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

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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?
Evaluating Projects

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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:
  - PJ's 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
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)

PJ$s$ 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

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
Wrap Up

Questions? Discussion?

Implementation Plans, Assignments, Schedules

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