MICHIGAN
HOUSING COUNCIL

MEMORANDUM

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LOW INCOME HOUSING TAX CREDIT

FROM: Michigan Housing Council

TO: Chad Benson, LIHTC Allocations Manager
Michigan State Housing Development Authority (MSHDA)

RE: Recommendations for the 2021-2022 QAP

DATE: February 6, 2020

INTRODUCTION

The Michigan Housing Council (MHC) is the longest-serving statewide association of affordable housing professionals in the United States. Our membership is diverse and represents a wide spectrum of affordable housing stakeholders. We have identified two topics that impact our members and we believe MSHDA should address in the 2021-2022 Qualified Allocation Plan (QAP): (1) the market study process, and (2) the gatekeeper process for the pass-through short-term bond program. In addition to these two proposed revisions, we encourage MSHDA to maintain certain policies contained in the current QAP: (1) experience requirements, (2) the importance of credit efficiency, and (3) the current policy regarding nonprofit participation.

PROPOSED REVISIONS

1. Market Study Process

ISSUE: MSHDA interprets the conclusion of market studies resulting in subjective recommendations that are often inconsistent with the data and conclusions contained in the study.

RECOMMENDATION: For LIHTC projects without MSHDA financing, MSHDA should rely on the conclusion of the market study instead of imposing its own interpretation of the facts on a project.

BACKGROUND: As with other third-party reports, MSHDA publishes specific criteria that market analysts must follow when conducting a market study. Further, MSHDA selects the market study firm for each proposed and sets the price (that the developer pays). The market study process is carefully controlled by MSHDA in order to ensure consistent results and limit developer influence over the market analyst. Since MSHDA controls the market study process, market study conclusions should stand alone and should not be subject to additional analysis and interpretation by MSHDA.

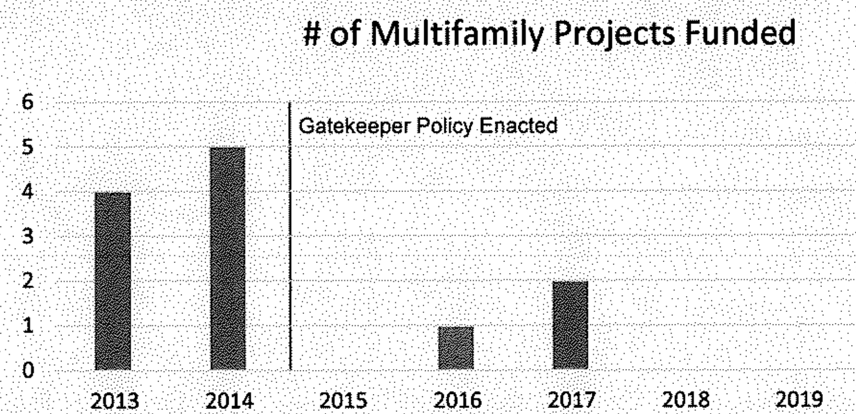
2. Eliminate The Gate Keeper For Pass-Through Short-Term Bond Program

ISSUE: For a project to be eligible to apply for the Pass-Through Short-Term Bond Program, it must first be submitted to MSHDA in order to evaluate whether the project is likely to be competitive under the MSHDA Gap Financing Program. If MSHDA determines that the project appears to be a strong candidate for the Gap Financing Program, the project must be completed using the Gap Financing Program and is ineligible for the Pass-Through Short-Term Bond Program.

RECOMMENDATION: MSHDA should eliminate this gatekeeper function to increase the participation in the Pass-Through Program and reduce the burden on the Gap Financing Program.

BACKGROUND: Bonds issued to finance a development are a limited obligation of MSHDA; the bonds are not secured by the MSHDA's capital reserve capital account; and the bonds are not backed by the moral obligation of the State of Michigan. Instead, the bonds are secured by the revenues of the borrower, the real and personal property being financed, and a form of credit enhancement acceptable to the Authority. Projects are typically refinanced within 36 months following the issuance of the bonds through the use of a Federal Housing Administration (FHA) insured Ginnie Mae (GNMA) mortgage or other similar financing source. The refinancing occurs after construction or substantial rehabilitation of the development has been completed – at which time the program bonds are redeemed in whole.

The current Pass-Through Short-Term Bond Program has been in place since 2012. Within the first two years of the program, MSHDA awarded credits to nine multifamily projects resulting in more than 1,300 developed affordable units. In 2014, MSHDA enacted a 'gatekeeper policy' requiring all Pass-Through applications to be evaluated by MSHDA prior to making application in the Pass-Through Program. Since 2014, only three multifamily projects have been funded using the Pass-Through Program.



Under the gatekeeper policy, if MSHDA determines that a project is competitive in Gap Financing Program, that project is not allowed to participate in the Pass-Through Program, but instead must apply for MSHDA Gap Financing. At the same time, the Gap Financing program continues to be oversubscribed. In the most recent funding round, applicants requested $71 million in gap funds. Only $10.5 million was available.

According to the Michigan Department of Treasury[1], in 2020, MSHDA is expected to have access to nearly $1.5 billion in bond cap[2]. Approximately $446 million of that has been carried forward from unused bond cap from 2018 and 2019.[3]

Given the current affordable housing crisis, MSHDA should eliminate the gatekeeper requirement for Pass-Through projects and allow developers to pursue the most competitive financing options in the market. This will increase the production of affordable housing units in the state while at the same time have no change to the annual production of housing through the Gap Financing Program which is oversubscribed seven to one.

SUPPORT FOR EXISTING MSHDA POLICIES

1. Experience

The MHC encourages MSHDA to maintain its current method of measuring developer experience. We believe that strong developer experience results in stronger deals. MSHDA's current policy recognizes this yet encourages inexperienced developers to participate in the LIHTC program by partnering with qualified developers to gain the experience required to successfully execute a project. Any changes that relax the threshold for achieving experience points will result in increased project risk.

2. Credit Efficiency

The MHC encourages MSHDA to continue to adopt policies that encourage credit efficiency. Scare resources should be protected by rewarding developers for efficient use of the same.

3. Nonprofit Participation

The current QAP does not award points for nonprofit participation in a transaction. The MHC supports the continuation of this policy. If two otherwise identical projects are submitted to MSHDA, one by a for-profit developer and one by a nonprofit developer, there should be no preference or advantage to one deal over the other. Nonprofit participation does not necessarily result in lower interest rates or higher equity pricing, nor is the developer fee less than that of a for-profit developer. Additionally, awarding points for nonprofit participation does not increase the production of affordable housing nor result in stronger deals. Therefore, MSHDA should continue its current policy.

It should be noted that the nonprofit members of the MHC do not support this position.

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[1] Based on our conversation with Graham Davidson in the State and Authority Finance Division at the Michigan Department of Treasury on January 17, 2020.

[2] Treasury estimates $1.05 billion in bond cap for 2020. This bond cap is available to the three allocating agencies on a first-come, first served basis. Unused bond cap at the end of the year has historically been allocated equally among the three agencies: Michigan Strategic Fund (MSF), Student Loans, and MSHDA. However, Student Loans have not used any bond cap for the past three years. As such, unused 2019 bond cap was allocated equally between MSF and MSHDA. In 2020, Treasury expects no Student Loan bond activity. Additionally, as of January 1, 2020, MSF has approximately $1 billion in unused bond cap from 2017, 2018 and 2019. Treasury requires bond cap that has been carried forward from previous years to be used prior to allocating bond cap from the current year. This means that MSF must use all of its $1 billion bond before it can request bond cap from 2020, meaning most, if not all of the $1.05 billion 2020 bond cap is available to MSHDA.

[3] Bond cap can be carried forward for three years. If unused after three years, the bond cap is permanently lost.