



**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 direct-lending activities generate a significant source of income for MSHDA which allows the agency to make available to Michigan’s citizens a number of other critical non-income producing programs. Decreased investment in 4% Low Income Housing Tax Credits (LIHTC) over the past couple of years has curtailed MSHDA’s direct-lending production, hindering MSHDA’s ability to provide funding for other, mission-oriented programs.

In an effort to improve direct-lending production MSHDA is making available a combined total of approximately \$18 million of MSHDA HOME and Preservation Funds to its Rental Development division to be exclusively utilized as gap financing for the “4% LIHTC Direct Lending Program.” **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 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.

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**

**July 15, 2014.....** Release of NOFA  
**October 15, 2014.....** Preliminary Assessment package due  
**November 13, 2014.....** Applicants invited to submit Threshold package  
**January 15, 2015.....** Threshold Review package due  
**February 19, 2015.....** Threshold rankings released  
**March 19, 2015.....** Commitment Review package due  
**April 23, 2015.....** Commitment Awards of Gap-Funding announced  
**Next Board Meeting.....** MSHDA Board Presentation/Decision  
**Within 90 days.....** All awards made have closed on all financing

**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 financing loans will be made as subordinate loans and will bear simple interest at 3% annually. Payments on the loan will be deferred until deferred developer fees have been repaid, but no later than the end of the 12th year after the date of initial disbursement of the mortgage loan. Interest will continue to accrue over this period. The balance of principal and all interest shall be due at the earlier of sale of the development, refinancing of the mortgage loan, or 50 years after closing.

Beginning at the earlier of the year in which the developer fee has been paid in full or in the 13th year from the date of disbursement of the mortgage loan, repayment of the subordinate loan will be made from fifty percent (50%) of any surplus cash available for distribution, applied first to accrued interest, then to current principal.

Following repayment of the first mortgage loan, the outstanding balance of the subordinate loan will become the new first mortgage with monthly mortgage payments equal to the payments under the original first mortgage.

### **IV. ALLOCATION PROCESS**

The allocation process will consist of four stages. The stages are: 1) Preliminary Assessment; 2) Threshold Review; 3) Commitment; and 4) Loan Closing as described below and in MSHDA's Tax-Exempt and Taxable Lending Parameters. 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. MSHDA reserves the right to limit the amount of gap funding on any one proposal to no more than the projected permanent Tax-Exempt debt. Therefore, it is anticipated that the amount of gap funding will not exceed a 1:1 ratio of soft-to-hard debt. (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 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, and/or the additional equity generated by MSHDA's Equity Bridge Loan, will be applied against the minimum sponsor funding requirement.

**A. Preliminary Assessment**

Applicants must first 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, **October 15, 2014**. 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 stage 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 (see MSHDA's Tax-Exempt & Taxable Lending Parameters for further description of the Preliminary Assessment stage). Proposals accepted for further processing, based on these 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. Has been determined to have recurring problems with a history of 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 Tax-Exempt and Taxable Lending parameters. All appeals must be received within 10 business days of receipt of MSHDA staff's original Preliminary Assessment decision.

#### **B. Project Threshold Review:**

During this stage 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.

All applications submitted during the "Project Threshold Review" phase 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 Project Commitment 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 is unreasonable based on current market conditions, MSHDA may use an alternative equity pricing that is more indicative of current market conditions.

#### **C. Project Commitment:**

During this stage 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 proposal final rankings will not be open to appeal. Additionally, there will be no upward modifications of gap financing award amounts following Board approval.***

**D. Loan Closing:**

Proposals must close within 90 days of Board approval or risk having their gap funding award rescinded. All repeals of gap financing awards will be made at the discretion of MSHDA staff.

**V. EVALUATION CRITERIA**

All applicants 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 MSHDA Direct 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.