

2023 HOME CHDO HOMEOWNERSHIP WORKSHOP

Thursday, January 25, 2024

COMMUNITY PROGRAMS DIVISION
TENNESSEE HOUSING DEVELOPMENT AGENCY

As a GRANTEE....

- You will receive a Reservation of Funds letter from THDA with your organization as a developer
- THDA will provide a contract for development with the Grantee once the Grantee has a project site(s) for an activity that meets HOME and THDA requirements, including environmental clearance

Commitment – Federal Requirements

- THDA has a **24-month commitment deadline** for Grantee funding to a specific local activity. December 31, 2025
- THDA may not commit HOME funds to a specific local activity until:
 - There is an identifiable project – site address
 - Environmental Review requirements are satisfied
 - All necessary financing is secured
 - A budget and production schedule is established
 - Underwriting and subsidy layering for the unit is completed
 - Construction is expected to start within 12 months
- Commitment occurs when these specific local project conditions are met and the activity is set up in IDIS.

Written Agreements

- As the Grantee adds project sites that are cleared environmentally, THDA will issue the project specific written agreement.
- Each agreement will be signed by the Grantee and THDA
- Written agreement amounts and commitment dates are firm
 - *If commitment dates are not met, funds will not be available*
- Written agreement termination dates will all be 12/31/2026

Written Agreement will Specify:

- The address of the project (or legal description of the property if no legal address has been assigned)
- Use of other (non-HOME) funds
- The sales price limits for each unit. The final sales price to the buyer must be **consistent** or no more than the appraised value.

Development Agreement: Attachment A

- Details of the activities funded by the HOME grant, including specific addresses or legal descriptions
- Use of other (non-HOME) funds
- Pay special attention to additional conditions

Development Agreement - Attachment B

- Shows uses and sources of HOME and other funding
- HOME funds drawn down in proportion to the other funding in the project
- Review budget submitted with application, make any changes, and resubmit to THDA

Development Agreement - Attachment C

- Detailed implementation plan for carrying out HOME project
- Review what was submitted with application, make necessary changes and resubmit to THDA
 - Is zoning approved?
 - Is other financing in place?
- Detailed implementation plan for carrying out HOME project.

Income Determination & Verification

- THDA uses the Section 8 Rental Assistance definition. This calculation **MUST** be done by the Grantee and submitted to THDA
- Income includes income from assets.
- Include gross annual income *anticipated* to be received by **all persons** in the household during the next 12 months by examining income source documents
- Applicants must provide documentation of current income dated within the 60-day period preceding the determination or the 60-day period following the request date
- Must examine **2 months** of income source documentation for **all persons in the household**
- Documentation of income verification and how the income was calculated must be maintained in grantee files

Income Verification

Acceptable source documents may include:

- Wage statement for the past 2 months
- Interest statements
- Unemployment compensation statements
- 3rd party verification from employer, bank, etc.
- Self Certification as a last resort only

Liquid Assets

- If a homebuyer has liquid assets that exceed the allowable Total Cash Value of \$20,000, the home buyer is required to invest 10% of those funds rather than the standard 1% of the sales price

Liquid Assets include:

- Cash
- Savings accounts
- Checking accounts
- Money Market accounts (not 401K or other restricted retirement)

Contractor Qualifications

- If the grantee utilizes a 3rd party general contractor, the general contractor must hold a current Tennessee general contractors license in good standing
- Grantee must verify that the contractor is not debarred from participation in Federal programs, including HOME, and has adequate insurance and bond authority for the project.



Environmental Review

- HUD provides a few online training opportunities for the ERR process. You will find them at the following links:

YouTube:

<https://youtu.be/ytkzT4HvXQY>

HUD WISER Training:

<https://www.hudexchange.info/trainings/wiser/>

These links are also available at: <https://thda.org/business-partners/home>

Environmental Review

- The applicability of the Environmental Review requirements is based on the HOME activity (new construction and/or acquisition/rehabilitation) **as a whole, not on the type of the cost paid for with HOME funds**
- If the grantee has a release of funds for this project from HUD, there must still be a release of funds for this HOME grant from THDA.
 - A prior ER can be used as information towards the completion of the ER for the HOME-funded activity providing the information is accurate and current at the time the HOME ER is completed.

Environmental Review

- HOME funds **ABSOLUTELY MAY NOT** be committed to a project prior to the completion of the environmental review and release of funds.
- The Grantee **MAY NOT** take any choice limiting actions prior to completion of the environmental review
 - This includes all funds contemplated for investment into the project

Responsibility for the Environmental Review

- Grantees gather environmental review data
- Grantees submit original environmental review documentation to THDA prior to publishing Notice
- THDA reviews and authorizes notice publication and issues Release of Funds from HUD/Knoxville after the comment period

Environmental Review Record (ERR)

- The ERR contains all relevant documents, public notices, and written determinations about the project
- Some environmental factors can be considered on a county-wide basis while others require a site-specific analysis

Levels of Environmental Review

Exempt

Categorically Excluded not subject to the authorities of the Statutory Checklist

Categorically Excluded subject to the authorities of the Statutory Checklist

Categorically Excluded activities converted to Exempt

Environmental Assessment

Steps for Categorically Excluded Project

1. Complete the Statutory Checklist by documenting your contact with the appropriate source (ER-3).
2. Complete the Finding of Categorical Exclusion and Narrative.
3. Submit the ER-3 and supporting documentation to THDA.
4. THDA reviews the ER-3 and narrative **prior to the publication** of the Notices.
5. Grantee publishes Notice of Intent to Request Release of Funds in local newspaper.
6. THDA holds ERR for a 7-day comment period beginning the day of publication
7. After comment period, THDA submits Request for Release of Funds to HUD/Knoxville.
8. HUD holds ERR for 15-day comment period before issuing Release of Funds to THDA.

Required Consultation with Tribes



HOME Investment Per Unit

2023 Maximum Subsidy Limits Are:

Minimum HOME \$	\$1,000	
Maximum HOME \$	\$129,758	0-Bedroom
	\$148,748	1-Bedroom
	\$180,882	2-Bedroom
	\$234,004	3-Bedroom
	\$256,862	4-Bedroom+

CHDO HOMEOWNERSHIP PROGRAM

Eligible Costs

Hard Costs

- Actual construction costs towards meeting state/local code and THDA Design Standards
- Costs to meet new construction standards of the 2018 International Energy Conservation Code or the code adopted by the local jurisdiction if later.
- Costs to make the unit(s) handicapped accessible, as necessary

Soft Costs (Project Delivery Costs)

- Costs to settle financing
- Preparation of plans and specifications
 - For rehabilitation costs for work write-ups and progress reviews - a maximum of \$2,500 per project. The costs for reviews and work write-ups are not tied to the construction hard costs.
- Costs for Energy Star certification
- THDA Quality Assurance Reviews
- Cost of termite inspections

NOTE: Soft costs count towards HOME subsidy limit

Use of HOME Funds

- HOME funds are provided as construction financing (without interest costs) to:
 - Build affordable, new single-family units for sale to low income households
 - Or
 - Acquire and rehabilitate affordable single family units for sale to low income households
- At time of sale to eligible buyer, the GRANTEES *must leave at least \$1,000 or up to \$39,999 of HOME funds with the units as a soft second mortgage*
 - The soft second mortgage is limited to the lesser of \$39,999 in HOME funds or the amount of HOME funds necessary to qualify the household for permanent financing.
 - Every homebuyer will not require \$39,999 but must have a gap of at least \$1,000 to qualify

Homeownership Requirements

- Before construction or acquisition and rehabilitation can begin under homeownership, all grantees must demonstrate a pipeline of eligible buyers pre-qualified for a permanent loan.

- Speculative construction or acquisition is not generally allowed; however, under certain circumstances THDA will allow a nonprofit to apply for an exception to this policy on a project-by-project basis.
 - To be considered for an exception, the nonprofit must demonstrate that it meets certain criteria, including:
 - Experience and capacity to manage an affordable rental housing program;

Homeownership Requirements (cont...)

- Success during the last three (3) years in managing affordable rental housing in the area of the proposed project with an average list to lease-up term of no more than 180 days;
- A current average market time of listing to contract for sale for similarly priced, comparable homes in the area of the proposed project of no more than 120 days;
- Extenuating circumstances that prevent the nonprofit from having a pipeline of pre-qualified homebuyers to support their development activity.
- The purchase price must not be more than the appraised value and will be stipulated in the HOME Agreement with THDA
- Property value price limits are established by HUD and current limits are posted to THDA website

Soft Second Mortgage

- Soft second mortgage is at an amount necessary to qualify the household for permanent financing
 - \$1,000 - \$14,999 (5 Year Affordability Period)
 - \$15,000 - \$39,999 (10 Year Affordability Period)
 - Affordability Periods are valid as long as the unit remains the principal residence of the homebuyer
 - Forgiven at the end of the five years (20% recapture rate per year) or ten years (10% recapture rate per year) respectively
 - If the unit is sold during the affordability period, the amount that must be repaid is based on the amount of time the family has occupied the unit
 - If the unit is transferred or the homeowner no longer occupies the unit as their principal residence, the full second mortgage amount is due

Soft Second Mortgage

- Soft Third mortgage is an amount necessary to qualify the household for permanent financing
 - Additional subsidy by the grantee in the form of a grant is allowable so long as there is an encumbrance placed on the home in the form of a subordinate mortgage with compliance terms equal to or greater than the HOME requirements.



Homebuyer Eligibility

- Buyer must obtain title to the property,
- Complete 8 hours of HUD-approved homebuyer counseling,
- Contribute 1% of the sales price from his/her own funds,
- Occupy the property as his/her principal residence throughout affordability period

Homebuyer Eligibility (cont...)

- Prospective buyer must have gross annual income at or below 80% of area median income based on HUD's published income limits
 - THDA strongly encourages grantees to work with households with incomes in the 60% - 80% AMI range
 - See current HUD Income Limits on THDA web site
 - HOME income limits **ALWAYS** apply to HOME units regardless of other funding sources

Permanent Mortgage Requirements

- Use a THDA mortgage whenever possible
 - If permanent mortgage is not THDA, the interest rate must not exceed the prevailing Great Choice rate by more than one (1%) percentage point
- All loans must be fully amortizing
- No pre-payment penalties for early payoffs
- Total closing costs and pre-paid items cannot exceed 6% of the purchase price

Underwriting Requirements

- The new housing payment must not exceed 33% of gross monthly income based on the section 8 calculation (front end ratio)
- The total household debt, including the new mortgage payment, must not exceed 43% of the gross monthly income based on the Section 8 calculation (back end ratio)
- Underwriting to determine the eligible assistance to the buyer must be determined using the THDA Single Family underwriting template
 - The Single Family Underwriting Tool must be submitted prior to the approval of a buyer for HOME assistance.

Long-Term Affordability Requirements

- THDA uses the less restrictive Recapture option for its home ownership programs
 - The homebuyer is required to repay all or a portion of the direct HOME subsidy if the property is sold, transferred, or no longer used as their principal residence during the affordability period
 - This includes refinancing during the affordability period, excluding strict circumstances designated by THDA
 - The CHDO must have and implement a process for verifying that the beneficiary continues to reside in the unit as their principal residence

Recapture

- The homebuyer may sell the property to any willing buyer at whatever price the market will bear as long as all or a portion of the HOME debt remaining on the property is repaid
- The amount to be recaptured can be reduced on a pro-rated basis for as long as the homeowner has owned and occupied the home, measured against the required affordability period
- If the unit does not remain in compliance, then *the entire amount of the HOME subsidy must be recaptured*

Enforcement of Affordability Period

- Prior to drawing down HOME funds for construction, the grantee will execute a Restrictive Covenant and Deed of Trust and record these as a lien against the property
 - Secures the development subsidy
- At time of sale, THDA will release its Restrictive Covenant and Deed of Trust
- Grantee will execute a Grant Note and Deed of Trust with the homebuyer as part of the closing to secure the soft second mortgage under Recapture provisions
 - THDA must receive recorded copies within 30 days of closing
 - Keep your Housing Coordinator in the loop for closings

Grantee Proceeds

- Grantee must repay to THDA the HOME funds invested into the property from the sale proceeds less any funds that will remain with the homebuyer as a soft second mortgage and less any development subsidy provided for the unit.
- Developer's Fee (8%) if the grantee is acting as a developer.



Conversion to Rental Housing

- Homebuyer units developed by Grantee that are not sold within 9 months after construction completion (issuance of a certificate of occupancy) must be converted to rental units
- The rental affordability period and all HOME rental requirements will apply to homebuyer units that are converted to rental
- Subject to THDA approval, a Grantee may convert such units to lease-purchase provided the Grantee has an already established lease-purchase program AND the agreement with the homebuyer is executed before the deadline for conversion.

Grants Management System

- All grant management processes will be processed through THDA's GMS system.
 - Grant and Project set-up and closeout
 - ERR's
 - Work Write-ups including LBP hazard assessments
 - Change orders
 - Draw requests
- All documents and pictures will be uploaded directly into the GMS system with the draw request.

Submitting Grant Setup Information

Prior to initiating solicitation of applications, THDA must have:

- Signed Working Agreement
- Missing requirements specified in Attachment A as identified
- ACH Form (Must be mailed to TN F&A)
- W-9 Form – Request for Taxpayer Identification Number and Certification (Rev. October 2018)
- Authorized Signatures completed in GMS
- Policies and Procedures uploaded to GMS

Submitting Project Setup

Prior to first draw, THDA must have uploaded to the
GMS System:

- Approved work write-up completed or plans submitted
- Completed LBP-4; Lead based paint Inspection report or risk assessment if applicable
- Completed and approved work write-up or plans and supporting documentation

Pay Request – Interim Draw

Required documents:

- Request for Payment with authorized signatures
- Interim Draw request certifying percentage of project completion
- Approved progress review
- Copies of approved change orders, if applicable
- Invoices for soft costs, if applicable

Pay Request – Final Draw

Final draw for project funds must include in GMS System

- Request for Payment with authorized signatures
- Certification of Completion and Final Inspection
- Certificate of code compliance issued by local community, SFMO, or by licensed third party inspector
- Approved Final Review
- Change orders
- Statement of lead based paint clearance, if applicable
- Statement of Homeowner's Insurance
- Invoices for soft costs
- Project completion information

Activity Completion

An activity is **COMPLETE** when:

- All construction work is complete and property standards are met, including THDA Design Standards
- Final draw down of HOME funds is disbursed
- The loan is closed with the homebuyer
- Activity completion information (beneficiary and project financing data) is entered into IDIS

The affordability period begins on the date the activity is marked as completed in IDIS

Completion of Grant

- **All grant activity should be completed within the original term of the grant, 12/31/2026**
 - No work contracted after 12/31/2026 will be eligible

- **There is a 60 day closeout period allowed following the term of the grant to submit any/all final billing.**
 - All pay request or any final billing must be submitted no later than 3/1/2027

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