

STATE OF MISSISSIPPI
MISSISSIPPI HOME CORPORATION

HOUSING TAX CREDIT PROGRAM
2005 QUALIFIED ALLOCATION PLAN

2005 Qualified Allocation Plan

INTRODUCTION

The Mississippi Home Corporation (the "Corporation") is charged with the responsibility of administering the Housing Tax Credit Program (the "Tax Credits", "Housing Credit" or the "Tax Credit Program"), which was created by Congress in the Tax Reform Act of 1986, and which has been further amended by acts of Congress and amendments to Section 42, as amended, of the Internal Revenue Code.

The Code requires the Corporation to develop a qualified allocation plan (i) which shall set forth the selection criteria to be used to determine housing priorities of the State of Mississippi that are appropriate to local conditions; (ii) which also gives preference in allocating housing credit dollar amounts among selected developments that (a) serve the lowest income tenants, and (b) obligate to serve qualified tenants for the longest period; and (iii) which provide a procedure that the Corporation (or an agent or other private contractor of the Corporation) will follow in monitoring for noncompliance and in notifying the Internal Revenue Service of such noncompliance. The selection criteria set forth in a qualified allocation plan must include: (i) development location, (ii) housing need characteristics, (iii) development characteristics, (iv) sponsor characteristics, (v) tenant populations with special housing needs, and (vi) public housing waiting lists. The Code also requires that the qualified allocation plan be subject to public review in accordance with rules similar to those in Section 147(f)(2) of the Code.

The delegation of authority to the states to administer the Tax Credit Program, a tax incentive program, is unique and unprecedented. However, the delegation is limited. While recognizing the value of decentralized decision making, Congress also imposed a uniform set of procedures each state must follow in administering the Tax Credit Program. These procedures are designed to ensure that the low-income renters, whom the program is intended to benefit, are those actually served. These procedures are also designed to make certain that the Tax Credit is rationed in the amount necessary to make each development feasible and viable, taking into account all sources of funding.

In December 1997, the National Council of State Housing Agencies ("NCSHA") established a Task Force of Executive Directors of agencies with the responsibility for the Tax Credit Program in twenty (20) states to develop Best Practice Standards for State Housing Credit administration which responds to the suggestions the General Accounting Office (GAO) and the Ways and Means Oversight Subcommittee as well as other participants in the Housing Credit Community have made.

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The concerns include:

- The adequacy of housing needs assessments;
- The need for property market studies;
- Appropriate use of state agency discretion in allocating Credits;
- The need for independent, third party cost certifications;
- The adequacy of debt service ratios;
- Operating and replacement reserves;
- Operating expenses;
- Quality of management experience; and
- Adequacy of compliance safeguards.

On October 10, 1998, NCSHA adopted the Task Force's fifteen (15) recommended minimum standards for allocation and underwriting of housing credit agencies. If in the future Congress considers legislation in these areas, these standards will provide guidance.

State legislation requires the Corporation to develop an annual housing plan detailing the housing needs of the State. Based upon any such housing needs study and other available information and data, the Qualified Allocation Plan has been designed to address the most pressing housing needs of the State. To assess Mississippi's overall housing needs, the Corporation has relied on the work of the Mississippi Housing Task Force (the "Task Force"), data compiled for the Target Area Designation Statistical Analysis and Report, the State of Mississippi Consolidated Plan, and available census data.

On October 12, 2004, the Corporation, acting pursuant to statutory requirements, held a public hearing for the purpose of receiving comments on a draft of Mississippi's 2005 Qualified Allocation Plan (QAP). In addition to oral comments received at the hearing, the Corporation requested written comments from interested members of the public concerning the draft QAP. Both the oral and written comments received were considered and fully evaluated prior to the Corporation's approval of the 2005 Qualified Allocation Plan. The 2005 Qualified Allocation Plan was presented to the Governor of the State of Mississippi, who formally approved its terms by Resolution received by the Corporation on December 15, 2004.

GENERAL POLICIES AND GUIDELINES

1. The 2005 Qualified Allocation Plan shall forward commit 2006's credit authority and commit/allocate any remainder 2004 and 2005's credit authority.
2. Applicants may verify prior to submitting an application to the Corporation for tax credits that they are in compliance with any and all programs they are participating in offered or administered by the Corporation. A request for noncompliance verification must be received by the Corporation at least forty-five (45) working days before submission of a tax credit application. This request is not mandatory. The applicant's compliance status will be verified upon receipt of a tax credit application. If a request is submitted within the time frame mentioned above, applicable research fees will apply. A charge of \$55.00 per hour will be assessed to cover the cost of researching and processing an applicant's compliance status request. An applicant, including all parties associated therewith, must be in compliance with any and all Corporation programs to participate in the application process. Applications will be disqualified that are proposed by an entity with existing major noncompliance findings for any development in which they are associated. The application fee is non-refundable.

Examples of major noncompliance include, but are not limited to:

- Rents charged to residents that exceed maximum limit;
- Failure to follow the next available unit rule;
- Numerous instances of administrative noncompliance (failing to execute the procedures and policies stated in the Mississippi Compliance Monitoring Manual and loan guidelines under the Mississippi Affordable Housing Development Fund);
- Severe health and safety violations generally affecting more than one (1) unit (structural problems, severe water damage, fire hazards, etc.);
- Down units (not suitable for occupancy for extended period of times generally more than ninety (90) days);
- Disposition/sale of property improperly; and
- Delinquent on loan payments to the Mississippi Affordable Housing Development Fund.

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- Households whose member(s) total gross annual income exceed maximum limit at initial move-in date.

Examples of minor noncompliance include, but are not limited to:

- Isolated instances of administrative noncompliance (failing to execute the policies and procedures stated in the Mississippi Housing Tax Credit Compliance Manual).
 - Violations that require correction but do not impair essential services and safeguards for residents.
3. Applications will be disqualified that are proposed by principals (including consultants that have previously been a principal) who have participated with one or more of the Corporation's programs that has a major noncompliance issue and/or is in foreclosure or has been foreclosed. Applicants are required to disclose any and all members of the development team who receive fees for their services. All parties are subject to be listed on MHC's website.
 4. Following submission of an application for tax credits, the Mississippi Home Corporation will not allow changes or corrections to be made to the application once the Corporation's deadline for receipt of the applications has passed. However, in its review of tax credit applications, the Corporation may request additional information to make a determination regarding the eligibility of the development for an allocation of tax credits. Such requests shall not be an indication of the worthiness of the particular development.
 5. All documents required by the Corporation must be submitted with the application during that cycle. All information submitted for review must be current year information unless otherwise noted in QAP or approval has been received from the Corporation at least ten (10) working days prior to submission of the application. The Corporation staff's interpretation of the documentation submitted with the application is final. Therefore, it is critical that the developer's documentation contained in the application is clear, concise and to the point as it relates to the QAP item that the documentation is addressing.
 6. Application fees are non-refundable. Failure to include application fee will disqualify application for review during a specified cycle.
 7. The Corporation will accept applications within the identified application cycle time frame after the approval of the Qualified Allocation Plan by the Governor of Mississippi.

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8. The Corporation will accept applications financed with tax-exempt bonds at any time after the approval of the Qualified Allocation Plan by the Governor of Mississippi. In order to qualify for the full four percent (4%) credit, an opinion letter from a Certified Public Accountant must accompany the application certifying that fifty percent (50%) or greater of aggregate basis will be financed by tax-exempt bonds.
9. For acquisition developments, documentation of the property ownership for the last ten (10) years must be provided with the application.

The acquisition of affordable housing or rehabilitation of existing units as described in Section 42, as amended of the Internal Revenue Code (the "Code") must have rehabilitation expenditures of ten thousand dollars (\$10,000.00) per housing unit or ten percent (10%) of the original basis, whichever is greater, in order to qualify under the tax credit program.

The acquisition of affordable housing from a government entity may have rehabilitation expenditures of six thousand dollars (\$6,000.00) per housing unit if there is a waiver from the Internal Revenue Service from the ten (10) year previous ownership requirement for the acquisition credit on the grounds that the owner otherwise is likely to pay off the existing mortgage and end low income occupancy.

10. Acquisition/rehabilitation developments that are not ten (10) years old or have changed ownership within the last ten (10) years, an approved waiver must be obtained from the U.S. Department of the Treasury. This waiver must accompany the application.
11. Acquisition/rehabilitation developments that are federally assisted and involve the displacement of persons, including displacements caused by rehabilitation and demolition activities must submit a Relocation Plan subject to the requirements of the Uniform Relocation Assistance and Real Property Acquisitions Policies Act of 1970.
12. For all rehabilitation properties, a physical needs assessment for each building and each unit must accompany the application certified by a licensed architect or engineer. For all new construction properties, the Minimum Design Quality Standards must be met and certified by a licensed architect or engineer. Any deviations must receive the Corporation's approval prior to submitting an application. This documentation must accompany the application.
13. For acquisition/rehabilitation properties, the acquisition price on which tax credits are allocated will be limited to the lesser of the sales price or the appraised "as-is" value of the property.
14. All deadlines outlined in the Reservation and Commitment letters will be enforced. Requests for extensions of any deadline will be considered only if requested in writing at

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least ten (10) days prior to the deadline date and only for good cause shown. If in the event an extension is granted, the Corporation will assess a late fee of \$100 per day for the first five (5) days, \$250 per day for days six (6) through fifteen (15), and \$500 per day for days sixteen (16) through thirty (30) beyond the deadline date. At the end of the thirty (30) day extension, credits will be recaptured by MHC, except for good cause shown. There will be no refund of previously paid tax credit fees or late fees, and no waivers will be granted of late fees or other requirements as outlined in the QAP.

15. The Corporation will make reservation announcements within one hundred twenty (120) days of the close of the application cycle.
16. The Corporation will not issue a reservation or commitment to a development requesting tax credits in excess of fifteen percent (15%) of the 2006 per capita component to fill the equity gap.
17. The Corporation will issue Commitment Letters within twenty (20) days of the deadline for submitting executed Reservation Letters.
18. The **ORIGINAL** reservation and **ORIGINAL** commitment letters must be returned to the Corporation.
19. Applicants which are business entities must be legally formed and have authorization to do business in Mississippi as approved by the Secretary of State's Office before the submission of tax credit applications. The authorization must accompany the application.
20. Application fees and allocation/monitoring fees must be in the form of a cashier's check or money order.
21. The Corporation will require the submission of signed and notarized budget information submitted to the financing entity with applications for tax credits.
22. Syndication costs will not be allowed in eligible basis.
23. Application and Allocation Fees will not be allowed in eligible basis.
24. The contingency line item (general requirements) cannot exceed six percent (6%) of the total construction cost. The construction contingency line item should not exceed five percent (5%) of construction cost.
25. All "other" line items must be identified and listed and may not exceed two percent (2%) of the total construction cost.

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26. In its financial analysis, the Corporation will assume a seven percent (7%) vacancy rate, three percent (3%) income, and four percent (4%) expense increase per year.
27. In evaluating developments for tax credits, the Corporation will, among other things, analyze the development costs of the development including costs per unit, expenses per unit, development income, affordability of rents, cash flow of the development, and the gap between sources and uses of funds.
28. Tax credit applications whose costs exceed the Corporation's cost per unit as outlined in the QAP must provide detailed supporting documentation from the development's engineer or architect. Costs that exceed the maximum cost per unit by \$10,000/> must submit cost justification to the Corporation for review at least ten (10) working days prior to submission of application. Failure to receive prior approval will disqualify the application from consideration. The Corporation shall determine the feasibility of a tax credit allocation to such applications.
29. An application must provide documentation that it meets all threshold requirements listed in this plan. Documentation satisfying the four (4) threshold requirements must be included in the application and tabbed. Failure to tab this information will result in five (5) points being deducted from the applicant's ranking score total.
30. Developments receiving tax credits in 2005 will be required to provide cost certifications after development completion. A cost certification must include all cost categories listed under "Cost Breakdown" in the 2005 tax credit application and conform to the requirements of the Corporation.
31. A property that has previously received tax credits and placed the development in service before January 1, 1994, as evidenced by Forms 8609 issued for the property, will be eligible for additional tax credit allocations. In order to qualify, developments must have rehabilitation expenditures of at least fifteen thousand dollars (\$15,000.00) per unit to allow for substantial rehabilitation. This guideline does not govern the handling of tax-exempt bond developments.
32. All sections of the application must be tabbed and submitted in the color-coded format as outlined in the QAP. (Ex. Readiness: Tabs 1-12)
33. All applications must include a table of contents in accordance with the example provided in the attachment section of the QAP.
34. Developments that fail to include the minimum replacement and operating reserves outlined within the QAP will not be considered financially feasible for tax credits.

