

501(c)(3) Due Diligence Checklist

In order to evaluate a Borrower/Sponsor when funding for the transaction is from tax- exempt bonds whose exemption is based on the status of the Borrower under section 501(c)(3) of the Internal Revenue Code, you must obtain and review the documentation listed below in addition to the usual underwriting documentation for the proposed Mortgage:

Tax information

1. Filed IRS Form 1023 (Application for Exemption) together with copies of all correspondence between IRS and the nonprofit.
2. IRS determination letter.
3. Copies of the nonprofit's Form 990, if any, and Form 990-T, if any, for the past three years.
4. Copies of any legal opinion(s) that may have been previously issued relating to tax-exempt status of the nonprofit.
5. Copy of letter from IRS confirming that the nonprofit is classified as a public charity, if applicable.
6. Copy of group exemption letter, if applicable.

Information about the nonprofit's organization and history

7. Copy of the nonprofit's articles of incorporation certified by the Secretary of State (or comparable agency responsible for corporate charters) of the nonprofit's State of incorporation.
8. Copy of the nonprofit's bylaws certified by the nonprofit's corporate secretary as being complete and accurate.
9. Copies of annual reports filed with State corporate authorities for the last three years, if available.

Financial/Organizational information

10. Copies of financial statements for the last three years, audited if available but otherwise unaudited.
11. Copies of any Compliance and Internal Controls reports that may be part of, or in addition to, the Financial Statements, for the previous three years if available

12. At least three (3) lending references from major lenders, which may be either conventional lenders, or public sector or nonprofit lenders (i.e. ESIC, LISC, HFAs, local housing and development agencies, LIHTC syndicators, etc.)
13. Description of any technical assistance sought and received by the nonprofit from providers such as LISC, ESIC, Neighborhood Reinvestment Corp. etc.
14. Certification by the nonprofit that there have been no material negative findings with respect to properties it has an ownership interest in or manages, regarding compliance with tax credit rent restrictions, tax-exempt bond income restrictions, or other agreements regulating a property's use or the income of tenants to whom units are leased, that remain unresolved, or material negative findings resulting from a HUD or other public agency audit. If there have been any such material negative findings that were not satisfactorily resolved, an explanation must be attached.
15. List of current officers and directors, with resumes or biographies for each, including tenure with the nonprofit.
16. Organization chart or other listing of the nonprofit's staff, including job functions, and biographies or resumes for those with direct responsibility for the proposed project.
17. Description of any identity of interest between the nonprofit and any other financing or development team member.
18. Description of any transaction during the last three (3) years between the nonprofit and any of its officers and directors (and persons related to such officers and directors) including but not limited to loans, advances, sales or purchases, guarantees and service or management contracts.
19. Description of internal asset management systems/processes/practices
20. Copies of any property management agreements or other management agreements to which the nonprofit is a party or which will be entered into as part of the proposed transaction.