MISSOURI HOUSING DEVELOPMENT COMMISSION

HOMEOWNERSHIP POLICY

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HOMEOWNERSHIP POLICY

The Commission is dedicated to strengthening communities and the lives of Missourians through the financing, development and preservation of affordable housing. It is through the combined efforts of the Commission and our numerous partners in housing that we are able to supply citizens of Missouri safe, decent, and affordable homes. Homeownership has long been considered the foundation of the house of financial stability as well as the most important achievement in the quest for the American dream. Section 42 of the IRS Code supports homeownership opportunities for residents of single-family low-income housing rental developments by allowing the owners to sell the homes to the residents following the completion of the IRS' initial compliance period. Converting Low Income Housing Tax Credit rental properties into single-family homeownership properties can prove to be beneficial to both resident and owner. The opportunity of homeownership has proven to be a major incentive to residents. This incentive allows the resident the potential of homeownership which might otherwise be out of reach, as well as encouraging them to remain in place, adhere to the lease, and care for the condition of their future home. MHDC has established the Homeownership Policy to guide developers and owners in the planning, development, and eventual conversion of rental/homeownership developments.

This guide details rules that must be adhered to when converting Low Income Housing Tax Credit ("LIHTC") rental properties into Single Family Homeownership properties at the end of the 15-year LIHTC Initial Compliance Period. Additional restrictions may apply depending upon what other type of financing is involved in the project. Developers and owners of affordable single-family rental developments who wish to convert the properties into homeownership opportunities for the residents must establish a plan for the timing and terms of sales to residents and qualified low-income households at the end of the Initial Compliance Period ("Homeownership Commitment"). Each and every Homeownership Commitment will differ. MHDC realizes that there are many options for determining the sales price besides what are outlined in this document and encourages the use of creativity within the Homeownership Commitment. Above all, a homeownership plan developed by an owner must remain true to the tax credit program by ensuring that the opportunity for homeownership is directed at low-income households at an affordable price. The Homeownership Commitment must be proposed at application, approved by MHDC at carryover allocation, recorded with the Land Use

Restriction Agreement ("LURA"), and attached to each resident lease.

The following issues apply to and must be addressed in each Homeownership Commitment and in the implementation of the conversion for all single-family rental/homeownership developments proposed with the the FY2008 NOFA and thereafter and all Homeownership Commitments filed after the date of this document.

1. Any project that is submitted and reviewed by the Commission as a Single Family Homeownership project is prohibited from requesting a qualified contract at the end of the initial compliance period. In other words, the owner will not be allowed to "opt-out" of the project at the end of the LIHTC Initial Compliance Period. This period is assigned on a building-by-building basis and begins with the first year that the credits are claimed. The LIHTC Initial Compliance Period ends on December 31 of the 15th year of the period for that particular building.
2. Before offering a Right of First Refusal ("RFR") to any resident, the project must have fully completed the LIHTC Initial Compliance Period on ALL units. This will avoid confusion by allowing the owner, residents and MHDC to all be on the same time table.
3. Owners must ensure that the purchase price of each home complies with the minimum purchase price required in Section 42(i)(7)(B) of the Code ("Minimum Price") and defined as an amount equal to the sum of the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of the sale to the residents) and all Federal, State, and local taxes attributable to such sale.
4. To preserve affordability, MHDC is setting the maximum sales price to be an amount such that the monthly housing payment of principal, interest, property taxes, and property and mortgage insurance ("PITI") plus tenant-paid utilities does not exceed the maximum LIHTC rent based upon bedroom size [assuming a 95% mortgage, 30-year amortization, interest rate equivalent to MHDC's First Place loan program, and typical insurance premium available to low-income households] less a 1% discount for each year the resident has leased the unit ("Maximum Price").
5. The sales price may be determined by a number of methods, but it must be crafted with the intention of being affordable to low-income households at the time of conversion. A discount off the sales prices for years of

tenancy is highly encouraged. The chosen method must be established in the Homeownership Commitment and must result in a sales price which is not less than the Minimum Price and not more than the Maximum Price. Several illustrative methods for setting the sales price are described below.

6. The owner will offer the RFR within 12 months of the end of their LIHTC Initial Compliance Period. This will be a set date and will not be able to be changed because of market conditions, high interest rates, or other factors which affect the salability of the houses. MHDC will call this date the "Conversion Date".

7. Each lease will contain an addendum to the lease. Within this addendum will be a copy of the Homeownership Commitment. Because it is important for the residents to be aware of the Conversion Date so that they know when the houses will be offered for sale to them, the Conversion Date must be referenced in this addendum to the lease. The Homeownership Commitment should also define the term "Right of First Refusal". Because homes will only be offered to residents in good standing, the Homeownership Commitment should also define the term "good standing". The owner does not have to outline specific discounts that will be offered to the resident as related to the sales price of the homes. However, they should in general terms indicate their plan for pricing the homes. The addendum should also state that the homes cannot be sold at a price lower than the minimum sales price as set forth in Section 42(i)(7)(B) of the Code.

8. The owner will provide information about homeownership training to the resident by way of a notice or a brochure. The owner will begin providing referral information about homeownership training or actual training to residents 5 years before the Conversion Date. The developer will have an agent or plan with a homebuyer credit counselor (this will usually be in the form of a non-profit agency). This information must be provided to the resident in an addendum to the lease for all properties leased after the date which is 5 years prior to the Conversion Date.

9. The owner should address the issue of how potential homeowners will be educated concerning home maintenance. Several suggestions are: have the property maintenance person work with potential homeowners while doing routine maintenance and minor repairs to units; enlist the help of non-profit organizations which promote homeownership opportunities.

10. The owner must distribute to all residents, 1 year before the offering of the

RFR, information detailing the dates, timeline and information that is contained within the Homeownership Agreement.

11. Each resident will be given up to 6 months after the Conversion Date to decide whether or not to accept the RFR offer from the owner. Any resident who is in “good standing” at the time of the offering of the RFR shall have the right to exercise the RFR. The resident will exercise their RFR by tendering an offer to buy the property. Within this offer there should be a date set for closing.

12. After this 6 month period mentioned in #10 above, the owner has several options in reference to any unsold units:
    a. The owner can choose to sell the remaining units of the project to a non-profit partner or another entity that will continue to operate the units as affordable housing in accordance with the LURA. The sale must include 100% of the remaining rental units, not a portion thereof.
    b. The owner can choose to maintain the remaining units of the project as rental units, adhering to all MHDC Extended Use Period guidelines. The remaining units after this initial 6 month selling period may at any time be offered for sale to the current or subsequent qualified residents.
    c. The owner can offer vacant units for sale to a buyer whose household income does not exceed 80% of the area median income. A potential purchaser who qualifies under this income restriction is not required to lease the unit before they purchase it.

13. At the sale of each home, MHDC will execute a partial release of the Low-Income Housing LURA for that property.

14. If MHDC holds the mortgage, the owner shall contact MHDC’s Loan Servicing department just prior to the Conversion Date to determine the payoff amount for the sale of each home. The required payoff will be calculated over 75% of the homes in the project in order to accelerate the paydown and potentially ease the burden on any remaining unsold homes. The owner can then utilize this figure in calculating the minimum sales price of the home according to Section 42(i)(7)(B) of the Code.

    The payoff amount for each home will be equal to the principal balance of the loan as of the conversion date divided by .75 divided by the number of homes in the project. The title company assisting in the transaction must contact MHDC’s Loan Servicing department for the payoff prior to the sale of the home and transfer the payoff to MHDC as part of the closing transaction. The loan will be re-amortized following each paydown. An example would be:

The principal balance of a loan on the conversion date of a project is $500,000. There are 30 homes in the project. The required payoff per home sold would be $22,222.22 ($500,000 / .75 / 30). If the owner sells and closes on 12 homes in the 5th month following the initial RFR, MHDC will receive a total paydown of $266,666.64 (12 x $22,222.22) from the 12 closing transactions. The loan will then be re-amortized based upon the $266,666.64 paydown. If then in the 10th month following the initial RFR, the owner closes on 3 more homes, MHDC shall receive a total paydown in the amount of $66,666.66 (3 x $22,222.22) and re-amortize the mortgage accordingly.

As each home sells and contributes the required paydown of the mortgage, MHDC will execute a partial release of the deed of trust for that home. If full repayment of the loan occurs, the deed of trust will be released for all remaining unsold homes.

15. Each house that is to be sold to a resident under the RFR must pass a Housing Quality Standards ("HQS") inspection. It must also undergo a physical needs assessment performed by an MHDC approved inspector following MHDC prescribed standards. Any deficiencies described in the physical needs assessment must be addressed by the owner before the Conversion Date. The HQS inspection and/or physical needs assessment cannot be used in place of subsequent inspections.
16. The owner should address the issue of replacement reserves in the Homeownership Plan. MHDC intends that any excess reserves after repairs and replacements, as determined on a pro rata portion for the unit(s) at the time of sale, will benefit the project and the new homeowner. Several suggestions are: put the unused pro rata portion of the reserves into an account to be used by the neighborhood homeowner's association; use the unused pro rata portion of the reserves for additional down payment assistance to the homeowner; discount the sales price by an amount equal to the unused pro rata portion of the reserve amount; establish a reserve account for the new homeowner from the pro rata portion of the reserve amount.

17. The buyer must also agree to occupy the home as their principal residence.
18. If the current resident refuses to buy the property or is unable to buy the property, they cannot be asked at any time to vacate the property except for reasons specified in their lease.
19. A resident in good standing may not be relocated or evicted to expedite the sale of a unit. When renting a unit, a possible resident may not be discriminated against because they do not wish to purchase the unit they are requesting tenancy in.
20. If a household has had an increase in income since moving into the property, this will not disqualify them from buying the property. They will not be considered over income. If a household qualifies to move into the unit as a resident, they are income qualified as a potential buyer (an exception to this occurs if HOME funds are involved – see below).
21. In order to assure that all parties are prepared to begin selling the homes as outlined in the homeownership agreement, the owner will meet with staff at MHDC in the 14^{th} compliance year to discuss the above items along with any other topics deemed necessary at the time. The owner must contact MHDC's Asset Management department to begin this process.
22. The ownership entity may offer the first right of refusal to the non-profit partner at the end of the Initial Compliance Period, with the non-profit commencing sales of the units to the residents and qualified buyers thereafter if the following requirements have been met:
    a. The limited partnership agreement or operating agreement governing the ownership entity has granted a first right of refusal to the non-profit partner or member;
    b. The non-profit entity is a qualified non-profit for purposes of the LIHTC program, that is, it is a tax-exempt organization formed with the express purpose of fostering affordable housing, is not controlled by a for-profit entity or subsidiary, and has been materially involved in the operations of the development;
    c. The non-profit has filed a Homeownership Commitment that has been approved by MHDC, recorded with the LURA, and attached to resident leases; and
    d. The non-profit transacts the sales of the homes under the terms of the MHDC-approved Homeownership Commitment and follows all MHDC rules and guidelines applicable to homeownership conversion when the right of first refusal is offered to the residents.

Determining Sales Price

In order to extend the opportunity for homeownership to existing tax credit residents, the houses must be affordable for people who are at or below 60% of median income for the area.

Residents who buy the houses should be able to replace their rent payment with a house payment which is comparable to what they were paying in rent. This is considered the "Equivalency Principle". To achieve maximum affordability, the monthly mortgage payment including principal, interest, property taxes, property and mortgage insurance (PITI) should not significantly exceed the monthly rents in Year 15. As stated previously, the sales price of the homes to existing residents or qualified buyers must fall between the Minimum Price and Maximum Price defined above.

Listed below and discussed are three possible options for determining the sales price of the property as of the Conversion Date.

Existing Obligation plus Profit

Section 42(i)(7)(B) of the Code defines the minimum purchase price for a LIHTC property at the end of its LIHTC Initial Compliance Period to be the sum of (i) the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of sale) and (ii) all Federal, State, and local taxes attributable to such sale. We also understand that the property will need to have repairs done to it before it is sold and the developer will desire a profit from each sale.

MHDC has taken the above into consideration and suggest the property may be sold for the following amount: [(((the payoff of the entire note) + Exit Taxes + Amount to make any and all repairs deemed necessary to bring the building up to excellent condition)/# of units in the project) + (An amount of profit the owner chooses to add for the sale of each home)]. The resident will then receive a discount off the sales price for each year they have occupied a property within the project, specified by the owner.

Sample assumptions:
15-home development
Remaining mortgage of $200,000
Exit taxes estimated by limited partner at $150,000
Repairs necessary = $180,000 (in addition to replacement reserves)
Profit requested by owner = $20,000/home
Resident discount = 1% per year of tenancy

A resident who has rented the home for 7 years would pay a purchase price of $51,460 or ((($200,000 + $150,000 + $180,000)/15) + $20,000) x 93%

Equivalency Principle Approach

The following procedure will occur on the Conversion Date and will be used to decide the sales price for the houses. This price will be used as the sales price for all the houses until all the houses are sold regardless of the income level of the buyer. The sales price will be determined using the following guidelines based on a monthly housing payment equal to the current rent being charged for the units assuming a 95% mortgage, 30-year amortization, and an interest rate equal to that used by the MHDC First Place program. Existing residents are offered a 1% discount for each year of tenancy.

1. Current monthly rent = $550
2. For argument sake, insurance and taxes = $150 per month
3. Mortgage payment is then = $400 per month
4. Using an estimated MHDC MRB interest rate = 6.3%, the mortgage amount would be $64,623
5. Assuming a 95% mortgage, the sales price would be $68,024
6. If the resident leased the unit for four years, a 4% discount would reduce the sales price to $65,303

Maximum Price Approach

The following application of the Maximum Price calculation will be based on the maximum LIHTC rent in affect at the time the home is sold regardless of the income level of the buyer. The sales price will be determined using an amount such that the monthly PITI payment plus tenant-paid utilities does not exceed the maximum LIHTC rent based upon bedroom size [assuming a 95% mortgage, 30-year amortization, interest rate equivalent to MHDC's First Place loan program, and typical insurance premium available to low-income households] less a 1% discount for each year the resident has leased the unit.

An example would be:

1. Current maximum LIHTC rent for a 3-bedroom house in Springfield = $801
2. For argument sake, insurance and taxes = $150.00 per month; tenant-paid utilities = $125 per month
3. This allows for a total of $526 P&I that this family can afford/qualify per month for a house payment with a 30-year term
4. First place program MRB rate is 6.3%
5. The maximum loan amount would then be $84,980
6. Assuming a 95% mortgage, the sales price would be $89,452
7. If the buyer happens to be a resident who has lived in the project for 4 years, they would receive a 4% discount off the $89,452 figure for a sales price of $85,874.

Additional HOME Rules

HOME funds utilized for new construction rental housing carry an affordability period of 20 years. The affordability period includes income and rent restrictions which are set forth in a Regulatory Agreement. HOME regulations allow for rental units to be sold during the affordability period, but the following rules apply for units that are designated as HOME-assisted units. These regulations are in addition to the rules listed at the beginning of this document:

1. During the affordability period, all purchasers of HOME-assisted units must have a household income that is at or below 80% of area median income. This includes both resident purchasers and any subsequent purchasers involved in a resale transaction. The actual income limit is dependent on the household size and the area in which the property is located.
2. For the term of the affordability period, some type of deed restriction will need to be recorded against the property to help assure that the new homeowner adheres to HOME rules throughout the affordability period. This will be put in place by the original owner. This document will expire on the date the original HOME compliance period for the project ends. This deed restriction should address resale provisions associated with the unit. Although the resident purchaser must adhere to these deed restrictions, the original owner is ultimately responsible for compliance with the HOME rules and regulations. The deed restrictions may outline repayment terms by the resident purchaser if the home is sold to someone who does not income qualify under HOME rules. Violations of affordability restrictions may result in recapture of a pro rata portion of the funds by HUD, at which time MHDC will look to the seller's repayment and the original owner to provide the amount of recapture requested.
3. The owner must be involved with future resales of the units, specifically, in qualifying the incomes of subsequent purchasers and reporting to MHDC compliance with regulations regarding the resale of units occurring during the 20-year affordability period.
4. The housing must be considered modest in that the purchase price for the type of single-family housing does not exceed 95% of the median purchase price for the area.
5. The sales price must be affordable to the purchaser. MHDC defines affordability as a transaction in which no more 35% of the purchaser's income may be used to pay monthly PITI payments.
6. The initial homeowner who sells the unit during the affordability period must receive a "fair return" defined by MHDC as the return of the homeowner's initial investment.
7. The buyer(s) must occupy the property as their principal residence and must occupy such property as their principal residence for no less than 11 months of each calendar year. It cannot be rented during the affordability period.
8. The only exception to the 20-year term of the affordability period is if the homebuyer receives HOME funds directly as down payment assistance or

subordinate financing. In that case, the affordability period associated with the direct subsidy to the homebuyer commences and the 20-year period associated with the development subsidy (from the initial construction of the property) is terminated. MHDC does not currently offer HOME for purchase assistance, and if it did, it cannot be targeted only to residents of specific developments. The owner may wish to help its residents obtain direct HOME subsidies from Participating Jurisdictions in order to ease the restrictions on the homebuyer, but the availability of funds in the future is something that cannot be completely assured.