

SECTION 8 HOMEOWNERSHIP PROGRAM ADMINISTRATIVE PLAN

The intent of the Plan is to develop specific local homeownership policies within program regulations designed to allow Section 8 program participants to become homeowners, while including adequate safeguards to protect program integrity, the Lowell Housing Authority and program participants.

Prior to providing details of the Administrative Plan, the LHA feels it is important to note that it has been operating an on going Homeownership Program since 1998. The Program is open to public housing residents, as well as Section 8 program participants. In terms of program requirements, the LHA's Homeownership Program is very similar to the Homeownership Option for Section 8 program participants currently in effect. The Administrative Plan has been developed in compliance with all known HUD regulations and with knowledge gained from past experiences derived from the LHA's on going Homeownership Program.

1. HUD REQUIREMENTS

Program participants will be selected from the current base of Section 8 participants. Initially the Program size will be limited to ten (10) families. The Authority will choose candidates for the Program based on the length of time of participation in the Section 8 Rental Assistance Program. All participants must meet the following minimum requirements as mandated by HUD.

1. Must be a first time homeowner as defined by HUD. Specifically, applicants cannot have owned a home within the past three years.
2. Both the family and the adult members who will own the home must be able to document a minimum annual income (excluding welfare) of \$10,300.
3. One or more adult family members must be able to document that he or she has been continually employed (at least 30 hours per week) during the prior year. An interruption of 4 weeks or less is not considered a break in continuity. Considerations will be given for longer breaks in employment IF the adult family members were working an average of 20 hours per week and attending school or job training for 10 hours a week or more. Exemptions shall be granted to elderly and disabled participants.
4. Must complete a homeownership counseling program provided free through the LHA.
5. Must not have defaulted previously on Section 8 Homeownership Assistance.
6. Program participant(s) must determine and document whether or not the unit is located in an airport runway clear zone or an airfield clear zone.

7. Program participants must determine and document whether or not the unit is located in a flood hazard area. Units in flood hazard areas must retain flood insurance.

2. LHA BRIEFINGS and HOMEOWNERSHIP COUNSELING

While the LHA realizes that not all Section 8 tenants are ready, willing and able to purchase a home, it plans to notify all current Section 8 program participants in writing, of the newly enacted Homeownership Option and provide a brief description of the program and its possible benefits.

If a tenant responds to the initial letter, the tenant will be mailed an application for entry into the Homeownership Option Program. Once the application has been completed and returned, the LHA will order and pay for a credit report in the name(s) of the applicant(s), perform an employment verification for all applicant(s) and determine the applicant's ability to qualify for financing and the amount of said financing. At this point, an individual briefing session will be scheduled.

At the LHA briefing session, the applicant(s) and at least two LHA staff persons currently involved with the Authority's ongoing Homeownership Program will be in attendance. The LHA will provide the program participant(s) with information regarding geographic choice, portability and benefits of purchasing in low poverty areas. Additionally the participant's application, including their verified employment history and their current credit report, will be discussed and a determination of participant readiness to purchase will be made.

Having an active ongoing Homeownership Program, LHA staff has worked closely with local banks and are familiar with qualifying ratios and bank formulas used for evaluating home loan applications. Using income information supplied and verified by the applicant(s) employer and credit information taken from the applicant(s) credit report, LHA staff will determine if the applicant(s) income, credit history and current monthly installment debt are such that said applicant(s) is likely to qualify for a home loan and, if so, the approximate amount of the loan.

Assuming the applicant(s) is likely to qualify for a home loan in an amount sufficient to purchase a suitable home, the LHA will proceed to enroll the applicant in "Project Genesis", which is a HUD approved homebuyer counseling program. Administered by Merrimack Valley Housing Partnership, "Project Genesis" consists of three, two-hour counseling sessions. Qualified professionals in the field of housing and related issues teach instructional classes.

Homebuyer counseling will include the following elements:

1. Home maintenance
2. Budgeting and money management
3. Credit Counseling
4. Negotiate purchase price
5. Financing
6. Home search
7. Advantages of purchasing in areas that do not have high concentrations of low income families
8. Information regarding fair housing
9. Information relative to settlement procedures, truth in lending laws and loan terms

The LHA will strongly consider local circumstances and the needs of individual families when providing briefing and counseling. The LHA plans to require that program participants enroll in and complete post purchase counseling for a period of one year. The one-year local requirement may be extended at the discretion of the LHA.

2. SEARCH TIME / OPTIONS FOR HOUSEHOLDS UNABLE TO BUY

The LHA has chosen not to establish a minimum/maximum search time for program participants to select and purchase a home. Also, the LHA will not require program participants to provide periodic reports regarding the home search process.

3. UNIT ELIGIBILITY / INSPECTION REQUIREMENTS

In terms of unit eligibility, the LHA is required to enforce specific unit eligibility standards. One such standard is the type of unit a program participant may purchase. Under program guidelines, participants are restricted to purchasing existing or new single-family homes, condominiums and cooperatives units. The purchase of multi unit structures, including two family dwellings, is prohibited.

In terms of unit inspections, the Homeownership Option requires two pre-purchase inspections. One will be performed by a qualified LHA employee, while the second inspection is to be performed by a privately employed qualified professional Home Inspector. There will be no fee associated with the LHA inspection. However, the program participant must pay for the cost of the inspection done by a professional Home Inspector. The LHA will review the inspection performed by the professional Home Inspector and determine if the dwelling is suitable for purchase and eligible for sale to a program participant. The LHA may disapprove a unit based on information provided in the Inspection Reports.

The Lowell Housing Authority plans to utilize the same procedure for unit inspection as it now uses for Section 8 rental units. Currently, the LHA has qualified staff persons designated to perform unit inspections prior to occupancy. The inspection conducted by the Authority will be used to determine compliance with Housing Quality Standards.

When a Section 8 unit is ready for inspection, the LHA inspector will gain access to the unit by coordinating with the property owner. The LHA inspector then conducts a thorough room-by-room inspection of the premises, including the basement and any and all mechanical systems, all common areas and the exterior. The inspection results are written on the LHA standard unit inspection form and maintained on file. The unit must meet the inspection criteria of Housing Quality Standards in order to qualify for the Homeownership Program.

If the unit fails the inspection, the owner of the property will be required to make needed repairs in order to bring the unit into compliance with Housing Quality Standards.

As part of its existing homebuyer program, the LHA requires a home inspection by a qualified home inspector. In an effort to provide the potential Section 8 buyers with a choice of qualified home inspectors, the LHA has developed a list of qualified home inspectors in the Greater-Lowell area. Each applicant will be given a copy of the list and the potential homebuyer(s) may select whomever they want. It should also be mentioned that prior to placing a home inspector's name on the list, the LHA requires said home inspector provide the LHA with their qualifications.

If the applicant wishes to utilize a home inspector who is not on the list the LHA will permit the applicant to do so. However, the LHA will require that the selected home inspector provide the LHA and the applicant with qualifications that are acceptable to the LHA.

4. CONTRACT OF SALE / BUYER PROTECTION

In terms of the contract for sale, the LHA plans to utilize the same contract for sale as it now uses for its ongoing homebuyer program.

The contract for sale will contain an additional list of provisions including the following:

1. The price and other terms of sale.
2. The purchaser will arrange for a pre-purchase inspection to be performed by an independent inspector selected and paid for by the purchaser.
3. The purchaser is not obligated to purchase the unit unless the inspection is satisfactory to the purchaser and the LHA.
4. The purchaser is not obligated to pay for any repairs.
5. The seller certifies that he or she has not been debarred, suspended, or subject to a limited denial of participation under part 24 of this title.

5. FINANCING

The LHA plans to utilize the same financing program as is currently in effect as part of the Authority's on going Homeownership Program. Since 1997, the LHA has assisted twenty former public housing residents and Section 8 program participants in becoming first time homebuyers.

The financing package is as follows:

1. First mortgage – 80% of purchase price
2. Second mortgage - 15% of purchase price
3. Third mortgage - 4.5% of purchase price
4. Buyer cash - 0.5% of purchase price

The LHA has developed an excellent working relationship with several local banks for first mortgage commitments, the Lowell Development and Financial Corporation for second mortgage financing and the City of Lowell for third mortgage financing (down payment assistance).

The aforementioned financing package has several positive aspects, which work to the advantage of the purchaser including the following:

1. Minimum cash down (0.5%)
2. Second mortgage has deferred payments for first five years
3. Purchaser not required to pay private mortgage insurance

The program participant will be required to have adequate funds to meet the .5% down payment amount and to pay all closing costs. Assessments of costs involved will be completed on a case by case basis.

In addition to the financing package previously described, the LHA plans to implement the following requirements:

1. Prohibit balloon payments
2. LHA to reserve the right to approve or reject financing terms and conditions
3. Allow seller financing on a case by case basis
4. Purchasers must not exceed qualifying ratio and must meet all other financing requirements established by the first mortgage lender.

6. AMOUNT OF ASSISTANCE

The amount of the Homeownership Assistance Payment shall be a sum equal to the lower of:

1. The payment standard minus the total tenant payment
2. The family's monthly homeownership expenses minus the total tenant payment

The payment standard for a family is the lower of:

1. The payment standard for the family unit size
2. The payment standard for the size of the home

If the home is located in an exception payment standard area, the LHA will use the approximate payment standard for the exception payment standard area. The LHA will use the same payment schedule, payment standard amounts and subsidy standards for the Homeownership Option as for the Rental Voucher Program. The LHA will conduct an annual reexamination of program participants in order to update income, family size and other relevant data and adjust the payment standard accordingly.

The LHA has adopted the following homeownership expenses in accordance with HUD requirements:

1. Principal and interest on initial mortgage(s) debt including refinancing if any
2. Real estate taxes
3. Sewer and water fees
4. Trash pick up and disposal fees
5. Homeowners insurance costs
6. Allowance for maintenance expenses*
7. Allowance for costs of major repairs and replacements**
8. Utility allowance
9. Principal and interest on debt incurred to finance major repairs or HCP accessible

* Monthly allowance for maintenance \$75

** Monthly allowance for major repairs and replacements \$75

If the home is a cooperative or condominium unit, homeownership expenses will include maintenance fees assessed by the condominium or cooperative homeowner association. Additionally, the LHA will make payment directly to the first mortgage lender. If the assistance payment exceeds the amount due the lender, the LHA will pay the balance directly to the homeowner.

The term of homeowner assistance shall be fifteen (15) years if the term of the first mortgage is twenty (20) years or longer, except in the case of elderly and disabled program participants where the maximum term of fifteen (15) years does not apply. In all other cases, the term shall be ten (10) years.

7. POST PURCHASE REQUIREMENTS FOR FAMILIES

The family must sign a statement of homeowner obligations before the start of homeownership assistance agreeing to comply with all obligations under the program. In keeping with HUD regulations, the LHA has imposed the following post purchase requirements:

1. The family must reside in the home. If the family moves out of the home, the LHA will not continue homeownership assistance payments after the month when the family moves out.
2. The LHA will require each family receiving homeownership assistance to attend and participate in post purchase counseling. The counseling sessions will be administered by LHA staff and will focus on home maintenance issues, family finances and budgeting and maintaining good credit by ensuring that the family is paying off its credit card and other monthly debt in a timely fashion.
3. The family must comply with the terms of all mortgage(s) securing debt incurred to purchase the home and any refinancing debt, if applicable.
4. The family must not convey or transfer ownership of the home while receiving homeownership assistance.
5. The family may grant a mortgage on the home for debt incurred to finance the purchase of the home or any refinancing of such debt.
6. After the death of a family member who holds title to the home, homeownership assistance will continue pending settlement of the estate provided that the family continues to occupy the home.
7. The family must comply with all requirements of the Section 8 Program or be subject to termination of assistance.
8. The family must allow the LHA access to the home for the purpose of performing an inspection, if it is so required.

The family must supply the LHA with the following information upon request:

1. Information relative to any mortgage(s) secured by the property.
2. Any sale or transfer of any interest in the home.
3. The family must provide the LHA with its homeownership expenses.
4. The family must notify the LHA before moving out of the home.
5. The family must notify the LHA if it defaults on any mortgage securing debt incurred to purchase the home. If the family defaults on the mortgage, the LHA may choose to issue a Voucher to the family to facilitate a move to a rental unit and continue rental assistance. However, the determination will be at the LHA's discretion, based on the good faith efforts of the family to meet its obligations and prevent default.
6. Proof that no family member has an ownership interest in other real estate while receiving homeownership assistance.

8. PORTABILITY

The LHA will not be accepting any new vouchers holders as part of the Homeownership Option. If a family currently participating in the LHA 's Section 8 Rental Voucher Program wants to purchase a home outside of the LHA 's jurisdiction under the Homeownership Option it may do so provided that the receiving PHA is accepting new homeownership families and provided that the family meets all the requirements of the receiving PHA.

9. RECAPTURE OF HOMEOWNERSHIP ASSISTANCE

Program recipients participating in the Homeownership Option are subject to recapture provisions if they sell their unit within ten (10) years of initially purchasing the unit.

At the time of sale, the LHA will place a lien on the property in accordance with HUD regulations. The lien will be drawn up in such a way that it is consistent with State and local law. The amount of homeownership assistance subject to recapture will be the lesser of the following two recapture alternatives:

1. The amount of homeownership assistance subject to recapture will automatically be reduced over a ten-year period, beginning one year from the purchase date, in annual increments of ten percent. At the end of the ten-year period, the amount of homeownership assistance subject to recapture will be zero.
2. The difference between the sales price and the purchase price of the home minus the costs of any capital expenditures, the costs incurred by the family in the sale of the home, the amount of the difference between the sales price and purchase price that is being used, upon sale, towards the purchase of a new home under the Section 8 Homeownership Option and any amounts that have been previously recaptured.

In the case of a refinancing of the home, the recapture will be an amount equaling the lesser of:

1. The amount of homeownership assistance subject to recapture will automatically be reduced over a ten-year period, beginning one year from the purchase date, in annual increments of ten percent. At the end of the ten-year period, the amount of homeownership assistance subject to recapture will be zero.
2. The difference between the current mortgage debt and the new mortgage debt minus the costs of any capital expenditures, the costs incurred by the family in the refinancing of the home and any amounts that have been previously recaptured.

In the case of identity-of-interest transactions, the LHA will establish a sales price based on fair market value.

10. OTHER PROVISIONS

Section 8 families that currently receive Section 8 rental assistance can enter a lease-purchase agreement. Prior to closing the sale, they will receive conventional rental assistance and the Section 8 payment cannot be used to cover the “homeownership premium” (the portion of the payment used to accumulate a down payment or reduce the purchase price). Instead, the family must use its own funds for the premium. The LHA must and will exclude the homeownership premium in determining rent reasonableness.

A family receiving homeownership assistance can move to a new unit with homeownership assistance, as long as it is in compliance with program requirements, no family member has any ownership interest in the prior unit, and the LHA has sufficient funds. To move with continued homeowner assistance, families must again meet all eligibility requirements. A family may not move more than one time per year.

