2007 LOW INCOME HOUSING TAX CREDIT ALLOCATION PLAN
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FOREWORD

Created by the Tax Reform Act of 1986, the low-income housing Tax Credits (the "Tax Credits") provides an incentive for investors to develop and own low-income housing, targeted to increase the number of available rental units for low and very low-income families. 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 required by Puerto Rico Housing Finance Authority.

On December 15, 2000 Congress passed a tax bill that increased the annual per capita Tax Credit to $1.50 in calendar year 2001 and to $1.75 per capita in calendar year 2002. Beginning in calendar year 2003, the per capita portion of the Tax Credit cap will be adjusted annually for inflation in accordance with the consumer price index. The annual volume cap for 2007 is $1.95 per capita, multiplied by the population of Puerto Rico.

The annual cap for 2007 of $1.95 per capita, multiplied by the population of Puerto Rico (which is based on the most recent update of the US Census dated December 22, 2005), currently represents a minimum of approximately $7,628,505 in Tax Credits. The annual volume cap of credits for 2007 will be increased by the unused 2006 Tax Credits, $1,590,033 and by the Tax Credits returned after September 2006, $2,509,114. The total tax credit available for 2007 is $11,727,652. This total could increase during 2007 if tax credits from previous years are returned before September 2007.

II. Legislative Requirements for the State 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 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 new applications for the program.

III. Internal Revenue Code Requirements

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

1. set forth the selection criteria to be used to determine housing priorities of the Authority which are appropriate to local conditions;

2. give preference in allocating housing Tax Credit dollar amounts among the selected projects to:

    a. projects serving the lowest income tenants;

    b. projects obligated to serve qualified tenants for the longest periods; and

    c. projects that are located in qualified census tracts and the development of which contributes to a concerted community revitalization plan; and

3. provide a procedure that the Authority will follow in monitoring noncompliance and in notifying the Internal Revenue Service of such noncompliance, and in monitoring for noncompliance with the provisions of the Tax Credit program, if any.

Additionally, Section 42 (m)(1)(C) of the Code requires that certain selection criteria be included in the Allocation Plan, such as:

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; and

8. projects intended for eventual tenant ownership.

Every project, including those financed with tax-exempt bonds issued after December 31, 1989, must satisfy the requirements for allocation of a housing Tax Credit dollar amount under the Authority's Allocation Plan.

The priorities and point rankings set forth herein may also be used by the Authority, at its discretion, 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") and, PRHFA Housing Trust soft lending funds as authorized by its Board of Directors.

IV. Housing Needs Assessment

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

In reviewing the Allocation Plan, the Authority utilized 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), submitted by the Commonwealth of Puerto Rico to the U.S. Department of Housing and Urban Development (HUD) dated June 16, 2006. The Five Years Consolidated Plan integrates Governor Aníbal Acevedo-Vila's strategic policy for housing, homeless, and antipoverty to enable a better quality of life for all citizens, with President George W. Bush's National priorities to reduce housing problems. The affordable housing priorities identified in 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 State Action Plan pursues five main priorities (the "Five Priorities of State Action Plan") for the benefit of low and very low income persons are the:

1. provision of homeownership opportunities for low-income families in the modalities of; construction of new planned developments and existing vacant units available for sale;

2. development of rental housing, either by the construction of new or the 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 organization and faith based service organizations that have obtained or intend to obtain staff with the capacity to develop affordable housing for the community it serves;

4. homeowner rehabilitation, which includes the modalities of the rehabilitation of the dwelling or the substantial rehabilitation of the unit, including the replacement of the existing unit within its original footprint; and the,

5. support of the 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, provided by HUD, local studies and other reliable information sources.

According to the U.S. Census, there are in Puerto Rico 3,769,782 individuals of which 1,818,687 are under poverty rate (48.2%). The National Poverty Level evidence that Puerto Rico has three times more poverty rate than the national rate and over any States in the United States of America. Of the 1,818,687 individuals under the poverty rate 417,218 are 65 years and over, representing 23% of the poverty population in Puerto Rico. According to the US Census, 183,500 persons (44% of the total older population) age 65 and more live under the poverty rate in Puerto Rico, this represents approximately 10% of the poverty population. The vast majority of the older persons that live under the poverty rate reside in rural municipalities that have limited job opportunities as well as limited resources. There are 1,261,325 family households in Puerto Rico and 1,418,476 housing units counted in the 2000 US Census.

The needs identified by the Government of Puerto Rico (the "Housing Needs") are the following:[1]

1. There is a great need of residential units for very low, low and moderate-income families that are safe, decent and affordable. In 2000 there were 1,261,268 households in Puerto Rico for which 46.6% had any housing problem, 28.9% has cost burden problems higher than 30% of their earned income, and 15.75 has cost burden problems higher than 50% of their earned income. [2]

2. The National Poverty Level evidence that Puerto Rico has three times more poverty rate than the national rate and over any State in the United States. This single factor compels a comprehensive approach in order to alleviate the disadvantaged living conditions among this sector. The number of older persons under the poverty rate is 23% of the total poverty population in Puerto Rico and 44% of the total elder population.

3. The demand for housing in Puerto Rico during the five-year period is estimated at 19,960 units annually. About 52% of that demand is for low-income housing or needing some kind of government assistance.

4. Although the demand for low-income housing is also concentrated in the large regions like San Juan and Bayamón, regions like Aguadilla, Guayama, Ponce, Mayaguez and Fajardo also have large percentages shares of assisted demand.

5. The municipalities with the highest percentage of rental units were either densely urbanized or metropolitan. Those with the lowest proportions were located in coastal sectors.

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[1] Consolidated Plan 2000-2006

[2] 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.

6. There is an urgent need to provide employment for the older population that will supplement their income and allow for economic self sufficiency and contribute to resolve their inadequate and accessible housing issue.

7. Housing units, especially those dedicated for special need population, need to be located near transportation hubs, commercial zones, pharmacies and medical facilities.

C. **Seven (7) Goals of the Commonwealth's Affordable Housing Policy**

The seven goals of the Puerto Rico Affordable Housing Policy (the "Goals of Housing Policy") are to:

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 the provision of affordable housing;

4. support and encourage viable strategies to expand housing as well as economic opportunities for low and moderate-income families;

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 to offer and expand technical assistance to non-profit organizations based on the needs of the municipalities.

7. Promote its policy to develop affordable housing as part of the preparation for the celebration of the Central American Games in the Municipality of Mayaguez in 2010. Development of housing projects as part of the Central American Games also supports the Commonwealth's Consolidated Plan in strengthening public-private partnerships and expanding housing supply, expanding housing and economic opportunity simultaneously, and assisting the Municipality of Mayaguez in achieving its Community Revitalization Plan: Mayaguez 2010.

The Municipality of Mayaguez will be hosting the Central American and Caribbean Games during the summer of 2010. The Commonwealth of Puerto Rico has taken this event as a challenge to renovate the city of Mayaguez and adjoining sectors, transcending the temporary nature of such events, and transforming it into a community development strategy for the west side of the Island. In order to accomplish this strategy a series of projects and improvements to public spaces, infrastructure and facilities is proposed for the area. The accomplishment of the desired results requires the coordination and execution of various actions within different agencies in the public sector and entities within the private sector, as well.

The programmatic commitment of the Mayaguez 2010 project represents an unprecedented estimated investment of $1,5 billion to stimulate the economic and social development in the western region. Among the main projects identified in the Mayaguez Plan 2010, the development of the Central American Village is one of the most important because the success of the Games depends to a large extent on the design and functionality of the athletes' hub.

The Commonwealth of Puerto Rico has adopted this strategy as public policy through Joint Resolution No. 960 of July 23, 2004 of the Legislature and has formulated it through the Secretary of the Department of Housing's Administrative Order, OA HD 06.48 dated November 30, 2006.

The main responsibility over developing infrastructure works for the Central American games is vested over the Puerto Rico Infrastructure Financing Authority, while the Department of Housing has the responsibility to develop the Central American Village. The Department of Housing proposes the development of the Village as a housing project for low-income families after a brief use by the athletes.

It is the mission of the PRHFA to provide financing and administer programs to create and preserve housing for low and moderate- income families. Our mission is framed within the actual public policy of the Department of Housing to provide and preserve over 50,000 housing units during this four years period. Our role to provide financing and other housing services to families and developers is instituted in collaborating with the Department's public policy. The Authority will collaborate with the Department's initiatives by providing all needed support that the state and federal programs under its administration may provide to facilitate attaining the Department's goals.

V. Establishment of Housing Priorities

In recognition of: (i) the priorities identified in the Consolidated Plan and in the State Action Plan; (ii) the Housing Needs identified by the Government, and: (iii) the Goals of the Affordable Housing Policy, as described above, the Authority has established the following priorities:

1. The development of 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.

2. The development of new projects for families with income at or below 50% of median income for the area that will positively impact a designated Special Community.

3. The rehabilitation of existing structures with or without deteriorated housing units within an urban center revitalization program.

4. The development of special needs projects which add new units to the affordable rental housing stock for low income households while providing supportive living services as part of the projects' management and operation. The special needs projects include those supporting:

    a. the elderly;

    b. persons with disabilities;

    c. the homeless; and

    d. victims of domestic violence.

5. The development of projects with a large proportion of units with three bedrooms (75% or more of the total units of the project).

6. The development projects in areas with the greatest projected demand, as defined in Annex A, Study of the Rental Market in Puerto Rico: 2006-2010.

7. The involvement of tax exempt organizations under Section 501(a) and (c) of the Internal Revenue Code in the development of low income housing projects.

8. The development of projects in which the percentage of the housing Tax Credit dollar amount for intermediaries is below 10%.

9. The rehabilitation of properties previously owned, sponsored or financed by the government.

10. Project developments that demonstrate readiness to proceed through and have completion of the approval process of the regulatory agencies.

11. Project developments that are placed in service during the same calendar year in which the application for Tax Credits is submitted.

12. Projects that give residents a homeownership opportunity at some time in the future.

13. Development of Housing as part of the preparation for the 2010 Central American Games. The Games provide a unique opportunity to leverage federal, state, local, private, and international resources toward economic,

community, and social development of Mayaguez and the Commonwealth generally. Bringing the Commonwealth's tax credit resources to bear as part of the development for the Games will help to maximize the overall benefits.

14. Increasing housing stock in non-metropolitan areas.

15. The preservation of Section 8- Project Based Projects.

The purpose of this Allocation Plan is to use the Tax Credit to the fullest extent possible as a tool for the creation and preservation of housing for low and very low-income households and to provide the greatest economic impact on the communities in which they are located through the achievement of the above stated priorities. Projects that target these housing priorities will receive points under the Allocation Plan.

VI. Set Asides

A. Non Profit Set Aside

The Authority will set aside 10% of its annual Tax Credit ceiling for qualified non-profit organizations' projects as required by the Code.

B. Other Set Asides

The Authority will set aside 40% of its annual Tax Credit ceiling for projects proposed to be developed as part of the Central American Games Housing Legacy Policy, as such Policy had been declared by the Department of Housing.

Projects competing for this set aside must present a formal written agreement with the Department of Housing, or any other government al agency allocating funding resources to the project for that purpose.

Credits remaining un-requested under the set-asides following the close of applications for the cycle, shall convert to the general pool.

In the event that Credits are exhausted in a designated set-aside pool, all projects submitted for such set-aside pool will compete in the general competition pool or, if eligible, in another available set-aside pool. The Agency may designate additional set-aside Credits if deemed appropriate in meeting the objectives of this Plan.

The Authority reserves the right to reserve and implement such other set-asides as it may deem appropriate, in the future.

VII. 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 (the "Application"); including full payment of application fees and demonstrate that the owner and the project meet the following initial qualifications:

1. The project is or will be a "qualified residential rental project" which meets the basic income and rent restrictions of Section 42 of the Code (See Annex B, 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 F, G, H, and I, respectively).

2. The owner, developer or applicant 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 identify the existence of an identity of interest with any other party of the project.

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

4. The readiness to proceed as demonstrated through the following information and documents:

   evidence of site control;

   a 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 an Autonomous Municipality, as the case may be;

   availability of financing evidenced through a letter of intent from financing institution specifying possible terms;

development team in place: selection of the architect/designer, general contractor, management agent, and their respective copies of resumes and, if available, their contracts with the owner;

schematic drawings and outline specifications;

cost breakdown certified by the proposed general contractor or architect/designer;

availability of private equity evidenced through a letter of intent from a syndication firm or direct investor;

Same comment as in lender commitment evidence.

pro-forma financial statements certified by the proposed management agent;

original of Accountant's Opinion (Annex G);

original of Attorney's opinion (H);

original of Designer's Preliminary Certification (Annex I);

applying entities governing documents, such as:

i. Certificate of Special Partnership;

ii. Certificate of Limited Partnership; and

iii. Certificate of Limited Liability Corporation, among others;

a Referral Agreement with Public Housing Authority (PHA), if applicable;

IRS Form SS-4 ("Application for Employer Identification Number") or other evidence indicating the taxpayer identification number;

the 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 J);

a Phase I environmental assessment report;

a comprehensive market study report, prepared by a party unaffiliated with the developer, of the low-income housing needs in the area to be served by the development;

REHABILITATION PROJECTS, ONLY: Comprehensive capital needs assessment report performed by a competent third party professional. The assessment should examine and analyze the site, structural systems, interiors (including units and common areas), and mechanical systems, among other things. Finally, the report should include an opinion as to the proposed budget for recommended improvements; and

ACQUISITION/REHABILITATION PROJECTS, ONLY: Appraisal report of the site and the property.

5. For projects to be sponsored or developed by non-profit organizations and receiving a Tax Credit reservation and allocation from the non-profit set-aside, a non-profit principal must meet the following requirements:

the organization must be a "qualified nonprofit organization" within the meaning of Section 42(h)(5)(C) of the Code:

i. must be exempt from taxation under Section 501(a) of the Code and be described in paragraph (3) or (4) of Section 501(c) of the Code;

ii. must "materially participate"[3] 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

ii. must have, as one of its exempt purposes, the fostering of low-income housing;

6. For projects financed or sponsored by the Rural Housing Service of the U.S. Department of Agriculture (RHS), the RHS commitment letter, identifying the funding amount for the project.

7. Compliance with the Fair Housing Act accessibility requirements must be certified through the Designer's opinion letters and completion of the Fair Housing Act Accessibility Requirements Checklist. (See Annex E for the requirements checklist and Annexes I and M for models of the certification letters).

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[3] ***"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.

8. Certification from the applicant as to any Federal, State, or Local subsidies received, or expected to be received, for the development and operation of the project.

Only those Applications meeting all of the above stated 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. A period of thirty days will be given to the applicant to correct the deficiencies noted by the Authority. After that period the Application will be eliminated from the competition, if the applicant has failed to provide either the information requested or correct the deficiencies noted.

B. **Development Budget and Pro Forma Assumptions Review**

1. **Description**

Following its determination that a project satisfies all the basic qualification factors, the Authority will evaluate the proposed development budget to ensure that the construction and other costs set forth for the project are 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. For purposes of reviewing project feasibility, determining need, and allocating tax credits, the Authority will utilize its parameters and the resulting numbers.

2. **Allowable costs and expenses**

a. Intermediary costs

In reviewing Applications for financial feasibility, the Authority does not anticipate allowing intermediary costs to exceed 25% of total development costs and will give priority to those projects with the lowest intermediary costs taking into consideration the facts and circumstances of each particular project. The intermediary costs will include, but are not limited to: (i) organizational costs; (ii) developer's fees (payments of fees to the developer, overhead, profit and consultants); (iii) syndication fees; and (iv) professional fees (such as architect/designer's, attorney's, and accountant's fees).

b. Developer Fees

The maximum fee allowed to the developer is 15% of the total development costs. The developer fee includes the developer's overhead, profit and consultants' fees. To compute 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.

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, for a project must be paid out of developer fees, so that the aggregate of any consulting fees and developer fees is no more than the maximum developer fee allowed.

c. General Contractor Maximum Charges

The maximum builder or general contractor charges allowed are: (i) builders profit – 6% of hard construction costs; (ii) builder's overhead - 2% of hard construction costs; and (iii) general requirements - 2% of hard construction costs.

d. Per Unit Maximums

The cost of a unit will not exceed the following standards: (i) new construction: \$120,000; and (ii) acquisition/rehabilitation: \$75,000, with a minimum rehabilitation threshold of \$3,000 per unit or 10% of the project's adjusted basis. Tax credits per unit shall not exceed \$10,000 per year.

The Authority reserves the right, at its sole discretion, to exceed these standards, if deemed necessary. Nevertheless, in order to receive a waiver to the above mentioned requirements every exception must be justified and documented. Therefore, the application must include a formal request with evidence to document and validate proposed project costs and tax credits higher than the per unit standards.

e. Per Unit Cost Review

In order to validate construction or rehabilitation costs, projects that passed the basic threshold requirements may be subject to an assessment review that can be performed by an independent consultant to be appointed by the Authority. The construction or rehabilitation budgets will be adjusted according to the results of the review, therefore affecting the Tax Credit calculations. After any adjustments to the budget recommended by the Authority are made, the budget cannot be changed without the consent of the Authority. Only changes due to unforeseen or exceptional circumstances will be taken under consideration.

The following components will be examined and analyzed for the capital needs assessment:

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 handicapped access;

iv. mechanical systems; and

v. elevators

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. These underwriting standards are simple guidelines that the Authority might reevaluate and modify consistently with its sound and reasonable judgment, prudent business practices, and the exercise of its inherent discretion when deemed necessary.

g**. Operating Expenses**

The Authority is required to consider the reasonableness of the development and operational costs of the project as an additional factor in making its determination as to the proper amount of Tax Credits to allocate to a project. The Authority will use the costs, incomes and expenses submitted in the Application, as determined by the Authority to be reasonable.

3. **Underwriting Parameters**

a. Vacancy Rate

Projects will be underwritten assuming a vacancy rate of 7% (or 5% for projects with less than 50 units; or 3% for projects with project based rental assistance);

b. Trending of Income and Reserve for Replacement

Projects will be underwritten assuming that rents, other income, and reserve for replacement grow at 3% per annum

c. Trending of Operating Expenses

Projects will be underwritten assuming that operating expenses grow at 4% per annum.

d. Debt service coverage ratio

Projects will be underwritten requiring a minimum debt service coverage ratio of 1.15 (operating income divided by debt service) through the term of the debt financing, if any

e. Required Reserves

i. Rent-up Reserve

A reasonable amount shall be established based on the projected rent-up time considering the market and target population, but in no event shall be less than $200 per unit.

ii. Operating Reserve

The operating reserve will be 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 ten years and must meet the standards required by IRS. A statement describing the terms of the deferred fee must be included.

iii. Reserve for Replacement

All new construction projects and rehabilitation projects with less than 50 units must budget replacement reserve of $250 per unit per year. Rehabilitation Projects with more than 50 units must budget a replacement reserve of $300 per unit per year. The replacement reserve must be capitalized from the project's operations, increasing by 3% annually.

f. Section 8 Project Based Rental Assistance

For all projects that propose to utilize Section 8 project-based rental assistance, the Authority will underwrite the rents according to the Tax Credit limits. These limits are based on data published annually by HUD. If the Section 8 HAP contract allows rents above those limits, the project may receive the additional revenue in practice.

g. Tax Credit Percentage

In reserving a housing Tax Credit dollar amount to any project, the Authority will use the percentage published by the IRS for the month when the reservation is made. The Authority, at its own discretion, could lower this percentage or use the 9% or 4% rate, as applicable to the project. At the time of the Tax Credit allocation the applicant must choose the Tax Credit percentage for either (a) the Carryover Allocation month or Binding Commitment month, or (b) the month the project is or will be placed in service.

h. Equity Pricing

The Authority will use the average market price for Tax Credit syndication, as published in the Tax Credit Advisor by the National Housing and Rehabilitation Association. Owners are required to submit a letter of intent from the investor confirming the financial assumptions of the purchase.

i. Investor Services Fees

Investor services fees must be paid from net cash flow and not be calculated in determining the minimum debt coverage ratio.

4. **Record and Notification**

The Authority will keep a record and issue an itemized notification at the time that the applicant is informed of a reservation of credits or lack thereof, of the modifications that were applied to the pro forma financial statements provided by the applicant, including any changes to development costs, operating expenses, reserves, and underwriting assumptions.

C. **Underwriting and Financial Feasibility Analysis**

1. **Description**

Following its determination that a project (i) satisfies all the basic qualification requirements; (ii) that proposed costs and expenses are reasonable and within the prescribed standards; and (iii) that underwriting parameters conform to Authority guidelines, the Authority shall proceed with an evaluation of the amount of tax credits that would be allocated to the project, subject to its placement within the Point Rankings System.

Section 42 of the Code imposes the obligation on the Authority to allocate to each project no more than the amount of low income housing tax credits necessary to make the project economically viable. Thus, no applicant project may receive – regardless of its absolute or relative score in the Point Rankings System – more credits than the Authority's underwriting process identifies as required for financial viability. Specifically, the amount of tax credits that could be allocated to the project will be the lesser of (i) the maximum allowable under the Code according to the project's eligible basis and affordability level; and (ii) the project's actual necessity as determined by the Authority's underwriting; and (iii) the amount of credits actually requested by the applicant.

2. **Methodology**

In order to meet the obligations imposed by the Code and determine project necessity, the Authority will prepare for each project a recommended pro forma statement, including sources and uses of funds, and a forecast of the income statement through the term of the affordability period. The sources of funds shall include the amount of tax credits that would be allocated to the project, subject to the Point Rankings System.

The amount of tax credits that would be allocated will be determined, based on the project development budget as reviewed by the Authority, pursuant to the following analysis:

- Deduct from the project's total development cost the maximum permanent loan that the project can sustain according to its projected operating income over the affordability term and the Authority's above described underwriting guidelines.

- Deduct from the project's total development costs all other sources of equity (including, without limitation, governmental subsidies, capital contributions, and deferred developer fees) specified in the tax credit application.

- Deduct from the project's total development costs all other sources of funding from programs administered by the Authority, such as the state tax credit under Puerto Rico Act 140, and available Authority's soft lending funds, if any. The amounts assigned from these programs will be determined according to each program's available resources and legislative or administrative parameters. This shall be done automatically for projects where the applicant indicated upon filing the application interest in requesting these funds.

  When the applicant has not specifically requested funds or equity sources provided by other programs administered by the Authority as described in Parte VI, Section E of this plan, the Authority may consider such funding or equity as available to the project, at its sole discretion, in furtherance of the public policy to promote the maximum possible number of affordable housing units and the federal legislative mandate to allocate the minimum amount necessary of federal tax credits to make each individual project viable.

- Compare the uncovered portion of the total development costs with the estimated proceeds from maximum amount of credits allowable to the projects under Section 42, and the amount requested by applicant.

  - If the uncovered portion is smaller than such proceeds, the

Authority will adjust the maximum eligible basis to obtain the amount of credits one needed to close the gap.

    - If the uncovered portion is greater than such proceeds, the project may receive the maximum amount of credits allowable under Section 42.

- Any remaining gap from the prior calculation might be considered for funding from other programs administered by the Authority, such as the state tax credit under Act 140 and available Authority soft lending funds, if any.

3. **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**

Following (i) the determination that a project satisfies all the basic qualification factors; (ii) the revision of project proposed costs, expenses and underwriting assumptions; and, (iii) the evaluation of pro forma statements, including sources from a possible tax credit allocation, the Authority will consider the qualified applications for a Tax Credits reservation using the evaluation and point ranking systems established hereinafter.

The project can accumulate a total of 540 points on the Point Ranking System hereinafter described. The project must accumulate a minimum of 175 points to be entitled to receive 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 applicant or project any right to a reservation or allocation of Tax Credits in any amount. Applications for new construction projects that will be placed in service within the calendar year in which the

Application is submitted will receive the highest priority. Likewise, 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 is also encouraging Applicants to apply for the Tax Credits when the process to obtain the necessary approvals and permits for the development and construction of the project has finalized or is at the final stage.

2. **Section 42 mandatory legislative criteria**

The federal legislation requires the Authority to give preference in allocating the amount of Tax Credits among eligible projects to those projects serving the lowest income tenants and to those projects committed to serve qualified tenants for the longest period. The Authority will conduct its Application review in accordance with these statutory requirements.

3. **Other Criteria: Overview**

The Authority will use the selection criteria stated below for the purpose of ranking projects eligible for the allocation of Tax Credits. The results of the evaluation and ranking will be determined at the sole discretion of the Authority and will not be subject to challenge or appeal by the Applicant. The numerical ranking does not operate to vest in an Applicant or project any right to reservation or allocation of Tax Credits in any amount. 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 the following selection criteria:

a. Intermediary Costs

Preference will be given to projects with the lowest intermediary costs. Please refer to page 16 for the definition of "intermediary costs."

b. Project Location

Preference will be given to projects:

i. located in Difficult Development Areas ("DDA") designated by the Secretary of HUD. A DDA is an area with high construction costs, land costs, and utility costs relative to the area gross median income projects (See Annex C);

ii. that the owner can demonstrate are located in a Qualified Census Track (QCT) as designated by the Secretary of

HUD (See Annex C);

iii. located in municipalities with the greatest low income housing demand as identified in the Rental Housing Market Study prepared by Advantage Business Consultants for the Department of Housing in January 2007 (See Annex A).

c. Project Characteristics

Preference will be given to those projects:

i. that can demonstrate their readiness to begin construction immediately;

ii. in which at least 50% of the units in the project will be rent restricted and affordable to households with incomes less than 50% of the median income adjusted for family size;

iii. awarded with project-based rental subsidies;

iv. in which no relocation is needed;

v. in which the owner and a PHA have agreed to include the development in any listing of housing opportunities where households with tenant-based subsidies are welcome;

vi. with the longest period of time committed to low income housing;

vii. to be placed in service within the calendar year in which the Application for Tax Credits is submitted for the first time;

viii. that will acquire and rehabilitate a structure owned or financed by a government agency and to add units to the affordable rental inventory;

ix. that will preserve existing low-income housing; and,

x. that are endorsed by the Local Chief Executive.

d. Housing Needs Characteristics

i. Preference will be given to those projects, which consist of the larger amounts of three bedroom units.

ii. Preference will be given to projects that will rehabilitate inadequate housing or to relocate families living in flash flood areas.

e. Sponsor/Owner Characteristics

i. Preference will be given to projects sponsored or developed by non profit organizations under Section 501 C (3) or C (4) of the Internal Revenue Code.

ii. Previous successful participation by sponsor(s) or the owner in developing and operating Tax Credit projects located in Puerto Rico will be taken into consideration, as well as previous successful participation by proposed management agents in managing low-income housing in Puerto Rico.

iii. Sponsors, developer 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 will be penalized.

iv. The Authority will evaluate and approve the qualifications of every appointed management agents without previous experience in the administration of LIHTC project.

f. Financing Characteristics

Preference will be given to

i. new developments in rural areas sponsored by RHS;

ii. new construction projects with a firm commitment for financing from the Authority; and,

iii. developments meeting certain minimum underwriting requirements described below.

g. Tenant Population with Special Housing Needs

Preference will be given to projects that provide supportive services to families with HIV-Patients, elderly, homeless, handicapped or disabled members.

h. Community Revitalization Master Plan

Preference will be give to projects that are part of a Community

Revitalization Master Plan.

i. Central American Games Housing Legacy

Preference will be give to affordable housing projects proposed as part of the development of housing to be used during the Central American Games to be held in Mayaguez in 2010.

j. Returned Credits

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

4. **Other Criteria: Point Scoring**

The Applications will be ranked according to the following point scoring criteria:

a. Intermediary Costs (up to 25 points)

i. up to 25 points:

- 25 points if:

up to 10% of total development cost

- 10 points if:

more than 10%, up to 15% of total development cost

- 5 points if:

more than 15%, up to 25% of total development cost.

b. Project Location (up to 50 points)

i. 10 points if:

project located in a DDA, as designated by the Secretary of HUD. (See Annex D; evidence of location of development must be included).

ii. 20 points if:

project is located in a QCT. (See Annex C; evidence of location of the development within the QCT must be included).

iii. Up to 20 points if:

project is located in a region that for 2007 reflects the greatest housing demand as identified by the Rental Housing Study in Puerto Rico prepared by Advantage Business Consultants in January, 2007 (See Annex A) The points will be awarded as follows:

- 20 points if:

project located in a region with the amount of units needed over a 100,000.

- 10 points if:

project located in a region with the amount of units needed over 50,000.

- 5 points if:

project located in a region with the amount of units needed over 30,000.

c. Project Characteristics (up to 170 points)

i. up to 50 points if:

Applicant can demonstrate that construction of the project has started or will commence construction as soon as an allocation or reservation of Tax Credits is made. The readiness to begin construction will be evidenced with one of the following:

- 50 points if:

Construction Permit or Notification of Approval of the Construction Permit, issued and approved by ARPE or an Autonomous Municipality, as the case may be

- 30 points if:

Urbanization Permit issued and approved by ARPE or an Autonomous Municipality, as the case may be.

- 20 points if:

Preliminary Development, issued and approved by ARPE or an Autonomous Municipality, as the case may be

- 10 points if:

Land Use Consultation, issued and approved by the Puerto Rico Planning Board

ii. 10 points if:

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

iii. 20 points if:

an Agreement to Enter into a Housing Assistance Payments Contract is signed by and between a PHA and the Owner.

iv. 10 points if:

no relocation is needed to develop the proposed project.

v. 5 points if:

a written agreement with a PHA was submitted with the Application. In such agreement the PHA agrees to include the project in any listing of housing opportunities where households with tenant-based subsidies 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.

vi. up to 10 points if:

Project provides guarantees for longer terms of affordability beyond the extended compliance period, as follows:

- 10 points if:

at least 10 more years beyond the required 30-year period - 10 points.

- 5 points if:

at least 5 more years beyond the required 30 year period – 5 points.

vii. 25 points if:

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.

viii. 20 points if:

project is to acquire and rehabilitate an existing vacant structure owned or financed by a government Authority to add units to the affordable rental housing inventory.

ix. 15 points if:

project is to acquire, rehabilitate and preserve low-income rental housing which might otherwise be converted from low-income tenancy, including Section 8 projects with expiring contracts.

x. 5 points if:

Application includes a letter of endorsement from the mayor of the municipality where the project is located.

d. Housing Needs Characteristics (up to 10 points)

i. 5 points if:

project bedroom's distribution is 50% or more 3-bedroom units.

ii. 5 points if:

projects that rehabilitate inadequate housing or that relocate housing in flash flood areas.

e. Sponsor/Project Owner Characteristics (up to 60 points)

i. 20 points if:

owner, federal partner or sponsor, is

- a federal qualified non-profit organization tax exempt under either Section 501(c) 3 or Section 501(c) 4 of the Code;
- domiciled in Puerto Rico for at least twelve months prior to submitting the Application;
- Materially Participates (as defined above) in the acquisition, development, ownership and on-going operation of the property for the entire compliance period;

and

- has as one of its exempt purposes the fostering of low-income housing.

ii. 20 points if:

Applicant can demonstrate successful past experience in the development of low income housing Tax Credit projects in Puerto Rico.

iii. 20 points if:

contracted management agent can demonstrate successful past experience in the management of low income housing Tax Credit projects in Puerto Rico. Points will be awarded for projects based on the experience of the management agent to maintain compliance of low-income housing Tax Credits units in Puerto Rico during the past ten years.

iv. Less 20 points if:

sponsor, owner, developer, management agent, or consultant to the applicant has defaulted a financing provided by the Authority in other project and such default resulted in foreclosure, assignment of mortgage or substitution of mortgagor.

f. Financing Characteristics (up to 75 points)

i. 15 points if:

new construction projects in rural areas that have an obligation of funds from the RHS.

ii. up to 15 points if:

new construction projects with a financing firm commitment from the Authority.

- 15 points if:

Interim and Permanent

- 7 points if

Interim or Permanent

iii. up to 45 points if:

the project meets the following underwriting requirements:

- 30 points if:

assuming a constant 7% vacancy rate (5% for projects with less than 50 units or 3% for projects with project based rental assistance) with rents and replacement reserve increasing at 3% and operating expenses increasing at 4% annually, project pro-forma financial statements reflect at least 1.15 debt coverage ratio (DCR) for the term of the debt financing.

- 15 points if:

- Operating Expenses:

Projects over 50 units:

- New Construction: The per-unit per annum (PUPA) operating expenses, as certified by the management agent, do not exceed $2,100 (or in the case of a Community Revitalization Master Plan Project or Central American Legacy Project, $2,350) on the first year of operations.

- Substantial Rehabilitation Projects: The PUPA operating expenses, as certified by the management agent, do not exceed $2,300 (or in the case of a Community Revitalization Master Plan Project or Central American legacy Project, $2,350) on the first year of operations.

Projects with less than 50 units:

- The PUPA operating expenses, as certified by the management agent, do not exceed $2,500 on the first year of operations.

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

25 points if:

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 persons, handicapped persons or HIV patients (an endorsement letter from the governmental Authority that provides supportive services to the targeted special population must be included with the Application).

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

25 points if:

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 along with financial projections to demonstrate the project's impact in the community in all categories above mentioned.

25 points if:

the development of the project contributes to a concerted community revitalization plan in a QCT (proper documentation must be provided with the Application); or

i. Central American Games Legacy (up to 75 points)

75 points if:

Project is proposed as part of the Department of Housing Policy to encourage the development of affordable housing as part of the "Central American Games Legacy". The development will provide shelter for the athletes during the celebration of the Central American Games and then will provide affordable rental housing for low-income families.

j. Returned Credits (less 25 points)

Applications of projects returning Tax Credits, or that returned its 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, from the project that received the most points to the project that received the least. 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. 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 authority for that year, until that balance reaches zero. Except that, (i) tax credit allocations for projects that receive binding commitments in prior years will be honored per the terms of such commitments, and (ii) projects competing under set asides will initially be ranked and compete only against other projects competing under such set asides, until such a time as 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 Qualified Allocation Plan. The ranking under the Project Selection Criteria does not vest an applicant or project any right to a reservation or allocation of Tax Credits in any amount. Applications for new construction projects that will be placed in service within the calendar year in which the Application is submitted will receive the highest priority. Likewise, 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 is also encouraging Applicants to apply for the Tax Credits when the process to obtain the necessary approvals and permits for the development and construction of the project has finalized or is at the final stage.

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

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

It is also possible that such other sources of funds may form 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 a Tax Credit Allocation for the recommended amount of federal tax credits; yet that there are not sufficient funds within one or more of the other programs to meet the recommended amounts for such other program or programs. In such situation, the Authority may, at its sole discretion and based on the criterion of necessity, adjust upwards the recommended tax credits amounts 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 (the "Initial Reservation Letter"). The Initial Reservation Letter shall be undersigned by the Executive Director of the Authority, and specify what additional information and documentation is required. It will also specify a date by which such information and documentation must be submitted to the Authority in order to receive the final allocation. In addition, the Initial Reservation Letter will include:

- Itemization of adjustments to costs, income, expenses and underwriting assumptions made by the Authority in evaluating the Application.
- Allocation, recommendation, reservation or offer of any other programs or sources of funds administered by the Authority, that it may determine should form part of such Initial Reservation Letter

VIII. ISSUANCE OF TAX CREDITS

1. 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 project(s) participating of an extensive community undertaking might require a larger allocation of credits and the placed in service date of such project(s) 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 be placed in service within 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, Goals of the Housing Policy established by the Commonwealth Government, 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 (a "Binding Commitment").

Applicants may apply to reserve Tax Credits, and enter into 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. As mandated in Section 42(h)(1)(C) of the Code, 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. (See Annex D for an example of the Binding Commitment).

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 applicant must demonstrate that the project falls within one of the following categories:

- Tax Credit is deemed necessary to facilitate the restructuring of financing provided to a project confronting economic difficulties;

- 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 within Puerto Rico;

- 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;

- Tax Credit is requested in connection with a project utilizing the Tax Credit Program as their only subsidy;

- the Project is part of a Community Revitalization Master Plan;

- the project is developed as part of the Central American Games Legacy.

- unforeseen circumstances that the Authority, at its sole discretion, might consider are valid;

The Authority might also consider enter 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, at the Authority's sole discretion deems 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. Nevertheless, the owner will not have to pay the Application Fee, but a Processing Fee of .25% of the annual Tax Credit requested must be included with the Application.

In order for the Applicant to receive a Binding Commitment for an allocation of Tax Credits in certain year, the Applicant must be able to provide an updated memorandum every six months after receiving the Binding Commitment, to support 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 provide any other information that the Authority may reasonably request. To the extent there are any material exceptions, the Authority reserves the right to revoke the Binding Commitment.

2. **Review of the Tax Credit dollar amount**

The determination of the Tax Credit dollar amount with respect to any building will be determined at each of the following times:

a. Initial Application/Reservation of Tax Credits

b. Carryover Allocation

A development with a reservation or a Binding Commitment (as defined in Section VI.B below), but which will not be placed in service by December 31, may be eligible for a carryover allocation (the "Carryover Allocation"). For the signing of the Carryover Allocation the owner must provide evidence of ARPE's approval of: (a) the preliminary development, and (b) the schematic drawings of the project. Also owner must submit to the Authority the Owner's Certification must disclose any Federal, State, or local subsidies that the Applicant has received, or expects to receive, for the development and operation of the project.

c. Placed-in-Service

After the placed-in-service, the Authority will issue IRS Form 8609 ("Low-Income Housing Credit Allocation and Certification") ("Form 8609") only after receipt and review of the following:

i. Certificate of Occupancy (Permiso de Uso);

ii. Final Cost Certification of project development prepared by an independent CPA (see model of this certification in Annex K);

iii. Designer's Certification of Completion of the Construction (see model of this certification in Annex M);

iv. Owner's Certification as to any Federal, State, or Local subsidies received, or expects to receive, for the development and operation of the project; and

v. a physical inspection and cost certification review, to be prepared by an independent consultant appointed by the Authority (randomly, at the sole discretion of the Authority).

The amount of Tax Credits allocated to each project as set forth in Form 8609 may be different from the amount requested in the Application, the amount specified in the Initial Reservation Letter or Binding Commitment or the amount reflected in a Carryover Allocation.

3. **Decrease of Actual Development Costs**

The Authority reserves the right, in its sole discretion, to reserve or allocate an amount of Tax Credits less than the amount requested in the Application based on (a) the information submitted by the applicant or any independent consultant, and (b) Section 42 requirements.

4. **Calendar Requirements**

a. Carryover Allocation Requirements

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

- the end of the carryover allocation year, if the Carryover Allocation is made before June 30, or

- within six months of the date of the Carryover Allocation Agreement, if made after July 1.

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 the 10% costs to be submitted to the Authority within six months of the date of the Carryover Allocation (see Annex K). All fees due to the Authority must be paid by that same date.

b. 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.

- For new construction and existing buildings, placed in service usually means the date the building receives a Certificate of Occupancy (Permiso de Uso).

- 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.

5. **Other Procedural Requirements**

The Mayor of the Municipality in which the project is to be located will be notified by the Authority of the proposal at the time of the Tax Credits' reservation and will have a reasonable opportunity to comment on the project.

For all projects proposing private permanent financing, a letter of intent from the bank is required. The letter should state: (a) the amount and term of the loan (20 years or more); (b) whether interest rate will be fixed or variable; (c) if variable interest rate, how will it be indexed and the current rate at the time of the letter; (d) the amortization period; and (e) any 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 Application to the Authority at the same time as the Tax Credit Application.

IX. Application Time Frame

Applicants may apply to receive a Tax Credit allocation for a certain project by applying through the following reservation/allocation time frame.

The Agency may hold additional allocation cycles if Tax Credits remain available after the Agency has exhausted its reservation/allocation process. It will be the responsibility of the interested applicant to contact the Agency to determine if such additional cycles will be held.

2007 Cycles		
	1st Cycle	**2nd Cycle**
Applications Opening Date	April 2, 2007	July 2, 2007
Applications Closing Date	May 2, 2007	August 3, 2007
Ranking & Reservations	June 15, 2007	Sept. 14, 2007
Closing of Carryover Agreements	Thru August 15, 2007	Nov. 16, 2007
10% Cost Certification	Thru February 15, 2008	May 16, 2008

Any changes to this time frame 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 are due for projects receiving allocations to be placed in service during the same calendar year of the Application and 10% certification for projects receiving a carryover allocation. (Models of Reports is enclosed on Annex K and L).

X. Tax Exempt Financed Projects Not Subject to State Volume Cap

Projects financed with tax-exempt obligations issued after December 31, 1989

(Section 42(h) (4)), must satisfy the Basic Threshold Qualification Requirements and other requirements for allocation under this Plan pursuant to Section 42(h)(4).

These projects will be subject to the evaluation of housing priorities, and minimum thresholds discussed above and the fees determined in Section VIII. They will not be subject to the Tax Credit allocation process, but must fulfill the Point Ranking System minimum requirement of 175 points. Applicants must include with the Application a letter from the lender stating the tax-exempt status of the obligations issued to finance the project and a certification for its tax attorney or CPA certifying that this requirement is met.

XI. Compliance, Fees and Penalties

1. **Procedure for Notification to IRS of Noncompliance**

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

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 as Annex N.

In making the Application for Tax Credits, the owner agrees that the Authority and its designees will have access to any information pertaining to the project. This includes having 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.

2. Fees

Any person interested in obtaining an Application will request so in writing to the Authority. An Application package containing the Allocation Plan, the Compliance Monitoring Plan and the Procedural Steps and Application Instructions will be delivered after payment of $50.

The Authority will also charge the following fees:

- Application Fee

One percent (1%) of the annual requested amount. 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 .25% of the annual Tax Credit requested.

- 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.

- Monitoring Fee

If a housing credit allocation is made, the Authority will charge one half of 1% of each year's allocated amount or $18.00 for each LIHTC unit, whichever amount is greater, as monitoring fee. This amount will be due and payable by January 31 of each year during the compliance period.

The fees amounts hereby established may be revised by the Authority from time to time as necessary to insure that such fees cover the Authority's administrative expenses for processing Applications and monitoring compliance.

3. 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.

XII. Scope and Future Amendments

Federal legislation directs the Authority with allocating to a project only that amount of Tax Credits required to make the project economically feasible. The Authority's determination is made solely at its discretion 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. By allocating Tax Credits to a project, the Authority makes no representation or warranty, express or implied, to the project owner, investors, lender, or third party that its allocation constitutes a determination that the project adheres to the requirements of the Internal Revenue Code, relevant Treasury regulations, or any other laws or requirements governing the Tax Credit program.

The Plan acknowledges that the Authority will encounter situations that have not been foreseen or provided for in the Plan. The Authority reserves the power and authority to amend the Plan after the public has had the opportunity to comment.

The Authority also reserves the power and authority 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 Credit Program.

S:/___________________________________

Carlos Rivas Quiñones
EXECUTIVE DIRECTOR
PUERTO RICO HOUSING
FINANCE AUTHORITY

I, Aníbal Acevedo Vilá, 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 __________, 2007.

S:/__________________________________

Aníbal Acevedo Vilá
GOVERNOR