QUALIFIED ALLOCATION PLAN
STATE of MICHIGAN
LOW INCOME HOUSING TAX CREDIT PROGRAM

I. Approval of Qualified Allocation Plan

Pursuant to Section 42(m)(1)(A) of the Internal Revenue Code of 1986, as amended, and Section 22b(4) of Public Act 346 of 1966, of the State of Michigan, as amended, the qualified allocation plan shall be prepared by the authority, submitted to the legislature, and approved by the governor after notice to the public and public hearing. Notice of the public hearing shall be published in four newspapers of general circulation throughout the state at least fourteen days prior to the public hearing. Comments received shall be taken into consideration and a written summary of such comments shall be provided to the governor of the state together with the request for approval of the Plan. Low income housing tax credit dollars shall be allocated in accordance with this Plan, or any amendments thereto, for a period of time commencing with approval of the Plan, and extending until November 1, 1991, unless otherwise authorized by the state legislature.

II. Procedure for Notification to IRS of Noncompliance

Owners receiving tax credit allocation shall be required to submit to the Authority an annual certification with respect to continuing compliance with the requirements of the program on a form prescribed by the authority, which shall set forth the schedule of rents charged on low income units, the number of qualifying low income units, and the annual tenant certification of incomes. Should the Authority at any time become aware of noncompliance with the requirements of Section 42 of the Internal Revenue Code for receipt of the tax credit, the Authority shall first notify the owner of such information, and allow the owner 30 days in which to commence appropriate measures to cure such non-compliance. Should the noncompliance not be cured within 60 days of initial notification to the owner, the Authority shall thereafter promptly notify the Internal Revenue Service of such noncompliance.

III. Statutory Set-Asides

The legislature of the State of Michigan has statutorily created certain "set-asides" (see Section 22b(5) of P.A. 346 of 1966, as amended), based on housing needs within the state. Therefore, the following set-aside percentages of the state's total credit ceiling for a calendar year have been established:

Qualified nonprofit organization pursuant to Section 42 of the Internal Revenue Code	**not less than 10%**
Farmer's Home 515 projects	**not less than 10%**
Housing projects in eligible distressed areas	**not less than 30%**
Housing projects for the elderly	**not less than 10%**

With the exception of the nonprofit set-aside, if the amount of low income housing tax credit dollars set aside in these categories has not been allocated before November 1 of the year in which that credit amount is authorized, the Authority may reapportion unallocated credit amounts thereafter. For purposes of meeting these set-asides, projects will be counted in only one category.

Applications, when received, will be placed into the appropriate set-aside categories, if applicable, for scoring in accordance with the selection criteria set forth in the Plan.

IV. Funding Rounds

There will be three funding rounds with the percentage of tax credit dollars available to be reserved as follows:

Application Due Date	Expected Award Date	Percentage of Tax Credits Available
March 1	April 1	40%
June 1	July 1	35%
September 1	October 1	15%

To the extent that there is available tax credit after October 1, either because the full amount of tax credit available to be reserved has not been reserved within these funding rounds, or because tax credit reservations have expired or been returned to the Authority, Reservations may be given after October 1 upon an applicant meeting the threshold requirements and being evaluated for determination of the credit amount to make the project economically feasible and viable over the credit period.

The remaining 10% shall be held by the Authority and will not be subject to funding rounds. It may be used for authority-financed troubled projects which meet the requirements for allocation under this plan, or for projects of six units or less which meet the requirements for allocation under this plan, or for increases in eligible basis beyond those amounts initially reserved.

Applications must be submitted by the initial date of the funding round.

The Authority will attempt to screen applications for eligibility and scoring within 15 days of receipt, and will attempt to conduct the first evaluation within 15 days of the determination of eligibility. Reservation awards are expected to be made on or about April 1, August 1, and October 1.

V. Eligibility Requirements

When an application is received, it shall first be reviewed for eligibility to be scored and ranked. In order to be eligible for scoring and ranking, the application must be on a completed form prescribed by the Authority, and must include the following information, unless waived by the Authority for good reason:

1) Evidence of site control (and ability to keep same for 180 days)
2) Evidence of zoning and utility availability
3) Level I environmental review or a letter from the proposed construction lender that such analysis is not required
4) Evidence of submission of application to mortgage lender (in the case of a FmHA 515 project, the completed AD 622 form)
5) Pro forma financial projections
6) Sources and uses of funds statement
7) Title Insurance Commitment dated within 6 months of the application

Less than complete applications will be deemed ineligible and will be returned to the applicant without being ranked or scored.

VI. Selection Criteria

A. Project Location

The legislature of the State of Michigan has statutorily created two "set-aside" categories for use of the tax credit based on a project's location. These are the 10% Farmer's Home 515 project set-aside, and the 30% set-aside for projects located in "eligible distressed areas" as defined in P.A. 346 of 1966, as amended. The purpose of these set-asides is to assure that the low income housing tax credit will be used to create and to preserve affordable housing opportunities for both urban and non-urban citizens of the State. Additionally, the "housing needs score" (see below) takes into account project location. Consequently, no specific points are awarded hereunder.

B. Housing Needs Characteristics

All applications will be scored for housing needs characteristics, which will be based on three housing related and two socioeconomic indicators derived from the most recently available census data. These indicators are: overcrowding, age of housing stock, value of owner-occupied non-condominium housing, poverty status of households, and unemployment rates. These indicators will be used to determine a census tract's relative housing distress in relation to other census tracts in the state, and a point score derived and assigned to each project as follows:

Needs Score	Points Awarded
50	20
40-49	15
30-39	10
20-29	5

Proposals in which more than 50% of the units will serve families or are undesignated in localities which do not have assisted housing projects serving family tenants (or are undesignated) at or below 50% of area median income . . .

10 Points

Proposals in which more than 50% of the housing will serve elderly tenants in localities which do not have assisted elderly housing projects serving tenants at or below 50% of area median income . . .

10 Points

Additionally, a project application which submits evidence of local support in the form of tax abatement and/or local subsidies may receive from 1 to 10 points for an elderly project and from 1 to 20 points for a family project . . .

10 Points

An application which is submitted in accordance with an approved local neighborhood preservation plan for an effectively treatable area . . .

10 Points

C. Project Characteristics

In accordance with the provisions of Section 42 of the Internal Revenue Code of 1986, as amended, the highest priority under this Plan will be given to projects in which the highest percentage of housing credit dollar amounts will be used for project costs other than the cost of intermediaries. Similarly, preference will be given to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest time periods. Additionally, the creation of additional low income units within the state is the highest priority in Michigan, while the preservation of existing low income units which are in need of significant repair in order to achieve or maintain the habitability of the units, or projects which have a high probability of being converted to market rate units is another stated priority in Michigan. Therefore, project applications will be given points for the following:

Projects creating additional low income units, both newly constructed units and the addition of units to low income stock through rehabilitation where units have been unavailable for low income occupancy for at least one year . . .

20 Points

The preservation of already existing low income units which are within 2 years of any permitted prepayment or equivalent loss of low income use restrictions and which will remain low income for the longer of fifteen years or the length of the mortgage . . **15 Points**

-OR-

The preservation of already existing low income units which show a significant need for repair in order to achieve or maintain habitability . . . **15 Points**

ACQUISITION CREDIT WILL ONLY BE ALLOCATED TO PROJECTS WHICH MEET ONE OF THE TWO PRESERVATION CATEGORIES DESCRIBED ABOVE.

Use of federal or state subsidies where the credit is needed to make a project feasible or to serve very low income families. Evidence of the subsidy must be submitted with the application and will be compared to other applications utilizing similar subsidy types. . **1 - 10 Points**

New construction projects with more than 150 low income units or any development in an "impacted area" containing an excessive concentration of low income units . . . **10 Negative Points**

D. Sponsor Characteristics

No one sponsor will be eligible to receive Reservations for more than an aggregate of 20% of the annual total available tax credit dollars during the first two funding rounds. Should there be available credit thereafter, either recaptured or unallocated, it may be allocated without regard to the percentage ot total credits already reserved or allocated during that calendar year.

Previous successful participation by sponsor(s) in the low income tax credit program or other programs producing low-income housing . . . **1 - 5 Points**

Previous successful participation by management agent in managing low income housing, with at least 3 years of experience - **1 - 5 Points**

Material participation in sponsorship and proposed ownership by minorities and/or women . . . 1 - 5 Points

Material participation in management by minorities and/or women . . 1 - 5 points

E. Participation of Local Tax-Exempt Organizations

The Authority desires to maximize the participation of local tax-exempt organizations in the creation of affordable housing opportunities throughout the State of Michigan, and to this end has created several programs for such participation. In furtherance of this aim, projects in which local nonprofit organizations materially participate will receive the following points: **10 Points**

F. Tenant Populations with Special Housing Needs

Points will be given in this category as follows:

Projects designed to meet large, low income family needs by having units of three bedrooms or more for at least 5% of the total project will receive . . . **5 Points,** and **one additional point** per percentage of 3 bedroom units to a maximum of 10 points.

Projects serving developmentally disabled persons under a qualified program of the Michigan Department of Mental Health - **20 Points**

Projects for transitional housing and/or homeless- **20 Points**

Projects serving elderly residents of the state are subject to the elderly set-aside in the Authority's statute.

G. Public Housing Waiting Lists

Projects of over 6 units located within a market area of 8 miles from a community in which there is a local public housing authority must commit in writing to such local public housing authority (or, in the event there are multiple such authorities, to one of them) to include such households on the waiting list for public housing in the applicant pool and to give them consideration, as well as describe the marketing effort to do so, or receive. . . **20 Negative Points**

Similarly, projects of over 6 units in areas where there is no local public housing authority must commit in writing to the Authority's area Section 8 Existing office to include households on the Section 8 Existing waiting list for assisted housing in the applicant pool and to give them consideration, as well as describe the marketing effort to do so or receive . . . **20 Negative Points**

H. Bonus Points

Bonus points for projects creating additional low income units may be awarded for a project's Readiness to Proceed as evidenced by submission at application stage of the documentation required for obtaining a Commitment. Projects receiving points under this category will be expected to proceed to closing and disbursement within 90 days, or in the event no construction financing is to be involved, construction is started. Failure to close within this time period may result in forfeiture of the reservation, or upon payment of an additional 1% of the annual credit amount, an extension of up to 30 days will be given. During the first funding round, up to 10 points may be awarded in this category, while for the second and third funding rounds, up to 20 points may be so awarded.

Projects utilizing innovative technology that will demonstrably decrease initial costs without increasing maintenance costs or decreasing fire safety or energy conservation standards -

1 - 10 Points

I. Preference Points

Once a project application has been scored according to the above Selection Criteria, additional preference points will be awarded based on the statutory preferences of Section 42 of the Internal Revenue Code. The following preference points will be available, it being understood that the sponsor must demonstrate that the project will be financially feasible at the levels chosen:

For each year beyond the initial 15 years that the owner agrees, through the vehicle of a recorded use restriction, to serve qualified low income tenants in at least the original minimum set aside percentage, the application will receive 1 point, up to a maximum of 30 points for 45 years, or 35 points if in perpetuity.

Preference points for projects serving the lowest income tenants will be awarded insofar as the owner also agrees to restrict the rents for such percentage of tenants below the minimum set-asides to 30% of the applicable household income for the applicable bedroom size. For example, if an owner under this preference elects to provide 10% of 2 bedroom units for people having incomes no greater than 20% of area median income, that owner must agree to restrict the rents for that 10% of units to 30% of 20% of area median income assuming a 3 person family. Preference points will be awarded in accordance with the following table:

PERCENT OF LOW INCOME TENANTS

70	35	70	105	140
60	30	60	90	120
50	25	50	75	100
40	20	40	60	80
30	15	30	45	60
20	*10	20	30	40
10	* 5	10	15	20
	50	40	30	20

PERCENT OF MEDIAN INCOME

Proposals which are economically feasible and exceed the targeting stated in this chart will be awarded additional points on a pro-rata basis.

*Available only for developments which are 100% assisted by the LIHTC program.

VII. First Evaluation and Award of Reservations

Project applications which include all required information and documentation and receive a score of at least 35 points will be eligible to be evaluated for receipt of a Reservation of tax credit authority. Prior to this evaluation, the preferences set forth at Section 42(m)-(1)(B)(iii), namely projects serving the lowest income tenants, and projects obligated to serve qualified tenants for the longest periods will be considered. Project applications will then be evaluated and the highest priority for Reservation of tax credit authority will be given to those projects as to which the highest percentage of the housing credit dollar amount is to be used for project costs other than the cost of intermediaries, unless granting such a priority would impede the development of projects in hard-to-develop areas.

The evaluation will consider the project's economic feasibility and financial viability over the credit period and will consider project costs and expenses, together with the sources and uses of resources. In conducting its evaluations, the Authority will apply a reasonableness standard, which, in the case of developer and builder fees associated with project development may vary from circumstance to circumstance, but generally, in the aggregate no such fees over 20% shall be permitted.

Once the Authority has conducted the evaluation and determined the amount of tax credit to be reserved, it will issue a Reservation on its prescribed form to the applicant, which shall be good for a period of 180 days, unless federal program requirements do not permit. For good cause shown, the Authority may extend the Reservation beyond its expiration date.

The Authority, at the time it issues the Reservation, shall notify the chief executive officer of the locality in which the project is to be located of the proposal, and shall give reasonable opportunity for comment by that chief executive officer.

VIII. Second Evaluation and Commitment

Prior to the expiration of the Reservation, the sponsor must submit to the Authority acceptable evidence of the following:

1) Firm commitment and certification as to the full extent of all federal, state, and local subsidies which will apply to the project.
2) Firm commitment for financing throughout the initial credit period (for FmHA 515 projects, the 1944-51).
3) Necessary local approvals, including zoning, site plan approval, tax abatement, etc.
4) Evidence of Equity financing.
5) Pro-forma financial information **(updated)**.
6) Sources and uses statement **(updated)**.
7) Formation of ownership entity.

Upon receipt of this information, the Authority will conduct a second financial evaluation of the project based on updated information, and will, unless for good cause shown, issue a Commitment to the applicant in the amount the Authority deems necessary and reasonable. Commitments of 1990 tax credit authority shall be valid for the length of the estimated construction period or until November 1, 1991, whichever is shorter. It is expected that the project will be completed and placed in service by this time, thereby being eligible for an allocation of credit. Should this not be the case, application may be made for a carryover allocation pursuant to Section IX below.

If the low income housing tax credit program is extended by Congress to allow 1991 tax credit authority, Reservations and/or Commitments of such authority may be subject to different expiry dates depending on the nature of any changes in the federal program.

IX. Carryover Allocations

Because the federal requirements of the low income housing tax credit program now permit unused credit authority to be carried over by the credit agency and to be allocated in the subsequent calendar year, it is generally the Authority's intent to discourage project-specific carryover allocations. Instead, the Authority intends to encourage projects with Reservations and/or Commitments to proceed with their schedules and will allow such Reservations or Commitments to remain valid for the full number of days permissible, awarding allocations at the time the project is actually placed in service. Should an applicant prefer a carryover allocation, however, such allocation will be available to projects fulfilling the conditions of the following paragraph.

However, should the low income housing tax credit program not be extended by Congress, the Authority may, at its discretion, change the provisions of such following paragraph in 1991 in order to assure maximum usage of remaining tax credit authority.

Carryover allocations to specific projects will be made only upon a showing that a closing and disbursement has occurred, that actual construction (as evidenced by the pouring of some footings for new construction) or rehabilitation work has commenced (as evidenced by demolition, if applicable), and that at least 10% of the project's reasonably anticipated basis will be incurred by December 31 of the applicable year. Applicants for carryover allocations will be required to post a letter of credit equal to the difference between the amount of project costs actually paid when the request for the carryover allocation is made, and 20% of the project's total reasonably anticipated basis. This letter of credit shall remain in effect until the project is placed in service. If the project is placed in service within the time permitted pursuant to the carryover allocation, the letter of credit will be returned. If it is not placed in service within that time, it shall accrue to the Authority.

X. Fees

All applications must be accompanied by cash or a check in an amount equal to $100 plus $5 for each proposed low income unit. This fee is non-refundable in any event.

The Authority will charge a fee equal to 4% of the annual tax credit dollar amount awarded to a project. A sum equal to 3% of the annual tax credit dollar amount shall be submitted to the authority at the time of Reservation. Should a project which has received a Reservation return that Reservation to the Authority within 90 days of its receipt, 50% of the fee already paid shall be refundable; however, after 90 days, 0% shall be refundable. The remaining 1% shall be paid at Commitment. Nonprofits may defer all but the initial application fee, until such time as closing on the equity contribution occurs.

Additionally, a fee equal to $100 plus $5 per low income unit will be charged for each year of the credit period for monitoring compliance.

XI. Tax-Exempt Financed Projects Not Subject to State Volume Cap

In accordance with Section 42(m)(2)(D) of the Internal Revenue Code of 1986, as amended, projects which do not receive a direct allocation from the authority as the State's credit agency because they qualify under section 42(h)(4) by virtue of being financed with tax-exempt obligations issued after December 31, 1989, must satisfy the requirements for allocation of a housing credit dollar amount under this Plan, and shall be subject to the evaluations required herein, but shall not be subject to the funding rounds.

Authority projects financed with tax-exempt obligations shall be subject to the fees enumerated in Section X above.

XII. Subsequent Evaluations

The Authority will further evaluate the project at the time of making an allocation (in the case of carryover allocations), and again, at the date the building is placed in service, pursuant to the requirements of Section 42(m) of the Internal Revenue Code.

XIII. Signatories

Reservations, commitments, and allocations (including carryover allocations) will be made by the Authority's Executive Director or such person or persons as he shall designate.

XIV. Modifications to the Qualified Allocation Plan

To the extent necessary to facilitate the award of low income housing tax credits that would not otherwise be awarded, this plan may be modified by the Authority from time to time. The Executive Director may make minor modifications deemed necessary to facilitate the administration of the credit program or to address unforeseen circumstances. Further, the Executive Director is authorized to waive any conditions which are not mandated by Section 42 of the Internal Revenue Code on a case by case basis for good cause shown.

To the extent that anything contained in this Plan does not meet the minimum requirements of federal law or regulation, such law or regulation shall take precedence over this plan.

XV. Clarification of Agency Role

In making its determination of the housing credit dollar amount necessary for the financial feasibility of a project and its viability as a qualified low income housing project throughout the credit period, the Authority will consider the sources and uses of funds and the total financing planned for the project, and any proceeds or receipts expected to be generated by reason of tax benefits. However, SUCH A DETERMINATION BY THE AUTHORITY SHALL NOT BE CONSTRUED TO BE A REPRESENTATION OR WARRANTY AS TO THE FEASIBILITY OR VIABILITY OF THE PROJECT. Similarly, any monitoring of continuing compliance is being done by the authority to assure that public purpose goals are being achieved and any failure to receive notice of noncompliance SHOULD NOT BE RELIED UPON BY ANY OWNERS OR THEIR INVESTORS AS A WARRANTY OR REPRESENTATION BY THE AUTHORITY THAT THE PROJECT IS IN COMPLIANCE WITH APPLICATION REQUIREMENTS.