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Insights

Michigan Housing Opportunity Tax Credit Updates

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Overview

This past July, Governor Whitmer of Michigan signed several bills which collectively increase the available tax credit awards for affordable housing development in the state of Michigan. For the 2027-year cycle, beginning January 1, 2027, the Michigan state housing development authority may award up to $42,000,000.00 in tax credit awards. According to the legislation, not less than 25% of the tax credit awards will be available to 4% qualified projects that are new construction, and not less than 25% of the tax credit awards will be available to 4% qualified projects that are preservation projects. Additionally, not less than 30% of the tax credit awards shall be granted to projects located in rural areas assuming sufficient numbers of applications are submitted.

In looking forward to loan portfolios for 2027, lenders may want to consider these tax credit updates as an opportunity to lend to developers constructing or renovating affordable housing projects in Michigan as part of tax credit financing.

What is Tax Credit Financing?

Developers may apply for certain tax credits via the state's housing authority where the project is located and will be required to meet certain requirements for that project in order to receive those tax credit awards. While beneficial to the developer, such tax credit awards are not liquid assets available to help developers construct or renovate such project at the time the award is granted. Oftentimes, developers will form a partnership or limited liability company with a tax credit equity investor who will provide financing as tax credits are allocated to the developer.

However, because the receipt of such tax credit awards will be distributed over years and not be available to the developers immediately, developers again may not have sufficient upfront capital or required equity to construct or renovate the projects. In connection with working with a tax credit equity investor, developers will therefore frequently seek a lender which is willing to provide a construction and/or equity bridge loan that will help to bridge the need for upfront capital for construction and receipt of the tax credits. As collateral, lenders take an assignment of the capital contributions that the tax credit equity investor will make to the developer as tax credits are allocated, along with any additional collateral that the developers may have to pledge.

How Krieg DeVault Can Help

Krieg DeVault has an experienced team of attorneys who represent lenders in a regular capacity for transactions that involve tax credit awards. This experience includes representing lenders for projects both in and outside the states of Michigan, Indiana and Illinois. Should you need any assistance or representation in connection with a loan that has a tax credit award component, please reach out to the Krieg DeVault's Commercial and Real Estate Lending Practice team.

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