

**Schedule J- Procedures for Accessing Development Fund Loans**

The Indiana Affordable Housing and Community Development Fund (“Development Fund”) was established in 1989 to provide financing options for affordable housing and community economic development projects in Indiana.

In an effort to streamline the application process, developers applying for Low Income Housing Tax Credits (LIHTC) may simultaneously request a Development Fund loan. To apply for a Development Fund loan, the Applicant must indicate the Development Fund request on Form A.

Applicants who receive a Development Fund loan are subject to additional regulations and requirements, which may be found in the Indiana Code at IC § 5-20-4 and IC § 14-21-1-18 (State Historic Review). Before requesting a Development Fund loan, applicants should familiarize themselves with these requirements.

Applicants must pay a \$1000 non-refundable application fee for all Development Fund loan requests.

**A. Development Fund Program Eligibility**

Eligibility will be determined based on:

- Demonstrated need for a Development Fund loan
- Financial feasibility, based on underwriting
- Whether the Development meets State and Federal requirements of all programs for which it is applying
- If the application’s ranking is sufficient for it to be awarded LIHTC
- The availability of Development Fund funds

**B. Eligible Applicants**

Any LIHTC applicant may request a Development Fund loan.

IHCDA must allocate at least 50% the fund to nonprofit corporations under Section 501(c)(3) of the U.S. Internal Revenue Code.

Organizations with current Development Fund awards are eligible to apply for additional funding for new projects. An Applicant’s outstanding awards must be current, in compliance with all program requirements, and otherwise in good standing in order to be considered for additional awards. No individual organization 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

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lender/partner will be ineligible to apply for Development Fund loans until the default is cured to the satisfaction of the applicable lender. Organizations that 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.

### **C. Development Fund Loan Limitation**

The maximum Development Fund loan request is \$500,000 per application. Based on availability of funding, IHCD may, at its discretion, issue a RED Notice prior to a funding round to reduce or increase the amount allowed per application.

The \$500,000 maximum request will also apply at a project level. An applicant who divides an existing project or contiguous sites into multiple applications will only be allowed to request \$500,000 total for the project, not \$500,000 per application.

### **D. Eligible Uses of Development Fund Loan**

#### **Soft Costs**

Soft costs and professional fees are eligible except for those items specifically listed as ineligible under Part F below.

Examples of eligible soft costs include:

- Operating reserves
- Contingency funds
- Relocation costs
- Architectural fees
- Engineering fees
- Consulting fees
- Environmental assessments

#### **Acquisition**

Acquisition and related costs are eligible except for those items specifically listed as ineligible under Part F below. Acquisition costs are limited to the actual purchase price and not to exceed the appraised value.

#### **New Construction**

New Construction costs are eligible except for those items specifically listed as ineligible under Part F below.

Examples of eligible new construction costs include:

- Hard costs associated with 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.



- Costs to construct a permanent onsite management office, the apartment of a resident manager, laundry facilities, community facilities, or other common space which is located within the Development and which is for the use of tenants and their guests
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners

### Rehabilitation

Rehabilitation costs are eligible except for those items specifically listed as ineligible under Part F below.

Examples of eligible rehabilitation costs include:

- 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 such as streets and alleys, water and sewer lines, and other public access needs
- Costs to rehabilitate a permanent onsite management office, the apartment of a resident manager, laundry facilities, community facilities, or other common space located within the Development and which is for the use of tenants and their guests
- Stoves, refrigerators, built-in dishwashers, garbage disposals, and permanently installed individual unit air conditioners

### Demolition

Costs associated with the demolition and clearance of existing structures are eligible.

### Non-Residential

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

## E. Ineligible Uses of Development Fund Loan

The following costs are ineligible for reimbursement from Development Fund awards:

- Administration
- Replacement Reserves
- Developer Fee
- Costs associated with preparation of an IHCD application
- 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. NOTE: IHCD may approve the use of Development Fund for furniture in Permanent Supportive Housing developments.
- Tenant-based or Project-based rental assistance
- Rental subsidy or operating subsidy



- Mortgage default/delinquency correction or avoidance
- Loan guarantees
- Annual contributions for operation of public housing

## F. Loan Term

The Applicant may propose a loan term of up to three years of construction financing and up to 15 years of permanent financing. For Developments with HUD financing, the permanent loan term may exceed 15 years to match the term of the HUD loan.

Amortization schedule will be a maximum 30-year amortization schedule or co-terminus with first-mortgage financing.

- Construction loan- IHCDCA construction loans will be for a period of 24, 30, or 36 months. The borrower may propose their desired construction loan term.
- Permanent loan- IHCDCA permanent loans will be for a 15-year period with the following exceptions:
  - For HUD or Fannie loans IHCDCA's loan maturity will be coterminous with the senior loan.
  - For Freddie loans:
    - If IHCDCA loan is "hard" (must-pay) maturity is coterminous with senior loan
    - If IHCDCA loan is "soft" (cash flow contingent) maturity is 6 months after maturity of senior loan
  - If there are other senior loans, IHCDCA's permanent loan may extend to up to a 17-year period if required to be coterminous with the senior loan.

## G. Interest Rate

The base interest rate is a fixed rate starting at prime rate minus 200 basis points, not to exceed 3% but not less than 1%. IHCDCA will make a final interest rate determination based on financial capacity and underwriting considerations, including ensuring that the project is not over-subsidized. Interest rates are fixed.

## H. Security or Collateral

The Development Fund loan must be secured through a mortgage on the assisted property, which may be subordinated to other financing depending on whether there is sufficient collateral to fully cover the amount of the loan.

If the loan will not take second position behind permanent financing, the developer must receive IHCDCA approval. If IHCDCA agree to subordinate the Development Fund loan in priority, it will do so using an IHCDCA approved Subordination Agreement.



**I. Threshold Criteria**

1. On or before the application deadline, the Applicant must provide all documentation as instructed in the “Form A– Development Fund Supplement.” If IHCDa requests additional information from the Applicant, all documents are due on or before the date provided by IHCDa staff.
2. The Application must meet all the requirements in this Schedule and Indiana Code § 5-20-4 and be supported by required documentation.
3. The Applicant must submit to IHCDa the State Historic Review documentation as required by IC 14-21-1-18. Instructions regarding the documentation required for the Development Fund’s state historic review process can be found in Schedule M. Applicants must determine if the development building(s) or structure(s) are listed individually in the State or National Register of Historic Places. See required documents in Section 5.1L of the QAP.
4. The Applicant and any related party must not be out-of-compliance in connection with any other IHCDa-funded project in which they are involved and must not be on any IHCDa suspension list, nor be in default with any lender or partner.
5. IHCDa may disqualify any Applicant that has a history of disregarding policies, procedures, or staff directives associated with administering any IHCDa program or programs of any other State or Federal housing entities. Such other entities include, but are not limited to, the U.S. Department of Housing and Urban Development (HUD), Indiana Department of Commerce, U.S. Department of Agriculture - Rural Development, or Federal Home Loan Bank.

**J. Determining Number of Development Fund Assisted Units**

The percentage of total development costs attributable to the Development Fund loan represents the percentage of units that will be considered DF-assisted. The minimum number of DF-assisted units is determined using the following calculation:

- Divide the Development Fund request by total development costs.
- Multiply this percentage by the total number of units in the project, rounding up to the next whole number of units.
- For example, if total development costs are \$10,000,000 and the applicant is requesting \$500,000 in Development Fund financing, then 5% of the construction financing is through the Development Fund. As such, 5% of the units (rounded up) will be DF-assisted and must meet the requirements of the Development Fund program.
- EXCEPTION: For bond/4% LIHTC Developments the number of DF-assisted units will be the greater of the number calculated using the formula above or 10 units.

**K. Occupancy Restrictions and Rent Limits**

All Development Fund-assisted units must be rent and income restricted at or below 50% of the area median income ("AMI").

Gross rent (including a utility allowance for tenant-paid utilities) must not exceed the 50% AMI rent limit under the LIHTC program.

All tenants who occupy Development Fund-assisted units must be income certified and recertified according to the requirements of the LIHTC program.

**L. Minimum Period of Affordability**

A Lien and Restrictive Covenant Agreement (LRCA) must be executed against every residential property constructed, rehabilitated, or acquired, in whole or in part, with Development Fund. The term of the Development Fund affordability period, as secured by the lien, will be the greater of 15 years or the term of the Development Fund loan.

Upon occurrence of any of the following events during the affordability period, the entire sum secured by the lien, including all accrued 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; (3) notice of default from any lender or partner; or (4) 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 IHCD.

IHCD may use purchase options, rights of first refusal, or other preemptive rights to purchase the housing before foreclosure or deed in lieu of foreclosure to preserve affordability.

The lien will be released at the end of the affordability period if the borrower has met all conditions, including paying off the loan balance. Prepayment of a loan will not result in an early release of the affordability period.

**M. Underwriting Criteria**

In reviewing requests for a Development Fund loan in conjunction with LIHTC, IHCD will utilize the same underwriting criteria and analysis required by the QAP. Applicants awarded a Development Fund loan in conjunction with LIHTC may receive an offer of assistance (i.e., loan amount, loan term, interest rate, etc.) that is different from that requested. If the LIHTC application is awarded, Applicants will receive a Letter of Interest with the Development Fund loan terms offered by IHCD.

**N. Nonprofit Borrowing Resolution**

In addition, a nonprofit applicant must submit a borrowing resolution passed by its Board of Directors authorizing submission of the loan request. The applicant must use IHCD's template borrowing resolution form as found on the [Development Fund webpage](#).

**O. Match Requirement**

Applicants for Development Fund must document match in an amount of at least 10% of the request. Acceptable match sources include in-kind donations, donated land, owner equity, building materials, loans, cash grants, or any combination of in-kind and cash donations. Other sources of match may also qualify, except for funds awarded by IHCD.