Welcome!

This archived document is no longer applicable.

Consolidated and Further Continuing Appropriations Act of 2012:
Deadline for Sale of HOME Homebuyer Units & Conversion to Rental

June 18, 2012
Office of Affordable Housing Programs, HUD
### FY 2012 HOME Appropriations Law Requirement Series

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Posted Online</td>
<td>Overview of the FY 2012 Appropriations Law Requirements</td>
</tr>
<tr>
<td>Mon. June 4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>Recent IDIS Changes Affecting HOME PJs</td>
</tr>
<tr>
<td>Mon. June 11&lt;sup&gt;th&lt;/sup&gt;</td>
<td>Market Analysis</td>
</tr>
<tr>
<td>Thur. June 14&lt;sup&gt;th&lt;/sup&gt;</td>
<td>Underwriting &amp; Developer Capacity for Homebuyer Projects</td>
</tr>
<tr>
<td>Mon. June 18&lt;sup&gt;th&lt;/sup&gt;</td>
<td>Deadline for Sale of Homebuyer Units</td>
</tr>
<tr>
<td>Thur. June 28&lt;sup&gt;th&lt;/sup&gt;</td>
<td>Underwriting &amp; Developer Capacity for Rental Projects</td>
</tr>
<tr>
<td>Tue. July 10&lt;sup&gt;th&lt;/sup&gt;</td>
<td>For PJs: Assessing CHDO Development Capacity</td>
</tr>
<tr>
<td>Thur. July 12&lt;sup&gt;th&lt;/sup&gt;</td>
<td>For CHDOs: Understanding the CHDO Development Capacity Requirement</td>
</tr>
</tbody>
</table>
Welcome & Introductions

• HUD welcome
  – Ginny Sardone, OAHP
  – Marcia Sigal, OAHP
  – Mandy Wampler, OAHP

• Trainer introductions
  – Steve Lathom, Training & Development Assoc.
  – Monte Franke, Franke Consulting Group
Goals

• Understand requirements in context
• Avoid conversion through
  – Program design
  – Project selection
  – Project management
• Successful conversion to rental
  – Exit/recapitalization strategies after conversion
Legislative & Regulatory Context

• FY 2012 HOME Appropriation Law requirements
  – *Consolidated and Further Continuing Appropriations Act of 2012* (PL 112-55)
  – Statutory requirements—“law of the land”
  – Applies to activities identified as 2012 Consolidated Plan/Annual Action Plan projects

• **CPD Notice 12-007** provides operating guidance

• Proposed HOME Rule
  – Despite similarities, essentially does not exist
Deadline for Sale of Homebuyer Units Requirement

- PJs must convert all 2012 HOME homebuyer units that have not been sold to an eligible homebuyer within 6 months of project completion to HOME rental units, or repay the HOME investment.
Determining “project completion”

- “all necessary construction work has been completed and the project has received a certificate of occupancy or other local certification”

  - This starts the clock on the 6 month deadline!

Defining “sale” to homebuyer

- “ratified sales contract”

HUD has no waiver authority
Overview

• Program design
• Project considerations
• Fall back strategies for sale
• Conversion to rental
• Exit/recapitalization strategies
• To submit a written question:
  – Click on the **Q&A tool** in the top menu bar. Type your question in the text box provided and click “Ask”

• To ask your question verbally:
  – **Push *1** on your phone and you will be added to the queue
  – If your question is answered before your turn in the queue, push #1 to be removed from the queue
Instruction Manual

Program Design & Project Selection
How Best to Serve Homebuyers

• Should you develop for-sale units at all?
  – No development = no requirement for conversion
  – Does the market need more units?

• Is buyer-driven direct assistance program a better option in some markets?

• Decision informed by:
  – Assessment of market needs
  – Recent experience
Project certification requirements for FY 2012 activities (prior webinar—”Required Underwriting & Developer Capacity for Homebuyer Projects”):

– Structure projects around market need & marketability

– Select strong partners
  • Capacity for both sales and rental conversion

– Leave room to maneuver in project underwriting
Managing Risk Thru Project Selection

• Demonstrated market
  – Pre-sales
  – Pool of ready, willing, & able buyers
  – Spec builds – limit number of units w/out identified buyers

• Consider other pipeline & inventory

• Site selection
  – Local policy goals: production v. revitalization
  – Is conversion even possible? Zoning or other prohibitions on rental?
Control Points
Written Agreement

• Build in performance benchmarks & decision points about changes to strategy/conversion
• Allow for PJ to transfer project to another developer/owner
• Pre-structure rental conversion
Transaction Structure

• Determining the project
  – “common ownership, management, and financing” (92.2)
  – Multi-address homebuyer projects in IDIS

• Implications of leverage
  – Does it limit options for direct financing, lease purchase, conversion?
  – But, not all costs HOME eligible
Project Planning & Ongoing Management
Sales & Marketing Plan

• Key component of underwriting
  – Demonstrates developer understanding of market context and project financial assumptions

• Foundation requirement – prior to funding
  – Starting at construction kickoff is too late

• Actively track progress and manage project
  – Require regular reporting
  – Involve local market experts in review
Manage the Sales Effort

- Articulate Vision
- Adjust Strategy
- Execute Plan
- Track Progress
Overall Sales Framework

• Right product?
• Right price?
• Good deal?
• Effective marketing?
• Access to credit?
Product

• Location, location, location
  – Select sites where neighborhood is an asset not an obstacle

• Build to be competitive
  – Curb appeal
  – Energy efficiency & ease of maintenance
  – Offer modest “upgrade” options or buyer-selected finishes & fixtures
  – Future owner enhancements – “bonus room,” egress basement window, etc.
Price & Deal Structure

• Determine pricing & process for adjusting
  – Reflect market
  – Generate interest
• Ensure adequate buyer assistance is available
• Sweeten deal terms
  – Recapture instead of resale
  – Deferred instead of amortizing
  – Forgivable instead of fully repaid
Marketing Effort

• Identify the right partners... use realtor with history of serving low income buyers
• Partner with local stakeholders whose constituents are already in the neighborhood
  – Employers, schools, churches, etc.
• Seek free media opportunities... counter story to foreclosure focus
• Mine other programs for buyers... homeownership counseling, Sec. 8 homeownership, “excess” Habitat buyer pipeline
• Consider converting HOME investment from “construction loan” to developer into first mortgage to the buyer

• But, direct mortgage lending adds regulatory and administrative burdens
  – Complex set of issues
  – May vary dramatically based on state law
  – Foreclosure of defaulted loans

• New role: PJ or developer as lender/servicer
Access to credit... lease purchase?

• Lease purchase is homebuyer under HOME but hybrid rental in the meantime
  – Identify near credit-worthy buyers who can transition to owners within 36 months
  – Must provide support to help household make transition to ownership

• Successful lease purchase programs start out that way, they don’t “back into” option
  – Keys to success include program design, buyer selection, buyer support, and strong asset management
Track Progress

• IDIS doesn’t record construction completion, PJ must develop tracking system

• IDIS will identify “likely suspects,” post monthly
  – Activities in final draw
  – Activities with 90%+ of HOME funds drawn and no draws for 6 months

• Construction start is too late
  – Start marketing early, establish benchmarks
  – Report monthly upon construction completion?
    – 60, 90, 120 day meetings?
Adjust Strategy

• Product – will a minor upgrade (e.g., stainless steel appliance package) make a difference?
• Pricing – is pricing still reflective of market?
• Deal – are we missing out on interest due to level of DPA available?
• Marketing – has it been effective, how do we do more?
• Access to credit – offer HOME first?
To submit a written question:

- Click on the **Q&A tool** in the top menu bar. Type your question in the text box provided and click “Ask”

To ask your question verbally:

- **Push *1** on your phone and you will be added to the queue
  
- If your question is answered before your turn in the queue, push #1 to be removed from the queue
Making Rental Work
If you can’t sell, what then?

• Conversion to HOME rental or repayment of HOME investment

• If rental:
  – HOMEFacts Vol 4 No 1: Changing the tenure type in IDIS
  – Bigger challenge – HOME rental requirements (rents, leases, property standards, affordability period)

• Requires:
  – Different owner/developer skill sets
  – Negotiations between PJ, lenders, and partners
How do you make it work?

• Who needs to be involved?
  – Ownership & management

• Who do you seek to serve; how much will they pay?
  – Rents & revenue

• What will it cost to operate as a rental?
  – Operations

• Where’s the money coming from?
  – Need for new/different financing

• How will performance change over time?
  – Compliance
Ownership & Management

• Who should own and manage the property?
• Very different skill sets than for-sale development
  – May need to find new partners to own and manage
  – May require difficult or uncomfortable negotiations
• Alternative partners:
  – Look for experienced rental housing operators (if they do scattered site rental) -- PHA? Nonprofit? Others?
  – If CHDO project, must remain CHDO project (but remember CHDO “sponsor” option)
HOME rental requirements impose different occupancy limits:
- Program Rule—90% of initial tenants <60% AMI
- Project Rule—if 5+ HOME units (scattered site project), 20% Low-HOME units tenants <50% AMI

HOME rent limits:
- High-HOME/Low-HOME rents net of utility allowance
- Set rents below regulatory/market limits

Change marketing efforts to reach a different target audience
Operations

• Budget for real, don’t hide from costs
  – Need to budget taxes, insurance, maintenance, and utilities (if not paid by tenant)
  – Need to consider contributions to reserves

• Management challenges of scattered site rental:
  – “Diseconomy” of small scale
  – Increased cost of distance and lack of uniformity
  – Lack of onsite management presence
• Need to replace sales proceeds with new source of permanent financing
• Projects may not support much debt
  – Operating costs likely to absorb most revenue
• Financing options
  – More HOME? CHDO proceeds from other deals?
• Evaluate need for reserves and plan future exit or reinvestment strategies
Long Term Compliance

• Affordability period may be different
  – Based on total HOME investment, not direct buyer assistance
  – 20 years for new construction

• Ongoing compliance: PJ needs monitoring plan
  – PJ & owner must plan for annual occupancy report, income certifications, updated rents/utility allowances, etc.
  – Physical standards must be maintained over time, including lead-based paint hazards

• Owner needs to have capacity to meet ongoing obligations
Other HOME Considerations

• Written agreement, legal documents, and IDIS
  – See HOME FACTS Vol 4 No 1 for IDIS changes

• Caution: Scattered site “project” implications

• CHDO set-aside
  – Will project still qualify as CHDO project?

• Reference: Considerations for Conversion handout
Recapitalization & Exit Strategies

- Repayment risk during affordability period
- Funding rehab needs
  - Reserves: CHDO proceeds from current/future projects, developer equity (i.e. fee) contributions
  - HOME – no double dipping, CDBG for future rehabilitation
- Possible future conversion to homebuyer
  - 92.255: Can sell to *existing* tenant during the affordability period
Available Resources

• Sales Self Assessment Tool
• Considerations for Conversion from Homebuyer to Rental
• Additional Resources listing
• HomeFACTS Vol. 4., No. 1—changing tenure type to rental
  http://www.hud.gov/offices/cpd/affordablehousing/library/homefacts/volumes/vol4no1.cfm
• “Operating Guidance for Implementing FY 2012 HOME Appropriation Requirements” (CPD Notice 12-007):
Reminders

• Recording, presentation, and supplemental materials available for download now

• [https://www.hometa.info/](https://www.hometa.info/) will also include transcript & FAQs

• Please complete evaluations

• Direct highly specific questions to your Field Office
To submit a written question:

– Click on the **Q&A tool** in the top menu bar. Type your question in the text box provided and click “Ask”

To ask your question verbally:

– **Push *1** on your phone and you will be added to the queue.

– If your question is answered before your turn in the queue, push #1 to be removed from the queue.
Evaluations & Adjourn

• Please complete evaluations
• Thanks to HUD staff
• Thank you for your
  – Time
  – Contribution to learning
  – Work on behalf of communities & residents
<table>
<thead>
<tr>
<th>Date</th>
<th>Webinar Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Posted Online</td>
<td>Overview of the FY 2012 Appropriations Law Requirements</td>
</tr>
<tr>
<td>Mon. June 4th</td>
<td>Recent IDIS Changes Affecting HOME PJs</td>
</tr>
<tr>
<td>Mon. June 11th</td>
<td>Market Analysis</td>
</tr>
<tr>
<td>Thur. June 14th</td>
<td>Underwriting &amp; Developer Capacity for Homebuyer Projects</td>
</tr>
<tr>
<td>Mon. June 18th</td>
<td>Deadline for Sale of Homebuyer Units</td>
</tr>
<tr>
<td>Thur. June 28th</td>
<td>Underwriting &amp; Developer Capacity for Rental Projects</td>
</tr>
<tr>
<td>Tue. July 10th</td>
<td>For PJs: Assessing CHDO Development Capacity</td>
</tr>
<tr>
<td>Thur. July 12th</td>
<td>For CHDOs: Understanding the CHDO Development Capacity Requirement</td>
</tr>
</tbody>
</table>