HOUSING TAX CREDIT HOMEOWNERSHIP POLICY GUIDE
MISSISSIPPI HOME CORPORATION

This guide details rules that must be adhered to when converting Housing Tax Credit (HTC) rental properties into Single Family Homeownership properties at the end of the 15 year HTC initial Compliance Period. Additional restrictions may apply depending upon what other type of financing is involved in the property. Owners of HTC single-family rental developments who wish to convert the properties into homeownership opportunities for the residents must establish a plan for the timing and terms of sales to residents and qualified low-income households at the end of the Initial Compliance Period ("Homeownership Plan").

Each and every Homeownership Plan will differ. MHC realizes that there are many options for determining the sales prices besides the suggested options in this guide and encourages creativity. The components of the Homeownership Plan must ensure the opportunity for homeownership at an affordable price for low income households.

The following requirements apply to all HTC single family rental/homeownership developments.

Deadlines/ Timelines

1. Any HTC application submitted and reviewed by MHC as a single family homeownership development is prohibited from requesting a qualified contract at the end of the initial compliance period. In short, the owner will not be allowed to "opt-out" of the development at the end of initial compliance period. The period is assigned on a building-by-building basis and begins with the first year that the credits are claimed. The HTC compliance period ends on December 31st of the 15^{th} year of the period for each building.

2. The owner cannot offer a Right of First Refusal ("RFR") to any resident before the HTC initial compliance period has been fully completed on all units in the development.

3. The owner will offer the RFR within 12 months of the end of their HTC initial compliance period. This will be the set date and will not be able to be changed because of market conditions, high interest rates or other factors which affect the salability of the houses. MHC will call this date the "Conversion Date".

4. In order to assure that all parties are prepared to begin selling the homes as outlined in the Homeownership Plan, the owner will meet with staff at MHC in the 14^{th} year of the compliance period to discuss the requirements/guidelines along with any other topics deemed necessary at

the time. The owner must contact MHC's Compliance Monitoring Division to begin this process.

5. The ownership entity may offer the right of first refusal to a non-profit partner, if applicable, at the end of the initial compliance period, with the non-profit commencing sales of the units to the residents and qualified buyers thereafter if the following requirements have been met:

   a. The limited partnership agreement or operating agreement governing the ownership entity has granted a first right of refusal to the non-profit partner or member;
   b. The non-profit entity is a qualified for purposes of the HTC program, that is, it is a tax-exempt organization formed with the express purpose of fostering affordable housing, is not controlled by a for-profit entity or subsidiary, and has been materially involved in the operations of the development;
   c. The non-profit has filed a Homeownership Plan that has been approved by MHC, recorded with the LURA, and attached to resident leases; and
   d. The non-profit transacts the sales of the homes under the terms of the MHC-approved Homeownership Plan and follows all MHC rules and guidelines applicable to homeownership conversion when the right of first refusal is offered to the residents.

Affordability

1. Owners must ensure that the purchase price of each home complies with the minimum purchase price required in Section 42(i)(7)(B) of the IRC ("Minimum Price") and defined as an amount equal to the sum of the principal amount of outstanding indebtedness secured by the building (other than indebtedness incurred within the 5-year period ending on the date of the sale to the residents) and all federal, state and local taxes attributable to such sale.

2. To preserve affordability, MHC is setting the maximum sales price to be an amount such that the monthly housing payment of principal, interest, property taxes, and property and mortgage insurance ("PITI") plus resident paid utilities does not exceed the maximum HTC rent based upon bedroom size less a 1% discount for each year the resident has leased the unit ("Maximum Price").

3. The sales price may be determined by a number of methods, but it must be devised with the intention of being affordable to low-income households at the time of conversion. A discount off the sales price for years of residency is highly encouraged. The chosen method must be established in the Homeownership Plan and must result in a sales price which is not

less than the Minimum Price and not more than the Maximum Price. Several examples for setting the sales price are described below.

Resident Education

1. A HTC lease addendum along with a copy of the Homeownership Plan should be included with the regular lease agreement. The Conversion Date must be referenced in this addendum to the lease. The Homeownership Plan should also define the term "Right of First Refusal". Because homes will only be offered to residents in good standing, the Homeownership Plan should also define the term "good standing". The owner does not have to outline specific discounts that will be offered to the resident as related to the sales prices of the homes. However, the pricing of the homes should be indicated in general terms. The addendum should also state that the homes cannot be sold at a price lower than the minimum sales price as set forth in Section 42(i)(7)(B) of the Code.

2. The owner will provide information about homeownership training to the resident by way of a notice or a brochure. The owner will begin providing referral information about homeownership training to residents 5 years before the Conversion Date. This information must be provided to the resident in an addendum to the lease for all properties leased 5 years prior to the Conversion Date.

3. The owner should address how potential homeowners will be educated concerning home maintenance. A couple of suggestions are: have the property maintenance person work with residents while doing routine maintenance and minor repairs to homes; enlist the help of non-profit organizations which promote homeownership opportunities; conduct maintenance training seminars.

Sale Process

1. The owner must distribute to all residents, 1 year before the offering of the RFR, information detailing the dates, timeline and information that is contained within the Homeownership Plan.

2. Each resident will be given up to 6 months after the Conversion Date to decide whether or not to accept the RFR offer from the owner. Any resident who is in "good standing" at the time of the offering of the RFR shall have the right to exercise the RFR. The resident will exercise their RFR by tendering an offer to buy the property. Within this offer, there shall be a date set for closing.

3. The buyer must agree to occupy the home as their principal residence.

4. If the current resident refuses to buy the property or is unable to buy the property, they cannot be asked at any time to vacate the property except for reasons specified in their lease.

5. A resident in good standing may not be relocated or evicted to expedite the sale of a unit. When renting a unit, a potential resident may not be discriminated against because they do not wish to purchase the unit they are renting.

6. If a household has an increase in income since moving into the property, this will not disqualify them from buying the property. They will not be considered over income. If a household qualifies to move into the unit as a resident, they are income qualified as a potential buyer (an exception to this occurs if HOME funds are involved – see statements below).

7. After this 6 month period mentioned in #2 above, the owner has several options in reference to any unsold units:

   a. The owner can choose to sell the remaining units of the project to a non-profit partner or another entity that will continue to operate the units as affordable housing in accordance with the Land Use Restriction Agreement (LURA). The sale must include 100% of the remaining rental units, not a portion thereof.
   b. The owner can choose to maintain the remaining units of the project as rental units, adhering to all MHC Extended Use Period guidelines. The remaining units after this initial 6 month selling period may at any time be offered for sale to the current or subsequent qualified residents.
   c. The owner can offer vacant units for sale to a buyer whose household income does not exceed 80% of the area median income. A potential purchaser who qualifies under this income restriction is not required to lease the unit before they purchase it.

8. At the sale of each home, MHC will execute a partial release of the HTC LURA for that property.

9. Each house that is to be sold to a resident under the RFR must pass a Uniform Physical Condition Standards (UPCS) inspection. It must also undergo a physical needs assessment performed by an MHC approved inspector following MHC prescribed standards. Any deficiencies described in the physical needs assessment must be addressed by the owner before the Conversion Date. The UPCS inspection and/or physical needs assessment cannot be used in place of subsequent inspections.

10. The owner should address the issue of replacement reserves in the Homeownership Plan. MHC intends that any excess reserves after repairs

and replacements, as determined on a pro rata portion for the unit(s) at the time of sale, will benefit the development and the new homeowner. Several suggestions include:

a. Put the unused pro rata portion of the reserves into an account to be used by the neighborhood homeowner's association;
b. Use the unused pro rata portion of the reserves for additional down payment assistance to the homeowner;
c. Discount the sales price by an amount equal to the unused pro rata portion of the reserve amount; or
d. Establish a reserve account for the new homeowner from the pro rata portion of the reserve amount.

Determining Sales Price

In order to extend the opportunity for homeownership to existing tax credit residents, the homes must be affordable for people who are at or below 60% of median income for the area.

Residents who buy the houses should be able to replace their rent payment with a mortgage payment which is comparable to what they were paying in rent. This is considered the **"Equivalency Principle"**. To achieve maximum affordability, the monthly mortgage payment including principal, interest, property taxes, property and mortgage insurance (PITI) should not significantly exceed the monthly rents in Year 15. As stated previously, the sales price of the homes to existing residents or qualified buyers must fall between the Minimum Price and Maximum Price defined above.

Listed below are three possible options for determining the sales price of the property as of the Conversion Date.

<u>Existing Obligation plus Profit</u>

Section 42(i)(7)(B) of the Code defines the minimum purchase price for a HTC property at the end of the HTC initial compliance period to be the sum of (i) the principal amount of outstanding indebtedness secured by the building and (ii) all Federal, State and local taxes attributable to such sale. The property will need to have repairs done before it is sold and the owner will desire a profit from each sale.

The sample assumption below is based on the above information:

15-home development
Remaining mortgage of $200,000
Exit taxes estimated by limited partner at $150,000
Repairs necessary = $180,000 (in addition to replacement reserves)

Profit requested by owner = $20,000 per house
Resident discount = 1% per year of tenancy

A resident who has rented the home for 7 years would pay a purchase price of $51,460 or (((200,000 + $150,000 + $180,000)/15) + $20,000) x 93%.

Equivalency Principle Approach

The following procedure will occur on the Conversion Date and will be used to decide the sales price for the homes. This price will be used as the sales price for all the homes until all the homes are sold regardless of the income level of the buyer. The sales price will be determined using the following guidelines based on a monthly housing payment equal to the current rent being charged for the units assuming a 95% mortgage, 30 year amortization and an interest rate equal to that used by the MHC (MRB) Mortgage Revenue Bond Program. Existing residents are offered a 1% discount for each year of residency.

1. Current monthly rent = $550
2. Insurance and taxes = $150
3. Mortgage payment = $400
4. Interest rate = 6.3%
5. Mortgage amount = $64,623
6. Sales price (95% LTV) = $68,024
7. Residency period = 4 years
8. Final sales price = $65,303

Maximum Price Approach

This approach is based on the maximum HTC rent in affect at the time the home is sold regardless of the income level of the buyer. The sales price will be determined using an amount such that the monthly PITI payment plus resident-paid utilities does not exceed the maximum HTC rent based upon bedroom size [assuming a 95% mortgage, 30 year amortization, interest rate equivalent to MHC's MRB program and typical insurance premium available to low-income households] less a 1% discount for each year the resident has leased the unit.

An example would be:

1. Current maximum HTC rent for a 3-bedroom house = $801
2. Insurance and taxes = $150.00; resident-paid utilities = $125 per month
3. This allows for a total of $526 P&I for a house payment with a 30 year term
4. MHC MRB rate is 6.3%.
5. The maximum loan amount would then be $84,980
6. Assuming a 95% mortgage, the sales price would be $89,452.

7. If the buyer happens to be a resident who has lived in the development for 4 years, they would receive a 4% discount off the $89,452 amount for a sales price of $85,874.

Other Resale Restrictions

The aforementioned lease purchase procedures pertain only to the HTC program. The owner must be careful to pass on other funder restrictions to the lease purchase buyer. These restrictions, if any, must be defined in the Homeownership Plan.

For example, if HOME funds were used for new construction rental housing, HOME program restrictions apply for 20 years but allow for rental units to be sold after the initial 15 year HTC compliance period. For the term of the affordability period, some type of deed restriction will need to be recorded against the property to help assure that the new homeowner adheres to HOME rules throughout the affordability period. This will be put in place by the original owner. This document will expire on the expiration date of the original HOME compliance period. This deed restriction should address resale provisions associated with the unit.

Although the resident purchaser must adhere to these deed restrictions, the original owner is ultimately responsible for compliance with the HOME rules and regulations. The deed restrictions should outline repayment terms by the resident purchaser if the home is sold to someone who does not income qualify under HOME rules (household income must be at or below 80% of AMI). Violations of the affordability restrictions may result in recapture of a pro rata portion of the funds by HUD at which time the seller's repayment and the original owner will be responsible for providing the amount of recapture requested.