Steve.
FYI

THE BUSINESS OF MISSION

RECEIVED
APR 27 2009
EXECUTIVE

April 23, 2009

Mr. Keith Molin
Interim Executive DirectorMichigan State Housing Development Authority
735 E. Michigan Avenue
P.O. Box 30044
Lansing, MI 48909

Dear Mr. Molin:

Stewards of Affordable Housing for the Future (SAHF) is a 501(c)(3) network of national nonprofit housing developers who own and operation nearly 80,00 affordable apartments. Because our members are active in developing and preserving affordable housing around the country, they and the people they serve have a major stake in how state and federal housing agencies respond to the turmoil in the finance markets and in particular how effectively they use the TCAP and tax credit exchange (collectively, the "ARRA Funding") tools created by ARRA to address this turmoil.

We start from the twin premises (1) that our long-term goal is maintaining the tax credit market where it still has strength today and reestablishing it elsewhere and (2) that it is crucial for low-income residents and for economic stimulus to make full use of the ARRA Funding in the interim. We recognize that the tax credit equity markets vary among the states and within states, but urge you to consider the following broad principles in your implementation.

A. Unless your tax credit market is robust, we urge you to be aggressive in exchanging credits:

- Remove all barriers that disincentivize developers from voluntarily returning unused 2007 and 2008 9% tax credits for any transaction that has no investor commitment or a commitment for significantly less than 85 cents per credit dollar;
- Offer developers replacement 2009 credits in return if they have strong investor interest;
- Exchange 100% of such 2007 and 2008 credits; and
- Exchange 40% of 2009 9% credits unless there is significant investor interest in 9% tax credits in the state at a price near or above 85 cents per credit dollar.

B. We suggest the following benchmarks and project priorities:

- At each step in the list of priorities, require evidence of a project's and the developer's full readiness to proceed promptly ("shovel ready");
- First, address 2007 and 2008 9% transactions with ready and committed tax credit investors at or near 85 cents per credit dollar but needing ARRA Funding, to move as

Stewards of Affordable Housing for the Future · 555 11th St NW · Suite 525 · Washington DC 20004
www.sahfnet.org · phone (202) 737-5970 · fax (202) 737-5971

many as possible to construction as soon as possible, giving them 60 days to commence construction;

- Second, address 9% transactions with returned 2007 and 2008 allocations and 4% transactions with bond cap allocations, in each case that have no likelihood of serious investor interest in the current market, awarding them to priority projects under criteria developed to address current market conditions, for example, prioritizing shovel ready projects, especially those serving low- and very-low income and preservation projects, special needs projects, and projects requiring equity investments less than $2 million. Award them ARRA Funding, and give them 60 days to commence construction;
- Third, address projects with 2009 replacement credits and pending 2009 applications, seeking to maximize total resources by encouraging projects with serious investor interest. To encourage investors to pay as much as possible for tax credits and developers to seek as little ARRA Funding as possible:
    - Set a floor on equity investment, perhaps in the range of 60 to 65 cents per credit dollar, depending on your market;
    - Set a ceiling on ARRA funding of perhaps 15 or 20 cents per credit dollar;
    - Use an iterative allocation process (similar to a market-clearing auction process) to establish at what level of gap ARRA Funding projects will receive investor commitments.
- Finally, provide any remaining resources (2009 credit allocations and ARRA Funding) to projects that do not meet the criteria outlined above, emphasizing the use of ARRA Funding with investor funds to the extent of remaining credit caps and otherwise its use for special priority projects.

C. In transactions sponsored by nonprofits, at the option of the developer *grant* ARRA Funding to the nonprofit parent organization of the general partner for it to on-lend to the owning partnership. The grant approach, which is authorized by ARRA, is often used with other federally sourced funding such as section 202 and HOME funds and with state trust fund and similar grants. Any cash flow will then enhance the ability of nonprofit stewards to meet the physical and financial needs of their affordable housing properties. You might use exchange funds, which might be treated as income in the hands of a for-profit developer or a partnership/llc for this purpose, before using TCAP funds

D. Encourage sponsors to make creative proposals for attracting investor resources, for example allowing the use of ARRA Funding to provide bridge loans for up to 60% of project costs.

E. To maintain investor activity and the likelihood of investors' remaining in the market for the long haul, we suggest that you create incentives for developers to syndicate credits and disincentives for developers not using credits.

As another important step to revitalizing the tax credit market, we urge you to ask your governor to send a letter to the state corporations, community banks, and anyone else that might be a prospective investor, inviting them to a ½ day seminar on investing in LIHTCs that you would moderate and in which developers, syndicators and others would make presentations. SAHF and its members would be pleased to take an active role in such presentations.

Very truly yours,

William C. Kelly, Jr.

William C. Kelly, Jr., President
Stewards of Affordable Housing for the Future

Mercy Housing, Inc.
National Affordable Housing Trust
National Church Residences, Inc.
NHT/Enterprise Preservation Corporation
Preservation of Affordable Housing, Inc.
Retirement Housing Foundation
The NHP Foundation
Volunteers of America