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.

II. Compliance Monitoring and Notification of Noncompliance

Owners receiving a tax credit allocation shall be required to follow the requirements outlined in the Authority's Requirements and Procedures for Monitoring Compliance.

A. Owner Responsibilities

Owners must keep records on file for six years after the due date (with extensions) for filing the federal income tax return for that year. The records for the first year of the credit period must be kept for six years (with extensions) for filing the federal income tax return for the last year of the compliance period. These records must include: The total number of residential rental units in the building (including the number of bedrooms and the size in square feet of each unit); the percentage of residential rental units in the buildings that are low-income units; the rent charged on each residential rental unit in the building; the number of occupants in each low-income unit if rent is determined by the number of occupants in each unit; the low-income unit vacancies in the building and information that shows when and to whom the next available units were rented; income certifications of each low-income tenant and the documentation to support the certification; the eligible basis and qualified basis of the building at the end of the first year of the credit period; and the character and use of the nonresidential portion of any building included in the project's eligible basis.

Owners must submit to the Authority on an annual basis the following: An Owner Certification Form certifying that for the preceding twelve month period the project met certain conditions outlined in Section 42; a Tenant Income/Rent Record stating the number of qualifying units; information on each low-income tenant, the number of bedrooms in each unit, the rent charged for each unit, and any other information as set forth on the form.

B. Authority Responsibilities

Each year the Authority will review the Owner Certification Forms and Tenant Income/Rent Reports for compliance with program requirements.

The Authority will annually, for each year of the compliance period, select a minimum of 20% of the tax credit projects, the owners of which will be required to submit detailed information on tenant income and rent for 20% of the low-income units in each project/building.

The Authority retains the right to perform an on-site inspection of any low-income building at any time during the compliance period for low-income housing tax credit.

The Authority shall retain records of noncompliance or failure to certify for 6 years after its filing of a Form 8823. The Authority shall retain all certifications and records for not less than 3 years from the end of the calendar year in which they are received.

C. Notification of Noncompliance

Should any of the submissions required herein, including the Owner Certification, the Tenant Income/Rent Report, and/or income certifications, supporting documentation, and rent records, not be submitted in a timely fashion, or should there be omissions, the Authority shall, within 20 working days, notify the owner in writing, requesting such information. The owner will have 20 working days in which to provide the information, after which the Authority shall notify the Internal Revenue Service of the owner's failure to provide the required information.

Should the Authority discover, as a result of an inspection or review, or in any other manner, that the project is not in compliance with Section 42, or that credit has been claimed or will be claimed for units which are ineligible, the Authority shall notify the owner within 20 working days. The owner will have 20 working days in which to commence appropriate action to cure such noncompliance. The owner shall have a maximum of 90 days from the date of notice to the owner to cure the noncompliance. The Authority shall notify the Internal Revenue Service, utilizing Form 8823, no later than 45 days after the end of the correction period, and no earlier than the end of the correction period, of the nature of the noncompliance and will indicate to the Service whether or not the owner has made appropriate corrections. In extraordinary circumstances, and only if the Authority determines that there is good cause, an extension of up to six months to complete a cure for noncompliance may be granted.

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. The following setaside 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 and Availability of Credit

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% of available credit 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.

Generally, no more than 20% of the state's annual credit ceiling shall be allocated to acquisition and rehabilitation of already existing non "troubled" low income units unless Section 42(h)(3) of the Internal Revenue Code of 1986, as amended, is not amended to change the "stacking rules."

Applications must be received in the Authority's Lansing office by the application due date of the funding round. In the event that date falls on a Saturday, Sunday, or a public holiday, applications will be due the next work day.

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 a mortgage lender and in the case of a FmHA 515 project, the completed AD 622 form; in the case of conventional financing, documentation from the lender stating that a formal application for permanent financing has been accepted for processing; and in the case of a MSHDA financed project, evidence that the project has been accepted for processing.
5) Pro forma financial projections
6) Sources and uses of funds statement
7) Title Insurance Commitment dated within 6 months of the application
8) Documentation of federal tax-exempt status, or documentation of application for such, if applying under the non-profit set-aside

Less than complete applications will be deemed ineligible and may 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 provided the rehabilitation will repair or replace components that are i) in immediate need of repair or replacement or ii) substantially functionally obsolete or will provide modifications or betterments consistent with new code requirements or the Authority's design requirements.. . **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 of 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

Percent of low income tenants	50	40	30	20
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

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. 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 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.

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; for conventional financing, a letter of commitment from the lender, or signed mortgage documents; for MSHDA financing, a copy of the Mortgage Loan Commitment).
3) Necessary local approvals, including zoning, site plan approval, tax abatement, etc.
4) Evidence of equity financing.
5) Project schedule (updated)
6) Pro-forma financial information (updated).
7) Sources and uses statement (updated).
8) 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 tax credit authority shall be valid for the length of the construction period, but in no event will the Commitment extend beyond the expiration of the programs statutory authority. 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 changes to the low income housing tax credit program as enacted by Congress in any given calendar year so dictate, 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

A carryover allocation will be available to projects that have received a Reservation and/or Commitment of tax credit and that provide evidence, acceptable to the Authority and in accordance with any applicable federal regulations, from a Certified Public Accountant that more than 10% of the project's reasonably anticipated basis will be incurred by December 31 of the year in which the carryover allocation is issued.

In the event that a Commitment has not been issued prior to issuance of a Carryover Allocation, all requirements for the Commitment must be fulfilled by the date specified on the Carryover Allocation, or the Carryover Allocation shall become null and void.

X. Developer/Builder Fees

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 (developer & builder) over 20% shall be permitted.

XI. 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 2% 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 2% shall be paid at Commitment. Nonprofits may defer all but the initial application fee, until such time as closing on the equity contribution occurs.

Compliance monitoring fees will be charged for the credit period as follows:

All units for which an allocation of credit was not made by December 31, 1992 must pay the sum of $125 per low income unit, which amount will cover the entire monitoring period and is payable prior to issuance of Form 8609. All units that received an allocation of credit prior to January 1, 1993, and all projects financed by MSHDA, may elect to submit a sum equal to $10 per low income unit on an annual basis for the remainder of the credit period, or may opt to make one payment similar to that described above. Failure to submit the fee will be considered non-compliance.

XII. 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 an allocation from the State's credit ceiling 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 XI above.

XIII. Subsequent Evaluations

The Authority will further evaluate the project at the time of making a carryover allocation and again, at the date the building is placed in service. When the project/building is placed in service, and prior to the issuance of an 8609, the owner must submit to the Authority acceptable evidence of the following:

1) Pro-forma financial information (updated)
2) Sources and uses statement (updated)
3) Independent, third party cost certifications for projects of six or more units
4) Certificates of occupancy, or equivalent for rehabilitation work

XIV. 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.

XV. 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.

XVI. 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.