

Resale Formulas, Sales, & Resales Decision Guide

This guide was produced in 2010 by Cornerstone Partnership, one of two organizations that merged in 2016 to create Grounded Solutions Network.

This decision guide is part of the Affordable Homeownership Technical Assistance Toolkit.



Affordable Homeownership Technical Assistance Toolkit



Stewardship Principles

Comprehensive Program Assessment

Module 1: Program and Business Planning

Module 2: Affordable Pricing

Module 3: Mortgage Financing of Resale-Restricted Homes

Module 4: Marketing and Selection of Affordable Homes

Module 5: Resale Formulas, Sales and Resales of Resale-Restricted Homes

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Assessment Tool

Technical Assistance Tool Pack

Module 6: Support, Monitoring and Enforcement

Module 7: Home Repair and Replacement Reserve Funds

The Cornerstone Partnership provides a peer network for homeownership programs that preserve long-term affordability and community stability, helping more hard-working people buy homes today, maintain those homes and keep them affordable in the future. The Cornerstone Partnership is a program of NCB Capital Impact funded by the Ford Foundation.

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Stewardship Principles

We strive to scale the affordable homeownership industry through partnerships at local and regional levels and across sectors, bringing together organizations and jurisdictions around common stewardship principles.

A public or nonprofit agency should design its program to espouse these principles which are intended to guide the implementation of programs that invest public or philanthropic resources to reduce the cost of homeownership and seek to preserve this public investment for maximum impact. The principles fall into six categories as listed below – the full list of principles is available at www.affordableownership.org.

Impact-Driven - Set and track goals that reflect community priorities.

Balanced - Build wealth for owners while preserving the community interest.

Targeted - Focus on buyers who need help but are likely to succeed.

Managed - Steward the public investment to ensure long-term community benefit.

Safe - Ensure sound mortgage financing.

Understandable - Educate buyers on program requirements.

This Decision Guide is meant to be used by a consultant to augment the technical assistance plan resulting from the associated Module Assessment and to inform discussions about best practices. If the program is new and/or has not undergone a Module Assessment, this Decision Guide can be used to help the consultant and program administrator think through questions and policy issues critical to a successful affordable homeownership program. The consultant can draft a final report based on the results from this Decision Guide.



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NCB Capital Impact uses its depth of experience, cooperative approach, and diverse network of alliances to generate critical investments that create a high quality of life for low income people and communities. For more information about NCB Capital Impact, go to www.ncbcapitalimpact.org.

Resale Formulas, Sales and Resales of Resale-Restricted Homes

This Decision Guide identifies key issues and raises essential questions necessary for creating a resale formula and for overseeing the initial sales and resales of resale-restricted homes in an affordable homeownership program.

Each section lists relevant sample documents, worksheets and other useful tools that can be found in the Tool Pack for this Guide.

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1 Resale Formulas



Affordable homeownership programs include resale restrictions to help create a stock of owner-occupied housing that remains affordable over time. The legal mechanisms for enforcing such restrictions may vary, but all contain a resale formula that calculates the price at which a home may be sold in the future.

This section outlines the decisions that need to be made in order to select a resale formula that meets the program's goals.

POLICY ISSUES	CONSIDERATIONS
1.1 What are the program's primary goals?	<ul style="list-style-type: none"> • Is our overriding priority to preserve affordability over time? • Is our overriding priority to help homeowners build wealth? • What is a fair balance between these two opposing goals (on-going affordability vs. wealth creation)? • How affordable are the initial prices?
 <p>If the initial pricing is set to be affordable to people at the top of the eligible income range, the resale formula should offer a lower return in order to protect against a shrinking buffer or even to increase the buffer over time. On the other hand, if there is a large initial buffer, the resale formula can be more generous or take more risks.</p>	
1.2 What are the program's secondary goals?	<ul style="list-style-type: none"> • What do our secondary goals include? <ul style="list-style-type: none"> ○ Ease of administration (minimize disputes, etc.) ○ Funder priorities ○ Long term tenure vs. mobility ○ Homebuyer friendly (simple, easy to understand) vs. more complicated, but more fair
1.3 What direction are the market trends within the program's service area?	<ul style="list-style-type: none"> • What is the trend in the housing market in our area? • What is the trend in median income in our area? • What is the trend in wages in our area?
1.4 How does the program ensure that homes are maintained in the long run?	<ul style="list-style-type: none"> • Do we offer credits in the resale formula for improvements? • What is the condition of the housing stock entering our program? • What are the secondary goals above? • What is the staffing level needed to administer/oversee the capital improvements process? • Does the resale formula err on the side of affordability or

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	<p>wealth creation?</p> <ul style="list-style-type: none"> If credits are included, what is the process and who approves the credits?
 <p>If the resale formula favors affordability, there may be more opportunity to offer credits for improvements without compromising affordability too much.</p>	
	<ul style="list-style-type: none"> Do we allow homebuyers/sellers to negotiate at resale for repairs? Do we require sellers to bring the home up to a specific standard? <ul style="list-style-type: none"> Program-defined standards (See the Template Maintenance Policy in the Tool Pack for this Guide.) Lender-defined standards Should we create reserve funds for use in the long-term repair and replacement of major systems? (See the Decision Guide for Module 6: Home Repair and Replacement Reserve Funds for details.)
 <p>Fees are important for creating a self-sustaining program. Programs struggle with affordability and the need to pay for program administration, so any fees should be considered in light of the resale formula. If a program cannot sustain itself, affordability will likely not be maintained in the long run.</p>	
1.5 Does the program charge a fee (or transfer fee) to homebuyers or sellers to help pay for the administration of the program?	<ul style="list-style-type: none"> What type of fee should we have to help fund the administration of our program?

ADMINISTRATIVE FEE GRID

TYPE OF FEE CONSIDERATIONS

Fee paid by the homebuyer at closing	These fees increase the closing costs and in doing so reduce the purchaser's buying power. However, since the fee is outside of the price, it is not compounded over time by the resale formula and therefore has a more limited impact on future affordability.
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Fee paid by the seller at closing	This fee takes some of the seller's already limited return.
Percent added to resale price and collected by the program	This fee does not impact the seller's proceeds, but since it is added onto the resale price, it compromises affordability which is then compounded over time.

1.6 How is the seller informed of the resale-restricted price?	<ul style="list-style-type: none"> • How do we provide resale-restricted price information? <ul style="list-style-type: none"> ○ Upon request ○ Regularly via other communication ○ Only upon receipt of Notice of Intent to Sell • How often can a homebuyer request his/her resale calculation? • Does the program charge a fee for resale calculations?
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Once the decisions above are made, the answers should be used to help determine which type of resale formula will best fit the program's goals. Use the Burlington Associates on-line resale formula tool to evaluate the various formulas:

(http://www.burlingtonassociates.com/resources/archives/resale_formulas/000322.html)

Related Tool Pack Documents:

- Template Maintenance Policy

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2 Initial Sales

This section outlines the essential questions programs must answer in order to effectively oversee the transfer of resale-restricted housing. The answers to some of these questions should then be referenced when creating a Ground Lease or Deed Restriction.



Be sure you've answered all the policy questions in sections 8 (Lottery) and 9 (Waiting List) of the Decision Guide for *Module 4: Marketing to and Selection of Eligible Homebuyers* to determine if a lottery is needed and if your program will develop and maintain a waiting list

POLICY ISSUES	CONSIDERATIONS
2.1 How does the program match selected homebuyers with homes?	<ul style="list-style-type: none">• Do we assign homes to homebuyers based on household size and other factors?• Does the homebuyer get to choose a home based on her/his place on the list and other factors?• Is timing an issue for families choosing homes? What if the families most ready to buy choose the homes that will be ready last?• Are certain homes clearly more desirable than others for any reason?• Do homebuyers have the option of declining an assigned home and waiting for another, more preferred, home? If so, how many times can a homebuyer decline before falling to the end of the waiting list?
2.2 What, if anything, is required of the homebuyer when she/he enters into a purchase and sale agreement with a seller? ?	<ul style="list-style-type: none">• Do we require payment of a deposit?<ul style="list-style-type: none">○ When is it due?○ Under what circumstances, if any, will we refund a deposit?• Do we allow homebuyers to negotiate anything with the sellers?<ul style="list-style-type: none">○ Repairs○ Appliances
2.3 How does the program handle the home inspection process?	<ul style="list-style-type: none">• At what point do homebuyers order their inspections?• Who is responsible for any necessary repairs?• What if the homebuyer wants additional work beyond what we require?

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| | <ul style="list-style-type: none">• What if the homebuyer wants higher quality replacements than we require? |
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Related Tool Pack Documents:

- Sample Homebuyer Flowchart
- Sample Homebuyer Approval Letter

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3 Resales

This section outlines key policy choices related to the resale of homes in an affordable-homeownership program. Similar to the *Initial Sales* section above, the answers to some of these questions must be included in the associated Ground Lease or Deed Restriction when it is drafted.

POLICY ISSUES	CONSIDERATIONS
3.1 How does an owner in the program initiate a resale?	<ul style="list-style-type: none"> Does the owner provide us with a Notice of Intent to Sell? Do any funders require a duplicate Notice of Intent to Sell from the owner? Are there other timelines triggered by the Notice of Intent to Sell, such as ordering an appraisal for appraisal-based formulas?
3.2 How does the program identify homebuyers in a resale?	<ul style="list-style-type: none"> Do we maintain a waiting list of identified homebuyers? Should the seller identify the homebuyer and refer them to us for eligibility screening? If the seller uses a real estate agent and markets the home conventionally, are interested homebuyers then referred to us for eligibility screening?
3.3 What are the program's alternatives for exercising its Purchase Option at resale?	<ul style="list-style-type: none"> How do we want to exercise our Purchase Option? <ul style="list-style-type: none"> Exercise our Purchase Option, purchase the home and sell it to a qualified homebuyer (usually in a simultaneous transaction) Exercise our Purchase Option and assign it to an eligible homebuyer Rather than exercise our Purchase Option, allow the transfer to happen directly between the eligible homebuyer and the seller



Note that the choices here impact how transfer fees are collected (See 1.4 above).

3.4 What is the program's timeline for resales?	<ul style="list-style-type: none"> Once the seller issues a Notice of Intent to Sell, how long do we have to complete each of the following steps? <ul style="list-style-type: none"> Calculate resale price - including ordering an appraisal and completing an inspection Exercise our option - including an eligible homebuyer
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- Close the sale

3.5 What happens if no eligible homebuyer is found?

- How do we protect the homeowner in the event that an eligible homebuyer cannot be found?
- How are we protected in the event that the home cannot be sold to an eligible homebuyer?



The National Community Land Trust Network's Model Ground Lease includes language stating that if the program fails to complete a purchase within a prescribed timeframe (60 days), the seller may sell to any income-qualified homebuyer. Any other program requirements/priorities that were in place are no longer applicable. In the event that the home has not sold six months after the expiration of the original purchase option, the seller may sell to a non-income eligible buyer, but not for more than the resale-restricted price.

3.6 Who is responsible for identifying and making necessary repairs at resale?

- Lenders usually require a third party inspection before they will loan money for the purchase of a home. Do we have any *additional* inspection requirements?
- Do we conduct an on-site inspection ourselves?
- Do we review the third party inspection and create our own list of required repairs? (See Template Maintenance Policy in the Tool Pack for this Guide.)
- Do we rely on the lender to identify and enforce any necessary repairs?
- Once required repairs are identified, who pays for them?



There are several options for paying for repairs.

- Sellers can be required to pay for necessary repairs if their restrictions require it.
- Homebuyers can pay for necessary repairs or choose not to purchase that particular home.
- Sellers and homebuyers can negotiate who pays for what.

Reserve funds may cover some repairs. (*See the Decision Guide for Module 7: Home Repair and Replacement Reserve Funds.*)

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3.7	What is the program's role in closing?	<ul style="list-style-type: none">• How much can we rely on title companies and closing agents/attorneys to oversee the transfer of homes in the program?• Do we have any control over what closing agent is used?• What is our volume of transfers and what are the staffing implications?• What is the minimum our program staff will do to prepare for a transfer?• What is our ideal level of involvement and review in a transfer?
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Related Tool Pack Documents:

- Sample Resale Flowchart and Checklist
- Model Homeowner Notice of Intent to Transfer
- Sample Resale Price Calculation Notice
- Sample Purchase Option Notice of Exercise and/or Assignment
- Sample Home Inspection Requirement
- Sample Right to Sell language
- Template Maintenance Policy

This completes the Decision Guide for Module 5: Resale Formulas, Sales and Resales of Resale-Restricted Homes.

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