



Neighborhood Stabilization Program

2008 FORMULA GRANTS

**Module 8 – Eligible Use B
Scenarios: Homebuyer and
Rental Housing Purchase
and Rehabilitation**

Module 8 Content

1. Eligible Use B Scenarios:
 - Homebuyer and Rental Housing Purchase and Rehab
2. Administrative Structures:
 - Grantee, Subrecipient, or Developer as Lead Entity
 - Property and Homebuyer/Renter Pipelines
3. Grantee/Subrecipient Homebuyer Project
 - Case Study 1: Startup Activities and Financing Options
4. Developer Rental Housing Project
 - Case Study 2: Startup Activities and Financing Decisions



Helpful Resources

NSP Website:

<http://www.hud.gov/nsp>

To ask a question:

- Click on the link “this form” at the bottom of the web page above.



Review of NSP Eligible Use B

(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties

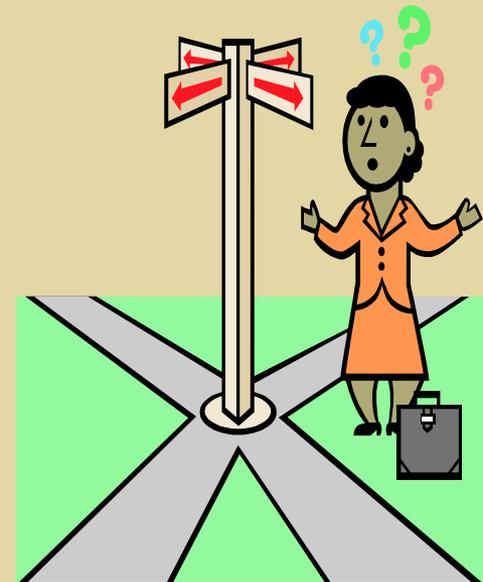
NSP Substantial Amendment Goals and Objectives

- Location of Properties—Target Area, Stabilize Neighborhoods
- Performance Measures—Number units acquired, rehabilitated and sold or rented
- Beneficiaries Income—<50%, 51-80% and 81-120% AMI
- Threshold—25% of NSP funds benefit <50% AMI



NSP Administrative Structures

- Grantee as Lead Entity?
- Subrecipient as Lead Entity?
- Developer Role
- Property and Homebuyer/Renter Pipelines and Tracking Tools



Grantee as Lead Entity

- Internal agreements are not required
- Centrally managed property and homebuyer/renter pipelines also serve as a performance measurement tool



Subrecipient as Lead Entity

- Grantee decides if subrecipient keeps program income or return to the grantee
- All UGLGs are subrecipients
- Subrecipient agreement should meet all requirements in the regulations including recordkeeping and audit requirements
- Grantee can assign responsibility for the homebuyer/renter pipeline to a subrecipient



Developer's Role

- Developers can be for-profit or nonprofit entities
 - Developers may charge fees and earn profits
- Grantee must underwrite all transactions
 - Developers may not incur administrative costs
- Grantee's agreement with the developer is not subject to recordkeeping or audit requirements that apply to subrecipients
- Developers can help update the property pipeline

Things to Consider in Assigning Responsibility

- Homebuyer and rental housing rehabilitation projects.
 - *rent-to-own
 - *resell
 - *own/manage rehabilitated housing
- Amending substantial amendment
 - Change in foreclosure market?

Good Recordkeeping



Grantee Homebuyer Purchase & Rehab

- Startup Activities

 - Step 1. **Property Pipeline**

 - Step 2. Homebuyer/Renter Pipeline

 - Step 3. Match property with Homebuyers/Renters

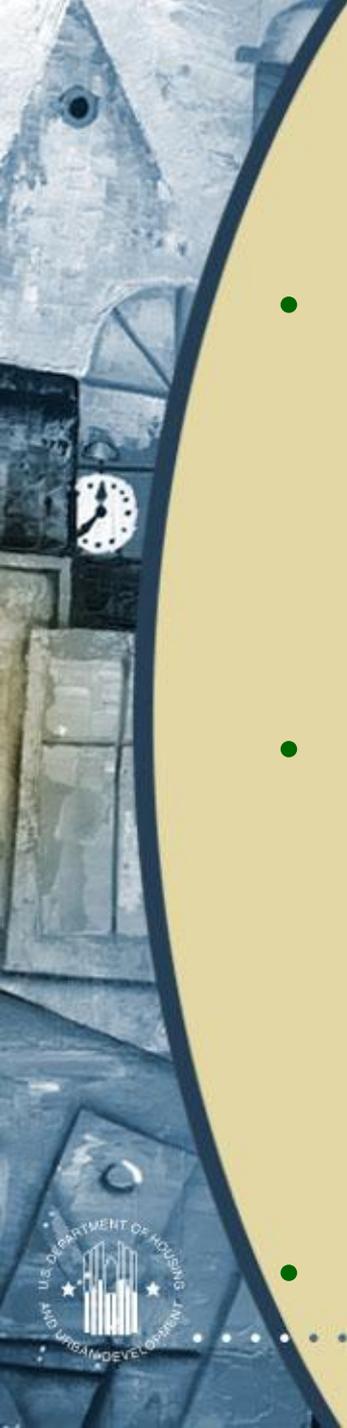
- Financing Options

 - Step 4. Purchase and Rehab Costs and Sales Price

 - Step 5. Homebuyer Financing Options

 - Step 6. Continued Affordability

- Final Steps: Things to Consider



Grantee Homebuyer Purchase and Rehab

Startup Step 1: Setup Property Pipeline

- Sources of Intake:
 - Lenders/Serviceers
 - Subrecipient/Developer Applications
- Property Types
 - Foreclosed
 - Abandoned



Grantee Homebuyer Purchase and Rehab Startup Step 1: Setup Property Pipeline

- Property Acquisition
 - Environmental Review
 - Appraisal
 - Purchase Discount
 - Initial Investments



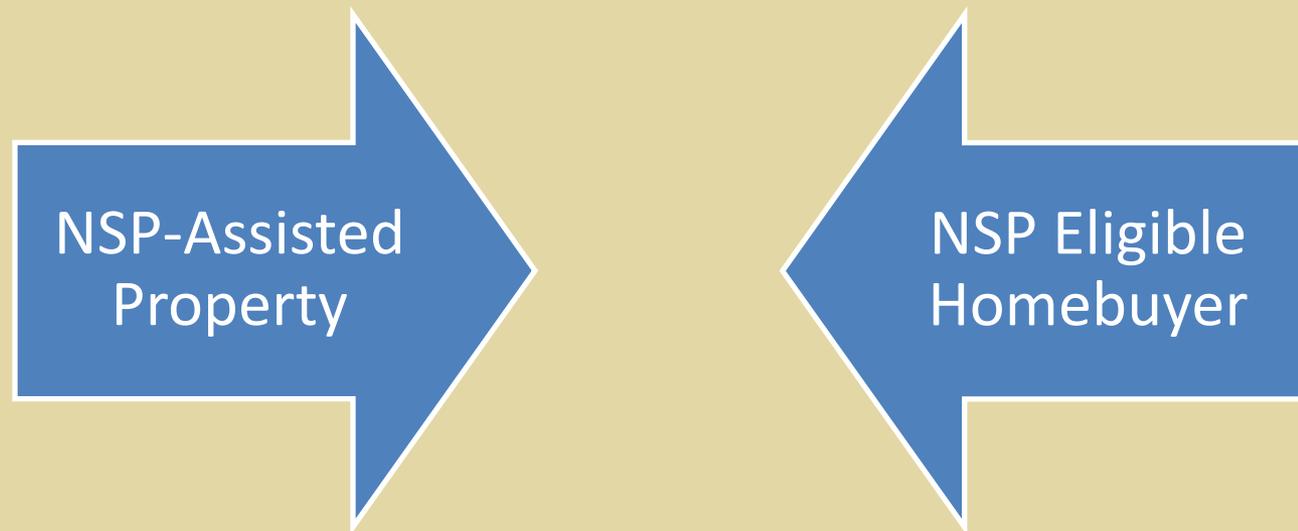
Grantee Homebuyer Purchase and Rehab Startup Step 2: Setup Homebuyer/Renter Pipeline

- Sources of Intake
 - Homebuyer/Renter Outreach
 - Housing Counseling Agencies
- Screen potential NSP participants
 - Income Eligibility
 - Affordability/Bankable Credit
 - Homebuyer/Renter Counseling



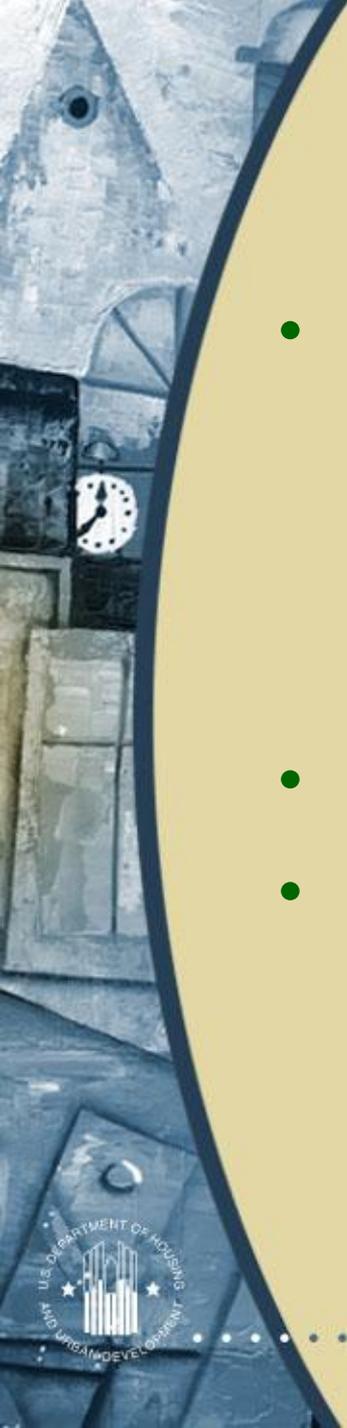
Grantee Homebuyer Purchase and Rehab Startup Step 3: Matching Pipelines

- Match potential homebuyers/renters with NSP-assisted properties



Grantee Homebuyer Purchase and Rehab Financing Step 4: Manage Rehab

- Scope of work
 - Rehab standard
 - Lead-safe housing requirements
 - Energy conservation requirements
- Develop cost estimate
- Establish construction contract
 - Solicit contractors
 - Review bids
 - Select contractor





Grantee Homebuyer Purchase and Rehab Financing Step 4: Manage Rehab/ Establish Rehab Cost

- Construction Inspections
- Pay Contractors
- Final Inspection
- Establish Final Rehab Cost



Grantee Homebuyer Purchase and Rehab Financing Step 5: Purchase/Rehab Costs & Sales Price

Acquisition Cost
+
Rehabilitation Cost = Total Development Cost

Total Development Cost = Maximum NSP
Sales Price



Grantee Homebuyer Purchase and Rehab Financing Step 6: What Can the Buyer Afford?

Mortgage Gap

- Homebuyer's Income
- 30 year loan
- 20% downpayment
- Maximum mortgage
- Does mortgage + downpayment = Sales Price?
- Mortgage gap?

Financing Step 6 Continued: What Can the Buyer Afford?

The Downpayment GAP

- Downpayment requirement
 - Lender 10%—20%
 - Buyer must have half of that
 - NSP can provide other half
- Required downpayment = to available funds?
 - Down payment gap

Financing Step 7: Establish the Subsidy

NSP Tools

- Reduce the Sales Price—Close Mortgage Gap
- Downpayment Assistance—Close DP Gap



Financing Step 7 Continued: Establish the Subsidy

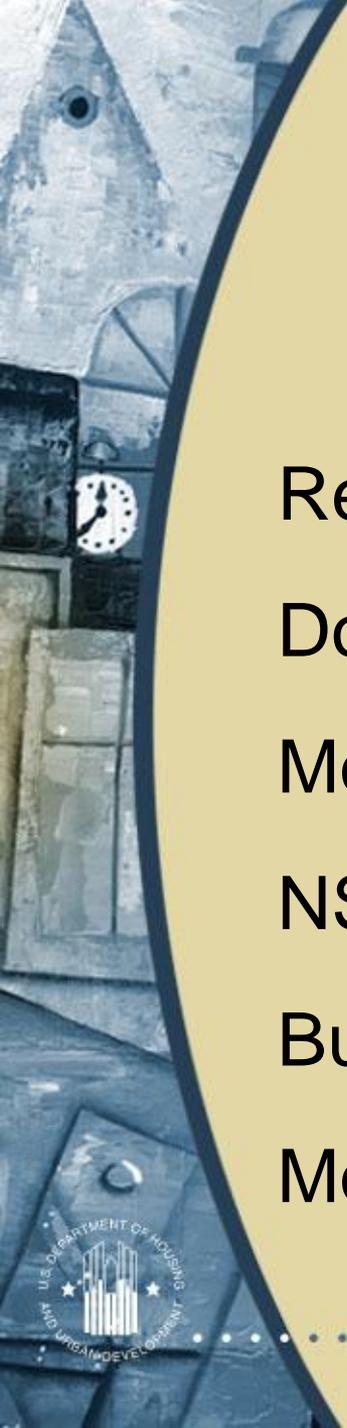
• Cost-based Sales Price	\$104,000
• Buyer Income	\$45,000
• Maximum mortgage	\$190,500
• 20% Downpayment	\$20,800
• Mortgage	\$76,000
• NSP DPA	\$10,000
• Buyer DPA	\$10,000
• Gap	\$400



Financing Step 7 Continued: Establish the Subsidy

NSP Fills the Gap

Reduce Sales Price to	\$100,000
Downpayment	\$20,000
Mortgage	\$80,000
NSP DPA	\$10,000
Buyer DP	\$10,000
Mortgage + Downpayment = Sales Price	



Financing Step 8: Period of Affordability

- What is the NSP Subsidy?
 - Principal grant reduction \$ 4,000
 - DPA \$10,000
- TOTAL \$14,000
- Affordability Period (HOME) 5 years
- Resale or Recapture?



Financing Step 8: Continued Affordability

Resale Option – Sell to another LMMI homebuyer

- Protects grantee's investment of development subsidy
- Protects against rapid price increase
- Provides greater assurances for long-term affordability

Recapture Option – Repay the NSP subsidy to Grantee

- More marketable to buyers because they can sell to any income buyer.
- Simpler to administer
- Opportunity for grantee to recapture portion of initial investment



Financing Step 8 Continued: Low-Income Buyer

\$30,000 Household Income

Maximum Sales Price (expensive rehab)	\$140,000
Supportable Mortgage	\$126,900
Mortgage Gap	\$13,100
DP Required	\$28,000
Buyer portion	\$5,000
DPA	\$14,000
DP GAP	\$9,000



Financing Step 8 Continued: Low-Income Buyer

- Reduce sales price \$50,000
- DP \$10,000
- Mortgage \$40,000
- DPA \$5,000
- Buyer DP \$5,000



Financing Step 8 Continued

Low-Income Buyer—Total Subsidy

- Sales Price Reduction \$90,000
- DPA \$5,000
- TOTAL \$95,000
- Period Of Affordability 20 years



Financing Step 8 Continued

Financing Options

Higher loan-to-value ratios and lower downpayment requirements

- FHA-approved and VA approved lenders
- State/local HFA loans
- Public loan by NSP grantee
- Add HOME downpayment assistance

Grantee Homebuyer Purchase and Rehab Final Steps: Things to Consider

- Alternative financing options
 - Developer subsidy
 - Closing costs
 - Low-interest financing (NSP Eligible Use A)
- Rent-to-Own
- Reporting Requirements
- Recordkeeping
 - **You may get audited – Be prepared**
- Program Income



Case Study 2

Developer Rental Housing Purchase & Rehab

- Startup Activities
 - Step 1. City issues RFP
 - Step 2. City selects Affordable Developers, Inc.
 - Step 3. City underwrites and funds project
- Structuring Financing
 - Step 4. Rental Income Analysis
 - Step 5. Establish the Subsidy
 - Step 6. Continued affordability
- Final Steps: Things to Consider



Developer Rental Housing Purchase and Rehab

Startup Step 1: City Issues RFP

- Sources of Intake:
 - City issues RFP for a developer to purchase and rehab 1 of 3 rental housing properties that has been foreclosed
- Target properties and tenants
- RFP Content:
 - Purchase Discounts
 - Applicable FMRs
 - Income Eligibility
 - Affordability
 - Program Income
 - Scoring Criteria

Developer Rental Housing Purchase and Rehab Startup Step 2. City Selects Developer

- Affordable Developers, Inc.
- Wining Criteria
 - Purchase Discount—20%
 - Low-income Targeting (< 50% AMI)
 - Green Building and Energy Efficiency
 - Experience of Management Company
 - Marketing/Tenant Selection Plan
 - Lease Agreements



Developer Rental Housing Purchase and Rehab Startup Step 3: City Underwrites/ Funds Project

- Community Gardens Apartments Project
 - Units at < 50% AMI
 - NSP funds vs. TDC
- Let's Discuss Financing Options...



Developer Rental Housing Purchase and Rehab Financing Decisions: Very Low-Income Benefit

- Program Requirement
 - 25% NSP \$
 - Occupants at or below 50% AMI
- Community Gardens Apartments Project
 - 2 very low-income units—rent \$400
 - 4 low- & moderate-income units—rent \$500



Developer Rental Housing Purchase and Rehab Financing Decisions: Rental Income Analysis

- Gross rental income **minus** costs incidental to its generation. Such costs include:
 - Allowance for vacancies/non-payments
 - Management
 - Property maintenance and repairs
 - Contributions to replacement reserves
 - Taxes and Insurance
- Balance divided
 - Monthly debt service payment
 - Owner's profit



Developer Rental Housing Purchase and Rehab Financing Decisions: Rental Income Analysis 2

- 4 units @ \$500 \$2,000
- 2 units @ \$400 \$800
- Gross Rental Income \$2,800



Developer Rental Housing Purchase and Rehab Financing Decisions: Establish Subsidy

- TDC \$300,000
- Monthly Rental Income \$2,800 Minus
- Vacancy Loss \$150
- Operating Costs \$600
- Net Income \$2,050
- Less Debt Service Coverage \$410
- Available for Debt Service \$1,640
- Allowable Mortgage \$152,000
- NSP Subsidy \$148,000



Developer Rental Housing Purchase and Rehab Financing Decisions: Subsidy Without Very Low-Income Units

• TDC	\$300,000
• Monthly Rental Income	\$3,000 Minus
• Vacancy Loss	\$150
• Operating Costs	\$ 600
• Net Income	\$2,250
• Less Debt Service Coverage	\$450
• Available for Debt Service	\$1,880
• Allowable Mortgage	\$168,000
• NSP Subsidy	\$132,000



Developer Rental Housing Purchase and Rehab Financing Decisions: Affordability

- Affordability Term
 - Per Unit Subsidy \$25,400
 - Term 10 years
- Owner Requirements
 - Income-Eligible Tenants
 - Rent Limits
- Grantee provides owners annual updated rent schedule



Developer Rental Housing Purchase and Rehab

Final Steps: Things to Consider

- Reporting Requirements
- Recordkeeping
 - You may get audited—
Be prepared
- Program Income
- Amending your NSP programs
 - Not required to submit to HUD
 - Make adjustments in DRGR immediately



Module 8

- NSP Information: <http://www.hud.gov/nsp>
 - Policy updates
 - FAQ's
 - Notices

