# ADDENDUM
# VI

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## 501(C)3 PRESERVATION PROGRAM

**NOTE: There are now six separate checklists for the LIHTC Addendum I, the Special Needs Rental Addendum III, the Multi-Family Debt Financing/HOME Team Advantage Addendum IV, the Modified Pass Through Program Addendum V, the 501(c)(3) Preservation Program Addendum VI, and the Section 236 Preservation Program Addendum VII. Please use the checklist applicable to the program for which you are applying, located in front of the applicable Addendum.**

The following items **MUST** be submitted if applicable to the project and/or for points to be given to the project. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **APPLICANTS APPLYING FOR MORE THAN ONE TYPE OF FINANCING MUST INCLUDE ALL APPLICABLE CHECKLISTS' EXHIBITS. DUPLICATION OF EXHIBITS IS NOT NECESSARY.**

# EXHIBIT CHECKLIST

## Addendum VI:

| √ | # | 501(c)(3) Preservation Program |
|---|---|---|
| | 1 | **A narrative description of the project** which includes the type of project; location; type of financing; tenants served, bedroom mix; local, federal or state subsidies; and other relevant information. |
| | 2 | **Land Control** - Documentation, signed by all applicable parties, in the form of warranty deed, exclusive option to purchase, land contract, etc., which evidences ability to maintain site control for 120 days from the date of application submission, with extensions available. |
| | 3 | **Zoning** - Documentation from the appropriate local official on official letterhead, identifying the address of the project, the property's current zoning designation and an explanation of whether or not the project is permitted under the zoning ordinance. For rehabilitation projects a letter from the municipality stating that the zoning is compatible with the proposed use of the buildings is required. If the project is not currently properly zoned, what, if any, steps are in process to obtain proper zoning for the proposed development. The documentation must include a timetable for rezoning. |
| | 4 | **Site Utility Availability** - Documentation from the municipality and/or local utility companies on their letterhead regarding utility availability and adequacy to serve the site, including whether such is currently available or will be available. |
| | 5 | **Market Study** - See Tab C for specific guidelines. Two copies must be submitted and dated within six months of application submission<br>**SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.** |
| | 6 | **Environmental Assessment** - Level 1 Environmental Assessment or, if necessary, a Level II with a remediation plan. Dated within six months of application submission. See Tab D for specific requirements.<br>**SUBMIT WITH THIS APPLICATION IF AVAILABLE. WILL BE REQUIRED DURING LOAN PROCESSING.** |
| | 7 | **Mortgagee's Title Insurance Commitment** - dated within 180 days of the date of application submission, which sets forth all encumbrances on the property, together with copies of such encumbrances, along with MSHDA required pending disbursement endorsement and 3.1 zoning endorsement See Exhibit XXX regarding title insurance requirements. |
| | 8 | **Inducement Resolution –** A copy of the declaration of intent to be reimbursed from tax-exempt bond proceeds, as adopted by the governing body of the borrower, in an amount greater than or equal to the amount of bonds requested, in substantially the form included in the program application materials. |

# EXHIBIT CHECKLIST

## Addendum VI:

| √ | # | 501(c)(3) Preservation Program |
|---|---|---|
| | | FOR EXHIBITS 9A THROUGH 9D, DUPLICATION OF INFORMATION IS NOT NECESSARY |
| | 9a | **Credit Enhancement** - Evidence of application to Credit Enhancement provider showing that application is under serious consideration. |
| | 9b | **Confirmation of Secondary Financing** - if applicable. Proposals which rely on some form of secondary financing to achieve feasibility must be accompanied by a detailed explanation and a confirmation from the source of that secondary financing that the additional funds have been applied for and are (or are expected to be) available. |
| | 9c | **Federal, State or Local Government Financing** - Letter from governmental body stating that application has been submitted and amount of request. |
| | 9d | **Grants/Other Subsidies** – Letter from proposed grantor stating that application has been submitted and amount of request. |
| | 10 | **Community Map** - A map showing the major streets in the community, identifying the precise location of the site as well as the location of various facilities and amenities such as food stores, drug stores, schools, social services, railroads, parks, churches, etc. in the immediate neighborhood. This community map must be in an 8 ½ " x 11" format, ready for copying and distribution to MSHDA staff and private appraisers without further required annotation. |
| | 11a | **Owner Experience** - MUST COMPLETE FORM PROVIDED ON PAGE 25 OF PRIMARY APPLICATION. Do not send Previous Participation Certification, FmHA 1944-37, or HUD 2530. |
| | 11b | **Management Entity Experience** - MUST COMPLETE FORM PROVIDED ON PAGE 26 OF PRIMARY APPLICATION. Previous Participation Certification, FmHA 1944-37, or HUD 2530 will not be considered for management experience points. |
| | 12 | **Affirmative Fair Housing Marketing Plan** - See Tab P for AFHMP guidelines. |
| | 13 | **Nonprofit/Ownership Documentation** – - Certified copy (dated within 30 days of application submission) of the following and any amendments on file with the Corporation and Land Development Bureau.<br>a) Documentation of Federal 501(c)(3) or (4) status from the IRS and status as en eligible borrower under the Authority Act or description of how the sponsor intends to form such an entity<br>b) A certified copy of the Articles of Incorporation dated within 30 days of application submission.<br>c) Copy of by-laws<br>d) Current Certificate of Good Standing dated within 30 days of application submission.<br>e) Narrative describing the non-profit's involvement in housing. |
| | 14 | **Tax Abatement** - Proof of tax abatement or a letter of tax abatement support from local taxing jurisdiction. (See Addendum I pages I-16, I-17 and I-22 for specific filing requirements.) |
| | 15 | **Proof of Local Taxation Rate (if no tax abatement)** For acquisition/ rehabilitation a tax bill will meet requirement. |

# EXHIBIT CHECKLIST

## Addendum VI:

| √ | # | 501(c)(3) Preservation Program |
|---|---|---|
| | 16 | **Site Plan Approval** - A letter signed by the appropriate official of the municipality on its letterhead which identifies the project's name and address and states that final site plan approval has been granted; or, if site plan approval has been granted with contingencies, a Statement in the letter stating that the contingencies do not have to be approved by the planning board but may be approved at a staff level. Failure to provide a clear letter, which addresses final site plan approval and how contingencies are handled, may result in the loss of points for this category. (For rehabilitation projects, a letter from the municipality indicating that the relevant board or commission of the municipality has reviewed the proposal, including the level of rehabilitation work to be completed, the site, and that no further plan approvals are necessary.) |
| | 17 | **Renaissance Zone (if applicable)**- Letter on official letterhead and signed by an official of the local municipality which verifies that the property is in a designated Renaissance Zone. |
| | 18a | **Trade Payment Breakdown** – For acquisition/rehabilitation projects only. |
| | 18b | **Capital Needs Assessment -** For acquisition/rehabilitation of existing properties, a third party "Comprehensive Needs Analysis" identifying and substantiating the scope of rehabilitation and estimated costs. |
| | 18c | **Engineering Study including Soil Condition Report** |
| | 19 | **Site Survey -** Refer to MSHDA's Legal Form 026, dated 3/95 and titled "Survey Requirements/Language to be Incorporated on Survey."<br>**(TAB U)** |
| | 20 | **Resumes** for all members of the development team and **professional license** for the architect. A current **Michigan Residential Builders License** for the contractor. |
| | 21 | **Project Financial Information:**<br>a. A copy of the project's latest financial audit.<br>b. An income and expense analysis that must include a provision for Replacement Reserve funding that is acceptable to the lender and equity partner, and is not less than the amount stipulated for the Low Income Housing Tax Credit Program. See Tab W, Policy 18, for further instructions Information regarding the current tenant incomes and, if the development does not meet the 75% @ 80% standard, a proposed plan on sponsor intends to meet that standard. |
| | 22 | **Credit Enhancement** - A description of the proposed credit enhancement and a statement as to the amount of tax-exempt bonds (and taxable bonds when appropriate) that is necessary, with enough specificity to allow the Authority to believe that payment of it's bond will be reasonably secure |
| | 23 | **Transaction Costs** - An agreement to pay all costs of issuing the bonds and to compensate the professional team for the issue, including the underwriter, trustee, and bond counsel, at no cost to the Authority. |
| | 24 | **Certification by Architect** – Certification as to the completeness of plans and specifications. |
| | 25 | **Contractor's Qualification Statement** (AIA Document A305 - available from MSHDA upon request). |

## ADDENDUM VI

### 501(c)3 PRESERVATION PROGRAM STATEMENT

1. Loans must be for the preservation of affordable housing units. The program may be used to acquire market units to convert to affordable units. Since the development must be owned by a 501(c)3 non-profit, participation in the Housing Tax Credit Program is not permitted.

2. Although it may be minor, some level of rehabilitation is required under the Authority's Act. The Authority will review the scope of any proposed rehabilitation and costs.

3. Permanent relocation should be avoided. Use of certain types of credit enhancement may trigger federal relocation requirements.

4. Sponsors will be required to provide third party credit enhancement for 100% of any outstanding bond debt in form and substance acceptable to the Director of Finance. The credit enhancement must provide adequate assurance to the Authority that repayment of the Authority's bonds will be reasonably secure.

5. At a minimum, the proposal must provide for income and rent restrictions on 40% of the units, targeting those units to households with incomes at or below 60% of area median income. As an alternative, the proposal may provide for income and rent restrictions on 20% of the units, targeting those units to households with incomes at or below 50% of area median income. A total of 75% of the units must be targeted to households with incomes at or below 80% of area median income. In the case of projects not designated for elderly occupancy, the applicable percentage of each unit type must be targeted. Compliance with these standards will be monitored. In cases where an existing development does not currently meet the 75% @ 80% of median standard, it may be allowed to do so through normal attrition over a reasonable period of time if such an approach is deemed acceptable to bond counsel. The sponsor must submit information regarding the current tenant incomes and, if the development does not meet the 75% @ 80% standard, a proposed plan on how they intend to meet that standard.

6. Because these are processed under Section 44(1) of the Act, General Rules 142/143/144 (attached) apply. Under Section 44(1)(c) a loan may not exceed 90% of the project cost as approved by the Authority. "Project cost" is determined by the Authority and also includes a builder's fee and developer fee. The 10% gap may be satisfied through a statutorily allowed sponsor's risk allowance.

7. The borrower must be an eligible borrower under the MSHDA Act as well as an entity which would permit the bonds to be qualified 501(c)3 bonds under the Internal Revenue Code.

8. Unless a project-specific waiver is provided by the Executive Director, this program will not be available for projects already benefiting from Authority financing.

9. Owners will be permitted to receive a return equivalent to that allowed under the Authority's modified pass through program. The documents will specify that all income and earnings of the corporation shall be used exclusively for corporate purposes and that no part of the net income or net earnings of the corporation shall inure to the benefit or profit of a private individual, firm, corporation, partnership, or association.

10. Tenant certification audits will be performed periodically and an annual certified audit must provide assurance as to compliance with return restrictions.

11. Submissions must include, without exception:

    a. An independent market analysis, an Environmental Site Assessment, and an Equal Employment Opportunity Plan prepared by the builder if the estimated cost of rehabilitation exceeds $100,000.
    b. A Capital Needs Assessment (CNA) will be required in every case. An engineering study will be required if determined necessary by the Chief Underwriter. The CNA and the engineering study, if required, must be in form and substance acceptable to the Chief Architect.
    c. A description of the proposed credit enhancement device with enough specificity to allow the Authority to believe that repayment of the Authority bonds will be reasonably secure and a statement as to the amount of bonds necessary.
    d. An agreement to pay all development team members, other costs of issuance for the bonds and an annual override of ¼ of 1% of the principal amount outstanding.
    e. A check for processing fees in the amount of $25,000, payable at closing.
    f. A distribution list, identifying the full development team, including the proposed bond underwriter, bond trustee, bond counsel, equity partner, and rating agency. Additionally, the Authority reserves the right, in its discretion, to not approve any of the proposed participants in the development team and/or to remove and replace any participant who, in the judgment of the Authority, is not properly or timely performing in its responsibilities
    g. A copy of the declaration of intent to be reimbursed from tax-exempt bond proceeds, as adopted by the governing body of the borrower, in substantially the form included in the program application materials, in an amount greater than or equal to the amount of bonds requested.
    h. Information regarding the current tenant incomes and, if the development does not meet the 75% @ 80% standard, a proposed plan on how the sponsor intends to meet that standard.

## PROCESSING SEQUENCE

Applications will be accepted on a first-come, first served basis. The application window will not close, but the Authority will at all times be able to advise prospective developers of 1) the number of proposals being considered, and 2) the total dollar amount of the pilot program reserved for these proposals. Multiple applications received on the same date will be prioritized by a lottery.

MSHDA staff will proceed to:

a. Perform a review of the market analysis, the environmental site assessment and the proposed scope of rehabilitation (including any CNA or engineering analysis).
b. Publish a TEFRA Notice.
c. Perform a legal and financial review of the proposed credit enhancement.
d. After review through its underwriting procedure, prepare a Feasibility Report for Board consideration.
e. Review and approve the Affirmative Fair Housing Market Plan and Equal Employment Opportunity Plan.

MSHDA staff will pledge its best efforts to complete the reviews for as many of the proposals as would use the annual allocation of bond cap within 45 days of receipt. Upon completion of this review, sponsors will be advised in writing by the Deputy Executive Director/Chief Underwriter 1) whether or not the proposal is acceptable and 2) whether a set aside of the pilot program authorization bonding authority cap is reserved. Proposals found unacceptable may be terminated. Proposals that meet the threshold requirements for participation must maintain this standard throughout the development process. Significant changes in unit mix, amenities, or rents may lead to a re-evaluation of the threshold determination.

For proposals that have been notified of their acceptability, sponsors will be required to sign, date, and return the letter acknowledging an obligation to:

a. Provide sufficient information to Authority staff to prepare and submit a recommendation to the Authority to authorize a mortgage loan feasibility/commitment, including a firm and unconditional commitment to provide credit enhancement.
b. Close the loan (defined as bonds actually issued) within 180 days of the date of the sponsor's return letter to the Authority unless extended for good cause by the Executive Director.

After review through its underwriting procedure, Mortgage Loan Commitment Reports and Resolutions will be prepared and presented to the Authority when the required information is available to Authority staff, including a firm commitment for the credit enhancement. Typically, the Mortgage Loan commitment will be presented at the same time as the resolution authorizing issuance of the bonds. Bond authorization will occur when all loan and bond documents are in substantially final form. Bond resolutions are generally effective only until the date of the next Authority board meeting. Sponsors will be provided with copies of approved Reports and Resolutions.