AMENDED AND RESTATED PASS-THROUGH BOND PROGRAM

JULY 22, 2021

(Debt Financing Under Section 44c of the Authority's Act)

Act 346 of the Public Acts of 1966 (the “Act”) permits the Michigan State Housing Development Authority (the “Authority”) to participate in "conduit” or "pass-through" financings in which the bonds issued to finance a development are a limited obligation of the Authority; the bonds are not secured by the Authority's capital reserve capital account; and the bonds are not backed by the moral obligation of the State of Michigan. Instead, the bonds are secured by the revenues of the borrower, the real and personal property being financed, and a form of credit enhancement acceptable to the Authority.

Projects participating in this program (the “Pass-Through Bond Program” or the “Program”) may use pass-through bonds as long-term financing (construction and permanent financing) or as short-term financing (construction financing only). All projects must show evidence of credit enhancement that is acceptable to the Authority.

I. Eligible Projects:

Projects must satisfy the eligibility requirements of Section 44c of the Authority's Act. Both new construction and acquisition and substantial rehabilitation of residential rental units will be considered.

Proposals receiving Low-Income Housing Tax Credit (“LIHTC”) must meet the threshold requirements of the LIHTC program (“LIHTC Program”) for projects financed with tax-exempt bonds as provided in the Qualified Allocation Plan (QAP).

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/subsidy program are experiencing significant, unresolved problems.

III. Minimum Income and Rent Restriction Requirements:

Applicants are required to commit to income and rent restrictions targeting, at a minimum, either (i) 40% of the units for households whose income is at or below 60% of Area Median Income (AMI), or (ii) 20% of the units for households whose income is at or below 50% of AMI. The income and rent restrictions set forth in the Authority-approved application described in Section VIII below shall (a) be set forth in the Authority’s regulatory agreement that will recorded at the bond closing (“Authority Regulatory Agreement”), (b) remain in place for the longer of the

"qualified project period" of the bonds, as defined in the Internal Revenue Code or the extended use period of the LIHTC and (c) have priority over a mortgage or foreclosable lien required for credit enhancement.

In addition to the minimum requirements above, applicants will be required to commit to income and rent restrictions to target at least 10% of the total affordable units in the project for households whose income is at or below 40% of AMI (10% affordable unit restriction). In lieu of the 10% affordable unit restriction, the Authority may permit applicants to commit to satisfying other important mission objectives such as developing or rehabilitating projects in rural areas, or projects that meet the definition of Permanent Supportive Housing and have all necessary supportive services available, etc. The 10% affordable unit restriction may not otherwise be waived or reduced unless the Authority determines that the restriction impedes the Authority's ability to finance the rehabilitation or new production of projects under this Program.

Developments will be eligible to utilize the income averaging set-aside in the LIHTC Program to maximize project Net Operating Income while also achieving the deeper targeting referenced above. Because tax-exempt bond regulations do not allow income averaging as a set-aside option, the projects would need to comply with both the LIHTC income averaging set-aside and the tax-exempt bond set-aside.

IV. Threshold Requirements:

Authority staff will review each application to assure that the use of the State's volume cap for a project will not impair the Authority's ability to carry out its programs or finance developments or housing units that are targeted to lower income persons. Authority staff will also determine whether there is sufficient available Program Bond Cap for the proposal.

The Authority's Office of Rental Development-Tax Credit Allocation Section will review the applicant's standard tax credit application to assure that threshold requirements for participation in the LIHTC Program are met if LIHTC are being used to finance the development.

V. Program Bond Cap:

The Authority has allocated $100 million of its volume cap for the Program (the "Program Bond Cap"). All proposals are subject to availability of Program Bond Cap and volume cap. Applications that are currently in the expiring July 2020 Pass-Through Bond Program pipeline, but have not yet been approved for inducement, will automatically be considered in this July 2021 Pass-Through Bond Program. The Program Bond Cap may be reduced or increased by the Authority subject to the Authority having sufficient volume cap for its direct lending multifamily program ("Direct Lending" or "Direct Lending Program") and single-family programs.

This Program will terminate at the earliest of the following: 1) the Authority's regularly scheduled July 2022 meeting; 2) the Authority's regularly scheduled June 2022 meeting if there is no July 2022 meeting; or 3) the Program Bond Cap is fully subscribed. For a project to be included in the Program Bond Cap, a project must have been approved by the Authority for an inducement resolution at or before the Authority's July 2022 board meeting. The volume cap constituting any Program Bond Cap remaining upon termination of the Program (as outlined above) will no longer

be available to the Program nor will it be added to any subsequent reinstatement of the Program that may occur. Once the Program has terminated, the Authority will review the Program and determine whether, and under what conditions, to extend the Program.

VI. Project Limits:

To qualify as rehabilitation, the rehabilitation expenditures with respect to the project must equal or exceed 30% of the portion of the cost of acquiring the building and equipment financed with the proceeds of the bonds issued to acquire and rehabilitate the project. For a project located in an eligible distressed area, the amount of rehabilitation may be less than the 30% requirement but not less than 15% if the Authority determines and expresses by resolution that the likely benefit to the community or the proposed residents of the project merits the use of this financing source.

Per the MSHDA Act, under this structure, the maximum amounts that the Authority is permitted to commit and lend are:

1. For projects not located in an eligible distressed area, the lesser of the total development cost of the proposed multifamily housing project or $25 million.
2. For projects located in an eligible distressed area, the lesser of the total development cost of the proposed multifamily housing project or $50 million.

Additionally, per the MSHDA Act, a borrower shall not have outstanding loan commitments under this Program which total more than the amounts above in items 1 or 2. Once a loan has been made under this Program, the commitment made with respect to the loan shall no longer be considered outstanding.

VII. Application, Commitment, Closing and Other Fees:

Fees shall be determined as follows:

A. Upon submission of an application, the sponsor shall include an application fee equal to the greater of $5,000 or .0005 times the amount of the bonds to be issued. This application fee will be credited to the commitment fee due.

B. Upon receipt of a loan commitment, the sponsor/developer shall pay a commitment fee of 0.1% of the principal amount of the bonds to be issued, less the amount of the application fee paid with the initial application.

C. Upon issuance of the bonds, the borrower shall pay to the Authority a fee not to exceed 0.9% of the principal amount of the bonds for developments located in an eligible distressed area or 1.9% of the principal amount of the bonds for developments not in an eligible distressed area.

D. For each year that bonds remain outstanding, the borrower shall pay an annual compliance monitoring fee in an amount not to exceed 0.25% of the outstanding principal amount of the bonds. This fee shall be paid according to such terms and conditions as may be approved by an authorized officer of the Authority.

VIII. Application Requirements:

For a project to be eligible to apply for the Pass-Through Bond Program, it must first be submitted to the Authority to evaluate whether the project is likely to be competitive under the Authority's Gap Financing program ("Gap Financing Program"). The Gap Financing Program makes available a certain amount of gap financing to be used in combination with Authority Direct Lending tax-exempt bond financing. To perform its evaluation, the Authority will consider the following:

1. The financial viability of a project based on the pro-forma analysis, site, and preliminary market analysis.
2. The overall capacity and experience of the development team.
3. The likelihood that the project will be competitive and be able to proceed with the funds available in the Gap Financing Program. To determine how competitive a project is likely to be, the Authority will primarily evaluate a project's soft to hard debt ratio, which is used to rank the proposals in the Gap Financing Program, to determine if the project appears to be competitive as compared to the current or most recent Gap Financing Program funding round. Applicants are encouraged to view rankings of recent Gap Financing Program funding rounds on the Authority's website to determine with more certainty whether their project has a competitive soft to hard debt ratio. *Since the Direct Lending Program is currently oversubscribed, it is anticipated that Pass-Through Bond Program applications during this time will be given MSHDA staff approval to bypass the Direct Lending Program so they can apply under the Pass-Through Bond Program.*

Following the analysis above, if, based on the Authority's determination, a project is unlikely to be competitive in the Gap Financing Program, the project will be eligible to continue under consideration as part of the Pass-Through Bond Program. Additionally, following an evaluation based on the process outlined above, projects that do compete under the Gap Financing Program, but that cannot move forward using gap financing with an Authority Direct Lending tax-exempt loan (as determined by the Authority as part of the Gap Financing Program) will be able to submit an application as part of the Pass-Through Bond Program. However, Authority gap financing such as HOME funds and/or Mortgage Resource Funds are not available to projects that apply and are financed under the Pass-Through Bond Program.

If the sponsor chooses to proceed to the Pass-Through Bond Program, the following items must be submitted:

A. The sponsor/developer must submit a completed application under the LIHTC Program, including all required attachments.

B. To be considered complete, all applications for an allocation of volume cap under this Program must include:

i. A description of the proposed credit enhancement and a statement as to the amount of the tax-exempt bonds (and taxable bonds, if appropriate) requested. The proposed credit enhancement may be in the form of cash collateral from a HUD permanent mortgage loan or similar funding source, an unconditional, irrevocable letter of credit, guaranty, bond or

mortgage insurance, or other security as the Authority deems appropriate to assure the Authority that repayment of the bonds is reasonably secure.

ii. Assurance that all bond issuance costs will be paid and the professional team (bond underwriter, bond trustee, bond counsel, etc.) will be compensated for services rendered in issuing the bonds. All bond issuance costs are the responsibility of the sponsor/developer and are not the responsibility of the Authority.

iii. To the extent not identified in the LIHTC Program application, identification of the full development team, including the bond underwriter, bond trustee, bond counsel, equity partner and rating agency. Bond counsel must have prior experience on Authority bond transactions and must be pre-approved by the Director of Legal Affairs, the Chief Financial Officer, and the Finance Division of the Office of Attorney General. The bond underwriter, bond trustee and rating agency must be acceptable to the Chief Financial Officer.

iv. For proposals involving the acquisition and rehabilitation of existing property, substantiation that the rehabilitation expenditures will equal at least 30% of the bond proceeds used to acquire the building(s) and equipment. (For a project located in an eligible distressed area, the amount of rehabilitation may be less than the 30% but not less than 15% if the Authority determines and expresses by resolution that the likely benefit to the community or the proposed residents of the project merits the use of this financing source.)

v. If applicable, a tenant relocation plan.

vi. A phase I environmental assessment report.

vii. A market study.

viii. The application fee for both the Pass-Through Bond Program and the LIHTC Program,

C. Applications may be submitted at any time after the Program is authorized. Authority staff will process applications on a first-come first-served basis in the order they are received in accordance with the date the application is received by MSHDA. The Authority will advise prospective sponsors/developers of (a) the number of proposals in process, (b) the place “in line” where the application is, based on the submission date/time of the application, and (c) the total volume cap requested by those proposals. Project applications that are submitted but are found to have substantial deficiencies, and cannot progress along a normal approval timeline, may lose their place in line to other projects that are ready to move forward, but were submitted after them. For a project to be included in the Program Bond Cap, a project must have been approved by the Authority for an inducement resolution.

D. Applications that do not receive a reservation of volume cap due to the then-current unavailability or inadequacy of Program Bond Cap will be automatically considered under future re-authorizations of this Program, to the extent that it is re-authorized. All applications will be subject to the guidelines and order of processing as outlined under the Pass-Through Bond Program that is in place at the time they receive a reservation of volume cap.

IX. The Authority Processing Sequence:

A. Upon receipt of an application, staff will conduct a preliminary review, and will notify the sponsor/developer in writing within thirty (30) days as to whether (i) the application is complete or (ii) the application is not complete, and what must be corrected or completed. Staff will review and evaluate a completed application and, if appropriate, make a recommendation to the Authority members that use of the State's volume cap for the proposed project will not impair the ability of the Authority to carry out its programs or to finance housing developments or housing units that are targeted to lower income persons. This process includes:

i. A determination of the extent, if any, to which the proposed project may adversely affect projects (a) financed with Authority loans, or (b) to which the Authority has extended a loan commitment that has not been terminated, or (c) that are considered to be "active" in the Authority's pipeline.
ii. A review of the environmental assessment report to confirm that no environmental problems exist that cannot be resolved to the satisfaction of EGLE and the Authority.
iii. A review and evaluation of the proposed credit enhancement and the proposed credit enhancement provider.
iv. A review of the LIHTC application and accompanying exhibits to ensure that the information submitted is substantially complete.
v. Preparation of an Inducement Report and Resolution for Authority consideration within sixty (60) days of receipt of a completed application. This represents the Authority's formal action for purposes of applicable tax regulation, currently Treas. Reg. §1.150-2(d). It does not constitute a commitment to loan funds or a determination that the proposal is acceptable.

B. The Authority will use its best efforts to complete the processing sequence identified in IX.A(i) - (v) within sixty (60) days of receipt of a completed application. Once the review has been completed and the Authority has approved the Inducement Resolution, the Director of Legal Affairs will then issue a letter reserving volume cap for 6 months. This letter must be signed and returned by the sponsor/developer within twenty (20) days or the volume cap reservation will lapse. Proposals must proceed to loan commitment and authorization of the issuance of the Authority bonds within 6 months after the sponsor's acceptance of the reservation of volume cap. Extensions will be provided only upon payment of a $5,000 non-refundable fee. According to statute, the Authority is only authorized to grant one 6-month extension.

C. Upon issuance of the HUD loan commitment or other commitment providing confirmation of credit enhancement for the bonds, Authority staff and/or bond counsel will:

i. Begin drafting loan and bond documents;
ii. Publish a TEFRA notice and conduct a TEFRA hearing. This must occur prior to the Authority's meeting at which the Bond Resolution will be considered (see (iv) below);

iii. Prepare a Commitment Report and Resolution for Authority consideration after evidence of a firm commitment for acceptable credit enhancement has been received, reviewed, and evaluated by staff; and

iv. Prepare a Bond Resolution for Authority consideration together with the Commitment Resolution, provided that the principal bond documents requiring Authority signature or approval are in substantially final form.

v. Complete the LIHTC review, if applicable, with issuance of a LIHTC Reservation.

Both the commitment resolution and the bond resolution must be approved and adopted by the Authority.

D. Proposals that are found unacceptable shall be terminated. The Authority will notify the sponsor/developer in writing of any termination and the basis for termination.

F. For planning and administrative reasons, closings will not be permitted during the month of December, absent approval from the Authority. Requests will be considered on a case-by-case basis. If a project's 6-month reservation of volume cap terminates during the month of December, however, an additional thirty (30) days will be granted, and no extension fee shall be charged to the borrower.

X. Return on Equity:

A borrower is allowed distributions equal to a 12% return on investment in the project for the first 12-month period following the substantial completion of the development. Thereafter, the allowable return on investment is increased by 1% annually up to 25% (except for developments in eligible distressed areas where there is no cap) and is fully cumulative. The borrower shall be required to submit to the Authority a copy of the annual financial statement evidencing its eligibility for return on investment no later than ninety (90) days following the close of the borrower's fiscal year. The borrower's "investment" is defined pursuant to the Authority's Resolution dated March 13, 1985, a copy of which is attached as Exhibit B.

XI. Bond and Tax Credit Requirements

At the time of the bond closing, the borrower must enter into agreements relating to the credit enhancement acceptable to the Authority. The credit enhancement must be unconditional and irrevocable and in an aggregate amount equal to or in excess of the bond obligations. For projects where the credit enhancement is the cash proceeds of a HUD permanent mortgage loan or other loan, the trust indenture must provide for the deposit, disbursement, and investment of the cash collateral. All investments of cash collateral must be limited to “Permitted Investments” as described in Exhibit A of the Authority Resolution dated March 18, 2021, which is attached to and made a part of this program statement. The Permitted Investments will be held by the bond trustee. The borrower must also provide the Authority with an opinion of the borrower’s counsel, a Useful Life Certificate prepared by borrower’s accountant, and/or other evidence as determined by the Authority’s Director of Legal Affairs, that respectively confirms the structure of the transaction will permit the applicant to claim the 4% LIHTC. In addition, the applicant must certify in writing to the sources and uses involved in the financing of the development. To ensure the

Authority Regulatory Agreement's income and rent covenants are not wiped by a foreclosure, a mortgage or foreclosable lien required for credit enhancement must be subordinated to the Authority's Regulatory Agreement.

XII. Compliance Monitoring and Reporting Requirements:

On or before September 1 of each year, the borrower must provide the Authority with a report in a form acceptable to the Authority that includes the following statutorily-required information: incomes of the tenants, the estimated economic and social benefits of the housing to the immediate neighborhoods, the estimated economic and social benefits to the city or community, information with respect to displacement of lower income persons to the extent such occurs, together with steps taken by governmental or private parties to ameliorate the displacement and the results of such efforts, any additional information the Authority needs to report the extent of reinvestment by private lenders in the neighborhood resulting from the housing project, the age, race, family size and average income of tenants, and the estimated economic impact of the project, including the number of construction jobs created, wages paid, and taxes and payments in lieu of taxes paid.

EXHIBIT A

Permitted Investments – Cash Collateralized Bond/Note Structure (2021)
(*Supplementing 44c Short-Term Pass Through Program Statement*)

The investment of funds held in a collateral account, in the context of a "short-term" cash collateralized tax-exempt bond issue, should be restricted to the following general categories: (i) non-AMT tax-exempt obligations; (ii) time deposit securities issued by the United States Treasury under the State and Local Government Securities Program; and (iii) direct obligations of the United States or its agencies. The Authority generally prefers that investments of funds in the collateral account be made in the foregoing order of preference; however, deviations may be appropriate for a number of factors, including, for example, availability of investments, efficiency of the investment rate of return, and restrictions based on the national rating agencies' rating criteria. If such is the case, the developer or the underwriter should so inform the Authority prior to pricing. In addition, investment of collateral account fund balances may be subject to yield restrictions and other tax requirements, including without limitation investment bidding requirements, the particulars of which should be confirmed prior to pricing with the Authority, bond counsel, and the representatives of the Michigan Attorney General engaged on the financing.

The collateral account fund investment (Permitted Collateral Account Investments) provisions and defined terms within the bond documents, should read substantially as follows:

"Permitted Collateral Account Investments" means the following investment obligations (subject to (A) [RATING AT TIME OF INVESTMENT OR MORE RESTRICTIVE APPLICABLE RATING AGENCY CRITERIA] and (B) investments shall, in the aggregate, have accrual periods and payment dates that provide for timely payments in amounts sufficient to meet the payment obligations with respect to the Bonds):

(i) a debt security, the interest on which is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations;

(ii) a security that is an interest in a regulated investment company, as defined in Section 67(c)(2)(B) of the Internal Revenue Code of 1986, as amended, at least 95 percent of the income from which is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations;

(iii) money market mutual funds that (a) have a stated primary investment criterion to invest in obligations described in (i) above, and (b) permit the withdrawal of such investment on any given day specified by the Trustee for a value of not less than the par value of initial investment made therein (including, without limitation, funds for which the Trustee or an Affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (x) the Trustee or an Affiliate of the Trustee receives fees from funds for services rendered, (y) the Trustee collects fees for services rendered pursuant to [this Indenture], which fees are separate from the fees received from such funds, and (z) services performed for such funds and pursuant to [this Indenture] may at times duplicate those provided to such funds by the Trustee or an Affiliate of the Trustee);

(iv) securities issued by the United States Treasury pursuant to the Time Deposit State and Local Government Securities Program described in 31 C.F.R. part 344;

(v) direct obligations of the United States of America, including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America;

(vi) obligations the full and prompt payment of which is secured by the pledge of the full faith and credit of the United States of America;

(vii) non-callable, non-prepayable obligations of the following federal government agencies: Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Farm Credit System and United States Department of Housing and Urban Development; and

(viii) money market mutual funds that (a) have a stated primary investment criterion to invest in obligations described in (v) through and including (vii) above, and (b) permit the withdrawal of such investment on any given day specified by the Trustee for a value of not less than the par value of initial investment made therein (including, without limitation, funds for which the Trustee or an Affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (x) the Trustee or an Affiliate of the Trustee receives fees from funds for services rendered, (y) the Trustee collects fees for services rendered pursuant to [this Indenture], which fees are separate from the fees received from such funds, and (z) services performed for such funds and pursuant to [this Indenture] may at times duplicate those provided to such funds by the Trustee or an Affiliate of the Trustee).

EXHIBIT B

Michigan State Housing Development Authority

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State of Michigan
James J. Blanchard, Governor

Michigan Department of Commerce
Doug Ross, Director

M E M O R A N D U M

March 13, 1985

TO: Authority Board Members

FROM: Terrence R. Duvernay

SUBJECT: Amended Equity Determination for Projects Financed Under Section 44c

Section 44c(11) states that:

> "A borrower is allowed distribution equal to 12 percent return on the borrower's investment in a multi-family housing project financed under this section for the first twelve months of operation of the housing project following substantial completion. The allowable return shall be increased by 1 percent for each twelve-month period after the first twelve months, up to a maximum of 25 percent. Any return less than the allowable rate in any preceding period may be received in any subsequent period on a cumulative basis."

On September 25, 1984, the Authority defined "borrower's investment" as the greater of the amount obtained by subtracting from the amount of certified costs the amount of the borrowing or 10 percent of the amount obtained by subtracting from the total amount of borrowing the amount of the cost of the land and the amount of reserves.

Since the adoption of this definition, it has been suggested that this computation unfairly treats a developer who contributes a greater amount of equity to the project than would be automatically imputed under the formula. It has been requested that a Builder's and Sponsor's Profit and Risk Allowance ("BSPRA") be imputed in the case where the developer chooses to cost certify as well as in the case where cost certification is not submitted.

Staff concurs but also believes that a higher return should be allowed for projects in eligible distressed areas to reflect the higher risk inherent in such projects. We therefore recommend that for purposes of the Section 44c program, "borrower's investment" be redefined to the following:

A. In areas other than eligible distressed areas the greater of:

1. Ten percent of the amount obtained by subtracting from the amount of the bond issue that portion of the bond issue used to fund a debt service reserve fund. The amount of the debt service reserve fund to be excluded in this calculation shall be reduced by any portion thereof which is used to pay interest on the bonds prior to completion of construction of the project. Completion of construction is deemed to occur when occupancy permits have been issued for 100 percent of the units being constructed.

2. The certified cost of developing, building, and financing the project, including Sponsor's Profit and Risk Allowance equal to 10 percent of certified costs reduced by the amount of the bond issue exclusive of that portion of the bond issue used to fund a debt service reserve fund. The amount of the debt service reserve fund to be excluded in this calculation shall be reduced by any portion thereof which is used to pay interest on the bonds prior to completion of construction of the project.

B. In eligible distressed areas the greater of:

1. Same as 1 above, except substitute 20 percent for 10 percent.

2. Same as 2 above, except substitute 20 percent for 10 percent.

If borrower's investment is determined by method (A)(2) or (B)(2) above, the borrower must have its costs certified by a CPA. In addition, in this situation the contractor must also have its costs certified if there is an identity of interests between the developer and the contractor and the maximum amount of allowable contractor's profit will be 6 percent of the contractor's cost certified costs. If there is no identity of interests between the developer and the contractor, the developer will simply include in its cost certified costs the amount paid to the contractor. Cost certifications must be carried out following the procedures set forth in the Authority's cost certification manual.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

RESOLUTION - DEFINITION OF BORROWER'S INVESTMENT
FOR PURPOSES OF PROJECTS FINANCED UNDER SECTION 44C

March 13, 1985

WHEREAS, The Michigan State Housing Development Authority (the "Authority") is authorized to finance housing projects under Section 44c of Act 346 of the Public Acts of 1966, as amended, (the "Act"); and

WHEREAS, Section 44c of the Act provides for a limitation on return to the Borrower; and

WHEREAS, the Authority has previously defined the term borrower's investment and now desires to amend the definition.

NOW THEREFORE, Be It And It Hereby Is Resolved by the Michigan State Housing Development Authority that the term "borrower's investment" for purposes of the Section 44c program shall be as set forth in the accompanying memorandum.