
ROWLETT HOUSING FINANCE CORPORATION

APPLICATION FOR FINANCING
QUALIFIED RESIDENTIAL RENTAL PROJECTS

INSTRUCTIONS AND APPLICATION FORM

EFFECTIVE September 13, 2019

INTRODUCTION

The following Instructions (the “*Instructions*”) set forth the procedure for submitting an application to the Rowlett Housing Finance Corporation (the “*Corporation*”) for financing qualified residential rental projects. The Instructions also summarize the requirements an applicant (an “*Applicant*”) must satisfy to qualify for financing as set forth in the Act (as hereinafter defined), the Texas state ceiling allocation statute, the rules and regulations of the Texas Bond Review Board, the Internal Revenue Code (the “*Code*”) and Treasury Regulations, rulings and procedures implementing the Code. No attempt is made by the Corporation to describe these requirements in a full or comprehensive manner in the Instructions. Applicants must consult their own legal counsel regarding such requirements, including any requirements of the Texas Department of Housing and Community Affairs (the “*TDHCA*”) and not rely on the information presented herein.

The Corporation was created under the Texas Housing Finance Corporations Act of 1979 (the “*Act*”), Chapter 394 of the Local Government Code, as amended, by the City of Rowlett, Texas. The Corporation’s primary purpose is to assist individuals of low and moderate income to obtain decent, safe, sanitary and affordable housing located within the boundaries of the City of Rowlett. The Corporation is authorized by the Act to issue special revenue bonds to finance qualified residential rental projects for this purpose.

ARTICLE I. PURPOSE AND SCOPE.

The Instructions apply to specific multifamily residential developments for which an Applicant requests the Corporation to issue bonds to provide financing. The Instructions do not apply to any bonds issued by the Corporation for the purpose of making or acquiring home mortgages (as defined in the Act), making loans to lending institutions for the purpose of making or acquiring home mortgages or with respect to loans made by the Corporation for purposes of assisting a developer in obtaining tax credits.

Specific provisions of the Instructions may be waived by a majority vote of the Board of Directors of the Corporation (the “*Board*”). The Instructions may be amended, revised, repealed or otherwise altered by a majority vote of the Board at any time and from time to time with or without notice.

ARTICLE II. GENERAL REQUIREMENTS.

The Corporation will not issue bonds to provide financing for any residential development that has not satisfied, as determined by the Corporation, the general requirements set forth in this Article II and all requirements of the Act and the Code as determined by Bond Counsel. The Corporation reserves the right to impose additional specific requirements with respect to any particular residential development. Compliance with the Instructions does not and shall not be deemed to constitute a commitment or assurance that financing will be provided by the Corporation.

Public Purpose. Prior to the issuance of bonds, the Board must have made a finding that financing of such residential development will promote the public purposes set forth in Section 394.002 of the Act.

Residential Rental Property. The owner of the residential development, unless the owner is a 501(c)(3) corporation, shall have entered into contractual arrangements that demonstrate, to the satisfaction of the Corporation, that such residential development is to be owned and operated as a qualified residential rental project within the meaning of Section 142(d) of the Code and applicable regulations thereunder, for the Qualified Project Period (as hereinafter defined).

For purposes of the Instructions, the term “*Qualified Project Period*” means the period beginning on the first day on which 10% of the units in such residential development are occupied and ending on the later of (i) the date that is fifteen (15) years after the date on which at least 50% of the units in such residential development are first occupied, (ii) the first day on which no bonds issued to finance or refinance such residential development are outstanding or (iii) other land use restriction deed requirements which exceed (i) or (ii). Variations to this rule may apply with respect to certain rehabilitation projects.

Tenant Income. Under the Act, at least 90% of the rental units must be occupied by individuals of low and moderate income. The Board is required by the Act to determine this income standard. The terms “*low income*” and “*low and moderate income*” as used in the Instructions have the same meaning as “low and moderate income” in the Act.

The project must meet, at a minimum, the Internal Revenue Service safe harbor test of 20% of the units occupied by tenants earning no more than 50% of the Area Median Income or 40% of the units occupied by tenants earning no more than 60% of the Area Median Income. The Corporation may also place additional restrictions on the project to ensure that it satisfies a public purpose with at least 90% of the units being affordable as defined by the Board. Additionally, with respect to projects in which the Corporation has an ownership interest, at least 50% of the units must be reserved for tenants earning less than 80% of the area median income.

Occupancy Requirements. The Act requires the Applicant to set aside at least 5% of the rental units (if there are twenty (20) or more units in the project) for elderly individuals of low income or families of low or moderate income in which an elderly individual is the head of household. “*Elderly*” means sixty (60) years of age or older. Alternatively, the Applicant may pay the Texas Department on Aging a one-time fee, payable at closing, equal to 0.10% of the total principal amount of the bond issue.

Tax-Exemption of Bond Interest. Section 103 of the Code provides that interest on fully registered, qualified bonds issued by the Corporation to finance residential rental projects is excludable from the gross income of the bondholders if (i) at least 95% of the net proceeds of the issue are used to provide qualified residential rental projects, (ii) the required percentage of units in the project will be occupied by individuals of low income within the meaning and for the period specified in Section 142(d) of the Code and (iii) if other applicable requirements of Sections 141 through 150 of the Code are met.

Acquisition and Rehabilitation Projects. The Corporation will not finance an acquisition and rehabilitation project unless the Applicant demonstrates that the project to be acquired and rehabilitated will be capitalized with adequate reserves.

Payment in Lieu of Taxes. If an exemption from ad valorem taxes is requested, the Applicant must prove that the transaction will not underwrite but for the exemption. The Applicant must also describe in detail the proposed uses of the funds generated by the ad valorem tax exemption. The Corporation may require a PILOT program for each project requesting exemption from ad valorem taxes. Each project will be evaluated separately, and the requirement and terms of the PILOT program will be determined by the Board.

Location of Project. The residential development must be located entirely within the boundaries of the City of Rowlett, Texas.

Third Party Reports. The Corporation may obtain underwriting, marketing, appraisal and physical needs assessment reports (the “*Third Party Reports*”) from independent third parties at the expense of the Applicant.

Regulatory Approvals. The Applicant is responsible for obtaining all regulatory approvals (zoning, special permits, utility connections, etc.) necessary for development of the project.

Rating or Private Placement. The Corporation will not issue bonds to finance a qualified residential rental project unless the bonds receive a rating in at least the “A” category from Standard and Poor’s Ratings Services or Moody’s Investors Service unless the bonds are sold by private placement.

If the Applicant plans a private placement of the bonds, the Applicant must furnish the Corporation with an investment letter from the prospective purchaser of the bonds that is satisfactory to the Corporation and its Bond Counsel. In addition, the bonds must be in denominations of \$100,000 or more and the bonds must be transferable only by physical delivery.

Bond Counsel. The Corporation has retained McCall, Parkhurst & Horton L.L.P. as Bond Counsel for its bond issues. The fees and expenses of Bond Counsel are to be paid by the Applicant.

Partnership Counsel. The Corporation has retained Chapman and Cutler LLP to act as Partnership Counsel in bond transactions where the Corporation has an ownership interest in the project. The fees and expenses of Partnership Counsel are the responsibility of the Applicant.

Financial Advisor. The Corporation has retained Hilltop Securities Inc. as Financial Advisor for its bond issues. The fees and expenses of the Financial Advisor are the responsibility of the Applicant.

Rebate Analyst. The Corporation has retained Hilltop Securities Asset Management, LLC as Rebate Analyst for its bond issues. The fees and expenses of the Rebate Analyst are the responsibility of the Applicant.

Underwriter/Placement Agent and Trustee. The Corporation will select a qualified underwriter or placement agent and trustee for the bond issue. The fees and expenses of such parties are the responsibility of the Applicant.

Official Intent. U.S. Treasury Regulations permit the Corporation to declare its official intent to issue its bonds so that project costs may be paid from a portion of the issue proceeds. If the Applicant satisfies all of the requirements for issuance of the Corporation's bonds as set forth in this Article II and the application procedures set forth in Article III below, the Corporation will schedule a meeting of the Board to consider adopting a resolution evidencing the intent of the Corporation to issue its bonds to finance the Applicant's qualified residential rental project. The Applicant will be notified of the date, time and place of such meeting and should appear at the Board meeting to answer questions about the project.

Adoption of an official intent resolution is solely at the Corporation's discretion and adoption does not obligate the Corporation to issue the bonds. No person may represent, directly or indirectly, to a potential purchaser of the bonds, or to anyone else, that the Corporation has agreed to finance the Applicant's project until the Corporation adopts a final bond resolution authorizing the issuance of its bonds. An official intent resolution expires when the application expires.

Public Hearing and Approval. Section 147 of the Code requires the Corporation to conduct a public hearing on the project at a location convenient to members of the public likely to be interested in the project. The Corporation's Bond Counsel will schedule and advertise the hearing and notify the Applicant's contact person of its date time and place. The costs of such advertisement and any rental or other fees associated with the hearing location are the responsibility of the Applicant. The Corporation will designate a hearing officer to conduct the hearing. A representative of the Applicant should appear at the hearing and be prepared to answer questions about the project.

Section 147 of the Code also requires approval of the project by the chief elected executive officer of the local government in whose jurisdiction the project will be located. The chief elected executive officer of the City of Rowlett, Texas is the Mayor.

The Corporation's Bond Counsel will prepare the certificate of approval and present it to the appropriate official for signature. It is the Applicant's responsibility to secure the approval.

State Ceiling Allocation for Private Activity Bonds. Unless the Applicant is a 501(c)(3) corporation, the Applicant must receive from the Texas Bond Review Board a reservation of the state's private activity bond allocation in an amount equal to the total principal amount of the private activity bond issue requested of the Corporation. Bond Counsel will prepare and file the application with the Texas Bond Review Board for the Corporation on behalf of the Applicant. The Applicant must cooperate fully with Bond Counsel in preparing the application and must certify that all information in the application is correct and complete before it is filed with the Texas Bond Review Board.

Priority Election for Low Income Housing Tax Credits. Unless the Applicant is a 501(c)(3) corporation, the Applicant must elect, by checking one of the boxes in item 6 on the application

form cover, one of three Low Income Housing Tax Credit priorities. An Applicant that elects priority 1 or 2 must also apply for a 4% Low Income Housing Tax Credit award from the Texas Department of Housing and Community Affairs.

ARTICLE III. APPLICATION PROCEDURE.

Application Submission. The Applicant must complete an application form, which is available from the Corporation's Financial Advisor. The Applicant must answer all questions completely and accurately. If the Applicant requires additional space for an answer, or if a question requires an attachment, the Applicant may attach letter-sized continuation sheets that may be inserted following the page of the application form that it supplements. The question number should be clearly marked on the continuation sheets and should be numbered sequentially. For example, continuation sheets pertaining to question 2.4 should be marked 2.41, 2.4-2, 2.4-3, etc.

The Corporation may request additional information not required by the application form. The Applicant agrees to furnish such additional information in writing within a reasonable time after receipt of the Corporation's request. The Corporation may also modify the requirements of the application form if necessary to accommodate changes in law or to obtain a complete and accurate understanding of the Applicant's project.

The Corporation is subject to the Texas Public Information Act and all information in its files, including the completed application, is subject to disclosure unless made confidential by the Texas Public Information Act.

The individual signing the application cover sheet represents that he or she read and understands the Instructions and the application form, that the information contained in the application form is correct and complete, that the Applicant agrees to the terms and conditions set forth in the Instructions and the application form and that he or she is legally authorized to sign on behalf of the Applicant.

When the application is completed, print and bind the form pages, required attachments and continuation sheets into a single packet, sign and date the cover sheet and mail or deliver the signed original and a PDF of the application, together with checks for the Application Fee (as hereinafter defined), the Bond Counsel Review Fee (as hereinafter defined) and the Bond Review Board Filing Fee (as hereinafter defined), if applicable, to:

Rowlett Housing Finance Corporation

c/o Mark A. Malveaux
McCall, Parkhurst & Horton L.L.P.
717 N. Harwood Street, Suite 900
Dallas, Texas 75201
Direct Line: (214) 754-9221
Telecopy: (214) 754-9250
mmalveaux@mphlegal.com please
provide one (1) copy and a PDF copy to:

Financial Advisor

Timothy Earl Nelson
Managing Director
Hilltop Securities Inc.
1201 Elm Street
Suite 3500
Dallas, TX 75270

Direct: 512.481.2022 | Fax: 512.481.2010 | Mobile: 512.970.8094
tim.nelson@hilltopsecurities.com

Rejection of Application. The Corporation may reject an application if it is (i) not received by the Corporation on or before the application deadline, (ii) not accompanied by the application fee or (iii) incomplete and the Applicant fails to complete the application within a reasonable time after the Corporation's request for completion.

Expiration of Application. An application expires (i) if it is withdrawn by the Applicant, (ii) if the Corporation does not adopt a resolution of official intent within ninety (90) days from the date of the application, (iii) if the Applicant does not receive an allocation reservation from the Texas Bond Review Board (if required), (iv) if the Applicant does not receive the Low Income Housing Tax Credits applied for from the Texas Department of Housing and Community Affairs, (v) if the reservation or the tax credits are withdrawn, cancelled or expire or (vi) if the Corporation does not issue the requested bonds within one hundred fifty (150) days from the later of (x) the date of the adoption of the resolution of official intent or (y) if applicable, the date of the allocation reservation from the Texas Bond Review Board, unless such allocation is carried forward by the Corporation in which case the application will remain in effect unless and until the applicable official intent resolution is rescinded by the Corporation, in its sole discretion. All action taken by the Corporation on an application becomes void when the application expires.

ARTICLE IV. FEES AND COSTS

Application Fee. A nonrefundable fee of \$3,000 for a private activity bond issue or for a 501(c)(3) Applicant (the "*Application Fee*") for the Corporation staff review of the application (by check made payable to the Corporation). In connection with private activity bond issues, \$2,000 must be paid as compensation to Bond Counsel (the "*Bond Counsel Review Fee*") for preparing and filing the application with the Texas Bond Review Board (by check made payable to Chapman and Cutler LLP). In addition, an Applicant applying for a private activity bond issue must submit a check for the Texas Bond Review Board filing fee in the amount of \$5,000 payable to the Texas Bond Review Board with its application (the "*Bond Review Board Filing Fee*"). If the Corporation does not adopt a resolution of official intent for the Applicant's project, the Corporation will return the Bond Review Board Filing Fee and the Bond Counsel Review Fee. The \$3,000 Application Fee owed to the Corporation is not refundable whether or not the Corporation adopts an official intent resolution.

Issuance Fee. The Corporation shall be paid an issuance fee equal to 0.50% of the total principal amount of bonds issued, payable at closing (the “*Issuance Fee*”), subject to the immediately succeeding sentence. In the event that the Application expires or bonds are not issued, the Corporation is entitled to (i) 25% of the Issuance Fee, calculated based on the amount of the volume cap reservation, if a TEFRA hearing has been held by the Corporation or (ii) 50% of the Issuance Fee if the Corporation’s Board has passed its final bond resolution, calculated based on the aggregate principal amount of the bonds approved by the Board, which amounts are due and payable immediately upon the earlier of (A) the expiration of the Application or (B) the termination of the bond issuance. If the bonds are issued, no portion of the Issuance Fee is refundable.

Annual Administrative Fee. 0.15% of the total principal amount of the bonds issued (the “*Annual Administrative Fee*”). The first three (3) years of the Annual Administrative Fee are payable to the Corporation at closing and the remaining Annual Administrative Fees are payable to the Corporation beginning on the fourth anniversary of the closing and on each subsequent anniversary so long as any of the bonds are outstanding. For bond issues with an expected final term of less than 10-years, the Annual Administrative Fee is equal to 1.50% of the total principal amount of the bonds issued and is due and payable in full at the bond closing.

Engagement of Bond Counsel and Partnership Counsel. The Applicant (or a related entity) must sign the engagement letters of McCall, Parkhurst & Horton LLP and Chapman and Cutler LLP and pay any required retainers prior to the scheduling of the public (TEFRA) hearing. The engagement letters must be executed by an existing entity with financial resources acceptable to McCall, Parkhurst & Horton LLP and Chapman and Cutler LLP, as applicable.

Closing Fees and Costs. The Applicant is responsible for rating agency fees, placement costs, insurance premiums, filing and recording fees, the Texas Bond Review Board closing fee, the Texas Department on Aging fee (if elected), and any other fees and costs of closing.

Fee Schedule. The fees for Bond Counsel and Partnership Counsel are to be as set-forth in the engagement letters executed in connection with each financing. Fees for the Financial Advisor for the Corporation’s multifamily bond issues is as follows:

| | ISSUE AMOUNT | FEE |
|--------------------|------------------|---|
| Financial Advisor* | Any issue amount | \$20,000 <i>plus</i> \$2.00 per \$1,000 of Bonds issued |

*The fee set forth applies to a conduit bond issuance. For bond issues where the Corporation undertakes an ownership interest in the project, additional fees will be as negotiated. The above fees do *not* include expenses.

ARTICLE V. INDEMNITY AGREEMENT.

For the purpose of inducing the Corporation to accept, review and act upon the Application and to issue the obligations therein contemplated, the Applicant hereby agrees to indemnify and hold harmless the Corporation, its officers, directors, employees, agents and representatives, from and

against all costs, losses, damages, expenses and liabilities of any kind arising from or in connection with the Corporation's acceptance, review, approval or disapproval of such Application for financing, or the issuance, offering, sale or delivery of the bonds of the Corporation therein contemplated, or the design, acquisition, construction, rehabilitation, installation, operation, use, occupancy or maintenance of the residential development described in such Application. It is expressly agreed that the provisions of this Article V shall survive (i) any approval or disapproval of such Application and (ii) whether or not any such bonds are issued.

EXECUTION AND ACKNOWLEDGEMENT

The undersigned Applicant hereby acknowledges that it has read and understood the terms and conditions set forth in the Instructions and agrees to be bound by the same.

Dated: _____

Name of Applicant (must be a parent entity)

By: _____

Name: _____

Title: _____

Accepted:

Rowlett Housing Finance Corporation

By: _____

Authorized Officer