EQUITY BRIDGE LOAN PROGRAM
January 23, 2013

The Michigan State Housing Development Authority (the "Authority") will provide Equity Bridge Loans to foster the production and preservation of affordable rental housing. Equity Bridge Loans will enable higher tax credit pricing by delaying the tax credit investor's equity capital contributions into the development. Higher tax credit pricing and resulting additional equity will make more developments economically feasible with less gap financing required.

The Authority will borrow funds from the Federal Home Loan Bank of Indianapolis for this program. Equity Bridge Loans will be available on a case-by-case basis, depending on the interest of credit worthy investors and the availability of funds to the Authority.

I. Eligible Projects:

Projects must satisfy the eligibility requirements of the Authority's Act and the Authority's Tax-Exempt & Taxable Lending Parameters (the "Parameters"). New construction and acquisition and substantial rehabilitation of residential rental units will be considered. Only proposals receiving permanent Authority tax-exempt bond financing and 4% Low Income Housing Tax Credits ("LIHTC") are eligible for the Equity Bridge Loan Program.

II. Eligible Borrowers:

The borrower must be an eligible entity under the Authority's Act (e.g., a limited dividend housing association organized as a limited partnership, a corporation, or a limited liability company). The sponsor or developer must be in good standing at the time of application. Good standing means that none of the other projects involving the sponsor or developer that have been financed by the Authority under this program or another Authority lending program are experiencing significant, unresolved problems.

III. Threshold Requirements:

The Authority's Rental Development Division will review the Tax-Exempt Direct Lending application to assure that threshold requirements for participation in the LIHTC program are met.

IV. Equity Bridge Loan Terms and Project Limits:

The term for the Equity Bridge Loan is a maximum of five (5) years commencing on the date the Equity Bridge Loan proceeds are disbursed. The amount of the Equity Bridge Loan is limited to no more than 80% of the total LIHTC equity committed to the development by the investor. While at least 20% of the LIHTC equity must be paid in prior to construction completion, the Authority must approve the specific equity pay-in schedule and it is anticipated that a portion of the equity will be paid at initial closing of the tax-exempt construction loan. The Equity Bridge Loan will not be available to bridge any portion of the LIHTC equity that is conditioned upon property performance such as achieving economic occupancy levels or a period of underwritten operations.
A tax-exempt bond construction loan will be used to fund development costs during the construction period in accordance with the Parameters at standard rates. Disbursement of the Equity Bridge Loan may not occur until after (a) the final completion of the construction or rehabilitation of the development, as approved by the Authority, and (b) the Authority determines that the development has met the 50% test, enabling the development to qualify for the LIHTC.

The principal balance of the Equity Bridge Loan will be repaid in equal yearly installments over the term of the loan, with the first payment due 12 months from the date of disbursement and subsequent payments continuing annually until the Equity Bridge Loan is paid in full. All interest accrued to the due date of each principal installment will also be due at that time. Modifications to the repayment structure may be requested and will be evaluated on a case-by-case basis.

Equity Bridge Loans may be prepaid in part or in whole at any time upon 60 days' written notice to the Authority and payment of any applicable prepayment fee. In the event of a prepayment of all or any part of the Equity Bridge Loan, the borrower shall also simultaneously pay to the Authority a prepayment fee equal to any penalty, fee or other costs that the Authority must pay to prepay the advance from the Federal Home Loan Bank of Indianapolis that was used to fund the portion of the Equity Bridge Loan that is prepaid.

The total amount of Authority funds lent (not including non-Authority funds such as HOME or NSP) may not exceed 90% of the total development cost. Equity Bridge Loans will not be available to bridge equity or funding sources other than LIHTC equity. Equity Bridge Loans may only be used in connection with developments that benefit individuals and families meeting the income requirements in section 142(d) or 143(f) of the Internal Revenue Code. The Equity Bridge Loan will not reduce the amount of equity calculated for purposes of determining allowable limited dividends.

Interest rates will be locked at Initial Closing of the tax-exempt bond construction loan and will be based on the Authority’s cost of borrowing. Interest rates are anticipated to be approximately three percent (3%), but are subject to change at any time.

All proposals are subject to the availability of funds from the Federal Home Loan Bank of Indianapolis, as determined by the Authority. Equity Bridge Loan funding will be allocated to qualified projects under this program on a first come, first served basis.

V. Application Requirements, Processing and Fees:

The sponsor/developer must submit a complete Tax-Exempt Direct Lending application with all required attachments, as outlined in the Authority’s Addendum IV Exhibit Checklist, as well as the Equity Bridge Loan application (to be published).

Developments competing in the Authority’s 2012 Tax-Exempt Gap Financing program and any future rounds will have their Equity Bridge Loan application evaluated during the underwriting process.

All Equity Bridge Loan applications must be accompanied by a non-refundable $500 application fee.
VI. Syndicator/Investor Requirements

The Authority reserves the right to require additional information, such as upper tier investment and organizational documents, regarding the Syndicator and LIHTC investor in order to assess the financial and managerial resources of the investor and strength of the investor's funding commitment.

VII. Security

A promissory note must be executed by the borrower in favor of the Authority with repayment terms as specified above. The obligation to make payments must be unconditional and may not be conditioned upon the receipt of any particular level of LIHTC benefits, the receipt of future capital contributions or other equity sources from the investor and third parties, or the performance or lack of performance of the project.

Repayment of the Equity Bridge Loan will be secured by: (1) a junior mortgage on the development, subordinate only to the Authority's first mortgage; (2) a pledge and security assignment of the borrower's rights to the LIHTC equity payments to be paid under the borrower's organizational documents; and (3) a personal guarantee by the sponsor and/or general partner(s) and/or manager(s) of the borrower and/or other financially capable members of the development team acceptable to the Authority. A title insurance policy insuring the Authority as mortgagee with respect to the validity and priority of the mortgage securing the Equity Bridge Loan will also be required. At its discretion, the Authority may require additional security.