



Rental Development

NOTICE OF FUNDING AVAILABILITY

**And
General Guidelines
For**

Gap Financing Program

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Important Notice: *Developments not requiring gap financing from MSHDA or other MSHDA preservation developments not requiring gap financing in excess of what would be recaptured by MSHDA in the event of refinancing may apply for financing at any time. Those developments will not be subject to the Notice of Funding Availability process.*

I. INTRODUCTION

In an effort to improve direct lending production, MSHDA is again making available a combined total of approximately \$18 million of MSHDA HOME and Preservation Funds to its Rental Development division to be exclusively utilized in the Gap Financing Program. Participation in the Gap Financing Program requires the applicant to also obtain tax-exempt bond funded permanent financing from MSHDA. **Both gap funding types will be made available to projects without regard to whether they are a new construction, adaptive reuse, acquisition/rehabilitation, or preservation transaction.** MSHDA specifically reserves the right to fund any application submitted under this NOFA with either or both of the sources of funding being made available. Accordingly, applicants should note that developments receiving federal funding may be subject to federal cross-cutting guidelines. A minimum of fifteen percent of the Authority’s annual HOME allocation will be set-aside for CHDO eligible proposals. All other terms of the Gap Financing Program apply to the CHDO proposals.

For purposes of allocating these limited resources, MSHDA has determined that these funds can be best put to use through a public Notice of Funding Availability (NOFA). Beginning in 2017, MSHDA will have two funding rounds associated with the Gap Financing Program. Applications will be due February 15th and August 15th of each year, so that developers will not need to wait for up to a year between funding rounds if they happened to miss the previous annual round due date. It is anticipated that the funds will be committed and closed over 6 to 12 months per round. This NOFA describes what types of projects will be eligible and the allocation process through which these funds will be awarded.

II. PROJECTED FUNDING ROUND TIMELINE

- **Second 2017 Round (approximately 50% of annual funding):**

April 27, 2017	Release of NOFA
June 30, 2017	Abbreviated or Full Market Study orders due
August 15, 2017	Notice of Intent to Apply package due
September 15, 2017	Intent to Apply rankings released, and applicants invited to submit application
October 2, 2017	Capital Needs Assessment (CNA) orders due
December 15, 2017	Application package due
February 15, 2018	Application rankings released
March 1, 2018	Commitment Review package due
April 1, 2018	Commitment Awards of Gap-Funding announced
Next Board Meeting	MSHDA Board Presentation/Decision
Within 90 days	All awardees made have closed on all financing

STRICT ADHERENCE TO THE ABOVE TIMELINE IS REQUIRED FOR A DEVELOPMENT TO REMAIN ELIGIBLE FOR GAP FUNDING. ANY DEVIATION FROM THE ABOVE TIMELINE WILL RESULT IN THE DEVELOPMENT'S APPLICATION BEING REMOVED FROM CONSIDERATION AND ANOTHER DEVELOPMENT BEING PROCESSED IN ITS PLACE. WRITTEN WAIVER REQUESTS OF DOCUMENT SUBMISSION DEADLINES WILL BE CONSIDERED AND DECISIONS MADE AT THE SOLE DISCRETION OF MSHDA STAFF.

III. FINANCING TERMS

All gap funding loans will be made as subordinate loans with the HOME Loan bearing simple interest at 1% annually, and the Preservation Loan bearing interest at 3% annually. Gap funding loans are typically made with a 50 year term.

Annual payments equal to 50% of surplus cash available for distribution to the owner are generally required; however, payments will be deferred until the earlier of the year in which the sum of all surplus cash available for distribution¹ has equaled the amount of the deferred development fee², or 12 years. Beginning at the earlier of the year in which the sum of all surplus cash available for distribution equaled the amount of the deferred development fee, or in the 13th year from the beginning of amortization of the first mortgage loan (or, in the case of certain PSH~~Small Scale~~ loans where there is no permanent first mortgage loan, the 13th year from initial disbursement of MSHDA gap funding loan proceeds), annual payments from 50% of any surplus cash available for distribution to the owner will be required.

If there are multiple MSHDA gap funding loans, the priority of such loans will be established in the MSHDA staff report and payments on the lower priority MSHDA gap funding loans will be deferred for so long as the primary MSHDA gap funding loan is receiving payments from 50% of surplus cash available for distribution. Upon payment in full of the first mortgage loan, the outstanding balance of the primary MSHDA gap funding loan, including accrued interest, will become the new first mortgage loan and will begin amortization with monthly mortgage payments equal to the payments made under the original first mortgage loan. At such time as the primary MSHDA gap funding loan begins receiving monthly amortization payments as described in the preceding sentence, annual payments on the lower priority MSHDA gap funding loan (if any) will be required in the amount of 50% of any surplus cash available for distribution. If the lower priority MSHDA gap funding loan remains outstanding after both the original first mortgage loan and primary MSHDA gap funding loan have been repaid, the outstanding balance of the lower priority MSHDA gap funding loan, including accrued interest, will become the new first mortgage loan and will begin amortization with monthly mortgage payments equal to the payments made under the original first mortgage loan.

All payments made on MSHDA gap funding loans will be applied first to accrued interest, then to current interest and principal. The entire balance of principal and all interest on

¹ MSHDA will not require that all surplus funds pay for deferred fee, but rather it will all be counted against paying off the deferred fee, whether they use the surplus cash for that or something else.

²See Section VI.P below for a description of development fee.

MSHDA gap funding loans is due at the earliest of (i) sale of the development; (ii) prepayment or refinancing of the first mortgage loan; or (iii) 50 years after initial closing.

IV. ALLOCATION PROCESS

The allocation process will consist of phases as described in the MSHDA Multifamily Direct Lending Parameters (Lending Parameters). The phases are: 1) Notice of Intent to Apply; 2) Application Submission; 3) Commitment Review; 4) MSHDA Board Consideration; 5) Pre-Closing; 6) Initial Closing; 7) Construction; and 8) Final Closing. The staged approach is being employed in order to ensure that MSHDA’s staffing resources are utilized as efficiently as possible, and to limit potentially unnecessary costs to the applicants. The minimum amount of any MSHDA gap funding loan will be \$1,000 per unit in the development. The maximum amount of any MSHDA gap funding loan will not exceed the lesser of (1) the equity gap as determined by MSHDA, (2) the amount of the permanent tax-exempt bond loan, or (3) program limits imposed by applicable state or federal regulations associated with a specific funding source. Moreover, the maximum amount of MSHDA loans that are outstanding at any time with respect to any one project shall not exceed 90% of the total development cost. (Note, the amount of any existing reserves captured and used as gap funding within the same proposal, is included in the gap funding limit in the 1:1 ratio. However, the existing reserves captured and used as gap funding are not figured in the ratio within the evaluation criteria used for ranking purposes).

In addition, under this funding round of the Gap Financing Program a minimum capital contribution/deferred developer fee/reduced developer fee from the sponsor may be required based on a certain percentage of the soft-to-hard debt ratio as follows:

Minimum Capital Contribution/Deferred Developer Fee/Reduced Developer Fee Requirement	Soft-to-Hard Debt Ratio
0%	0.00% - 19.99%
15%	20.00% - 39.99%
25%	40.00% - 59.99%
35%	60.00% - 79.99%
45%	80.00% - 89.99%
50%	90.00% - 100.00%

Note: With the exception of any tax credit equity source and existing reserves utilized, other non-MSHDA funding sources will be applied against the minimum sponsor funding requirement. In addition, any existing MSHDA repayable rent subsidy loans being repaid with MSHDA gap funding will not be counted within the soft-to-hard debt ratio ranking calculation. The Authority may consider not counting other payments due to the Authority against the ratio when unique circumstances allow, as long as the total gap funding used does not exceed the 1:1 soft to hard debt ratio.

Additionally, where the amount gap funding per affordable unit exceeds \$100,000, further consideration will be made by the Authority’s Loan Committee as to whether an additional contribution by the sponsor will be required. The addition contribution would not exceed the equivalent of a 15% deferred development fee. If required, the additional contribution will be used to reduce the amount of MSHDA’s gap funding.

A. Notice of Intent to Apply:

All sponsors interested in applying for gap funding must submit a Notice of Intent to Apply package no later than the close of business on the dates specified in Section II above. The completed Notice of Intent to Apply and required supporting documentation should be submitted to:

John Hundt
Housing Development Manager
Michigan State Housing Development Authority
735 E. Michigan Avenue
P.O. Box 30044
Lansing, MI 48909

The Notice of Intent to Apply and attachments is required for all proposals, and is designed primarily to review the overall capacity and development history/experience of the development team, assess the site, and preliminarily review the development proposal. Key MSHDA staff will meet to determine whether the proposal meets intent to apply criteria. Those proposals meeting the intent to apply criteria will receive a letter inviting them to submit a full application. Those proposals not meeting the intent to apply criteria will receive a letter indicating that an application may not be submitted. Sponsor's self-identified gap funding need rankings will be posted on MSHDA's website. No proposal will be accepted so long as any member of the sponsor's development team or any other party who, directly or indirectly, has the ability to control a member of the development team or exercise significant influence over a member of the development team in making financial and operating decisions:

- a. Is in default or in material non-compliance with the LIHTC or any other MSHDA program;
- b. Has outstanding flags in HUD's national 2530 National Participation system; or
- c. Has been debarred or suspended from any MSHDA, HUD, or Rural Housing programs.

In addition, a history of defaults or material acts of non-compliance, even if none is currently outstanding, may preclude acceptance of a proposal until appropriate assurances of the development team member's ability to comply is given.

Applicants will have the opportunity to appeal Notice of Intent findings. All appeals must follow the appeal process as detailed within the Lending Parameters. All appeals must be received within 10 business days of receipt of MSHDA staff's original Preliminary Assessment decision. (See appeal process in Section IV, B of the Lending Parameters)

B. Application Submission:

Not later than 5:00 p.m. on the published due date, the sponsor must submit ALL Application exhibit documents under MSHDA's Addendum IV Exhibit Checklist, along with the LIHTC Program Application, and any known waiver requests. All application packages submitted will undergo a detailed underwriting review,

MSHDA review teams will provide input on suitability of proposal with regard to the development team, market, environmental, and financial feasibility.

Proposals will be ranked and the rankings will be posted on MSHDA's website.

Sponsors will have the opportunity to withdraw proposals based on the findings of staff and rankings. Sponsors wishing to withdraw applications based on initial staff findings will have the application fee refunded.

Those applications ranked the highest, whose aggregate total funding does not exceed the amount of funding available under the applicable NOFA, and which have not been withdrawn will be presented to the MSHDA Loan Committee for consideration and approval. All NOFA applications will receive a final ranking during this phase, and Loan Committee's award decisions will be announced.

MSHDA's Loan Committee will issue acceptance letters to those developments that have a strong likelihood of being able to proceed toward closing. Proposals ranked lowest and therefore not eligible for Board approval due to a lack of gap funds, will receive a letter inviting them to apply in the next round. These proposals will not be required to submit a Notice of Intent to Apply should they choose to apply in the subsequent round. MSHDA may reject any applications with material errors in documentation, incomplete information, or inconsistencies.

Applicants will be notified of the Loan Committee's approval or denial, typically, within 30 - 60 days of receipt by MSHDA of a complete Application package.

Application decisions are not open to appeal except in the case of material error that, if corrected, would result in an award.

C. Commitment Review:

The sponsor will be notified to submit any necessary documents that require updating or modification to proceed to the Board. Final underwriting review is then conducted by MSHDA staff and the MSHDA staff report is presented to the Board for final approval. Loan documents are prepared by MSHDA's Legal Affairs Division and documentation relating to all other sources of funding, including syndication partnership documents, must be prepared and submitted to MSHDA. Certain projects, such as some PSH loans, will not require MSHDA Board approval and may move directly to the Pre-Closing phase following issuance of a signed MSHDA staff report.

D. MSHDA Board Consideration:

Projects provided commitment level approval as represented by a signed report, will be presented to the MSHDA Board for commitment. Prior to Board consideration, the sponsor will receive written notice of the Board meeting and be

required to submit ¼ of the commitment fee. Projects approved by the MSHDA board will move to the Pre-Closing phase. All proposals must close within 90 days of MSHDA board approval or risk having their gap funding award rescinded.

E. Pre-Closing:

During this phase the sponsor must submit all Pre-Closing Processing exhibit documents under MSHDA's Addendum IV Exhibit Checklist. MSHDA staff and the development team will work to resolve all conditions to closing contained in the MSHDA staff report. Once all MSHDA internal approvals (MSHDA Form CD 700s) are submitted to MSHDA's Legal Affairs Division, the MSHDA loan commitment will be finalized and circulated for execution. The MSHDA loan commitment must be signed by the sponsor and mortgagor and returned to MSHDA within fifteen (15) days of its issue date.

Upon receipt of the fully executed loan commitment, the date of the loan document closing will be set (generally, within 10 business days of full execution of the MSHDA loan commitment) and an Attorney General loan review package will be sent to the Attorney General's Office for review. Certain projects, such as some PSH loans, will not require Attorney General's Office review and may move directly to the Initial Closing phase following execution of the MSHDA loan commitment. Following acceptance of the MSHDA loan commitment and delivery of the Attorney General's loan review package, no substantial changes in the terms of the loans or loan documents will be considered.

Loans that require Attorney General review will not be eligible to move to the Initial Closing phase until the Attorney General's Office has provided MSHDA with its recommendation. If any changes to the documents are required or additional submissions are required by the Attorney General's Office, they will take place at this time.

F. Initial Closing:

At the initial closing, the development team will submit any and all remaining items required for initial closing and the loan documents will be executed. If, following execution of the documents, conditions to closing the loans remain, the MSHDA staff attorney will prepare an escrow agreement. Upon fulfillment of all required conditions, including receipt of all required equity for initial closing, receipt of the title insurance policy and endorsements (or a marked-up commitment) and approval of the initial application for disbursement by MSHDA staff, the loans will be closed and funding of the project will commence. At this time, a preconstruction meeting will also be scheduled, typically, for a date no more than 10 business days after the initial disbursement of funds.

G. Construction:

During the Construction phase, the project will be constructed according to the approved plans and specifications as described in the construction contract. MSHDA construction staff will oversee construction activities and construction draws will be disbursed monthly upon fulfillment of all conditions to each draw set

forth in the construction contract and building loan agreement executed at the MSHDA initial closing.

H. Final Closing:

Following completion of construction, the final closing of the MSHDA permanent loan will take place. For some preservation, and PSH deals, a final closing will not be required, but many of the deliveries required at a MSHDA final closing must still be submitted. These deliveries include, but are not limited to, cost certifications, final title insurance endorsements, final as-built survey, evidence that all approvals, licenses and permits necessary for operation have been obtained and a copy of the contractor's final sworn statement.

V. EVALUATION CRITERIA

All applications will be reviewed and ranked with consideration given, but not limited to, the following criteria:

- a) Ratio of gap financing to hard debt from MSHDA
- b) Level of per unit gap financing needed to complete the project
- c) Tax-exempt bond financing supported by the project

In general, the highest consideration will be given to those projects with the lowest soft-to-hard debt ratio, then those needing the least amount of gap financing and/or those that can support the greatest amount of tax-exempt bond financing. Additionally, applicants should note that all requirements of the Lending Parameters and review criteria, including, but not limited to development team capacity and design quality will apply to the evaluation of all applications submitted under this NOFA.

CHDO proposals will compete against each other for the Set Aside amount as well as in the overall funding round itself. CHDO proposals with the highest final ranking whose aggregate total funding does not exceed the amount of the HOME funding available under Set-Aside, will be presented to the MSHDA Board for commitment/gap funding award approval.

If multiple CHDO proposals apply, and the gap amount requested from the CHDOs exceeds the amount under the Set-Aside, MSHDA may choose to make additional gap funding available in order to meet their CHDO funding requirement. Once the Set-Aside is met, any remaining lower ranking CHDO proposals in the round would have to rank greater than those under the non-set-aside round of the NOFA to receive an award.

If no CHDO proposals apply or those that do are not acceptable, and/or if any Set-Aside funding remains un-awarded, the un-awarded HOME set aside will be made available first to any CHDO proposals seeking HOME funding under the 9% PSH Set-Aside. If any HOME Set-Aside remains from there MSHDA may choose to take other routes to meet the CHDO requirements.