M E M O R A N D U M

October 11, 2002

TO: All Interested Parties in the Low Income Housing Tax Credit

FROM: Ted S. Rozeboom

RE: Proposed Changes to the 2003 Qualified Allocation Plan (QAP)

The Michigan State Housing Development Authority is in the process of amending the Qualified Allocation Plan that governs the administration of the Low Income Housing Tax Credit in Michigan. Public hearings will be held in Detroit on November 14, 2002 at 10:00 a.m. at 3028 W. Grand Boulevard, Suite 4-600, and in Lansing on November 15, at 10:00 a.m. at the Authority's Lansing office located at 735 E. Michigan Avenue. The purpose of the hearings is to provide all interested parties an opportunity to comment on the proposed changes to the Plan.

Once the changes to the Plan are adopted, a copy of the Plan will be sent to you upon request. If you would like to a copy of the proposed Plan prior to the hearings, the Plan, along with a copy of this memo, will be available on MSHDA's web site, www.mshda.gov/mshda or by contacting the Low Income Housing Tax Credit Program at (517) 373-6007. If you are unable to attend either of the public hearings, but wish to submit written comments, you may submit them to Ted S. Rozeboom at the Authority's Lansing office by 5:00 p.m. on November 15, 2002.

Outlined below is a brief description of the recommended changes to the Qualified Allocation Plan. Roman Numerals and letters refer to specific sections of the current Plan.

IV Funding Rounds and Availability of Credit

Change: Decrease the amount of credit available on March 15 from 45% to 40% and on July 15 from 31% to 30%. Increase the Preservation Holdback from $2.5 million to $3.5 million, or to 20% of the annual credit.

Rationale: The Authority introduced the Preservation Holdback in 2002, and the overall response has been positive. During 2002, the Preservation Holdback was fully utilized, and it is anticipated that there will be increased demand during 2003. The $3.5 million recommended for the Preservation Holdback represents a 40% increase over the amount available in 2002.

VI Selection Criteria

Change: Delete: Consequently, no specific points are awarded hereunder for geographic area.

Add: B. Project Location Characteristics Projects will receive points based on the location of the proposed development and relationship to shopping, parks, houses of worship and other desirable site characteristics. Projects are eligible to receive a maximum of ten points for desirable site characteristics.

Project will also receive negative points based on the location of the proposed development and its relationship to undesirable site characteristics including, but not limited to, access to the proposed development site of a street with less than 100 feet frontage or proximity to sources of noise, odor, or other nuisance pollution. Projects can receive a maximum of ten negative points for undesirable site characteristics.

Rationale: Tax Credit staff and others have observed the quality of sites for proposed developments has been diminishing. Awarding and deducting points based on a project's location and its relationship to desirable and undesirable site characteristics will encourage the submission of better development sites.

B. Housing Needs Characteristics

Change: Add: Projects that reserve 25 percent of all rental units for persons with special needs and that reserve 65 percent of all rental units for tax credit eligible households will be imputed the maximum number of points available for housing needs characteristics under the QAP regardless of the development's location.

Rationale: The proposed change will encourage the development of special needs and tax credit housing in statistically stronger markets than has been possible in the past. Project sponsors must submit an acceptable Addendum III in order to qualify for these points.

C. Locality/Neighborhood

Change: Add: An application for a project that is to be located within the boundaries of a core community. 5 Points

Rationale: The additional points will encourage the development of tax credit housing in core communities.

D. Project Characteristics

Change: Add: (Exclusive of CIP, Fannie Mae and Freddie Mac), and elimination of the two or five points available for these funding sources.

Rationale: Federal, state and local points are awarded to encourage soft financing with lower interest rates. CIP, Fannie Mae and Freddie Mac interest rates parallel conventional loan rates.

Change: The criteria for tenant ownership is changed to:
Projects that agree to transfer 100 percent of the housing tax credit units ownership at the end of the 15-year compliance period from the initial ownership entity of the project to tenant ownership will receive 3 points. These points will be available only for single family, townhouse or duplex units. The sales price cannot exceed the outstanding principal mortgage balance for the unit. To qualify for the points, the owner must provide a detailed proposal for eventual tenant ownership. The plan must incorporate a limited partnership ownership exit strategy and the provision of services including home ownership, education, training and down payment assistance, where necessary.

Rationale: The change provides greater guidance to sponsors submitting tax credit applications involving some form of tenant ownership after the 15-year compliance period. It is anticipated that this change will not take affect until the July 2003 funding round. Proposals will be evaluated and scored using a process similar to the process used for scoring Addendum III for special needs housing.

E. Sponsor Characteristics

Change: Increase application fee for sponsors submitting more than three applications in a funding round from $250 plus $10 per low income unit – TO - $50 per low income unit, with a maximum $2,000 limit for each additional application submitted.

Rationale: Past funding rounds have demonstrated that when submitting more than three applications in a funding round, the quality of the applications falls dramatically. Also, owners having more than three successful applications in past rounds have had difficulty meeting tax credit deadlines.

Change: Reduce the number of points awarded for sponsors proposing projects utilizing existing housing that is located in an area for which a community revitalization plan is in place and who can demonstrate that the proposed development contributes to the revitalization plan from five to two points.

Rationale: There is no standard definition of a community revitalization plan; consequently, the quality of the plans varies widely from community to community. Additionally, there are no mechanisms to assure that key elements of the plan have been or will be implemented.

G. Tenant Populations with Special Housing Needs

Change: Consolidate the point structure from a two-tier point system to a matrix awarding points based on the percentage of special needs units within a proposed development.

TOTAL NUMBER OF UNITS IN PROJECT	POINTS TO BE AWARDED BASED ON NUMBER OF SPECIAL NEEDS UNITS				
	5 POINTS	10 POINTS	15 POINTS	20 POINTS	25 POINTS
1 - 20	1	2	3	4	5
21 - 40	2	4	6	8	10
41 - 60	3	6	9	12	15
61 - 80	4	8	12	16	20
81 - 100	5	10	15	20	25
101 - 120	6	12	18	24	30
121 - 140	7	14	21	28	35
141 - 150	8	16	24	32	40

Rationale: The matrix simplifies the process for awarding special needs points and increases the number of points a project may receive based on the percentage of special needs units in the development.

I. Preference Points

Change: Reduce the number of points for projects located in a qualified census tract, for which a community revitalization plan is in place and that can demonstrate that the proposed development contributes to the revitalization plan from 5 points to 2 points.

Rationale: There is no standard definition of a community revitalization plan; consequently, the quality of the plans varies widely from community to community. Additionally, there are no mechanisms to assure that key elements of the plan have been or will be implemented.

VII Underwriting Standards

Change: Add: Development applying under the 1-12 unit holdback which are serving special needs tenants must submit an acceptable Addendum III in order to receive credit.

Rationale: This change is necessary to assure continuity in the development of special needs housing under the Tax Credit Program.

Change: Developer Fee - For projects receiving an allocation of housing tax credit by virtue of being financed with tax-exempt bonds, increase the developer from 15% to 20% for small, non-urban projects. The developer fee for larger projects receiving an allocation of housing tax credit by virtue of being financed with tax-exempt bonds would remain at 15%, however, the cap on the developer fee will be increased to $2,000,000.

Rationale: Unlike conventionally financed projects, projects using tax-exempt bonds often require additional public resources to make them financially feasible. It is anticipated that any funds available to project sponsors as a result of the increased developer fee will be available to close financing gaps, to fund replacement reserves, or for any other purpose that will make a project financially feasible.

XIII Fees

Change: All applications must be accompanied by cash or a check in the about equal to $100 plus $5 for each proposed low-income unit – TO – All applications must be accompanied by cash or a check in the amount equal to $35 or each low-income unit with a $1,500 maximum limit.

Rationale: Tax Credit staff recently completed a survey of state allocating agencies to determine how the Authority's fees compared to those charged by other states. Without exception, the fees charged by the Authority were significantly lower than those charged by other states. The suggested change will bring the fees charged by the Authority into parity with those charged by other states.

Change: Sponsors that submit more than three applications in a funding round must pay an amount equal to $250 plus $10 for each low-income unit - TO – Sponsors that submit more than 3 applications in a funding round must pay an amount equal to $50 for each low income unit with a $2,000 maximum.

Rationale: Past funding rounds have demonstrated that when submitting more than three applications in a funding round, the quality of the applications falls dramatically. Also, owners having more than three successful applications in past rounds have had difficulty meeting tax credit deadlines for these projects.

Change: Add: Application checks returned to MSHDA for non-sufficient funds will result in the project being disqualified from the competition. The application will be returned without being scored or ranked.

Change: 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. The remaining 2% shall be paid at Commitment. - TO – The Authority will charge a fee equal to 6% 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. The remaining 3% shall be paid at Commitment.

Rationale: Tax Credit staff recently completed a survey of state allocating agencies to determine how the Authority's fees compared to those charged by other states. Without exception, the fees charged by the Authority were significantly lower than those charged by other states. The suggested change will bring the fees charged by the Authority into parity with those charged by other states.

XVII Modification to the Qualified Allocation Plan

Change: To the extent necessary to facilitate the award of low-income housing tax credits that would not otherwise be awarded, the plan may be modified by the Authority from time to time. The Director of Legal Affairs may waive any conditions that are not mandated by Section 42 of the Internal Revenue Code on a case-by-case basis deemed necessary to facilitate the administration of the tax credit program or to address unforeseen circumstances, with the exception of requests for the exchange of credit. The Executive Director may also waive any conditions that are not mandated by Section 42 of the Internal Revenue code, and has the exclusive authority to approve requests for the exchange of credit.

Rationale: The proposed change permits the Director of Legal Affairs to approve waivers to facilitate the administration of the tax credit program where appropriate.