2007-2008 Annual Report

Michigan State Housing Development Authority

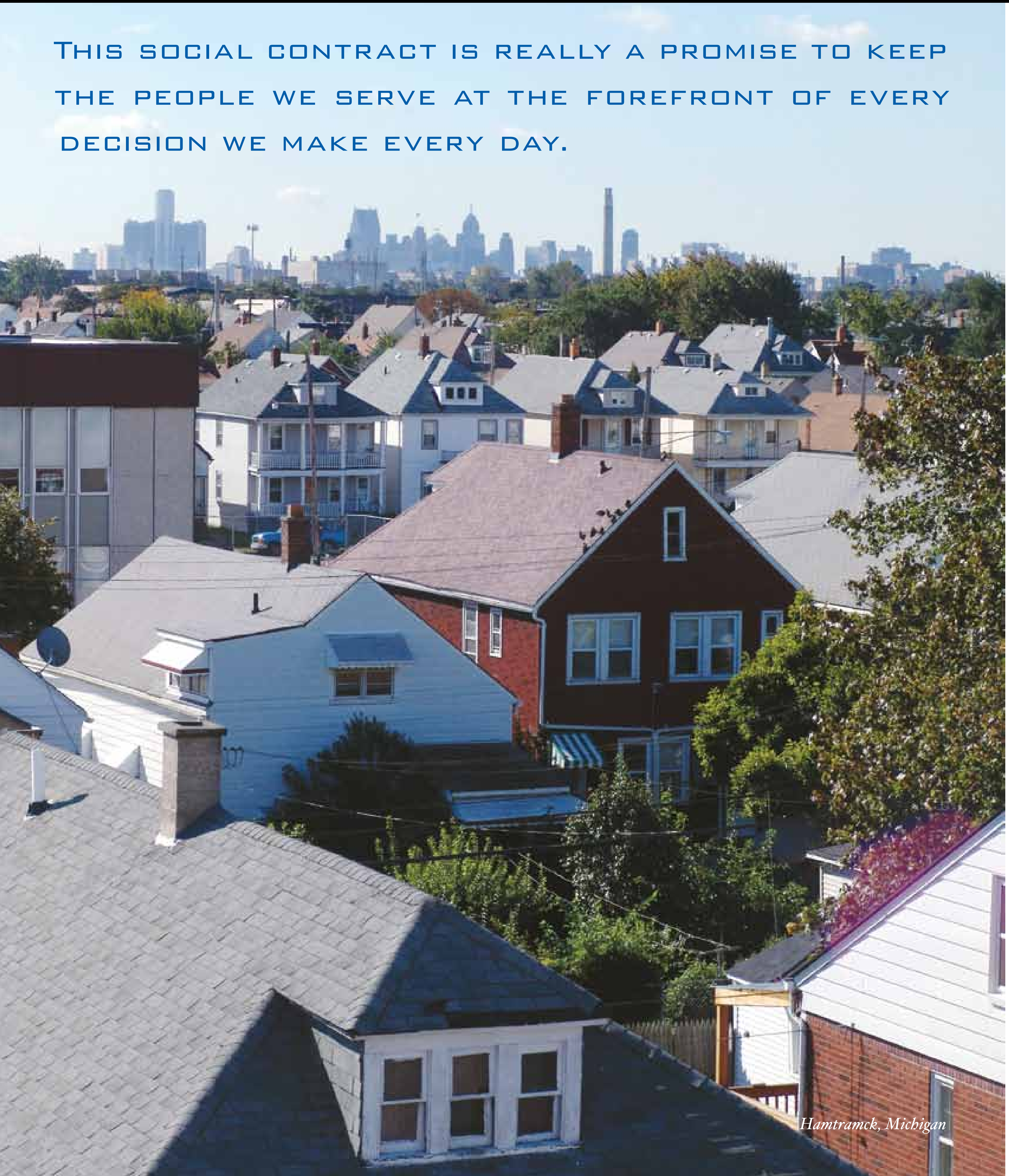
Marshall, Michigan

2007 and 2008 were invigorating years for the Michigan State Housing Development Authority (MSHDA), highlighted by new faces, a strengthened financial rating, and a number of highly successful projects.

The people who serve within an organization dedicated to serving the public help define the character of that organization. The past two years brought new staff that strengthened our organization as well as our ability to serve. MSHDA is excited to announce that Keith Molin was named MSHDA's new executive director, having previously served as interim director. Molin has helped refocus MSHDA's mission and led a renewed effort to address Michigan's housing and development needs amid mounting economic challenges. Permanent directors were also named in the Legal Affairs, Administration/Office Service, and Finance divisions to make MSHDA even more efficient and stable.

New programs and divisions were launched in the past two years. A particularly promising one is Specialized Technical Assistance and Revitalization Strategy (STARS)—aimed at reviving local economies though the rejuvenation of Michigan's traditional downtowns.

Throughout these changes, MSHDA remains committed to the pillars of our organization: supporting homeownership and affordable housing, ending homelessness, and creating vibrant cities and neighborhoods. We invite you to dive into this annual report and learn more about our accomplishments, where we are headed, and the future we envision for Michigan.



Hamtramck, Michigan

Message from Executive Director Keith Molin

This fiscal year was a time for a reawakening at MSHDA—a metamorphosis from being seen as 'just a financial institution' to being understood as a financial institution with a social contract deeply rooted in public policy. This social contract is really a promise to keep the people we serve at the forefront of every decision we make every day.

Although MSHDA is fundamentally a financial institution, we don't operate under traditional assumptions. We are not focused on making a profit or growing wealth. Instead we are focused on our social contract—the promise we have with each and every Michigan citizen. This year we faced challenges tougher than any this organization has faced since it was created almost half a century ago. When the financial markets collapsed in September 2008, the rules all changed. Now, possibly more than ever, we must embrace our mission, act in a fiscally responsible manner, and apply our resources for the greater social good.

The 21st-century MSHDA needs to do all of this work in a less than ideal economic situation. Many challenges face us as Michigan undergoes the sometimes-painful change from a manufacturing economy to a knowledge-based economy. Unemployment is still at unacceptably high levels. We face record foreclosures. Now more than ever, each and every action we take today directly affects tomorrow. The task set before us is monumental but accomplishable. It's time to set Michigan on the path to the future.

We need to continue to not only provide safe and affordable housing through homeownership and rental programs, but we must also address homelessness and supportive housing for our populations most at risk. Because of the daily work by dedicated MSHDA staff, vibrant cities and neighborhoods are beginning to reemerge throughout the state. As a result, a 'sense of place'—a feeling of investment and deep belonging—is growing and expanding. It is a feeling we are working tirelessly to encourage.

We have formed important partnerships that have helped expand our mission to improve the quality of life for all Michigan residents. As a result of these partnerships, MSHDA manages a portfolio exceeding $3 billion—a portfolio that allows us to dynamically and strategically invest in our state's future.

This has been a monumental year for the MSHDA Housing and Homeless Initiatives division. The division provided help to 79,000-plus homeless residents, many of them children and families. Michigan's Campaign to End Homelessness works hand in hand with 60 local groups and a number of state agencies. The goal is bold and direct—putting an end to homelessness in Michigan by 2016.

The story MSHDA has to tell is the story of Michigan entering the 21st century. It is also the story of diligently and fairly bringing our resources to bear in every corner of the state. We continue to look for and find good in the enormous changes this state is going through. We intend to be a part of that economic transition to thriving, vibrant communities and a thriving, vibrant Michigan.

Grand Ledge, Michigan

Homeownership

Single Family Mortgage Loan Programs: Offers financing for fixed-rate, 30-year mortgages for homebuyers with low to moderate income. In 2008, this program financed 2,640 single-family units, representing a total investment of $264,181,644. The average purchaser of an existing home was 31 years of age, with an average income of $42,282. The average loan amount was $100,068. The 2008 goal was 2,500 units, a goal exceeded by 140 loans, due to progressive enhancements and streamlining of the process.

Refinance Programs: Thanks to 2008 legislation, for the first time in its history MSHDA is able to refinance qualifying inferior mortgages and replace them with safe and secure 30-year, fixed-rate mortgages.

Homeownership Counseling Network: In 2008, MSHDA established the most extensive counseling network in its history, with more than 300 homeownership counselors statewide. Built around the theme 'Before you miss a payment, make the call,' the Save the Dream campaign focuses on financial counseling for those facing foreclosure. Counselors guide homeowners through the steps necessary to prevent foreclosure, stay in their homes, communicate with their lenders regarding loan modifications, and other prevention issues. A toll-free Save the Dream hot line also has been established to direct each caller to trained counselors in the caller's area. The hot line receives thousands of calls every week.

In addition, homebuyer counseling services such as Homebuyer Education, Pre-Purchase Credit Repair, Financial Management and Home Maintenance Education are also available.

Affordable Housing

Multifamily Loan Programs: In 2008, the multifamily lending program financed $57,375,959 in loans. These loans made 14 developments possible, containing a total of 1,170 housing units. Another $82,567,595 in loans are committed and pending to 10 additional developments representing 1,368 additional units.

Low Income Housing Tax Credits: $21.1 million in federal Low Income Housing Tax Credits (LIHTC) was allocated to 38 developers in the fall LIHTC round. The credits will build more than 2,100 units of affordable rental housing for low- to moderate-income Michigan families, the elderly, people with disabilities, and those at risk of homelessness. These tax credits will also bolster the state's economy by creating approximately 3,200 jobs in construction and related trades.

Preservation: Preservation of affordable housing continues to be a top Authority priority. In 2008, 34 developments were preserved for affordable housing. Together with HUD and USDA-Rural Development, MSHDA is focused on providing creative and accessible tools to preserve affordable rental housing in Michigan, particularly in our urban centers and rural areas, creating vibrant and sustainable affordable rental housing for seniors and supportive-housing tenants. In 2008, MSHDA's Office of Asset Management hosted one of the most successful summits on this issue ever conducted in Michigan.


MSHDA HCV program family

Housing Choice Voucher Program: The Housing Choice Voucher (HCV) program helps the private rental market provide affordable, safe, and decent housing to Michigan's extremely low-income families. In 2008, 23,031 families participated in this program. The average age for the head of household was 46, and the average adjusted household income was $10,376. HCV assists residents who are living in single family or multifamily rental dwellings and paying between 30 percent and 40 percent of their gross income for rent. HCV also houses the Family Self-Sufficiency (FSS) and the Key to Own programs supporting homeownership. Both these programs promote and provide education and opportunities for families to become economically self-sufficient and end the cycle of assistance.

Housing Locator: In 2006, MSHDA's partnership with RentLinx created a Web site that allows easy access to a list of affordable rental housing in Michigan. Starting with just over 1,200 listings, more than 17,000 were listed in 2008. In November, viewings surpassed the 2 million mark. The Michigan Housing Locator is free to property managers and landlords, as well as to residents seeking affordable rental housing.

Building Standards/Green Building: MSHDA is taking the lead in addressing environmental issues by partnering with design professionals to create blueprints for energy-efficient affordable single-family housing. Green buildings make significantly more efficient use of energy, water, materials and land than buildings that are simply built to code. They create healthier working, learning and living environments. And, they are cost-effective for developers through reduced construction costs and by creating high-demand properties. Finally, these buildings save owners' money by reducing operating and maintenance costs, lowering utility bills, and increasing productivity.

Ending Homelessness

Housing Homeless Development Programs: Invested $6,487,000 in rental development grants to provide housing for Michigan's homeless population. This program demonstrates MSHDA's strong investments in new construction and rehabilitation of projects for the homeless. Funding comes from MSHDA reserves and a mandatory 25 percent local match. Loans are structured as a zero percent, non-amortizing repayable loan, although for every 10 years of successful operation, 25 percent of the loan is forgiven.

Homeless Grants: The Emergency Shelter Grant (ESG) program offers financial assistance to public and nonprofit organizations that respond to the needs of homeless populations through a Continuum of Care process. $5,000,000 was allocated to match and supplement HUD's ESG program. ESG funds can be used for shelter operation, essential services, prevention, or Continuum of Care coordination.

Boyne City, Michigan

Vibrant Cities & Neighborhoods

Community Development

Neighborhood Preservation Program: Vibrant neighborhoods are essential to create a strong sense of place. The Neighborhood Preservation Program (NPP) strives to boost the image, physical condition, and neighborhood management of target neighborhoods. By fostering pride in neighborhoods, entire communities can rise up. Since 1998, approximately $26,677,330 in grants/loans has been made in 33 communities across the state. Twenty-five grants have been made in Detroit and other Wayne County communities, 49 in medium to large cities, 15 in Upper Peninsula communities, and the balance in small towns. Each NPP grant produces housing units through new construction, rehabilitation of space for rental units (usually above downtown businesses), or purchase/rehab for resale. In addition, each project includes homeowner rehabilitation; beautification through banners, landscaping and/or neighborhood signs; and marketing activities to improve the image of the neighborhood.

Centers for Regional Excellence: Recently, nine community partnerships were selected to receive a Centers of Regional Excellence (CRE) grant from MSHDA's Office of Community Development. These awards, of up to $25,000 over two years, fund projects designed to create jobs, expand tourism and strengthen local communities. Created by the governor in 2006, the CRE program encourages local governments to work collaboratively to make their communities better places to live, work and play while streamlining government and saving taxpayer dollars.

Eastern Market, Detroit
Photo courtesy of Ellie Vanhoute

2007–2008 Fiscal Year Highlights

> MSHDA financed $323.1 million in loans.

> MSHDA distributed over $57 million in grants to 483 local governments and nonprofit organizations.

> 23,031 families received housing assistance through the federal Housing Choice Voucher program (Section 8).

> The multifamily lending program financed $57,375,959 in loans, representing 14 developments containing a total of 1,170 housing units.

> Homeless Housing Development programs awarded $6,487,000 in rental development grants to provide housing for the homeless and financed 2,640 single-family units, for a total investment of $264,181,644. The program also helped preserve older, existing housing through 131 loans, totaling $1,561,160 made to homeowners that met income limits. 50.4 percent of these loans were to borrowers over 45 years of age and 77 percent of the loans went to improve homes that were more than 40 years old.

> MSHDA allocated $15.2 million in tax credits to 43 developments, helping create 2,115 units of affordable housing.

> A total of 191 Michigan contractors gained skills in bidding and estimating, bookkeeping and finance, bonding and insurance, wage and labor issues, permits, business planning and marketing, and dealing safely with lead-based paint.

> The FSS program graduated 162 program participants, and the Key to Own Program closed on its 119th home.

> MSHDA-financed housing created 2,361 construction-related jobs that paid approximately $157 million in wages, and resulted in approximately $55 million in taxes paid.

Production Goals Record

FY 2008 (07/01/07 to 06/30/08)

Program	FY 2008 Goal		FY 2008 Closed		FY 2009 Goal	
Multifamily Direct Loans	$220,000,000	4,400 units	$57,375,959	1,170 units	$120,000,000	2,000 units
Modified Pass Through Loans	$0	0	$0	0	$55,000,000	1,030 units
Single Family Loans	$250,000,000	2,500 loans	264,181,644	2,640 loans	$300,000,000	3,000 loans
Property Improvement Loans	$2,300,000	180 loans	$1,561,160	131 loans	$2,500,000	200 loans
TOTAL	$472,300,000	7,080 loans	$323,118,763	3,941 loans	$477,500,000	6,230 loans

Michigan State Housing Development Authority: Management's Discussion and Analysis (Unaudited)

Michigan State Housing Development Authority (MSHDA) provides financial and technical assistance through public and private partnerships to create and preserve decent, affordable housing for low- and moderate-income Michigan residents. MSHDA was created under the terms of Act 346, Public Acts of Michigan, 1966, as amended. MSHDA is authorized to issue its bonds and notes to the investing public in order to create a flow of private capital through MSHDA into mortgage loans to qualified housing sponsors and to certain qualified individuals.

MSHDA offers a variety of programs to provide affordable housing opportunities, such as single-family lending, low-interest property improvement lending, multi-family lending, mortgage credit certificates, and pass-through obligations.

The enclosed financial statements present MSHDA's financial position, revenue, expenses, changes in net assets, and cash flows. The following is a condensed summary of financial information as of and for the years ended June 30, 2008, 2007, and 2006.

Condensed Financial Information (in thousands of dollars)

	2008	2007	2006
Assets			
Investments	$790,849	$553,626	$538,750
Loans receivable - Net	2,373,286	2,138,174	1,941,650
Other assets	409,893	187,794	354,442
Total assets	**$3,574,028**	**$2,879,594**	**$2,834,842**
Liabilities			
Bonds payable	$2,396,971	$1,785,202	$1,766,202
Other liabilities	496,631	442,088	448,634
Total liabilities	**$2,893,602**	**$2,227,290**	**$2,214,836**
Net Assets			
Restricted	$295,131	$266,612	$265,313
Unrestricted	385,295	385,692	354,693
Total net assets	$680,426	$652,304	$620,006

	2008	2007	2006
Revenue			
Net investment income	$69,875	$62,796	$55,964
Federal assistance programs revenue	458,951	414,460	395,952
Section 8 program administrative fees	14,388	13,154	13,464
Contract administration fees	8,253	7,678	6,834
Other income	13,905	20,478	16,320
Total revenue	**$565,372**	**$518,566**	**$488,534**
Expenses			
Federal assistance programs expenses	458,951	414,460	395,952
Salaries and benefits	25,226	23,718	21,568
Other general operating expenses	22,732	22,010	24,649
Other expenses	10,004	11,406	6,894
Total expenses	**$516,913**	**$471,594**	**$449,063**
Grants and Subsidies	**$20,337**	**$14,674**	**$15,844**
Change in Net Assets	**$ 28,122**	**$ 32,298**	**$23,627**

Financial Analysis

Total assets increased from $2.88 billion at June 30, 2007 to $3.57 billion at June 30, 2008. This was an increase of approximately $694.4 million, or 24.1 percent. Total assets increased from $2.83 billion at June 30, 2006 to $2.88 billion at June 30, 2007. This was an increase of approximately $44.7 million, or 1.6 percent.

Net loans receivable increased from $2,138.2 million at June 30, 2007 to $2,373.3 million at June 30, 2008. Loans receivable increased due to improved single-family mortgage (increase of $219.3 million) and multi-family mortgage (increase of $16.9 million) loan production. Net loans receivable increased from $1,941.7 million at June 30, 2006 to $2,138.2 million at June 30, 2007. Loans receivable increased due to a single-family mortgage loan balance increase of $114.2 million and multi-family mortgage loan increase of $86.3 million.

Bonds payable increased from $1,785.2 million at June 30, 2007 to $2,397.0 million at June 30, 2008, a net increase of approximately $611.8 million. This increase was due primarily to MSHDA issuing $162.2 million of Rental Housing Revenue Bonds and $629.2 million of Single- Family Mortgage Revenue Bonds, while bond calls and scheduled debt service totaled $179.6 million. Bonds payable increased from $1,766.2 million at June 30, 2006 to $1,785.2 million at June 30, 2007, a net increase of approximately $19.0 million. This increase was primarily due to MSHDA issuing $224.4 million of Rental Housing Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled $206.9 million.

Escrow funds, which are recorded in other liabilities, increased by $47.4 million from a year earlier to $392.4 million at June 30, 2008 due to an increase in multi-family loans and increased investments. Escrow funds decreased by $2.2 million from a year earlier to $345.0 million at June 30, 2007 due to the prepayment of multi-family developments with large reserves.

MSHDA's net assets totaled $680.4 million at June 30, 2008, equal to 19.0 percent of total assets and 23.5 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2008, $295.1 million of net assets was pledged for payment against the various bond indentures. In addition, $148.0 million is designated by board resolution, represented by the Community Development Fund. MSHDA's net assets totaled $652.3 million at June 30, 2007, equal to 22.7 percent of total assets and 29.3 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2007, $266.6 million of net assets was pledged for payment against the various bond indentures. In addition, $162.1 million is designated by board resolution for the Community Development Fund.

Operating Results

Operations for the year ended June 30, 2008 resulted in excess of revenues over expenses of $28.1 million compared to prior year results of $32.3 million. Under the Governmental Accounting Standards Board (GASB) Statement No. 31, MSHDA is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net assets. This presentation increased revenue over expenses by approximately $6.2 million. Results for the year ended June 30, 2007 were negatively impacted by a decrease of approximately $356,000. Currently, GASB No. 31 has had a cumulative positive effect of $4.3 million on MSHDA's net assets; however, MSHDA generally intends to hold these securities to maturity. Operations for the year ended June 30, 2007 resulted in excess of revenues over expenses of $32.3 million, compared to prior year results of $23.6 million.

Net investment income increased from $62.8 million in 2007 to $69.9 million in 2008, an increase of $7.1 million. On November 16, 2005, MSHDA amended a $50 million investment with the Michigan Broadband Development Authority (MBDA) and agreed to writeoff approximately $13.7 million and record $5.1 million of previously unrealized interest income on the MBDA investment, resulting in a negative impact of $8.6 million in net investment income for June 30, 2006. In the agreement, MBDA assigned all principal and interest payments from all loans to MSHDA. Net investment income increased from $56.0 million in 2006 to $62.8 million in 2007, an increase of $6.8 million.

Total revenue increased from $518.6 million for the year ended June 30, 2007 to $565.4 million for the year ended June 30, 2008, a net increase of $46.8 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $44.5 million, the increase of net interest income of $7.1 million, partially offset by a decrease of $7.5 million in preservation fees. Under the preservation program, MSHDA receives a portion of excess reserves of multi-family developments and the developments' owners. Based on an agreement, the owners are permitted to borrow a portion of the excess revenue if they preserve the developments for occupancy by low-income families. The preservation fees are realized based on the timing of the agreements. Total revenue increased from $488.5 million for the year ended June 30, 2006 to $518.6 million for the year ended June 30, 2007, a net increase of $30.1 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $18.5 million, the increase of net interest income of $6.8 million, and an increase in preservation fees of $4.0 million.

Total operating expenses increased from $471.6 million for the year ended June 30, 2007 to $517.0 million for the year ended June 30, 2008, a net increase of $45.4 million. Total operating expenses increased due primarily to an increase in the federal assistance programs of $44.5 million. Total operating expenses increased from $449.1 million for the year ended June 30, 2006 to $471.6 million for the year ended June 30, 2007, a net increase of $22.5 million. Total operating expenses increased due primarily to an increase in federal assistance programs of $18.5 million and an increase in the provision for possible losses on loans of $4.6 million.

Michigan State Housing Development Authority

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