

Finance Adjustment Factor (“FAF”) and Below Market Interest Rate (“BMIR”)

Program Policies

Arkansas Development Finance Authority (“the Authority”) is responsible for administering the FAF and BMIR funds. FAF funds arose from the refunding of bonds and recapture of Section 8 funds by the U.S. Department of Housing and Urban Development (“HUD”). BMIR funds arose from the Authority’s purchase of approximately 301 multi-family housing mortgage loans of HUD through its issuance in June 1988 of Government National Mortgage Association Guaranteed Bonds.

The funds currently available are comprised of program income from previous FAF and BMIR loans. Accordingly, the requirements of the Below Market Interest Rate (BMIR) Loan Housing Program (Reincentive Plan – Final) and the FAF Refunding Agreement are no longer applicable to the funds in the event the Authority’s Board adopts other program requirements. The purpose of these program policies is to clarify the use of FAF and BMIR funds, eligibility for the funds, and the Authority’s requirements for use of FAF and BMIR funds, collectively the “FAF/BMIR Loan Fund”.

I. Eligibility

The FAF/BMIR Loan Fund is available to any entity that conforms to the requirements for providing affordable housing under any of the Authority’s affordable rental housing programs for the construction or acquisition/rehabilitation of affordable rental housing for very low-income persons and families. The FAF/BMIR Loan funds are intended to be true gap financing, thus the FAF/BMIR loan funds must be leveraged. FAF/BMIR loan proceeds may only be used to pay development costs chargeable for federal income tax purposes to the development’s capital account. The proposed number of units must be a minimum of five (5) units.

II. Underwriting Requirements

- A. All underwriting requirements and provisions in the Qualified Allocation Plan (the “QAP”) in effect at time of application submission are applicable to applicants for FAF/BMIR Loan funds.
- B. The same percentage of total units in the development must be restricted to households earning 50% or less of Area Median Income (“AMI”) as the percentage is of FAF/BMIR funds to the total development costs.
- C. The rent of units restricted pursuant to Section II.B. may not exceed 30% of the applicable AMI.
- D. The maximum amount of loan funds that may be awarded is \$500,000 per development.
- E. Copies of all other financing documents must be submitted.

III. Minimum Design Requirements

All developments for which owners are awarded FAF/BMIR funds (“Recipients”) must comply with the Authority’s Minimum Design Requirements and all other design requirements set forth in the QAP in effect at time of application, including but not limited to the universal design requirements.

IV. Market Need

All applicants for FAF/BMIR funds must submit a market study, dated within six (6) months of the application, which evidences the primary market area’s need for the development as it is represented in the application. The market study must be performed by a market study provider that is included on the Authority’s list of approved market study analysts.

V. Capital Needs Assessment

- A. All rehabilitation developments applying for FAF/BMIR funds must submit a Capital Needs Assessment, which includes a thorough description of the work that is needed to fully rehabilitate the development and a reasonable estimation of the costs for each type of work necessary to be performed.
- B. Applicant must submit a statement agreeing to implement all recommendations and the scope of work described in the Capital Needs Assessment.
- C. All rehabilitation developments applying for FAF/BMIR funds must evidence that a minimum of \$15,000 (cumulative from all sources of funding) will be expended on rehabilitation of each unit, i.e., hard costs.
- D. Architect and Applicant each must submit an executed Minimum Design Standards Checklist and Certification, which is available on the Authority's website.

VI. Application Fee and Deadline

- A. Applicant must submit payment by check made payable to Arkansas Development Finance Authority in the amount of \$500.00 with each FAF/BMIR application unless the application includes a request for low-income housing tax credits. If the application includes a request for low-income housing tax credits, the application fee schedule stated in the QAP in effect at time of application shall be applicable.
- B. FAF/BMIR applications shall be accepted by the Authority for review on a continuous basis.
- C. Applications that do not include all threshold documentation and information required by the QAP in effect at time of application will be rejected by the Authority and will not be further reviewed.

VII. Loan Terms

FAF/BMIR loans shall bear a fixed interest rate of 1% per annum, and shall be amortized and repayable over 20 years, unless otherwise approved by the Authority's Board of Directors. The loan repayment may be deferred, at the discretion of ADFA as necessary for the development's financial feasibility, between one (1) and three (3) years from the date the development places in service.

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VIII. Land Use Restriction Agreement

- A. All Recipients must execute and record in the real property records of the county in which the development is located, a Land Use Restriction Agreement ("LURA") that shall restrict the property to the use, income restrictions, and rent restrictions approved by the Authority's Board of Directors.
- B. A LURA must be executed and recorded prior to the disbursement of any FAF/BMIR funds to a Recipient.
- C. The LURA shall be a covenant that runs with the land and shall be an encumbrance on the property for a period of twenty years from date of recording, unless otherwise approved by the Authority Board of Directors ("the affordability period").

IX. Compliance

- A. Recipients shall be monitored by the Authority Compliance Department at a minimum of once every three years. Continuing requirements on Recipients will include, but not be limited to, maintaining file documentation to confirm tenant income and rent.

B. Recipients must provide annually a written report certifying, under penalty of perjury, that persons and families assisted with FAF/BMIR funds meet the criteria to receive FAF/BMIR assistance, i.e., income certifications of tenants.

X. FAF/BMIR Agreement

All Recipients must execute a FAF/BMIR Agreement, which shall be prepared by the Authority. The Agreement shall set forth all requirements with which Recipient must comply.

XI. Pre-Construction Meeting

All Recipients must participate in a Pre-Construction Meeting with the Authority staff prior to beginning any work on the development. A final set of plans must be submitted to the Authority's staff for review at least two (2) weeks prior to the scheduled Pre-Construction Meeting. No Recipient may begin construction, acquisition or rehabilitation prior to the Authority issuing a Notice to Proceed, which cannot be issued any earlier than the date of the Pre-Construction Meeting. Recipient's developer, architect, general contractor, job superintendent, and the person that will be preparing draw requests must be present at the Pre-Construction meeting.

XII. Other Applicable Requirements

The QAP in effect at time of application shall control as to all matters arising that are not specifically addressed herein.

XIII. Amendment

The Authority reserves the right to make amendments to the policies contained herein as necessary to prudently administer the limited resource of FAF/BMIR funding.

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