



Rental Development

NOTICE OF FUNDING AVAILABILITY

**And
General Guidelines
For**

Gap Financing Program – Round 16

TABLE OF CONTENTS

| | | |
|------|---------------------------------------|---|
| I. | IMPORTANT NOTICE..... | 3 |
| II. | INTRODUCTION..... | 3 |
| III. | PROJECTED FUNDING ROUND TIMELINE..... | 4 |
| IV. | FINANCING TERMS..... | 4 |
| V. | ALLOCATION PROCESS..... | 5 |
| VI. | EVALUATION CRITERIA | 6 |
| VI. | CHDO SET-ASIDE..... | 7 |

I. Important Notice:

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. 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 the application package electronically, please complete and submit the form located at the following link to set up a file. <https://forms.office.com/g/dX6yQX2ha2> Upon hitting "Submit" on the form an email response will be sent to you with instructions for uploading your electronic files.

Gap Funding applicants will be ranked in accordance with the criteria outlined below to compete for the limited Gap Funding resources that are being made available. Proposals that require gap funding in excess of 30% soft-to-hard debt ratio will not be considered for funding.

Applicants will also be incentivized to designate units at 30% of AMI and receive Housing Trust Funds. See Section V below for details.

II. INTRODUCTION

In an effort to maintain direct lending production and achieve deeper income targeting, MSHDA will make available MSHDA HOME and Housing Trust Fund (HTF) resources (collectively referred to as "Gap Funding") to be utilized in Round 16 of the Gap Financing Program. Participation in the Gap Financing Program requires the applicant to also obtain tax-exempt bond funded permanent financing from MSHDA. In Round 16, MSHDA is planning to utilize up to \$9.5 million of HOME, and up to \$9.5 million of HTFs. Additionally, MSHDA reserves the right to use up to \$4 million in Mortgage Resource Funds (MRF) at its sole discretion where it is determined necessary to facilitate the financing of a development.

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.

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.

III. PROJECTED FUNDING ROUND TIMELINE

Round 16:

| | |
|---|--|
| June 30, 2022 | Release of NOFA |
| September 1, 2022 | Notice of Intent to Apply package due |
| October 3, 2022 | Intent to Apply rankings released, and applicants invited to submit application. |
| November 1, 2022 | Capital Needs Assessment (CNA) orders, and Market Study orders due. |
| January 6, 2023 | Application Submission package due |
| February 17, 2023 | Application rankings released |
| April 14, 2023 | 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.

IV. FINANCING TERMS

All HOME and HTF loans will be made as subordinate loans bearing simple interest at 1% annually. To the extent utilized, MRF resources are loaned at simple interest of 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, 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.

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. Also, should the development fee exceed \$2.1 million there will be no deferral period and repayment on the gap loan begins immediately.

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.

V. 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) thirty percent (30%) 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. 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% - 9.99% |
| 10% | 10.00% - 14.99% |

| | |
|-----|-----------------|
| 20% | 15.00% - 19.99% |
| 30% | 20.00% - 30.00% |

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 20% 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 at MSHDA's discretion. If required, the additional contribution will be used to reduce the amount of MSHDA's gap funding.

VI. 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.

NOTICE: A 2% decrease in the ratio of gap financing to hard debt (as outlined in item (a.) above) will be given to projects that designate a percentage of their units at 30% AMI as outlined below:

1. Projects without Project-Based Rental Assistance (PBRA):
 - a. Must designate 10% or more of the total units at 30% AMI to receive a 2% decrease in the soft-to-hard debt ratio.
 - b. HTF resources will initially be used to fill the gap for the HTF unit rents between the 30% AMI rent limit and the 60% AMI rent level approved by MSHDA Marketing. The amount of HTF resources necessary to fill the gap between the 30% AMI rent limit and the 60% AMI rent level approved by MSHDA Marketing will not be counted against the project's overall soft-to-hard debt ratio for NOFA ranking purposes. If the project needs more HTF gap resources over and above the HTF funding necessary to fill the gap between the 60% AMI rent level approved by MSHDA Marketing and the 30% AMI maximum rent limit, those additional HTF gap resources will be counted towards the soft-to-hard debt ratio for NOFA ranking purposes.

2. Projects with PBRA:

- a. Must designate 20% of the total units at 30% AMI to receive a 2% decrease in the soft-to-hard debt ratio.
- b. All gap funding resources (HOME, HTF, or MRF) will be counted towards the overall soft-to-hard debt ratio for NOFA ranking purposes.

Applicants should note that developments receiving federal funding may be subject to federal cross-cutting guidelines. Should the amount of MSHDA Gap resources exceed the number of project applications that can feasibly utilize them, MSHDA reserves the right to move the remaining gap resources to a future funding round or NOFA.

Additionally, MSHDA reserves the right to use Mortgage Resource Funds (MRF) at its sole discretion where it is determined necessary to facilitate the financing of a development. By applying in the Round 16 NOFA, applicants will be agreeing to utilize whatever resource (HOME, HTF, MRF) or any combination of resources that MSHDA determines is necessary in order to efficiently utilize all the resources available. Should MSHDA receive additional HTF funding, it reserves the right to substitute HTF for HOME funding (where feasible) or use additional HTF than what was originally contemplated in this NOFA.

VII. Community Housing Development Organization (CHDO) SET-ASIDE

CHDO proposals will compete against each other for the CHDO Set Aside amount. If one or more CHDO proposal's gap need exceeds the CHDO set aside, then MSHDA may either choose to make additional gap funding available in order to meet their CHDO funding requirement, or the development will compete against the overall funding round itself, but only for the difference between the proposal's total gap need and the CHDO set aside, as applicable. 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 may be made available to CHDO proposals seeking HOME funding under the 9% PSH Set-Aside or MSHDA may choose to take other routes to meet the CHDO requirements at its discretion.