



STATE OF MICHIGAN

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GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

GARY HEIDEL
INTERIM EXECUTIVE DIRECTOR

MEMORANDUM

TO: INTERESTED PARTIES
FROM: STEPHEN LATHOM & NORMAN HARROD
SUBJECT: FEDERAL EXTENSION OF LIHTC EXCHANGE PROGRAM
DATE: AUGUST 9, 2010
CC:

Background: In January, anticipating that the federal government would extend the Section 1602 tax credit exchange program, the Authority announced initial plans to hold back 40% of the State's 9% Low Income Housing Tax Credit ceiling. The goal was to use the resulting Section 1602 funding to provide funding under 2010 versions of the Authority's Recovery Act funded 9% Equity Support, 4% Equity Support, and Reinvestment and Innovation Programs.

As announced in January, the Authority allowed applicants for 9% credits in the March 2010 competitive funding round to assume the availability of 9% Equity Support funding. Applicants requesting equity support funding were specifically warned that the "Authority cannot guarantee the availability of funding."

Earlier this summer, the Authority invited several applicants to provide additional due diligence items so that processing of 9% Equity Support applications could continue even in the absence of a federal exchange program extension, and we announced that preliminary reviews of initial ARRA funding suggested that some March round transactions could be funded from "carryover" resources.

As of the date of this memo, however, it has become clear that 1) Congress will not act before Labor Day on the various legislative proposals that include the tax credit exchange extension and that 2) there are not adequate remaining resources from the initial Recovery Act funding sources to satisfy all requests for equity support financing from March round transactions.

Prior estimates suggested there would be enough remaining ARRA funding to award several March round applicants with Equity Support funding. Recent developments—largely related to sponsors' efforts to identify additional funding sources for projects that previously appeared unviable—mean that fewer deals have fallen through, leaving fewer resources for new transactions.

As a result, this memorandum is being provided to keep industry participants informed, announce a rolling round and a contingent general round for the remaining 2010 credit ceiling, and outline the impacts on March round transactions seeking equity support financing.

Supplemental Rolling Round: The Authority will accept applications for 2010 credit ceiling under a supplemental "rolling round" beginning on Monday, August 16th. The rolling round will be administered under the 2009 QAP. Rolling round applicants must achieve a threshold score of 170 points and demonstrate a hard equity commitment. No equity support/gap financing is available to applicants within the supplemental rolling round. Applications under this round will



be accepted ***through 5:00 pm on Friday, October 1st***. On a weekly basis, the Authority will post a list of applications received in the supplemental rolling round on the MSHDA website.

Sponsors submitting an application that was previously submitted in the March 2010 general round may submit an abbreviated application containing only the information and exhibit items that need to be updated from the March submission. Examples of updated items needed may include, but are not limited to, land control, evidence of project financing, title insurance, and any other modified application/exhibit items.

Provisional General Round: If 2010 credit ceiling remains available at the conclusion of the supplemental rolling round, a second general funding round will be held. Given the timing necessary to ensure that applications can be reviewed and processed in time to fully award all 2010 credit ceiling by year end, applications for the general round are due ***by 5:00 pm on Monday, October 4th***. Applicants considering a general round application should be aware that, depending on demand within the supplemental rolling round, there may be ***very limited*** credit ceiling available. If enough applications are received in the supplemental rolling round to fully utilize remaining 2010 credit ceiling, the general round may be cancelled.

Sponsors submitting an application that was previously submitted in the March 2010 general round may submit an abbreviated application containing only the information and exhibit items that need to be updated from the March submission. Examples of updated items needed may include, but are not limited to, land control, evidence of project financing, title insurance, and any other modified application/exhibit items. (Note, this opportunity is ***only*** available to applicants in the two funding rounds announced in this memo and will not be available in future competitive rounds for 9% LIHTC awards.)

Impact on March Round: March round applicants should be aware that the Authority expects to be able to fund very few of the developments seeking 9% Equity Support. If additional resources become available, our general approach will be to fund the highest scoring transactions with hard equity from the March round provided resources are available and the developments can be closed in a timeframe necessary to satisfy the requirements of the various funding sources involved (generally, this would likely be Section 1602 funding which requires a project to have incurred 30% of its anticipated aggregate basis by December 31, 2010). Over the next several days, Authority staff will call sponsors who were previously invited to submit full equity support applications to discuss their relative position in the queue, any timing challenges anticipated if funding does become available, and other development-specific concerns.

Applicants from the March round that have previously been invited to submit formal equity support applications will each be afforded the opportunity to present credible plans to the Authority demonstrating how they can fill gaps created by the lack of equity support. If a project can demonstrate a feasible plan to maintain economic viability through other leveraged resources, credit reservations for those projects will be issued. Submission of this information will be due to the Tax Credit Allocations staff ***by 5:00 pm on Monday, September 13th***.

Impact on Proposed 2011 QAP: While the proposed 2011 QAP still needs to be approved by the Authority Board and the Governor, the Authority intends to modify the timeline for the anticipated rolling round in the proposed QAP. Rather than opening on October 1, 2010, we currently anticipate opening the rolling round only after all 2010 credit ceiling has been exhausted by the supplemental rolling and/or general rounds announced above. This will ensure full utilization of 2010 credit prior to accepting applications for 2011 credit and could, in theory, push the rolling round under the 2011 QAP to the first week of January 2011.

Additional Guidance and Implementation Flexibility: The Authority will continue to release additional guidance on these developments as information becomes available. In particular, we

will publish and update a list of applications received under the supplemental rolling round and expect to provide updates on the likely timing for the rolling round under the 2011 QAP.

Questions or Comments: Any questions or comments about this notice may be directed to:

Issues pertaining to applications for the supplemental rolling round or provisional general round, including project specific questions about updating a prior application:

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Questions pertaining to March round developments seeking equity support financing from the Authority or other timing issues associated with Recovery Act funding sources:

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