



2013 HOME PROGRAM FINAL RULE

HOMEOWNERSHIP, REHABILITATION, & PROPERTY STANDARDS

Agenda

- Homeownership Projects
- Rehabilitation Projects
- Property Standards
- Wrap Up



Homeownership Projects

Homeownership Value Limits

§92.254(a)(2)(iii)

- HOME statute requires initial purchase price/after rehab value not to exceed 95% of area median purchase price
- New rule eliminates use of 203(b) in HOME
- HUD published two 95% of median purchase price/after rehab value data sets:
 - Newly constructed housing
 - Existing housing
- PJs may continue to calculate own limits as under pre-2013 rule

Evaluating Projects

Direct homebuyer assistance only projects:

- Market analysis and developer capacity requirements do not apply

Homeowner rehabilitation projects:

- Underwriting applies only if HOME funds provided as amortizing loans
- Subsidy layering applies when more than one form of public funds is used
- Developer capacity and market assessment requirements do not apply

Subsidy Layering & Underwriting

§92.250 (b)

Subsidy layering & underwriting guidelines must:

- Ensure amount of HOME funds invested no more than necessary to provide quality, financially viable affordable housing
- Determine reasonable level of profit/return to owner/developer for size, type, complexity of project
- Examine Sources and Uses for cost reasonableness
- Verify financial commitments are firm

Applicability of Subsidy Layering and Underwriting Requirements

Type of Activity & Form of Assistance	Provisions that <u>DO</u> Apply	Provisions that <u>DO NOT</u> Apply
OWNER-OCCUPIED REHABILITATION		
<ul style="list-style-type: none"> Assistance Provided as Grant or Forgivable Loan 	Subsidy Layering, if applicable	Underwriting Analysis Market Analysis Evaluation of Developer
<ul style="list-style-type: none"> Assistance Provided as Amortizing Loan 	Underwriting Analysis Subsidy Layering, if applicable	Market Analysis Evaluation of Developer
HOMEBUYER ASSISTANCE		
<ul style="list-style-type: none"> Downpayment Assistance Only 	Underwriting Analysis Subsidy Layering, if applicable	Market Analysis Evaluation of Developer
HOMEBUYER AND RENTAL PROJECTS INVOLVING DEVELOPMENT	Underwriting Analysis Market Analysis & Plan Evaluation of Developer Subsidy Layering, if applicable	

Conversion of Unsold Homebuyer Units

§92.254(a)(3)

- Homebuyer units remaining unsold 9 months after construction completion be converted to rental units
- FY 2012/2013 Annual Action Plan - 6 months applies
- Ratified sales contract is sufficient to demonstrate a sale
- Unsold units must be converted to HOME rental units for the rental affordability period, or HOME funds repaid
- Units can become lease-purchase only if:
 - PJ has an established lease-purchase program, AND
 - Agreement with homebuyer executed before deadline

Housing Counseling – §92.254(a)(3)

- Housing Counseling required for all homebuyers receiving HOME assistance or purchasing homebuyer units developed with HOME funds
- Counseling costs may be charged to:
 - HOME administrative set-aside
 - As project-related soft cost, or
 - To homebuyer, if the fee is reasonable

Housing Counseling – §92.254(a)(3)

- PJ's have flexibility as to provider (PJ, HUD approved counseling agency, or other provider), content and length
- CFPB will issue regulations regarding housing counseling that will apply to HOME
- Current voluntary national standards can be found at:
<http://www.homeownershipstandards.com>

Sustainable Homeownership Underwriting – §92.254(f)

- Develop and follow written underwriting standards that evaluate the homebuyer regarding:
 - Housing debt and overall debt
 - Monthly expenses of the family
 - Assets available to acquire housing
 - Financial resources available to sustain housing
- Goal is appropriate amount of HOME assistance

Sustainable Homeownership Responsible Lending – §92.254(f)

- Rule requires written policies to ensure private mortgages obtained by homebuyers are sustainable (e.g., no predatory loans)
 - PJ should develop standards based on loan characteristics
- HUD will issue guidance to assist PJs in developing responsible lending guidelines

Sustainable Homeownership Refinancing – §92.254(f)

- Rule requires written policies to address refinancing of private debt
 - Ensure that the loan terms of any loans to which HOME funds are subordinated are reasonable and sustainable

Resale and Recapture – §92.254(a)(5)

Rule makes several changes to resale and recapture requirements including:

- Requires HUD to explicitly approve resale and recapture requirements
- Requires PJs to clearly define “fair return” and “reasonable range of low-income homebuyers” in resale
- Permits subsequent low-income homebuyer to assume HOME loan and recapture obligation if no additional HOME assistance provided



Rehabilitation Projects

HOME for Rehab – The Right Tool?



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Rehabilitation Standards §92.251(b)

Upon completion, rehabilitated housing must, at a minimum:

- Meet State or local codes, ordinances, requirements, or
- Absent such codes, International Existing Building Code, and
- Be free of deficiencies selected by HUD from the list of Uniform Physical Condition Standards

Rehabilitation Standards §92.251(b)

Rehabilitation standards must address:

- Health and safety
- Useful life of major systems
- Identify life threatening deficiencies and address immediately in occupied units
- Lead-based paint
- Accessibility
- Disaster mitigation

Rehabilitation Standards §92.251(b)

- Rule requires written rehab standards for all HOME-assisted rehab activities including
 - Homebuyer acquisition and rehab
 - Homeowner rehab
- Rehab standards must sufficiently detail required rehab work including methods and materials

Rehabilitation Standards – Useful Life

§92.251(b)

- Rehab standards must also address the useful life of major systems
- Major systems include:
 - Structural support
 - Roofing
 - Cladding and weatherproofing
 - Plumbing, electrical and HVAC

Useful Life in Rental Rehab

Sustainable Rental Housing:

- PJ must estimate remaining useful life of major systems (based on age and condition)
- Capital Needs Assessments required for rehab projects with 26 or more total units
- If remaining useful life of a component is less than affordability period:
 - Adequate replacement reserve must be established

Useful Life in Homebuyer/Homeowner Rehab

Sustainable Homebuyer/Homeowner Housing:

- Minimum useful life of major systems for homeownership housing
- Upon project completion, major systems must have a useful life of at least 5 years

Rehabilitation Standards Work Write-Ups and Inspections

- Construction Documents and Work Write-ups:
 - PJs must review and approve work write-ups (i.e., plans and specifications) and written cost estimates
 - Review to determine costs reasonable, and plans and specifications in compliance with PJ's written rehab standards
- Required Inspections:
 - Initial property inspection to determine deficiencies
 - Progress and final inspections to ensure work done in accordance with approved work write-up or plans



Property Standards

Rule changes §92.251 effective: January 24, 2015

HOME Program Property Standards

§92.251

- Rule includes significant revisions to property standards in §92.251.
- Effective Date: January 24, 2015
- New requirements for HOME-assisted projects involving:
 - New Construction
 - Rehabilitation
 - Acquisition of Standard Housing
 - Manufactured Housing

New Construction Standards §92.251(a)

HOME-assisted new construction projects must:

- Meet State and local residential and building codes, ordinances and zoning requirements, or if none, the International Residential Code or International Building Code of the International Code Council
- Meet accessibility requirements
- Mitigate disaster impact as applicable per State and local codes, ordinances, etc.

New Construction Standards Oversight

- PJs must review and approve written cost estimates and determine cost reasonableness
- PJs must conduct progress and completion inspections of construction
 - Ensure that work meets all applicable codes, contracts and documents
 - Construction contracts and documents must contain sufficient detail to measure performance

Ongoing Property Standards §92.251(f)

PJs must establish ongoing property condition standards and inspection procedures for affordability period:

- Must have written inspection standards with detailed inspection checklists, description of how/by whom inspections will be carried out, and procedures for training and certifying inspectors
- Properties must be maintained to meet all applicable State and local codes
- If no State or local codes, at a minimum UPCS must be used for inspections (as prescribed by HUD)

Ongoing Property Standards §92.251(f)

- Standards must require that housing be free of health and safety defects
- PJs must identify life-threatening deficiencies that owner must correct immediately; must have procedures to ensure owner addresses deficiencies in a timely manner
- PJs' inspection procedures must state how frequently each property will be inspected, consistent with §92.504(d)
 - TBRA units must be inspected annually
 - HOME-assisted rental projects must be inspected at least once every 3 years during affordability period

Uniform Physical Condition Standards (UPCS) References

Uniform Physical Condition Standards – Comprehensive Listing

http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_26481.pdf

Dictionary of Deficiency Definitions

http://www.hud.gov/offices/reac/pdf/pass_dict2.3.pdf

Revised Dictionary of Deficiency Definitions

Reference: Federal Register / Vol. 77, No. 154 / Thursday, August 9, 2012 / Notices

<http://www.hud.gov/offices/reac/products/pass/PDFs/appendix2-finaldictionary.pdf>

Wrap Up

Questions? Discussion?

Implementation Plans, Assignments, Schedules

1. _____ ?
2. _____ ?
3. _____ ?
4. _____ ?
5. _____ ?
6. _____ ?