

Michigan State Housing Development Authority

TO: Developers, Attorneys, and all Other Interested Parties
FROM: Legal Affairs Division
RE: Required Organizational Document Provisions for Authority-Aided Developments

The following requirements or provisions must be included in both the partnership agreement and the certificate of limited partnership in order for a limited partnership to receive mortgage loan financing from the Michigan State Housing Development Authority and to be found eligible for tax abatement under the State Housing Development Authority Act of 1966. A limited dividend housing association may only be formed under Michigan law; entities formed under the laws of another state are not eligible.

INSTRUCTIONS FOR PREPARING LIMITED PARTNERSHIP AGREEMENTS AND CERTIFICATES FOR AUTHORITY-AIDED DEVELOPMENTS

1. **Name.** The term "Limited Dividend Housing Association" shall be included as part of the name of the Partnership.

2. **Purpose.** The purpose clauses of the limited partnership agreement and certificate of limited partnership shall both contain the following:

The Partnership has been organized exclusively to provide housing facilities for persons of low and moderate income, or for persons whose income does not exceed limits established in Act No. 346 of the Public Acts of 1966 of the State of Michigan, as amended (the "Act"), and *(add the following only if the development will also be allocated tax credits)* Section 42 of the Internal Revenue Code of 1986, as amended, and for social, recreational, commercial, and communal facilities as may be necessary to serve and improve a residential area in which Authority-aided or federally-aided housing is located or is planned to be located, thereby enhancing the viability of the housing.

3. **Return.** For the purpose of limiting the return to be received by the Partnership, the following sections shall be included in the limited partnership agreement and certificate:

Notwithstanding any other provisions of this Agreement, by acceptance of a beneficial interest in the Partnership or by executing the document of basic organization, every partner of the Partnership shall be deemed to have agreed that he or she at no time shall receive from the Partnership, any return in excess of the face value of the investment attributable to his or her respective interest plus cumulative dividend payments at a rate which the Michigan State Housing Development Authority (the "Authority") determines to be reasonable and proper, computed from the initial date on which money was paid or property delivered in consideration for the interest; and that upon the dissolution of the Partnership, any surplus in excess of those amounts shall be paid to the Authority or to any other regulating governmental body as the Authority directs.

As used in the foregoing paragraph, the terms "surplus" and "return" are defined as follows:

(1) The term "surplus" as used herein shall not be deemed to include any increase in assets of the Partnership by reason of reduction of a mortgage, by amortization or similar payments, or realized from the sale or disposition of any assets of the Partnership to the extent such surplus can be attributed to any increase in market value of any real property or tangible personal property accruing during the period the assets were owned and held by the Partnership.

(2) Any payment to a person having a beneficial interest in the Partnership shall not be deemed a "return" to such person if the funds with which such payment is made are funds contributed to the Partnership by persons purchasing a beneficial interest in the Partnership.

4. **Supervision by Authority.** For the purpose of carrying out the provisions of the Act, the following sections shall be included in the limited partnership agreement and certificate:

Notwithstanding any other provisions of this Agreement, the operations of the Partnership may be supervised by the Authority or by any other governmental body as the Authority directs, and the Partnership shall enter into agreements with the Authority or with the governmental body as the Authority from time to time requires. The Agreements shall provide for regulation by the Authority or the governmental body of the planning, development and management of the housing development undertaken by the Partnership and the disposition of the property and franchises of the Partnership.

5. **Authority's Right to Appoint Managing Agent.** For the purpose of carrying out the provisions of the Act, the following sections shall be included in the limited partnership agreement and certificate:

Notwithstanding any other provisions of this Agreement, the Authority shall have the power to appoint a managing agent of the Partnership and its partners, who may be an officer, employee, or agent of the Authority, and such managing agent shall have complete power to act as agent and attorney in fact for the Partnership and its partners, in connection with any assets or liability of the Partnership, to fulfill any obligations the Partnership may have to the Authority if:

(1) The Partnership has received a loan or advance as provided in the Act and the Authority determines that the loan or advance is in jeopardy of not being repaid;

(2) The Partnership has received a loan or advance as provided for in the Act and the Authority determines that the proposed housing development for which the loan or advance was made is in jeopardy of not being constructed;

(3) The Authority determines that some part of the net income or net earnings of the Partnership, in excess of that permitted by other provisions of the Act, shall inure to the benefit of any private individual, firm, corporation, partnership, trust or association;

(4) The Authority determines that the Partnership is in violation of the rules promulgated under Section 22 of the Act; or

(5) The Authority determines that the Partnership is in violation of any agreements entered into with the Authority providing for regulation by the Authority of the planning, development and management of any housing development undertaken by the Partnership or the disposition of the property and franchises of such Partnership.

