PUERTO RICO HOUSING FINANCE AUTHORITY
Subsidiary of the Government Development Bank For Puerto Rico
GDB
COMMONWEALTH OF PUERTO RICO
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LOW-INCOME HOUSING TAX CREDIT PROGRAM

QUALIFIED ALLOCATION PLAN

2009

Draft

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2009 LOW INCOME HOUSING TAX CREDIT ALLOCATION PLAN

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FOREWORD

Congress adopted the Low-Income Housing Tax Credit Program (**Tax Credits**)[1] as part of the Tax Reform Act of 1986. The Tax Credits provide a financial incentive to construct, rehabilitate, and operate rental housing for low-income tenants. A 10-year Tax Credit is available for each unit set-aside for low-income use as long as eligible households occupy a specific proportion of units in a building or project. The rents charged on the set-aside units are restricted and eligible households must occupy them or such units becoming vacant must be held open for eligible households for at least 15 years, plus a minimum of 15 additional years that Puerto Rico Housing Finance Authority requires.

The Housing and Economic Recovery Act of 2008 (enacted July 30) increased the annual per capita Tax Credit to $2.20 for 2008 and 2009. IRS Revenue Procedure 2008-66 changed the 2009 Tax Credit to the greater of the annual per capita Tax Credit of $2.30 or $2,665,000. After 2009, allocations will revert to prior amounts as though this provision had not been enacted. The population of Puerto Rico is 3,954,037 based on Internal Revenue Notice 2009-21 of March 30, 2009. The 2009 annual per capita cap multiplied by the population of Puerto Rico represents $9,094,285 in Tax Credits.

The American Recovery and Reinvestment Act of 2009 (February 17, 2009, Public Law 111-5) allows, through home investment partnership programs, additional amounts for capital investments in low-income housing tax credit projects, $2,250,000,000, to remain available until September 30, 2011. Its Section 1602, Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations for 2009, transfers to the Authority an amount equal to the Authority's low-income housing grant election amount.

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1 Tax Credits refer to the LIHTC Program as well as the amount of individual tax credits according to the text.

PUERTO RICO HOUSING FINANCE AUTHORITY
A SUBSIDIARY OF THE GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
STATE CREDIT AUTHORITY

2009

Low Income Housing Tax Credit Allocation Plan

I. Legislative Requirements for the State Allocation Plan (Allocation Plan)

The Omnibus Budget Reconciliation Act of 1989 mandated that state housing credit agencies adopt plans for the allocation of the Tax Credits among qualified low-income housing projects. The Governor of Puerto Rico (**Governor**) must approve the Allocation Plan after the public has had the opportunity to comment through a public hearing.

The guidelines and requirements set forth in this Allocation Plan will be utilized in the processing of Tax Credits.

II. Internal Revenue Code Requirements. Gap funding and credit exchange.

The housing credit authority for the Commonwealth of Puerto Rico is Puerto Rico Housing Finance Authority (**Authority**). Section 42(m)(1)(B) of the Internal Revenue Code of 1986, as amended (**Code**), requires the Allocation Plan to:

A. Set forth the selection criteria to determine housing priorities appropriate to local conditions.

B. Prefer allocating Tax Credits to projects:

   1. serving the lowest income tenants;
   2. obligated to serve qualified tenants for the longest periods; and
   3. located in qualified census tracts the development of which contributes to a concerted community revitalization plan.

C. Create a procedure that the Authority will follow in monitoring noncompliance, notifying the Internal Revenue Service (**IRS**) of such noncompliance, and monitoring for noncompliance with the provisions of the Tax Credits.

   Section 42(m)(1)(C) of the Code requires the Allocation Plan to include certain selection criteria:

   1. project location;
   2. housing needs characteristics;
   3. project characteristics, including whether the project includes the use of existing housing as part of a community revitalization plan;
   4. sponsor characteristics;
   5. tenant populations with special housing needs;

6. public housing waiting lists;
7. tenant populations of individuals with children;
8. projects intended for eventual tenant ownership;
9. energy efficiency of the project; and
10. historic nature of the project.

Every project, including any financed with tax-exempt bonds issued after December 31, 1989, must satisfy the requirements for allocation of Tax Credits.

The Authority may use, at its discretion, the priorities and point rankings set forth to allocate certain other funding sources that it is entrusted to administer by state law or Board of Directors Resolutions, including, without limitation, state tax credits under Act 140 of October 4, 2001 (**Act 140**), as amended, and, other funds as its Board of Directors authorizes.

The American Recovery and Reinvestment Act of 2009 (**ARRA**; February 17, 2009, Public Law 111-5) allows, through home investment partnership programs, additional amounts for capital investments in low-income housing tax credit projects, $2,250,000,000, to remain available until September 30, 2011. Such funds shall be made available to State housing credit agencies, as defined in section 42(h) of the Code, and shall be apportioned among the States based on the percentage of HOME funds apportioned to each State and the participating jurisdictions therein for Fiscal Year 2008.

In Puerto Rico, the Authority will distribute these funds competitively pursuant to the Allocation Plan to owners of projects who have received or receive simultaneously an award of low-income housing tax credits under section 42(h) of the Code.

The Authority shall commit not less than 75 percent of such funds within one year of the date of enactment of ARRA, and shall demonstrate that the project owners shall have expended 75 percent of the funds made available under ARRA within two years of the date of enactment of ARRA, and shall have expended 100 percent of the funds within 3 years of the date of enactment of ARRA.

Failure by an owner to expend funds within the parameters required within the previous proviso shall result in a redistribution of these funds by the Authority to a more deserving project in Puerto Rico, except any funds not expended after 3 years from enactment shall be redistributed by the Secretary of the Treasury of the United States (**Secretary**) to other States that have fully utilized the funds made available to them.

Projects awarded low income housing tax credits under section 42(h) of the Code in fiscal years 2007, 2008, or 2009 shall be eligible for this funding.

The Authority shall give priority to projects that are expected to be completed within 3 years of enactment of ARRA.

Any assistance provided to an eligible low income housing tax credit project shall be made in the same manner and be subject to the same limitations (including rent, income, and use restrictions, in lieu of corresponding limitations under the HOME program) as required by the Authority with respect to an award of low income housing credits under section 42 of the Code.

The Authority shall perform asset management functions, or shall contract for the performance of such services, in either case, at the owner's expense, to ensure compliance with section 42 of the Code, and the long term viability of buildings funded by assistance under this funding.

The eligible basis (as such term is defined in such section 42) of a qualified low-income housing tax credit building receiving assistance under this program shall not be reduced by the amount of any grant described under this allotment.

The Secretary shall be given access upon reasonable notice to the Authority to information related to the award of Federal funds from the Authority pursuant to this program and shall establish an Internet site that shall identify all projects selected for an award, including the amount of the award and such site shall provide linkage to the Authority's Allocation Plan which describes the process that was used to make the award decision.

In administering these funds, the Secretary may waive any provision of any statute or regulation that the Secretary administers in connection with the obligation by the Secretary or the use by the recipient of these funds except for requirements established in Section 1602 and requirements related to fair housing, non-discrimination, labor standards and the environment, upon a finding that such waiver is required to expedite the use of such funds.

For purposes of environmental compliance review, funds made available to the Authority for distribution to projects awarded low income housing tax credits shall be treated as funds under the HOME program and shall be subject to Section 288 of the HOME Investment Partnership Act.

In addition, under Section 1602 of ARRA, Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credit Allocations for 2009, the Secretary shall make a grant to the Authority in an amount equal to Puerto Rico's low-income housing grant election amount.

The low-income housing grant election amount means such amount as the Authority may elect which does not exceed 85 percent of the product of:

1. the sum of:

    a. 100% of the Authority's credit ceiling for 2009 which is attributable to amounts described in clauses (i) and (iii) of section 42(h)(3)(C) of the Code, and

b. 40% of the Authority's credit ceiling for 2009 which is attributable to amounts described in clauses (ii) and (iv) of such section, multiplied by

2. 10.

The Authority shall use such grant to make subawards to finance the construction or acquisition and rehabilitation of qualified low-income buildings. A subaward under this section may be made to finance a qualified low-income building with or without an allocation under Section 42 of the Code, except that the Authority may make subawards to finance qualified low-income buildings without an allocation only if it makes a determination that such use will increase the total funds available to Puerto Rico to build and rehabilitate affordable housing. The Authority shall establish a process in which applicants that are allocated credits are required to demonstrate good faith efforts to obtain investment commitments for such credits before the Authority makes such subawards.

Any such subaward with respect to any qualified low-income building shall be made in the same manner and shall be subject to the same limitations (including rent, income, and use restrictions on such building) as an allocation of housing credit dollar amount allocated by the Authority under Section 42 of the Code, except that such subawards shall not be limited by, or otherwise affect the Authority's credit ceiling.

The Authority shall perform asset management functions to ensure compliance with Section 42 of the Code and the long-term viability of buildings funded by any subaward. The Authority may collect reasonable fees from a subaward recipient to cover expenses associated with the performance of its duties. The Authority may retain an agent or other private contractor to satisfy these requirements.

The Authority shall impose conditions or restrictions, including a requirement providing for recapture, on any subaward under this section so as to assure that the building with respect to which such subaward is made remains a qualified low-income building during the compliance period. Any such recapture shall be payable to the Secretary for deposit in the general fund of the Treasury and may be enforced by means of liens or such other methods as the Secretary determines appropriate.

Any grant funds not used to make subawards under this section before January 1, 2011, shall be returned to the Secretary on such date. Any subawards returned to the Authority on or after such date shall be promptly returned to the Secretary. Any such amounts returned to the Secretary shall be deposited in the general fund of the Treasury.

The amounts described in clauses (i) through (iv) (unused State housing Tax Credits for preceding calendar year, per capita Tax Credit, returned Tax Credits in the calendar year, and the national pool) of subsection (h)(3)(C) of Section 42 of the Code with respect to any State for 2009 shall each be reduced by so much of such amount as is taken into account in determining the amount of any grant to such State under Section 1602 of ARRA.

The basis of a qualified low-income building shall not be reduced by the amount of any grant described above.

III. Housing Needs Assessment

A. Priorities identified in the State Consolidated Plan 2005-2010 (Consolidated Plan) and in the State Action Plan 2006-2007 (Action Plan)

In reviewing the Allocation Plan, the Authority used information from the United States 2000 Census, the needs assessment on housing and homeless included in the most recent Five Years Consolidated Plan 2005-2010, and the information on the most recent State Action Plan 2006-2007 that the Commonwealth of Puerto Rico submitted to the U.S. Department of Housing and Urban Development (HUD) dated June 16, 2006. The Five Years Consolidated Plan integrates Governor Luis Fortuño's strategic policy for housing, homeless, and antipoverty to enable a better quality of life for all citizens, with President Barack Obama's national priorities to reduce housing problems. The affordable housing priorities of the Five Years Consolidated Plan are to:

1. strengthen public and private partnerships;
2. expand the supply of decent, safe, sanitary and affordable housing, with primary attention for the construction of new homeownership and rental housing, for low-income and very low-income families;
3. establish minimum non-federal matching investments to complement federal funding in the provision of affordable housing;
4. support and encourage viable strategies to expand housing as well as economic opportunities for low and moderate-income persons;
5. assist units of local government and their communities in the development of plans and strategies to address the priority need of low and moderate income persons;
6. continue offering and expanding technical assistance by staff of the Puerto Rico Office of the Commissioner for Municipal Affairs (OCMA) based on the needs of the municipalities.

The Action Plan pursues five main priorities (**Five Priorities of State Action Plan**) for the benefit of low and very low income tenants:

1. provide homeownership opportunities for low-income families through construction of new developments and existing vacant units available for sale;
2. develop rental housing, either by new construction or rehabilitation of existing rental units and the conversion of non-housing buildings into new rental units;
3. continued assistance to the community housing development organizations (**CHDO**), private non-profit faith based service organizations that hired or intend to hire staff with the capacity to develop affordable housing for the community it serves;
4. homeowner rehabilitation, such as dwelling rehabilitation or the substantial unit rehabilitation, including replacement of existing unit within its original footprint; and
5. support planning and administration of the HOME Program.

B. Housing Needs

The Puerto Rico Consolidated Plan 2005-2010 and the Annual Action Plan 2005-2006 analyzed the Island's housing needs based on the 2000 US Census data, the Comprehensive Housing Affordability Strategy (**CHAS**) Data Book (from HUD), local studies, and other reliable information sources.

According to the U.S. Census, out of 3,808,610 individuals in Puerto Rico 1,818,687 are below poverty level (47.75%). It represents almost four times the U.S.A. poverty level. Of the total population, 425,137 are 65 years old and over (11.2%). Of those 65 years old and over, 183,500 (43.16%) live below the poverty level in Puerto Rico. The vast majority of the older persons that live below the poverty level reside in rural municipalities that have limited job opportunities and limited resources. There are 1,261,325 occupied housing units in Puerto Rico out of 1,418,476 total housing units (88.92%).

The Government of Puerto Rico has identified 5 **Housing Needs**:[2]

1. Safe, decent and affordable residential units for very low, low and moderate-income families. In 2000 there were 1,261,268 occupied housing units in Puerto Rico of which 46.6% had a housing problem, 28.9% had cost burden problems higher than 30% of their earned income, and 15.75% had cost burden problems higher than 50% of their earned income. [3]

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[2] Consolidated Plan 2000-2006

[3] Housing problems are defined as cost burden greater than 30% of income, overcrowding and without complete kitchen or plumbing facilities. Cost burden is the fraction of a household's total gross income spent on housing costs.

2. Below poverty level for individuals in Puerto Rico is almost four times that in U.S.A. This single factor compels a comprehensive approach in order to alleviate the disadvantaged living conditions in this sector. The number of 65 years and over below poverty level is 43.16% of the total 65 years and over population in Puerto Rico and 10% of the total below the poverty level population.
3. The demand for housing in Puerto Rico during the five-year period is estimated at 19,960 units annually, of which 52% is for low-income housing or some government assistance.
4. Although the demand for low-income housing is also concentrated in large regions like San Juan and Bayamón, regions like Aguadilla, Guayama, Ponce, Mayagüez and Fajardo also have large percentage shares of assisted living demand.
5. Municipalities with the highest percentage of rental units were either densely urbanized or metropolitan. Those with the lowest proportions were located in coastal sectors.
6. Urgency to employ the older population to supplement its income, allow economic self-sufficiency, and contribute to solve its inadequate housing.
7. Housing units, especially those dedicated to special needs population, must be located near transportation hubs, commercial zones, pharmacies and medical facilities.

C. Goals of the Commonwealth's Affordable Housing Policy (Goals of Housing Policy)

1. Strengthen public and private partnerships.
2. Expand the supply of affordable housing for low and very low-income families.
3. Establish minimum non-federal matching investments to complement federal funding in providing affordable housing.
4. Support and encourage viable strategies to expand housing and economic opportunities for low and moderate-income families.
5. Assist units of local government and its communities to develop plans and strategies to address the main needs of low and moderate income persons.
6. Continue offer and expansion of technical assistance to non-profit organizations based on the needs of the municipalities.
7. Promote the construction, development, reconstruction, rehabilitation, improvement and equipping of low-income public housing projects as described in the United States Housing Act of 1937, as amended.

Likewise, the Secretary of the Department of Housing has adopted as a priority of public policy the modernization of public housing projects using Tax Credits with the approval of the U.S. Department of Housing and Urban Development (HUD). Tax Credits will be used to provide funds for capital modernization improvements to public housing projects that Puerto Rico Public Housing Administration operates.

To support those efforts, the Authority will facilitate the use of volume-cap tax exempt financing and 4% Tax Credits for public housing modernization. It will facilitate the eight goals with a more efficient use of a historically under-utilized federal resource.

The Authority's mission is to finance and administer programs to create and preserve housing for low and moderate-income families. It is framed within the public policy of the Department of Housing to provide and preserve over 50,000 housing units during 2009-2010. The role is to facilitate financing and other housing services to families and developers in collaboration with the Department's public policy. The Authority will cooperate with the Department's initiatives by furnishing needed support that state and federal programs under its administration may supply to attaining the Department's goals.

IV. Housing Priorities

In recognition of the Code requirements, priorities identified in the Consolidated Plan and State Action Plan, Housing Needs, and Goals of Housing Policy, the Authority favors:

A. New housing projects that satisfy the requirements of Section 42 of the Code and are part of a larger project or plan that is reasonably expected to have a significant economic impact in the community in which the projects are located as well as surrounding communities.

B. New projects for families with income at or below 50% of median income for the area that will positively impact a designated special community.

C. Rehabilitation of structures with or without deteriorated housing units in an urban center revitalization program.

D. Special needs projects which add new units to the affordable rental housing stock for low income households and supportive living services as part of the projects' management and operation. Special needs projects include those helping:

    1. elderly;
    2. disabled;
    3. homeless; and
    4. victims of domestic violence.

E. Projects with a large proportion of 3-bedroom units (50% or more of the total units of the project).

F. Projects in areas with the greatest forecasted demand, as defined in Annex B, Study of the Rental Market in Puerto Rico: 2006-2010.

G. Participation of tax exempt organizations under Section 501(a) and (c) of the Code in the development of low income housing projects.

H. Projects in which the percentage of the housing Tax Credit dollar amount for intermediaries is below 10%.

I. Rehabilitation of properties with prior governmental ownership, sponsorship or financing.
J. Rehabilitation of properties that will facilitate the modernization and development of public housing projects.
K. Projects that demonstrate readiness to proceed through and have applicable regulatory approval.
L. Projects placed in service the same calendar year in which the application for Tax Credits is submitted.
M. Projects serving individuals with children.
N. Projects that give residents a homeownership opportunity.
O. Increasing housing stock in non-metropolitan areas.
P. Preservation of Section 8-Project Based developments.
Q. Use of energy efficient technology.
R. Preservation of a historic property.
S. Projects under construction.
T. Projects without capital investors.

V. Set Asides

Non Profit Set Aside: 10% of the Authority's annual Tax Credit ceiling.

Unrequested Tax Credits under the set-asides following the close of applications for the cycle shall convert to the general pool. If Tax Credits are exhausted in a designated set-aside pool, all projects submitted for such set-aside pool will compete in the general pool or, if eligible, in another available set-aside pool. The Authority may designate additional set-aside Tax Credits.

VI. Tax Credit Allocation Methodology and Criteria

A. Initial Submission - Basic Threshold Qualifications

To be considered for a reservation of Tax Credits, an applicant must first submit a complete application, include full payment of fees and demonstrate that the owner and the project meet these initial qualifications:

1. The project is or will be a **qualified residential rental project** with the basic income and rent restrictions of Section 42 of the Code (See Annex C, Low Income Housing Tax Credits Program Maximum Rents), evidenced through the Owners' Certification, the Accountant's Opinion, the Attorney's Opinion, and the Designer's Preliminary Certification (see proposed models on Annexes G, H, I, and J, respectively).
2. The owner, developer and their shareholders, directors, officers and partners, as applicable, must demonstrate that they have not been involved in any way (either personally or as shareholders, directors, officers or partners of a corporation, partnership or other form of business organization or joint venture) in any other project for which the Authority has provided any financing and in which a default under the terms and

conditions of the applicable financing documents occurred that resulted in the foreclosure of the project or in the substitution of the owner or any shareholder, director, officer or partner thereof, as applicable. The developer shall determine any identity of interest with any other party of the project.

3. The owner, developer and their shareholders, directors, officers and partners, as applicable, with previous participation in the program, must demonstrate that they comply with Section 42 requirements and that, as of the application filing date, there is no outstanding finding of noncompliance in another project that received Tax Credits and in which they have an interest.

4. Evidence of construction completion or readiness to proceed as demonstrated through the following information and documents:

    a. Percentage of construction completion.
    b. Evidence of site control.
    c. Land Use Consultation (*Consulta de Ubicación*) approved by the Puerto Rico Planning Board (*Junta de Planificación*), and/or Preliminary Development (*Desarrollo Preliminar*) approved by the Regulations & Permits Administration (ARPE by its Spanish acronym) or a Municipality, as the case may be.
    d. Letter of intent from financing source specifying terms of available financing. Development team in place: architect/designer, general contractor, management agent, their resumes and, if available, their contracts with the owner.
    e. Schematic drawings and outline specifications.
    f. Cost breakdown certified by the proposed general contractor or architect/designer.
    g. Letter of intent from syndicator or direct investor evidencing available private equity. If not, evidence of good faith efforts to obtain investment commitments for Tax Credits.
    h. Pro-forma financial statements certified by the proposed management agent.
    i. Original of Accountant's Opinion (Annex H).
    j. Original of Attorney's opinion (Annex I).
    k. Original of Designer's Preliminary Certification (Annex J).
    l. Applying firm´s governing documents:

        i. Certificate of Special Partnership;
        ii. Certificate of Limited Partnership; and
        iii. Certificate of Limited Liability Corporation, among others;

    m. Referral Agreement with Public Housing Authority (PHA), if applicable.
    n. IRS Form SS-4 (application for Employer Identification Number) or other evidence of the taxpayer identification number.

o. Owner must demonstrate its commitment to extend the initial 15-year period of compliance with the Tax Credit program's income and rent restriction requirements for a minimum of 15 additional years. (See Annex K).
p. Phase I environmental assessment report.
q. Comprehensive market study report, by a party unaffiliated with the developer, of the low-income housing needs in the area to be served. The market study professional should have experience with multifamily rental housing. The market study should at least include:

   i. Statement of the competence of the market study provider.
   ii. Description of the proposed site.
   iii. Demographic analysis of the number of households in the area that are income eligible and can afford to pay the rent.
   iv. Geographic definition and analysis of the market area.
   v. Analysis of household sizes and types in the market area.
   vi. Description of comparable developments in the market area, including any rental concessions these developments offer.
   vii. Rent levels and vacancy rates of comparable properties.
   viii. Analysis of available operating expenses and turnover rates of comparable properties.
   ix. Projected operating funds and expenses, when available at the time of the study.
   x. Expected market absorption of the proposed rental housing, including capture rate analysis of target populations.
   xi. Effect on the market area, including the impact on Tax Credit and other existing affordable rental housing.

   The Authority will consider the market study, the market, marketability factors, and any additional information available to determine if an acceptable market exists for the proposed development. The Authority will not be bound by the conclusions or recommendations of the market report and reserves the right to disqualify any applicant in the competition if it determines that an acceptable market does not exist. The Authority reserves the right to waive any or all of the market study requirements for public housing modernization projects if the application can demonstrate the project's feasibility by other independent, third-party market study analyses satisfactory to the Authority.

r. REHABILITATION PROJECTS ONLY: Comprehensive capital needs assessment report that a competent third party professional prepares, including an opinion of proposed budget. The assessment should examine and analyze, among other things:

   i. site;
   ii. structural systems;

iii. interiors (including units and common areas); and
iv. mechanical systems.

s. Appraisal report of site and property.

5. Projects sponsored or developed by non-profit organizations and receiving a Tax Credit reservation and allocation from the non-profit set-aside: a non-profit organization must be a **qualified nonprofit organization** under Section 42(h)(5)(C) of the Code:

a. exempt from taxation under Section 501(a) of the Code and described in paragraph (3) or (4) of Section 501(c) of the Code;
b. **materially participate**[4] in the acquisition, development and ongoing operation of the project throughout the entire compliance period. This includes, but is not limited to, having an ownership interest in the project and being at least co-general partner; and
c. foster low-income housing as one of its exempt purposes.

6. Projects that Rural Housing Service of the U.S. Department of Agriculture (RHS) finances or sponsors: RHS commitment letter with available funding.
7. Compliance with the Fair Housing Act accessibility requirements certified through the Designer's opinion letters and completion of the Fair Housing Act Accessibility Requirements Checklist. (Annex F: requirements checklist; Annexes J and N: models of certification letters).
8. Certification from applicant as to Federal, State, or Local subsidies received or expected to be received for the development and operation of the project.

Only those applications meeting all such initial qualifications applicable to them would be further considered for the Point Ranking System. Project owners whose applications do not meet the initial basic qualifications will be so informed in writing. The applicant will have 30 days to correct deficiencies. Afterwards, the application will be eliminated from competition should the applicant fail to provide the information requested or correct the deficiencies noted.

B. Development Budget and Pro Forma Assumptions Review

1. Description

The Authority will evaluate the proposed development budget to ensure that the construction and other costs set forth for the project are

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[4] *"Material Participation"* is defined in Section 469(h) of the Code and related Treasury Regulations as being involved on a regular continuous and substantial basis in the development and operation of the project throughout the full Tax Credit compliance period. The non-profit entity must submit a narrative statement, certified by a resolution of its boards of directors describing the non-profit plan for material participation during the Compliance Period.

reasonable and conform to Authority parameters. In addition, the pro-forma statements will be reviewed in order to ensure that the underwriting parameters conform to Authority parameters. The Authority will use its parameters and resulting numbers to review project feasibility, determine need, and allocate tax credits.

2. **Allowable costs and expenses**

a. **Intermediary costs**

Shall not exceed 25% of total development costs and projects with the lowest intermediary costs will have priority after taking into consideration the facts and circumstances of each project. The intermediary costs will include, but are not limited to:

i. organizational costs;
ii. developer's fees (fees to the developer, overhead, profit and consultants);
iii. syndication fees; and
iv. professional fees (architect/designer's, attorney's, accountant's fees)

b. **Developer Fees**

Maximum fee of 15% of the total development costs. The developer fee includes the developer's overhead, profit and consultants' fees. To calculate the maximum developer fee, total development costs include the cost to purchase the building, site work, construction costs, architectural and engineering fees, interim costs, financing fees and expenses, soft costs, syndication costs, reserves and working capital. It does not include the cost of purchasing land. Any other fee related with an affiliated entity of the developer will also be considered as part of the maximum developer fee.

In addition, a maximum developer's fee of 4% is allowed on the acquisition cost of buildings (excluding land value or cost, whichever is greater) purchased for substantial rehabilitation. Consulting fees, such as real estate attorney and consultant agents retained by the developer, must be paid out of developer fees, so that the aggregate of consulting fees and developer fees does not exceed the maximum developer fee.

c. **General Contractor Maximum Charges**

i. Builder's profit: 6% of hard construction costs.
ii. Builder's overhead: 2% of hard construction costs.
iii. General requirements: 2% of hard construction costs.

d. **Per Unit Maximums**

The cost of a unit, except for projects financed with volume-cap tax-exempt obligations, will not exceed, for acquisition/rehabilitation: the greater of:

i. 20% of the adjusted basis of the building being rehabilitated, or

ii. $6,000 per low-income unit in the building.

The Authority reserves the right, at its sole discretion, to exceed these standards. Nevertheless, in order to receive a waiver to such requirements every exception must be justified and documented. Therefore, the applicant must include a formal request which documents and validates proposed project costs and tax credits higher than the per unit standards.

e. **Per Unit Cost Review**

The Authority may appoint an independent consultant to validate construction or rehabilitation costs in projects that passed the basic threshold requirements. The consultant will evaluate:

i. site, including topography, drainage, pavement, curving, sidewalks, parking, landscaping, water sewer, storm drainage, gas and electric utilities and lines;

ii. structural systems;

iii. interiors, including units, common area finishes, and disabled access;

iv. mechanical systems;

v. elevators; and

vi. other factors the Authority deems as necessary.

f. **Acquisition costs**

The acquisition price will be limited to the lesser of the sale price or the appraised value of the land and the property, and in the case of a public Authority seller, the costs of rehabilitation already incurred on properties not yet placed in service.

g. **Operating Expenses**

The Authority will consider the reasonableness of the development and operational costs of the project as an additional factor in determining the proper amount of Tax Credits.

3. Underwriting Parameters

a. Vacancy Rate

i. 3% in projects with project-based rental assistance
ii. 5% in projects with less than 50 units
iii. 7% all other projects

b. **Income and Reserve for Replacement:** 3% annual growth in rents, other income, and reserve for replacement

c. **Operating Expenses:** 4% annual growth

d. **Debt service coverage ratio:** Minimum: 1.15 (operating income divided by debt service) for the term of the debt financing, if any.

e. **Required Reserves**

i. **Rent-up reserve** shall be reasonable based upon projected rent-up time according to market and target population, but in no event shall be less than $200 per unit.

ii. **Operating Reserve**

Based on a six-month's debt service and operating expenses and must be maintained throughout the term of the Tax Credit compliance period. Deferring the developer's fees of the project can allow the project owner to fund the operating reserve. In that case, the developer's deferred fee can only be repaid from cash flow and after all required replacement reserve deposits are made. Such fee will be projected to be repaid within 10 years and must meet the IRS standards. A statement with the terms of the deferred fee must be included.

iii. **Reserve for Replacement**

(a) New construction: $250 per unit per year.
(b) Rehabilitation of 50 units or less: $250 per unit per year.
(c) Rehabilitation of more than 50 units: $300 per unit per year.
(d) Replacement reserve must be capitalized from the project's operations at 3% annual increases.

f. **Section 8 Project Based Rental Assistance**

The Authority will underwrite the rents according to Tax Credit limits in projects that intend to use Section 8 project based rental assistance.

These limits are based on annual HUD data. If Section 8 HAP contract allows rents above those limits, the project may receive the additional revenue.

g. **Tax Credit Percentage**

The Authority will use the applicable monthly percentage rate the IRS publishes to reserve Tax Credits. The Authority, at its own discretion, could lower this percentage or use the 9% or 4% rate as applicable to the project. For buildings placed in service after July 30, 2008 and before December 31, 2013, and which are not federally subsidized for the taxable year, the applicable percentage shall not be less than 9%. At the time of the Tax Credit allocation the applicant must choose the Tax Credit percentage for either the:

i. Carryover Allocation or Binding Commitment month; or
ii. month the project is or will be placed in service.

h. **Equity Pricing**

The Authority will use the price that owners will submit through a letter of intent from the investor confirming the financial assumptions of the purchase.

4. **Record and Notification**

The Authority will record and issue an itemized notice, when it informs the of a Tax Credit reservation, or lack thereof, of amendments to the pro forma financial statements, changes to development costs, operating expenses, reserves, and underwriting assumptions.

C. **Underwriting and Financial Feasibility Analysis**

1. **Description**

The Authority shall evaluate the amount of Tax Credits, subject to its placement in the Point Ranking System, after it has determined that a project satisfies all basic qualification requirements, that proposed costs and expenses are reasonable and within the prescribed standards, and that underwriting parameters conform to Authority guidelines.

Section 42 of the Code requires the Authority to allocate the Tax Credits necessary to make a project economically viable. Thus, no project may receive, regardless of its absolute or relative score in the Point Ranking System, more credits than the Authority's underwriting process identifies as required for financial viability. Specifically, the amount of Tax Credits will be the lesser of the:

a. maximum allowable under the Code according to the project's eligible basis and affordability level (eligible basis analysis);
b. project's current necessity as the Authority's underwriting determines (sources and uses or equity gap analysis); and
c. amount of credits the applicant requested.

2. Pro-forma statements

Pro-forma statements will be prepared by the Authority based on the above-described analysis, which will include recommended sources and uses of funds, as well as projected operating income for the term of affordability. These will include the amount of tax credits that such project would be eligible to receive, subject to the Point Ranking System, as well as the amount of permanent financing, governmental subsidies, capital contributions, and funds from Authority programs.

The Authority reserves the right, at its sole discretion, to vary the above described methodology in order to comply with Section 42 requirements, any state law requirements or to further the public policy set forth in this Qualified Allocation Plan.

D. Project Evaluation and Selection (Point Ranking System)

1. Description

The Authority will consider qualified applications for Tax Credits after_a project satisfies all basic factors using the Point Ranking System established hereinafter.

The project can accumulate a total of **755** points on the Point Ranking System. The project must accumulate a minimum of **150** points to be entitled to a reservation or an allocation of Tax Credits. The Authority anticipates reserving Tax Credits for those projects scoring highest under the Project Selection Criteria up to the amount permitted by law and this Allocation Plan. However, the ranking under the Project Selection Criteria does not vest an application or project with any right to reservation or allocation of Tax Credits. Applications for new constructions that will be placed in service within the calendar year in which the application is submitted will receive the highest priority. Except for Exchange Credits, projects returning Tax Credits from a previous year allocation and not placed in service within the established two-year period will receive the lowest priority. The Authority also encourages applicants to request Tax Credits when the process to obtain the necessary approvals and permits for the development and construction of the project has ended or is close to end.

2. **Section 42 mandatory legislative criteria**

Federal legislation requires the Authority to give preference in allocating Tax Credits to those projects serving the lowest income tenants and to those projects committed to serve qualified tenants for the longest period.

3. **Other Criteria: Overview**

The Authority will use the selection criteria stated below for ranking projects eligible for the allocation of Tax Credits. The results of the evaluation and ranking will be at the sole discretion of the Authority and will not be subject to challenge or appeal. The numerical ranking does not operate to vest in an applicant or project any right to reservation or allocation of Tax Credits. The Authority will, in all instances, reserve and allocate Tax Credits consistent with its sound and reasonable judgment, prudent business practices, and the exercise of its inherent discretion.

The applications will be evaluated according to:

a. **Intermediary Costs**

Preference will be given to projects with the lowest intermediary costs.

b. **Preferred Project Location**

i. Difficult Development Areas (**DDA**; HUD designation). A DDA is an area with high construction costs, land costs, and utility costs relative to the area gross median income projects (Annex D).
ii. Qualified Census Track (**QCT**) (HUD designation; Annex D).
iii. Municipalities with greatest low income housing demand (Rental Housing Market Study, January 2007, by Advantage Business Consultants, Department of Housing; Annex B).

c. **Preferred Project Characteristics**

i. Evidence of percentage of construction completion
ii. Evidence of good faith efforts to obtain investment commitments for Tax Credits
iii. Readiness to begin immediate construction.
iv. At least 50% of the units will be rent restricted and affordable to households with incomes less than 50% of the median income adjusted for family size.
v. Recipient of project based rental subsidies.
vi. Proposed rehabilitation will not require relocation of existing tenants.

vii. Owner and a PHA agreed to include the development in listings of housing opportunities where households with tenant-based subsidies or from a public housing project's waiting list are welcome.
viii. Longest commitment to low income housing.
ix. Placed in service in calendar year in which application for Tax Credits is submitted for the first time.
x. It will acquire and rehabilitate a structure owned or financed by a government entity and add units to the affordable rental inventory.
xi. Intended for eventual tenant homeownership.
xii. It will preserve existing low-income housing.
xiii. Municipality´s Mayor endorses.

d. **Preferred Housing Needs Characteristics**

i. Projects with larger amounts of three bedroom units that can accommodate families with children.
ii. Projects that will rehabilitate inadequate housing or relocate families living in flash flood areas.

e. **Sponsor/Owner Characteristics**

i. Preference will be given to projects sponsored or developed by nonprofit organizations under section 501(c) of the Code and exempt from tax under section 501(a).
ii. Previous successful participation by sponsor(s) or the owner in developing and operating Tax Credit projects, as well as previous successful participation by proposed management agents in managing low-income housing.
iii. Preference will be given to sponsors/owners with superior financial strength.
iv. Penalized projects: Sponsors, developers or owners of other projects for which the Authority has provided financing or awarded Tax Credits and in which a default has occurred that resulted in the foreclosure of the mortgaged property or in the assignment of the mortgage to the Authority or the substitution of the owner has occurred or the project found to be with uncorrected significant noncompliance over six months old.
v. The Authority will evaluate and approve the qualifications of every appointed management agent without previous experience in the administration of LIHTC project.
vi. Preference will be given to projects sponsored/developed by a public authority.

f. **Preferred Financing Characteristics**

i. New developments in rural areas that RHS sponsors.
ii. New constructions with a firm financing commitment from the Authority.
iii. Minimum underwriting requirements herein described.

g. **Tenant Population with Special Housing Needs**

Preference will be given to projects that provide supportive services to families where members are victims of domestic violence, HIV-patients, elderly, homeless or disabled.

h. **Community Revitalization Master Plan**

Preference will be give to projects that are part of a Community Revitalization Master Plan.

i. **Public Housing Modernization**

Preference will be given to housing developments that modernize a public housing project.

j. **Returned Credits**

Projects returning or that returned Tax Credits from a previous year will be penalized. This penalty will be applied once.

4. **Point Scoring**

a. **Intermediary Costs (up to 25 points)**

i.	25 points:	up to 15% of total development cost
ii.	10 points:	more than 15%, up to 25% of total development cost

b. **Project Location (up to 50 points)**

i.	10 points:	DDA (HUD designation; Annex D; include evidence of location)
ii.	20 points:	QCT (Annex D; include evidence of location)
iii.	Up to 20 points:	region that for 2009 reflected greatest housing demand as per the Rental Housing Study in Puerto Rico (Advantage Business Consultants, January 2007, Annex B). The points will be awarded as follows:

20 points:	Region which needs over 100,000 units.
10 points:	Region which needs over 50,000 units.
5 points:	Region which needs over 30,000 units.

c. **Project Characteristics (up to 280 points)**

i. Evidence of percentage of construction completion:

75 points	more than 75%
60 points	less than 75% to 50%
45 points	less than 50%

ii. Up to 40 points: construction of the project will commence as soon as an allocation or reservation of Tax Credits is made. Readiness to begin construction will be evidenced with:

40 points:	Construction Permit or Notification of Approval of the Construction Permit, issued and approved by ARPE or an Autonomous Municipality, as the case may be
25 points:	Urbanization Permit issued and approved by ARPE or an Autonomous Municipality, as the case may be
15 points:	Preliminary Development, issued and approved by ARPE or an Autonomous Municipality, as the case may be
10 points:	Land Use Consultation, issued and approved by Puerto Rico Planning Board

iii. 20 points: At least 50% of units in project are targeted for households with incomes at 50% or less of the median income adjusted for family size.

iv. 35 points: Executed rental subsidy agreement, such as:

(a) Agreement to enter into a Housing Assistance Payments Contract, between PHA and Owner.
(b) Housing Assistance Payment Contract under Act Number 173 of August 31, 1973; or
(c) HUD annual contribution contract for public housing operations subsidy.

v.	10 points:	Proposed rehabilitation does not require relocation of current tenants.
vi.	5 points:	Written agreement with PHA, submitted with application, that PHA will include the project in any listing of housing opportunities where households with tenant-based subsidies or in a public housing project's waiting list are welcomed and where the project's owner or management agent agrees to actively seek referrals from the PHA to apply for units at the project.
vii.	Up to 10 points:	Project provides guarantees for longer terms of affordability beyond the extended compliance period:
	10 points:	At least 10 more years beyond the required 30-year period.
	5 points:	At least 5 more years beyond the required 30-year period.
viii.	25 points:	Project will be placed in service within the calendar year in which an application for low-income housing Tax Credits is submitted for the first time.
ix.	25 points:	Project will acquire and rehabilitate existing vacant structure (government authority owned or financed) to add units to the affordable rental housing inventory.
x.	10 points:	Owner will offer the tenants a first option to buy after the initial compliance period of 15 years.
xi.	15 points:	Project will acquire, rehabilitate and preserve low-income rental housing which might otherwise be converted from low-income tenancy, including Section 8 projects with expiring contracts.
xii.	5 points:	includes a letter of endorsement from the mayor of the municipality where the project is located.
xiii.	5 points:	Project emphasizes its energy efficiency.

d. **Housing Needs Characteristics (up to 20 points)**

i.	10 points:	Project bedroom's distribution is 50% or more 3-bedroom units.

ii. 10 points: Projects that rehabilitate inadequate housing or that relocate housing in flash flood areas.

e. **Sponsor/Project Owner Characteristics (up to 155 points)**

i. 20 points: Owner, federal partner, sponsor, is:

(a) a federal qualified non-profit organization tax exempt under Section 501(c) 3 of the Code and exempt from tax under section 501 (a);
(b) such organization is not affiliated with or controlled by a for profit organization, except for certain subsidiaries, as defined on section 42(h)(5)(D);
(c) domiciled in Puerto Rico for at least 12 months prior to submitting the ;
(d) Materially Participates (as defined on page 12) in the acquisition, development, ownership and on-going operation of the property for the entire compliance period; and
(e) has as one of its exempt purposes the fostering of low-income housing.

ii. 20 points: Sponsor/Project owner can demonstrate successful past experience in the development of low income housing Tax Credit projects in Puerto Rico.

iii. 20 points: Management agent can demonstrate successful prior experience in the management of low income housing Tax Credit projects. Points will be awarded for projects based on the experience of the management agent maintaining compliance of low-income housing Tax Credits units in Puerto Rico during the past 10 years.

iv. 20 points: Sponsor/developer is a public Authority.

v. LESS 20 points: Sponsor, owner, developer, management agent, or consultant to the applicant has defaulted in a financing that the Authority provided in another project and such default resulted in foreclosure, assignment of mortgage or substitution of mortgagor.

vi. 75 points: Sponsor/owner evidences strong financial strength under commercial financing scrutiny.

f. **Financing Characteristics (up to 75 points)**

i. 15 points: New construction in rural areas that will receive funds from RHS.

ii. Up to 15 points: New construction with a financing firm commitment from the Authority.

15 points: Interim and Permanent
7 points: Interim or Permanent

iii. Up to 45 points: Project meets the following underwriting requirements:

30 points: 7% vacancy rate (5% for projects with <50 units or 3% for projects with project based rental assistance); rent and replacement reserve increase at 3%; operating expenses increase at 4% annually; project pro-forma financial statements reflect ≥1.15 debt coverage ratio (DCR) during financing term.

15 points: Operating Expenses:

Projects over 50 units:

New Construction: Per-unit per annum (PUPA) operating expenses, as management agent certifies, do not exceed $2,350 (or $2,600 in a Community Revitalization Master Plan Project or Central American Legacy Project) on the first year of operations.

Substantial Rehabilitation Projects: PUPA operating expenses, as management agent certifies, do not exceed $2,550 (or $2,750 in a Community Revitalization Master Plan Project or Central American legacy Project) on the first year of operations.

Projects with less than 50 units: PUPA operating expenses, as certified by the management agent, do not exceed $2,750 on the first year of operations.

g. Special Housing Needs Projects (up to 25 points)

25 points: Tenant Population with Special Housing Needs Projects developed to give priority and to assist special needs families through a written plan included in the application to provide supportive services to heads of family victims of domestic violence, elderly, disabled or HIV patients (an endorsement letter from the authority that provides supportive services to the targeted special population must be included).

h. **Community Revitalization Master Plan** (up to 50 points)

i. 25 points: Project is an integral part of a Community Revitalization Master Plan that provides a unique opportunity to economically and socially improve, stimulate, develop and transform the community in which it is located, serves as an overall improvement to quality of life, and benefits other adjacent communities consistent with new urban policies of the Commonwealth or of a municipality. Applicant must provide an economic plan with financial projections to demonstrate the project's impact in the community in all mentioned categories; or

ii. 25 points: Development of the project contributes to a concerted community revitalization plan in a QCT (proper documentation must be provided with the application).

i. **Public Housing Modernization or Development (up to 75 points)**

75 points: Proposed development will facilitate the modernization of public housing projects.

j. **Returned Credits**

LESS 25 points: Except for Tax Credit returns related to the Tax Credit Exchange Program, applications of projects returning Tax Credits, or that returned Tax Credits on a previous year, because such project was not placed-in-service within the required two-year period, will be penalized with 25 points from its Point Ranking Review. This penalty will be applied to the applicant and/or project only once.

E. Tax Credit Allocation

1. Description

Following the Point Ranking calculation, projects will be ranked in descending order, most points to least points. The Authority anticipates reserving Tax Credits for those projects scoring highest under the Project Selection Criteria up to the amount law and this Allocation Plan allow. The Authority anticipates reserving Tax Credits for each project in the list, starting with the highest scoring project, and continuing down the rankings, reserving Tax Credits and subtracting them from the cumulative balance of available Tax Credit for that year, until that balance reaches zero. Except that tax credit allocations for projects that receive binding commitments in prior years will be honored per the terms of such commitments, and projects competing under set asides will initially be ranked and compete only against other projects competing under such set asides, until the Tax Credit balance of such set asides reaches zero, whereupon such projects will be ranked and compete against all projects outside such set asides.

However, the credit allocation process may vary in order to further the public policy set forth in this Allocation Plan. The ranking under the Project Selection Criteria does not vest an applicant or project with any right to reservation or allocation of Tax Credits. Applications for new constructions that will be placed in service within the calendar year in which the application is submitted will receive the highest priority. Except for projects returning Tax Credits related to the Tax Credit Exchange Program, projects returning Tax Credits from a previous year allocation and not placed in service within the established two-year period will receive the lowest priority. The Authority encourages applicants to apply for Tax Credits when the process to obtain the necessary approvals and permits for the development and construction of the project has ended or is about to end.

Funds available under ARRA will be allocated subject to evaluation per this document and any future regulation that HUD, IRS and/or the U.S. Treasury may promulgate, as:

a. 2009: two rounds of 50% of 75% of exchange credits (TCEP or Tax Credit Exchange Program) plus 50% of 75% of gap financing (TCAP or Tax Credit Assistance Program) plus available per capita credits.

b. 2010: TCAP plus TCEP plus available per capita credits.
c. Any remaining gap per round will be covered with an interim loan repaid with future sale of credits (nominal interest rate) and or a mortgage payable at end of compliance and extended use period.

2. **Allocation of Other Authority Administered Funds**

It is possible that other programs and sources of funds the Authority manages may choose to rely on the Point Ranking System set forth in this Allocation Plan, as amended from time to time, to select projects to receive fund allocations.

It is also possible that such other sources of funds may be included as part of a particular project's pro forma statements calculated as described in Section VI(C)(3); that the Point Ranking of such project is sufficient to receive Tax Credits; yet that there are not sufficient funds in one or more of such other programs to meet the recommended amounts for such other program. In such situation, the Authority may, at its sole discretion and based on the criterion of necessity, adjust upwards the recommended Tax Credits up to the maximum limits prescribed in Section 42 of the Code.

F. **Notification of Tax Credit Allocation**

The Authority will notify, in writing, to each successful applicant of an initial reservation of Tax Credits (**Initial Reservation Letter**). The Executive Director of the Authority will sign the Initial Reservation Letter and specify required additional information and documentation. It will determine a date by which to submit to the Authority such information and documentation and receive the final allocation. The Initial Reservation Letter will also include:

1. Itemization of adjustments to costs, income, expenses and underwriting assumptions made to the application.
2. Allocation, recommendation, reservation or offer of any other programs or sources of funds the Authority manage.

VII. ISSUANCE OF TAX CREDITS

A. **Reservation of Tax Credits Beyond Actual Allocation Year**

The Authority recognizes that the process to construct or rehabilitate housing projects in Puerto Rico may become a burdensome one. Moreover, construction or rehabilitation of housing projects that are part of a community revitalization master plan may occur over a longer period of time than they otherwise might have, had they not been a part of a major venture. The Authority also acknowledges that some projects, especially those participating in an extensive community undertaking might require a larger allocation of credits and placed-in-service dates may occur in different years. The Authority recognizes, as well, that investors require a level of comfort that such type of projects will be completed and placed in service in the scheduled timeframes.

In order to take into account the unique facts and circumstances and concerns described above, and in order to assist with meeting the Housing Needs, Goals of the State Action Plan, and Goals of the Housing Policy, while balancing the Authority's position with respect to any single large allocation of Tax Credits, the Authority may award a binding commitment in one year to make a Carryover Allocation for certain percentages of Tax Credits in following years in limited circumstances (**Binding Commitment**).

Applicants may apply to reserve Tax Credits and sign a Binding Commitment with the Authority to allocate Tax Credits at a future date. To such end, the Authority may reserve Tax Credits or bind itself to allocate Tax Credits to a project during the taxable years following the year in which the application is made. Section 42(h)(1)(C) of the Code determines that a reservation or Binding Commitment to allocate Tax Credits in a future year has no effect on the state housing Tax Credit ceiling until the year in which the Authority actually makes the allocation. (Annex E).

To be considered for a reservation of Tax Credits from future year cap or for a Binding Commitment to allocate Tax Credits at a future date, the must demonstrate that the project falls within one of the following categories:

1. Tax Credit is deemed necessary to facilitate the restructuring of financing provided to a project confronting economic difficulties.
2. Tax Credit is deemed necessary to preserve the low-income housing status of the project or to maintain the total number of available low-income housing units in Puerto Rico.
3. Tax Credit is requested in connection with the acquisition of a project from the federal, state or local governments, or any department, Authority, entity or political subdivision thereof.
4. Tax Credit is requested in connection with a project using the Tax Credits as its only subsidy.
5. Project is part of a Community Revitalization Master Plan.
6. Unforeseen circumstances that the Authority, at its sole discretion, might consider valid.

The Authority might also consider entering into a Binding Commitment with an owner of a project, even if the project fails to meet one of the above categories, if the circumstances of the project, per the Authority's sole discretion are deemed so necessary.

Projects with Binding Commitments must file an application in the year the Tax Credits are committed and go through the Basic Threshold Qualification Process and comply with at least the Minimum Requirement of the Point Ranking

System. In addition, the owner will not pay the Application Fee but rather a Processing Fee of .50% of the annual Tax Credit requested will be included with the application.

In order for the applicant to receive a Binding Commitment for an allocation of Tax Credits, the applicant must provide an updated memorandum every six months after receiving the Binding Commitment, to confirm that any information provided in the application remains true, correct and complete in all material respects, or provide specific details for any exceptions, as well as any other information that the Authority may reasonably request. If there are any material exceptions, the Authority reserves the right to revoke the Binding Commitment.

B. Tax Credit dollar amount will be determined at:

1. Initial /Reservation of Tax Credits

2. Carryover Allocation

A development with a reservation or a Binding Commitment (Section VI.B below), but which will not be placed in service by December 31, may be eligible for a carryover allocation (**Carryover Allocation**).

To sign the Carryover Allocation, the owner must provide:

a. Final Drawings of the project; and
b. Owner's Certification, disclosing any Federal, State, or local subsidies that the applicant has received, or expects to receive, for the development and operation of the project.

The Authority reserves the right to disqualify any applicant if it determines that the construction will not be ready to begin within six months after the signing of the Carryover Allocation Agreement.

3. Additional Tax Credits

The Tax Credits amounts will not automatically be increased above the initial reservation request or allocation amount. If the owner of a project that received a Carryover Allocation of Tax Credits determines that additional credits are necessary to make the project financially feasible, the owner must apply for additional Tax Credits in a subsequent year or cycle. The owner will need to submit a complete package and a full fee.

For projects financed with volume-cap tax-exempt obligations the Authority reserves the right, based upon pertinent circumstances, to reduce or waive the required fee for additional Tax Credits or the requirement of a complete package.

All restrictions and requirements of the original Carryover Allocation shall remain in full force and effect for the additional Tax Credits.

4. Placed-in-Service

The Authority will issue IRS Form 8609-Low-Income Housing Credit Allocation and Certification (**Form 8609**) after placed-in-service date, and receipt and review of:

a. Certificate of Occupancy (*Permiso de Uso*).
b. Independent CPA Final Cost Certification of project development (Annex M).
c. Designer's Certification of Completion of Construction (Annex N).
d. Updated operating budget and 30-year pro forma cashflow.
e. Owner's Certification of any federal, state, or local subsidies received, or expected to be received, to develop and operate the project.
f. Authority´s independent consultant physical inspection and cost certification review (randomly, at the sole discretion of the Authority).
g. Any other document the Authority may determine as necessary.

The amount of Tax Credits allocated as set forth in Form 8609 may be different from the amount requested in the application, the amount specified in the Initial Reservation Letter, Binding Commitment, or the amount in a Carryover Allocation. If there are changes in resources and/or uses of funds or other material changes, the Authority will adjust the tax credit amount to reflect them, and the tax credit may be reduced.

C. Decrease of Actual Development Costs

The Authority reserves the right, in its sole discretion, to reserve or allocate less Tax Credits than the amount requested in the application based on the information the applicant or any independent consultant submitted and Section 42 requirements.

D. Calendar Requirements

1. Carryover Allocation Requirements

The Code requires more than 10% of the project's reasonably expected basis be incurred by the close of:

a. the carryover allocation calendar year, if Carryover Allocation is made before July 1; or
b. 1 year after the date of the Carryover Allocation Agreement, if made after June 30.

After the reservation process is final, the owner and the Authority must sign a Carryover Agreement allowing the carryover of Tax Credits. At the time of the execution of the Carryover Agreement, Owners must have title of the property, or acquire such title within the next six months, and approval from all the corresponding governmental agencies for the development of the project. The Authority requires expenditure of and cost certification of 10% of the costs to be submitted to the Authority within 1 year of the date of the Carryover Allocation (Annex L). All fees due to the Authority must be paid by that date.

2. **Placed in Service Date**

With respect to Carryover Allocations the building must be placed in service within 24 months after the end of the carryover allocation calendar year.

a. For new construction and existing buildings, placed in service usually means the date the building receives a Certificate of Occupancy (*Permiso de Uso*).
b. For substantial rehabilitation, placed in service means the last day of the 24-month period (or shorter period if the rehabilitation is complete, if elected by the owner) for aggregating rehabilitation costs.

E. Other Procedural Requirements

The Authority will notify the Mayor of the Municipality where the project will be located of the proposal at the time of the Tax Credits' reservation and will have a reasonable opportunity to comment on the project.

Projects with private permanent financing will need a letter of intent from the financial institution. The letter should detail:

1. amount and term of the loan;
2. fixed or variable interest rate;
3. if variable interest rate, specify index, spread and rate at the time of the letter;
4. amortization period; and
5. prepayment penalties.

Applicant must submit a letter of firm commitment for financing within 60 days of receiving a reservation of Tax Credits. All projects applying for Tax Credits and financing from the Authority must submit the loan to the Authority at the same time as the Tax Credit .

VIII. Time Frame

Tax Credit applications will abide by the following reservation/allocation cycles. Additional cycles may be available if there are Tax Credits after the Authority exhausted its reservation/allocation process. The interested party may contact the Authority to ask for additional cycles, if any.

2009 Cycles	1ST CYCLE	2ND CYCLE
Applications Opening Date	June 2, 2009	Sept. 14, 2009
Applications Closing Date	July 3, 2009	Oct. 16, 2009
Ranking & Reservation	August 3, 2009	Nov. 16, 2009
Closing of Carryover Agreement	Thru Sep. 4, 2009	Thru Dec. 31, 2009
10% Cost Certification	Thru Sep. 3, 2010	Thru Dec. 31, 2010

Any changes to this schedule will be notified to the public through an advertisement in a newspaper of general circulation. If any of the due dates for application or reservation falls on a non-working day or on an official holiday, it will be moved to the previous working day.

Cost Certifications for projects receiving allocations to be placed in service are due during the same calendar year of the application and 10% certification for projects receiving a carryover allocation. (Annexes L and M)

IX. Tax-Exempt Financed Projects not Subject to Annual Tax Credit Volume Cap

Projects financed with tax-exempt obligations issued after December 31, 1989 [Section 42(h)(4)], are not subject to the Tax Credit annual volume cap, but are subject to the state private activity bond volume cap. These applications do not have to comply with the time frames set out in Section VIII and may be filed, and Tax Credits awarded, any time.

Nonetheless, these projects must satisfy the Basic Threshold Qualification Requirements and other requirements for allocation under this Plan pursuant to Section 42(h)(4). Therefore, the projects will be subject to the evaluation of housing priorities, minimum thresholds discussed above, and the fees determined in Section X. They will not be subject to the Tax Credit allocation process, but must fulfill the Point Ranking System minimum requirement of **150** points. Applicants must include a letter from the lender stating the tax-exempt status of the obligations issued to finance the project and a certification from its tax attorney or CPA certifying that this requirement is met. If the Authority is the Lender, the letter will not be required.

Entities the Commonwealth of Puerto Rico authorizes to allocate private activity bond volume cap may allocate its bond volume cap to any of these projects based on the Tax Credit and other information such allocating authority requests.

X. Compliance, Fees and Penalties

A. Procedure for Notification to IRS of Noncompliance

Federal legislation requires that each Allocation Plan include a procedure that the Authority will follow in notifying the IRS of noncompliance with the program. The Authority will require owners to furnish annual certifications of qualified low income tenants, including tenant income and rents charged, the number of qualifying low income units, as well as any other information pertinent to determine compliance.

The specific requirements of the Authority to implement this mandate are covered in the Compliance Monitoring Plan, which is hereby incorporated and made a part of this Plan (Annex O).

In making the application for Tax Credits, the owner agrees that the Authority and its designees will have access to any project information. This includes physical access to the project, to financial records and tenant information for any monitoring that may be deemed necessary to determine compliance with the Code.

Owners are advised that the Authority is required to do compliance monitoring and to notify the IRS and the owner of any discovered noncompliance with Tax Credit law and regulations, whether corrected or uncorrected.

B. Fees

The application package costs $100 and includes the Allocation Plan, Compliance Monitoring Plan, Procedural Steps, and Instructions. The Authority will also charge the following fees:

1. Application Fee

One and a half percent (1.5%) of annual amount requested. This is a non-refundable and non-transferable deposit, which shall be submitted along with the application. Projects with Binding Commitments will be charged a processing fee of .5% of the annual Tax Credit requested.

2. Allocating Fee

One percent (1%) of the total ten years allocated amount. The allocating fee will be paid at the time the allocation is made through certified or manager's check. In case of Carryover Allocations under Section 42, the fee will be paid at the time of signing the agreement through certified or manager's check. Allocation fees are neither refundable nor transferable.

3. **Monitoring Fee**

If a credit allocation is made, the Authority will charge $20 per each low income housing tax credit (LIHTC) unit during the compliance period (first 15 years) and the extended use period (after the first 15 years). This amount will be due and payable by January 31 of each year.

The Authority may revise the fees as necessary to insure they cover the Authority's processing expenses and compliance monitoring.

C. **Penalties**

If a sponsor, owner, developer or consultant has a past due allocation fee in a previous project, the Authority will not sign an allocation for the new project until the account is paid in full.

XI. Scope and Future Amendments

Federal legislation directs the Authority to allocate only that amount of Tax Credits required to make the project economically feasible. The Authority's determination is discretionary and in no way constitutes a representation or warranty, express or implied, to any sponsor, lender, investor, or third party as to the feasibility of a given project, or to the project owner, investors, lender, or third party that its allocation determines that the project adheres to Code, Treasury regulations, or any other applicable laws or regulations.

The Authority reserves the power to administer, operate and manage tax credits allocation in all situations and circumstances, both foreseen and unforeseen in the Plan. No member, employee, or agent of the Authority shall be personally liable respecting any matter or matters arising out of, or in relation to, the Tax Credits.

George Joyner
Executive Director
PUERTO RICO HOUSING FINANCE AUTHORITY

I, Luis G. Fortuño, Governor of the Commonwealth of Puerto Rico, hereby approve the Low Income Housing Tax Credit Allocation Plan for the Commonwealth of Puerto Rico adopted by Puerto Rico Housing Finance Authority, a subsidiary of the Government Development Bank for Puerto Rico, as the State Housing Credit Authority under the provisions of Section 42 of the Internal Revenue Code of 1986, as amended.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Commonwealth of Puerto Rico, in San Juan, Puerto Rico, this ___ day of ____________, 2009.

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GOVERNOR