

# 2024 HOME CHDO HOMEOWNERSHIP WORKSHOP

June 27, 2024

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COMMUNITY PROGRAMS DIVISION  
TENNESSEE HOUSING DEVELOPMENT AGENCY

## As a GRANTEE....

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- 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

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- THDA has a **24-month commitment deadline** for Grantee funding to a specific local activity. June 30, 2026
- 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

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- 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 6/30/2027

## Written Agreement will Specify:

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- 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

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- 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

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- 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

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- 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

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- 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; **re-verify if project doesn't commence within 6 months of project**

# Income Verification

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Acceptable source documents may include:

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

# Liquid Assets

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- 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

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- If the grantee utilizes a 3<sup>rd</sup> 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

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- 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

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- 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

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- 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

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- 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

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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

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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

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# HOME Investment Per Unit

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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

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## Requirements

# Eligible Costs

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## 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

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- 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

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- 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...)

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- 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

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- 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

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- 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

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- 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...)

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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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

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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

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## 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

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## 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

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## 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

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- **All grant activity should be completed within the original term of the grant, 6/30/2027**
  - No work contracted after 6/30/2027 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 8/30/2027

# Contacts

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# Contacts

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