

Lexington-Fayette County Affordable Housing Fund Loan Underwriting Policies and Procedures

Introduction and Purpose of Fund:

The Lexington-Fayette Urban County Government (LFUCG) created the Affordable Housing Fund through Ordinances 101-2014 and 103-2014.

The Lexington-Fayette County Affordable Housing Fund (the Fund) was created to leverage public and private investment to provide, produce and preserve safe quality affordable housing for Fayette County residents.

The purpose of this document is to codify The Fund's operating procedures and program policies related to program loans. This document is subject to modification by The Fund's Board of Directors as experience dictates and programs change.

Loan Products and Services:

The Fund offers the following loan products from its various funds to serve developers and sponsors of affordable housing in Fayette County, Kentucky:

1. Predevelopment Loan
2. Acquisition Loan
3. Construction Loan
4. Equity Bridge Loan
5. Permanent Loan

In addition, technical assistance may be provided to borrowers of the Fund's loan products, including:

1. Determining the financial feasibility of the development
2. Discussion of required steps to develop and finance the development
3. Discussion of other funding sources available to finance the development
4. Working with conventional lenders on the development's financing
5. Discussion of marketability of the proposed development

The Fund's Board of Directors:

A 13 member board governs The Fund and monitors the policies, procedures, and performance of The Fund's loan portfolio. All proposed loans are subject to board approval.

Predevelopment Loans:

The Fund's predevelopment loan product is a short term (up to 24 months), flexible debt product utilized by developers of affordable housing to fund costs in the early stages of the development of a project. Loan proceeds can be used to fund project costs such as architectural drawings, permitting fees, professional fees, environmental investigations and engineering. The following are general guidelines for all applications:

1. The development must be located in Fayette County, Kentucky.
2. Borrowers may be a unit of local government or a for-profit or non-profit entity in good standing with the Office of the Kentucky Secretary of State.
3. Developments must have evidence of financial commitments for completion of the project.
4. The maximum loan amount is \$250,000.
5. A 1% loan origination fee will be charged.
6. There are no prepayment penalties.
7. Developer fees and operating costs are not eligible for funding.
8. All loans must have a plausible payoff strategy. The Board may require personal guarantees.
9. All developments must serve households at or below 80% of area median income.
10. Interest accrues at a rate determined by the board and all unpaid accrued interest and principal is due at the closing of the construction loan.

Acquisition Loans:

The Fund's Acquisition Loan Program is utilized by affordable housing developers and sponsors to acquire land or buildings that will be used for the development of affordable housing. This short-term loan (up to 36 months) can be used in combination with a predevelopment loan. The following are general guidelines for all applications:

1. The property must be located in Fayette County, Kentucky.
2. Borrowers may be a unit of local government or a for-profit or non-profit entity in good standing with the Office of the Kentucky Secretary of State.
3. Developments must have evidence of financial commitments for completion of the project.
4. A qualified appraisal may be required.
5. The maximum loan amount is \$500,000. If total acquisition cost exceeds \$500,000, The Fund may participate with a financial institution's loan for property acquisition in the form of a shared first mortgage.
6. A 1% loan origination fee will be charged.
7. There are no prepayment penalties.
8. All loans must have a plausible payoff strategy. A first mortgage on the property is required. The Board may also require personal guarantees.
9. All developments must serve households at or below 80% of area median income. Mixed income developments are also eligible; however the portion of the acquisition cost representing the market rate units must be obtained from other sources.
10. Interest accrues at a rate determined by the board and is payable quarterly. Any unpaid interest and principal is due at the closing of the construction loan.

Construction Loans:

The Fund's Construction Loan Program is utilized by affordable housing developers and sponsors for construction and/or rehabilitation of affordable housing developments. Loan proceeds can be used to fund all construction and rehabilitation related costs and this product can include property acquisition. The following are general guidelines for all applications:

1. The property must be located in Fayette County, Kentucky.
2. Borrowers may be a unit of local government or a for-profit or non-profit entity in good standing with the Office of the Kentucky Secretary of State.
3. Developments must have evidence of financial commitments for permanent financing of the project.
4. A qualified after construction appraisal may be required.
5. The maximum loan amount is \$500,000. If total construction costs exceed \$500,000, The Fund may participate with a financial institution's construction loan in the form of a shared first mortgage.
6. A 1% loan origination fee will be charged.
7. There are no prepayment penalties.
8. All developments must serve households at or below 80% of area median income. Mixed income developments are also eligible; however the portion of the construction costs representing the market rate units must be obtained from other sources.
9. All loans must have a plausible payoff strategy. A first mortgage on the property is required. The Board may also require personal guarantees.
10. Interest accrues at a rate determined by the board and is payable quarterly. Any unpaid interest and principal is due at the closing of the permanent loan.

Equity Bridge Loans:

The Funds Equity Bridge Loan Program is utilized on housing credit developments to bridge investor equity contributions. Loan proceeds can be used to fund all development costs except operating costs and deferred developer fees. The loan will be repaid from the equity contribution to the development. The following are general guidelines for all applications:

1. The property must be located in Fayette County, Kentucky.
2. Borrowers may be a unit of local government or a for-profit or non-profit entity in good standing with the Office of the Kentucky Secretary of State.
3. Developments must have evidence of financial commitments for equity contributions and investor notes will serve as collateral for the loan.
4. A qualified appraisal may be required.
5. The maximum loan amount is \$500,000. If total construction costs exceed \$500,000, The Fund may participate with a financial institution's bridge loan.
6. A 1% loan origination fee will be charged.
7. There are no prepayment penalties.
8. All developments must serve households at or below 60% of area median income. Mixed income developments are also eligible; however the portion of the bridge loan representing the market rate units must be obtained from other sources.
9. Note terms including interest rate and repayment requirements will be determined by the board.

Permanent Loans:

The Fund's Permanent Loan Program may be in the form of a first or second mortgage and used in conjunction with any multifamily affordable housing development. The Loan Program's purpose is to provide a lower than market interest rate on some or all of the debt associated with an affordable housing development which enables the property owner to provide affordable rents to eligible tenants. The following are general guidelines for all applications:

1. The property must be located in Fayette County, Kentucky.
2. Borrowers may be a unit of local government or a for-profit or non-profit entity in good standing with the Office of the Kentucky Secretary of State.
3. A qualified appraisal may be required.
4. A 1% loan origination fee will be charged.
5. There are no prepayment penalties.
6. All developments must serve households at or below 80% of area median income. Mixed income developments are also eligible; however the portion of the permanent loan representing the market rate units must be obtained from other sources.
7. Note terms including interest rate and repayment requirements will be determined by the board.
8. The maximum first mortgage loan amount is \$1,000,000. If total permanent financing exceeds \$500,000, The Fund requires participation with a financial institution's permanent first mortgage loan.
9. The maximum second mortgage loan is \$400,000.
10. All projects are required to underwrite to a 1.20 debt coverage ratio in year 1 and the debt coverage ratio must remain positive through the term of the loan. Underwriting also includes the assumptions that rents increase 2% per year and expenses increase by 3% annually. A 7% vacancy rate is assumed. Smaller projects must assume a 10% vacancy.
11. *Surplus cash notes must receive repayment from surplus cash generated by the development prior to any deferred developer fee being paid from surplus cash.*

