gov. After review of the application, IHCDA staff will invite the applicant in to speak about the proposed development and to answer staff questions. IHCDA staff reserves the right to require changes to the proposal as a condition of recommending for funding.

IHCDA has established a Development Fund Advisory Committee comprised of members of the IHCDA Board of Directors to review non-residential projects and other projects outside the scope of this policy. If recommended for consideration by the Advisory Committee and approved through IHCDA underwriting, the project will then be presented to the Board of Directors for final approval. The Advisory Committee does not have the authority to approve awards. Review by the Advisory Committee is only required for special projects that do not fall within the eligible residential activities listed in §1.5 of this policy. All non-residential uses of the Development Fund or other special initiatives must be approved by the Advisory Committee before recommendation to the Board of Directors.

Development Fund requests in conjunction with other funding sources must be submitted in accordance with the application procedures and deadlines for those programs. For applications in conjunction with tax credits, please refer to Schedule J of the QAP. Whether the request is for a stand-alone project or in conjunction with another IHCDA program, the application fee is $750 for each Development Fund loan request. Application fees are non-refundable.

1.2 Eligible Applicants
Eligible applicants include nonprofit corporations, for profit developers, and local units of government. IHCDA must allocate at least fifty-percent (50%) of the fund to recognized nonprofit corporations under Section 501(c)(3) of the U.S. Internal Revenue Code.
Awardees with current Development Fund awards are eligible to apply for additional funding. All outstanding awards must be current (if loans), in compliance with all program requirements, and otherwise in good standing in order to be considered for additional awards. However, no individual project sponsor or its affiliates may hold more than 20% of the Development Fund’s total portfolio at any one time.

Individuals or organizations currently on IHCDA’s suspension or debarment list are not eligible to apply for Development Fund awards. Additionally, any organizations who receive a notice of default from any lender/partner, will be ineligible to apply for Development Funds for a period of one year following the cure of the default. Individuals or organizations who have had previous write-offs of Development Fund loans must demonstrate, through financial statements, that they now have the financial capacity to be considered for another loan.

1.3 Eligible Beneficiaries

Residential Developments: The Development Fund can be used to finance assisted units for occupancy by households earning up to 80% of the area median income (“AMI”), as published annually by HUD. Income limits are maintained on IHCDA’s Compliance Manual Webpage.

Indiana Code governing the Development Fund requires at least 50% of the dollars allocated to be used to serve “very low-income households” (households earning less than 50% of the area median income). Therefore, at least 50% of the Development Fund assisted units must be designated for households at or below 50% AMI, and the remaining Development Fund assisted units must be designated for households at or below 80% AMI.

The percentage of total development costs attributable to the Development Fund represents the percentage of units that will be considered Development Fund assisted. To calculate the number of units that are considered Development Fund assisted units, use the following calculation:

- Development Fund request divided by total development costs.
- The percentage determined above is the percentage of units that are considered Development Fund assisted. Multiply this percentage by the total number of units in the project. Please round up on this calculation.
- For example, if total development costs are $2,000,000 and the applicant is requesting $500,000 in Development Fund financing, then 25% of the construction financing is through the Development Fund. As such, 25% of the units will be Development Fund assisted and must meet the requirements of the Development Fund program.

The required number of Development Fund assisted units at 50% AMI income and rent limits is determined by the following calculation:

- 50% of the of Development Fund assisted units (as defined above): or
- If there are 50 or more units in the development, the number of units set at 50% AMI is the greater of 50% of the assisted units (as calculated above) or 10 units.

Development Fund awards may target special needs populations such as the elderly, persons with disabilities, and homeless individuals, as long as the targeted population is income eligible.

If there is more than one unit type within the development, the Development Fund units must be split among the different unit types.
**Non-Residential Developments:** Applications for funding of non-residential community economic development will be evaluated to determine financial impact on the community and consistency with IHCDA’s Strategic Priorities. *(See §1.8 Eligible Non-Residential Activities below).*

1.4 **Activity Location**
The proposed activity must be located within the State of Indiana.

1.5 **Eligible Residential Activities**
Eligible activities include, but are not limited to, acquisition, new construction, and/or rehabilitation of homes for sale, permanent rental units, permanent supportive housing, or other programs considered appropriate to meet the affordable housing and community development needs of low-income families and individuals at the discretion of IHCDA, *except for* the specifically ineligible activities listed in §1.6 below.

*Acquisition only is an allowable activity only for acquisition of existing affordable housing.*

1.6 **Ineligible Residential Activities**
The following activities are ineligible for assistance through the Development Fund:

- Rehabilitation of mobile homes;
- Acquisition only activities (except acquisition of existing affordable housing);
- Acquisition, rehabilitation, or new construction of units within the boundaries of the 100-year floodplain; please see detail on flood plains in Section 1.11 below.
- Owner-Occupied Rehabilitation (OOR developments must request funding through IHCDA’s CDBG/CDBG-D program);
- Refinances; and
- Partial repayment of a construction loan other than a Development Fund loan used during construction.

1.7 **Eligible Non-Residential Activities**
Development Fund may be used for non-residential activities that contribute to the economic development of communities, including but not limited to:

- Non-residential activities in communities designated under the Stellar Communities program, or other special IHCDA initiatives at IHCDA’s discretion. Eligible activities include, but are not limited to: facade improvements (typically involving historic buildings); acquisition, construction, or rehabilitation of commercial properties and related structures; brownfield reuse; planning grants; etc.
- Commercial space as part of a mixed-use design for Section 108, LIHTC or New Market Tax Credit developments. The developer must first make a funding request to the Community Investment Fund of Indiana (“CIFI”) and provide evidence of such request and the outcome.

All non-residential activities must be approved by IHCDA’s Development Fund Advisory Committee as described in Section 1.1 above.
1.8 Eligible Activity Costs

Soft costs and professional fees are eligible except for those fees specifically listed as ineligible under §1.9 below. Examples of eligible soft costs include, but are not limited to:

- Operating reserves;
- Contingency funds;
- Relocation;
- Architectural fees;
- Engineering fees;
- Consulting fees and
- Environmental assessments.

Questions about eligible vs. ineligible soft costs under the Development Fund program can be directed to the IHCDA Director of Real Estate Lending.

Acquisition – Limited to the purchase price (at or below appraised value) and related costs associated with the acquisition of real property. **Acquisition only is an allowable activity only for acquisition of existing affordable housing.** The recipient of a Development Fund award is required to use a title company when purchasing assisted properties.

1.8.1 New Construction

- Hard costs associated with new construction activities.
- Utility connections including off-site connections from the property line to the adjacent street.
- Related infrastructure costs - improvements to the development site that are in keeping with improvements of surrounding, standard housing or community development activities. Site improvements may include on-site roads and water and sewer lines necessary to the development.
- For multi-family rental housing, costs to construct a permanent on-site management office, the apartment of a resident manager, laundry facilities, community facilities, or other common space which is located within the same development as the housing and which is for the use of the tenants and their guests.
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners.

1.8.2 Rehabilitation

- Hard costs associated with rehabilitation activities.
- Lead-based paint interim controls and abatement costs.
- Mold remediation.
- Utility connections including off-site connections from the property line to the adjacent street.
- Related infrastructure costs - improvements to the development site that are in keeping with improvements of surrounding, standard developments. Site improvements may include on-site roads and water and sewer lines necessary to the development.
- For multi-family rental housing, costs to rehabilitate a permanent on-site management office, the apartment of a resident manager, laundry facilities, community facilities, or other common space which is located within the same development as the housing and which is for the use of the tenants and their guests.
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners.

1.8.3 Demolition
- Costs associated with the demolition and clearance of existing structures.

1.8.4 Non-Residential
- Costs not included above will be considered on a case-by-case basis and must relate directly to the development as approved.

1.9 Ineligible Activity Costs
The following costs are ineligible for reimbursement from Development Fund awards:
- Administration;
- Replacement Reserves;
- Developer’s Fee;
- Costs associated with any IHCDA application preparation;
- Purchase or installation of luxury items, such as swimming pools or hot tubs;
- Purchase or installation of equipment, furnishings, tools, or other personal property that is not an integral structural feature, such as window air conditioner units or washers and dryers;
- Tenant-based rental assistance;
- Project-based rental assistance, rental subsidy, or operating subsidy;
- Mortgage default/delinquency correction or avoidance;
- Loan guarantees; and
- Annual contributions for operation of public housing.

1.10 Match Requirements
Applicants for Development Fund must be able to document a local match in an amount of at least 10%. Acceptable match sources include in-kind donations, donated land, owner equity, building materials, loans, cash grants, or any combination of both in-kind and cash. Other sources of match may also qualify, except for funds administered by IHCDA.

Applications for developments located in Marion County must include evidence that funding has been requested from the Indianapolis Housing Trust Fund. Evidence must include the decision from the Indianapolis Housing Trust Fund as to whether or not the request was approved or denied.

1.11 Flood Plain Requirements
A FEMA flood plain map with the proposed Development site identified must be submitted. If a flood plain and/or wetlands are located anywhere on the site, the site plan must show where the buildings, common areas, and any land improvements will be located in relation to the flood plain and/or wetlands.

100-year Flood Plains: Applications that propose the placement of buildings in a 100 year flood plain must submit the following documentation:

a) All areas of the 100-year flood plain must be documented by the FEMA map for the areas in
which the site is located. The proposed site for development must be located on that map.

b) A qualified Civil Engineer must document mitigation for impacts to existing floodplains planned for the Development. A resume for the Civil Engineer must be submitted with this documentation.

c) A FEMA Conditional Letter of reclassification must be obtained for the property that shows that the property is eligible for reclassification out of the flood plain area.

d) A financing plan and costs for the site work involved in the reclassification.

For all properties that receive Development Funds and are located in a 100-year flood plain at the time of initial application, a final letter of reclassification from FEMA along with an elevation certification must be provided to IHCDA at the completion of the Development. If wetlands or hazardous substances exist on the site, the Applicant must submit: 1) evidence that the wetlands or hazardous substances can be mitigated; and 2) a plan, that includes financing, or how the Applicant anticipates mitigating the wetlands or hazardous substances.
Section 2: Loan Terms and Underwriting Provisions

2.1 Development Fund Activity Provisions
The Development Fund may provide loans or grants (in very limited special circumstances) up to $500,000 per development.

Development Fund grants will only be made in conjunction with special IHCDA initiatives as announced by IHCDA and in IHCDA’s sole discretion. When a special grant initiative is launched, IHCDA will announce via public notice. The notice will include information pertaining to the purpose of initiative, the application process, and any special criteria not included in this general Development Fund policy. Except for these special initiatives, IHCDA will only accept Development Fund applications for loans.

The Development Fund may be used for the following types of loans:

- Pre-development: to pay project pre-development expenses;
- Acquisition: to pay for purchase and closing costs for property acquisition. If the activity is acquisition only, the property being purchased must be an existing affordable housing project;
- Construction: to pay for hard and soft costs of new construction and rehab projects;
- Permanent: to provide permanent financing to the project; and/or
- Bridge: financing to bridge the timing gap between project or program costs and cash from committed sources not yet available (equity).

Homebuyer projects are not eligible for permanent or bridge financing. (See “Exhibit A: Summary of Loan Products and Terms” for more details on loan provisions.)

2.2 Pre-Development Loans
Pre-development loans are permitted, up to a maximum amount of $50,000. Pre-development loan funds may be used to pay for:

- Deposits on land purchase contracts;
- Market studies, as long as the provider is on IHCDA’s approved market study provider list;
- Environmental reviews;
- Surveys, etc.

All pre-development loans will be underwritten to ensure repayment at the time of construction loan closing. Questions regarding eligible pre-development loan uses may be directed to the Director of Real Estate Lending.

As with other Development Fund loans, a $750 application fee is required. The interest rate will be 3-5%, with a maximum term of 24 months. See Exhibit A for additional terms and fees.

2.3 Loan Terms
Applicants receiving Development Fund loans must demonstrate the ability to repay the loan. If the loan will not take first position behind permanent financing, the developer must receive IHCDA approval.
The base interest rate for loans is three-percent (3%). The interest rate offered by IHCDA will be determined during underwriting. Underwriting will start at 3% and make a final determination based on financial capacity. The final interest rate will not be less than 3%, but may exceed 3% based on capacity.

(See “Exhibit A: Summary of Loan Products and Terms” for more details on loan provisions including terms, application fees, collateral, etc.)

2.4 Financing Requirements
Loans must be closed under the supervision of a title agent or attorney. Title insurance is required.

Award recipients will be required to provide proof of adequate builder’s risk insurance, property insurance, and/or contractor liability insurance during construction. Following construction, proof of adequate property insurance is required for all assisted properties throughout the affordability period.

2.5 Underwriting Guidelines

2.5.1 Rental Underwriting Guidelines
The following are underwriting guidelines for multi-family rental developments. However, all applicants should be aware that these are averages and the numbers submitted should reflect the nature and true cost of the development proposed. IHCDA will consider any underwriting outside of these guidelines if supporting documentation is provided.

1. Total Operating Expenses – All developments must be able to underwrite with a minimum operating expense of $3,500 per unit per year.
   a. IHCDA will consider the reasonableness of operating expenses for each Development based on information submitted by the Applicant.
   b. Applicant must provide documentation of estimated property taxes and insurance for the proposed development.
2. Management Fee– 5-7% of “effective gross income” (gross income for all units less vacancy rate).
3. Vacancy Rate – 6% - 8%.
4. Expense Growth – 3%, with at least a 1% spread between expense growth and rental income growth.
5. Rental Income Growth – 0-2%/year.
6. Operating Reserves – The greater of (1) four to six months of expenses (i.e., operating expenses, excluding replacement reserves, plus debt service) or (2) $1,500 per unit.
7. Replacement Reserve – Must be included in the operating budget of all proposed developments. Contributions must be made to the reserve account, starting at or before the conversion date of the construction loan to permanent loan and must be funded for the term of the Development Fund loan. The following minimum contributions must be used:
   a. Rehabilitation: $350 per unit per year
   b. New Construction: $250 per unit per year
   c. Single Family Units OR
d. Historic Rehab: $420 per unit per year

Replacement reserves must only be used for capital improvements (i.e., substantial improvements to the real estate such as re-roofing, structural repairs, or major projects to replace or upgrade existing furnishings, but not including replacement of individual appliances or minor repairs) and must not be used for general maintenance expenses. Less restrictive provisions requested by lenders will be considered by IHCDA.

8. Stabilized DCR: 1.10-1.40. For developments structured with no hard debt the minimum cash flow before deferred developer fee must be at least $250 per unit annually.

a. Stabilization generally occurs in Year 2. The debt coverage ratio projection for a development should not go below 1.1 during the entire fifteen (15) year affordability period to be considered financially feasible.

If the DCR is outside these guidelines, the Applicant must provide a written detailed explanation with third-party documentation supporting the explanation; however approval of underwriting from other financing institutions/funding sources will not constitute acceptable supporting documentation).

b. Tax abatement, for example, may cause the debt coverage ratio to be higher than these guidelines. Evidence of approved tax abatement must be provided in the application.

Developments without hard debt are allowed, but will be subject to additional scrutiny from IHCDA. Developments submitted with no debt will not have a debt coverage ratio but will be required to have a cash flow without having an undue profit. This will be determined by a ratio of Effective Gross Income to Total Annual Expenses (including reserve for replacement). A ratio of 1.15 shall be the minimum required to be considered feasible by IHCDA in Years 1-15.

9. Security: First lien mortgage, collateral assignment of rents and leases, UCC filing on furniture, fixtures, and equipment, and guarantee from the borrower. If other financing will be in first lien position, IHCDA will need to be provided with all appropriate documentation, which will be subject to review and approval by IHCDA’s legal counsel.

10. Repayment: It is expected that repayment will be made as follows:

a. If Development Funds are used during construction, repayment is expected from permanent loan funds, or equity investment if used in conjunction with LIHTC funding.

b. If Development Funds are used for both construction and permanent financing, repayment is expected to be made from cash flow as a regular debt service payment, keeping within the prescribed debt coverage ratio. Refer to Section 2.4.1, #8 for the DCR requirements.

c. In special circumstances, a 50/50 split of available cash flow may be used to pay deferred developer fee and debt service on the Development Fund loan.
Additional Required Documentation:

A. Market Study for all requests in conjunction with Rental Housing Tax Credits. IHCD A may request a market study for other types of Development Fund requests if needed;
B. Site Plan, if applicable;
C. Detailed Sources and Uses of Funds to show that sources equal uses and the identification of each source;
D. Stabilized proforma showing detailed rental income, operating expense reimbursements, operating expenses, and market vacancy;
E. Sensitivity analysis with respect to occupancy rates, tenant rental rates, and interest rates;
F. Evidence of site control including verification of current ownership;
G. For non-profit applicants, a Borrowing Resolution passed by the Board of Directors authorizing submission of the Development Fund application;
H. For local unit of government applicants, a Borrowing Resolution passed by the City Council or Town Council authorizing submission of the Development Fund application;
I. If the Development Fund will be used for acquisition, application must include an appraisal. Costs of acquisition above appraised value cannot be paid through Development Fund;
J. Experience of development team and operations management; and
K. Financial statements and/or financial summary of the borrower(s) and, when applicable, guarantor(s).

2.5.2 Single-Family Underwriting Guidelines
These guidelines cover the guidelines for construction and rehabilitation of detached single-family homes and construction of a condominium project or attached townhomes.

Type: New construction or rehabilitation of single-family residences.

Term: Up to 12 months for pre-sold detached residences and up to 24 months for attached townhomes.

Interest Rate: Underwriting will start at 3% and make a final determination based on financial capacity. The final interest rate will not be less than 3% but may exceed 3% based on capacity.

Security: First lien mortgage on real estate, collateral assignment of rents, leases, and profits, UCC filing on furniture, fixtures, and equipment, and guarantee from the borrower.

Loan-to-value: Maximum 80% of improved appraised value per home.

Sources of Financing: The total project costs must equal the project’s total sources of financing, inclusive of equity, with all sources identified with the name of the funding source and the dollar amount.

Pre-Sales: Pre-sales will be required.

The 10% match is required.

Additional Required Documentation (Single Family):

A. Site Plan, if applicable;
B. Detailed Sources and Uses of Funds to show that sources equal uses and the identification of each source;
C. Monthly development proforma;
D. Experience of development team and operations management; and
E. Financial statements and/or financial summary of the borrower(s) and, when applicable, guarantor(s).

2.5.3 Non-Residential Underwriting Guidelines:
Type: Construction, rehabilitation, or mini-perm loans.

Term: Up to ten years.

Amortization: Up to 25 years depending on property type and age, with a twenty (20) year maximum preferred.

Interest Rate: Underwriting will start at 3% and make a final determination based on financial capacity. The final interest rate will not be less than 3% but may exceed 3% based on capacity.

Security: First lien mortgage, collateral assignment of rents and leases, UCC filing on furniture, fixtures, and equipment, and guarantee from the borrower.

Operating Expense: TBD.

Operating Reserves: TBD.

Loan-to-value: Maximum 80%.

Sources of Financing: The total project costs must equal the project’s total sources of financing, inclusive of equity, with all sources identified with the name of the funding source and the dollar amount.

Debt Service Coverage: A minimum of 1.10

The 10% match is required.

Additional Required Documentation (Non-Residential):

Site Plan, if applicable;

Detailed Sources and Uses of Funds to show that sources equal uses and the identification of each source;

Stabilized proforma showing detailed rental income, expense stops, operating expense reimbursements, operating expenses, and market vacancy.

Sensitivity analysis with respect to occupancy of the local tenants, local tenant rental rates, and interest rates.

Experience of development team and operations management.
Financial statements and/or financial summary of the borrower(s) and, when applicable, guarantor(s).

Evidence of lessor/owner financial capacity as well as evidence of leasing commitments for 100% of the space.

**Section 2.5.4 Collateral Requirements**
All Development Fund loans must be collateralized. Subject to review and approval of another lender’s documents, IHCDA will agree to be in a subordinate lien position. IHCDA will also require the collateral assignment of rents, leases and profits, UCC filings on furniture, fixtures and equipment, and may require personal guarantees, depending on underwriting criteria and debt coverage ratios.
Section 3: Closing and Funding

3.1 Closing
At the time of approval of a Development Fund loan, the applicant will receive a pre-closing checklist for completion. Any sections of the checklist that are not applicable should be left blank.

Within sixty (60) days of anticipated closing, the following items need to be submitted to the Closing Agent in order for closing documents to be prepared:

1. A copy of the completed checklist
2. A copy of the most current title commitment
3. Copies of all LOI’s from all lenders to whom IHCDA will be subordinate

The closing documents will be finalized for execution once all parties involved have gone through their individual review processes.

3.2 Funding
Development Fund proceeds can be drawn down by the Applicant at any time during the construction period. Interest will accrue from the date of each disbursement to the actual date the loan converts to the permanent loan. At the time of conversion, all accrued interest will be due and payable.

When requesting a draw, the following information needs to be submitted to the Closing Agent:

1. The Development Fund Draw Request form;
2. The ACH Authorization;
3. Copies of all supporting documentation;
4. Copy of the Purchase Agreement (if funds are being used for acquisition); and
5. Wiring instructions from the title company (if funds being used for acquisition).

3.3 Inspections
Inspections will be conducted throughout the construction period. If a construction issue is raised by the IHCDA inspector, applicant will be responsible for correcting and documenting the “fix” to the issue.

Inspections will continue throughout the affordability period to ensure the safety and security of the residents.
Section 4: Affordability Periods and Compliance Requirements

4.1 Regulatory Requirements and Building Code
All regulatory requirements of I.C. §5-20-4 must be met. Additional regulatory requirements may apply depending on other sources of funding committed to the project.

Development Fund-assisted units must meet the stricter of the local building codes or the Indiana State Building Code.

4.2 Historic Review
Any project applying for Development Fund will be subject to historic review. Project address, location maps, and photographs from all elevations must be submitted with each application.

The recipient is responsible for completing the Section 106 Historic Review Process BEFORE:

1. Executing contracts or entering into any other commitments of Development Fund and
2. Initiating demolition, rehabilitation, or construction activities. This includes all site preparations and ground disturbing activities: infrastructure, grading, etc.

If a project is deemed to be historic and is proposing funding in whole or in part by the Development Fund, then I.C. §14-21-1-18 is triggered, which requires that any historic site or historic structure owned by the State or any historic site or historic structure listed on the State or national register may not be altered, demolished, or removed by a project funded, in whole or in part, by the State unless the review board has granted a certificate of approval.

Process for Projects Funded Only by State Funds
Consultation occurs between the State Historic Preservation Office (SHPO), the funding agency, and the applicant to determine if listed properties will be altered, demolished, or removed by the proposed development. The applicant will need to apply for a Certificate of Approval from the State Historic Review Board.

Process for Projects Funded by State and Federal Funds
Consultation occurs between the State Historic Preservation Office, the funding agency, and the applicant to understand the impact of developments on historic resources. If it is determined that any sites or structures listed on the State or national registers will be adversely impacted and the development will require a Certificate of Approval from the State Historic Review Board, the application for a Certificate of Approval may not be submitted until the Federal review process is completed.

*The State Historic Review Board meets quarterly (January, April, July and October) to hear and approve Certificates of Approval. All applications for a Certificate of Approval must be received by the SHPO no later than 40 days prior to the review board meeting.
Please refer to the Chapter 2 of the IHCDA CDBG and HOME Program Manual for more information on historic review.

4.3 Affordability Period/Lien and Restrictive Covenants for Residential Developments

Rental developments will be subject to a Lien and Restrictive Covenant Agreement (“LRCA”) that must be executed against every residential property constructed, rehabilitated, or acquired, in whole or in part, with Development Fund funds. The lien will assign a minimum 15 year affordability period for all rental housing developments. If the award is made in conjunction with LIHTCs, the development will be subject to the applicable tax credit compliance and extended use period. If the award is made in conjunction with HOME or CDBG funding, the development will be subject to the applicable program affordability period.

Upon occurrence of any of the following events during the affordability period, the entire sum secured by the lien, without interest, shall be due and payable by developer and/or owner upon demand. Repayment may be demanded upon: (1) transfer or conveyance of the real estate by deed, land contract, lease, or otherwise, during the affordability period; (2) commencement of foreclosure proceedings by any mortgagee (or deed in lieu of foreclosure), within the affordability period; or (3) determination that units are not being used as a residence by a qualifying tenant or not leased according to the program affordability requirements. The award recipient will be responsible for repaying IHCDA.

At the end of the affordability period, if the borrower/recipient has met all conditions, the lien will be released.

Homebuyer developments are not subject to an affordability period. However, beneficiaries of homebuyer developments must meet the income eligibility requirements prior to purchase.

4.4 Income and Rent Restrictions for Residential Developments

All Development Fund-assisted units in residential developments must be income and rent restricted. If the award is made in conjunction with LIHTCs, then the tax credit program income and rent limits will apply. If the award is made in conjunction with HOME or CDBG funding or is Development Fund only, then the HOME program income and rent limits will apply.

For purposes of income eligibility, household income must be calculated and verified at the time of initial move-in using the methodology as described in 24 CFR Part 5 and in Chapter 5 of HUD Handbook 4350.3. Eligibility is based on gross income, not net or adjusted income. This same income verification procedure is used for both the LIHTC and HOME programs. For more information on income verification procedures, please refer to the appropriate chapters of either the tax credit or federal programs compliance manual. Rental developments funded with Development Fund only will not be required to complete full annual recertification of household income, but must annually certify household size and rent. Developments with Development
Fund combined with another program must follow the recertification requirements of that program.

For purposes of rent limits, gross rent must be below the applicable rent limit. Gross rent for Development Fund is defined as the sum of tenant-paid rent portion + utility allowance + non-optional fees. Rental assistance (subsidy) is not included in the gross rent calculation for purposes of Development Fund compliance. For more information on utility allowances and fees, please refer to the appropriate chapters of either the tax credit or federal programs compliance manual.

4.5 Ongoing Compliance for Residential Developments

All Development Fund assisted properties must submit an Annual Owner Certification of Compliance to IHCDA for each year of the affordability period. The recipient must begin reporting tenant events in IHCDA’s online management system with the first tenant move-in. The report covers the period January 1 – December 31 and is due to IHCDA offices by the close of business January 31 of the next calendar year. For more information about Owner Certifications, please refer to the appropriate chapters of either the tax credit or federal programs compliance manual.

All Development Fund assisted properties will be subject to IHCDA tenant file audits and physical inspections. The audit and inspection will take place at least once every three years. When Development Fund is combined with other funding sources, the audit/inspection cycle will occur based on the cycle and frequency prescribed by that program.
Section 5: Waivers and Modifications

5.1 Requesting Waivers
IHCDA, in its sole discretion, may consider a waiver request from any Applicant/Developer in regards to any program requirement. The Applicant must submit the waiver request along with the original application. The waiver request must include:

1. The details of the specific requirement for which the waiver is being requested;
2. A detailed description as to why the development cannot meet the requirement;
3. Any additional information the Applicant would like IHCDA to consider with the request, and
4. Payment of the waiver request fee in the amount of $500 for each requirement requested to be waived.

IHCDA will provide a written response approving or denying the request. The waiver request fee will be retained by IHCDA regardless of whether the waiver is granted.

5.2 Requesting Modifications
IHCDA will impose a $500 fee for a request for changes to the characteristics of the development, such as unit types, distribution, or targeting (e.g. set-asides). A modification fee will also be imposed for a request to change loan terms from those in the original executed letter of intent. This fee will apply to any modification requested after approval of funding.

In addition, IHCDA will impose a $1,500 fee to modify any legal documents such as the recorded Lien and Restrictive Covenant.

For example, if an owner requests a modification to change the number of 30% set-aside units at the property during the affordability period, the owner would submit a $500 modification request fee and then, if approved, an additional $1,500 fee to have IHCDA modify the recorded Lien and Restrictive Covenant on the property to reflect the new unit mix. The total modification cost is $2,000. If the modification does not require amending the legal documents, then the $1,500 fee would not apply.

Approval of modification requests is at the sole discretion of IHCDA. IHCDA must evaluate each request to see how the change would have affected original funding and underwriting of the development, as well as to ensure that the proposed change will not cause noncompliance.
### Exhibit A: Summary of Loan Products and Terms

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Pre-Development</th>
<th>Acquisition</th>
<th>Construction</th>
<th>Permanent</th>
<th>Bridge</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To pay project pre-development expenses</strong></td>
<td>To pay for purchase and closing costs for property acquisition</td>
<td>To pay for hard and soft costs of new construction and rehab projects</td>
<td>To provide permanent financing to project</td>
<td>Financing to bridge the timing gap between project or program costs and cash from committed sources not yet available</td>
<td></td>
</tr>
<tr>
<td><strong>Rental housing, for-sale housing, community facilities, community economic development</strong></td>
<td>Rental housing, for-sale housing, community facilities, community economic development</td>
<td>Rental housing, for-sale housing, community facilities, community economic development</td>
<td>Rental housing, community economic development</td>
<td>Rental housing &amp; community economic development</td>
<td></td>
</tr>
<tr>
<td><strong>up to $50,000</strong></td>
<td>up to $500,000</td>
<td>up to $500,000</td>
<td>up to $500,000</td>
<td>up to $2,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>3-5% Fixed</strong></td>
<td>3-5% Fixed</td>
<td>3-5% Fixed</td>
<td>3-5% Fixed</td>
<td>3-5% Fixed</td>
<td></td>
</tr>
<tr>
<td><strong>In full at construction financing close</strong> <em>For sale housing: scheduled or allocated amount of loan due at construction closing for each unit, pro rata w/ other lenders</em>*</td>
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<td>In full at construction financing close <em>For sale housing: scheduled or allocated amount of loan due at construction closing for each unit, pro rata w/ other lenders</em>*</td>
<td>Principle and interest payable monthly; amortizes up to 30 years for rental or 25 years for non-residential activities; balloon at maturity</td>
<td>In full as equity installments are paid into the project</td>
<td></td>
</tr>
<tr>
<td><strong>2 years or at closing</strong></td>
<td>2 years</td>
<td>2 years</td>
<td>15 years rental; 10 years non-residential activities</td>
<td>2 years (Up to 3 years on a case by case basis)</td>
<td></td>
</tr>
<tr>
<td><strong>$1,500 Legal/Closing Fee plus recording fees if applicable; $750 application fee</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>Generally secured; exceptions based on borrowers overall financial strength and level of certainty of take-out financing</strong></td>
<td>Real estate collateral</td>
<td>Real estate collateral</td>
<td>Real estate collateral; minimum 1.10 DCR</td>
<td>Real estate collateral, equity commitment</td>
<td></td>
</tr>
</tbody>
</table>