



**Rental Development**

**NOTICE OF FUNDING AVAILABILITY**

**And  
General Guidelines  
For**

**Gap Financing Program**

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**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 tax-exempt bond funded 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.

In an effort to improve direct lending production, MSHDA is again making available a combined total of approximately \$18 million of MSHDA HOME and Preservation Funds to its Rental Development division to be exclusively utilized in the Gap Financing Program. Participation in the Gap Financing Program requires the applicant to also obtain tax-exempt bond funded permanent financing from MSHDA. **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 or both 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. A minimum of fifteen percent of the Authority's annual HOME allocation will be set-aside for CHDO eligible proposals. All other terms of the Gap Financing Program apply to the CHDO proposals.

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 TIMELINE**

<b>April 1, 2016.....</b>	Release of NOFA
<b>August 1, 2016.....</b>	Preliminary Assessment package due
<b>September 1, 2016.....</b>	Applicants invited to submit Threshold package
<b>October 17, 2016.....</b>	Threshold Review package due
<b>November 22, 2016.....</b>	Threshold rankings released
<b>December 22, 2016.....</b>	Commitment Review package due
<b>February 3, 2017.....</b>	Commitment Awards of Gap-Funding announced
<b>Next Board Meeting.....</b>	MSHDA Board Presentation/Decision
<b>Within 90 days.....</b>	All awardees made have closed on all financing

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**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 funding loans will be made as subordinate loans and will bear simple interest at 3% annually. Gap funding loans are typically made with a 50 year term. Annual payments equal to 50% of surplus cash available for distribution to the owner are generally required; however, so long as the mortgagor elects to apply available surplus cash to the payment of any deferred development fee, payments will be deferred until the earlier of the year in which all the deferred development fee has been paid, or 12 years. Beginning at the earlier of the year in which the deferred development fee has been paid in full, or in the 13<sup>th</sup> year from the beginning of amortization of the first mortgage loan, annual payments from 50% of any surplus cash available for distribution to the owner will be required.

If there are multiple MSHDA gap funding loans, the priority of such loans will be established in the MSHDA staff report and payments on the lower priority MSHDA gap funding loans will be deferred for so long as the primary MSHDA gap funding loan is receiving payments from 50% of surplus cash available for distribution. Upon payment in full of the first mortgage loan, the outstanding balance of the primary MSHDA gap funding loan, including accrued interest, will become the new first mortgage loan and will begin amortization with monthly mortgage payments equal to the payments made under the original first mortgage loan. At such time as the primary MSHDA gap funding loan begins receiving monthly amortization payments as described in the preceding sentence, annual payments on the lower priority MSHDA gap funding loan (if any) will be required in the amount of 50% of any surplus cash available for distribution. If the lower priority MSHDA gap funding loan remains outstanding after both the original first mortgage loan and primary MSHDA gap funding loan have been repaid, the outstanding balance of the lower priority MSHDA gap funding loan, including accrued interest, will become the new first mortgage loan and will begin amortization with monthly mortgage payments equal to the payments made under the original first mortgage loan.

All payments made on MSHDA gap funding loans will be applied first to accrued interest, then to current interest and principal. The entire balance of principal and all interest on MSHDA gap funding loans is due at the earliest of (i) sale of the development; (ii) prepayment or refinancing of the first mortgage loan; or (iii) 50 years after initial closing.

**IV. ALLOCATION PROCESS**

The allocation process will consist of six phases as described in the MSHDA Multifamily Direct Lending Parameters (Lending Parameters). The phases are: 1) Preliminary Assessment; 2) Threshold Review; 3) Commitment Review; 4) MSHDA Board Consideration; 5) Pre-Closing; and 6) Initial Closing. The staged approach is being employed in order to ensure that MSHDA's staffing resources are utilized as efficiently as

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possible, and to limit potentially unnecessary costs to the applicants. The minimum amount of any MSHDA gap funding loan will be \$1,000 per unit in the development. The maximum amount of any MSHDA gap funding loan will not exceed the lesser of (1) the equity gap as determined by MSHDA, (2) the amount of the permanent tax-exempt bond loan, or (3) program limits imposed by applicable state or federal regulations associated with a specific funding source. Moreover, the maximum amount of MSHDA loans that are outstanding at any time with respect to any one project shall not exceed 90% of the total development cost. (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, under this funding round of the Gap Financing Program a minimum capital contribution/deferred developer fee/reduced developer fee from the sponsor may be required based on a certain percentage of the soft-to-hard debt ratio as follows:

<b>Minimum Capital Contribution/Deferred Developer Fee/Reduced Developer Fee Requirement</b>	<b>Soft-to-Hard Debt Ratio</b>
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 will be applied against the minimum sponsor funding requirement. In addition, any existing MSHDA repayable rent subsidy loans being repaid with MSHDA gap funding will not be counted within the soft-to-hard debt ratio ranking calculation. The Authority may consider not counting other payments due to the Authority against the ratio when unique circumstances allow, as long as the total gap funding used does not exceed the 1:1 soft to hard debt ratio.

Additionally under this funding round, for developments planning to serve a percentage of market rate units the sponsor will be required to make an additional contribution of either additional deferred developer fee, hard equity contribution, or some combination of them. The amount of the additional contribution is based on the percentage of affordable units planned as shown in the table below. The surplus caused by this calculation will go to reduce the amount of Gap Funding.

<b>Additional Capital Contribution/Deferred Developer Fee/Reduced Developer Fee Requirement</b>	<b>Percentage of Affordable Units</b>
15% of Total Developer Fee	20.00% - 49.99%
10% of Total Developer Fee	50.00% - 69.99%
5% of Total Developer Fee	70.00% - 79.99%
0% of Total Developer Fee	80.00% - 100.00%

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**A. Preliminary Assessment**

All sponsors interested in applying for gap funding must submit a Preliminary Assessment package (available on MSHDA's website at <http://www.michigan.gov/mshda>) no later than the close of business on Monday, **August 1, 2016**. The completed Preliminary Assessment application and required supporting documentation should be submitted to:

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

The Preliminary Assessment phase 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. 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.

No proposal will be accepted so long as any member of the sponsor's development team or any other party who, directly or indirectly, has the ability to control a member of the development team or exercise significant influence over a member of the development team in making financial and operating decisions:

- a. Is in default or in material non-compliance with the LIHTC or any other MSHDA program;
- b. Has outstanding flags in HUD's national 2530 National Participation system; or
- c. Has been debarred or suspended from any MSHDA, HUD, or Rural Housing programs.

In addition, a history of defaults or material acts of non-compliance, even if none is currently outstanding, may preclude acceptance of a proposal until appropriate assurances of the development team member's ability to comply is given.

***Applicants will have the opportunity to appeal Preliminary Assessment findings.***

All appeals must follow the appeal process as detailed within the Lending Parameters. All appeals must be received within 10 business days of receipt of MSHDA staff's original Preliminary Assessment decision. (See appeal process in Section IV, D of the Lending Parameters)

**B. Threshold Review:**

During this phase 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.

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During this phase applications 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 Commitment Review 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 of intent is unreasonable based on current market conditions, MSHDA may use an alternative equity pricing that is more indicative of current market conditions.

**C. Commitment Review:**

During this phase 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. MSHDA Board Consideration:**

Projects provided commitment level approval by the MSHDA Loan Committee will be presented to the MSHDA Board for commitment. Projects approved by the MSHDA Board will move to the Pre-Closing phase. All NOFA proposals must close within 90 days of MSHDA Board approval or risk having their gap funding award rescinded.

**E. Pre-Closing:**

During this phase the sponsor must submit all Initial Closing Processing exhibit documents under MSHDA's Addendum IV Exhibit Checklist. MSHDA staff and the development team will work to resolve all conditions to closing contained in the MSHDA staff report. Loan documents are prepared by MSHDA's Legal Affairs Division and documentation relating to all other sources of funding, including syndication partnership documents, must be prepared and submitted to MSHDA. Once all MSHDA internal approvals (MSHDA Form CD 700s) are submitted to MSHDA's Legal Affairs Division, the MSHDA loan commitment will be finalized and circulated for execution.

Upon receipt of the fully executed loan commitment, the date of the loan document closing will be set (generally, within 10 business days of full execution of the MSHDA loan commitment) and an Attorney General loan review package will be sent to the Attorney General's Office for review. Following acceptance of the MSHDA loan commitment and delivery of the Attorney General's loan review package, no substantial changes in the terms of the loans or loan documents will be considered.

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**F. Initial Closing:**

At the initial closing, the development team will submit any and all remaining items required for initial closing and the loan documents will be executed. If, following execution of the documents, conditions to closing the loans remain, the MSHDA staff attorney will prepare an escrow agreement. Upon fulfillment of all required conditions, including receipt of all required equity for initial closing, receipt of the title insurance policy and endorsements (or a marked-up commitment) and approval of the initial application for disbursement by MSHDA staff, the loans will be closed and funding of the project will commence. At this time, a preconstruction meeting will also be scheduled, typically, for a date no more than 10 business days after the initial disbursement of funds.

**V. EVALUATION CRITERIA**

All applications 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
- b. Level of per unit gap financing needed to complete the project
- c. Tax-exempt bond financing supported by the project

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 requirements of the 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.

CHDO proposals will compete against each other for the Set Aside amount as well as in the overall funding round itself. CHDO proposals with the highest final ranking whose aggregate total funding does not exceed the amount of the HOME funding available under Set-Aside, will be presented to the MSHDA Board for commitment/gap funding award approval.

If multiple CHDO proposals apply, and the gap amount requested from the CHDOs exceeds the amount under the Set-Aside, MSHDA may choose to make additional gap funding available in order to meet their CHDO funding requirement. Once the Set-Aside is met, any remaining lower ranking CHDO proposals in the round would have to rank greater than those under the non-set-aside round of the NOFA to receive an award.

If no CHDO proposals apply or those that do are not acceptable, and/or if any Set-Aside funding remains un-awarded, the un-awarded HOME set aside will be made available first to any CHDO proposals seeking HOME funding under the 9% PSH Set-Aside. If any HOME Set-Aside remains from there MSHDA may choose to take other routes to meet the CHDO requirements.