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STATE OF MICHIGAN

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TO: Assessing Officers and County Equalization Directors

FROM: Michigan State Tax Commission

SUBJECT: The State Tax Commission prescribed method for implementation of the opinion of the Michigan Supreme Court dated September 4, 1985 regarding consideration for creative financing in sales data used in equalization studies.

On September 4, 1985 the Michigan Supreme Court issued its opinion regarding the principle that the effects of creative financing are to be considered for assessments conducted after January 1, 1986 and all equalizations based on those assessments. The State Tax Commission has developed a method to account for creative financing. The Commission shall periodically certify and publish the prevailing institutional lending rates of interest.

Following are the State Tax Commission (STC) procedures for considering the effects of creative financing for the revised base studies for equalization calculations:

1. Amounts paid for financing, amounts attributable to personal property, and amounts paid for surveying the property, to the extent that the amounts are included in the real estate data or certified to the assessor, are to be excluded from the sales data. (See Sec. 211.27(3) MCL and Form L-4293A.)

2. When the seller of real property has contributed in a significant respect to the buyer's ability to obtain financing at an interest rate artificially below the prevailing cost of borrowing, a method of valuation which separates the cost of such artificially low financing from the sales price is required to achieve the true cash value of such property.

3. A conventional (non-creatively financed) sale is a cash sale or a sale financed anew by a financial institution for the total amount of the mortgage after down payment. VA, FHA, FmHA, and MSHDA mortgages, blended rate mortgages, and mortgages which resulted from buydowns by the sellers usually are not conventional sales and must be analyzed individually. An instrument with a down payment of at least 10% of the purchase price and with the interest rate within 1% of the prevailing rate certified by the STC for that period shall be considered a conventional sale.

4. Creatively financed sales are all other sales.

5. All sales shall be reviewed to eliminate those sales which would not usually be qualified to be used in equalization studies. The sales shall be from the same time periods as is currently prescribed for equalization studies: April 1, 1983 to March 31, 1985 or January 1, 1985 to December 31, 1985 for the 1986 equalization. Except for consideration for creative financing, if any, sales are to be processed according to existing STC procedures.

6. If the data available to the County Equalization Director (CED) shows a significant contribution to selling prices because of seller-extended credit it will be necessary to determine the financial terms of individual sales in order to sort the sales by financial categories as required by the STC prescribed method. The CED may use sales verifications by assessing officers without independent verification if they are available and valid. The CED or the assessing officer may obtain financing information by requesting real property statements from each purchaser.

   The sales used to demonstrate an impact from creative financing shall be representative of the total number of sales and of the total classification being measured.

7. For a sales ratio study the valid sales shall be separated into two files. One file will contain only valid conventional sales as described in item number 3. The other file will contain only valid creatively financed sales as described in item number 4.

8. The CED shall compare assessments with sales separately for the two files of conventional and creatively financed sales. There shall be separate comparisons for each period of time. The results shall be tabulated for each township and city in the following format:

(a)	(b)	(c)	(d)	(e)
Time Period	Type of Sale Financing	Total of Assessed Valuations	Total of Sales Prices	% Ratio
4/1/83 to 3/31/84	Conventional	sum of assessments	sum of prices	col. (c)/col. (d)
	Creative	sum of assessments	sum of prices	col. (c)/col. (d)
4/1/84 to 3/31/85	Conventional	sum of assessments	sum of prices	col. (c)/col. (d)
	Creative	sum of assessments	sum of prices	col. (c)/col. (d)

See examples following item number 11.

9. A comparison of the ratios calculated for the creative and conventional sales files measures the amount of discount, if any, necessary to separate seller extended credit from the sales prices of the property.

   The creative financing discount multiplier is calculated by dividing the ratio from the creative financing file by the ratio from the conventional file.

No discount multiplier is applied to sales prices if the ratio for the creative financing file equals or exceeds the ratio for the conventional file. When no creative financing discount multiplier is necessary to convert the sales prices of the creative financing file to true cash values, the ratio to be carried to form L-4017 is produced from the total assessed valuations and total sales prices of both files without creative financing adjustment.

Examples B and C illustrate the mechanics of the application of the discount multiplier to sales prices for those instances where the ratio for the conventional file exceeds the ratio for the creative financing file.

In locations without sufficient sales to analyze the impact of creative financing, the information obtained by the CED from the entire county shall be used to discount the total sales prices for the creative financing sales. That discount rate would be applied to the actual total sales prices for creative financing sales in each township or city, except that for a city or township with sufficient conventional and creative financing sales to calculate a valid discount multiplier, that multiplier shall be used for the city or township from which the discount multiplier was derived.

10. After making the ratio adjustments to account for the effect of creative financing, the resulting ratios are to be entered on the standard equalization reporting forms L-4017. The ratios are to be entered in the column labeled "Unadjusted Ratio %" on form L-4017 even if the ratios have been adjusted for creative financing. The recognition of a change in the assessment level on form L-4017 is independent from the recognition of any effect from creative financing.

11. Use of sales for appraisals or appraisal studies

Valid sales are to be analyzed individually for determining land values and economic condition factors (ECFs) as prescribed in the Assessor's Manual. Conventionally financed sales will not require adjustment. Creatively financed sales may require adjustments before individual analysis for determining land values and ECFs. The discount multiplier for adjusting creatively financed sales will be determined from comparisons as described in item number 9 to account for the effect of creative financing, if any.

This procedure applies to appraisal studies or to analysis by the assessing officer for the purpose of updating assessed valuations.

EXAMPLES

The following examples have been abbreviated to a single period of time to illustrate the principle of accounting for the effect of creative financing, if any. The facts in Case A show no effect from creative financing while the facts in Cases B and C show an impact and how the impact is measured from market facts. Similar comparisons are required for each time period for each township and city.

Case A -- Without impact from creative financing.

(a) Time Period	(b) Type of Sale Financing	(c) Total of Assessed Valuations	(d) Total of Sales Prices	(e) % Ratio
4/1/83 to 3/31/84	Conventional	$4,000,000	$ 8,400,000	47.62
	Creative	$2,000,000	$ 4,000,000	50.00
	TOTAL	$6,000,000	$12,400,000	48.39

In Case A, the comparisons between assessments and all sales prices, including undisclosed sales documents, provided a ratio for creatively financed sales which was equal to or higher than the ratio for conventional sales. The ratio which is to be entered on form L-4017 is the 48.39% ratio for the total sales for the period without creative financing adjustment.

Case B -- With impact from creative financing for the period of the sales study with the discount multiplier derived from sales in this township or city.

(a) Time Period	(b) Type of Sale Financing	(c) Total of Assessed Valuations	(d) Total of Sales Prices	(e) % Ratio
4/1/83 to 3/31/84	Conventional	$2,000,000	$4,400,000	45.45
	Creative	$1,000,000	$2,300,000	43.48

Discount Multiplier = 43.48/45.45 = .9567
Adjusted Creative Total Sales Prices = $2,300,000 x .9567 = $2,200,410

Adjusted Ratio Calculation:

4/1/83 to 3/31/84	Conventional	$2,000,000	$4,400,000	45.45
	Creative	$1,000,000	$2,200,410	45.45
	TOTAL	$3,000,000	$6,600,410	45.45

In Case B, the adjusted total ratio of 45.45% would be entered on form L-4017 for a 24 month study. Ratios would be determined similarly for the 4/1/84 to 3/31/85 period or for the 1/1/85 to 3/31/85 and 4/1/85 to 12/31/85 period.

Case C -- With impact from creative financing for the period of the sales study but with the discount multiplier derived from sales in the entire county.

Assume that the CED has determined that the impact of creative financing results in a discount multiplier of 0.9700 based on comparisons of assessments and sales prices as in Case A for these townships and cities which each had many sales. If necessary, the CED derived discount multiplier may be applied to creatively financed sales in the remainder of the county as in Case C-1 and Case C-2.

Case C-1 -- With no conventional sales in the unit.

(a) Time Period	(b) Type of Sale Financing	(c) Total of Assessed Valuations	(d) Total of Sales Prices	(e) % Ratio
4/1/83 to 3/13/84	Conventional	0	0	-----
	Creative	$100,000	$200,000	50.00

Discount Multiplier from CED for County = .9700
Adjusted Creative Total Sales Prices = $200,000 x .9700 = $194,000

Adjusted Ratio Calculation:

4/1/83 to 3/31/84	Conventional	0	0	-----
	Creative	$100,000	$194,000	51.55

In Case C-1, the ratio adjusted for creative financing of 51.55% would be entered on form L-4017 for a 24 month study. Similar ratios would be determined for other periods. If there are not sufficient sales the CED may need to conduct an appraisal study.

Case C-2 -- With both conventional and creative financed sales in the unit.

(a) Time Period	(b) Type of Sale Financing	(c) Total of Assessed Valuations	(d) Total of Sales Prices	(e) % Ratio
4/1/83 to 3/31/84	Conventional	$50,000	$105,000	47.62
	Creative	$60,000	$135,000	44.44

Discount Multipliers from CED for County = .9700
Adjusted Creative Total Sales Prices = $135,000 x .9700 = $130,950

Adjusted Ratio Calculation:

(a) Time Period	(b) Type of Sale Financing	(c) Total of Assessed Valuations	(d) Total of Sales Prices	(e) % Ratio
4/1/83 to 3/31/84	Conventional	$ 50,000	$105,000	47.62
	Creative	$ 60,000	$130,950	45.82
	TOTAL	$110,000	$235,950	46.62

In Case C-2, the ratio adjusted for creative financing of 46.62% would be entered on form L-4017 for a 24 month study. Similar ratios would be determined for other periods. If there are not sufficient sales the CED may need to conduct an appraisal study.