MSHDA

AMERICAN RECOVERY & REINVESTMENT ACT, Questions and Answers

Question: My 9% Tax Credit Exchange Program proposal does not include any LIHTC equity, but developer fees payment schedules are usually determined by the syndicator/investor. How does the Authority intend to handle developer fee payments?

Answer (posted September 03, 2009): While the specific structure of each transaction may vary based on its unique features, the Authority's assessment of risk, and the track record of the sponsor, we expect to release developer fees on the following schedule (all references below refer to the non-deferred portion of the developer fee):

1. 10% of the developer fee paid at closing;
2. 40% of the developer fee paid upon a) construction completion, b) approval by MSHDA to occupy, and c) submission of the contractor's cost certification;
3. 25% of the developer fee paid at qualified occupancy of 95% of units; and
4. 25% of the developer fee paid upon completion of two consecutive years of cash-flow positive operations (or Operating Deficit Reserve draws at or below proforma levels) demonstrated by certified annual audits.

In all cases, release of developer fee will be contingent upon clearance of any compliance issues or default issues under the Authority loan documents and/or regulatory agreement(s) and a determination that all required escrows and reserves are properly funded.

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Question: Will the Authority allow deferred developer fees in 9% Tax Credit Exchange Program transactions without equity? Will they be required?

Answer (posted September 03, 2009): There is no requirement that developers defer or forego a portion of their developer fee in an Exchange transaction. It may be, however, that the sources available to a given deal are not adequate to fully fund the developer fee at its maximum allowable level and a sponsor may choose to forego fee to make a project feasible.

We are considering whether or not a deferred developer fee construct is necessary or useful in an Exchange transaction that has no LIHTC equity. Unlike a standard...
LIHTC transaction where deals are typically structured to maximize eligible basis, most Exchange transactions will not need to structurally maximize basis in this way. Our initial inclination is to simply list the developer fee as the amount that can be paid. For example rather than showing a $500,000 developer fee as a use with $125,000 of deferred fee as a source, it seems cleaner to simply show a $375,000 developer fee. In either case, however the fee is defined, the allowable limited dividends generated by a deal can be distributed to the sponsor/owner.

**Question**: Why are Limited Dividends being limited to a percentage of cash flow for Exchange Program developments?

**Answer (updated August 18, 2009)**: Under existing MSHDA policies, Limited Dividends have generally been defined and calculated as a percentage of owner's equity. Exchange transactions, on the whole, have little or no equity included in the capital structure, so any return allowance multiplied by zero would result in no opportunity for owner cash flow. Defining allowable Limited Dividends as a percentage of cash flow, therefore, allows reasonable returns to the developer/owner and has additional policy benefits.

These include more closely aligning owner returns and actual property performance, extending the economic life of Exchange Program projects, and protecting against unique recapture risks associated with the Exchange Program.

**Question**: How does this limitation extend the economic life of the project?

**Answer (updated August 18, 2009)**: Over the life cycle of a typical project, annual surplus cash will be deposited into a Sustainability Reserve Account (SRA) which is likely to build up cash reserves in early years of a project. Those reserves can sustain a project in the face of unexpected performance challenges, or as most projects begin to face deficits in cash flow projections the SRA balances can be used, after any other project reserves have been exhausted, to continue operations without relying on an assumption that a development can automatically by recapitalized at the end of the required affordability period. As anticipated in the Preliminary Implementation Plan, the net impact is to "improve the quality, sustainability, and long term impact of projects developed with ARRA resources."

**Question**: In a mixed-income development, is the Reinvestment Program funding tied only to the affordable units, or can the market rate units qualify as well?

**Answer (updated August 18, 2009)**: Unlike standard LIHTC awards where credits are tied to the "applicable fraction" of a building that is income and rent restricted, Treasury's rules for the Section 1602 Program calculate allowable funding on total eligible basis. Buildings must still meet the 20% at 50% AMI or 40% and 60% AMI set-asides to be a "qualified low income building," but expenses associated with the market rate units in the building can be paid with Reinvestment Program funding.

**Question**: What kind of "variances" will you allow on the MSHDA imposed program limits - for example, all else being equal will you allow funds to be used for a development that has less than 15 years left on its MSHDA mortgage?
Answer (updated August 18, 2009): It is difficult to say definitively given the first-time and one-time nature of the program. The Program Notice defines the intended use of the funds for a targeted cohort of properties and the Authority intends to focus on that cohort initially. As the program is implemented, the Authority may consider developments that are "younger" or "older" than the Program Notice anticipates or that slightly exceed the per unit maximum award. In any such event, sponsors/owners with unique circumstances are encouraged to contact the Authority and discuss their situation in advance if at all possible, and any requested waivers or variances from the program requirements should be clearly highlighted in the Reinvestment Program application. We would expect that, all else being equal, projects meeting all program requirements would be awarded ahead of those requiring significant waivers from the program.

Question: Have you asked a tax accounting firm with specific LIHTC expertise to determine if the Program’s design has any negative (or positive) tax impact on existing LIHTC funded developments?

Answer (updated August 18, 2009): Not specifically, but we have consulted with various national experts in Low Income Housing Tax Credits. While the Authority cannot provide tax advice to owners and strongly suggests sponsors/owners consult their own legal and tax advisors, there are suggestions that Section 1602 Program awards may have positive impacts on capital account balances of existing transactions. Depending on the specific underlying finances of a given transaction, this could reduce the chances of negative capital account balances leading to disruption of credit allocations within a partnership and could reduce or eliminate exit tax consequences at a future disposition. It is possible that some transactions would produce additional losses and therefore additional economic benefit to existing limited partners.

Many questions surround the tax impact of Exchange Funds beyond just the reinvestment program. As these questions are resolved through national discussions among Treasury, Congress, states, and stakeholders, the Authority will remain engaged in the dialog and may adapt the program if appropriate.

Question: Is the requirement for material participation by a non-profit as defined in the QAP a Program specific requirement or project/development specific requirement? In other words, are you expecting that a certain percentage of the Program funds will be awarded to non-profit developers or are you suggesting that MSHDA desires a for profit developer to jointly submit proposal(s) with a non-profit partner?

Answer (updated August 18, 2009): Material participation by a non-profit is not required of any specific Reinvestment Program project. Treasury has indicated, however, that the nonprofit set-aside requirements of Section 42 apply to awards of Section 1602 Program funding, so the Authority will consider the underlying nature of the general partner or its controlling "parent" corporation along with the distribution of awards under other program models using Section 1602 Program funds to ensure that the appropriate 10% set-aside is collectively met.

Question: What type of leveraged funds does MSHDA anticipate might be used to
underwrite project costs?

**Answer (updated August 18, 2009):** Leveraged funds include but may not be limited to: i) general partner or limited partner capital contributions, ii) use of existing replacement reserve balances in excess of those needed to maintain required post-rehabilitation minimum balances, iii) local government awards of HOME or CDBG, iv) Federal Home Loan Bank Affordable Housing Program awards, v) new or improved PILOTs, vi) waiver of Reinvestment Program developer fees, vii) or other non-MSHDA contributions that create lasting and quantifiable "cash value" improvements to the development's operations.

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**Question:** Do cross-cutting federal program requirements such as NEPA, Davis-Bacon, etc. apply to the Reinvestment Program?

**Answer (updated August 18, 2009):** No, cross-cutting federal requirements do not apply to the Section 1602 Program. However, if the Authority determined that other funding sources, such as HOME funds, would be used on a given project, cross-cutting requirements would apply, and if an owner receives other federal funds from a local government, cross-cutting requirements may be triggered. Finally, owners should be aware that the Recovery Act does impose certain reporting requirements that will apply to these projects.

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**Question:** Would a developer be prevented from re-syndication after the original compliance period has expired?

**Answer (updated August 18, 2009):** It is not clear which compliance period the question is referring to. If a development currently in its initial 15 year LIHTC compliance period receives a Reinvestment Program award with Section 1602 funds, an additional 15 year compliance period would be required by virtue of the Section 1602 investment. If during the additional 15 year compliance period, a development sought yet another award of LIHTC to finance another recapitalization of the project, it may be possible to receive credits at that time assuming various technical aspects of the project meet LIHTC requirements at that time and there are no changes in law in the meantime that affect the substantive effect of Section 42.

As a practical matter, however, developments that are recapitalized with a Reinvestment Program award should not need to re-syndicate during the next 15 years. Furthermore, since properties participating in the Reinvestment Program would have to waive their prepayment right during the 15-year compliance period, they would require Authority approval for a resyndication or similar transaction.

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**Question:** Can this program be utilized in conjunction with a MSHDA direct lending refinancing of the existing underlying MSHDA-financed debt?

**Answer (updated August 18, 2009):** The primary objective for the Reinvestment Program is developments that can be preserved via a modest infusion of capital investment. Developments that are better served by a complete refinance transaction can access Recovery Act resources via the 4% Equity Support Program.
which remains open for new applications.

**Question:** What trending and vacancy factors will MSHDA use to evaluate Reinvestment Program applications? Will 2% rent and 3% expense factors be used if a development was originally underwritten using those assumptions?

**Answer (updated August 18, 2009):** MSHDA's most recent underwriting standards, available in Tab O of the Combined Application, will be used as the starting point. Specifically, rents will be trended at no more than 1% for the first five years following the completion of rehabilitation and no more than 2% annually thereafter. Expenses will generally be trended at 3% annually except utilities will be inflated at 6% for the first five years following the completion of rehabilitation. A minimum vacancy rate of 8% will be used.

To the degree that development specific information, including a review of recent financial performance, suggests the need for more conservative underwriting standards, the Authority will apply more different factors to individual Reinvestment Program applications.

**Question:** Do developments have to achieve a 1.25 debt coverage ratio to participate in the Reinvestment Program?

**Answer (updated August 18, 2009):** No, but they must demonstrate an ability to achieve break even or cash flow positive operations through at least the 15 year initial compliance period. Developments will be re-underwritten based on currently achievable rents and existing operating costs with the current Authority underwriting standards for rent and expense trending applied.

**Question:** Why aren't conventionally financed 9% developments without prior Authority investments eligible to apply?

**Answer (updated August 18, 2009):** The Reinvestment Program is being targeted in this fashion to address a class of transactions that were, at the time, deliberately underwritten to lesser standards than the "conventional" 9% LIHTC market was using. At the urging of the industry, the Authority's various direct investment program models used thinner underwriting margins and took on greater risk. Such transactions also tended to be much more heavily leveraged, leaving them more vulnerable to the economic challenges the state has endured and continues to face. These fundamental differences tend to leave these projects more challenged and less able to complete "standard" preservation transactions at this time.

Additionally, as industry observers have pointed out, it is important for the Authority to stand behind the existing portfolio of its direct investments in an effort to improve the housing investment environment in the state as a whole and maintain the Authority's ability to attract lending capital to the state. For these policy reasons, the Authority has determined it is reasonable and appropriate to limit participation in the Reinvestment Program to those properties that have received direct investment through any of the Authority's broad range of state and federal resources.
**Question:** Why is there a LIHTC compliance fee if the development is not receiving actual tax credits?

**Answer (updated August 18, 2009):** The Section 1602 Program provides cash assistance in lieu of credits but for compliance purposes is treated as if it were a LIHTC award. Therefore the standard LIHTC compliance standards and fees apply.

**Question:** Can the proceeds of the Reinvestment Program award be used to establish or replenish the Operating Assurance Reserve or the Replacement Reserve?

**Answer (updated August 18, 2009):** Treasury will not require direct tracing of Section 1602 funding to specific development costs, so Reinvestment Program funding can be used toward required reserves with some limitations. Specifically, the maximum Reinvestment Program award (assuming Section 1602 Program funding) is 110% of the eligible basis in the rehabilitation costs. To the degree that required deposits to reserves exceed 10% of the eligible basis costs incurred, additional funding from the owner or from other non-MSHDA sources would be required for a project to be deemed feasible.

**Question:** Does the Reinvestment Program award of $20,000 per unit include or exclude General Requirements, Builder's Profit, and Overhead? What about soft costs such as the CNA, Energy/Green Audit, or architectural services?

**Answer (updated August 18, 2009):** The per-unit maximum award is inclusive of all allowable program costs. Existing QAP limits on general requirements, profit, and overhead apply to the Reinvestment Program, and other soft costs may be included in the project costs.

**Question:** How is the 20% of the owner's adjusted basis determined?

**Answer (updated September 03, 2009):** Applicants should submit a letter from the CPA that completed the developments' most recent annual audit that identifies the ownership entity's adjusted basis as of the end of the development's most recent fiscal year.

**Question:** Are completed Phase I Environmental Assessments due by the application date of October 2nd?

**Answer (updated September 03, 2009):** No, at application, the owner only needs to submit evidence that a Phase I Environmental Assessment has been ordered. The Phase I Environmental Assessment must be submitted by November 15th during "commitment" level processing and not at the initial application stage. This allows more time to complete the Phase I Environmental review but should still ensure it is received in time to influence the scope of work as appropriate. Sponsors should be aware that the earlier a Phase I is obtained and submitted, the less likely it will
provide "surprises" that may require changes in the scope of work and/or render a project infeasible.

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**Question:** Will soft costs and 3rd party costs be reimbursed through the Reinvestment Program award?

**Answer (updated August 18, 2009):** To the extent that eligible project costs are incurred by the owner/sponsor, they may be reimbursed by a Reinvestment Program award. This will include "pre-development" items such as the cost of the CNA, Green Audit, architectural services, and the like. The Authority will only reimburse such costs on projects that actually receive a Reinvestment Program award.

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**Question:** Are completed Capital Needs Assessments due by the application date of October 2nd? This could be challenging given the tight turnaround anticipated for applications.

**Answer (updated August 18, 2009):** No, an applicant need only submit the initial scope of work based on its own analysis of what improvements should be completed along with a check for the CNA. MSHDA will order the CNA shortly after applications are received, and the results of the CNA and Green Audit will be used to inform the final scope of work.

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**Question:** I submitted an application for 9% LIHTC and a Notice of Intent to Apply for TCAP in the May 2009 general funding round. I don’t know yet if my project has been awarded LIHTC. Do I need to submit my 9% Equity Support Application before July 16th, or can I wait until I know if I’ve received an LIHTC reservation?

**Answer (updated June 29, 2009):** In order to be eligible for the 9% Equity Support Program, you must submit your application by **July 16th**. While LIHTC awards may not be announced by that point, applicants should submit their applications now to allow simultaneous processing. Additionally, as noted in the 9% Equity Support Program Notice, the Authority is considering making provisional awards of TCAP and/or LIHTC in excess of available funding to create a pool of eligible projects. To ensure your project’s eligibility, you should apply before the deadline.

**Note:** Applications for the 9% Equity Support Program are due by July 16th - not July 8th as originally stated.

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**Question:** When I submitted my Notice of Intent to Apply for TCAP, I only asked for pricing support of $0.15 per tax credit dollar. As I’ve re-assessed my project and realized that I didn’t initially understand or properly apply some of the revised underwriting standards, I realize I should have asked for $0.20 per tax credit dollar in 9% Equity Support Program funding. Can I revise my request? What are the implications of doing so?

**Answer (posted June 26, 2009):** Yes, if you believe that you made a mistake, you should revise your request for 9% Equity Support Program funding. The Authority may re-score your tax credit application to adjust the points claimed for requesting less than the maximum TCAP funding award. Similarly, if applied for tax credits without requesting TCAP (and received extra points for doing so), you may subsequently revise your application to include TCAP, but such a change will affect...
the project's score.

**Question**: How will the rescoring work? What happens if MSHDA's underwriting review determines my project is not viable without additional TCAP?

**Answer (posted June 26, 2009)**: If you submit your 9% Equity Support Application requesting more support than initially indicated in the NOI submitted in the May 1st general round, MSHDA intends to adjust the points associated with having requested less than the maximum equity support. Likewise, if the Authority's underwriting reviews indicate that more equity support is needed because standard underwriting requirements were not properly applied, we will adjust your equity support request upwards (not to exceed the maximum allowable) and adjust points accordingly.

However, if the Authority's underwriting reviews suggest additional modifications that are attributable to good faith differences between the sponsor’s proposed budget and the Authority’s assessment of risk in a transaction, changes in the equity support needed for the project will be considered without adjusting points. For example, if an applicant projected 1% rent increases during the first five years as required within the underwriting requirements but the Authority determines that local conditions suggest an even more conservative assumption is needed, the increase in equity support needed to accommodate that underwriting change will not result in rescoring.

**Question**: Will you rescore proposals to increase points for developments that are determined to need less equity support than initially requested?

**Answer (posted June 26, 2009)**: No.

**Question**: I've heard that MSHDA is not willing to consider scattered site single family rental projects under the various Recovery Act programs. Is this true and why?

**Answer (posted June 26, 2009)**: No, the Authority is not disallowing any given class of developments. However, there are significant concerns about the viability of this development model, and we have seen a disproportionate amount of compliance issues with several such projects.

As a result, the Authority is working to evaluate special considerations that may need to be applied to such projects. Initially, the Authority believes that several key points need to be considered to identify a successful scattered site development:

1. Good site selection requires a balance between neighborhood conditions and project scale and concentration. A scattered site project in a good/healthy neighborhood can be more dispersed than one in a transitional neighborhood that necessarily needs to control more of the real estate within the outer boundaries of the project.

2. Development team capacity and track record, particularly in the neighborhood and with similar developments is critical. Viable projects should have meaningful and verifiable buy-in from other local partners (including local government and neighborhood nonprofits) that have demonstrated capacity and a substantive comprehensive plan to holistically address neighborhood needs. In most cases, a successful scattered site project depends on being part of a larger whole, and those proposing projects that are the “first piece” of a larger redevelopment plan must be able to show that other neighborhood improvements can be counted on to happen.
3. The geographically dispersed nature of such projects and the less efficient physical building type suggests the need to use underwriting standards specific to scattered site deals. Comparing such projects to certain "standard" operating costs, particularly in terms of maintenance and administration, is not adequate. Comparing the cost of snow removal for a 50 unit family deal on one site to 50 scattered units each with their own sidewalk, drive, and lead walk makes little sense, for example. And even standard non-capital maintenance costs like service calls, fix-up issues, furnace filter replacements, etc. will take longer, require more transportation costs, and add to the operating cost burden as a result. Security costs have also been noted by various industry observers as a particular concern for these projects.

The Authority is considering whether or not standard assumptions about replacement reserves deposits are appropriate. Because 1-4 family homes tend to have more exterior wall, roof, and window space than similarly sized apartment units, for example, long-term capital costs may be higher. These concerns may affect initial construction or rehabilitation plans as well as long-term capital budgeting.

Taken as a whole, scattered site developments will be carefully reviewed, and we expect to budget higher administrative, maintenance, and security costs than similarly sized apartment communities. And we are researching Capital Needs Assessments of scattered site projects to determine if a higher replacement reserve deposit is appropriate.

The Authority is developing a white paper with greater detail on the topic of scattered site projects and expects to publish it shortly.

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**Question:** Are there other considerations that scattered site single family projects should take into account?

**Answer (posted June 26, 2009):** Yes, under the state's Inclusive Home Design Act single family homes financed with loan or grant proceeds from the Authority are subject to special design standards to promote “visitability.” While the Inclusive Home Design Act did not apply to projects simply being awarded tax credits, it does apply to projects receiving direct investments from the Authority.

As a result, newly constructed single family homes requesting support from the 9% Tax Credit Assistance Program, the 4% Tax Credit Assistance Program, or the 9% Tax Credit Exchange Program must comply with the act.

Expectations for compliance with this act are more fully described in the Office of Community Development's Policy Bulletin #10, Attachment E.

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**Question:** How do I go about ordering or updating market studies for projects eligible for monetized credit?

**Answer (posted June 15, 2009):** To order an update, a project must meet the following criteria:

- The study describing the project must be dated after July 8th, 2008.
- The study must have been assigned by MSHDA or completed by a firm on the Authority’s current approved list (in Tab C of the Combined Application on the MSHDA website);
- The project that is described in the study has not undergone any major changes since the study was completed and submitted. Major changes include rent increases of more than 10%, including more targeted units at higher Area...
Median income bands (more 60% AMI units, more market-rate units, etc.),
and changing more than three amenities on offer.

An update costs $1,500. Please send a filled-out copy of MSHDA's Market Study
Initiation Request form (in Tab C of the Combined Application on our website) as well
as the check and any information on minor changes to the project to David Allen at
MSHDA.

If the project does not meet the criteria, a new study must be completed. These cost
$5,700, and are ordered by using the same Initiation Request form mentioned
above.

In either case, MSHDA will accept market study requests (for either full studies or
updates) related to the 9% Tax Credit Exchange Program until July 8th, 2009. It is
not necessary to have a completed study or update in the application packet;
a Market Study Initiation Request form and a check for the work will suffice.
However, sponsors should be aware that the sooner market study updates are
ordered, the sooner processing of 9% Tax Credit Exchange Program
applications can proceed. We encourage you to submit the Market Study
Initiation request as soon as possible rather than waiting until the July 8th
application deadline.

Questions about market study issues can be directed to Dave Allen at 517-335-
4786.

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**Question:** I know I want to apply for the 9% Tax Credit Exchange Program, but I
don't know if I'll be able to submit all of the Exhibit Checklist items by July 8th. What
should I do?

**Answer (posted June 10, 2009):** Complete the Application, including the Exhibit
Checklist, as completely as possible and submit your application package before the
deadline. Include a cover letter identifying which Exhibit Checklist items are still
pending and the timeframe for completing them. Sponsors should be aware that, all
else being equal, the Authority will process complete applications ahead of those
submitted without all required due diligence items, so sponsors should be aware of
the delays in processing this may create.

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**Question:** Under the 2009 QAP, I already ordered my own CNA and appraisal (or
other similar due diligence item), but the Direct Lending Parameters say that MSHDA
will order these items. Can I still use my previously ordered report?

**Answer (posted June 10, 2009):** As noted in the 9% Tax Credit Exchange Exhibit
Checklist, in many cases, the Authority will accept due diligence items such as
appraisals and CNAs previously ordered by the developer. In the event the Authority
determines that the due diligence reports are too old or of insufficient quality,
decisions will be made on a case-by-case basis about whether the developer should
update previous reports or new reports will be ordered by the Authority. If you have
questions about your specific deal, please contact John Hundt at 517-241-7207.

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**Question:** The Program Notices indicated that Annual Asset Management Fees are
still to be determined. When will the Authority provide final figures so we can
complete our pro formas?

**Answer (posted June 10, 2009):** Under federal rules, the fees are intended to
reflect the Authority's actual cost of ongoing asset management oversight. We hope
to finalize our internal analysis of these fees within the next 2-3 weeks but continue
to suggest sponsors use the planning figures provided.

**Question:** I'm working on a small project with only 24 units. The $10,000 annual asset management fee proposed for 9% Tax Credit Exchange Program developments has a disproportionate impact on my deal. Why isn’t the Authority considering different fees for different sized developments or a per-unit per-year fee structure?

**Answer (posted June 10, 2009):** In analyzing the costs associated with ongoing asset management functions, there is little difference based on development size. To pick one small example, the time and effort that go into reviewing annual certified audits do not vary significantly between a 24 unit development and a 240 unit development. If anything, the Authority’s experience suggests that small developments can be more costly to oversee simply because of the inefficiencies that often lead to more challenges for such projects. A lesson from the current economic downturn is that asset management has been underfunded and underprovided in the past, leaving properties vulnerable now. This is a mistake we do not wish to repeat.

**Question:** I have a 2008 reservation for 9% LIHTC and am considering applying for the 9% Tax Credit Exchange Program. I am concerned however that my deal no longer works when the new underwriting criteria are applied. What are my options?

**Answer (posted June 10, 2009):** There are several possible scenarios:

- You could identify additional gap financing from other sources such as local HOME or CDBG funds, defer or accept a smaller developer fee, find other cost savings, etc.;
- If the structure of your deal accommodates it, you can apply for a tax exempt mortgage from the Authority in order to qualify for 4% LIHTC and sell those credits (or potentially purchase them yourself) to generate additional sources for the development;
- If you believe there are compelling features of your transaction that justify specific changes to the underwriting criteria, you can request a waiver from the Authority. To be clear, variations from the underwriting criteria will require clear and compelling evidence to suggest that an alternate standard is reasonable and appropriate; or
- You can return your credit without penalty and choose not to invest further resources in an application that is unlikely to be successful.

The Authority recognizes that not every development awarded LIHTC in prior years is still economically viable or prudent within the resources available. In the current economic climate, the Authority and the industry have determined that "fewer better deals" will need to be completed in an effort to ensure that the developments actually completed will be financially sound, serve the growing needs among very low income households, and be more sustainable in the future.

**Question:** My 2008 project, which I am considering applying for the 9% Tax Credit Exchange Program with, was not originally required to meet one or more of the criteria now contained in Sections I through V of the Direct Lending Parameters when it was originally awarded 9% LIHTC. For example, my project was not required to limit 60% AMI rents to 95% of the published Tax Credit rent limit, which is now a requirement of the Direct Lending Parameters. I understand that I will not be subject to the Priority Selection Process contained in these Parameters, but will I be required...
to meet all of the criteria in Sections I through V of the Direct Lending Parameters?

**Answer (posted June 10, 2009):** The Authority continues to feel that deals need to be stronger than ever given the current economic climate. While the Authority believes the best way to accomplish this is by meeting the criteria set forth in the Direct Lending Parameters, it also realizes that some projects that were approved for an award of 9% LIHTC in prior years may not be in a position to be able to meet all of these criteria or to have them applied retroactively. Accordingly, applicants applying under the 9% Tax Credit Exchange Program may request a waiver of certain requirements contained in the Direct Lending Parameters that they feel cannot be applied to their specific project. Applicants requesting such a waiver must clearly document why a specific requirement should not be applied to their project and how the project will maintain its viability in the event a waiver of the specific criterion were to be granted.

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**Question:** I have a 2008 tax credit reservation in which I had also planned an Authority Section 8 Preservation direct loan under the Taxable Bond Program. Within my application I applied for a Preservation Fund subordinate loan to fill an anticipated gap. Even with the $0.85 in exchange funds, I still have a gap. Would I still be eligible for the Preservation Fund loan?

**Answer (posted June 10, 2009):** In those instances where you had previously applied for direct lending and had a gap to be filled with an Authority subordinate loan, we will consider still providing the subordinate loan. However, the Authority reserves the right to choose the source of funds, and the project will be subject to the current underwriting assumptions under the new program parameters, including the priority selection process.

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**Question:** I have a project that received an allocation of 9% credit in a prior year, with which I intend to apply for the 9% Tax Credit Exchange Program. Is there anything I should be doing to ensure that my project is ready for this process once the application materials are made available?

**Answer (posted May 20, 2009):** The Authority plans to publish specific application instructions and materials for the Exchange Program by mid-June. In the meantime, applicants who are considering applying for stimulus funds in the future are encouraged to review and update all application information including, but not limited to sources of financing, project costs and any necessary due diligence items. In addition, applicants are encouraged to review how their project will fit within underwriting criteria and guidelines that may have changed since their project originally received an award of credit.

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**Question:** I applied in the May 2009 9% LIHTC application round, and I also submitted a Notice of Intent to apply for TCAP. I intend to use a conventional first mortgage loan, not a MSHDA direct loan. How do the Direct Lending parameters apply to me? Do I have to compete for the TCAP funds under the “Priority Selection Process?”

**Answer (posted May 20, 2009):** First, sponsors should be aware that the Authority will soon publish a formal application for the 9% Tax Credit Assistance Program that was announced in the Preliminary Implementation Plan. Because the HUD rules were not available at the time LIHTC applications were due, we could not accept a full TCAP application simultaneously.

While this should be a streamlined process, sponsors will need to submit additional due diligence items necessary for the Authority to review projects for TCAP eligibility.
The Direct Lending Parameters will apply to all developments seeking TCAP assistance for purposes of Sections I through V of the parameters. These are the sections pertaining to lending parameters, underwriting standards, and the like. Section VI pertaining to Application Processing will not directly apply to the 9% Tax Credit Assistance Program, but the Authority will outline a similar set of application processing steps and guidelines when it publishes the TCAP application.

Finally, and perhaps most notably, the Priority Selection Process in Section VII, does not apply to the 9% Tax Credit Assistance Program. Applicants seeking TCAP in an amount not to exceed effective LIHTC pricing support of $0.25 per $1.00 will not be subject to the Priority Selection Process.

It should be noted, however, that any applicants that have applied for a Direct Loan from the Authority and are requesting additional gap financing from the Authority will be subject to Section VI and Section VII of the parameters.

**Question:** I applied for a 9% LIHTC award in the May 2009 general round, but I think I will end up needing more than $0.25 per LIHTC dollar in TCAP. Does MSHDA plan to allow increased TCAP requests?

**Answer (posted May 20, 2009):** Under the Authority’s Preliminary Implementation Plan, we do not anticipate awarding more than $0.25 in TCAP to 2009 9% LIHTC applicants unless they have applied for a taxable loan from the Authority and successfully compete within the Direct Lending Program’s Priority Selection Process for additional gap financing, which could include HOME, TCAP, NSP, or other funding.

Applicants with the need for additional gap financing are encouraged to seek other sources such as local HOME or CDBG funding, Federal Home Loan Bank Affordable Housing Program awards, philanthropic support, etc.

However, as with other aspects of the Authority’s implementation of ARRA programs, we will continue to monitor the effectiveness of our programs, policies, and processes and will consider adjustments and amendments as needed to ensure the timely, efficient, and effective use of ARRA funding.

**Question:** I have a 2008 reservation of 9% credits and intend to apply for the Tax Credit Exchange Program outlined in the Preliminary Implementation Plan. I intend to use a conventional first mortgage loan, not a MSHDA direct loan. How do the Direct Lending parameters apply to me? Do I have to compete for the Monetized Credit funds under the “Priority Selection Process?”

**Answer (posted May 20, 2009):** As with developments seeking TCAP assistance under the 9% Tax Credit Exchange Program, Sections I through V will apply to all Exchange Program transactions for purposes of lending parameters, underwriting standards, and the like.

Additionally, the Authority will publish Application Processing criteria specifically applicable to the Exchange Program concurrently with the upcoming publication of an Exchange Program Application for use by sponsors.

Finally, the Priority Selection Process will not apply to the award of monetized credits. Applicants applying for Monetized Credit sub-awards in an amount not to exceed the cash value of the credit reservation returned will not be subject to the Priority Selection Process.
Question: I have a prior award of 9% credits and intend to apply for the Tax Credit Exchange Program, but I think I will need more funding than is produced by the return of my credits for $0.85. Does MSHDA plan to award additional funding to projects like this?

Answer (posted May 20, 2009): Under the Authority’s Preliminary Implementation Plan, we do not anticipate awarding more than ARRA funding—from either TCAP or Monetized Credit—to a specific development than can be produced by the returned tax credit reservation. For example, the return of a $1 million credit reservation (each year for ten years) would produce $8.5 million in Monetized Credit Funding. The Authority does not anticipate awarding more than $8.5 million in ARRA resources to such a development.

Developers may have several options to successfully complete a transaction in such a case however. They may seek a tax exempt Direct Loan from the Authority, qualify for 4% LIHTC, and sell those credits to bring additional resources to a project. They may seek a taxable Direct Loan from the Authority and compete for additional gap financing resources under the Priority Selection Process.

Alternatively, developers may seek additional sources of financing from other sources such as local HOME or CDBG funding, Federal Home Loan Bank Affordable Housing Program, local philanthropy, etc.

Developers whose projects are no longer economically feasible within current underwriting criteria even at an exchange rate of $0.85 are reminded that the Authority will accept returns of credit reservations without penalty.

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Question: I have a 2008 reservation of 9% credits and intend to apply for the Tax Credit Exchange Program outlined in the Preliminary Implementation Plan. I also plan to apply for 4% tax credits and tax exempt financing from MSHDA’s Direct Lending Program. How do the parameters apply to me? Do I have to compete for the Monetized Credit funds under the “Priority Selection Process?”

Answer (posted May 20, 2009): As long as the project does not need additional funding above the $0.85 in monetized credit, the development will not be subject to the Priority Selection Process. However, the project will be subject to Sections I – VI of the Program Parameters.

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Question: I have applied for Taxable Bond financing with 9% tax credits, and will need MSHDA gap financing on top of the $0.25 in TCAP funding. How do the parameters apply to me? Do I have to compete for the soft gap funds under the “Priority Selection Process?”

Answer (posted May 20, 2009): Yes, all Direct Lending projects requesting soft gap funding from MSHDA above the limits of the Preliminary Implementation Plan will be subject to all sections of the parameters, including Section VII the Priority Selection Process.

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Question: Since TCAP is a federal funding source similar to HOME, can I get points for “Federal, State, or Local Funding” in the Scoring Summary?

Answer (Posted April 27, 2009): No, federal TCAP will not qualify for points as federal, state, or local funding in scoring summary. While TCAP is a federal funding source, it’s specifically tied to LIHTC production and intended to offset the disruptions in the syndication market. Leverage is important, but the real goal is maximizing sources other than LIHTC or TCAP. Since the Authority is providing...
additional points to sponsors who do not need TCAP assistance, awarding points to a proposal because it does use TCAP would be illogical.

Question: I understand that using TCAP will trigger various federal requirements, including Environmental Review under NEPA. What is the timing of this review, and how does that mesh with the tax credit program’s requirement for 120 days of site control?

Answer (Posted April 27, 2009): The lack of clear federal guidelines for TCAP makes this issue tricky. From a standpoint of just your application for a tax credit reservation, the 120 day site control requirement is unchanged.

In a situation where the Authority is providing HOME funds to a transaction, if a site’s environmental condition is straightforward and “clean,” 120 days should also be adequate to complete the NEPA review process. Contamination, the presence of wetlands, noise impacts, SHPO review, or other issues can stretch this process out significantly.

Since the Authority does not yet have the TCAP guidelines from HUD, it is unclear how this timeline will line up with the minimum 120 day land control required to apply for tax credits. In order to make even a tentative award subject to a NEPA review, HUD must publish guidance, the Authority will have to develop any formal plans required by HUD, HUD may need to approve those plans, formal TCAP applications may need to be submitted by sponsors, and NEPA reviews will need to be completed.

We intend to do everything we can to speed the NEPA review process for applications seeking TCAP funding, including processing the local and state level record reviews needed. But we cannot publish or submit requests for release of funds to HUD until the TCAP guidance is issued and the Authority is cleared to proceed with its program.

As a practical matter, the Authority recommends that sponsors seek to negotiate longer site control options rather than counting on the minimum 120 days tax credit standard being adequate.

Sponsors must be aware that once they have indicated intent to request TCAP (or other federal) funding, taking “choice limiting actions” including acquiring the property may render a proposal ineligible for federal funding.

Question: Why does a developer who is not seeking any TCAP funding still have to complete the TCAP Notice of Intent Apply form? If I don’t need TCAP, does the whole development team still need to sign the form?

Answer (Posted April 27, 2009): The TCAP Notice of Intent to Apply form is filling multiple purposes. It determines the maximum TCAP allowed under the preliminary plan, indicates the TCAP request the developer intends to make, and determines how many additional points will be awarded for requesting less than the maximum TCAP. Developers who are not seeking any TCAP funding still need to complete the form in order to document the additional 50 points that such an application will receive.

The form is also intended to make clear to key members of the development team that cross-cutting federal requirements are presumed to apply to TCAP funding and that those cross-cutting requirements may affect their work vis-à-vis the development proposal. This purpose of the form is moot for proposals that do not need TCAP assistance, so in the limited case of projects not seeking any TCAP
assistance, only the owner/applicant will need to sign the TCAP Notice of Intent to
Apply form. In such instances, the architect and contractor need not sign the form.

Sponsors should still be aware that if their proposal relies on other sources of federal
funding—such as Project Based Vouchers or local HOME or CDBG—these cross-
cutting requirements may still apply.

Question: Is there any reason for me to think that my project would be eligible to
receive exchange funds if it does not meet the current MSHDA design review
standards?

Answer (Posted April 23, 2009): The Authority is reviewing current design review
standards and their applicability to projects that may apply for Exchange Funds, and
we recognize the need for some flexibility in this regard. We expect that in some
cases, alternative means of mitigating risk may be used—underwriting less
“desirable” units within a specific building at lower rents for example—while in others
modifications to building plans may be appropriate. The Authority encourages all
owners to review their projects, how they will fit within existing program guidelines,
and consider what modifications may be easily made to improve consistency with the
standards of design. However, it is possible that certain types of projects may not fit
within the design criteria and may not be eligible to receive tax credit exchange
funds.

Question: Will any deviation from the published operating standards and trending
factors be allowed?

Answer (Posted April 23, 2009): At this time, the Authority anticipates applying the
published operating standards and trending factors to the majority of projects
applying for funds. However, in certain cases where historic data can support the
use of alternative standards, the Authority will consider the use of those standards
on a case-by-case basis. Additionally, if specific developments apply for 9% credits
with a hard equity commitment and without the need for TCAP or other soft funding
from the Authority, we will consider alternative standards if the sponsor provides
evidence that the tax credit investor, lender, and other funding sources have jointly
approved the use of that alternative standard.

Question: Will an owner applying for the 9% Tax Credit Assistance Program or the
9% Tax Credit Exchange Program be required to have a new Capital Needs
Assessment (CNA) completed by MSHDA if the owner has already had a CNA
completed by another preparer?

Answer (Posted April 23, 2009): MSHDA will consider the use of a CNA that is
prepared by an alternate source. However, its acceptability will depend on various
factors including, but not limited to: the date the assessment was prepared and
MSHDA’s assessment of the accuracy of the data in the report. These instances will
be reviewed on a case-by-case basis. For developments already in the Authority's
portfolio, we will also take the most recent CNA completed as part of our Asset
Management process into account when reviewing the submitted CNA.

Developers who have not already ordered their CNAs and who plan to apply for
ARRA funding from the Authority or who plan to apply within the Direct Lending
programs should contact John Hundt to discuss the process for ordering a
Preservation CNA through the Authority.

Question: Why didn’t the Authority include references to the Fair Housing Act in its
preliminary plan? Isn’t that one of the cross cutting federal requirements specifically
mentioned as not subject to any federal waiver in the ARRA legislation?

**Answer (Posted April 23, 2009):** We expect all developments receiving tax credits, with or without ARRA resources, to comply with all appropriate Fair Housing Requirements and other laws and standards generally applied to the development of low and moderate income housing developments. The cross cutting requirements specifically mentioned in the preliminary plan were those the Authority believed may be least familiar to developers that have not used federal funds in prior Low Income Housing Tax Credit deals and those with which compliance was most likely to have an immediate impact on the planning for or financial structure of a deal; it was not intended as an exhaustive list.

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**Question:** Will MSHDA require my project to meet the 1.25 Debt Coverage Ratio for the entire 15-year Compliance Period?

**Answer (Posted April 23, 2009):** At this time, the Authority prefers to see a minimum 1.25 DCR for the duration of the Compliance Period but understands the impact that its income and expense trending factors will have on debt coverage ratios. In certain cases, project-specific details may warrant the use of an alternative standard or other means of mitigating risk such as higher operating reserves. These instances will be reviewed on a case-by-case basis.

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**Question:** My MSHDA imposed tax credit commitment deadline is fast approaching. I'm interested in the Exchange Program but still need to understand more about it. Is my only choice to return the credits now?

**Answer (Posted April 23, 2009):** While the Authority is still interested in facilitating an expeditious return of credits that have been unable to syndicate, we are well aware of the angst this causes. Our intent has been to provide as much guidance as possible so sponsors can make informed decisions. As we await definitive federal guidance, any prior year 9% credit awards with MSHDA imposed commitment deadlines prior to the end of May will be provided with automatic extensions through May 31, 2009.

We intend to provide further information on our plans for the 9%Tax Credit Exchange Program, even in the absence of definitive rules from Treasury, over the next several weeks so that developers can better understand the shape and direction of Authority policy.

To be clear, this automatic extension does NOT affect federally imposed carryover tests, so some sponsors are still in the difficult position of deciding between spending additional dollars on a project that may not ever sell its credits or returning the credits now for a spot in line for the still developing 9% Tax Credit Exchange Program. Additionally, this decision does not affect reservations with commitment deadlines already scheduled for June 1 or later.

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**Question:** What is MSHDA doing to require that developers (for housing developments from 2007-2009) comply with Section 504? When will MSHDA reopen its QAP to include the 504 requirements? Section 504 of the Rehabilitation Act of 1973, in tandem with other similar requirements, requires among other things that certain accessible design features be included in federally assisted housing.

**Answer (posted April 22, 2009):** While federal guidance from HUD and Treasury are needed to answer definitively, the Authority is moving forward with planning efforts based on the assumption that both TCAP and Monetized Credit funding will trigger Section 504 compliance requirements and application of Uniform Federal...
Accessibility Standards. The Authority will ensure compliance in this regard through a design review process and construction oversight.

However, the Authority does not plan to reopen the QAP for revisions at this time, and development proposals that can move forward without using TCAP or Monetized Credit funding will not be required to comply with Section 504 unless other funding sources in a transaction trigger compliance with cross cutting federal regulations.

Question: Will developers be required to submit hard equity commitments in order to obtain TCAP funds?

Answer (posted April 22, 2009): No, applicants in the May 1 window may indicate their intent to request TCAP funding whether or not they have hard equity commitments. However, federal regulations may well require that TCAP funds be used by a specific deadline separate from the calendar for LIHTC. Therefore, projects winning TCAP awards may well be required to meet a more demanding schedule than that imposed by LIHTC alone. In such cases, an equity commitment would, of course, be beneficial.

Question: Can developments with 2007/2008 reservations that need to close a pricing gap receive TCAP assistance?

Answer (posted April 22, 2009): At this time, the Authority does not anticipate providing TCAP assistance to developments syndicating prior year credits at less than the Exchange Rate. As noted in the preliminary plan, doing so would diminish the value of these federal resources to the state, requiring both the use of limited gap financing and the net “loss” of value in credit that could have otherwise been exchanged at a higher rate.

As the Authority reviews the results of the Exchange Survey, this position may be reconsidered for specific deals based on the unique circumstances and timing of each proposal. However, regardless of the form or assistance—TCAP or Monetized Credits—the Authority expects to apply the same underwriting criteria.

Question: Will projects applying to the Tax Credit Exchange Program be simply re-underwritten or will there also be a rescoring process?

Answer (posted April 22, 2009): Tax Credit Exchange applicants will be re-underwritten to ensure that, given the increased role of the Authority in the transaction, the development team is acceptable, the development meets the Authority’s underwriting criteria, due diligence still supports the transaction, and cross cutting federal regulations have been properly addressed and adhered to. Because Exchange Program applicants are limited to those returning credits, the Authority does not anticipate re-scoring this universe of development proposals unless further federal guidance requires we do so.

However, given the realities of the situation and the changes in both local markets and the economy over the past year and half, sponsors should be aware that not every development proposal with a prior award of credits is going to be considered viable or prudent. And not every proposal that applies for Exchange Program funding will be able to move forward simultaneously. We do intend to triage the applications and will move some faster than others based on their relative strength, the speed at which sponsors turn back credits, and unique circumstances involved in each deal (for example moving a deal with an impending loss of site control more quickly than one that may not be facing such a deadline).
**Question:** Can sponsors who already returned prior year’s credits prior to the passage of ARRA apply for the Tax Credit Exchange Program?

**Answer (posted April 22, 2009):** No, credits previously returned from the 2007 round were re-awarded in the August 2008 round. Those credits cannot be exchanged with the federal government twice. Only those sponsors returning reservations after the passage of ARRA are eligible to apply for the 9% Tax Credit Exchange Program.

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**Question:** If I return my 2008 credits, do I have to obtain a MSHDA direct loan? Or do I only have to adhere to the MSHDA process review in order to obtain Exchange Dollars?

**Answer (posted April 22, 2009):** Sponsors interested in the 9% Tax Credit Exchange Program are NOT required to apply for a MSHDA Tax-Exempt loan. The Authority believes that participation will be desirable in many cases because of the ability to leverage 4% LIHTC equity in a way that both improves the financial position of the development and increases the net federal resources available to the state.

However, it is correct that all applicants for the Exchange Program, as well as those seeking TCAP funding, will be required to satisfy the Authority’s Direct Lending Underwriting standards and the streamlined review process we are developing.

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**Question:** Are there specific set-asides within MSHDA’s plan for Permanent Supportive Housing?

**Answer (posted April 22, 2009):** There are not explicit set-asides or carve outs for permanent supportive housing in the preliminary ARRA implementation plan. Likewise there are not specific setasides or targets for other specific subsets of projects such as preservation, DHHP, nonprofit sponsors, etc.

However, this should not be taken as a retreat from the various public policy goals these various targets represent. Rather, the ARRA resources are all tied to supporting developments already subject to the QAP (or in the case of the Exchange Program prior QAPs). Both the QAP and the soon to be released Prioritization Process for awarding soft funding to Direct Lending applications contain various incentives promoting Permanent Supportive Housing and other policy goals. In short, the ARRA resources do not need their own carve out since they will, by design, support the QAP and its policy goals.

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**Question:** Will all 9% Tax Credit applications in the May 2009 round be subject to the Authority’s Direct Lending underwriting?

**Response (posted April 10, 2009):** Development proposals that are not seeking ARRA funding from the Authority (i.e. TCAP, HOME, or other soft funding) will not be subject to the joint underwriting process envisioned by the preliminary plan. However, given the current equity market, the Authority anticipates that most May round proposals will seek some level of Tax Credit Assistance Program funding which we expect will expose the Authority to recapture risk similar to that associated with the HOME program. Therefore, most applications will be processed jointly between Tax Credit Allocations and Rental Development.

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**Question:** If a project receives Municipality funds (e.g. NSP or HOME), which design review and underwriting standards take precedent?
Response (posted April 10, 2009): Generally, developments will be required to independently meet the design requirements imposed by each funder, not one or another. Any project receiving TCAP or Monetized Credit funding from the Authority would be expected to meet the MSHDA Standards of Design.

However, MSHDA is keenly aware of the challenges and pitfalls requiring several dozen developments to go through the “standard” design review process simultaneously and is considering ways to streamline the process without sacrificing the benefits of this system.

Question: If the stimulus money is regarded as soft loans, there could be a valuation problem with the property at the end of 15 years (i.e. property is worth less than all the debt). How will MSHDA handle this?

This is similar to HUD’s Mark-To-Market program where the rents are reduced and the debt is refinanced, thereby creating a lot of subordinate debt. HUD allows the subordinate debt to be forgiven if a non-profit purchases the property OR they allow an assignment of the subordinate debt to the new purchaser.

What will MSHDA do?

Response (posted April 10, 2009): The exact structure and terms of investments from ARRA resources are still under consideration. Tentatively, the Authority anticipates structuring TCAP awards as subordinate mortgages payable from a percentage of cash flow, probably under the same terms that HOME funds are currently loaned to Direct Lending transactions.

Monetized credits, on the other hand, have special tax characteristics under ARRA. Because the Authority cannot legally take a limited partner interest (nor is it interested in such a structure), monetized credit funds are likely to be structured as mortgage loans. However, we are considering terms that would be similar to equity. These could include:

- Forgiveness at the end of a 30 year compliance period (the initial 15 required of standard credits plus the state enforced 15 year extended affordability required by Section 42) with a structured opportunity for a new entity to assume the debt associated with a re-capitalization in 15 to 20 years;
- Payment to the Authority of some share of cash flow;
- An assignable option to purchase the property at a formula price based on the outstanding debt or a split of net sales proceeds after payment of outstanding debt.

Question: How should all stakeholders ensure that this process does not slow down the stimulative intent? What would the Authority like for Developers to do in order to help this plan be as expeditious as possible?

Response (posted April 10, 2009): Developers can help by providing feedback and input to the Authority on the preliminary plan. In terms of specific transactions, developers should be considering the impact of cross-cutting federal regulations on their development, working with their development team to identify due diligence items that may need to be updated, and re-evaluating their proformas in light of the expectation that ARRA assisted developments fit within the Authority’s Direct Lending Underwriting criteria.

Highlights of these criteria that may require proforma revisions include:

- Minimum DCR of 1.25;
• Minimum Vacancy Rate of 8%;
• Operating Reserve equal to 4 months debt service and operating expenses;
• Replacement Reserve deposits of $250-$350 per unit, per year (New construction: $300 family; $250 senior; $50 additional for in-unit washers/dryer —Preservation: $300);
• Initial RR deposit based on 20 year CNA.

Additionally, the Authority expects to stress test deals more vigorously, projecting cash flows based on rent increases of no more than 1% for 5 years, 6% utility inflation for 5 years, and potentially 4% increases in maintenance and administration expenses for the 20 year projection period.

Finally, while the stimulative effect of these developments is important, it is worth reiterating that not all pipeline projects can move forward simultaneously. The Authority will seek to reverse triage the pipeline, focusing initial efforts on developments that can be soundly and solidly underwritten most quickly, leaving more challenging development proposals with additional time to meet program requirements.

**Question:** Which QAP will an Owner have to abide by if they receive TCAP and/or Exchange Dollars? January 2008 reservations are currently subject to the 2007 QAP, which doesn’t include Service Provider criteria. It makes sense to have the project abide by the rules of the initial allocating QAP since TCAP and Exchange Dollars go further under those rules. This would be less of an administrative burden on Service Providers and Developers.

**Response (posted April 10, 2009):** A definitive answer to this question may require guidance from HUD and Treasury, and the answers may vary between TCAP and Monetized Credit funding.

• TCAP funds awarded to 2009 9% LIHTC applicants would be consistent with the 2009 QAP.
• TCAP funds awarded to 4% Direct Lending projects would be subject to the QAP under which those applications were processed. Most would be subject to the 2009 QAP, but a few may still be under a prior year’s QAP.

Reservations issued under the 2007 QAP, including those from the January 2008 funding round, are in a somewhat different class than 2008 QAP awards that have not been able to syndicate. The 2007 QAP was less effective in achieving many policy outcomes; those developments have had much more opportunity to syndicate than awards made late in 2008; and they will require the most extensive re-underwriting and due diligence updating.

The Authority is considering applying the 10% Permanent Supportive Housing set-aside requirement to all non-elderly developments in the 9% Tax Credit Exchange Program, but if this requirement is applied, these developments will be given an opportunity to apply for Project Based Vouchers as appropriate.

**Question:** MSHDA has the authority to charge a subsidy layering review fee according to page 28 of the QAP. Therefore, will MSHDA be charging Developers a subsidy layering review fee for the use of TCAP and Exchange Dollars? If so, what is that fee and should we include it in our May funding round applications?

**Response (posted April 10, 2009):** We are still working to develop standards in this regard, and the nature of fees charged will depend somewhat on the federal guidelines within which these programs will operate. Initially, the Authority is considering an “origination” fee equal to 2% of the gross TCAP or Monetized Credit...
funding awarded to a development which would offset the Authority's cost of underwriting, closing, oversight of construction and disbursements, and otherwise monitoring the development stage of a project. This would include subsidy layering reviews.

We are also considering a multi-tiered approach to asset management fees to cover the Authority’s ongoing cost of monitoring the performance and financial health of a development. While it’s not fully clear at this point, those tiers would include:

- Developments participating in the 9% Tax Credit Assistance Program that have actual syndication proceeds and ongoing oversight by a third party equity provider (likely annual fee per project: $3,500-$5,000);
- Developments participating in the 9% Tax Credit Exchange Program that also participate in the Authority’s TEAM Direct Lending/4% LIHTC Program and projects Participating in the 4% Tax Credit Assistance Program (likely annual fee per project: $0); and
- Developments participating in the 9% Tax Credit Exchange Program without concurrent participation with the Direct Lending program (likely annual fee per project: $7,500-$10,000).

Additionally, standard compliance monitoring fees would still be charged.

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**Question:** How long will implementation take, in light of the approaching 10% tests for Carryover Allocations?

**Response (posted April 10, 2009):** Implementation of the four programs outlined in the draft preliminary plan will require federal guidance. As a result, it is difficult to specifically commit to hard dates at this time. TCAP guidance from HUD is expected sooner than Monetized Credit guidance from Treasury, so it is likely that funding associated with the 9% and Tax Credit Assistance Programs will be available before closings can occur under the 9% Tax Credit Exchange or the Reinvestment and Innovation Programs.

The 10% carryover is an IRS requirement of the Low Income Housing Tax Credit program and cannot be waived by the Authority. We recognize that the timing is difficult, leaving developers that received an allocation in May 2008 with a choice between returning their credits now without absolute clarity on the Exchange Program requirements, or spending money on a project that may not ever attract tax credit equity. It is, however, the Authority’s impression that once a reservation is returned for the Authority to monetize, the 10% carryover requirement will not be an issue, or at least will have a “new clock,” under the Exchange Program.

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**Question:** What reasonable assurances will MSHDA provide that once tax credits are returned, Developers will receive exchange dollars?

**Response (posted April 10, 2009):** The Authority intends to provide clear guidance to Developers about the underwriting standards, program terms, and processing expectations. We believe this should provide Developers with an adequate and transparent understanding of the likelihood that a specific development will qualify for the exchange program. However, in order to apply for the 9% Tax Credit Exchange Program, sponsors will be required to return their credit reservations.

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**Question:** How will Syndication Prices outlined in the approved QAP apply with the use of TCAP and Exchange Dollars? Does an Exchange Dollar equal a Hard Equity Commitment?
Response (posted April 10, 2009): Monetized Credit funding, or “exchange dollars,” does not equal a hard equity commitment. Under the draft preliminary plan, the Authority does not anticipate awarding Monetized Credit to developments competing in the 2009 QAP funding rounds in which a hard equity commitment yields substantial points. While the Authority anticipates providing TCAP funding to this class of development proposals, TCAP is not a hard equity commitment either.