



Rental Development

NOTICE OF FUNDING AVAILABILITY

**And
General Guidelines
For**

HOME/MRF Gap Financing Program – Round 13

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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. These development proposals will however be subject to at least maintain the processing timeline associated with the next scheduled NOFA timeline.

In addition, this funding round will be limited to an \$8 million cap, and we will not commit to funding all proposals that may achieve a soft to hard debt ratio of 20% or less as in previous rounds. All proposals will compete based on the evaluation criteria in Section V below.

All application packages are to be submitted electronically on or before the due date identified in Section II below. To submit application package electronically, please complete and submit the form located at the following link to set up a file. [Electronic Application Set up](#). Upon hitting "Submit" on the form an email response will be sent to you with instructions for uploading your electronic files.

I. INTRODUCTION

In an effort to maintain/improve direct lending production, MSHDA plans on making available a total of approximately \$8 million of MSHDA HOME and Tax Credit Assistance Program (TCAP) funds to its Rental Development division to be exclusively utilized in Round 13 of the HOME/MRF Gap Financing Program. Participation in the HOME/MRF 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.

Applicants will be competing for the gap funding allocation based on the evaluation criteria identified in Section V below, with the highest consideration given to those projects with the lowest soft to hard debt ratio.

It is anticipated that the funds will be committed and closed over 6 to 12 months per round. This NOFA describes what types of projects will be eligible and the allocation process through which these funds will be awarded.

II. PROJECTED FUNDING ROUND TIMELINE

Round 13:

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|---|---|
| October 2, 2020 | Release of NOFA |
| December 1, 2020 | Notice of Intent to Apply package due |
| February 1, 2021 | Intent to Apply rankings released, and applicants invited to submit application |
| March 1, 2021 | Capital Needs Assessment (CNA) orders, and Market Study orders due |
| May 14, 2021 | Application Submission package due |
| July 15, 2021 | Application rankings released |
| September 1, 2021 | Commitment Review package due |
| Within 90 days | MSHDA Board presentation/decision |
| Within 90 days of Board Approval | Initial Closing on all financing |

STRICT ADHERENCE TO THE ABOVE TIMELINE IS REQUIRED FOR A DEVELOPMENT IN THE NOFA TO REMAIN ELIGIBLE FOR GAP FUNDING. ANY DEVIATION FROM THE ABOVE TIMELINE MAY 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 with the HOME Loan bearing simple interest at 1% annually, and the TCAP Loan bearing simple interest at 1% 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, payments will be deferred until the earlier of the year in which the sum of all surplus cash available for distribution¹ has equaled the amount of the deferred development fee, or 12 years. Beginning at the earlier of the year in which the sum of all surplus cash available for distribution equaled the amount of the deferred development fee, or in the 13th year from the beginning of amortization of the first mortgage loan (or, in the case of certain PSH loans where there is no permanent first mortgage loan, the 13th year from initial disbursement of MSHDA gap funding loan proceeds), 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

¹ MSHDA will not require that all surplus funds pay for deferred fee, but rather it will all be counted against paying off the deferred fee, whether they use the surplus cash for that or something else.

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 phases as described in the MSHDA Multifamily Direct Lending Parameters (Lending Parameters). The phases are: 1) Notice of Intent to Apply; 2) Application Submission; 3) Commitment Review; 4) MSHDA Board Consideration; 5) Pre-Closing; 6) Initial Closing; 7) Construction; and 8) Final Closing. The staged approach 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.

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, 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:

| 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 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, where the amount of gap funding per affordable unit exceeds \$100,000, further consideration may be made by the Authority's Loan Committee as to whether an additional contribution by the sponsor will be required. The additional contribution would not exceed the equivalent of a 15% deferred development fee. If required, the additional contribution will be used to reduce the amount of MSHDA's gap funding.

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 needing the least amount of MSHDA 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.