

U.S. Department of Housing and Urban Development
Office of Block Grant Assistance



Neighborhood Stabilization Program

2008 FORMULA GRANTS

Module 5: Financing Issues

Module 5 Content

- Affordability
- Financing Mechanisms (Eligible Use A)
- Types of Assistance
- Financing Options
- Program Income



Affordability

Initial Affordability

Long-Term Affordability



Initial Affordability

- NSP Recipients Must:
 - Define Affordable Rents
 - Ensure Affordability Standards
 - Enforce NSP Mechanisms
- HOME Affordability Standards are Minimum



Initial Affordability (continued)

- Housing Costs vs. Household Income
- Housing Costs: 30-35% of Total Family Income
- Affordability Based On:
 - Purchase Price or Rent
 - Cost of Occupancy





Financing Mechanisms

Financing Mechanisms Eligible Use A

- Eligible Use A Allows NSP Funds to Establish Financing Mechanisms
 - Direct Loans
 - Indirect Loans
 - Loss Reserves
 - Soft Second Loans
 - Shared Equity Loans





Types of Assistance



Types of Assistance

- NSP Grantee May Provide Downpayment Assistance to Home Buyer
- NSP Funds May be Used to Reduce Interest Rate
- Grantee May Use NSP Funds for Loans to Third Parties
- Loan Terms May Be Specially Structured
- Shared Equity Arrangements
- CDBG Can Help



NSP Financing Options

Financing Options

Initial Affordability

- Sell for Cash Based on Actual Cost
- Reduce Sales Price
- Sell at Cost and Provide Second Mortgage
- Pay Mortgage Insurance



Financing Options

Initial Affordability (continued)

- Downpayment Assistance
- Loan Loss Reserve
- Closing Costs
- Capitalize Reserves When Condition of Primary Lender (rental)



Long-Term Affordability

- Homebuyer Requirement
 - Primary Residence for Period of Affordability
- Rental Requirements
 - Occupancy by Income-Eligible Tenants
 - Affordable Rents
- Grantee Defines
 - Length of Affordability Period
 - Affordable Rent Levels



Financing Options—Homebuyer Long-Term Affordability

- Balloon Payment Due on Sales Loans
- Shared Equity Loans
- May Reduce Loan for Each Year of Affordability Compliance



Financing Options— Long-Term Affordability Rentals

- No Recapture Option
 - New Buyer Must Continue Affordability
 - Occupancy
 - Rent Restrictions
- Lien for Period of Affordability



Program Income

- Applicability of CDBG Requirements
- CDBG Definitions and Requirements
- How Program Income Applies to NSP Home Buyer Projects
- Calculating Program Income on Rental Project
 - Owned by Grantee or Subrecipient
 - Owned by Private Developer



CDBG Definitions and Requirements

- CDBG Rules Imposed by Recovery Act **570.500(a)**
- Program Income is Revenue Received by a Grantee or Subrecipient from:
 - Sale of Property
 - Loan Repayments
 - Rental Income



Program Income Rules

- Spend Cash On Hand First
- NSP Income Only for NSP Uses
- Income Not Counted Toward Obligation



Program Income—Homebuyer Transactions

- Sales Revenue Received by Grantee or Subrecipient
- Debt Service Payments Made to Grantee or Subrecipient
- Recaptured Funds



Program Income—Rental Properties

- When Owned by Grantee or Subrecipient:
 - Gross rental income **minus** costs incidental to its generation. Such costs include:
 - Management expenses
 - Property maintenance and repairs
 - Contributions to replacement reserves
 - Taxes and insurance



Program Income—Rental Properties (continued)

- Program Income Does Not Include Revenue from Privately Owned Rental Projects
- Make Loans, not Grants, Wherever Possible
- Grantee Should Underwrite to Avoid Undue Enrichment



Module 5 Summary

- Affordability
- Financing Mechanisms (Eligible Use A)
- Types of Assistance
- Financing Options
- Program Income

