INITIAL RECOMMENDATION SUMMARY FORM

WORKGROUP: MULTIFAMILY HOUSING

STRATEGIC ISSUE:
1. Communicate Policy Objectives related to Rental Housing Development.
INITIAL RECOMMENDATION(S):
1. Identify developments financed under the direct lending, pass-through and 9% programs since 1987 that best exemplify achievement of policy objectives. 2. Use as example of successful family, workforce, etc. housing. 3. Consider request for proposals (RFP) for MSHDA direct lending programs to target specific Authority goals. Consider a process similar to QAP for direct lending programs.

STRATEGIC ISSUE:
2. Improve the Public Benefit of Rental Developments Financed or Funded by MSHDA.
INITIAL RECOMMENDATION(S):
1. Encourage the use of green communities criteria, with a target of achieving 100% of the direct loan projects using green criteria by 2010. 2. Analyze and compare 9% and Pass-through products with MSHDA direct loan products to evaluate the benefits of MSHDA's site selection criteria and design standards. 3. Explore the idea of MSHDA negotiating directly with funders/providers to increase level of services to residents (e.g., CATV and broadband service; day care funders; etc.). 4. Offer incentives to increase number of supportive housing units, (additional HOME funds, reduced interest rate) at commitment phase when development process is almost completed. 5. Evaluate the needs for Native American Housing and develop a set-aside or funding program responsive to housing needs.

6. Consider requesting Section 8 developments able to afford full taxes to do so on a voluntary basis.
7. Consider recommending modification of Section 8 tenant selection criteria to conform to policy objectives.
8. Survey MSHDA's current portfolio to identify the extent of services being provided in both family and senior housing. Develop a plan to encourage sponsors to increase the level and availability of services linkages.
9. Support the creation of a Michigan rental housing locator service.
10. Target vouchers to households less than 30% of AMI.

STRATEGIC ISSUE:

3. Make MSHDA direct lending programs more attractive to experienced developers so that within 2 years direct lending programs will use $150 million of bond cap and create or preserve 2,500 or more units annually and within 5 years will be creating or preserving 3,500 or more units annually.

INITIAL RECOMMENDATION(S):

1. Underwriting Recommendations

   a) Enhance training opportunities for HDOs, allowing them to handle multiple functions, particularly at the intake phase.

   b) Allow HDOs to be effective advocates for a development once it's been accepted, and work with other MSHDA staff as a team to promote timely processing and quality underwriting.

   c) Stick to published criteria (e.g., market capture rate thresholds published only for pass-through program but used in other programs).

   d) Publish guidelines on how PILOT ordinances will be underwritten (e.g., if the formula includes a step up in percentage of rents, how will this be underwritten?).

   e) Underwrite the likelihood that deferred developer fee will be paid within 15 years of placed in service date. Reconcile with Asset Management's current CNA practice.

   f) Prepare a coherent policy regarding delivery of high-speed Internet service to residents.

g) Provide a step-by-step guide to MSHDA direct lending to educate developers and staff and streamline the processing of loan.

h) Formalize two-step underwriting process, plus initial site review and preliminary market review by staff. Board approval at second step.

i) Measure speed of processing applications from intake to closing, with a goal of averaging 6 months.

j) Blend taxable with tax-exempt bond proceeds to achieve greater efficiency of tax-exempt bond proceeds.

k) Board members and executive director should attend ground-breakings and grand openings.

l) Standardize MSHDA forms to assure ease of use by customers, transferability of information between MSHDA divisions/functions, and essential nature of information being collected. Recommend a staff position responsible for forms management for the entire agency. No form put on website without ok from that staff person.

2. Asset Management/Compliance Recommendations

a) Establish range of management fees (like HUD) and other cost categories acceptable for underwriting. Test against database.

b) Train asset management staff in communication and policy development skills.

c) Evaluate current requirements and eliminate unnecessary ones (e.g., *monthly* MIE reports for good projects) to save costs for MSHDA and customers.

d) Forms Management – see above.

e) Eliminate premium management fees.

f) Consider requiring replacement of management company before granting mortgage relief for problem projects.

g) Use capital needs assessments for preservation projects only. Eliminate policy transferring funds in Operating Reserve Account go into Replacement Reserve based on capital needs assessments. (see recommendations regarding refinancing below).

h) Analyze operating history of developments in MSHDA portfolio and 9% LIHTC developments using tax credit investor databases.

3. Policy Recommendations

a) Allow for recapitalization/refinancing as alternative to current C.N.A./Replacement Reserve Funding policy: Permit *retroactively* the refinancing of all LIHTC developments done under the 80/20, 70/30, HOME Team Advantage and Team programs at 15 years after the placed in service date.

1. The regulatory agreement remains in place thereby retaining affordability restrictions for the remainder of the original loan.

2. Use proceeds to, first, fund the replacement reserve per the capital needs assessment, second, retire all or a part of the HOME loan or other soft financing, if any, third, pay balance of any deferred developer fee, and, fourth, facilitate the retirement of the investor.

Current policy is that the Authority *may* permit the refinancing prior to a loan's maturity date or date of permitted refinancing if the development's capital needs justify it. If public policy objectives are preserved and if the bond market (or current bond restrictions) permit it, the owner should be able to plan for a refinancing at about the time when the capital needs of the development significantly increase and the LIHTC compliance period ends. Current policy creates a deferred developer fee problem for owners; robs a successful development of cash flow and the means to pay for increased services for residents; and robs an owner of the incentive to maintain its property in the best condition. It ignores a pool of substantial capital that could be tapped to improve a development's condition. Current policy is a disincentive to attracting conscientious developers to the program.

b) Alternatives to Extended Rent-up Reserves: To reduce risk in a soft market, consider underwriting at a 1.15 debt coverage ratio until a milestone is reached (e.g., breakeven operations for 6 months). This would be an alternative to underwriting with an increased vacancy allowance and/or funding rent-up reserves. Then re-underwrite at 1.0,1.05 or 1.10 debt coverage. Use additional loan proceeds to, first, fund the operating assurance reserve at a level equal to a percentage of the mortgage (e.g., 5%), second, if necessary, use proceeds to achieve final closing, and third, refund the operating assurance reserve funded by the developer at initial closing and/or use it to reduce the deferred developer fee.

c) Encourage Acquisition/Rehabilitation of Existing Rental Housing: To increase the number of units dedicated to extremely low income households (30% of AMI), establish a policy that will encourage the acquisition and rehabilitation of well-located market rate developments using the TEAM program and the LIHTC. Large developments may accommodate a few households below 30% of AMI. These developments must be purchased at the right price for this to work.

d) MSHDA Staff training: We recommend the decision makers at the Authority share a common vision as to the agency's policy objectives and convey this shared vision to all staff. We further recommend that the decision makers be cross trained to more fully understand the interrelationships between the various functions of the housing development process. All staff involved in development process (i.e., development, asset management, market, finance) should be familiar with and understand NCSHA's recommended "Best Practices".

e) Revise (simplify) resale policy.

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STRATEGIC ISSUE:
4. Document the need for rental housing development and preservation, particularly in light of the state's economy (potential loss of pensions, manufacturing jobs, etc.). Determine through this analysis whether additional rental units need to be developed or if resources should be devoted to the improvement of existing stock, both federally assisted and conventionally financed.
INITIAL RECOMMENDATION(S):
1. Conduct a statewide housing needs assessment and update it regularly, to determine the need for development and preservation of affordable housing, including data on rent levels, amenities, and product-type. Seek public input as part of the assessment. 2. Contract market analysis review for the 9% tax credit program, based on product-type (senior, rural, supportive, family, preservation). It should also consider directly contracting for the market analysis for its lending programs, rather than having the developer contract for this function. 3. Consider directing a major portion of resources to the improvement of existing stock, particularly addressing affordability, quality, and units in danger of becoming obsolete, through short-term changes to the QAP and the redirection of other resources, such as HOME.

STRATEGIC ISSUE:
5. Create a coordinated Rural Housing Development strategy that recognizes the unique elements of financing, underwriting, operating, and designing rural housing, to serve all rural geographic areas of Michigan.
INITIAL RECOMMENDATION(S):
1. Define what qualifies as rural geographic areas. 2. Research databases of housing portfolios in those defined areas and identify the following data points: a. # of units and population served b. Incomes of residents and household makeup c. Financing structure-debt, equity, subsidies, owner returns d. Construction costs e. Design standards

   f. Operating expenses
   g. Expiring use restrictions and/or subsidy contract periods

3. Use the research results to establish prototypes of what represents rural housing needs and issues.

4. Seek public input to further identify rural housing needs and issues.

5. Consider defining a quantified number of rural geographic areas for resource targeting purposes.

6. Consider the concentration of interagency resources (state, federal, FHLB, etc) into these separate geographic areas on a single area basis on a successive funding cycle (i.e. 2 years).

7. Review and adjust MSHDA market research standards based on a deeper understanding of the differences that exist in rural areas versus urban areas.

8. Consider a more effective use of 9% credits in conjunction with the RHS 538 program.

9. Consider more flexible interest rates in rural areas based on income levels and need for housing (difficult to develop areas.

10. Consider deferment of the some portion of interest on tax-exempt first mortgages and HOME loans.

11. Provide rent subsidy from the State (not Section 8 or RA) to rural proposals (i.e. Section 515) to make proposals more competitive for federal funds and to enhance the feasibility of non-Rural Development financed developments.

12. Increase the set aside in the QAP for rural development proposals and target increased amount to a geographically targeted rural area for a set period of time (i.e. 2 years).

13. Consider financing scattered site developments over several political jurisdictions.

14. Provide additional and appropriate technical assistance to rural applicants.

15. Provide incentives or mechanisms to incorporate supportive housing into rural housing developments.

16. Eliminate the current site location criteria regarding walkable communities. Reconsider and modify municipal infrastructure requirements.

17. Develop criteria that recognize the differences associated with rural areas.

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18. Continue and enhance support for training and technical assistance for Community Action Agencies involvement in affordable housing planning and development.