



STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

KEITH MOLIN
EXECUTIVE DIRECTOR

MEMORANDUM

TO: INTERESTED PARTIES
FROM: STEPHEN LATHOM
SUBJECT: RECOVERY ACT MULTIFAMILY FUNDING UPDATE
DATE: AUGUST 19, 2009
CC:

This memo is intended to provide interested parties with an update on the Michigan State Housing Development Authority’s implementation of various aspects of the American Recovery & Reinvestment Act. Specifically, industry participants should be aware of funding projections related to the Authority’s four program areas and two federal funding sources as outlined in the tables below.

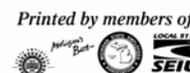
Initial Program & Funding Allocations: Based on the Preliminary Implementation Plan published on March 25th and the Low Income Housing Tax Credits (LIHTC) returned by applicants for the 9% Tax Credit Exchange Program, the following chart shows MSHDA’s reallocation of resources compared to the initial allocation, based on the discussion below:

Program	Initial Allocation	Revised Available Funding	Presumed Funding Source
9% Equity Support	\$34 million	\$9 million	TCAP
9% Tax Credit Exchange	\$200 million	\$160 million	Section 1602
4% Equity Support	\$30 million	\$55 million (TCAP) \$40 million (Section 1602) \$95 million	TCAP/Section 1602
Reinvestment	\$78 million	\$78 million	Section 1602

Funding for the 4% Equity Support program is now \$95 million. We **strongly encourage interested developers to submit their completed applications as soon as possible** in order to allow preliminary reviews needed to obtain a provisional LIHTC award. We expect to be able to continue to **accept such applications through September 15, 2009**. Details on the process appear below.

Recent Developments & Observations: Several developments over the past several months have made it possible for the Authority to begin re-assessing the allocation of funding among and between the various program areas funded by ARRA resources. These include:

- The results of the 2009 general funding round for 9% LIHTC have recently been announced. Of the 13 projects funded in this round, 7 claimed hard equity commitments, and of these only one requested 9% Equity Support funding. Of the 6 projects that received reservations without hard equity commitments, only one requested 9% Equity Support funding.
- While reviews from the rolling round are ongoing, 7 rolling round applications were submitted. As



required by the QAP, all of these submitted applications based on hard equity commitments. Of the 7 total rolling round applications, 5 submitted applications to the 9% Equity Support Program.

- Together, the general round projects awarded reservations and the pending rolling round applications only represent less than \$8 million in requests for funding under the 9% Equity Support Program. As a result, even after leaving some room within the resources available, we estimate that \$25 million in TCAP funding previously set-aside for the 9% Equity Support Program can reasonably be transferred to another program area.
- 49 applications were received under the 9% Tax Credit Exchange Program, representing approximately \$200 million in potential Section 1602 Program funding. Authority staff has completed an initial triage of these applications to sort them into high, medium, and low probability of proceeding. The initial screening was completed primarily on economic viability based on accepting sponsor's own application figures, ensuring that starting underwriting assumptions were properly applied, and completing an initial proforma. Staff has continued to process developments and has begun discussing deal status with individual sponsors, focusing the greatest efforts on deals most likely to be viable.
- The initial triage review suggests that many developments are no longer economically viable given the available resources and the underwriting outlook being applied across all ARRA funded programs. At this time, we estimate that \$40 million in Section 1602 Program funding previously set-aside for the 9% Tax Credit Exchange Program can be reasonably transferred to another program area.

Reallocation of Funding: The Authority, therefore, will re-allocate \$40 million in Section 1602 Program funding from the Exchange Program and \$25 million in TCAP funding from the 9% Equity Support Program to the 4% Equity Support Program.

Related Policy Changes: Because Section 1602 Program funding has distinct features as compared to TCAP funding, including a Treasury requirement that such funding be forgiven upon completion of the affordability period and special tax and accounting treatment, the Authority intends to provide a mix of Section 1602 and TCAP funding to 4% Equity Support transactions. As a general rule, on a first-come, first-served basis recipients of 4% Equity Support Program awards will receive a 50/50 split between Section 1602 and TCAP funding until available Section 1602 funding is exhausted.

4% Equity Support Applications Still Being Accepted: In order to be eligible for TCAP funding, federal law requires that a project receive a "tax credit award" on or before September 30, 2009. While the TCAP program itself has more time to commit funding, only projects that receive a tax credit award in the next 6 weeks will be eligible to compete for this funding.

The Authority's TCAP plan with HUD specifically "may include contingent awards of credit that may be revoked in the event a developer cannot meet the terms and conditions of the award, including but not limited to requirements that other sources of funding, including HOME, TCAP, NSP, etc., be identified and firmly committed to the project." In short, the Authority intends to provide provisional LIHTC awards to projects that have submitted applications for both Direct Lending and 4% Equity Support funding, and while not all projects receiving provisional awards will ultimately receive TCAP funding or a formal LIHTC reservation, projects submitted in time to receive a provisional award prior to September 30, 2009 will remain eligible for TCAP funding.

Developers, therefore, should be aware that the Authority is still actively accepting applications for new Direct Lending proposals that are concurrently seeking 4% Equity Support Program funding. We would **strongly encourage interested developers to submit their completed applications as soon as possible** in order to allow preliminary reviews needed to obtain a provisional LIHTC award. We expect to be able to continue to **accept such applications through September 15, 2009.**

Additionally, any developer who ultimately receives a provisional award resulting from a 2009 general round

application for 9% credits will be given a streamlined opportunity to have their proposal considered as a 4% credit transaction with tax-exempt lending from the Authority. Sponsors of such applications need only send a letter indicating their wish to be considered for a direct lending transaction. Sponsors electing to pursue 4% credits in this fashion should submit their requests as soon as possible and **no later than September 15, 2009**. Requests to be considered for 4% Direct Lending should be submitted to:

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To be clear, ultimate receipt of 4% Equity Support Program funding with TCAP and/or Section 1602 Program funding will still be determined by the competitive selection criteria outlined in the Authority's TCAP plan as approved by HUD and in the 4% Equity Support Program Notice. These criteria and other federal rules applicable to TCAP will require that hard equity commitments be obtained in order to receive a binding commitment for TCAP funding.

Ongoing Review of Environment and Implementation Flexibility: As the Authority has noted throughout its implementation of the Recovery Act, flexibility is and will remain key to successful implementation. This initial shifting of resources, along with other recently announced modifications to programs, is part of our effort to adjust programs to current circumstances while continuing to balance the competing priorities of disparate industry players with the policy objectives and priorities originally outlined in the Authority's Preliminary Implementation Plan. Given both that policy framework and HUD's expectation that TCAP funding only be awarded to developments that in fact attract equity investment for all of the credits awarded, the Authority will continue to focus on developments that can attract hard equity commitments.

The Authority will continue to track market conditions and may make additional adjustments to these programs in the months to come to ensure that ARRA resources are fully utilized.

Questions: Any questions about this funding update may be directed to:

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