STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

KEITH MOLIN
EXECUTIVE DIRECTOR

LANSING

MEMORANDUM

TO: Authority Members

FROM: Keith Molin

DATE: June 23, 2009

SUBJECT: Direct Lending Parameters

Last month, you approved a substantial re-write of the Authority's Direct Lending Parameters. At the time, staff reported that industry representatives had expressed some concern over certain changes. As discussed at the time, the parameter updates were the culmination of many months of work on the part of staff and ongoing discussions with the industry. The need to continue moving forward in light of the Recovery Act led to the approval of the parameters with the specific promise that we would continue to work with the Michigan Housing Council and other interested parties to obtain further input and bring additional recommendations to you in June.

Attached are several documents outlining the outcome of this continuing dialogue. Specifically, this includes:

1. A blackline version of the Direct Lending Parameters highlighting additional changes, edits, and updates for your consideration;

2. A compiled document made up of two submissions by the Michigan Housing Council—the first was a general overview of the key issues raised by the council, their own summation of the most important concerns, and the second is a compendium of more detailed suggestions, questions, and considerations offered by the council.

Staff inserted comments/responses to each of the points raised by the Housing Council. The original text of the council's submission is in italics while the staff response is in standard type face and indented.

As one might expect, there are generally three classes of comments—those about which generally concur leading to updates in the Direct Lending parameters (some substantive, some minor), those where we concur but seek to clarify points around which a general consensus already exists, and those where staff recommends maintaining the previously published parameter. The parameters also contain additional changes needed to reflect ongoing technical updates and clarifications and to address minor oversights missed last month.

It is also worth noting that while there are points upon which the Authority's interests as a lender and role as a policy maker continue to differ from the preferences of various industry participants, the parameters continue to be both a general guideline and starting point for how we do business (with appropriate opportunities for waivers and exceptions) and a document that will necessarily evolve and change with the times.

Over the past year, even before the recent push to implement provisions of the Recovery Act, Authority staff and industry representatives have reached general consensus on the need to do "fewer better deals" in light of the economic challenges facing our state and our industry. While admittedly never perfect and never done, the parameters presented to you today are clearly informed by those discussions and the broad recognition that we need to do business in a different way as we seek to serve the tremendous needs facing the state and its low and moderate income citizens.

I recommend your approval of the updates.

MSHDA

June 25, 2009

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MSHDA offers tax-exempt and taxable loans for the development of affordable rental housing. Loans will be provided to the extent the following objectives are met:

1. Create and preserve affordable rental housing that meet the priorities in Section VII, and that achieves at least one of the following public benefits:
   - Family units serving low-income households, or
   - Senior housing, (excluding congregate transactions) including proposals supporting successful aging in place, or
   - Housing in rural communities, or
   - Supportive housing integrated and supported by necessary services, or
   - Workforce housing provided in high-cost areas, or
   - Mixed and Adaptive Reuse buildings supporting downtown housing, or
   - Meets the needs of Native American housing, or
   - Produces any of the above in the context of another state or federal program that meets any of the Authority's other priorities.
2. The housing must contribute to the strengthening of communities through site and design standards.
3. The longest term of affordability possible.
4. The loan must be a long-term earning asset.
5. Rehabilitation transactions must address the physical needs of the property, including those directly related to the enhancement of resident livability and functionality.

These parameters describe lending available for new construction, substantial rehabilitation/adaptive reuse, preservation, and the acquisition and rehabilitation of conventionally financed rental housing. Combined construction and permanent lending is provided and MSHDA retains long-term portfolio oversight. Project requirements, interest rates, and gap funding vary by location of the property, population to be served, income targeting, and resource availability.

I. Eligibility and Resource Availability:

A. Project Size: Typical projects range between 24-100 units, with exceptions considered for rehabilitation projects.

B. Eligible Developments: Any new construction or acquisition and rehabilitation development, including existing affordable housing subject to necessary HUD and/or Rural Development approvals, in Michigan is eligible to apply for a tax-exempt or taxable bond loan from MSHDA.

C. Ineligible Projects: Nursing homes, adult foster care homes, student housing, transient housing, or single room occupancy are ineligible.

D. **Eligible Borrowers:** Prior to mortgage loan commitment a legal entity must be formed that is an "eligible borrower" under the Authority's Act. A sponsor/developer may be a nonprofit, an individual, a group of individuals, a corporate entity, or some combination.

E. **Minimum Rehab:** For preservation and acquisition/rehabilitation proposals, at least $15,000 in rehabilitation per unit and 15% of acquisition cost, with emphasis on improvements benefiting residents is required. In addition, a Capital Needs Assessment (CNA) is typically required to help determine the scope and cost of the rehabilitation.

F. **Tax-Exempt Eligibility:** Proposed tax exempt financing must equal at least 52% of aggregate basis (i.e. eligible basis plus land) with respect to each building, which must equal or exceed 15% of the portion of the cost of acquiring such building and equipment.

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G. **MSHDA Subordinate Loans:** The Authority may make subordinate loans ("Subordinate Loan") using funding from programs such as HOME, Neighborhood Stabilization Program (NSP), Tax Credit Assistance Program (TCAP), federal Section 1602 Program[1], Authority Preservation Funds, or other funding sources that may be available. Loans made from any of these sources may be available at 3% simple interest for gap funding. The use of any of these sources may trigger cross cutting federal requirements such as Davis Bacon and Related Acts (DBRA), National Environmental Protection Act (NEPA), and/or the Uniform Relocation Act (URA). Such loans will be secured by a mortgage subordinate only to the MSHDA tax-exempt bond or taxable bond first mortgage.

The minimum amount of the Subordinate Loan will be $1,000 per unit assisted by the Subordinate Loan. The maximum amount of the Subordinate Loan will not exceed the lesser of (1) the equity gap as determined by MSHDA or (2) program limits imposed by applicable state or federal regulations associated with a specific funding source.

To be eligible for a MSHDA Subordinate Loan, the sponsor must provide/obtain a minimum level of leveraged funding as defined as a threshold requirement in Section VI below. Interest on the Subordinate Loan will accrue, but loan amortization will be deferred until the earlier of the year in which all deferred developer fee has been paid, or 12 years. Beginning at the earlier of the year in which the deferred developer fee has been paid in full, or in the 13th year from the beginning of amortization, annual payments will be payable from twenty-five percent of any surplus cash available for distribution to the owner, applied first to accrued interest, then to current interest and principal, with the balance of principal and all interest due at the earlier of sale of the development, prepayment or refinancing of the mortgage loan, or 50 years after closing. Upon payment in full of the first mortgage, the outstanding balance of the Subordinate Loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments made under the original first mortgage, with the balance of principal and all interest due at the earlier of sale of the development, refinancing of the mortgage loan or 50 years after loan closing.

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H. **Other:** Participation in the Housing Tax Credit program is required.

II. Interest Rate and Term:

[1] As of the date of this document, the Treasury Department has not released final rules and expectations related to the allowable structure of Section 1602 Program funded loans. As those rules become available, the Authority will publish technical updates to this section as appropriate.

A. **Rate:** The tax-exempt and taxable bond loan interest rates are based on MSHDA's cost of borrowing. Changes in the interest rate are posted on MSHDA's web site. Construction and rehabilitation loans are offered at the same interest rate. The specific interest rate and any reservation of secondary financing will be locked in upon MSHDA's Loan Committee Commitment approval for up to three months. If closing does not occur within three months of MSHDA Board Commitment, the rate will be subject to increases.

B. **Term**: For new construction and/or acquisition/rehabilitation transactions, the typical mortgage term is 35 years.

For preservation transactions, a 35-year term **Part "A" loan** will be established using the lesser of the acceptable rent comparability study rent levels, trended for the remaining term of the Section 8 Housing Assistance Payment (HAP) contract, or the current Section 8 contract rents. An annual increase of 1% will be assumed when trending the rents that support the Part "A" loan.

For Section 8 or other preservation transactions with a Section 8 HAP contract not subject to annual appropriation, a **Part "B" loan** may be established using the difference between the trended market rents and the actual contract rents. The term of this loan will equal the remaining term on the HAP contract.

For Section 236 Preservation transactions a **Part "B" loan** is the amount of debt that can be supported by the continuing stream of income from the "decoupled" Interest Reduction Payments (IRP) contract. Part "B" of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the Interest Reduction Payments contract at a 1.0 debt coverage ratio.

C. **Prepayment:** Tax Exempt or Taxable Bond first mortgage loans (including Part A and Part B loans) are eligible for prepayment without MSHDA approval after the expiration of fifteen (15) years after the commencement of amortization. The mortgagor must provide the Authority with at least 60 days notice prior to any such prepayment.

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In the event of a prepayment, however, the mortgagor must pay a prepayment fee equal to the sum of:

i) 1% of the balance being prepaid;
ii) Any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan; and
iii) Any loss of debt service spread between the mortgage loan the bonds used to finance the loan from the date of the prepayment through the end of the 20th year of amortization.

Deleted: First mortgages (including the Part A and B loans) made in combination with a Subordinate Loan are not eligible for prepayment. After the 15th year, MSHDA may, at its sole discretion, allow prepayment of the first mortgage after consultation with the owner regarding the development's physical and financial needs. ¶
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A mortgagor interested in prepaying a mortgage will be responsible for paying any costs associated with termination of an equal amount of an interest rate swap agreement (swap). Once the mortgagor has been approved for the early prepayment of the underlying loan, it must sign an agreement with MSHDA stating it is responsible for the cost of terminating the swap. The mortgagor can then choose the timing of the termination and participate in the transaction with the swap counterparty. The swap counterparty will quote the cost of terminating the swap and the mortgagor will have the ability to execute the transaction or cancel at its sole discretion. If the mortgagor chooses not to terminate the swap, it will forfeit the right to prepay the mortgage.

Subordinate Loans are eligible to prepay at any time upon 60 days prior written notice to the Authority, but prepayment will not eliminate the Term of Affordability requirement and may not extinguish federal compliance requirements.

D. Term of Affordability: Authority program affordability restrictions imposed at the closing of the mortgage loan involving a Subordinate Loan must remain in place for 50 years. Developments without a Subordinate Loan will be expected to maintain the affordability restrictions for the longest of the period the first mortgage loan is outstanding, the time required under the Low Income Housing Tax Credit Regulatory Agreement for the development or Tax Exempt Bond regulations.

E. Loan Insurance: MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) or full FHA insurance. Typically, MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

III. Underwriting Standards: The underwriting standards outlined below are starting point minimum and maximum standards. For purposes of these underwriting standards, which are applied to all tax-exempt and taxable first mortgage loans and to any development seeking subordinate gap financing from the Authority, staff analysis of a specific transaction or the Authority's assessment of the risk involved may suggest variance from these standards. For example, in some counties where the actual median incomes are substantially below historic exception figures used by HUD to calculate income and rent limits, it may be appropriate to use even more conservative rent trending assumptions for units with rents at regulatory limits. In a similar vein, in preservation transactions, actual operating histories may suggest different financial projections related to expense growth.

A. Loan Limits: MSHDA's Tax-Exempt and Taxable loans are limited to 110 percent of the applicable HUD 221 (d)(3) Mortgage Limits, as amended from time to time by HUD. Sponsors can receive a mortgage loan of up to 90 percent of the total development cost, subject to the above limitation. Any proposal involving the syndication or sale of Housing Tax Credit is characterized as a for-profit venture, even if the developer or the general partner of the partnership that owns the project is a nonprofit group.

B. Debt Coverage: MSHDA requires a minimum initial Debt Coverage Ratio (DCR) of 1.25, based on the assessment of risk associated with the development. Furthermore, within the Authority's 20 year cash flow projection, the DCR may not drop below a 1.15 without the establishment of appropriate operating deficit reserves.

C. Vacancy Loss: Vacancy loss will be budgeted, at a minimum, at 8% of the gross rent potential. At MSHDA's discretion, in certain markets or for smaller size projects, a higher vacancy loss may be required, or for projects with existing rental subsidy, a lesser vacancy loss may be considered.

D. Determining the Number of HOME Units: If a HOME loan is provided, the number of HOME-designated units will be calculated using the amount of HOME funds necessary for project feasibility, as determined by MSHDA (see preceding section), divided by the lesser of the per unit total development cost or the federal per-unit HOME subsidy limit. HOME-designated units will be subject to a minimum 15-year affordability period for rehabilitation transactions, or a 20-year affordability period for new construction transactions, beginning after project completion in HUD's IDIS system.

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Deleted: <#>**Tax Abatement:** Tax abatement for the term of all MSHDA mortgage loans is a threshold requirement. Escalating PILOTs will be underwritten at the maximum rate rather than the initial rate.¶

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E. Determining the Number of TCAP/Section 1602 Program Fund Units: Determination of the number of TCAP/Section 1602 assisted units will be subject to forthcoming federal regulations. Generally, any Low Income Housing Tax Credit (LIHTC) designated unit will also be a TCAP/Section 1602 assisted unit.

F. Determining the Number of NSP Units: If an NSP funded Subordinate Loan is provided, the number of NSP designated units will be calculated based on the prorata share of total development cost funded with NSP.

G. Income Limits: The Housing and Economic Recovery Act of 2008 (HERA), authorized new income limits applicable to LIHTC and Tax Exempt bond financed developments. HUD has designated these as Multifamily Tax Subsidy Project (MTSP) Income Limits and will publish applicable figures on an annual basis concurrent with its publication of the Section 8 Income Limits. In both cases, the MTSP and Section 8 Income limits establish qualifying income limits expressed in terms of the Area Median Income (AMI).

Developments with multiple funding sources may be subject to two distinct sets of income limits depending on the mix of financing involved in the transaction. The applicable MTSP AMI limits and the Section 8 AMI limits will be the same in the year a project is placed in service. In subsequent years, MTSP AMI limits will be "held harmless" so that if actual incomes in that area decline, the MTSP AMI limits will remain at the previous year's level. Section 8 AMI limits, however, will not be held harmless, and as a result, units with federal assistance that invoke Section 8 AMI limits will be required to comply with lower qualifying incomes and resulting rent limits (see discussion of HERA in the description of Rent Limits below). On a practical basis, units assisted with both LIHTC and other federal funding sources, such as HOME, will be subject to the lower of the two applicable income limits, which will likely be the Section 8 limits.

In summary, while Section 8 AMI limits may decline from year to year, MTSP AMI limits will not decline after the development has been placed in service. In no case will the applicable MTSP AMI limit be lower, at a given income level, than the related Section 8 AMI.

Finally, it is also worth noting that in the event actual incomes in an area decline in subsequent years, a development placed in service in later years will have a different and lower MTSP AMI qualifying limit than a similar development placed in service when actual incomes were higher.[3]

The following income restrictions apply based on program/funding sources utilized:

- **Tax Credit Income Restrictions**:
  a. A minimum of either 20% of the units income restricted to households whose incomes do not exceed the MTSP 50% AMI limit or 40% of the units income restricted to households whose incomes do not exceed the MTSP 60% AMI limit , or

[3] The Authority will continue to research the underwriting and legal implications of these revised income limits and will publish technical revisions to this section as needed.

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Deleted: The Housing and Economic Recovery Act of 2008 (HERA) authorized new income and rent limits for LIHTC and Tax Exempt financed developments which HUD has published as "Multifamily Tax Subsidy Project" (MTSP) Income Limits. Unfortunately, both the MTSP Income Limits and the "standard" Section 8 Income Limits used for other programs, including HOME, use the term "area median income" but in so doing refer to distinct income limit data sets.

b. Any combination of lower MTSP AMI limits contained in the applicant's LIHTC application.

- **TCAP/Section 1602 Income Restrictions:** In proposals where a TCAP loan or Section 1602 Program funding is provided, MTSP income limits will be consistent with the Low Income Housing Tax Credit requirements.

- **HOME Income Restrictions:** In proposals where a HOME loan is provided, with five or more designated HOME units, 20% of the designated HOME units must be occupied by households with incomes at or below the Section 8 50% AMI limit. The remaining HOME units may be occupied by households with incomes at or below the Section 8 60% AMI limit.

- **NSP Income Restrictions:** In proposals where a NSP loan is provided, the NSP assisted units will be income restricted at the Section 8 50% AMI limit.

- **Existing HAP Contract Income Restrictions:** For transactions with an existing HAP Contract, until the expiration of the HAP, the lesser of Section 8, applicable LIHTC, or other program limits apply, and after HAP expiration, applicable LIHTC program or other more restrictive income restrictions will apply for the balance of the term of affordability.

- **Section 236 Preservation Income Restrictions:** For Section 236 Preservation transactions, income limits will be the lesser of the Section 236 or the applicable LIHTC required MTSP income limits apply until the expiration of the IRP, plus the 5-year extension required by HUD as part of the decoupling program. After that, applicable LIHTC MTSP program or other more restrictive income restrictions will apply for the balance of the term of affordability.

- **Project Based Voucher (PBV)/Supportive Housing Income Restrictions:** PBV assistance is available only to designated supportive housing units serving special needs individuals, as defined in MSHDA's Addendum III. While PBV units may have higher LIHTC, HOME, or other income limit targets applied, for purposes of the Housing Assistance Payment (HAP) contract, PBV assisted households must have annual adjusted incomes at or below the Section 8 30% AMI limit.

H. Rent Restrictions: HERA's introduction of new MTSP income limits also affects rent levels. For LIHTC and Tax Exempt bond financed units subject to income restrictions, rent restrictions are based on calculations using the applicable MTSP income limits. For units subject to both sets of income limits, for example a unit assisted with both LIHTC and HOME funds, the more restrictive rent limit will apply.

Unless otherwise noted, rent limits calculated as some percentage of the area median income are based upon an occupancy assumption of one and one-half persons per bedroom and adjusted to the imputed family size.

The following rent restrictions apply based on program/funding sources utilized:

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- **Tax Credit Rent Restrictions**: The total housing expense for all tax credit units may not exceed 30% of the MTSP income limit for that unit.

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For underwriting purposes, only up to 30% of the total units in the development will be allowed to have rents underwritten at market rent and/or a rent of 95% of 30% of the MTSP 60% AMI income limit. All remaining market and/or MTSP 60% AMI income restricted units in the development will have rents underwritten at 30% of the MTSP 50% AMI income limit or lower as required by MSHDA's Chief Market Analyst.

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Units that are targeted for occupancy at maximum income levels lower than the MTSP 60% AMI limit will be underwritten with rents set at 30% of that lower income limit. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. In some situations, as noted below, the use of HOME, NSP, or TCAP funds will require further rental restrictions.

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- **TCAP/Section 1602 Rent Restrictions**: For Developments where a TCAP loan or Section 1602 Program funding is provided, the total housing expense for all TCAP and Section 1602 Program assisted units may not exceed 30% of the MTSP 60% AMI limit or other more restrictive program rent restrictions.

- **HOME Rent Restrictions**: The total housing expense for all HOME-assisted units in a rental project may not exceed the lesser of 1) 30% of the MTSP 60% AMI limit, 2) the Existing Section 8 Fair Market Rent (FMR) as established by HUD or 3) the High HOME rent as established by HUD. In rental projects with five or more HOME-assisted units, 20% of the HOME-assisted units must be occupied by very low-income households and have rents not to exceed the lesser of 1) 30% of MTSP 50% AMI limit, 2) the Section 8 FMR or 3) the Low HOME rent as determined by HUD or the rent limit described above.

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- **NSP Rent Restrictions**: For Developments where a NSP loan is provided, the total housing expense for NSP assisted units may not exceed the lesser of 1) 30% of the MTSP 50% AMI limit, 2) the Fair Market Rent, or 3) other more restrictive program rent restrictions.

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- **Existing HAP Contracts Rent Restrictions**: Until the expiration of the HAP, the Section 8 rent limits apply. After HAP expiration, or for projects with a HAP Contract subject to annual appropriations, the applicable LIHTC rent restrictions or other more restrictive program rent restrictions will apply for the balance of the term of affordability. Following expiration of the current HAP contract the mortgagor must apply for and accept any available HAP or other HUD subsidy extensions, subject to Authority approval.

Deleted: <#>TCAP/Sec 1602 Rent Restrictions: For Developments where a TCAP loan or Sec 1602 funding is provided, the total housing expense for all TCAP and Sec 1602 assisted units may not exceed 30% of 60% of AMI adjusted for household size or other more restrictive program rent restrictions.¶
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- **Section 236 Preservation Rent Restrictions**: The total housing expense for Section 236 units will the lesser of 30% of 45% of the MTSP AMI limit, the level of income currently served by the development, or other more restrictive program rent restriction.

- **PBV/Supportive Housing Rent Restrictions**: The total housing expense for units with MSHDA's PBV assistance outside of a Qualified Census Tract (QCT) will be the lesser of:
  1. The greater of the unit's applicable LIHTC rent or the payment standard established by the Housing Choice Voucher program;
  2. The reasonable rent; or
  3. The amount requested by the owner; or
  4. Other more restrictive program rent restrictions

  The total housing expense for units with MSHDA's PBV assistance within a QCT will be the lesser of:
  1. The amount determined by MSHDA, not to exceed 110 percent of the applicable fair market rent (FMR) (or any exception payment standard approved by the Secretary);
  2. The reasonable rent; or
  3. The amount requested by the owner; or
  4. Other more restrictive program rent restrictions

- **Rent Increases:** For all programs, rental increases on occupied units during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by the Authority's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of Limited Dividend payments). Rents on vacated units may be increased to the maximum level permissible by the applicable programs.

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J. **Operating Expenses:** Projected operating expenses must be provided using the Intake Package found as Tab II on MSHDA's Combined Application web site. For new construction proposals projections must be based on annual expenses of similar developments, in type, size, building structure, and location if possible. For occupied acquisition and/or preservation transactions, projections will generally be based on the current expenses of the proposed site.

K. **Annual Trending Factors:** The following trending assumptions will be utilized for the twenty-year cash flow analysis:

- Income: Maximum 1% for first five years, and 2% for remaining period
- Utility Expenses: Minimum 6% first five years, and 3% for remaining period
- All Other Operating Expenses: Minimum 3% for entire period
- Replacement Reserve: Minimum 2% (new construction) or 3% (rehabilitation) for entire period

As noted above, more conservative trending factors may be used based on the Authority's analysis of local conditions, development specific factors, experience with similar developments or the project's management company, or other factors suggesting greater risk in a transaction.

L. **Market Determination:** The market for the development and the proposed rents must be supported by a professional, independent market analysis, and must be sufficient to meet debt service and normal operating expenses. The impact of the proposed housing on other MSHDA developments in the area and the differential between market rent units and the proposed housing will be factors in accepting proposals for financing. The review, analysis, and acceptance of market conditions will be done in accordance with MSHDA Market Study Guidelines and the MSHDA Market Analysis Process.

M. **Operating Assurance Reserve:** At the time of initial disbursement of mortgage loan proceeds, the mortgagor must establish an Operating Assurance Reserve (OAR) equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR may be funded completely with cash or a maximum of 50% of the OAR may be funded with an irrevocable, unconditional letter of credit acceptable to the Authority, with the balance funded with cash. To the extent any portion of the OAR is used prior to the final closing of the mortgage loan, the mortgagor must restore the OAR to its original balance at final closing.

The following OAR terms apply based on the following project types:

All Project Types Except Section 8 Preservation Projects: The OAR and any interest it accrues will be held by the Authority for a minimum of 15 full years of operation of the development and may be used in accordance with the Authority's written policy on the use of the OAR, as amended from time to time.

In the 10th year of amortization, the OAR will be used to fully fund the replacement reserve needs identified by an independent comprehensive needs analysis and to fully fund any other escrow accounts. If the amount required to fund escrows is represented by a letter of credit, the letter of credit will be drawn upon. The mortgagor may request approval of up to a 50% reduction/release in the remaining OAR. The Director of Asset Management may approve a release and/or reduction, based on a review of the development's operations. All excess amounts released from the OAR (in connection with this or any future release) will be deposited into the development's operating account.

Following the 15th full year of operation OAR funds that are not needed for funding of the replacement reserve, or other escrows, will be available for release to the development's operating account.

In developments with a Subordinate Loan, the reductions or releases of the OAR in the 10th and/or 15th year will be returned to MSHDA in an amount not to exceed the outstanding balance of and applied against the Subordinate Loan, with any remainder going to the development's operating account, after meeting the same criterion above.

Section 8 Preservation Projects: A Preservation Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR will be held by MSHDA and will accumulate interest.

This reserve, to assist in the transition to market rents, is to be fully funded by the anticipated end of the existing HAP contract. Funds may be withdrawn when the existing HAP contract expires, and will not be available prior to that date, after then it may be used in accordance with the Authority's written policy on the use of the OAR, as amended from time to time. MSHDA may allow a reduced initial deposit to the OAR as long as the initial deposit plus accumulated interest income equals the required deposit by the time the existing HAP contract expires.

If no Subordinate Loan is involved, once a development has experienced twenty-four consecutive months with annual average economic vacancy (i.e. actual vacancy plus rent concessions plus bad-debt) equaling 5% or less of the yearly MSHDA approved budgeted gross rent potential after the later of a) the date upon which the original project based HAP assistance terminates or b) the end of the 12th year of amortization, the OAR will be used to fully fund the replacement reserve needs identified by an updated independent comprehensive needs analysis and to fully fund any other escrow accounts. Upon achieving this criterion, the mortgagor may request in writing to the Director of Asset Management that any remaining balance in the OAR be disbursed to the development's operating account.

If the development receives a Subordinate Loan, any release or reduction in the OAR will be returned to MSHDA in an amount not to exceed the outstanding balance of and applied against the Subordinate Loan, with any remainder going to the development's operating account, after meeting the same criterion above.

N. Replacement Reserve: The first year deposit to this reserve is a minimum of $250 per unit for all new construction elderly developments, expressed as a percentage of rental income. The minimum first year deposit to the replacement reserve for new construction family development will be equal to $300 per unit expressed as a percentage of rental income. In both cases the replacement reserve deposit will increase at the greater of 3% annually or at the expressed percentage rate over time as rental income increases. Development amenities, such as washers/dryers, unit type, or foreseeable replacement of capital items (in the case of rehabilitation) may dictate a higher required deposit.

For all acquisition/rehabilitation proposals, the annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than $300 per unit. Furthermore, at the mortgage loan closing the sponsor must deposit the greater of $700 per unit or an amount determined to satisfy the requirements of the Authority approved Capital Needs Assessment (CNA) over a 20-year period.

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O. Operating Deficit Reserve: An Operating Deficit Reserve (ODR) may be required based on a cash flow analysis over a 20-year period. When required, the mortgagor must enter into an agreement and establish an ODR with the Authority with an initial deposit at closing. The ODR shall be funded in cash, held and controlled by the Authority and will be invested and reinvested by the Authority's Office of Finance. Interest earned on this reserve, if any, shall become part of this reserve and shall be treated and disbursed in the same way.

The ODR will be calculated based on the assumption that annual draws may be needed in an amount necessary to create an effective DCR of 1.15. However, the amount disbursed annually from the ODR will be the annual projected budget deficit as shown on cash flow analysis establishing the ODR. Disbursements from the account may begin at the request of the mortgagor, in the first year in which the projected budget deficit is shown on the cash flow analysis. Each month the Authority will withdraw 1/12th of that projected annual deficit, and will apply it against the mortgage payment due that month. In each subsequent year, the annual disbursement will be the amount called for

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in the development's operating budget as approved by the Office of Asset Management, expected not to exceed the amount for that year shown on the cash flow analysis establishing the ODR. Draws from the ODR will continue in this manner each year until the ODR has been depleted or the Authority's mortgage loan(s) have been paid in full.

In the event that the development experiences an operating deficit that is greater than that projected, the Mortgagor may request that the Authority increase the amount drawn from the ODR. The Director of Asset Management must approve the request. However, the Mortgagor shall not be entitled to receive a Limited Dividend payment for any year in which the amount drawn from the ODR is greater than the annual projected budget deficit for that year, until the balance of the ODR is restored to the appropriate level.

At the earlier of the time when 80% of the ODR has been depleted or during the 18th year after the commencement of amortization, the Authority will determine the annual projected operating deficits and the total amount sufficient to fund projected operating deficits through the remaining term of the Authority's mortgage loan(s). The Mortgagor must deposit this amount in cash into the ODR, to be held by the Authority and disbursed as noted above. Failure to replenish the ODR, when required by the Authority, shall constitute a default on the Mortgage Loan. In the event that the Authority's Mortgage Loan(s) is/are accelerated after a default in the terms of the Mortgage, Notes or Regulatory Agreement, the Authority, in its sole discretion, may, but is not required to, apply any funds on deposit in the ODR, to the amount due on the Mortgage Loans as accelerated.

At such time as the Authority's Mortgage Loan(s) and all other financial obligations to the Authority are paid in full, the remaining balance of the ODR, including all interest that has accumulated, will be disbursed to the Mortgagor.

P. **Rent-Lag Escrow (236 Preservation Only):** A "rent-lag" escrow equal to 2.5 times the rent difference per unit will be required to be deposited to the operating account of the development at closing, to meet any shortfalls in operations while the tenant based vouchers are implemented.

Q. **Remarketing Reserve (236 Preservation Only):** A Remarketing Reserve Escrow, equal to one year of principal and interest payments of the "Part A" mortgage will be required. Funds may be withdrawn to cover vacancy loss greater than underwritten, and/or for marketing expenses. Following twenty-four consecutive months of average economic vacancy loss equal to or less than underwritten of the yearly Authority approved budgeted rent levels, the mortgagor may request in writing to the Director of Asset Management any remaining balance in the remarketing reserve be deposited into the development's operating account, unless there is a MSHDA Subordinate Loan to be repaid in which case the balance will be applied against the outstanding balance of the MSHDA Subordinate Loan.

R. **One Month's Gross Rent Potential:** For preservation or occupied acquisition/rehabilitation proposals, one month's gross rent potential is required to be deposited to the operating account of the development at closing, and other re-marketing or transitional operating reserves may be required.

S. **Rent-Up Allowance:** For new construction or vacant acquisition and rehabilitation proposals, a Rent-Up Allowance is required, and is included in the mortgage beyond the construction period. The Rent-Up Allowance supports interest payments between construction completion and the Cut-Off date. MSHDA's Chief Market Analyst determines the projected absorption period used to calculate the Rent-Up Allowance. In situations where a rent-up period in excess of six months is projected to achieve breakeven defined as when development operating income less any owner advances, meets operating expenses plus full monthly debt payments for three consecutive months, MSHDA will, at its sole discretion, extend the rent-up period requiring that additional interest be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving breakeven as described above, and providing evidence of 12-month leases at rents at least equal to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the cut-off date be accelerated, amortization commence and the letter of credit or other security be released.

T. Real Estate Appraisal Requirements:

MSHDA contracts for appraisals that assess the value of proposals for direct lending and low income housing tax credits. The review, analysis, and acceptance of appraisal will be done in accordance with MSHDA Appraisal Guidelines. The appraisal report shall conform to applicable Michigan statutory and regulatory requirements and the requirements of the Uniform Standards of Professional Appraisal Practice.

Appraisals shall be dated no later than 6 months from the date of application.

For acquisition/rehabilitation projects, MSHDA limits the acquisition price to the lesser of the actual purchase price or the "as is" unencumbered appraised value of the property prior to rehabilitation.

For all other projects, MSHDA reserves the right to require an appraisal to determine the value of the land included in project cost. The value of the land shall not exceed the lesser of its appraised value or the purchase price.

For in-kind contributions of land, evidence of the value of the contribution must be supported by an appraisal.

The purchase of foreclosed properties to complete projects assisted with an NSP Loan are required to be discounted to a purchase price of no more than 99% of the current appraised value of the property.

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U. MSHDA Design Standards/Site Selection Criteria: MSHDA has multifamily design standards that often exceed the requirements of local building codes and site selection criteria against which all proposed development sites are reviewed. The design standards and site criteria are available on MSHDA's web site. The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.

V. Construction Contract Allowances: For projects of 50 units or more, line item allowances within the construction contract are 6% for builder profit, 2% for builder overhead, and 6% for general requirements of the total construction contract amount. For projects of less than 50 units, the line item allowances within the construction contract for builder profit, builder overhead and general requirements may not exceed an aggregate of 20% of the total construction contract amount.

W. Construction Contingencies: Construction contingencies will be required for all proposals involving rehabilitation, with the requisite contingency amount determined on a case-by-case basis. Rehabilitation contingencies of at least five percent of the construction contract amount should be anticipated. Generally, these funds will be a line item in the development budget within "soft cost" and not part of the construction contract. For new construction, a construction contingency of five percent is allowed, and at least five percent will be required when certain site conditions are anticipated (such as buried debris or environmental remediation).

X. Developer Fees: Developer fees for projects will be the lesser of (i) $2,000,000 ($1,000,000 for projects using taxable bond financing), or (ii) the amount calculated as follows:

- For acquisition/rehabilitation or preservation projects:

  o Of 49 units or fewer, 20% of the aggregate basis (i.e. eligible basis plus land) minus its developer fee, developer overhead, and developer consultant fee (collectively, "Exclusions"). If an allocation of credit was received by virtue of being financed with taxable bonds (acq/rehab, preservation or new construction), the developer fee will be 15% of the aggregate basis minus Exclusions.

  o Of 50 units or more, (x) 10% of the total acquisition cost of land and building(s), plus (y) 15% of the aggregate basis less total acquisition cost of land and building(s) and Exclusions.

- For new construction projects, 15% of aggregate basis minus Exclusions.

If an existing project is split into two or more projects, the aggregate developer fee for all projects cannot exceed $2,000,000. ($1,000,000 for projects using taxable bond financing).

Y. Limited Dividend Calculations: MSHDA's statute limits the return an owner can take on the equity investment in the project. Equity is defined as total development cost, less the sum of all MSHDA mortgages and less any grants and "soft" or non-amortizing secondary financing.

For Tax-Exempt and Taxable Bond loans, a return on the equity contribution of the owner of 12 percent in the first year following the cut-off date is permitted. This limit increases by one percent per year until a cap of 25 percent is achieved, unless a MSHDA Subordinate Loan and/or other MSHDA concession are outstanding. In this circumstance, the limited dividend is capped at 12% until the MSHDA Subordinate Loan has been fully repaid and/or MSHDA has been fully reimbursed for any other concession. The owner may request to increase the limited dividend upon full payment of the MSHDA Subordinate Loan and/or reimbursement of any other concession and the

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increase in rate shall begin at the year after that point in time. The eligible limited dividend is cumulative at the rate in effect during that particular year.

Unless further restricted by HUD or other federal regulations, returns for all preservation transactions will be cumulative.

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For Section 8 developments subject to pre-1980 regulations, limited dividends will be limited to 12% of equity.

For Section 236 developments, the return on equity investment is limited to the lesser of 12% or the amount approved by HUD in the decoupling approval.

For all other preservation transactions, including post-1980 Section 8 developments, the return on equity investment limited to the lesser of 12% or the amount approved by HUD or USDA Rural Development.

For developments initially financed by MSHDA, the equity upon which a limited dividend is based will be the sum of the original equity plus the total principal payments made on the original loan by the original borrower prior to any repayment of the original loan unless HUD or other federal regulations require a different calculation. Seller waiver of accumulated and current year deferred limited dividend payments will be required. For developments not initially financed by MSHDA, the equity upon which a limited dividend is based will be 12% of the equity of the new transaction unless HUD or other federal regulations require a different calculation.

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Z. Syndication and other Equity Pay-In: Prior to scheduling a mortgage loan closing, the Authority, the sponsor, the syndicator, and any other funding sources must agree to a schedule of funding. The schedule must set forth both the timing of the anticipated payment of all costs necessary to complete the development and the availability of various sources for such payment.

Unless a construction and/or bridge loan has been anticipated and approved, MSHDA must be satisfied that it shall receive sufficient equity and other contributions to assure that, when combined with mortgage loan proceeds there will be sufficient funds, in sufficient time to assure payment of development costs during construction in a timely fashion. In the event the Authority has agreed to provide a construction/bridge loan, it will require that all non-developer fee tax credit equity contributions be made no later than the completion of construction.

With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funds must be deposited with and disbursed through MSHDA. Additionally, in the event a construction/bridge loan is used to pay developer fees on an interim basis prior to the pay-in of equity, no more than 50% of the anticipated paid developer fee (gross developer fee minus deferred fee) may be paid while the construction/bridge loan is outstanding.

With the exception of tax credit equity, all non-MSHDA funding sources planned within a transaction are generally expected to be funded at or within 60 days of Initial Closing. In addition, in proposals where MSHDA provided a non-profit sponsor with a predevelopment loan, the loan must also be repaid at or prior to Initial Closing.

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In all cases, the schedule of sources and uses must ensure that there are sufficient funds at all times to pay appropriate development costs, including hard and soft costs. MSHDA will work with the sponsor, the syndicator, and any other funding sources on timing issues and work to identify mutually agreeable solutions to fill funding gaps as appropriate to the particular situation. However, in no event will MSHDA agree to a condition(s) that, in its sole discretion, it determines will jeopardize the availability of funding when it is needed.

In the event a loan is determined to be out of balance and a shortage exists that threatens the ability to pay appropriate development costs in a timely fashion, the sponsor will be required to provide cash to the development's equity escrow account in an amount needed to satisfy all outstanding and payable costs. The Authority's Director of Finance may accept a letter of credit in lieu of cash for shortages expected to be resolved by equity pay-ins within 30 days.

IV. Other Information:

A. Fees: The following fees apply for any Tax-Exempt or Taxable Lending transaction:

- A non-refundable Preliminary Project Assessment fee of $500 must be submitted for any sponsor choosing to submit their proposal for the optional Preliminary Project Assessment. The $500 is credited toward the $2,000 application fee.
- A non-refundable application fee of $2,000 must be submitted with any proposal for mortgage loan financing. This fee is credited toward a 2% commitment fee.
- A non-refundable filing fee of .5% of the proposed mortgage amount will be charged for projects presented to the Authority Board for Mortgage Loan Commitment authorization. The non-refundable filing fee is credited toward a 2% commitment fee.
- A 2% commitment fee (or in the case of TCAP or Section 1602 Program funding, an initial asset management fee) that is paid at the initial loan closing. The commitment fee is based on greater of permanent mortgage or construction loan plus any MSHDA Subordinate Loan financing (i.e. HOME, Preservation Fund, etc.)
- Tax credit and compliance fees will also apply.

B. Labor Standards: Every contract for the construction or rehabilitation of housing under this program that includes 12 or more HOME-designated units, 9 or more Project Based Vouchers, where any TCAP or NSP funds are used, or in any other case where federal regulations require such compliance, must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to Davis Bacon and Related Acts, to all laborers and mechanics employed in the development of any part of the housing.

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C. Equal Opportunity/Fair Housing: MSHDA requires:

- The prime Contractor to provide an Equal Employment Opportunity Plan for goals setting for workforce trade utilizations and for business enterprises contracting to subcontractors and material suppliers; and

- The management agent to aggressively and affirmatively market the housing to minority groups.

D. **Cost Certification:** For new construction transactions, the contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project. For preservation and occupied acquisition/rehabilitation transactions, MSHDA will rely on the LIHTC cost certification and will not require a separate cost certification for preservation transactions.

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E. **Audit of Development Operations:** For new construction or unoccupied acquisition/rehabilitation developments, MSHDA's Finance Division conducts an audit of initial development operations to ensure that certain costs incurred between initial occupancy and the start of amortization and property stabilization have been properly classified. To the extent that initial operating income was used to pay for development costs, the sponsor will be required to deposit funds to rectify any such audit exceptions in the development's operating account at Final Closing.

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F. **No Relocation:** Involuntary permanent relocation of existing residents is not permitted.

G. **Loan Management:** MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling loan documents and its financial and physical condition through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.

H. **Unique Circumstances:** Developers are encouraged to discuss unique development opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

V. **For Developments Currently Financed by MSHDA:**

A. **Debt Service:** For Section 8 Preservation transactions involving continuation of an existing project based Section 8 contract, the new periodic debt payments must be equal to or greater than the original annual debt payment. For all other transactions, HUD must approve the periodic debt service payments.

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B. **Repayment of Existing Indebtedness:** For preservation transactions all repayable subsidy loans, deferred interest, HOME loans, or other secondary financing, such as small size, security, and amenity loans are to be repaid at closing of the Mortgage loan. Assumption of these loans is not anticipated, nor is further secondary financing generally available to address this indebtedness. In proposed transactions where MSHDA provided a non-profit sponsor with a predevelopment loan, the loan must also be repaid at or prior to Initial Closing.

C. **Replacement Reserve Draws:** Replacement reserve draws will not be processed subsequent to a loan application for a preservation transaction, without notification to MSHDA's Rental Development and Homeless Initiatives (RDHI) Division.

D. Contract Administration: It is anticipated HUD will designate MSHDA as the contract administrator.

E. Reserve Ownership: All Mortgagors must affirm MSHDA's ownership of excess reserves subject only to any lawful claims by HUD.

F. HUD Approval: Where required, HUD approval of the transaction will be a condition of loan closing. The approvals from HUD must be consistent with all conditions of the program parameters and policies, and the rents, expenses, debt service and other financial elements in the development proforma stated in the Authority's mortgage loan commitment staff report.

G. Rental Assistance Extensions: Upon expiration of any existing project based rental assistance, all mortgagors must apply for and accept any available subsidy extensions, subject to MSHDA approval.

VI. <u>Application Processing</u>: A four-month processing time from application to closing is anticipated. **Typical Processing Steps include:**

1. PRELIMINARY PROJECT ASSESSMENT (Optional – suggested for new development teams or non-traditional site locations)

a. Applicant to submit Preliminary Project Assessment (PPA) Form including:
   - **i.** Addendum IV PPA Exhibit Checklist Documents
   - **ii.** $500 <u>non-refundable</u> site review fee (Applicable to application fee if accepted)
   - **iii.** Executive Summary of proposed project
   - **iv.** Site Location/Map
   - **v.** Proposed development team
   - **vi.** Preliminary Market Study
   - **vii.** Preliminary development proforma (MSHDA format)

b. Proposal given a MSHDA number

c. HDO to coordinate site visit and preliminary review of proposed development team within 10 days of receipt of complete PPA Form

d. Project Review Team to include: HDO, Design, Asset Management and Marketing

e. Project presented to Project Review Committee (PRC) within 30 days of receipt of complete PPA Form

f. Within 10 business days of presentation to PRC a letter which details the PRC's recommendation will be mailed to the sponsor. The recommendation should not <u>be</u> construed as an approval of any sort and **bolded** disclaimer will be included in letter (signed by HDO Manager) stating this. The recommendation will be to either:
   - i. Proceed and submit formal application – letter will include a invitation to proceed and any potential issues the PRC can identify, or
   - ii. Not to proceed – letter will include a recommendation not to proceed and clearly state reasons the PRC can identify

2. PROJECT THRESHOLD REVIEW

a. Applicant to submit full formal application for processing, including:

i. Addendum IV Threshold Exhibit Checklist Documents
ii. $2,000 non-refundable application fee
(Applicable to commitment fee if accepted)

b. Applicants that elected to skip the "Preliminary Project Assessment" will be subject to a site and development team review at this time, as well as loan review processing subject but not limited to acceptance of the following threshold requirements:
   iii. Environmental (including NEPA review)
   iv. Market Study
   v. Site Plan
   vi. Operating Budget
   vii. Scope of Work and CNA (Preservation and Acquisition/Rehabilitation Transactions Only)
   viii. Feasibility level plans and specifications
   ix. Appraisal (Preservation/Acquisition Transactions Only)
   x. Minimum leveraged funding requirement which must be equal to the lesser of 1) 5% of the Total Development Cost (TDC), or 2) 30% of MSHDA's secondary financing (Subordinate Loans Only)
   xi. Financial Feasibility Approved

c. HDO must present proposal to the Loan Committee, where either of the following decisions are made:
   i. Project is accepted, a formal letter sent, signed by Loan Committee Chair, and the proposal is prioritized based on Priority Selection Process (Section VII below); or
   ii. Project is denied. HDO contacts applicant to explain reasons for denial. Formal denial letter, signed by Loan Committee Chair, is sent to applicant within 10 business days of Loan Committee decision. Applicant has 15 business days to appeal decision in writing, to the Director of Rental Development and Homeless Initiatives, explicitly addressing Loan Committee reasons for denial. Such appeal will be governed by the MSHDA Appeal policy in effect at the time of the appeal.

3. PROJECT COMMITMENT

a. Applicant to submit Addendum IV Commitment Exhibit Checklist Documents.

   i. Commitment Level documents reviewed
   ii. Development goes to Loan Committee
   iii. Prioritization re-confirmed
   iv. Board Approval
   v. Rate Lock given and firm reservation of soft monies (HOME, Preservation Fund, NSP, TCAP, Vouchers, etc.)

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4. PROJECT CLOSED

VII. Priority Selection Process:

For purposes of allocating scarce subsidy resources, the Authority has identified a competitive prioritization system. While the parameters and underwriting standards outlined herein are used to determine the conditions under which a first mortgage loan may be feasible and prudent, the priority selection process outlined below will be used to determine which projects receive subordinate financing and in which order they will be awarded those resources.

In order to receive a Priority Designation, all projects must meet the underwriting and threshold requirements mentioned in the previous section.

PRIORTIZATION – Projects that meet <u>all</u> mandatory threshold requirements are prioritized as follows:

<u>**PRIORITY ONE**</u> – MSHDA targets its available soft funding sources first for development proposals meeting the requirements under Priority One. These projects are required to have:

a. Hard Equity Commitment as defined in Section XI-C of the 2009 Qualified Allocation Plan (QAP)
b. A Payment in Lieu of Taxes (PILOT) of 6% or less based on the shelter rents/contract rents (including any service fees), or equivalent investment to achieve a 6% PILOT rate, over and above the leveraged requirement.
c. At least one of the following:
    i. Section 8 and 236 Preservation Transactions (minimum five-year term remaining)
    ii. Majority of development with Project Based Rental subsidy (minimum five-year term remaining)
    iii. NSP eligible
    iv. Leveraged Funds – Lesser of 15% of the TDC or 50% of the Authority's soft-money investment* (if no Authority soft funds are needed, no leverage required)
d. And at least two of the following:
    i. Evidence of community support/non-development related private sector investment**
    ii. Minimum of 15% of units targeted for Permanent Supportive Housing (elderly developments excluded)
    iii. Projects which were in the Authority's Direct Lending pipeline prior to May 1, 2009
    iv. A minimum of 10% more than the leverage criteria

<u>**PRIORITY TWO**</u> – Any remaining soft funding sources will then be targeted to proposals meeting the requirements under Priority Two. However, a higher priority project that comes in later than a lower priority project will move ahead of the lower priority project. These projects are required to have:

a. Hard Equity Commitment as defined in Section XI-C of the 2009 Qualified Allocation Plan (QAP)
b. PILOT greater than 6% but less than or equal to 10% based on the shelter rents/contract rents (including any service fees), or equivalent investment to achieve a 10% or less PILOT rate, over and above the leveraged requirement.

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c. At least one of the following:
   i. Preservation Transactions
   ii. Leveraged Funds – Lesser of 10% of the TDC or 40% of the Authority's soft-money investment* (if no Authority soft funds are needed, no leverage required)

d. At least two of the following:
   i. Evidence of community support/non-development related private sector investment**
   ii. Minimum of 10% of units targeted for PSH (elderly developments excluded)
   iii. Projects which were in the Authority's Direct Lending pipeline prior to May 1, 2009
   iv. A minimum of 10% more than the leverage criteria

PRIORITY THREE – Development proposals demonstrating a Hard Equity Commitment, but unable to meet the requirements under Priority One or Two at this time, will fall under Priority Three. Subordinate funding for Priority Three proposals will be based upon the availability of funding. Those that can be restructured to achieve a Priority One or Priority Two designation will better their chances of being awarded, as a higher priority project that comes in later than a lower priority project will supersede the lower project if the lower priority project has not achieved a commitment.

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*Examples of Leveraged Funds
a. Equity in Excess of $0.65 per LIHTC
b. Non-MSHDA – HOME, CDBG, NSP, or PBV
c. FHLB Funds
d. Quantifiable In-Kind Contributions (land, etc.)
e. Voluntarily Reduced Developer Fee
f. Up To 50% Deferred Developer Fee
g. GP Capital Contributions
h. Contributions from Philanthropic Entity
i. Letters of Credit
j. PILOT, or PILOT less than Priority Threshold[5]

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**Evidence of Community Support
1. Infrastructure Improvements
2. Neighborhood Organization Written Support
3. Tap Fee Waiver
4. Private Sector Investments in immediate area
5. CDBG and Other Grant Investments
6. Designated Revitalization or Redevelopment Area

[5] A PILOT at any rate may be counted as leveraging under Priority Level Three, but it must be at a lower rate than identified in Priority Level One or Two to be counted as leveraging.

Michigan Housing Council
Overview of Concerns with
New MSHDA Loan Parameters
June 1, 2009

- ***Timing –*** *The primary competitive determinants for "stimulus" funding are the ability to get the money out quickly and to create Michigan jobs. These features should trump all other MSHDA priority considerations unless MSHDA wants to be faced with the possibility of returning money to the federal government. Further, MSHDA is responsible for ordering several key processing documents, including the appraisal, the CNA and the market study for each of these projects in order to qualify for MSHDA direct loan financing. MSHDA has a very limited group of providers who will likely be overwhelmed with the large number of projects needing to move quickly through the pipeline.*

    Concur/Clarify: The Authority's policies are oriented primarily on the basis of the need to use Recovery Act resources to stimulate the economy. Readiness to proceed, provided a project is determined to be financially feasible, measured by hard equity commitments will, in practice, be the primary determinate of which developments are awarded soft financing within the Priority Selection Process (it is also worth noting that the Priority Selection Process only applies to Direct Lending Transactions and that readiness to proceed will be a primary consideration by which developments in other Recovery Act funded programs are evaluated). Since TCAP funding will be awarded on a first-come, first-serve basis, a project with a hard equity commitment in July that has met all threshold requirements but only ranks as a Priority Three development would still get a binding commitment (contingent upon closing in a timely fashion) over a development otherwise ranked as a Priority One development that does not have a hard equity commitment.

    The Priority Selection Process, in this view, can almost been seen as a tie-breaking system in the event more developments with hard equity commitments are seeking funding than the Authority's resources can accommodate.

    Within its process and its written plans for implementing the Recovery Act's multifamily housing provisions, the Authority believes it has provided ample opportunities to provide reasonable waivers and to modify programs.

- ***Clarification –*** *Confusion remains regarding when the underwriting standards apply and which projects are covered. Further, it is not clear how MSHDA's new guidelines interface when other lenders like HUD are financing or insuring the construction and permanent loans.*

    Concur/Clarify: Several questions on this general topic area were posted recently in the Q&A portion of the Recovery Act section of the Authority's website. The underwriting standards within the Direct Lending Parameters will apply to all direct lending proposals and to all proposals seeking Recovery Act resources from the Authority. The Priority Selection process, on the other hand, is specific to direct lending transactions.

These standards will apply regardless of who the construction and/or permanent mortgage lenders are, but sponsors have the ability to request waivers with reasonable justification. In considering such requests, we expect to work closely and collaboratively with equity investors who are willing to make hard equity commitments to pipeline projects.

- ***PILOT and Other Local Support Requirements*** – *Under the new guidelines, a PILOT from a local municipality is a now a threshold requirement for all MSHDA loans. Previously to secure MSHDA financing, a project sponsor needed only to demonstrate local support which could have taken the form of a PILOT, infrastructure investments in sidewalks, improved roadways, or local redevelopment efforts. Lastly, the proposed underwriting guidelines effectively channel sponsors to ask municipalities for deeper tax relief in order to gain a priority for soft funds controlled by MSHDA.*

Municipalities are watching their tax bases implode and revenue sharing funds dwindle. A PILOT threshold requirement is not practical in the current economic environment and will have the greatest adverse impact on rural development. Further, the requirement may cause friction between MSHDA , the Chamber, the Municipal League and others as the State, through MSHDA, could be perceived to be holding stimulus funds hostage unless localities make further concessions on their tax base.

Revision: The Authority has revised the parameters to remove PILOT as a threshold item applicable to all projects. The Authority continues to believe that local contributions in the form of a PILOT should be recognized within the competition for soft funding, favoring those communities that are willing to support developments, so PILOTs continue to be favored within the Priority Selection Process. For example, all else being equal, a development in a community providing a 5% PILOT will be a higher priority than a substantially equivalent development in a community unwilling to provide any level of tax abatement.

- ***Operating Deficit Reserve*** – *MSHDA appears to be creating an operating deficit escrow which, when depleted must be replenished or a loan default will exist. This would appear to be tantamount to a guarantee against operating deficits for the entire term of the loan and would allow MSHDA to declare a default even though timely debt payments were being made.*

Clarify: The Operating Deficit Reserve was changed in two regards. Annual draws are now driven by ongoing reviews of the budget as compared to the prior "automatic" level of reserve draws. Additionally, a review of the reserve is now contemplated in the 18th year rather than the 20th year of amortization as previously required. This was updated to ensure that both the sponsor and MSHDA have time to plan relative to the project. In previous iterations, the review of the ODR did not take place until the year it was scheduled to run out.

The requirement that the sponsor replenish the Operating Deficit Reserve, and the related default provision for failure to do so, has been in place for some time. It should be noted that many default conditions may exist in a typical transaction short of an outright failure to make principal and interest payments on time. While every situation is unique, it is common for the Authority to forbear in such instances while working with the sponsor to rectify the situation.

- ***Syndication and other Equity Pay-in*** – *The draft parameters indicate that all non-developer fee tax credit equity must be paid in by construction completion. Although this provides more flexibility than in the past, it does not reflect the announcement at the May 12, 2009 MHC meeting that MSHDA was willing to provide bridge financing to allow later equity pay-in, thereby generating higher yields for investors and attracting them back to the state. Further, this provision will also present difficulties for other lenders. Typical city pay-in of HOME, FHLB and other lenders are usually not available at or prior to initial closing.*

Clarify: Staff never intended to suggest the Authority would provide bridge loans beyond the completion of construction. We continue to recommend that the Authority offer bridge loans through this date and have been advised by syndicators that such an opportunity does provide net benefits to tax credit transactions even in today's difficult environment.

Revision: We also understand the reality that some other funding sources may not be able to disburse at initial closing. We have adjusted the parameter. Additionally, provided later pay-ins are structured into the transaction prior to commitment and closing, the parameter contains provisions that allow alternate schedules.

MSHDA Direct Lending Parameters

MHC Comments

May 28, 2009

These lending parameter changes, in combination with the draft and evolving ARRA Implementation Plan, represent significant new policy, processing, and underwriting changes. The Michigan Housing Council (MHC) looks forward to the opportunity for meaningful dialogue and affordable housing industry input.

The following are overarching initial concerns and comments regarding the MSHDA Tax-Exempt and Taxable Lending Parameters adopted May 20, 2009:

MSHDA responses are embedded below in standard type face.

1. Under federal requirements, the primary competitive determinant for "stimulus" funding is the ability to "get the money out" in a timely manner. This feature should trump all other MSHDA priority considerations unless MSHDA wants to be faced with the possibility of returning money to the federal government. In that regard, MSHDA should have a provision which allows it to override all the other priorities if necessary to assure funds are timely committed or spent. One way to achieve this would be to allow a waiver of the prioritization factors to allow projects to proceed in a timely manner. If a project has a hard equity commitment for a substantial amount of equity and MSHDA's underwriting thresholds are satisfied, that project should "move to the head of the line" even if the project does not meet two of MSHDA's priority one or two last Section criteria.

Concur: See the response to this issue in the Overview document.

Further clarification with regards to the prioritization of the use of monetized credit under the new thresholds is needed. Should a project meet the new underwriting criteria and the use of monetized credit is the only remaining threshold needed to complete the project, what is MSHDA's priority level for these deals?

Clarify: See the response to this issue in the Overview document.

2. On a related note, MSHDA is responsible for ordering several key processing documents, including the appraisal, the CNA and the market study for each of these projects in order to qualify for MSHDA direct loan financing. As we understand it, MSHDA has a very limited group of providers who will likely be overwhelmed with the onslaught of work. Unless MSHDA expands its list of providers, we believe it is highly unlikely that very many of these projects will be able to meet their commitment and/or spending deadlines. Surely, projects should not be held up waiting for the final *publication and HUD NEPA clearance before proceeding to commitment. This issue must somehow be addressed.*

Clarify: The Authority is working with its market study and capital needs assessment providers to ensure that needed reports can be obtained in a timely fashion. Additionally, the Authority is providing a great deal of flexibility in its implementation of the 9% Tax Credit Exchange Program and the 9% Equity Support Program to work with due diligence reports that may have previously been ordered by the sponsor as part of the 9% LIHTC application process. In most cases, MSHDA expects to be able to work with non-expired reports already ordered by the sponsor or to allow updates to those reports.

The Authority does not intend to wait for HUD clearance of NEPA reviews before proceeding to Board level mortgage loan commitment. Staff reviews concluding that the Authority's NEPA obligations have been met pending publication and HUD approval, however, must be completed as part of the Threshold review outlined in the Direct Lending Parameters.

3. Tax Abatement should not be a threshold requirement. Such an approach encourages "NYMBYism" and fails to recognize the financial stress many communities are facing.

Revision: See the response to this issue in the Overview document.

4. The prioritization criteria disadvantages rural and small town projects because of the lack of federal resources under the control of small communities. Tax abatements are not common or easily achieved in small communities and achieving two additional local contributions will make rural and small town development less likely than urban development.

We do not believe rural communities are uniquely disadvantaged. With the exception of not having direct federal funding under the HOME, CDBG, and NSP programs, developments in rural areas are eligible for every other listed source of leveraged funds, and there are federal resources available through USDA-Rural Development that are not similarly available in urban areas. Additionally, there are a variety of non-rural communities across the state, including many urban areas, which are similarly situated without access to direct allocations of HUD formula grants.

We would also note that with the elimination of PILOT as a threshold requirement, the ability of developments in rural communities to compete for soft funding has been further enhanced. Finally, staff has observed that the last three developments with 0% PILOTs (to the best of our recollection) were all in rural communities.

5. As noted in our earlier comments about the ARRA Preliminary Implementation Plan, the application of MSHDA underwriting standards and review processes to projects to be financed by other than MSHDA (FHA loans in particular) unnecessarily delays processing and uses up valuable resources, while ignoring the fact that 9% projects in MI have been successfully underwritten, are more stable, and are out-performing similar projects in the MSHDA direct-lending portfolio (per recent Ernst & Young study).

The Recovery Act provides new tools to the Authority, but these tools also impose new federal expectations, obligations, and accountability which create financial obligations to MSHDA.

At the same time, we believe that all projects, including those financed with or without Recovery Act resources, should be underwritten to a higher standard than in the past. The Direct Lending Parameters were updated, as previously noted, to improve their consistency with the underwriting requirements of the 2009 QAP. Other lenders and/or investors may continue to use their own standards, and the Authority will continue to review waiver requests on a case by case basis. However, we do not believe it is appropriate for the Authority to automatically defer to a less stringent standard simply because another lender or investor is comfortable any more than we expect investors to defer to the Authority's standards in the case they are seen as less stringent than the investor's standards.

Additionally, while staff have not been provided, despite repeated requests, with a copy of the Ernst & Young study being referenced, it is not surprising that 9% LIHTC transactions from past years would be outperforming 4% transactions from the same period. This has less to do with underwriting standards than with the differences in the resource levels and income targeting previously available. 4% transactions, in particular, have typically been more highly leveraged with hard debt (since the 9% credit has produced 2.5-3 times as much equity) and targeted more heavily to 60% AMI and market rate tenants (since the 9% credit awards were competitive favoring lower income targeting). 9% transactions, as a class, should have outperformed given the lower levels of hard debt and the overall weakness in demand/rent potential at the 60% AMI and above levels.

Despite these differences, there are a variety of 9% LIHTC transactions struggling as well, evidenced among other signs by multiple requests from sponsors and investors for adjustments to regulatory agreements. The revised underwriting standards, applicable to both 9% transactions and Direct Lending transactions, have been driven by the economic and demographic realities facing the state and should, on the whole, improve the performance of the entire portfolio of Recovery Act assisted projects.

6. How will MSHDA provide assurance of the timely processing of Priority II projects (timing of appraisals, market studies, CNAs, and design review processing), to address *developer concern of the loss of control over queuing for soft funding? Are there any penalties to MSHDA if the 45 day period is exceeded?*

Response: Staff believes the increased level of due diligence that is required at the application stage will dramatically improve timing. Previously, direct lending proposals were accepted based on little more than an idea and some level of site control, and processing was delayed on both the part of the Authority and the sponsor by a piecemeal delivery of underwriting documents.

7. HUD Lenders have completed millions of HUD Insured loans with 9 % LIHTC in Michigan – and these projects are operating at a higher success rate than the 4% underwriting model. HUD's underwriting requirements have proven to work, s what is MSHDA's rationale for changing underwriting parameters now?

Response: See response to Item #5 above.

The following are specific concerns, identified by page number from the draft parameters:

Page 1

1. Second Bullet Point – Senior housing (excluding congregate transactions) including proposals supporting successful aging in place... – This would appear to indicate MSHDA will not consider the financing of congregate housing, despite the proven track record of certain developers with this type of senior housing in Michigan. Recommend removing the exclusion of congregate transactions under objective #1. The inclusion of congregate options broaden the market to attract younger adults accustomed to "all-inclusive lifestyles" and allows aging residents to stay in place for a longer period of time.

Response: The parameters intentionally exclude senior congregate transactions. At this time, the performance of recently financed congregate transactions is of deep concern to the Authority, and the economic conditions we expect to face on an ongoing basis in the near term suggest these developments—which are usually highly leveraged and disproportionately driven by 60% AMI and market rate rents—will not market or perform well. As with other aspects of the parameters, the Authority will continue to monitor market conditions and adjust underwriting standards, lending parameters, etc. as appropriate.

Page 2

I.F. Tax-Exempt Eligibility should align with IRS regulations. Further clarification is needed on the "Aggregate Basis" (which is Eligible Basis plus land) versus the total development cost and rehabilitation expenditures?

Concur: Parameter has been adjusted.

I.G. MSHDA Subordinate Loans – Using 3% interest rate may cause reallocation problems. Recommend a range 0-4% to address different needs in various properties and use underwriting analysis to determine actual rate.

> **Clarify:** We are aware of the concern and will consider alternative loan structures on a case by case basis. We may consider subordinate loan structures that are substantially equivalent from a net standpoint but that adjust the timing of interest to avoid reallocation problems.

For increased transparency, it is requested MSHDA maintain a running balance of uncommitted soft funding, posted to its web site or available upon request, to allow developers to be aware of the remaining balance and plan development proposals accordingly.

> **Concur:** The Authority intends to publish this information on the website and is required to do so via regulations associated with the Recovery Act.

Further clarification as to how MSHDA will decide on which program (HOME, TCAP, or NSP) will fund a specific project is recommended.

> **Clarify:** Generally speaking, the Authority will use federal funding sources ahead of MSHDA funding and will use federal sources with the shortest commitment/expenditure deadlines first. Generally, the specific funding source used will have little or no difference in the structure of the transaction or the federal requirements that come with the funding.

Page 3

II.C. Prepayment - Rather than at MSHDA's sole discretion, prepayment should be allowed with penalty at any time after year 15. This prohibition is not understood and is an impediment to refinancing/sale after the compliance period and allowing the equity partner to withdraw and therefore is an impediment to attracting equity to MSHDA deals. Affordability requirements are still for 50 years.

> **Revision:** The Authority is revising the parameter to allow greater flexibility on the part of sponsors. While prepayment penalties will continue to apply and workouts will still require waiver of prepayment, loans in good standing will have the option to prepay after 15 years.
>
> The structure of the prior prepayment prohibition and the continued prepayment penalties is driven by the underlying structure of bonds sold by the Authority.

Page 4

III.B. Debt coverage – Allow DCR to drop below 1.10 to 1.00 during mortgage period. Given new inflator requirements for income and expenses, it is difficult to maintain a strong DSC, especially for smaller projects. What is meant by 1.15 DCR for "cash flow purposes"? It is also unclear how an Operating Deficit Reserve is calculated and used in combination with this DCR requirement.

> **Response:** We believe that "better deals" include a realistic and expected opportunity to cash flow throughout the 20 year cash flow analysis and understand the challenges this creates given the difficult economic environment. The Direct Lending parameters, in fact, provide greater flexibility in this regard than the 9% allocations process which typically requires a 1.25 DCR for the entire cash flow projection period. A DCR of 1.15 is intended to provide an appropriate cushion against unanticipated stress to the transaction.
>
> In the event an Operating Deficit Reserve is needed, the ODR will be calculated assuming annual draws need to be large enough to create an "effective" 1.15 DCR. This, too, is intended to create a reasonable cushion against unexpected weakness in the transaction. Actual annual draws, however, will be limited to amount needed to break even.

III.D. Tax Abatement - The current threshold of mandating a PILOT should be eliminated since it reinforces "NIMBYism" in certain communities and does not recognize the revenue strain Michigan communities are under. At a minimum MSHDA should recognize other measures of community support in place of Tax Abatement and should adopt a different standard for rural communities.

> **Concur:** As noted above, PILOT has been removed as a threshold item.

Page 6

III.I. Rent Restrictions

HOME Rent Restrictions – Strike "the lessor of" which would generally prevent apartments from receiving the Section 8 AFR rents.

> **Clarify:** The language in the parameter is driven by the requirements of federal HOME regulations which cannot be waived or modified by the Authority.

One of the reasons not many 236 projects are being submitted to MSHDA, is the 30% at 45% AMI requirement. This restriction should be removed or liberalized. Most 236's are nearing the end of their mortgages and MSHDA should be more aggressive in encouraging the preservation of these units so the residents can benefit from "sticky vouchers." Currently, these mortgages are allowed to be paid off at maturity and the tenants will no longer receive any subsidies.

Response: Section 236 developments already serve a very low income tenant base, and absent project based Section 8 assistance, the preservation of such projects already changes the tenant mix served by the development over time (existing tenants are protected with enhanced or "sticky" vouchers) by effectively increasing the income targeting. We feel the current policy is appropriate and ensures that the development continues to the serve very low income populations these projects were intended to support.

We are exploring additional options to encourage the preservation of Section 236 developments, but at this time believe the 45% AMI rent levels are appropriate and feasible within the resources available. It is also worth noting that federal legislation has been introduced that, if passed and signed into law, would increase the Authority's ability to provide project based vouchers to such developments.

Page 8

III.N. Replacement Reserve – Consideration is requested for a PCNA to be based on a 15 year period, rather than 20 years. The reserve for 15 years vs. 20 years is significant and MSHDA should allow other ways to pay for those additional years, such as cash flow in years 16-20, excess OAR, excess ODR, or the difference between underwritten and actual management fee calculation.

Response: The Authority continues to expect a 20 year Capital Needs Assessment for transactions subject to the Direct Lending Parameters. Very few transactions, in fact, are recapitalized in year 16. A 20 year replacement reserve requirement helps ensure that developments can be appropriately maintained and that enough time exists after the expiration of the initial LIHTC compliance period for sponsors to have a reasonable chance to recapitalize the transaction.

III.O. Operating Deficit Reserve – This section should be reworked with industry input. The ODR should not automatically be released in accordance with the original projected budget (only to have it resized when the fund has been depleted (or by year 20)... It appears MSHDA proposes to create an operating deficit escrow which, when depleted must be replenished or a ***loan*** *default will exist. This would appear to be tantamount to a guarantee against operating deficits for the entire term of the loan. MSHDA could declare a default even though timely debt payments were being made.*

Clarify: See the response to this issue in the Overview document.

Page 10

III.T. Real Estate Appraisals – Request MSHDA track cost of appraisals pre and post this requirement, as developer expectation is this process will cost more. Timeliness of MSHDA contracting process is a major concern, as is the concern that work will not be *done by MSHDA firms. We also believe that the value of a preexisting Section 8 project based contract should be recognized in the "as is" appraisal if the facts warrant.*

Concur: The Authority will work with the industry to evaluate any cost differential and to track the timeliness of appraisals.

As with other Authority-contracted due diligence items, a Request For Proposals process will be implemented to identify firms interested in bidding on the work.

We will continue to consider the issue of whether or not an encumbered value recognizing the continuation of pre-existing Section 8 contracts is appropriate for developments with contracts not subject to annual appropriations.

Will a MSHDA-contracted appraisal be required for TCAP or Exchange funding, without MSHDA tax-exempt or taxable loan?

Clarify: This issue was recently addressed in the Question and Answer portion of the Recovery Act section of the Authority's website. In short, we expect to work with sponsor-ordered appraisals that have already been obtained unless they are outdated or insufficient.

Page 12

III.Y. Limited Dividend Calculations - The last sentence of the second full paragraph, should be deleted as well as the next to last sentence in the last paragraph of Section Y. MSHDA is unfairly requiring the <u>Seller</u>, which has earned limited dividend payments, to forfeit those payments as a condition for the <u>Buyer</u> to receive assistance or MSHDA financing. The last paragraph of Y should be eliminated. It is inconsistent with earlier paragraphs in the Section. The definition of "equity" for previous MSHDA financed projects is an unnecessary "throw back" to an era when no new equity was being brought into a transaction.

Response: None of the issues being addressed represent "new" changes in the most recent set of parameters, and staff believe the parameter is appropriate as written.

Page 12-13

III.Z. Syndication and other Equity Pay-in - This indicates all non-developer fee tax credit equity must be paid in by construction completion. Although this provides more flexibility than in the past, it does not reflect the announcement at the May 12, 2009 MHC meeting that MSHDA was willing to provide bridge financing to allow later equity pay-in, thereby generating higher yields for investors and attracting them back to the state.

Clarify: See the response to this issue in the Overview document.

Syndication fees should also be exempted from deposit and disbursement through MSHDA.

> **Response:** Syndication fees are not included in the development sources and uses; only items includable within development costs (exclusive of developer fees paid directly by the syndicator) must be deposited and disbursed through the Authority.

Typical city pay-in of HOME and other municipal funds are never at or prior to initial closing. This provision will present difficulties for many funders. The following paragraph seems to reflect this reality, so it is recommended the second paragraph on page 13 be deleted. In the event a construction lender is involved in a TCAP project, this provision will also prove difficult.

> **Revision:** See the response to this issue in the Overview document.

IV.A. Fees – While these fees are not excessive, MSHDA should be prepared to continue to support non-profit developers with pre-development funding.

> **Concur:** The Authority continues to provide a predevelopment loan program for eligible nonprofits.

Page 14

E. Audit – Assumed typo ... For new construction ***OR*** *unoccupied acquisition/rehab.... In the last sentence "funds to rectify" should be inserted between "deposit" and "any" on next to last line.*

> **Concur:** Parameter has been adjusted.

V.A. Insert "involving continuation of an existing project based Section 8 Contract" between "transactions" and "the" on first line. This is the only time where debt service levels must be maintained.

> **Concur:** Parameter has been adjusted.

Page 15

E. Reserve Ownership - Insert the words "project generated" after "excess" on the first line of V.E. Also the following should be inserted at the end: "Reserves funded by owner equity or loan proceeds shall be used to repay any subordinate MSHDA debt, with any excess proceeds returned to the owner." This current language is reaching far beyond the holding of the Parkwood case which specifically dealt with project generated reserves. Also, MSHDA has, because of statutory provisions, historically recognized *the owner's right to receive the principal amount of loan proceeds advanced for reserves (i.e., the DCE principal) once the loan is paid back.*

Response: MSHDA's legal staff has reviewed this comment and respectfully disagrees. With the exception of the clarification that the Authority's claim to excess reserves is subject to any lawful claim by HUD, this language has been in place for some time.

Page 16

VI.2.b. Environmental and architectural final reviews should take place here. Requiring these at commitment is too late and holds up closing at the commitment stage. However, completion of the NEPA review (especially the notice and publication periods) should not stall out the rest of the process.

Concur: Sponsors are free to submit these items prior to seeking a formal loan commitment. In fact, we encourage sponsors to submit needed documentation as quickly as possible and agree that most projects will reach closing sooner if sponsors do not wait to submit final architectural plans and specs. However, the standard process will accommodate sponsors who wish to delay making such investments until after a threshold determination has been made.

*VI.2.b.vii. Typo – **Scope** of Work...*

Concur: Parameter has been adjusted.

VI.2.b.x. A PILOT or tax abatement equivalent should qualify as leveraged funds and/or community support.
Example:

- *Over 10 years, normal taxes for project equals $500K*
- *Over 10 years, PILOT payment equals $300K*
- *The $200K difference **IS** evidence of community support and an example of leveraged funds.*

Concur and Clarify: Revisions have been made to the parameter, and PILOT or other tax abatement does qualify, in many cases, as leveraged funds. However, MSHDA will calculate the value of the PILOT based on the increase in the first mortgage loan that is generated by the PILOT as compared to either the minimum PILOT required or full taxes (depending on the Priority Level of the project)

VI.2.c. An applicant should have 45 calendar days, instead of 15 business days to develop an appeal to denial for processing.

Response: We believe that 15 business days is appropriate. This is particularly true given the timelines associated with Recovery Act resources.

Page 17

VII Priority One
b. – Should require a PILOT or tax abatement equivalent of less than 10%....
d. – Should require at least one, rather than two...

Page 18
VII Priority Two
b. – delete or PILOT or tax abatement equivalent of 10% or less
d. – should require at least one, rather than two...

**Examples of Leveraged Funds:*
i. PILOT ~~less than Priority Threshold~~

> **Revision:** Some changes have been made to this section of the parameters. Also, see discussion of Timing and PILOT above.

***Evidence of Community Support:*
typo – missing #1

> **Revision:** Parameter has been adjusted.

Include PILOT Equivalent
Include PILOT

> **Clarify:** While granting a PILOT or other tax abatement is a form of community support (as is providing direct funding to the project), for purposes of the additional community support items qualifying a project for higher Priority Selection ranking the PILOT will not be counted as both a leverage item and a community support item.

Although we appreciate the time pressure under which MSHDA is being subjected, we believe it is also important to have criteria which have been carefully thought out, will facilitate the wise use of the new federal funds and avoid their loss to Michigan.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

RESOLUTION AUTHORIZING MODIFICATIONS TO DIRECT LENDING PROGRAM PARAMETERS

June 24, 2009

WHEREAS, the Michigan State Housing Development Authority (the "Authority") has authorized certain direct lending programs (collectively the "Authority's Direct Lending Programs") to finance and preserve affordable housing developments; and

WHEREAS, the Executive Director has recommended that the Authority modify the provisions of the Authority's Direct Lending Programs, as more clearly delineated in the accompanying memorandum and Program Parameters; and

WHEREAS, the Authority concurs in the recommendation of the Executive Director.

NOW THEREFORE, Be It Resolved by the Michigan State Housing Development Authority that the Authority's Direct Lending Programs be modified in accordance with the provisions of the accompanying memorandum and Program Parameters.