State of Iowa

Community Revitalization and Economic Enhancement Loan Fund

HUD Section 108 Guaranteed Loan 2015 Program Application

Iowa Economic Development Authority

Iowa Community Revitalization and Economic Enhancement Loan Fund (R & E)

Overview

The Iowa Economic Development Authority (IEDA) is charged with fostering the community and economic development of local units of government within the State of Iowa. As such, IEDA is continually seeking new and better ways of assisting communities across the State in achieving their goals of self improvement.

While IEDA is able to offer a variety of programs to Iowa communities for a wide range of activities, their remain four types of projects that are notably under-addressed: 1) relatively large dollar and large impact projects aimed at economic development through business location or expansion and job creation; 2) large scale and comprehensive adaptive reuse or conversion of vacant or underutilized buildings; 3) consolidated rehabilitation of groups of upper story residential units in a single market; and 4) availability of affordable single family housing units and/or a preponderance of blighted, vacant single family housing units. Current CDBG funding obligations and limited annual allocations make funding these particular types of projects without new resources infeasible. Therefore, without the injection of Section 108 funding, community development needs such as large scale economic development, building sustainability and active reuse and safe and attractive affordable housing for low and moderate income persons will continue to be under served.

As most current State programs that could potentially be utilized for these types of projects are either limited by project maximums and/or the amount of annual allocation or are simply not designed to serve the particular types of activities envisioned, IEDA believes an additional source of CDBG funds with new or expanded activities is essential to fill the void.

All four of the proposed categories of activities will be structured so that at least 70% of all funds expended through Section 108 programs will benefit low and moderate income persons. This will be the case for each fiscal year that the program is active. Simultaneously, it is anticipated that a portion of the monies may also address conditions of slum and blight on a spot basis although this will not be the primary national objective being met: 24 CFR 570.484 (a) (b) (1) (2) (3) (4); 24 CFR 208 (a) (3) (4); 24 CFR 570.483 (b) (2); 24 CFR 570.208 (b) (i). Finally, regulations applicable to HUD's standards for Public Benefit, 24 CFR 570.482 (f) , 24 CFR 570.209 (b) (1), (2), (ii), (iii), will also be followed through the economic development job creating activity as required with Section 108 proceeds.

The State of Iowa currently receives an annual federal entitlement of $21,613,307 under the Community Development Block Grant (CDBG) Program. In accordance with the federal regulations found in 24 CFR 570, Subpart M "Loan Guarantees", a state may develop procedures and requirements to assist non-federal entitlement public entities to apply for loans passed through from the HUD Section 108 Loan Guarantee Program. Accordingly, the IEDA Community Development Division is requesting to borrow the amount of $ 40,000,000 against future HUD annual allocations beginning during FY 2015 to establish a low interest pool of funds utilizing federally guaranteed loan proceeds as offered through the U.S. Department of Housing and Urban Development (HUD). This request represents 185% of the State of Iowa's annual allocation and about 37% of the maximum amount that could be requested based on estimated allocations of five program years. The State plans to distribute all finds within five program years and pay back any and all Section 108 funds to HUD within not more than twenty years.

(Please note that no program activity or individual project is planned to extend beyond a maximum term of fifteen (15) years).

In a manner consistent with the State's standard submittal, due diligence and award distribution policies, and in accordance and consistency with the 2015 State's Annual and Consolidated Plan as amended, the State proposes to issue third party loans to units of local government for four primary purposes under a new Community Revitalization and Economic Enhancement (R & E) program:

1. Economic Development Resulting Directly in Substantial Private Investment and Job Creation/ Retention
2. Adaptive Conversion or Reuse of Presently Vacant or Underutilized Commercial or Industrial Buildings for Residential Purposes
3. Rehabilitation/ Reconstruction /Conversion of Buildings to Provide New Upper Story Residential Units
4. Gut Rehabilitation of Vacant Single Family Residential Units and/or Demolition of Blighted, Vacant Single Family Residential Units

Vacant units that must be replaced shall be defined as within Section 104 (d) at 24 CFR 42.305

A complete description of the standard method of submittal, review and award is available for public viewing at the IEDA website, *www.iowaeconomicdevelopment.com*.

Activities under item # 1 above will certainly result in program income due to the repayment of principal and interest on direct loans issued with CDBG funds. Activities under items # 2, # 3 and # 4 will also produce program income from the sale, lease, rent or other use of real property acquired or improved by the unit of general local government or its subgrantee with CDBG funds. IEDA will be expecting that all HUD secured loan proceeds will be repaid in full with general program income as generated by the aforementioned four program activities. CFR citations: 24 CFR 570.500 (a) (1) (i) (iii) (iv) (v) (vi) (vii) (ix) (x). At this point in time, it is not possible to accurately predict the amount of program income expected to be produced by each of the proposed activities as much will depend on the amount of monies ultimately made available to subrecipients under the four major program activities. In any event, IEDA will assure that security, collateral and alternate sources of payment are identified during the underwriting process sufficient to repay any Section 108 monies to HUD in full and in a timely fashion.

Only units of local government that do not receive direct allocations of Community Development Block Grant funds from the U.S. Department of Housing and Urban Development may apply to the State of Iowa's Community Revitalization and Economic Enhancement Loan Fund, and applications for loans from the fund may only be submitted for the project types and activities listed below. Regardless of type of project, all activities will be expected to be fully completed within three years of loan issuance to the UGLG.

The total maximum amount of R & E financing that an eligible single public entity may receive for any single project is limited to $ 10,000,000. The minimum loan request is set at$1,000,000 except for purpose #4 rehabilitation and/or demolition of single family residential units which will be set at $500,000. A total minimum project cost of $1,333,333 will be required for Section 108 IEDA participation except for purpose #4, rehabilitation and/or demolition of single family residential units, which requires a minimum project of $555,000. Loans made from the R & E fund shall be repaid from project revenue and/or other revenue pledged specifically for repayment of the loan. For all loans, the State will require additional locally generated security to be pledged to assure loan repayment. The maximum term of R & E loans shall not exceed fifteen years and will vary by project and specific project conditions. Each UGLG recipient will be required to submit a certificate of need in accordance with 24 CFR 570.704 (b) (4).

Targeted Purposes, Activities and Recipients

The Section 108 Loan Guarantee proceeds are envisioned to be targeted for the purposes of facilitating large scale projects in relation to Iowa's non-entitlement communities. Such projects will be those that could not, in all likelihood, be undertaken without the amount of financial assistance available through the Section 108 Program.

Monies available though the direct loan portion of the program will be targeted for larger scale and larger impact industrial or commercial uses such as new construction or expansion that create or retain a numerically appropriate amount of quality employment opportunities, at least 51% of which will be taken by low and moderate income persons. The monies may also be utilized to assist with major distribution center or corporate office facility locations or expansions. It is expected that direct loans, (through UGLGs), will be made primarily to private, for profit corporate businesses demonstrating need, a firm and innovative business plan, a strong and growing market, a sustainable product and a long term commitment to a viable presence in the State of Iowa.

Loans for adaptive reuse or conversion projects are designed to provide the gap financing necessary to bring together both public and private or not-for-profit entities in collaborative efforts to rehabilitate, renovate and reuse vacant, under-utilized, deteriorating or functionally obsolete buildings. The ultimate reuse of the structures will be for primarily affordable housing but they may also include a subservient commercial retail or office function. In making these loans to UGLGs, IEDA will be looking towards imaginative collaborative projects involving several key local or regional entities and/or developers with shared financial risk. Far reaching vision and goals as well as broad-based community support will need to be demonstrated. UGLGs may choose to provide these monies as pass-through loans to a third party developer or organization. Furthermore, these projects should be of a scope and character to positively affect entire blocks or districts of communities and eliminate some degree of slum and blight. They should also serve to spark additional infill development/revitalization and provide concepts capable of replication elsewhere. A low and moderate income benefit of at least 51% will be expected in terms of residential units occupied and/or jobs created.

Loans issued for upper story residential rehabilitation are focused upon providing new or renovated/upgraded, code compliant and energy efficient housing units for primarily low and moderate income persons in mixed use structures. Special attention will be given to those projects that occur in traditional downtown areas or involve the inventive conversion of portions of formerly non-residential buildings no longer suited or feasible for commercial or industrial use. The number of new or renovated units must be sufficient to provide an immediate impact on the community and significantly address the identified local needs for low and moderate income housing. The elimination of slum or blighted conditions will also be considered. Ideally, the projects should provide for a variety of housing that can address the needs of senior citizens, singles, couples, families and special populations. It is anticipated that UGLGs will pass Section 108 loan monies through to developers specializing in housing rehabilitation or conversion. These entities may be for-profit, not-for-profit or a combined effort thereof. Joint undertakings with multiple funding sources affecting a large number of units and benefitting primarily low and moderate income persons will be viewed most favorably.

Loan monies issued for the provision of rehabilitation and/or demolition of vacant single family residential units are targeted towards either rehabilitating or renovating existing family homes as new code-compliant, affordable housing units or for the purchase and demolition of vacant blighted single family residential units. It is anticipated that UGLGs will utilize Section 108 monies for either the purchase of vacant, blighted single family residential units and subsequent demolition and clearance or to acquire and gut rehabilitate vacant single family residential units for reuse. The rehabilitated units will be sold or leased exclusively to households at 80% or less of the applicable median household income.

It is the expressed intent of IEDA to minimize any activities resulting in displacement or relocation to the greatest extent possible while evaluating and administering any Section 108 program activities. Should it become necessary and unavoidable to displace or relocate, the State will assure that the policies of CFR 24 570.606 are strictly adhered to.

R & E Eligible Activities & Meeting of National Objectives

Direct Loans to Businesses for Economic Development

Local governments may apply for financing to be provided as an interest bearing pass-through loan to a private, for-profit business to facilitate a major new location or a substantial expansion of existing commercial operations. Funds may be used for purposes including but not limited to: land and/or building acquisition, site preparation or land development, construction, purchase of machinery, equipment and rolling stock, building construction, improvements or renovations and the purchase of furnishings and fixtures. Funds may also be used to provide interim financing for construction of commercial or industrial projects. The loan would be repaid with permanent financing and/or equity. Finally, loan proceeds may be utilized for the provision of public infrastructure in direct support of economic development resulting in job creation.

All projects of this type would be required to satisfy a gap financing, rate of return or location argument and to leverage other non-CDBG sources of funding including capital invested by the end borrower. Economic development projects must create or retain job opportunities to be filled by a minimum of 51% low-and-moderate income persons, 24 CFR 570.208 (a) (4). In no case shall loan proceeds exceed $20,000 for each FTE job created/retained individually or in the aggregate; thus meeting overall public benefit standards. Jobs created as a result of other jobs being displaced elsewhere in the State will not be considered or counted as new jobs for purposes of this program. An exemption to this rule may be made at the discretion of IEDA in situations where it can be demonstrated that the jobs to be displaced from elsewhere in the State of Iowa will otherwise be lost to the State entirely. In all cases, IEDA will comply with all provisions of CFR 570.210 relating to the use of assistance for relocation activities. The loans would be repaid by the business from net cash flow and be backed by adequate fixed asset collateral and other supplemental pledged revenues from the locality loaning the funds. No loans will be made to a business in violation of the provisions of 24 CFR 570.210 (a) (b) (c). Eligible activities citations: 24 CFR 570.703 (c) (f) (g) (i) (k), 24 CFR 570.203 (a) (b) (c), 24 CFR 570. 201 (a) (b), 24 CFR 570.206, 24 CFR 570.209 (a) and (b). The IEDA proposes to allocate $5,000,000 to $10,000,000 of the loan guarantee funds for this particular activity. Note: IEDA reserves the right to adjust the allocations for the four major activities at the end of any program year to reflect actual need and demand for certain projects.

Loans for Adaptive Conversion or Reuse of Commercial, Industrial or Residential Structures

Loans will be made to qualified units of local government, or as pass-throughs from UGLGs to not-for profit organizations, public/private partnerships and private businesses to undertake projects designed to acquire, re-construct, rehabilitate, or alter no longer viable or productive commercial, residential or industrial buildings converting them to an appropriate, sustainable and impactful residential reuse. Funds may also be used to provide interim financing for re-construction or rehabilitation of single family or multi-family residential units for use as rental housing.

The focus will be on revitalizing vacant or underutilized or functionally obsolete structures in groups sufficient to provide a clearly measurable impact to an existing residential neighborhood in which the need for additional affordable housing is demonstrated. An individual building may also be the focus of this use of funds dependent again on the scale of the overall impact to the district or neighborhood in which it is situated. Any project would be required to leverage other non-CDBG sources of funding and include capital invested by the end borrower/user. The loans would be repaid by the revenue produced by the residential venture and could include rent or lease payments, sale proceeds, and/or future property tax receipts. Additionally, the loans would be backed by adequate fixed asset collateral and other pledged revenues from the benefitting locality. Adaptive conversion projects must provide housing for a minimum of 51% low-and-moderate income persons, 24 CFR 570.208 (a) (3), and may also eliminate slum and blight on a spot basis, 24 CFR 570.208 (b) (i). Any units occupied by low and moderate income persons shall be subject to a five year period of continuous income eligible residency and affordability. No loans will be made to a business in violation of the provisions of 24 CFR 570.210. Eligible activities citations: 24 CFR 570.201 (a) (b), 24 CFR 570.202 (a) (1) (3) (4), 24 CFR 570.202 (b) (1) (2) (3) (4) (5) (9) (11) (c) (d) (e) and (f), 24 CFR 570.206, 24 CFR 570.209 (a) and (b) and 24 CFR 570.703 (c) (f) (g) (h) (k) (l). IEDA proposes to allocate \$10,000,000 to \$30,000,000 to this particular activity. Note: IEDA reserves the right to adjust the allocations for the four major activities at the end of any program year to reflect actual need and demand for certain projects.

Loans for Rehabilitation/Renovation of Individual Upper Story Residential Rehabilitation

Loans will be provided to qualified units of local government enabling them to distribute funds to be utilized for the conversion and/or rehabilitation of upper story residential units by not-for profit organizations, public/private partnerships and private businesses qualified to undertake rehabilitation/renovation activities. Funds may also be used to provide interim financing for rehabilitation of single family or multi-family upper story residential units.

The main focus on the activity will be on providing code compliant housing on the upper floors of buildings in which lower floors are occupied by commercial uses. The activity will encourage and promote mixed use developments and is expected to be particularly useful in promoting the viability and sustainability of traditional small town central business districts in the State of Iowa. It is anticipated that a portion of the funds will also be utilized for the innovative conversion of former vacant or under-utilized commercial space into residential usage. Any project funded would be required to leverage other non-CDBG sources of funding and include capital invested by the end borrower/user.

The rehabilitation loans would be repaid by a portion of the revenue produced by new rental income and/or increased property tax receipts if deemed appropriate and necessary.

Additionally, the loans would be backed by adequate fixed asset collateral and other revenues pledged by the locality receiving the funds. Rehabilitation/ conversion projects must create housing units to be occupied by a minimum of 51% low-and-moderate income persons, 24 CFR 570.208 (a) (4). Any units occupied by low and moderate income persons shall be subject to a five year period of income eligible residency and affordability. No loans will be made to a business in violation of the provisions of 24 CFR 570.210. Eligible activities citations: 24 CFR 570. 201 (a) (b), 24 CFR 570.202 (a) (1) (4) (b) (1) (2) (3) (4) (5) (6) (11) (c) (d) (e) and (f), 24 CFR 570.206, 24 CFR 570.209 (a) (b) (1) (ii) and 24 CFR 570.703 (c) (f) (g) (h) (k) (l) . IEDA proposes to allocate $5,000,000 to $15,000,000 to this particular activity. Note: IEDA reserves the right to adjust the allocations for the four major activities at the end of any program year to reflect actual need and demand for certain projects.

Loans for Rehabilitation/Provision of Single Family Residential Units

Loans will be provided to qualified units of local government enabling them to utilize funds to provide for the direct gut rehabilitation of vacant single family residential units by not-for profit organizations, public/private partnerships and private individuals or businesses qualified to undertake rehabilitation/renovation activities. Secondly, funds may also be utilized directly by the UGLG to purchase vacant, blighted, single family residential units and demolish them.

The main focus on the activity will be on providing new, affordable, code compliant traditional single family housing in communities with documented workforce housing shortages. The activity will encourage and promote stability and viability and is expected to be particularly useful in promoting the sustainability of smaller towns in the State of Iowa. Any project funded would be required to leverage other non-CDBG sources of funding and include capital invested by the UGLG or the end borrower/user. The rehabilitation loans would be repaid by: a portion of the revenue produced by new rental income from a third party; through the proceeds of property sale from the UGLG or a third party; and perhaps supplemented by increased property tax receipts on improved properties if deemed necessary.

Additionally, the loans would be backed by adequate fixed asset collateral and/or other revenues pledged by the locality receiving the funds. Gut rehabilitation of single family residential units must create housing units to be occupied by households with incomes at or below 80% of applicable median household incomes, 24 CFR 570.208 (a) (4). Any units occupied/leased by low and moderate income households shall be subject to a five year period of income eligible residency and affordability. The purchase of vacant, blighted single family residential units for demolition must meet the Slum and Blight area or spot basis national objective. No loans will be made to a business in violation of the provisions of 24 CFR 570.210. Eligible activities citations: 24 CFR 570.202 (a) (1) (4) (b) (1) (2) (3) (4) (5) (6) (11) (c) (d) (e) and (f), 24 CFR 570.206, 24 CFR 201 (a) (b) (d), 24 CFR 570.209 (a) (b) (1) (ii) and 24 CFR 570.703 (c) (f) (g) (h) (k) (l) . IEDA proposes to allocate $2,000,000 to $3,000,000 to this particular activity.

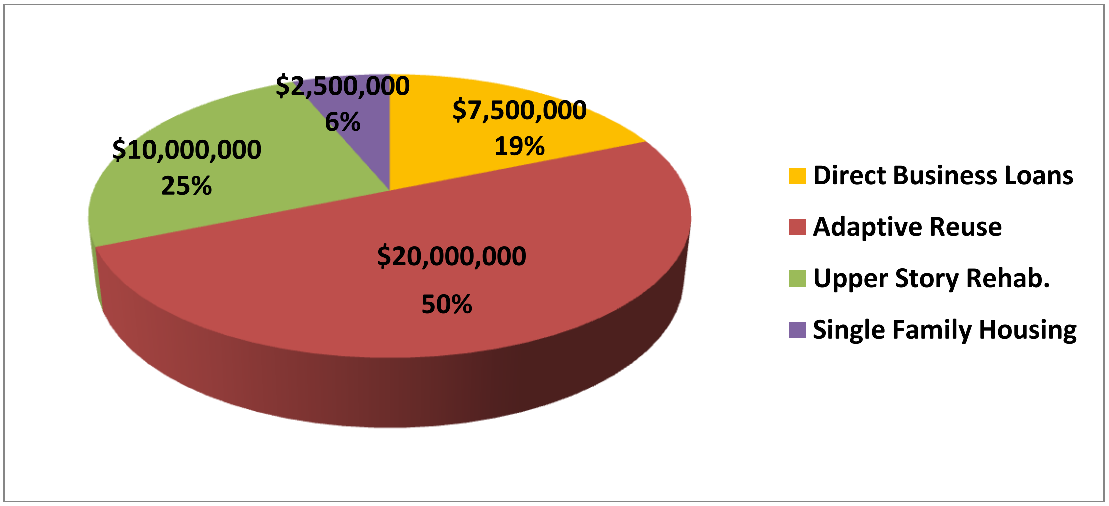
Note: IEDA reserves the right to adjust the allocations for the four major activities at the end of any program year to reflect actual need and demand for certain categories of projects.

Project Activity Summary	Range of Amount*
Direct Loans to Businesses for Econ. Development	$5,000,000 - $10,000,000
Adaptive Conversion or Reuse for Residential Units	$10,000,000 - $30,000,000
Rehab/Renovation of Upper Story Residential Units	$5,000,000 - $15,000,000
Rehab/Renovation of Single Family Residential Dwellings	$2,000,000 - $3,000,000
TOTALS	**$22,000,000 - $58,000,000**

***Total amount expended during program period will not exceed $ 40,000,000.**

Note: Local recipient administrative fees for UGLGs will be capped at a maximum of $40,000.

Allocation Formula Chart (Illustrating Midpoint of Proposed Funding Ranges):



IEDA plans to request the drawdown of Section 108 funds on an "as you go" basis with draw downs being project specific. This process will avoid any "surplus" funds being held at the State level, assure the timely release of funds to the ultimate borrower and avoid the payment of interest on monies not yet ready for disbursement.

General Underwriting Criteria for All Activities

All applicants to the R & E Fund must supply:

1. A complete application package

2. Business or project plan with market analysis
3. Statement of detailed sources and uses of all project funds
4. Statement of projected cash flow for the life of the loan; monthly for first three years
5. Current and two most recent audited consolidated financial statements for key principals (end borrowers), as well as interim financials (for corporations and partnerships) and/or personal financial statements (for individuals).
6. Three past years of complete company financial statements & three years of complete company proformas
7. Supporting documentation, as appropriate, including but not limited to: market, feasibility, or demand studies; environmental studies; geotechnical reports; current real estate appraisals; proof of site control; land surveys.

At a minimum, the State of Iowa Economic Development Authority will evaluate Section 108 loan pool funding requests based upon the following criteria:

> Project costs are reasonable;
> All sources of project financing are committed;
> To the extent practicable, funds are not substituted for non-federal financial support;
> Project is financially feasible;
> The anticipated return on the owner's equity investment will not be unreasonably high;
> To the extent practicable, funds are disbursed on a pro rata basis at the same time that other finances are injected into the project

Additionally, IEDA will consider and apply the following factors to the applicants on each project:

> Ability to Repay
> Available Collateral & Liquidity of Same
> Development Team Capacity and Experience
> Developer Commitment & Financial Participation
> Outcome/Status of Other Developer projects
> Historical and Pro Forma Financial Statements
> Credit Rating
> Basic Underwriting Ratios

All third party, pass-through loans made by the State will be secured by:

1. An irrevocable letter of credit; or
2. A lien of no lower than second position on real property. Liens taken in second position will only be accepted when the State loan and superior debt together do not exceed 80 percent of the asset value as determined by a qualified appraisal; or
3. A lien of no lower than first position on new equipment. Liens on new equipment will only be accepted when the State loan does not exceed 75 percent of the asset value as determined by the purchase price; or
4. A lien of no lower than first position on used equipment. Liens on used equipment will only be accepted when the State loan does not exceed 65 percent of the asset value as determined by the purchase price; or
5. A pledge of increments in a specified category (s) of local tax receipts; or

6. Other negotiated security, as deemed prudent and appropriate under the circumstances. Examples of such additional security may include but are not limited to: a. liens or mortgages on real and personal property; b. personal or corporate guarantees; c. key person insurance policy pledges; d. increments in tax generated by activities carried out with Section 108 loan funds.

- **Cost Reasonableness:** All proposed uses for the loan proceeds must be reasonable and logical in cost, as determined by the UGLG and IEDA. Borrowers must be able to support cost estimates as appropriate by, for example, multiple fair-market/third-party price quotations, contractor/engineer estimates, appraisals, past comparables or executed contracts.

- **Proportional Disbursement:** To the extent practicable, the Section 108 loan funds should be disbursed on a pro rata basis with other funding sources to avoid placing the Section 108 Loan funds at a greater risk than other investments. Lenders will review construction timetables and phasing or operating business cash flow statements and sources and uses statements to confirm that Section 108 loan funds will be expended at the same ratio as other financing. Lenders will also review other funding sources' policies on the expenditure of their respective funds. If these policies require the public funds to be disbursed first, lenders reserve the right to negotiate with other lenders, equity providers and subsidy providers to attempt to modify and compensate for these policies. If Section 108 funds must still be expended first, lender reserves the right to require safeguards such as performance or completion bonds to be determined by project specifics.

- **Key Principals Capacity:** To confirm principal capacity, lenders will evaluate information provided by borrower in a form acceptable to lenders, including but not limited to: a) Roles and responsibilities of each team member; b) Experience with similar types of developments; c) Qualifications and background of each team member; and d) title, office or position in loan recipient entity.

- **Financing Commitments:** IEDA will review the sources shown in the sources and uses statement to determine in their sole discretion if sufficient sources of funds have been clearly identified and are adequately committed to the project, including but not limited to conventional financing, other governmental sources, lines of credit and sponsor equity. All developers/businesses will be required to provide a minimum of a 5% equity injection into the project.

- **Other Financing Sources**: The terms and conditions of all other sources of funding, including but not limited to rates, terms, covenants, lien position, and recourse must be disclosed. Borrower must provide evidence satisfactory to lenders that all other funding sources are committed under terms acceptable to lenders and that the participating financing parties have the financial capacity to provide all funds in a timely manner.

- **Loan Security:** The primary source of repayment for the Section 108 loan will be repayments of the second-level loans to the UGLG by the ultimate borrower/user. In all cases, IEDA shall require a minimum of a 1.25:1.00 debt service coverage ratio to reduce risk. Projects demonstrating a debt service coverage ratio of 1.75:1.00 or greater will not be considered for funding. The second source of repayment for the Section 108 loan will be borrower/user security on the second-level loans. The third source of repayment shall be additional pledges of security as put forth by the UGLG to IEDA. The final source of repayment shall be the State's annual allocation of Community Development

Block Grant funds, as pledged in this application in accordance with Section 108 program regulations.

- **Loan Loss Reserve:** IEDA will establish loan loss reserves for each loan made through the R & E program in the amount of .5% to 1.0% of additional interest charged to each loan issued. These funds will be set aside in reserve from the repayment of Section 108 loans made to UGLGs as they are individually received. IEDA also anticipates utilizing such program income for administration and technical assistance costs.

- **Need for Public Assistance**: The analysis will determine whether the project can be developed feasibly with private financing alone or, in fact, requires public financial assistance to make the development feasible. IEDA will examine the reasonableness of a for-profit developer's fee compared to market rates. If the for-profit developer has an ownership stake in the project, IEDA will also examine the reasonableness of the developer's return under cash on cash return and internal rate of return ("IRR"). Cash on cash return measures the developer's cash return on a cash investment (i.e., cash flow ÷ equity). IRR measures the rate at which the developer's investment grows over a long term period, taking into account periodic cash flows and property appreciation. As part of such analysis, an excessive developer fee/return may be put back into the project in the form of additional equity and/or additional reserves.

- **Financial Feasibility:** The analysis will identify the primary, secondary and, where considered necessary, tertiary sources of repayment for the loan. Key repayment risks will be analyzed in detail, including an analysis of project financial assumptions compared to actual market conditions. In the case of real estate, the analysis will compare the anticipated lease rate to similar properties. Also, the analysis will compare anticipated vacancy rates to similar properties. The analysis will also describe the projected leasing time frame to achieve project stabilization and whether reserves exist to guard against delay. If there is a balloon payment at the end of a loan term affecting the project, the analysis will describe the financial condition of the property on the maturity date, the project's ability to make final payment and efforts to mitigate risk (e.g., replacement reserves to maintain the physical condition of the property).

- **Substitution of CDBG funds for Private Sources:** IEDA staff, will review all projects to ensure that each loan minimizes the use of CDBG funds. It is in the State of Iowa's self interest to verify that there is no substitution of CDBG funding for non-federal funding. Given the limited availability of federal funds, IEDA staff will work diligently to maximize the use of private, non-federal funding in all projects. All projects will be reviewed to verify that private sources of financing have been maximized.

- **Developer/Owner Commitment:** Developer/owner commitment can take many forms. These commitments can include: developer/owner equity, guarantees of completion, guarantees to fund shortfalls or guarantees of minimum cash flow or program income. The developer's financials will also be examined and analyzed. IEDA will consider the need for and nature of such commitments on a case by case basis.

- **Program Eligibility:** Proposed projects will meet requirements for Section 108 applicant eligibility and will clearly identify CDBG eligible activities and reference the public benefit(s) including CDBG national objective to be achieved.

- **Project Readiness:** Applicants for loans must demonstrate evidence of ownership or site control, such as an executed option or purchase and sale agreement, as well as the readiness of the project to proceed in a timely manner upon loan approval. Such measures may take the form of building permit and zoning and land use readiness, commitment of all other financing, up-front architectural or engineering services, complete and final feasibility studies, development team selection and/or other measures as applicable.

- **Administrative/Technical Costs and Services:** IEDA will cap administrative/technical costs associated with any of the proposed program activity projects at $40,000. Such costs will be considered part of the overall loan amount issued to the UGLG. Any administrative or technical services contracts, excepting those entered into with the applicable regional Councils of Government, will be secured through procurement methods in compliance with 24 CFR Part 85.36. Notwithstanding the above, any administrative entity chosen must have staff with prior CDBG economic development program experience including loan fund management and underwriting activities. IEDA reserves the right to review and approve such proposals prior to the selection being made. Each UGLG receiving Section 108 funds will be required to adhere to an overall administrative plan IEDA will be developing specific to the 108 program.

- **Terms:** Terms for Economic Development Loans are not anticipated to be longer than ten (10) years, although IEDA may approve exceptions in its sole discretion. In any event, the term will not exceed the reasonable economic life of the asset being financed and used as collateral for the loan. Each loan application will include the rational for requesting the loan terms and conditions which are proposed. Loan terms for projects involving physical renovations are not anticipated being longer than fifteen (15) years, although IEDA may approve exceptions in its sole discretion. In no case will the term exceed the useful economic life of the assets being financed and used as collateral for the loan. Each loan application will include the rational for requesting the loan terms and conditions which are proposed.

  Loan terms for Housing Rehabilitation Loans projects are not anticipated to be longer than seven (7) years, although IEDA may approve exceptions in its sole discretion. In no case will the term exceed the useful economic life of the assets being financed and used as collateral for any loan. Each loan application will include the rational for requesting the loan terms and conditions which are proposed.

  Each loan application will also need to specifically justify the need for assistance at the rate and terms requested as follows:

Check which factor or circumstance state financial assistance is being sought to overcome:

Financing gap ________

Rate of Return on Investment gap ________

Location/Incentive Disadvantage ________

Explain why financial assistance is needed from the state and why it cannot be obtained elsewhere:
____

____

To assure the repayment of debt obligations and any other charges incurred and as a condition for receiving loan guarantee assistance, the State of Iowa Economic Development Authority (and public entity as applicable) shall:

(1) Enter into a contract for loan guarantee assistance with HUD, in a form acceptable to HUD, including provisions for repayment of debt obligations guaranteed hereunder; (2) Pledge all grants made or for which the State may become eligible under this part; (3) Furnish, at the discretion of HUD, such other security as may be deemed appropriate by HUD in making such guarantees.

Supplemental security shall be required for all loans with repayment periods of ten years or longer. Such other security shall be specified in the contract entered into pursuant to CFR 570.705 (b) (1) (2) (3), (c) (1) (i) (ii) (iii). Examples of other security HUD may require are: (i) Program income as defined in CFR 570.500(a); (ii) Liens on real and personal property; (iii) Debt service reserves; and (iv) Increments in local tax receipts generated by activities carried out with the guaranteed loan funds.

Community Development Block Grants allocated pursuant to Section 106 of the Act (including program income derived there from) may be used for: (i) Paying principal and interest due (including such issuance, servicing, underwriting, or other costs as may be incurred) on the debt obligations guaranteed; (ii) Defeasing such debt obligations; and (iii) Establishing debt service reserves as additional security. As applicable, IEDA will also comply with the requirements of CFR 570.200 (c) (2) with the use of special assessments to recover capital costs of public improvements assisted with Section 108 funds.

Special Under-Writing Criteria

In addition to the criteria listed above, projects will also (dependent upon their nature and proposed purpose) be evaluated against some, most or all of the following criteria:

- **Project Feasibility:** In addition to the financial feasibility of a project, an analysis will also be made on the feasibility of the overall development. The Section 108 loan application must be supported with additional documentation including but not limited to market studies, real estate appraisals, or feasibility studies. All such documentation must be prepared by a third party source that has the qualifications to perform the study, as determined by IEDA in its sole discretion. Borrower must submit an operating pro forma clearly setting forth the sources with which the Borrower plans to repay permanent financing. IEDA may also review engineering and other types of socioeconomic, architectural, or historical studies to properly evaluate the project. Housing demand analyses and a proposed low-moderate income tenant study or taxable real estate value trends may also be needed on a case by case basis.

- **Site Suitability:** IEDA will also evaluate the project site and location, as follows: a) The project's structural and environmental conditions are satisfactory to IEDA in its sole discretion, as demonstrated by third party studies and reports including but not limited to: i) Property appraisal ii) Phase I Environmental Site Assessment, iii) Property condition assessment (iv.) If necessary, an operations and maintenance program for removal/remediation of environmental hazards such as asbestos, lead-based paint, radon, PCBs, other toxic waste, and the removal of underground storage tanks; b) The project must have appropriate and adequate zoning, as evidenced by: i) a statement from the community zoning officer that the proposed use of the site is classified as either a legal conforming or a legal non-conforming use under local zoning requirements; c) Proof of ownership and proper title to the property must be evident; and d) borrower must provide a survey of the property from a licensed land surveyor that includes, at a minimum, a written legal description, site plan, easements, encumbrances, rights-of-way, physical features, and utility lines, all in form and content satisfactory to IEDA.

- **Financial Feasibility:** The project will be examined to determine its viability and assure that the community benefit anticipated from the Section 108 loan will be realized: a) Lender will evaluate current and historic financial statements of both the project sponsor and principals to evaluate completion risk based on sponsor financial capacity. Lender will also review all project costs for reasonableness and feasibility. Finally, lender will analyze past, current, and projected financial data to determine if any job estimates are reasonable and supported by the data and the terms and conditions of the Section 108 loan are appropriate. For housing related projects, IEDA will also review project costs for reasonableness within the market area chosen, examine income statements or projections for proposed tenants and determine if the terms and conditions of the Section 108 loan are appropriate.

<u>Section 108 Loan Rates, Terms and Leverage Requirements</u>

Rates: Interest on Section 108 interim financing loans will be set at the rate equaling the most recent 90 day LIBOR rate reported as of the date of loan approval plus up to 150 basis points or 1.5%. Interest on permanent financing shall be equal to the appropriate U.S. Treasury Note rate best matching the respective subrecipient loan term or maturity. The rate will be set as of the date of closing plus up to 150 basis points or 1.5%. Final interest rates will be set on a case by case basis following detailed loan underwriting and evaluation of all other related factors.

Terms/Conditions: The terms of loan shall be variable dependent on the program activity being funded as noted above. Terms shall never exceed 20 years or the balance remaining in the maximum 20 year repayment period to HUD, or the useful life of any assets being financed and used as collateral for the loan. In most instances, standard amortization schedules shall be set up for regular, uniform monthly payments. At the sole discretion of IEDA staff however, arrangements may be made with individual borrowers for alternate payment periods or for deferment of principal and/or interest payments for an appropriate portion of the term.

Leverage Thresholds: Section 108 loan amounts shall not, in the vast majority of foreseen circumstances, represent more than 66%, 75% or 90% respectively of any individual project as listed by activity category below. The minimum required local match for Section 108 funds shall be set at 10%. Depending on the type of project proposed, the specific security offered, the overall impact of the project and other factors however, IEDA reserves the right and flexibility to assign loan matching requirements on an individual basis. In no case however, shall the required local match be less than 10% or more than 50%.

The balance of project funds shall be financed by private, not-for-profit or other public funds. The minimum loan issued shall be $1,000,000 except for purpose # 4 rehabilitation and/or demolition of vacant single family residential units which will have a minimum of $500,000. The maximum amount for all Section 108 individual loans will be $10,000,000. A total project cost of a minimum of $ 1,500,000, $1,333,333 or $ 555,555 will be required for the project categories seen below. Additionally, in the case of economic development projects, at least one full time equivalent job must be created for each $20,000 of loan proceeds disbursed.

Required minimum recipient match as percentage of total project by activity:

Direct Loans to Businesses for Econ. Development	33% of total project costs
Adaptive Conversion or Reuse for Residential Units	25% of total project costs
Rehab/Renovation of Upper Story Residential Units	25% of total project costs
Rehab/Renovation of Single Family Residential Dwellings	10% of total project costs

Application Fees: The application fee payable to IEDA shall be set at a flat $2,500 plus a loan closing fee equal to .1% of the total loan amount issued.

Pro Rata Draws: Drawdowns of Section 108 funds from IEDA will be made in at least approximately the same proportion as the ratio of the amount of 108 funds to the entire project's other financial resources spent on the project to date to avoid placing the Section 108 Loan funds at a greater default risk than other funding sources.

Default: In the event of the default of any non-entitlement entity which is the recipient of Section 108 funds, IEDA will expect that the applicable UGLG will make all due efforts and conduct all due diligence in collecting the outstanding loan monies subsequently returning them to IEDA. Any restructuring of loan payments or bankruptcy procedures and/or any plan of obtaining collateral or securities shall be pre-approved in writing by IEDA. IEDA will stand ready to assist the UGLG in their collection efforts as necessary and appropriate. IEDA may also, at its sole discretion, assume the lead role in seeking relief from defaults. IEDA shall have the right, in addition to any rights and remedies available to it to do one or more of the following: exercise any remedy provided by law or requiring immediate repayment of up to the full amount of funds disbursed to the borrower.

A default will be declared, and repayments of the entire outstanding loan balance due upon, but not necessarily limited to, any of the following occurrences: failure to make timely or regular payments of principal and/or interest; failure to substantially complete the physical project as proposed in the approved application; material misrepresentation of fact; misspending of CDBG funds; lack of sufficient insurance coverage on properties affected by the project; failure to submit required reports; substantial failure to meet job creation goals as proposed in the approved application; disbursement of funds for ineligible CDBG activities; substantial failure to meet non-CDBG financial participation amounts as proposed in the approved application; failure to meet 51% LMI benefit requirement; closure of a facility named in the approved application; movement of a facility, or a significant portion thereof, as named in the approved application to a location outside the State of Iowa; sale or transfer of ownership of the facility named in the approved application without the prior written consent of IEDA.

Listing of all CFR 24 Pt. 570 References / Affected Activity / Summary of Provision

200 (c) (2)	Business Loans	Sets forth criteria for special assessments covering capital costs of public improvements.
.484 (a) (b) (1), (2), (3), (4)	Business Loans; Adaptive Reuse; Housing Rehab.; Gut Rehab/Demo	States criteria for overall benefit to low and moderate income persons including the 70% requirement, exceptions to funds that can be counted towards benefit and how to calculate the amount of benefit.
.208 (a) (3), (4)	Business Loans; Adaptive Reuse; Housing Rehab.; Gut Rehab/Demo	States criteria for meeting national objectives in terms of activities benefiting low and moderate income persons through housing activities and job creation or retention activities.
.483 (2) (B), (C)	Business Loans; Adaptive Reuse; Housing Rehab.; Gut Rehab/Demo	Describes eligible limited clientele activities including the acquisition, construction or rehabilitation of property for housing and also activities where the benefit for low and moderate income persons to be considered is the creation of jobs.
.203 (a), (b), (c)	Business Loans	Describes special economic development activities including physical work on commercial or industrial buildings, provision of financial assistance to private for profit businesses and the provision of various economic development services.
.208 (b) (i)	Adaptive Reuse	Describes activities which aid in the prevention of slums or blight by addressing such issues in an area delineated by the recipient as a slum or blighted, deteriorated or deteriorating area.
.482 (e) (2), (i), (II), (iii), (iv), (v), (vi); (f)	Business Loans; Adaptive Reuse; Housing Rehab.; Gut Rehab/Demo	(e) Describes the underwriting guidelines and objectives to be followed in evaluating project costs and financial feasibility to ensure reasonableness. (f) Lists comprehensive standards for evaluating public benefit.
.209 (a) (1), (2), (3), (4), (5), (6), (b) (1), (2) (ii), (iii)	Business Loans; Adaptive Reuse; Housing Rehab. Gut Rehab/Demo	(a) Describes the underwriting guidelines and objectives to be followed in evaluating project costs and financial feasibility to ensure reasonableness. (b) Describes the standards for evaluating and applying public benefits in the aggregate.
.209 (3) (i) (ii) (c) (d)	Business Loans; Adaptive Reuse; Housing Rehab.; Gut Rehab/Demo	Describes the standards for evaluating and applying public benefits for individual activities and establishes thresholds that cannot be exceeded and activities that do not meet the standards. Also speaks to amendments of economic development projects and to grantee documentation.
.210 (a), (b), (c)	Business Loans	Provides for the prohibition of the use of CDBG assistance for employment relocation activities as defined within the section.
.500 (a) (i), (iii), (iv), (v), (vi), (vii), (ix)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Defines the types of program income expected to be generated by the proposed State of Iowa Section 108 activities.
.206 (entirety)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Outlines all of the various program administrative costs that, on a case by case basis and by activity, may be eligible for funding under the proposed Iowa Section 108 Program.
.703 excluding (d), (e), (j), (m)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Describes and outlines a wide range of eligible activities relating to acquisition, rehabilitation, financing fees, site preparation, economic development, debt service, reconstruction and remediation.
.201 (a), (b), (d)	Adaptive Reuse	(a) Acquisition by the recipient or other public or private entity of real property. (b) Disposition of real property acquired with CDBG funds, (d) clearance and remediation
.202 (a) (1) (3), (4), (b) excluding (6), (7), (8), (10) (c) (d)	Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Describes and itemizes all types of buildings, improvements and related activities eligible for rehabilitation assistance. Also lists provisions regarding code enforcement, renovation of closed buildings and lead-based paint compliance.
.705 (entirety)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	States Section 108 loan requirements including limitations on commitments, all eligible security requirements and instruments, form of debt obligations, loan repayment period, and HUD powers in relation to resolving debt obligations.
.704 (entirety)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Lists all application and pre-submission and citizen participation requirements. The State of Iowa and all sub-recipients as applicable will be required to comply with all provisions and certifications and assurances of Section 704.
.500 (entirety)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Defines, in detail, what is and what is not program income. Also defines revolving fund and subrecipient. The State of Iowa will define program income in accordance with Section .500 in respect to all proposed Section 108 activities.
.486 (a), (b)	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Sets forth all citizen participation requirements for non-entitlement UGLGs applying through the State of Iowa Section 108 Program.
.606 (entirety)	Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Sets forth all definitions, policies and standards for displacement, relocation, acquisition and replacement of housing.
24 CFR Part 85.36	Business Loans; Adaptive Reuse; Housing Rehab; Gut Rehab/Demo	Sets forth and describes the four basic methods of CDBG procurement processes.
24 CFR Part 42.305	Gut Rehab/Demo	Defines a “vacant, occupiable dwelling unit”

Application Review Process

Loans secured with a Section 108 guarantee will go through the following basic process prior to being issued:

1. The potential applicant(s) meet with appropriate UGLG staff to discuss aspects of the proposed project and then submit an R & E initial proposal form.

2. If requested by the UGLG a full loan request is submitted on a form provided through IEDA, by the proposed Borrower to the applicable UGLG. Full documentation must be included. (Loan applications accepted at any timed during program year).

3. The UGLG reviews the application as per criteria provided by IEDA and local CD goals, performs basic due diligence underwriting, gathers all documents and, following the public hearing, submits all findings and a recommendation to IEDA for consideration.

4. Once the public entity has held the public hearing and published the proposed application the public entity must consider any comments received and if it deems appropriate, modify the proposed application. The final application must be made available to the public.

5. IEDA staff will review each application submitted for compliance with the state and federal threshold requirements for a Section 108 loan, including proper design to meet eligibility and national objective requirements, justification for funding, and demonstration of non-replacement of federal funding. IEDA may: 1) reject application; 2) approve with conditions/amendments attached; 3) return to UGLG for additional information or clarification or 4) approve as is and recommend application package on to the HUD Regional Office. IEDA may disapprove or reduce the amount of the loan when it determines that the loan constitutes an unacceptable financial risk. IEDA reserves the right to not approve an application based on any other combination of factors and will notify the public entity in writing that the loan application has been approved, reduced, modified or disapproved. If the request is reduced, modified or disapproved, the public entity will be informed of the specific reasons for said actions being taken.

6. Applicable HUD Office reviews all application documents and recommendation from IEDA and checks for eligible activities, level of loan risk and compliance with national objective criteria. HUD informs IEDA of their funding decision. IEDA, in turn, informs UGLG.

7. If approved, IEDA will coordinate with the UGLG to enter into a three party contract with Borrower, review and sign closing documents, set up a joint escrow account and establish a repayment account from which quarterly or semi-annual payments will be made to HUD.

8. Loan applications will be received on an on-going basis by IEDA with monies to be awarded to worthy projects on a first come, first served, basis until the funds are exhausted.
   IEDA plans on designing the program so that award(s) will begin to be made within one year of final HUD approval of the Section 108 fund.

Underwriting Experience

The State of Iowa has retained the services of an experienced and qualified consultant for technical support and assistance on all matters related to HUD and the Section 108 Program as needed. That being said, the Iowa Economic Development Authority has established a solid record of success in terms of loan underwriting, closing, monitoring and securing of repayment involving a broad range of economic development programs.

IEDA presently manages a number of programs that involve similar requirements for underwriting, due diligence, servicing, and reporting as those associated with a Section 108-Guaranteed Loan. In the case of Section 108 loans however, criteria pertaining to loan to value, debt coverage and debt to equity ratios, as well as all other tangible and intangible evaluation factors will be applied more stringently than is the case with other current programs. Current IEDA programs include loans for commercial and industrial economic development, housing, downtown revitalization, sustainability, disaster recovery and community facilities as well as several State tax credit programs for qualified private businesses involved in job creation.

The IEDA Community Development Division staff has two full time staff that have a combined 23+ years of financial analysis and loan decision making experience, the vast majority of which involved CDBG funded loan pools. Furthermore, two members of the IEDA Business Development Division can be called upon to provide additional technical assistance as these individuals together have about 40 years of similar levels of experience. Currently, IEDA is considering forming a review team to process and evaluate all applications received. The team will potentially consist of two members of the Community Development Division, two members of the Business Development Division and the Community Development Division Coordinator. Finally, IEDA will reserve the option of considering the use of outside financial consultants to assist with underwriting in unusual or exceptionally complex circumstances. Such consultants would be competitively selected.

All of the aforementioned IEDA staff are experienced in structuring leveraged financing deals and layered packages that provide the critical last “piece of the pie”, for a project, therefore closing financing gaps that facilitate investment by other lenders. Current loan security requirements for IEDA’s Economic Development Set Aside Program, (similar in nature to the proposed Section 108 Direct Business Loan Activity), mandate an irrevocable letter of credit. The use of letters of credit from financial institutions will continue to be considered a preferred instrument of security on any Section 108 loans issued. The absolute need for such pledges of security will be determined on a case by case basis dependent on the particulars of each individual project, the recipient characteristics and, of course, the other securities/collateral available to IEDA as lender.

The IEDA Board, which will ultimately approve each Section 108 loan, consists of 11 distinguished members appointed by the Governor that represent persons from across the State with expertise in business operations, overall economic development and in housing financing vehicles.

Citizen Participation Plan

In accordance with all provisions of CFR 570.704 (2) (i), (ii), (iii), (iv), (v), (vi), and (vii), citizen participation for the Section 108 application and the proposed 108 activities were made part of and integrated into the process already in place for the five year consolidated plan being formulated this calendar year. The Section 108 Program is regarded as a component of the 2015-2019 Consolidated Plan and is specifically mentioned within. It is also regarded as being consistent with and complimentary to the Plan. A public hearing on the Plan was held on October 1, 2014 with public comments accepted. A second public hearing was held on October 16, 2014 with comments accepted through October 28. See Attachment A for copies of applicable public hearing notices, a listing of other methods of notification and solicitation of input. Any comments received by IEDA in regards to Section 108, as well as the related responses, are also included. After consideration of public and administrative feedback, the application has been finalized and is being submitted to HUD for review by both the Omaha Field Office and National Headquarters.

Note: Each unit of local government making application for Section 108 Loan Guarantee funds will be required to comply with citizen participation requirements for such governmental units as specified under 24 CFR 570.486 (a) and (b) including: the requirements for accessibility to information/records and to furnish citizens with information as to proposed CDBG funding assistance as set forth under 24 CFR 570.486 (a) (3); provide technical assistance to representatives of low-and-moderate income groups, conduct a minimum of two (2) public hearings on proposed projects to be assisted by CDBG Section 108 funding, such hearings being accessible to handicapped persons; provide citizens with reasonable advance notice and the opportunity to comment on proposed projects and provide interested parties with addresses, telephone numbers and times for submitting grievances and complaints.

HUD Certifications and Assurances

In administering the Section 108 Loan Guarantee funds, the State of Iowa, as well as any and all subrecipient entities and contractors for services funded with Section 108 proceeds will be required to adhere to all of the following federal standards covering HUD CDBG funds: Such standards will be made a part of any loan award contracts as well as any subrecipient agreements and local work or service contacts.

National Objectives	Procurement 24 CFR Part 85.36
Civil Rights & Fair Housing Title VIII, Title I	MBE/WBE
Section 3 of HUD Act	Section 504 of ADA
Davis-Bacon Act	Copeland Anti-Kickback Act
Efforts to Obtain Other Financing	Public Entity Certification
Work Hours and Safety Standards Act	Federal Labor Standards, HUD Handbook 1344.1
Contractor Eligibility Determination	Uniform Relocation & Property Acquisition Act
Environmental Review, CFR Part 58	Program Benefit

The federal standards as listed above shall be made a part of all recipient and subrecipient agreements.

The following IEDA Section 108 related certifications can be found as Attachment B to this application:

Drug Free Workplace
Debarment and Suspension
Lobbying OMB Standard Form LLL
Certification of Legal Authority to Pledge Grants
Payments to Influence Federal Transactions
Public Entity Certifications
State Certifications for Nonentitlement Public Entities