MSHDA
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Rental Development

NOTICE OF FUNDING AVAILABILITY

And
General Guidelines
For

Gap Financing Program – Round 17

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I. 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. 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/ruX2RyDees ***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 gap funding resources that are being made available.

Applicants will also be incentivized to designate units at specific AMI targets in order to meet the threshold requirements of the NOFA. See Section V below for details.

II. INTRODUCTION

In an effort to generate rental housing production and achieve deep income targeting for lower income households, MSHDA will make available HOME, Housing Trust Fund (HTF), and funding that has been repurposed from the COVID Emergency Rental Assistance (CERA) program (collectively referred to as “Gap Funding”) to be utilized in Round 17 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 17, MSHDA is planning to utilize the following:

- Up to $9.5 million of HOME
- Up to $9.5 million of HTF
- Up to $41 million in CERA funding.

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. By applying in the Round 17 NOFA, applicants will be agreeing to utilize whatever resource (HOME, HTF, CERA, MRF) or any combination of resources that MSHDA determines is necessary in order to efficiently utilize all the resources available. Should MSHDA receive additional funding, it reserves the right to substitute in that funding (where feasible) or use additional funding than what was originally contemplated in this NOFA.

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.

PLEASE NOTE: Should additional funding be made available, MSHDA reserves the right to amend this NOFA, which includes adding or subtracting funding amounts from this NOFA, in order to promote the most efficient use of resources. Should an amendment to this NOFA be necessary, MSHDA will post the amended NOFA on its website as a means of noticing stakeholders and the public about changes.

III. PROJECTED FUNDING ROUND TIMELIME

Round 17:

January 30, 2023	Release of NOFA
April 3, 2023	Notice of Intent to Apply package due
June 5, 2023	Intent to Apply rankings released, and applicants invited to submit application.
July 3, 2023	Capital Needs Assessment (CNA) orders, and Market Study orders due.
September 4, 2023	Application Submission package due
November 6, 2023	Application rankings released
January 15, 2024	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. PROJECT FINANCING STRUCTURE

All eligible developments will be required to utilize a following funding sources, at a minimum:

- Tax-Exempt Bond senior construction/permanent mortgage through MSHDA's Direct Lending program
- 4% Low-Income Housing Tax Credit funding

V. PROJECT REQUIREMENTS

All developments will be required to restrict at a minimum 30% of the total units to the income/rent targeting as detailed below:

- 10% of the total affordable units must be targeted to households at or below 30% of Area Median Income (AMI)
- 10% of the total affordable units must be targeted to households at or below 40% of AMI
- 10% of the total affordable units must be targeted to households at or below 50% of AMI

These requirements are being implemented in order to allow developments to be able to utilize HTF (which requires units to be restricted at or below 30% of AMI) and CERA funds (which requires units to be restricted at or below 50% of AMI). The actual combination of gap funding sources used in a particular development will be determined by MSHDA based on the most efficient use of the resources. The amount of and sources used may require exceeding the minimum requirements above.

Applicants should note that developments receiving federal funding may be subject to federal cross-cutting guidelines.

VI. ALLOCATION OF RESOURCES

Total gap funding resources at MSHDA's discretion will be allocated to projects that qualify in the following areas:

- **$35 million** will be available for projects that are creating new housing units (new construction or adaptive reuse of existing buildings) in large and medium sized cities throughout the state. In order to qualify, projects must be located in areas that do not meet the USDA RD definition of a rural area. No more than $12 million of the total $35 million will be available to any one municipality unless insufficient demand exists to utilize the resources in this category.
- **$10 million** will be available for projects that are creating new housing units (new construction or adaptive reuse of existing buildings) in rural areas throughout the lower peninsula of the state. In order to qualify, projects must be located in areas that meet the USDA RD Multifamily definition of a rural area in the lower peninsula.
- **$5 million** will be available for projects that are creating new housing units (new construction or adaptive reuse of existing buildings) in rural areas throughout the upper peninsula of the state. In order to qualify, projects must be located in areas that meet the USDA RD Multifamily definition of a rural area in the upper peninsula.
- **$10 million** will be available for projects that are Preserving existing affordable housing regardless of geographic location throughout the state.

Projects will only be eligible to apply in one of the categories above.

If more application demand exceeds the amount of funding that is available in any of the categories above, applications will be ranked and funded within the category according to their soft-to-hard debt ratio. Those applications with the lowest soft-debt-to-hard-debt ratio will be funded first.

Should the amount of MSHDA gap resources in any of the four categories listed above exceed the amount requested in that category, the excess gap funding will be split proportionally between the remaining categories where demand exists.

Should the total amount of MSHDA Gap resources in the NOFA 17 exceed the number of project applications that can feasibly utilize those resources, MSHDA reserves the right to move the remaining gap resources to a future funding round NOFA.

While the funding is not being allocated according to specific geographic regions, a single Housing Partnerships region will not be eligible to receive more than 50% of the total funding ($60 million) being made available. A map of the Housing Partnerships regions can be found at the end of this document. This is being implemented to ensure that the funding is distributed widely throughout the state.

VII. FINANCING TERMS

All HOME, HTF and CERA 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 distribution[1] 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 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

[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. For projects where the developer fee exceed $2.1 million payments will begin at the earlier of the 13th year or once the total paid developer fee (the initial non-deferred portion of developer fee plus cash flow available for distribution) equals $2.1 million.

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.

VIII. APPLICATION 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 the equity gap as determined by MSHDA or 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 soft-to hard debt 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% - 39.99%
10%	40.00% - 59.99%
20%	60.00% - 79.99%
30%	80.00% - 99.99%
40%	100% - above

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.

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.

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.

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

CHDO proposals will compete against each other for the CHDO Set Aside amount that is required. 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.