SECOND AMENDMENT TO THE 2022-2023 QUALIFIED ALLOCATION PLAN

The 2022-2023 Qualified Allocation Plan ("QAP") was amended in December 2021 in response to increases in construction costs that prompted necessary changes to the Low-Income Housing Tax Credit (LIHTC) Program to assist recently awarded LIHTC projects on their LIHTC equity and financing sources. This second amendment is being done to assist additional projects also impacted by the construction costs increases and supply chain disruptions as a result of the COVID-19 pandemic that were funded later.

This amendment also allows a streamlined process for enacting any future additional credit rounds.

JULY 1, 2022 FUNDING ROUND FOR ADDITIONAL CREDIT

The Michigan State Housing Development Authority ("MSHDA") will hold one additional funding round on July 1, 2022 for the purpose of allocating additional tax credit to eligible projects. Applicants may submit to the portal ahead of the deadline. Applications that are not submitted online to MSHDA's Additional Credit Round SharePoint portal by 5:00pm on the application deadline will not be considered.

PROJECT ELIGIBILITY

Only projects that received a reservation of LIHTC prior to the October 2021 funding round and have not yet finished construction will be eligible to submit an application for additional credit in the July 1, 2022 Funding Round. Projects have received a previous additional award of credit are not eligible.

PROJECT REVIEW

MAXIMUM ADDITIONAL CREDIT ALLOWABLE

Additional credit is being made available to address increases in construction cost. In determining the maximum credit award that projects will be eligible to receive, MSHDA staff will allocate only the amount of additional credit that is necessary to alleviate the higher construction costs that was caused by construction and supply chain issues due to the COVID-19 pandemic. Increases due to changes in scope or plan will not be included in the calculation of additional credit. In doing so, MSHDA will limit additional credit to the lesser of the amounts specified in the Tiers, below.

Projects will submit under one of the two following tiers:

TIER I: PROJECTS REQUESTING UP TO 5% OF THEIR ORIGINAL CREDIT AWARD

Projects requesting additional credit up to 5% of their original credit reservation will be limited to the lower of the amount of additional credit necessary to make the project feasible or 5% of the original credit reservation. In order to qualify for additional credit from Tier I, projects must include an owner contribution of or defer at least 30% of the developer fee. If it is determined that additional credit is required, it is the intention that the additional credit will be used to cover increased construction costs. MSHDA reserves the right to determine if the additional credit has been requested to cover construction costs increases related to the COVID-19 pandemic.

Owners of the projects requesting 5% of the original credit award will receive one negative point on each project submitted in the April 2023 funding round.

TIER II: PROJECTS REQUESTING MORE THAN 5% OF THEIR ORIGINAL CREDIT AWARD

Projects requesting more than 5% of their original credit reservation will be limited to the lesser of the amount of additional credit necessary to cover the increase in construction costs, the amount of additional credit to make the deal feasible, or 12% of the original credit reservation. In order to qualify for additional credit from Tier II, projects must include an owner contribution of or defer at least 45% of the developer fee. MSHDA reserves the right to determine if the additional credit has been requested to cover construction costs increases related to the COVID-19 pandemic.

Owners of the projects requesting more than 5% of their original credit award will receive two negative points on each project submitted in the April 2023 funding round.

UNDERWRITING ASSUMPTIONS

All of MSHDA's current underwriting assumptions outlined in Tab O of the combined application will be utilized, unless an alternative set of underwriting assumptions has been agreed to by the syndicator and lender. Additionally, Applicants should note the following:

- MSHDA staff will determine the maximum amount of additional credit allowable based on a 4% credit rate for acquisition basis and a 9.00% credit rate for rehabilitation basis and new construction basis.
- Projects will be awarded no more additional credit than is necessary to make the project financially feasible as determined by MSHDA.

OWNER/DEVELOPER CONTRIBUTION

In offering the opportunity for projects to apply for additional credit, it is the intention that additional credit will be an option to assist a development only after the development team has exhausted other options. To qualify for additional credit in either Tier I or Tier II, the total developer fee amount must not exceed the amount that was approved at the time of the original tax credit award. In order for projects to be eligible for additional credit, they must demonstrate that the owner/developer is already making a significant contribution to the project and there is a funding gap that still remains that can only be remedied through additional credit. Applicants will be required to demonstrate that a monetary contribution or deferred fee from the owner/developer in at least the applicable percentage of the eligible developer fee is being contributed to the project.

PLEASE NOTE: Applicants applying for additional credit are committing to defer the applicable percentage of the developer fee as part of being eligible to receive additional credit. However, MSHDA also understands that as projects move to a closing, there is some need for flexibility as the numbers sometimes change at the last minute. If, after the project closes, it is determined that the owner/developer has not actually deferred at least the appliable percentage of the developer fee, the owner/developer and related parties may be subject to negative points in future funding rounds. Projects that receive an increase in equity pricing as they move to a closing and are concerned that this will result in a deferred developer fee at closing of less than the applicable percentage should contact MSHDA in order to return a portion of their credit allocation, if necessary, so that the owner/developer contribution remains intact and meets requirements. Additionally, if after receiving an award of additional credit, a project receives additional funding from other sources and no longer needs additional credit, the Applicant can return the additional credit to MSHDA at any time, without penalty, and will no longer be required to defer a certain percentage (based on Tier I or Tier II, above) of their developer fee.

LEVERAGING OTHER SOURCES

As mentioned in Exhibit I, Section IX of the 2022-2023 QAP, all projects will be required to leverage a reasonable amount of financing sources, in addition to the LIHTC being requested, based on what each project can support. It is anticipated that projects will be leveraging the same or greater amount(s) of other funding sources as in their original application. If MSHDA staff determines that a project can reasonably leverage more sources than what is being shown in the application and can thereby reduce the amount of additional credit necessary to make the project feasible, a reduction in the amount of additional credit awarded to the project may occur.

EXTENDED DEADLINES AND EXCHANGES OF CREDIT

Projects eligible for additional credit may also require an extension of the 10% deadline or exchange of credits in order to keep the project moving forward. At the time of this amendment, the IRS most recently released Notice 2022-05, which allows MSHDA to extend deadlines of the 10% Test for Carryover Allocations and the Placed in Service Deadline. Owners with projects that qualify for either of these extensions should contract MSHDA as soon as possible to prepare the appropriate documentation. If a project needs additional time beyond what is allowed by IRS Notice 2022-05 or any subsequent IRS Notice, MSHDA will reduce the exchange fees to 2.5% for these projects until December 31, 2022.

PROJECT SCORING

Projects will be required to maintain all commitments that were originally made as part of the originally approved LIHTC Application unless otherwise approved by MSHDA. The only exception to this statement is for Credit Efficiency points. Any projects that originally received points for Credit Efficiency and are now experiencing a point reduction in that area will not be penalized.

REQUIRED DOCUMENTS

A. LIHTC PROGRAM APPLICATION

Applicants must submit a fully completed and up-to-date version of the 2021 Program Application showing the most recent project data including income and expense data as well as sources and uses data. This should include an updated Tab D – Project Schedule.

If the project is a multi-phase development, please provide an updated proforma and Trade Payment Breakdown for the other residential phase(s).

B. PROJECT NARRATIVE

A detailed narrative describing the efforts made by the owner/developer thus far and the continual efforts to raise funds, secure an equity investor with the best terms, equity pricing, and capital availability, restructure the project, value engineer the project, and why additional credit is necessary to allow the project to be feasible. A side-by-side comparison of the project sources and uses and income and expenses should also be included.

C. TRADE PAYMENT BREAKDOWN

A trade payment breakdown signed by the owner and contractor and dated within 30 days must be submitted for all projects. Cost figures shown on the Trade Payment Breakdown should match figures submitted in the updated LIHTC Program Application.

D. SITE CONTROL

Evidence of site control by the Applicant, as evidenced by an option to purchase, letter of intent or term sheet, land contract, offer to purchase, purchase agreement, long-term lease or other appropriate documentation, and ability to keep same for the lesser of 60 days from the date of application due date or the time period necessary to accommodate the projected closing timeline if less than 60 days, with the ability to provide additional extensions as necessary to accommodate application processing timelines. If site control is vested in an entity other than the anticipated owner, the control must be unilaterally assignable to the proposed owner. Site control documents must clearly identify the physical location of the property (i.e., property address, full legal description or plat map identifying street names) and be consistent with the rest of the development information including the title insurance commitment. If the site control documentation does not clearly identify a detailed breakdown of the components of the purchase price to be paid to the seller, a written narrative from the applicant providing additional detail may be submitted to accompany the site control documentation.

E. CERTIFICATION TO APPLICATION

Applicants must submit a fully executed Certification to Application which can be found on page 17 of Addendum I.

F. EQUITY INVESTOR LETTER

Projects applying for additional credit will be required to submit a commitment letter from the syndicator or equity investor that is dated within 30 days of the application due date. The commitment letter must include all of the following:

- The equity amount, equity price, and terms of the investment.
- The planned equity pay-in schedule.
- Investment underwriting and financial forecast pages compiled by investor (sources and uses of funds, development budget, draw schedules, rental income and operating expenses, confirmation of vacancy and trending assumptions if different than those listed in Tab O, cash flow analysis, lease-up schedule, tax credit analysis, capital account analysis, etc.).
- Certification that investor has conducted financial review of development team, including identification of which entities and/or individuals will be providing guarantees.
- Clear statement of any conditions for investment that need to be met.
- Must clearly state the expected timeline for closing the project (can be contingent on the award of additional credit).
- Projects that have already closed will need to provide evidence that the equity provider is able to purchase the additional credit

G. FINANCING

All projects are required to submit evidence of a commitment from a mortgage lender(s) stating the amount of the loan, terms, interest rate, and guarantors for all sources of financing. In the case of a Rural Housing Service (RHS) project, an original letter signed by an official of RHS; in the case of conventional financing, original documentation from the lender(s) stating that a formal application for construction and permanent financing has been submitted and is under serious consideration; in the case of Federal Historic tax credit, documentation indicating that Part I of the required application has been made; and in the case of an Authority financed project, evidence that the project has passed initial determination.

In addition to documentation of submission to mortgage lenders, documentation of all other funding sources must be submitted as required in Exhibit 8 of Addendum I.

H. DEMOGRAPHIC INFORMATION FORM

Per Exhibit XIX of the 2022-2023 Qualified Allocation Plan (the "QAP"), MSHDA has committed to data collection and analysis. This data will be used to support MSHDA's missions and goals and will be included in an analysis of the QAP and program changes. This information will not be reviewed as part of the application and will have no effect on the funding round result. All development team entities are expected to submit the form, however, disclosure of the information on the form is voluntary. Applicants who opt to choose not to disclose this information on the form will not be penalized.

I. UPDATED MARKET STUDY

Any project requesting a change to rents greater than 10% and/or unit mix from what was approved at time of reservation is required to submit an updated estimated market rent analysis along with an updated demand analysis. These updates should use the new proposed rents. Developers should speak with their market analysts to determine price and time frames needed.

CREDIT CEILING ACCOUNTING

MSDHA anticipates that all 2022 credit ceiling will be allocated prior to the start of the July 1, 2022 Additional Credit Funding Round. Additionally, the January 18, 2022 Additional Credit Funding Round was awarded from the 2022 credit ceiling, which led MSHDA to plan to forward-allocated credit from the 2023 credit ceiling to fully fund projects in the April 1, 2022 Funding Round. MSHDA plans to forward-allocate 2023 credit to projects that receive awards in the July 1, 2022 Additional Credit Funding Round. Alternatively, if any cases arise where credit is returned to MSHDA from projects that were previously allocated credit, but cannot proceed, MSHDA may choose to utilize that returned credit in the July 1, 2022 funding round alleviating the need to forward-allocate as much credit. Additionally, because the first additional credit round affects the 2023 credit year, MSHDA plans to forward allocated credit from the 2024 credit ceiling to fully fund projects in the April 2024 funding round. Overall, the July 1, 2022 funding round will impact the amount of credit allocated in the upcoming October 2023 and April 2024 Funding Rounds.

In the event legislation passes and/or MSHDA receives an increase in the LIHTC ceiling in that timeframe, MSHDA reserves the right to reevaluate the strategy to use 2023 credit but will do so in such a way that gives potential applicants sufficient time and notice in order to anticipate any changes in the strategy. This reevaluation will not necessitate an additional amendment to the QAP.

PROJECT MODIFICATIONS

Project modifications will be considered on a case-by-case basis at the sole discretion of MSHDA in order to address specific situations. Applicants that would like to request project modifications should submit their written request to MSHDA as soon as possible detailing the project modifications being requested, explaining the reason for the requested project modifications and why the project modifications are necessary for the project to proceed. MSHDA may waive any requirements and/or conditions that are not mandated by Section 42 of the IRC on a case-by-case basis.

APPLICATION FEES

All applications must be accompanied by a check or money order in an amount equal to $45 for each proposed low-income unit, with a $2,500 maximum limit. This fee is non-refundable and must be paid in each funding round in which a project is seeking to be scored and/or evaluated. A fee of $100 will be assessed each time a check is returned to MSHDA for non-sufficient funds.

For any project that receives an award of additional credit, MSHDA will charge a fee equal to 6% of the additional annual LIHTC dollar amount reserved for a project. A sum equal to 3% of the additional annual LIHTC dollar amount shall be submitted to MSHDA at the time of Reservation. The remaining 3% shall be paid at the time of the originally scheduled 10% Certification.

FUTURE AMENDMENT PROCESS

Section III.B of the QAP allows for modification of the QAP to the extent necessary to facilitate the award of LIHTCs that would not otherwise be awarded. The MSHDA Director of Development may deem it prudent to hold additional credit rounds to assist projects that are impacted by construction cost increases and supply chain disruptions as a result of the COVID-19 pandemic, the Director of Development may do so by publishing notice of the additional funding round and an outline of the funding round to its website no less than 60 days ahead of the additional credit funding round deadline. The Director of Development will issue a Delegated Action Report to the MSHDA Board in the event that they decide to hold an additional credit funding round.