MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Interested parties

FROM: Andrew Martin, Director of Development
Chad Benson, LIHTC Allocations Manager

DATE: May 31, 2017

RE: Further guidance on proposed strategies to address equity market uncertainty

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On April 21, 2017, MSHDA issued a memorandum that outlined the four basic strategies that would be employed for those developments that are currently in the LIHTC pipeline, but have been hindered by the uncertainty in the LIHTC equity markets. Those strategies consisted of:

1. Allowing more time through offering extensions of project deadlines
2. Offering a 130% basis boost for those October 2016 projects not needing additional credit
3. Offering additional credit for those projects originally funded in the April 2016 and October 2016 Funding Rounds, and
4. Reviewing project changes for those projects where additional credit is not a feasible alternative or is not enough of a solution to create feasibility

At this point in time, MSHDA is well into the process of amending the 2017-2018 Qualified Allocation Plan ("QAP") to create the ability for projects in the April 2016 and October 2016 funding rounds to apply for additional credit. Being posted to MSHDA's website concurrently with this memo is the draft amendment to the 2017-2018 QAP that will be presented to the MSHDA Board for approval at its June 7, 2017 meeting. Additionally, MSHDA is also issuing this memorandum to provide additional guidance to address some of the remaining details surrounding the other three strategies noted above.

TIME

MSHDA will review and offer extensions of project deadlines, including potential exchanges of credit, in order to allow more time for those projects that have an equity provider committed to the project, but need more time to close as a result of any delays that have occurred because of the equity market uncertainty. As existing projects assess the impact of the reduction in credit pricing and find acceptable solutions to move forward, it is anticipated that a number of projects may potentially be in a position where an extension of time or an exchange of credit may be necessary. MSHDA will review requests for an extension of time or exchange of credit on a case-by-case basis to determine the need for the extension or exchange of credit. MSHDA is willing to consider any and all requests for an extension of time or exchange of credit in order to assist projects in getting completed; however, in order to receive an extension of time or exchange of credit, a project must demonstrate that there is a committed equity provider that is moving towards closing the project and that all other funding sources are in place. In this sense, MSHDA wants to encourage development to happen by offering extensions of time or exchanges of credit, but does not want to keep credits tied up in projects that do not have the ability to move forward expeditiously. Further, any projects that were awarded in the

April 2016 Funding Round or the October 2016 Funding Round that request an exchange of credit, may be subject to a reduced fee of 3% of the annual credit amount allocated to the project. All other fees as outlined in the 2017-2018 QAP and fee schedule located in Tab W of the Combined Application will remain intact.

130% BASIS BOOST

Some projects in the pipeline have the opportunity to conduct value engineering or undertake other efforts in order to reduce project costs. This presents a unique solution for those projects that were awarded as part of the October 2016 funding round and which only received a 110% basis boost or a 120% basis boost. Projects with this set of facts can potentially create value by reducing costs if they can do so without reducing their qualified basis that ultimately determines their final credit amount.

To assist with this, MSHDA will consider awarding up to the higher 130% basis boost for only those projects from the October 2016 round, without allocating additional credit, which would allow the opportunity for owners that are able to find a way to reasonably reduce their project costs to still be able to receive the same credit as was previously received and help close the funding gap. MSHDA will review these requests on a case-by-case basis, with the intention of approving the 130% boost in situations where it can be demonstrated that the project needs the additional boost in order to be financially feasible and fill a funding gap. It should be noted that if a project is applying for the 130% basis boost without requesting additional credit, the project will not be required to demonstrate that they have an owner/developer contribution equivalent to 50% of the developer fee. However, in its review, MSHDA will need to make the determination that the 130% basis boost being requested is necessary for the feasibility of the project. In making this determination, MSHDA will utilize the trending assumptions and project expenses that were originally in place at the time when the project was originally awarded credit. If it is determined by MSHDA that the project is feasible without the 130% boost, the request for the 130% boost may be rejected.

PROJECT MODIFICATIONS

As mentioned in the April 21, 2017 memorandum, certain projects have characteristics that could be modified to allow the project to work better with reduced equity pricing and use fewer additional resources from MSHDA or other entities that already have constraints on available funding. Such modifications could potentially impact the competitive score a project received when the LIHTC award was made and reduce the effectiveness of the project in achieving the various mission-oriented objectives of the QAP.

In order to strike a good balance between allowing flexibility, achieving mission-based objectives, and maintaining the integrity of the competitive nature of the process, MSHDA is prepared to consider requests for project modifications under the following circumstances:

1. The project must demonstrate that it has a committed LIHTC investor at an equity amount that makes the project feasible with the requested changes.
2. The project must demonstrate that all other needed funding sources are committed to the project and the necessary steps have been taken to move to a closing on those sources.
3. The project must demonstrate that the timeline for applying for and utilizing additional credit (the additional credit funding round is anticipated to be July 17, 2017) is not feasible for the project. In order to demonstrate this, the project must be able to demonstrate that all necessary funders/parties are planning to close prior to when additional credit awards would be made from the July 17, 2017 Funding Round.
4. If the requested project modifications result in the project losing points to the extent that with its revised point total it would not have originally been in a position to receive an award of

credit, then the owner/developer will be required to demonstrate that a monetary contribution from the owner/developer equal to 50% of the eligible developer fee is being contributed to the project in order for the revised modifications to be considered. This monetary contribution can include:

a. An owner/developer capital contribution or developer note that is given to the development
b. The developer choosing to forgo part of the developer fee in order to reduce the amount of credit needed
c. The developer deferring 50% of the eligible developer fee
d. MSHDA acknowledges that there are likely other ways that owners/developers will be able to demonstrate that they are making a monetary contribution to the project and will review those proposals on a case-by-case basis.

PLEASE NOTE: MSHDA also understands that as projects move to a closing, there is some need for flexibility as the numbers sometimes change at the last minute. If, after the project closes, it is determined that the owner/developer has not actually deferred at least 45% of the developer fee or made an equivalent monetary contribution to the project in that amount, the owner/developer and related parties may be subject to negative points in future funding rounds. Projects that receive an increase in equity pricing as they move to a closing and are concerned that this will result in a deferred developer fee at closing of less than 45% should contact MSHDA in order to either return a portion of their credit allocation or reinstate some of the former mission-based objectives of the project so that the owner/developer contribution remains intact and meets requirements. Additionally, if a project receives additional funding from other sources and no longer needs the project modifications, the Applicant can work with MSHDA to reinstate the original scoring commitments, and will no longer be required to defer a certain percentage of their developer fee.

5. Projects that are requesting modifications which, in aggregate, would not have caused the project score to drop below a point where it would have been originally funded can request those changes and they will be reviewed by MSHDA on a case-by-case basis. In situations such as this, MSHDA will not require an owner contribution equal to 50% of the developer fee. However, in its review, MSHDA will need to make the determination that the modifications being requested are necessary for the feasibility of the project. If it is determined by MSHDA that the project is feasible without the requested modifications, the changes may be rejected.

MSHDA has developed the above strategies and guidance based on specific examples involving transactions impacted by the equity market decline as well as feedback provided by the affordable housing development community. MSHDA remains committed to undertaking efforts to assist projects where possible and within reason to remain feasible despite the market fluctuations that have occurred. Owners of projects impacted by the current market that have specific questions relating to the items above, additional comments, or other items that have not yet been discussed, are encouraged to contact MSHDA staff to discuss.