

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

4% EQUITY SUPPORT PROGRAM NOTICE

JUNE 18, 2009

Background: As a part of the American Recovery and Reinvestment Act of 2009 (ARRA), the Michigan State Housing Development Authority has applied for funding under the United States Department of Housing and Urban Development's Tax Credit Assistance Program (TCAP). This program is expected to provide nearly \$64 million in gap financing to support Low Income Housing Tax Credit (LIHTC) projects.

On March 25, 2009, the Authority published a Preliminary Implementation Plan addressing its plan to use both TCAP and Section 1602 Program (aka monetized credit) funding from the Department of Treasury to establish several state programs, including a "4% Tax Credit Assistance Program." In order to avoid confusion between the state-designated program and federal TCAP funding, the Authority is re-designating its program as the "4% Equity Support Program."¹

This memorandum is intended to formally announce the availability of funding for the 4% Equity Support Program.

Program Outlook: In most respects, the 4% Equity Support Program is a continuation of the Authority's use of HOME, Neighborhood Stabilization (NSP), and Preservation Fund resources to support development proposals seeking first mortgage Direct Loans from the Authority. Under this program, ARRA resources will be used in conjunction with Direct Lending proposals to provide subordinate financing. In addition to being underwritten by the Authority, proposals seeking funding from the 4% Equity Support Program must meet the requirements of both the 2009 QAP and the all sections of the updated Direct Lending Parameters.

There are several considerations that potential applicants should consider:

Application Deadline: There is no specific application deadline for the 4% Equity Support Program. All applicants to the Authority's Direct Lending programs that are also seeking subordinate loans to support their transactions will be considered. However, under federal rules in order to be eligible for TCAP, projects must receive an award of LIHTC between October 1, 2006 and September 30, 2009. Therefore, the Authority strongly recommends that applications, including concurrent applications for LIHTC awards, be submitted no later than Thursday, July 16, 2009.

Application Materials: Applicants can apply by submitting a 4% Equity Support Program Application in concert with an application for a Direct Loan from the Authority. Sponsors with pending Direct Lending applications should consult with their Housing Development

¹ While titled the 4% Equity Support Program, the Authority will consider providing equity support to developments seeking taxable loans with 9% credits in addition to the primary focus of supporting tax exempt lending proposals with 4% credits.

Officer to determine what steps need to be taken to refresh their applications and continue processing. There is no special Exhibit Checklist for the 4% Equity Support Program as the due diligence exhibits required for a Direct Lending application should cover all anticipated reviews.

Eligible Applicants: Only sponsors that have applied or are applying for a tax exempt or taxable first mortgage from the Authority are eligible to apply.

Eligible Recipients: In order to receive funding under the 4% Equity Support Program, projects must be owned by an eligible borrower under the Authority's Act. In most cases this will require the establishment of a Limited Dividend Housing Association.

Source of Funding: While the Authority initially expects to fund the 4% Equity Support Program with funding from the federal TCAP grant it expects to receive, the Authority specifically reserves the right to fund any application to the 4% Equity Support Program with any source of funding available. To the extent the Authority determines another source of funding, such as the Neighborhood Stabilization Program or the Section 1602 Program, will be used to fund an application to the 4% Equity Support Program, applicants will be required to submit documentation as may be needed by the Authority to comply with the requirements and regulations associated with any other funding source the Authority intends to use.

Maximum Funding: There is no specific maximum funding level, but the Priority Selection Process favors projects that use a minimum of TCAP funds while leveraging other capital sources to create financially sustainable properties.

Form of Assistance: The Authority will provide 4% Equity Support Program funds to a development in the form of a mortgage loan, typically subordinate only to an amortizing permanent mortgage. Loan terms, as outlined in the Direct Lending Parameters, will include a 50 year term, 3% simple interest, and payment from 25% of surplus cash available for distribution. Associated documents may include, but may not be limited to, a regulatory agreement, a mortgage, and personal and/or corporate guarantees from the sponsor and/or underlying individual owners of the ownership entity.

Applicability of Direct Lending Parameters and 2009 QAP: Applicants for the 4% Equity Support Program will be subject to the requirements, underwriting standards, and parameters of both the 2009 Qualified Allocation Plan the Authority's Direct Lending Parameters.

Ongoing Oversight and Asset Management: As noted in other associated program notices, ARRA specifically requires the Authority to "perform asset management functions ... to ensure compliance with section 42 ... and the long-term viability of buildings funded by [TCAP]." In making such a requirement, Congress established specific expectations in excess of the compliance functions previously expected of the Authority as a LIHTC allocating agency. In developing this program, the Authority has determined that ARRA's expectations of "asset management" exceed even those traditionally fulfilled by the Authority's Office of Asset Management (OAM). Ensuring the long-term viability of funded

projects requires that the Authority perform additional Authority functions such as design review, construction and disbursement oversight, and reviews of project financial feasibility.

Developments receiving assistance under the 4% Equity Support Program, therefore, will be subject to a variety of oversight and asset management requirements of the Authority's Direct Lending programs including but not limited to design review, construction and disbursement oversight, and ongoing review by OAM. Ongoing OAM oversight of developments financed with an Authority permanent mortgage includes submission of monthly income and expense reports, annual audits, annual budget reviews, and periodic capital needs assessments.

Fees: The following fees will apply to all 4% Equity Support Program applications and funded developments:

Application Fee:	None, but standard Direct Lending application fees will apply to the application for the first mortgage. Applicants will be responsible for any third-party costs incurred by the Authority associated with the review of a 4% Equity Support Program proposal.
Initial Asset Management Fee:	2% of funding awarded under the 4% Equity Support Program
Annual Asset Management Fee:	<i>TBD: For planning purposes at this point, developments with direct loans from the Authority are already subject to these asset management functions and therefore may budget a \$0 fee.</i>

Pursuant to the 2009 QAP, standard LIHTC compliance fees equal to \$450 per unit will also apply as will any other standard LIHTC fees.

Development Timing: In order to satisfy disbursement requirements imposed by HUD, developments seeking funding under the 4% Equity Support Program must demonstrate to the Authority's satisfaction that all TCAP funding awarded to a project may be properly incurred and reimbursed by the Authority prior to February 16, 2012. Any funds not disbursed by that date will be revoked. The Authority reserves the right to impose earlier deadlines and intends to award funds primarily to projects that can demonstrate an ability to properly expend all Section 1602 Program funding by December 31, 2010.

Competitive Selection Criteria: The primary selection criteria for the 4% Equity Support Program will be based on a project's readiness to proceed and ability to be completed within timeframes necessary for the Authority to commit and expend TCAP funds within the appropriate timeframes.

Any project receiving 4% Equity Support Program funds will be subject to the following threshold requirements:

- 1) Projects must have been awarded LIHTC under the 2009 QAP (an award of 4% LIHTC satisfies this requirement); and
- 2) Projects must be underwritten by Authority staff based on the most current underwriting standards available, and after review of any required updates to market studies, operating cost estimates (including analysis of comparable properties), trade payment breakdowns (reflecting Davis Bacon wages), and other due diligence items the Authority determines may be needed to ensure the long term viability of the projects funded by TCAP.

Projects achieving these thresholds will be considered for 4% Equity Support Program funding. The competitive selection of recipients will be further based on a project's readiness to proceed with projects receiving awards on a first-come, first-served basis that takes into account the project's ability to:

- 1) Successfully compete for subordinate financing under the Priority Selection Process outlined in the Authority's Direct Lending Parameters.
- 2) Demonstrate compliance with appropriate cross-cutting federal regulations, including the National Environmental Policy Act (NEPA), Fair Housing, and Davis Bacon and Related Acts (DBRA);
- 3) Close on all financing and begin construction within 60 days of the initial TCAP commitment;
- 4) Demonstrate it is fully compliant with all local requirements, including compliance with necessary approvals for zoning, site plan, building permits, and tax abatement (if applicable) within 60 days of the initial TCAP commitment;
- 5) Begin construction within 30 days of closing on all financing; and
- 6) Demonstrate an ability to complete construction activity within 12 months of closing. Additionally, the Authority will focus its 4% Equity Support Program awards on projects that can reasonably be expected to complete construction no later than December 31, 2010, and in no case will the Authority issue an award to a project that cannot reasonably be expected to be completed prior to February 16, 2012.

Should further differentiation among projects be needed, the Authority will select projects based on the following additional criteria:

- 1) Preservation, as defined in the 2009 QAP; and
- 2) Least amount of subsidy per unit.

Provisional Awards: Any award under the 4% Equity Support Program will be provisional and contingent upon the demonstration of a "hard equity commitment" as defined by the 2009 QAP. Because the Authority intends to consider making provisional awards in excess of total soft funding available, provisional awards will further be contingent upon the availability of funding. In practice this means that 4% Equity Support Program projects that fail to achieve hard equity commitments ahead of other projects may lose both their equity support and, because projects will no longer be financially feasible, LIHTC awards.

Recovery Act Transparency, Accountability, and Reporting Requirements: ARRA contains new and unprecedented levels of oversight, scrutiny, and reporting. Applicants should be aware that the Authority is responsible for reporting on a variety of project features and outcomes including job creation and retention, development cost, projects awarded, and the like. While we are working to incorporate these data features into standard reporting processes such as the Authority's Equal Employment Opportunity Plans, federal requirements are still being developed and may not be fully available when funds are initially committed to projects. As a result, sponsors must agree to provide any data, reporting, and information needed by the Authority to comply with current or future state or federal reporting requirements imposed as a result of the Recovery Act implementation.

Ongoing Implementation Flexibility: As with other aspects of implementing the ARRA provisions, the Authority recognizes the difficult environment for affordable multifamily housing development. We will continue to be as proactive and transparent as possible in the implementation of the 4% Equity Support Program, but applicants should plan for continued changes, updates, and modifications to this and other ARRA related programs.

The Authority reserves the right to make program changes and waivers as needed to ensure that the 4% Equity Support Program is quickly, efficiently, and effectively implemented. Developers with questions or concerns about the applicability of this program to their projects are encouraged to contact the Authority to discuss the specific status of their projects.

The Authority also intends to publish updates, addenda, and/or questions and answers related to the 4% Tax Credit Exchange Program in an effort to clarify remaining issues, respond to feedback, or otherwise communicate with the development community. Interested parties should monitor the Recovery Act portion of the Authority's website on a regular basis for more information (from the main page at <http://www.michigan.gov/mshda> click on the American Recovery and Reinvestment Act link).

Public Input and Feedback: Questions and comments on the 4% Tax Credit Exchange Program can be submitted via email to mshdarecovery@michigan.gov.

References: Sponsors are encouraged to refer to the following documents for more information on the Authority's Direct Lending programs.

1. Direct Lending Parameters
2. Addendum IV to Common Application

Attachments:

1. 9% Equity Support Program Application