Investing in People.
Investing in Places.

MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Interested Parties

FROM: Christopher L. LaGrand, Chief Housing Investment Officer

DATE: September 9, 2013

RE: Updated Gap Financing Program Statement

Attached to this memo is a new and updated draft of the Authority's Gap Financing Program. The updated program is being distributed to interested parties, posted to the web, and discussed with various industry representatives ahead of a planned presentation to the Authority Board at its meeting on September 25, 2013.

The update to the program is intended to specifically address concerns that the competitive nature of the program design is not achieving the desired results of increasing MSHDA's Direct Lending production. The gap funding made available is serving fewer developments than anticipated, because other sources/contributions are not being made to help spread MSHDA resource over more deals.

It was expected that in their attempt to compete for an award of gap funding that is based on keeping their MSHDA gap funding requests to a minimum, sponsors would attempt to find ways to reduce their gap needs. Efforts such as obtaining other funding sources, reductions in sales price, use of MSHDA's Equity Bridge Loan program, or structuring transactions with reduced or deferred developer fees have not been significant. Therefore the following changes are being proposed in an attempt to encourage other contributions in an effort to serve more transactions:

- A statement and table were added at the bottom of page 4 and continuing at the top of page 5, which may require a minimum contribution on the part of the sponsor based on the amount of gap funding needed in relation to the permanent Tax-Exempt mortgage loan. The greater the soft to hard debt ratio the larger the contribution requirement will be. The contribution may be in the form of capital, deferred developer fee, and/or a reduced developer fee. It is also noted that with the exception of any Tax Credit equity source, other non-MSHDA funding sources, and/or the additional equity generated by the MSHDA's Equity Bridge Loan, will be applied against the minimum sponsor funding requirement.

In addition to the change above, three other modifications are proposed as follows:

- A note was added on page 4, to clarify that any existing reserves captured from a development proposal and used as gap funding are counted within the calculation to limit gap funding to no more than the permanent loan amount. However, it is not used within the calculation of the soft to hard debt ratio evaluation criteria for ranking purposes, which should improve the proposal's chance for an award.

- Language has been added to page 6 of the document ensuring that adequate equity pricing is utilized within a proposal.

- On page 6 and 7, the order in which consideration is given to the evaluation criteria used for ranking purposes has been changed to represent the order of importance of each factor.

Additional Changes Expected: While we are publishing this draft of the Gap Financing Program, we expect there will be comments, questions, and recommendations from the industry that may prompt further changes ahead of the presentation to the Board.

Input Sought: If you have questions, comments, or suggestions related to the draft Gap Financing Program you can submit them via email to John Hundt (hundtj1@michigan.gov). We will also post comments, questions & answers, and other related materials via MSHDA's website (http://www.michigan.gov/mshda/0,4641,7-141--289060--,00.html)

Rental Development

NOTICE OF FUNDING AVAILABILITY

And
General Guidelines
For

Gap Financing Program

TABLE OF CONTENTS

Important Notice: ***Developments not requiring gap financing from MSHDA or other MSHDA preservation developments not requiring gap financing in excess of what would be recaptured by MSHDA in the event of refinancing may apply for financing at any time. Those developments will not be subject to the Notice of Funding Availability process.***

I. INTRODUCTION

A core function of the Michigan State Housing Development Authority (MSHDA) is to provide quality, safe, and affordable rental housing for Michigan's residents. Rental Development's direct-lending activities generate a significant source of income for MSHDA which allows the agency to make available a number of other critical non-income producing programs to Michigan's citizens. Decreased investment in 4% Low Income Housing Tax Credits (LIHTC) over the past couple of years has curtailed MSHDA's direct-lending production, hindering MSHDA's ability to provide funding for other, mission-oriented programs.

In an effort to improve direct-lending production MSHDA is making available a combined total of approximately $18 million of MSHDA HOME and Preservation Funds to its Rental Development division to be exclusively utilized as gap financing for the "4% LIHTC Direct Lending Program." **Both gap funding types will be made available to projects without regard to whether they are a new construction, adaptive reuse, acquisition/rehabilitation, or preservation transaction.** MSHDA specifically reserves the right to fund any application submitted under this NOFA with either of the sources of funding being made available. Accordingly, applicants should note that developments receiving federal funding may be subject to federal cross-cutting guidelines.

For purposes of allocating these limited resources, MSHDA has determined that these funds can be best put to use through a public Notice of Funding Availability (NOFA). It is anticipated that these funds will be committed and closed over the next 9-12 months. This NOFA describes what types of projects will be eligible and the allocation process through which these funds will be awarded.

II. PROJECTED TIMELIME

September 25, 2013….. Release of NOFA
December 1, 2013.…… Preliminary Assessment package due
January 15, 2013….… Applicants invited to submit Threshold package
March 15, 2014……. Threshold Review package due
April 15, 2014……….. Threshold rankings released
May 15, 2014………. Commitment Review package due
June 15, 2014…. Commitment Awards of Gap-Funding announced
Next Board Meeting….. MSHDA Board Presentation/Decision
Within 90 days……..... All awardees made have closed on all financing

STRICT ADHERENCE TO THE ABOVE TIMELINE IS REQUIRED FOR A DEVELOPMENT TO REMAIN ELIGIBLE FOR GAP FUNDING. ANY DEVIATION FROM THE ABOVE TIMELINE WILL RESULT IN THE DEVELOPMENT'S APPLICATION BEING REMOVED FROM CONSIDERATION AND ANOTHER DEVELOPMENT BEING PROCESSED IN ITS PLACE. WRITTEN WAIVER REQUESTS OF DOCUMENT SUBMISSION DEADLINES WILL BE CONSIDERED AND DECISIONS MADE AT THE SOLE DISCRETION OF MSHDA STAFF.

III. FINANCING TERMS

All gap financing loans will be made as subordinate loans and will bear simple interest at 3% annually. Payments on the loan will be deferred until deferred developer fees have been repaid, but no later than the end of the 12th year after the date of initial disbursement of the mortgage loan. Interest will continue to accrue over this period. The balance of principal and all interest shall be due at the earlier of sale of the development, refinancing of the mortgage loan, or 50 years after closing.

Beginning at the earlier of the year in which the developer fee has been paid in full or in the 13th year from the date of disbursement of the mortgage loan, repayment of the subordinate loan will be made from fifty percent (50%) of any surplus cash available for distribution, applied first to accrued interest, then to current principal.

Following repayment of the first mortgage loan, the outstanding balance of the subordinate loan will become the new first mortgage with monthly mortgage payments equal to the payments under the original first mortgage.

IV. ALLOCATION PROCESS

The allocation process will consist of four stages. The stages are: 1) Preliminary Assessment; 2) Threshold Review; 3) Commitment; and 4) Loan Closing as described **below and** in MSHDA's Tax-Exempt and Taxable Lending Parameters. The staged approached is being employed in order to ensure that MSHDA's staffing resources are utilized as efficiently as possible, and to limit potentially unnecessary costs to the applicants. MSHDA reserves the right to limit the amount of gap funding on any one proposal to no more than the projected permanent Tax-Exempt debt. Therefore, it is anticipated that the amount of gap funding will not exceed a 1:1 ratio of soft to hard debt. **(Note, the amount of any existing reserves captured and used as gap funding within the same proposal, is included in the gap funding limit in the 1:1 ratio. However, the existing reserves captured and used as gap funding are not figured in the ratio within the evaluation criteria used for ranking purposes).**

In addition, a minimum capital contribution/deferred developer fee/reduced developer fee from the sponsor may be required based on certain percentage of the soft to hard debt ratio as follows:

Minimum Capital Contribution/Deferred Developer Fee/Reduced Developer Fee Requirement	Soft to Hard Debt Ratio

0%	**0.00% - 19.99%**
15%	**20.00% - 39.99%**
25%	**40.00% - 59.99%**
35%	**60.00% - 79.99%**
45%	**80.00% - 89.99%**
50%	**90.00% - 100.00%**

Note: With the exception of any Tax Credit equity source and existing reserves utilized, other non-MSHDA funding sources, and/or the additional equity generated by the MSHDA's Equity Bridge Loan, will be applied against the minimum sponsor funding requirement.

A. Preliminary Assessment

All projects interested in applying for Gap Funding must first submit a Preliminary Assessment package (available on MSHDA's website at http://www.michigan.gov/mshda) no later than the Close of Business on Thursday, ~~**March 1**~~**December 1, 2013**. The completed Preliminary Assessment Application and required supporting documentation should be submitted to:

John Hundt
Rental Development Manager
Michigan State Housing Development Authority
735 E. Michigan Avenue
P.O. Box 30044
Lansing, MI 48909

The Preliminary Assessment stage is designed primarily to determine market demand, review the overall capacity and development history/experience of the development team, assess the site, and preliminarily review the development proposal. (See MSHDA's Tax-Exempt & Taxable Lending Parameters for further description of the Preliminary Assessment stage). Those accepted for further processing, based on this criteria, will be invited to submit the Threshold Review package to compete for the available gap funding.

Proposals submitted wherein any member of the development team falls into any of the following categories will be excluded from participating in this program:

a) has failed to pay any fee or expense due to MSHDA in connection with any MSHDA-sponsored program;
b) has been determined to be in default or in major non-compliance with the LIHTC or any other MSHDA program;
c) has outstanding flags in HUD's national 2530 National Participation system;
d) has been debarred or suspended from any MSHDA, HUD, or Rural Housing programs;
e) has any MSHDA properties that are in foreclosure or been foreclosed upon; or
f) are under felony investigation, indicted or been convicted of a felony.

Applicants will have the opportunity to appeal preliminary assessment findings. All appeals must follow the "Appeal Process" as detailed within the Tax-Exempt and Taxable Lending parameters. All appeals must be received within 10 business days of receipt of MSHDA staff's original Preliminary Assessment decision.

B. Project Threshold Review:

During this stage the sponsor must submit **ALL** Threshold Review exhibit documents under MSHDA's Addendum IV Exhibit Checklist. MSHDA may reject any applications with material errors in documentation, incomplete information, or inconsistency. Applicants will have 10 business days from the date of notification by MSHDA to address any identified deficiencies in documentation. Staff will promptly notify administratively rejected applicants.

All applications submitted during the "Project Threshold Review" phase undergo a detailed underwriting review, and will then be ranked by MSHDA. Those applications ranked the highest, and whose aggregate total funding does not exceed the amount of funding available under this NOFA, will be invited to submit Commitment level documents as described in the Project Commitment section of MSHDA's Addendum IV Exhibit Checklist. ***Please note, a listing of the Threshold rankings will be posted on MSHDA's website. Once these rankings have been posted proposals may not be altered in any fashion that would improve its ranking, and it is anticipated that there will be no upward modifications of planned gap financing award amounts following Threshold rankings.***

In addition, if MSHDA, in its sole discretion, determines that the equity pricing shown in the application and the Equity Investor Letter is unreasonable based on current market conditions, MSHDA may use an alternative equity pricing that is more indicative of current market conditions.

C. Project Commitment:

During this stage the sponsor must submit all commitment level criteria listed under the Commitment Review phase found in MSHDA's Addendum IV Exhibit Checklist. All applications will receive a final ranking from MSHDA staff. Proposals with the highest final ranking whose aggregate total funding does not exceed the amount of funding available under this NOFA, will be presented to the MSHDA Board for commitment/gap funding award approval. ***All development proposals final rankings will not be open to appeal. Additionally, there will be no upward modifications of gap financing award amounts following Board approval.***

D. Loan Closing:

Proposals must close within 90 days of Board approval or risk having their gap funding award rescinded. All repeals of gap financing awards will be made at the discretion of MSHDA staff.

V. EVALUATION CRITERIA

All applicants will be reviewed and ranked with consideration given, but not limited to, the following criteria:

a) Ratio of gap financing to hard debt from MSHDA
~~a)~~b) Level of per unit gap financing needed to complete the project
~~b)~~c) Tax-Exempt bond financing supported by the project

~~c)~~d) ~~Ratio of hard debt to gap financing from MSHDA~~

In general the highest consideration will be given to those projects with the lowest soft to hard debt ratio. Then those needing the least amount of gap-financing and/or those that can support the greatest amount of tax-exempt bond financing. Additionally, applicants should note that all MSHDA Direct Lending Parameters and review criteria, including, but not limited to development team capacity and design quality will apply to the evaluation of all applications submitted under this NOFA.