



The Authority is placing the attached May 20, 2009, Board approved Direct Lending Parameters on the website for public review and comment. This version replaces the previous draft version posted on May 4, 2009, but remains open for review and comment. Comments can be submitted to [mshdarecovery@michigan.gov](mailto:mshdarecovery@michigan.gov) or to John Hundt at [hundtj1@michigan.gov](mailto:hundtj1@michigan.gov).



# ADDENDUM IV

## APPLICATION

### FOR

## MULTI-FAMILY HOUSING

## DIRECT LENDING

Updated May 20, 2009

**Includes: Tax Exempt & Taxable Lending Parameters**

# EXHIBIT CHECKLIST

## Addendum IV:

### Tax-Exempt and Taxable Programs

#### PRELIMINARY ASSESSMENT PHASE

**A.** For all new **construction, or non-MSHDA occupied acquisition and preservation proposals**, the following exhibits must be submitted during the Preliminary Assessment phase when applicable. The exhibits under the Threshold, Commitment and Initial Closing phases will be required, but may be submitted now if available.

- Or -

**B.** For all **preservation proposals with current MSHDA financing**, the exhibits listed under the Threshold phase must be submitted with the Primary Application when applicable. The exhibits under the Commitment and Initial Closing phases will be required, but may be submitted now if available.

√	#	<b>Preliminary Assessment Processing Documents</b>
	P1	<b>Executive Summary</b> - A narrative description of the project which includes the type of project; type of financing; tenants served, bedroom mix; local, federal or state subsidies; contact information, including email addresses, for all members of the development team; and other relevant information. (For rehabilitation projects, include a listing of the planned scope of work and proposed improvements).
	P2	<b>Site Information</b> – Proposal address and preliminary site plan.
	P3	<b>Development Team Information</b> – Please provide copies of the following: <ol style="list-style-type: none"> <li>1. Architects and Builders Licenses. Provide copies of the professional license for the architect and a current Michigan Residential Builders License for the contractor.</li> <li>2. Resumes for all members of the development team without previous MSHDA experience.</li> </ol>
	P4	<b>Preliminary Market Study</b> – Required for proposals not electing to submit full Threshold application. <b>(Tab C)</b>
	P5	<b>Preliminary Proforma</b> – To be submitted in MSHDA format. Electronic copy available upon request.

## THRESHOLD REVIEW PHASE

The following exhibits **MUST** be submitted, if applicable, during the Threshold processing phase. Exhibits submitted during the Preliminary Assessment Phase need not be resubmitted for the Threshold Review Phase. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with the Primary Application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required unless otherwise specified.**

√	#	Threshold Review Processing Documents
	P/T1	<b>Executive Summary</b> - A narrative description of the project which includes the type of project; type of financing; tenants served, bedroom mix; local, federal or state subsidies; and other relevant information. (For rehabilitation projects, include a listing of the planned scope of work and proposed improvements).
	P/T2	<b>Site Information</b> – Proposal address and preliminary site plan.
	P/T3	<b>Development Team Information</b> – Please provide copies of the following: <ol style="list-style-type: none"> <li>1. Architects and Builders Licenses. Provide copies of the professional license for the architect and a current Michigan Residential Builders License for the contractor.</li> <li>2. Resumes for all members of the development team without previous MSHDA experience.</li> </ol>
	P/T4	<b>Market Study</b> - If not electing to undergo Preliminary Assessment processing a full market study, or payment for study, will be required. <b>(Tab C)</b>
	P/T5	<b>Preliminary Proforma</b> – To be submitted in MSHDA format. Electronic copy available upon request.
	T6	<b>Land Control</b> - Documentation, signed by all applicable parties, in the form of warranty deed, exclusive option to purchase, land contract, etc., which evidences ability to maintain site control for 120 days from the date of application submission, with additional extensions available.
	T7	<b>Environmental Assessment</b> - Level 1 Environmental Assessment or, if necessary, a Level II Environmental Assessment with remediation plan. Dated within 6 months of application submission. <b>(Tab D)</b>
	T8	<b>Capital Needs Assessment (CNA) and Updated Scope of Work (For rehabilitation and preservation proposals only)</b> - A 20 year CNA with itemized cost breakdown is required. A third party contracted by the Authority will complete the CNA. The CNA fee must be submitted at the time of, or prior to, Threshold application. A proposed scope of work must be submitted with application. <b>(Tab Z)</b>

T9	<p><b>Appraisal (For acquisition and/or preservation proposals only)</b> –A certified general appraisal to establish the “As is” encumbered and unencumbered value, before and after rehab, is required. This appraisal will be contracted by the Authority and will take 60 to 90 days from the time it is requested to complete. Appraisals contracted by the current property owner or the prospective purchaser will not be acceptable. Applicants may request that an appraisal be ordered prior to application submission. An appraisal fee of \$6,000 must accompany such requests.</p>
T10	<p><b>Rent Comp Study (For acquisition and preservation proposals only)</b> - An acceptable rent comparability study is required of all acquisition, and/or preservation proposals. If no rent increase is planned, a rent comp study may not be required.</p>
T11	<p><b>Title Insurance</b> - The commitment must be current and in the estimated amount of the mortgage loan and must include the pending disbursement language of the title company. <u>Any liens, easements, encumbrances, or other exceptions noted in the title insurance commitment must be researched, and readable copies of the recorded documents must be provided.</u></p>
T12	<p><b>Zoning Documents</b> – Please provide copies of the following:</p> <ol style="list-style-type: none"> <li>1. Documentation from the appropriate local official on official letterhead (dated within 60 days of application submission) identifying the address of the project, the property's current zoning designation and an explanation of whether or not the project is permitted under the zoning ordinance. If the project is not currently properly zoned, what, if any, steps are in process to obtain proper zoning for the proposed development. The documentation must include a timetable for rezoning. For Rehabilitation Projects, the letter must state that the zoning is compatible with the proposed use of the buildings.</li> <li>2. Zoning Map.</li> <li>3. A certified copy of the current Community Zoning Ordinance – Required for all new construction proposals, and for rehabilitation proposals where rezoning is necessary.</li> <li>4. Renaissance Zone (if applicable) – Letter on official letterhead and signed by an official of the local municipality which verifies that the property is in a designated Renaissance Zone.</li> </ol>
T13	<p><b>Site Utility Availability (Electricity, Fuel, Water, Sanitary Sewer, and Storm Sewer)</b> - Documentation from the municipality and/or local utility companies on their letterhead regarding utility availability and adequacy to serve the site, including whether such is currently available or will be available.</p>
T14	<p><b>Marketing Transition Plan (For occupied acquisition and preservation proposals only)</b> – Provide a Marketing Transition Plan detailing efforts the management agent will use to train staff and market units at significantly higher rents upon normal turnover. (The Marketing Transition Plan is not required for Sec 8 Preservation proposals).</p> <p><b>(Tab MM)</b></p>
T15	<p><b>Resident Information (For occupied acquisition and preservation proposals only)</b> – For an existing MSHDA financed development, please provide a copy of the development’s current rent roll and information on the current residents, including lease terms, family size, gross incomes, and unit size, as well as occupancy and turnover data for the previous three years. For non-MSHDA developments, please submit the same If available.</p>
T16	<p><b>Development Financial Statements (For non-MSHDA acquisition and preservation proposals only)</b> – Provide three years worth of audited financial statements that clearly set out the recent operating history of the development. Provide copies of all current subsidy contracts; and the currently approved rental structure and tenant-paid utility allowances.</p>

	T17	<p><b>Operating Budget Documents</b> – Please provide copies of the following:</p> <ol style="list-style-type: none"> <li>1. A proposed development-operating budget with notes and budget comparables.</li> <li>2. An Equipment/Furnishings Budget.</li> <li>3. A Marketing Budget for initial lease up.</li> </ol> <p><b>(Tab II)</b></p>
	T18	<p><b>Financial Statements</b> – Please provide copies of the following:</p> <ol style="list-style-type: none"> <li>1. Financial statements for the sponsor(s). Individual sponsors must submit the form Individual Financial Statement, which is available from MSHDA upon request.</li> <li>2. Financial statements for the builder.</li> </ol> <p><u>Financial statements must be current</u>, which is defined as being not more than six months earlier than the date the proposal was submitted. MSHDA requires that financial statements be updated every six months throughout the development and construction process.</p> <p><b>(Tab LL)</b></p>
	T19	<p><b>Confirmation of Additional Financing</b> – Please provide documentation of the following, if applicable:</p> <ol style="list-style-type: none"> <li>1. Secondary Financing - Proposals which rely on some form of secondary financing to achieve Threshold must be accompanied by a detailed explanation and a confirmation from the source of that financing that the additional funds have been applied for and are (or are expected to be) available.</li> <li>2. Federal, State or Local Government Financing - Letter from local municipality stating that application has been submitted and amount of request.</li> <li>3. Grants/Other Subsidies - Letter from proposed grantor stating that application has been submitted and amount of request.</li> </ol>
	T20	<p><b>Tax Documents</b> – Please provide copies of the following:</p> <ol style="list-style-type: none"> <li>1. Tax Abatement - Proof of tax abatement or a letter of tax abatement support from local taxing jurisdiction, if applicable. For Tax Credit submissions – See Addendum I, page I-19 for specific filing requirements.</li> <li>2. Proof of Local Taxation Rate (if no tax abatement) - For acquisition/ rehabilitation a tax bill will meet requirement, otherwise a letter from local assessor estimating tax bill will be necessary.</li> </ol>
	T21	<p><b>Certified copy of city or township charter.</b></p>
	T22	<p><b>Preliminary Architectural Plans and Specifications</b> – For new construction proposals, preliminary plans and specs are required. (For rehabilitation proposals, specifications are required, but plans will be required as determined by the Authority’s Chief Architect).</p> <p><b>NOTE:</b> Plans and Specifications may be submitted at any time but will not be reviewed until proposal has undergone Threshold Review and receives formal acceptance.</p>

## COMMITMENT REVIEW PHASE

The following exhibits **MUST** be submitted, if applicable, during the Commitment processing phase. **All Commitment Exhibits must be submitted and accepted for rate lock, HOME, NSP, Preservation Fund, and/or MSHDA secondary financing reservations.** To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required.**

√	#	<b>Commitment Review Processing Documents</b>
	C1	<b>Trade Payment Breakdown</b> – Please submit <b>four original signed copies</b> of MSHDA’s trade-payment-breakdown form.  <b>(Tab AA)</b>
	C2	<b>Preliminary Equal Employment Opportunity Plan</b>  <b>(Tab F)</b>
	C3	<b>Contractor's Qualification Statement</b> (AIA Document A305) - available from MSHDA upon request.
	C4	<b>Soil Conditions</b> – For new construction, proof of engineering report and soil boring test. (Will be required for the acquisition or preservation of an existing property if the footprint of the site plan is changing).
	C5	<b>Final Architectural Plans and Specifications</b> – For new construction proposals, final plans and specs are required. (For rehabilitation proposals, specifications are required, but plans will be required as determined by the Authority’s Chief Architect).
	C6	<b>Surveyor’s Certificate of Facts and the ALTA Survey</b> - Refer to MSHDA's Legal Form 025 and 026 for Surveyors Certificate and survey standards to be submitted. Ensure that any encumbrances of records are included.  <b>(Tab EE and Tab U)</b>
	C7	<b>Architects Errors and Omissions Professional Liability insurance.</b> Include both the current certificate of insurance and a copy of the policy.  <b>(Tab KK)</b>
	C8	<b>Owner-Architect Agreement for Design and Administration Services</b> – Submit fully executed Legal Form 023.  <b>(Tab BB)</b>

	C9	<p><b>Affirmative Fair Housing Marketing Plan</b> - An Affirmative Fair Housing Marketing Plan is required for all new construction, and non-MSHDA acquisition, and preservation proposals. (For rehabilitation/preservation proposals with current MSHDA financing, a new or updated plan is required).</p> <p><b>(Tab P)</b></p>
	C10	<p><b>Ownership Entity Formation</b> – Certified copy (dated within 30 days of application submission) of the certificate of limited partnership and any amendments on file with the Department of Labor &amp; Economic Growth, Bureau of Commercial Services and a copy of the limited partnership agreement with all amendments.</p>
	C11	<p><b>Letter of Intent and/or Syndication Partnership Agreement</b> – A copy of the letter of intent and/or the syndication partnership agreement (to include pay-in schedule) from the equity provider.</p>
	C12	<p><b>Site Plan Approval</b> – Please provide the following documentation as appropriate:</p> <ol style="list-style-type: none"> <li>1. New construction: A letter signed by the appropriate official of the municipality on its letterhead which identifies the project's name and address and states that final site plan approval has been granted, or, if site plan approval has been granted with contingencies, a statement in the letter verifying that the contingencies do not have to be approved by the planning board but may be approved at a staff level.</li> </ol> <p>- Or -</p> <ol style="list-style-type: none"> <li>2. Acquisition or preservation: a letter from the relevant board or commission of the municipality stating that it has reviewed the proposal, including the level of rehabilitation work to be completed at the site, and that no further plan approvals are necessary.</li> </ol>
	C13	<p><b>Nonprofit Documentation</b> (if applicable) - If the General Partner in the LDHA is a non-profit, the following items must be submitted:</p> <ol style="list-style-type: none"> <li>1. A certified copy of the Articles of Incorporation dated within 30 days of application submission.</li> <li>2. Copy of by-laws.</li> <li>3. An executed agreement between the sponsor and the non-profit if the project is a joint venture.</li> </ol>

## INITIAL CLOSING PROCESSING PHASE

The following exhibits **MUST** be submitted, if applicable, during the Initial Closing processing phase. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with the exhibits. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required.**

√	#	Initial Closing Processing Documents
	IC1	<p><b>Operating Agreements</b> – Three original copies of the following documents are required:</p> <ol style="list-style-type: none"> <li>1. Management Agreement (3 copies)</li> <li>2. Marketing Agreement (3 copies, not required for preservation transactions)</li> <li>3. Power of Attorney</li> <li>4. Certification of Owner and Management Agent (3 copies)</li> </ol> <p>Contact MSHDA's Office of Asset Management for formatted documents.</p>
	IC2	<p><b>Final Syndication Partnership Agreement</b> – Submit the syndication partnership agreement (to include pay-in schedule) from the equity provider.</p>
	IC3	<p><b>Tax Credit Application and Addendum I</b> – Submit a fully executed tax credit application, and Addendum I Scoring Summary.</p>
	IC4	<p><b>Application for Disbursement (For occupied rehabilitation and preservation proposals only)</b> – An “Application for Disbursement” request with supporting documentation.</p> <p><b>(Tab JJ)</b></p>



# ADDENDUM IV

## Application for Tax-Exempt or Taxable Bond Debt Financing

### APPLICATION FILING REQUIREMENTS

- A non-refundable application fee must accompany the application. Please check the program statement for the amount of the application fee.
- **Two copies** of the primary application and the required exhibits must be submitted.
- **This is not an application for competitive Housing Tax Credit.** Two separate applications will be required. A “9%” Housing Tax Credit application must be submitted as required under the competitive funding rounds of the Housing Tax Credit Program, but in no case may it be submitted prior to formal “acceptance for processing” for debt financing.
- The first page of the primary application should indicate if applying for direct lending.
- To assist in the filing of an application, this addendum includes:
  - Tax-Exempt and Taxable Lending Parameters

In addition, please reference Tabs A – NN for related information and/or forms on our web site under MSHDA’s Combined Application for Rental Housing Programs, specifically the following:

- MSHDA’s Market Analysis Guidelines **Tab “C”**
- MSHDA’s Environmental Review process and requirements **Tab “D”**
- “Income Limits & Rent Restrictions by Household Size by County,” published by HUD **Tab “E”**
- Section 8 Fair Market and HOME Program Rents **Tab “Q”**
- Preliminary Equal Opportunity Plan Requirements **Tab “F”**
- Sample MOU and Inclusion Plan for Permanent Supportive Housing **Tab “G”**
- Affirmative Fair Housing Marketing Plan Requirements **Tab “P”**
- Uniform Relocation Act General Information Guideform Notices **Tab “R”**
- Survey Requirements/Language to be incorporated on Survey **Tab “U”**
- Utility Information by County and Region **Tab “V”**

- Capital Needs Assessment **Tab “Z”**
- Trade Payment Breakdown **Tab “AA”**
- Owner Architect Agreement **Tab “BB”**
- Site Selection Criteria **Tab “CC”**
- Modifications to the MSHDA Standards of Design **Tab “DD”**
- Surveyor’s Certificate of Facts **Tab “EE”**
- Michigan Rural Areas **Tab “GG”**
- Certification by Architect **Tab “HH”**
- Budget Form Documents **Tab “II”**
- Application for Disbursement **Tab “JJ”**
- Requirements for Errors and Omissions Insurance for Architects and Engineers **Tab “KK”**
- Individual Financial Statement **Tab “LL”**
- Marketing Transition Plan **Tab “MM”**

The form for Individual Financial Statement and the Contractor’s Qualification Statement (AIA Form A305-1986) are available upon request, as are various policy and program statements.

For more information please contact Rental Development and Homeless Initiatives at (517) 373-6880 in Lansing or (313) 456-3597 in Detroit.

## Tax-Exempt & Taxable Lending Parameters



May 20, 2009

MSHDA offers tax-exempt and taxable loans for the development of affordable rental housing. Loans will be provided to the extent the following objectives are met:

1. Create and preserve affordable rental housing that meet the priorities in Section VII, and that achieves at least one of the following public benefits:
  - Family units serving low-income households, or
  - Senior housing, (excluding congregate transactions) including proposals supporting successful aging in place, or
  - Housing in rural communities, or
  - Supportive housing integrated and supported by necessary services, or
  - Workforce housing provided in high-cost areas, or
  - Mixed and Adaptive Reuse buildings supporting downtown housing, or
  - Meets the needs of Native American housing, or
  - Produces any of the above in the context of another state or federal program that meets any of the Authority's other priorities.
2. The housing must contribute to the strengthening of communities through site and design standards.
3. The longest term of affordability possible.
4. The loan must be a long-term earning asset.
5. Rehabilitation transactions must address the physical needs of the property, including those directly related to the enhancement of resident livability and functionality.

These parameters describe lending available for new construction, substantial rehabilitation/adaptive reuse, preservation and the acquisition and rehabilitation of conventionally financed rental housing. Combined construction and permanent lending is provided and MSHDA retains long-term portfolio oversight. Project requirements, interest rates, and gap funding vary by location of the property, population to be served, income targeting, and resource availability.

### **I. Eligibility and Resource Availability:**

- A. Project Size:** Typical projects range between 24-100 units, with exceptions considered for rehabilitation projects.
- B. Eligible Developments:** Any new construction or acquisition and rehabilitation development, including existing affordable housing subject to necessary HUD and/or Rural Development approvals, in Michigan is eligible to apply for a tax-exempt or taxable bond loan from MSHDA.
- C. Ineligible Projects:** Nursing homes, adult foster care homes, student housing, transient housing, or single room occupancy are ineligible.

## Tax-Exempt & Taxable Lending Parameters

- D. Eligible Borrowers:** Prior to mortgage loan commitment a legal entity must be formed that is an “eligible borrower” under the Authority’s Act. A sponsor/developer may be a nonprofit, an individual, a group of individuals, a corporate entity, or some combination.
- E. Minimum Rehab:** For preservation and acquisition/rehab proposals, at least \$15,000 in rehabilitation per unit and 15% of acquisition cost, with emphasis on improvements benefiting residents is required. In addition, a Capital Needs Assessment (CNA) is typically required to help determine the scope and cost of the rehabilitation.
- F. Tax-Exempt Eligibility:** Proposed tax exempt financing must equal at least 52% of the total development cost and rehabilitation expenditures, with respect to each building, which must equal or exceed 15% of the portion of the cost of acquiring such building and equipment.
- G. MSHDA Subordinate Loans:** The Authority may make subordinate loans (“Subordinate Loan”) using funding from programs such as HOME, Neighborhood Stabilization Program (NSP), Tax Credit Assistance Program (TCAP), Authority Preservation Funds, or other funding sources that may be available. Loans made from any of these sources may be available at 3% simple interest for gap funding. The use of any of these sources may trigger cross cutting federal requirements such as Davis Bacon, National Environmental Protection Act (NEPA), and/or the Uniform Relocation Act (URA). Such loans will be secured by a mortgage subordinate to the MSHDA tax-exempt bond or taxable bond first mortgage.

The minimum amount of the Subordinate Loan will be \$1,000 per unit assisted by the Subordinate Loan. The maximum amount of the Subordinate Loan will not exceed the lesser of (1) the equity gap as determined by MSHDA or (2) program limits imposed by applicable state or federal regulations associated with a specific funding source.

To be eligible for a MSHDA Subordinate Loan, the sponsor must provide/obtain a minimum level of leveraged funding as defined as a threshold requirement in Section VI below. Interest on the Subordinate Loan will accrue, but loan amortization will be deferred until the earlier of the year in which all deferred developer fee has been paid, or 12 years. Beginning at the earlier of the year in which the deferred developer fee has been paid in full, or in the 13<sup>th</sup> year from the beginning of amortization, annual payments will be payable from twenty-five percent of any surplus cash available for distribution to the owner, applied first to accrued interest, then to current interest and principal, with the balance of principal and all interest due at the earlier of sale of the development, refinancing or the mortgage loan or 50 years after closing. Upon payment in full of the first mortgage, the outstanding balance of the Subordinate Loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments made under the original first mortgage, with the balance of principal and all interest due at the earlier of sale of the development, refinancing of the mortgage loan or 50 years after loan closing.

- H. Other:** Participation in the Housing Tax Credit program is required.

### **II. Interest Rate and Term:**

- A. Rate:** The tax-exempt and taxable bond loan interest rates are based on MSHDA’s cost of borrowing. Changes in the interest rate are posted on MSHDA’s web site. Construction and rehabilitation loans are offered at the same interest rate. The specific interest rate and any reservation of secondary financing will be locked in upon MSHDA’s

## Tax-Exempt & Taxable Lending Parameters

Loan Committee Commitment approval for up to three months. If closing does not occur within three months of MSHDA Board Commitment, the rate will be subject to increases.

- B. Term:** For new construction and/or acquisition/rehab transactions, the typical mortgage term is 35 years.

For preservation transactions, a 35-year term **Part “A” loan** will be established using the lesser of the acceptable rent comparability study rent levels, trended for the remaining term of the Section 8 HAP contract, or the current Section 8 contract rents. An annual increase of 1% will be assumed when trending the rents that support the Part “A” loan.

For Section 8 or other preservation transactions with a Section 8 HAP contract not subject to annual appropriation, a **Part “B” loan** may be established using the difference between the trended market rents and the actual contract rents. The term of this loan will equal the remaining term on the HAP contract.

For Section 236 Preservation transactions a **Part “B” loan** is the amount of debt that can be supported by the continuing stream of income from the “decoupled” Interest Reduction Payments (IRP) contract. Part “B” of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the Interest Reduction Payments contract at a 1.0 debt coverage ratio.

- C. Prepayment:** Tax Exempt or Taxable Bond first mortgage loans (including Part A and Part B loans) without a Subordinate Loan component are eligible for prepayment without MSHDA approval after the expiration of twenty (20) years after the commencement of amortization.

First mortgages (including the Part A and B loans) made in combination with a Subordinate Loan are not eligible for prepayment. After the 15<sup>th</sup> year, MSHDA may, at its sole discretion, allow prepayment of the first mortgage after consultation with the owner regarding the development’s physical and financial needs.

In the event MSHDA permits a prepayment, the mortgagor must pay a prepayment fee equal to the sum of: (i) 1% of the balance being prepaid, (ii) any bond call premium, prepayment or swap penalty, or any other cost that the Authority incurs to prepay the bonds or notes that were used to fund the Mortgage Loan, and (iii) any loss of debt service spread between the mortgage loan the bonds used to finance the loan from the date of the prepayment through the end of the 20<sup>th</sup> year of amortization.

A mortgagor interested in prepaying a mortgage will be responsible for paying any costs associated with termination of an equal amount of an interest rate swap agreement (swap). Once the mortgagor has been approved for the early prepayment of the underlying loan, it must sign an agreement with MSHDA stating it is responsible for the cost of terminating the swap. The mortgagor can then choose the timing of the termination and participate in the transaction with the swap counterparty. The swap counterparty will quote the cost of terminating the swap and the mortgagor will have the ability to execute the transaction or cancel at its sole discretion. If the mortgagor chooses not to terminate the swap, it will forfeit the right to prepay the mortgage.

Subordinate Loans are eligible prepay at any time upon 60 days prior written notice to the Authority, but prepayment will not eliminate the Term of Affordability requirement and may not extinguish federal compliance requirements.

## Tax-Exempt & Taxable Lending Parameters

- D. Term of Affordability:** Authority program affordability restrictions imposed at the closing of the mortgage loan involving a Subordinate Loan must remain in place for 50 years. Developments without a Subordinate Loan will be expected to maintain the affordability restrictions for the longest of the period the first mortgage loan is outstanding, the time required under the Low Income Housing Tax Credit Regulatory Agreement for the development or Tax Exempt Bond regulations.
- E. Loan Insurance:** MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) or full FHA insurance. Typically, MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

**III. Underwriting Standards:** The underwriting standards outlined below are starting point minimum and maximum standards. For purposes of these underwriting standards, which are applied to all tax-exempt and taxable first mortgage loans and to any development seeking subordinate gap financing from the Authority, staff analysis of a specific transaction or the Authority's assessment of the risk involved may suggest variance from these standards. For example, in some counties where the actual median incomes are substantially below historic exception figures used by HUD to calculate income and rent limits, it may be appropriate to use even more conservative rent trending assumptions for units with rents at regulatory limits. In a similar vein, in preservation transactions, actual operating histories may suggest different financial projections related to expense growth.

- A. Loan Limits:** MSHDA's Tax-Exempt and Taxable loans are limited to 110 percent of the applicable HUD 221 (d)(3) Mortgage Limits, as amended from time to time by HUD. Sponsors can receive a mortgage loan of up to 90 percent of the total development cost, subject to the above limitation. Any proposal involving the syndication or sale of Housing Tax Credit is characterized as a for-profit venture, even if the developer or the general partner of the partnership that owns the project is a nonprofit group.
- B. Debt Coverage:** MSHDA requires a minimum Debt Coverage Ratio (DCR) of 1.25, based on the assessment of risk associated with the development. For cash flow purposes, the DCR may not drop below a 1.15 DCR.
- C. Vacancy Loss:** Vacancy loss will be budgeted, at a minimum, at 8% of the gross rental potential. At MSHDA's discretion, in certain markets or for smaller size projects, a higher vacancy loss may be required, or for projects with existing rental subsidy, a lesser vacancy loss may be considered.
- D. Tax Abatement:** Tax abatement for the term of all MSHDA mortgage loans is a threshold requirement. Escalating PILOTs will be underwritten at the maximum rate rather than the initial rate.
- E. Determining the Number of HOME Units:** If a HOME loan is provided, the number of HOME-designated units will be calculated using the amount of HOME funds necessary for project feasibility, as determined by MSHDA (see preceding section), divided by the lesser of the per unit total development cost or the federal HOME subsidy limit, generally not to exceed 11 units. HOME-designated units will be subject to a minimum 15-year affordability period for rehabilitation transactions, or a 20-year affordability period for new construction transactions, beginning after project completion.

## Tax-Exempt & Taxable Lending Parameters

- F. Determining the Number of TCAP Units:** Determination of the number of TCAP assisted units will be subject to forthcoming federal regulations. Generally, any Low Income Housing Tax Credit designated unit will also be a TCAP assisted unit.
- G. Determining the Number of NSP Units:** If an NSP funded Subordinate Loan is provided, the number of NSP designated units will be calculated based the prorata share of total development cost funded with NSP.
- H. Income Limits<sup>1</sup>:** The following income restrictions apply based on program/funding sources utilized:
- **Tax Credit Income Restrictions:**
    - a. A minimum of either 20% of the units income restricted to households whose incomes do not exceed the 50% tax credit income limit or 40% of the units income restricted to households whose incomes do not exceed the 60% tax credit income limit , or
    - b. The limits contained in the applicant's LIHTC application.
  - **HOME Income Restrictions:** In proposals where a HOME loan is provided, with five or more designated HOME units, 20% of the designated HOME units must be occupied by households with incomes at or below 50% of the area median income adjusted for household size. The remaining HOME units may be occupied by households with incomes at or below 60% of the area median.
  - **TCAP Income Restrictions:** In proposals where a TCAP loan is provided, income limits will be consistent with the Low Income Housing Tax Credit requirements.
  - **NSP Income Restrictions:** In proposals where a NSP loan is provided, the NSP assisted units will be income restricted at 50% of AMI.
  - **Existing HAP Contract Income Restrictions:** For transactions with an existing HAP Contract, until the expiration of the HAP, the lesser of Section 8, applicable LIHTC, or other program limits apply, and after HAP expiration, applicable LIHTC program or other more restrictive income restrictions will apply for the balance of the term of affordability.
  - **Section 236 Preservation Income Restrictions:** For Section 236 Preservation transactions, income limits will be the lesser of the Section 236 or the applicable LIHTC income limits apply until the expiration of the IRP, plus the 5-year extension required by HUD as part of the decoupling program. After that, applicable LIHTC

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<sup>1</sup> The Housing and Economic Recovery Act of 2008 (HERA) authorized new income and rent limits for LIHTC and Tax Exempt financed developments which HUD has published as "Multifamily Tax Subsidy Project" (MTSP) Income Limits. Unfortunately, both the MTSP Income Limits and the "standard" Section 8 Income Limits used for other programs, including HOME, use the term "area median income" but in so doing refer to distinct income limit data sets. The Authority will continue to research the underwriting and legal implications of these revised income limits and will publish technical revisions to this section as needed.

## Tax-Exempt & Taxable Lending Parameters

program or other more restrictive income restrictions will apply for the balance of the term of affordability.

- **Project Based Voucher (PBV)/Supportive Housing Income Restrictions:** PBV assistance is available only to designated supportive housing units serving special needs individuals, as defined in MSHDA's Addendum III. While PBV units may have higher LIHTC, HOME, or other income limit targets applied, for purposes of the Housing Assistance Payment (HAP) contract, PBV assisted households must have annual adjusted incomes at or below 30% Area Median Income (AMI).

I. **Rent Restrictions<sup>2</sup>:** The following rent restrictions apply based on program/funding sources utilized:

- **Tax Credit Rent Restrictions:** The total housing expense for all tax credit units may not exceed 30% of the tax credit income limit for that unit.

For underwriting purposes, only up to 30% of the total units in the development will be allowed to have rents underwritten at market rent and/or a rent of 95% of 30% of 60% tax credit income limit. All remaining market and/or 60% income restricted units in the development will have rents underwritten at 30% of the 50% tax credit income limit or lower as required by MSHDA's Chief Market Analyst.

Units that are targeted for occupancy at maximum income levels lower than 60% tax credit income limit will be underwritten with rents set at 30% of that lower income limit. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. In some situations, as noted below, the use of HOME, NSP, or TCAP funds will require further rental restrictions.

- **HOME Rent Restrictions:** The total housing expense for all HOME-assisted units in a rental project may not exceed the lesser of 1) 30% of 60% of AMI, 2) the Existing Section 8 Fair Market Rent (FMR) as established by HUD or 3) the High HOME rents as established by HUD. In rental projects with five or more HOME-assisted units, 20% of the HOME-assisted units must be occupied by very low-income households and have rents not to exceed the lesser of 1) 30% of 50% of AMI, 2) the Section 8 FMR or 3) the Low HOME rents as determined by HUD or the rent limit described above.
- **NSP Rent Restrictions:** For Developments where a NSP loan is provided, the total housing expense for NSP assisted units may not exceed 30% of 50% of AMI adjusted for household size or other more restrictive program rent restrictions.
- **TCAP Rent Restrictions:** For Developments where a TCAP loan is provided, the total housing expense for all TCAP assisted units may not exceed 30% of 60% of AMI adjusted for household size or other more restrictive program rent restrictions.
- **Existing HAP Contracts Rent Restrictions:** Until the expiration of the HAP, the Section 8 rent limits apply. After HAP expiration, or for projects with a HAP Contract

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<sup>2</sup> See note #1 above. Rent limits will also be based on distinct sets of "area median incomes" depending on the specific funding sources affecting assisted units in a development.



## Tax-Exempt & Taxable Lending Parameters

subject to annual appropriations, the applicable LIHTC rent restrictions or other more restrictive program rent restrictions will apply for the balance of the term of affordability. Following expiration of the current HAP contract the mortgagor must apply for and accept any available HAP or other HUD subsidy extensions, subject to Authority approval.

- **Section 236 Preservation Rent Restrictions:** The total housing expense for Section 236 units will be the lesser of 30% of 45% of AMI, the level of income currently served by the development, or other more restrictive program rent restriction.
- **PBV/Supportive Housing Rent Restrictions:** The total housing expense for units with MSHDA's PBV assistance outside of a Qualified Census Tract (QCT) will be the lesser of:
  1. The greater of the unit's applicable LIHTC rent or the payment standard established by the Housing Choice Voucher program;
  2. The reasonable rent; or
  3. The amount requested by the owner; or
  4. other more restrictive program rent restrictions

The total housing expense for units with MSHDA's PBV assistance within a QCT will be the lesser of:

1. The amount determined by the MSHDA, not to exceed 110 percent of the applicable fair market rent (FMR) (or any exception payment standard approved by the Secretary);
  2. The reasonable rent; or
  3. The amount requested by the owner; or
  4. other more restrictive program rent restrictions
- **Rent Increases:** For all programs, rental increases on occupied units during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by the Authority's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of Limited Dividend payments). Rents on vacated units may be increased to the maximum level permissible by the applicable programs.

**J. Operating Expenses:** Projected operating expenses must be provided using the Intake Package found as Tab II on MSHDA's Combined Application web site. For new construction proposals projections must be based on annual expenses of similar developments, in type, size, building structure, and location if possible. For occupied acquisition and/or preservation transactions, projections will generally be based on the current expenses of the proposed site.

**K. Annual Trending Factors:** The following trending assumptions will be utilized for the twenty-year cash flow analysis:

- Income: Maximum 1% for first five years, and 2% for remaining period
- Utility Expenses: Minimum 6% first five years, and 3% for remaining period
- All Other Operating Expenses: Minimum 3% for entire period

## Tax-Exempt & Taxable Lending Parameters

- Replacement Reserve: Minimum 2% (new construction) or 3% (rehabilitation) for entire period

As noted above, more conservative trending factors may be used based on the Authority's analysis of local conditions, development specific factors, experience with similar developments or the project's management company, or other factors suggesting greater risk in a transaction.

**L. Market Determination:** The market for the development and the proposed rents must be supported by a professional, independent market analysis, and must be sufficient to meet debt service and normal operating expenses. The impact of the proposed housing on other MSHDA developments in the area and the differential between market rent units and the proposed housing will be factors in accepting proposals for financing. The review, analysis, and acceptance of market conditions will be done in accordance with MSHDA Market Study Guidelines and the MSHDA Market Analysis Process.

**M. Operating Assurance Reserve:** At the time of initial disbursement of mortgage loan proceeds, the mortgagor must establish an Operating Assurance Reserve (OAR) equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR may be funded completely with cash or a maximum of 50% of the OAR may be funded with an irrevocable, unconditional letter of credit acceptable to the Authority, with the balance funded with cash. To the extent any portion of the OAR is used prior to the final closing of the mortgage loan, the mortgagor must restore the OAR to its original balance at final closing.

The OAR and any interest it accrues will be held by the Authority for a minimum of 15 full years of operation of the development and may be used in accordance with the Authority's written policy on the use of the OAR, as amended from time to time.

In the 10<sup>th</sup> year of amortization, the OAR will be used to fully fund the replacement reserve needs identified by an independent comprehensive needs analysis and to fully fund any other escrow accounts. If the amount required to fund escrows is represented by a letter of credit, the letter of credit will be drawn upon. The mortgagor may request approval of up to a 50% reduction/release in the remaining OAR. The Director of Asset Management may approve a release and/or reduction, based on a review of the development's operations. All excess amounts released from the OAR (in connection with this or any future release) will be deposited into the development's operating account.

Following the 15th full year of operation OAR funds that are not needed for funding of the replacement reserve, or other escrows, will be available for release to the development's operating account.

**N. Replacement Reserve:** The first year deposit to this reserve is a minimum of \$250 per unit for all new construction elderly developments, expressed as a percentage of rental income. The minimum first year deposit to the replacement reserve for new construction family development will be equal to \$300 per unit expressed as a percentage of rental income. In both cases the replacement reserve deposit will increase at the greater of 3% or at the expressed percentage rate over time as rental income increases.

## Tax-Exempt & Taxable Lending Parameters

Development amenities, such as washers/dryers, unit type, or foreseeable replacement of capital items (in the case of rehabilitation) may dictate a higher required deposit.

For all acquisition/rehab proposals, the annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than \$300 per unit. Furthermore, at the mortgage loan closing the sponsor must deposit the greater of \$700 per unit or an amount determined to satisfy the requirements of the Authority approved Capital Needs Assessment (CNA) over a 20-year period.

- O. Operating Deficit Reserve:** An Operating Deficit Reserve (ODR) may be required based on a cash flow analysis over a 20-year period. When required, the mortgagor must enter into an agreement and establish an ODR with the Authority with an initial deposit at closing. The ODR shall be funded in cash, held and controlled by the Authority and will be invested and reinvested by the Authority's Office of Finance. Interest earned on this reserve, if any, shall become part of this reserve and shall be treated and disbursed in the same way.

The amount disbursed annually from the ODR will be the annual projected budget deficit as shown on cash flow analysis establishing the ODR. Disbursements from the account may begin at the request of the mortgagor, in the first year in which the projected budget deficit is shown on the cash flow analysis. Each month the Authority will withdraw 1/12th of that projected annual deficit, and will apply it against the mortgage payment due that month. In each subsequent year, the annual disbursement will be the amount called for in the development's operating budget as approved by the Office of Asset Management, expected not to exceed the amount for that year shown on the cash flow analysis establishing the ODR. Draws from the ODR will continue in this manner each year until the ODR has been depleted or the Authority's mortgage loan(s) have been paid in full.

In the event that the development experiences an operating deficit that is greater than that projected, the Mortgagor may request that the Authority increase the amount drawn from the ODR. The Director of Asset Management must approve the request. However, the Mortgagor shall not be entitled to receive a Limited Dividend payment for any year in which the amount drawn from the ODR is greater than the annual projected budget deficit for that year, until the balance of the ODR is restored to the appropriate level.

At the earlier of the time when 80% of the ODR has been depleted or during the 18th year after the commencement of amortization, the Authority will determine the annual projected operating deficits and the total amount sufficient to fund projected operating deficits through the remaining term of the Authority's mortgage loan(s). The Mortgagor must deposit this amount in cash into the ODR, to be held by the Authority and disbursed as noted above. Failure to replenish the ODR, when required by the Authority, shall constitute a default on the Mortgage Loan. In the event that the Authority's Mortgage Loan(s) is/are accelerated after a default in the terms of the Mortgage, Notes or Regulatory Agreement, the Authority, in its sole discretion, may, but is not required to, apply any funds on deposit in the ODR, to the amount due on the Mortgage Loans as accelerated.

At such time as the Authority's Mortgage Loan(s) and all other financial obligations to the Authority are paid in full, the remaining balance of the ODR, including all interest that has accumulated, will be disbursed to the Mortgagor.

## Tax-Exempt & Taxable Lending Parameters

- P. Rent-Lag Escrow (236 Preservation Only):** A “rent-lag” escrow equal to 2.5 times the rent difference per unit will be required to be deposited to the operating account of the development at closing, to meet any shortfalls in operations while the tenant based vouchers are implemented.
- Q. Remarketing Reserve (236 Preservation Only):** A Remarketing Reserve Escrow, equal to one year of principal and interest payments of the "Part A" mortgage will be required. Funds may be withdrawn to cover vacancy loss greater than underwritten, and/or for marketing expenses. Following twenty-four consecutive months of average economic vacancy loss equal to or less than underwritten of the yearly Authority approved budgeted rent levels, the mortgagor may request in writing to the Director of Asset Management any remaining balance in the remarketing reserve be deposited into the development's operating account, unless there is a MSHDA Subordinate Loan to be repaid in which case the balance will be applied against the outstanding balance of the MSHDA Subordinate Loan.
- R. One Month's Gross Rent Potential:** For preservation or occupied acquisition/rehabilitation proposals, one month's gross rent potential is required to be deposited to the operating account of the development at closing, and other re-marketing or transitional operating reserves may be required.
- S. Rent-Up Allowance:** For new construction or vacant acquisition and rehabilitation proposals, a Rent-Up Allowance is required, and is included in the mortgage beyond the construction period. The Rent-Up Allowance supports interest payments between construction completion and the Cut-Off date. MSHDA's Chief Market Analyst determines the projected absorption period used to calculate the Rent-Up Allowance. In situations where a rent-up period in excess of six months is projected to achieve breakeven defined as when development operating income less any owner advances, meets operating expenses plus full monthly debt payments for three consecutive months, MSHDA will, at its sole discretion, extend the rent-up period requiring that additional interest be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving breakeven as described above, and providing evidence of 12-month leases at rents at least equal to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the cut-off date be accelerated, amortization commence and the letter of credit or other security be released.

**T. Real Estate Appraisal Requirements:**

MSHDA contracts for appraisals that assess the value of proposals for direct lending and low income housing tax credits. The review, analysis, and acceptance of appraisal will be done in accordance with MSHDA Appraisal Guidelines. The appraisal report shall conform to applicable Michigan statutory and regulatory requirements and the requirements of the Uniform Standards of Professional Appraisal Practice.

Appraisals shall be dated no later than 6 months from the date of application.

## Tax-Exempt & Taxable Lending Parameters

For acquisition/rehabilitation projects, MSHDA limits the acquisition price to the lesser of the actual purchase price or the “as is” unencumbered appraised value of the property prior to rehabilitation.

For all other projects, MSHDA reserves the right to require an appraisal to determine the value of the land included in project cost. The value of the land shall not exceed the lesser of its appraised value or the purchase price.

For in-kind contributions of land, evidence of the value of the contribution must be supported by an appraisal.

Projects with an NSP Loan are generally required to be discounted to no more than 85% of appraised value.

- U. MSHDA Design Standards/Site Selection Criteria:** MSHDA has multifamily design standards that often exceed the requirements of local building codes and site selection criteria against which all proposed development sites are reviewed. The design standards and site criteria are available on MSHDA’s web site. The sponsor’s architect will be required to certify compliance of the plans and specifications with the design standards.
- V. Construction Contract Allowances:** For projects of 50 units or more, line item allowances within the construction contract are 6% for builder profit, 2% for builder overhead, and 6% for general requirements of the total construction contract amount. For projects of less than 50 units, the line item allowances within the construction contract for builder profit, builder overhead and general requirements may not exceed an aggregate of 20% of the total construction contract amount.
- W. Construction Contingencies:** Construction contingencies will be required for all proposals involving rehabilitation, with the requisite contingency amount determined on a case-by-case basis. Rehabilitation contingencies of at least five percent of the construction contract amount should be anticipated. Generally, these funds will be a line item in the development budget within “soft cost” and not part of the construction contract. For new construction, a construction contingency of five percent is allowed, and at least five percent will be required when certain site conditions are anticipated (such as buried debris or environmental remediation).
- X. Developer Fees:** Developer fees for projects will be the lesser of (i) \$2,000,000 (\$1,000,000 for projects using taxable bond financing), or (ii) the amount calculated as follows:

  - For acquisition/rehabilitation or preservation projects:
    - o Of 49 units or fewer, 20% of the aggregate basis, (eligible basis plus land), minus its developer fee, developer overhead, and developer consultant fee(collectively, "Exclusions"). If an allocation of credit was received by virtue of being financed with taxable bonds (acq/rehab, preservation or new construction), the developer fee will be 15% of the aggregate basis minus Exclusions.

## Tax-Exempt & Taxable Lending Parameters

o Of 50 units or more, (x) 10% of the total acquisition cost of land and building(s), plus (y) 15% of the aggregate basis less total acquisition cost of land and building(s) and Exclusions.

- For new construction projects, 15% of aggregate basis minus Exclusions.

If an existing project is split into two or more projects, the aggregate developer fee for all projects cannot exceed \$2,000,000. (\$1,000,000 for projects using taxable bond financing).

**Y. Limited Dividend Calculations:** MSHDA's statute limits the return an owner can take on the equity investment in the project. Equity is defined as total development cost, less the sum of all MSHDA mortgages and less any grants and "soft" or non-amortizing secondary financing.

For Tax-Exempt and Taxable Bond loans, a return on the equity contribution of the owner of 12 percent in the first year following the cut-off date is permitted. This limit increases by one percent per year until a cap of 25 percent is achieved, unless a MSHDA Subordinate Loan and/or other MSHDA concession are outstanding. In this circumstance, the limited dividend is capped at 12% until the MSHDA Subordinate Loan has been fully repaid and/or MSHDA has been fully reimbursed for any other concession. The owner may request to increase the limited dividend upon full payment of the MSHDA Subordinate Loan and/or reimbursement of any other concession and the increase in rate shall begin at the year after that point in time. The eligible limited dividend is cumulative at the rate in effect during that particular year.

Returns for all preservation transactions will be cumulative. Seller waiver of accumulated and current year deferred limited dividend fees will be required.

For Section 8 developments subject to pre-1980 regulations, limited dividends will be limited to 12% of equity.

For Section 236 developments, the return on equity investment is limited to the lesser of 12% or the amount approved by HUD in the decoupling approval.

For all other preservation transactions, including post-1980 Section 8 developments, the return on equity investment limited to the lesser of 12% or the amount approved by HUD or RD.

For developments initially financed by MSHDA, the equity upon which a limited dividend is based will be the sum of the original equity plus the total principal payments made on the original loan by the original borrower prior to any repayment of the original loan unless HUD or other federal regulations require a different calculation. Returns will be non-cumulative. Seller waiver of accumulated and current year deferred limited dividend payments will be required. For developments not initially financed by MSHDA, the equity upon which a limited dividend is based will be 12% of the equity of the new transaction unless HUD or other federal regulations require a different calculation.

**Z. Syndication and other Equity Pay-In:** Prior to scheduling a mortgage loan closing, the Authority, the sponsor, the syndicator, and any other funding sources must agree to a schedule of funding. The schedule must set forth both the timing of the anticipated

## Tax-Exempt & Taxable Lending Parameters

payment of all costs necessary to complete the development and the availability of various sources for such payment.

Unless a construction and/or bridge loan has been anticipated and approved, MSHDA must be satisfied that it shall receive sufficient equity and other contributions to assure that, when combined with mortgage loan proceeds there will be sufficient funds, in sufficient time to assure payment of development costs during construction in a timely fashion. In the event the Authority has agreed to provide a construction/bridge loan, it will require that all non-developer fee tax credit equity contributions be made no later than the completion of construction.

With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funds must be deposited with and disbursed through MSHDA. Additionally, in the event a construction/bridge loan is used to pay developer fees on an interim basis prior to the pay-in of equity, no more than 50% of the anticipated paid developer fee (gross developer fee minus deferred fee) may be paid while the construction/bridge loan is outstanding.

With the exception of tax credit equity, all non-MSHDA funding sources planned within a transaction are generally expected to be funded at or prior to Initial Closing. In addition, in proposals where MSHDA provided a non-profit sponsor with a predevelopment loan, the loan must also be repaid at or prior to Initial Closing.

In all cases, the schedule of sources and uses must ensure that there are sufficient funds at all times to pay appropriate development costs, including hard and soft costs. MSHDA will work with the sponsor, the syndicator, and any other funding sources on timing issues and work to identify mutually agreeable solutions to fill funding gaps as appropriate to the particular situation. However, in no event will MSHDA agree to a condition(s) that, in its sole discretion, it determines will jeopardize the availability of funding when it is needed.

In the event a loan is determined to be out of balance and a shortage exists that threatens the ability to pay appropriate development costs in a timely fashion, the sponsor will be required to provide cash to the development's equity escrow account in an amount needed to satisfy all outstanding and payable costs. The Authority's Director of Finance may accept a letter of credit in lieu of cash for shortages expected to be resolved by equity pay-ins within 30 days.

### **IV. Other Information:**

- A. Fees:** The following fees apply for any Tax-Exempt or Taxable Lending transaction:
- A non-refundable Preliminary Project Assessment fee of \$500 must be submitted for any sponsor choosing to submit their proposal for the optional Preliminary Project Assessment. The \$500 is credited toward the \$2,000 application fee.
  - A non-refundable application fee of \$2,000 must be submitted with any proposal for mortgage loan financing. This fee is credited toward a 2% commitment fee.
  - A non-refundable filing fee of .5% of the proposed mortgage amount will be charged for projects presented to the Authority Board for Mortgage Loan

## Tax-Exempt & Taxable Lending Parameters

Commitment authorization. The non-refundable filing fee is credited toward a 2% commitment fee.

- A 2% commitment fee that is paid at the initial loan closing. The commitment fee is based on greater of permanent mortgage or construction loan plus any MSHDA Subordinate Loan financing (i.e. HOME, Preservation Fund, etc.)
- Tax credit and compliance fees will also apply

**B. Labor Standards:** Every contract for the construction or rehabilitation of housing under this program that includes 12 or more HOME-designated units, 9 or more Project Based Vouchers, where any TCAP or NSP funds are used, or in any other case where federal regulations require such compliance, must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act, to all laborers and mechanics employed in the development of any part of the housing.

**C. Equal Opportunity/Fair Housing:** MSHDA requires:

- The prime Contractor to provide an Equal Employment Opportunity Plan for goals setting for workforce trade utilizations and for business enterprises contracting to subcontractors and material suppliers; and
- The management agent to aggressively and affirmatively market the housing to minority groups.

**D. Cost Certification:** For New Construction transactions, the contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project. For preservation and occupied acquisition/rehab transactions, MSHDA will rely on the LIHTC cost certification and will not require a separate cost certification for preservation transactions.

**E. Audit of Development Operations:** For new construction on unoccupied acquisition/rehabilitation developments, MSHDA's Finance Division conducts an audit of initial development operations to ensure that certain costs incurred between initial occupancy and the start of amortization and property stabilization have been properly classified. To the extent that initial operating income was used to pay for development costs, the sponsor will be required to deposit any such audit exceptions in the development's operating account at Final Closing.

**F. No Relocation:** Involuntary permanent relocation of existing residents is not permitted.

**G. Loan Management:** MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling loan documents and its financial and physical condition through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.

**H. Unique Circumstances:** Developers are encouraged to discuss unique development opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.



## Tax-Exempt & Taxable Lending Parameters

### V. For Developments Currently Financed by MSHDA:

- A. **Debt Service:** For Section 8 Preservation transactions, the new annual debt payment must be equal to or greater than the original annual debt payment.
- B. **Repayment of Existing Indebtedness:** For preservation transactions all repayable subsidy loans, deferred interest, HOME loans, or other secondary financing, such as small size, security, and amenity loans are to be repaid at closing of the Mortgage loan. Assumption of these loans is not anticipated, nor is further secondary financing generally available to address this indebtedness. In proposed transactions where MSHDA provided a non-profit sponsor with a predevelopment loan, the loan must also be repaid at or prior to Initial Closing.
- C. **Replacement Reserve Draws:** Replacement reserve draws will not be processed subsequent to a loan application for a preservation transaction, without notification to MSHDA's Rental Development and Homeless Initiatives (RDHI) Division.
- D. **Contract Administration:** It is anticipated HUD will designate MSHDA as the contract administrator.
- E. **Reserve Ownership:** All Mortgagors must affirm MSHDA's ownership of excess reserves subject only to any lawful claims by HUD.
- F. **HUD Approval:** Where required, HUD approval of the transaction will be a condition of loan closing. The approvals from HUD must be consistent with all conditions of the program parameters and policies, and the rents, expenses, debt service and other financial elements in the development proforma stated in the Authority's mortgage loan commitment staff report.
- G. **Rental Assistance Extensions:** Upon expiration of any existing project based rental assistance, all mortgagors must apply for and accept any available subsidy extensions, subject to MSHDA approval.

### VI. Application Processing: A four-month processing time from application to closing is anticipated. **Typical Processing Steps include:**

- 1. **PRELIMINARY PROJECT ASSESSMENT** (Optional – suggested for new development teams or non-traditional site locations)
  - a. Applicant to submit Preliminary Project Assessment (PPA) Form including:
    - i. Addendum IV PPA Exhibit Checklist Documents
    - ii. \$500 non-refundable site review fee (Applicable to application fee if accepted)
    - iii. Executive Summary of proposed project
    - iv. Site Location/Map
    - v. Proposed development team
    - vi. Preliminary Market Study
    - vii. Preliminary development proforma (MSHDA format)
  - b. Proposal given a MSHDA number

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- c. HDO to coordinate site visit and preliminary review of proposed development team within 10 days of receipt of complete PPA Form
- d. Project Review Team to include: HDO, Design, Asset Management and Marketing
- e. Project presented to Project Review Committee (PRC) within 30 days of receipt of complete PPA Form
- f. Within 10 business days of presentation to PRC a letter which details the PRC's recommendation will be mailed to the sponsor. The recommendation should not be construed as an approval of any sort and **bolded** disclaimer will be included in letter (signed by HDO Manager) stating this. The recommendation will be to either:
  - i. Proceed and submit formal application – letter will include an invitation to proceed and any potential issues the PRC can identify, or
  - ii. Not to proceed – letter will include a recommendation not to proceed and clearly state reasons the PRC can identify

### 2. PROJECT THRESHOLD REVIEW

- a. Applicant to submit full formal application for processing, including:
  - i. Addendum IV Threshold Exhibit Checklist Documents
  - ii. \$2,000 non-refundable application fee  
(Applicable to commitment fee if accepted)
- b. Applicants that elected to skip the “Preliminary Project Assessment” will be subject to a site and development team review at this time, as well as loan review processing subject but not limited to acceptance of the following threshold requirements:
  - iii. Environmental (including NEPA review)
  - iv. Market Study
  - v. Site Plan
  - vi. Operating Budget
  - vii. Scope of Work and CNA (Preservation and Acquisition/Rehabilitation Transactions Only)
  - viii. Feasibility level plans and specifications
  - ix. Appraisal (Preservation/Acquisition Transactions Only)
  - x. Minimum leveraged funding requirement which must be equal to the lesser of 1) 5% of the Total Development Cost (TDC), or 2) 30% of MSHDA's secondary financing (Subordinate Loans Only)
  - xi. Financial Feasibility Approved
- c. HDO must present proposal to the Loan Committee, where either of the following decisions are made:
  - i. Project is accepted, a formal letter sent, signed by Loan Committee Chair, and the proposal is prioritized based on Priority Selection Process (Section VI below); or
  - ii. Project is denied. HDO contacts applicant to explain reasons for denial. Formal denial letter, signed by Loan Committee Chair, is sent to applicant within 10 business days of Loan Committee decision. Applicant has 15 business days to appeal decision in writing, to the Director of Rental Development and Homeless Initiatives, explicitly addressing

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Loan Committee reasons for denial. Such appeal will be governed by the MSHDA Appeal policy in effect at the time of the appeal.

### 3. PROJECT COMMITMENT

- a. Applicant to submit Addendum IV Commitment Exhibit Checklist Documents.
  - i. Commitment Level documents reviewed
  - ii. Development goes to Loan Committee
  - iii. Prioritization re-confirmed
  - iv. Board Approval
  - v. Rate Lock given and Firm reservation of soft monies (HOME, Preservation Fund, NSP, TCAP, Vouchers, etc.)

### 4. PROJECT CLOSED

## VII. Priority Selection Process:

For purposes of allocating scarce subsidy resources, the Authority has identified a competitive prioritization system. While the parameters and underwriting standards outlined herein are used to determine the conditions under which a first mortgage loan may be feasible and prudent, the priority selection process outlined below will be used to determine which projects receive subordinate financing and in which order they will be awarded those resources.

**In order to receive a Priority Designation, all projects must meet the underwriting and threshold requirements mentioned in the previous section.**

**PRIORTIZATION – Projects that meet all mandatory threshold requirements are prioritized as follows:**

**PRIORITY ONE** – MSHDA targets its available soft funding sources first for development proposals meeting the requirements under Priority One. These projects are required to have:

- a. Hard Equity Commitment as defined in Section XI-C of the 2009 Qualified Allocation Plan (QAP)
- b. A Payment in Lieu of Taxes (PILOT) of 5% or less based on the shelter rents/contract rents (including any service fees), or equivalent investment to achieve a 5% PILOT rate, over and above the leveraged requirement.
- c. At least one of the following:
  - i. Section 8 and 236 Preservation Transactions (minimum five-year term remaining)
  - ii. Majority of development with Project Based Rental subsidy (minimum five-year term remaining)
  - iii. NSP eligible
  - iv. Leveraged Funds – Lesser of 15% of the TDC or 50% of the Authority's soft-money investment\* (if no Authority soft funds are needed, no leverage required)
- d. And at least two of the following:

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- i. Evidence of community support/non-development related private sector investment\*\*
- ii. Minimum of 15% of units targeted for PSH (elderly developments excluded)
- iii. Projects which were in the Authority's Direct Lending pipeline prior to May 1, 2009
- iv. A minimum of 10% more than the leverage criteria

**PRIORITY TWO** – Any remaining soft funding sources will then be targeted to proposals meeting the requirements under Priority Two. However, a higher priority project that comes in later than a lower priority project will move ahead of the lower priority project. These projects are required to have:

- a. Hard Equity Commitment as defined in Section XI-C of the 2009 Qualified Allocation Plan (QAP)
- b. PILOT greater than 5% but less than or equal to 8% based on the shelter rents/contract rents (including any service fees), or equivalent investment to achieve a 5% PILOT rate, over and above the leveraged requirement.
- c. At least one of the following:
  - i. Preservation Transactions
  - ii. Leveraged Funds – Lesser of 10% of the TDC or 40% of the Authority's soft-money investment\* (if no Authority soft funds are needed, no leverage required)
- d. At least two of the following:
  - i. Evidence of community support/non-development related private sector investment\*\*
  - ii. Minimum of 10% of units targeted for PSH (elderly developments excluded)
  - iii. Projects which were in the Authority's Direct Lending pipeline prior to May 1, 2009
  - iv. A minimum of 10% more than the leverage criteria

**PRIORITY THREE** – Development proposals unable to meet the requirements under Priority One or Two at this time, will fall under Priority Three. Based upon the availability of funding, Priority Three proposals are unlikely to receive a MSHDA Subordinate Loan unless they can be restructured to achieve a Priority One or Priority Two designation. Again, a higher priority project that comes in later than a lower priority project will supersede the lower project.

<b>*Examples of Leveraged Funds</b>
a. Equity in excess of \$0.65 per LIHTC
b. Non-MSHDA – HOME, CDBG, NSP, or PBV
c. FHLB Funds
d. Quantifiable In-Kind contributions (land, etc.)
e. Voluntarily reduced DF %, and up to 50% deferred developer fees
f. GP capital contributions
g. Contributions from Philanthropic entity
h. Letters of Credit
i. PILOT less than Priority Threshold
<b>**Evidence of Community Support</b>

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2. Infrastructure Improvements
3. Neighborhood Organization Written Support
4. Tap Fee Waiver
5. Private Sector Investments in immediate area
6. CDBG and other Grant investments
7. Designated Revitalization or Redevelopment area